THE TRUTH ABOUT ANNUITIES

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Let me introduce you to the world of annuities by telling you a true story that not too many are aware of. In 1967, one of the major insurance companies celebrated its 100th anniversary. To mark the occasion, they decided to publish the story of the oldest living annuitant among their policyholders. It turned out that the gentleman in question had retired to his hometown in India. The company assembled a team of photographers, writers and prominent executives and traveled to India to interview the honoree.

After a long journey, they reached the small town where the object of their celebration resided. When they came to his home, there was a middle aged man standing in front of the house. They asked if he knew the person they were looking for. When he told them that he was the son, they told them why they were there and if they could meet the old man, to which he replied "I don't think so, he has been dead for 15 years!"

They were in shock. How had they been cashing the annuity cheques all this time? Come with me he said. He took them into the kitchen, where he pointed them to a jar that stood on a shelf next to a small ink pad. It was a jar of formaldehyde which contained one of the man's thumbs held by a string.

Being illiterate, the annuity holder had been signing the back of the cheques with his thumb, of which they had a print on file.

Imagine their consternation and embarrassment. The story was never published. The whole project turned out to be an expensive lesson. This is why ever since, all companies issuing such annuities, send out a letter every year, or every second year, depending on the company, to make sure that the annuitant is still alive before they make the next payment.

LET ME TELL YOU FROM THE OUTSET, THAT IN MY OPINION, ANNUITIES ARE THE LEAST KNOWN, LEAST UNDERSTOOD, MOST UNDERUTILIZED, YET MOST EFFECTIVE FINANCIAL INSTRUMENT THAT SHOULD HAVE ITS PLACE IN EVERY CANADIAN FAMILY'S FINANCIAL PLANNING STRATEGY.

Before we go any further, let us define the term "annuity."

In the broadest sense, an annuity is defined as the right to receive fixed annual payments over a period of time. More recently the term "annuity" has been extended to include other payment frequencies as well as variable payments.

When annuities are paid for life they are referred to as Life annuities. These can be offered only by life insurance companies. When they are payable for a defined number of years, they are called term certain annuities. These can be offered by life insurance companies and by other financial institutions such as banks and trust companies.

It has been my experience that most retirees think of a life annuity as a bad deal that leaves the issuer keeping the bulk of their investment should they die prematurely. Statistics show that only a small percentage of registered retirement money goes to annuities.

Government and life insurance industry statistics tell us that, in 2011, Canadians turning 65 that year, held a total of more than $35.5 billion in RRSPs. Of this amount, $17 billion, or 48%, was converted to income. $2.5 billion, less than 1% was taken out in cash. The balance was not converted at that time.

Of the RRSP funds that were converted to income, 93.75% went to RRIFs and LIFs and only 6.25% to Annuities.

When we look at the age 70 to75 age group, 92% had moved their RRSPs to RRIFs and only 8% to annuities.

54% of all the annuities in force in this country are Registered and 46% Non-Registered. Of the 46% Non-Registered annuities, 96% are Prescribed and only 4% Non-Prescribed.

In my 46 years as an Estate Planning practitioner, I have probably written more annuities than any other advisor in this country. And yet, I can hardly remember any client who had a favourable opinion about annuities when the subject first came up. However, once they found out how they could benefit from the use of annuities, they turned into and remained "happy customers."

Why are annuities so unpopular? And why is there such a widespread ignorance about what they are and what they can do?

Here, in my opinion, are the main reasons:

> Until 1978 Life annuities were the only retirement option under Registered plans, i.e. RRSPs, Registered Pension Plans and Deferred Profit Sharing plans. Under that regime, all registered funds accumulated in banks, trust companies, credit unions, and investment dealers had to be transferred to life insurance companies at retirement time. When their clients reached retirement age, these institutions had to relinquish the funds which had been accumulating in their registered plans, to the life insurance industry, to be converted into annuities. Naturally, they were not too pleased with this constant transfer of funds to the life companies, which forced them to give up the risk-free income from the investment portfolios in which their clients RRSP funds were invested.
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> Since they could not sell life annuities, they looked for and found a way around the problem. Their solution was the RRIF or Registered Retirement Income Fund. With the RRIF, the RRSP funds could stay invested in the same securities and continue to remain tax-sheltered. All the plan holder had to do was to withdraw no less than the minimum amount set by the government, in the year following the plan holder's 71st birthday.
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> On September 18, 1992, Ontario introduced the LIF - Life Income Fund, for individuals with locked-in pension monies. The LIF rules are similar to the RRIF. The main difference is that the LIF contains maximum withdrawal limits to ensure that there is money left to purchase an annuity at age 80 if so desired. Like the RRIF, the LIF may be sold by insurance companies as well as by the same institutions empowered to sell RRIFs.

