"Segregated Funds: How to Invest With Peace of Mind - Guaranteed!"

- Conference Call Transcript -

With

	
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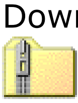

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Mark Huber: Well, hello, and welcome to Segregated Funds: How to Invest With Peace of Mind Guaranteed. My name is Mark Huber and I welcome each and every one of you that are listening in on the call today. For those of you that don't know me, I'm a certified financial planner and I've worked in the financial services industry for over 22 years. Today's guest is Christian Ricci, Regional Sales Director with Manulife Financial. Delighted to have him on board; however, just before I introduce Christian on to the call, I want to briefly give you my reasons for hosting today's call. I've long recognized that my role is to partner with individuals and to assist them in creating prosperity and financial peace of mind for themselves and for their family. And so to that end, I work proactively to bring the most innovative planning tools, strategies, ideas and products to the attention of my clients on an ongoing basis. Furthermore, though, I subscribe to the spirit of a quote so eloquently put by Norman Vincent Peale who said, "We believe that when we discover something of great value, it is our obligation and pleasure to share it with others." And that's also why I've authored numerous downloadable e-books and audios and such to read that are hosted at my website HowToBeSetForLife.com, http://howtobesetforlife.com But why a teleconference call, you might ask. Well, I believe that as Canadians and individuals, frankly, around the world, we are increasingly time starved. And so to my mind, a teleconference call makes it far easier, cost effective and convenient to meet and share information. So I call it "information on demand." That being said, don't forget that we are recording this call today so that all of you will get a copy of the audio and, of course, a transcript of the call within the week. So then you can listen to it again on your iPod or when you're jogging or driving, share it with your friends. You just got to love technology, in fact, again, within the week of the teleconference call, we will have this audio posted in our "Ask An Expert" area on howtobesetforlife.com. So don't worry about writing anything down on paper: just sit back, relax, listen and enjoy. As you know today's topic is titled "Segregated Funds: How to Invest With Peace of Mind Guaranteed." Today, I'm delighted to be joined by Christian Ricci, Regional Sales Director with Manulife Financial. And even though I, along with many of my clients, have long been believers and active participants in segregated funds, I thought that it would be valuable for everyone here today to talk to someone who is extremely knowledgeable and a real expert in the area of segregated funds. Someone who is much better equipped and certainly better articulated to explain what exactly segregated funds are, how they work and why they are increasingly popular with Canadian investors. Furthermore, I felt that putting a call like this together could not only serve as a primer for those not familiar with segregated funds, but also as a refresher course for those who already hold segregated funds but perhaps have forgotten some of the reasons why they hold such a valuable product in their portfolio. So I'm delighted, and it gives me great pleasure to welcome Christian Ricci with

Manulife Financial to the call. Hello, Christian.

Christian Ricci: Thanks, Mark. Hello, how are you, and thank you for the invitation to be on the call today with you.

Mark: Well, it's a pleasure; delighted that you could join us. I know that you're very busy and why don't we just jump into things by beginning with giving you the opportunity to brief us with an introduction as to your background and the role that you play within the Manulife Financial organization.

Christian: Excellent. Well, thank you, very much. As Mark alluded to, my name is Christian Ricci. I'm one of the actual regional vice-presidents now. Since our last discussion, Mark, I've actually been-- I've moved up the rankings here at the company.

Mark: Congratulations.

Christian: Thank you, very much. My role here at Manulife is-- my job is to go out and educate the financial advisors on what segregated funds are and how they can benefit the end user, being the investors here in the Canadian landscape. With that being said, I have over 15 years of experience in the business working for manufacturers on the investment side, dating back to 1994.

Mark: Awesome. So you've been in the trenches a long time.

Christian: Just a wee bit.

Mark: Seen a lot.

Christian: Hence, you know, unfortunately, no one can see it but there is a lack of hair up there.

Mark: That's why we're doing an audio and not a video today.

Christian: Exactly.

Mark: Well, that's great. You know, I recently pulled my readership list and told them about this call and asked if anyone had any questions on segregated funds and what they wanted answered on today's call. And I got some responses that were really quite interesting. Many said that they didn't know enough about the product to even begin asking a question. So today I'm going to be their voice or their proxy, if you will, for them and for their unknown and unspoken questions. So maybe give us a brief background as to the history of seg funds, how long have they been around, how did they, you know, come to be. And then carry on with some of the basics such as what are segregated funds and how do they, in fact, differ from mutual funds.

