Lifetime pension vs lump sum payment

ESSSuper
Emergency Services & State Super

This fact sheet is for ESSSuper members in the Revised Scheme and SERB Scheme who are eligible for a lifetime fortnightly defined benefit pension. It describes a number of factors to consider, however, it does not describe all possible factors that may be appropriate to you.

Factors to consider when choosing between a pension and a lump sum

Life expectancy

A lifetime pension is payable for your lifetime or until you fully commute your pension. Unlike a lump sum you will never have to worry about it running out.

People are generally living longer these days. In fact, the average life expectancy for a person aged 55 now is 83 for males and 87 for females. And our average ESSSuper pension members live even longer: 85 for males and 88 for females. So, it's difficult to forecast how long your lump sum will need to last.

If you choose to receive your benefit as a lump sum, you cannot elect to receive a lifetime pension at a later date.

Beneficiaries

A lifetime pension can continue to be paid to a reversionary beneficiary (e.g. your spouse) as a lifetime pension. A pension may also be payable to your eligible children, although payments to adult children can only be paid as a pension in very limited circumstances.

You can convert your pension to a lump sum at certain key stages of your membership and your partner can also choose to convert their entitlement to a lump sum when you die.

Inflation

ESSSuper lifetime pensions are indexed to the Consumer Price Index (CPI) for all capital cities. This means that your pension will increase by this index twice a year.

A CPI indexed lifetime pension will maintain its purchasing power in line with the cost of living changes. In this way a lifetime pension is not linked to what happens in investment markets. You will receive your fortnightly pension for life regardless of investment market movements.

If you take a lump sum benefit you will then have to actively manage this amount. This means that you will be responsible for ensuring this amount is maintained to meet your long term financial requirements.

Investment markets are unpredictable and therefore your lump sum will change according to how you have invested this amount. The difference between a lifetime pension and a lump sum is that when managing a lump sum you will bear the risk of good or bad investment returns.

Risk attitude

A lifetime pension offers some certainty. You will know exactly what you're going to receive for the rest of your life and it can't run out. This can be a convenient feature for retirees who do not want to be concerned with actively managing their retirement funds.

If you are prepared to actively manage your retirement funds, you may prefer a lump sum that can be invested in accordance with your personal risk and investment preferences. If you do take a lump sum, you will be responsible for its investment during your retirement.

Capital access

A lifetime pension provides some certainty but means you have limited flexibility to access a lump sum amount when you may need it. You will generally have to save or have access to other funds for large purchases like cars, holidays and home renovations.

A lump sum provides total flexibility in this respect. You can manage and allocate funds as you require. The only constraint is that your lump sum is finite and you won't know how long it needs to last.

Other assets

When considering a lifetime pension, a lump sum benefit or a combination of both, you might also consider what assets you have and whether or not access to capital is an important need or not.

Your financial situation and access to other income sources may also affect your desire to take a pension instead of a lump sum.

Transfer balance cap & Defined Benefit Lifetime Pensions

The Defined Benefit Lifetime pensions will be valued at a rate of 16 times the individual's pension amount at the date of commencement, irrespective of age. That is any Defined Benefit Lifetime Pensions and account based retirement income streams you hold will count towards an individual transfer balance cap. An individual with a Defined Benefit Lifetime Pension of $106,250 per annum (valued at $1.7 million# for the purpose of the transfer balance cap) or more has used 100% of their transfer balance cap and is subject to Excess Transfer Balance tax on notional earnings on any excess balance above $1.7 million in any Retirement Income Streams account they may hold. New taxation arrangements apply to Defined Benefit Lifetime Pensions of $106,250* per annum or over. 50% of the Defined Benefit Pension income above the cap of $106,250 will be included as assessable income and taxed at your marginal tax rate.

Earnings and pension payments that increase and reduce your retirement income stream are not counted towards the transfer balance cap. If you commence an income stream below the transfer balance cap, and the value of your balance subsequently grows due to investment earnings, the amount in excess of the cap will not be subject to Excess Transfer Balance Tax.

Cap is indexed in line with the Consumer Price Index in increments of $100,000.

* Indexed in line with the transfer balance cap.

Centrelink

To qualify for Centrelink benefits, your eligibility for benefits is measured according to what income and assets you possess.

The lifetime pension is assessed against the income test and is not counted as an asset in the assets test.

A lump sum benefit is counted under both tests.

Maximising your Centrelink entitlements will depend on your combination of pension and lump sum assets. We recommend that you speak to a qualified financial adviser and contact Centrelink regarding your entitlements.

Administration

Receiving the pension needs no expertise. It's simply paid into your nominated account for the rest of your life. This frees you to enjoy your retirement 'hassle-free'.

Managing a lump sum requires you to be actively engaged in the process of investing. This may involve the services of a qualified financial adviser and/or personally managing your assets.

Financial advice

ESSSuper has a team of Member Education Consultants who can provide general advice about your super, help explain your options and provide you with benefit estimates.

If you're looking for more detailed advice taking into account your personal circumstances, selected ESSSuper advisers can provide you with personal financial advice.

ESSSuper has an arrangement with Link Advice Pty Ltd (AFSL No. 258145) to provide financial advice to ESSSuper members.

Personal financial advice is available on single superannuation topics such as choosing an investment option or retirement adequacy. Or if you're seeking more detailed advice we can also provide comprehensive advice on your entire financial position.

Learn more

Did we get you thinking? We hope so. If you have questions, please visit our website at esssuper.com.au or call our Member Service Centre on 1300 655 476.

Proudly serving our members