A battle for the registered funds of retiring Canadians ensued, whereby the RRIF proponents extolled the advantages of RRIFs by pointing out that they offered a wide range of investment options, the flexibility of being able to withdraw any amount above the minimum, the option to use a younger spouse's age to reduce the payout amount, the option to leave the unused amount to the heirs, even if such amounts were subject to taxation. With their largely captive market, these arguments had an impact in denigrating the annuity option before the annuity proponents had a chance to present their counter arguments.

Having found a way to hang on to their investment funds, how often do you think a bank or trust company will recommend a life annuity to a client, when they can retain the funds in a RRIF or LIF?

This vested interest in market portfolios also inhibits these institutions from mentioning life annuities - which they cannot sell themselves - to retiring clients who want to use their non-registered investment portfolios to augment their retirement income and who are fearful of the risks of the market place.

Paradoxically, the life insurance companies themselves, while being the only institutions that can sell annuities, have also switched their emphasis to the marketing of more profitable mutual funds and of other investments that don't require the tying up of increasingly large amounts of capital required to comply with the stringent regulatory reserve requirements for their life insurance and annuity portfolios.

A further reason why annuities, both registered and non-registered, are not popular is that, while financial advisors should always act in their client's best interest, the compensation that comes with equity portfolios vastly outweighs the fees paid on the sale of annuities. The sale of mutual funds and segregated funds provide 4 to 5 times as much income <u>upfront</u> to the advisor as the sale of a life annuity, for the same amount of investment. In addition, the fund portfolio also comes with an annual trailer fee, for the duration of the contract, regardless whether a fund goes up or down in value. There are no trailer fees or continuous compensation associated with annuities.

> How often do you think the average advisor will recommend an annuity to a client if they can make at least 10 times more money by selling mutual funds or segregated funds than by recommending an annuity?

Now that we know what's best for the financial institution and for the advisor, the question remains, **what's best for the consumer**?

To answer this question, it is important to know what kind of annuities there are, the role they can play in a client's retirement and estate planning and the tax considerations involved in different annuity types and applications.

ANNUITY TYPES	**Tax Considerations**	**Annuity Payments Type**
Registered Annuities:		
(RRSP, RPP and DPSP)	All income payments fully taxable	Level Indexed Structured Impaired
Non-registered Annuities:		
Prescribed: Individuals only	Partial level taxation: Reg. 304, Reg. 300 and Paragraphs 56 (1)(d) & 60(a)	Level Structured Impaired
Non-prescribed: Individuals & Corporations	Accrual taxation: Paragraph 12.2(1)	Level Indexed Variable Impaired
Eligible annuity for financially dependent child or grandchild of deceased's registered plan holder.*	All income payments fully taxable. A 60(L) receipt issued to child to offset the lump sum payment.	Level only

*Whereas all other annuities can be for life, this one is limited to the duration of not more than 18 years minus the child's age at the time the annuity was bought, with the minimum term of 3 years. The transfer and purchase has to be completed in the year or within 60 days after the end of the year the refund of premiums is received. The payments from the annuity have to start no later than 1 year after the purchase.

When avoiding the subject of annuities, banks, mutual fund companies and compensation only driven financial advisors, are depriving the public of benefits which could vastly improve the level and security of their retirement incomes and of their estates. The largest category of people to whom this applies is retirees, 65 and older, who have converted their RRSP funds to RRIFs.

We all know that an RRSP holder, who reaches age 71, has to convert his/her plan to income starting in the following year. Typically, this RRSP holder will have a spouse around the same age and would like to see their retirement income last as long as one of them is alive.

