Life annuities

Life insurance companies provide income to people based on life expectancy through life annuities. This income is guaranteed for life and annuities may offer various features, such as:

- indexing for growth
- survivor benefits
- guaranteed periods of income in the event of an early death

But, unlike in a RRIF, you give control of your assets to the insurance company in exchange for a lifetime guaranteed income.

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The information provided is accurate to the best of our knowledge as of the date of publication, but rules and interpretations may change. This information is general in nature, and is intended for educational purposes only.

For more information about Canada Life and its products visit www.canadalife.ca or talk to your financial advisor.

A description of the key features of Canada Life's individual variable insurance contract is contained in the information folder, available from your financial advisor.

SUBJECT TO ANY APPLICABLE DEATH AND MATURITY GUARANTEE, ANY AMOUNT THAT IS ALLOCATED TO A SEGREGATED FUND IS INVESTED AT THE RISK OF THE CONTRACT HOLDER AND MAY INCREASE OR DECREASE IN VALUE ACCORDING TO THE FLUCTUATIONS IN THE MARKET VALUE OF THE ASSETS OF THE SEGREGATED FUND.

Helping people achieve more

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RRIF or annuity – which should I choose?

An income strategy

Are you concerned about outliving your money?

Should you purchase a life annuity or move your registered money to a registered retirement income fund (RRIF)?

Situation

What do you do with your registered retirement savings plan (RRSP) account?

You want to be sure your money will last. Do you buy a life annuity or a RRIF[1] product?

Solution

Consider a RRIF today, a life annuity later.

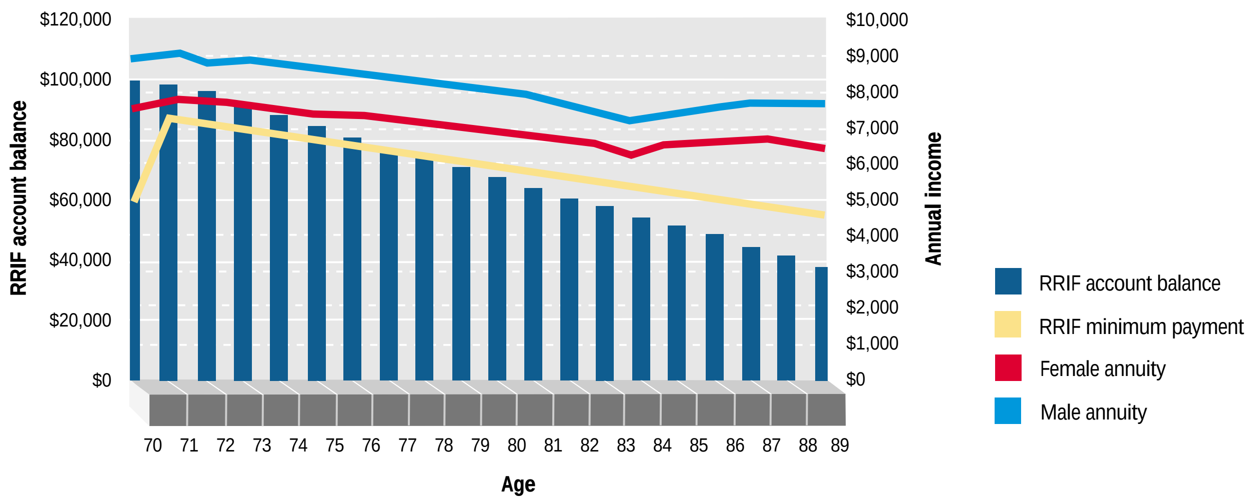
Purchase a RRIF with minimum payments today and keep your option open to roll all or part of your RRIF into a life annuity as your income needs warrant.

[1] RRIF – this encompasses RRIF (registered retirement income fund), LIF (life income fund), LRIF (locked-in retirement income fund) and PRIF (prescribed retirement income fund).

Which should you buy?

The income comparison in the chart shows the income possible when purchasing a life annuity using the RRIF funds available at given ages. It compares this income to the income from a RRIF, where minimum withdrawals have been made. In both cases, lifetime income may be possible. RRIF minimum income depends on the annual rate of return realized. Assuming a steady annual rate of return, a declining RRIF income stream occurs; whereas once a life annuity is purchased, the income level is guaranteed not to drop[2].

[2] RRIF – Depending on features the client has selected when the annuity is established.



The vertical bars (and the figures on the left) show how a $100,000 RRIF account - with a four per cent annual rate of return - is reduced each year after withdrawing the prescribed RRIF minimum. The yellow line (and the values on the right) represents the annual income from minimum RRIF withdrawals. The red and blue lines show what annual income you'd receive if you purchased a life annuity with the RRIF balance that year. Annuity payouts differ for men and women, and are based on a Canada Life five-year guaranteed annuity as of May 10, 2005. Annuities at age 85 and older include a guarantee to age 90.

This strategy suggests:

Draw RRIF minimum income payments while income needs are flexible. **Switch to a life annuity** when you decide it best suits your need for a guaranteed lifetime income.

The benefits:

- Minimum RRIF payments are structured so you can withdraw income, but you may outlive your money depending on returns.
- With a RRIF, you keep the flexibility to take additional withdrawals when you want them – for travel, family or to help in an emergency.
- With RRIF minimum payments, the fund value declines minimally in the early years.
- At any time, you have the option of using some or all of the funds in your RRIF to purchase a life annuity.
- The annuity income you can purchase is often similar to the minimum payment available with the RRIF at the time you purchase the annuity. The difference is that once purchased, the annuity income does not change.

Why do people transfer their RRSPs to RRIFs?

- To maintain investment control of investments.
- At death, all remaining funds transfer to beneficiaries.
- Clients often want the freedom to spend more in their early years, while they are more active.

Concerns with RRIFs

- At current rates, taking much more than RRIF minimums may lead to running out of funds.
- RRIF minimum payments will, over time, lead to reduced payments.
- There may be a time when purchasing lifetime guaranteed income is the preferred choice.

Why do people buy life annuities?

- Concern about outliving their wealth
- Guaranteed lifetime income

Concerns with annuities

- The loss of investment value due to an early death
- The income amount is fixed
- Purchasing power reduces with inflation – if an indexed annuity is not selected
- Your ability to draw lump sums from your fund is gone

Before you make your decision about how to draw income from your retirement savings, consider the benefits of a RRIF with minimum payments. Speak with your financial advisor and discuss the most suitable approach for your personal situation.

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