STRATEGY 2
DON'T PUT ALL YOUR EGGS IN ONE BASKET.

CommInsure Guaranteed Annuity Strategy Series

Issued: 1 July 2017

AT A GLANCE

This strategy focuses on:

- Why retirees should diversify their retirement income streams
- How account based pensions and annuities can be used together.

Many Australians build up significant amounts of superannuation, investments, property assets and savings to allow them to retire comfortably. The key challenge is deciding what investments will give the best returns, and how to take advantage of Government tax concessions for various retirement products.

It's important for advisers to assist retirees in developing a strategy to protect their income. One way is to diversify retirement income streams and spread the risk across two or three products, such as guaranteed annuities and account based pensions.

Upon retirement, superannuation can be taken as a lump sum payment or as an income stream. The Government encourages people to take their superannuation as income and offers attractive tax concessions for retirement income products, like guaranteed annuities and account based pensions.[1]

Diversifying your clients income needs

An important part of any retirement plan is finding the right balance between risk and return. Advisers can help clients layer their investments and reduce risk exposure. By diversifying income streams clients can enjoy the growth provided by account based pensions in the good times and benefit from the security of guaranteed annuities in a lower return market. This means they can better manage their cash flow, deal with the unexpected and plan for the future with confidence.

Guaranteed annuities*

A guaranteed annuity is a simple and secure investment that provides a guaranteed income stream for retirees. As the income is guaranteed, the retiree is free from worrying about managing large sums of money. As guaranteed annuities are generally not reliant on market trends, the retiree can be assured that income from the annuity will not reduce.

Account based pensions

An account based pension is a regular income stream, purchased with money from superannuation, that can be established when a person reaches retirement age. The funds are invested in the options available from the provider and payments are made to the retiree in the form of regular income. The balance will vary according to the performance of the underlying investments and the amount being withdrawn. Unlike an annuity, the return of the investment is generally not guaranteed.

*CMLA guarantees all benefits under the Lifestream Guaranteed Income annuities. The Commonwealth Bank of Australia and its subsidiaries (excluding CMLA) do not guarantee Lifestream Guaranteed Income Annuities or the repayment of capital interest by CMLA.

MEET PETER 64, FRANCES 64

Peter plans to retire soon and together with Frances wants to speak with a financial adviser to set up a retirement plan. Frances has already retired to help look after their two grandchildren three days a week. Peter and Frances wish to spend their retirement travelling around Australia and overseas. They also want to spend more time with their children and grandchildren. They've done some research and are interested in diversifying their income streams to help fund their fixed costs and regular travel. After consulting with their financial adviser, they agree that diversifying their income is the right strategy for them. Their financial adviser recommended a guaranteed annuity to pay for their fixed costs, such as food and petrol, and an account based pension to pay for their variable expenses, including domestic and overseas holidays.

Specifically, their financial adviser recommended they invest $340,000 of their savings in a Lifestream Guaranteed Long Term (20 year) annuity. Based on three percent indexation and no adviser service fee, Peter and Frances's income in the first year totalled $18,787[2] with each subsequent year indexed at three percent per annum.

Peter and Frances also had $360,000 from the sale of shares and an investment property. Their adviser recommended this money be contributed to Peter's superannuation and then transferred to an account based pension. This money could be used to fund their yearly overseas and domestic holidays.

