



Case Study

Increase your Retirement Income and Preserve your Capital

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Insured Annuity Case Study

Now retired, **Robert Sanderson, age 70**, loves to travel. While his original plan was to leave his estate intact for the children's inheritance, Robert is now considering the sale of the family home (valued at \$500,000) to generate more income to pay for his travels abroad.

Robert consulted his financial advisor on how to best invest the proceeds of his home sale. As with most retirees, Robert's investment risk threshold is much lower now. There have been many market downturns over the years and he is looking to get the highest income with the lowest risk.

GIC interest is guaranteed but provides low after tax income because this interest is fully taxable. At death, any remaining capital will pass through his estate, subject to executor and probate fees.

Robert's financial advisor recommended an insured annuity strategy which combines a life annuity and insurance policy to deliver a guaranteed lifetime income for Robert, plus, the full estate value of \$500,000 will pass to his children tax free on his death.

Using the capital from the sale of the home to purchase a life annuity provides a high, level income guaranteed for as long as Robert is living. A prescribed life annuity has a favourable tax treatment providing a higher after tax income over a GIC investment.

Unlike GICs, which have interest maturity dates and require reinvestment, life annuities offer guaranteed payments for life. While some life annuities provide for a minimum payment period in the event of the annuitant's premature death, Robert's financial advisor has recommended a life annuity with no guaranteed payment period to produce the maximum income.

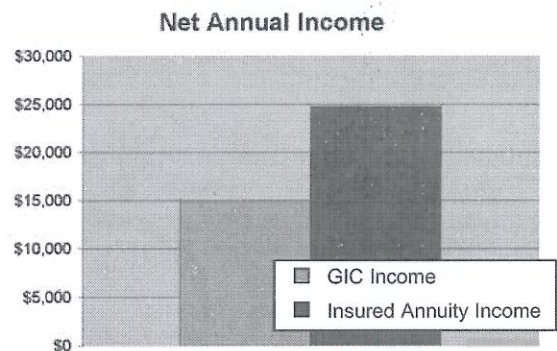
To complete the insured annuity, Robert would use some of the annuity income to purchase a \$500,000 permanent life insurance policy. This will provide a tax-free payment to Robert's estate, or named beneficiary, to replace the original capital invested into the annuity.

Let's take a closer look at the differences between purchasing an insured annuity versus purchasing a typical bank GIC deposit.

The table below shows \$500,000 from the sale of Robert's home invested in a Life Annuity backed by the purchase of a **Pure Term 100** insurance policy from AIG Life versus \$500,000 invested in a bank GIC.

Robert's after-tax annuity income, less premiums paid for the insurance policy, generates **65%** more income than the bank GIC alternative. What's more, on Robert's death, his beneficiaries will receive \$500,000 tax free without probate fees.

GIC Investment		Insured Annuity	
\$500,000	Initial Capital	\$500,000	
5%	Annual Investment Rate	N/A	
\$25,000	Gross Annual Income	\$50,435	
\$25,000	Taxable Portion	\$14,514	
(\$10,000)	Tax Payable (40% marginal tax rate)	(\$5,806)	
\$15,000	After-Tax Income	\$44,629	
N/A	Annual Insurance Premium	\$19,860	
\$15,000	Net Annual Income	\$24,769	
N/A	Difference in Annual Income	\$9,769	
	Increase Over GIC Yield	65.13%	



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For detailed information or thoughts on any of the above, please contact Capital Estate Corporation at (780) 463-6128 or toll free at 1-800-661-8755 or Fax to (780) 462-7523

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