challenger

Technical guide

Challenger Lifetime Annuity (Liquid Lifetime)

Current as at 20 December 2023

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Contents

Introduction

With approximately 710 people[1] turning age 67 each day, it's likely you'll have more and more clients coming to you for retirement advice. For couples retiring at age 67 today, there is a 50% chance that at least one member of that couple can expect to live 27 years[2] or more, so your retired clients will most likely need your help to make their money last the distance.

With the full Age Pension[3] not being sufficient to meet the essential expenses for many retirees, a number of your clients will have to consider how they can best structure their investments to meet their retirement income needs.

Challenger Lifetime Annuity (Liquid Lifetime)

Lifetime annuities, such as the Challenger Lifetime Annuity (Liquid Lifetime) are secure investments that provide the investor with the peace of mind of having income for life.

In this guide, we explore the technical aspects of Liquid Lifetime, including how Liquid Lifetime is assessed for Centrelink/DVA under the income and assets tests and how regular payments and withdrawals are taxed.

Challenger Tech

Specialists in retirement and aged care

The Challenger Tech team provides specialist technical resources, support and training to financial advisers on retirement income and aged care.

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1 Australian Bureau of Statistics (ABS) June 2023.
2 Australian Life Table 2015-17 with 25 year mortality improvements as provided by the Australian Government Actuary (AGA).
3 The maximum Age Pension rate as at 20 September 2023 is $28,514 per annum for singles and $42,988 per annum for couples.

Product features

Figure 1 provides a summary of the main features which apply to individual investors who are Australian residents. Please refer to the Challenger Lifetime Annuity (Liquid Lifetime) Product Disclosure Statement (PDS) for further details.

Figure 1: Liquid Lifetime at a glance

Who can buy Liquid Lifetime?	Anyone aged 18 years and older (aged 60 years and older if the investor uses superannuation money to invest). If using money rolled over within the superannuation system it must be classified as 'unrestricted non-preserved'. The deferred payments option can only be invested with superannuation money. However, the investor cannot make a Liquid Lifetime investment if: • they live in a residential aged care facility or if they have an Aged Care Assessment Team/Service (ACAT/ACAS) approval that specifies them as eligible to move into a facility; or • held as a direct investment of a Self-Managed Super Fund (SMSF) – note they can invest via a rollover of the investment amount.
Investment term	The investor's lifetime or the lifetime of the investor and their spouse.
Minimum investment	$10,000
Payment indexation	Choice of regular payments adjusted fully in line with changes in the Consumer Price Index (CPI), partially in line with changes in the CPI, linked to changes in the RBA cash rate, or linked to changes in investment markets.
Payment frequency	Monthly
Nominating a reversionary	The investor can choose for their regular payments to be made for the life of their spouse after they die. The investor's spouse is called the 'reversionary'. If a Liquid Lifetime investment is made with money rolled over within the superannuation system, the reversionary must meet the legal definition of 'spouse' for superannuation and tax purposes. If the investor chooses the deferred payment option, the reversionary can only be a spouse (as defined by law) aged 65 or older.
Beneficiary nomination	Where a reversionary has not been nominated, the investor can nominate a beneficiary to receive their lump sum death benefit if they die within the withdrawal period. If an investment is made with superannuation money, the investor can only nominate their legal personal representative or a dependant as a beneficiary (as defined in superannuation laws).
Liquid Lifetime options	The investor can choose from three options depending on their needs: • Flexible Income (Immediate payments) (Flexible (Immediate)) – An annuity that starts paying lifelong income immediately. It has a withdrawal value and a guaranteed death benefit for a period based on their life expectancy. • Flexible Income (Deferred payments) (Flexible (Deferred)) – An annuity that starts paying lifelong income after a deferral period that the investor chooses. It has a withdrawal value and a guaranteed death benefit for a period based on their life expectancy. Starting payments are higher than the Flexible (Immediate) option because payments do not start immediately. • Flexible Income (Market-linked payments) – An annuity that starts paying lifelong income immediately. It combines the benefits of a monthly income for the investor's lifetime and exposure to investment markets while offering flexibility to switch indexation payment options annually. It has a withdrawal value and a guaranteed death benefit for a period based on their life expectancy.

On death	• If the investor dies within the withdrawal period and at that time they do not have a reversionary, we will make a lump sum payment to their estate unless a valid nomination is in place which requests the payment to be made directly to a beneficiary(ies). • If the investor dies during the withdrawal period and their reversionary then also dies during the withdrawal period, we will make a lump sum payment to the reversionary's estate unless a valid nomination is in place which requests the payment to be made directly to a beneficiary(ies). • If the investor dies after the withdrawal period, no lump sum or further regular payment is payable unless they have a reversionary; in which case, their regular payments will continue to be made to the reversionary for the rest of their life. • The Flexible Income (Immediate payments), Flexible Income (Deferred payments) and Flexible Income (Market-linked payments) options provide investors with the option to remove the withdrawal period and the death benefit in return for higher payments – called the Enhanced Income (Immediate payments), Enhanced Income (Deferred payments) and Enhanced Income (Market-linked payments) options respectively. If the investor chooses an Enhanced option, their Liquid Lifetime will never have a withdrawal value, and a withdrawal period cannot be added back to their Liquid Lifetime once it has started.
Upfront and regular adviser service fee	Where the client has provided their authorisation, an agreed dollar amount can be charged.

Target market summary

This product is likely to be appropriate for an individual who is approaching or is in retirement, looking to exchange a lump sum investment in return for a regular income with the intention to hold the product for their entire lifetime.

This product is not suitable for someone in aged care, or who has knowledge of a major or terminal illness that will likely reduce their life expectancy, or who needs ready access to the lump sum invested outside of regular payments.

Please refer to the Target Market Determination for Liquid Lifetime for further details.

