

A guide to annuities

Look forward
with confidence
in your
retirement



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What is an annuity?

An annuity is a secure financial product that can be used to provide you a level of guaranteed income in retirement. It pays you regular income either for your lifetime or for a fixed term of your choice – in return for a lump-sum investment. You'll receive regular payments that are guaranteed, regardless of how the share market performs – helping to give you peace of mind in your retirement.

An annuity complements other retirement investments and sources of income, such as your super and the Age Pension – and can be used as the foundation of your retirement plan.

Types of annuities

Here's a quick guide to the different types of annuities available:

Types of annuities



Lifetime annuities

Provides a guaranteed, regular income for your lifetime regardless of how share markets perform or how long you live.

Features at a glance

- Regular payments for life (and your spouse's life if you choose)
- Payments that start immediately or at a future date you choose (known as deferred annuities)
- Payments that can keep pace with inflation
- Payments that are guaranteed regardless of how investment markets perform
- Can pay a lump sum death benefit to your family or estate within a known withdrawal period
- Can offer the flexibility to withdraw and be paid a lump sum within a known withdrawal period if your circumstances change
- You can use your super or personal savings to invest
- Payments that are tax free if you use your super to invest and you are aged 60 or over.



Term annuities

Provides a guaranteed, regular income for a fixed term you choose with flexible capital return options at maturity.

Features at a glance

- Regular payments for a fixed term of your choice
- You can generally choose the frequency of your payments
- You can choose to have your investment repaid at the end of the fixed term or have some or all of it repaid throughout the fixed term as part of your regular payments
- Payments that are guaranteed regardless of how investment markets perform
- You can use your super or personal savings to invest
- Payments that are tax free if you use your super to invest and you are aged 60 or over.

Why choose an annuity?

Retirement is a life-changing event. As you adjust to your new lifestyle, you'll need to think differently about your finances. Moving from earning an income to drawing on your retirement savings and investments can be a big shift mentally. And it can bring up financial concerns you haven't thought too much about before, such as:

- the risk of outliving your retirement savings and becoming completely reliant on the Age Pension
- the impact of market conditions on the value of your investments during your retirement
- the risk that over time inflation will increase the cost of living. This means the income received from your investments may also need to increase in line with inflation to maintain your standard of living.

Annuities can help to address these concerns so you can relax and enjoy your retirement.

Benefits of annuities		
		
Secure income They provide a secure income, either for your lifetime or for a fixed term of your choice.	Protection against key retirement risks They can act as a safety net, helping to ensure your essential income is protected from key risks in retirement.	Helping you to spend confidently in retirement They provide cash flow certainty that can help you maintain your standard of living, providing you peace of mind.

Is an annuity right for me?

When determining whether an annuity is right for you, it may help to focus on what your retirement goals are in more concrete terms. For example, working out how much your basic expenses are, how much you will need for a more comfortable lifestyle, if the Age Pension will be enough or whether you need an additional source of income to meet these goals.

If you value the security of a guaranteed, regular income for a fixed term or for the rest of your life, then an annuity could be a suitable investment option for you. In all cases, we recommend you speak to a financial adviser.

Modern annuities for today's retiree

We (Challenger) understand that your retirement goals and lifestyle needs are unique. That's why we offer a choice of annuities to suit you. You can use part of your super or personal savings to invest with a minimum investment amount of \$10,000.

Lifetime annuities

Challenger Guaranteed Annuity (Liquid Lifetime)

Gives you an additional layer of protection in retirement by providing guaranteed income payments for life, regardless of how long you live or how share markets perform. Here is what you will receive:

- monthly payments for life (and your spouse's life if you choose)
- payments that start immediately or on a future date you choose (if using super savings to invest)
- payments that keep pace with inflation (CPI-indexed payments)¹
- flexibility to withdraw and be paid a lump sum if circumstances change within the withdrawal period²
- known estate value via guaranteed death benefit²

Fixed term annuities

Challenger Guaranteed Annuity (Fixed Term)

Provides a guaranteed regular income for a fixed term you choose regardless of how share markets perform with flexible capital return options at maturity. Here is what you will receive:

- the choice of a fixed term between one year and 50 years
- the choice of monthly, quarterly, half-yearly or yearly payments
- your investment repaid at the end of the fixed term unless you choose to have some or all of it repaid throughout the fixed term as part of your regular payments

¹ You can choose to only partially index payments annually with movements in the CPI (called 'partial CPI') or not to index payments annually with movements in the CPI (called 'no indexation') in return for higher starting payments.

² You can ask us to remove these features in return for higher starting payments. But the choice is totally yours.

About Challenger

Challenger Life is Australia's largest provider of annuities. We specialise in providing our customers with financial security for retirement.