Let us assume, for illustration purposes, that we are dealing with a male 71 with a spouse age 69. What are his options and what are most people getting. Chances are, as we have seen before, that he will be dealing with an advisor or an institution that look at a RRIF as the only option.

If this retiree has a zero risk tolerance and wants to avoid seeing his retirement nest egg collapse in case of a severe market downturn - remember 2008? - the best interest rate he can get on his money is around 2%. Interest rates have been stuck at this level since the end of 2008 and it doesn't look like there will be a significant increase in the foreseeable future.

If he wants the minimum payments, to make the income last as long as possible, he will have to withdraw 4.76% in year 1, based on his wife's age, 5% in year 2 and 7.38% in year 3, increasing annually thereafter.

Assuming that he has $1,000,000 to start with, his income would, with the RRIF, go from an annualized income of **$47,767** in year 1, to **$48,744** in year 2, to **$69,750** in year 3 and reduce every year thereafter by an average of 4.5% to **$26,413** at his age 95.

By comparison, on January 8, 2013, the highest paying life annuity with a minimum guaranteed payout of 16 years, reducing thereafter by 50% on the first death, would produce a level annualized income of **$68,825**, as long as both annuitants are alive.

This comparison shows that regardless how long the annuitants live; they will always receive more income from the annuity. The minimum payment RRIF income falls behind the annuity payment starting in year 1 and the income advantage of the annuity increases every year thereafter.

Should at least one annuitant live past year 16 - the total annuity payments they will have received, will add up to **$1,101,200** vs. **$847,178** from the RRIF. This is **$254,022** or **30%** more income from the annuity, during the 16 years.

If both of them are still alive by year 20, they will have received total payments of **$1,376,500** under the annuity vs. **$990,162** under the minimum income RRIF. In other words, they would receive **$386,338** or **39%** more from the annuity than from the RRIF.

If both of them are still alive by year 25, they will have received total payments of **$1,720,625** under the annuity vs. **$1,135,741** under the minimum income RRIF. In other words, they would receive **$584,884** or **51.5%** more from the annuity than from the RRIF.

This income advantage of the annuity keeps growing regardless how long they live, even past age 100. If both are still alive in year 25, they will still receive **$68,825** per annum from the annuity vs. **$26,413** from the minimum income RRIF. 5 years later, at his age 100, the RRIF income would be down to **$11,065** while the annuity income will still be **$68,825**.

IT IS CLEAR THAT THE LONGER THEY LIVE THE GREATER THE ADVANTAGE OF THE ANNUITY OVER THE MINIMUM INCOME RRIF. IT SHOWS THAT LONGEVITY IS A SERIOUS PROBLEM WITH A RRIF, WHILE IT IS AN ADVANTAGE WITH THE ANNUITY.

What would the comparison be like if the annuitant opted for a level income paying RRIF instead of minimum payments?

As we have seen, they could, based on yesterday's rates, acquire a life annuity paying $5,735.47 monthly for an annual income of $68,825, guaranteed for 16 years, with payments reducing by 50% on the first death, after the guaranteed period. This means that as long as both are alive, they would continue to receive $68,825 per annum.

By comparison, a RRIF paying the same level income would, based on today's interest rates, be depleted at the male's age 86, which would be his spouse's age 84.

On October 25, 2012, Sun Life Financial and CARP released the results of a poll, which found that, when it comes to longevity and retirement planning, 87.7% of the CARP members expect to live past age 80, with almost a 3rd expecting to live past age 90.

In our own practice we find an increasing number of people living well past age 90. At that age, their income requirements usually increase due to the expensive special care many may require. The Sun Life Financial/CARP poll, found that half of the respondents had not factored long term care costs in their retirement plan, and approximately 40% overall remain worried outliving their savings.

Don't you think that these people would be more comfortable with an annuity that will provide them with a steady income for the duration of their lifetime, than with a RRIF which might expire long before they do?

For example, if they both live to her age 95, they will receive 10 more years of annual income of $68,825 for a total of $688,256 more than from the RRIF.