Centrelink/DVA treatment

How Liquid Lifetime is assessed for the Age/Service Pension

Centrelink uses two means tests to determine eligibility for the Age Pension: the income test and the assets test. The test that produces the lowest result is the one that is used to determine entitlements.

The social security treatment of lifetime annuities changed from 1 July 2019. The new rules do not affect existing lifetime income streams in place prior to 1 July 2019.

The following sections summarise how Liquid Lifetime is assessed under the income and assets tests. It applies to lifetime annuity investments with either superannuation or non-superannuation money.

Income test: How to calculate assessable income

Challenger Liquid Lifetime	Commencement	Income assessment
Flexible (Immediate), Flexible (Deferred) & Flexible (Market-linked payments)	Pre-1 July 2019	Annual payment less deduction amount[i]
	From 1 July 2019	Annual payment times 60%[ii]

i If the deduction amount (see below) exceeds the annual payment amount, no income is assessed.

ii For Flexible (Deferred), income is only assessed when payments commence.

Assets test: How to calculate the assessable asset value

Challenger Liquid Lifetime	Commencement	Asset assessment
Flexible (Immediate), Flexible (Deferred)	Pre-1 July 2019	Purchase price less (deduction amount x term elapsed)[i]
Flexible (Immediate), Flexible (Deferred) & Flexible (Market-linked payments)	From 1 July 2019	Purchase price x 60% until the life expectancy of a 65-year-old male (currently 84), or a minimum of five years, and then 30% of the purchase price for life

i Where the deduction amount method applies to the assessment of a lifetime annuity, the assessed value for the Centrelink assets test reduces every six months, or every 12 months where yearly payments are made.

Let's consider an example. Leonard is a 67-year-old single male and is an asset-tested Age Pensioner. He invests $100,000 in Flexible (Immediate) from 1 July 2019. $60,000 will be assessed as an asset until the day Leonard turns age 84, from which point it will be assessed at $30,000 for the remainder of his lifetime.

A reduction of $10,000 in assessable assets means an increase in Age Pension of up to $780 per year for asset-tested Age Pensioners. This means for Leonard, his assets reduce by $40,000 and therefore his Age Pension increases by up to $3,120 (4 x $780) in the first year.

Deduction amount

To calculate the deduction amount for a lifetime annuity, divide the purchase price of the annuity by the investor's life expectancy at the start of the annuity. The deduction amount calculation is the same for both superannuation and non-superannuation money lifetime annuities.

Deduction amount = purchase price / life expectancy at start of annuity

For example, Leonard, a 67-year-old male had a life expectancy of 17.62 years based on Australian AGA life tables 2010-12 when he commenced his income stream in January 2019. If he invested $100,000 in Liquid Lifetime at that time, he will have an annual deduction amount of:

$100,000/17.62 = $5,675.37 p.a.

Where a lifetime annuity was established before 1 July 2019 with a reversionary, the deduction amount is worked out using the longer of the two life expectancies. For example, if Leonard had a spouse (Lydia, 67) and nominated her as a reversionary beneficiary, his annuity's deduction amount based on Australian AGA life tables 2010-12 will be worked out as follows:

Leonard's life expectancy = 17.62 (67-year-old male) Lydia's life expectancy = 20.33 (67-year-old female) The deduction amount will use Lydia's life expectancy:

$100,000/20.33 = $4,918.84 p.a.

Treatment of lump sum withdrawals

Centrelink will treat the withdrawal of Liquid Lifetime as the return of capital, which means that the withdrawal amount (if applicable) will not be assessed as income under the income test.

The manner in which the funds are subsequently invested will determine how they will be assessed under the assets and income tests. For example, if the withdrawn funds are invested in a term deposit, Centrelink will assess the value of the term deposit as a financial asset and be subject to deeming rules under the income test.

Adviser fees

Upfront adviser fees

Where an upfront adviser service fee has been negotiated, the regular payments are reduced to reflect the amount of the fee.

However, this fee does not reduce the purchase price of Liquid Lifetime.

Regular adviser service fee

Your client can agree to the payment of a regular adviser service fee (ongoing or fixed term), which can be deducted from the annuity's regular payments. Where a regular adviser service fee is charged, the regular payments are reduced by the amount of the fee and the net amount credited to the client's nominated account. Centrelink does not reduce the assessable income of Liquid Lifetime by the amount of this fee.

How Liquid Lifetime is assessed for the Commonwealth Seniors Health Card

The Commonwealth Seniors Health Card Income Test

Centrelink uses adjusted taxable income plus deemed income from non-grandfathered account-based pensions to assess eligibility for the Commonwealth Seniors Health Card (CSHC).

Adjusted taxable income is assessed from a client's reference tax year, which is usually the tax year immediately preceding the current tax year. If a client has not received their tax notice of assessment for the tax year immediately preceding the current tax year, then the tax year immediately preceding that will be the reference tax year.

For example, for a client who applies for the CSHC in October 2023, the current tax year is 2023/24, therefore they must provide a tax notice of assessment for 2023/24. If this is not available, then this client should provide a tax notice of assessment for the 2021/22 tax year, which will be their reference tax year.

For non-grandfathered account-based pensions, it is the current account balance of that pension which is used to calculate deemed income. Clients can reduce their CSHC assessable income immediately by reducing their deemed account-based pension balances.

From 20 September 2023 until 19 September 2024, the CSHC income threshold for singles is $95,400 and the CSHC income threshold for couples is $152,640.

Assessment of regular payments

The taxable income (if any) from Liquid Lifetime will be assessed for the CSHC. The taxation of Liquid Lifetime regular payments is discussed in detail on page 8.

At a high level, payments from a Liquid Lifetime investment purchased with superannuation money are tax free, and therefore have no assessable income for the CSHC.

Payments from a Liquid Lifetime investment purchased with non-superannuation money may have assessable income, which is generally equal to the payments less the deductible amount.

