RETIREMENT & ESTATE PLANNING

Accumulation Annuities:

A clear winner for estate protection

Today's retiree wants both flexibility and security: it's all about investment balance. And while this balance can be achieved with both a Guaranteed Investment Certificate (GIC) and an Accumulation Annuity (AA, also known as an insurance GIC), AAs offer important benefits that can make them a better choice for clients who want to maximize their financial legacy.

WHERE GICS AND AAS ARE ALIKE

Safe and secure

Both GICs and AAs offer fixed rates of interest for set periods of time and are not affected by fluctuations in the stock market. As guaranteed investments, both products are protected against provider failure (up to deposit coverage limits) with protection for GICs provided by Canadian Deposit Insurance Corporation (CDIC) and AA protection provided by Assuris.

Balanced risk

GICs and AAs are great ways for retirees to diversify their investment holdings. Since the rate of return is not tied to the stock market, these investments involve less risk than market-based funds and help create a balanced portfolio.

Flexible options

Both products can be used for either short-term or long-term savings, depending on the maturity date selected. And while your client may have every intention of keeping the investment until maturity, in both cases some — or all — of the money can be withdrawn if needed. This may be subject to a market value adjustment, however.

Tax matters

From a tax perspective, GICs and AAs are treated the same way based on the account type: no tax must be paid on RRSPs until money is withdrawn from the account; interest earned on non-registered accounts must be claimed as income; no tax is paid on TFSA investment growth.

Potential creditor protection

GICs and AAs could be protected from creditors in certain circumstances but this is not guaranteed so consult a lawyer for more information.

Beneficiary benefits

While GICs and AAs are similar in many ways, AAs offer several important advantages for retirees. An AA is a type of insurance contract and as such a beneficiary can be named. The AA is not considered part of the client's estate and probate is avoided should the client die. The full amount of the AA can be quickly paid out to the beneficiary tax-free, as opposed to the months — or years — it can take to release assets from a will. Naming a beneficiary also eliminates costly probate fees, which can run 5-10% of the estate value.

> **5–10%**
> *of an estate's value can be lost to probate fees. Naming a beneficiary on an AA avoids them entirely.*

Avoid disputes

Assets that flow through an estate become a matter of public record, which can lead to disputes between family members over the division of assets. Since an AA has a named beneficiary, these disputes are avoided because payment is made directly to the selected person.

Provincial tax benefits

AAs also offer potential tax benefits for retirees aged 65 or older: up to $2,000 of the interest earned each policy year may be eligible for the pension tax credit and may also reduce the amount of provincial tax paid.

AT A GLANCE

Feature	GIC	Accumulation Annuity
Fixed rate, not tied to the stock market	Yes	Yes
Protection if the provider fails	CDIC	Assuris
Short- or long-term terms	Yes	Yes
Early withdrawals (MVA may apply)	Yes	Yes
Tax treatment by account type	Same	Same
Named beneficiary; bypasses probate	—	Yes
Pension tax credit eligibility (65+)	—	Up to $2,000 of interest

THE BOTTOM LINE

Both GICs and AAs are great ways for retirees to save money and balance investment risks. While AAs do offer a slightly lower rate of return, the benefits that come with naming a beneficiary and avoiding probate issues make them a good choice for retirees who want to provide the most money possible to their intended heirs.