The most commonly voiced objection to the annuity is that, in the event of death, there is nothing left, whereas with the RRIF there could be a substantial amount remaining for the estate. This widespread anti-annuity mantra has been the main reason why most people stay away from annuities and opt for the RRIF instead.

Any knowledgeable advisor should have no problem squashing this spurious generalization. The objection implies that all annuities terminate on the death of the annuitant. In reality, annuities can include guarantees that can be tailored to fit any specific retirement scenario.

Annuity payments can be guaranteed for a number of years; up to the annuitant's age 90 for registered annuities. In our example, where the spouse is 69 years old at the start of the annuity payments, this guarantee could be up to 21 years.

By using an annuity with a guaranteed period, we ensure a substantial refund in the event of the annuitant's death during that guaranteed period. In our example, we've chosen a joint life annuity guaranteed for **16 years**.

In this example, the objection that in the event of death there's nothing left in the annuity, whereas with the RRIF there could be a substantial amount remaining for the estate, obviously does not apply.

If our 69 year old joint annuitant were to die at her life expectancy i.e. age 86, when the guaranteed payments under the annuity have just run out, and assuming that her husband predeceased her, there would be no further payout from the annuity. The RRIF, on the other hand, would have a balance of $338,353 payable to the estate. Doesn't that validate the objection?

Not, if we consider that the only reason that there is still $338,353 left under the RRIF is that the RRIF payments during the previous 17 years were substantially lower than from the annuity, i.e. a total of $885,352 under the RRIF vs. $1,170,025 from the annuity, for a total difference of $284,673 in favour of the annuity.

If we factor in the tax considerations, we have to apply the top income tax rate to the $338,353, as it is received in one lump sum and added as income of the deceased in the year of death. This would leave an after-tax balance of $181,323 for the heirs.

The extra annuity payments totaling $284,673 that were paid annually during the 17 years would have attracted a lower rate of tax, say 30%, leaving a total net payment balance of $199,271 which is $17,948 more than under the RRIF.

If we also consider the fact that, during those 17 years, the couple enjoyed substantially more income from the annuity and if we realize that this extra income was received long before the Refund of Premium from the balance remaining in the RRIF came into play, we can see that the annuity comes out as a superior solution even if both annuitants are gone by year 17.

What if they are gone much sooner, say in 5 years?

The objection that annuities don't work because there's nothing left after the death of the annuitant(s), doesn't apply here either, because we included a 16 year guarantee. Not only are the payments under the annuity higher than under the minimum RRIF during the 5 years that they were alive, but there will still be a premium refund of $654,827, which represents the discounted value of the remaining 11 years of guaranteed payments. At 46.41% tax, this would still leave $350,921 of after-tax proceeds to the estate.

Because of the guarantee, while we maintain a higher income under the annuity than under the minimum payment RRIF while the annuitants are alive, there will always be a substantial premium refund, if the annuitants die during the guaranteed period.

It should be clear by now that, based on this example; the anti-annuity prejudice doesn't hold water.

Please note that the annuity advantage over the RRIF increases with the age of the annuitant(s) at the time the annuity is purchased. In September of last year, the Financial Post published an article written by Fred Vettese, Chief Actuary and William Morneau, Executive Chairman of Morneau Shepell, the largest administrator of pension and benefit plans in Canada, from which I quote,

"Apart from money that is earmarked for bequests or the odd big ticket purchase, a sound strategy is to annuitize all of one's wealth at about age 75. To understand why, let's look at the minimum pay out at age 75 under a RRIF. If the RRIF held $100,000 in assets at age 75, the minimum amount that would have to be withdrawn that year is $7,850. Many retirees are upset about this because they feel the minimum withdrawal rules force them to deplete their assets too quickly, especially in the current low-interest rate environment.

By contrast, an annuity that is purchased at age 75 with the single premium of $100,000 would produce annual income of about $10,000, in spite of low interest rates. Not only is this about $2,200 more than the minimum RRIF income, the annuity is payable for life and thus removes any chance that money will run out too soon. More income and less worry is a hard combination to meet."

In reality, this example significantly understates the case in favour of the annuity. At current interest rates, the RRIF payments, while they start at $7,850 at age 75, keep reducing year by year, because of the high required withdrawal percentage, which keeps eating into the capital. By year 5, the RRIF income is down to $6,780, by year 10 to $5,630, by year 15 to $4,655 and so on, while the annuity keeps paying $10,000 for life.

