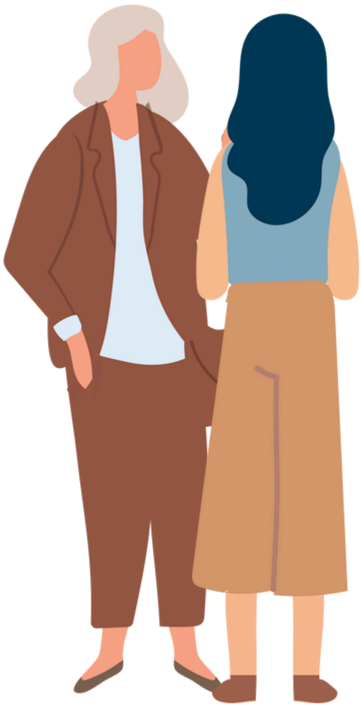
CASE STUDY

OPTIMUM PENSIONS

A Comfortable Retirement with less Superannuation



This case study contrasts two retirement strategies: Mary relied solely on an account-based pension (ABP), while Colleen combined an ABP with an investment-linked annuity (ILA). Despite starting with $111,000 less in superannuation, Colleen achieved the same annual income during retirement as Mary and enjoyed higher income security in later life. Financial advisors can explore how blending income products enhances client outcomes while addressing longevity risk.

BACKGROUND

Mary A single, 67-year-old homeowner retiring with $595,000 in superannuation.

Colleen Mary's friend, also 67 and a single homeowner, has $488,000 in superannuation savings.

Goals Both aimed for a comfortable retirement lifestyle costing $52,085 annually, per the ASFA Comfortable Standard as of June 2024.

Challenge Mary's savings would last into her late 90s using an ABP alone but carried risks of depletion and reduced income thereafter. Colleen sought to retire with lower savings and maintain the same lifestyle.

APPROACH

Mary Retained all $595,000 in an ABP, making annual withdrawals so she can spend $52,085 annually.

Colleen Adopted a diversified strategy, splitting her $488,000 balance:

- 50% in an ABP for flexible withdrawals.
- 50% in an ILA for a lifetime income.

Mary Retained all $595,000 in an ABP, making annual withdrawals so she can spend $52,085 annually.

This mix allowed Colleen to leverage the Age Pension means-test incentives and receive a lifelong income, even if she lived to 100 and beyond.

MARY'S ABP STRATEGY

- First year's Age Pension payment of **$7,836.**
- Total Age Pension payments (in today's dollars) of **$531,000** to life expectancy.
- ABP annual withdrawals to supplement the Age Pension annual payment to provide an **annual income of $52,085.**
- Super balance steadily declined, reaching **depletion by age 99.**

COLLEEN'S ABP + ILA STRATEGY

- ABP withdrawals supplemented her Age Pension and ILA payments.
- The ILA paid annually, and only **60% of its purchase** price was means-tested, boosting her Age Pension to **$23,807** in the first year.
- Total Age Pension payments received (in today's dollars) of $620,200 to life expectancy, $89,000 more than Mary received.
- **Total income of $52,085 sustained until age 99,** after which the ILA ensured continued income.

OUTCOME

Mary's Retirement

- Comfortable retirement until age 99, after which she relied solely on the Age Pension of $29,754 per year.

Colleen's Retirement

- Matched Mary's annual income of $52,085 during retirement.
- After age 99, Colleen's combined annual income of more than $41,000 surpassed Mary's annual income of $29,754 due to the ILA continuing to provide annual payments alongside her Age Pension.

Key Insights

- Colleen achieved the same lifestyle with $111,000 less savings.
- Colleen's income from her superannuation was more sustainable, with no risk of full depletion regardless of lifespan.
- Colleen received total Age Pension payments to life expectancy (in today's dollars) that were $89,200 more than Mary's.

LESSONS FOR FINANCIAL ADVISORS

Blending Income Products

Combining ABPs with lifetime income solutions can deliver comparable or better outcomes for clients with lower savings.

Maximizing Age Pension Benefits

Proper structuring of assets can increase Age Pension eligibility, enhancing income sustainability.

Addressing Longevity Risk

Lifetime income products protect clients against the uncertainty of outliving their savings.

