The Gazette

PERSONAL FINANCE

THE BUSINESS SECTION - MONTREAL - MONDAY, OCTOBER 28, 1985

Right annuity can boost pension

By MATTHEW ELDER
of The Gazette

If you are planning to collapse your registered retirement savings plan (RRSP) soon, it's worth thinking about how you plan to use the proceeds.

An RRSP offers a tax-deferred means of saving for retirement.

If you're like most people, you'll probably wait until after you retire before withdrawing RRSP money. That's when you'll probably need it because you'll need to replace your employment income.

You'll have to pay tax on the proceeds when you close the RRSP, but the bite will be less painful than when you were working because you'll be in a lower tax bracket.

By far the most popular means of receiving RRSP money is through an annuity.

While "annuity" is a term that applies to any investment which pays out fixed payments at set intervals throughout a particular term, it normally refers to a registered vehicle that provides retirement income. Because it's registered, you do not pay tax until the money is actually received, usually in monthly installments.

If you turn 71 this year, the law requires you to collapse your RRSP before the end of 1985. It's up to you to take the initiative and contact the bank, trust company or other institution that manages your RRSP.

RRSP managers have been known to simply send a cheque to these usually long-standing but unsuspecting customers — minus a hefty percentage deducted for tax purposes.

Ultimately, be sure that, if you do postpone collapsing your RRSP until age 71, you review the payout alternatives carefully with a qualified expert.

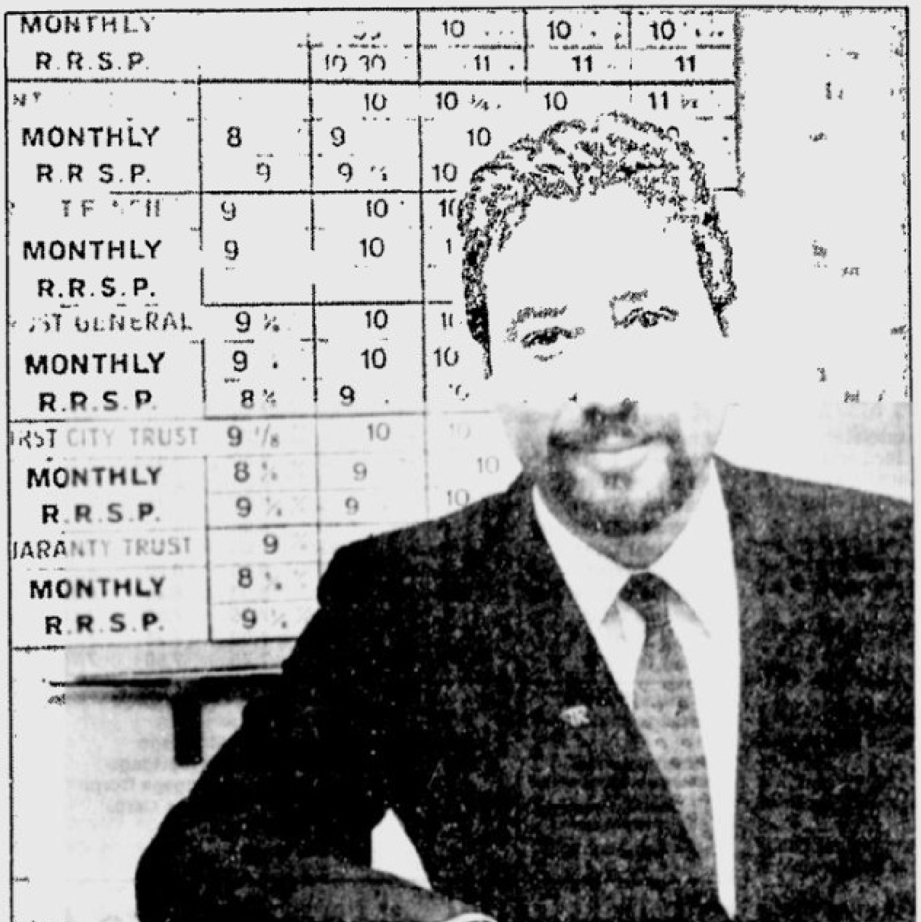
Annuities at a glance

- **"Zero" life annuity provides income only to annuitant until he dies.**
- **Guaranteed life annuity pays annuitant, or family or estate, for specified term.**
- **Joint-and-last-survivor annuity pays annuitant or spouse until both are dead. Guarantee may be added to provide income to estate for specified term should both die before end of that period.**
- **Term-certain-to-age-90 annuity pays income for period equal to age 90 less annuitant's age. When annuitant dies, spouse receives income for duration. On spouse's death, any outstanding payments go to estate as lump sum.**
- **Indexed annuities and registered retirement income funds offer payments on accelerating scale to compensate for inflation.**

with whom they've been familiar for years.

