generation life

# Retirement Income

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Outthinking today.

> "I regret not spending more when I first retired. I could have enjoyed my retirement more than I did."

# What is Regret Risk?

## Retirement is an emotional journey not just a financial decision

Many Australians arrive at retirement with significant capital but no ability to manage that capital effectively. They are constantly threading together a knot of worries – can they live the lifestyle they want, can they pass money onto their children – will they run out of money? Their reward for 40 years of saving is not less financial uncertainty. It's more.

As a result, many retirees only draw down the minimum, they lack the confidence to spend, worry about running out of money and worry that their costs in retirement will go up at the end of retirement. Rather than spending their savings, they save their savings. Once they reach the later years of retirement they look back and feel a sense of regret from being overly frugal or conservative in their early years of retirement, and wish they'd spent more.

This is called 'regret risk'.

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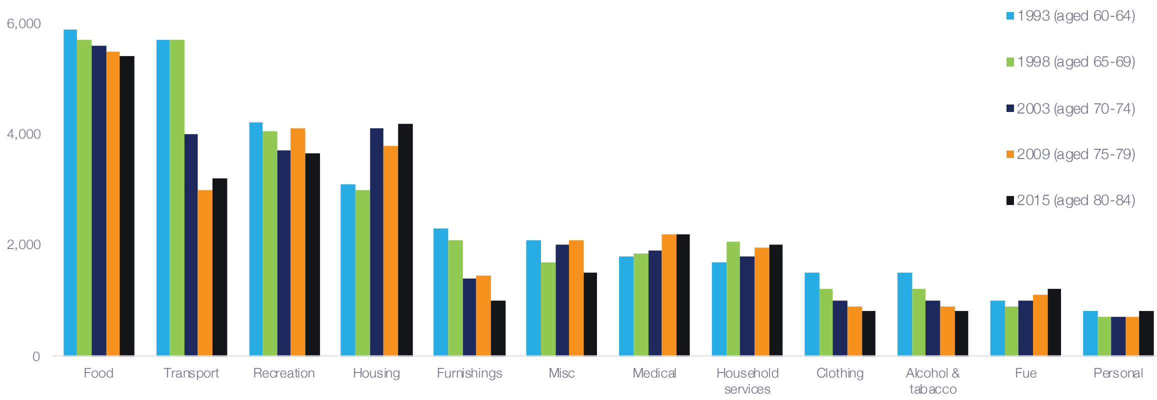
## Spending patterns of Australian retirees

**Retiree spending on food, transport, and recreation declines**

Equivalised household annual expenditures for cohort born in 1930-34, in $ 2015-16




Source: Grattan Institute 2018, Money in retirement: More than enough, https://grattan.edu.au/wp-content/uploads/2018/11/912-Money-in-retirement.pdf, published November 2018, accessed 4 July 2024

# Retirees want to spend more in retirement

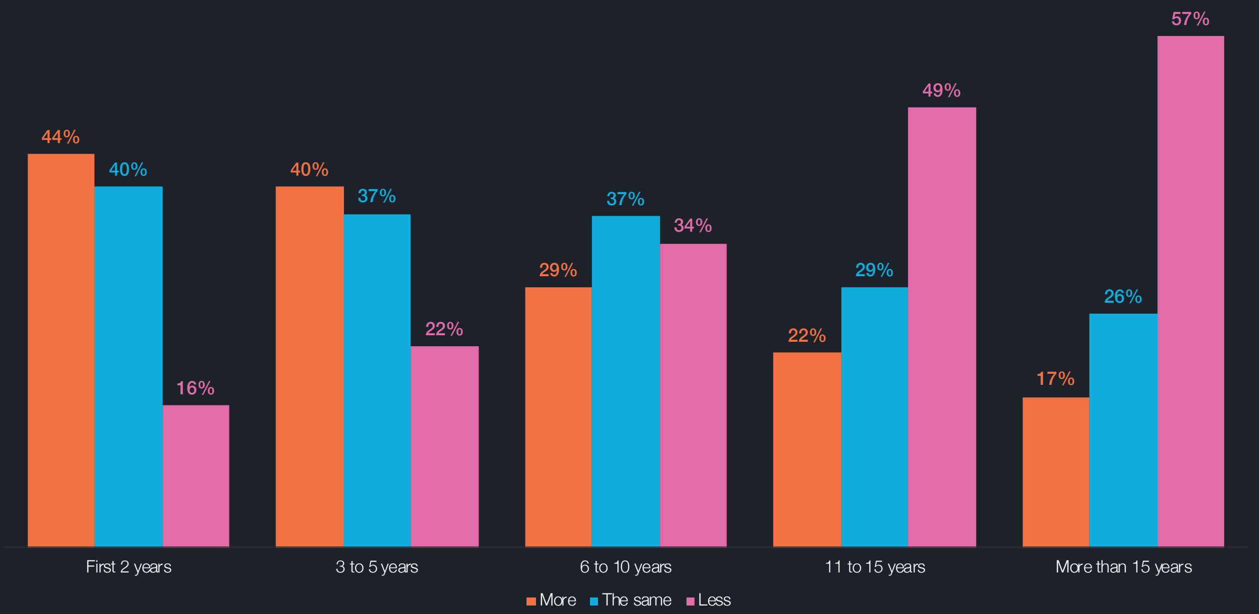
While many affluent and high-net-worth Australians perceive entering retirement as a time to cut back on their lifestyle, it's the opposite for those who are financially prepared. For them, travel, leisure activities, and time spent on enjoying hobbies are the most common things associated with retirement.

Two in five retirees expect to spend more than they currently do in their first years of retirement.[1] This spend does tail off, however it is indicative of the importance of having access to funds for big-ticket purchases, and ongoing income certainty.

