

Non-technical overview

Investment-linked lifetime income streams

Exploring the (considerable) benefits for super fund members

January 2026

David Bell and Geoff Warren

1. Key messages

Superannuation (super) fund members often fail to maximise the retirement income they draw from their super savings. Many invest at retirement into an account-based pension (ABP) with a reluctance to draw the income they might afford due to the ‘fear of running out’. What if there was a way to access an expected income stream that is both *greater in magnitude* and *more sustainable* than what can be delivered from an ABP, while helping to combat the fear of running out? In a recent Conexus Institute report ([here](#)) we explore how these benefits may be attained through allocating a slice of assets to an investment-linked lifetime income stream (ILLIS), which some refer to as innovative retirement income streams or ‘IRIS’.

Of course there is a hitch. Investing in any lifetime income stream (LIS) including ILLIS inevitably requires giving up access to some capital. This is an integral part of the deal, as LIS operate through using the assets of those who die to support ongoing income payments for survivors within the product ‘pool’. ILLIS also deliver a variable income stream that depends in a large part on realised investment returns. Nevertheless, many members would be better off allocating a portion of their assets to an ILLIS and the remainder to an ABP than investing everything into an ABP. This combination can provide a better trade-off between the three Retirement Income Covenant (RIC) objectives by offering higher expected income and lowering risks to the sustainability of income, while retaining some flexible access to funds through the ABP.

Our in-depth report delves into the nuts and bolts of making a partial allocation to an ILLIS: a quite

technical topic with many nuances. This non-technical overview of the report describes the key drivers and issues, and summarises the modelling undertaken to illustrate the magnitude and sources of the potential benefits. Readers who want to delve further should refer to the main report.

2. Sources of the income benefits

Portrayal of LIS including ILLIS as products that provide longevity protection is too narrow. A less well-recognised but arguably more important feature is that an ILLIS can also boost expected income. This boost can arise from three sources – mortality credits, Age Pension uplift and behavioural effects – each of which is discussed below. The operation of each source is best understood by comparing investing through an ABP against allocating to an ILLIS that is invested in the same underlying portfolio as the ABP. Doing so supplies the same income-generating potential from the underlying assets, with the ILLIS offering potential for further income enhancement from the sources discussed below. The idea that an ILLIS can be built on top of the same portfolio as an ABP is more than just a theoretical concept, as there are at least four providers currently offering ILLIS where the assets are invested in existing investment options.

(a) ‘Mortality credits’

This term refers to the additional income that an ILLIS holder receives upon survival supported by the assets of those who die. Mortality credits might be thought of as an *additional source of income* layered on top of what can be delivered by the investments alone. They directly boost expected income in two ways. First is through the provision of additional

income upon survival. This feature not only increases expected income but also means that income is supported at older ages and hence is more sustainable than investing via an ABP only. Second, anticipation of receiving mortality credits in future makes it affordable to draw more income early in retirement. Similar to how the income that is affordable today for an ABP partly depends on future expected investment returns, the income that is affordable today for an ILLIS depends on *both* future expected future returns *and* mortality credits.

(b) Age Pension uplift

The Age Pension implications are quite complex and explained in the in-depth report for those wanting to get into the details. Below we highlight the two key factors that can drive an Age Pension uplift, both of which relate to the treatment of ILLIS versus ABPs under the assets test:

- The amount counted for an ILLIS under the assets test attracts a *discount weighting* of 60% from retirement up until age 85 and 30% thereafter, while an ABP is weighted at 100%. This typically provides an immediate Age Pension uplift from allocating the same amount to an ILLIS at retirement relative to an ABP.
- The amount counted for the assets test is *anchored to the initial amount allocated* for an ILLIS, but refers to the prevailing account balance for an ABP. This broad concept not only applies to an ILLIS allocation made at retirement but also extends to where an ILLIS allocation is made during accumulation (as currently offered by at least two providers). In the latter situation, the value counted upon transferring into the ILLIS at retirement is based on the initial allocation indexed at the deeming rate (currently set a 2.75% maximum). The upshot is that higher returns on the underlying investments have *no* impact on the treatment of an ILLIS but can increase the value counted for an ABP under the assets test. This acts to enhance the relative access to the Age Pension from an ILLIS versus an ABP when investing in higher-returning assets.

