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.

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 and access up to 100% of the purchase amount during the first half of your life expectancy, and then the amount that can be accessed will gradually 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.

<u>Income test</u>
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 tests
Non-superannuation money	Prior to assessment day: From assessment day: From threshold day:	100% of purchase price 60% of purchase price 30% of purchase price
Superannuation money	Prior to assessment day: From assessment day: From threshold day:	No assessment 60% of purchase price 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 day, 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 day, only 60% of the purchase price is included under the assets test. The assessment day 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 the later of when you turn 84 or five years from your assessment day.
For example, if the income stream was purchased at age 65, the threshold day would be 84. However, if the income stream is purchased at age 85, the threshold day would be five years from your assessment day.

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 of future death benefit payable, or
- 60% of the purchase price assessable until age 84 (or for five years from your assessment day), 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.

Benefits

Benefits of pooled lifetime income streams can include:

- **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.

Risks, consequences and other important things to consider

These may include:

- 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 your transfer balance cap. A lifetime cap applies to the total amount of transfers that can be made into 'retirement phase' of superannuation. The general transfer balance cap is $1.9 million for 2023/24 and may be subject to indexation. Your personal transfer balance cap may be between $1.6 million and $1.9 million if you commenced a retirement phase pension prior to 1 July 2023. Most income streams paid from superannuation are retirement phase pensions which count towards this limit. These include all account based pensions where a full condition of release has been met, death benefit pensions, market linked income streams, and certain other pensions received from defined benefit funds. Additional tax and penalties apply if amounts exceeding this cap are transferred. Please let us know if there are any retirement phase income streams that we are not aware of to ensure that you do not exceed your transfer balance cap.

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Important information:
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