

LIFE ANNUITY PRESENTATION

FOR

OCAD UNIVERSITY

Submitted By:

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LIFE ANNUITIES

Life annuities have been the traditional way of taking retirement income – they provide a guaranteed income for life no matter how long an individual lives. There is no concern about future investment returns or how long an individual lives. The Canada Pension Plan and Old Age Security incomes are annuities as are the monthly incomes paid under Defined Benefit Pension Plans. Annuities can be used to provide income under Defined Contribution Pension Plans and Registered Retirement Savings Plans. Annuities can also be purchased with capital or non-registered funds and the income is taxed in a favourable way.

Life annuities are sold by the larger life insurance companies. Annuity rates are based on the exact ages of the individuals concerned and the insurance company invests the annuity premium in long term fixed income investments such as long term government bonds or mortgages. Once an annuity has been purchased the annuity is set for life and cannot be changed. The income can be for one life of one individual or two individuals. In the case of two lives (called a joint life annuity), an income will continue to the survivor after the death of the first annuitant for as long as he or she lives. Many annuities have a guarantee period of say 10 years, so that if the annuitant (or annuitants) die before the 10 year period has expired, then the value of the remaining guaranteed payments will be paid to the named beneficiary. An annuity can also provide for increasing payments at a fixed rate for the life of the annuity. In this case, the payments start at a lower amount and increase at a fixed compound rate each year (such as 2%) while the annuitant is alive.

In the following table are a range of annuity quotations from one insurance company showing some of the different types of annuities and options that are available. In the event that an annuity is being purchased, it is important to do a survey of all the annuity rates available in order to get the best rate at that time.

Retirement income for pension plans can also be provided using a Life Income Fund (LIF) and, in some cases, a Registered Retirement Income Fund (RRIF). It is important to consider all the available income options and decide which combination of options meets the needs of the retiree and his or her dependents.

ANNUITY QUOTATIONS FOR MONTHLY INCOME PROVIDED BY \$100,000

I Single Life Annuity (Male)

	<u>Male Age 62</u>	<u>Male Age 65</u>	<u>Male Age 68</u>
Life Expectancy (average future lifetime)	19.4 years	17.3 years	16.4 years
1) Single Life Income payable for life only, no guarantee	\$508.89	\$544.07	\$601.03
2) Single Life Income payable for life, 10 year guarantee	\$497.24	\$526.20	\$572.34
3) Single Life Income payable for life, 15 year guarantee	\$486.73	\$510.46	\$543.72
4) Single Life Income payable for life, 10 year guarantee, Payments indexed at 2% per year guaranteed	\$400.72	\$431.92	\$479.55

II Single Life Annuity (Female)

	<u>Female Age 62</u>	<u>Female Age 65</u>	<u>Female Age 68</u>
Life Expectancy (average future lifetime)	22.6 years	20.1 years	17.7 years
1) Single Life Income payable for life only, no guarantee	\$472.38	\$500.47	\$544.57
2) Single Life Income payable for life, 10 year guarantee	\$466.15	\$488.56	\$527.44
3) Single Life Income payable for life, 15 year guarantee	\$459.52	\$479.80	\$510.89
4) Single Life Income payable for life, 10 year guarantee, Payments indexed at 2% per year guaranteed	\$367.70	\$392.32	\$432.20

Note: 1) Annuity Quotations are based on the exact birthdate(s) of the individuals concerned and the precise amount of funds being used to purchase the annuity. Annuities are fixed once purchased and cannot be cashed in or otherwise modified.

2) The above annuity monthly incomes are based on the current annuity rates of Manulife Financial for illustration purposes. If an actual purchase is being made, the annuity market will be surveyed to get the best available rate.

ANNUITY QUOTATIONS FOR MONTHLY INCOME PROVIDED BY \$100,000

II Joint Life Annuity

	<u>Male Age 62</u> <u>Female Age 59</u>	<u>Male Age 65</u> <u>Female Age 62</u>	<u>Male Age 68</u> <u>Female Age 65</u>
Joint Life Expectancy (average future lifetime for at least one person to be alive)	29.0 years	25.5 years	22.7 years
1) Joint Life Income payable for as long as either person lives, no guarantee	\$402.27	\$417.24	\$447.93
2) Joint Life Income payable for as long as either person lives, 10 year guarantee	\$402.03	\$416.67	\$446.97
3) Joint Life Income payable for as long as either person lives reducing to 60% on the male death, no guarantee	\$439.09	\$460.20	\$498.97
4) Joint Life Income payable for as long as either person lives reducing to 60% on either death, no guarantee	\$453.82	\$477.22	\$518.91

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2) The above annuity monthly incomes are based on the current annuity rates of Manulife Financial for illustration purposes. If an actual purchase is being made, the annuity market will be surveyed to get the best available rate.

FOR ILLUSTRATION PURPOSES ONLY

PROPOSED PENSION INCOME FOR SAMPLE OCADU RETIREE
(MALE AGE 68, FEMALE AGE 65)

Total Pension Plan amount available is \$300,000

Joint Life Annuity Purchase with \$100,000 – Income	\$ 448 per month
Guaranteed LIF purchase with \$100,000, Minimum Payment	\$ 330 per month
Investment Fund LIF purchase \$100,000, Maximum Payment	\$ 725 per month
Male’s Canada Pension Plan (maximum at age 65 in 2014)	\$1,038 per month
Male’s Old Age Security (age 65 Jan 2014 level)	\$ 552 per month
Total Male Monthly Income	----- \$ 3,093 per month
Female’s CPP	\$ 200 per month
Female’s Old Age Security (at age 65)	\$ 552 per month
Total Monthly Income	----- \$ 3,845 per month