



Protecting their inheritance

A BETTER WAY TO PASS ON WEALTH

Carl is proud of the nest egg he has managed to accumulate over the years. Now that he and his wife Samantha are in their early 50s, they want to make sure that their estate plan is in order so their money will pass smoothly to their son, Scott. However, they are both reluctant to leave a large lump sum to Scott, who is only 20 years old. They want to protect their bequest and provide their son with a lasting legacy.

There are several ways Samantha and Carl can achieve this. Many people establish trusts either inside or outside their wills to control the distribution of assets after they are gone. However, trusts can be expensive to set up and administer. They also require you to name a trustee who must agree to be responsible for ongoing tasks, such as annual trust accounting, for the entire life of the trust – which may stretch into decades of work. Professional trustee services are available, but can be costly.

A simpler and less expensive choice for people in Samantha and Carl's situation may be an "annuity settlement option." This no-cost option can be added to some insurance company products, such as segregated funds, Guaranteed Interest Contracts (GICs) and life insurance policies. As their financial advisor explained to them, an annuity settlement option simply replaces the lump sum death benefit that would normally be paid to their beneficiary with smaller, scheduled payments over a pre-selected period of time or even over the beneficiary's lifetime.

AN EXAMPLE

In Samantha and Carl's case, here's how an annuity settlement option might work. Let's assume that they own a \$400,000 Manulife Investments Guaranteed Interest Contract (GIC). They would like Scott to receive that money gradually over a ten-year period, so they add a ten-year payout annuity settlement option to the GIC investment. There is no fee for this service.



The annuity essentially acts like a mortgage payment in reverse. When both Samantha and Carl pass away, the proceeds from their GIC death benefit plus future interest will be paid to Scott in regular income payments (see illustration). Samantha and Carl could have selected other payout term lengths – for example, five years or 20 years. They could even set up a lifetime payout option that pays a fixed income to Scott for the rest of his life.

In addition to the simple set up, Samantha and Carl can change the terms of the annuity settlement option or even cancel the feature at any time at no charge. For example, ten years from now, when Scott turns 30, they may decide that their son is old enough and responsible enough to manage a lump sum bequest. Modifications like this can be made at no charge. On the other hand, if Samantha and Carl had set up a trust instead, they would have to pay for a lawyer to amend or redraft the trust.

FLEXIBLE AND COST-EFFECTIVE

An annuity settlement option is flexible enough to accommodate different death benefit payout options for different beneficiaries. This can work well, for example, in situations where a couple has children at different life stages. You might feel comfortable leaving a lump sum bequest to a 28-year-old married daughter, but prefer to provide an annuity to her 21-year-old sister who is still a student in university. This is easy to set up within the annuity settlement option.

Furthermore, because there's no cost associated with them, annuity settlement options work well for nearly every investor, regardless of whether the amount of the inheritance is \$50,000 or \$1 million. A trust, on the other hand, may be prohibitively expensive for a relatively small account – and yet a sudden gift of even \$50,000 may not be appropriate for, say, a 20-year-old.

ESTATE PLANNING BENEFITS

In addition to providing a flexible and charge-free way to control the manner in which your assets are allocated to your beneficiaries, an annuity settlement option offers some other important estate planning benefits.

Parents with disabled children often worry about how their sons and daughters will support themselves after they're gone. An annuity settlement option can give them peace-of-mind, with the knowledge that their children will be provided for financially either for a fixed number of years or for life. Depending on the annuity terms selected, you may even be able to preserve their government disability benefits. *

Because the proceeds of insurance company products – including segregated funds, GICs and life insurance – are paid directly to named beneficiaries without passing through the estate, an annuity settlement option avoids costly probate and estate fees. Bypassing the probate process also preserves your confidentiality, if you are concerned about transferring your wealth with discretion. And you eliminate the need for court approval, resulting in a quicker payout to your