Assessment upon withdrawal (voluntary)

The taxable income (if any) from a voluntary withdrawal from Liquid Lifetime will be assessed for the CSHC. The taxation of voluntary withdrawals from Liquid Lifetime are discussed in detail from page 11.

At a high level, where a Liquid Lifetime investment made with superannuation money is withdrawn voluntarily and taken as a lump sum, the withdrawal value is generally tax free for people aged 60 and over, and therefore not assessed for the CSHC income test.

Where a Liquid Lifetime investment made with non-superannuation money is withdrawn voluntarily, the withdrawal value above the reduced purchase price (if any) is taxable income.

The voluntary withdrawal value for Flexible (Immediate), Flexible (Deferred) and Flexible (Market-linked payments) will always be less than the reduced purchase price. This means there is no taxable income and no CSHC assessable income upon voluntary withdrawal.

Taxation treatment

This information applies to individual Australian tax residents only and is based on our understanding of current taxation legislation as at the date of this document.

Taxation upon investment

No tax is deducted from the initial amount used to purchase a lifetime annuity. However, where money is being rolled over from an untaxed superannuation fund to commence the lifetime annuity, 15% tax will be deducted from the 'taxable component – untaxed element' (up to the untaxed plan cap of $1.705 million for FY 2023/24) on receipt and prior to commencement. Amounts rolled over above the untaxed plan cap may be subject to additional tax.

Note: Where superannuation money is being used to commence a Liquid Lifetime it can only be invested with superannuation benefits that are classified as unrestricted non-preserved.

Taxation of regular payments

The tax treatment of the Annuity's regular payments is different for annuities purchased with non-superannuation and superannuation money.

Superannuation money

Generally, regular payments from a Liquid Lifetime investment made with superannuation money for those aged 60 and above are tax free.

Non-superannuation money

For lifetime annuities purchased before 1 July 2019, the Centrelink and tax assessment were similar under the deduction/deductible methods. For lifetime annuities purchased from 1 July 2019, whilst the Centrelink assessment has now changed, it is important to note that the tax assessment has not changed and still uses a deductible amount.

The regular payments are split into two components:

Deductible amount

The deductible amount is the amount of each regular payment that broadly represents the return of the original investment capital. This amount is tax free. The deductible amount is calculated based on the gender and age of the investor at the time of investment.

To calculate the deductible amount, divide the purchase price by the investor's life expectancy at commencement.

For annuity investments from 1 January 2020 use the Australian Life Tables 2015-2017. For policies with a reversionary beneficiary, the longest life expectancy of the two is used to calculate the deductible amount.

For example, Leonard (age 67) invests $100,000 in Liquid Lifetime during 2023. Based on Australian AGA life tables 2015-17 his annuity will have an annual deductible amount of:

$100,000/18.24 = $5,482.46 p.a

Assessable amount

The assessable amount is the amount of the regular payments that is greater than the deductible amount (including any excess deductible amount carried forward from a previous financial year). This amount is assessable for tax purposes. The assessable amount is the amount (if any) of each regular payment that broadly represents earnings. Depending on the investor's personal circumstances, this amount may be subject to Pay As You Go (PAYG) withholding tax.

Note: PAYG is not a final tax, and a greater or lesser amount of tax may apply on assessment of the investor's annual income tax return.

Where income paid from the annuity is less than the deductible amount, there is no assessable income for taxation purposes. The excess deductible amount does not reduce other assessable income of the individual. The excess deductible amount is carried forward and may be used to offset assessable income from the lifetime annuity in future years (if any). For example, this may occur when a payment indexation option is chosen.

Reversionary

Where a reversionary is nominated, if the original policy owner dies then regular payments will be paid to the reversionary and taxed in the reversionary's name. Note that the deductible amount is not recalculated.

Taxation upon withdrawal (death)

Superannuation money

Lifetime annuities invested with superannuation money are generally made up of a taxable and a tax-free component.

The proportion of these components is set at the start of the lifetime annuity and remains fixed for the life of the annuity. On death and where a withdrawal value applies, a lump sum is paid to the estate/beneficiary(ies). If the end recipient of the benefit is a tax dependant, the amount paid is not subject to tax regardless of the components. However, if the end recipient of the benefit is a non-tax dependant, the taxable component is subject to tax at a maximum rate of 15% (Government levies may also apply).

In summary, tax dependants are:

- a spouse or ex-spouse;
- a child under the age of 18 (or otherwise a financial dependant);
- someone who is a financial dependant; or
- someone with whom an interdependency relationship existed.

Non-superannuation money

Upon death, any amount payable will comprise an amount that represents a return of remaining capital (called the reduced purchase price) and income. The income component of the amount paid will be assessable to the estate/beneficiary(ies) and, depending on the respective tax circumstances, subject to tax. Assessable income cannot be less than zero.

Assessable income

Death benefit – reduced purchase price

Calculating the reduced purchase price

The reduced purchase price is worked out by reducing the purchase price by the deductible amount used each year.

Reduced purchase price
= Purchase Price – (Deductible amount x Term elapsed)
+ Unused Deductible amount (if any)

If the payments from the annuity for a particular year were less than or equal to the deductible amount (including any unused deductible amounts carried forward from prior years), the reduced purchase price calculated in the prior year is reduced by the income paid for that year (and any excess deductible amount can be carried forward into a future financial year).

If the payments from the annuity for a particular year were greater than the deductible amount then the reduced purchase price calculated in the prior year is reduced by the deductible amount and any excess carried forward deductible amount from that prior year.

Note: Years are used to explain the reduced purchase price to be consistent with the tax system which uses a financial year calendar. However, to calculate the reduced purchase price, it is the deductible amounts used up until the point of withdrawal which are considered. For example, Liquid Lifetime investments purchased today have monthly payments, therefore a reduced purchase price calculation upon withdrawal would include any deductible amounts used in previous financial years plus the deductible amounts used from the monthly payments in the current financial year up until the withdrawal date.

