



A new way to look at income annuities: The income annuity advantage in a low interest rate environment

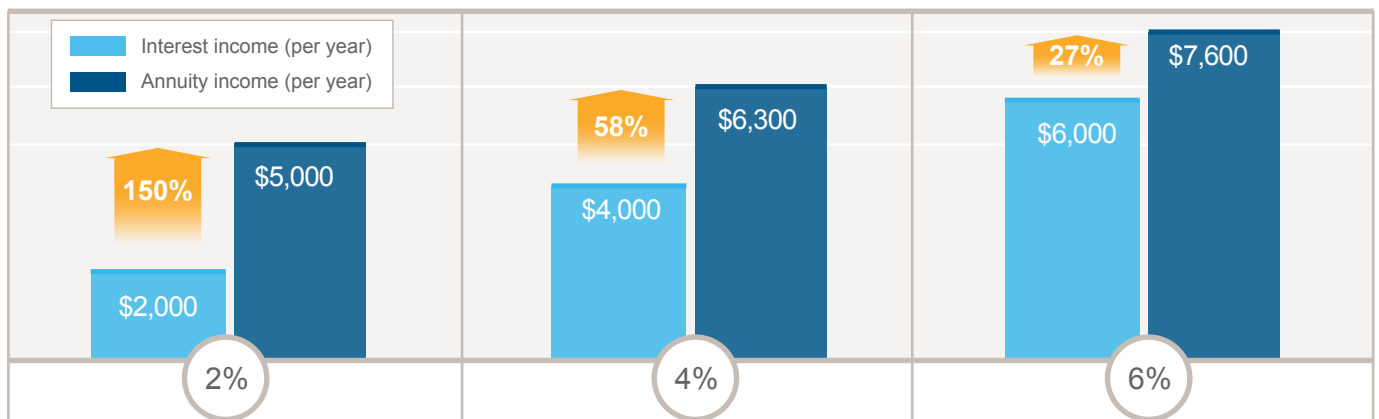
“Is an income annuity a good option in the current low interest rate environment?”

An income annuity gives you income for life, securing a part of your retirement nest egg to cover part of your basic expenses, so you don't need to wait for interest rates to increase.

You might be surprised to find out the income of an annuity is still valuable in a low interest rate environment.

Let's take a look at the income earned from an annuity compared with the interest earned on another guaranteed product: a guaranteed interest option (GIO).

Income annuities provide a higher income than the interest earned on a GIO



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Your options

GIO: In April 2015, the long-term interest rate for a \$100,000 GIO was two per cent. If you decided to live off the two per cent interest from a \$100,000 GIO, you would get an income of \$2,000 a year. At the end of the 10-year term, you would have access to your initial \$100,000.

Income annuity: As an alternative, if you decided to purchase an income annuity at age 60, you would have received \$5,000 a year, or five per cent, based on the calculations of our annuity quote system (AQS). With a life income annuity, this \$100,000 will provide you income for life.

GIO rates are assumed for illustrative purposes; 5% annuity income rate is actual as of April 1, 2015.

What if interest rates were higher?

Now let's take the same \$100,000 investment and look at what happens if interest rates are at four per cent. Does the annuity still have an advantage? It does – by 58 per cent.

This is how: The GIO would generate an income of \$4,000 a year, or four per cent. The annuity income would be \$6,300 on the \$100,000 – a payout of 6.3 per cent.

The 4% and 6% interest rates are hypothetical and cannot be used to predict future performance of either the lifetime income annuity or GIOs. These examples are for illustrative purposes only. Situations will vary according to specific circumstances.

What if interest rates were higher?

Finally, if interest rates are at six per cent, the advantage of the annuity over the GIO is still better – by 27 per cent.

Income annuities – excellent value in a low interest rate environment compared with other guaranteed products, such as a GIO.



The annuity advantage

The advantage of the annuity income of \$5,000 a year over the interest income of \$2,000 is **150 per cent**.

For more information on annuities, and the options available, please refer to *Income annuities – Retirement income guaranteed* (46-9479).

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