Questions and Answers Document

ANNUITY SETTLEMENT OPTION FOR THE DEATH BENEFIT

May 2017
Annuity settlement option for the Death Benefit

What is it?
If a client chooses the annuity settlement option, their Beneficiary (or Beneficiaries) will receive the Contract’s Death Benefit in the form of an annuity as opposed to a lump-sum payment.

What are the advantages?
This is a good way to enforce the client’s wishes, confidentially, after their death. Only the Contract Owner can add or remove the Annuity Settlement Option on the Contract.

The option is particularly useful in the following situations:

- If the client has doubts about a Beneficiary’s ability to administer a (perhaps sizeable) lump-sum payment.
- If the Beneficiary is a dependent and the client wants to provide care for their lifetime.
- If the client wants to transfer their assets gradually and confidentially.

Unlike a trust, there are no fees associated with this option.

What’s the process for choosing this option?
There is a form for the Contract Owner to complete (Beneficiary Designation – Annuity Settlement Option). They should make sure to list ALL of their Beneficiaries, even those who will receive a lump-sum payment. Please note that the form must not be completed if all Beneficiaries are to receive a lump sum payment.

For each Beneficiary, they need to indicate the percentage of the Death Benefit, the relationship, the type of Annuity selected and the frequency of annuity payments.

- It is possible to choose a combination of settlement options (lump-sum payment and annuity) for a single Beneficiary. To do so, your client should list the Beneficiary twice on the form, indicating a percentage for each option.

The Contract Owner can choose this option at the time of purchase or anytime thereafter, so long as the Annuitant is still alive. A new form will need to be completed for each change. When a new form is submitted, the previous one is automatically cancelled.

Note that if a form is not properly completed or if it contains an invalid option for the Contract type, Contract Administration will contact the representative to have a new form completed. It will be the responsibility of the representative to ensure a valid form is submitted. If a valid form isn’t submitted and the Annuitant dies, the Death Benefit will be paid out as per the previous valid Beneficiary designation (either an Annuity Settlement Option form, if a previous valid form
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has already been submitted, the Contract Application or other valid Beneficiary designation change instructions submitted).

**Which Contracts is this option available for?**
The option applies to new and existing Contracts, subject to the restrictions set out in Appendices 1 and 2:

- Guaranteed Investment Funds (including the current Contract and all previous Contracts)
- Savings or Term Investments Contracts (including the current Contract and all previous Contracts)

The following Contracts are not eligible:

- Contracts held in a nominee or intermediary account
- Life insurance Contracts
- Retirement Annuity Contracts

**Is the Beneficiary notified if this option is chosen?**
No. The only person who knows is the Contract Owner and if applicable, the Irrevocable Beneficiary. On the statement, any Beneficiaries who are to receive the Death Benefit in the form of an annuity will have the word **Annuity** listed next to their name.

Note that for Term Investments Contracts, the name of the Beneficiary only appears if the Beneficiary is changed or if the Beneficiary is irrevocable.

**What will the Beneficiary need to do to receive their annuity payments?**
Each Beneficiary will need to complete an annuity Application. A separate annuity Contract will be set up for each Beneficiary, and each annuity Contract will be subject to the terms set by the Contract Owner on the Annuity Settlement Option form.

**Are there any situations where this option can’t or shouldn’t be chosen?**
See **Appendix 1** for the features of annuities needed to transfer the Death Benefit on a tax-deferred basis (when eligible).

See **Appendix 2** for a list of situations where the annuity option is not allowed.
Note:

1. A transfer of the Death Benefit on a tax-deferred basis (tax rollover) to the Spouse or common-law partner or dependent child of the Contract Owner (who is named as the Beneficiary of the Contract) will prevail over the annuity chosen as the form of settlement.
2. If the Beneficiary is not a tax resident of Canada at the time of payment, a lump-sum payment will be issued instead of an annuity.
3. If the Beneficiary does not meet the Company’s minimum age requirement or the Death Benefit is less than the minimum Deposit required for the type of annuity selected, in accordance with the Company’s administrative practices in effect at that time, the Death Benefit will be paid out as a lump sum.
4. Depending on the source of funds, pension legislation may be applicable and priority to the spouse may take precedence over the designation of Beneficiaries.

Can a minor be designated as a Beneficiary?
Yes, a minor child can be designated as Beneficiary. Upon death of the Annuitant, the payment will be made in accordance with the applicable requirements (for example, payment to a trustee or guardian for the benefit of the minor child). For a transfer of the Death Benefit on a tax-deferred basis, the only allowable form of payment is a term certain annuity.