Unsurprisingly, one of the biggest fears is running out of money during retirement, and the consequential impact on lifestyle.[1] Fortunately, the solution is straightforward – strong financial advice to help develop robust, yet flexible, retirement income portfolios to empower retirees with the confidence to enjoy their retirement.

## Percentage of people who think they'll spend more, the same or less in retirement

**More than two in five expect to spend more than their current income in the earlier years of retirement.**




Based on results of survey(s) by Generation Life and CoreData described in the Funding a dignified retirement and leaving a legacy research summary 2023.

# Income layering to boost retirement income

Retirement income certainty isn't solely based on the balances. Focusing the retirement plan on income streams, rather than balances, can help boost retirement income and provide more confidence to spend in retirement.

**This is called income layering.**

Income layering is a strategy to address both immediate and future income needs. By adding one or more income streams to a retirement plan, retirees can use these multiple income streams for their essential spending needs, giving them the confidence to spend on things that they wish or want.

# Understanding retirement income sources

## Account-based pension

A flexible superannuation income stream generally offering wide investment choice, lump sum withdrawals and the ability to vary income. It is important to remember however, that there is no guarantee of income for life.

## Age Pension

Government social security support that includes income and other benefits like healthcare discounts. Eligibility for the Age Pension offers significant benefits. The amount received can change with indexation and varies based on an individual's, and their partner's, total assets and income.

## Equity release products (reverse mortgages)

Gives asset rich, cash poor retirees access to a regular income or lump sum payment. Retirees can stay in their home but cannot get into negative equity. The income can affect eligibility for the Age Pension and can affect the ability to pass housing related wealth onto the next generations.

## Assets

Wealth accumulated over time which can include savings, the family home, inheritance, shares, and other investments.

## Traditional fixed income lifetime annuities

A traditional lifetime annuity can provide an income that is guaranteed for life, with the potential to provide access to some or more of the Age Pension. The income payment is fixed to a specific level that can stay the same for life or indexed annually to CPI. As this is a fixed income strategy, it means returns, and therefore income, can be stable but low.

## Investment-linked lifetime annuities

An investment-linked lifetime annuity is similar to a traditional lifetime annuity where it can provide an income that is guaranteed for life, with the same social security treatment.

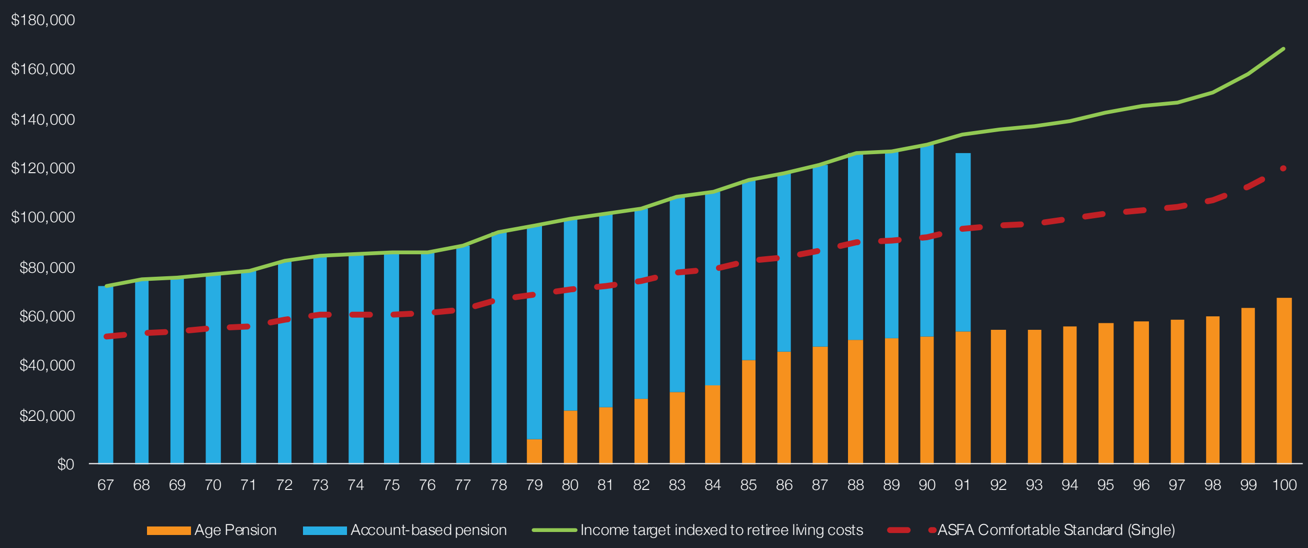
**LifeIncome**, an investment-linked lifetime annuity, pioneered by Generation Life is the new breed of lifetime annuity. The key difference between traditional lifetime annuities and our investment-linked lifetime annuity is that changes in annual income are linked to the investment performance of the chosen investment option(s). You can choose from a wide range of asset classes including shares, infrastructure and private debt.

These options allow you to maximise growth from your income stream by accessing significant allocations to growth assets or switching to a more balanced option, depending on risk attitudes. This provides the flexibility to respond to changes in market conditions effectively.

