



Insured  
Annuities

# Insured Annuity Solutions

Increase your after-tax  
retirement income...  
...and preserve your investment!



# Current GIC Investments

## Insured Annuities

Despite the low interest rate environment in Canada over the last 15 years, currently over \$800 Million of wealth in Canada is still placed in GICs earning low after-tax returns.

The problem with this investment strategy is:

- Low rates of return for many years
- Interest income is 100% taxable
- Increasing your income decreases your capital



# What these investors are looking for...

## Insured Annuities

More people are looking for better ways to increase their income using their assets without risk to their capital investment or being exposed to fluctuating equity markets.

GIC investors are looking for:

- a higher yield
- no risk to the capital
- reduced taxable income

***Introducing the Insured Annuity Solution...***



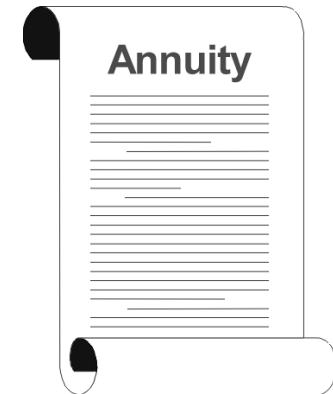
# The Insured Annuity Solution

## Insured Annuities

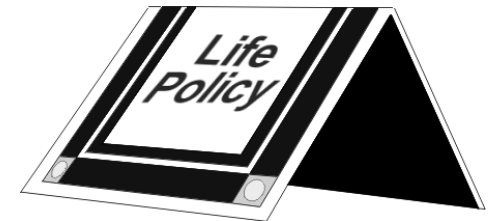
This solution combines two financial instruments:

- ✓ Prescribed Life Annuity
- ✓ Life Insurance policy

This combination creates an extraordinary opportunity to increase income, lower taxation and guarantee the investment capital is returned at death to the beneficiaries.

