



Retirement planning

Income annuities – it's not about the interest rates

Top income annuity financial security advisors in our company tell us that positioning an income annuity is not about the interest rates – in fact, these advisors tell us the interest rate discussion rarely comes into the retirement income planning conversation. Instead, the discussions they encounter are about reliability, security, control and predictability.

The desire to have enough cash to live comfortably is important to most clients.

A recent survey from Wells Fargo showed that 22 per cent of people stated they would rather die early than not have enough cash to live comfortably in retirement.¹

How can you start the annuity discussion with clients?

In the past, many advisors would start the retirement income planning process by detailing the client's sources of income and assets. They would look at what parts of retirement income are guaranteed (government benefits and defined benefit pension income) and what parts are variable (defined contribution pension plans, RRSPs, RRIFs, LIRAs/locked-in RRSPs, non-registered savings, TFSAs and rental income). The base of guaranteed income would then be calculated and the variable assets were converted to incomes to create an overall income picture.

Top income annuity advisors look at the retirement “paycheque” the client wants to have in their bank account each month to satisfy their spending plans.

Advisors then look to see what sources of income and assets are available to create the “paycheque” to support that lifestyle. Conversations with clients now focus on the following product characteristics, including:

- Flexibility and control
- Opportunity for growth
- Lifetime income
- Inflation adjustment
- Access to cash
- Continuity
- Tax deferral
- Estate bypass
- Preservation of capital
- Predictability

If the client has a strong desire for certainty, predictability and simplicity, then the conversation moves to how an income annuity works. Many clients don't appreciate or understand how life income annuities work these days. Many of today's pre-retirees have pre-conceived ideas based on how income annuities worked when their parents retired. They may not understand the variety of changes our company has made to income annuities, which allow for more flexibility.

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Let's look at some of the typical concerns presented by our clients, and the solutions you can offer:

Concern	Solution
I do not want to outlive my sources of income.	Life income annuity
I want to make sure payments continue for my spouse after I pass away.	Joint life income annuity
I want to make sure my income annuity pays for a certain number of years, even if I or my spouse pass away early.	Guaranteed income payment period
I want to make sure the income annuity payments increase with the cost of inflation.	Annual payment increase (indexing) option
I want to make sure my beneficiaries receive at least the purchase price of the income annuity back at the time of my death.	Return of premium before income payments start (return of premium). Return of premium after income starts: One-time payment (Cash refund)/Continuing payments (instalment refund)
If I have an emergency, I will need access to the money.	Cashable feature (non-registered)
I don't want my spouse to experience a sudden drop in income after I die.	Income transition period option
I would like a lump sum to be paid to my beneficiary to cover some bills after I die.	Extended death benefit option
I don't want to lock into an income annuity now in case interest rates go up in the next year.	Short-term rate protection option
I don't want to worry about the impact of market corrections on my income.	Life income annuity
I want something that I understand and that doesn't require me to constantly make decisions.	Life income annuity



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These are just some of the client concerns that may be solved by taking a portion of their assets and purchasing an income annuity contract with one or more options. As our top income annuity advisors remind us, when they engage in an active discussion and listen to the top retirement income concerns of clients, the solution is often an income annuity.

Clients in this market want transparency and simplicity – in short, they want to understand their options. By placing options on the table meeting their needs and helping to educate them, you're more likely to be the advisor they consolidate all their investable assets with in retirement.

If you still have a client who has these concerns but will not consider an income annuity due to low interest rates, stay tuned for the next article, which will talk about the value of an income annuity in a low interest rate environment.

1. Source: Money: Outliving Your Savings a Fate Worse than Death? November 12, 2014

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