# The power of income layering

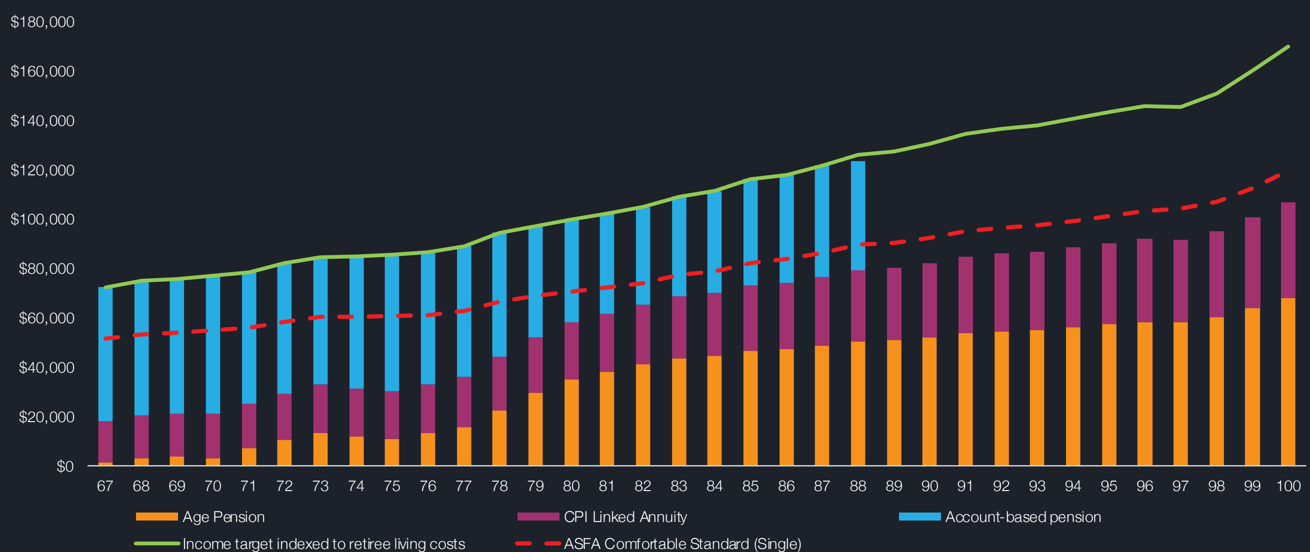
## Example: If solely relying on an account-based pension

A key consideration when planning a good retirement is to give yourself the confidence to enjoy your retirement and spend your retirement savings without fear of running out of money. The key thing to remember about solely relying on account-based pensions is that you can run out of money and there is no guarantee of regular income for life. This risk however, may make you cautious about spending your retirement savings, particularly in the earlier years.



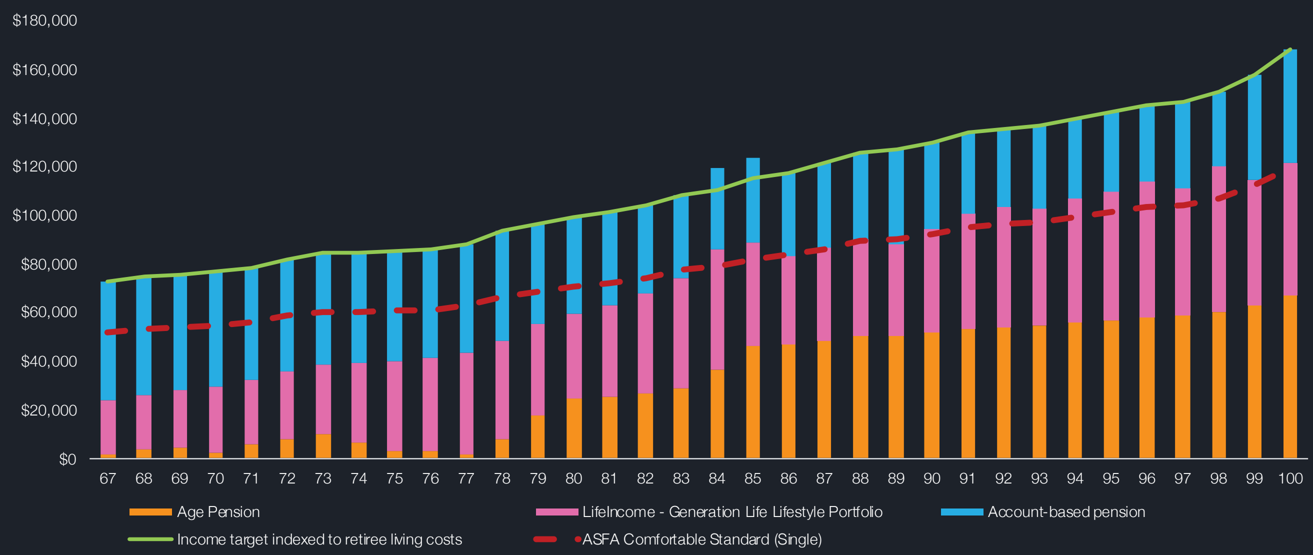

## Example: Income layering by combining a traditional lifetime annuity and an account-based pension

A traditional lifetime annuity provides a regular income guaranteed for life that is indexed to CPI (in this example). To meet your annual income target, additional drawdown, above the minimum level, from your account-based pension is required. Due to the concessional social security treatment of the annuity, you may receive immediate access to the Age Pension if eligible.



## Example: Income layering by combining a LifeIncome investment-linked lifetime annuity and an account-based pension

LifeIncome, Generation Life's investment-linked lifetime annuity, provides you access to growth assets that can help grow your annual income over time. This means you can potentially drawdown less from your account-based pension to meet your annual income target. Our investment-linked lifetime annuity also gives you the ability to switch investment option(s) at anytime.[2] Due to the concessional social security treatment of LifeIncome, similar to a traditional lifetime annuity, you may receive immediate access to the Age Pension if eligible.




## Why is portfolio construction so important for successful retirement planning?

Portfolio construction is the process of developing investment strategies and managing risk to achieve specific goals and objectives. Investment goals and objectives vary greatly between retirees so having the correct mix of exposure through effective asset allocation is very important. The portfolio construction process in retirement must cater for your personal goals, risk tolerance and investment horizon.

Every asset class offers different levels of risk and return and is likely to perform differently under various market conditions. An important element to portfolio construction and the allocation of assets within the portfolio is to effectively balance risk within the portfolio to achieve your desired outcomes.

The power of flexibility and using a professionally managed investment menu to tailor an investment portfolio's objectives to your individual income, social security and lifestyle objectives means that portfolio construction and investment choice become central tools in achieving your goals and objectives at every stage of their retirement.

