

Can't stomach wild market swings? It may be time to jump into annuities, advisers say

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As volatile markets and an escalating trade war continue to batter investment portfolios, annuities are gaining renewed attention among retirees and near-retirees who are seeking to quell their fears of running out of money, according to some advisers.

Annuities are insurance products for which you pay a lump sum of money to an insurer in exchange for a guaranteed stream of monthly income for life or for a specified term. As defined benefit pension plans become a thing of the past and life expectancies increase, annuities can help address retirees' concerns of outliving their savings.

"A lot of seniors are just dead tired of watching their investments [go down], and trying to manage it," said Rino Racanelli, an independent insurance adviser based in Oakville, Ont., who specializes in annuities. "And if the markets go down, and you're a senior, you don't have time to recoup."

A Deloitte Canada report on retirement readiness released in August, 2024, estimated that 55 per cent of near-retiree households will need to make lifestyle compromises to avoid outliving their savings. Yet, 81 per cent of that group do not own annuities, citing their complexity and fees as major roadblocks to adoption. The consulting firm's study involved surveying nearly 4,000 near-retiree (between 55 and 64 years old) and retiree households.

The study also found that nearly 60 per cent of near-retirees in Canada are unfamiliar with annuity products.

According to Mr. Racanelli, however, annuities are often overlooked and underutilized in retirement planning. "Annuities are not a sexy product but when you bring it up, people want to hear about it," he said.

While they depend on a wide range of factors such as the amount of the lump sum, age, gender, and mortality tables, annuity products can benefit retirees in various situations.

Joint life annuities, for example, may be suitable for retired couples since they guarantee lifetime payments for the surviving spouse should the other pass away. Term-certain annuities may be suitable for those who want to delay their CPP or OAS to a later age and need a monthly income for the interim period.

Paul Savage, head of individual insurance with Manulife Canada, says he's seeing more clients interested in annuities with interest rates having crept back up since their lows in

the past decade, pushing up annuity payouts. He estimates that in the current rate environment, a 65-year-old with a \$100,000 premium would yield an income of 6 per cent to 6.5 per cent annually on a life annuity. Five years ago, that amount would have been between 4 per cent and 4.5 per cent.

Mr. Savage points to a common misconception about annuities that worries seniors. “They think that if you buy an annuity and then die tomorrow, your money is all gone, [but] most annuities can provide guarantees that payments go for 10, 20, or 30 years,” he said.

Companies such as Manulife also offer an annuity settlement option for its life insurance products. “Instead of a lump sum payment on death for that life insurance policy, that payment can be used to purchase an annuity, and then your beneficiary would receive guaranteed income for life,” explained Mr. Savage.

There are trade-offs to consider, however. “You get income certainty but you lose the liquidity and access to your funds,” Mr. Savage said. “You’re being protected against the potential downside of volatility if markets are down but then you’re also giving up the upside of [another] investment,” he said.

That’s why advisers suggest annuities be part of an overall portfolio strategy. “You certainly don’t want to be doing this with all of your money,” said Colin White, portfolio manager and CEO of Verecan Capital Management based in Halifax. “Life doesn’t go in a straight line. That flexibility you’re giving up is a big deal.”

Mr. White recommends retirees look at what type of income they want guaranteed to cover everyday bills like groceries or rent. A life annuity may make sense for a retiree who wants to sell their home and convert the proceeds into a steady income stream to pay for nursing care, for example.

Mr. Racanelli, who’s been advising on annuities for over 30 years, says the majority of his clients purchase annuities with non-registered funds (i.e. prescribed annuities) for their tax advantages. If one were to purchase an annuity using registered accounts like a RRIF, they would have to pay tax on the whole withdrawal. But if they were to purchase a prescribed annuity, they would only pay tax on payments as they’re received.

Mr. Racanelli adds that he thinks annuities will be popular not just for its viability, but more so for the peace of mind they bring for retirees. “They want stability. They want to know they’re going to get a monthly check for the rest of their life,” he said.