Manulife Investments

For your future™

Prescribed Annuities: tax efficient, guaranteed retirement income

The amount of income tax we pay is always a concern, but for those in retirement on a fixed income, it's a real challenge. A Prescribed Annuity offers the comfort of guaranteed income in an investment that can also defer and reduce tax.

THE SITUATION

Max is 60, single, and looking forward to retiring within the next few months. He has no pension plan, but has saved carefully. Max is concerned about covering his essential expenses and about the amount of income tax he will have to pay in retirement. Max meets with his advisor, Wanda, to discuss his concerns.

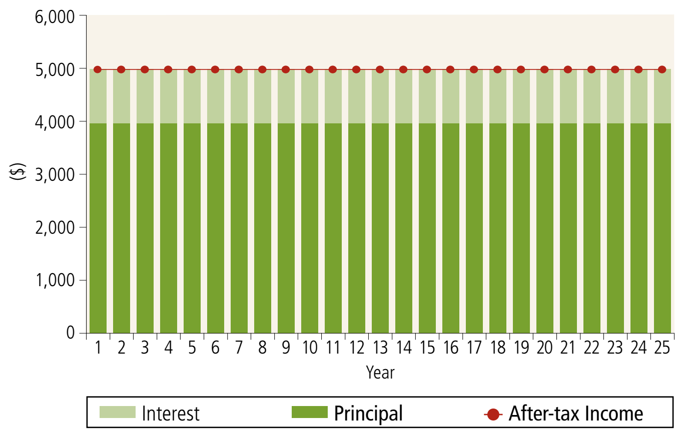
THE SOLUTION

Wanda suggests that Max use some of his non-registered savings to purchase a life annuity. This would provide guaranteed income for the rest of his life, regardless of fluctuating equity markets or interest rates, to help ensure his essential expenses are covered.

In addition, the annuity could qualify for prescribed taxation. Wanda explains that prescribed annuities offer tax advantages, including level taxable income throughout the duration of the contract. Non-prescribed annuity taxable income is higher in the early years and decreases over time as principal is reduced. With prescribed taxation, Max can benefit from some tax deferral and he would end up with more consistent after-tax income, which would also help ensure his essential expenses are covered.

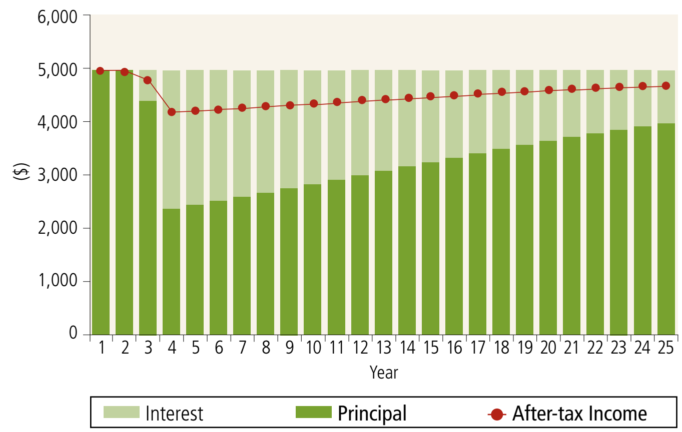
Here are two illustrations that Wanda created for Max to show him the differences in taxation and after-tax income between a prescribed and non-prescribed annuity.

Prescribed taxation/after-tax income



100K Prescribed Annuity for a male age 60, with a principal protection (cash refund) guarantee. Quote as of May 28, 2012. For illustration purposes only. Assumed Marginal Tax Rate of 30 per cent.

Non-prescribed taxation/after-tax income



100K Non-prescribed Annuity for a male age 60, with a principal protection (cash refund) guarantee. Quote as of May 28, 2012. For illustration purposes only. Assumed Marginal Tax Rate of 30 per cent.

The above illustrations show that a Prescribed Annuity could give Max more consistent after tax income. He would also receive less taxable interest income over the life of the annuity.

Wanda also explains that the income from Max's annuity would qualify for the pension income tax credit when he turns 65, which would offer additional tax relief.

FEDERAL PENSION INCOME TAX CREDIT CALCULATION:

15% x the lesser of $2,000 or the amount of annual pension income

Max decides that a non-registered Prescribed Annuity is the best investment option for him. With this annuity Max will receive:

- Guaranteed and more consistent income for life to help cover essential expenses
- Level taxation that provides some deferral of the tax he will pay on the income
- Income that qualifies for the pension income tax credit at age 65

The annuity options from Manulife Investments – backed by one of the most financially secure insurance companies in Canada – can offer investors guaranteed and predictable retirement income, and the freedom to focus on other aspects of retirement.

FOR MORE INFORMATION, PLEASE CONTACT YOUR ADVISOR OR VISIT MANULIFE.CA/INVESTMENTS

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