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Your guide to the FIDO allocated pension calculator

This guide:

- briefly explains how allocated pensions work
- tells you about how the allocated pension calculator works
- takes you through all the details in case you want to know why it gives you certain results
- contains some tips about choices you may be considering.

You may prefer to print this guide and refer to it as you use the calculator, instead of reading it all the way through. The guide will make more sense if you try various options on the calculator as you read about them.

Along the way, we also explain some important terms. Retirement income products, like allocated pensions, can be complex. For more information, visit <http://www.fido.gov.au/retire>.

Allocated pensions at a glance 1

What the calculator does.....2

 A model, not a prediction.....2

 Where to find information you need for the calculator2

Assumptions built into the calculator.....2

 Your age and intentions.....2

 Your allocated pension4

 Costs and fees4

 Results5

 Background assumptions6

 Workings.....6

Fees and costs not included in the calculator7

Allocated pensions at a glance

An allocated pension (or allocated annuity) is one of the products you can buy with your super when you retire. It can be a tax-effective way to receive regular income payments from your money, with the right to take out lump sums, or even the whole amount, at any time if you wish.

Because you can take out lump sums, allocated pensions are **not** 'complying income streams' for tax purposes or for Australian Government age pensions or income support. If you want a 'complying income stream', use [FIDO's checklist](#) to find the right products. Complying income streams generally don't allow you to take a lump sum at any time.

Your allocated pension account earns money from investments, just like your super. Your account isn't taxed on these investment earnings because they're helping to support you in retirement. Also, when you receive income payments, you will generally be eligible for tax concessions.

Under the rules that control allocated pensions, you must eventually draw out **all** the money in your account. (However, you're not obliged to spend it, and you could invest it somewhere else.) You must choose your regular income payments each year within a minimum amount and a maximum amount, based on your age and how much money is in your account. Your regular income payments include part of your capital to ensure that your account is eventually emptied.

As a result, your regular income will change over the years from the amount you initially choose. (Your

income may also change as result of rises and falls in investment earnings, any lump sums you take out and the gradual running down of your account.)

Like super, you will pay fees to the super fund or life insurance company that sells you the allocated pension or annuity. The calculator shows you the impact of different fees.

Centrelink's financial information service can help you with more information about retirement products, even if you never intend to claim a government benefit.

What the calculator does

The FIDO allocated pension calculator shows the effect on your account and income of choices you may be able to make about:

- fees
- switching your investment strategy.

Fees and investment strategies will usually have the greatest impact on how much you can draw out and how long your allocated pension lasts.

Consider your own circumstances carefully when using this calculator. You might need expert, licensed advice on retirement planning.

A model, not a prediction

The calculator lets you test, or model, how your choices may affect your super over the longer term.

It cannot predict how your allocated pension will actually work out, which will depend on:

- your personal circumstances, including unexpected events in your life. The calculator assumes you take out steady, predictable income payments, without taking out lump sums.
- unpredictable external factors you cannot control, such as investment earnings, tax and inflation. The calculator assumes those factors will operate at set, steady rates for as long as you remain on the allocated pension.
- your personal tax and social security situation. In retirement, these issues can be very important, but also quite complex. For simplicity, the calculator ignores them.

Even if events turn out differently from what's assumed, these assumptions are essential so the calculator can show the effect of things you may be able to control, such as choosing a low-fee fund.

Where to find information you need for the calculator

You will need:

- your latest member statement (or annual benefit statement) and
- the most up-to-date product disclosure statement for the allocated pension(s) you are considering.

Your super fund's website may contain the latest version of these documents.

Assumptions built into the calculator

Here we will explain the calculator's assumptions. You can use them as they are, or you can change some of them. Even small changes to assumptions can make large changes to the results the calculator produces. In some cases, we suggest an acceptable range, outside which your results may prove unlikely or unrealistic.

The assumptions are described here in the same order and under the same headings as they appear on the calculator, starting on the first worksheet and then moving on to the 'Assumptions' worksheet.

Your age and intentions

Your age The calculator assumes you are at least aged 55, which is the minimum age you can generally start drawing on your super.

Which investment option? Like your super, you can often choose how you want your money to be invested. Your choice will affect your returns and investment risk. The calculator offers five options, four of them based broadly in line with choices commonly offered on the market, and 'other' which you can set for yourself.