The main reason why Life Annuities generate the highest guaranteed lifetime income of all financial instruments is a unique feature called "insurance credits."

It is possible to predict how many people in a large age group will survive each year. It is this predictability of annual deaths that allows insurance companies to take on the risk of guaranteeing lifetime income. It is the same concept that is at the basis of all life insurance pricing. The life insurance industry has life expectancy tables for every type of annuity: single, joint, with and without guarantees.

The three components that make up each annuity payment are: interest, return of capital and insurance credits. Insurance credits derive from the fact that from the large pool of annuitants, some pass away before the average life expectancy. The unused balance of their annuity funds stays in the pool, to fund those policy holders who live longer than the average life expectancy. For example, a 65 year old man, who invests $100,000 today, will receive an annual income of $7,062 for the rest of his life, of which 38% is attributed to insurance credits.

Without the pool, this would be impossible. You could not fund an annuity for life for one person only, as you don't know how long that person will live. You could end up like Andre-Francois Raffray, the lawyer who bought an apartment from Mrs. Jeanne Calment when she was 90. Mrs. Calment, who lived in Arles, France, for her entire life, outliving both her daughter and grandson by several decades, died at age 122, in 1997. At the time, she was the oldest person whose age had been verified by official documents.

Mr. Raffray had bought the apartment on a contingency contract. He would pay her $2,500 francs; (now about $800) a month, until she died, and then the apartment would become his.

Mr. Raffray died in 1996 at age 77, after paying Mrs. Calment better than double the apartment's value. His family was still paying when she died. "In life, one sometimes makes bad deals." Mrs. Calment said.

The only time I would still consider recommending the RRIF to retiring people, even at the currently low interest rates, is where they have no resources beyond their registered monies and are concerned that if all their money is tied up in annuities, they would have no access to the funds in the case of emergencies. The dilemma they would still be facing is whether they can afford to live on the lower income and shorter duration of the RRIF.

People in this situation might think that they should perhaps invest their RRIFs in equities, in the hope that the market would increase dramatically and beat the low interest rates. In my opinion, retirees who depend on their registered funds for their retirement should not be exposed to the risks of the market place. Any significant market drop or prolonged poor performance can play havoc with their retirement plans.

In the example used before, if the net market value of the fund were to remain flat, the income generated by the annuity would deplete the RRIF in less than 15 years (by age 85).

If the fund were to drop by 50% (as happened to the TSX in 2008/2009) and stayed flat for a few years thereafter, the fund would be depleted in less than 7 years.

Our files are replete with names of clients in their 70's that came to us for help after their life savings (not only registered funds), were nearly wiped out in the market place.

Thus far, we have shown that annuities can play a vital role in retirement planning when it comes to registered funds.

THAT THEY CAN ALSO BE A MOST EFFECTIVE FINANCIAL TOOL WITH RESPECT TO NON-REGISTERED FUNDS IS EQUALLY TRUE, BUT NOT AS OBVIOUS.

In spite of the fact that statistically, as we have seen, roughly 54% of the annuities bought in Canada were with registered funds, 44% were non-registered prescribed annuities and only 2% were non-registered and non-prescribed, I can say that, in my practice, we have implemented roughly equal numbers of annuities in each of these 3 categories.

While prescribed annuities have been available since 1983, I have, in my encounters with new clients, met very few who had ever heard about prescribed annuities from other advisors. In the case of those very few, it had almost always been with reference to a back to back life insurance combination. When they discovered the potential benefits of prescribed annuities for retirement income purposes, they were dismayed at finding out the income opportunities they had missed and the investment pitfalls they could have avoided.

What's So Special About Prescribed Annuities?

A Prescribed Annuity is structured like any other annuity, and can be for a term certain or for life. It can be issued on a single life or joint life basis for spouses and siblings only. It is like a mortgage in reverse, whereby the lender is the policyholder and the borrower is the issuer of the annuity. The guaranteed payment period cannot exceed the single annuitant's or youngest joint annuitant's age 91. Prescribed annuities are available to individuals only and not to corporations.