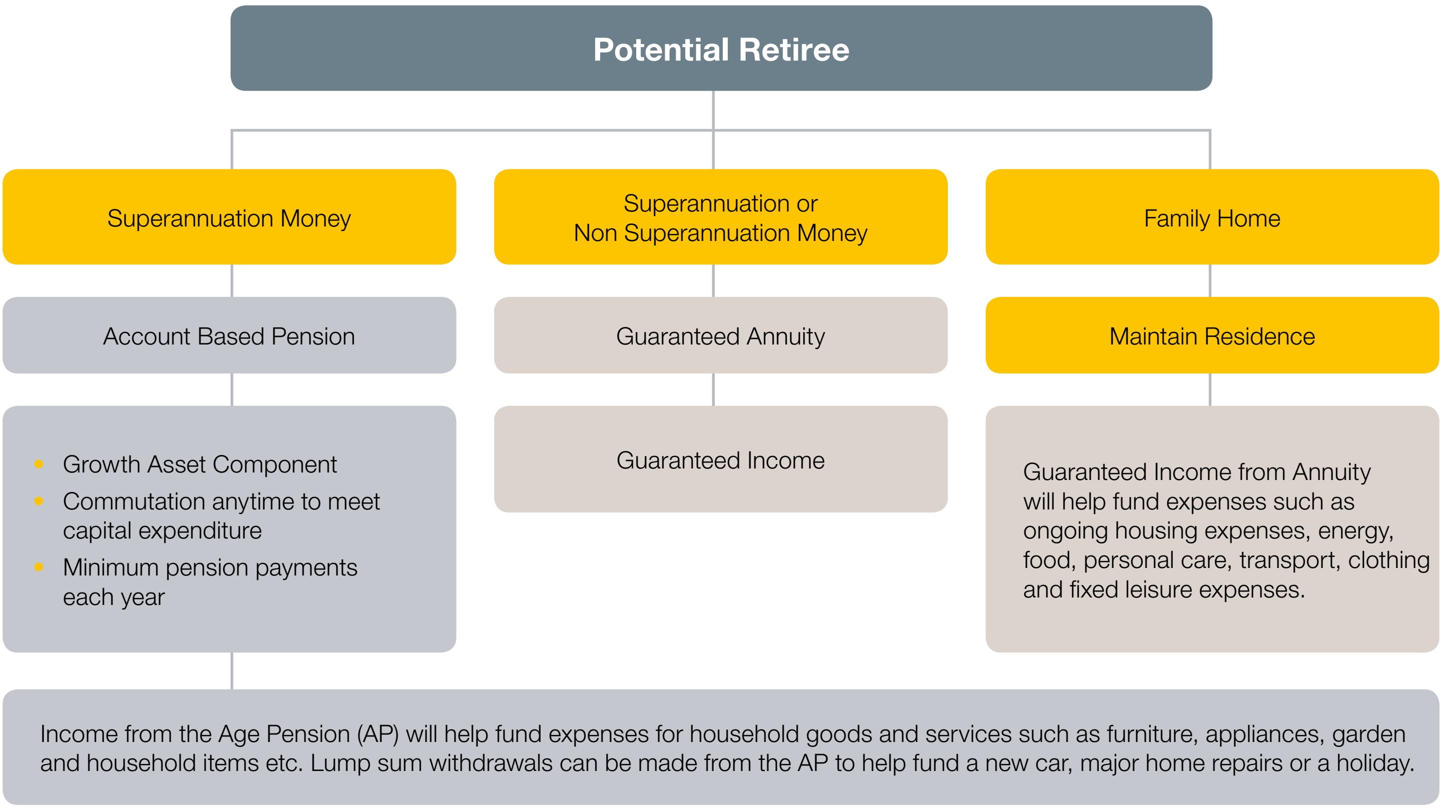
Summary

By diversifying various income streams, retirees are better able to deal with the unexpected. Not only is risk reduced, but there are many tax and social security benefits to combining guaranteed annuities and account based pensions. The example shows how a balanced portfolio can be achieved by investing superannuation into an account based pension, and superannuation or non-superannuation funds into a guaranteed annuity. The income from the guaranteed annuity help fund all fixed expenses while payments from the account based pension help cover all variable and unexpected expenses such as a new car or a holiday.

Keep in mind

If a retiree has an account based pension, the capital is not guaranteed and the retiree carries the risk. If there is a market downturn some of their money may be lost. In contrast, if the retiree has an annuity, the life insurance company bears the risk and the retiree's income payments are protected.

The individual situation and circumstances of clients will vary and should be considered before making any financial strategy recommendations.



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1 From 1 July 2017 the total amount of superannuation that can be transferred into retirement phase will be capped at $1.6 million. The cap will be indexed in $100,000 increments in line with the consumer price index (CPI).

2 Based on projected yield of 3.70% and nil Residual Capital Value. Rates are illustrative only. For current rates please call us on 1800 624 100 between 8.30 am and 6 pm (Sydney time), Monday to Friday.