Your investment earnings affect how much you draw out and how long your allocated pension lasts. Generally, by investing for higher expected returns over the long term, there's also a higher risk of

suffering a loss in the short term. Nobody guarantees future investment earnings.

Although you cannot control or predict future investment earnings, the calculator assumes an earnings rate to show you the effect of decisions you can control. (If you're comparing two allocated

pensions, the calculator assumes they both earn the same, see 'Do you want to compare two products' below.)

Investment earnings that support your allocated pension are not subject to tax.

Investment option	What it roughly means	Earnings rate based on built-in assumptions*
Growth	Invests 70–80% in shares or property.	8.5%
	Aims for higher returns over the long term and so risks higher losses in bad years.	Acceptable range 8%–9%
Balanced	Invests 60–70% in shares or property, the rest in fixed interest and cash.	8%
	Aims for reasonable returns, but less than growth funds in order to reduce risk of losses in bad years.	Acceptable range 7.5%–8.5%
Capital stable	Invests 60–70% in fixed interest and cash, although some invested in shares or property.	6%
	Aims to reduce risk of loss and therefore accepts a lower return over the long term.	Acceptable range 5.5%–6.5%
Capital guaranteed	By law, invests 100% in deposits with Australian deposit taking institutions or in a capital guaranteed life insurance policy.	*5.5%
	Guarantees your capital and accumulated earnings cannot be reduced by losses on investments.	*Acceptable range 5%–6%

* ASIC obtained professional advice from licensed independent actuaries who consulted a variety of sources including assumptions used by industry groups, leading asset consultants and publicly available survey data about superannuation fund investment strategies.

Pop-up warning about earning rates This warning appears only if your earnings rate may be too high or too low compared with the ranges for 'real returns' set out on the Assumptions worksheet. ('Real returns' take into account the effects of inflation and rising living standards.) Please consider the ranges that may be suitable for your fund or investment strategy, as set out in the table above.

Do you want to compare two products?

If you select this option, you can compare two similar products side-by-side.

With this option, the calculator will assume both allocated pensions start with the same amount of money (less any contribution fees) and **earn the same** on their investments, so you can compare just the effect of different fees and costs.

If you don't want to make these assumptions, turn off this option and run the calculator twice. (Over the long term, it's probably safer to assume that funds

that invest in similar assets in similar proportions will earn similar returns.)

The calculator will always compare any products you are considering with a 'no fees' option. While all products have fees, 'no fees' helps you see the impact of the fees you must pay and to see how low-cost are the products you're considering.

Opening balance This is the amount of money you have (or expect to have) with which to buy your allocated pension. Your fund may be able to help you with this figure.

If you're just looking for a very rough idea, then your latest annual member statement may be sufficient, although it may not account for termination fees or taxes. Similarly, you could use the FIDO super calculator, but please note that its projections are not guaranteed. Also read the guide to understand the assumptions in that calculator.

Your allocated pension

Contribution fee (% of contributions) If you pay this fee, it will be charged on your opening balance when you contribute your money into the allocated pension product. The calculator will deduct the fee before contributions reach your fund.

You'll see your **initial balance after contribution fee** displayed in a yellow box.

Initial income permitted The calculator shows you a **minimum** and **maximum** amount that you can receive as income payments in your first year in two yellow boxes.

Your annual income in today's dollars Choose the amount you want as income in your first year, so long as it's more than the minimum and less than the maximum. (If you key in too little or too much, the calculator will warn you that it has automatically chosen the nearest permitted amount.)

The calculator will then automatically adjust your future income payments so that they keep up with our assumed rises in the cost of living and general community living standards. (See assumptions section). This ensures that you maintain the same effective purchasing power for as long as your allocated pension lasts. If you don't want to do this, you can change our assumed rate of inflation.

The calculator will also keep your income payments within the permitted minimum and maximum amounts for each year that your allocated pension lasts.

For simplicity, the calculator assumes you receive the full amount you want as income in the first year. (In practice, the permitted minimum and maximum amounts are adjusted pro-rata during the first year. If you begin your allocated pension between 1 June and 30 June, the first income payment does not have to be made until the following financial year. The amounts are also adjusted if you draw out all your money.)

Tip about payments and withdrawals

Just because you must draw out money each year from your allocated pension doesn't mean you have to spend it. You're entitled to save it, invest it or spend it however you like. So if you're worried about your money running out before you die, you may be able to put some of your yearly income aside.