What are the tax implications?

1. If a transfer of the Death Benefit on a tax-deferred basis (tax rollover) is not possible for a Contract registered as an RRSP or a RRIF, income tax will be payable on the fair market value of the Contract at the time of the Annuitant’s death. The Death Benefit will be used to purchase the annuity. As a result, the estate will need to have sufficient other funds to pay the income taxes payable on death.
2. If the Contract Owner is not a tax resident of Canada at the time of the Annuitant’s death, non resident withholding tax will be withheld from the original Contract.

This is a general summary only, and not an exhaustive account of all potential tax implications. The client should consult a tax advisor for information on their own specific situation.

Are there any associated fees with this option?
No, there are no fees for the client.
I have questions. Who can I talk to?
If you have any questions or need more information, please contact your regional sales director or sales consultant, or GIF/annuity customer service:

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Appendix 1
Features of annuities needed to transfer the Death Benefit on a tax-deferred basis (when eligible)

<table>
<thead>
<tr>
<th>Source of funds used to purchase annuity</th>
<th>RRSP (in accumulation phase)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beneficiary</strong></td>
<td>Spouse[^1^]</td>
</tr>
<tr>
<td></td>
<td>Dependent child (physical or mental infirmity)</td>
</tr>
<tr>
<td></td>
<td>Dependent child (minor)</td>
</tr>
<tr>
<td><strong>Guarantee period (or term, for a term certain annuity)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Life annuity</strong></td>
<td>[0; 90 - age[^2^] at which the annuity is acquired[^3^]</td>
</tr>
<tr>
<td><strong>Joint and last survivor annuity</strong></td>
<td>N/A (Spouse deceased)</td>
</tr>
<tr>
<td><strong>Start of payments</strong></td>
<td>No later than 1 year after the date the annuity is acquired[^3^]</td>
</tr>
<tr>
<td><strong>Payment frequency</strong></td>
<td>Annual or more frequent</td>
</tr>
<tr>
<td><strong>Payment type</strong></td>
<td>Equal (except for allowable adjustment)[^5^]</td>
</tr>
</tbody>
</table>

[^1^]: Spouse or Common-Law Partner as defined in the Income Tax Act (ITA).
[^2^]: Age of the Annuitant in complete years.
[^3^]: The date the annuity is acquired is usually the date the Death Benefit of the original Contract is paid.
[^4^]: Age of the Annuitant (or their Spouse, if younger than the Annuitant) in complete years.
[^5^]: Increases at a rate not exceeding 4% per year.
Annexe 1 (cont’d)
Features of annuities needed to transfer the Death Benefit on a tax-deferred basis (when eligible)

<table>
<thead>
<tr>
<th>Source of funds used to purchase annuity</th>
<th>RRIF(^6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spouse(^1)</td>
<td>Dependent child (physical or mental infirmity)</td>
</tr>
<tr>
<td></td>
<td>RRIF(^6)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Guarantee period (or term, for a term certain annuity)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term certain annuity</td>
</tr>
<tr>
<td>90 – age(^2) at which the annuity is acquired(^3)</td>
</tr>
<tr>
<td>90 - age(^2) at which the annuity is acquired(^3)</td>
</tr>
<tr>
<td>[0; 18 - age(^2) at which the annuity is acquired(^3)]</td>
</tr>
<tr>
<td>Life annuity</td>
</tr>
<tr>
<td>[0; 90 - age(^2) at which the annuity is acquired(^3)]</td>
</tr>
<tr>
<td>[0; 90 - age(^2) at which the annuity is acquired(^3)]</td>
</tr>
<tr>
<td>[0; 90 - age(^2) at which the annuity is acquired(^3)]</td>
</tr>
<tr>
<td>Joint and last survivor annuity</td>
</tr>
<tr>
<td>N/A (Spouse deceased)</td>
</tr>
<tr>
<td>[0; 90 – age(^2) at which the annuity is acquired(^3)]</td>
</tr>
<tr>
<td>Not available</td>
</tr>
<tr>
<td>Start of payments</td>
</tr>
<tr>
<td>No later than 1 year after the date the annuity is acquired(^3)</td>
</tr>
<tr>
<td>No later than 1 year after the date the annuity is acquired(^3)</td>
</tr>
<tr>
<td>No later than 1 year after the date the annuity is acquired(^3)</td>
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<tr>
<td>Payment frequency</td>
</tr>
<tr>
<td>Annual or more frequent</td>
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<tr>
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</tr>
<tr>
<td>Equal (except for allowable adjustment)(^5)</td>
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</tbody>
</table>