The Age Pension uplift provided by an ILLIS relative to an ABP can eventually reverse as the ABP balance is run down and the income test becomes binding for the ILLIS, noting that ILLIS should continue to generate substantial income over time supported by mortality credits. The cross-over point is likely to

occur at older ages, leaving the overall Age Pension uplift as positive. The Age Pension uplift is only available to members who travel through the 'Age Pension taper zone' sometime during retirement.

(c) Beneficial behavioural benefits

Two main behavioural effects can arise from allocating to an ILLIS, both of which could further boost expected income:

- **Confidence** – To the extent that allocating to an ILLIS assuages the fear of 'running out', it can provide members with confidence to draw more income earlier in retirement, e.g. drawdown in excess of the minimum rate. Doing so can augment the conversion of assets into income.
- **Take-up of ILLIS is encouraged by allocating during accumulation** – Allocating to an ILLIS during accumulation could encourage members to exercise their option to transfer into an ILLIS at retirement in order not to miss out on the available Age Pension benefits. This can help members to access the additional income sources that an ILLIS offers in retirement as described under point (a) and (b).

3. Modelling the income boost

We modelled nine scenarios where available assets at retirement are allocated between an ABP and ILLIS both using the same underlying investments, involving three member cases and three allocation strategies. The member cases span low, medium and high financial assets at retirement of \$300,000, \$650,000 and \$1.1 million, respectively. The strategies include allocating 100% to an ABP, allocating 50% each to an ILLIS and ABP upon retirement at age 67 and allocating to the ILLIS during accumulation at age 47. (Further details of the modelling can be found in the main report.)

Figure 1 plots the progression of expected income across allocation strategies for the three member cases. For members with medium and high financial resources, allocating to an ILLIS at age 67 boosts expected income by 17%-18%, while allocating at age 47 provides a boost of 23%-24%. The increase for members with low financial resources is only 3%, reflecting that the Age Pension is a much larger portion of expected income for this member who also receives no Age Pension uplift under the assets test as they qualify for the full Age Pension.