Christian: No, absolutely. That sounds great. So why don't we start off with a little bit of history of segregated funds. So, you know, we're all familiar with the term "mutual funds" and what they bring to the table. It's that basket of investments that people are able to jump in and share on the revenue of the growth of this basket. Well, segregated funds is just a little bit different. The concept is very similar in the sense that you still have that basket of investments. But what the insurance companies have done, they've actually wrapped an insurance contract around it that really doesn't need any underwriting. So what you have with these products is the ability to actually provide estate planning, creditor protection, income guarantees as well as maturity guarantees on your investments. And these products have been around for quite a bit of time. They've been around since the late '60s but it wasn't up until the '90s that Manulife really reinvented the segregated fund and what have to offer and what they can do for the Canadian investor. Manulife when they came out with a product called the Manulife Gift Contract back in the '90s, it was a contract that really revolutionized the segregated fund world in the sense that it's gone out and upped the ante on what the guarantees have been or are. As well as being able to-- giving you more choice in who you want to invest your money with, with this insurance contract wrapped around it. So, you know, over the years, over the decades, this product has evolved and it's continuing to evolve where, as I stated earlier, there's estate planning products, there's creditor protecting products. There's maturity guarantee products, protecting your money in over a certain period of time and now today Manulife back in-- two years ago, back in 2006, Manulife was the first company to actually offer a product that can guarantee you an income stream for life.

Mark: Wow, really. I think that would resonate with a lot of people in today's financial world.

Christian: Oh, absolutely.

Mark: Now just a bit of clarification. Would it be true to suggest that segregated funds can only be purchased from a life insurance company or from an advisor, you know, licensed to provide insurance needs?

Christian: This is an insurance product so the financial planner does need their license.

Mark: Okay, so nobody can scamper off to the bank and say, "Hey, I heard something about segregated funds. I think I'd like to learn more."

Christian: No, absolutely not. The banks do not offer this product.

Mark: Oh, okay. Well, that's a nice thing to know. But I'm sure they wish they could.

Christian: Oh, I'm sure a lot of people wish they could deal with the banks and some people wish they could never deal with the banks, ever again. The nice thing is that if you look at, you know, the banks have always been the large institutions in Canada and that's where most people tend to kind of migrate to because they've been there for the long time. Just a little bit of history on Manulife. Manulife has been around just as long as the banks have. We've been around since 1884 as a Canadian insurance company, and today we're more than just a Canadian insurance company. We're a global insurance company. We're the largest insurance company in Canada. I would almost say we're the largest insurance company in North America now with, unfortunately, the demise of AIG. And the funny thing is is that Manulife has been a leader and innovator in this market and Manulife is the only publicly traded company in Canada to actually secure a triple-A rating. Hold that triple-A rating even through this global credit crisis that we're currently following in.

Mark: Now that's great news and that's got to give comfort to policy holders, of course. Just wondering if we could articulate the features of segregated funds versus mutual funds just on kind of a case-by-case.

Christian: Absolutely. Like I said earlier, segregated funds are very similar, like mutual funds in the sense of how you're investing the money. You're still buying the basket of stocks but segregated funds actually offer some other features and enhancements that mutual funds do not offer. One of the key guarantees that segregated funds do offer are maturity guarantees. So over a 10-year, 15-year, 20-year, whatever the timeline is based upon, the insurance contract they'll be guaranteed, you know, they can be guaranteed 75, 80, 85, 90, 95 percent or even 100 percent of what they initially put in. Mutual funds don't have that option. You are susceptible to the market and the increases and decreases, no matter what happens. So there's one key difference on the difference between segregated funds versus mutual funds. Segregated funds have this market guarantee that, you know, over a certain time period you'll be guaranteed either a portion, if not 100 percent of your money back if you did not make money over that time period.

Mark: Okay.

Christian: And that's the maturity guarantee. There's also a stock market guarantee and that's really where the resets come into play. If your market value does increase with the segregated funds, either it's done automatically by the insurance company or manually by you the investor or with you, Mark. They can lock in those gains. So if you invested a hundred thousand and by the end of the year your market value was at $110,000, you could actually lock in that growth and now your maturity guarantee would be whatever percentage of that is, whether 75 to 100 percent of $110,000 now going forward. You have the ability to lock in growth, where with mutual funds you don't have that ability unless you take it out of the market and you put it into a money-market fund or a cash account. But then that lends it to people spending the money and not saving it.

Mark: Now you've been talking about death benefits. Can you speak to that?

Christian: Absolutely. So one of the unique things about segregated funds is the death benefit guarantee that these products have. So just like an insurance contract, you do have a death benefit guarantee. This works a little bit differently. The death benefit guarantee is a floor that the insurance company measures on what your named beneficiaries will receive. So I'll use the example of $100,000 again. We invest $100,000. We had a market like we did in 2008, market value's under water. Someone passes away that owns the segregated fund. Let's say the market value was at $70,000 at time of passing. Manulife will move the $70,000 back up to $100,000 and give your named beneficiary those dollars within a two-week time period.

