Annuity Basics

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What is an annuity? An annuity is a steady stream of guaranteed income payments you receive in exchange for a lump sum of cash. A simple investment that has withstood the test of time, the annuity has a long successful history dating back to Roman Times, (the word annuity itself comes from the Latin word–year or annual). Most annuities are purchased by retirees or soon-to-be retirees and have a distinct tax-advantage if purchased with non-registered money.

Annuities are increasing in popularity simply because they are beneficial for investors, especially seniors, who need a guaranteed income they can never out-live.

Annuities are also among the safest investments around since they are financially backed by Canada's insurance companies, which in turn are backed by an organization called Assuris.

Assuris is the not-for-profit organization that protects Canadian policyholders in the event that their member life insurance company should fail. Assuris' has a monthly income protection for annuities. If your life insurance company fails, your payout annuity policy will be transferred to a solvent company. On transfer, Assuris guarantees that you will retain up to $2,000 per month or 85% of the promised monthly income benefit, whichever is higher. Assuris is funded by the life insurance industry and is endorsed by the Canadian government.

Types Of Annuities

There are three options:

Single Life Annuity: A single life annuity will provide you with an income for as long as you live, ensuring that you will never outlive your money.

Joint and Last Survivor Life Annuity: This life annuity is payable while either you or your spouse/partner are living. When one spouse/partner dies, the survivor can continue receiving income payments as agreed upon when the annuity contract was established.

Term Certain Annuity: A term certain annuity provides you with an income for a set period of time, or until a certain age. This type of annuity can be useful for planning ahead when you require a specific or additional income for a pre-defined period.

Annuity Options And Riders To Choose From

Guaranteed Period

An annuity can be purchased with a guaranteed payout attached to it ranging from 0-25 years. This means that, if the annuitant dies within the guaranteed period then their chosen beneficiary will continue to receive payments throughout the remainder of the guaranteed period. The longer the guarantee period you choose the lower your annuity payments will be.

Cash Refund

A Cash Refund annuity repays the outstanding portion of the premium as a lump sum when a death occurs. Here's how it works. Annuity payments are made during the annuitant's lifetime. When the annuitant dies, if the sum of periodic payments received is less than the original single premium, the beneficiary will receive the difference in a single payment. Cash refund annuities are available for single and joint life annuities but not available for term certain annuities.

Income Start Date/Deferred Annuity

This is the date that the first annuity payment is to be made. Many retirees choose to receive an income right away. However, you can purchase a deferred annuity and defer your income commencement date. Deferred annuities allow your investment to grow tax-free and can range from 5-10 years or longer. The longer you defer your annuity income, the higher the income you will receive will be.

Inflation Protection

Annuities can be purchased to hedge against inflation. Some companies offer a percentage increase every year of 2% or more while others will offer an annuity attached to the Consumer Price Index (CPI). The higher the inflation percentage you choose, the lower the payout.

Impaired Annuities

Poor health could mean you qualify for an impaired annuity. Impaired annuities have a higher payout because your life expectancy is lower.

Continuation Income

Continuation income indicates the percentage (0 - 100) of the annuity income that continues to the survivor after the death of the primary annuitant (This is only applicable for joint life annuities.)

Fund Type

The source of funds that are to be used to buy the annuity matters. Source of funds must be correctly specified since mortality rates that insurers calculate take into consideration fund type.

There are six options:

- **Non-Registered - Non-Prescribed**
- **Non-Registered - Prescribed**
- **RRSP-Registered Retirement Savings Plan**
- **RPP-registered Pension Plan**
- **Locked-in RRSP**
- **DPSP-Deferred Profit Sharing Plan**

For "RPP" and "Locked-in RRSP" a jurisdiction must be chosen.

Payments Frequency

This refers to the number of times per year the annuity is to be paid.

There are four options:

- **Monthly**
- **Quarterly**
- **Semi-Annually**
- **Annually**

Shop The Annuity Market

When it comes time to buying an annuity not all companies are created equal. It's important to shop the market and see which companies are offering the highest income payments. Each insurer calculates their own annuity rates using the following criteria:

- **the amount of money used to purchase the annuity**
- **the type of life annuity purchased**
- **current interest rates**
- **the age and gender of the annuitant**
- **the present long-term bond rates**
- **expense and *mortality* experience of the company**

Some companies will offer better rates in certain age groups and according to gender classes. Other companies will offer better joint-life, single life, and/or term certain rates. That's why when you purchase an annuity product it is vital to shop the market. Once you purchase the annuity there is no turning back. You want to get the best return for your dollar.

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