



For advisor use only

Advisor Guide

RBC Payout Annuities

RBC Insurance



What you and your clients need to know about payout annuities

In an uncertain financial world where guarantees are the exception and not the rule, annuity products are becoming an increasingly important part of the retirement income mix for many clients. This makes it critical for advisors to have a solid understanding of annuities – and to be able to identify clients who would benefit from them.

This comprehensive guide has the detailed information you need to know about RBC® Payout Annuities – and the reasons why RBC Insurance® is the annuity provider of choice for your clients.

Contents

What is a payout annuity?	4
Single premium immediate annuities	4
Deferred annuities	4
Who can benefit from an annuity?	4
Types of RBC Payout Annuities	5
Guarantee terms and options	6
Single or joint life with a minimum payment guarantee	6
Guaranteed terms under a term certain annuity	6
Beneficiary designations and commuted value	6
Return of premium guarantee	7
RBC Payout Annuities – Features at a glance	7
Factors that determine life annuity payments	8
Taxation of annuity payments	9
Annuity administration	10
Annuity illustrations	10
Annuity rate guarantees	10
Illustration support	10
Certificate of Existence letters	11
RBC Insurance strength and stability	11

What is a payout annuity?

A payout annuity provides your clients with a series of guaranteed income payments for life or for a specified period of time. Payout annuities come in many forms. Here are some examples of how they can differ:

- Payment amounts
- Timing and duration of payments
- Type of annuity purchased

There are two main types of payout annuities:

- Single premium immediate annuities
- Deferred annuities

Single premium immediate annuities

A single premium immediate annuity (also known as immediate annuity or payout annuity) provides a guaranteed income stream for life, or for a specified period of time, in exchange for a single lump-sum deposit. The amount of the payment will depend on not only the lump-sum amount used to purchase the annuity, but also the type of annuity, its features, interest rates at the time of purchase, expenses and life expectancy.

By providing a regular income stream during retirement, immediate annuities can play a key role as part of a diversified retirement plan for clients. They reduce risk by ensuring that retirees don't deplete their assets too quickly and add stability and protection by guaranteeing income regardless of interest rate and equity market fluctuations. Immediate annuities can also offer options to protect retirement income for a spouse.

Because annuities require no active money management, they can relieve the pressure and anxiety that clients may experience when managing active investments.

Note: The first payment of an immediate annuity must commence within one year of the purchase date.

Deferred annuities

Deferred annuities work similarly to immediate annuities, but payments do not commence until some date at least one year in the future. Until payments are made, the investment income continues to accumulate with the capital.

Note: RBC Insurance does not offer deferred annuities.

Who can benefit from an annuity?

Annuities are issued by life insurance companies and offer unique advantages over other types of investment vehicles. They can be used in a number of ways to accomplish a variety of financial goals – so there are many types of clients who can benefit from an annuity purchase. These include clients who:

- Are concerned about outliving their savings in retirement and want to convert their nest egg into guaranteed income payments
- Are concerned about the potential effect of market volatility and fluctuating interest rates on their retirement income
- Have opted for early retirement and need a guaranteed income stream to bridge the gap while they are waiting for Old Age Security and Canada/Quebec Pension Plan payments to begin
- Are in the process of estate planning and considering ways to reduce their estate taxes
- Want an income stream to cover specific ongoing fixed expenses
- Are managing, or advising on, the financial affairs of an elderly parent and want a secure, no-hassle income solution
- Want to ensure the financial security of their spouse in the event of their death

Annuities offer a number of optional features – such as guaranteed income periods and survivor benefits – through which you can tailor an income plan to meet the needs of individual clients.



Types of RBC Payout Annuities

As your clients enter into retirement, their priorities are likely to change. Their focus shifts from accumulating assets to drawing down on them to support their desired lifestyle.

RBC Payout Annuities are designed to meet the needs of your clients who are approaching or are in retirement. RBC Insurance offers various types of features that enable your clients to tailor an income plan to meet their specific needs. They can choose from three main types of single premium immediate annuities:

- **Single life annuities** are based on the life of one person only. They provide guaranteed payments for the life of your client (the Annuitant) or to the end of an optional guaranteed term if later.
- **Joint life annuities** are based on the lives of two people, typically spouses. When one Annuitant dies, the annuity

provides guaranteed payments that continue to the surviving Annuitant until the survivor's death or to the end of a guaranteed term if later. Payments may continue at the same level or may be reduced upon the first Annuitant's death (subject to provincial legislation).

- **Term certain annuities** provide guaranteed payments for a predefined number of years or until the client reaches a certain age.

