

Back-to-Back Annuity

Prepared for: Mr. Roger Généreux
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Jean Le Conseiller
Conseiller en sécurité financière
Bons conseils et associés
1234, rue du Conseil
Montréal (Québec)
Telephone: 514-555-5555
Fax: 514-555-5555





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Strategic Validation

Creativity to enhance your wellbeing

This document is the result of a reliable and effective strategy analysis applied to your personal situation. It was prepared using information gathered during our recent meeting.

Clients have their own objectives in regard to personal finances and each client is unique.

The Back-to-Back Annuity strategy is designed specifically for an individual (or a couple) with non -registered capital, wishing to receive high net income and to preserve capital for the estate.

This strategy allows you, notably, to reduce taxable income and income taxes, to increase net income, to eliminate the insecurity of stock market fluctuations and to preserve the estate.

In summary, it simply consists of combining life insurance coverage with the benefits of a prescribed annuity.

You will note in the following pages that this strategy analysis is perfectly conclusive when applied to your situation.

Since your financial security comprises a number of interrelated elements, such as taxation, savings management, risk management, estate planning and retirement planning, it is strongly recommended that you obtain a complete picture of your financial position by requesting a comprehensive and integrated financial strategy simulation.

Attention: *The results of this strategic validation are based on assumptions. Planist Ltd. ensures that any tax advice provided is lawful and that the mathematical calculations used to illustrate this strategy are accurate, but it is not in a position to verify the specific data appearing in this document. The fluctuation of interest rates is a key factor when subscribing to a life annuity. The numbers generated in this simulation are valid only on the day of its preparation.*

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Projected Return of a Guaranteed Fixed Income Portfolio
December 2010

Investment			\$500,000
Interest rate and gross annual income from investment	3.000%	\$15,000	
Other taxable income (C/QPP & others, estimate)		<u>\$50,000</u>	
Total taxable income		\$65,000	
Less taxes (effective rate)	28.80%	<u>-\$18,719</u>	
Net income after taxes		<u>\$46,281</u>	
Balance of capital at death			\$500,000



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Prescribed Life Annuity
December 2010**

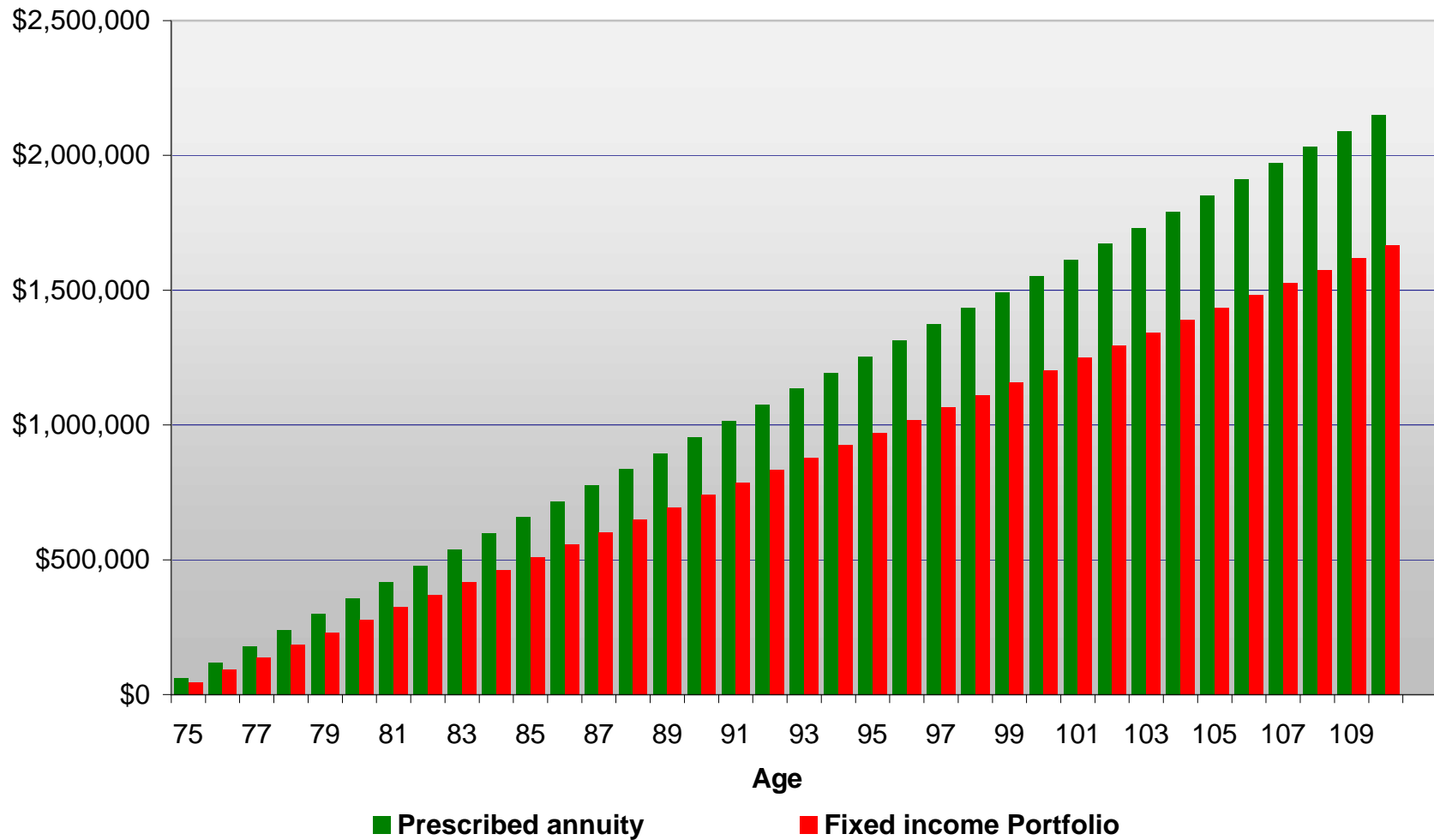
Investment		\$500,000
Prescribed life annuity with annual payments (no guarantee period)	\$38,170	
Other taxable income (C/QPP & others, estimate)	<u>\$50,000</u>	
Total income		\$88,170
Taxes on total income		
Taxable portion of annuity	\$10,605	
Other taxable income (C/QPP & others, estimate)	<u>\$50,000</u>	
Total taxable income	\$60,605	
Less taxes (effective rate) 27.67%		<u>-\$16,766</u>
Net income		\$71,404
Less cost of insurance		<u>-\$11,684</u>
Net income after cost of insurance		<u><u>\$59,720</u></u>
Balance of capital at death		\$500,000