Calculating reduced purchase price example – Flexible (Immediate) option with CPI indexed payments

Faye (age 65), who invests $100,000 in Liquid Lifetime's Flexible (Immediate) option, will have the following reduced purchase price at the end of the first year based on Australian AGA life tables 2015-17:

- Deductible amount: $4,450.38 ($100,000/22.47)
- Annuity payment received: $4,881.36[4]
- Unused deductible amount: $0 ($4,450.38 – $4,881.36)
- End of year one reduced purchase price = $95,549.62 ($100,000 – $4,450.38 x 1 + $0).

Faye does not have an unused deductible amount because her annuity payment is greater than her deductible amount. However, if Faye had an unused deductible amount from the first year, it would be carried forward for Faye and could be used as a deduction against her payments in future tax years.

For the reduced purchase price for future years, see Figures 2 and 4 for Faye.

Calculating reduced purchase price example – Regular option with non-indexed payments

Please note, Liquid Lifetime Regular option is no longer available for new investments. Any discussion of Liquid Lifetime Regular option is to aid understanding for existing investors.

Ruth (age 65), who invested $100,000 in Liquid Lifetime Regular option, will have the following reduced purchase price at the end of the first year based on Australian AGA life tables 2010-12:

- Deductible amount: $4,535.15 ($100,000/22.05)
- Annuity payment received: $3,176.00[5]
- Unused deductible amount: $1,359.15 ($4,535.15 – $3,176)
- End of year one reduced purchase price = $96,824.00 ($100,000 – $4,535.15 x 1 + $1,359.15).

For the reduced purchase price for future years, see Figures 3 and 5 for Ruth.

The following provides an example of the income components and reduced purchase prices for the Flexible (Immediate) and Regular options.

4 Based on Liquid Lifetime rates effective 20 December 2023. The quote assumes the Flexible (Immediate) option, no adviser fees and regular payments of $4,881.36 p.a for a 65 year old female, paid monthly and indexed to CPI.

5 Based on Liquid Lifetime rates effective 16 December 2019. The quote assumes the Regular option with a 100% withdrawal guarantee, no adviser fees and regular payments of $3,176 p.a. for a 65 year old female, paid monthly which are not indexed.

Flexible (Immediate) option

Where Faye (age 65) invests in Flexible (Immediate)[6] using non-superannuation money (for $100,000) it is important to consider the tax components on withdrawal. If Faye dies within the withdrawal period, then Figure 2 shows both the capital component (reduced purchase price) and the income component that would apply to her estate/beneficiary(ies).

Figure 2: Tax components of the withdrawal value on Faye's death

End of year	Illustrative annual payment	Deductible amount	Cumulative unused deductible amount	Reduced purchase price	Guaranteed withdrawal value	Income component (assessable)
1	$4,881	$4,450	–	$95,550	$100,000	$4,450
2	$5,003	$4,450	–	$91,100	$100,000	$8,900
3	$5,128	$4,450	–	$86,650	$100,000	$13,350
4	$5,257	$4,450	–	$82,200	$100,000	$17,800
5	$5,388	$4,450	–	$77,750	$100,000	$22,250
6	$5,523	$4,450	–	$73,300	$100,000	$26,700
7	$5,661	$4,450	–	$68,850	$100,000	$31,150
8	$5,802	$4,450	–	$64,400	$100,000	$35,600
9	$5,947	$4,450	–	$59,950	$100,000	$40,050
10	$6,096	$4,450	–	$55,500	$100,000	$44,500
11	$6,249	$4,450	–	$51,050	$100,000	$48,950
12	$6,405	$4,450	–	$46,600	$45,454	–
13	$6,565	$4,450	–	$42,150	$40,909	–
14	$6,729	$4,450	–	$37,700	$36,363	–
15	$6,897	$4,450	–	$33,250	$31,818	–
16	$7,070	$4,450	–	$28,800	$27,272	–
17	$7,246	$4,450	–	$24,350	$22,727	–
18	$7,428	$4,450	–	$19,900	$18,181	–
19	$7,613	$4,450	–	$15,450	$13,636	–
20	$7,804	$4,450	–	$11,000	$9,090	–
21	$7,999	$4,450	–	$6,550	$4,545	–

6 Based on Liquid Lifetime rates effective 20 December 2023. The quote assumes the Flexible (Immediate) option, no adviser fees and regular payments of $4,881.36 p.a. for a 65 year old female, paid monthly and indexed to CPI (assumed to be 2.50% p.a.).

Regular option

Please note, Liquid Lifetime Regular option is no longer available for new investments. Any discussion of Liquid Lifetime Regular option is to aid understanding for existing investors.

Where Ruth (age 65) invested in a Liquid Lifetime Regular[7] (with a withdrawal guarantee of 100%) using non-superannuation money (for $100,000) it is important to consider the tax components on withdrawal. If Ruth dies within the withdrawal period, then Figure 3 shows both the capital component (reduced purchase price) and the income component that would apply to her estate/beneficiary(ies).