All RBC Payout Annuities can be purchased using funds from non-registered plans and/or the following registered plans:

- Registered Retirement Savings Plans (RRSPs)
- Registered Retirement Income Funds (RRIFs)
- Life Income Funds (LIFs)
- Locked-In Retirement Income Funds (LRIFs)
- Locked-In Retirement Accounts (LIRAs)
- Locked-In Retirement Savings Plans (LRSPs)
- Registered Pension Plans (RPPs)



Guarantee terms and options

There are three types of guaranteed payment options offered as part of RBC Payout Annuities:

- A minimum payment guarantee period (life annuities only)
- A guaranteed payment term (term certain only)
- A return of premium guarantee (life annuities only)

Single or joint life annuity with a minimum payment guarantee

The minimum payment guarantee period ensures that payments will be made under a life annuity for a minimum period of time – even if the Annuitant (and/or the Annuitant's spouse, with a joint life annuity) passes away. (For details on guarantee periods, please see page 7, "Features at a glance.")

Clients who elect a minimum payment guarantee period will see an adjustment to their estimated income payment that reflects the cost of adding this feature. Your client gains additional security in knowing that a minimum number of payments will be made. Life annuities offered by RBC Insurance offer guarantee periods from 1 to 25 years, and must be selected at the time of purchase.

For life annuities, the guarantee period cannot extend past the 90th birthday of the Annuitant (or Annuitant's spouse if younger, in the case of a joint life annuity).

Guaranteed terms under a term certain annuity

A term certain annuity provides income payments for a pre-selected period of time. Payments will continue even upon the death of the Annuitant for the duration of the period. Term certain annuities offered by RBC Insurance® offer a minimum term of 3 years and a maximum term of 25 years. For term certain annuities purchased with registered funds, the term selected must extend to the Annuitant's 90th birthday, as required by law.

Beneficiary designations and commuted value

Clients have the flexibility to select multiple beneficiaries and contingent beneficiaries. Depending on the tax status, when a beneficiary is named and the Annuitant dies, the beneficiary may be entitled to payments for any remaining guarantee period. Payments may continue to be made to the beneficiary or taken as a lump sum equal to the commuted value, which is the present value equivalent of the future income stream.

- **Registered annuities.** For registered policies with a guarantee period, if the beneficiary is the spouse, the spouse must continue to receive payments until the guarantee period has expired. If the beneficiary is not the spouse, the payments must be commuted.
- **Non-registered annuities.** For non-registered policies with a guarantee period, the beneficiary can elect to commute the payments or continue payments. However, if the

Annuitant chooses in advance to make any remaining payments non-commutable, the named beneficiary must continue receiving the remaining income payments. If there are more than two beneficiaries, then the remaining guaranteed payments will be commuted.

If a primary or contingent beneficiary is not named and the annuity has a guarantee period, the amount will go to the Annuitant's estate.

Return of premium guarantee

If your client dies before the first annuity payment is made, the return of premium guarantee will apply.

For **single life annuities**, the original premium amount will be returned to the named beneficiary if the Annuitant dies before the payment start date.

For **joint life annuities**, the original premium amount will be returned to the named beneficiary if **both** Annuitants die before the payment start date.

RBC Payout Annuities – Features at a glance

The table below provides an at-a-glance summary of the payout annuities available from RBC Insurance and their key characteristics.

	Single life	Joint life	Term certain
Minimum investment¹	\$50,000	\$50,000	\$50,000
Maximum investment¹	\$1 million	\$1 million	\$1 million
Minimum issue age¹	55	55	Non-registered = 18 Registered = 65
Maximum issue age¹	80	80	80
Payment period	Until the death of the annuitant	Until the death of the last surviving annuitant	Until the end of the term specified under the annuity
Source of funds	Non-registered: Payment in cash or by transfer of non-registered funds Registered: Transfer from an RRSP, RRIF, LIRA, LIF, LRSP, LRIF or RPP		Non-registered: Payment in cash or by transfer of non-registered funds Registered: Transfer from an RRSP or RRIF
Guarantee payment period	1-25 years (1-15 years for annuities purchased with funds from a registered pension plan); guarantee payment period cannot extend past the Annuitant's 90th birthday		Non-registered: The term can be from 3-25 years, but cannot extend past the Annuitant's 90th birthday Registered: The term must extend to the Annuitant's 90th birthday
Payment commencement date	The first payment must occur during the one-year period from the purchase date		
Payment frequency	Monthly, quarterly, semi-annually, annually		

¹ Requests that do not meet the minimum and maximum investment amounts and/or issue ages are subject to a special quotation process. See page 10 for details.

Factors that determine life annuity payments

There are a number of factors that determine the amount of guaranteed annuity payments your client will receive from their payout annuity. Here's an overview of the key factors and the implications of each.

