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INTRODUCTION TO INCOME SEGREGATED FUNDS

Providing growth and income security for retirees

Prudent financial management does not end at retirement. Financial goals evolve, and management styles must change accordingly to ensure a healthy income stream throughout retirement. Fewer companies are offering defined benefit pension plans due to the costs and risks associated with administering them. Canadians without defined benefit retirement plans must get the majority of their retirement income from their personal savings and investments.

Income segregated funds are designed to aid Canadians without defined benefit plans in better managing their savings in the pre-retirement and retirement phases of life. These solutions offer death benefit and income guarantees in addition to other features that maximize pre-retirement savings. They provide investment choice, the potential for capital growth and diversification, and the freedom to decide when to start and how much income you need.

Converting your life savings into a retirement income stream is a very delicate process. There is a unique set of risks — such as longevity risks, market risks and the sequence of

returns prior to and during retirement — that can potentially derail a healthy retirement income stream. Designed to address these risks, income segregated funds have become extremely popular in recent years.

MANAGING RISKS

LONGEVITY RISK

Thanks to developments in health care and medicine, Canadians are living longer than ever. For many, living longer means there is the potential to outlive their retirement savings. Income segregated funds offer a guaranteed lifetime income stream to ensure that you will be protected from outliving your savings.



RBC Wealth Management

Income segregated funds provide guarantees to ensure a stable retirement income, regardless of market fluctuations.



Like traditional segregated funds, an income segregated fund offers a death benefit and a maturity guarantee.

However, the primary application of these contracts is to fund a stable retirement by providing a consistent, lifelong income stream.

MARKET RISK

Markets are unpredictable and, at times, extremely volatile. Declines in the market can dramatically reduce your ability to fund retirement. Income segregated funds provide guarantees to ensure a stable retirement income, regardless of market fluctuations. During pre-retirement, the bonus feature ensures your future income pool grows, even in a down market. Additional features allow you to lock in market gains and protect your savings for your beneficiaries.

SEQUENCE OF RETURNS

A significant market downturn near or during the early years of retirement (a few years before and a few years after) could have a detrimental impact on you, and could force you to rethink your retirement dreams. Poor returns during these periods leave you with little or no time to recover before withdrawing from your investments. Withdrawals in declining markets reduce your portfolio faster and have a much greater impact on the remaining value than withdrawals in a positive market environment. However, it is impossible to predict future market performance, and most Canadians cannot retire according to market timing. The features and benefits of income segregated funds ensure you can retire when you want, with a stable and

predictable income stream that cannot be eroded by poor market returns.

ABOUT INCOME SEGREGATED FUNDS

An income segregated fund offers features and benefits of both insurance and investment products. It offers a payout feature similar to a traditional annuity, but with the potential for growth from personally selected underlying investments and insurer provided bonuses.

Like traditional segregated funds, an income segregated fund offers a death benefit and a maturity guarantee. However, the primary application of these contracts is to fund a stable retirement by providing a consistent, lifelong income stream. As such, the maturity guarantee's role is minimal, and contracts do not mature until age 100 or later. The death benefit guarantees that, in the event of death, between 75% and 100% of your total deposits or the current market value, whichever is greater, will flow directly to your named beneficiaries.

Once you reach retirement, your income segregated fund will provide you with a lifelong income stream, similar to an annuity. You will maintain access to the invested capital (until the capital is depleted by changes in market value or withdrawals), but

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In pre-retirement years, where no withdrawals are taken, you will receive a notional bonus, or credit, of 5%. The bonus increases your future, annual guaranteed income.

you are guaranteed an income stream that will not decrease and will last the duration of your life, regardless of market performance.

There are two types of income segregated funds. In addition to the benefits outlined previously, Guaranteed Minimum Withdrawal Benefits (GMWBs) also offer resets, similar to traditional segregated funds, which enable you to lock in market growth. They provide you with the ability to build and rebalance your own portfolio from a wide selection of underlying investment options.

A streamlined alternative to GMWBs also exist. They focus primarily on providing a more efficient and higher retirement income payout. Their features more closely resemble a defined benefit pension plan. They offer only one fund mandate and have lower fees than a typical GMWB.¹

HOW DO INCOME SEGREGATED FUNDS WORK?

In pre-retirement years, where no withdrawals are taken, you will receive a notional bonus, or credit, of 5%. The bonus increases your future, annual guaranteed income. Once reaching retirement, your income will be calculated based on your total invested capital, market growth and annual bonuses (Guaranteed Withdrawal Balance).

Payout rates for GMWBs vary depending on the product you choose. Some products have a fixed 5% payout rate at all eligible ages, while others have rates that vary according to the age you begin income. For example, at age 65 you may be entitled to receive at least 5% of your Guaranteed Withdrawal Balance as income for the duration of your life. However, in some products income can be started as early as age 50 at a reduced rate, of 4% for life. If you defer the start of income past age 65, you will receive a higher payout of up to 6%.²

Exceptions are made to the guaranteed withdrawal rates for registered contracts (RIF and LIF), where registered minimum withdrawal requirements exceed the income guarantee amount. You will always receive the higher of the two minimum withdrawal amounts.

CONSUMER PROTECTION

In the event the insurance company becomes insolvent, your segregated fund investments will be protected by Assuris, a not-for-profit organization that protects investors' deposits in life insurance products. During the accumulation phase, Assuris guarantees that you will retain up to \$60,000 or 85% of the promised Guaranteed Withdrawal Balance, whichever is higher.³

Your segregated fund investments will be protected by Assuris, a not-for-profit organization that protects investors' deposits in life insurance products.



Please contact us for more information about income segregated funds.

In the payout phase, you will retain up to \$2,000 per month or 85% of the promised Guaranteed Income Benefit, whichever is greater.⁴

CANADA'S TOP SEGREGATED FUNDS AVAILABLE

At RBC Wealth Management Financial Services Inc., you have the benefit of

choosing among leading segregated fund suppliers, all offering diversified funds geared toward satisfying a broad range of investment goals, while also offering a selection of guarantees that best suits your needs.

INCOME PRODUCT COMPARISON TABLE

Features	Traditional Segregated Funds	Streamlined Income Seg. Funds	GMWB	Annuity
Deposit guaranteed at death	✓	✓	✓	X
Ability to lock in growth	✓	X	✓	X
Ability to diversify investments	✓	X	✓	X
Access to invested capital	✓	✓	✓	X
Suitable for accumulation and income	X	✓	✓	X
Bonus on deposits	X	✓	✓	X
Predictable, stable income	X	✓	✓	✓
Eligible for registered investments	✓	✓	✓	✓

¹ Manulife's Pension Builder is the only available offering of this type at RBC Wealth Management Financial Services Inc. ("RBC WM FS").

² Payout rates vary amongst the providers of income segregated funds. Please refer the supplier's Information Folder and Contract for more details.

³ As of August 16, 2012; Source: http://www.assuris.ca/Client/Assuris/Assuris_LP4W_LND_WebStation.nsf/page/Guaranteed+Minimum+Withdrawal+Benefit+GMWB!OpenDocument

⁴ As of August 16, 2012; Source: http://www.assuris.ca/Client/Assuris/Assuris_LP4W_LND_WebStation.nsf/page/Guaranteed+Minimum+Withdrawal+Benefit+GMWB!OpenDocument

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