

Guaranteed Minimum Withdrawal Benefit

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Roger and Linda are approaching their retirement. With continuing volatility in the markets, they are concerned about what effect a market downturn in the few years leading up to or just after retirement would have on their income. They also think that GIC investments would not protect their retirement income very well from inflation.

Like more and more Canadians today, neither Roger or Linda are part of a pension plan. Because **they will be fully responsible for their retirement income stream**, it's very important to them to have a plan that can potentially replicate a pension.

A new segregated fund product, that features a Guaranteed Minimum Withdrawal Benefit (GMWB), was introduced in Canada in late 2006. These plans are **a long-term investment that provide a guaranteed income, either now or in the future, regardless of market performance**. This type of plan may be ideal for Roger and Linda as they seek a predictable, sustainable and possibly increasing income that may last for life.

Roger and Linda are about fifteen years from their target retirement date. By depositing to a GMWB plan now, they like that they can earn a 5% income bonus for each year they don't make withdrawals. These are not a cash bonus, but add to the amount their income will be based on in case market returns are poor. For example, if they deposit \$100,000 to the GMWB plan, they know that in fifteen years their income will be based on no less than \$175,000. This means an assured income for them if markets fail to perform.

On the other hand, if markets do well, Roger and Linda like that their **gains can be automatically 're-set' at certain intervals**. These plans also have a death benefit guarantee that can increase with these market value re-sets. For example, if their \$100,000 initial deposit grows to \$125,000 after three years and re-sets, future income bonuses will be based on the new amount. If the investment performs poorly after a gain has been re-set, the death benefit and income guarantees will still be based on the new re-set amount.

GMWB plans also provide a guaranteed income stream that has the potential of increasing if the investments perform well. If, however, they perform poorly, the income stream will not decrease as long as only the guaranteed minimum withdrawal is made each year.

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Want help with your retirement planning?

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