GET IN TOUCH

Discover how strategic income planning can help clients achieve financial security, regardless of savings size. Contact us to learn more about incorporating lifetime income products into your advisory practice.

OPTIMUM PENSIONS

0413 811 194

info@optimumpensions.com.au

OPTIMUMPENSIONS.COM.AU

Redesigning Retirement

November 2024

OPTIMUMPENSIONS.COM.AU

CHART 1 *Mary's retirement income breakdown (in today's dollars)*

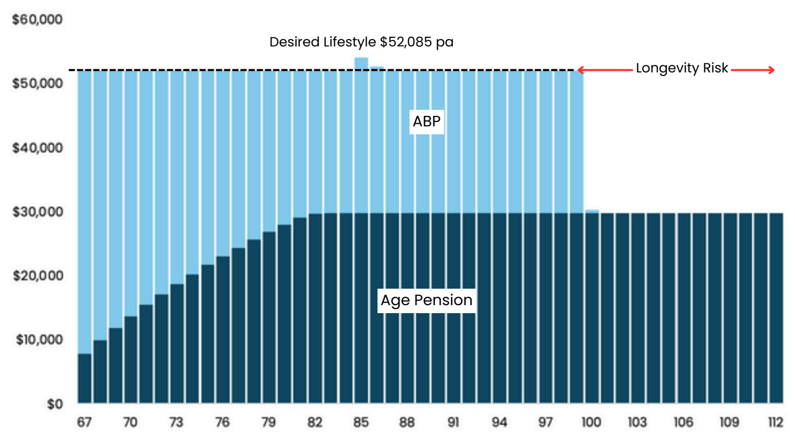


Chart 1 shows the projection done by Mary's financial adviser. It shows a retirement income of $52,085 p.a. for the desired lifestyle (ASFA Comfortable Retirement Standard) from a mix of the account-based pension (ABP) and the Age Pension.

CHART 2 *Colleen's retirement income breakdown (in today's dollars)*

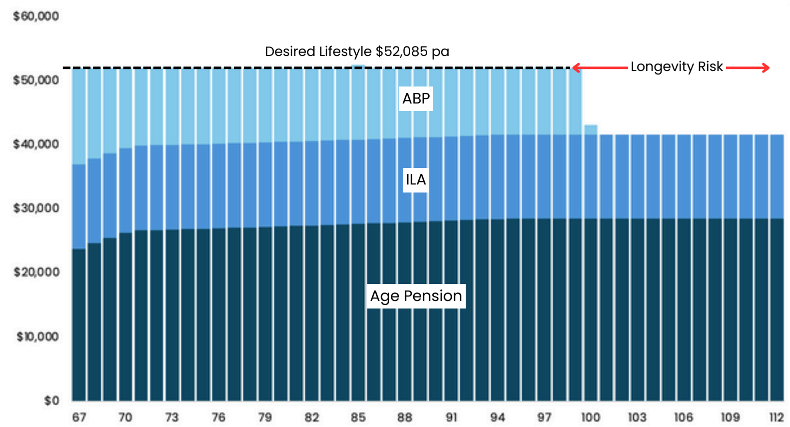


Chart 2 shows the projection done by Colleen's financial adviser. It shows a retirement income of $52,085 pa. for the desired lifestyle (ASFA Comfortable Retirement Standard) from a mix of the account-based pension (ABP) and the Age Pension.

The case study was prepared in November 2024 using the ASFA Retirement Standard and Age Pension entitlements that were effective then. You can find the details of the projections, including the assumptions used inthe charts above.

Assumptions

- Single female homeowner of good health
- No other savings or sources of income
- Uses an account-based pension for retirement with a 6% per annum return (net of all fees and charges)
- Cost of living increases = 2.75% per year
- Increase in the Age Pension payment rate = 2.75% per year
- Mortality rates as per the Australian Life Tables 2015-17 with
- 25-year improvement factors
- The ILA rates are based on a design by Generation Life. This has a 2.5% booster rate, meaning a higher starting income is paid in return for future increases being based on net returns less 2.5%. Refer to our article "What is an investment-linked annuity?" which is available from our website.
- All figures are in today's dollars. The red arrow in the charts indicates longevity risk. One quarter of retirees are projected to live up to the ages indicated by the red arrow.