# How retirement income products compare

| | Traditional | | | Innovative |
|---|---|---|---|---|
| | Leave in super | Account-based pension | Traditional lifetime annuity | Generation Life LifeIncome |
| **Product features** | | | | |
| Invest super money | Yes | Yes | Yes | Yes |
| Invest non-super money | Yes[3] | No | Yes | Yes |
| Investment choice | Yes | Yes | No | Yes |
| Concessional Age Pension treatment | No | No | Yes | Yes |
| Ability to withdraw capital | Yes | Yes | Partial depending on the product[4] | Partial depending on the product[4] |
| Benefit payable on death | Yes | Yes | Yes[5] | Yes[5] |
| Income redistribution | N/A | N/A | No | Yes |
| **Risk management** | | | | |
| Inflation risk protection option | Partial[5] | Partial[6] | Yes | Partial[7] |
| Who carries the investment risk? | Member | Member | Insurer[7] | Member |
| Who carries longevity risk? | Member | Member | Insurer | Insurer |
| **Meeting retirees' emotional needs** | | | | |
| Income guaranteed for life | No | No | Yes | Yes |
| Option for income guaranteed for life for spouse or loved one | No | No | Yes (Spouse only) | Yes |
| Access to capital | Yes | Yes | Partial depending on the product[4] | Partial depending on the product[4] |

# Why Age Pension matters?

## Planning ahead... Access more of the Age Pension, sooner

Australians often apply for the Age Pension well after the time they become eligible, on average about 2.3 years late.[9] It is estimated that single retirees are losing an average of $37,000 in Age Pension entitlements due to delays in applying for the Age Pension while couples are estimated to lose close to $60,000.[9]

LifeIncome is defined as an ‘asset tested income stream (lifetime)’ product for social security purposes and provides the potential to access some or more of the Age Pension and ancillary benefits such as discounted council rates and cheaper medicine under the Pharmaceutical Benefits Scheme.

Centrelink and the Department of Veterans’ Affairs entitlements are determined using two ‘means’ tests: an assets test and an income test.

**Means tested asset value:**

Under the assets test, only 60% of your investment amount is assessed. From age 84, subject to a minimum of 5 years from the date of investment, only 30% is assessed.

**Means tested income:**

Only 60% of your LifeIncome annual income is assessed under the income test.

# LifeIncome
# Investment-linked lifetime annuity

## What is a LifeIncome investment-linked lifetime annuity?

In exchange for a lump sum, individuals will receive regular income guaranteed for life that's linked to the performance of their chosen investment option(s).

LifeIncome, our investment-linked lifetime annuity, can help to eliminate any concerns retirees may have with their account-based pension such as a market correction reducing their capital or that their overly conservative portfolio limits their ability to grow or maintain their income over time. With an investment-linked lifetime annuity, investors can remain fully invested in an appropriately risked portfolio. LifeIncome can also provide a regular income guaranteed for life, providing greater confidence to enjoy retirement, and building a greater legacy.

Combining an investment-linked lifetime annuity with an account-based pension, and if eligible, the Age Pension, is an optimal way to address inflation and investment risk, and the fear of running out of money. With an ageing population and life expectancies continuing to increase, this is becoming an even more important area for retirees to consider.

## Longevity risk

With LifeIncome a regular income will be paid to you for the remainder of your life, regardless of how long you live. Generation Life establishes and manages reserves from which your regular income is paid. These reserves pool your investments with the investment of all other investors and are based on the life expectancy of you and other investors. A proportion of the reserves is reinsured to address the possibility that you or other investors live longer than the life expectancy assumptions used to calculate the reserves.

Generation Life has appointed Hannover Life Re of Australasia Ltd ('Hannover') as the reinsurer for LifeIncome - a subsidiary of Hannover Rueck SE, part of the Hannover Re Group worldwide. Hannover Re Group is known for very strong insurer financial strength ratings.[10]

## About Generation Life

At Generation Life, we know that finding the right investment partner is important for your future success.

We've been helping Australians since 2004 across all life stages and across multiple generations. Today, we are a pioneer in providing market-leading investment bond and investment-linked lifetime annuity solutions to help secure the financial future of many Australians and their families.

As part of an ASX listed company, we're passionate about innovating and providing the best outcomes for our investors. We believe in putting our investors at the heart of everything we do.

# Case study 1

## Accessing the Age Pension sooner

### Meet Susan...

Susan is 66 years old, single and a homeowner.

**$750,000**
Superannuation balance

**$90,000**
Savings

**$10,000**
Personal assets

### Susan's objectives...

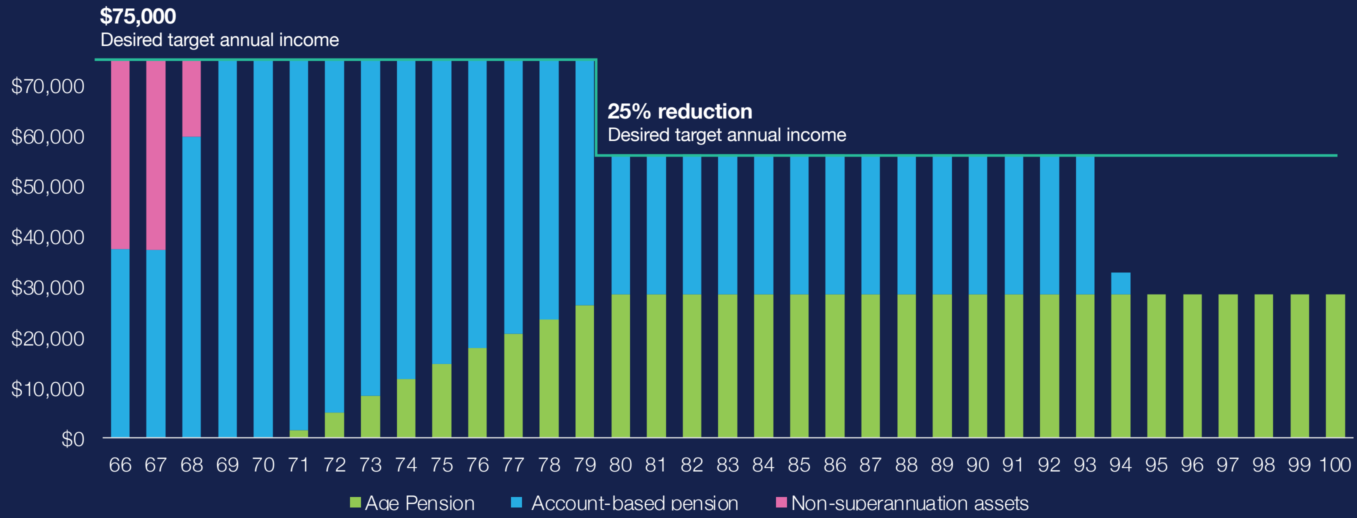
Wants to be proactive and access the Age Pension sooner to save via its ancillary benefits.