Mark: That's sweet. That is amazing.

Christian: Now that's in a down market. Now if you factor what happens if we actually experience growth in the market, let's say that same $100,000 grew to $130,000 and the investor passed away. Well, the beneficiaries, whoever the investor names as their beneficiary, would receive $130,000, not just $100,000.

Mark: That's impressive.

Christian: So you always get the better of the two scenarios: either your market value or the death benefit guarantee. And Manulife, on average, has paid out the death benefit guarantee within a two-week time period. These are one of the great products for estate planning because one of the nice things is that we don't require any life underwriting, any medical underwriting with these products.

Mark: Okay. Well, that would be a good segue, then, into the next point about probate and how these products and the values, you know, with the top-ups that Manu would provide, how they could be so quickly given to the named beneficiary. And maybe talk to that to our listeners about how that works and the whole notion of probate and working around probate.

Christian: I'd be delighted to. You know, my father once told me there's only two things you're guaranteed in this world and that's, unfortunately, death and taxes. What a lot of people don't realize, because they've passed on, is that you get taxed when you die and that's called probate. And probate is the government's fee for the liquidating of assets as well as essentially collateralizing your estate at the time of passing. And they take, right off the top, what their cut's going to be and they're going to pocket it. Now that's just the probate fee. There's a lot of fees that are associated with death and if anyone's ever had to be an executor on an estate, they know how time consuming and how emotionally draining it can be to family members. I always say, like, there's always a key thing: death and taxes. We get taxed when we die. There's also the fact that at the end of the day, family's family, you know, blood is thicker than water. But you throw a dollar sign in there and water's thicker than blood sometimes.

Mark: Yeah.

Christian: And with segregated funds they can't be challenged. So if the investor decides that he or she wants to leave 50 percent to one child, 40 percent to the other, because that child was a nicer person or may need the money more so than the other child, the other child can't sue their sibling for that extra 10 percent. And 15 years in this business, Mark, I've seen a lot of scary things and when something like that happens, the only people that end up getting the money are the lawyers.

Mark: Yeah, of course.

Christian: So this actually cannot be challenged. So whoever you name as beneficiary cannot sue the other beneficiary for those assets. That's one of the benefits to this product as well. Now there's also one other thing, and I always ask this question when I'm sitting in front of investors, and I ask them if privacy is important. And most people kind of give me a strange look when I ask them if privacy's important like I'm asking them something if they-- they're from another planet. But this is really what it is. Is privacy important? And I always ask the question what were the biggest taboo questions that you can never talk about at parties? You never talked about politics. You never talked religion. You never talked about sex and you never talked about money.

Mark: Money, yeah.

Christian: Today, you go to a party, people are talking politics, right? Especially nowadays with what's happened south of the border and all the media hype that's come about with the whole Obama becoming president.

Mark: Right.

Christian: That's become a huge talking point at parties. Religion. Well, religion is absolutely being talked about at parties. We know sex is being talked about at parties.

Mark: Sure is.

Christian: But what's the one thing people are not talking about?

Mark: Still don't talk about money.

Christian: Exactly. Mark, if I met you at a party and I came up to you and said, "Mark, nice to meet you. Christian Ricci. How much are you worth? How much money do you make?" What would you tell me? You probably can't say it on the call, but we all know where we're going with this. So here's the nice thing. Seg funds are private and, well, what does that mean? As I said, the Privacy Act is important; it's here to protect us. But a lot of people don't realize that when you die, the Privacy Act doesn't apply to you or whoever you name in your will. Because what probate is, probate is also making you a matter of a public record. And I've done this, and I challenge anyone that's going to listen to this call, to do this as well. Go to city hall, wherever you live. Go to court of records. If you know anyone that's passed away in the last few years, ask for their probated will and estate. And I did this when I, I'm originally a Torontonian, so I did this when I lived in Toronto. And I went down to the court of records, city hall of Toronto. And I asked for this individual's last will and testament and the clerk asked me what my relationship was to the deceased. My response was, "Enquiring mind." They said, "Eight dollars, please."

Mark: Really?

Christian: So I handled the gentleman a ten-dollar bill, he gave me back a toonie. The clerk brought over two or three boxes of papers. I said, "I can't read this here tonight. I'll be here till the next morning." They go, "No problem. Eight cents a page, we'll photocopy it for you."

Mark: Really?

Christian: I'm, like, this is fantastic. So I made photocopies. They gave me a box so I could put everything in, nice and neatly. And I walked out with Howard Ballard's will and estate. Those of you that are not familiar who Howard Ballard is, former owner of the Toronto Maple Leafs, the Hamilton Tiger-Cats. As a whole, long standing battle between his second wife Yolanda and his children from the first marriage over his estate. The reason why I did that is because the government doesn't care who you are or who you were. You're a matter of a public record. The scary thing is I knew who was supposed to get what, how much everything was worth at the time of his passing and why they were fighting over it.

