

Key Facts About Segregated Fund Contracts



This booklet is designed to help you understand segregated fund contracts and to become a more informed investor.

Key facts:

- Segregated fund contracts are available only through life insurance companies and licensed life agents
- Special features include
 - Guarantees to protect your investment
 - Potential creditor protection
 - The right to name a beneficiary
- You will receive an information folder before you buy

Additional information – and help – are available from your life insurance advisor and company.



Canadian Life
and Health Insurance
Association Inc.

Association canadienne
des compagnies d'assurances
de personnes inc.

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What is a segregated fund contract?

A segregated fund is a type of investment fund available through a life insurance company. Companies keep these funds separate (or “segregated”) from the general assets of the company so only investors in the funds have access to their value.

Each consumer purchases a contract, called an Individual Variable Insurance Contract (“IVIC”), which we will refer to as a segregated fund contract, which, as further outlined in section 3, provides the consumer with certain contractual rights and benefits. The contributions or premiums that consumers make are invested in the segregated funds they choose.

Typically, a segregated fund contract is designed to provide a regular income to you starting at a specified future date. Such incomes are called annuities, and your segregated fund contract may therefore also be called an annuity contract or a “deferred” annuity contract. Before the annuity becomes payable, you will be able to choose the type of annuity payment to receive and whether to receive the value of the contract as a single payment, rather than as a series of payments.

Segregated fund contracts are issued by life insurance companies



and are available only through advisors who are life-licensed.

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Why buy this product?

When you invest in a segregated fund contract you combine the growth potential of investment funds with certain guarantees and benefits of a contract with a life insurance company. Those benefits include:

- Guarantees that can help protect your investments
- Guaranteed death benefits
- Potential creditor protection
- The right to designate a beneficiary
- Tax and estate planning advantages
- An option that lets you reset your guarantee to a

higher amount (for some contracts, see section 4)

- Guaranteed income benefits (for GMWB contracts, see section 4)

In addition to these special contractual features, segregated fund contracts offer:

- Diversification through a selection of growth, income and balanced funds

- Flexibility to switch between funds offered within the same contract without fees (for more information, see page 9)
- Liquidity that allows you to promptly redeem all or part of your investment (for more information, see page 9)



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Features of segregated fund contracts

- A **guaranteed maturity benefit**, equal to at least 75 per cent (and up to 100 per cent, depending on the contract) of contributions less previous withdrawals. This guarantee takes effect on a specified maturity date, typically not less than 10 years from the date the segregated fund contract is issued. In many cases, each additional contribution has its own maturity date.
- A **guaranteed death benefit**, equal to at least 75 per cent (and up to 100 per cent, depending on the contract) of contributions less previous withdrawals. The benefit is payable to the beneficiary of the contract upon the death of the insured person. If a beneficiary is named and the death benefit paid directly to him or her, that benefit is not subject to probate, executor or lawyer's fees.
- **Potential creditor protection.** When the contract's named beneficiary is a spouse, child, grandchild or parent of the insured person (or, in Quebec, the contract owner), when the beneficiary is designated irrevocably or where the contract is registered (for example, as a Registered Retirement Savings Plan), creditors cannot seize

a segregated fund contract if the contract owner declares bankruptcy or fails to pay his or her debts, as long as he or she has not entered into the contract for the primary purpose of shielding assets from creditors. Courts of law have deemed the purchase of segregated fund contracts while the contract owner was insolvent to be an attempt to shield assets, and have disallowed the creditor protection in those cases.

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Optional features of segregated fund contracts

Some contracts may also offer the following:

- **Resets.** This permits you to reset the guarantee periodically in order to lock in increases in the market value of the segregated funds the contract has invested in. Typically, exercising this privilege extends the maturity date of the contributions involved.
- A **Guaranteed Minimum Withdrawal Benefit (GMWB)**, which guarantees you will get back at least the amount of your contributions (less previous withdrawals) in the form of income payments over a specified period of time or for the rest of your life, depending on the contract. Features of

a GMWB can vary, and may include differences in: (i) the duration of guaranteed income payment periods; (ii) the ability to increase the amount of those payments due to growth in the market value of the segregated funds; and (iii) the ability to increase the amount of payments by waiting until specified ages before taking income payments.

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Your investment options

Segregated fund contracts offer a broad selection of investment options, including growth, income and balanced funds with well-diversified portfolios. In addition, some contracts also offer fixed income options, which earn interest at pre-determined rates.

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At time of purchase

At or before the time of purchase, you will receive an information folder that describes:

- Key benefits or features of your contract
- The range of investment options available to you through your contract
- Key information about the fund options (e.g., type of fund, past performance, and costs and fees)

At the time of purchase, you will need to decide about:

- The types of investments you wish to make within your contract
- The types of guarantees you want for those investments
- Your beneficiary
- Any other options that might be available within your contract

You will need to complete an **application** at time of purchase with an insurance advisor. Don't hesitate to ask your advisor or the life insurance company to clarify anything you don't understand before you sign the application form.

You will also receive a policy **contract**, which sets out the terms of the agreement between you and the insurance company and your rights regarding such matters as future contributions, cash withdrawals, and guaranteed death benefit and maturity values. In some cases, the contract will be attached to the application form. In others, it will be provided to you after the insurance company receives your application.



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Costs and fees

There are fees associated with managing the funds and with your transactions.

