

CASE IN POINT

Sales Tax Estate Planning Underwriting & Product Newsletter

Traditional Individual Insured Annuity



Mary is a healthy 70 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 2.25%

Despite Mary's modest lifestyle and various income sources, she is concerned about her future income needs, continued low 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.

2017, Issue 1



Peter A. Wouters,
Director, Tax
Retirement &
Estate Planning
Services, Wealth

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 annually provides 100's 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 a 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.

Peter can be reached at
peter.wouters@empire.ca

Case in Point

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	\$5,625	\$15,784.17
Taxable Portion	\$5,625	\$2,286.26
Tax Payable @40%	<u>-\$2,250</u>	<u>-\$914.50</u>
Sub-Total	\$3,375	\$14,869.67
Life insurance premium	<u>0</u>	<u>\$10,339.23</u>
After tax cash flow	\$3,375	\$4,530.44
Advantage		\$1,155.44
Equivalent pre-tax rate of return		3.02%

For illustration purposes only. GIC earnings @ 2.25%.

Single Life Annuity, no min. guarantee period, Mar 6, 2017; Estate Max 100 enhanced insurance F NS.

The strategy generates a 34% increase in after-tax cash flow. The capital preservation is assured with the \$250,000 of permanent life insurance coverage. Both the cashflow and coverage are guaranteed. And after 16 years, the strategy provides an increasing legacy for Mary's grandchildren; potentially over \$400,000 should Mary live into her 90s. That's comparable to the original amount that Mary had in her fixed income portfolio. 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.

This information is for general information purposes only and is not to be construed as providing legal, tax, financial or professional advice. Empire Life Investments Inc. and its affiliates assume no responsibility for any reliance on or misuse or omissions of the information contained herein. Information obtained from and based on third party sources are believed to be reliable, but accuracy cannot be guaranteed. Please seek professional advice before making any decisions.

Empire Life Investments Inc., a wholly owned-subsiary of The Empire Life Insurance Company, is the Manager of Empire Life Mutual Funds and the Portfolio Manager of Empire Life Segregated Funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund and segregated fund investments. **Any amount that is allocated to a Segregated Fund is invested at the risk of the contract owner and may increase or decrease in value.** A description of the key features of the individual variable insurance contract is contained in the Information Folder for the product being considered. Segregated Fund policies are issued by The Empire Life Insurance Company.

® Registered trademark of **The Empire Life Insurance Company**. Empire Life Investments Inc. is a licensed user of this trademark.