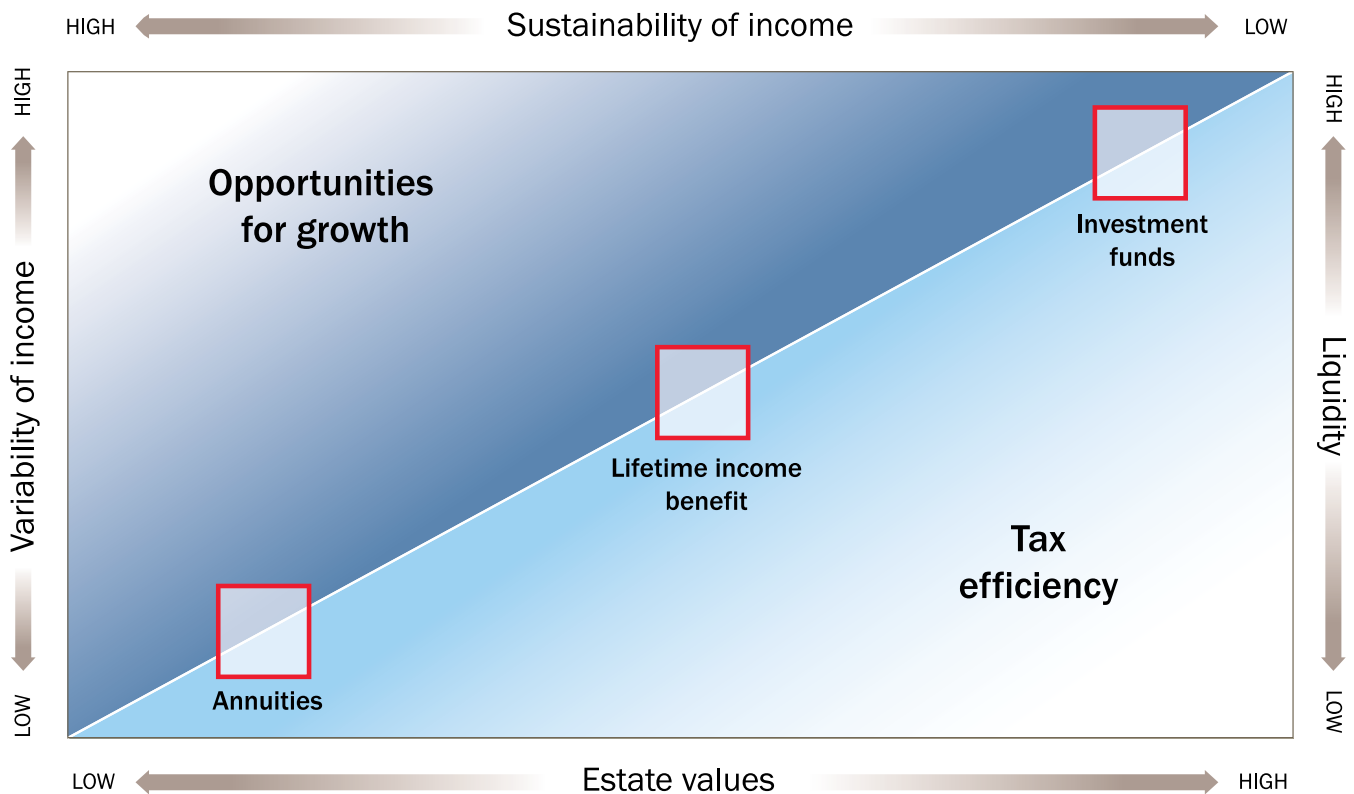




Create your retirement income portfolio



What is it?

This concept illustrates the trade-offs that occur between the various income-producing products and a client's needs or wants.

For example, a life annuity meets the needs in the lower left-hand quadrant because:

- It provides a high degree of sustainability – provides income for life
- Has low variability of income – generally provides the same income over the annuitant's life
- Low estate values – generally provides no estate benefit

At the other end of the spectrum, in the upper right-hand quadrant, a systematic withdrawal payment from a mutual fund or a segregated fund policy can provide a higher estate value, improves liquidity and offers opportunities for growth. However, income may not be sustained, depending on fund performance.

A Canada Life segregated fund policy with the lifetime income benefit option appeals to clients because it provides predictable, guaranteed income for life with some opportunities for growth, which can mean higher incomes later on. As well, the lifetime income benefit option:

- Has some liquidity – funds are accessible, but excess withdrawals mean significant penalties
- Can provide some estate value – although a lifetime income benefit is meant to provide income, not estate value

Your client may need a combination of product solutions to provide him or her with a diversified retirement income portfolio. Each option has pros and cons and no one solution can necessarily meet all of a client's needs.

When should I use it?

As this concept addresses the variety of income products and the relative benefits of each, it is appropriate to be used prior to discussing a specific product recommendation.

Positioning

Here is some suggested wording to help you explain this concept to your clients.

Let's talk generally about building a retirement income portfolio. I'm going to show you the income product options available, so let's start with the corners of the chart. You have a number of components to look at around retirement income. First, consider how practical and sustainable your income will be and trading that off, maybe taking on a little more risk. As well, you get more opportunities for growth, flexibility, liquidity and tax-efficiency.

