



**NATIONAL
BANK
FINANCIAL**

A Summary of Retirement Income Products

A SUMMARY OF RETIREMENT INCOME PRODUCTS

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A SUMMARY OF RETIREMENT INCOME PRODUCTS

Retirement Income Products: Where Purchased? *

Products	Investment Dealers	Discount Brokers	Mutual Funds	Banks	Trusts	Caisses pop. or Credit Unions	Insurance Companies	For more information
RIF								
1. Self-directed	✓	✓	✓	✓	✓	✓	✓	p. 12
2. Mutual Funds	✓	✓		✓	✓	✓	✓	p. 14
3. Short-term	✓	✓		✓	✓	✓	✓	p. 15
4. Medium-term	✓	✓		✓	✓	✓	✓	p. 16
5. Long-term	✓	✓					✓	p. 17
6. Deferred long-term	✓	✓					✓	p. 18
Annuities bought with registered funds								
7. Single life with or without guaranteed period							✓	p. 19
8. Joint life with or without guaranteed period							✓	p. 20
9. Term to 90				✓	✓	✓	✓	p. 21
Annuities bought with unregistered funds								
10. Prescribed							✓	p. 22
11. « Back to Back »							✓	p. 25

Annuities vs. Retirement Income Funds

RETIREMENT INCOME FUNDS (RIFs)

Basic features

- You remain the owner of the invested capital.
- Rules governing qualified investments for a RIF are the same as those for the RSP (Retirement Savings Plan).
- Amounts received from the plan are fully taxable, although they are eligible for the Pension Tax Credit.
- No withdrawal is required in the year the RIF is opened. Beginning in the year after the plan is opened, a minimum amount must be withdrawn each year.
- In the past, the required minimum annual withdrawal formula was designed to draw the plan's capital down to zero by the time you reached age 90. This is no longer the case, and a RIF can provide an income stream for life.
- There is no upper limit on the amount you may withdraw each year, other than that imposed by the capital in your RIF.
- The required annual minimum is calculated based on two factors: the market value of your plan at the beginning of the year, and your age. Note that you may elect to use your spouse's age for calculating the mandatory minimum payment. This can be advantageous in situations where your spouse is younger than you and you wish to withdraw as little as possible from your plan in order to continue to defer taxation on the accumulated capital. Also note that this election is irrevocable, and must be made when the RIF is opened.
- **Until and including the year in which you reach age 70**, the required minimum yearly withdrawal is calculated by taking the market value of the plan on January 1 and dividing it by the difference between 90 and your age on January 1.

$$\frac{(\text{market value on Jan. 1})}{90 - (\text{age on Jan. 1})}$$

For example, if the RIF's market value on January 1st is \$100,000, and you are 65 years old on that date, the minimum withdrawal for that year will be

A SUMMARY OF RETIREMENT INCOME PRODUCTS

$\$100,000/(90-65) = \$4,000$. Naturally, if you have elected to base your RIF withdrawal schedule on your spouse's age, his/her age on January 1 is used in the formula above.

From age 71 onward, the required annual withdrawal is calculated by multiplying the market value of your plan on January 1 by the percentage in the following table corresponding to your age.

Required Minimum Annual Withdrawal (from age 71 onward)			
Your Age January 1	Min. Annual Withdrawal (% of RIF's Market Value)	Your Age January 1	Min. Annual Withdrawal (% of RIF's Market Value)
71	7.38%	83	9.58%
72	7.48%	84	9.93%
73	7.59%	85	10.33%
74	7.71%	86	10.79%
75	7.85%	87	11.33%
76	7.99%	88	11.96%
77	8.15%	89	12.71%
78	8.33%	90	13.62%
79	8.53%	91	14.73%
80	8.75%	92	16.12%
81	8.99%	93	17.92%
82	9.27%	94 +	20.00%

For instance, if your RIF's market value on January 1 is \$100,000 and you are 71 years old, your required minimum withdrawal for that year will be $(7.38\% \text{ of } \$100,000) = \$7,380$. Once again, if you have elected to base your RIF withdrawal schedule on your spouse's age, use the percentage in the table above corresponding to his/her age.

Please note that transitional legislation applicable only to RIFs opened before January 1, 1993 allows you to use the formula

$$\frac{\text{market value}}{(90 - \text{Age})}$$

to calculate your required minimum annual withdrawal until age 77 inclusive. After age 77, the minimum withdrawals for all RIFs will be calculated according to the percentages shown on the table on the previous page, regardless of when the plan was opened.