Figure 1: Expected income and sources under nine scenarios

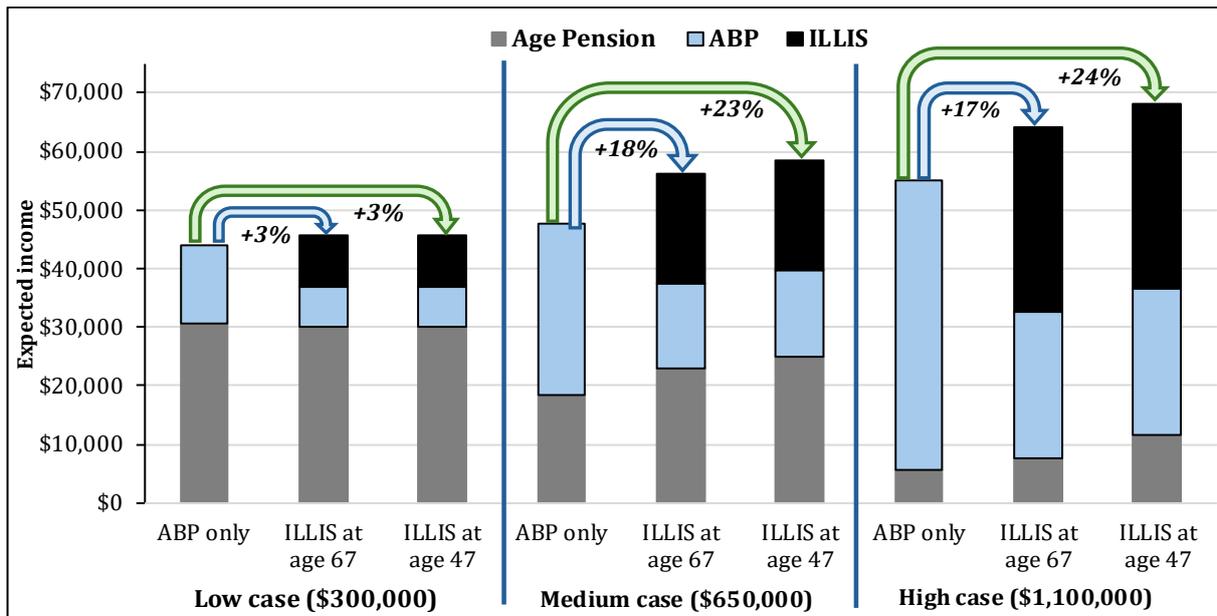


Figure 2: Income layers for member with medium financial resources

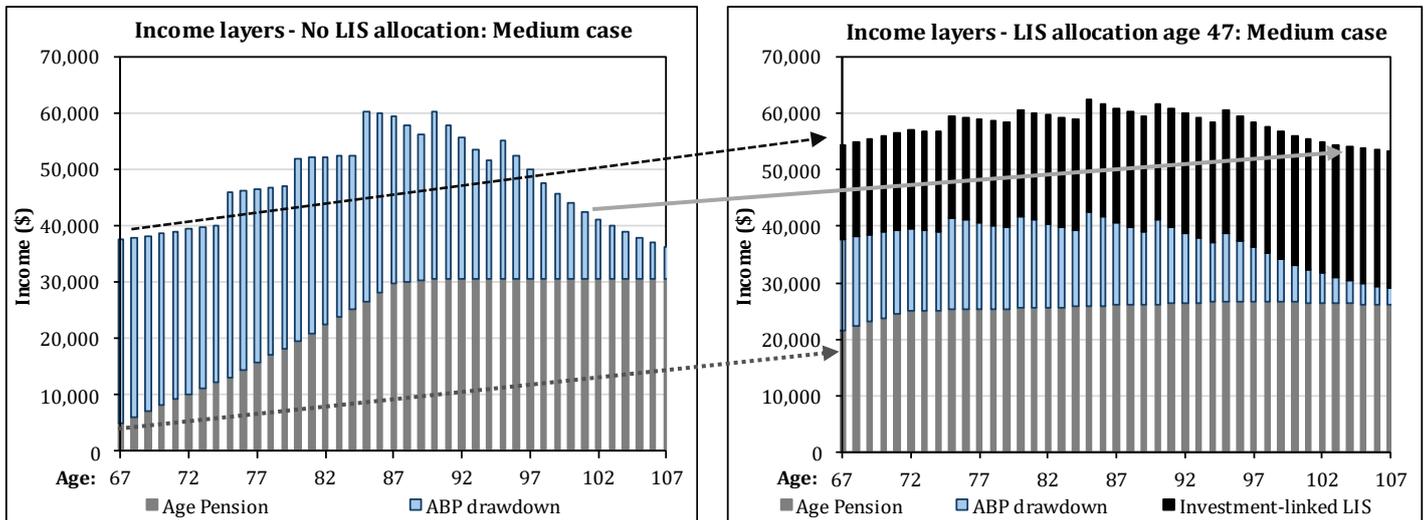


Figure 2 presents ‘income layer’ charts that depict the difference in the level and sources of income per year between allocating 100% to an ABP at retirement versus allocating to an ILLIS at age 47 for the member with medium financial resources. It shows how allocating to an ILLIS can both increase expected income *throughout* most of retirement and generate *more sustainable income* relative to investing entirely in an ABP.

The drivers include:

- More Age Pension is accessed earlier in retirement as the ILLIS provides a greater Age Pension uplift under the assets test. See the dashed grey arrow at the bottom.
- More income is delivered earlier in retirement as a consequence of both the Age Pension uplift and the ILLIS delivering more income than the ABP. See the dashed black arrow at the top.

