Did you know?

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Use an annuity for transition to retirement income

Over the past few years, many over 55s have accessed their superannuation prior to retirement with TTR – transition to retirement income stream[1].This income was used to supplement their salary prior to retirement so they could work fewer hours without loss of income. Regretfully, many clients were not aware that they could use a guaranteed annuity for the same transition to retirement income stream.

In these times of market uncertainty, clients are now looking for security and guaranteed income. This can be provided with a CommInsure Guaranteed Annuity.

Application for a non-commutable annuity

The annuity will enable a client to roll over preserved and/or restricted non-preserved benefits from superannuation to purchase the annuity.

For a client to use an annuity as a transition to retirement income stream, there are a number of conditions that must be met to satisfy the SIS Act rules in order to release the funds from superannuation prior to normal retirement.

1. The customer needs to reach preservation age as defined in SIS Reg 6.01(2). In some limited circumstances people who have reached their superannuation preservation age can purchase an annuity with their superannuation monies without having to permanently retire.

A client's superannuation preservation age is based on their date of birth as follows:
- Before 1 July 1960, is age 55 (current situation)
- 1 July 1960 to 30 June 1961, is age 56
- 1 July 1961 to 30 June 1962, is age 57
- 1 July 1962 to 30 June 1963, is age 58
- 1 July 1963 to 30 June 1964, is age 59
- After 30 June 1964, is age 60.

2. The annuity is a non-commutable annuity as defined in SIS Reg 6.01. This includes a limited right to cash the annuity during its first six months if the benefit is no longer required to be preserved. The ability to cash the annuity within the first six months is further restricted by the limitation that it can only be cashed to pay out unrestricted non-preserved benefits or if you satisfy a condition of release for preserved benefits and restricted non-preserved benefits as required by the SIS legislation. Thus clients need to be sure this is appropriate, because they will have difficulty getting their money back if they change their mind.

3. A member can commute a non-commutable pension or annuity after the six month cooling-off period ONLY if:
- if it is rolled over or transferred within the superannuation system, for example, to
- return a superannuation benefit to the accumulation phase, or
- to buy another non-commutable pension or annuity or a non-commutable allocated
- pension or annuity – because it retains its preservation status.

4. The annuity can be a lifetime annuity [1.05(2)], or a life expectancy annuity [1.05(9)] but both must also comply with SIS Reg 1.05(11A).

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5. A life expectancy annuity must be for a term, as set by the life expectancy table, for the age of the customer, or up to five years younger, or in other limited circumstances allowed under SIS Reg 1.05(9)(b). However, it must **also** comply with the maximum term (to the primary annuitant's age 100) allowed under SIS Reg 1.05(11A)(b)(ii)(A). Thus, life expectancy annuity payments will need to be for a duration of 19 to 45 years, depending upon the client's age and gender (male/female) at date of purchase.

6. A life expectancy annuity must be nil-RCV. Lifetime annuities are also nil-RCV. Thus, the client receives nothing at the end of the annuity (capital has been returned during the term of the annuity).

7. A life expectancy annuity must meet the minimum payments standards in the first year as per 1.05(11A)(b)(ii)(D). (Due to age, only the first bullet point is relevant for an annuity purchased for transition to retirement payments).

- Under age 65 – 4 per cent of original investment amount
- Age 65 to 74 – 5 per cent of original investment amount
- Age 75 to 79 – 6 per cent of original investment amount
- Age 80 to 84 – 7 per cent of original investment amount
- Age 85 to 89 – 9 per cent of original investment amount
- Age 90 to 94 – 11 per cent of original investment amount
- Age 95+ – 14 per cent of original investment amount.

CommInsure is not permitted to accept preserved superannuation money for people under retirement age (less than 65) unless all the rules above are met.

A client will be asked by CommInsure to sign a letter acknowledging the fact that they are accepting the non-commutable nature of the annuity, when they submit an application form.

There is no limit to the amount of superannuation that can be accessed by a client for the purpose of a pre-retirement annuity, however there may be limitations imposed by the client's super fund.

Summary

In this time of uncertainty, an annuity is an effective way to create a transition to retirement income stream where the income does not fluctuate with share price movements.

[1] SIS Regs 6.01 (2)

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