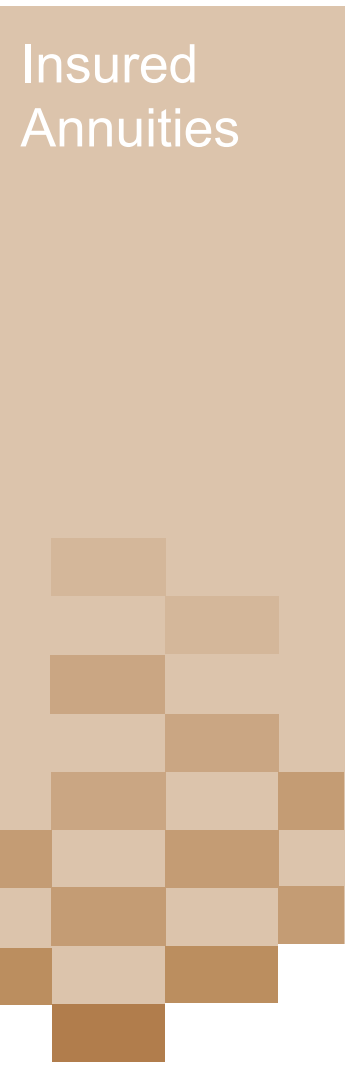


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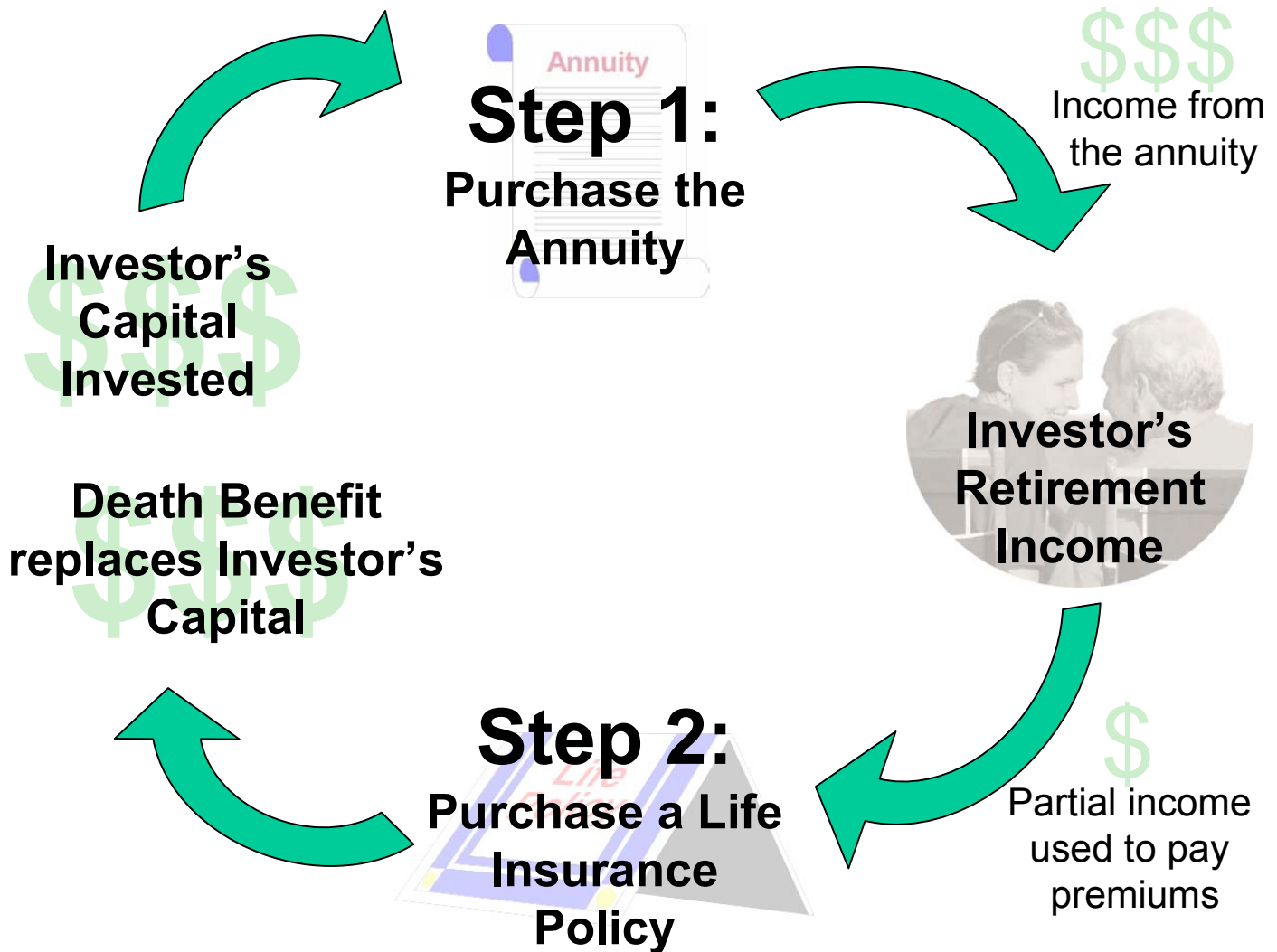




# How it works...



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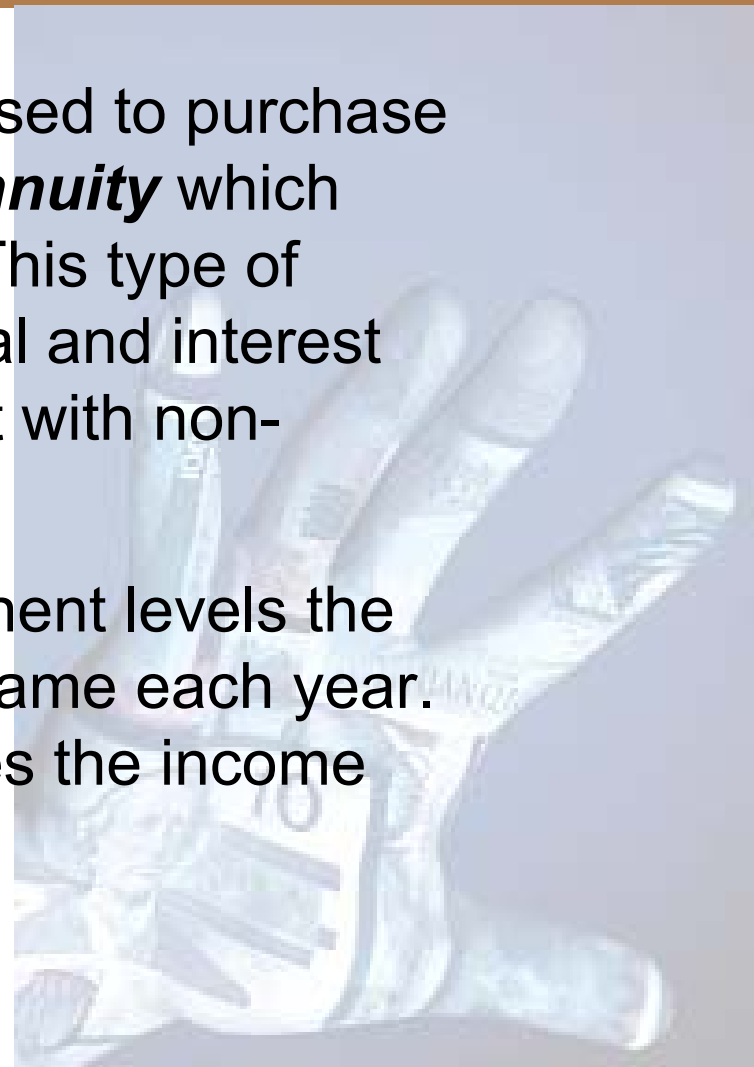


# Step 1: Purchase the Life Annuity

## Insured Annuities

The Investor's Capital is used to purchase a ***prescribed zero life annuity*** which provides income for life. This type of annuity is a blend of capital and interest and extremely tax-efficient with non-registered funds.