We're registered under the Life Insurance Act 1995, and we provide a regular income to approximately 60,000 Australians and manage over \$19 billion in assets³

Challenger Life is part of the Challenger Limited Group. The Challenger Limited Group is listed on the Australian Securities Exchange (ASX), and the regular income paid to our annuity customers is not impacted by any movements in Challenger Limited Group's share price.



How can Challenger guarantee payments?

Challenger annuities are guaranteed by Challenger Life and are regulated by the Australian Prudential Regulation Authority (APRA), to ensure that we can meet the payment promises we have made to you.

When you invest in an annuity, your money is placed into a secure fund, along with money received from other annuity customers. Challenger also contributes money into this fund, which is known as the statutory fund. All regular payments to our annuity customers are made from the statutory fund.

If we do not achieve investment returns that are sufficient to cover the payments to our annuity customers, we must cover the shortfall from the money we have invested in the fund. This means that even if there is a major event, like a market crash, there are measures in place to ensure we can still make your annuity payments.

³ At 30 June 2019.

Case study⁴

Meet Ben and Rachel

Ben and Rachel are both 67 and recently retired. They have combined savings of \$500,000 in super, \$50,000 in cash and \$20,000 in other personal assets. They are looking for ways to make the most of their super to fund a comfortable retirement.

They believe they will need \$42,000 a year to cover their basic living costs – such as groceries and utilities – and another \$20,000 a year to travel, socialise and eat out.

Ben and Rachel currently receive income from the Age Pension of \$22,893 p.a. but over time they expect their Age Pension entitlement to reach the maximum rate of \$36,582 p.a. (in today's dollars) as their savings reduce.



What worries Ben and Rachel most

Like many retirees, Ben and Rachel fear that they could outlive their savings and are worried they won't be able to afford their basic expenses of \$42,000 a year – they will still have a shortfall of \$5,418 a year even if they were receiving the maximum rate of Age Pension.

They visit a financial adviser to find a solution that can help ensure they have enough money to pay for their basic costs of living, no matter how long they live or how investment markets perform. They also want to make their savings last and enjoy a comfortable retirement for as long as possible.



Strategy and outcomes

Their financial adviser recommends investing \$125,000 from their super (25% of their super) into lifetime annuities. This provides them with regular income of \$5,485 a year for life and indexed to inflation. This income will supplement their Age Pension and allow them to meet their basic living expenses no matter how long they live or how investment markets perform.

Ben and Rachel's lifetime annuities also qualify for concessional Centrelink treatment, increasing their Age Pension in the first year to \$26,793 from \$22,893 (an increase of \$3,900).

Their financial adviser also recommends investing the remainder of their super (\$375,000) into account-based pensions. Their account-based pensions will let them access lump sums if they need it and provide some exposure to assets, such as shares and property, that can provide high returns over the long term. This can help them enjoy a comfortable retirement – where they can travel, socialise and eat out – for as long as possible.

⁴ This case study relates to a hypothetical couple, Ben and Rachel, and is provided for illustrative purposes only. This case study is not intended to reflect any particular person's circumstances. Centrelink rates and thresholds are as at 20 September 2019. Challenger Guaranteed Annuity (Liquid Lifetime) is based on a quote as at 9 October 2019, using the flexible income option for an amount of \$62,500 invested for each person, providing Ben with regular income of \$2,835 p.a. and Rachel with \$2,650 p.a. for life and indexed to inflation.

Frequently asked questions

	Challenger Guaranteed Annuity (Liquid Lifetime)	Challenger Guaranteed Annuity (Fixed Term)
What if I need access to my investment?	While lifetime annuities are designed to be held for life, you have the flexibility to access a lump sum within a defined period if your circumstances change. ⁵	While you should only invest in a fixed term annuity if you plan to remain invested for the full fixed term, you can ask to be repaid a lump sum amount if your circumstances change.
What if I die early after investing in an annuity?	Challenger lifetime annuities pay a guaranteed death benefit if you die early. The death benefit is up to 100% of the amount you invest and is payable to the beneficiaries you nominate or your estate. This gives you certainty and control over your estate planning outcomes. ⁵	<p>With fixed term annuities, the remaining benefits are paid to the beneficiaries you have nominated or to the surviving owner if you have invested jointly with another person.</p> <p>If you die before the end of the investment term, and your regular payments continue to be made to your reversionary, nominated beneficiary or estate, a withdrawal value can be calculated to enable the regular payments to be converted to a lump sum payment.</p>
Do I have to put all my savings into the annuity?	You don't have to invest all of your money into a Challenger lifetime annuity. You can invest only a part of your retirement savings and receive a level of secure, guaranteed income for life.	You don't have to invest all of your money into a Challenger fixed term annuity. You can invest only a part of your retirement savings and receive a secure regular income for a fixed term you choose and a range of capital return options on maturity.
What if the cost of living goes up?	You can choose inflation linked income to help protect your lifestyle. Inflation measures the change in the cost of living over time. With level income, your retirement lifestyle could become unaffordable.	You can choose inflation linked income to help protect your lifestyle ⁶ . Inflation measures the change in the cost of living over time. With level income, your retirement lifestyle could become unaffordable.
Are there any fees?	There are no fees or charges payable to us (although you may agree to pay fees to your adviser for their services). The amount we agree to pay you is what you will receive for life or a fixed term you choose. This is because our costs are taken into account when we determine the regular payments you will receive.	