Lump sum withdrawals: For simplicity, the calculator assumes you do not make any lump sum withdrawals, although you are perfectly entitled to do so. When you draw out a lump sum, your income payments will change, because there'll be a lower balance in your account.

Earning rate before management costs?

Based on the investment option you choose, the calculator assumes an earnings rate displayed on the Assumptions worksheet **before** costs are deducted. You can change these assumptions yourself.

Although you can put in any figure you like, we suggest an acceptable range for each option. Figures outside this range may produce unlikely or unrealistic results and will activate a pop-up warning.

Costs and fees

The calculator allows you to put in the costs and fees likely to make the greatest impact on your pension. Some fees and costs may be left out. Usually, this will not make much difference, but in some cases it could, see 'Fees and costs not included in this calculator'.

You will find the numbers you need for the next three boxes in your pension's latest product disclosure statement (PDS), or possibly on the company's website or in its latest annual report.

To compare two allocated pension products, put the first product's fees in the left hand section and the other product's fees in the right hand section.

Management cost (% of accumulation) When you first open the calculator, it shows a percentage management cost set at 0.55%. When taken together with our default '\$ per year management fee', this is a rate our actuaries believe is typical for a lower-cost allocated pension offered by some reputable industry superannuation funds. Shop around for the pension that suits you. It may cost more or possibly less.

The management cost combines two elements that you may need to add together and which you will find in your product disclosure statement:

- fees and costs for managing your investments or for the particular investment strategy you have chosen. (Products that offer various strategies may disclose simply a range of fees

in one part of their product disclosure statement, but they will usually show a more precise figure for each strategy elsewhere in the document. Use the most precise fee that matches the investment strategy you have chosen.)

- fees and costs for operating or administering your account.

If these are shown separately, add them together to arrive at the total management cost. If the second element is a flat dollar amount, use the next cell below.

The calculator assumes that the management cost is charged on average midway through the year.

Any extra \$ per year management fee When you first open the calculator, it shows a fee of \$55 a year, common for allocated pensions offered through industry funds. Other pensions may not charge a flat dollar fee each year as part of their management cost, so change this figure if needed.

The calculator assumes this fee will rise in line with community living standards. That might not actually occur, but if the assumption is wrong, it is unlikely to make a significant difference.

Adviser service fee (% of accumulation)

Applies only if you have personally agreed to pay your own adviser for extra advice. If your licensed financial adviser receives this service fee, it is assumed to be deducted before your contributions reach the fund or company whose pension you are buying.

Tip about costs

An allocated pension that charges higher costs has to earn a higher return just for you to come out even. When comparing funds investing in similar assets, most experts agree that higher costs do not guarantee higher returns. With this option, the calculator will assume that higher costs do not produce higher returns.

Restore all fees and earnings to default rates This button restores fees and earnings to our assumed rates. This can be helpful if you've made changes that you now want to clear.

Results

The results are shown inside a blue box and also shown on a graph below the box.

The calculator shows results for each pension you're comparing, and if you could pay no fees. ('No fees' simply helps you see the impact of fees. You can't actually get an allocated pension without fees.)

Age when your annual income falls 5% below your initial drawing A pension with higher fees may force you to draw out less money sooner.

Age when your annual income falls below \$10,000 A pension with higher fees may run out earlier.

Age when your annual income reduces to zero This is the age at which your allocated pension runs out.

Your total income payments A lower-cost pension will allow you to draw out a larger total amount than one with higher costs. The amount is shown in *today's* dollars, so you can see the impact of your decisions in the light of conditions today. You can try out different choices and what sort of difference they could make.

Note: Your income payments will be subject to tax and may affect your eligibility for the age pension or other government benefits. The calculator cannot show these because they will depend on your personal situation.

Tip about income payment figures

Some superannuation funds may give you projected pension figures that differ from what the calculator shows. Differences may arise because of different assumptions, or because of your fund's or your own particular circumstances. These differences may also arise with other calculators.

Income by age The line graph shows how your income payments change over time for your pension and if no fees were charged, based on your choices and the calculator's assumptions. If you're comparing two pensions, the dotted line shows your income payments in the second pension you're considering.

Background assumptions

Click on the 'Assumptions' tab at the bottom left of the screen to open the page where you can see important background assumptions that you can change.

