SEGREGATED FUNDS VS. MUTUAL FUNDS

Knowing the fundamental differences between segregated and mutual funds will help you determine which product is right for you.

Segregated funds and mutual funds have many of the same benefits.

- Both are pools of financial assets managed by investment professionals.
- Both may cover different asset classes that fit a wide variety of investment objectives.
- Segregated funds may either be registered (RRSP, RRIF, RESP) or non-registered and mutual funds may be held in a registered or non-registered account.
- Both typically own many different types of investments to increase diversification while minimizing the risk of capital losses over time.
- You can generally redeem your investments and get the current market value back at any time.

So which product is right for you?

Knowing their differences, for tax and estate planning purposes, can help you pick the product best suited to your financial situation.

	Segregated Funds	Mutual Funds
Who offers these products (who is the issuer)?	• Life insurance companies	• Investment management firms (or wealth management companies)
Who regulates these products?	• Provincial Life Insurance Acts	• Securities Legislation
How is this product structured?	• Segregated funds are a deferred annuity contract between an insurance company and a policy owner (you). • Your money is pooled together with a large group of other policy owners. • Each fund can make different kinds of investments, depending upon its investment objectives and strategies.	• A mutual fund is a pool of investments made on behalf of a large group of individual investors. • The universe of mutual funds is vast: each fund can make different kinds of investments, depending upon its investment objectives and strategies. • Mutual funds can be organized as mutual fund trusts or as corporations.

Empire Life Investments™ stay true

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How do you invest in this product?	• You make premium deposits through the segregated fund contract and the insurance company invests your money together with that of other people who wish to make similar investments in securities such as stocks, bonds and money market investments.	• You can make contributions to a mutual fund through a registered dealer. You receive units in the fund in exchange for your investment and your money is invested together with that of other people who wish to make similar investments in securities such as stocks, bonds and money market investments.
With this product, are you protected against the insolvency of the issuer?	• Segregated funds are considered an asset of the insurance company, held in trust for the investor (you). The segregated nature protects you against the insolvency of the insurance company.	• No, the Canada Deposit Insurance Corporation or any other government deposit insurer does not cover mutual fund units.
Does this product have capital growth potential?	• Yes, depending on the type of fund chosen.	• Yes, depending on the type of fund chosen.
Does this product offer you a maturity guarantee and/or a death benefit?	• The insurance company must guarantee at least 75% of the premium paid into the contract for at least 10 years, upon maturity or your death.	• Unlike segregated funds, there is no guarantee that, when you redeem (or your estate redeems) your units of a mutual fund, you (or your estate) will make a profit or get back the full amount of capital you originally invested. The redemption will be based on current market value.
Can you reset the maturity guarantee and death benefit?	• You have the ability to reset the 10-year maturity guarantee and death benefit guarantee at a chosen higher market value of the investment. Reset terms vary by company and product.	• With mutual funds, you do not have the ability to reset a maturity guarantee or death benefit (since mutual funds do not offer these features).
What are the taxation implications for this product?	• A segregated fund allocates all taxable income and realized capital gains to investors, avoiding income being taxed inside the fund at the top marginal tax rate. • Income and capital gains or losses retain their characteristics and appear on a T3 slip (Relevé 16 for Quebec and NR4 for non-residents) in the same way they are realized in the fund. • Gains and/or losses by the fund are first allocated to investors who redeem units. • The income allocated by a segregated fund to you, as an investor, is reinvested and the fund increases in value.	• Mutual funds must distribute both taxable income and realized capital gains relating to fund activity on a T3 slip (Relevé 16 for Quebec and NR4 for non-residents) to you. • Capital losses are not distributed to you. • Losses are netted against capital gains in the fund. • Any net capital loss is carried forward to offset gains in the fund in future years (unlike a segregated fund, the losses are not allocated to you).

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What are the taxation implications for this product? (Continued)	• For non-registered investments, you are only taxed on the income you receive. Taxation is based on how long you own the segregated fund units within the income period. • If you sell units, the insurance company calculates your gain or loss and provides the reporting for your tax return. • For non-registered investments, switches between different classes of the same fund may be considered to be a disposition.	• You could be taxed on income you never received if you purchased the units at the end of the income period (you will be taxed for all income earned in the mutual fund in that year, even though you did not benefit from that income). • If you redeem any of your units, you must calculate the gain or loss on your tax return yourself. • You may choose to receive distributions in cash or reinvest them by buying additional units. • Switches between different series of the same fund is not considered to be a disposition.
Does this product offer you probate protection?	• Because you can name a beneficiary to receive any proceeds upon your death, the proceeds are paid directly to the beneficiary, bypass your estate and can avoid probate and other legal or accounting fees (where applicable) .	• Upon your death, proceeds are an asset of the estate (unless they are registered funds) and are subject to probate fees, the estate administration process and legal or accounting fees.
Does this product offer you creditor protection?	• Creditor protection may be available where the named beneficiary is a member of the family class, with certain restrictions.	• Mutual funds have no protection against the claims of creditors, except in certain circumstances.

Bottom line: Which product is right for you?

- If you are approaching retirement or like the security of guarantees and want creditor protection, you may want to purchase segregated funds.
- If you want a wider variety of fund choices in your investments and you are willing to give up guarantees, you may want to purchase mutual funds.

To determine what type of fund best meets your tax and estate needs, your financial advisor can talk to Empire Life's tax and estate planning professionals about your specific circumstances.