A guide to segregated fund contracts

This booklet is designed to help you understand segregated fund contracts and to become a more informed investor. Additional information – and help – are available from your life insurance advisor and company as well as the industry's Consumer Assistance Centre.

Canadian Life and Health Insurance Association Inc.

Association canadienne des compagnies d'assurances de personnes inc.

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Canadian Life and Health Insurance Association Inc.

Association canadienne des compagnies d'assurances de personnes inc.

You Told Us What You Want to Know about Segregated Fund Contracts

This guide to segregated fund contracts brings together the answers to many typical questions Canadians ask when they call the life and health insurance industry's Consumer Assistance Centre (CAC).

Every week day on national toll-free phone lines (English: **1-800-268-8099**; *French:* **1-800-361-8070**), *our trained counsellors listen and talk to people with very different financial goals and problems. Yet some things don't change: everyone wants to provide financial security and the best possible future for themselves and their families.*

This guide will help you:

- *understand what a segregated fund contract is;*
- *understand your tolerance for risk;*
- *understand the different investment options; and*
- *develop questions for your insurance advisor.*

Segregated fund contracts vary. This guide describes some of the more common features, terms and provisions, but it is not intended to replace or substitute for the advice of a licensed life insurance agent or for the detailed legal information provided in segregated fund contracts and information folders.

A guide to segregated fund contracts *is produced by the Canadian Life and Health Insurance Association. We do not promote any one life insurance company nor any particular type of segregated fund contract. We leave those choices to you, the consumer.*

We hope that this guide will help you make the most of the segregated fund investment options available to you. More information – and help – is available from your life and health insurance agent as well as the CAC.

Caution: *This booklet presents a wide variety of general information on segregated fund contracts as simply and accurately as possible. But it is not a legal document. New legislation and regulations and technological and competitive developments may change some of the rules, conditions and industry practices described here. If you have specific questions, check your contract details and contact your insurance advisor or company.*

What is a Segregated Fund?

A **segregated fund** is a type of investment fund available through a life insurance company. It is a pool of specific assets and cannot be used by the company for any other purpose.

How Investment Funds Work

All investment funds, including segregated funds, work in much the same way.

An investment fund allows many individuals to pool their money for purposes of investing in stocks, bonds and other kinds of securities. A fund hires a professional investment manager who sets an investment strategy and selects the assets the fund will hold, according to the investment objectives and policies of the fund.

An investment fund is typically divided into shares or units. The unit price fluctuates with the market price of the securities the fund holds. Individual investors receive a number of units, depending on the amount of money they contribute to the fund, the unit price at the time they invest and any fees that are applicable.

Fund investors get a share of the fund's ongoing investment earnings or losses, based on the number of units they own. When they redeem or sell units, the redemption value or price they get depends on the number of units redeemed, the unit price at the time of redemption and any applicable fees.

Benefits of Segregated Funds

All investment funds offer specific benefits that other types of investments do not:

- They allow individuals who have only a little capital or limited investment knowledge to invest in a diversified portfolio of assets and to benefit from the investment expertise of a professional manager.
- They offer these benefits at relatively low cost, since individual investors share the ongoing expenses of running the fund, such as employing a manager and buying and selling assets.
- They are very liquid; in other words, individual investors can cash out at virtually any time by redeeming their units with the fund issuer.

Segregated funds provide the benefits above plus some additional ones:

- They are available only through a life insurance policy or contract that guarantees you will get back at least 75 per cent (and possibly more, depending on the contract) of your gross contributions at a specified maturity date (typically no less than 10 years from the date of your original investment) or at the death of the insured person, regardless of how the investments held by the funds perform.
- They provide you with **potential protection of your investment capital from creditors**, (see page 7).

You will learn more about these and other characteristics of segregated funds as you go through this guide.

2 INVESTING IN SEGREGATED FUNDS

Investment Options

There is a wide variety of segregated funds on the market. You may find it simplifies your choices to think about the available funds in terms of how well their investment objectives match yours. Based on investment objectives, funds tend to fall into three broad categories.

