Canada Life

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The Retirement Account

It's not all about the rate...

Buying guaranteed income in The Retirement Account (TRA) can generate huge tax savings.

Guaranteed lifetime income bought within TRA is fundamentally different from a traditional standalone annuity.

All assets within TRA, including guaranteed income, are inside its tax-advantaged wrapper, written under drawdown rules.

This means that guaranteed income under TRA offers significant tax advantages, which can save clients and their beneficiaries a great deal of money.

Case Study

How George's guaranteed income could save his wife over £16,000.

George, aged 75, buys guaranteed income within The Retirement Account. His £100,000 pension pot provides him with income of £5,510* per year. He selects a 100% Money-Back Guarantee and nominates his wife as his beneficiary**. She has an income of £20,000, including her state pension.

On death after age 75, lump sum benefits from an annuity are taxable at the beneficiary's marginal rate of income tax, which could push them into a higher tax band.

Unlike a traditional standalone annuity, TRA allows beneficiaries to phase withdrawals over several tax years, to avoid paying this higher tax.

*Source: Canada Life, January 2019.

**We have discretion to decide who receives death benefits. Customers can complete a nomination form expressing their wishes. Any nomination made this way is not binding on us but will be considered carefully.

How does a guaranteed income within TRA compare with a traditional annuity when George dies?

George dies after...	Total income received from annuity	Death benefit (100% minus income already paid)	**Traditional annuity:** Tax payable on lump sum	**TRA guaranteed income:** Tax payable @ 20% using TRA to phase withdrawals	**Tax saved by buying guaranteed income in TRA**
1 year	£5,510	£94,490	£35,424	£18,898	**£16,526**
2 years	£11,020	£88,980	£32,118	£17,796	**£14,322**
3 years	£16,530	£83,470	£28,812	£16,694	**£12,118**
5 years	£27,550	£72,450	£23,710	£14,490	**£9,220**
10 years	£55,100	£44,900	£12,690	£8,980	**£3,710**

By buying guaranteed income in TRA rather than a standalone traditional annuity, George could save his wife over £16,000 in tax. What's more, although this example deals with a Money Back Guarantee, a similar result can be obtained with an Income Guarantee. For example a beneficiary may want to defer taking income guarantee instalments whilst they are still working to avoid higher rate tax (by reinvesting for example).

This case study is for illustrative purposes only.

Tax savings can dwarf differences in annuity rates

TRA offers highly competitive guaranteed income rates, but may not always come top on rate alone.

But guaranteed income through TRA shouldn't be judged purely on rate. The gain from a traditional annuity offering say, 5% higher income, could easily be eclipsed by the potential tax savings on death benefits.

TRA tax savings can comfortably exceed income gains…

George dies after…	**Guaranteed income through TRA:** Total income	**Traditional Annuity:** Total income if annuity were to pay 5% more	**Traditional annuity:** Income gained	**TRA guaranteed income:** Tax saved (see table overleaf)	**Overall gain from TRA guaranteed income**
1 year	£5,510	£5,786	£276	£16,526	**£16,251**
2 years	£11,020	£11,571	£551	£14,322	**£13,771**
3 years	£16,530	£17,357	£827	£12,188	**£11,292**
5 years	£27,550	£28,928	£1,378	£9,220	**£7,843**
10 years	£55,100	£57,855	£2,755	£3,710	**£955**

Income reinvestment: another way to save tax with TRA

Beneficiaries aren't the only ones to save tax with TRA. Clients can save too by regulating their income. Up to 100% of income can be suspended at will and redirected into Pension Drawdown. This can save tax at that point, and boost funds available to invest. At any time income can recommence which will be liable to tax at the customer's prevailing rate at that time. This may be useful as a tax saving mechanism if a customer has moved from higher rate to basic rate for example.

Income tax saved by diverting all guaranteed income into drawdown:

Income diverted for…	1 year	2 years	3 years	5 years	10 years
Total guaranteed income received	£5,510	£11,020	£16,530	£27,550	£55,100
Tax payable at 20%	£1,102	£2,204	£3,306	£5,510	£11,020
Tax payable if 40% tax payer	£2,204	£4,408	£6,612	£11,020	£22,040
Tax saved by going from 40% to 20% tax payer	£1,102	£2,204	£3,306	£5,510	£11,020
Tax payable if 45% tax payer	£2,480	£4,959	£7,439	£12,398	£24,795
Tax saved by going from 45% to 20% tax payer	£1,378	£2,755	£4,133	£6,888	£13,775

Income figures are for illustration purposes only. Tax treatment depends on the individual circumstances of each client and may be subject to change in the future. The value of investments may go down as well as up. It is essential to seek advice from a suitably qualified adviser. All figures are based on 2018/19 tax limits.

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