Robert Richardson of Richardson and Associates, an Anjou-based financial planning firm, said annuity brokers gain a good deal of business from people who are nearing retirement and no longer have a life-insurance agent or other annuity expert to consult.

As a financial planner licensed to sell annuities, Richardson said he understands his clients' financial situations best and consequently is in the best position to



Gazette Len Sidaway

Jack Rothenberg favors life annuity over the term-certain-to-age-90 type.

antee, based on the age of the annuitant or the spouse, may be added to provide income to children or the estate for a specified period. Sold only by insurance companies.

• **Term-certain-to-age-90 annuity:** The term's duration is equal to age 90 less the age when

ing basis, allowing for a maximum 4-per-cent annual increase in the cost of living. Sold by insurance companies.

• **Registered retirement income fund, or RRIF:** Available from stockbrokers as well as banks, trust companies and some insurance companies. RRIFs

used to receiving a median amount of money each year," said Hughes.

RRIFs have not caught on, he said, because they are not competitive with joint-and-last survivor annuities, which remain in effect not only for your life, but your spouse's as well.

Continue to page 2…

Ultimately, be sure that, if you do postpone collapsing your RRSP until age 71, you review the payout alternatives carefully with a qualified expert.

Rolling RRSP proceeds into an annuity or a registered retirement income fund (RRIF) will ensure that you only pay tax to Ottawa and Quebec as the cash is paid out, usually on a monthly basis.

Annuities and RRIFs are offered by life-insurance companies, trust companies, banks and, in the case of RRIFs only, by stockbrokerage houses. It is the life insurers, however, that handle the lion's share of the annuity business.

Sold by brokers

Annuities and RRIFs may be purchased through insurance brokers and insurance agents, as well as annuity brokers. Where trust-company and bank products are involved, they may be be purchased through the institutions' branches.

Annuity brokers have a wider view of the annuity market than insurance agents because they are not obliged to sell one company's products, said Jack Rothenberg, president of Rothenberg and Rothenberg Annuities Ltd.

Moreover, annuity brokers are better equipped than insurance sales people because they concentrate on one product only – annuities, he added.

Insurance sales people and financial planners argue, however, that they are in a better position to sell annuities to clients

As a financial planner licensed to sell annuities, Richardson said he understands his clients' financial situations best and consequently is in the best position to advise them on an annuity purchase.

"I don't have favorites – I just pick the best rate available," he said.

Whoever you deal with, don't wait until the end of the year, said Montreal annuity broker Ivon Hughes, president of Hughes and Associates Ltd.

"It's hard to get the same quality of service in late November when everybody else is doing the same thing," he said. "You're better off looking into it earlier."

Purchasers may start receiving payments any time from a month or so up to a year from the date they buy an annuity, Hughes said, depending on their specific financial needs.

There are five basic types of annuities, as well as the RRIF:

- **"Zero" life annuity:** This provides maximum monthly income, but provides income only until the annuitant dies. Sold only by insurance companies.
- **Guaranteed life annuity:** Guarantees monthly payments to the annuitant – or, if he or she dies prematurely, to the annuitant's family or estate – for a predetermined period. Guaranteed life annuities are not available beyond age 90. Sold only by insurance companies.
- **Joint-and-last-survivor annuity:** Pays annuitant or his or her spouse until both die. A guaranteed period. Sold only by insurance companies.
- **Term-certain-to-age-90 annuity:** The term's duration is equal to age 90 less the age when you buy the annuity. It pays you – or your spouse but not other beneficiaries – through the end of the term. If your spouse dies before then, the remaining payments are paid to the beneficiaries as a lump, taxable sum. Sold by insurance companies and trust companies.

"We don't recommend this type of annuity," Rothenberg said, "because, after age 90, that's it. What happens if you live longer? For what amounts to only a few dollars a month, you're better off with a life annuity."

- **Indexed annuity:** Pays monthly income on an accelerat-

IVON HUGHES
Don't wait until year-end

- **Registered retirement income fund, or RRIF:** Available from stockbrokers as well as banks, trust companies and some insurance companies. RRIFs were legislated into existence in 1978. They invest your RRSP proceeds and pay income on an accelerated basis to age 90, allowing your retirement income to theoretically keep pace with inflation.