Mark: That's amazing.

Christian: So the question is is privacy important to you? Absolutely. Because we think the Privacy Act is there to protect us. It's only here to protect us while we're alive. When you pass away you're a matter of public record which means your entire life savings, net worth and who you wanted to leave the money to is a public record as well.

Mark: So if I understand, with these products you could have a named beneficiary that might be, you know, an old girlfriend that you want to repay at death, but you don't want anyone to know that you've given money to. Would that be correct?

Christian: Absolutely.

Mark: I'm sure wheels are spinning in a lot of people's minds right now.

Christian: Suddenly privacy's a big thing, isn't it.

Mark: Yeah. That's a very interesting aspect. Wow.

Christian: And the scary thing is is that I know of law firms that have gone on and scoured the obituaries for high-profile names and then in turn started prospecting the beneficiaries. And they look for discrepancies in the will.

Mark: Yeah, the good old ambulance chasers.

Christian: Exactly. Exactly, and we all know if there's a lawsuit that occurs, we all know who's getting the money.

Mark: It's not the intended beneficiary, that's for sure.

Christian: Exactly. Now the other scary thing as well is when your estate goes through probate, a simplified estate, you know, I'm leaving everything to my wife and to my two kids and here's the percentages. That can take six months before all the money's paid out.

Mark: Right. Yeah, in the meantime what's the family doing for money if they need it?

Christian: Exactly. That's on a simple estate. The more complicated estates I've seen them take over two years to be fully probated. So that's two years of locking in your money. If your money's in the stock market and we actually had a downturn like last year, you as the advisor can't do anything because that money's got to sit there until it's gone through the proper channels. So you're going to ride the market all the way down. This is two weeks is our average of us receiving the death certificate.

Mark: And the monies are paid out.

Christian: Absolutely.

Mark: Yeah, wow.

Christian: It's a great, you know, it fills a void because you can't, unfortunately, put everything into this but it does fill a financial void that may be created at the time of death.

Mark: Right.

Christian: Because at the end of the day we all know, no one knows when we're going to pass away and it's never at a good time.

Mark: Yeah, no, never is. Now this brings me to another point: creditor protection. Can you talk about that?

Christian: Absolutely. So if you're a business owner, one of the benefits to creditor protection, it's always potential creditor protection and the reason being is that you can put money into these products as long as you name a family beneficiary. And what does that mean? That is your spouse, your children, your grandchildren or you parents as beneficiary. That money is protected from any creditors. If you were to be sued, they cannot go after those assets. But there is a small clause to that. If you start throwing money into a segregated fund as an investor with willful knowledge that you are in financial trouble, then the assets do not become creditor protected.

Mark: Right.

Christian: So if you were doing this to hide money, then, no, it doesn't work. But if you've been doing this on a consistent basis, you've been investing money as a business owner into these products, then they do become creditor protected. Normally, they kind of give a rule of thumb of one year. If you've been investing in it for over a year and longer, before you knew that you were in financial trouble, then those assets will be fine. But if you're within a year and you know that you're in trouble and you know that you're going to be sued and all of a sudden you decide to throw in all of your money into this product, that's not going to creditor protect it.

Mark: Okay. Boy, at the end of the day, though, it's certainly something that a business owner should take a serious look at because being in business, obviously, is a high-risk game, you know, to start with.

Christian: Absolutely.

Mark: And anyone, unfortunately, could be open to even a frivolous lawsuit. But this would be a great way to protect, legitimately, much of one's wealth and not have that on the table.

Christian: Absolutely. Now there's one other thing. I know that there was a ruling change last year with regards to RRSP's being creditor protected. I just want to state that there's a small snag to that whole RRSP creditor protection with mutual funds. Number one, you have to be claiming bankruptcy for those assets to become financially protected. So if you're being sued for, let's say you have $200,000 in your RSP and you're being sued for $100,000 and you have no other savings but that, those assets are up for grabs if they're outside of a seg fund. And the reason being is that you have $200,000 in RSP's, you're being sued for $100,000, right. So you still would have $100,000 net-net after the suing. But you actually have to be claiming financial bankruptcy for those assets to be creditor protected. And if you're being sued, an example is if you're being sued, no other savings, and let's say the lawsuit was $300,000 and you had $200,000, then they're creditor protected.

Mark: I see. Good point, thanks for clarifying that. Now Christian, everything in life has a price tag and I've enjoyed, again, listening to the features and benefits of seg funds. You've done a great job of spelling it out to me and our listeners. There must be some costs, I would imagine, associated with being able to take advantage of these valuable benefits with seg funds.

