

This is calculated by subtracting the RCV from the purchase price and dividing the result by the term of the annuity or, with a life time annuity, the longest life expectancy.

From 1 July 2007 income from superannuation immediate annuities are tax exempt for people aged over 60 years. A deductible amount, if applicable, and a tax offset applies for those between 55 and 60 years.

## Government Income Support

**Assets test:** Immediate annuities purchased on or after 20 September 2007 are fully assessable. Where a deductible amount applies, the asset value is adjusted each 6 months.

Immediate annuities purchased prior to 20 September 2007 which complied with the applicable rules at the time for concessional treatment retain the concessions.

**Income test:** For an immediate annuity with a term of more than five years (including life time and life expectancy annuities), the income received less a deductible amount, based on the purchase price, is assessed as income. Immediate annuities with a term of five years or less are treated as financial assets (investments) and are assessed under the deeming provisions.

## Security and Risk

An immediate annuity is a contract with a provider. The income from the annuity and the residual capital value are guaranteed by that company. The guarantee is only as good as the company providing it.

What is detailed in the contract should be precisely what is received. The income and time

the annuity is paid for are both guaranteed by the company and are not affected by poor investment returns. The company bears the investment risk.

## Investing with Safety

It is prudent to get at least three quotations (with identical options) from different providers before purchasing an annuity. Be aware that quotes obtained are only valid for a limited time - (usually 7 days).

All immediate annuity contracts offer a free look period. Use this opportunity to carefully check the contract and fully understand it. This may avoid problems before they occur and provides time to cancel the annuity, without penalty, if you decide not to proceed.

Immediate annuities are inflexible once commenced. If using them it is prudent to diversify over time and also other income stream products as well as other investments.

Immediate annuities should not be the only investment held. If possible, also have money available elsewhere as a cash reserve that is accessible.

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# Introducing Immediate Annuities



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Investment Product Series

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## What are Annuities?

Immediate annuities are income stream products purchased with a single lump sum of money which return the earnings and in some cases the capital and earnings in a structured regular manner over an agreed period of time. Immediate Annuities can be purchased with either superannuation or ordinary money.

The amount required to purchase an annuity is dependant on the desired income, current interest rates utilising or preservation of capital and the features required. Annuities can be tailored to suit particular needs. Minimum investment is usually \$10 000.

Immediate annuities are offered mainly by life insurance companies but may also be offered by some friendly societies and credit unions.

Immediate annuities can be used to meet or supplement income needs.

### Features

- Annuities are payable for a fixed term or for life.
- If purchased with ordinary money, annuities may be in single or joint names.
- Annuities purchased with superannuation money must be in the name of the person who owns the superannuation.
- From 1 July 2007 annuities derived from superannuation money are required to have a minimum payment relating to the age of the superannuant and as a percentage of the balance as at 1 July each year.
- Income payments may be received monthly, quarterly, half-yearly or annually.

- The amount of capital to be returned as a lump sum at the end of the fixed term or on death can be nominated. This is called the residual capital value (RCV) and cannot exceed the purchase price.
- Payments may remain the same each year or be increased at a chosen yearly rate, eg in line with inflation. This is called indexation.
- A guarantee period may be available for lifetime immediate annuities which ensures some money is paid to the annuitant's estate in the event of death within the period.
- Fixed term annuities are guaranteed by the provider for the term.
- Nomination of a reversionary annuitant at the time of purchase allows payments to continue in full, or in part, to another person in the event of the prior death of the principal (original) annuitant .
- Unless otherwise specified, payments continue in full to the principal annuitant in the event of the prior death of the reversionary annuitant.
- If purchased with superannuation money the reversionary annuitant must be a dependant person.
- Taxation advantages may be significant. They should be fully investigated before purchasing the annuity.

Some features may reduce the amount of income offered so options should be carefully chosen and their importance assessed.

### But Remember...

- Immediate annuities may use up capital by returning it as part of the income (deductible amount) over the term of the annuity.

- For Lifetime annuities, no payment is made to the estate when death occurs after the guarantee period expires.
- Usually the contract cannot be varied once the annuity is purchased.
- Capital withdrawals (commutations) may be restricted. Life annuities do not usually allow commutations after 6 months.
- Interest rates have a major effect on an annuity's return. Low interest rates at time of purchase will mean low return for the duration of the investment. This is partly offset if indexed to consumer price index.

### Fees

Fees and commissions are usually included in the annuity quotation as reduced income and are not shown separately. To compare the effect of fees obtain quotations, with identical options, from different providers and compare the income offered. Quotes from the same provider can vary dependent on how they pay advisers, if applicable. Discount brokers may also provide quotes.

### Taxation

A withholding (tax) declaration is usually completed enabling tax to be withheld at appropriate rates and taking into account possible tax offsets.

Tax on income from an immediate annuity may be reduced by tax offsets (rebates) or deductions depending on the annuity type.

Where an immediate annuity has an RCV less than 100% the amount of capital being returned in the income stream forms a deductible amount.