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Michael & Michelle

Client:	Michael & Michelle
Age:	Both age 67
Assets:	Homeowner –
	$1,900,000 each in superannuation
	$200,000 cash/term deposits and $100,000 non-financial assets
Goals:	To spend comfortably, but confidently, through retirement

Michael & Michelle

Michael and Michelle have recently sold their business. Their once-small labour hire business had gone from strength to strength over recent years. A convincing buy-out proposition from a competitor has set Michael and Michelle up nicely for retirement. With appropriate planning Michael and Michelle find themselves in a position where much of their retirement savings are now held via superannuation allowing them to structure tax effective retirement income streams.

In Michael and Michelle's own words, they want to be able to spend "comfortably, but confidently" through retirement. They are happy that their current home is where they would like to live for most, or all, of their retirement. They are keen to help out their kids and grandkids from time to time and will do this from their retirement income rather than their retirement savings. They are keen to leave their kids a significant benefit following their eventual deaths (hopefully many decades into the future) but, in terms of prioritisation, they are broadly comfortable preferencing their retirement spending over their estate value.

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Assets:	**Homeowner –**
	$1,900,000 each superannuation
	$200,000 cash/term deposits and $100,000 non-financial assets
Goals:	**To spend comfortably, but confidently, through retirement**

Achieving their desired lifestyle

Confident and comfortable retirement spending

Michael and Michelle's challenge to their financial planner Meika, was to develop a retirement drawdown strategy that lets them draw a significant retirement income each year to meet their lifestyle goals and with a suitably high level of confidence that their goals could continue to be met through a long retirement.

Meika has come back to Michael and Michelle with a drawdown strategy she believes will meet their requirements. A total retirement income drawdown starting at $195,000 p.a. and increasing with inflation is shown in Meika's modelling to have an 80% chance of being sustained to Michael and Michelle's couple life expectancy.

This drawdown retirement income strategy is shown in the next graph.

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- Michael & Michelle
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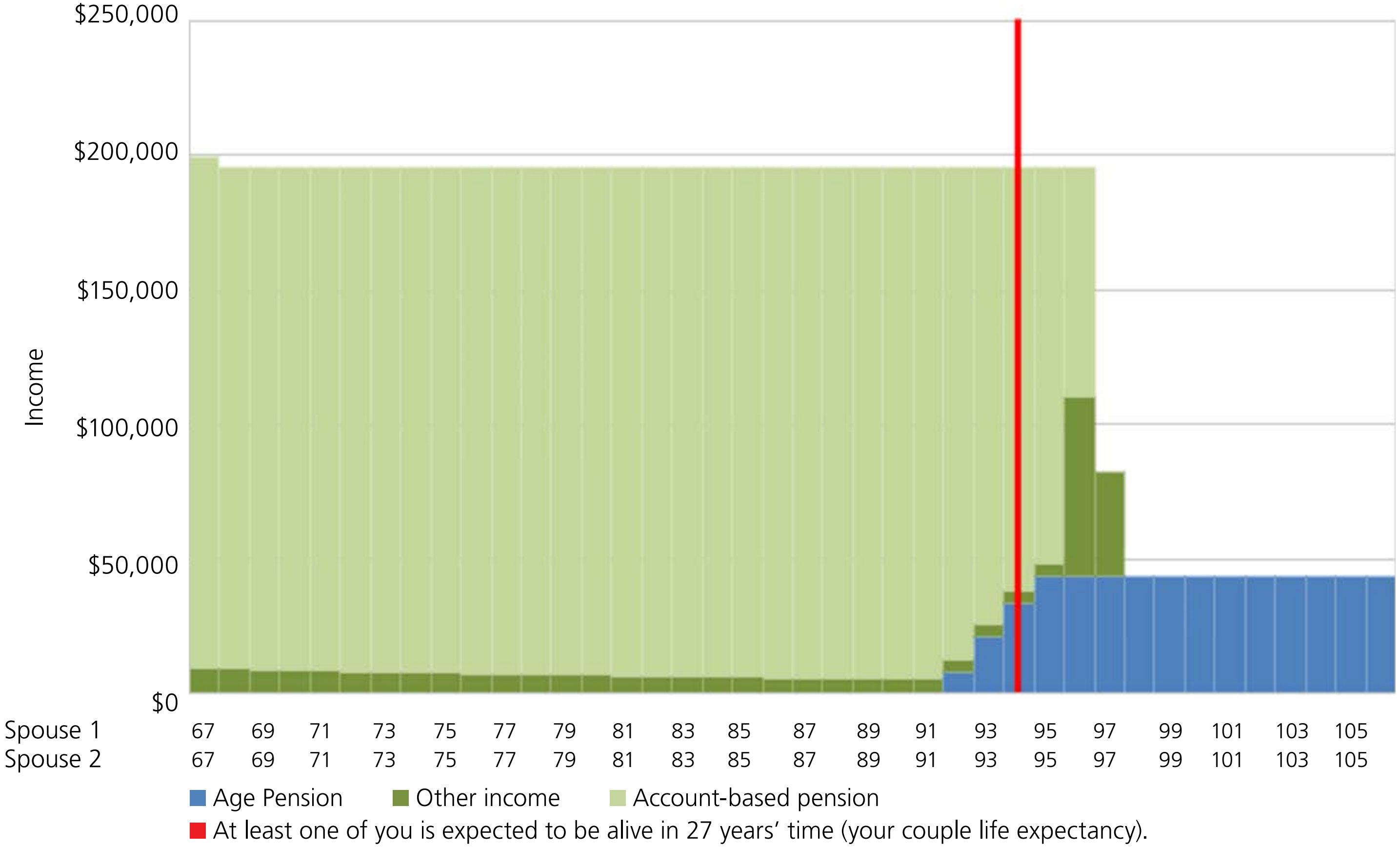
Achieving their desired lifestyle



