Income annuities:

Certainty and confidence in retirement, for your clients

Advisor guide

Not for use with clients

A changing retirement landscape

Planning for retirement can be complex. An **income annuity** is a simple solution that can help your clients in this stage of their lives.

- Annuities are a great option for your clients, particularly as life expectancies increase and fewer Canadians have company pension plans. Fewer than one in four working Canadians has a pension plan that provides guaranteed income for life.[1]
- With improved healthcare and longevity, retirees could spend several decades in retirement. So, their retirement income has to last longer.

Annuities: a simple retirement income solution

Clients can buy an annuity using a lump-sum amount to receive **regular income** for a **fixed period of time**, or **for life**. An annuity is a great option for covering basic living costs in retirement.

Choosing retirement income options is one of the most important financial decisions a client will make, and they might not understand how annuities can fit into their retirement income plan. You can offer them this reliable solution, which provides a regular and predictable income.

Start by looking at your clients’ guaranteed sources of income, such as old age security (OAS), Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) and traditional work pensions. How much guaranteed income do they have? How much do they need to cover their basic living expenses?

[1] Source: Statistics Canada, 2017.

Annuities are great for clients who:

- ✓ Need regular and predictable income
- ✓ Are close to retirement or retired
- ✓ Don't want to actively manage their investments
- ✓ May not have a company pension
- ✓ Are looking to supplement existing sources of income
- ✓ May need a temporary bridge of income for a defined period of time (e.g. age 60 to 65)

Annuities are also valuable if your client receives a lump sum of money from an inheritance or a portable retirement benefit, which is a benefit that can be transferred to your client from their employer-sponsored retirement plan.

Types of annuities

Your clients can choose different types of annuities depending on their needs.

Single-life annuity

- Similar to a pension plan for one person
- Provides income payments for life

Joint-life annuity

- Similar to a pension plan for a couple
- Pays a regular income for as long as the joint annuitants live. When one annuitant dies, the survivor continues to receive income.

Term annuity

- Pays a regular income
- Provides a set number of income payments for a specific time period

Registered and non-registered annuities

Clients can buy any type of annuity (single-life, joint-life or term) with registered sources of money. This is known as a **registered annuity**. They also have the option to buy an annuity with non-registered sources of money. This is known as a **non-registered annuity**. Whether an annuity is registered or non-registered will impact which options and features clients can add, so look at your client's needs and sources of income to help them decide which type of annuity is suitable for them.

It's important to explain to your clients that unless they choose to add the **cashable feature** to their annuity, the lump-sum amount they put into an annuity is locked in. In return, they'll get guaranteed income for life or a specified term.

Options and features for making annuities even better

Your clients can customize their annuities based on their retirement needs, and you can help your clients understand each customization option. Some options don't apply to every type of annuity, so look at your client's basic living and lifestyle spending needs to determine which options would work well for them.

Guaranteed income throughout retirement

The **guaranteed income payment (guaranteed period)** option in a single- or joint-life annuity guarantees income for the period of time the client specifies. The annuitant(s) will receive income for life, but if they die before the guaranteed period ends, the annuity will continue to pay for the guaranteed period. In this case, the annuitant's beneficiary can either:

- Receive a lump-sum payment equal to the present value of all remaining guaranteed payments or
- Continue to receive regular income payments until the end of the guaranteed period

For registered annuities, the option to continue receiving regular income payments is only available when the sole beneficiary at the time of death of the annuitant is also the annuitant's spouse.

Keeping up with increases in the cost of living

The **annual payment increase (indexing)** option allows your client to have income payments increase at an annual rate. There are limits on the annual payment increase – up to a maximum of 4% for registered annuities and 6% for non-registered annuities.

Greater income if rates increase

With the **short-term rate protection** option, if, on the 6- or 12-month anniversary of your client's annuity policy the increase in the Government of Canada 10-year bond rate is higher than a specified percentage, **your client will receive larger income payments**.

Ease in managing taxes

If your client's non-registered annuity qualifies for **prescribed taxation**, the taxable amount will remain at a set percentage of each income payment. This is also known as **level taxation**, and is subject to legislative restrictions.

