

Tax-Deferred Annuity Concept

Hello.

There are many examples where the combination of financial tools works very efficiently to achieve a desired result. The Tax-Deferred Annuity is not a specific product, it is a strategy that employs two distinct products.

In the following example we are looking to create guaranteed income combined with tax-deferred growth over a 10-year period.

The example below compares a GIC at 4.35% to a combination of a 10-year term certain prescribed annuity and growth funds. We are assuming that the GIC is renewed at the same rate.

Amount to invest	\$200,000
GIC Rate (before taxes)	4.35%
Term for Annuity Certain	10 Years
Investor's Marginal Tax Rate	40%
GIC Rate (after taxes)	2.61%
After Tax Return on Growth Fund	5.00%*

* Rate of return is not guaranteed nor linked to any specific fund

Purchase GICs at 4.35%		Annuity Certain &	Growth Fund
\$200,000	Amount Invested	\$46,850	\$153,150
\$8,700	Annual Income	\$5,576	
\$8,700	Taxable Amount	\$891	
\$0	Tax Free Amount	\$4,685	
\$3,480	Tax Payable	\$356	
\$5,220	Total Net Income	\$5,220	
\$200,000	Tax Paid Capital in 10 Yrs		\$249,465
	After Tax Fund Break Even Rate	2.70%	\$200,000

We have used a 10-year term certain prescribed annuity policy to deliver an efficient after-tax income. The annuity costs \$46,850 and the difference of \$153,150 is put into growth funds with some tax efficiency.

We can deliver guaranteed income through the annuity. In the tax paid capital available from the growth fund is projected to be \$249,465 at the end of 10 years.

The after tax fund break even rate is the compound growth the account would have to realize in order to be worth \$200,000 at the end of 10 years net of taxation.

The combination of the right financial tools can create multiple benefits.

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