\(^6\) Like other transfers of a designated benefit following the death of a RRIF Annuitant, the minimum amount in the year of death (or the minimum for the transfer year, if the transfer occurs in a subsequent year) must be paid out before the transfer can be made.
Appendix 1 (cont’d)
Features of annuities needed to transfer the Death Benefit on a tax-deferred basis (when eligible)

<table>
<thead>
<tr>
<th>Source of funds used to purchase annuity</th>
<th>TFSA</th>
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<tbody>
<tr>
<td><strong>Beneficiary</strong></td>
<td><strong>Spouse</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Dependent child</strong></td>
</tr>
<tr>
<td></td>
<td><em>(physical or mental infirmity)</em></td>
</tr>
<tr>
<td></td>
<td><strong>Dependent child</strong></td>
</tr>
<tr>
<td></td>
<td><em>(minor)</em></td>
</tr>
<tr>
<td><strong>Term certain annuity</strong></td>
<td>The fair market value of the Contract is</td>
</tr>
<tr>
<td><strong>Life annuity</strong></td>
<td>not taxable at death, so there are no</td>
</tr>
<tr>
<td><strong>Joint and last survivor annuity</strong></td>
<td>constraints on the annuity. However,</td>
</tr>
<tr>
<td></td>
<td>the annuity issued cannot be registered</td>
</tr>
<tr>
<td></td>
<td>as a TFSA.</td>
</tr>
<tr>
<td></td>
<td>The fair market value of the Contract is</td>
</tr>
<tr>
<td></td>
<td>not taxable at death, so there are no</td>
</tr>
<tr>
<td></td>
<td>constraints on the annuity.</td>
</tr>
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<td></td>
<td>The fair market value of the Contract is</td>
</tr>
<tr>
<td></td>
<td>not taxable at death, so there are no</td>
</tr>
<tr>
<td></td>
<td>constraints on the annuity.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Source of funds used to purchase annuity</th>
<th><strong>Non-registered Contracts</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beneficiary</strong></td>
<td><strong>Spouse</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Dependent child</strong></td>
</tr>
<tr>
<td></td>
<td><em>(physical or mental infirmity)</em></td>
</tr>
<tr>
<td></td>
<td><strong>Dependent child</strong></td>
</tr>
<tr>
<td></td>
<td><em>(minor)</em></td>
</tr>
<tr>
<td><strong>Term certain annuity</strong></td>
<td>.</td>
</tr>
<tr>
<td><strong>Life annuity</strong></td>
<td>There is no way to transfer</td>
</tr>
<tr>
<td><strong>Joint and last survivor annuity</strong></td>
<td>the Death Benefit on a tax-</td>
</tr>
<tr>
<td></td>
<td>deferred basis, so there are</td>
</tr>
<tr>
<td></td>
<td>no constraints for the annuity.</td>
</tr>
</tbody>
</table>

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7 Spousal rollover is not possible because there is a termination of the Contract upon death of the Annuitant.
Appendix 2
Situations where the annuity payout option is not available

<table>
<thead>
<tr>
<th>Contract type</th>
<th>Quebec</th>
<th>Ontario</th>
<th>Federal</th>
<th>Nova Scotia</th>
<th>Newfoundland and Labrador</th>
<th>Alberta</th>
<th>Saskatchewan</th>
<th>British Columbia</th>
<th>Manitoba</th>
<th>New Brunswick</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered annuity Contract Locked-in Retirement Account (LIRA)</td>
<td>Lump sum</td>
<td>Lump sum</td>
<td>Annuity possible</td>
<td>Lump sum</td>
<td>Lump sum</td>
<td>Lump sum</td>
<td>Annuity possible</td>
<td>Lump sum</td>
<td>Lump sum</td>
<td>Lump sum</td>
</tr>
<tr>
<td>Registered annuity Contract Life Income Fund (LIF)</td>
<td>Lump sum</td>
<td>Lump sum</td>
<td></td>
<td>Lump sum</td>
<td>Lump sum</td>
<td>Lump sum</td>
<td>Annuity possible</td>
<td>Lump sum</td>
<td>Lump sum</td>
<td>Lump sum</td>
</tr>
<tr>
<td>Registered annuity Contract Locked-in Registered Retirement Savings Plan (RRSP) (federal jurisdiction)</td>
<td>Annuity possible</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Prince Edward Island, Yukon, Nunavut and Northwest Territories: No legislation governing LIRAs/LIFs.

Note: In cases where an annuity is possible, the spouse may have priority over the Death Benefit (under pension legislation) and the named Beneficiary may not receive any money.