This leveling out of taxable income means your client would receive more after-tax income within early income payments.

The opposite of prescribed taxation is **accrual taxation**. Accrual taxation means there's a larger taxable income in the initial years of income payments that declines over time. Accrual taxation is the default if your client doesn't qualify for prescribed taxation. The at-a-glance table in this guide has more information on qualification criteria.

Plan ahead with income that starts in the future

With the **deferred annuity** option, your client can delay the start of income payments for up to 10 years after the issue date of the annuity policy. There are some restrictions related to registered sources of money.

When the **flexible income start date** option is selected, your client can change the date for income payments to begin at any time before they receive their first income payment. Starting income later than the original date will increase the amount of their income payments.

Protecting loved ones

Return of premium options are great for clients who worry they might lose the money they paid for their annuity. It's a good way to protect a client's loved ones from being financially burdened when your client dies.

Return of premium before income payments begin

- If the last annuitant dies *before* any income payments have been made from the annuity, the beneficiary will receive a **lump-sum death benefit** equal to the initial purchase amount of the annuity. Your client can choose to have this benefit paid to their beneficiary with or without interest.

Return of premium after income payments begin

- If the last annuitant dies *after* income payments have begun, depending on the feature that was selected, the beneficiary will receive either:
  - A **one-time** payment (cash refund) equal to the initial purchase amount, minus the income payments already received.
  - **Continuing income payments** (instalment refund) until the total initial purchase amount is returned.

Health-based annuity

If your client has health issues, they may qualify for a **health-based adjustment**, which means higher income payments for life, subject to certain conditions. Health-related income adjustments require underwriting. Email AnnuityQuote@canadalife.com to submit a case.

Access to money

If your client has an unexpected expense and suddenly needs cash, the **cashable** feature will let them cash out some (or all) of their guaranteed income payments. This feature is only available with a non-registered annuity with accrual taxation.

Your client can cash out up to the end of the guaranteed period. This will either stop or reduce your client's income payments until the end of the guaranteed period, then payments will start or return to the original payment amount.

Leaving money behind to cover final expenses

The **extended death benefit** option provides a lump sum that's paid out when the last annuitant dies close to the end of or after the guaranteed period.

The lump-sum amount is 6 months' worth of income payments or one annual income payment, based on what your client chooses. This death benefit is payable until the youngest annuitant is 90 years old.

Preventing a sudden drop in income when one joint annuitant dies

With joint-life annuities where income payments are reduced when one of the annuitants dies close to the end of or after the guaranteed period, the **income transition period** option will delay the income reduction by 6 months or one annual payment, based on the income frequency your client chooses.

Annuities at-a-glance

Features	Term annuity	Life annuity	
		Single life	**Joint life**
Definition	Pays a regular income for a specific time period	Pays a regular income for the lifetime of a person	Pays a regular income for the lifetime of two people
Restriction on policyowner	**Registered policies:** • The policyowner must also be the annuitant. There are special circumstances for certain dependants where the source of money is from a registered retirement savings plan (RRSP) or registered income policy--including registered pension plans (RPPs)--owned by a parent, grandparent, or spouse who has died.		
Restriction on joint annuitants	**Registered policies:** • Joint annuitants must be spouses (locked-in and non-locked in sources of money or RPPs).		
Minimum issue age (annuitant)	**Registered policies:** • Must be 16 years old (18 years old in Quebec) **Non-registered policies:** • No minimum age		
Maximum issue age (annuitant)	95 years old		
Minimum premium/ income payment amount	A minimum of $1,000 premium plus $50 minimum income payment (for all payment frequencies)		
Maximum premium	For quotes exceeding $1 million, please contact us by fax at : 1-800-690-6667 or email: AnnuityQuote@canadalife.com		
Minimum term/ guaranteed period	**Registered:** • Term must equal age 90 minus annuitant's current age in whole years (or age 90 of the annuitant's spouse, if younger) **Registered locked-in including registered pension plan/individual pension plan (RPP/IPP):** • Not available **Non-registered:** • One year (terms of less than three years must be calculated by head office)	**Registered and registered locked-in:** • 0 years (must be in whole years) **Non-registered:** • 0 years	

