

Retirement income

Pooled lifetime income streams



A pooled lifetime income stream, as the name suggests, is payable during your lifetime and if nominated, to a reversionary beneficiary. It is pooled as your money, as well as others, is collectively held to support the ongoing payments throughout your lifetime. It aims to assist in ensuring you have income throughout your retirement and to reduce the risk of outliving your savings (i.e. longevity risk).

This type of income stream can be purchased with superannuation or non-superannuation money. You can decide if income payments commence immediately or if they are deferred to start at a future nominated date.

Benefits

- **Security** - Your interest and capital payments continue, regardless of share market movements or interest rate fluctuations.
- **Commencement of payments** - when you purchase this income stream, you have the choice to have income payments commenced immediately or deferred to commence at a later date.
- **Continuation of payments for the rest of the investor's life** - income payments continue until you pass away. It can be as short as one year or for as long as your lifetime.
- **Tax effectiveness** - When this income stream is purchased with money rolled over within the superannuation system by a person aged 60 or over, the regular payments are tax free. Income payments received from preservation age to under age 60, may include a taxable portion to be taxed at your marginal tax rate but receive a 15% tax offset.
- **Access to your money** – due to the nature of the income stream, access to your capital (i.e. the surrender value) is limited. Once income payments commence, the surrender value gradually reduces based on your life expectancy.
- **Payment upon death** – legislation limits the amount that can be paid in the event of your passing. The maximum amount that can be paid for up to half of your life expectancy is 100%. From then on, the death benefit payable gradually reduces to zero over your life expectancy.

Key features of Pooled Lifetime Income Streams

- You may be able to elect for the income stream to continue to be paid to your spouse (as a reversionary beneficiary) upon your death as the original owner. This allows income payments to continue throughout both your lifetimes.
- You have certainty your income will not run out during your lifetime.
- The rules enable you to surrender your income stream up to 100% during the first half of your lifetime and then the amount that can be accessed will reduce. However this can vary depending on the individual income stream provider.
- As it is not market linked, you are protected from adverse movements in investment markets. Instead, your income payments are influenced by the pool of money supporting your income stream as well as the other investors.
- Part of the income you receive may be tax free.

How it works

A pooled lifetime income stream is an investment that pays a series of regular income payments for your life. They may be purchased with superannuation funds or non-superannuation money. This income stream can be purchased with a single lump of money or purchased over time with a series of payments. However, once income payments commence, no further amounts can be added to the purchase price.

If superannuation funds are used, income payments receive the same tax treatment as superannuation pensions which differ depending on your age.

If non-superannuation money is used, a tax free amount for each payment will be calculated, representing your return of capital. The remaining amount is taxed at your marginal tax rate.

How are pooled lifetime income streams assessed for social security purposes?

Income streams that meet the legislative requirements receive favourable treatment under the income and assets tests used by Centrelink and the Department of Veterans' Affairs (DVA). The same treatment applies for assessment of aged care fees.

Income test

Income streams purchased with superannuation money will have no income assessment until income payments commence. Once income payments commence, 60% of income payments are included as income under the income test.

Where the income stream is purchased with non-superannuation money, the asset value will have an income assessment determined under the deeming rules until assessment day is reached when deeming ceases. Once income payments commence, 60% of income payments are included as income under the income test.

Assets test

The assets test assessment will vary over time. In summary, the assessment is:

Purchased with	Test date	Value under asset test
Non-superannuation money	Prior to assessment day:	100% of purchase price
	From assessment day:	60% of purchase price
	From threshold day:	30% of purchase price
Superannuation money	Prior to assessment day:	No assessment
	From assessment day:	60% of purchase price
	From threshold day:	30% of purchase price

The purchase price is the total amount you paid for the income stream. This could be a single lump sum or a series of payments. If you have deferred the commencement date, a legislative formula will increase the amount by a theoretical earnings amount. Prior to the assessment date, the value is included under the assets test if the income stream is purchased with non-superannuation money. Superannuation income streams will be assessed under the assets test only from assessment day.

From the assessment date, only 60% of the purchase price is included under the assets test. The assessment date for your income stream will vary depending on:

- Your age
- If the income stream is purchased with superannuation or non-superannuation money
- If the income payments commence immediately or are deferred to commence at a later date.

The 60% assessment will continue until the income stream reaches the threshold day. At the threshold day, the assets test assessment reduces to 30% of the purchase price. In general, the threshold day will be either when you turn 84 or for a minimum period of five years.

For example, if the income stream was purchased at age 65, the threshold date would be 84. However, if

the income stream is purchased at age 85, the threshold day would be a minimum of five years.

Additional considerations may arise if you nominate a reversionary beneficiary.

However, if the income stream does not meet the legislative requirements, the assessment can differ. This may occur if you have access to a surrender value or death benefit that exceeds the amounts specified in the rules. Under the assets test, the assessable asset will be the higher of:

- Any current or future surrender value,
- Any current or future death benefit payable, or
- 60% of the purchase price assessable until age 84 (or a minimum of five years), then 30% of the purchase price assessable for the remainder.

Under the income test, the assessment is the same. Once income payments commence only 60% of payments are included under the income test.

Risks and Consequences

- These income streams are designed to assist you with the risk of outliving your retirement savings by providing income payments for your lifetime. This should be considered as exchanging a lump sum for a series of payments. Therefore, you need to be comfortable giving up access to this capital.
- A pooled lifetime income stream will have no death benefit payable to your estate once you reach your life expectancy. Individual income stream providers may have more restrictive rules.
- A death benefit may be payable if you pass away prior to reaching your life expectancy. If you pass away within the first half of your life expectancy, 100% is permitted to be payable. After reaching that point, the amount as a death benefit gradually reduces.
- The limitation of access to a death benefit for your beneficiaries may impact your estate planning objectives and may result in a loss of capital.
- It is not a market linked investment, so your capital will not grow and you cannot take advantage of favourable market movements.
- You may be able to surrender (withdraw) from your income stream. However, the amount is limited and declines over time from the purchase date which may result in a loss of capital. Individual providers may have more restrictive rules.
- Pooled lifetime income streams purchased with superannuation money are counted against the transfer balance cap. The general cap in 2020/21 is \$1.6 million. Penalties apply if this cap is breached and action needs to be taken to reduce the amount back within that cap. These rules are complex.

Version: 1.15

Issue date: 24 September 2020

Important information:

This document has been prepared by GWM Adviser Services Limited (ABN 96 002 071 749, AFSL 230692) ('GWMAS'), a member of the National Australia Bank Limited ('NAB') group of companies ('NAB Group'), registered office 105–153 Miller St North Sydney NSW 2060, for use and distribution by representatives and authorised representatives of GWMAS, NAB, Godfrey Pembroke Limited, Apogee Financial Planning Limited, Meritum Financial Group Pty Limited and Australian Financial Services Licensees with whom it has a commercial services agreement.

Information in this document is of a general nature only and does not take into account your objectives, financial situation or needs. You should seek personal financial, tax, legal and such other advice as necessary or appropriate before relying on the information in this document or making any financial investment, insurance or other decision. If this document is provided to you in conjunction with a Statement of Advice ('SOA'), any personal financial advice relevant to the financial planning concept/strategy referred to in this document will be contained in that SOA.

Information in this document reflects our understanding of relevant regulatory requirements and laws etc as at the date of issue, which may be subject to change. While care has been taken in preparing this document, no liability is accepted by GWMAS or any member of the NAB Group, nor their agents or employees for any loss arising from any reliance on this document.

If any financial product is referred to in this document, you should consider the relevant PDS or other disclosure material before making an investment decision in relation to that financial product.