STEPUP
Sales Tax Estate Planning Underwriting & Product Newsletter

Guaranteed Minimum Withdrawal Benefit Plans and Taxation

– how are payments taxed during the guaranteed payment phase?

Many retirees, who rely on their own personal savings in retirement, not only face market risk, but also retirement income risk. The top investment choice for Canadians who contributed to RRSPs was mutual funds, according to the RRSP Deadline Survey, 2014. These funds may not offer effective protection against market downturn or retirement income risk. Despite that, Canadians have greater confidence in mutual funds (86%) than other financial products such as GICs (59%), bonds (51%) and stocks (64%), according to IFIC Stats and Facts 2017. Are there options for aging Canadians looking to turn their assets into income?

Product innovations by insurance companies over the last 10 years have introduced Canadian investors to a new investment product solution, which offers a guaranteed minimum withdrawal benefit (GMWB) on specific segregated fund investment policies. These segregated fund contracts may offer the same benefits that are available within regular segregated fund contracts. They offer the additional benefit of a predictable income stream without the worry of outliving investment capital. They offer the potential of participating in investment gains that can increase the income stream in future years without increasing income risk levels.

A guaranteed income for life, even if the original investment capital and growth have been fully withdrawn sounds great; but how are these guaranteed payments taxed? The issue may not be relevant for those situations where registered assets are used. All income payments are taxed as income much like pension, RRSP, RRIF and registered annuity income streams. The Canada Revenue Agency (CRA) has not yet clarified how to tax non-registered payments in excess of original capital invested by the policyholder.

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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

Empire Life Investments

CRA stated in the spring of 2007 that it did not contemplate payments in excess of contributed capital when providing earlier opinions on the taxation of guarantee payments (CLHIA Taxation Officers Roundtable, 2007-0229731C6). Industry practice has been to tax all guaranteed payments triggered by the maturity of a segregated fund policy or the death of the life insured as capital gains in accordance with para.138.1(1)(j) of the Income Tax Act (Canada). These top-up payments are taxable to the policyholder when paid out of the contract. Empire Life currently reports the amount of the top-up as a capital gain on a T-3 Form.

Empire Life's Guaranteed Minimum Withdrawal Benefit is called Class Plus. There are several versions. The Class Plus Fee, which is an insurance fee, is an expense to the policyholder for non-registered savings plans. Presently for registered plans, the Class Plus Fee is considered an expense of the registered plan that pays for the contractual benefits associated with deposits to the policy. GST is not applicable to the Class Plus Fee. Most importantly, the Class Plus Fee will not be charged during the Guaranteed Payment Phase.

With Empire Life, if the market value of the Class Plus funds credited to the policyholder's contract equals $0 and the Income Base of the Lifetime Withdrawal Amount (LWA) has a positive value, the contract will continue to provide for annual payments. These payments are subject to limits outlined in the Information Folder and Policy Provisions. The taxation of the benefits associated with a guaranteed minimum withdrawal benefit plan remains uncertain at this time. Empire Life will report any payments during the Guaranteed Payment Phase based on our understanding of the legislation and CRA assessing practices at that time. We, together with other companies and industry associations continue to lobby the Department of Finance and CRA for a clear and favourable position on the taxation of these benefits.

This article is an update of the March 2010 STEPUP Newsletter. For more information or resources from the StepUp Team, go to Empire Life website at:

English: empire.ca/advisor/business-building/stepup-team

Français: empire.ca/fr/advisor/business-building/stepup-team

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