MURA Pension Investment Round-Table
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Annity Information:

- I retired from McGill in August 2013, along with many others at that time, a few months ahead of my normal retirement date.

- After considering a number of options over the next couple of years, I decided to buy myself a pension income with my McGill Registered Pension Plan money, somewhat like what McGill used to offer, that is, I bought an annuity- joint life with a 15 year guarantee, which started in March 2016.

- Annuities have not been popular for the last several years due to low interest rates resulting in a lower payout; however, I felt that there was a place for an annuity, as one egg in the basket of financial retirement income for my husband and myself.

- Old Age Security (OAS) and Quebec Pension Plan (QPP) were two eggs with indexing by the government for annual inflation, along with the annuity (non-indexed as I wanted a higher payout earlier rather than later). These 3 eggs provide the base of secure monthly income to pay for fixed expenses plus increased travel during our junior senior years.

- In addition, our RRSPs and another LIRA (some now converted to a RRIF and some about to be converted to a RRIF and LIF), some non-registered investment accounts, including some dividend-bearing investment stock shares, TFSA accounts, and when the time comes selling our mortgage-free family home are the other eggs in the basket to provide for our future. The RRIF/LIF money will provide some inflationary protection due to the government's mandatory increased withdrawal rates so that the government may recoup the taxes saved while working. Also, drawing upon these sums later has permitted continued growth before beginning to use at the government-mandated age of 72. <u>Diversification.</u>

- Annuities are offered only by insurance companies. The government provides a backup of up to $2000/month in case any company should go out of business. Very, very rare in Canada for insurance companies to do so. <u>Protection provided.</u>

- The risks, as in Defined Benefit Pension Plans, are transferred from the investor/purchaser to the insurance company. You do not choose the funds in the portfolio as you no longer own the money, nor do you need to worry about the risk of the portfolio not performing well. If one is not interested in maintaining the investment portfolio, now due to time needed, lack of interest or knowledge, anxiety due to volatilities in the marketplace, or feel that one may not be able to do so in future years due to diminished capabilities, these may be reasons to consider an annuity.
<u>Peace of mind.</u>

- You transfer a lump sum to the insurance company and they give you an agreed amount on an agreed basis (monthly, quarterly, semi-annually or annually- your choice). Secure income, in our case for as long as I live and/or as long as my husband lives. One can choose life only, joint life if one has a spouse/partner or an income for a certain number of years. We have a joint life with 100% for my life and continuing to 60% for as long as my husband lives, if I should die first, after the guaranteed period is completed. My husband insists that he will die before me. Statistically, men die before women but not always in individual circumstances. His choice as if I die first, I'll be dead and won't need the money. We can <u>never</u> outlive the guaranteed income. <u>Security.</u>

- With an annuity, you are betting that you will live longer than the statistical average against the insurance company. You give up control over the money and cannot leave any residual money as a legacy to your heirs. If you win, you receive more money than invested over a longer period of time as those who die earlier (without a guaranteed period or after this time has expired) have their money used to provide for those who live longer than the average. Canadians are living increasingly longer (in 2018, about 81.5 years, 80 for men and 84.5 for women). However, those who live to 70 now, statistically can expect to live even longer. For women, one in 18 will live beyond age 94 while for men, it is one in 10 chance of doing so. There are an increasing number of people reaching the century mark. As you know too, those working in the higher education sector tend to live longer than average. With an annuity, you can never outlive your money, if you have chosen a life annuity, while there is a chance that one can do so with a RRIF/LIF if live long enough, have chosen to invest too conservatively or too aggressively or encounter worst case market volatility. <u>Money for life.</u>

- It is true that inflation will eat away at its buying power as the years go along, however, as indicated before this is not the only sum depended upon for our retirement. The indexed option did not appeal to me as you receive less money in the early years which increases as the years go on. There is a Deferred Life Annuity option expected to start in 2020, I believe, which may appeal to those who expect to live a very long life as payments would not start until one is 85 years old. <u>More income earlier.</u>

- In addition, we opted for a guaranteed period of 15 years in case we should both die unexpectedly soon after taking out the annuity. Any residual amount would go to our named beneficiary, our son. One can choose life only, or a guaranteed period of 5, 10, 15, or even 20 years. The latter two may not be possible if over a certain age. Note that if the insured person is female and the spouse/partner is older, then there may be very little difference to have some protection for 5 or 10 years as statistically women live longer and so the company expects to pay out for the woman anyway. For 15 years, still a very little cost for this extra peace of mind to ensure an almost 100% return of capital. <u>Another layer of protection.</u>

Annuities are not for everyone. Some questions you may wish to discuss with your partner/spouse or ask yourself:

- Do you worry about outliving your money?
- How long do you expect to live? If you have an acute or chronic illness and do not expect to live long, an annuity is not for you.
- What steps are you taking to improve your chances of living longer? Exercise, eating, drinking, social activities, etc.
- On the other hand, do you have several family members who have lived into their 90's?
- Have you chosen your parents and relatives well? What genetic conditions might you be susceptible to in terms of mental or physical capabilities? How might this impact your handling your financial affairs?
- Do you have family or friends who will be able to assist you in managing your financial affairs in later years?
- Does the stock market keep you awake at night with anxiety?
- Do you wish to be responsible for and control your own investment decisions, with our without a financial adviser? Even with, you need to be able to oversee and understand what is being recommended for your portfolio.
- Are you conservative or a risk-taker?
- Does the thought of making a killing on the market thrill you?
- Can you handle the ups and downs and volatility?
- Or is peace of mind more important to you?
- Do you want flexibility to be able to take out additional lump sums, if needed? Not possible with an annuity.
- Do you want the possibility to change your mind and move your money elsewhere? Not possible with an annuity.
- What total financial resources do you have at your disposal?
- Have you made a budget and know how much you need to pay for fixed costs? Do you have enough?
- Do you want to leave as much money as possible for your children or other heirs? Legacies for charities?
- Or do you want to use your pension money to live well and if some is left over, okay but saving for others is not your first priority?
- If you think an annuity might be right for you, do you want to take out one earlier and have money over more years or take out later and have a higher payout over a fewer number of years? Some suggest putting some of your money into an annuity starting in your 70's and doing so gradually over several years.
- When do you think interest rates might improve and provide a better rate of return on an annuity?
- Get quotes from several firms as returns will vary, even day to day and from one insurance company to another. Depends on your age, whether single or have a spouse/partner, prevailing interest rates, guaranteed periods, indexed or not, etc.
- Note that Sun Life has a non-commissioned rate with McGill, as outlined on the McGill HR pension web site. Be sure to check with them as they provided the best rate by far, even better than the rate found by our financial advisers checking with Sun Life.
- Some other thoughts and questions may come to you too.

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