- **Growth funds** invest mainly in the common stocks of companies with good growth prospects in order to produce capital gains.
- **Fixed income funds** invest mainly in bonds, other debt instruments and shares of companies that pay dividends, in order to produce a stream of income while protecting investors' capital.
- **Balanced funds** invest in a blend of stocks, debt instruments and dividend-bearing shares to produce a blend of capital gains and income.

When you invest in a segregated fund, the guarantees on your capital give you a degree of protection from investment risks that other types of investment funds do not provide. You can only benefit from this protection, however, if you hold the contract until it reaches maturity or until the death of the insured person.

The managers of different funds may use different strategies to reach similar objectives. As a result, there is a wide choice of funds within each of the categories described above. Consider, for example, the following types of growth stocks:

- Global equity funds hold stocks of companies from around the world.
- Index funds buy a representative group of securities that mirrors the composition of a particular stock exchange.
- Biotech funds specialize in the stocks of companies that are involved in medical and pharmaceutical innovation.

The different strategies the managers of these funds have chosen are all intended to produce capital gains. But the selection of securities, degree of diversification, level of risk, amount of trading and time horizon for achieving growth varies from fund to fund.

Diversification and Investment Risk

The more diversified a fund is, the greater the mix of assets it holds in its investment portfolio. As a rule of thumb, the more diversified the fund, the less potential there is for it to suffer drastic losses. That's because when one or more of its investments does poorly, others may be doing better.

The converse also holds true: the more specialized a fund is in terms of the kinds of assets it holds, or the industry or part of the world it invests in, the greater the potential for significant gains and losses.

As with all investment products, there are other kinds of investment risk such as, inflation risk, market risk, default risk, currency risk, interest rate risk and political risk. You can learn more about the investment risks of a particular segregated fund by asking your insurance advisor questions and by consulting the information folder (see page 14) or the contract.

Tip

How to Calculate Net Asset Value

(gross asset value of fund – operating expenses) ÷ number of units in fund = NAV

Valuing Segregated Funds

The value of a segregated fund varies with the market value of the stocks, bonds and other assets it holds. Most segregated funds are valued at the close of each trading day and the results are published in the financial pages of the newspapers and on the internet the following day.

The **gross asset value** of the fund is calculated first, based on the closing prices of the securities it holds. Next, the fund's daily operating expenses (including such things as management fees and marketing expenses) are deducted. This figure is divided by the total number of units in the fund to get the **net asset value** per unit, usually referred to as **NAV**.

NAV is a useful number. Individual investors in the segregated fund can:

- multiply the number of fund units in which they have an interest by NAV to find the value of their segregated fund holdings at any given point in time;
- measure the performance of their segregated fund investments over time, by tracking changes in NAV; and
- use it to compare the fund's performance with the performance over time of other investment funds exclusive of management fees and expenses, which vary from fund to fund.

Books, websites, magazines and newspaper articles about investing can help you build a more complete picture of the performance of a segregated fund.

You also may find useful the **audited financial statements** and **account statements** segregated fund contract issuers must make available to their investors once a year. The audited financial statements provide information about fund performance over time. The account statement will give you a snapshot of the value of your investment in the fund at the time the statement is issued, a record of any transactions in your account during the past year, and information you need for tax purposes.

How Segregated Fund Earnings are Allocated

Your segregated fund investment may earn income or capital gains/losses. In either case, it will allocate to you a share of the earnings based on the number of units you hold and the period for which you hold them during a given calendar year. The earnings are typically allocated in the form of an increase in the value of fund units, but may also come in the form of additional units in the fund or a cash payment.

See Section 7 for information about the tax treatment of allocations.

3 SEGREGATED FUND CONTRACTS

For the sake of simplicity, we talk about segregated fund investors buying and selling fund units. But when you invest in a segregated fund, you do not actually purchase fund units. Instead, you enter into a **segregated fund contract**, also known as an **individual variable insurance contract (IVIC)**, which allows you to invest in units of segregated funds.

From the point of view of an investor, segregated fund contracts are similar to other investment funds. The contracts entitle individual contract owners to a share in the earnings and losses of the segregated funds; to make **contributions** and **redemptions** or withdrawals; and to **a cash surrender value** that is the equivalent of redemption value.

