PAYOUT ANNUITY

OVERCOMING OBJECTIONS

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Sun Life Global Investments

Overview

- Payout annuities are a powerful retirement tool and have been an important product for many years. They're sometimes overlooked, however, because Clients aren't familiar with them.
- A life annuity is like a reverse life insurance policy – the annuity "insures" an individual against outliving their money by guaranteeing payments for life. With a life insurance policy, the Client pays a regular premium to an insurance company, which will pay out a lump sum if he or she dies. With an annuity, the Client makes a lump sum payment to the life insurance company, which then makes regular income payments (comprised of interest, a return of principal, and insurance credits) to the Client for the rest of his or her life.
- With a lifetime guarantee, a life annuity serves as the foundation in a retirement plan by helping to cover basic living expenses through retirement.
- Income from a payout annuity can supplement other sources of guaranteed lifetime income such as the Canada Pension Plan (CPP), Quebec Pension Plan (QPP), Old Age Security (OAS) or a defined benefit pension.
- Only insurance companies can offer life annuities.

Target market

- Ideal for Clients who:
    - need assurance that their income will last a lifetime, for themselves, their spouse or both lives,
    - can't afford or don't want to take risks with market volatility,
    - want the guaranteed income stream to cover basic living expenses through retirement, and
    - are looking for tax-efficient income.

Why buy?

- Annuity income may be guaranteed for life or for a desired period of time.
- The income isn't exposed to market volatility and it isn't affected by changes in interest rates.
- Insurance credits (the pool of annuity assets held by the insurer and only available to life annuities) make it difficult to achieve the same level of income using market-based investments. See the illustration on page four.
- Annuity payments can be indexed to help preserve the purchasing power of assets against inflation.

It's important to meet with Clients regularly to ensure their information is up-to-date (e.g. beneficiary designations).

The following table illustrates some common objections around payout annuities and detailed information that demonstrates the benefits of the product:

Objection	Response
I want Clients' money to grow.	We'll only use part of the assets from a Client's investment portfolio to purchase a payout annuity – enough to ensure their essential expenses are covered – and the rest of their assets can be held in market-based investments for growth potential. This strategy can increase the Client's income level, as shown in the examples that follow. The first graph shows a $500,000 registered investment portfolio without an allocation to a life annuity. A 3% annual withdrawal can generate after-tax income of $14,300.

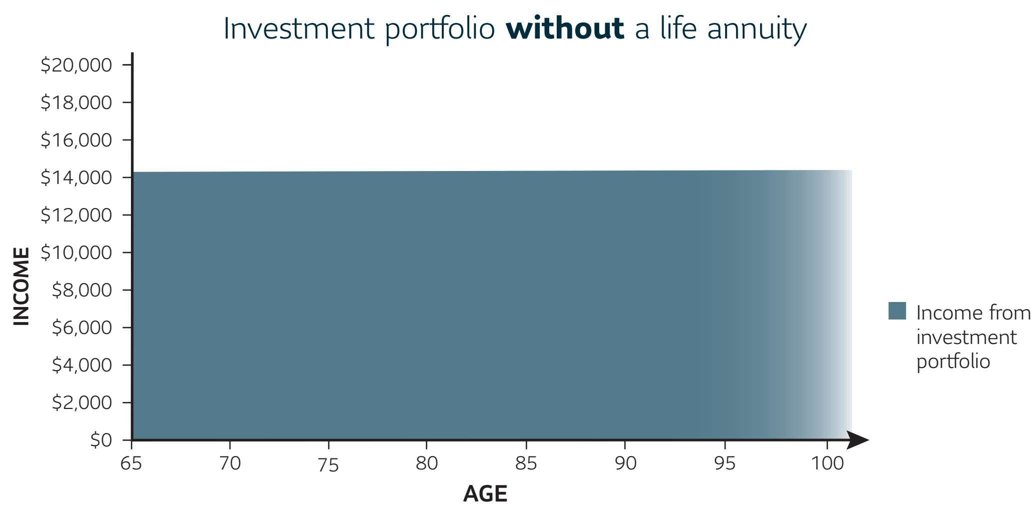

Illustration assumes a $500,000 registered portfolio with a 40% equity/60% fixed income asset mix. The equity allocation is 55% Canadian equity funds, 25% U.S. equity funds, 20% international equity funds. The fixed income allocation is 40% U.S. money market, 45% Canadian short-term fixed income, 15% global fixed income. The portfolio returns an average of 5.5% on a net basis. An annual 3% sustainable withdrawal rate for a 31-year time horizon based on simulations using 24 years of historical returns. Based on these simulations, the portfolio is expected to last a minimum of 31 years with a high degree of certainty. Annual after-tax income of $14,300 assumes an average tax rate of 5.0%. RRIF minimums have not been factored into the illustration.

Objection | **Response**

I want Clients' money to grow. (continued)

However, by allocating 25% of the investment portfolio to a life annuity, the after-tax income increases by $4,361 per year, as shown in the second graph below.

