Canada Life™

Retirement planning

Did you know that income annuities can help protect your client's estate?

Income annuities are not just about guaranteed income. They can help your client fulfill their bequests for transferring their estate.

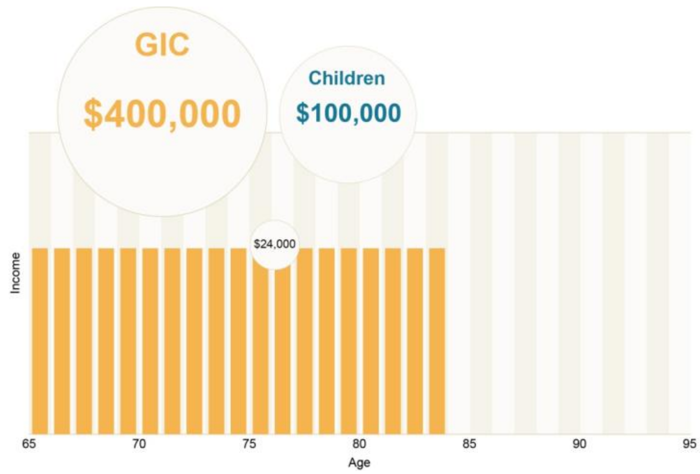
You may have clients who are concerned that purchasing an income annuity will lock up their money and they won't be able to leave a part of their estate to their children.

Show them how buying an income annuity could protect the transfer of their estate.

Your clients accomplished a lot during their working years. When planning for retirement, many may want to leave part of their estate to their children. But in many instances a legacy means leaving no more than the portion of wealth that's left after one dies. Even if a client were to set aside a certain amount for his or her beneficiaries, without adequate planning they might have to dip into those reserves.

An income annuity gives clients the flexibility to plan for their estate while also providing them with income for life.

Consider this example:

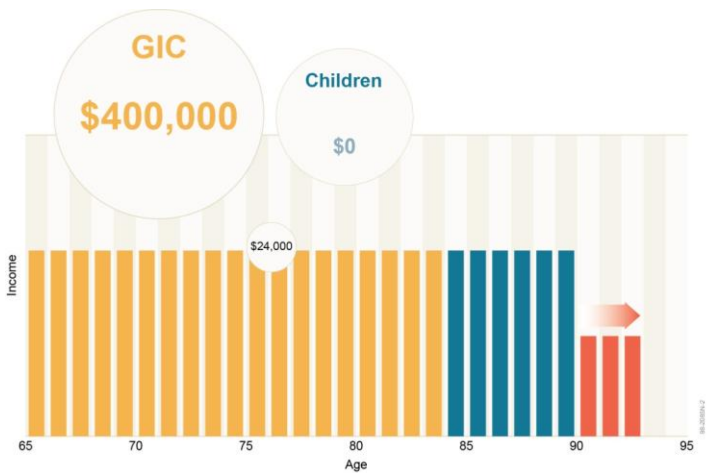


Source: Canada Life, Jan. 12, 2016

John, a 65-year-old client, has a $500,000 nest egg. He invests $100,000 in a GIC to leave to his children and live off the remaining $400,000 in a separate GIC. The $100,000 set aside for his children and the $400,000 GIC are both earning two per cent interest. Every year, John receives $24,000 from a systematic withdrawal plan (SWP). In this scenario, John will be fine provided he doesn't live past age 84 (see chart 1).

The information provided is based on current tax legislation and interpretations for Canadian residents and is accurate to the best of our knowledge as of the date of publication. Future changes to tax legislation and interpretations may affect this information. This information is general in nature, and is not intended to be legal or tax advice. For specific situations, advice should be obtained from the appropriate professional advisors. This information is provided by The Canada Life Assurance Company and is current as of April, 2016.

But if John does live past age 84, in order to maintain his lifestyle he'll be forced to dip into the money he invested for his children, which is now $149,000. This amount will be enough for six more years. Now he has nothing left for his children but he does have enough money to live on (see chart 2).



But what happens if John lives past age 90? He'll have used up the $400,000, plus the $100,000 (and any interest he would have accumulated) that he had planned to leave to his children. He may also be in need of financial assistance (see chart 3).

What would have happened if John had purchased an income annuity?

Source: Canada Life, Jan. 12, 2016

Now let's see how this scenario could turn out with the purchase of an income annuity. If John had purchased an income annuity for $400,000 at age 65, he would have had about $24,000 a year for his entire life, no matter how long he lived. He would have never had to worry about outliving his money. At 65, he could have invested the $100,000 (plus any interest he would have accumulated) in a GIC and fulfilled his wish to leave some money to his children (see chart 4). In fact, his $100,000 would be worth $167,000 at age 90. As well, John could use the $100,000 he set aside at age 65 to purchase life insurance and leave an even more substantial inheritance to his children.

If longevity is a concern, refer to the annuity client brochure (Income annuities Retirement income guaranteed, 46-9479-6/14) and talk to your financial security advisor about the return of premium option.

What does this all mean?

Income annuities are about more than just securing your client's retirement income. They allow clients the freedom to know what's coming each month in the form of guaranteed income. In John's case, the choice of an income annuity allowed him to set aside a part of his assets for his children. John could have also chosen to give the gift to his children while he was alive, allowing him to enjoy seeing how it affected their lives.

Return of premium option

There's another way to provide for beneficiaries if your client dies prematurely. The two return of premium income annuity options, offered exclusively by Canada Life can be selected at the time of purchase and include the one-time payment (cash refund) or a continuing income payment option (instalment refund). If a client dies prematurely after the payments have begun, the beneficiary will receive either a lump sum (cash refund) equal to the initial purchase amount minus any income payments already received or continuing income payments (installment refund) until the total initial purchase amount is returned.

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Shelagh has been with Great-West Lifeco for 25 years and manages sales strategy and support for the retirement income market. Her primary responsibility is to create articles, presentations and supporting tools that facilitate wholesaler activity and advisor sales.