INVESTMENT FUNDS

SEGREGATED FUNDS IN 10 QUESTIONS

iA Financial Group

Segregated Funds in 10 Questions

1 What is a segregated fund?

A segregated fund is an insurance product exclusively distributed by insurance companies. It is similar to a mutual fund but provides, among other features, protection against market downturns, by guaranteeing 75% to 100% of the amounts invested at maturity or death.

This guarantee, which is not available for mutual funds, represents a major advantage for some clients as it may limit the risks of loss.

2 Why choose segregated funds over mutual funds?

Segregated funds give you access to several unique advantages:

- Capital protection at maturity or death
- Investment growth protected through resets
- Possibility of no probate fees
- Quick settlement in the event of death thanks to beneficiary designation
- Possibility of creditor protection
- Quick and easy tax filing
- Possibility of guaranteed income for life

3 Who are segregated funds for?

Segregated funds are for people of all ages. They can be an ideal option for:

- People approaching retirement who want to protect their retirement savings
- People who want to simplify transfer of their estate to their heirs
- Self-employed workers or business owners who want protection in case of bankruptcy or lawsuits
- Anyone looking for financial peace of mind

4 Do segregated funds offer good potential for capital growth?

Yes! As with mutual funds, the growth potential depends on the funds you invest in, based on your investor profile. Our 75/75 and 75/100 series offer the possibility of investing in all of our funds, with no limitations.

This offer, exclusive to iA Financial Group, gives our clients access to a wider range of investment options as well as a higher growth potential, while also benefiting from a better guarantee.

In any case, to optimize your growth potential, the most important things you can do are:

- Get good advice and invest based on your investor profile
- Invest in well-managed funds, such as those offered by iA Financial Group

5 Is it possible to avoid certain fees by investing in segregated funds?

Yes. The advantage of designating a beneficiary allows you to avoid various fees related to estate settlement when transferring money from a segregated fund contract, including probate, professional and legal fees. Depending on your province of residence, these fees can represent a significant amount of money and make a big difference.

6 How long does it take to pay the money to the designated beneficiary or beneficiaries?

In contrast to the normal estate settlement process, which can take months or years, estate settlement related to segregated funds can be completed with no fees and generally, in less than two weeks.

The capital paid can then be used to cover financial commitments for the deceased, such as taxes and debts, if necessary.

7 What are the advantages for self-employed workers or business owners?

Exemption from seizure is one of the main advantages for self-employed workers at risk of lawsuits or business owners who personally take on financial responsibility for their business.

Investments held in segregated funds can be exempt from seizures by creditors in case of bankruptcy or lawsuits.

Most life insurance products provide this protection benefit. However, there are two conditions which must be met.

1. At least one "preferred" or irrevocable beneficiary must be designated.
2. The investments must be made in good faith, without any intention of fraud towards potential creditors.

8 Are lower management fees possible?

Yes! Prestige preferential pricing for reduced management fees is available for clients who reach an asset threshold of $300,000. The reduction varies based on the funds held. This applies to all segregated funds offered in the:

- Classic Series 75/75
- Series 75/100
- My Education+ Product

Other members of the same family, residing at the same address, can combine their assets to contribute towards the asset threshold. Once the family group is eligible, the advantages can be shared with extended family members as well, regardless of their level of assets or place of residence.

In addition, separately from the Prestige preferential pricing, some clients can benefit from reduced rates for additional fees by opting for F-Class fee option.

9 What are the tax regulations for segregated funds?

In regard to tax regulations for registered investments such as RRSPs or TFSAs, there are no differences between segregated funds and mutual funds.

In regard to non-registered investments:

- Each year and for each fund, the losses and income earned (interest, dividends and capital gains) in a fund are attributed to unit holders, as is the case with mutual funds.
- Unlike mutual funds however, losses in a segregated fund can be declared at the end of the tax year. Investors can deduct them from their income in order to pay less tax.
- All gains and losses are calculated on the T3 and the RL-16 slip (Quebec only) sent at the end of the tax year.

10 What is the management fee breakdown for segregated funds?

The management fee breakdown is exactly the same as for mutual funds (management fees, advisory service, taxes, etc.). The only difference is regarding fees for benefits that segregated funds provide. This portion of the fee varies based on the type of fund and the series (guarantee) chosen.

However, these features often result in a net benefit after a death, ensuring peace of mind.

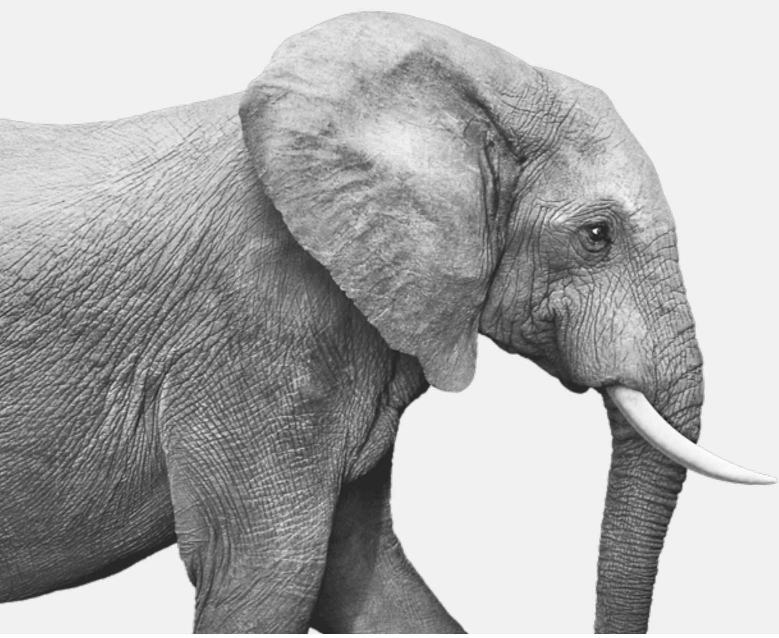
See a comparative example of the segregated funds on the back.

Segregated funds offer numerous advantages for your clients, here is an example:

Your client deposited $25,000 in his/her contract 15 years ago, then $7,500 per year until he/she dies at 68 years of age.

	Mutual funds	Segregated funds
Market value at death[1]	$213,800	$209,000
Probate fees – Up to 1.5%[2]	$2,460	$0
Professional fees – Up to 5%[3]	$4,500	$0
Fees for estate executor – Up to 5%[4]	$6,400	$0
Redemption fees – Up to 7%[5]	$0	$0
Total fees	$13,360	$0
Net value and return at death	**$200,440**	**$209,000**
Difference	**-**	**$8,560**

[1] 5% net rate of return. The net return on segregated fund investments was adjusted by -0.25% to take into account a generally higher MER.
[2] Probate fees vary according to province. The Ontario estate administration tax in effect at January 1, 2020 is used in the example.
[3] Professional fees include, among other things, legal and accounting fees. These vary based on the situation and the complexity of the file.
[4] Fees for the estate executor vary based on whether the executor is internal or external to the estate. The example assumes an external executor.
[5] Redemption fees vary by option and by company.



Check with your advisor to learn more.

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