

OPINION

If you ever had thoughts of buying an annuity, now is the time

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Annuities are not for all retirees, and neither are they suitable for all your retirement savings.

But if you like the idea of using some of your retirement savings to buy a life-long stream of monthly income, annuities are worth a look. Don't spend too long considering the idea of an annuity, though. Annuity payouts are influenced in part by what's happening in the bond market, where interest rates are falling.

Annuity payouts are slipping as well. The declines are not a deal-breaker, but they do signal that a generational opportunity to buy annuities is beginning to fade.

Here are some recent annuity quotes that document the recent decline in payouts – they're supplied by insurance adviser Rino Racanelli, who you may know through his articles for Canadian MoneySaver. Each is for a \$100,000 annuity with payments guaranteed for 10 years, even if the annuitant dies. In that case, the beneficiary or estate receives payments until the end of the guarantee period. The quotes:

- **A 65-year-old female:** annual income from one particular insurer has fallen in the past month to \$6,551 from \$6,752, almost 3 per cent.
- **A 65-year-old male:** annual income from one insurer has fallen to \$7,039 from \$7,239, or 2.8 per cent.

Mr. Racanelli says annuity payouts are set using a variety of factors, including short-term interest rates, long-term bond yields, the buyer's age and the insurer's experience with the longevity of its annuity clients. On the rate side of things,

economists have interpreted the latest Bank of Canada rate announcement as an indication that interest rates will start falling in the first half of next year.

In the bond market, rates for short, medium and long-term Government of Canada bonds have fallen sharply from September peaks. Bond yields soared earlier this year on concern that inflation was too sticky, and now they've backed off because it looks like inflation is losing momentum.

Annuity payouts change a lot and can differ widely between insurers, so be sure to seek multiple quotes from insurance companies or insurance advisers who sell them. I have yet to find a good online annuity website that offers comparative quotes. If you found one, let me know at rcarrick@globeandmail.com.

The same interest rate factors working against annuities are pushing down rates for guaranteed investment certificates as well. Day by day, GIC issuers are incrementally dialling back on returns for terms of one through five years. Motive Financial's 6 per cent one-year GIC stood out late this week - it won't last.

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