Segregated Fund and Annuities

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Segregated fund

```
- Guarantee
    - 75%/100% (maturity/death; minimum 75%)
    - 10 year / 15 year maturity / upon death

- higher MER than mutual fund (for the associated guarantee)

- the beneficiaries receive the greater of the contract value or the guarantee

- not subject to a health underwriting

- reset the gurantee
    - the guranteed amount will change = "market value" * "guarantee rate"
    - the maturity date will reset to full

- the investment can be redeemed prior to the maturity date
    - but guarantee will not apply

- upon maturity or death
    - the beneficiary receive the greater of the market value and the guaranteed amount
    - if death, "the declaration of death" can be done by the beneficiary or the estate trustee
```

Documents for a purchase to complete

```
- the information folder
- fund facts documents
- contract confirmation

requires a client to sign a delivery receipt + witness to acknowledge receipt of above docs
```

Tax annually

```
- interest
    - full taxed
- capital gain
    - 50% taxable
- NAVPU price increase
    - not a taxable event unless the units being liquidated
    - refer as "paper gain"
```

Calculate new guarantee after withdraw

```
- ratio = withdraw / current value
- new guarantee = old guarantee * above ratio
```

Insurer to low risk when provide higher guarantee

```
- longer maturity date
- charge higher MER
- reduce the number of allowable resets
- charge a higher load (commission)
```

Group segregated funds

```
- more risk than individual based
- do not offer a maturity or guarantee upon death
```

Annuity

```
- accrual annuity
    - more tax in year 1
- prescribed annuity
    - the tax of income is spread evenly over the life of annuity

- more initial premium -> more investment -> more tax

- named beneficial receive the payment

- doesn't require medical underwriting
```

Use case

```
- straight life annuity
    - payment stops upon death

- insured life annuity
    - buy a permanent life insurance
    - buy an immediate annuity (= straight life annuity)
        - with the payment >= the premium of life insurance
    - eg. to have a lump sum guaranteed after death and still have money to
spend

- life annuity with a guaranteed term
    - payment stops when the term ends

- accumulation annuity
    - do not pay an income
    - similar to a compound GIC
    - the value grows overtime and no payments are made
    - upon death, the beneficiary would have a claim

- join-and-last-survivor annuity
    - payment continues until both annuities have died
```

```
- impaired annuity = enhanced, age-rated, accelerated
    - pay lower premium
    - or receive a higher income for the same premium/deposit

- prescribed annuity?
- registered annuity?
```

Investment vehicle

```
- inflation risk
    - for fix income, longer term, higher risk
    - to lessen the risk, choose indexed term annuity

- interest rate risk
    - affect fixed interest rate investment
```

Mutual fund

```
- current market value
- ACB
- withdraw
    - back-end load fee (eg. 1.4%) on 5-7 years

- no-load mutual fund
    - no up-front commission
    - charge a higher MER to compensate
```

ETF

```
- mimic the applicable index instead of trying to beat
- lower MER than mutual fund and segregated fund
```

GIC

```
- very safe investment
- relatively low return
```

Registered account

```
- GRRSP, DPSP, DBPP can be transfer to another group plan
- Group TFSA can only be transfered to individual plan
```

DPSP (deferred profit sharing plan)

DBPP (defined benefit pension plan)

```
- over-funded = pension surplus
- taxation generally discourages the building of surpluses
- the regulators may require the sponsor use the surplus to further enhance
benefits
- the employer not able to withdraw the surplus

- pension buy-in
    - use the funds accumulated in DBPP to purchase an annuity
```

MEPP (multi-employer pension plan)

```
- more common for unionized employees
    - who works for different employers not affiliated
```

RRSP

```
- contributions result in tax saving
- any investment income earned inside is sheltered from tax until withdraw
- switch between providers not withdraw, no tax implication

- can contribute to
    - individual's own name
    - a spousal RRSP in the spouse's name

- can be used to reduce income taxes even prior to retirement
```

```
- calculate contribution room
    (the room is cumulative and combines RRSPs, pensions etc)
    = 18% of prior year's earned income
    - pension adjustment (PA) from prior year
    + unused contribution room
    + un-used lifetime allowable over-contribution limit ($2,000)

- calculate earned income for RRSP purpose (amount to calculate 18%)
    - only earned income
        - employment income
        - rental income
        - business income
    - not include passive income
        - dividend etc. investment income
        - income from rrsp withdrawl
(but all income will be taxable)

- contribution limit for the year only applies to the specific year
    - not apply to unused room, or the over-contribution of $2000
```

```
- spousal RRSP
    - the account belongs to the spouse
    - the contributor reduce his/her contribution room and deduct tax
    - suitable when the spouse will be in lower tax bracket in retirement
```

```
- group RRSP (GRRSP)
```

LIRA (locked-in account)

```
- apply to funds transferred from a pension plan, not group RRSP
```

Splitting of pension income (> 65 years old)

```
- up to 50% can be shared with spouse for tax purposes

- pension income includes
    - company pensions
    - RRSP annuities
    - RRIF income
    - deferred profit sharing plan annuities
```

Creditor protection

```
- segregated funds, annuities (both the deposited amount and the payments)
    - can be shielded from one's creditor
    - protected class beneficiaries (either revocable or irrevocable)
        - parent, spouse, child, grandchild
    - irrevocable beneficiary

- registered account is creditor-proof no matter beneficiaries

- good faith
    - buying segregated funds, annuities as investment
    - not to avoid creditors as known filing or bankruptcy
```

Right of rescission

```
- within two business days of receiving the information folder
- the lesser of the amount invested and the actual value on the day
    + the front-end load charge will be refunded
```

Protection from authorities

CDIC (Canadian deposit investment corporation)

```
- deposits guaranteed if
    - the institution is a member of CDIC
    - in Canadian dollars
    - the original term to maturity is 5 years or less
    - coverage up to $100,000

- market-linked GIC is covered
    - just the interest payable is depend on market performance
```

Assuris

```
- protection for annuity
    - accumulation mode
        - 100% up to $100,000
    - payment mode, the greater of
        - 100% up to $2,000
        - 85% of the payment
```