Investment portfolio **with** a life annuity

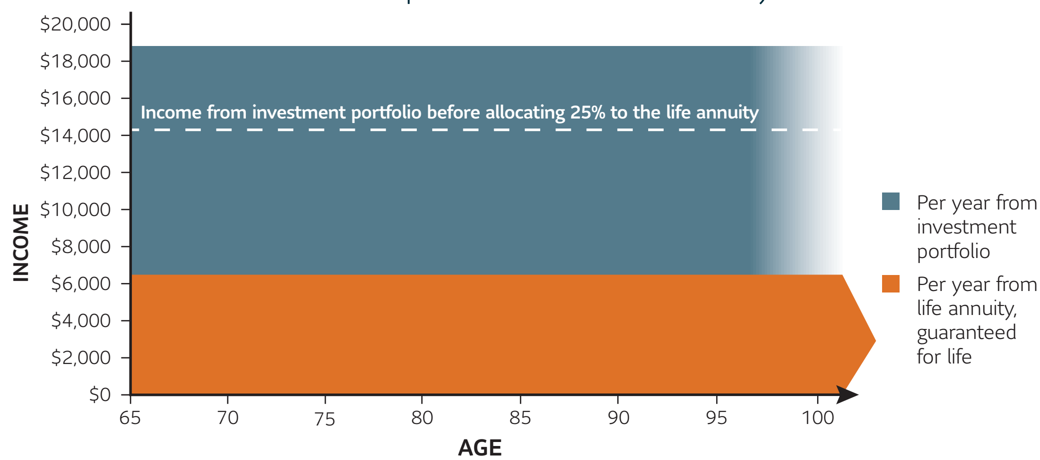

Illustration assumes a $500,000 registered portfolio. $375,000 is a portfolio with a 40% equity/60% fixed income asset mix. The equity allocation is: 55% Canadian equity funds, 25% U.S. equity funds, 20% international equity funds. The fixed income allocation is: 40% U.S. money market, 45% Canadian short-term fixed income, 15% global fixed income. The portfolio returns an average of 5.5% on a net basis. An annual 3% withdrawal rate for a 31-year time horizon based on simulations using 24 years of historical returns. Based on these simulations, the portfolio is expected to last a minimum of 31 years with a high degree of certainty. Annual after-tax income from the portfolio is $12,100, and assumes an average tax rate of 5.0%. The remainder of the registered portfolio, $125,000, is allocated to a life annuity. The life annuity income is based on a single life, male, 65, with a 10-year guaranteed period using interest rates on October 22, 2020. Annual after-tax income from the annuity is $6,561. RRIF minimums have not been factored into the illustration.

I don't want to lock up Clients' money with an insurance company. I want them to be able to access their money.

Generally, you wouldn't annuitize a Client's full retirement portfolio. By using a portion of their savings to purchase a payout annuity to cover basic living expenses throughout retirement, they can hold the balance of their portfolio in other types of investments, including those that offer liquidity, which provide Clients with access to their money for unforeseen circumstances.

In terms of the portion of their savings that is used to purchase the annuity, they're exchanging access to capital for income that will:

- last a lifetime,
- not be affected by market returns or interest rate changes,
- not require active management or ongoing investment decisions, and
- help mitigate inflation risk (if an indexed annuity is purchased*).

*Indexed annuities are not eligible for prescribed tax treatment.

If Clients die too early, the original premium is lost.

Choosing a joint life annuity ensures income continues when the first annuitant dies (when the second annuitant dies, income stops).

You can select a guaranteed period (applies to single and joint life annuities) during which a death benefit will be paid to the Client's beneficiary if they die within the guaranteed period. In most cases, the benefit has two options: the beneficiary may continue to receive the payments remaining in the guaranteed period, or receive a lump sum payment equal to the present value of the remaining guaranteed payments.

The longer the guaranteed period, the lower the income payments will be. This is because the insurance credits will have less influence on the income level.

Objection	Response
Interest rates are too low – I want to wait until they improve.	**The risk in waiting**

If a Client requires a guaranteed level of income from their investment portfolio, leaving it exposed to market volatility while waiting for interest rates to improve could be detrimental to their financial well-being. A market downturn combined with taking income will negatively affect the Client's assets and future income.

Interest rates may not be as important as you think

Interest rates have a smaller impact on annuity income than you may realize. Interest rates do affect income, but not proportionately. For example, an interest rate increase to 2.5% from 2% does not result in a 25% increase in income.

Three components make up each annuity income payment:

- Interest,
- Return of premium, and
- Insurance credits.

For example, consider the following graph. It illustrates a 65-year-old male investing a $100,000 lump sum into a registered life annuity, guaranteeing a $4,688 (after-tax) income payment for life.