Figure 3: Tax components of the withdrawal value on Ruth's death

End of year	Guaranteed payments	Deductible amount	Cumulative unused deductible amounts	Reduced purchase price	Guaranteed withdrawal value	Income component (assessable)
1	$3,176	$4,535	$1,359	$96,824	$100,000	$3,176
2	$3,176	$4,535	$2,718	$93,648	$100,000	$6,352
3	$3,176	$4,535	$4,077	$90,472	$100,000	$9,528
4	$3,176	$4,535	$5,437	$87,296	$100,000	$12,704
5	$3,176	$4,535	$6,796	$84,120	$100,000	$15,880
6	$3,176	$4,535	$8,155	$80,944	$100,000	$19,056
7	$3,176	$4,535	$9,514	$77,768	$100,000	$22,232
8	$3,176	$4,535	$10,873	$74,592	$100,000	$25,408
9	$3,176	$4,535	$12,232	$71,416	$100,000	$28,584
10	$3,176	$4,535	$13,592	$68,240	$100,000	$31,760
11	$3,176	$4,535	$14,951	$65,064	$100,000	$34,936
12	$3,176	$4,535	$16,310	$61,888	$100,000	$38,112
13	$3,176	$4,535	$17,669	$58,712	$100,000	$41,288
14	$3,176	$4,535	$19,028	$55,536	$100,000	$44,464
15	$3,176	$4,535	$20,387	$52,360	$100,000	$47,640

Taxation upon withdrawal (voluntary)

The calculation of the withdrawal value is dependent on movements in interest rates between the time of commencement of the annuity and the time of withdrawal, and may be less than the maximum withdrawal value. The withdrawal value cannot exceed the maximum withdrawal value, except when exercising a cooling-off right.

Superannuation money

Where a Liquid Lifetime investment made with superannuation money is withdrawn voluntarily, the amount withdrawn can be paid as a lump sum, rolled back to accumulation (except for death benefits) or used to start another superannuation income stream. Amounts taken as a lump sum are generally tax free for people aged 60 and over.

Non-superannuation money

If Liquid Lifetime is withdrawn before or at the end of the withdrawal period (if applicable), the withdrawal value will comprise an amount that represents a return of remaining capital (called the reduced purchase price – see page 9) and income. The income component of the withdrawal will be assessable to the investor and, depending on personal tax circumstances, subject to tax. Assessable income cannot be less than zero.

Assessable income

Voluntary withdrawal value – reduced purchase price

7 Based on Liquid Lifetime rates effective 16 December 2019. The quote assumes the Regular option with a 100% withdrawal guarantee, no adviser fees and regular payments of $3,176 p.a. for a 65 year old female, paid monthly which are not indexed.

Flexible (Immediate) option

If Faye decided to withdraw her Flexible (Immediate)[8], then Figure 4 shows both the capital component (reduced purchase price) and the income component which would apply for Faye's tax.

Figure 4: Tax components of the voluntary withdrawal value for Faye

End of year	Illustrative annual payment	Deductible amount	Cumulative unused deductible amount	Reduced purchase price	Illustrative withdrawal value[i]	Income component (assessable)
1	$4,881	$4,450	–	$95,550	$95,454	–
2	$5,003	$4,450	–	$91,100	$90,909	–
3	$5,128	$4,450	–	$86,650	$86,363	–
4	$5,257	$4,450	–	$82,200	$81,818	–
5	$5,388	$4,450	–	$77,750	$77,272	–
6	$5,523	$4,450	–	$73,300	$72,727	–
7	$5,661	$4,450	–	$68,850	$68,181	–
8	$5,802	$4,450	–	$64,400	$63,636	–
9	$5,947	$4,450	–	$59,950	$59,090	–
10	$6,096	$4,450	–	$55,500	$54,545	–
11	$6,249	$4,450	–	$51,050	$50,000	–
12	$6,405	$4,450	–	$46,600	$45,454	–
13	$6,565	$4,450	–	$42,150	$40,909	–
14	$6,729	$4,450	–	$37,700	$36,363	–
15	$6,897	$4,450	–	$33,250	$31,818	–
16	$7,070	$4,450	–	$28,800	$27,272	–
17	$7,246	$4,450	–	$24,350	$22,727	–
18	$7,428	$4,450	–	$19,900	$18,181	–
19	$7,613	$4,450	–	$15,450	$13,636	–
20	$7,804	$4,450	–	$11,000	$9,090	–
21	$7,999	$4,450	–	$6,550	$4,545	–

i Based on Liquid Lifetime and bank bill swap rates effective 20 December 2023, which are assumed to remain unchanged for the illustrated period. Where rates do change the outcomes will differ from those illustrated in the table.

8 Based on Liquid Lifetime rates effective 20 December 2023. The quote assumes the Flexible (Immediate) option, no adviser fees and regular payments of $4,881.36 p.a for a 65 year old female, paid monthly and indexed to CPI.

Regular option

Please note, Liquid Lifetime Regular option is no longer available for new investments. Any discussion of Liquid Lifetime Regular option is to aid understanding for existing investors.

If Ruth decided to withdraw her Liquid Lifetime with the Regular option[9] then Figure 5 shows both the capital component (reduced purchase price) and the income component which would apply for Ruth's tax.

Figure 5: Tax components of the voluntary withdrawal value for Ruth

End of year	Annual payment	Deductible amount	Cumulative unused deductible amounts	Reduced purchase price	Illustrative withdrawal value[i]	Income component (assessable)
1	$3,176	$4,535	$1,359	$96,824	$99,564	$2,740
2	$3,176	$4,535	$2,718	$93,648	$99,000	$5,352
3	$3,176	$4,535	$4,077	$90,472	$98,118	$7,646
4	$3,176	$4,535	$5,437	$87,296	$97,373	$10,077
5	$3,176	$4,535	$6,796	$84,120	$96,824	$12,704
6	$3,176	$4,535	$8,155	$80,944	$96,476	$15,532
7	$3,176	$4,535	$9,514	$77,768	$96,355	$18,587
8	$3,176	$4,535	$10,873	$74,592	$96,682	$22,090
9	$3,176	$4,535	$12,232	$71,416	$96,896	$25,480
10	$3,176	$4,535	$13,592	$68,240	$96,854	$28,614
11	$3,176	$4,535	$14,951	$65,064	$97,440	$32,376
12	$3,176	$4,535	$16,310	$61,888	$98,046	$36,158
13	$3,176	$4,535	$17,669	$58,712	$98,688	$39,976
14	$3,176	$4,535	$19,028	$55,536	$99,338	$43,802
15	$3,176	$4,535	$20,387	$52,360	$100,000	$47,640

i Based on Liquid Lifetime and bank bill swap rates effective 16 December 2019, which are assumed to remain unchanged for the illustrated period. Where rates do change the outcomes will differ from those illustrated in the table.