Finance changed the regular structure of an annuity for tax calculation purposes only. These changes were originally intended to provide a break for retirees 60 and over, by giving them a tax treatment that was different from the normal treatment of financial products. The taxable income portion, instead of following the irregular downward slope of a non-prescribed annuity, was changed to a level amount for the duration of the contract.

This level amount is the difference between the capital element and the actual annuity payment. The capital element is based on the actuarial duration of the annuity as determined by the 1971 Individual Annuity Mortality Table, as published in Volume XXIII of the Transactions of the Society of Actuaries.

For example, if the annuity premium is $1,000,000, the annual annuity payments $70,000 and the prescribed duration 20 years, the capital element would be $1,000,000 divided by 20, i.e. $50,000 per annum. The difference between the capital element of $50,000 and the actual payment of $70,000 becomes the level taxable portion of $20,000.

As a result of this formula, the taxable portion becomes smaller as the annuitant gets older at the time of purchase. Eventually, around age 75, the taxable portion becomes zero, even though the annuity still contains an interest element.

It is this artificial, but totally legal, tax and life expectancy treatment that make it possible to create after-tax income levels that are otherwise impossible to achieve.

Who should seriously consider prescribed annuities?

Individuals or couples in their mid 60's or over, who

- Need the confidence that their income will last for life.
- Don't have the time horizon or the resources to recover from years of negative market performance.
- May want to protect their income against inflation with an automatically increasing income stream.
- May want to fund their life insurance coverage upfront.
- May want to obtain the maximum income for life while preserving the capital for their estate, by combining the annuity with a life insurance policy.
- May want to provide a steady income for dependent relatives who cannot be relied upon to deal responsibly with money.

In our practice, we have demonstrated, time and again, that prescribed annuities can provide the highest guaranteed after-tax income of all retirement products and that they can be constructed to fit any income objective funded by personal assets.

Where Do Non-Prescribed Annuities Fit In?

On the surface, it might appear that non-registered, non-prescribed annuities have no place in professional financial planning. They don't benefit from the prescribed annuity tax treatment and they carry the general burden of the anti-annuity bias as well. That is why only 2% of all non-registered annuities purchased in this country are non-prescribed.

Yet, in our office, the number of non-prescribed annuities we have implemented is close to 1/3 of our annuity portfolio.

Because we are almost out of time, I will use an example to show how we have achieved such a high proportion of non-prescribed annuities in spite of the industry statistics to the contrary.

We started on this case 2 years ago and we are still in the process of helping the client complete the program. Two years ago, the client was 73 years old and his spouse 65. He had an active, incorporated business as well as a holding company with approximately $4,000,000 in real estate assets.

During one of our meetings, they expressed an interest in estate and retirement planning. His mind set was "when I liquidate my corporate holdings, I will have about $4,000,000 of investable assets in my holding company. If I can get only 2% on my money we will only end up with $43,500 of spendable income in our hands. We actually need $120,000 of after-tax income from this money and would like to preserve as much of the capital as possible for the estate and we want to take as little investment risk as possible.

The only way to achieve their objective was to turn the traditional investment paradigm on its head. $1,000,000 of the $4,000,000 was allocated to acquire a corporate owned insurance policy for $4,000,000. This not only assured that the capital was preserved in the company but also that, if the second death occurred at life expectancy, the $4,000,000 would come out of the corporation on a tax-free basis. If the $4,000,000 had been left as a fixed income investment in the company, it would, on the second death, net only $2,700,000 to the beneficiaries. ($2,697,200 at 32.57% tax on non-eligible dividends).

Once the life insurance was in place, the program was secured. The balance of $3,000,000 has been used, as it became available, to purchase non-prescribed annuities, the payments from which will flow to the shareholders as taxable dividends.

The net result was that an after-tax income of $126,000 for life was generated for my clients, with $4,000,000 going to their children, tax-free, on the second death.

The conventional way would have required a guaranteed lifetime, before-tax rate of return of 13.35% in the corporation, to achieve the same results. An impossible dream did come true for my clients and the non-prescribed annuity was one of the indispensable components.

