

Insured *Annuity*

Increasing
Income

Mortality swap
and tax arbitrage
Increase after-tax
income



Agenda



- Why You Want to Know This
- How it Helps Your Client
- How it works
- Case Study #1 - Dennis & Rosemary
- Case Study #2 - Larry & Margaret
- Planning Considerations

What's in it for you?

- Satisfaction from helping a client
- Increased client loyalty
- Referrals

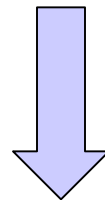
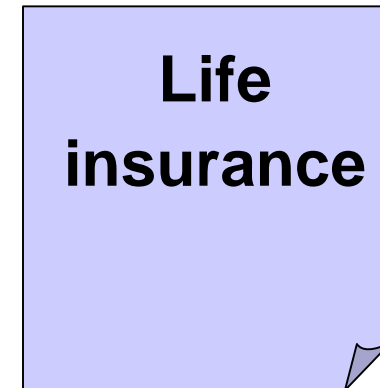
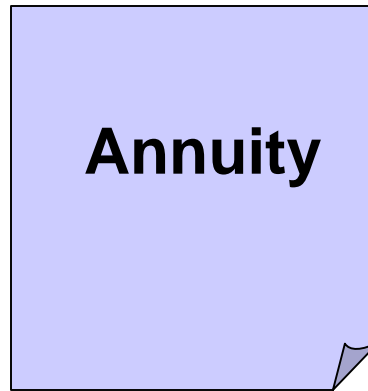


Customer goals & obstacles

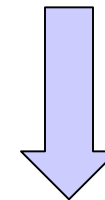
| Goal | Obstacle |
|--|--|
| <ul style="list-style-type: none">✓ Income from savings✓ Preserve capital for beneficiaries | <ul style="list-style-type: none">✓ Low interest rates✓ Taxes and fees on death✓ Risk averse |

Don't gamble: take all your savings, buy good stock, hold it 'till it goes up and then sell it. If it don't go up, don't buy it.
...Will Rogers

Insured Annuities - getting it done



**Higher after
tax income**



**Capital for
heirs**



Product opportunities

- Prescribed annuity (non-registered)
 - single life
 - joint life
 - with or without reduction on first death
- Permanent life insurance
 - universal life
 - term 100
 - whole life

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Variations

- Maximize income
 - minimum insurance
- Maximize estate
 - maximum insurance

Client profile



- Over 65
- > \$100,000 GIC/CSB/term deposit portfolio
- Objectives
 - capital preservation, i.e. risk averse
 - legacy for children/grandchildren

Case study #1

Dennis & Rosemary

- Ages 68 and 64
- \$300,000 GIC portfolio
- \$30,000 CSB portfolio
- RRSP
- Other income
 - pensions
 - CPP and some OAS



Dennis & Rosemary

- \$250,000 joint life annuity
 - no reduction on first death
 - \$1,450.78 per month for life (\$17,409/yr)*
 - minimum 10 years
- \$250,000 Sun*Universal*Life policy
 - joint second-to-die
 - \$335.00 monthly premium
 - minimum funded, level death benefit
- annuity quote as of December 8, 2004

Dennis & Rosemary – Income comparison

\$250,000 GIC/CSB Portfolio

Interest (4.5%) \$11,250

Tax (46%) \$ 5,175

Net Income \$ 6,075

Insured Annuity

Income \$17,409

Taxable \$ 6,726

After tax \$14,315

UL premium \$ 4,020

Net Income \$10,295



69% More!

Sensitivity analysis

What is the interest rate risk?

- GIC/CSB portfolio would have to earn 7.6% interest on \$250,000

OR

- Interest rates would have to go from 4.5% to 7.6% before the GIC/CSB equals the insured annuity
 - 69% increase in rates, or ...
 - more than 12 rate increases of 0.25%

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Rosemary
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Case study #2 - Larry & Margaret

- 250,000 joint life annuity
 - no reduction on first death
 - \$1,450.78 per month for life (\$17,409/yr)
 - minimum 10 years
- \$250,000 *SunUniversalLife*
 - joint second-to-die
 - \$686 monthly premium

Larry & Margaret - Income Comparison

\$250,000 GIC/CSB Portfolio

| | |
|-------------------|-----------------|
| Interest (4.5%) | \$11,250 |
| Tax (46%) | \$ 5,175 |
| Net Income | \$ 6,075 |

Insured Annuity

| | |
|-------------------|-----------------|
| Income | \$17,409 |
| Taxable | \$ 6,726 |
| After tax | \$14,315 |
| UL premium | \$ 8,239 |
| Net Income | \$ 6,076 |

Larry & Margaret - Estate Comparison

| Estate Values | | |
|-----------------|-----------|---------------------|
| His/Her Ages | GIC/CSB | Insured Annuity* |
| 89/85 | \$250,000 | \$392,873 |
| 94/90 | \$250,000 | \$445,591 |
| 99/95 | \$250,000 | \$508,881 |

**78% More
at 94/90**

* Sun*Universal*Life joint second-to-die at 3%

What's the downside?



- Client must be insurable
 - impaired annuities available for rated cases
- Interest rate risk
 - complete a sensitivity analysis
- Liquidity risk
 - don't use all liquid capital
 - could borrow against annuity income
- Tax risk
 - use two different life insurers

Support services for you

- Your Insurance Specialist
- Sun Life Financial consultant
 - Affluent Insurance Solutions
- www.sunlife.ca/advisor
- Tools of the trade CD-ROM





Disclaimer

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Disclaimer

- No one should act upon the examples/information without a thorough examination of the legal/tax situation with his/her own professional advisors, after the facts of the specific case are considered.

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