Halving the allocation to the ABP could reduce flexibly accessible funds by 50%. We note that considerable access to funds is still provided through the ABP especially earlier in retirement when more likely to be needed. It is also possible to provide some additional access to capital through the ILLIS via death and exit benefits. However, this access would be limited to life expectancy (by the Capital Access Schedule) and would come at the cost of some reduction in ILLIS income. Nevertheless, offering death and exit benefits is common practice to combat the reluctance of retirees to give up complete access to funds. Income benefits could be further enhanced by increasing the ILLIS allocation, but this would require trading-off lessened access to funds.

4. Other features worth highlighting

It is worth briefly highlighting a few of the other features explored in our in-depth report:

- *Income delivered by the ILLIS depends on realised investment returns via various channels.* The net impact of lower returns is lower ILLIS income, and less of an Age Pension uplift relative to an ABP. Nevertheless, the net impact on income of an ILLIS versus an ABP using the same investment mix remains positive.
- *Allocating to an ILLIS will not be appropriate for all members.* Although the majority of members might receive an income uplift from an ILLIS, an allocation will not be appropriate for all. In particular, members with low balances may prefer to invest entirely in an ABP in order to maintain full access to their capital so they can draw on it as needed.
- *Low LIS take-up* – We discuss in the report why LIS take-up has been low despite the potential benefits, noting various supply and demand issues that are at play. We are hopeful that growing appreciation of the benefits of allocating to an ILLIS coupled with an expansion in super funds that offer ILLIS as part of integrated retirement solutions will raise usage in the years ahead to the benefit of many members.

5. Reflections for policymakers

Our main recommendation for policymakers is to give some close attention to developments around the offering of ILLIS within the Australian super industry with a view to making the policy intentions clear to the industry at large and provide some certainty as product is developed. We raise a range of issues that policymakers might consider within the in-depth report. Important issues include:

- *Comfort with current treatments under the Age Pension means test* – One wonders about the views of policymakers around the current treatment of LIS and ILLIS in particular under the Age Pension means test, given the extent to which ILLIS are favoured over ABPs. While we understand that policymakers have provided indications to those developing product of comfort with the existing treatment, a clear statement of the policy position for the industry at large might be worthwhile.

- *Allocation to ILLIS during accumulation* – The recent development of providing access to ILLIS during accumulation deserves particular attention. Issues include implications for the Age Pension eligibility given the deeming rate treatment, the friction created by the requirement to transfer into an ILLIS with 14-days after entering the retirement phase, and potential use in MySuper defaults.
- *Transferability and standardisation* – Policymakers might consider whether there may be value for consumers in establishing frameworks for transferability (i.e. portability) of LIS and related Age Pension benefits between providers, perhaps supported by a degree of standardisation across the industry.

6. Thoughts for super funds

The exploration within our in-depth report finds that many retirees could be better off by allocating a slice of their super balance at retirement to an ILLIS, with the remainder invested in an ABP. Doing so offers the scope to significantly improve the balance between the RIC objectives of maximising expected income, managing risk to income and providing flexible access to funds.

Super funds have a number of reasons to consider building a capability to offer ILLIS to their members as a component of integrated retirement solutions. While the potential for substantial member benefit should be a primary motivation, it is not the only reason. ILLIS also are worth exploring as they offer the potential to layer longevity protection on top of existing investment options and thus retain the management of the assets. Offering ILLIS in accumulation is also well-worthy of consideration. Not only could this boost Age Pension eligibility for many members, it could also establish a link between the accumulation and retirement phases that could encourage members to take a while-of-life view and remain with their fund during retirement. Key challenges are determining what form any ILLIS offering may take, building the capability to provide ILLIS including structures to manage and supply mortality credits, and establishing approaches to identify the members who would benefit and then encourage these members to take ILLIS up. While establishing a capability to offer ILLIS may not be easy, it should be well-worth the effort.