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Summary - Insured Annuity vs Guaranteed Fixed Income Portfolio
December 2010

	Gross	Tax & Cost of Insurance	Net
1)- Insured annuity combined with your other income provides			
annual income of	\$88,170	-\$28,450	\$59,720
Fixed income portfolio combined with your other income provides			
annual income of	\$65,000	-\$18,719	\$46,281
Increase in net income			\$13,439
2)- Due to the tax benefit of a prescribed annuity, an annuity of			
	\$38,170		
will provide an annuity income after tax of	\$35,236		
which permits to cover life insurance costs of			
		-\$11,684	
Net income provided by this strategy			
	\$23,552		
for a lifetime guaranteed return of	6.62%		
on an investment of		\$500,000	
will preserve the same capital for your estate of			\$500,000

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Cumulative net income
December 2010**





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Benefits
December 2010**

Premise

The Back-to-Back Annuity strategy is a technique where a client purchases, with non-registered savings, an annuity to provide fixed income for life. A life insurance policy is also purchased to replace the capital used for the annuity.

As a portion of the annuity is a return of capital, taxable income is limited to the interest earned by the investment. Upon the death of the client(s), annuity payments end and the insurance death benefit is paid to the beneficiary.

For the purpose of this strategic validation, certain hypotheses were used, namely the cost of insurance is leveled, the amount of insurance protection is also leveled and equal to the amount available for the investment. Please note that the analysis does not take into consideration the cost of insurance between the life insurance purchase date and the annuity payment start date.

Key Benefits

Here is an outline of the key benefits from the implementation of a Back-to-Back Annuity strategy:

1- Regular guaranteed income

A regular guaranteed income is provided for the client's life (individual strategy) or until the spouse's death (couple strategy);

2- Return greater than interest income

Income generated by the Back-to-Back Annuity strategy, when converted to equivalent interest income, is substantially greater than the return of a guaranteed investment certificate (or any similar investment);



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Benefits
December 2010**

Key Benefits (cont'd)

3- Reduction of taxable income and increase of net income

The client's taxable income is lower than that from interest income, given that only the « return » portion of the annuity is taxable.

Due to reduced taxable income, the effective tax rate is lower, which increases net disposable income.



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Disadvantages
December 2010**

Disadvantages

Reduced Flexibility

The portion of your assets (non-registered) used to implement this strategy is no longer available for other purposes. In return for your capital, the issuing insurance company guarantees the payment of a lifetime fixed income. In the context of a sound management of your assets, Planiste recommends to use a portion of your assets to implement this strategy.

Given that your capital is transferred to purchase an annuity, the underlying investments are selected by the insurance company.

When the annuity is purchased, payments are based on the clients' ages, the amount invested and current interest rates. Should interest rates rise later, annuity payments remain fixed.