

Ken McNaughton



“Pensionizing” Your Income

When Ron turned 69 this year, he realized the time had come to make the decision he had been avoiding—what to do with his RRSPs.

Although he knew he had to make a decision by December 31, he just didn't feel comfortable with the idea of converting his RRSP into a RRIF and with the investment choices he would then have to make. A quick call to the bank confirmed his fears—even a five-year GIC would earn less than 4 percent interest.

Shirley, his wife, kept reminding him that his mutual funds had hardly lived up to their expectations. Some days Ron felt he would have had more in his retirement fund if he had buried it in a coffee can in the backyard for the last five years!

Between low interest rates and the stock market volatility, Ron felt caught between the proverbial rock and hard place. The RRSP retirement funds—to which he had carefully contributed all those years and that he had expected to be a source of additional income—were now a source of worry and frustration as he and Shirley considered their options.

Ron had not seriously considered another option—a life annuity. True enough, several financial planners had mentioned life annuities, but only to discard them as a viable option. “Of course, you could annuitize your RRSPs, but at your age, and with interest rates so low, that's the last thing you should consider!”

What are the facts? It might help Ron and Shirley immensely if they started to regard their RRSPs as a private

pension, and as such, take advantage of all the features provided by life annuities, which are the original pensions.

First among the advantages is that it is impossible to outlive your income. When you consider the impact a few years of negative “returns” can have on your investment funds, this feature has real appeal.

Secure lifetime income, guaranteed rates, and an end to investment worries...

Peace of mind is another major advantage when you “pensionize” your income with an annuity. No more worrying about market fluctuations; no more watching changing interest rates; no more wondering if your retirement funds will last as long as you do.

“But what about the interest rates?” Ron asks. “With the rates so low, wouldn't it be a huge mistake to buy an annuity right now? Shirley and I are only 69 this year. I always thought annuities were for old people.”

Let's look at the facts. If Ron buys a life annuity right now with \$100,000 of his RRSPs, he and Shirley will receive just over \$7,400 a year, for as long as either he or Shirley live. “Of course!” the critics respond. “But that's because the insurance company is paying you back interest as well as your own capital—that's just your own money coming back

to you.” To which we respond: “That's right! Just like your income from your RRIF, which is also going to pay you a combination of principal and investment earnings.” The difference is, at today's low interest rates, you will be eating into your capital a lot sooner and there is no guarantee that your RRIF will last a lifetime.

“But what about my estate?” Ron asks. “I don't want the insurance company to keep all my hard-earned money if Shirley and I die.” No problem, Ron. The annuity can be designated to return all the unused capital to your family if you both die prematurely, just like a RRIF does. The income level noted above, over \$7,400 per year, comes with a minimum 15 year payout, meaning the insurance company would pay out at least \$115,243 for every \$100,000 used to purchase an annuity.

Secure lifetime income, guaranteed rates, and an end to investment worries—just a few of the reasons why this might be a great time to consider “pensionizing” your income by converting at least a portion of your RRIF to a life annuity. ▲

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