<table>
<tr><th>Features</th><th>Term annuity</th><th>Life annuity</th></tr>
<tr><td>Maximum term/ guaranteed period</td><td>Registered:
• Term must be equal to age 90 minus annuitant’s current age in whole years (or age 90 of the annuitant’s spouse if younger)

Registered locked-in including registered pension plan/individual pension plan (RPP/IPP):
• Not available

Non-registered:
• Prescribed (level) – 40 years or age 91 of youngest annuitant
• Accrual – 40 years or age 105 of youngest annuitant</td><td>Registered:
• 50 years but not beyond age 90 (or age 90 of spouse if younger) and must be in whole years

Registered locked-in:
• 50 years but not beyond age 90 (or age 90 of spouse if younger) and must be in whole years

RPP/IPP:
• 15 years

Non-registered:
• Prescribed (level) – 40 years or age 91 of youngest annuitant
• Accrual – 40 years or age 105 of youngest annuitant</td></tr>
<tr><td>Income payment frequency</td><td colspan="2">Monthly, quarterly, semi-annually or annually</td></tr>
<tr><td>Income payment type</td><td colspan="2">• Level
• Annual payment increase (indexing): The increase occurs each year on the anniversary of the first payment. The increased amount is added onto the amount of the current payment. Not available for non-registered policies with prescribed (level) taxation.
  ◦ Registered policies: 0% - 4% (legislative maximum)
  ◦ Non-registered policies: 0% to 6%</td></tr>
<tr><td>Deferral period</td><td colspan="2">10-year maximum (for registered annuities, payments must begin in the year after the annuitant reaches age 71 – the date of the first payment is restricted by the payment frequency that was selected).

Note: In the case of health-based adjustment, the maximum deferral period is two years.</td></tr>
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<table>
<tr><th>Features</th><th>Term annuity</th><th>Life annuity</th></tr>
<tr><td>Death benefit</td><td colspan="2">

If the last annuitant dies before income payments begin:

Return of premium – the beneficiary will receive a final benefit payout equal to the original amount paid for the policy.
Return of premium with interest – the beneficiary will receive a final benefit payout equal to the original amount paid for the policy, plus interest.
If no return of premium (non-registered only) - any death benefit payable will differ depending on the guaranteed option selected.

With guaranteed period:

The beneficiary has the option of receiving a lump-sum death benefit equal to the present value of the future guaranteed income payments, or
In some circumstances, the beneficiary can choose to begin to receive payments as scheduled until the end of the guaranteed period.

If your client chose the one-time payment (cash refund) option – the beneficiary will receive a death benefit equal to the initial amount that was paid for the policy.
If your client chose the continuing payments (instalment refund) option – payments will start as outlined in the policy details page and continue to be paid to the beneficiary until the total amount paid out is equal to the initial amount that was paid for the policy.
If there’s no guaranteed period – no death benefit is payable.

If the last annuitant dies after income payments begin where:

Your client chose a guaranteed period and the last death happens during that guaranteed period:

The beneficiary can choose a lump-sum death benefit equal to the present value of future guaranteed payments.
In some circumstances, the beneficiary may choose to continue to receive income payments until the end of the guaranteed period. If the source of money is registered, the beneficiary can only select this option if they are the sole beneficiary and the spouse of the annuitant at the time of the annuitant’s death.
If the last annuitant dies after the guaranteed period, no death benefit is payable unless the extended death benefit option has been selected (refer to the definition in this guide).

If your client chose the one-time (cash refund) or continuing (instalment refund) payment option:

The beneficiary will receive either a one-time payment (cash refund) of the initial purchase amount, less the income payments already received, or
The beneficiary will continue to receive payments as scheduled (instalment refund) until the total initial purchase amount is returned. This option is not available if the source of money is registered.

If there’s no guaranteed period or if last annuitant dies after the guaranteed period, no death benefit is payable unless the extended death benefit option has been selected (refer to the definition in this guide).

