

## Class Plus 3.0 Case Study

# GUARANTEED RETIREMENT INCOME FOR LIFE

6 of 10 pre-retirees want guaranteed income for life.<sup>1</sup> Shifting demographics and the economic realities of today mean more Canadians than ever before are looking for a secure source of retirement income.

With **Class Plus 3.0**, you are guaranteed to receive a predictable monthly income for as long as you live. The income is always protected from market downturns and it will continue even if the value of your investment goes to zero.

In the following case study, we look at how John, a pre-retiree, can use Class Plus 3.0 to generate guaranteed retirement income.

<sup>1</sup> LIMRA Secure Retirement Institute Ready, Set, Retire? Not So Fast...Revisited 2014.



# Case Study



## John

John is 51 years old and is looking to retire at age 65. He is self-employed with no employer pension and has saved \$250,000 for retirement so far.



## Investment Needs

Although John has investments outside his RRSP, he wants his RRSP to generate guaranteed income to help cover his fixed expenses in retirement. He estimates his fixed expenses of \$30,000 annually will be partially covered by CPP and OAS but he has a shortfall of \$14,676.

John would like to invest the \$250,000 held in his RRSP so that it has the potential to grow and also generate guaranteed income in retirement to help cover his fixed expenses.

Savings to invest	\$250,000 in RRSP
Estimated annual CPP & OAS <sup>2</sup>	\$15,324
Estimated annual fixed expenses in retirement	\$30,000
<b>Estimated shortfall</b>	<b>\$14,676</b>

## Solution – Predictable monthly income in retirement

**Empire Life Class Plus 3.0** has all the features John is looking for.



The Income Base Bonus can help build his retirement income by increasing his Income Base by 4% each year. He will receive the Bonus for up to the first 20 years of the contract, for each year there are no withdrawals.



John will have long-term growth potential with investment options that include equity funds and triennial resets of the Income Base and Death Benefit Guarantee<sup>3</sup> that can lock in growth.



When he is ready to retire, he will receive guaranteed income for as long as he lives – no matter how the markets perform.



In the event of his death, the proceeds may bypass probate, provided a beneficiary is named.



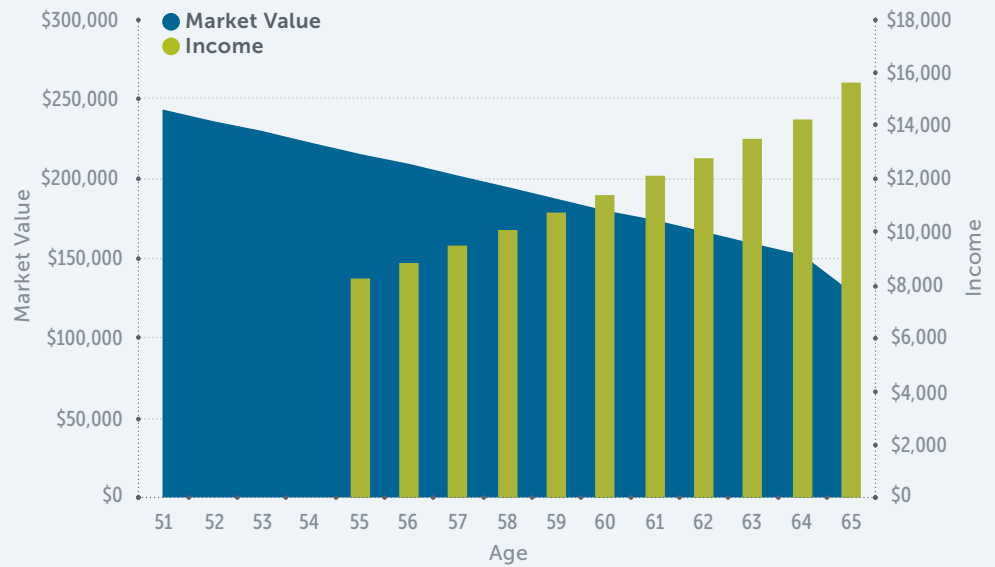
**In the following two examples – regardless whether markets go up or down – Class Plus 3.0 can meet John's estimated shortfall.** By combining his Class Plus 3.0 income and his government benefits, John may generate between \$30,924 to \$36,821 annually to cover his fixed expenses of \$30,000.

<sup>2</sup> Stats Canada: The average CPP benefit is \$691/month; maximum OAS pension benefit at 65 is \$586/month.

<sup>3</sup> Up to and including Annuitant's 80th birthday.

