Your Employee and Family Assistance Program is a support service that can help you take the first step toward change.

Annuities versus life income funds

In today's complex financial environment, it can be challenging to work out exactly what solutions will work best for specific needs. This is particularly true as we move into our retirement years with the knowledge that, for most of us, the assets we have now are going to have to support us for the rest of our lives.

Most of us are reluctant to take risks with our retirement funds, but at the same time, we don't want to let overly conservative or restrictive choices reduce our potential income. A financial planner you can trust is a vital ally at this point—but a little knowledge of your own will help ensure you ask the right questions.

Make sure you discuss your specific lifestyle needs and family issues with your financial planner. Solutions that work for some may not work for others. Keep asking questions until you have a complete understanding of the options available—after all it is your hard earned money being discussed.

Here are some tips to get you started:

Annuities

- Annuities have traditionally been the cornerstone of retirement plans. In simple terms, you transfer funds to a financial institution and in return the institution then pays this money back to you, along with interest earned, for either a fixed period of time or for the remainder of your life.
- Annuities are purchased with funds from previous RRSP's, pension plans or other registered plans or unregistered capital.
- Payments are guaranteed but are generally not indexed to keep up with inflation, although some exceptions apply.
- Income returns are based on current market rates, age, gender and sometimes life expectancy.
- Once you buy an annuity, it is locked in—flexibility is lost.
- Annuities offer great peace-of-mind through guaranteed payments for life, if required.

Types of annuities

- **Term Certain Annuities** are based on a specified term with a pre-determined number of payments. These commonly range from five to 20 years, although other periods may be selected. All the funds that have been invested are paid out over the term, along with interest. If you die during the specified term, payments continue to your beneficiary.
- **Life Annuities** are paid out for life, providing a guaranteed income no matter how long you live. No capital is paid out to beneficiaries upon your death—any remaining capital stays with the insurance company.

- **Joint and Survivor Annuities** are similar to Life Annuities, except that the annuity pays a guaranteed amount through both spouses' lifetimes. No capital is paid out to beneficiaries after the death of the final party—any remaining capital stays with the insurance company.

Life Income Funds (LIFs)

- LIFs are similar to RRIFs with two key exceptions. First, unlike RRIFs, LIFs have an annual ceiling on the funds that can be withdrawn until age 80. The remaining funds are locked in to ensure you will have retirement income for life. Secondly, unlike RRIFs, basic LIFs must be turned into annuities at age 80. However, in some provinces, LIF's can now be turned into RLIF's (see below).
- You have some flexibility with interest rates, given that annuities can be purchased at any time before age 80.
- LIFs offer tax sheltering and estate planning benefits up to age 80.
- If you die before 80, the assets form part of your estate and can be passed to a designated beneficiary.
- LIFs can often be set up with funds from company pension plans.

LRIFs (Locked-In Retirement Income Funds)

- LRIFs are similar to LIFs, with the exception that funds do not have to be converted to a life annuity at age 80. An LRIF can provide you with the benefits of tax-deferral for your lifetime.
- LRIF's can be set up to continue until you die.
- There are minimum and maximum withdrawal limits.
- Withdrawals are flexible, which allows potential tax benefits. Unused withdrawal room can be carried forward.
- Sorting out your financial affairs can seem like a daunting task but remember there is help available. Contact a financial advisor or professional to discuss available options and the best course of action that fits with your lifestyle.