Upon death:

- 1- The cash value of your RIF may be transferred to your surviving spouse's RSP provided that he/she is 69¹ or younger.
- 2- If your surviving spouse is older than 69, RIF payments will be made to him/her. The required minimum annual withdrawal will continue to be calculated according to the existing schedule.
- 3- If a child or grandchild, who is financially dependent on you, is designated as beneficiary, and if there is no surviving spouse, the value of the RIF will be taxable once in his/her hands. An offsetting deduction is available if the child or grandchild is under the age of 18 and uses the amounts received to acquire an annuity whose term does not exceed eighteen minus the child's or grandchild's age at the time the annuity is acquired.

If a child or grandchild who is dependent on you by reason of physical or mental infirmity is designated as beneficiary, the value of the RIF may be transferred to this child's or grandchild's RSP.

- 4- Otherwise, the cash value of the RIF will be added to your taxable income in the year of your death, and the amount left after tax will be distributed according to the provisions of your will.

Advantages

- Flexibility, control over capital and income.
- Funds invested in the RIF can be used to purchase an annuity at any time.
- An ideal vehicle for a person wanting to reduce his /her taxable income.
- More possibilities for estate planning purposes.
- Income can be indexed to the increase in the cost of living.
- The RIF can provide an income stream for life.

Disadvantages

- Possibility of outliving the income if the withdrawals are too large relative to the available capital.
- RIF's capital and income will vary depending on the nature of the investments made.
- As you get older, your ability and/or will to make investment decisions may be impaired.
- Maturing investments must be rolled over, which may create a climate of uncertainty for certain individuals.

1 In his budget of March 6, 1996, the Federal Minister of Finance announced that the age limit for transferring RSP assets to a RIF.

LIFE ANNUITIES

Basic features

- You exchange ownership of your accumulated capital for a contract that guarantees the payment of a fixed or indexed monthly sum for life.
- Since 1986, commutation of the residual value of an annuity is available by law, but annuity issuers may choose not to offer this option. If the option is offered, only the payments left to the end of the guaranteed period may be commuted. Should you opt for this option, and if you are still alive after the guaranteed period has expired, regular payments will resume for the rest of your life.
- The annuity can be on a single life, or on the lives of two spouses.
- You cannot outlive the income paid out by the annuity.
- Payments from an annuity purchased with registered funds are fully taxable, although they are eligible for the Pension Tax Credit.
- If you die before the end of the guaranteed period, the commuted value of the remaining guaranteed period is paid to your estate, or the estate of the last deceased in the case of a joint life annuity.
- Annuity payments can be indexed up to 4% per year to compensate for inflation.

Advantages

- An income for life.
- Security and peace of mind.
- Income guaranteed for up to \$2,000.00 per month per annuity issuer for the duration of the contract by the **Compensation Corporation** (Compcorp).
- Estate protected for the guaranteed period (if selected).
- Possibility of protecting spouse for life through joint survivor clause.

Disadvantages

- Little flexibility.
- No protection against inflation unless indexation clause has been included.
- No capital left to estate unless guaranteed period clause specified.

**RULE OF THUMB
IN CHOOSING BETWEEN
A RIF AND AN ANNUITY**

The basic issue is whether you are looking for the highest possible income, or whether you are willing to trade off some current income for the potential of further asset accumulation.

If you want an income that is equal to or less than that provided by a typical fixed-income investment made at prevailing rates or the minimum withdrawal requirement prescribed by the Income Tax Act, you should choose the RIF. Generally speaking, by opting for less current income, your retirement capital will continue to grow or will decline as slowly as possible.

For example, if current interest rates on typical fixed-income investments are at 7%, you have \$200,000 in your RSP and require a yearly income not exceeding \$14,000 or an amount lower than the minimum withdrawal prescribed by law, you should then opt for the RIF.

If, however, you want an income that is higher than the income provided by a typical fixed-income investment made at prevailing rates or the minimum withdrawal prescribed by law, (which means that the encroachment on your retirement capital could be substantial), you should take a very serious look at annuities. By pooling the risks of a longer than expected life with others, you will be assured of a steady stream of income for the rest of your life and you will not have to depend on the uncertainty of future investment returns to put bread and butter on your table.

