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Q: I don't want to take a lot of risk with my investments, but the interest rates on GIC's are so low. Are there any other guaranteed investments with a higher rate of return?

In these times of low interest rates, many retirees are coming to me looking for higher yields on their money, but still don't want to take on risk. This is understandable, especially since they are in those crucial retirement years where they can't handle significant fluctuations associated with the stock market. Traditionally, most retirees in this situation would have substantial assets in GIC's. However, there is an alternative investment tool that can provide much higher returns without the risk. It is called an insured annuity.

To simplify it, think of an insured annuity as a GIC for life. The lump sum you currently have invested in GIC's will still be protected to pass on to your heirs, but you will earn a substantially higher after-tax return on it for a more lucrative retirement income.

HOW DOES IT WORK

For the purpose of this article, I will keep it simple:

Step One:

An annuity is purchased with the lump sum of cash or GIC's you currently have. This annuity will pay you a high, guaranteed monthly income for the rest of your life, in exchange for this lump sum of cash.

Many people ask, "How do I pass on the capital to my heirs if I have purchased an annuity with it?"

Step Two:

A portion of the monthly income you will receive will go to pay for a life insurance policy, which will pay out (tax-free) your original capital when you pass away to your beneficiaries. For example, if you put \$250,000 towards the annuity, a \$250,000 life insurance policy would be used to replenish the capital when you pass away.

The Result:

The remaining monthly income, after paying the life insurance premiums, is substantially higher than the interest you will earn on a GIC, especially on an after-tax basis (which is the most important). Depending on your age

and tax bracket, the after-tax retirement income can even double what you are currently receiving from your GIC's. As well, once you pass away, the lump sum from the life insurance policy is paid to your specified beneficiaries tax-free and avoids probate fees.

WHO IT IS IDEAL FOR

An insured annuity is ideal for those who:

- want a higher return on their low-risk investments for retirement income
- want to pass on money to their heirs
- want to avoid probate fees
- want to minimize taxes

As with all investment strategies, I don't believe 100% of your investment capital should ever go into one strategy, including insured annuities. If you would like to see if this investment tool is right for you, be sure to speak with a qualified financial planner who is licenced for both investments and insurance advice. As always, I am happy to help; you may contact me with any questions at jswanson@bmfj.ca

