# Convert your super into retirement income

For superannuation, retirement means meeting a criterion allowing you to access your super with no restrictions. The main qualifying criteria are turning 65, being at least 60 and permanently retired, or leaving a job after your 60th birthday, even if you plan to return to work. Once you meet these criteria, you can access your super in any amount or form you choose.

When you have met these qualifying criteria, you have four options for your super, which are:

1. You can convert it into a pension (retirement income stream)
2. Take a lump sum
3. Leave it in your super account, or;
4. Combine any of these options. This gives flexibility in how you manage your super in retirement.

## Pensions

A super pension provides you with a regular income to live on in retirement to help replace the income you previously received from work. The most common type in the Australian market is an account-based pension, but there are also lifetime and fixed-term pension options. The maximum amount you may transfer into pension accounts for retirement is currently $1.9 million per person – this is called the transfer balance cap.

When the goal is generating retirement income, it’s hard to go past a pension product. Investment earnings are tax free (except in the case of transition-to-retirement pensions) and a pension account can provide sustainable retirement income by continuing to invest your savings while making regular payments to you.

### Account-based pensions (non-lifetime)

When you put money into an account-based pension, you choose how the balance should be invested. That balance then earns tax-free investment returns and your regular income payments are deducted from it. When you are aged 60 or more, these regular income payments are also tax free. There is a mandated minimum percentage of your balance you must draw as income each year that increases as you age, and you can withdraw lump sums whenever you wish.

Features of account-based pensions:

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| Flexibility | Choose the income amount that suits you and change it as needed, withdraw lump sums if required and choose how your funds should be invested. Roll over your balance to another super fund at any time. You can even transfer some or all of your pension account back into an accumulation account if you no longer want to draw income from it. |
| Tax-free status | Tax-free investment earnings mean your account can grow more quickly than a comparable investment outside super because tax is not eroding your returns. Your regular income withdrawals are also tax free if you are aged 60 or more, unless you are a member of an untaxed fund (these are uncommon). |
| Estate planning | Any balance remaining in your account after your death is passed on to your beneficiaries. You may choose for your spouse to take over ownership and continue receiving the pension (reversionary pension) or a lump sum may be paid. |
| Longevity risk | There is no guarantee that your balance will last for life. Investment losses or lower returns than you planned for could mean your balance is depleted earlier than you expected. The sequence of investment returns is also important. |
| Centrelink assessment | The balance of your account is counted in the assets test and deemed income is calculated for the income test to determine your Age Pension eligibility and/or eligibility for other Centrelink benefits. The actual level of income you withdraw is not assessed, only the deemed amount. Note that pensions opened prior to 1 January 2015 may be assessed differently. |

**Fixed term and lifetime pensions and annuities**

Fixed term and lifetime pensions are usually non-account-based. In a non-account-based pension you do not have an individual account balance, but rather purchase an income on agreed terms with a product provider (a super fund or a life company). When a non-account-based pension is provided by a life company it is called an annuity. Annuities can be purchased with super or non-super money, but pensions provided by super funds can only be purchased with money that has first been contributed to super.

If you are a member of a defined benefit super fund, the fund may be designed to pay you a lifetime pension rather than having an account balance.

Innovation in retirement products has also led to the development of the option to create a lifetime income stream while maintaining an account that holds your personal balance – an account-based lifetime pension. In this case, maximum withdrawal limits apply to ensure your balance can't run out and insurance also may be used to top up your account.

Features of lifetime and fixed term pensions/annuities:

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| Longevity protection | Income will be paid for life or for the fixed term agreed. It cannot run out. You may also use a deferred annuity which doesn't start paying income until you reach a set age – a good way for income to 'kick in' when you expect to have depleted your other retirement savings, including any account-based pension. |
| Favourable means testing | Under Centrelink's means test rules you may receive a higher Age Pension by investing in a lifetime product. When the product you choose meets the rules for favourable treatment (known as the social security capital access schedule), only 60% of the purchase price is counted in the assets test. When you turn 84, or after you have held the product for a minimum of five years, whichever occurs last, this reduces to 30% of your purchase price. For the income test, 60% of the income you receive is counted. During a deferral period when you are not receiving income, no income is assessed by Centrelink. |
| Investment risk | In a traditional product, you don't bear the risk associated with fluctuations in investment markets. The provider pays you the agreed regular income regardless of how their underlying investments perform, and you can choose to have your income indexed to keep pace with inflation.<br><br>Modern products offer the option to instead have your income varied in line with the return of your chosen investments. This means you may be exposed to the risk your income can go down from one year to the next, but you can often receive higher income on average. Some products also provide protection from negative market movements, preventing your income from decreasing.<br><br>In an account-based lifetime pension your account balance fluctuates in line with your withdrawals and returns from your chosen investments. |
| Estate planning | The product may continue to pay income to your spouse after your death and you may be able to choose an option that would pay a lump sum to an alternative beneficiary.<br><br>In the past, many people were reluctant to choose lifetime products because if they died before they had received the entire amount they invested back through income |

payments there was often no further benefit payable. Most modern products do not present this problem. The provider often guarantees that you will receive at least your initial investment amount through the combination of income paid during your life and death benefits after you pass away.

However, if the product complies with the capital access schedule for favourable Centrelink means testing, the maximum lump sum death benefit is 100% of the purchase price until you’re halfway between the purchase date and your life expectancy. Afterwards, the maximum declines steadily from 50% of the purchase price to zero when you reach your life expectancy. These limits mean it is possible you will not receive the full value of your initial investment.

Flexibility and complexity

These products are less flexible and more complex than non-lifetime account-based pensions. The level of income is set by the provider and usually increases only with the agreed method of indexation. Alternatively, you may be able to choose from a range of income options within minimum and maximum limits.

The option to make a partial withdrawal of a lump sum and continue receiving a smaller lifetime income afterwards is only rarely available but it is usually possible to close the product entirely and withdraw its remaining value until you reach your life expectancy.

It is usually not possible to transfer any remaining value or balance to another product after you have invested.

Product features vary widely, and more new products will continue to be developed. Understanding all the features and costs of the available options can be difficult.