Question
SERVING WHISTLER AND PEMBERTON

YOUR MONEY

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Insured annuities offer a myriad of benefits

Investors should think about their options

Market volatility has investors re-thinking retirement strategies. The thought process has been particularly tough for older investors wondering if they have the right timelines to weather future market gyrations. Many have cashed-out in favour of income-producing investments such as money market or fixed income. However, with inflation eroding the value of low-return investments, such strategies are not sufficient to sustain retirement goals.

Investors wanting to enhance the conservative portion of their portfolios should think about insured annuities. They are a one-time investment that pays guaranteed income for lifetime, while achieving higher income, lowering taxes, preserving capital, and providing a tax-free transfer to beneficiaries. With lifetime payments, an insured annuity helps address the worry of outliving one's retirement funds.

Insured annuities are an excellent and complementary portfolio addition comprised of a life annuity contract and a life insurance policy, which are bought simultaneously with the annuitant as the life insured. The annuity generates the cash flow to pay both the life insurance premium and the tax on the annuity.

The tax advantages are significant. Unlike a GIC, only a portion of the payment received is taxable and, generally, the older the annuitant the larger the payment. When non-registered funds are used, preferential tax treatment can be extremely advantageous. With a reduction in annual taxable income, Old Age Security clawbacks also may be lowered or eliminated.

Let's examine the basics for a 70 year-old, non-smoker female who purchases a $500,000 insured annuity at current rates. She has a very high marginal tax rate of 45%.

Our subject's insured annuity pays out $42,000 per year at prescribed terms. It is subject to insurance premiums but only a portion of it is taxable. After these deductions the resulting annual net cash flow would be almost $20,000 per year or 3.93% after-tax and expense yield.

If our subject used the $500,000 to purchase a GIC with a rate of return of 4.0%, the results would be very different. Although she would only have taxes to pay, they are significantly higher. The resulting annual net cash flow from the GIC would be $11,000 a year or 2.2% after-tax and expense yield.

The difference between the two investments is substantial. In this example the insured annuity has an annual net cash flow 78.5% higher than the GIC.

In addition to being tax-free, the insurance payment at end of life provides other advantages for a named beneficiary. It is not considered part of the estate and is paid directly to the beneficiary, bypassing probate and avoiding costs associated with administering the estate. The payment is also protected from your creditors.

Individuals should make sure they understand the concept thoroughly. There are many different rules, as well as varying annuity and insurance rates, so it is imperative to get advice from a qualified insurance specialist.

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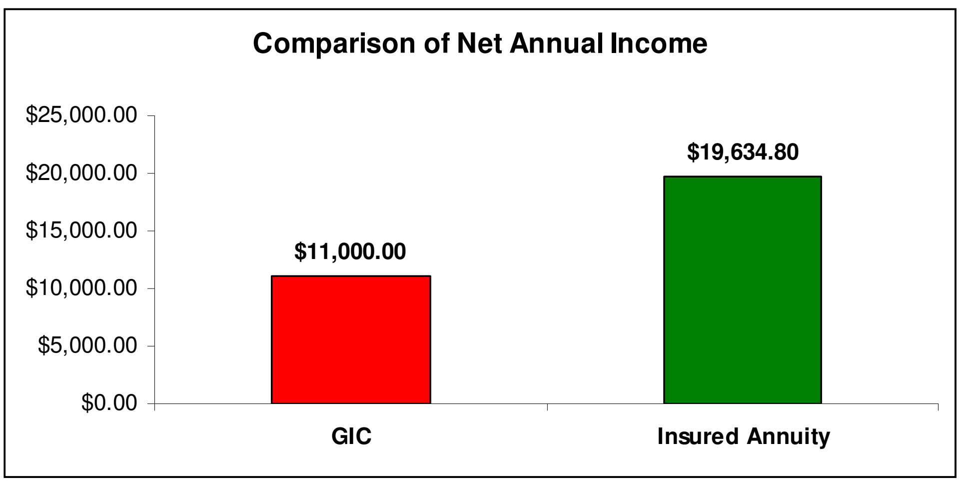
Fixed Monthly Income Investment Alternatives*

GIC vs. Insured Annuity
70-year old female, non-smoker, 45% tax bracket

	GIC	Insured Annuity
Original Capital	$500,000.00	$500,000.00
Capital for Annuity	$0.00	$500,000.00
Rate of Return	4.0%	n/a
Annual Income	$20,000.00	$41,855.64
Reportable Taxable Income	$20,000.00	$10,799.64
Actual Tax Payable	$9,000.00	$4,859.84
Insurance Costs:	$0.00	$17,361.00
After-Tax Annual Income	**$11,000.00**	**$19,634.80**
Death Benefit	**n/a**	**$500,000.00**
After Tax Rate of Return:	**2.20%**	**3.93%**



Pre-tax equivalent yield required to match annuity: 7.14%
Reduction/savings in annual taxes payable: $4,140.16
Increase in annual income: 78.50%

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