## How Class Plus 3.0 can meet John's shortfall in Down Markets

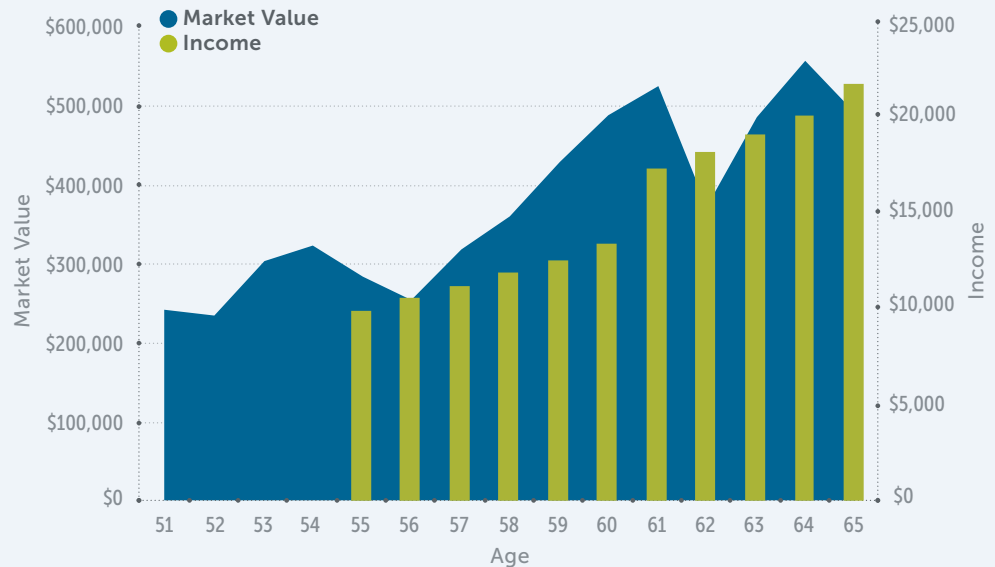
- The 4% annual Income Base Bonus, credited in the first 20 years of the contract assuming no withdrawals have been made, contributes to John's future income and protects him from market risk and inflation.
- John's Income Base would grow from his initial investment of \$250,000 to \$390,000 by age 65.
- He will receive guaranteed income for life of \$15,600 annually. (\$390,000 Income Base x 4.00% Lifetime Withdrawal Amount at age 65).
- The LWA amount will continue to increase each year that John waits to receive income. John elected to receive income at age 65 so his LWA rate is 4%.



For illustrative purposes the fund accumulates at a rate of return of -2.0% a year. An annual Class Plus Fee of 1.25% of the Income Base was charged.

## How Class Plus 3.0 can meet John's shortfall in Up Markets

- The 4% annual Income Base Bonus contributes to John's potential future income, same as in the example above.
- John benefits from the annual Automatic Income Reset as his income may be recalculated upwards.
- The Income Base, which is reset every three years, locks in any market gains.
- The Income Base Bonus and Income Base Reset help grow John's Income Base from \$250,000 to \$537,415 by age 65.
- When he's ready to retire, assuming no withdrawals have been made, his minimum annual income will be \$21,497 (\$537,415 Income Base x 4.00% LWA at age 65).
- If his RRIF minimum is higher in any year than his income, John can withdraw the higher amount without penalty.



This example's market value is based on historical rates of return using a blend of 80% S&P/TSX Composite TR Index and 20% FTSE TMX Canada Universe Bond Index from December 31, 1997 to December 31, 2017, with an average rate of return of 8.15%. An annual Class Plus Fee of 1.25% of the Income Base was charged.

## How Class Plus 3.0 works

**Automatic Income Resets:** Clients receive a new Lifetime Withdrawal Amount payout rate for each age.

**Bonus Base:** Used to calculate the Income Base Bonus. It is equal to the initial deposit and may increase through additional deposits.

**Excess Withdrawal:** Clients can access the market value of their contract at any time; however withdrawing more than the Lifetime Withdrawal Amount may have a negative impact on their income.

**Income Base:** Used to calculate the Lifetime Withdrawal Amount. It may increase through Income Base Bonuses, Income Base Resets or additional deposits.

**Income Base Bonus:** The 4% annual Bonus helps to build income potential. It is credited in years that there are no withdrawals from Class Plus 3.0, for the first 20 calendar years you own Class Plus 3.0. It is a notional amount and has no cash value.

**Lifetime Withdrawal Amount:** The maximum amount available for withdrawal from each year. It may increase through Income Base Bonuses and resets, but it will never decrease as long as no Excess Withdrawals are made.

**Resets:** The Death Benefit Guarantee and Income Base automatically reset every 3 years, locking in any market gains. The last reset of the Death Benefit Guarantee is on the Annuitant's 80th birthday.

**RRIF Minimum:** If the RRIF minimum is higher than the Lifetime Withdrawal Amount, the client can withdraw that higher amount without penalty.



### About Empire Life

The Empire Life Insurance Company (Empire Life) offers individual and group life and health insurance, investment and retirement products. Our mission is to make it simple, fast and easy for Canadians to get the investment, insurance and group benefits coverage they need to build wealth, generate income, and achieve financial security.

Follow Empire Life on Twitter @EmpireLife or visit our website, [www.empire.ca](http://www.empire.ca) for more information.



**Empire Life Class Plus 3.0 offers guaranteed retirement income for life and may be an ideal retirement solution for you. Visit [empire.ca](http://empire.ca) for more information or speak to your advisor.**

A description of the key features of the individual variable insurance contract is contained in the Information Folder for the product being considered. **Any amount that is allocated to a Segregated Fund is invested at the risk of the contract owner and may increase or decrease in value.**

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