This fixed return analysis shows income projected to last out past age 96 (beyond their couple life expectancy) and will meet Michael and Michelle's "comfortable" income requirements.

Achieving their desired lifestyle

But, can we do better using guaranteed lifetime income?

Guaranteed lifetime income can also be useful for clients with significant retirement assets in improving the likelihood of achieving their retirement income goals. A partial allocation to guaranteed lifetime income can also improve total portfolio and estate outcomes.

With this in mind, Meika has modelled the outcomes a 20% allocation to guaranteed lifetime income (in the form of a guaranteed, CPI-linked lifetime annuity) would deliver for Michael and Michelle. The income from this combination of income streams is shown in the next graph.

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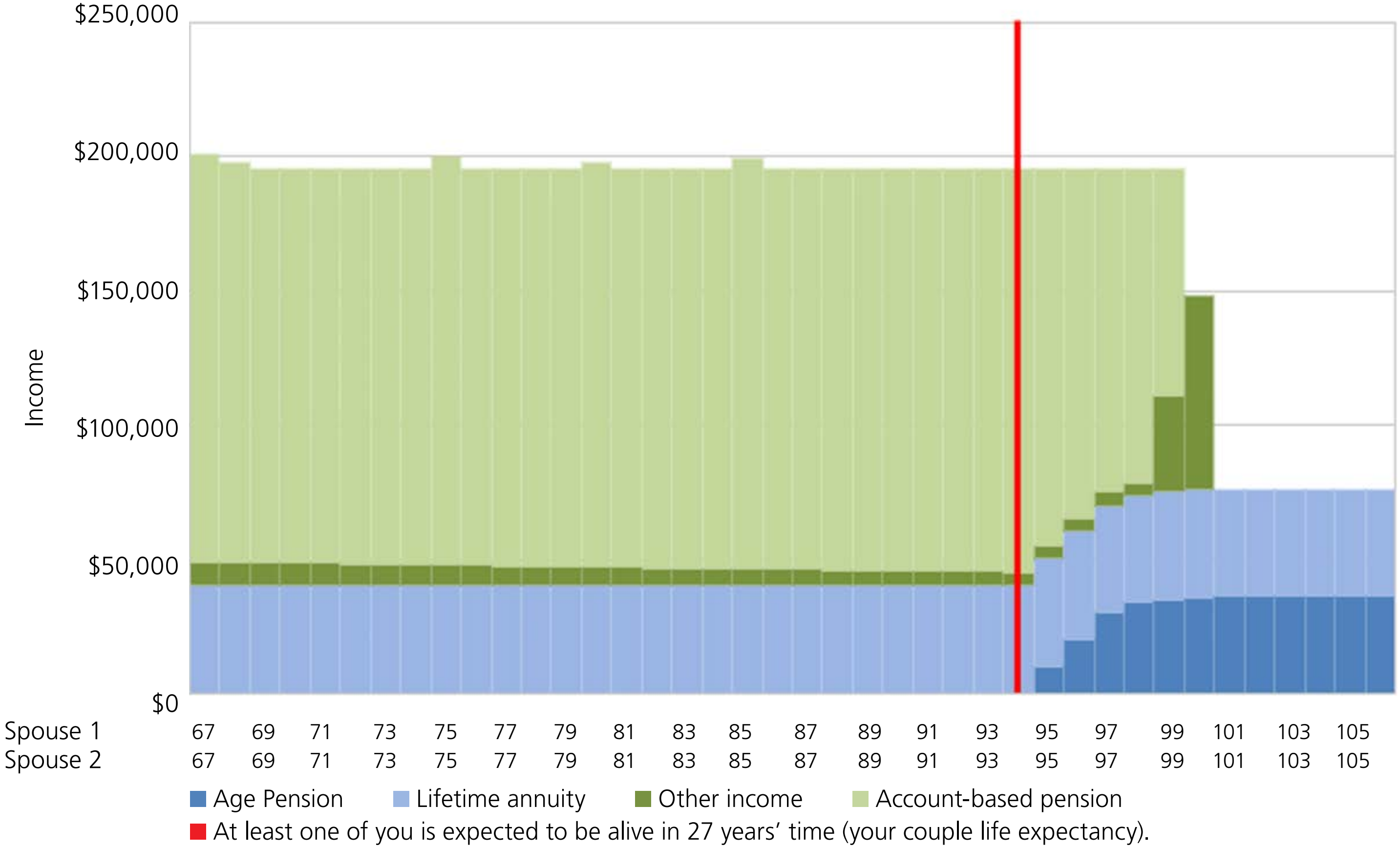