Wants certainty that she won't run out of money.

Doesn't want to solely rely on the Age Pension.

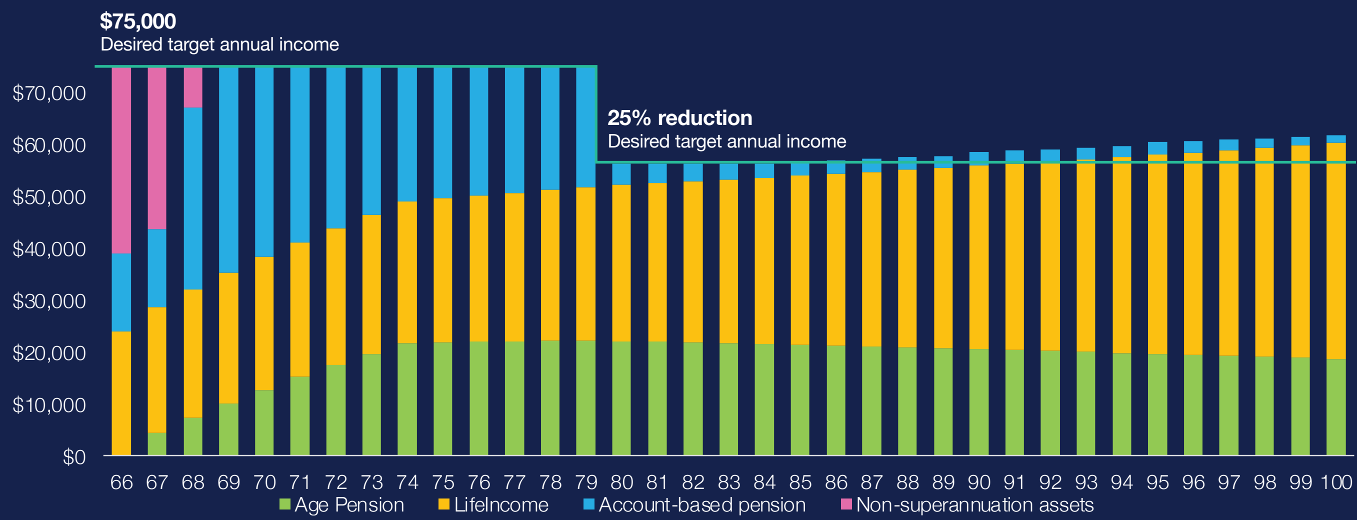
## Susan's current situation...

**If she commences an account-based pension with her superannuation, Susan will only have access to the Age Pension, and the ancillary benefits of the Age Pension, from age 71. Her account-based pension will run out after age 94 and she will be solely dependent on the Age Pension.**




## Susan's outcome...

**Susan speaks to her financial adviser and invests $450,000 of her superannuation balance into LifeIncome and a FuneralBond of $15,000.** Susan is now able to maintain her desired income target and almost double her income in later years. She is also able to add an additional layer of income guaranteed for life from LifeIncome and never have to rely on the Age Pension alone.




**Age 67**
Immediate access to Age Pension and ancillary benefits

**$101,927**
Uplift in cumulative Age Pension by age 75

**$515,898**
Additional cumulative income by age 100 (including Age Pension)

**$15,000**
Pre-paid funeral arrangements easing the burden for her loved ones

**$76,019**
Additional cumulative income above desired income target

**12 years**
Payback period of investment into LifeIncome[11]

# Case study 2

## Income layering to maximise retirement income

### Meet Paul and Jean...

Paul and Jean are happily married and are homeowners. Paul is 70 years old and Jean is 67 years old.

Both Paul and Jean are grey nomads and love travelling. They own a motor home and plan to travel around Australia.

