The truth about segregated funds

Clearing up common misconceptions

Segregated funds can be a valuable tool for investors - they offer growth potential while helping secure investments with insurance protection. This is a unique product that only insurance companies can offer. Segregated funds are a great vehicle for customers who are looking to protect their portfolios from market volatility, are in the estate planning process or own a business. Yet, a few common misunderstandings can keep some investors at bay. In this article, we'll debunk some of the myths around segregated funds and explain why they're a compelling option for investors.

Myth 1:
Segregated funds are only for retirees

One common myth about segregated funds is that they're not suitable for younger investors. While it's true that they offer principal protection and estate planning benefits, which make them a suitable choice for those who are close to or in retirement, they also offer growth potential through a variety of asset classes, including equities. This versatility makes segregated funds suitable for a wide range of clients, from risk-conscious younger investors to pre-retirees and retirees.

In today's market conditions, where uncertainty is the norm, having a balance between growth and protection is invaluable. Investors can use segregated funds as part of a diversified portfolio to manage risk effectively.

> "Risk-conscious portfolio construction is critical. This makes segregated funds more relevant than ever. The guarantees offered by this product can help investors comfortably navigate volatile markets. They can also provide clients with estate planning support, and for business owners - potential creditor protection. The benefits of segregated funds are multifaceted. This makes them a valuable solution to serve the needs of many clients."
>
> *– Steve Fiorelli, Senior Vice-President Wealth Solutions, Canada Life*

Myth 2:
Segregated funds lack investment flexibility

Some advisors believe that segregated funds are limiting in terms of investment choices, but that's far from the truth. More comprehensive segregated fund line-ups now include a variety of management styles, provide broader geographic coverages and are available in most major asset classes.

With this broader line-up of investment solutions, investors can build robust, well-diversified portfolios that can adapt to various market conditions. In a market environment characterized by economic uncertainty, finding investment options that offer growth potential and diversification is crucial.

> "Today's segregated funds provide access to well-known, institutional-quality investment managers who are building and overseeing diversified portfolios. From standalone segregated funds to managed solutions, advisors can curate a portfolio to fit their clients' needs at every stage of life. We're also providing more unique asset classes, such as private credit and direct real estate, within our segregated fund offering to provide investors greater diversification and more avenues for risk-adjusted returns"
>
> *– Steve Fiorelli, Senior Vice-President, Wealth Solutions, Canada Life*

Myth 3:
Segregated funds cost too much

Fees associated with segregated funds are a valid consideration. However, it's important to consider the added value they provide. Segregated funds offer maturity and death benefit guarantees and additional features such as the opportunity to lock in investment growth through regular resets.

Besides the insurance protection provided by segregated funds, there are many estate planning benefits that advisors should consider as important features of this solution.

- Estate planning is an important topic for most Canadian families. According to Investor Economics, Canadian households are expected to transfer $1,275 billion from one generation to the next by 2032.[1] This has cast a new spotlight on segregated funds due to their unique advantages when it comes to family wealth transfer.
- Features like quick settlement with named beneficiaries can help investors bypass the estate and probate fees and simplify the distribution and transfer of assets.
- Segregated funds also may offer privacy in the transfer of financial legacy during an emotionally-sensitive time such as the passing of one's loved one.

In the current economic climate, where preserving and growing wealth is key for investors, the insurance component of segregated funds can offset the slightly higher fees. In addition to estate planning benefits, segregated funds also offer a unique combination of professional management, diversification and protection against market downturns, making them a cost-effective solution for many investors.

Overall awareness and understanding of segregated funds is low among Canadian retail investors.

As of May 31, 2024, seg funds represented only 5.3% of total Canadian investment funds ($135 billion out of a total of $2.524 trillion).[2] This provides advisors with a unique opportunity to educate clients about their potential value in investment portfolios and how they can be an important tax and estate planning solution.

Key benefits of segregated funds

- **Guarantee:** A seg fund must guarantee a return of at least 75% (clients have the flexibility to choose a 100% guarantee option) upon death or maturity.
- **Estate planning:** Allows the private transfer of the money to a designated beneficiary outside of the deceased's estate.
- **Creditor protection:** Assets held in a seg fund – registered or unregistered – are potentially protected from creditors when an appropriate designated beneficiary is named.
- **Reset option:** Some seg funds provide the option of locking in investment gains by resetting the contract's guarantee value to the current market value. Others also allow the maturity date to be pushed out.

Segregated funds can provide a compelling solution for investors

At Canada Life, with 175 years of experience under our belt, we've built one of the strongest segregated fund shelves in the industry. Our shelf brings you access to a leading market share, diverse selection and top-performing products. We know these are the metrics that matter to you when building portfolios that offer financial growth and protection for your clients.

Contact your Canada Life wealth wholesaling team if you have any questions about our segregated fund shelf or the resources available to you.

Want to learn more about the opportunity and how to communicate the benefits of segregated funds to your clients? Download Canada Life's report, **The case and space for segregated funds**.

Disclaimers:

[1] Investor Economics, 2023 Household Balance Sheet

[2] Investor Economics, Insight Investment Funds Report —May 2024: ISS Market Intelligence—Canada (Toronto: Investor Economics, 2024).

This material is for advisors only and is not intended for use with clients. This commentary is presented only as a general source of information and is not intended as a solicitation to buy or sell specific investments, nor is it intended to provide tax or legal advice.

Guarantees are less a proportional reduction for withdrawals, including taxes, short-term trading fees and any other applicable charges.

In Saskatchewan, executors must disclose all known life insurance policies owned by the deceased, including segregated fund policies. They must list the insurance company, policy number, designated beneficiaries and the value at the date of death.

Creditor protection depends on court decisions and applicable legislation, which can be subject to change and can vary for each province; it can never be guaranteed. Talk to your legal advisor to find out more about the potential for creditor protection for your specific situation.

A description of the key features of the segregated fund policy is contained in the information folder. Any amount that is allocated to a segregated fund is invested at the risk of the policyowner and may increase or decrease in value.

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