If you were to roll your RRSP into a RRIF at age 71, you would receive payments for 19 years. In year 1, you would receive one-nineteenth of the balance in your account. In year 2, you would get one-eighteenth of the balance; in year 3, one-seventeenth, and so on.

For example, a 69-year-old man with a $50,000 RRSP could roll the money into an RRIF on Nov. 1 and, according to one trust company's quote, receive $331 a month for the first year, or $3,978. The second year, the payments would increase to $349 a month, or $4,187. The third year, they'd be $367, or $4,408, and so on.

A typical zero-life annuity for the same person would pay a flat $483 per month, or $5,801 annually.

It would take about 11 years for the total income from the RRIF to exceed that of the zero-life annuity.

RRIFs are fine for wealthy retirees who would prefer to pass on the income to their heirs

But if you want the money sooner, you'll need an annuity.

"Let's face it, most people are said, because they are not competitive with joint-and-last survivor annuities, which remain in effect not only for your life, but your spouse's as well.

To make RRIF's more competitive, many institutions have introduced an option known as the "smoothing factor." This allows you to increase the level of payments in the early years and lower them toward the end of the term.

At your discretion, you may increase early payments from 1 to 6 per cent. The higher the percentage increase, the smaller the spread between the lowest and the highest payments.

Combining suggested

Kenneth Mann, the Royal Bank of Canada's manager of special deposit services, suggested combining a RRIF with an annuity. A RRIF offers greater investment flexibility and defers taxes longer, he said, while an annuity provides a steady retirement income from the first year of retirement on.

Before consulting an expert, Richardson suggested annuity buyers do a little homework.

"The individual has to do a little research on his own and has to be aware of the various alternatives," he said. "He should know in advance that he shouldn't have to accept $120 a month when it could be $130."

Added annuity-broker Hughes: "We recommend our clients buy from safe, well-known companies. After all, it's the last money most people will earn."

What a $50,000 RRSP will buy in monthly annuity payments

Issuers	Age when income starts	Zero life annuity Male	Zero life annuity Female	Life Annuity Guaranteed 10 years Male	10 years Female	15 years Male	15 years Female	to age 90 Male	to age 90 Female	Joint Life* (Guaranteed term) 10 years	15 years	to age 90	Term Certain to 90
Canada Life	65	$558	$518	$528	$503	$505	$490	$470	$467	$480	$477	$464	$475
	71	$628	$571	$564	$538	$524	$513	$500	$495	$512	$501	$490	$507
Confederation Life	65	n/a	n/a	$526	$490	$499	$477	$458	$452	$468	$464	$449	$462
	71	n/a	n/a	$567	$528	$519	$501	$491	$482	$504	$490	$477	$497
Dominion of Canada General Ins. Co.	65	$569	$518	$525	$494	$492	$474	$435	$432	$465	$458	$430	$437
	71	$674	$595	$570	$539	$512	$499	$477	$471	$509	$489	$468	$480
Great West Life	65	$552	$510	$521	$494	$498	$482	$462	$458	$470	$467	$454	$466
	71	$627	$564	$560	$530	$519	$505	$492	$486	$502	$492	$480	$501
Industrial Life	65	$581	$518	$529	$498	$494	$480	$435	$429	$471	$465	$437	$438
	71	$679	$595	$571	$543	$513	$505	$477	$473	$515	$495	$474	$482
Metropolitan Life	65	$553	$506	$520	$492	$496	$479	$458	$455	$470	$467	$454	$461
	71	$630	$558	$559	$526	$515	$500	$487	$481	$501	$490	$477	$493
Standard Life	65	$565	$515	$526	$497	$500	$484	$460	$457	$475	$471	$455	$467
	71	$639	$572	$563	$535	$519	$507	$491	$487	$510	$497	$483	$503
Sun Life Assurance Company of Canada	65	$564	$520	$525	$503	$503	$489	$468	$465	$476	$473	$461	$485
	71	$634	$581	$561	$539	$523	$513	$500	$495	$510	$499	$489	$519
The Manufacturers Life Insurance Co	65	$568	$505	$534	$489	$508	$476	$453	$450	$481	$477	$461	$471
	71	$647	$556	$572	$523	$527	$497	$484	$478	$513	$501	$488	$506

*Both Spouses are aged 65 to 71 when payments start. It is assumed that first payments start a month after purchase.

n/a not available