**$500,000**
Paul's superannuation balance

**$400,000**
Jean's superannuation balance

**$150,000**
Motor home and other personal assets

**$70,000**
Savings

### Paul and Jean's concerns...

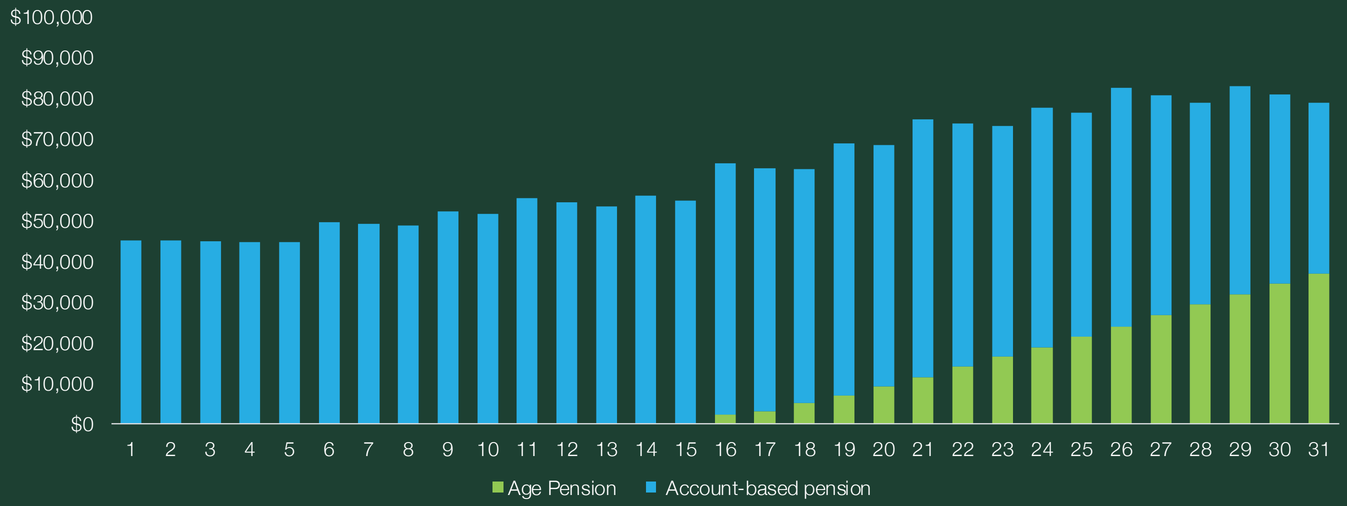
Concerned about running out of money, so they are just drawing down the minimum each year from their account-based pensions.

Living frugally and spending only $45,000 p.a. which is impacting their travel plans.

Don't have the confidence to spend more - relying on their account-based pensions.

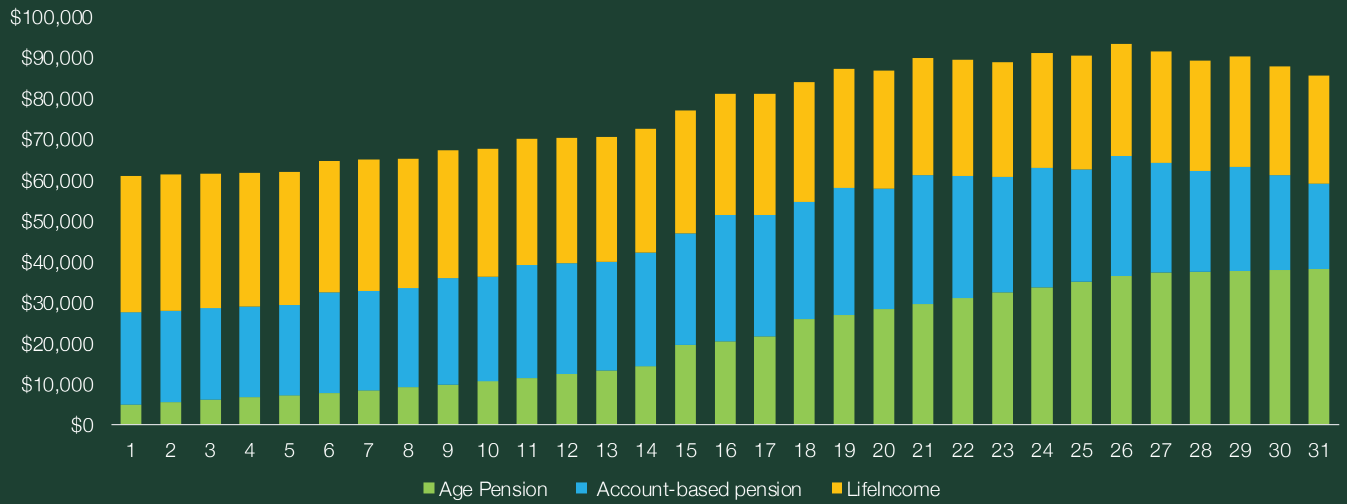
## Paul and Jean's current situation...

**Based on their current situation, Paul and Jean are spending $45,000 p.a. and living frugally. They won't receive the Age Pension and anciliary benefits for the next 14 years.**




## Paul and Jean speak to their financial adviser…

**Paul and Jean establish two LifeIncome policies with $250,000 invested for Paul and $200,000 invested for Jean. This gives them a combined total of $450,000 remaining in their account-based pensions.**




**$16,672**
Uplift in first year income

**$5,650**
Immediate access to the Age Pension and ancillary benefits in the first year

**$219,305**
Additional Age Pension by age 85

**$557,441**
Additional Age Pension by age 100

**$681,962**
Additional income by age 100 (including Age Pension)

**14 years**
Bring forward access to the Age Pension

# Case study 3

## Avoid “Regret Risk”

### Meet Frank and Dot...

Frank and Dot are both 67 years old and homeowners.

Both Frank and Dot love travelling around Australia and overseas. They enjoy spending time with their grandchildren and taking their grandchildren to activities when they can.

