

# What is an Annuity?

An Annuity allows conversion of money into an income stream. It is a product which provides a regular income over an agreed period in exchange for a lump sum payment. Immediate annuities can be purchased with ordinary money or with superannuation money and can be used to meet or supplement income needs.

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#### There are three types of immediate annuities:

- **Lifetime** - the payment continues for the investors' entire life regardless of how long they live. 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.
- **Complying Annuity** - These must be payable for a lifetime and it cannot be withdrawn within six months. You can only index to the lesser of CPI or 5%.

#### 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, e.g. 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.
- 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 before them.
- If purchased with superannuation money the reversionary annuitant must be a dependant person
- The annuity fund does not pay tax and any payments that are regarded as a return of capital (if any) are not taxable or assessable for Centrelink purposes.
- Annuities can also be funded from within your own Self Managed Superannuation Fund.
- Income from superannuation immediate annuities are tax exempt for people aged over 60 years while a deductible amount, if applicable, and a tax offset applies for those between 55 and 60 years.

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