Certainty in retirement for your clients

An **income annuity** is a simple solution that can help address the complexity of retirement income planning for your clients.

INCOME ANNUITY GUIDE

THE Great-West Life ASSURANCE COMPANY

A changing retirement landscape

Canadians are living longer and fewer of them have guaranteed income from company pension plans.

- Fewer than one in four working Canadians has a pension plan that provides guaranteed income for life.[1]
- Because of improved health care and longevity, it's possible retirees could spend several decades in retirement. This means their retirement income needs to last longer.

[1] Source: Statistics Canada, 2012.

Income annuity: a simple retirement income solution

Clients buy an annuity using a lump-sum amount to receive regular income for a fixed period of time or for life, depending on the type of annuity selected. An income annuity is a good option for covering basic living costs in retirement.

Selecting retirement income options is one of the most important financial decisions a client will make. Many clients might not understand how annuities can fit into their retirement income plan. As their financial security advisor working with Great-West Life, you can offer them this reliable income solution, which provides them a guaranteed and stable source of income that can last for life or a fixed period of time.

Help your clients learn more about a reliable income solution that provides guaranteed, stable income.

Start by assessing 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 and how much do they need to cover their basic living expenses?

Annuities are suitable for clients who:

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

Income annuities are also valuable if your client receives a lump sum of money from an inheritance or a portable retirement benefit from a former employer.

Buying a deferred annuity helps them plan for the future and manage the distribution of their lump-sum amount.

Types of annuities

Depending on your clients' income needs, there are different types of income annuities they can choose. It's important to explain to your clients that unless the cashable feature is available, the lump-sum amount they put into an annuity is locked in – in return they will get guaranteed income for life or a specified term.

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

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Options and features for enhancing lifetime income annuities

Depending on your client's retirement income needs, his or her annuity can be customized using one or more of the following options or features. As an advisor, you can help your clients understand each option. Some options don't apply to every type of annuity. Assess your client's basic living and lifestyle spending needs to determine which options are best suited for your client's retirement income.

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 the annuitant(s) die(s) before the guaranteed period ends, the beneficiary can either:

- Receive one 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 sources of money, the option to continue to receive 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 limitations on the annual payment increase – a maximum of four per cent for registered annuities and six per cent for non-registered annuities.

Greater income should rates increase

With the **short-term rate protection** option available only from Great-West Life, if on the initial six-month or 12-month anniversary of your client's annuity policy (depending on the option chosen) the increase in the Government of Canada 10-year bond rate is higher than a specified percentage, **your client will receive larger income payments.**

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Ease in managing taxes

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

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

For non-registered annuities, **accrual taxation** usually means a larger taxable income in the initial years that declines over time. It is a default if your client doesn't qualify for prescribed taxation. Refer to the at-a-glance table in this guide for 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 receiving his or her first income payment. Starting income later than the original date will increase the amount of your client's income payments.

Protecting loved ones

The **return of premium** options are suitable 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 if your client dies either before or after income payments begin.

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 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, or
  - **Continuing** income payments (instalment refund) until the total initial purchase amount is returned.

Health-based annuity

If your client has health issues, he or she 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 AnnuityQuoteGWL@greatwestlife.com to submit a case for consideration.

Access to money

If your client has an unexpected expense and suddenly needs cash, the **cashable** feature will allow him or her to cash out some (or all) of the guaranteed income payments.

Your client can do this up to the end of the guaranteed period. This will stop or reduce your client's income payments until the end of the guaranteed period, then payments will start or increase again. This feature is only available with a non-registered annuity with accrual taxation.

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 six months' worth of income payments or one annual income payment (depending on the income payment frequency chosen). This death benefit is payable until age 90 of the youngest annuitant. More details are available in the contract.

Preventing a sudden drop in income when one joint annuitant dies

With the **income transition period** option (for joint-life annuities), where income payments are reduced when one of the annuitants dies close to the end of or after the guaranteed period, your client's income reduction will be delayed by six months or by one annual payment, depending on his or her income frequency. More details are available in the contract.

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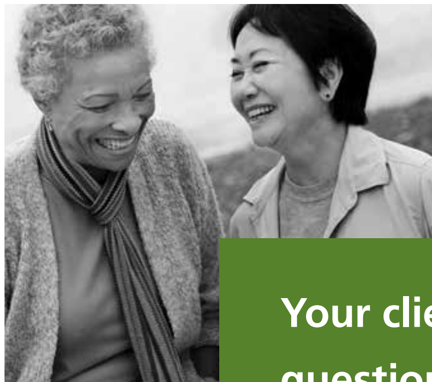

Your clients may have questions about how an income annuity works.

How can the company guarantee my income for life? How does that work?

Canadians are living longer than before. Increasing life spans means your retirement income needs to last longer. Latest studies show that men are now expected to live to age 87 and women are living until 89.[1] This is why it is important to plan for your retirement income to last into your 90s.

An annuity can be thought of as a pooling of money from thousands of Canadians. The insurance company invests the money conservatively. The company's expertise allows it to estimate how many people in this group are likely to live beyond the average life expectancy and how many may not. People whose lives are shorter than average will receive less money overall. People who live longer will get more money overall. It's this variability in life span, combined with conservative investments, that allows the insurance company to guarantee your income for life.

Income paid from an annuity consists of:

- The original investment
- The investment returns on the original investment and from clients who died earlier than the average

[1] Source: Investment Executive, February 2013

When I die, will all the money in my annuity be lost?

There are certain income annuity features you can choose that address this concern, such as the **return of premium** options.

This way you can ensure your original amount is transferred to your loved ones, while still enjoying the lifetime income an annuity will provide.

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Income annuity at-a-glance

Features	Term annuity	Life annuity	
Definition	Pays a regular income for a specific time period.	**Single life** Pays a regular income for the lifetime of a person.	**Joint life** Pays a regular income for the lifetime of two people.
Restriction on policyowner	**Registered policies** • 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 (all payment frequencies)		
Maximum premium	For quotes exceeding $1 million, please contact Great-West Life by fax: 1-800-690-6667 or email: AnnuityQuoteGWL@gwl.ca		
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	

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Features	Term annuity	Life annuity
Maximum term/ guaranteed period	**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	**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
Income payment frequency	Monthly, quarterly, semi-annually or annually	
Income payment type	• 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 where taxation is prescribed (level). – Registered policies: 0% - 4% (legislative maximum) – Non-registered policies: 0% to 6%	
Deferral period	10-year maximum (for registered income 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.	

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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 the one-time payment (cash refund) option was selected – the beneficiary will receive a death benefit equal to the initial amount that was paid for the policy.
If continuing payments (instalment refund) option was selected – 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:

A guaranteed period was selected and the last death occurs during the guaranteed period:

The beneficiary has the option of receiving a lump-sum death benefit equal to the present value of future guaranteed payments, or
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 the policyowner has selected 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.

No guaranteed period or 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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Features	Term annuity	Life annuity

Tax treatment

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 is possible that an income annuity would be considered accrual while in the deferral stage and then qualify for prescribed once payments begin.
  - The income 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 the policy anniversary and reported on a T5 (Relevé 3 in the province of Quebec).

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Exclusive income 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. • Income payments will continue unreduced for a period of time after the death of the primary or first annuitant. • 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 • Minimum guaranteed period is one year • If the income 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 cannot 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

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Here's the opportunity to offer an income 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.

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