Special Features of Segregated Fund Contracts

As noted in Section 1, segregated fund contracts have special features over and above those offered by other investment funds. The unique benefits these features confer on investors are described in greater detail below:

- A **guaranteed maturity benefit**, equal to at least 75 per cent (and sometimes as much as 100 per cent, depending on the contract) of gross contributions (total contributions *less* total withdrawals). This guarantee takes effect on a specified maturity date, typically not less than 10 years from the date the segregated fund contract is issued. In some cases, each additional contribution has its own maturity date. As well, some insurers permit individual contract owners to reset the guarantee periodically in order to lock in increases in the value of the segregated funds the contract has invested in. Typically, exercising this privilege extends the maturity date of the contributions involved.

Tip *It's smart to consider the purchase of a segregated fund contract a long-term investment.*

- A **guaranteed death benefit**, equal to at least 75 per cent (and sometimes as much as 100 per cent, depending on the contract) of gross contributions. This benefit is payable directly to the beneficiary of the contract upon the death of the insured person. If a beneficiary is named and the death benefit paid to him or her, there are no probate, executor or lawyer's fees. As with the guaranteed maturity benefit, some insurance companies allow individual contract owners to reset the guaranteed death benefit periodically, to lock in increases in the value of the segregated funds the contract has invested in.

- **Potential creditor protection**
  When the contract's named beneficiary is a spouse, child, grandchild or parent of the insured person (or, in Quebec, the contract owner), when the beneficiary is designated irrevocably or, in some provinces, where the contract is registered (for example, as an RRSP), creditors cannot seize a segregated fund contract if the contract owner declares bankruptcy or fails to pay his or her debts, as long as he or she has not entered into the contract for the primary purpose of shielding assets from creditors. In some instances, courts of law have deemed the purchase of segregated fund contracts while the creditor was insolvent as an attempt to shield assets, and disallowed the creditor protection.

- **Optional disability waivers**
  When a segregated fund contract specifies the amount and timing of additional contributions, some insurance companies allow the individual contract owner to apply for a disability waiver. This is an extra benefit of the contract that provides that the insurer will make previously scheduled contributions up to a specified maximum, in the event that the individual is totally disabled as defined by the contract.

Costs of Special Contract Features

As a general rule, the more generous the features of a segregated fund contract, the more expensive the contract is. You will, for example, pay more for special features such as for a guaranteed death benefit of 100 per cent, than for a benefit of 75 per cent.

Typically, you do not pay for special features up front when you purchase or enter into a segregated fund contract. The costs are included in ongoing fund expenses for as long as the contract is in force. The insurer is required to disclose the costs in the segregated fund information folder, which you receive when you enter into a contract, and in the contract document, which may be delivered to you at time of purchase or shortly thereafter.

Because special features add to the cost of investing in segregated fund contracts, it is important that you consider how the features suit your needs before making a decision to purchase. It is wise to consider the contract as a long-term investment so that you benefit from the special features that you are paying for, such as the guaranteed maturity benefit.

Your Investment Needs and Strategy

Every investor has unique investment needs. The main determinants of these needs are **personal financial goals**, the **time available** for reaching them and individual **tolerance for risk**.

Consider these two examples of investors:

- A couple in their twenties with secure, well-paying jobs, no children and the goal of buying a house in three to five years.
- A 50-year-old single parent of two who does contract work, owns a mortgage-free house and wants to retire at 65.

The couple has a relatively modest, short-term goal of accumulating a down payment. With healthy, stable income expectations and few obligations, they might be willing to take some risks with a portion of their investment capital. In contrast, our single parent has a more challenging, longer-term goal.

Strategic Requirements Checklist

This checklist may help you decide whether segregated fund contracts fit your investment strategy:

Strategic requirements:	Segregated fund contracts offer:
❑ **diversification**	a broad selection of growth, income and balanced funds with well-diversified portfolios
❑ **estate planning**	a guaranteed death benefit of at least 75 per cent of gross contributions, paid directly to the named beneficiary. No probate, executor or lawyer's fees apply. If the named beneficiary is the child, grandchild, spouse or parent of the insured person, or if the beneficiary is designated irrevocable or – in some provinces – if the contract is registered, the contract may be protected from seizure by creditors
❑ **flexibility**	the ability to transfer from one segregated fund to another offered within the same contract without fees
❑ **investment advice**	professional investment management
❑ **liquidity**	the ability to redeem your investment on virtually any business day
❑ **security of capital**	a long-term guarantee of at least 75 per cent of gross contributions

With uncertain income prospects and a family to support, he or she would be wise to take a slow-and-steady, lower-risk approach to investing and to make a priority of safeguarding the capital in the family home.