It is nevertheless, essential to take economic conditions at the time of the purchase of the annuity into account. When interest rates are high, the amount of monthly income available for each \$1,000 of capital transferred to an insurance company will be higher. But the opposite is equally true, and that's why the purchase of a life annuity should be avoided when interest rates are low and are expected to increase in the near future.

With a RIF, you can arrange the purchase of an annuity at an appropriate time.

In addition, with our *RSP Forecaster* software and the help of your National Bank Financial Investment Advisor, you can better plan a gradual drawdown of your retirement assets and possibly provide for the balance to be paid out to your estate after your death.

Retirement Income Funds (RIFs)

SELF-DIRECTED RIFs

Advantages

- Potential for higher returns.
- A wide range of eligible investment vehicles (GICs, bonds, stocks, mutual funds, etc.). You can choose your investments according to your personal needs and risk/return preferences.
- A self-directed RIF gives you access to many types of fixed-income investments guaranteed without limit by the federal or provincial governments.
- If GICs are your investment vehicle of choice, you can multiply the \$60,000 deposit insurance limit by purchasing GICs from several different issuers and holding them in your self-directed RIF.
- You receive monthly statements providing the market value of all assets in the self-directed RIF, and a summary of the month's transactions.
- The assistance of an Investment Advisor.
- Potential for asset growth.
- Canadian Investor Protection Fund coverage for RIFs offered by most Investment Dealers.

Disadvantages

- Potential investment risk if bad investment decisions are made.
- For some, the fact that they have to continue to make their own investment decisions may be perceived as a disadvantage.
- Yearly administration fee.
- Not all investments are protected by deposit insurance.
- It may be difficult for you to structure a portfolio that provides for a level stream of monthly income.

Ideal Buyer

- The person who is looking for higher potential yields.
- The person who wants to manage his/her own investment portfolio.
- The person who understands the various types of securities, and the risks and potential returns associated with each type.

Issuers

- Investment dealers
- Discount brokers
- Trust companies
- and some banks.

MUTUAL FUND RIFs

Advantages

- Funds are managed by professional money managers.
- Potential for asset growth.
- Diversification can help reduce risk.

Disadvantages

- Potential investment risk if bad investment decisions are made by the funds' managers, or if the wrong type of fund is chosen.
- Yearly administration fee.
- Investments are not protected by deposit insurance.
- No specific maturity on fixed-income funds.

Ideal Buyer

- The person who is willing to live with an element of risk but feels that he/she is not capable or willing to directly manage his /her investment portfolio.

Issuers

- Investment dealers
- Discount brokers
- Banks
- Trust companies
- Credit unions
- Life insurance companies
- and Mutual fund companies

SHORT-TERM RIFs

Advantages

- Provides a temporary safe haven, at a time when interest rates are low, for funds that must be transferred into a retirement income vehicle.
- Deposit insurance coverage available.

Disadvantages

- No potential for asset growth.
- Reinvestment risk at every maturity.

Ideal Buyer

- The person who is unwilling to commit his/her retirement capital for a long period.
- The person who is convinced that long-term interest rates are too low and that they will eventually increase.

Issuers

- Banks
- Credit unions
- Trust companies
- Insurance companies
- and Investment dealers.

MEDIUM-TERM RIFs

Advantages

- Medium-term rates are usually higher than rates for shorter terms.
- If interest rates increase, your RIF's capital will not be locked-in for a very long period.
- Deposit insurance coverage available.

Disadvantages

- No potential for asset growth.
- Reinvestment risk at every maturity.

Ideal Buyer

- The person who is unwilling to commit his/her retirement capital for a long period.
- The person who is convinced that long-term interest rates are too low and that they will eventually increase.

Issuers

- Banks
- Credit unions
- Trust companies
- Insurance companies
- Investment dealers (medium-term, negotiable bonds)
- Discount brokers

LONG-TERM RIFs

Advantages

- Your rate of return is guaranteed for the duration of the contract (up to 5 years with banks and trust companies, and up to 35 years with insurance companies and investment dealers), a particularly attractive feature when interest rates are high.
- Issuers normally offer some flexibility with regard to the amount of income that must be withdrawn on a yearly basis.
- Deposit insurance coverage available for banks and trust products with terms of 5 years or less. Government guarantees available on long term negotiable bonds.

Disadvantages

- Little potential for asset growth.
- Should interest rates go up dramatically after the purchase of such a RIF, you will find it either impossible or too expensive to collapse your contract in order to take advantage of higher interest rates.

