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Prescribed Life Annuities

Tax-efficient retirement income



Taxation is an important consideration when planning your retirement income, and using a prescribed life annuity is one of the best ways to generate tax-efficient income.

When a life annuity is purchased, the owner receives regular income payments which are comprised of capital and interest income. How the interest income is taxed depends on whether the owner elects “prescribed” or “non-prescribed” taxation when the contract is issued.

Non-prescribed taxation:

Under non-prescribed taxation the interest income is fully taxable at the owner’s marginal tax rate. The owner pays significantly more tax in the early years (when the interest portion of the annuity payment is largest), with the taxable portion declining over time.

Prescribed taxation:

This tax option is unique to non-registered payout annuities. Contract owners enjoy preferred tax status and level taxation – two great benefits which can result in significant after-tax savings. These benefits are discussed below:

Preferred tax status:

The Canada Revenue Agency (CRA) assigns a preferred tax status to prescribed life annuities, which allows only a portion of the interest income to be taxed. This provides significant tax savings in comparison to other non-registered investment options.

Level taxable income:

Unlike other investments, a prescribed life annuity has a level taxation structure, which means the taxable amount is spread out evenly over the future life of the owner. As a result, after-tax income is relatively consistent. This can help to ensure that essential expenses are covered, and allows you to know the amount of discretionary income that is available each year.

Choosing “prescribed” or “non-prescribed” taxation will not affect the owner’s income payment, however it will have a significant impact on the owner’s after-tax income.

Who is eligible for a prescribed life annuity?

Most individuals are eligible for the prescribed taxation option, provided:

- the source of funds is non-registered
- the owner and the annuitant are the same
- payments are not deferred beyond the end of the following calendar year
- the guarantee period does not extend beyond age 90
- the income payments are not indexed

Do you have questions about prescribed life annuities? Your Advisor can provide you with additional information, and help you determine how an Equitable prescribed life annuity can help you to achieve your financial goals.

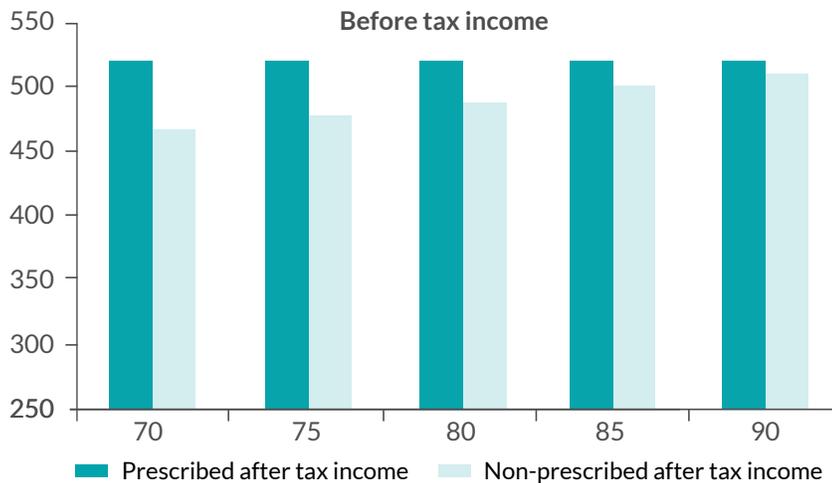


Case Study: Prescribed life annuity

Robert is ready to retire and has \$100,000 of non-registered savings. He is currently 65 years old and would like a reliable stream of retirement income for the rest of his life. He would like to invest in something that is secure and without a lot of risk, and it's important to him that he doesn't outlive his savings.

His advisor suggests he consider a prescribed life annuity. It will provide him with a guaranteed monthly income of \$542 for life, and the prescribed status will offer him significant tax advantages.

By selecting prescribed taxation over non-prescribed taxation, Robert will pay less tax, resulting in higher after-tax income.



How much more after-tax income?

A total of:

\$1,774 by age 70

\$4,593 by age 75

\$6,761 by age 80

\$8,252 by age 85

\$9,083 by age 90

Based on a single life, male, age 65, \$100,000 deposit, 7 year payment guarantee at a 32% marginal tax rate.

A prescribed life annuity would provide Robert with:

- Guaranteed income for the rest of his life, giving Robert peace of mind knowing he will not outlive his retirement savings
- Level taxable income, resulting in reliable after-tax income
- Significant tax savings over a non-prescribed annuity or other interest-earning investments, resulting in more after-tax income each year

Case study is for illustration purposes only. Income amounts will fluctuate depending on the interest rate. Taxable amounts are not guaranteed and are based on current tax rules which are subject to change by the Canada Revenue Agency. This information does not constitute legal, tax or other professional advice. Speak to your professional advisor regarding your specific investment and tax circumstances. This information is believed to be accurate, but accuracy is not guaranteed.

Speak to your Advisor today to find out how an Equitable prescribed life annuity can be incorporated into your personalized financial plan.

About Equitable

At Equitable, we believe in the power of together. This is how we focus on our clients. It's how we support advisors and give back to our communities.

Partnered with advisors we offer insurance, investments and group benefit solutions to help our clients protect today and prepare tomorrow. We believe the world is better when we work together.



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