

Insured Annuity - Spousal Scenario

Hello.

There are many creative things that can be done for your non-registered assets. Often the more creative solutions involve using different products in tandem. The insured annuity is a prime example of this. It is important to ensure that you qualify for the life insurance first, before purchasing the annuity component.

The comparative table below shows that if you put your money in conventional GICs with an effective payout rate of 4%, the annual income will be \$4,000 all of which will be taxable.

At your tax rate this would create tax payable of \$1,840 leaving \$2,160 as net after-tax income.

Assumptions:

Male	Age	65
Female	Age	62

Open Capital	\$100,000
GIC Rate	4.0%
Marginal Tax Rate	46.00%

	GIC (\$)	Joint Life Annuity(\$)
Annual Income	\$4,000	\$6,122
Taxable Portion	\$4,000	\$2,033
Tax at 46%	\$1,840	\$935
Net Income From Taxable Portion	\$2,160	\$1,098
Non-taxable Portion	n/a	\$4,089
Total After Tax	\$2,160	\$5,187
Annual Insurance Premium	n/a	\$1,344
Total Net Annual	\$2,160	\$3,843
Equivalent Pre-Tax Yield	-	7.1%
Increase in spendable income over GIC	-	77.9%

Date of Annuity Illustration:	23-Mar-06
Date of Life Illustration:	23-Mar-06

Alternatively, if you purchase a joint life annuity combined with a joint, last-to-die life insurance policy, your net income changes very favourably, even after the premium for the insurance coverage is removed.

A joint life annuity is purchased so that a guaranteed income of \$6,122 is payable on an annual basis for as long as you or your spouse is living. In order to create the highest possible income, we have chosen an annuity with no guaranteed period.

Your annual life insurance premium is \$1,344. At the second passing, a tax-free benefit will be paid to named beneficiaries or the estate, thereby replacing your original capital.

Your estate is in exactly the same position as with the GIC option. The major benefits are realized in the after-tax income that you will receive for as long as either one of you is alive.

Even after taking into account the insurance cost, you still have an after-tax income of \$3,843. This is \$1,683 more each year, on an after-tax basis, than current interest rates would provide from a bond or a GIC.

This represents an increase in your spendable income of 77.9%. Stated another way, you would have to have a GIC or bond paying an interest rate of 7.1% to deliver the same net annual after-tax income as the annuity.

At the second passing, the \$100,000 originally used is returned, tax-free, from the insurance to preserve capital. And if the insurance proceeds are paid to named beneficiaries, rather than to the estate, the money will be exempt from probate*.

The one trade-off in this whole arrangement is that you will not have access to the principal sum if it has been used to purchase an annuity. However, this should not be an issue if the prime focus is to satisfy the guaranteed investment and income objectives stated earlier. It should also be noted that this is a concept that may apply to a portion of your non-registered holdings and not necessarily to the entire amount. Again, total planning is the key.

The illustration above used an insurance policy where premiums are payable to the second death, which is also when the benefit would be paid to the estate. Another option in this strategy is to investigate the use of insurance where the death benefit is still paid at the second passing, but the premium stops at the first death. The insurance premium would increase but there would be no additional premiums payable at the time the first death occurred. Ultimately, the survivor would receive more after-tax income from the insured annuity than he/she would from the GIC.

* Not applicable in Quebec as notarial wills do not need to be probated by the court and, for holograph wills and wills made in presence of witnesses, probate fees are minimal.

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