Christian: Oh, you've heard the term, there's no such thing as a free lunch, right.

Mark: Yeah, unfortunately.

Christian: So the way that seg funds work, because we don't require any financial underwriting there is some risk to us as a company. So there is a higher cost to these products. If you have been a mutual fund investor in the past you're probably quite familiar with MER's or management expense ratios, the company's fees for the running of the fund. Well, those MER's exist on segregated funds but they are going to be higher. And because you're going to still have the management costs of running the fund, you know, my paycheque needs to be paid out of that as well so-- and I don't get paid that much so.

Mark: I thought you took a vow of perpetual poverty?

Christian: Pretty much.

Mark: Yeah.

Christian: So it's the day-to-day running of the company. It's all the legal aspect of running an investment company. So that's all there. But now because there's an actual life aspect to it, there's an underwriting aspect to it that we don't require, there's a risk aspect to the company. So this is the cost of the insurance, this extra cost that's being added to the MER.

Mark: So it's an investment product with essentially an insurance wrapper that come with guarantees.

Christian: Correct.

Mark: Okay. And your point about the underwriting, someone in poor health, if they were to approach a life insurance company and say, you know, "I would like a life insurance policy," going through the underwriting it may be identified they're a poor candidate or just may be not insurable so that person would not get life insurance.

Christian: Correct.

Mark: Which has its own benefits, that would obviously leave monies to the named beneficiary if they died.

Christian: Correct.

Mark: So with seg funds, we get an investment but we also get insurance that is not underwritten so it's not, you know, a person's health or lack thereof is not an issue. But they get all these additional benefits of the investment plus the insurance guarantee.

Christian: Right, you know, within the segregated fund world, it's your money that you're investing. So, you know, we don't care what's wrong with you. You could be on your deathbed, you know, at the end of the day we still honour those contracts because it's a life insurance contract.

Mark: Now is there a cut-off point as far as age that a person can be investing in segregated funds?

Christian: Absolutely. The maximum age to buy any of the Manulife segregated funds is aged 80.

Mark: Okay.

Christian: So you need to be 80 years or younger to be able to purchase these types of products.

Mark: Okay. And youngest age?

Christian: Eighteen years old.

Mark: Eighteen, okay, so of legal age.

Christian: That's right. And you do need to be a resident of Canada to purchase these products.

Mark: Okay. And true that one can purchase in personal name and through a corporate entity as well?

Christian: Absolutely. So you can hold this in a personal account or in a corporate account. Now the one thing I do have to stress, in a corporate account there's no creditor protection.

Mark: Okay.

Christian: Reason being is that the owner is not an individual. It's a corporation. Number two, just because of how it's taxed and what not, we always recommend that the beneficiary of the product is the corporation as well. That doesn't fall into the, you know, parents, spouse, children, grandchildren for the naming of a beneficiary.

Mark: Gotcha. You were talking taxes just a moment ago and I'd like to pick up on that because one of my real delights with segregated funds is the additional benefit that they give if one were to purchase them later on in the year versus purchasing of a mutual fund later on in the year. Do you want to speak to that?

Christian: Absolutely. So one of the things is mutual funds create a year-end distribution. Segregated funds create something called a "year-end allocation." Net-net, it's the same thing. The only difference is that when you purchase a mutual fund, they don't care if you were in January 1st or December 1st, you're going to get the full taxable distribution at the end of the year. Segregated funds, you actually get a prorated distribution based upon the time that you've been in the investments. So if a fund was going to distribute one dollar and you've only been in it for one month, you're going to get the full one dollar. Versus if you're in a segregated fund you're going to get 1/12th of that one dollar.

Mark: And that's an important distinction because many people that are not aware of this and invest in mutual funds towards year end, quality funds, you know, they get their tax slip early in the next year with perhaps a sizable taxable capital gain for all unit holders, but they've only been in the fund for a month or two.

Christian: That's right.

Mark: So they've got a huge tax bill without the benefit of the growth for the previous tax year.

Christian: No, you're absolutely correct. Now the other thing as well in the world of segregated funds versus mutual funds on taxes, mutual funds, if there's a gain they have to flow it out to the investor. That is the distribution. But if a mutual fund triggers losses or creates losses, they're not legally allowed to flow the losses out to the investor. So they'll give you what's taxable but they won't give you what's a taxable event that may work in your favour which is the losses. In the world of segregated funds, segregated funds are able to flow out the gains and the losses to the investor. So now you actually have the ability to take on capital gains as well as capital losses if the fund did not perform well. The other thing as well, you don't have to worry about all the tax, figuring out the taxes. We report everything on a T3 automatically for you. So what that also means is that your accountant can't charge you as much when he or she has to do your taxes.

