

Window of opportunity for annuities is closing

The impact of upcoming 2017 insurance changes

There are significant legislative changes coming to the Canadian insurance industry that will have an impact on prescribed annuities. If you are retired or nearing retirement, you may see great benefits in annuitizing your assets before January 1, 2017, when these changes take effect.

A prescribed annuity is an annuity that receives preferred tax treatment provided that it meets certain criteria as outlined in the Income Tax Act (ITA). Currently, the formula specified by the ITA to calculate the taxable portion of a prescribed annuity payment¹ uses a mortality table published in 1971. Effective January 1, 2017, this table will be replaced with an updated mortality table. Although the change will not affect the total amount of the annuity payment,

- Annuities purchased on or after January 1, 2017 will have a higher taxable portion.
- The age at which the taxable portion is \$0 will be older than the current calculation.

If a prescribed annuity is purchased on or after January 1, 2017, the new mortality table will be used to calculate the taxable portion of the payment. Annuities that are purchased prior to January 1, 2017 will use the old table, even if the annuity payments are scheduled to begin on or after January 1, 2017. The new legislation requires that annuity rates are to be “fixed and determined” prior to January 1, 2017. This means that your annuity income must be set by that date, even if your payments begin afterwards. If you are retired or are close to retiring, this provision provides you with a significant tax benefit for buying your non-registered payout annuity before January 1, 2017.

The table below illustrates the potential impact of the change by comparing identical annuities when the taxable portion is calculated using the current and new mortality tables.

Payout annuity taxable portion comparison ²			
Purchase age	Annual income	Current taxable portion	New taxable portion
Single life – male			
65	\$6,005	\$510	\$1,079
70	\$6,885	\$349	\$1,002
75	\$7,726	\$34	\$733
80	\$8,671	\$0	\$540
Single life – female			
65	\$5,426	\$595	\$1,002
70	\$6,242	\$359	\$922
75	\$7,100	\$0	\$606
80	\$8,066	\$0	\$314

¹ An annuity purchased with non-registered assets that qualifies for prescribed tax treatment.

² \$100,000 premium, 10 year guarantee period, purchase date July 1, 2015. Income start date August 1, 2015.

Annuity rates are subject to change without notice. Annuity information provided by Sun Life Assurance Company of Canada as of October 2015.

To learn more, speak with your Investment Advisor who will refer you to an Estate and Insurance Advisor (in Quebec, Financial Security Advisor) from BMO Nesbitt Burns Financial Services Inc. If you require insurance or would like to get additional insurance, you should consider starting the application process now to ensure the process is completed before January 1, 2017.



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