

# Using segregated funds to protect, convert and transfer your wealth



In the wealth planning process, there are four key life stages:

1. Accumulating wealth to build your retirement savings or legacy.
2. Protecting wealth from various risks, which normally becomes a greater concern as you approach retirement age.
3. Converting wealth into a tax-efficient income source.
4. Transferring wealth to your beneficiaries in an organized manner, while reducing the impact of taxes.

In this article, we will focus on how segregated funds can assist you in the wealth planning process, particularly during the second, third and fourth stages.

## What is a segregated fund?

A segregated fund combines two products: a professionally managed fund and an insurance contract. All segregated funds offer principal protection to specified limits at maturity or death, while a newer breed of segregated fund also offers guaranteed income, typically for life.

You can choose from a select group of underlying funds, including conservative, balanced and growth-oriented funds. If the underlying fund goes up or down, so does the segregated fund, minus insurance (guarantee fees) costs. At maturity or death, you or your designated beneficiaries will receive whichever is greater – the segregated fund's market value or its guaranteed amount.

## Protecting wealth from risk

Segregated funds have garnered much public attention, particularly for their ability to protect wealth through principle guarantees and the ability to lock-in any growth. They can also offer creditor protection.

### › Principle protection

Segregated funds guarantee between 75% and 100% of your “guaranteed amount” at maturity or death. The guaranteed amount represents your initial investment, subsequent deposits and locked-in growth, minus any withdrawals. Traditional segregated funds with fixed terms

(e.g. 10 or 15 years) typically offer at least 75% principle protection at maturity. If the fund's value is higher than the guaranteed amount, you (or your estate) receive that higher amount instead.

#### › Locking in growth

The “optional reset” feature enables you to lock-in any growth at regular intervals, which can increase your guaranteed amounts. Note that for segregated funds with fixed terms, this may also reset the maturity date.

#### › Creditor protection

Segregated funds are also a useful wealth protection strategy for anyone exposed to the risks of lawsuits or bankruptcy, such as professionals, business owners or self-employed individuals. Assets held in a segregated fund are generally protected from creditor claims.

### Converting wealth into income

Segregated funds may also be useful if you want to preserve your wealth, while receiving a steady income stream, as certain types of segregated funds offer guaranteed income.

#### › Guaranteed income

Certain segregated funds offer “guaranteed minimum withdrawal benefits”, which can assist in the wealth conversion process. This type of segregated fund offers guaranteed annual income, normally 5% of the deposit(s), typically at age 65. Investors looking for early income can start at age 50, typically at a lower rate of 4%. The income is guaranteed for life – even if the segregated fund's value goes to zero due to withdrawals and/or poor performance. You can also elect to delay making withdrawals, which can boost your income payments higher than 5%. Usually you receive a 5% “bonus” which increases your guaranteed withdrawal amount every year you don't make a withdrawal.

Because segregated funds pay guaranteed income, but offer some upside potential, they can augment tried-and-true GICs and bonds. One strategy to consider with your Investment Advisor is to diversify your retirement income stream, so it includes some segregated fund income in addition to GIC/bond income.

### Transferring wealth to your beneficiaries

So a segregated fund, as we've seen, can be a useful strategy to protect and convert wealth. It can also help with wealth transfer. A segregated fund typically pays a death benefit of 75% to 100% of the guaranteed amount (or the fund's market value if that's higher) to the fund's designated beneficiaries.

#### › Probate-free death benefit

The death benefit also bypasses probate, so your estate pays no probate fees and your beneficiaries receive the benefit in weeks rather than months as with a probated Will. Furthermore, the assets pass to your beneficiaries privately (while assets passing through a probated Will are a matter of public record).

#### › Solution for uninsurable individuals

In addition, you don't have to qualify for insurance to receive the probate-free death benefit, and the insurance costs don't vary based on age or health. As a result, for individuals who may find it expensive or impossible to get normal life insurance coverage, segregated funds provide an interesting solution to assist with wealth transfer.

**Depending on your situation, segregated funds may be a cost-effective solution to help you protect, convert and transfer wealth. If you would like to learn more, please speak with your insurance-licensed Investment Advisor, who can help you weigh both the pros and cons of segregated funds based on your individual circumstances.**



All guarantees are less proportionate withdrawals. A description of the key features of segregated funds is contained in the Information Folder, a detailed document prepared by the insurer. Subject to any applicable death and maturity guarantee, any part of the premium or other amount allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value according to the fluctuations in the market value of the assets in the segregated fund. This information is not intended as nor does it constitute tax or legal advice. Readers should consult their own lawyer, accountant or other professional advisor when planning to implement a strategy. This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. RBC Dominion Securities Inc.\* and Royal Bank of Canada are separate corporate entities which are affiliated.\* Member–Canadian Investor Protection Fund. Insurance products are offered through RBC DS Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC DS Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC DS Financial Services Inc. RBC DS Financial Services Inc. is licensed as a financial services firm in the province of Quebec. © Registered trademark of Royal Bank of Canada. Used under licence. RBC Dominion Securities is a registered trademark of Royal Bank of Canada. Used under licence. © Copyright 2011. All rights reserved.