The "***prescribed***" component levels the taxable portion to be the same each year. It is this blend which makes the income very tax efficient.





# Step 1: Purchase the Life Annuity

## Insured Annuities

The “**life annuity**” provides an income only during the life of the annuitant. The older the annuitant, the higher the annuity income.

The ‘**zero**’ denotes that there will be no income paid after the annuitant dies.





## Step 2: Purchase the Life Insurance

### Insured Annuities

A life insurance policy is purchased using a portion of the income provided by the annuity. The policy death benefit ensures that the original capital is returned for the benefit of the annuitant's beneficiaries.

The life insurance contract must provide coverage for "life". Cost of the insurance plays an important role as it directly impacts how much after-tax income will be generated from an insured annuity.

The most cost effective plans to do this is usually the Term to 100 plans, paid-up at age 100 or a Universal Life plan with guaranteed level cost of insurance.

**Fact:** The older the applicant, the higher the life insurance premium will be.



# The Insured Annuity Solution

## Insured Annuities

A **Life Annuity** backed by a **Life Insurance** policy

- **No risk to investment** income regardless of market conditions
- The annuity **guarantees the income** for life
- Provides a **higher income** over traditional GIC income
- The life insurance **guarantees the preservation of invested capital**, completely tax-free!





# Insured Annuity Case Study

## Insured Annuities

### A typical GIC scenario

John (67) considered investing a **\$150,000** death benefit he received in a GIC. He would draw an income from the interest. Current 5 year GIC rates were offering **4.75%** annually.

Gross annual income generated from the GIC	= \$	7,125.00
<b>less</b> taxes paid on income ( <i>assuming 45% tax rate</i> )	= \$	3,206.25
<b>Total net annual income from GIC</b>	= \$	<b>3,918.75</b>

**Fact:** The interest earned on a GIC is fully taxable. Any amount withdrawn over the interest will not be taxed, but will reduce the estate value.



# Insured Annuity Case Study

## Insured Annuities

### A typical insured annuity scenario:

Instead, John chose to purchase a prescribed zero life annuity. At the same time he purchased a **Pure Term 100** plan with AIG Life. The annuity purchased will equal the investment amount less the first annual premium. Income will commence in the second year.

Gross annual income generated from Annuity	= \$ 13,261.40
<b>less</b> taxes paid on income ( <i>assuming 45% tax rate</i> )	= \$ 1,497.99
<b>less</b> premiums for Pure Term 100 plan	= \$ 5,112.50
<b>Total net annual income from Annuity</b>	<b>= \$ 6,650.91</b>

**Fact:** A prescribed Zero Life Annuity will yield the highest annual after-tax income.



# Insured Annuity Case Study

## Insured Annuities

### GIC versus Insured Annuity:

Gross annual income generated from Annuity	= \$ 13,261.40
<i>less</i> taxes paid on income (assuming 45% tax rate)	= \$ 1,497.99
<i>less</i> premiums for Pure Term 100 plan	= \$ 5,112.50
<b>Total net annual income from Annuity</b>	<b>= \$ 6,650.91</b>

Gross annual income generated from the GIC	= \$ 7,125.00
<i>less</i> taxes paid on income (assuming 45% tax rate)	= \$ 3,206.25
<b>Total net annual income from GIC</b>	<b>= \$ 3,918.75</b>

That's a difference of **\$2,732.16** per year!

A GIC pre-tax equivalent would have to be **8.1%** per year  
**...every year!**



# Insured Annuity Case Study

## Insured Annuities

### Insured Annuity versus GIC:

If John had used a \$150,000 GIC investment at 4.75% to match the same income from an Insured Annuity, he would need to continually withdraw from the capital each year. This would also reduce the amount of interest earned each year.

