# TFSA Case Study

## Guaranteed tax-free income for life with Sun*Wise* Essential Series

### The situation:

Barb, age 50, is planning her retirement. When she retires she will receive government benefits, in addition to her company pension. Barb has saved $15,000 and is planning on saving $5,000 starting this year for an emergency fund and for her retirement. She doesn't want to be penalized by paying tax on these investments, or having the income jeopardize her government benefits. While she doesn't need additional retirement income, she wants the flexibility to access her money if she needs it. She is considering a tax-free savings account.

### The challenge:

To find a tax-effective way for Barb to save and build an emergency fund and find a way for it to provide an additional source of guaranteed income during retirement.

Because Barb has a dual purpose for her savings – both as an emergency fund and as a possible source of income – she needs to:

- protect her investments against market volatility
- guarantee that her future income will grow
- and shelter her investments from future tax liabilities.

### The strategy:

Barb opens a TFSA and transfers her $15,000 savings to Sun*Wise* Essential Series Income Class. This provides her with the minimum investment, so she can invest $5,000 a year into her TFSA and Sun*Wise* Essential Series Income Class. Sun*Wise* Essential Series Income Class provides Barb with protection against market volatility by locking in her investment gains every three years. This means that she benefits from the growth potential of her equity investments without being exposed to the market's downside. It also provides her with a guaranteed income for life at age 65. If she does not need the income, Barb has the flexibility to defer her withdrawals, or she can take the money and reinvest it. Any withdrawals from her TFSA are added back to her contribution room in the following year.

A TFSA shelters all of Barb's future income and the growth of her investments from taxation.

#### TFSA Basics

- $5,000 per year since 2009
- TFSAs can hold mutual funds, segregated funds, stocks and bonds
- all withdrawals are tax free
- withdrawals are added back to the contribution room
- unused contribution room can be carried forward to future years

## The result:

After 15 years, the market value of Barb's investment in Sun*Wise* Essential Series Income Class has grown to $141,331. She benefited from a 5% annual guaranteed income bonus each year, because she didn't make any withdrawals and she received several market resets as the value of her investments grew. At age 65, Barb became eligible to receive a Lifetime Withdrawal Amount (LWA) of $7,067*.

In the second year of her retirement, Barb doesn't need the additional income so she defers the withdrawal. This provides her with an income of $14,134 in the third year. She withdraws the entire amount to pay for her trip to Europe. Because she held Sun*Wise* Essential Series Income Class in her TFSA, Barb did not have to pay tax on the additional income.

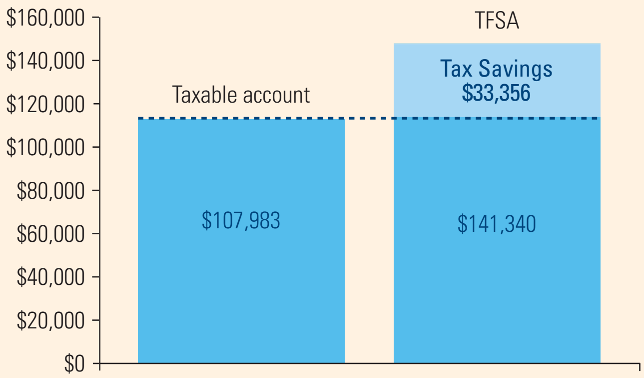
Over 20 years, Barb saves $33,356 in taxes by investing in her TFSA instead of a non-registered account. And Sun*Wise* Essential Series Income Class guarantees her an income for life.

## Sun*Wise* Essential Series Income Class – comparing after-tax income

This chart compares the after-tax income from a TFSA and a non-registered account. It assumes an initial deposit of $15,000 and subsequent deposits every year of $5,000 annual contribution to Sun*Wise* Essential Series Income Class for 15 years, which is invested in a 40% income/60% equity portfolio with a 6.5% annual rate of return. It assumes that after 16 years (year 16 from the initial investment), withdrawals begin and continue for 20 years.

Income from Sun*Wise* Essential Series Income Class is a combination of return of capital and capital gains at time of withdrawal**. For the comparison, taxation of the non-registered account is assumed at a marginal tax rate of 40%, with capital gains (based on the market value) estimated to be 40% in year 16. In subsequent years, it assumes that capital gains increases by 2% annually. For example, in year 17, taxation would be based on 42% capital gains.

### TFSA versus a non-registered account




* Subject to legislated minimums and maximums and certain conditions. Exceeding the LWA withdrawal rate will have a negative impact on future payments. For One-Life Income Stream, a guaranteed income for life or Guaranteed Life Withdrawal Benefit (GLWB) of 5.0% (LWA Rate) is available at January 1 of the year the Annuitant turns 65.

** The taxation of any amount that is a guarantee benefit is uncertain at this time. Sun Life will tax report the guarantee benefit based on its understanding of the tax legislation at the time the withdrawal is made.

For more information on CI's Tax-Free Savings Accounts, please contact your Financial Advisor or visit **www.ci.com/tfsa**.



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1109-1369_E (03/12)