



# How Do Retirement Income Options Compare?

Retirement is filled with opportunities and choices. There's the time to travel more, work on long-delayed personal projects or volunteer your help to worthwhile causes.

You also have a host of choices to make when it comes to funding your new life away from paid work. Here are four different options to consider.

## Account-Based Pension

An account-based pension (ABP) using your superannuation is one of the most common retirement income options. The amount you receive depends on the balance of your account and the drawdown rate you choose, subject to the minimum pension requirements set by the government.

### Some considerations:

- **Tax benefits** – Investment earnings, capital gains and withdrawals are tax-free, unless you have an untaxed component within your super.
- **Payment flexibility** – Subject to pension minimums, most super funds allow you to adjust the payment amount and frequency, and even make partial or full lump-sum withdrawals if needed. You can also return to work and continue to receive a pension.
- **Longevity and market risks** – You might outlive your account balance, especially if your withdrawals are high or your investment returns are poor.



## Transition to Retirement

A transition to retirement (TTR) strategy allows access to some of your superannuation while still working, if you have reached age 60 (based on current rules).

### Some considerations:

- **Flexible work options** – You can reduce your working hours and supplement your income from your super.
- **Limits on pension rates** – Similar to an ABP, there is a minimum annual pension rate. However, there is also a maximum annual withdrawal of 10 per cent of your TTR account balance.
- **Reduced retirement savings** – Drawing on your superannuation while still working means your retirement savings might grow more slowly.

## Annuities

An annuity is a financial product that provides a guaranteed income for a specified period or for the rest of your life. There are various types of annuities, including fixed, variable, and indexed annuities. You can purchase annuities or lifetime income streams using your superannuation.

### Some considerations:

- **Predictable income** – Provides a stable income stream, which can be reassuring for financial stability and provide an income for as long as you live.
- **Lack of flexibility** – Once you purchase an annuity, the terms are generally fixed and you cannot alter the income amount. There's a restriction on capital withdrawals or in some instances no access to capital at all.
- **Inflation risk** – Fixed non-inflation-linked annuities may not keep pace with inflation unless specifically indexed to inflation.

## Innovative Retirement Income Stream

An Innovative Retirement Income Stream (IRIS) is provided by a newer range of products. These were introduced after changes to regulations designed to deliver more certainty to retirement income by paying a pension for life without running out of funds.

### Some considerations:

- **Age Pension benefits** – Centrelink only counts 60 per cent of the pension payments received as assessable income and only 60 per cent of the purchase price of the product counts as an assessable asset until age 84 when it is reduced.
- **Certainty** – Some IRIS products offer a stable guaranteed income stream, providing financial security.
- **No minimum requirements** – IRIS products do not require an annual minimum amount, instead just requiring at least one annual payment.
- **Complexity** – Features vary widely between different IRIS products and may involve complex terms or conditions.

## Next steps

How do these different options suit your personal needs and how would they affect your retirement income? Consulting with a financial advisor can help you navigate these choices and tailor a plan that best suits your needs. Speak to us so we can help you structure a plan to fund you the retirement lifestyle you've worked so hard for.

i <https://www.ato.gov.au/individuals-and-families/jobs-and-employment-types/working-as-an-employee/leaving-the-workforce/planning-to-retire#ato-Afteryouretire>

ii <https://www.ato.gov.au/individuals-and-families/jobs-and-employment-types/working-as-an-employee/leaving-the-workforce/transition-to-retirement>