

# Prescribed Life Annuities: Best Before January 2017



A prescribed life annuity is a tax-efficient way to receive income in retirement, and has the added benefit of the taxable income being spread out evenly over the future life of the owner. This makes it an effective way to get more after-tax income from non-registered savings.

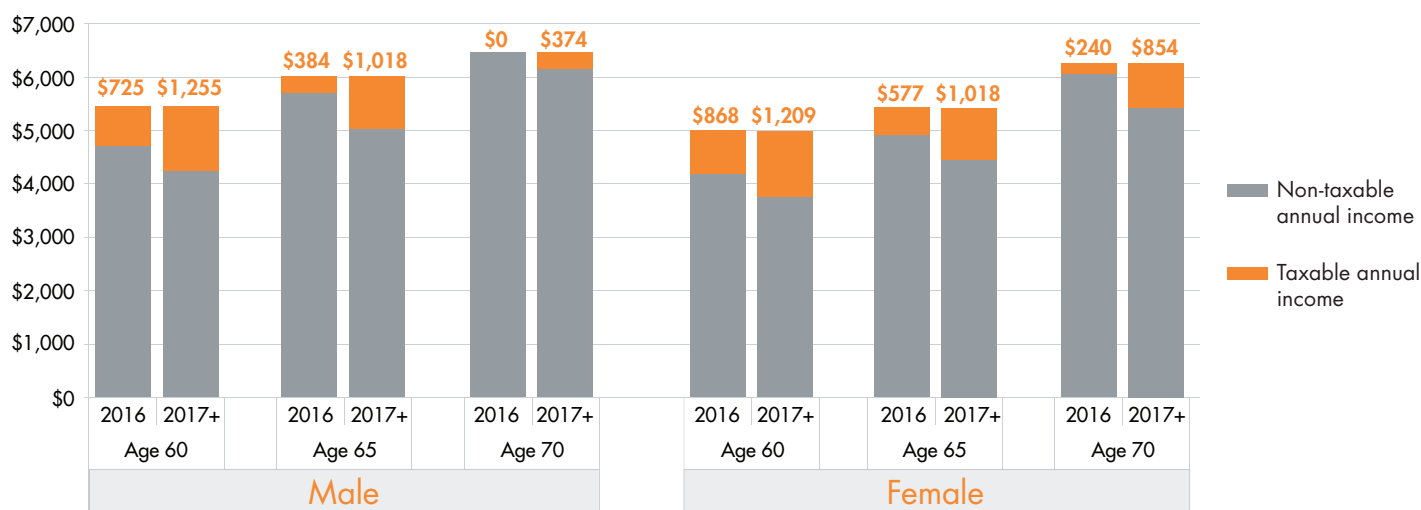
The formula the *Income Tax Act* uses to calculate the taxable portion on a prescribed life annuity will be changing on January 1, 2017. While prescribed life annuity contracts will continue to offer preferential tax treatment after January 1, 2017, there are significant tax incentives to purchase a prescribed life annuity before the tax changes are put in place.

## Prescribed life annuity taxation changes

- The new tax rules will apply to prescribed life annuity policies purchased on or after January 1, 2017. Policies purchased prior to this date will not be impacted by the tax changes.
- The annuity income payment amount will not be impacted, however a greater portion of the income will be taxable.
- All prescribed life annuity contracts will continue to benefit from level taxation, whether they are issued before or after the tax changes.

## Taxable income: 2016 vs 2017+

To what degree will the tax changes impact taxable income? The annuitant's age and sex are a factor in the calculation, however we can see from the chart below that a policy issued in 2016 instead of 2017 can have significantly lower taxable income.



\*Based on a \$100,000 prescribed life annuity with a seven year guarantee. For illustration purposes only.

## A Case Study

Peter is transitioning to retirement and is planning on purchasing a \$100,000 prescribed life annuity. He is deciding whether he would like to purchase an annuity by the end of 2016 or wait until 2017.

### Comparison of taxation:

	Annuity income	Taxable income	Marginal tax rate	Tax payable
Purchased in 2016	\$6,048	\$384	30%	\$115.20
Purchased in 2017+	\$6,048	\$1,018	30%	\$305.40

By purchasing in 2016 rather than 2017  
**Peter would save nearly**



**\$200 in taxes**  
in one year\*

**\$4,000 in taxes**  
over 20 years\*

\*Taxes based on a 30% marginal tax rate. Case study is based on a male age 65 with a seven year guarantee. Case study is for illustration purposes only; income payments and taxable income will vary.

## Who is eligible for a prescribed life annuity?

Most individuals are eligible for the prescribed taxation option, provided:

- the source of funds is non-registered
- the owner and the annuitant are the same individual
- payments are not deferred beyond the end of the following calendar year
- the guarantee period does not extend beyond age 90
- income payments are not indexed



### Questions?

For more information on prescribed and non-prescribed taxation, please see "[Prescribed Annuities: Tax-Efficient Retirement Income](#)" (form # 1511), or contact our customer service team at 1.800.668.4095.

This information does not constitute legal, tax or other professional advice. Information is believed to be accurate, but accuracy is not guaranteed. Case study is for illustration purposes only. Income payments and taxable income will vary.

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