- **Interest rates.** Annuity quotes are based on current market interest rates. The higher the interest rate, the higher the annuity payment.
- **Term.** For term certain annuities, the longer the term, the lower the periodic payment.
- **Life expectancy.**¹ For life annuities, Annuitants with a longer life expectancy will have lower periodic payments. Younger people will have lower payments than older people, and females will have lower payments than males of the same age.
- **Annuity type and options.** Payments will be larger if made at longer intervals (semi-annually rather than monthly, for example), reflecting the fact that funds are invested in the payout annuity for a longer period of time. If a joint life annuity is chosen, payments will be lower as they are often paid for a longer period of time (over two lives instead of one).

- **Guarantee period.** Guarantees added to life annuities are a type of additional insurance and have a cost that will result in a lower periodic payment. The longer the guarantee period, the lower the periodic payment.
- **Premium amount.** A larger premium will result in higher periodic payments, both because the client is paying more to buy a larger stream of income and because interest rates may be more favourable with higher premium amounts.

When advising your clients, make sure they are aware of the following:

- Payment amount is determined and fixed on the date of purchase. No changes are permitted and your client cannot reverse their decision.
- Cash withdrawals to cover any emergencies are not allowed.
- With a life annuity, the death benefit owing to the named beneficiary is equal to the present value of any periodic payments remaining in the guarantee period. There is no death benefit payable once the guarantee period has expired.
- With a term certain annuity, payments cease at the end of the specified term.

¹ Life expectancy is determined by actual industry experience and not by the life insurance company.



Taxation of annuity payments

All annuity payments are subject to tax, but the tax treatment differs depending on the source of the funds used to purchase the annuity. The table below explains the tax treatment of both registered and non-registered contracts.

Type of contract	Taxation of annuity payments												
<p>Registered contracts and withholding tax</p>	<p>All payments are 100% taxable and reported as income to the taxpayer in the year they are received. Tax will be automatically withheld at source from each gross annuity payment and will be remitted to the government on your client's behalf. Your client will receive an annuity payment net of applicable taxes. Withholding tax rates depend on your client's residency and on the annual amount withdrawn. The following chart illustrates the withholding tax rates that will be withheld (unless otherwise specified). See "Option to waive tax withholding at source" section below.</p> <table border="1" data-bbox="415 753 1360 938"> <thead> <tr> <th>Amount of annual annuity payment</th> <th>Withholding tax for residents of all provinces except QC</th> <th>Withholding tax for residents of QC</th> </tr> </thead> <tbody> <tr> <td>\$5,000 or less</td> <td>10%</td> <td>21%</td> </tr> <tr> <td>\$5,000.01 to \$15,000</td> <td>20%</td> <td>26%</td> </tr> <tr> <td>\$15,000.01 or more</td> <td>30%</td> <td>31%</td> </tr> </tbody> </table> <p>For non-residents, withholding tax is 25% unless reduced by a treaty. See www.cra-arc.gc.ca/E/pub/tp/ic76-12r6/README.html.</p> <p>Option to waive withholding tax at source</p> <p>Your clients have the option to waive any taxes withheld at source when applying for an RBC Payout Annuity (with the exception of RPP-locked-in funds). Your client must indicate their choice on the RBC Payout Annuities application form.</p> <p>Reporting taxable income</p> <p>Your client will receive a T4RSP/T4RIF or T4A (depending on the original type of funds used to purchase the annuity) for the total amount of payments received during the previous calendar year. Your client will be responsible for reporting these amounts as taxable income and the credit for the withholding tax at source.</p> <p>Please note that the tax withheld may not always be enough to account for the tax your client owes in their tax bracket. This could mean they may have to pay more tax on their annuity payments when they include the amounts on their personal tax return.</p> <p>Example</p> <p>John Anderson is retired and living in Ontario. He owns a single life registered annuity that provides him with a gross monthly payment of \$1,000 (or \$12,000 per year). The tax withheld at source is calculated based on his total annual payments, even though he's receiving his payments on a monthly basis.</p> <p>Based on his circumstances, John falls in the 20% withholding tax bracket, which means that 20% will be withheld at source from each monthly payment.</p> <p>Gross monthly payment = \$1,000 Required withholding tax = 20% Required withholding tax amount (\$1,000 x 20%) = \$200.</p> <p>According to this calculation, John will receive a net monthly annuity payment of \$800.</p>	Amount of annual annuity payment	Withholding tax for residents of all provinces except QC	Withholding tax for residents of QC	\$5,000 or less	10%	21%	\$5,000.01 to \$15,000	20%	26%	\$15,000.01 or more	30%	31%
Amount of annual annuity payment	Withholding tax for residents of all provinces except QC	Withholding tax for residents of QC											
\$5,000 or less	10%	21%											
\$5,000.01 to \$15,000	20%	26%											
\$15,000.01 or more	30%	31%											
<p>Non-registered contracts</p>	<p>All RBC Payout Annuities are taxed on a "prescribed" basis. Payments are a level blend of interest and capital, where only the interest portion is taxable in the year it is received. Your client will receive a gross annuity payment from their annuity policy. There are no taxes withheld at source by RBC Insurance.</p> <p>Reporting taxable income</p> <p>Your client will receive a T4A for payments made in the previous calendar year. They will be responsible for reporting these amounts as income on their personal income tax return and will be taxed at their marginal tax rate. If they meet certain criteria outlined by Canada Revenue Agency, they may qualify for the pension income tax credit and they may be able to claim up to \$2,000 on their annual federal tax return. For more details, please visit www.cra-arc.gc.ca.</p>												

