

## YOUR MONEY

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### **Insured Annuities – Making a Difference in Retirement**

If you are a retiree wanting guarantees, then insured annuities may be a good strategy for you. An insured annuity is an excellent complement to your portfolio if you're interested in higher income, lower taxes, 100% preservation of capital and 100% tax-free transfer to your beneficiaries, avoiding probate.

Nearly two years ago the government stunned us all by reversing the Income Trust Legislation. Immediately, many seniors and others faced significant portfolio reductions. For seniors, the difference was that many were left without enough time to recover from the adverse effects. Investing some of your portfolio in an insured annuity is a wise strategy, because that portion of your holdings can *never be adversely affected*.

What is an insured annuity? An insured annuity is based on two products - an annuity and an insurance policy. They can provide higher monthly cash flow than is possible through interest-only investments such as GICs — *without reducing the value of your estate*.

An annuity is a one-time investment that pays income for a specific term, or for the rest of your life, *guaranteed*. However, unlike a GIC, *only a portion of the income you receive is taxable*, and the older you are the less tax you will pay. This

preferential tax treatment is extremely advantageous when non-registered funds are used. Annuities are a very attractive option for those over age 60 and in good health.

Straight annuities have a serious drawback; the principle invested in them is eventually lost to the estate either partially or wholly depending on circumstances. This drawback is the reason for the use of a permanent life insurance policy. In order to replace the funds that are used to purchase an annuity you would apply and must be approved for an equal amount of insurance coverage. The insured annuity strategy requires that some of the excess income pays for this life insurance policy. You may consider paying for the policy upfront.

Some think that this is a bad time to buy annuities because rates are too low. The example below illustrates that this is not so. For example, if you have a \$500,000 RRIF, you can purchase an insured annuity that pays income for life, and upon death pays out \$500,000 to your named beneficiary, *tax-free*. Or, you can take advantage of the preferential tax treatment that annuities offer by using non-registered funds. In addition to leaving the \$500,000.00 tax-free to your beneficiaries, you also *decrease your annual taxes payable and increase your after-tax income*.

## Insured Annuities – *Continued*

### Comparison of GICs v.s Insured Annuities

Couple aged 69, non-smoker, \$500,000 investment, 35% tax bracket

<u>GICs</u>		<u>Insured Annuity</u>
\$500,000.00	Initial Investment	\$500,000.00
4.20%	Rate of Return	N/A
\$21,000.00	Annual Income	\$36,096.84
\$21,000.00	Taxable Portion	\$12,511.92
(\$7,350.00)	Income Tax Payable	(\$4,379.17)
N/A	Annual Insurance Premiums	(\$8,475.00)
<b>\$13,650.00</b>	<b>After-Tax Annual Income</b>	<b>\$23,242.67</b>
N/A	<b>Guaranteed Tax-Free Estate Value</b>	<b>\$500,000.00</b>
2.73%	After-Tax and Expense Yield	4.64%

This is a wise strategy if you are a senior looking for higher income, less tax, preservation of your capital and a 100% tax-free transfer to your estate. In this example, there was a 70.27% increase in after-tax income. And, depending on your age(s), the after-tax and expense yield can reach up to 5.50%.

As this is such an important topic for seniors, I asked Paul Marion, Vice President Estate

Planning, Canaccord Capital Corp., to assist in preparing this column, and I thank him for his help. These insurance products are offered through Canaccord Financial Services.

*Kim Inglis is an Investment Advisor. The views in this column are solely those of the author.*  
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