

Protection Solutions

This is all about

Insured Annuities

with Standard Life



Hello.

What is an Insured Annuity?

The insured annuity uses two products: a “prescribed” annuity and life insurance. The prescribed annuity typically provides more after-tax cash flow than can be obtained from the interest earned under a GIC. This is due to its preferred tax treatment.

It is for conservative investors, with at least \$100,000 of invested GIC-type assets who want to maximize income in a guaranteed investment – and who want to preserve the capital for their heirs.

The annuity is purchased with non-registered funds. The face amount of the life insurance typically equals the amount of the capital used to purchase the annuity.

The annuity gives you guaranteed cash flow during your lifetime. You use part of your annuity income to pay the insurance premiums. When you die, the insurance company pays the death benefit to your heirs, thereby replacing the capital used to purchase the annuity. If you choose the maximize estate option, the capital provided to your heirs can exceed the original capital invested.

Will you benefit from an Insured Annuity?

Yes, if:

1. You are insurable.
2. You want to avoid high-risk investments.
3. You wish to generate additional cash flow from non-registered liquid assets.
4. You want to pass on an estate to your heirs.
5. You wish to maintain your cash flow but increase the estate you pass on to your heirs.
6. You are not already claiming the \$1,000 pension income credit.¹



¹ The Pension Income Credit is scheduled to increase to \$2,000 per proposals announced in the 2006 Federal Budget. Legislation relating to this proposal has not been enacted as at the date this brochure was prepared. The amount of income qualifying for the pension income credit at the provincial level may vary.

Insured Annuity vs. Guaranteed Investment Certificate (GIC)

The increased yield offered by an Insured Annuity over a GIC can be significant! The after-tax cash flow calculated below for the Insured Annuity will be further enhanced where the Pension Income Credit can be factored in.

	Insured Annuity	GIC (4.5%)
Example 1		
Female age 65: \$200,000 initial investment		
Annual income ²	\$13,512	\$9,000
Tax payable ³	(\$1,604)	(\$4,050)
Annual life insurance premium ⁴	(\$5,898)	n/a
Net annual after-tax cash flow	\$6,010	\$4,950
Equivalent pre-tax yield ⁵	5.5%	4.5%
Additional after-tax cash flow		
- in dollars	\$1,060	n/a
- in percentage terms	21.4%	n/a
Example 2		
Male age 65: \$200,000 initial investment		
Annual income ²	\$14,741	\$9,000
Tax payable ³	(\$1,393)	(\$4,050)
Annual life insurance premium ⁴	(\$7,384)	n/a
Net annual after-tax cash flow	\$5,964	\$4,950
Equivalent pre-tax yield ⁵	5.4%	4.5%
Additional after-tax cash flow		
- in dollars	\$1,014	n/a
- in percentage terms	20.5%	n/a
Example 3		
Male age 65, Female age 65: \$200,000 initial investment		
Annual income ²	\$12,274	\$9,000
Tax payable ³	(\$1,714)	(\$4,050)
Annual life insurance premium ⁴	(\$3,504)	n/a
Net annual after-tax cash flow	\$7,056	\$4,950
Equivalent pre-tax yield ⁵	6.4%	4.5%
Additional after-tax cash flow		
- in dollars	\$2,106	n/a
- in percentage terms	42.5%	n/a

² The annuity rate used is that in effect August 23, 2006 and is based on an annuity for life without a guarantee period, with the first payment being received one month after the purchase date. In Example 3, the annuity is assumed to be issued on a joint last to die basis, with no reduction in amount on the first death.

³ Since the annuity is a prescribed annuity, tax only applies to the taxable portion (Example 1: \$3,563, Example 2: \$3,096, Example 3: \$3,808). A 45% tax rate is assumed.

⁴ The Life insurance quoted is Standard Life's Perspecta Universal Life, with all premiums based on non-smoker rates.

⁵ Equivalent pre-tax yield = (net annual after-tax cash flow / (1 - tax rate)) / initial investment

The examples are for illustration purposes only and are not a guarantee of the future. Actual results will differ depending on factors such as age, gender, tax bracket, current interest rates, insurability and form of annuity chosen.

The Insured Annuity Advantage

- Your cash flow is increased because a “prescribed” annuity pays a blend of interest and capital, with tax only being payable on the interest portion. With a GIC, the income is fully taxed as interest.
- Your annuity income is guaranteed and payable for life. If you like, additional income guarantees can be added.
- Your lifestyle is enhanced by using this capital to produce greater net after-tax cash flow while preserving your estate for your heirs.
- On your death, the annuity payments generally cease, but the insurance policy pays your beneficiaries a death benefit, allowing the estate to recover all or a portion of the amount initially used to acquire the annuity.
- Proceeds from your life insurance policy are tax-free and will avoid probate if there’s a named beneficiary.
- If you are age 65 or older in the taxation year, the taxable portion of the annuity income qualifies as “pension income” for purposes of the \$1,000 Pension Income Credit¹
- If you have not attained age 65 during the year, the taxable portion of the annuity income is “qualified pension income” for purposes of the \$1,000 pension income credit if, on the death of your spouse or common-law partner, you become the annuitant of the policy and succeed to the insured annuity arrangement.¹

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What you should know

Once the program is started, the annuity cannot be redeemed. Capital is only repaid at the death of the insured.

Where can I get more information on Insured Annuities?

Ask your Financial Advisor to work with you to assess whether an insured annuity can help you to realize your income and estate preservation goals.

The Standard Life Assurance Company of Canada does not provide, and does not hold itself out as providing, legal, accounting, taxation, or similar professional advice to clients, potential clients, or representatives. Nothing contained in this document is intended to offer such advice or replace the advice of independent tax, accounting, and legal professionals.

While reasonable steps have been taken to ensure that this information was accurate as of August 2006, The Standard Life Assurance Company of Canada makes no representation or warranty as to the accuracy of this information and assumes no responsibility for reliance upon it.

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