Mark: A lot of people will like that except the accountants.

Christian: Exactly.

Mark: Tax time is just-- I pull my hair out 'cause I get calls from accountants, you know, they need to know this, they need that, they need documentation, you know, and it just goes on and on. And I'm just feeding them the stuff, of course, then they do all the input but they're the ones that get paid because they're doing the tax returns for their clients.

Christian: Exactly.

Mark: So very efficient income reporting and taxation.

Christian: Correct.

Mark: Okay. Now talk about, speaking of tax friendly, the withdrawals because, obviously, younger clients but more typically older clients, will be using segregated funds to enjoy their retirement lifestyle. So talk about the more efficiencies of withdrawals from segregated funds.

Christian: Okay, well, one of the things and just to highlight what we're doing with, for instance, our income guaranteed products, what we're doing is something known as a SWP or a systematic withdrawal plan where you're taking out money, you're SWP'ing, you're taking a portion of money out either on a monthly level, quarterly, semi-annually or one time a year. Now this holds-- the way that this is taxed holds true right across the board on all investment products, mutual funds and segregated funds. And the way that a SWP works and I'll use the example, if you invest $200,000 in a non-RSP account. That money, that $200,000 that you've invested you've already paid tax on it. The government has taken their cut every time your paycheque got put into your account. So they can't tax you on this money again. So you invest this $200,000 but one of the things that they can tax you on is the growth that you make off of these tax-paid dollars. So we'll assume you made five percent in the market. So your market value's gone from $200,000, what you originally paid, put into the investment, grown to $210,000. And now you want to take out $10,000. Well, that full $10,000 is not fully taxable unlike a GIC where you would have to pay every dollar. With GIC's, dollar earned, dollar claimed, dollar taxed. With investments like segregated funds or mutual funds, it's a little bit different. So with that $10,000 that you're taking out, there's actually a calculation that figures out what is taxable and what is a return of your own money or a return of capital. So the way that the calculation works, just so people can kind of get this visual in their head, you invested $200,000, you made $10,000, you took out $10,000. To figure out what would be a taxable event for you, you take your growth which is $10,000, you divide it by your market value which is $210,000. That will give you a capital gain. To figure out what is tax-free, you take what you originally invested, $200,000, and you divide it by your market value which is $210,000. Essentially the way that it works for your capital gain, $10,000 divided by 210, it's 1 over 21. So it actually works to slightly less than five percent is taxable of that $10,000. Well, five percent of $10,000 is $500. And it's treated as a capital gain. In capital gains, you only pay tax on half of that which means give or take a dollar or two, you're looking at what you have to pay tax on for $10,000 worth of income is $250 at your own marginal tax rate. If you're in a 40 percent tax bracket, you're looking at around $95 to $100 in tax for year one.

Mark: So it's very tax-friendly.

Christian: Extremely tax efficient and for elderly people claiming too much income can be a bad thing.

Mark: That makes them run afoul of the possibility of the old-age security clawback, correct?

Christian: Correct. Old-age security clawbacks, Pharmacare, a lot of different government benefits do get clawed back if you report too much income. If you invested $200,000 into a GIC, you made five percent, $10,000, that full $10,000 gets added to your income line on your tax report.

Mark: So that might reduce or eliminate the benefits that they might otherwise be entitled to.

Christian: That's right. With the example that I just shared with you with segregated funds or mutual funds, only $500 will show up on reported income.

Mark: I hope everyone's getting this listening in to the call. I just want to quickly go back for a moment and talk about the bypassing of probate because this is, I think, a real nice benefit that segregated funds give. And just want to jump in a personal note, if I might, Christian.

Christian: Please.

Mark: A few years back, I had an older client who was the mother of an only child who was also a client of mine. I'd worked with them both for a number of years, of course, as time went by it was obvious that mother was getting older and frailer. And at that point we had her invested in quality mutual funds. But I did some calculations and I figured out that if she were to die, there'd be probate taxes on her investment portfolio of approximately $16,000 where the investment stood. So I called up the son, showed him, you know, talked to him about my calculations. We got together and he felt that the argument was very compelling to tell mom to move from mutual funds to segregated funds. Because I showed them that if you do nothing and you get your mom's portfolio as is, it'll be less $16,000 because of probate fees. So when mom was alive, we shipped the whole portfolio into seg funds and, unfortunately, a few years thereafter she died. But the beauty of this all, you know, the silver lining is that the son didn't have to have the seg funds showing up as part of her probateable assets in her estate. So he got the full value of the seg fund portfolio so it was a very nice ending to that story and certainly one that I'm very proud of. And I just want people listening in to know, this is kind of part of what estate planning is and people think, though, that estate planning is something that happens, you know, kind of at the end of your days. No. Estate planning should be happening now. We are all working diligently to build investments which means we are creating our estate through our investments, our RSP's, our bank accounts, real estate holdings, things of that nature. And I just wanted to, again, point out that there are great ideas, strategies and products that people must be aware of to look at and ascertain whether or not they would be appropriate at, you know, any juncture in their life to look at and/or include to help them create wealth, reduce taxes, facilitate the disbursement of assets upon death or even upon life. So, you know, if people don't look into any of these avenues of information or participate in calls like this, it pains me to no end because, you know, by and large Canadians are not seeking out this type of information and acting on these strategies. And in effect they're saying, in my mind, you know, "I don't care enough about myself and my family to look into legitimate areas of tax and probate reduction methods." So at the end of the day the government gets more and the kids get less. Just moving on for a moment, though, before we start wrapping things up, Christian, I want to talk about when one considers segregated funds, is this an all or a none decision or conversation would you say?