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<tr><th>Features</th><th>Term annuity</th><th>Life annuity</th></tr>
<tr><td>Tax treatment</td><td colspan="2">Registered:
• Total of payments received is included in taxable income in the year received.
• Payments may be eligible for the pension tax credit and pension income splitting.
• Entire income amount is reported on a T4RSP (Relevé 2 in the province of Quebec) or T4A (Relevé 2 in the province of Quebec), depending on the source of funds.

Non-registered:
• Only income portion is taxable
• Capital is returned tax free
• Income may be eligible for the pension tax credit and pension income splitting
• Tax treatment may be prescribed (level) or accrual, depending on the options selected

Prescribed (level):
• Level portion of each payment is taxable and is reported annually on a T4A (Relevé 2 in the province of Quebec).
• Must qualify to receive this tax treatment:
  ◦ Generally, the annuitant and policyowner must be the same person (certain trusts may be allowed).
  ◦ Joint annuitants are allowed, but they must be either spouses or siblings. The policyowner can be either one or both of the joint annuitants.
  ◦ The guarantee period must end prior to the youngest annuitant’s 91st birthday.
  ◦ The income payments must be equal. The annual payment increase (indexing) option is not allowed.
  ◦ Payments must begin no later than the end of the next calendar year after the policy date. It’s possible that an annuity would be considered accrual while in the deferral stage and then qualify for prescribed once payments begin.
  ◦ The annuity cannot be cashable.
  ◦ Transfer of ownership is not allowed.

Accrual (non-prescribed):
• Accrual taxation applies unless the annuity qualifies for prescribed.
• Accrual taxation applies during the deferral period even when no payments are received.
• Accrued income is generally higher in early years, and lower in later years. Accrued income is calculated annually on policy anniversary and reported on a T5 (Relevé 3 in the province of Quebec).</td></tr>
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Annuity options at-a-glance

Extended death benefit

- ✓ Available on single-life and joint-life annuities
- ✓ Available at policy issue only and once selected cannot be removed
- ✓ Minimum guaranteed period is one year
- ✓ Maximum issue age is 88 of the annuitant (youngest annuitant for joint life) to allow for minimum one year guarantee
- ✗ Not available with flexible income start date option
- ✗ Not available with one-time payment (cash refund) and continuing payment (instalment refund) options

Income transition period

- ✓ Only available on joint-life policies
  - The option to reduce income payments at death must be chosen at policy issue, and once selected, can't be removed
- ✓ Where selected, this option will allow the reduction of income payments to be delayed by:
  - Six income payments if the income payment frequency is monthly
  - Two income payments if the income payment frequency is quarterly
  - One income payment if the income payment frequency is semi-annual or annual
- ✓ Income payments will continue unreduced for a period of time after the death of the primary or first annuitant
- ✓ Minimum guaranteed period is one year
- ✓ If the annuity had increasing income payments, the increased income payment amount is taken into consideration when calculating the unreduced income payments
- ✗ A non-registered policy will not qualify for prescribed taxation if this option is selected

Flexible income start date

- ✓ Available on single-life and joint-life annuities
- ✓ Available at policy issue only and once selected cannot be removed
- ✓ The start date cannot be changed once income payments begin
- ✓ Maximum deferral period is 10 years
- ✓ The policyowner can change the income start date twice during the deferral period. Any additional requests may have an administrative fee
- ✓ Return of premium and one-time payment options are automatically applicable
- ✕ Not available with extended death benefit option
- ✕ Not available with prescribed taxation on non-registered annuity; it must be accrual taxation

Short-term rate protection

- ✓ Available on single life and joint life annuities
- ✓ Available at policy issue and once selected, can't be removed
- ✓ Rate changes and impact on income payment:
  - Less than 1% rate = no change to income
  - 1%-2% rate = increase in income payment by 10%
  - Greater than 2% rate = increase in income payment by 20%
- ✕ Not available with annual payment increase option

Here’s the opportunity to offer an annuity solution as part of a HelloLife™ program for your client.

HelloLife is a blend of annuities for certainty and security, and segregated funds for potential growth and flexibility. These two proven products are complementary, providing your clients with a simple, balanced and customized program designed to meet their retirement income needs.

In Quebec, advisor refers to a financial security advisor for individual insurance and segregated fund policies; and to an advisor in group insurance/annuity plans for group products.

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