Ideal Buyer

- The person who wants to lock-in high current interest rates for a long period.
- The person who wants to settle his/her retirement income program once and for all.
- The person who does not want to manage an investment portfolio.

Issuers

- Trust companies and banks for terms of 5 years or less.
- Insurance companies.
- Investment dealers within a self-administered RIF.
- Discount brokers within a self-administered RIF.

DEFERRED LONG-TERM RIFs

Advantages

- If interest rates are peaking and you are younger than 69, you can still lock-in a high rate and have your RIF payments only start in the year following the year of your 69th birthday.
- Rates are normally guaranteed for a period of 15 years or more.
- The amount and timing of the income payments can be modified.

Disadvantages

- Little potential for asset growth.
- Should interest rates go up dramatically after the purchase of such a RIF, you will find it either impossible or expensive to collapse your contract in order to take advantage of higher interest rates.

Ideal Buyer

- The person who is convinced that interest rates have peaked and that such high rates will no longer be available by the time he/she is forced to convert his/her RSPs into a RIF.
- The person who wants to settle his/her retirement income program once and for all.
- The person who does not want to manage an investment portfolio.

Issuers

- Mainly insurance companies;
- Investment dealers within a self-administered RSP;
- Discount brokers within a self-administered RSP.

Annuities

Annuities Purchased with Registered Funds

SINGLE LIFE ANNUITY WITH OR WITHOUT A GUARANTEED PERIOD

Advantages

- You cannot outlive the annuity's income stream.
- The income can be guaranteed for a period that may not exceed the number of years it takes you or your spouse to reach age 90.

Disadvantages

- Protects only yourself, although your spouse or other beneficiaries may enjoy a measure of protection if you opt for a guaranteed period.
- Very little flexibility, if any, after the annuity contract has been finalized.

Ideal Buyer

- A person who wants to maximize current income.
- A single person, or a married person with a financially independent spouse.

Issuers

- Only insurance companies.

**JOINT AND LAST
SURVIVOR ANNUITY
WITH OR WITHOUT A
GUARANTEED PERIOD**

Advantages

- Guarantees lifetime income to both you and your spouse.
- The income can be guaranteed for a period that may not exceed the number of years it takes you or your spouse to reach age 90.
- This type of annuity can be structured to provide a higher income while both you and your spouse are alive, and a reduced income flow when one of you dies.

Disadvantages

- This type of annuity usually provides lower income than any other type of annuity.
- Very little flexibility, if any, after the annuity contract has been finalized.

Ideal Buyer

- A married person who wants to ensure a guaranteed income for life for him/herself and for his/her spouse.

Issuers

- Only life insurance companies.

GUARANTEED PERIODS AND THE SIZE OF ANNUITY PAYMENTS

- The shorter the guaranteed period chosen, the larger your annuity payments, and vice versa.
- The longer the guaranteed period, the better the protection for your beneficiaries.
- The older you are at the time of purchase, and the older your spouse in the case of a joint annuity, the higher your annuity payments.

TERM TO AGE 90 ANNUITY

Advantages

- The payments are made for a period which extends until you reach age 90.
- May be based on spouse's age.
- This type of annuity is basically a "Reverse Mortgage". The interest rate and the underlying term of the annuity are the only factors used to calculate the pay-out.
- Insurance companies can offer a guaranteed rate for the duration of the contract.

Disadvantages

- You can outlive the annuity payments.
- If you purchase this type of annuity from a bank or a trust company, you will have to renegotiate rates at every maturity date. The guaranteed period offered by banks and trusts does not exceed 5 years.

Ideal buyer

- A person who does not expect to live beyond age 90, and who wants to enjoy high current income and to leave any amounts remaining upon death to his/her beneficiaries.
- A person who does not want to manage an investment portfolio.

Issuers

- Banks,
- trust companies,
- credit unions and
- insurance companies.

Annuities

Annuities Purchased with Registered Funds

Prescribed Annuity

Advantages

- Only the interest portion of each monthly payment is taxable.
- With a prescribed annuity, the interest portion is calculated as a fixed percentage of the total payments received, as opposed to a regular annuity where the interest portion is calculated each year on a declining balance.
- Simply put, this allows you to defer taxes. Compared to a regular annuity, you pay less tax in the initial years, and more in the later years. An illustration of the workings of the prescribed annuity is shown in Table 1. Table 2 shows how the prescribed annuity's net after-tax advantage, compared to a regular annuity, evolves over time.

Disadvantages

- Very little flexibility, if any, after the annuity contract has been finalized.