It is easy to see from the examples above that your **stage of life**, **family situation**, **income expectations**, **other financial resources**, **debts**, **ongoing expenses** and **aspirations** must be taken into account in order to arrive at realistic goals, reasonable deadlines for reaching them and a level of investment risk that is appropriate for you. You can then set a personal strategy that covers how much you should invest on an ongoing basis, suitable kinds of investments and the right asset mix. You may wish to consult an insurance advisor for guidance.

Are Segregated Funds for You?

Once you have an investment strategy, you and your insurance advisor can look at the characteristics of different types of investments to see whether or not they fit your defined goals. As discussed in Section 1, segregated funds offer many of the same advantages as other investment funds, such as mutual funds. They provide investors who have limited capital and investment knowledge with a broad selection of fund types, diversification, professional management, the opportunity to share expenses, and liquidity.

As outlined in Section 3 of this Guide, segregated fund contracts also provide a number of unique features: guaranteed value on maturity; a guaranteed death benefit; and potential creditor protection. These features offer long-term financial and estate planning benefits that other types of investment funds do not.

Tip

Need help developing your investment strategy? An insurance advisor can help you analyze your needs and come up with an appropriate strategy. Or consult one of the many financial planning books or websites available.

Shopping for a Segregated Fund Contract

As discussed in Sections 1 and 3, segregated funds are only available through a life insurance contract. The features provided by different segregated fund contracts vary depending on the insurance company that issues them and the options you choose. As a rule, the more generous the contract features and the options you choose, the more they cost.

You may want to look at the information folders for the segregated fund offerings of several insurance companies before choosing one. Here are some of the items you may wish

to compare and ask your insurance advisor about:

- amount and method of calculation of guaranteed value at maturity;
- amount and method of calculation of death benefit guarantee;
- voluntary reset of amount of guaranteed maturity value;
- application of maturity date and guarantees to additional contributions;
- voluntary reset of death benefit;
- number of voluntary resets available;
- optional disability waiver; and
- costs of these features.

Choosing Segregated Funds

Once you have picked a segregated fund contract, you must choose the segregated fund(s) you will invest in through the contract. Your investment strategy will determine whether you invest in growth, income or balanced funds. It will also help you identify the funds in each of those categories that fit best. Suppose you are buying growth funds in order to generate capital gains. Your strategy will help you decide, for example, whether an index fund, Canadian venture capital fund or developing countries fund is most appropriate.

You and your insurance advisor will want to take into account other attributes of individual funds, as well. For example, you may wish to look at long-term performance, especially compared to that of other funds in the same category (see the discussion of net asset value (NAV) on page 5); volatility, or how much a given fund's value fluctuates over time; and (for interest- and dividend-bearing funds) yield.

The management expense ratio, usually referred to as **MER**, is also a very important consideration. MER is the percentage of a fund's gross return on investment that pays for operating and management fees and expenses. If two funds earn the same gross returns, but one has a higher MER, its investors will receive less because MER comes off the top. The difference between an MER of 1.5 per cent and 3 per cent may not seem significant, but on large sums and over a period of years, it adds up.

You can find MER and other comparative information about segregated funds in an easy-to-use chart format in the financial pages of newspapers, in personal finance magazines and on investment websites.

Asset Mix

There are three broad classes of investment assets:

- **cash** and **cash equivalents** such as treasury bills;
- **fixed income investments**, such as bonds, certificates of deposit and mortgages; and
- **stocks**, or equities.

As a general rule, cash and cash equivalents carry the least risk of losses and potential for gains, while stocks or equities carry the greatest risk of losses and potential for gains. However, there are exceptions – for example, an investment in a "junk bond" fund, which is a fixed income investment, involves a greater degree of risk than an investment in a "blue-chip" equity fund.

