How will the 2017 annuity rules change affect my retirement?

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Globe Retirement Q&A

Question from Larry, age 62: My wife and I have some money in registered retirement savings plans (RRSPs). She is 68. We are considering putting some of it into life annuities. We would prefer to do it in four years when I retire. However, we understand that there are [taxation rule] changes coming in 2017 that might mean we should do it sooner. Since all of our funds are in RRSPs and therefore 100-per-cent taxable when we withdraw them, will the new rules make much difference in the return we make? We are both quite conservative with investments and have most of our funds in guaranteed investment certificates (GICs).

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Over the last 25 years, Ms. Mizgala has helped clients make smart life and financial decisions as they transition to and through retirement

Karin Mizgala is a certified financial planner and the co-founder and chief executive officer of Money Coaches Canada.

"Before deciding whether annuities are the right choice for you and your wife, be sure to consider your investment decisions in the context of your retirement life plan. Have a clear picture of what retirement looks like to you, what it will cost to fund your lifestyle and what you can expect from other retirement income sources such as the Canada Pension Plan, Old Age Security or employer pensions.

What is the gap between your retirement expenses and what you expect to receive after-tax from your pensions? This is the amount you need annually from your investments. For instance, if your retirement lifestyle expenses are $50,000 a year and you expect $25,000 after-tax from pension income, you will need to generate $25,000 a year after-tax from your investments.

When deciding on investment options, the most important question is: How much risk do I need to take to create the income stream I need? If the after-tax, inflation-adjusted rate of return you can earn from GICs is sufficient to fund your lifestyle (not easy these days) and your risk tolerance is very low, then it's possible that GICs are a decent option for you. If not, then you need to either decrease your retirement lifestyle expectations or look at other investment vehicles.

Registered annuities could be a good alternative to GICs assuming that you aren't concerned about leaving an estate and want to be sure that you don't outlive your money. Annuities may not be exciting investments with today's low interest rates but they provide a level of security and peace of mind that may be valuable to you.

It's best to wait until age 70 to purchase annuities to get a higher payment. You don't need to worry about the new rules for annuities coming up in 2017 as they only apply to non-registered annuities. Inflation-adjusted annuities may be expensive and hard to find so factor this in to your financial plan when estimating your lifestyle needs in later years. As an alternative to a 100-per-cent GIC/annuity strategy, use pensions and annuities to fund your non-negotiable expenses, then invest the rest in a balanced portfolio of stocks and bonds if you can tolerate a modest amount of market risk."