

INSURED ANNUITY

How do you make sense of all the financial planning strategies you have to choose from? Like most Canadians, you want to maximize the earning potential of your money, live the retirement lifestyle you've imagined, and leave a legacy that lasts. The strategy to consider—insured annuity.

First of all, what are annuities?

An annuity is a contract that binds an issuer to deliver a steady stream of income payments in return for a lump sum deposit. These payments can be set up to last the entire lifetime of an individual—a life annuity—or for a set period of time—a term certain annuity.

Each payment is a combination of a return of the original capital and interest income. With the steady cash flow of an annuity, you can avoid the need to liquidate other investments.

Understanding an insured annuity

This concept combines two individual products: a life annuity contract and a life insurance policy.

A life annuity usually provides a much higher level of income than other types of investments because, as described, it combines your original capital with interest. However, that means there is no more capital for your family when you pass away.

By using a portion of each annuity payment to pay premiums on an insurance policy, you can ensure that an amount equal to your original capital is restored when you pass on. Therefore, you receive a guaranteed stream of income, plus a return of your initial deposit as you would with a fixed-income investment like a GIC or bond, but with greater return potential.

Tax advantages mean increased income

With the insured annuity, only the interest portion of each payment is taxable every year. In comparison, when you purchase a GIC, any income, whether it is received or reinvested, is considered to be taxable.

In many cases, even after paying the insurance premiums, the resulting income is higher than the net income achieved by a GIC or similar investment. And since the taxable income is lower, you may still be eligible for government-sponsored benefits, such as OAS and pension tax credit.

Avoiding probate

With an insured annuity, insurance proceeds can be disbursed directly to a named beneficiary or beneficiaries, without cost or delay. Regular investments form a part of your estate and must go through the entire probate process before they are distributed. This can mean additional costs, such as probate and executor fees, and delays in allocating your money according to your wishes.

If you are an individual between the age 65 and 85, you can reap the benefits of an insured annuity. The example below compares the monthly income earned by a life annuity, insured annuity, and a GIC. It is based on a joint couple, both 75 years of age and non-smokers.

Initial investment	\$250,000
GIC rate of return	5.5%
Marginal Tax Rate	40%

	GIC	Life Annuity	Insured Annuity
Gross Monthly Income	\$1,146	\$1,959	\$1,959
Taxable Portion	\$1,146	\$585	\$585
Taxes Payable	\$458	\$234	\$234
Insurance Premium	N/A	N/A	\$551
Net Monthly Income	\$688	\$1,725	\$1,174

The net income generated by the insured annuity is equivalent to a 9.39% pre-tax yield—a difficult rate to achieve using today's traditional fixed income vehicles. Rates of return will vary by age and gender, as well as the amount of money that is invested.

Think long-term

Keep in mind that this rate of return is locked in for life. That means you avoid the hassle of shopping for the highest rate at renewal time. One thing to remember is that your capital remains locked in; once you invest your money in an annuity, it cannot be withdrawn. For this reason, it's wise to invest only a specific portion of your capital—an amount you are comfortable with and know you will not need.

The Insured Annuity can:

- Maximize after-tax retirement income without increasing investment risk
- Earn a pre-tax equivalent yield unattainable with today's fixed income investments
- Lower taxes payable and increase your chances of securing government benefits
- Create a guaranteed income that lasts an entire lifetime, and eliminate the inconvenience of reinvestment

The Charitable Insured Annuity

If your financial plan includes charitable giving, the charitable insured annuity may be ideal for you. This is a strategy whereby a charitable organization becomes the owner of the insurance portion of an insured annuity. In this case, any premiums paid by the individual become a tax credit, effectively reducing the premium cost by your marginal tax rate.

Consider the example [above]. By designating the charity as owner of the insurance policy, the couple would receive a tax credit of approximately \$220 (40% of the \$551 premium). That would increase their net monthly income even further—up to \$1,394 in comparison to the \$688 they would get from a GIC yielding a 5.5% rate of return. What's more, the charity they designate would receive \$250,000 at death.

To learn more about the Insured Annuity and how it can maximize the performance of your personal or corporate financial plan, call us today.

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