You can look at individual segregated funds in terms of asset mix, or how much of each fund's portfolio the manager has invested in each of cash, fixed income and equities. This has a direct bearing on the degree of risk, as discussed in Section 2. A fund that is evenly diversified among the three asset classes typically carries less risk – and less potential for growth – than one that is invested primarily in equities.

You also can look at your overall investments in terms of asset mix. Again, the amount you have invested in each asset class will affect both the degree of risk your portfolio carries and its potential for growth.

Your insurance advisor can help you achieve the right overall asset mix and choose segregated funds that complement your other investments and your strategy. If, for instance, you already own stocks or funds that invest primarily in stocks, your investment strategy may call for an income fund to diversify your risk.

5 YOUR INSURANCE ADVISOR

Only an advisor licensed to sell life insurance by the province or territory in which you live can sell you a segregated fund. He or she may work independently, for a specific insurance company or for a financial services firm, and may also be licensed to sell other types of insurance and/or investment products, such as property and casualty insurance, stocks, bonds and mutual funds.

In any case, insurance advisors' professional qualifications permit them to:

- help you analyze your investment, estate planning and insurance needs;
- arrange for the purchase of a segregated fund contract;
- provide ongoing service, such as beneficiary changes, reviewing and updating your investment strategy and rebalancing your portfolio;
- help you make further purchases, transfer from one segregated fund to another or redeem your investment;
- assist the segregated fund contract beneficiary in making a claim should the insured person die; and
- assist you with other types of financial planning, such as analyzing your life and disability insurance needs and planning your retirement.

These activities and the conduct of life insurance agents are regulated by the province or territory in which the agents are licensed. If they sell financial products and services other than life insurance products, these activities are also government regulated.

The Sales Interview

When you meet with your insurance advisor, expect questions about your finances, family and needs. Be frank in your answers – what you tell your advisor is kept confidential. Appropriate advice depends on accurate information about your needs.

- Don't accept just one solution to your investment needs. Avoid an advisor who tries to sell you a particular product and won't suggest alternatives.
- Ask for an investment needs analysis and proposed investment strategy in writing.
- Be aware of any costs involved in transferring funds or other investments.
- Make sure you understand the features of the segregated fund contract, including guaranteed maturity and death benefits and their costs.
- Ask about the investment goals, risk level, track record and MER of the recommended fund(s), and how it complements your other investments.
- Find out how your advisor is compensated, and what ongoing service he or she will provide.

Selecting a Life Insurance Agent

Buying a segregated fund is an important financial decision. Therefore, you should select the life insurance agent who will advise you carefully.

Here are some of the factors you may wish to consider:

- Professional qualifications: advisors with a CLU (Chartered Life Underwriter), CH.F.C. (Chartered Financial Consultant) or CFP (Certified Financial Planner) designation have demonstrated commitment to professional development by completing several years of study and examinations.
- Recommendations from trusted friends, colleagues or relatives.
- How long the advisor has been in business, and what insurance company or companies he or she represents.
- References from the advisor's other clients.

Don't be shy about shopping around for the best advice. Interview two or three advisors. Give each of them an idea of your financial goals and circumstances. Assess whether they understand your situation and what you can afford, and can make reasonable suggestions in plain language. Ask how they would help you analyze your investment needs, develop an investment strategy and execute it – including their willingness and ability to refer you to individuals licensed to sell other investment products, should you require them.

Buying a Segregated Fund

When purchasing a segregated fund contract, you will receive two very important documents:

- An **information folder** that provides in-depth information about the contract, including the guaranteed death benefit and maturity value; and about the investment options the contract offers, including descriptions of the funds available, their holdings, management, objectives and investment approaches, their fees and expenses, the risks involved in investing in them and information about how your investment will be taxed. You receive this at or prior to purchase. Don't hesitate to ask your insurance advisor or the life insurance company to clarify anything you don't understand before you sign the application form.
- The **contract**, which sets out the terms of the agreement between you and the insurance company regarding such matters as future contributions, cash withdrawals, and guaranteed death benefit and maturity value. In some cases, the contract is attached to an application form. In others, it may be sent to you shortly after you fill out your application.

Please read these documents carefully and keep them for future reference.

Sales Fees

Sales fees compensate insurance advisors who sell segregated fund contracts for insurance companies. There are two types: commissions and service fees.