Where indicated in this guide, these assumptions were reviewed by independent actuaries. The assumptions reflect today's conditions: they aren't forecasts or promises. You can change these assumptions to see what might happen in different circumstances. We highlight a few situations where you might change what we have assumed.

Expected inflation Rises in the costs of living will affect the real purchasing power of your retirement savings and the real value of your investment earnings.

The calculator assumes **consumer prices** (CPI) will rise by a steady 2.5% each year. In addition, wages and salaries have tended to grow faster than the cost of living, as our economy grows and people become more productive. The calculator assumes you will decide if your retirement income is adequate by the **community standards** during the whole of your retirement, which may last 15–20 years, not by those standards when you started your retirement.. This approach is supported by our actuaries.

You can change the assumed rates. In the past, Australia has experienced higher and lower rates. An acceptable range for consumer prices can vary between 2% and 3%, and an acceptable range for rises in community standards can vary between 0.5% and 1.5%. Using figures outside this range may produce unlikely or unrealistic results.

ASIC obtained professional advice about living standards from licensed independent actuaries who consulted a variety of sources including publicly available data.

Long term investment earnings The white cells control the assumed earning rates for different investment options, and indirectly when a pop-up warning about earnings rates will show on the calculator. 'Real rate' means the earnings rate before costs and taxes, adjusted for inflation and rises in community living standards. For example, earnings of 3.5% before costs and taxes will be a real rate of zero, assuming inflation and rising living standards also equal 3.5%.

You can change the assumed earning rates. An acceptable range for each investment option is set out

on the table on page 3 of this guide. Using figures outside this range may produce unlikely or unrealistic results.

ASIC obtained professional advice about living standards from licensed independent actuaries who consulted a variety of sources including publicly available data.

Default values for fees The white cells control the values for different fees that get displayed when you first open the calculator, and what will be restored when you click the 'restore' button. You can change these values if you wish.

Factor for fall off to be recorded For illustrative purposes, the calculator shows you when your income payments first start to fall below 5% of your initial chosen amount. This white cell controls the 5% value, and lets you reset it if you wish.

Dollar level for fall off to be recorded For illustrative purposes the calculator shows you when your income payments first start to fall below \$10,000 (in today's dollars). This white cell controls the \$10,000 amount, and lets you reset it if you wish.

Pension valuation factors The allocated pension rules control your minimum and maximum yearly income payments, based on your age and account balance. You can change them, although the factors shown here are correct at the date of publication.

Workings

You can see all the workings laid out step-by-step by clicking the relevant tabs for income payments, pension 1, pension 2 (if chosen), and if you paid no costs or fees.

The 'Income payments' tab at the bottom left of the screen shows your year by year total income payments for each allocated pension and if you could pay no fees. These amounts are in today's dollars, adjusted for expected inflation.

Technical notes The calculator is an EXCEL spreadsheet. You must 'enable macros'. If your Excel security setting is on 'high', then you may not see the dialog box asking you about this.

All the workings are password 'protected' so you can't easily mess it up.

Fees and costs not included in the calculator

Termination fees when you leave your fund

Some funds may charge 'termination fees' when you leave the fund, finally retire or change your pension to another product. These fees can be calculated in different ways, and so we have not included them in the calculator.

Check your fund's product disclosure statement to see if and when these fees apply. In some cases they might be more important than usual, for example if you selected a 'no entry fee' or 'nil contribution' fee option or an option to pay contribution fees later and you leave the fund within a few years of joining.

Buy and sell prices Some pension products may charge different prices for people buying into their products than for people selling out of them, often called the 'buy-sell spread'. This covers transaction costs and ensures that the people changing their products pay the costs, not all members. This can affect you when you buy in, switch your investment strategy, sell out of your product or withdraw part of your money.

We have left out these buy and sell prices, mainly to keep things simple but also because the difference, or 'spread', between buy and sell prices changes over time and is usually given only as an estimate or historical figure in the fund's product disclosure statement.

In some cases, the buy-sell spread can be significant, say more than 1%. If the spread applies each time you contribute to the fund, you could treat the buy-sell spread as a contribution fee and increase the contribution fee by that amount.

Switching fees Some pension products may charge a fee if you switch between investment options. The calculator leaves out these fees, because it assumes they will not have much impact on your accumulation. It also assumes that once you have made a choice you will stay in the same investment option for as long as you are in the product.

Editorial note

This Guide (v1) refers to version 1 of the FIDO allocated pension calculator. ■