9 Based on Liquid Lifetime rates effective 16 December 2019. The quote assumes the Regular option with a 100% withdrawal guarantee, no adviser fees and regular payments of $3,176 p.a. for a 65 year old female, paid monthly which are not indexed.

Transfer balance cap

The transfer balance cap will generally limit the amount of assets a person can transfer to tax-free superannuation retirement phase income streams, including lifetime annuity investments made with superannuation money.

The general transfer balance cap is $1.9 million for FY 2023/24 and is subject to CPI indexation (in $100,000 increments).

As a result, superannuation annuity investments will generally not be able to be made for more than $1.9 million in FY 2023/24.

The transfer balance account

A person commences to have a transfer balance account on the later of 1 July 2017 and when they start a superannuation retirement phase income stream. The transfer balance account will track the net amount a person has transferred into the tax-free retirement phase of superannuation.

Certain transactions will be recorded as credits or debits to a personal transfer balance account.

How is a lifetime annuity assessed for the transfer balance cap

Non-superannuation money

The purchase of Liquid Lifetime with non-superannuation money is not credited to a person's transfer balance account. Likewise, withdrawals from non-superannuation lifetime annuities are not debited to a person's transfer balance account.

Superannuation money

The credit value for a Liquid Lifetime investment made before 1 July 2017 is the identifiable lump sum. The identifiable lump sum is defined as an amount equal to purchase price.

From 1 July 2017, the credit value for a Liquid Lifetime investment is purchase price.

The purchase price of Liquid Lifetime will count towards a person's transfer balance account regardless of the product features chosen. For the purpose of the transfer balance cap, Liquid Lifetime is not a 'Capped Defined Benefit Income Stream'. For more details regarding the treatment of a 'Capped Defined Benefit Income Stream', please contact Challenger Tech.

Commutations

If a person commutes a Liquid Lifetime then a debit will be created against their personal account balance equal to the withdrawal value.

Death benefits

Where a superannuation death benefit is paid to an eligible dependant as a superannuation annuity, it will generally be credited to the dependant's transfer balance account on the day the dependant becomes entitled to the income stream. The credit will equal the value of the income stream, which for Liquid Lifetime is equal to the purchase price.

Where Liquid Lifetime reverts to a beneficiary following the death of the original recipient, a credit will arise in the reversionary beneficiary's transfer balance account 12 months after the original recipient's date of death. The credit will equal the original purchase price of Liquid Lifetime.

In these cases, a death benefit beneficiary will need to manage their affairs to ensure they do not exceed the transfer balance cap.

Excess amounts

Where a person's transfer balance account exceeds their personal transfer balance cap, they will generally be required to reduce their transfer account balance below their personal transfer balance cap.

They can do this by commuting the excess (equal to the excess transfer balance plus a notional earnings amount) from one or more superannuation retirement phase income streams. The excess amount commuted could be transferred to an accumulation superannuation account or withdrawn from the superannuation system altogether.

They will also generally be liable for an excess transfer balance tax, which is a tax on the accrued transfer balance earnings of 15% for the first breach and 30% for subsequent breaches.

Case study

Fiona and Frank

Fiona and Frank are a 67-year-old couple. They have recently sold their interest in their long-held café and have contributed the net proceeds of the sale to superannuation and retired. They own their home and have no debts. They now have $250,000 each in superannuation. In addition, they have $10,000 worth of personal assets and $50,000 in the bank as a cash reserve.

Fiona and Frank are looking for what they call a 'comfortable' lifestyle in retirement and have estimated that they require income of approximately $71,724 p.a. (based on September quarter 2023 ASFA comfortable lifestyle retirement standard for a couple aged 65-84) to achieve that. They have also concluded that they can't get by on the Age Pension alone and estimate they'll need minimum income of $50,000 p.a. to meet basic living expenses in retirement.

Fiona and Frank will receive some secure income from the Age Pension. In year one this is $34,525 p.a. based on their current level of assets and rates and thresholds as at 20 September 2023.

Over time, they expect their pension entitlement to approach the maximum rate, currently $42,988.40 p.a. combined for a couple, as they draw down on their assets to fund their retirement. However, this is still $7,012 p.a. below their basic needs of $50,000 (in today's dollars).

Fiona and Frank's life expectancies are 23 and 21 years respectively (this is an average only)[10]. They are in good health, so could live well past their life expectancy. Like many Australians, Fiona and Frank fear that they will outlive their savings and are worried they won't be able to afford their basic expenses if they had to rely on the Age Pension alone. Fiona and Frank would therefore like to find an additional source of secure income to help them meet their basic expenses in retirement.

Fiona and Frank are also concerned about share market volatility and therefore prefer only a moderate exposure to growth assets (50% in growth assets, 50% in defensive assets).

They visit their financial adviser to find a solution.

Their financial adviser's recommendations

Fiona and Frank's financial adviser recommends that they convert their superannuation into a combination of income streams.

This strategy is designed to give Fiona and Frank not only their preferred level of income, but also the flexibility and certainty that they desire.

The first income stream Fiona and Frank's financial adviser recommends is Challenger Liquid Lifetime Flexible (Immediate) option. Their financial adviser recommends that they each invest 30% of their superannuation (or $75,000 each) into the annuities. This investment will provide them with regular payments that are indexed to CPI for the rest of their lives irrespective of how investment markets perform.

When combined with the Age Pension, this secure source of income will help Fiona and Frank meet their essential living expenses even if they spend the remaining balance of their savings in the future.

Their adviser also recommends that they each set up an account-based pension with their remaining superannuation balance of $175,000 each. With an account-based pension they can choose from a range of investments and select the income they draw, subject to the Government's minimum payment requirements. The account-based pension is designed to provide them with an income stream that helps give them the lifestyle they desire until it runs out.