Achieving their desired lifestyle

In this fixed return projection, a 20% allocation to a CPI-linked lifetime annuity helps Michael and Michelle meet their desired level of spending for longer (with their income target of $195,000 p.a. projected to be met for an additional three years).

This 20% allocation to a CPI-linked lifetime annuity also (modestly) improves the chance of meeting their desired level of income to couple life expectancy using a variable return analysis from an 80% chance to an 82% chance.

Importantly for Michael and Michelle, this 20% allocation to guaranteed lifetime income also ensures that even where their total retirement income objective of $195,000 p.a. is not met (because their retirement savings have been depleted) their guaranteed lifetime income (in addition to any Age Pension they may be eligible for very late in life) will be sufficient in 100% of modelled scenarios to meet a minimum level of income of $72,148 p.a. in today's dollars (equal to the ASFA "Comfortable" Retirement Standard at December 2023).

Finally, this 20% allocation to guaranteed lifetime is projected to increase Michael and Michelle's estate value (at couple life expectancy) **by more than $317,000 in today's dollars.**

This higher estate value at life expectancy comes from the higher account balance in Michael and Michelle's account-based pensions at this point which comes from a combination of variables including the total return on the lifetime annuity over this period relative to replaced defensive assets and different drawdowns from the account-based pensions.

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Achieving their desired lifestyle

Other considerations of lifetime annuities for clients with significant retirement savings

For clients with significant retirement savings, including clients with assets greater than the superannuation transfer balance cap ($1,900,000 in 2024/25) a non-superannuation lifetime annuity may represent a particularly tax-effective structure for retirement income.

The taxation benefits of lifetime annuities are discussed in detail in this issue of **Challenger Tech News**.

Assumptions

Age Pension benefits described above will not apply to all individuals. Age Pension outcomes depend on an individual (or couple's) personal circumstances and may change over time. While lifetime income streams may immediately benefit some Age Pension eligible retirees who are assessed under the assets test, in later years, if assessed under the income test, any ongoing Age Pension benefits may be reduced.

The calculations above are from Challenger's Retirement Illustrator tool as at 1 April 2024 (accessible to financial advisers only).

The Retirement Illustrator contains the following assumptions:

Government Age Pension: The Government Age Pension amounts illustrated are based on current law. For the purpose of rates and threshold indexation CPI and AWOTE are assumed to be the same. Any future changes to legislation will alter the Age Pension amounts projected. It is important to note that the Government Age Pension amounts projected are illustrations only and are not a guarantee that a person will be entitled to the Government Age Pension.

Eligibility for Government Age Pension entitlements will vary depending on personal circumstances, including the future value of investments and changes to marital status. To check eligibility for the Government Age Pension, go to servicesaustralia.gov.au.

Continuance of life: The Illustrator assumes the life/lives being illustrated do not die before the end of the illustration period. Where death occurs before the end of the illustration period the results will be different.

Taxation: The Illustrator does not calculate any tax payable on the projected regular retirement income or capital gains. Generally, once a person turns age 60 and retires, any income received from superannuation investments is tax-free. However, other investments not purchased with money rolled over within the superannuation system may be subject to tax. Where the annuity is purchased with non-superannuation money, tax may be payable on any lump sum withdrawal amount.

Amounts are shown in today's dollars: Results are shown in 'today's dollars'. This means illustrations take into account the impact of inflation between the time of the illustration and the future date, in order to show all figures in today's purchasing power.

Assumed rates of return: The illustrator assumes Account-based pension growth assets return 8% p.a. and defensive assets, 4.5% p.a. before management fees of 0.80% and 0.40% respectively. In addition, platform fees are assumed to be 0.40% and cash deposits return 4.5% p.a. Lifetime annuities is assumed to form part of defensive assets and to maintain an overall asset allocation of 50/50 growth/defensive (including the allocation to the defensive lifetime annuity), the asset allocation of the account-based pensions has been set accordingly.