All it takes to turn the world of annuities into a cornucopia of unparalleled financial benefits is:

- a thorough knowledge of estate planning
- a complete knowledge of annuities
- an in-depth awareness of the relevant tax considerations
- the creativity to apply this arsenal effectively in specific situations

Examples in my practice include:

- The creation of an annuity concept that had never been used before, i.e. a joint life prescribed annuity with payments ceasing on the first death. By itself, a useless vehicle. Who, in their right mind would invest a $1,000,000 in a joint life annuity that ceases all payments on the first death? Yet, coupled with a joint last to die insurance policy with premiums ceasing on the first death, this combination created guaranteed IRRs for funds earmarked for the estate, that could not be matched by any other investment vehicle in the country.

  It became the favourite fixed income investment for people who had accumulated more money than they would consume during their lifetime and who were looking where to invest the surplus.

- The introduction to our clients of a seldom used prescribed annuity, referred to as a Cash Refund or Preservation of Capital annuity, which is ideally suited for people in their 70's that are in good health and are concerned with their capital running out during their lifetime.

  This annuity which is offered by only 2 insurers, guarantees that, should the annuitant(s) die before the total payments received equal the amount invested, the difference between the investment amount and the total payments received will be paid out tax-free to the beneficiaries. If the annuitant(s) live beyond that point, they will continue to receive the same payments for life.

  What makes this annuity so special at these ages is that the payments are tax-free and will continue to be tax-free even after the capital has been paid out in full.

- The successful use of non-registered non-prescribed annuities where the assets of the retirees were held in holding companies.

- The development of a method to prepay all insurance premiums in a corporation with a non-prescribed annuity, in such a way that a lump sum investment fully prepays all the premiums without a penny wasted in spite of the irregular tax structure of the annuity payments.

- I have recently developed a proprietary method to generate a guaranteed indexed income for life without losing the prescribed annuity tax treatment.

We are running out of time, but I cannot leave this topic without one last word of caution. People who are in the market for an annuity should make sure that they obtain the best return for their money on any given day. There is a general misconception that, because all life expectancy tables should be the same and all institutions are facing the same long term interest rates, annuity income payments should be more or less the same between different carriers, given the same amount of premium.

In reality, nothing is further from the truth. Carriers will base their annuity income levels, on any given day, on their need or desire to raise large amounts of annuity premiums. For example, when Sun Life decided to move from Montreal to Toronto in 1979, the company acquired a property at University Avenue and King Street in downtown Toronto and constructed a major ultra-modern Sun Life Centre office complex, which was completed in 1984. They needed vast amounts of capital to fund this project.

One of their preferred sources was annuity premiums, with their long-time repayment schedules. For close to a year, they were unbeatable in the annuity market. Once they reached their target, they lowered the annuity income levels, to discourage future annuity purchases. They deliberately became uncompetitive in the annuity market.

To ensure that our clients always get the highest paying annuities, we do a market search in each case.

To test the validity of this admonition, I conducted a market survey every Tuesday from September 4, 2012, to November 13, 2012. I did this for an investment of $500,000 for a couple ages 60 and 60, as well as ages 70 and 70.

My comparison shows that for the ages 60 and 60, during the period of this survey, Sun Life and Equitable Life wanted the business more than any other company. On average, the number one company paid around 12% more than those at the bottom of the rankings, i.e. $2,050 a month vs. $1,800, for a difference of $250 a month.

It also shows that Canada Life, which remained stuck at exactly the same monthly income figure of $1,827 for the annuity with the zero guarantee, $1,826 for the 10 year guarantee and $1,808 for the 20 year guarantee, on each of the 11 surveys, definitely didn't want any annuity business during that time. Yet, two years before, when we switched most of our clients from RRIFs to annuities, we placed most of these, including my own, with Canada Life, which was number one for a long stretch at that time.

The same findings applied for a couple ages 70 and 70.

Our survey also confirmed that because a particular company provides the best income for one type of annuity, it doesn't necessarily do so for all types. The rankings may change depending on the type of annuity under consideration.

As we can see, finding the best annuity for a particular situation can be a time consuming exercise, but can make a significant difference in the amount of income the client will receive.