Ideal buyer

- The person with a large portfolio of non-registered funds, who is willing to encroach on this capital in order to obtain a regular flow of retirement income.
- The person who receives a large lump sum of cash following the sale of a business, real-estate, etc..

Issuers

- Prescribed annuities for life are issued by life insurance companies.
- Fixed-term prescribed annuities are issued by trust companies and life insurance companies.
- Insurance brokers²

² All these retirement products are available from National Bank Financial, through our insurance subsidiary, NBF Financial Services. National Bank Financial also has software called "Retirement Forecaster" designed to help you plan the use of non-registered capital to obtain retirement income. Ask your Investment Advisor about the type of simulations that he/she can produce with this product.

Table 1

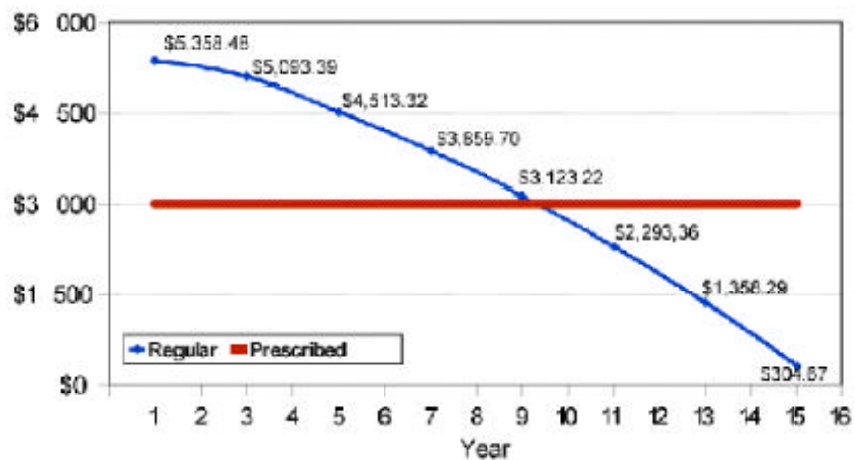
Difference between regular and prescribed annuities

	Regular	Prescribed
Annuity premium:	\$100,000	\$100,000
Term:	15 yrs. fixed	15 yrs. fixed
Rate of interest guaranteed for full term:	5.16%	5.16%
Monthly income:	\$805.73	\$805.73
Gross annual income:	\$9,668.76	\$9,668.76
Marginal Tax Rate ³ :	49.22%	49.22%
Taxable portion of total annual income:	see graph below	

**Prescribed vs Regular annuities
Taxable portion of income**

\$100,000 Fixed 15-year Term Annuities

(Gross annual income : \$9,668.76. Data as of December 31, 2000)



Notes

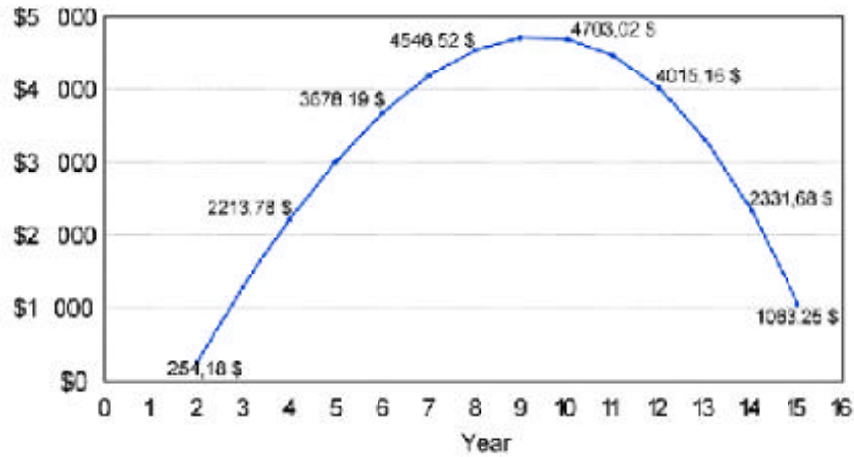
To calculate the portion of a fixed-term prescribed annuity payment which is not subject to tax, you simply divide the premium by the number of years of the term. This tells you how much capital is being reimbursed each year. The difference between this amount and the total income received each year is interest income, which is subject to tax.

In the case of a prescribed annuity for life, the portion of the payments not subject to tax would be equal to the premium divided by your life expectancy at the time of purchase. The difference between this amount and the total income received each year is taxable interest income.