As part of the strategy their adviser also recommends they review the asset allocation of their account-based pension to ensure they maintain an appropriate level of growth assets. After discussing their options, the asset allocation for the account-based pension is changed to 71% growth and 29% defensive to account for the lifetime annuities forming part of their defensive assets. Using this approach, their overall asset allocation in year one continues to be 50% growth and 50% defensive.

With the adviser's recommendations, Fiona and Frank will have income from various sources to meet different expenses. The secure income from the Age Pension and the lifetime annuity provides them with guaranteed income which can help pay for their basic living expenses during their lifetime.

Because of the concessional assessment of lifetime income streams for Social Security purposes (where only 60% of the investment is counted as an asset for Social Security purposes until age 84 for Fiona and Frank and just 30% is assessable thereafter) their Age Pension payments are higher under this recommendation ($39,205 compared to $34,525 in year 1).

Payments from the account-based pension allow Fiona and Frank to achieve their desired lifestyle until the capital runs out (Figure 6).

The adviser also considered an alternative strategy where Fiona and Frank would commence an account-based pension with their entire superannuation benefits. However, this leaves Fiona and Frank unable to meet their basic living expenses when their account-based pension runs out (Figure 7).

10 Estimates calculated using Australian Life Tables, with 25-year mortality improvements as provided by the Australian Government Actuary.

Figure 6: Fiona and Frank retirement income strategy – combination of income streams

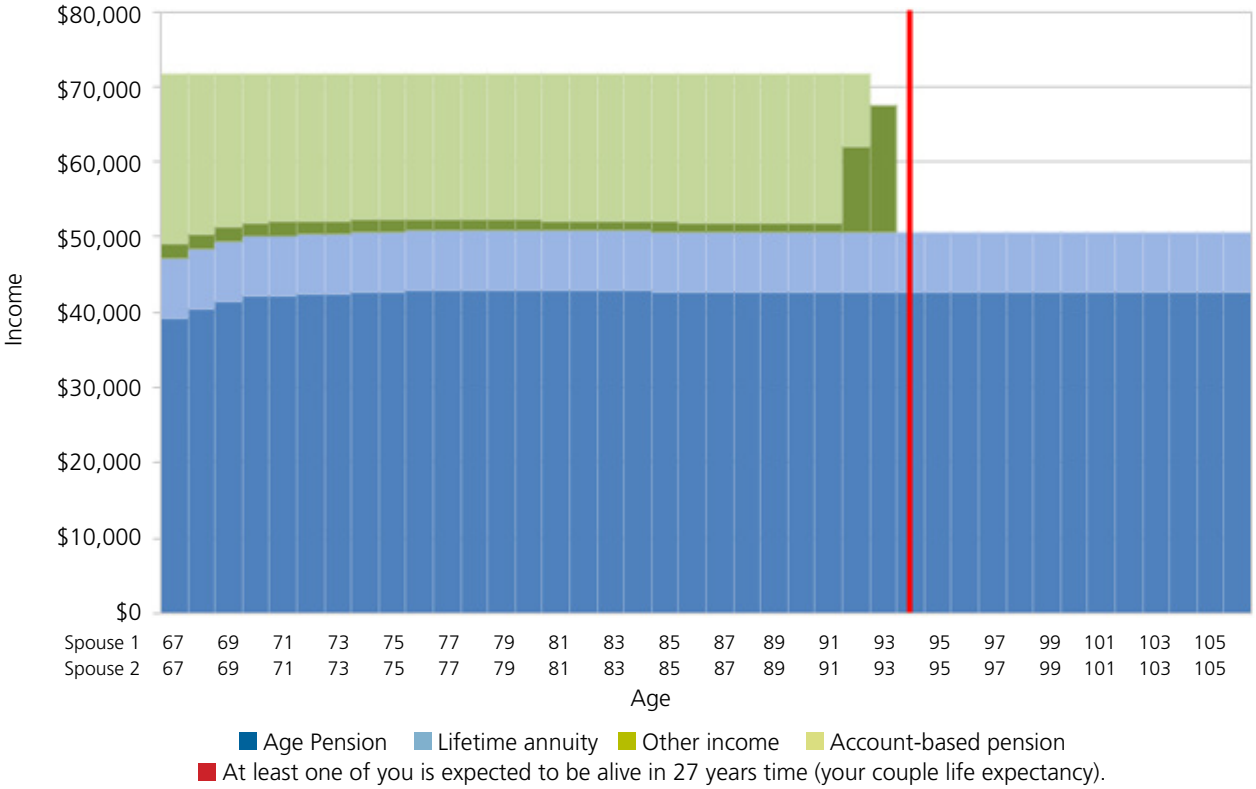
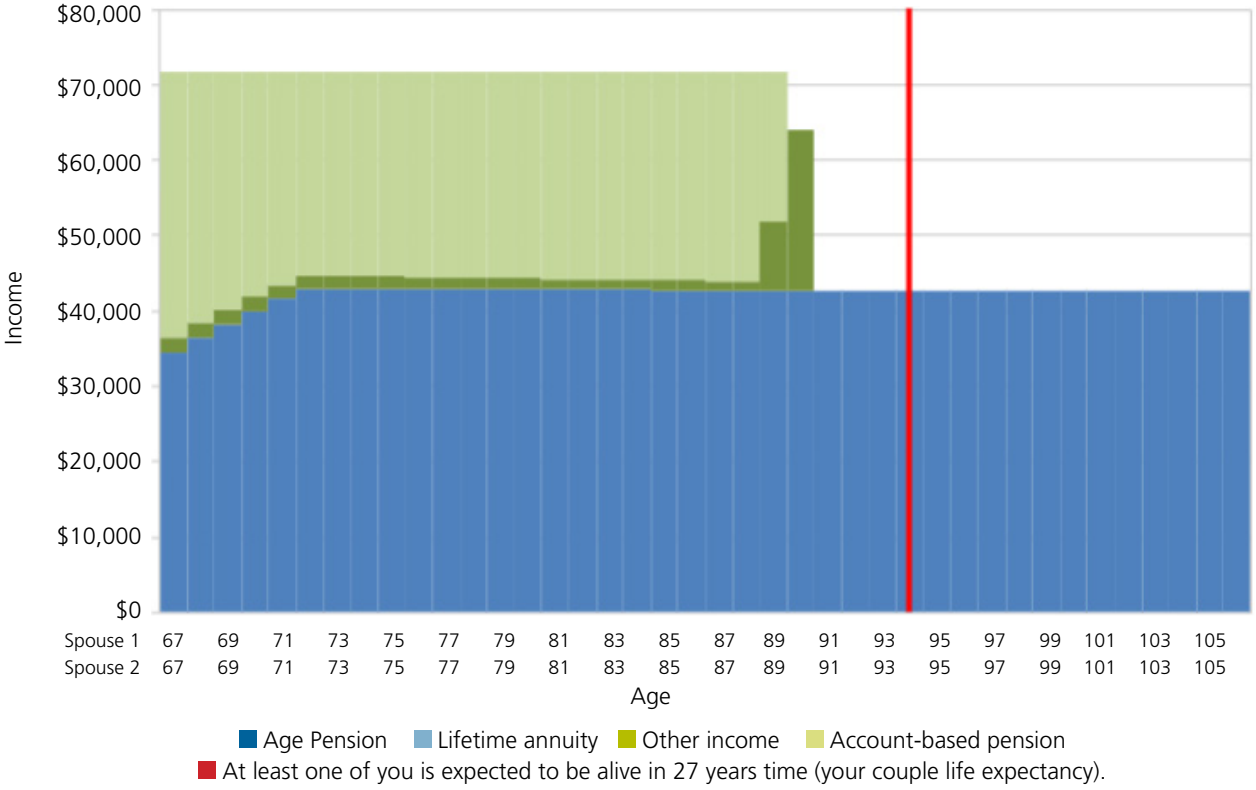