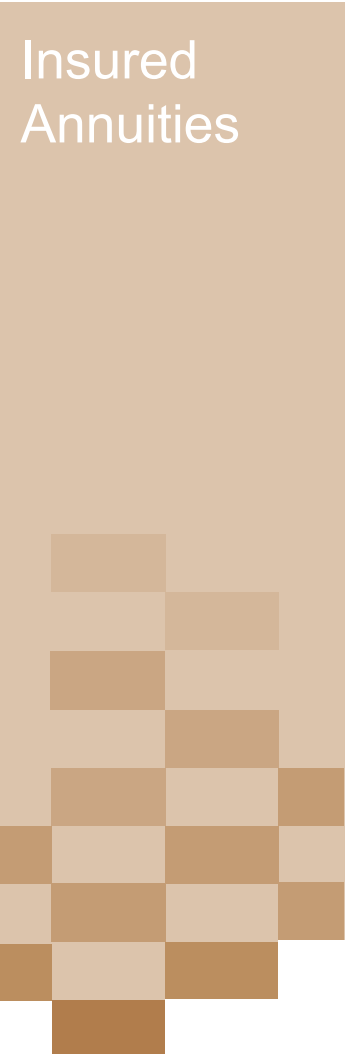
### Effects of drawing down on GIC capital...

After 5 years	Capital left = \$ 111,139.27
After 10 years	Capital left = \$ 56,572.21
After 15 years	Capital left = \$ 0.00

**That's a complete depletion of GIC funds after 15 years!  
The Insured Annuity guarantees 100% return of capital at death.**



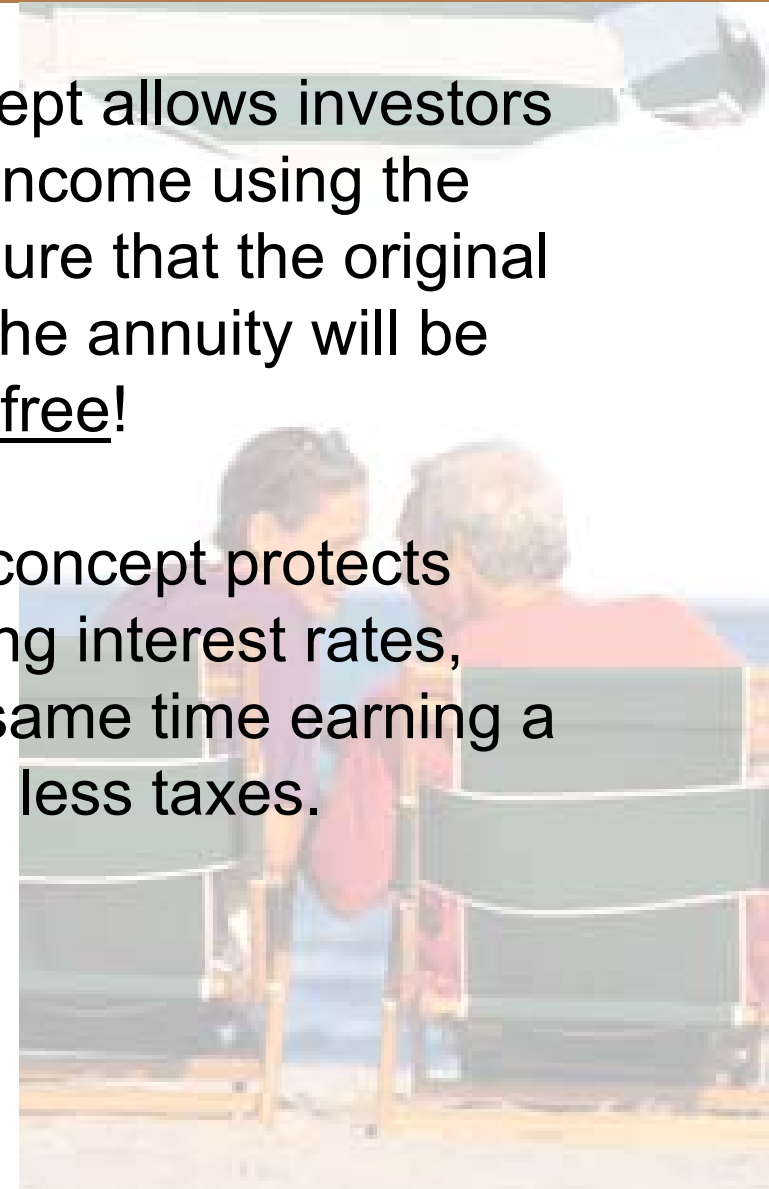
# Conclusion



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The Insured Annuity concept allows investors to earn a higher after-tax income using the annuity payout and to ensure that the original capital used to purchase the annuity will be returned to the estate tax-free!

The safety of this type of concept protects investors against fluctuating interest rates, loss of capital and at the same time earning a higher income and paying less taxes. It's a **win-win** situation!





## Please note...

### Insured Annuities

There are some important factors to consider when purchasing an Insured Annuity:

- › The Life Insured must be in reasonable good health. This concept will not work if the investor is uninsurable or the cost of insurance is prohibitive.
- › Look for the best annuity and permanent life insurance rates, taking into consideration the strength of the company issuing each contract.
- › Each contract is issued separate and independent.
- › The Life Insured should be aware that the life annuity is not cancellable... the decision is for life!