The **MER**, or Management and Operating Expenses Ratio, is the percentage of your money that goes towards the annual expenses of the fund. These annual expenses include fees (e.g., for investment managers, accounting and administration), and compensation to advisors. They generally also include the costs of the guarantees in your contract (although, in some cases, the insurer may charge a separate fee for these guarantees). As a rule, you will pay a higher MER for higher guarantees or for more volatile funds.

Transaction fees, or **loads**, are the amounts that are deducted from

your monies when you make a transaction. There may be front-end loads (initial sales charges), back-end loads (deferred sales charges) or no-load funds. An initial sales charge is deducted from the amount you contribute to front-end load funds. That means less of your money is invested in the fund. A deferred sales charge is deducted from the amount you withdraw in back-end load funds (during the early years of your contract). That means you get less of your money back.

As well, additional fees may be charged for riders (optional benefits).

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Your advisor

Only an advisor licensed to sell life insurance by the province or territory in which you live can sell you a segregated fund contract. He or she may work independently, for a specific insurance company or for a financial services firm. Your advisor may also be licensed to sell other types of insurance and/or investment products, such as property and casualty insurance, stocks, bonds and mutual funds.

Your advisor will provide you with written disclosure about the companies he/she represents, any conflicts of interest and how he/she is paid.



The insurance advisor's professional qualifications permit him/her to help you analyze your retirement income planning, estate planning and insurance needs, make recommendations that meet those needs and provide ongoing services, such as beneficiary changes, reviewing and updating your investment strategy and rebalancing your portfolio.

Your advisor will normally get a commission when you enter into the contract and direct contributions to a fund. These commissions are typically paid from part of any front-end loads and/or annual expenses. He/she may also get an ongoing service commission for as long as you hold the fund. This is called a "trailing" or "trailer" commission and is included in the MER charged to your fund.

No-load funds, i.e., funds that don't charge front- or back-end loads, generally carry higher trailing commissions, which may be reflected in a higher MER. The information you receive at time of purchase gives details of trailing commissions, including how they are calculated by the segregated fund issuer and what services investors can expect in return.

Your advisor can tell you the commission rates for the funds you are considering, and how they compare with similar funds.

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Managing your contract

At time of purchase, you can choose from any of the segregated funds available within your contract. On an ongoing basis, you can change funds at any time.

Switching from One Fund to Another

Most segregated fund contracts permit you to switch from one segregated fund to another fund offered through the same contract without incurring sales charges or changing your guarantee levels. You may wish to consult your contract or advisor for details about your specific contract. Switches may have tax consequences, except when you hold your segregated fund contract in a registered account, such as an RRSP.

Redeeming a Segregated Fund Investment

One of the advantages of investing in segregated funds is their liquidity, or the ease with which they can be redeemed. Typically, you can redeem or surrender your contract for cash in full or in part at any time. Be aware that partial withdrawals affect the value of your guarantees. Your timing also has an impact on the amount you receive when you cash in. If your contract is redeemed at the maturity date or the death of the insured person, you or your beneficiary

will receive the greater of:

- The amount your contract guarantees; or
- The market value of your investment less any withdrawal fees that may apply.

In other words, the amount paid will not be less than the contractually guaranteed amount, and may be more if your investment has done well.

You have no such certainty if you redeem all or part of your segregated fund investment earlier than the maturity date because the contractual guarantees do not apply to those withdrawals. You will simply receive the market value of the investment you are redeeming less any applicable fees, including any deferred sales charges. This may be more, or less, than the amount you originally invested, if the market value of the funds has increased or decreased.

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Responsibilities of life insurers

Life insurers develop information about the product so that you have accurate information both at time of purchase and on a continuous basis. They require that the licensed agents who sell segregated fund contracts be trained and supervised. They manage the investment and



administration of the assets of the segregated funds. And they set aside financial reserves to meet the contractual guarantees of your contract, as required by regulation.

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Consumer protection

Life insurance companies, including those that issue segregated funds, are licensed to do business and are regulated in terms of their business and consumer practices by the governments of the provinces and territories in which they operate. The federal government is generally responsible for prudential oversight of life

insurance companies and inspects them regularly to ensure they are financially sound.

Assuris protects Canadian policyholders in the event that their life insurance company should fail. It provides coverage for segregated fund policies that contain death and maturity guarantees. Assuris guarantees that policyholders will retain up to \$60,000 or 85% of the promised guaranteed amounts, whichever is higher. For more information contact the Assuris Information Centre at 1-866-878-1225 toll free, or see the Assuris website at www.assuris.ca.

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Consumer assistance

Consumers with questions or complaints about a segregated fund issuer or product can call the OmbudService for Life and Health Insurance (OLHI) for bilingual information and assistance. The OLHI is an independent service that provides free information on, and assistance with complaints about, life and health insurance products and services.

Call the OLHI from anywhere in Canada: **1-800-268-8099** and in Toronto: **416-777-2344**

Website: **www.olhi.ca**

Pour obtenir de l'aide en français, téléphonez sans frais, de n'importe où au Canada, au **1-800-361-8070** (de Montréal, au **514-845-6173**).

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Need more information?

Before you decide to invest in a segregated fund contract or a specific segregated fund, you may wish to consult other sources of information.

Your licensed insurance advisor can answer many questions. Life insurance companies that issue segregated funds provide toll-free telephone numbers for investors and publish information folders about their funds. They may also provide information about investing in segregated funds on their websites and in booklet form.

Books, magazines and websites about investing, along with the financial pages of newspapers, also may contain useful information.



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