**$500,000**
Frank’s superannuation balance

**$450,000**
Dot’s superannuation balance

**$10,000**
Personal assets

### Frank and Dot’s objectives...

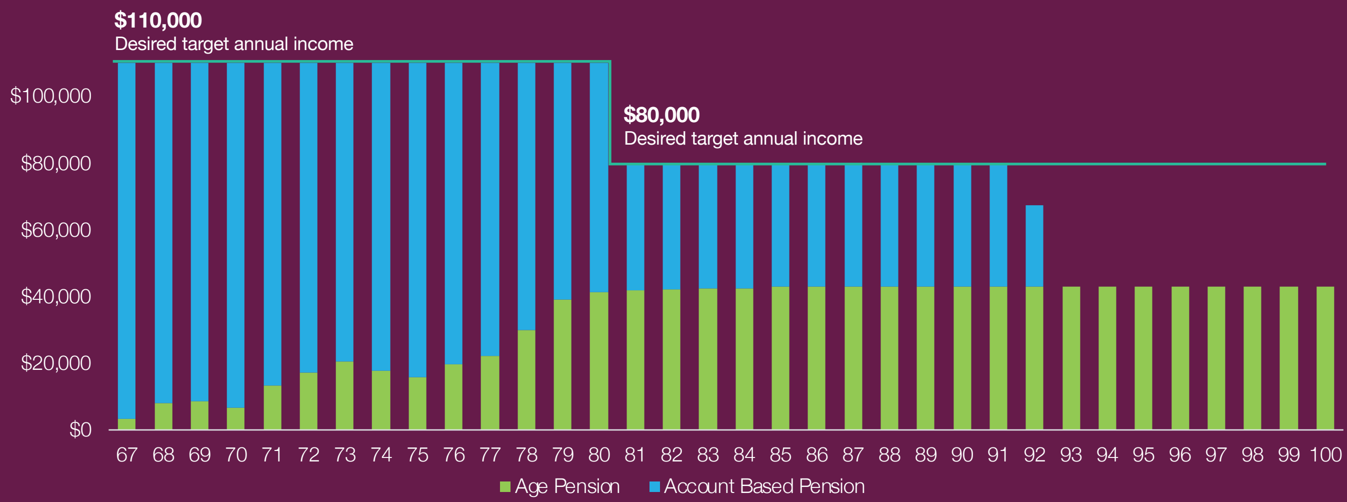
Spend more in the earlier years, as they are both healthy but concerned that they might run out of money.

Don’t want to burden their children with funeral expenses.

Want to leave something to their grandchildren.

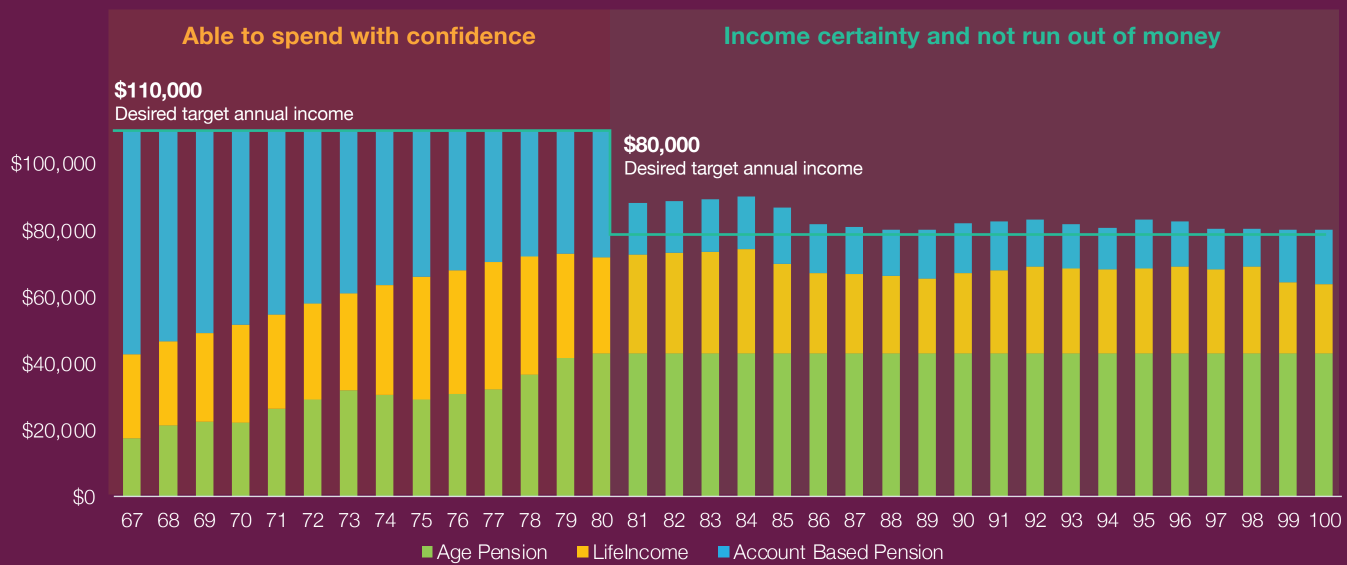
## Frank and Dot's current situation

**Based on their current situation, Frank and Dot will run out of their account-based pension after age 93 and will be solely reliant on the Age Pension. They will not be able to leave a legacy to their grandchildren after they've passed away.**




## Frank and Dot's outcome

**Frank and Dot speak to their financial adviser and invest $380,000 into a LifeIncome and establish two FuneralBonds of $30,000 combined.** They are now able to maintain their desired lifestyle with confidence and peace of mind. They can also receive more Age Pension in earlier years and have an additional layer of income if their account-based pension runs out. They are also able to leave a legacy for their grandchildren from the additional income above their desired income target.




**$154,187**
Additional cumulative Age Pension by age 100

**$50,546**
Account-based pension balance at age 100

**$362,211**
Additional cumulative income by age 100 (including Age Pension)

**$86,627**
Additional income over annual income target

**$30,000**
Pre-paid funeral arrangements easing the burden for their loved ones

**10 years**
Payback period of investment into LifeIncome[10]

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Outthinking today.