Christian: No, it should never be an all or none decision, you know, segregated funds, you know, not everyone-- if you think about it, if there's estate planning assets, you're not going to earmark all of those assets today for children or grandchildren. There's probably still a need for them to live off of assets, right. So every situation is different. I've worked on cases where people had more than enough money to live off of and whatever they weren't using, they've earmarked for family members and children or charities. And they've put them into seg funds. There's been cases where, you know, with the income product, we would never recommend that you put 100 percent of your dollars into this product because there are some limitations on what you can do with those types of products. So it's never an all or nothing. If it's for estate planning and it's money that they're not going to touch or need, then, yeah, I would look at that. But this is always, as I always say, seg funds is never the answer but it's always a part of the complete financial planning.

Mark: Right, yeah. Well put. And one thing, too, I want you to talk about before we move on and I might skip over it, talk about the-- what CompCorp is and how it relates to seg funds, please, versus mutual funds.

Christian: Well, CompCorp is-- actually, I believe they've changed its name now to Assuris.

Mark: Oh, okay.

Christian: So Assuris is exactly like what the CDIC is for the banks where they protect up to a certain dollar value of your investment. Assuris is the exact same thing just for the insurance world. With segregated funds, I believe it's $60,000 or a certain percentage of your maturity guarantee, whichever is higher.

Mark: Okay. So basically, you know, a person takes comfort knowing their GIC with their bank is covered by Canadian Deposit Insurance Corp., right?

Christian: Correct.

Mark: Up to certain amounts. Those that invest in mutual funds do not have that same, I don't want to call it "peace of mind," but that same--

Christian: That safety net.

Mark: -- comfort, if you will, comfort of mind.

Christian: Exactly.

Mark: If they're looking for guarantees, per se--

Christian: Yep.

Mark: -- you know, but those that invest in segregated funds have not only the benefits of the guarantees but the comfort of knowing that there is an agency essentially insuring a significant portion of their investment dollars. Is that correct?

Christian: That is absolutely correct.

Mark: Okay.

Christian: One thing, actually, and this is something I just pulled off and it kind of ties back into the probate and I wanted to share this. Just an example of what the fees would be associated with off of a $200,000 investment in British Columbia.

Mark: Oh, great, okay.

Christian: And I'll give you an example: $200,000 in a mutual fund, your probate fees can be up to $2,458. That's $208 per $6 per $100,000 for $25,000 and $50,000 plus 14 per $1,000 on the remainder. So it's-- then there's executor fees.

Mark: Right, of course.

Christian: Now in this example we used one percent as--

Mark: It can range up to five, no?

Christian: It can go up to five. And the majority of the time they name a family member. But, you know, a lot of the times family members tend to take that up especially if it takes away from their own family time or work. There's legal fees. That can range from half a percent to three percent of total assets. That's also including the accounting fees which is another $6,000. And one thing that I haven't touched on: DSC's.

Mark: Oh, deferred sales charge, yeah.

Christian: Deferred sales charges. In mutual funds, you know, they range-- it's zero to seven percent, it can range in the fee. So in this case, $11,000 in DSC charges. Mutual fund company doesn't not care whether you passed away or not. You will still get hit with that deferred sales charge. So in this example, $21,458 would come off the top before the beneficiaries would receive that money in a mutual fund. In a segregated fund, it's zero probate fees, zero executor fees, zero legal fees, Manulife waves the DSC on death. So the total cost would be zero. Now I will also say the cost will vary depending on the province and the complexity of the estate and the length of time the assets were held in the investment. So this table is just to illustrate, just very quickly, what the costs could be in way-- mutual funds.

Mark: A huge savings.

Christian: Exactly.