³ According to 2001 maximum marginal tax rate.

Table 2

**Cumulative net advantage :
Prescribed vs regular annuity over time**
(data as of December 31, 2000)



Assumptions used to calculate the net advantage of the prescribed annuity:

- For years 1 through 9, the prescribed annuity provides higher after-tax income. During each of these 9 years, the additional after-tax income earned by the prescribed annuity is invested at a nominal rate of 5%, giving an after-tax return of 2.54%.
- For years 10 through 15, the regular annuity provides higher after-tax income than the prescribed annuity. Each year, for years 9 through 15, we deduct an amount equal to the difference in the two after-tax income streams from the amount we have accumulated during years 1 through 9. The balance of this accumulation continues to earn an after-tax return of 2.54%.

**THE “BACK-TO-BACK”
STRATEGY**

If you are not insurable and you want to leave an estate, you would usually opt for an annuity with a guaranteed period. As mentioned earlier, a longer guaranteed period offers better protection for your beneficiaries, but the longer the guaranteed period, the lower the income paid by the annuity.

If you are insurable, however, and want to leave an estate, you should consider a “Back-to-Back Annuity”. This type of annuity is simply a combination of a single life prescribed annuity with a term to age 100 or a whole life insurance policy. The single life prescribed annuity provides you with an income for life, and upon your death, the insurance will pay a death benefit which will provide for your beneficiaries. This death benefit is not taxable. The benefits of such a combination can be substantial. Table 3 compares the income produced by a “Back-to-Back Annuity” with an equal investment in a GIC.

Table 3

The “Back-to-Back” strategy illustrated

Situation: Man aged 70 in good health
 Marginal tax rate: 50%
 Type of annuity: \$250,000 prescribed, for life, no guaranteed period
 Type of life insurance: Fixed term to age 100 or whole life.(1)

Net advantage of “Back-to-Back” strategy over a GIC portfolio earning 5.9% /year ⁽²⁾ :		
	Annuity + Insurance	GIC
Gross annual income:	\$28,032.96 ⁽²⁾	\$14,750.00
Taxable portion:	\$9,864.09	\$14,750.00
Income tax (50%):	(\$4,932.05)	(\$7,375.00)
Net after tax income:	\$23,100.92	\$7,375.00
Less insurance premium:	(\$10,812.00) ⁽³⁾	N.A.
Net annual income:	\$12,288.92	\$7,375.00
Capital available during lifetime:	\$0.00	\$250,000.00
Capital available to estate:	\$250,000.00	\$250,000.00

The after tax yield as of Sept. 15, 2000 for the “back-to-back” strategy, calculated on an initial investment of \$250,000 is 4.92%, compared to only 2.95% for the GIC. The “back-to-back” strategy gives a net income which is roughly 67% higher than that paid by a GIC.

- (1) Insurance companies have recently modified their pricing on term insurance policies; in certain cases, it is now preferable to opt for a whole life policy with minimal cash values.
- (2) Based on quotes taken on Sept. 15, 2000. Annuity payments, insurance premiums and GIC rates are subject to change.
- (3) Premium for Term to 100 life insurance as of Sept. 15, 2000. The amount of this premium is subject to change.

The “Back to Back” Strategy - General Comments

- As mentioned above, the older you are at the time of purchase, the higher the annuity payments.
- The older you are on the date of purchase, the lower the taxable portion will be, as a percentage of the total income received.
- The older you are, the more difficult and costly it is to obtain life insurance protection.

How much income will you be able to get from your RSP?

If you are asking yourself this question, and are having difficulty in finding a satisfactory answer, National Bank Financial can help you; our RSP/RIF software has been designed just for that.

To get a free evaluation of the purchasing power of your RSP capital, simply photocopy, fill in the questionnaire on the following page and forward it to the nearest National Bank Financial branch.

Upon receipt of this questionnaire, one of our Investment Advisors will prepare a detailed report and arrange to meet with you.

Don't worry, the purpose of this call won't be to make a "quick sale", but to better understand your retirement planning needs and to try to find out how we can help satisfy these needs. Nevertheless, we will be happy to do business with you, if you decide to pursue this relationship.

The particulars contained herein were obtained from sources which we believe reliable but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein. The firm may act as financial advisor, fiscal agent or underwriter for certain of the companies mentioned herein and may receive a remuneration for its services. The firm and/or its officers, directors, representatives, associates, may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise.