Figure 7: Fiona and Frank retirement income strategy – account-based pension only



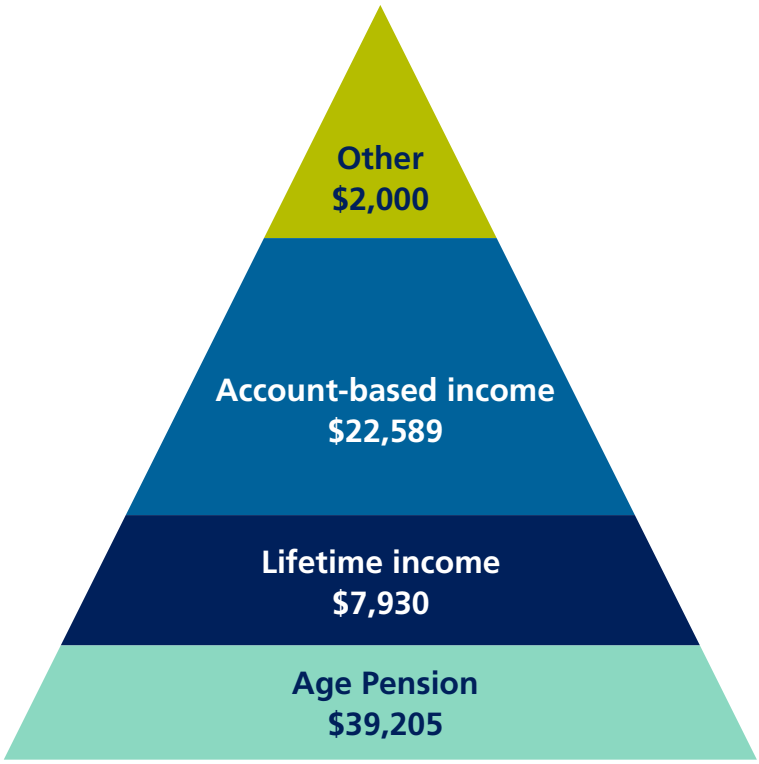
The illustrator assumes account-based pension growth assets return 8% p.a. and defensive assets, 4% p.a. before management fees of 0.80% and 0.40% respectively. In addition, platform fees are assumed to be 0.40% and cash deposits return 4% p.a. Lifetime annuities is assumed to form part of defensive 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. Challenger Liquid Lifetime is based on a quote as at 20 December 2023, purchased with superannuation money, using the Flexible (Immediate) option, payments indexed to CPI providing a first year payment of $4,078 for Frank and $3,852 for Fiona.

After speaking to their adviser, Fiona and Frank's $500,000 superannuation balance is invested so that during the first year of retirement:

- $75,000 each in Liquid Lifetime gives them $7,930[11] in total;
- $175,000 each in account-based pensions gives them $22,589 in total; and
- they receive $39,205 from the Age Pension in total.

Total income, including income earned on the money they have in the bank, during the first year of their retirement is $71,724 (Figure 8).

Figure 8: Fiona and Frank's income earned in the first year



Wants
(income from a combination of defensive and growth assets)

Income to pay for desirables like:

- holidays
- meals out
- entertainment
- other unforeseen costs
- emergencies

Needs
(income from lifetime annuity and Age Pension)

Income to pay for essentials like:

- food
- clothing
- utilities
- health expenses

11 Based on Liquid Lifetime rates effective 20 December 2023. The quote assumes the Flexible (Immediate) option, no adviser fees, paid monthly and indexed to CPI.

We're always ready to support you

Challenger has a wide range of tools and resources to help you with retirement income planning; including our Retirement Illustrator, webcasts, videos and case studies. To access these or find out more:

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