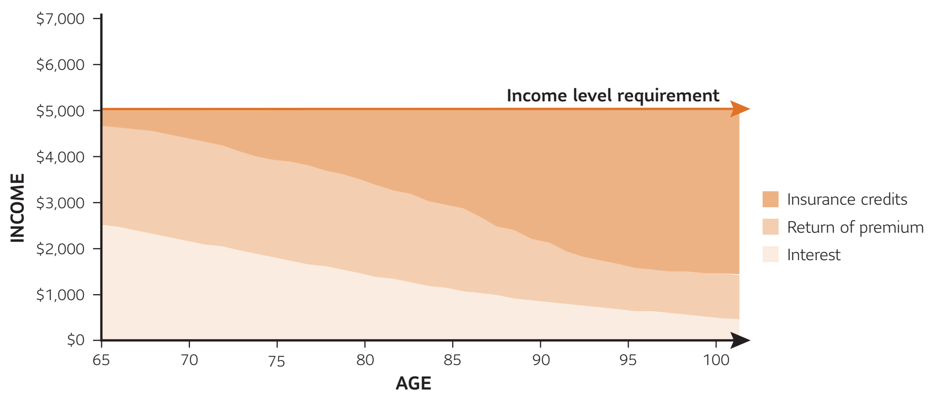

Illustration assumes a $100,000 registered life annuity. The life annuity income is based on a single life male, 65, with a 10-year guaranteed period and no indexing, using interest rates on October 22, 2020. This generates annual income of $5,483, reflected on an after-tax basis at $4,688 using an average tax rate of 14.5%.

This demonstrates that the Client benefits significantly from insurance credits in later years.

How do insurance credits contribute towards a life annuity's income?

A life annuity is similar to all other insurance products. Formal studies of large groups of people over many years have shown that it's possible to predict how many people in the group will survive each year. It's the predictability of the number of deaths every year that allows the insurance company to guarantee a lifetime income.

Each day, new money enters the pool and existing contracts are paid out based on the income specified at the time of sale. While premiums enter and income payments leave the pool, some individuals will pass away earlier than expected; as a result, assuming there is a zero guaranteed period and no death benefit, that money remains in the pool to fund those policyholders who live longer than expected.

The insurance company guarantees the future payments and absorbs the risk that some people in the pool may live longer than expected.

Objection	Response
I can't be sure Clients will get all their money back in income.	The break-even point (pre-tax) for income relative to the initial premium is quite low. Consider the following scenarios illustrating the break-even point in years for a male who buys a $100,000 life annuity with no indexing.

	Years to break even on initial premium*			
Age at purchase	**Guaranteed Period (in years)**			
	0	10	15	20
65	17.1	17.6	18.2	19.2
70	14.3	15.1	16.1	17.6
75	11.8	13.2	15.0	N/A

Further to the reasonable break-even points shown above, people are living longer than ever before, which further increases a Client's ability to receive all of their money back as income. Statistics show that at age 65, a male is expected to live to age 87 years and a female to age 90. Further, a 65-year-old male has a 24% chance of living to age 90, while a female has a 38% chance. For a 65-year-old couple, the chance of one individual living to age 90 is even higher: 69%.

Sources: Canadian Institute of Actuaries (CIA), 2017.
*Based on rates on October 22, 2020.

Income from market-based investments is more tax-efficient.

By purchasing an annuity with non-registered assets the income may qualify for preferential tax treatment.** For annuities purchased by individuals that qualify (and most do, automatically), the taxable portion of each payment is fixed year-to-year. Without the special tax treatment, the taxable portion would be high in the early years of the policy and then decrease over time. Under the Income Tax Act, the prescribed tax rules allow the tax on interest earned to be spread evenly over the life of the annuity, which provides some tax deferral. Further, the older a Client is when he or she buys the annuity, the smaller the taxable portion of each income payment. And if the Client is age 65 or older, the taxable part of the annuity income will qualify for the pension income tax credit and pension income splitting.

For example, Fred, who lives in Ontario, purchases a $100,000 single life payout annuity, non-registered, with a 10-year guaranteed period and no indexing. With prescribed tax treatment his annual income, if purchased at the following ages, would be:

Age at purchase	Annual income*	Annual taxable amount*
65	$5,437.00	$510.89
70	$6,342.48	$460.13
75	$7,209.78	$216.77
80	$8,230.68	$100.60

*Based on rates at October 6, 2020.
**To qualify, the income must meet specific criteria. For complete details, please refer to the Payout Annuity Advisor Guide.

Objection	Response
Is the income secure? What if the insurer has financial trouble?	Sun Life Global Investments is a global financial services leader with a long history of annuity sales in Canada. Currently the company has over $7 billion of assets in payout annuities. Sun Life provides competitive income amounts and currently has the largest market share of payout annuity premiums in Canada as of September 30, 2020. Additionally, Assuris provides protection to individuals with payout annuities. If a life insurance company fails, Assuris guarantees a policyholder will retain up to $2,000 per month or 85% of the monthly income amount per category, whichever is higher. Visit assuris.ca for more details.

For more information, speak with your Wealth Sales Director.

Visit **sunlife.ca**

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