What are annuities & how can they work for you?

As you approach retirement.

You're probably thinking about how to make your retirement income last as long as you do. In the past, many people worked for a single employer throughout their entire careers and had pension plans that gave them a guaranteed income for the rest of their lives.

But times have changed.

Fewer employers offer pensions, and fewer still offer **Defined Benefit pension plans** with a guaranteed income stream for life. People change employers more often, so may have a variety of plans. Some have no workplace plans and rely on personal RRSPs. Many have to manage their own retirement assets.

And... people are living longer.

Statistics Canada projects:

by 2061 there will be **80,000** Canadians **over the age of 100**

Is an annuity right for you?

Let's take a look at:

- the **role that an annuity can play** in providing guaranteed, predictable income throughout your retirement
- **annuity features and options** that you can discuss with your financial advisor
- the pros and cons that you should consider in deciding whether an **annuity is right for your plans**

How long will you need retirement income?

If you knew exactly how long you were going to live, it would be easy to figure out how to manage your savings to produce retirement income that would last just the right amount of time.

But the reality is that nobody knows how long their retirement will be.

Here are the averages:

65-year-old man can expect to live to AGE 84

65-year-old woman can expect to live to AGE 87

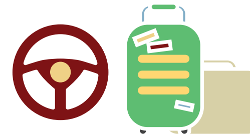
What expenses will you have?

Think about the expenses you will have in retirement.

Some expenses — like housing costs and food — **are regular**. Other expenses might be **less predictable** — like buying a new car or travel.

Regular expenses:

Less predictable expenses:



Consider your sources of income.

Some will be **predictable**, like:

- Canada/Quebec Pension Plan
- Old Age Security Benefits
- payments from a Defined Benefit Pension Plan

Others will be more **variable**, like income from a RRIF or other investments.

Will your predictable income cover your regular expenses?

If not, and you will be relying on income from investments and other sources, consider your own risk tolerance:

A) Some people may want all of their retirement **income to be predictable**

B) Others may be comfortable managing their investments to **provide more flexibility**

C) Still others prefer a **mix of the two**

An annuity can play a role in providing predictable income...

What is a life annuity?

A life annuity is a contract with a life insurance company. You pay a lump sum to the insurance company and it pays you a guaranteed income for the rest of your life.

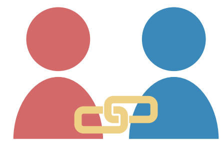
You transfer two types of risk to the insurance company:

1. **Longevity risk** (the risk of outliving your savings)
2. **Market volatility risk** (the risk of markets dropping and reducing your savings)

Annuity features and options:

Single life or joint and last survivor?

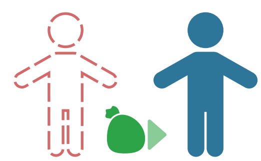
Annuities can be designed to pay out as long as you live, or as long as either you or your spouse live. If you purchase a **joint and last survivor annuity**, you'll also have the option of setting up the annuity so that payments stay level after the first death or reduce after the first death, to reflect lower ongoing expenses.



Return of capital?

An annuity will pay income to you for as long as you live, but some people worry that their capital is lost if they die early.

One way of dealing with that worry is to add a feature where the value of the annuity is paid to your beneficiary if you die early. This feature is called a **guarantee period** which shouldn't be confused with the basic guarantee of income for life for you; in this case, it means the period of time when your beneficiary would get the residual capital in your annuity.

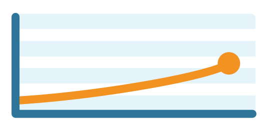


For instance: If you purchased an annuity with a 10-year guarantee period, this would mean that if you died 2 years after the annuity started, a lump sum payment worth 8 more years of payments would be paid out to your beneficiary.

And what if you didn't die but lived for 30 more years? In that case, you would continue receiving payments until you died, at which point there would be no payment to your beneficiary.

Indexed to inflation?

Annuities can **increase your income payments over time** to compensate for inflation.



An annuity may be right for you if:

- ☑ You're concerned about **outliving your income**
- ☑ Your predictable **retirement income falls short** of your predictable expenses
- ☑ You don't want the responsibility or **worry of managing** your assets to produce income

How much will you get?

The amount of annuity income you will get will depend on a number of factors, including:

- **Interest rates** at the time that you buy the annuity (higher interest rates mean more income)
- **Your age** when you buy the annuity (the older you are, the bigger your income payments)
- **Your gender** (women have a longer life expectancy, so income payments will be less)
- What kind of **options** you've chosen (like indexation)

Pros and cons of annuities?

Advantages	Disadvantages
Provides guaranteed **income for your entire life**, no matter how long you live.	**Capital is no longer available** to you.
Removes market uncertainties, as the insurance company assumes all investment risk.	**Income amount is fixed** at the date of purchase.
Income is guaranteed by the insurance company, which is required to maintain capital to meet those guarantees.	Because capital is used to buy the annuity, **it cannot be left to your heirs** *(unless you have taken an option that pays out to your beneficiary if you die early)*.

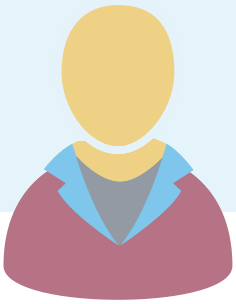
Getting help:

An advisor who is licensed for life insurance can provide you with an annuity quote, and explain the various options. They can help you decide whether a life annuity should form part of your retirement financial plan, and determine what strategy works best for you.

For example: Your primary concern may be **guaranteed lifetime income**,and want to use an annuity to give you that peace of mind.

Or

You might prefer to **balance guarantees with flexibility** and use part of your assets to purchase an annuity to cover basic expenses, keeping some assets in an investment portfolio of stocks, bonds and other investments to cover unexpected expenses or to leave an estate.



Either way, your advisor can tailor a customized solution for you.