⁵ You can ask us to remove this feature in return for higher starting payments. But the choice is totally yours.

⁶ Only available where you have asked for the full investment amount to be returned to you throughout the fixed term.

Frequently asked questions continued

About Challenger	
How does Challenger make its money?	We invest the money you give us. If we achieve investment returns that are above the amount required to cover the promises made to our annuity customers, we keep the excess amount. This is how we make a profit. If we do not achieve investment returns that are sufficient to cover all promises made to our annuity customers, we cover the shortfall from our own money.
How safe is Challenger?	Challenger annuities are guaranteed by Challenger Life, a Life Company regulated by the Australian Prudential Regulation Authority (APRA). APRA is the authority that regulates the banking, insurance and superannuation industries.
How does the guarantee work?	<p>Challenger Life is subject to detailed legislative and regulatory requirements designed to ensure that your investment is kept safe. APRA continuously monitor our investments with the aim of ensuring that we can meet the promises that we have made to you both now and into the future.</p> <p>When you invest in a Challenger annuity your capital investment goes into a fund along with the capital received from other annuity customers. This fund is known as the statutory fund, and all regular payments to our annuity customers are paid from this fund. We are also required by APRA to invest our own money into the fund. This statutory fund is required to hold enough capital to withstand a one in 200-year investment market shock event.</p> <p>If at any time we do not achieve investment returns that are sufficient to cover all the promises that we have made to our annuity customers, we must cover the shortfall from the money we have invested in the fund.</p>

How to start your annuity

Conducting your own research into annuities before making any decisions can help you to work out what's right for you. Your financial adviser can help with this.

You can find out more about Challenger annuities by visiting our website **challenger.com.au**, reading the Product Disclosure Statement for each product (available on our website), or by calling us.

Step one – get a quote

Your financial adviser can arrange a quote for you, or you can do this yourself by calling us. The quote is obligation free and will be valid for 14 days.

Step two – send us your application

If you decide to invest in an annuity, you can apply by providing us with:

- a completed and signed application form
- your quote (if your quote has expired, then your regular payments will be calculated on the day we process your application)
- your identity verification documents (these are outlined in the application form)
- your initial capital investment (by direct debit or cheque) if you're using non-super money to invest in the annuity
- rollover information if you're using super money to invest in the annuity.

What happens next?

If your application is successful, we'll send you a Policy Document and Investor Certificate that sets out the terms and conditions of your annuity.

We'll also send you a Centrelink schedule for social security purposes. You should read these documents carefully and speak to us or your financial adviser if you have any questions.

Why financial advice is important

Your finances are an essential part of feeling comfortable and confident about your future. So it's worth getting an expert involved in exploring options and making a plan for a secure income that will have you covered, throughout retirement.

Making informed decisions

Seeking advice is often about finding out what you don't know. By discovering the options available for investing and managing your income in retirement, you can start to understand which choices will suit you best, and why. A financial adviser with expertise in retirement planning is the ideal partner for opening up this world of opportunity and then narrowing it down according to your needs. They can guide you towards the right mix of investment and income options for your retirement.

Getting access to benefits

Your own savings may not be your only source of income in retirement. As well as creating a financial plan for your savings and assets, a financial adviser can also ensure you receive any Government benefits you may qualify for, such as the Age Pension.

Keeping you on the right track


Advice can help you understand the facts and figures around your money in retirement. But it's also about having peace of mind that you're making the most of your savings to prepare for a comfortable lifestyle throughout retirement. With the benefit of an expert view you can understand the impact that changes to your personal goals or circumstances and external factors, such as market conditions may have on your retirement. Having input from a professional can also help you avoid taking unnecessary risks and make choices that can secure your finances and lifestyle.

If you're unsure about what sort of advice you need, your adviser can make suggestions when they know more about your financial position and what your goals are for the future. Financial Planning Association of Australia (FPA) can help you find a financial adviser in your local area, visit **fpa.com.au**.

Need more information?

To find out more about annuities or to arrange a quote:

 Visit **challenger.com.au**

 Call Investor Services on **13 35 66**
(from 8am to 6pm AEST, Monday to Friday)

 Speak to your financial adviser

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