

## **What is an annuity?**

For savings from your pension plan or group RRSP

An annuity is a retirement income vehicle that provides a guaranteed, regular income based on:

- your age;
- the amount you invest;
- the type of annuity you purchase; and
- the interest rates at the time you buy.

For example, if you purchase an annuity when interest rates are high, your regular income will be higher than if you bought when rates were low.

An annuity operates like a mortgage - but in reverse. Now that's freedom!

Instead of a financial institution providing you with a lump sum that you repay over a period of years (a mortgage), you provide the financial institution with a lump sum from your retirement savings, and the financial institution pays you back, with interest, over a period of years.

There are several types of annuities on the market:

- Life annuities provide income for your lifetime.
- A joint and last survivor annuity provides income for your lifetime, and then continues to provide income for your spouse's lifetime.
- Term-to-age-90 annuities provide income until you reach age 90.

You can also add features such as guarantee periods or indexing to inflation when you purchase your annuity. However, the more features you add the lower your income will be.

## **What type of annuity can you choose?**

The type of annuity you purchase will depend on the origin of the funds used to purchase the annuity. For example, if your money is coming from your RRSP, you may choose any type of annuity. However, if your money is coming from locked-in registered plans, such as a locked-in RRSP, LIRA or pension plan, you must purchase a life annuity. You can also purchase an annuity with non-registered savings.

## **How do annuities differ from RRIFs?**

The key difference between an annuity and a RRIF is that you "purchase" an annuity but you "invest" through a RRIF. With an annuity, you actually give up control of your money for the guarantee of a regular income. With RRIFs, you still own your money and maintain investment control.

In summary, annuities provide you with guaranteed income and RRIFs provide income flexibility. For most people, a combination of the two plans will provide for all their retirement needs.