Mark: You know, I mean, if one was to do the math, which I've done, and you look at the slightly higher management expense ratio that one would incur by having investments in a segregated fund world versus the management expense ratio in a mutual fund. But with all the benefits that you've articulated, you know, the seg funds, you know, come out miles ahead on, you know, on a net-net after tax, you know, the bypass of probate, all that kind of stuff. So the few additional dollars spent is more than compensated for the benefits. Okay. Any common questions or misconceptions that you hear out there in the field? Are there any typical ones or big ones that you wanted to address before we start wrapping things up?

Christian: The big thing is always people are always going to look at the fee. And I'll just, you know, that's the biggest misconception of what you're paying for is what you get. And I always say this is that, you know, cost is only an issue in the absence of value. And I think that's what most people need to think about when they look at segregated funds: is there value here for them for what they're trying to achieve or what they're trying to do. If there is, you know, remember, cost is only an issue in the absence of value. People will pay money if they find it of value. If they don't find it of value, they won't, you know, then cost is always an issue. And also, you know, buyer beware as well of what other people say of these products. Always do your due diligence. People will, you know, people will tell you that they're terrible products as well because there's a misconception that seg-- because seg funds aren't there to help you. And I always suggest do your due diligence on these products because they're here to make sure that, you know, whether it's an estate transition to make sure that the next generation or your spouse is well taken care of, whether it's making sure that you have enough money to live off of while you're in retirement, that's what these products are here to help you do.

Mark: And as well, too, in recent years, I mean, I know Manu has been a leader in this, where they have approached third-party, independent big household name fund firms and said, "We would like to incorporate your balanced fund, your growth fund, your bond fund within our product mix." And then just, you know, add the guarantee wrapper, call it a seg fund. So you can have your favourite fund, many times, or your fund family represented in the Manulife lineup. But even better than your favourite fund, Manulife is providing guarantees that you've just articulated, correct?

Christian: That's absolutely correct. We've gone out and we've hired some of the best money managers in Canada and throughout the world. Companies like CI Funds or CI Investments, Invesco, Trimark, Fidelity, Mackenzie. Moore Asset Management, great management company based out of Calgary. Alliance Bernstein, one of the largest institutional asset managers in the world. They run $750 billion worldwide. So you do have choice, diversity and flexibility on who you want to invest with.

Mark: Right.

Christian: So you're not just buying a guarantee but you're buying your favourite managers with a guarantee on them.

Mark: It doesn't come much better than that.

Christian: Absolutely not.

Mark: Well, I think on that note, just wrap things up and appreciate you being on the call today with us, Christian.

Christian: Thank you, very much.

Mark: Again, I want to just remind all our listeners that the call is being recorded and so all of you listening in on the call, and those that have registered but couldn't listen for whatever reason today, all will get the audio recording link in a few hours from now. And, of course, the written transcript of the call within the week. So watch out for an email from us notifying when and where you can download the information. And, again, just so you know, all the emails from us will have the "Set for Life" in brackets in the header of your email so you know at a glance that the email is legitimate and contains the information that you want. So, again, thank you, Christian, for being on the call.

Christian: Thank you, very much, Mark. Greatly appreciate it.

Mark: Enjoyed your comments. Thank you for answering questions for me and our listeners. And I know the information is quality information and I enjoy hosting these events to get this kind of information out to Canadians to give them a better chance and opportunity to create real wealth for themselves. So in closing, again, my name is Mark Huber from howtobesetforlife.com and on behalf of our guest today, Christian Ricci with Manulife Financial, we trust that you found the information here today of value and also that your time was well spent. And just remember, that all the information in the world won't do you a bit of good unless you take action. You can find out more about me and the services we offer at my website, HowToBeSetForLife.com , http://howtobesetforlife.com or certainly call me directly: Mark Huber at 604-207-9970. Certainly drop us an email, tell us how you're enjoying this information or if you'd like further information on seg funds, email us at mhuber@howtobesetforlife.com. So we trust that this call will serve as a beacon for you in your quest for financial enlightenment and we wish you all a very pleasant day. All the very best to you and yours as you continue your journey to create true and lasting wealth and financial peace of mind. And remember, it's your life, so plan for it and then live life like you mean it. So good luck and goodbye for now.

- **End Call –**

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Who Is Mark Huber?

Mark Huber, CFP

Mark Huber is a practicing certified financial planner (CFP) with over 22 years of experience in the industry.

The focus of Mark's financial planning advisory practice is to British Columbian (BC) Canada residents.

Mark's boutique planning practice works with a select group of clients who are all share a passionate vision for creating true wealth and living their dream lives.

Mark has made innovative cash flow and creative mortgage reduction strategies core disciplines in his successful practice and also the core wealth creation process for his clients.

Many of these programs and strategies are detailed in various audios, videos, reports and Ebooks which he has authored and generously made available to Canadians - everywhere...

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