

A black and white photograph of two women sitting and talking. The woman on the left is older, wearing glasses and a light-colored top. The woman on the right is younger, wearing a white button-down shirt. They are both looking at each other and smiling slightly. A yellow semi-transparent banner is overlaid on the bottom left of the image, containing the title and introductory text.

QUESTIONS ABOUT LIFE ANNUITIES

This guide is designed to help you understand a life annuity contact between you and a life insurance company.

What is a life annuity?

A life annuity is a contract between you and a life insurance company. It pays you a guaranteed periodic income for the rest of your lifetime and, therefore, is typically used for retirement purposes. These payments are based on your age and the interest rates at the time of your purchase. For some annuities, your gender and health status are also used to determine the income payable.

How does an annuity work?

Annuities pool investment and survival experience across a large group of people. You can purchase a life annuity with a lump sum, or gradually over time. The payments from a life annuity are a blend of interest, a return of your capital, and a transfer of capital from those who die earlier than statistically expected to those who live longer than expected.

Some annuities only pay income for a fixed period. With a life annuity, payments continue to you for as long as you live. Life annuities usually include a guaranteed income payment period which can be as short as five years or can run to age 90. If you die within the guarantee period, a lump sum may be paid to your beneficiary or to your estate, or payments for the remainder of that period can be made to them.

What are the advantages of a life annuity?

A life annuity provides you with a guaranteed lifetime income. You cannot outlive a life annuity - payments will continue to you, at a guaranteed set amount, regardless of how long you live. Unlike managing your investments yourself to produce an income, the guaranteed income from a life annuity will continue to be paid, even if investment markets fall in value. In addition, annuities are protected by Assuris in the unlikely event of the failure of your life insurance company.

How do I buy a life annuity?

Only life insurance companies can sell you a life annuity. A financial advisor needs to hold a life insurance licence in order to sell life annuities. Such an advisor can discuss your particular needs and circumstances and recommend which annuity options might be suitable for you.

What is the cost of an annuity?

Life annuities cost more than other types of arrangements because they provide *guaranteed* payments over your lifetime. When interest rates are low, the cost of annuities rises, since there will be relatively less income earned on your investment. Insurance companies take into consideration three pricing components - investment yield, mortality and expenses. Also built into the cost of the annuity are regulatory requirements for insurance companies to set aside certain reserves and capital. These requirements allow insurers to guarantee payments for as long as you live. Some may argue that other investments can offer greater returns, but only an insurance industry annuity guarantees payments for life.

The monthly income that you will receive from your annuity will depend on several factors: your age (is your life expectancy likely to be another 10 years or another 30 years?); your health (if it is poor and your life expectancy is lower than average, you could qualify for an “impaired-risk annuity” which would provide greater monthly income); current long-term interest rates; whether you choose a single life or joint annuity; what guaranteed period you choose and any other options you choose to add. For instance, a single-life annuity (on your life only) will produce a higher monthly income, based on the same capital, than a joint-and-last-survivor annuity. Likewise, a short guarantee period will produce a higher monthly income than a longer guarantee period.

The annuity market is highly competitive. A financial advisor can obtain quotes based upon your circumstances and choices and help you find the best solution.

CONSUMER INFORMATION

Consumer Protection

Assuris protects Canadian policyholders in the event that their life insurance company should fail. Assuris will arrange to transfer the policy to a solvent company. In addition, Assuris guarantees that policyholders who are receiving income from a life annuity will retain up to \$2,000 per month or 85% of the promised monthly income benefit, whichever is higher. Or if in the accumulation phase, policyholders will retain 100% of the accumulated value up to \$100,000. For more information contact the Assuris Information Centre at 1-866-878-1225 toll free, or see the Assuris website at www.assuris.ca.

Consumer Assistance

Consumers with questions or complaints about their life and health insurance company or life annuity can call the OmbudService for Life and Health Insurance (OLHI) for bilingual information and assistance. The OLHI is an independent service that provides free information on, and assistance with complaints about, life and health insurance products and services.

Call the OLHI from anywhere in Canada:
In Toronto: **416-777-9002** À Montréal: **514-282-2088**
Toll Free/Sans frais: **1-888-295-8112** Website: www.olhi.ca

This guide is produced by the Canadian Life and Health Insurance Association Inc. (CLHIA), whose member companies account for 99 per cent of the life and health insurance business in Canada. The industry provides a wide range of financial security products such as life insurance, annuities (including RRSPs, RRIFs and pensions), disability income protection and supplementary health insurance to about 26 million Canadians.