We need to determine the right situation for you. Down in the left-hand corner, you would get predictable, consistent income that would create income for your entire life. In the end, this approach doesn't give your estate any value, and generally it's not as tax-efficient as earning investment income. This is a life annuity. It doesn't provide any opportunities for growth. It's not very liquid, but you know what you are going to get and for how long you will get it.

In the upper right-hand corner, we have investment funds. If you're in funds today, we can use them to create income. You will likely have something to pass onto your heirs. With your non-registered investments, money outside your registered retirement income fund (RRIF), in general, you're going to pay less tax because it will be more tax-efficient, and will create opportunities for growth. The problem is these investments will experience fluctuations in value, so your income could go up or down. And it can be eroded completely.

On this spectrum, you can see there are three general areas we can use to create a retirement income portfolio. We can operate in this left-hand corner where your pension plan, payout annuities, old age security and Canada/Quebec Pension Plan sit. They all offer very predictable income for your life, but they generally don't offer estate value or liquidity.

On the other hand you have your savings, your funds and investments. Yes, generally you can access them at any time, but they go up and down in value, which can be frightening for some people. In the middle, I have an option for segregated fund policies called lifetime income benefit, which provides sustainable income. It doesn't entirely have all the flexibility of a regular fund or as much upside potential, but it takes away downside risks.

You will likely need all three to generate income in retirement. I have a process that will help you determine exactly how much of each you need based on the income you want. (*Move into discussion about using the Canada Life income allocator.*)

Technical information

Market information

This concept is best used with clients who are looking to build their retirement income portfolio. They may be planning their retirement or approaching it.

Product details as they relate to this concept

Lifetime income benefit option: This is just one component of a well-diversified retirement income portfolio. It's most appropriate for people getting ready to retire and retirees looking for secure, predictable, guaranteed income. Clients must be at least age 50 and under age 91 to add the lifetime income benefit option to a segregated fund policy.

The lifetime income benefit option works best for people who do not already have guaranteed retirement income. Guaranteed income comes from government benefits, company pension plans or life annuities. Clients should allocate only a portion of their retirement income portfolio to a policy with the lifetime income benefit option. Clients will want to keep some funds easily accessible for emergencies and other needs that arise. The lifetime income benefit option doesn't allow clients to take out extra money without penalties.

The lifetime income benefit option can help provide:

- Predictable, guaranteed income for life beginning as early as age 50
- The potential for increasing income

The lifetime income amount will not decrease regardless of how the funds perform, subject to excess withdrawals.

Payout annuities: Investors who are concerned about outliving their savings often purchase a life annuity, which provides a guaranteed income stream for life. The decision, however, is often complicated by the prospect of not living long enough to get the best value. Annuities provide fixed payments, although some have an option to be indexed to inflation.

Payout annuities are based on prevailing interest rates, gender and life expectancy at the time the annuity is issued. Life expectancy numbers change each year. As each year goes by, life expectancy actually increases.

Investment funds: Investing a portion of your client's portfolio in funds continues to provide the benefit of potential market growth. Choosing a strategy that combines a product with potential market growth along with a product such as a segregated fund policy that also offers protection at death or maturity can be a very attractive combination for some investors.

Tax implications

As this concept doesn't deal with one particular strategy, there aren't any specific tax implications explained in this document.

With any income plan, payments taken from that plan may have tax consequences. Be sure to understand the tax consequences of the products before you recommend them to your clients.

Segregated fund tax guides written for clients are also available on *RepNet* under Products and Tools > Investments > Reference > Tax guides. These guides detail any receipt a client may receive and how to use it when filing tax returns.

Other supporting materials

Income planning

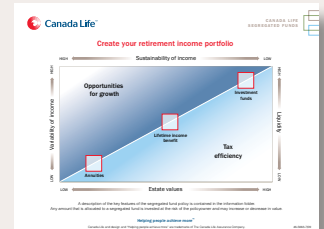
Income allocator: A sophisticated program demonstrating how various sources of income can be structured and combined to create sustainable retirement income for life.

Lifetime income benefit illustrator: A customizable illustrator demonstrating to clients how the lifetime income benefit option works for their individual situations.

You can get the above tools from *RepNet* at Products and Tools > Investments > Tools and calculators.

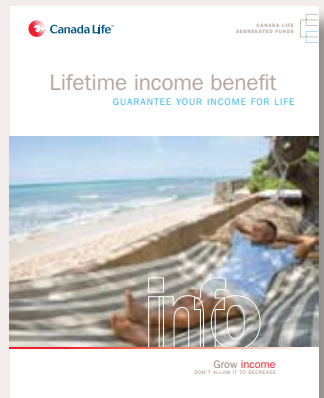
Client concept

Create your retirement income portfolio
(form 46-5663)



Client brochure

Lifetime income benefit – Guarantee your income for life
(form 46-7082) – explains the lifetime income benefit and helps answer any questions your client may have about this product.





A description of the key features of the segregated fund policy is contained in the information folder.

Any amount that is allocated to a segregated fund is invested at the risk of the policyowner and may increase or decrease in value.

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