

MONITOR

Volume Seven / Summer 1998 / Updated 2005

CPI-Linked Annuities

Attractively costed CPI-linked structured settlement annuities are available offering recipients of structured settlements complete protection from long-term inflation. It means that, in addition to the well-known benefits of a structured settlement, such as the tax-exempt nature of the payments and the fact that the fund cannot be exhausted, there is added protection against future inflation.

Simply put, the annuity payments increase each year at a rate equal to the increase in the Consumer Price Index. In layman's terms, this means at about the rate of inflation. Further, there is no cap on growth. For example, should the Consumer Price Index move up 15%, payments will also increase by 15%. If, however, deflation results in a decline in the Consumer Price Index, payments will not decrease, resulting in an increase in underlying purchasing power.

The CPI-linked annuity is an answer to those who feel that current long-term interest rates are not high enough, given long-term exposure to inflation.

These annuities are based on real rates of return (nominal interest rate minus the rate of inflation). Interest and inflation rates usually move in tandem. If interest rates increase as a result of increasing inflation, the payments from a CPI-linked structure will also be increasing in response to that inflation.

The following figures illustrate the relative costs of providing income streams increasing at fixed rates of 2% and 3% and at a rate equal to the Consumer Price Index. In each case, the income stream consists of lifetime monthly payments, with a 30 year guarantee period, even if the recipient dies within that period. Only the rate of indexation varies:



[Continued on page 2, see sample quotes chart]

THE MCKELLAR STRUCTURE MONITOR

[Continued from page 1, CPI-Linked Annuities]

Sample Quotes

BASED ON AN ASSUMED FUNDING DATE OF JANUARY 1, 2005 AND AN INCOME COMMENCEMENT DATE OF FEBRUARY 1, 2005 FOR A FEMALE ANNUITANT AGE 25

Index Rate	Monthly Income	Structure Cost
2%	\$273.71	\$100,000
3%	\$218.08	\$100,000
Consumer Price Index (CPI)	\$208.45	\$100,000

Consumer Price Index

What it is

☒ "... an indicator of the changes in consumer prices experienced by Canadians. It is obtained by comparing, through time, the cost of a fixed basket of commodities purchased by Canadian consumers in a particular year. Since the basket contains commodities of unchanging or equivalent quantity and quality, the index reflects only pure price movements."

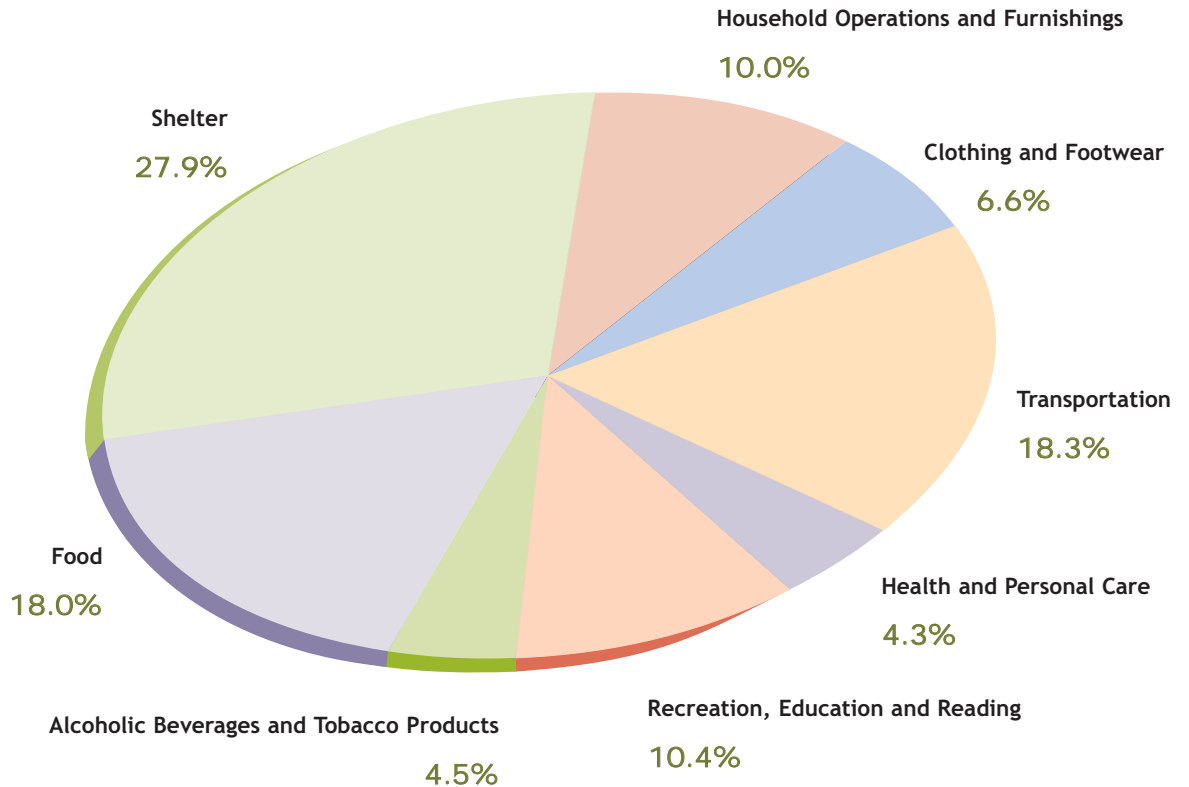


What it affects

- 1 ☒ Old Age Security benefits, CPP payments, other forms of social and welfare payments.
- 2 ☒ Rental agreements, spousal and child support payments and other forms of contractual and price-setting agreements.
- 3 ☒ Cost-of-living (COLA) clauses in wage agreements.
- 4 ☒ Widely used measure of inflation or deflation.
- 5 ☒ CPI-linked annuities.