Prescribed versus non-prescribed annuities

From a taxation perspective, non-registered annuities can qualify as either prescribed or non-prescribed.

Non-prescribed annuities: Payments are a blend of interest and capital with the interest portion being taxed as it accrues. Therefore, taxation will be higher in early years and will decrease over the life of the annuity contract.

Prescribed annuities: Payments are a blend of interest and capital with the interest portion taxed on a level basis spread over the life of the annuity

contract. All RBC Payout Annuities are prescribed.

What it takes to be a “prescribed annuity”

All RBC Insurance non-registered annuities meet the criteria for classification as a prescribed annuity. As a result, interest payments are spread out over the life of the contract, evening out the taxable income received. In order to be classified as a prescribed annuity, here are some of the key conditions that need to be met:

- The annuity must be non-registered
- The guaranteed period must not exceed the Annuitant’s 90th birthday
- The Annuitant and owner must be the same person and must be the person receiving all payments
- Annuity payments received in a calendar year are the same each and every year thereafter
- The owner must be an individual, not a trust or corporation

Annuity administration

There are several administrative details about the RBC Payout Annuity sales and administration process that are important to be aware of as you talk to your clients about whether annuities are the right income option for them.

Annuity illustrations

Build your own client illustrations to show payout annuity features and benefits and to determine which payout annuity best suits your client’s needs. Customize client illustrations by adding a cover page or by including a detailed tax payment schedule that shows annual payments and their respective taxable portions.

Annuity rate guarantees

While interest rates are only one of the factors used to determine annuity payments, they play a key role.

RBC Insurance offers a 45-day interest rate guarantee on the transfer of registered funds and a 7-day interest guarantee on non-registered funds.

To lock in a rate, fax the following documentation to RBC Insurance c/o RBC Investor Services at 1-866-480-3225:

- RBC Payout Annuities Application, including the completed rate guarantee section
- A copy of the illustration
- Any supporting documentation/forms

RBC Insurance will honour the interest rate guarantee provided all required documentation is received by midnight ET following the day the illustration was generated.

The premium deposit must be received within the allowable timeframes. If funds are received after the allotted timeframe, the annuity contract may be issued at the lower of the guaranteed rate and current rates.

If you do not request a rate guarantee, the rate in effect the day we receive the original application and funds will apply.

Illustration support

Visit us at www.rbcinsurance.com/rbc payout annuity for details on how to obtain a special quotation for an annuity that exceeds our maximum premium amounts or requires customization in other ways.

Certificate of Existence letters

Because we are sometimes not advised of an Annuitant's death, which can result in the continuation of annuity payments when they should have ceased, we send Certificate of Existence letters to certain Annuitants to confirm that they are still alive.

The Annuitant is asked to sign the letter and return the bottom portion to RBC Insurance to verify their mailing address and confirm that payments are being received.

We send these letters to Annuitants based on several factors, such as their age and the amount of annuity income they receive.

RBC Insurance strength and stability

When your clients purchase an RBC Payout Annuity, they will enjoy peace of mind and security throughout their retirement. RBC Payout Annuities are backed by the strength and stability of RBC Insurance.

With the ease of our illustration process and the comfort of interest rate guarantees, you'll find it easy to do business with us.



For more information regarding RBC Payout Annuities, please:

- Contact your **RBC Insurance Sales Consultant** at **1-866-235-4332**
- Or visit **www.rbcinsurance.com/rbcpayoutannuity**



RBC Insurance

This brochure has been prepared for general information purposes only. Any general advice provided in this brochure is not intended to be relied upon as tax, legal or financial advice. Although RBC Life Insurance Company has taken all reasonable efforts to show accurate information, we reserve the right to correct any errors or omissions. In the event of a discrepancy, the terms on the applicable RBC Payout Annuities Contract will take precedence over any information contained in this guide.

Underwritten by RBC Life Insurance Company.

® / ™ Trademark(s) of Royal Bank of Canada. Used under licence.

VPS85735

46184 (03/2014)