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Pension Planner

YOUR RETIREMENT GROWS HERE

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Annuity option has pros and cons, expert says

Choosing an annuity is an important decision.

“There’s always confusion when the concept of annuities is discussed,” says Prof. Milevsky, of York University’s Schulich School of Business and co-author of the book Pensionize Your Nest Egg. “The first and most important thing is that an annuity is not only an investment – it is also a form of insurance .”

“The extra insurance value of an annuity is that it guarantees a lifetime amount, paid each month,” he explains. So deciding on an annuity “is a bit of a coin toss. If you live for a long time in retirement after buying an annuity, you win the bet. If not, you lose.”

Annuities can also provide survivor benefits (at a cost to you), he explains.

Ask yourself if you need this type of insurance. Do you have enough insured income from government or workplace pensions? “If not, maybe an annuity makes sense,” he says.

Most people choose between an annuity and investing with an adviser. “The adviser may say they can do better than the payment offered by the annuity. That’s because they obviously want you to give them the money, so you have to be very careful,” he says. Fees can be high and your nest egg can drop in value if markets fall for a prolonged period while you make withdrawals. Income is not guaranteed. “A guarantee is valuable, an expectation is just hope, Prof. Milevsky explains.

You must manage the money. “Do you want to still be figuring out, after age 80 or 90, how much to withdraw from your RRIF or what the right asset allocation should be?,” he asks.

Review costs, comparison shop, and consider advice before a decision. “We can all benefit from a little expertise,” he says. ❖

Countdown to retirement

Accumulating funds for retirement is only one side of the story – making these funds last for the balance of your life requires some planning if you want to reach your financial goals. Planning can help you reach your goals and these three questions might help:

- ✔ What are your current and long-term cash flow needs?
- ✔ What is your risk tolerance?
- ✔ What are your estate planning needs?

Other factors which can affect your plan are the health of you and your spouse, the level of flexibility you want, your financial obligations and the amount of time you are willing to spend managing your financial affairs.

Canada Revenue Agency (CRA) requires your retirement savings be cashed in or converted into some form of retirement income by the end of the year you turn 71. It is never too soon to look at what options are available.

There are several options to consider when retiring from SPP. These are described on page 2. ❖

The question isn’t at what age I want to retire, it’s at what income.

George Foreman

Option 1: Annuities

An annuity is a contract that provides you with a guaranteed income stream payable for your life which means you will never outlive your money. Your pension is not affected by market fluctuations; there are no investments to manage; and regardless of your age, annuity payments qualify for the pension income amount. However, your pension cannot be cashed in and the terms cannot be altered.

Depending on the type of annuity you choose, payments may continue to your spouse or as a lump sum payment to another beneficiary after your death. SPP currently offers three types of annuities which pay a fixed monthly benefit, guaranteed for your lifetime. All the investment decisions are left to SPP.

Life Annuity	This provides the highest monthly payment with no survivor or death benefits payable. All pension payments stop at death.
Refund Life Annuity	At death your beneficiary receives the remaining account balance. The death benefit is calculated by subtracting total payments received from account balance at retirement.
Joint and Last Survivor Annuity	At your death, your surviving spouse or common-law partner receives a monthly payment for the rest of his or her life. The continuing benefit for your joint survivor is 100%, 75%, or 60% of your monthly pension, as chosen at retirement.

Option 2: LIRA or PRRIF at another financial institution:

A Locked-in Retirement Account (LIRA) is a holding account, similar to your SPP account, which is locked-in until retirement. A LIRA allows you to manage your investment portfolio and earnings accumulate tax-free. This option requires continuous ongoing investment decisions.

Once funds are converted into a LIRA you cannot make further contributions and you are not allowed to make withdrawals. There is no option to create income. You are required to convert your LIRA to either a life annuity or PRRIF once you choose to retire or turn 71.

A Prescribed Registered Retirement Investment fund (PRRIF) is a vehicle that gives you the opportunity to manage your investments. Once funds are transferred to a PRRIF, your funds can be cashed out, transferred to another PRRIF or used to purchase a life annuity contract. With a PRRIF, you can choose the payment amount, subject to prescribed minimums, which are based on your age and the value of your account. With this flexibility, comes the responsibility to ensure that your money lasts as there are no guaranteed payment periods. Lump sum withdrawals and poor investment performance can erode the capital in the fund and you risk outliving your money. Once set up, a person cannot make further contributions. Withdrawals will be taxed as income in the year they are received and can also impact your marginal tax rate for the year. Income from a PRRIF does not qualify for the pension income credit until you reach age 65.

Option 3: Combination

Combining an SPP annuity with a PRRIF may help to reduce the risk that you will run out of money. It guarantees monthly income while maintaining some flexibility. Once the balance of your SPP account has been transferred to another financial institution, you lose the opportunity to take an annuity from SPP. When comparing SPP annuities to other financial institutions, consider the term of the annuity – SPP pays for your lifetime while others may be for a fixed term and stop at a certain age. At one's death, any balance remaining in your SPP account, depending on your choice of annuity, will be paid out to your beneficiary. ❖

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