

CASE IN POINT

Sales Tax Estate Planning Underwriting & Product Newsletter

Guaranteed Lifetime Income and Capital Preservation Strategy



Mary is a healthy 65 year old widow, whose husband passed two years ago. She has two adult daughters who have children of their own. Mary keeps herself active in the community and credits her lifestyle and positive outlook on her good health.

Mary's income sources are derived from survivor's benefits from her husband's work pension, Canada Pension Plan, Old Age Security, a modest equity portfolio and a sizeable fixed income portfolio comprised of GICs and T-Bills. All of that puts her into a 40% tax bracket.

Mary is risk averse and a bit of a worrier when it comes to her investments and cash flow. Look at the amount of money she has in term deposits.

Mary's fixed income investments total \$400,000 which earn an average rate of return of 4%.

Despite Mary's modest lifestyle and various income sources, she is concerned about her future income needs, continued low long-term interest rates, market volatility, inflation and her grandchildren's future. She would like more guaranteed income without taking on more risk. She also wants to leave a meaningful legacy for her grandchildren.

To address her personal income needs and estate wishes, her financial advisor suggests that Mary explore the merits of a guaranteed income and capital preservation strategy.



Peter A. Wouters,
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Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He has provided 1000s of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As an accredited Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

Guaranteed Lifetime Income and Capital Preservation Strategy

Specifically, the advisor suggests that Mary consider using \$250,000 of her fixed income investments for this strategy. Mary would keep \$150,000 in fairly liquid GICs for emergencies and pleasure purposes.

	Fixed Income Investment	Traditional Insured Annuity
Gross annual income @ 4%	\$10,000	\$16,711.68
Taxable portion	\$10,000	\$5,416.80
Tax payable @ 40%	-\$4,000	-\$2,166.72
Sub-Total	\$6,000	\$14,544.96
Life insurance premium	0	-\$6,782.50
After tax cash flow	\$ 6,000	\$7,762.46
Advantage		\$1,762.46
Equivalent pre-tax rate of return		5.18%

For illustration purposes only. GIC earnings @ 4%.

Single Life Annuity, no minimum guarantee period, Nov. 13, 2023; Term to 100 Female non-smoker.

The strategy generates a 29.4% increase in after-tax cash flow with no increase in risk. The capital preservation is assured with the \$250,000 of permanent life insurance coverage, which may be paid out tax-free, directly to named beneficiaries and bypass any estate settlement processes and fees. Both the cashflow and coverage are guaranteed for Mary's life. Remember, Mary had set aside \$150,000 of the original money for other purposes.

Mary's worries about her income and legacy objectives have been addressed with a simple solution that is easy to manage for Mary and for whomever she appoints under a Power of Attorney to manage her affairs should she become unable to manage them herself.

Mary has other options she can consider when customizing this strategy to suit other needs. Read about them in future issues.

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