## Contact details


**Investor services**
1800 806 362

**Adviser services**
1800 333 657

**Enquiries**
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**Sources:**

1. Based on results of survey(s) by Generation Life and CoreData described in the Funding a dignified retirement and leaving a legacy research summary 2023
2. Brief exclusion period applies – refer to the Product Disclosure Statement
3. Subject to contribution limits for concessional treatment
4. Subject to the Capital Access Schedule and potential exit fees
5. Subject to the Capital Access Schedule and product design rules
6. Investment choice allows you to choose investments that are expected to match or outperform inflation over time
7. Lifetime income that invests in growth assets can target increases in line with CPI. Investment risk is transferred to the annuity provider.
8. Generation Life LifeIncome has two diversified funds (the Generation Life Lifestyle & Protect portfolios) which have a return profile directly targeted to the inflation that a retiree may expect to experience. Investment choice allows you to choose investments that are expected to match or outperform inflation over time. LifeIncome also offers cash rate linked solutions such as the Generation Life Cash and Deposits Portfolio and MCP Wholesale Investments Trust.
9. The most expensive mistake retirees can make, SuperEd, published 2015 https://supered.com.au/news/the-most-expensive-mistake-retirees-can-make/ , accessed 4 July 2024
10. You're not a party to the reinsurance agreement between Generation Life and Hannover Re
11. The 'payback period' is the estimated time for the return of your investment in the form of cumulative income, as well as any increase in Age Pension which you may receive as a result of investing into LifeIncome and FuneralBond.

**Assumptions**

Assumptions for "If solely relying on an account-based pension" graph on page 8: Based on a 67 year old female with a superannuation balance of $800,000 and $10,000 in personal assets. Target annual income is $72,500 in the first year and is then indexed based on historical changes in the CPI from 1990 to 1998, and the Retiree Living Cost Index from 1998 to 2023, as published by the Australian Bureau of Statistics (ABS). Annual income illustrations are shown in nominal dollars. Account-based-pension drawdown amount is to meet the target income, minimum account-based pension drawdowns do apply. Age Pension rates and thresholds are as at 01/07/2024. The illustration uses historical investment returns commencing 1st July 1990. The account-based pension invested into a 70/30 diversified index portfolio which consists of a 30% allocation to ASX All Ordinaries, 40% to MSCI World Ex Australia Index, 20% to Bloomberg Global Aggregate Bond Index (AUD Hedged) and 10% to Bloomberg Ausbond Composite Index. Estimated administration costs of 0.3% p.a. for the account-based pension.

Assumptions for "Income layering by combining a traditional lifetime annuity and an account-based pension" graph on page 8: Based on a 67 year old female with a superannuation balance of $800,000 and $10,000 in personal assets. Target annual income is $72,500 in the first year and is then indexed based on historical changes in the CPI from 1990 to 1998, and the Retiree Living Cost Index from 1998 to 2023, as published by the Australian Bureau of Statistics (ABS). Allocating 40% of the superannuation balance to a CPI linked annuity using a starting income rate as of 29/05/2024. Account-based pension drawdown amount is to meet the target income, minimum drawdowns do apply. Annual income illustrations are shown in nominal dollars. Age Pension rates and thresholds are effective 01/07/2024. The illustration ises historical investment returns and CPI indexation commencing 1st July 1990. The account-based pension is invested into a 70/30 diversified index portfolio which consists of a 30% allocation to ASX All Ordinaries, 40% to MSCI World Ex Australia Index, 20% to Bloomberg Global Aggregate Bond Index (AUD Hedged) and 10% to Bloomberg Ausbond Composite Index. Estimated administration costs of 0.3% p.a. for the account-based pension.

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**Assumptions for Susan's retirement income illustrations**

Based on a LifeIncome policy for Susan after allocating 60% of her superannuation to LifeIncome with a LifeBooster 2.5% rate. Her remaining superannuation balance is used to commence an account-based pension, drawing income to meet her desired income target. Annual income illustrations are shown in real dollars. Estimated fees, expenses and costs of 0.5% p.a. for the account-based pension and 1.22% p.a. for LifeIncome. Fees on LifeIncome are a percentage of the annual income. There are no fees on income from LifeIncome in the first financial year you commence LifeIncome. Assumed investment returns of superannuation assets is 8% p.a., non-superannuation assets at 3% p.a. and inflation of 2.5% p.a. No adviser fees have been charged and social security rates and thresholds are valid at 20/03/2024.

**Assumptions for Paul and Jean's retirement income illustrations**

Each graph reflects LifeIncome policies, account-based pensions, and Age Pension being received by both Paul and Jean for 30 years.

Based on two LifeIncome policies for Paul and Jean after each allocating 50% of their superannuation to LifeIncome with a LifeBooster 5% rate. Their remaining superannuation balances are used for account-based pensions, drawing income at the minimum level. Annual income illustrations are shown in real dollars. Estimated fees, expenses and costs of 0.5% p.a. for the account-based pensions and 1.22% p.a. for LifeIncome. Fees on LifeIncome are a percentage of the annual income. There are no fees on income from LifeIncome in the first financial year you commence LifeIncome. Assumed investment returns of superannuation assets is 8% p.a., non-superannuation assets at 3% p.a. and inflation of 2.5% p.a. No adviser fees have been charged and social security rates and thresholds are valid at 20/03/2024.

**Assumptions for Frank and Dot's retirement income illustrations**

Based on LifeIncome policy for Frank (67) purchasing LifeIncome with a 5% LifeBooster rate and nominating Dot (67) as a reversionary beneficiary. Account-based-pension drawdown amount is to meet the target income, minimum drawdowns do apply. Annual income illustrations are shown in real dollars. Age Pension rates effective 20/03/2024. Investment returns are net of investment management fees and commencing 1st July 1990. Both LifeIncome and account-based-pension invested in the same portfolio which consists of a 20% allocation to ASX All Ordinaries, 30% to MSCI World Ex Australia Index, 35% to Bloomberg Global Aggregate Bond Index (AUD Hedged) and 15% to Bloomberg Ausbond Composite Index. Estimated administration costs of 0.3% p.a. for the account-based pension and 0.92% p.a. for LifeIncome. Fees on LifeIncome are a percentage of the annual income. There are no fees on income from LifeIncome in the first financial year you commence LifeIncome.

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