Commissions and other set-up and administrative costs, also known as **loads**, can be deducted at the front end of your investment, when you purchase your segregated fund contract, or at the back end, when you withdraw or redeem your investment.

- **Front-end loads** are calculated as a percentage of your initial contribution and reduce the actual amount invested. The percentage charged is disclosed in the information folder of the segregated fund.
- **Back-end loads**, also known as deferred sales charges, reduce the amount you receive when you redeem. The percentages charged by many insurance companies decline each year you own your segregated fund contract, providing an incentive for you to hold onto your investment for a period of time. Look for details of how the insurance company calculates back-end loads in the information folder.

Service fees, also known as **trailer fees**, are not deducted from the amount you invest or the amount you redeem. You pay trailer fees indirectly over the length of time you own your segregated fund contract, because they are paid by the segregated fund to sales representatives on an ongoing basis. No-load funds, i.e., funds that don't charge front- or back-end loads, generally carry higher trailer fees, which may be reflected in a higher MER. The information folder gives details of trailer fees, including how they are calculated and accounted for by the segregated fund issuer and what services investors can expect in return.

Regardless of whether the insurance advisor from whom you purchase your segregated fund contract is employed by the life insurance company that issued the segregated fund contract or sells the products of several insurance companies, the contract issuer will compensate him or her for selling you the segregated fund contract.

Transferring from One Fund to Another

Most segregated fund contracts permit you to transfer from one investment fund to another fund offered through the same contract without incurring sales charges. If you are transferring out of a back-end load fund into a front-end load fund or one that charges a trailer fee, you may have to pay two sales charges.

Transfers also have tax consequences, except when you hold your segregated fund contract in a registered account, such as a Registered Retirement Savings Plan (see Tax Treatment of Redemptions and Transfers, below).

Since you may have to pay sales charges or tax when you transfer from one fund to another, consider carefully how the transfer will help you meet your long-term investment objectives.

Tip

When you redeem your segregated fund contract, in part or in full, before the maturity date or death of the insured person, you lose part or all of the value of some of the important features for which you have paid – so think it through before you cash in early.

Redeeming a Segregated Fund Investment

One of the advantages of investing in segregated funds is their liquidity, or the ease with which they can be redeemed. Typically, you can redeem or surrender your contract for cash in full or in part at any time.

It is important to remember that partial withdrawals affect the cash value of your guarantees. At the contract's maturity date or the death of the insured person, the guaranteed amount typically is based on the amount of the original investment and commission, less withdrawals.

Your timing also has an impact on the amount you receive when you cash in. If you redeem at the contract maturity date or the death of the insured person, you will receive the greater of:

- the amount your contract guarantees you will receive net of any prior withdrawals you have made; and
- the market value of your investment less any withdrawal fees that may apply.

In other words, you will not receive less than the contractually guaranteed amount, and you may receive more if your investment has done well.

You have no such certainty if you redeem all or part of your segregated fund investment earlier than the contract maturity date or death of the insured person, because the contractual guarantees do not apply. You will simply receive the market value of the fund units you are redeeming less any applicable fees, including any deferred sales charges. This may be more than the amount you originally invested, or less, depending on whether the market value of the funds has increased or decreased.

Tip

The tax treatment of segregated fund transfers, redemptions and death benefits can be complicated. Please consult your information folder for details and ask your insurance advisor or company, the Canada Customs and Revenue Agency or a tax specialist to clarify how the tax rules apply to your particular situation.

Tax Treatment of Allocations

Earnings allocated to you by a segregated fund held in a registered account, such as a registered retirement savings plan (RRSP) or registered retirement income fund (RRIF), are not reported or taxed until you withdraw the money from your account. At that point in time, it is treated as ordinary income.

If you hold a segregated fund investment in a non-registered account, you must report and pay tax on earnings in the calendar year in which they are allocated to you. Depending on the type of fund, earnings flow through to individual investors as interest, dividends or capital gains, and you must report them in the same manner. Therefore, you pay tax on interest income from a fund at your highest marginal tax rate, while lower effective rates apply to dividend income and capital gains.

If any segregated fund assets have declined in value and a capital loss is allocated to you, that loss is netted against any capital gains in the year. You may carry a net loss back three years or forward indefinitely.