Goods and Services Contained in the CPI Basket

1992 CPI WEIGHTS BY MAJOR COMPONENT, FOR CANADA



Statistics Canada, *Your Guide to the Consumer Price Index*, Catalogue No. 62-557-XPB, 1996, pg.6

Historical CPI Data versus Fixed Indexing

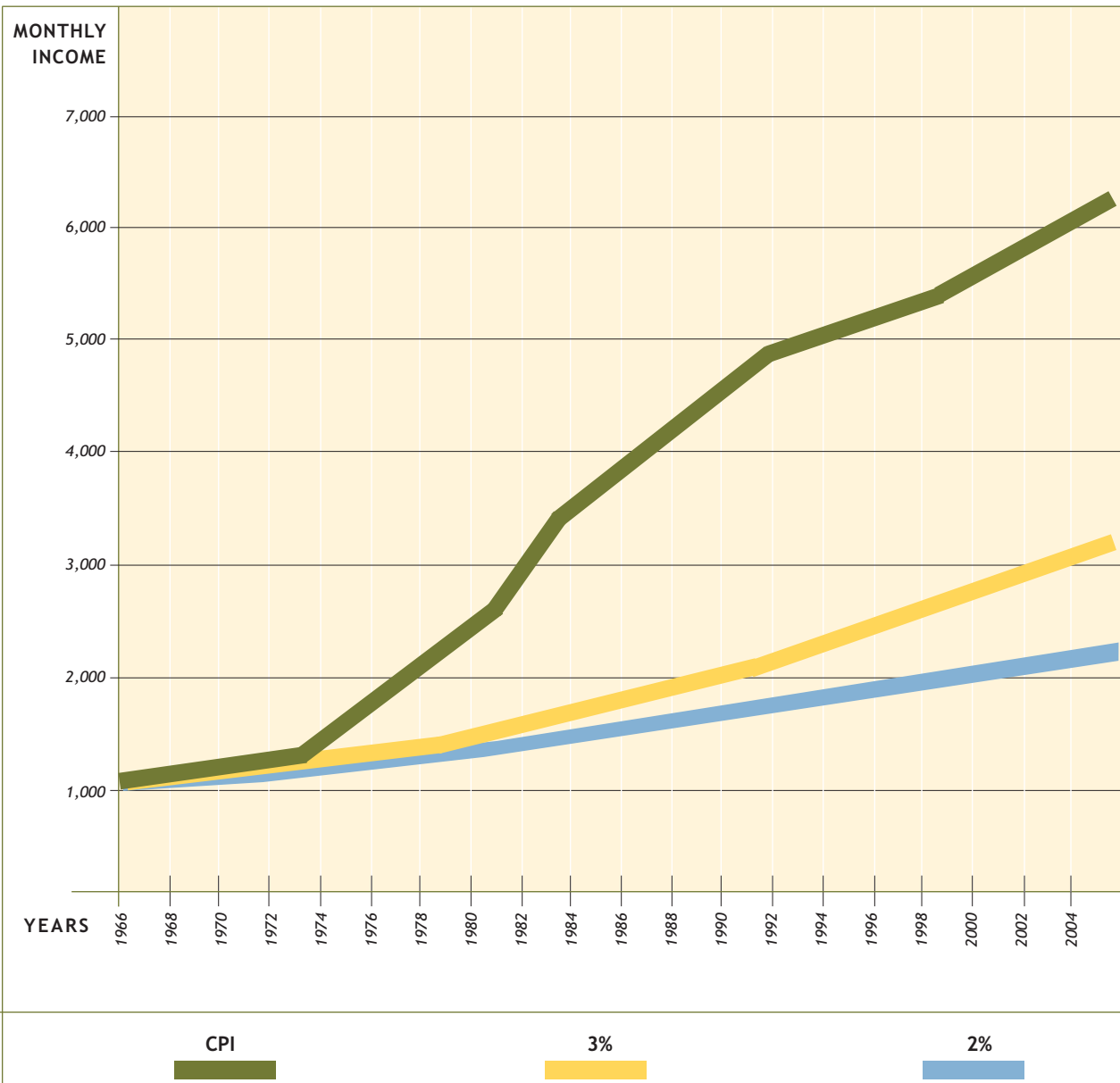
The graph on page 4 assumes that three annuities were purchased on the 1st of January, 1966, each in the amount of \$1,000.00 per month. The annuities are indexed respectively at the Consumer Price Index, 2% and 3% per annum, compounded. This graph is purely historical to show what inflation has been on an annual

basis over the last 40 years. One can see periods of quite low inflation, as in the 1960's and early 1970's, along with quite significant inflation, as occurred in the early 1980's. The average rate of inflation over the 40 year period is 4.80%.

[Continued on page 4, see "Comparison of Historical CPI" chart]

Comparison of Historical CPI, 2% and 3% Indexation

[Continued from page 3, Historical CPI Data versus Fixed Indexing]



Please give us your comments on The McKellar Monitor. Please write, e-mail, phone or fax: John Rousseau, Editor, The McKellar Monitor, 649 Scottsdale Drive, Suite 100, Guelph, Ontario, Canada N1G 4T7 Phone 1-800-265-8381 Fax 519-836-7631

VANCOUVER 1-800-465-7878 EDMONTON 780-420-0897 HALIFAX 1-800-565-0695
GUELPH 1-800-265-8381 USA 1-800-265-2789

Want a personal copy or an address change? Fax or e-mail McKellar.

info@mckellar.com
www.mckellar.com