

insured annuity

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Insured annuity concept

Your situation:

You are retired and living on your pension and investment revenue. You have worked hard to save money for your retirement and want to make sure you are able to keep that money. You invest in conservative vehicles like GICs and bonds and spend the interest while leaving the principal intact. You would like to leave that principal (or a portion of it) for your children, grandchildren or someone else you care about.

But, that interest income is fully taxable. While there have been some reductions in marginal tax rates, interest rates have also come down in recent years. The challenge is to maintain the income level you are used to while still preserving your capital. If you could reduce your tax bill that would increase your after-tax income and help you achieve your objectives.

A solution:

You can reduce your tax bill and increase your net income, without additional risks, with the Insured Annuity concept. By placing your funds in a life annuity with prescribed taxation, you can increase after-tax income versus simply collecting interest from bonds or GICs. In fact, part of the income from a life annuity is considered as principal refund and is not taxable. In addition, the life annuity income is guaranteed for life, so there is no risk of outliving your capital.

The downside of a life annuity is that you do not have access to your capital, after purchase. Therefore, it is very important to keep liquid assets available for emergencies or special needs.

To facilitate the transfer of capital to your estate, this concept includes a life insurance policy, which will provide the amount of capital you desire to leave. In addition, the sum insured of life insurance is tax-free if paid to a named beneficiary! The concept calculations consider that a portion of the higher after-tax income is used to pay the life insurance premium, but even after insurance premiums are paid, there is still a higher net income than previously.

Now let's see how it works:

To properly plan this financial solution, the following points should be considered:

- You must be able to qualify for a life insurance policy
- The life insurance policy must be applied for before the annuity is purchased to ensure that you are eligible
- You have to be prepared to lose the use of your capital
- You want to maximize the guaranteed return on your investments
- You understand that the proposed income will be fixed non-indexed with inflation, unless you accept a reduced net income to get protection against inflation

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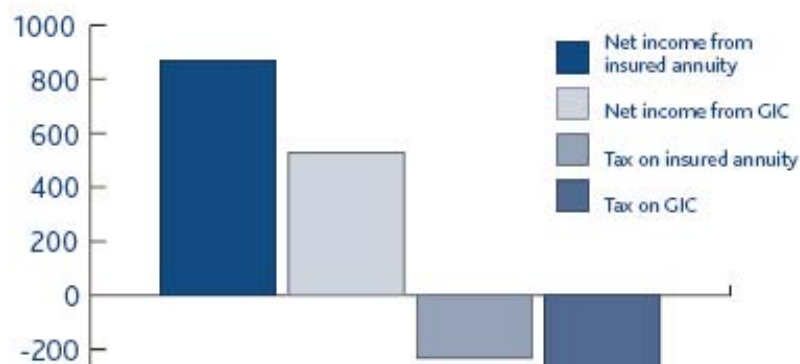
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Example:

Consider the case of a 70-year-old man, non-smoker, in good health and subject to a marginal tax rate of 48.2%. He accepts to invest \$250,000 in a prescribed life annuity, and has kept liquid assets for emergencies. In comparison, he could invest the \$250,000 in a GIC at 5%, for a net monthly income of \$529.50.

If he purchases a life annuity with no guaranteed period, he could receive a gross monthly income of \$1,951.53 (with actual interest rates). On this income, he would have to pay tax of only \$212.98. After the payment of the life insurance premium, which is \$896.81, his net income would be \$841.74. This amount represents \$312.27 more than he had before, with an equivalent return of 8% (compared to 5%).

Comparative Returns



If you are retired and wish to receive a fixed income with a profitable financial strategy, and you want to leave an inheritance to people you care about, give me a call and we can review the details of this attractive concept, the insured annuity!

At DundeeWealth, we believe that having a financial plan forms the foundation necessary to grow, protect and transfer wealth from one generation to the next. We are committed to provide information on a variety of financial planning topics so our clients are able to make informed decisions.

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