Tax Treatment of Redemptions and Transfers

If you hold your segregated fund investment in a registered account such as an RRSP, there is no tax payable until you withdraw the money, when it will be taxed as ordinary income.

If, however, your segregated fund investment is in a non-registered account, you pay tax on any unallocated earnings when you transfer or redeem part or all of your investment. Like earnings allocated to you while you hold the fund, they flow through to you as interest or dividend income or capital gains/losses, and are taxed as such in your hands.

Reporting Segregated Fund Earnings

You report and pay tax on segregated fund earnings held in a non-registered account in the same year you receive them. The segregated fund issuer must send you a T3 detailing the amount and kind of earnings you received within 90 days following each calendar year-end.

You report and pay tax on segregated fund earnings held in a registered account such as an RRSP when you redeem your investment.

Tax Treatment of Death Benefits

For registered accounts such as RRSPs, the entire death benefit is taxable as income. The tax is payable by your estate, unless the beneficiary is a spouse, common-law partner or child. Spouses, common-law partners and children may be eligible to transfer the death benefit to an RRSP or other registered plan, allowing them to defer the tax. Otherwise, they report and pay tax on the lump-sum death benefit as income.

For non-registered accounts, any previously unreported earnings are taxable in your hands. They will flow through as interest or dividend income and capital gains/losses and be taxed accordingly.

If the market value of your segregated fund investment is less than the guaranteed death benefit, that difference will likely be taxed as a capital gain. The applicable sections of the Income Tax Act are currently under review and different interpretations of the rules are possible.

8 OTHER SOURCES OF INFORMATION

Before you decide to invest in a segregated fund contract or a specific segregated fund, you may wish to consult other sources of information.

Your licensed insurance advisor can answer many questions. Life insurance companies that issue segregated funds provide toll-free telephone numbers for investors and publish information folders about their funds. They may also provide information about investing in segregated funds on their websites and in booklet form.

Books, magazines and websites about investing, along with the financial pages of newspapers, also may contain useful information.

Life insurance companies, including those that issue segregated funds, are licensed to do business and regulated in terms of their business and consumer practices by the governments of the provinces and territories in which they operate. When the insurer is a federally incorporated company, the federal government regulates their financial practices and inspects them regularly to ensure they are financially sound.

CompCorp (the Canadian Life and Health Insurance Compensation Corporation) only provides coverage for segregated fund policies that contain death and maturity guarantees. The coverage is up to $60,000 per contract owner on the guaranteed accumulated values. For more information contact the Consumer Assistance Centre at 1-800-268-8099 or see the CompCorp web site at www.compcorp.ca.

Consumers with concerns or complaints about a segregated fund issuer should call the industry's **Consumer Assistance Centre (CAC)** for bilingual information and assistance. Call the CAC free of charge from anywhere in Canada: **1-800-268-8099**. In Toronto: **416-777-2344**. www.clhia.ca

The CAC may resolve your problem on the spot or through informal conciliation with the insurance company. Alternatively, it may refer you to the **Canadian Life and Health Insurance OmbudService (CLHIO)**, an independent service that provides free help, in English and in French, to consumers with questions, concerns and complaints about life and health insurance products and services that they are not able to resolve by dealing directly with their insurance companies.

The CLHIO is part of the **Financial Services OmbudsNetwork**, a national industry-based help system for financial services consumers. The FSON is an independent organization endorsed by financial services regulators and sponsored by the financial services industry. To use this system:

- Call your life and health insurance company directly and try to work things out. Ask to speak with the company's consumer complaints handling officer.
- If you cannot work things out with the insurer, call the Canadian Life and Health Insurance OmbudService (CLHIO). Its trained OmbudService officers will talk to you and the insurer and try to find some common ground. If this is not possible, it will make a written, non-binding, recommendation to you and the insurance company. It also has the mandate to publish names of member companies that do not comply with its recommendations. Visit the CLHIO website at www.clhio.ca, or call the CLHIO from anywhere in Canada: **1-888-295-8112**. In Toronto: **416-777-9002**.
- For information and a referral, call the **Centre for the Financial Services OmbudsNetwork** from anywhere in Canada: **1-866-538-3766**. In Toronto: **416-777-2043.** www.cfson-crcsf.ca

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