

## What is an annuity

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An annuity allows you to convert money into an income stream. It is a product which provides you with a regular income over an agreed period of time in exchange for a lump sum payment. Annuities can be purchased either with non-super money or with super money and can be used to meet or supplement your income needs.

### There are two types of annuities:

- **Lifetime** – the payment continues for your entire life regardless of how long you live. Specifying a guaranteed period for a lifetime annuity ensures that the balance of the annuity is paid to your estate upon death, should you die during that period.
- **Term certain** – the payment continues for a pre-determined period.

### Common features include:

- Annuities are payable for a fixed term or for life (lifetime annuity)
- Income payments may be received monthly, quarterly, half-yearly or annually
- It is possible to nominate the amount of capital to be returned at the end of the fixed term or upon death. 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, (for example, in line with inflation). This is called indexation
- A guarantee period may be available for lifetime 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.
- A reversionary option enables the nomination of a person who will continue to receive all or part of the annuity payments should the annuitant die first
- If purchased with superannuation money, the reversionary annuitant must be a dependant person
- The annuity fund does not pay tax and generally any payments from a non-super annuity that are regarded as a return of capital (if any) are not taxable or assessable for Centrelink purposes
- Income from superannuation annuities are tax exempt for people aged 60 years and over while a deductible amount, if applicable, and a tax offset applies for those aged between 56 and 60 years. Note there are rules which may affect how much you can invest in a super annuity from 1 July 2017. Please refer to the 'Upcoming super changes' flyer for more information
- For Centrelink purposes the gross income less the return of capital is assessable

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