

The Insured Annuity Strategy

What would you do in retirement if you knew your income was guaranteed – for life?



 **ScotiaMcLeod**  
**Financial Services Inc.**



## Enjoy the retirement you want to live.

You're working hard to save for your retirement.

Yet as you think ahead to all that you want to do and accomplish – travelling, continued learning, volunteering, starting a new business – you're probably asking yourself: “Will I have enough to do what I want?” You want to ensure that you have a steady retirement income that won't run out too soon, even if you live to see your hundredth birthday, yet you want to ensure you can leave a legacy to your loved ones. But how? The Insured Annuity strategy is one way to guarantee just that.





## A higher yielding investment option without market risk.

As you plan for retirement, you may be looking to shift a greater portion of your investments into more conservative, secure vehicles. However, you may have discovered that most traditional fixed income investment options, such as GICs or bonds, don't offer the sort of return that you're looking for in retirement. After all, your wonderful plans require a steady income stream that will assure funds for your expenses. And few investment options also offer preservation of capital, as you strive to maximize your estate.

The Insured Annuity strategy provides income that is guaranteed for life and upon death, pays a benefit to your loved ones directly. This strategy can preserve the value of your estate, minimize taxes, and most importantly, guarantee an income stream for the rest of your life, with equivalent returns often much higher than other fixed income options.

## Enhance your retirement income and leave a legacy.

The Insured Annuity strategy involves the purchase of two types of insurance contracts. With the first contract, you purchase a Life Annuity, investing your capital with the insurance company, and in exchange the insurance company pays you a series of regular, tax-efficient, guaranteed payments for the rest of your life, and potentially your spouse's as well.

The second contract you purchase is a life insurance policy. A feature of this strategy is that the premiums for the life insurance are paid by a portion of the income generated for the annuity, with no additional costs to you. At death, the annuity income ceases and the life insurance death benefit is paid to your beneficiaries directly (replacing to the estate the value of the capital originally invested in the Life Annuity), without the usual estate-related hassles or costs.



**Increase your returns.**

**Preserve your capital.**

## The benefits of the Insured Annuity strategy.

- Provides guaranteed income for you for the rest of your life (or for you and your spouse's life) - no matter how long you live.
- Significantly enhances the value of your estate and preserves your capital - your beneficiaries receive the insurance proceeds without going through probate.
- Protects you against fluctuations in the market - you'll always know what your income will be no matter how the markets perform.
- Tax efficient - enhances both your base level of income during retirement (only a portion of each annuity payment is taxable, as the remainder is a return of your original investment) and the amount your beneficiaries ultimately receive.
- For clients over 65, the interest portion of the annuity income will generally qualify for the Pension Income Amount Tax Credit.

## How the Insured Annuity strategy works.

To illustrate how the Insured Annuity strategy works, let's take a look at Jim and Marie - a 65-year-old couple, who are generous grandparents of three and are looking to maximize their income now that they are retired. They want higher returns but don't want the market risk associated with those returns and are very comfortable with bonds and GICs. By employing the Insured Annuity strategy they are able to increase their monthly cash flow and maximize the size of their estate.

As illustrated, the couple would apply for a \$500,000 permanent life insurance policy and once the insurance is in place, they would buy a \$500,000 Life Annuity to generate income. They would then receive the difference between the monthly income from the annuity payment (composed of return of capital and interest earned) and the monthly premiums being withdrawn for the insurance, while still maintaining the full value of their estate. Upon the death of the last surviving spouse, the annuity income ceases and the life insurance proceeds are paid out to the couple's beneficiaries without passing through probate.

### Net Income: GIC vs Insured Annuity

GIC at 4.5%	Monthly Income	Insured Annuity
\$500,000	Total Investment*	\$500,000
\$1,875	Gross Income	\$2,829
\$1,875	Taxable Income (interest component)	\$1,063
\$870	Taxes Payable at 46.4% Rate	\$493
N/A	Insurance Cost (Premiums)	\$589
\$1,005	Net Income	\$1,746

\* Annuity payments will not cover initial premium requirements. Assumes 65-year-old couple, non-smoking. Rates will vary. Source: Insurance Policy – Empire Life; Annuity – Canada Life, January 2009.

In order to match this net income afforded by the Insured Annuity, the couple would have to find a GIC that would consistently yield approximately 7.82%, pre-tax.

## Is the Insured Annuity strategy right for you?

This strategy might be the ideal solution for you if you are between the ages of 60 and 85, risk-averse, dissatisfied with low interest rates on fixed income investment alternatives, and in good health (to qualify for life insurance). However, you should note that once the annuity is purchased you cannot cancel the contract – it is locked in for life.

This may represent a significant commitment, depending on your age. To ensure your retirement portfolio is balanced and reflective of your risk tolerance, you should consider allocating only a portion of your assets that would normally be invested in traditional fixed income vehicles. As well, annuity income is fixed, so although interest rate levels may go up, the annuity income remains the same. However, the accumulated cash flow over the lifetime of the Life Annuity may be more than that of a GIC, even with increasing interest rates.





## Enjoy higher returns and guaranteed income while preserving your capital.

With the Insured Annuity strategy you can enjoy returns that are typically much higher than what you can achieve with other fixed income vehicles. Plus, you'll preserve your capital, payable directly upon death to your heirs, avoiding unnecessary estate costs and delays – all with favourable tax treatment.

### Want to learn more?

Your Scotiabank wealth advisor and Team of Experts can provide more information about guaranteed retirement income for life and leaving a legacy through the Insured Annuity strategy and can help you develop a financial plan to help you live the retirement life that you want.





Expert and innovative planning strategies  
using proven insurance and investment solutions.



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