Life Letter

A case for Segregated Funds

Ron and Kathy had some money to invest and looked at a number of options. Neither had the time or desire to research stocks and other securities to build and manage an investment portfolio. However, they like the way mutual funds work as they can pool their money with many other people and have investment professionals manage it for them.

They also learned about Segregated Funds, an investment plan backed by a life insurance company. These plans work very much like a mutual fund, but have certain death benefit and maturity guarantees as well as several unique benefits:

Strong Beneficiary Designations - There are several benefits of having a "strong" beneficiary designation.

First, because Segregated Funds are backed by a life insurance company, benefits on death are generally paid quickly, often with few requirements, directly to the named beneficiaries. Settlement is private and usually does not become part of the public record in the courts.

Second, you can name a beneficiary on a non-RSP plan. This is a valuable estate planning tool.

Third, you can name a secondary beneficiary, which is someone who would get the benefits in the event of the death of the primary beneficiary.

You can change the beneficiaries on your plan any time you want. This is usually a simple form that needs to be filed with the issuing company. A change to your Will is not necessary.

Potential For Creditor Protection - As long as the beneficiary designation is in what is known as the preferred class, funds are protected from creditors in most situations. This applies to both RSP and non-RSP funds. The potential for creditor protection is very attractive to most business owners.

Build a Portfolio Without Extra Fees - Ron and Kathy would like to use different funds and fund managers for their investment plans. Often, self-directed plans have an annual fee that can be in the hundreds of dollars. Not so with a Segregated Fund. Some plans even use existing mutual funds inside the Segregated Fund wrapper.

Switch Between Funds and Managers Fee Free - If Ron and Kathy want to make changes to the funds within their accounts, they can usually do this several times per year without cost in a Segregated Fund.

Deferred Sales Charges (DSC) Waived on Death - In order to have 100% of their money invested, Ron and Kathy want to use the DSC method. This means that if they withdraw their money before a certain period of time has passed, they will have to pay a small penalty. The DSC is a decreasing percentage of the funds withdrawn. However, these charges are waived on death in a Segregated Fund.

For information purposes only and not intended as an offering of product. See your financial advisor for full plan and funds details. Any amount that is allocated to a Segregated Fund is invested at the risk of the policy owner and may increase or decrease in value. Past performance should not be considered indicative of future results.