Tax, Retirement &
Estate Planning Services

INVESTMENT INSIGHT

Protect your legacy[1]

Take advantage of segregated fund contracts to empower your bequests

Arranging the smooth transfer of assets to heirs can be a challenge for a number of reasons. The first relates to time. Often, probate is required before a deceased's instructions can be carried out and their beneficiaries receive their inheritance – and the process of obtaining probate can be a lengthy one, frequently taking between three to nine months.

Second, probate and estate fees may significantly erode the value of an estate, diminishing the amount of money beneficiaries receive. Third, many investors want to protect the privacy of their bequests, but the probate process leaves the details of an estate open to public scrutiny. In addition to disclosing one's financial assets, this may expose beneficiaries to fraud and provoke conflict among loved ones.

Finally, your heirs will likely be dealing with a powerful mix of emotions throughout the estate settlement process. It is very important to develop a plan that minimizes hurt feelings and family discord.

Failing to take into account one or all of these four factors – time, expenses, privacy and emotions – may lead to unnecessary delays, financial consequences and disputes. However, there are steps you can take to help your loved ones receive their inheritance quickly, cost-effectively, confidentially and with minimum strife.

SARAH'S SITUATION

Let's look at a specific example. Sarah, a 70-year-old widow, makes a $200,000 investment in a mutual fund today. Three and a half years from now, she passes away at a time when the fair market value has declined by 10 per cent. Her investment is now worth $180,000. Because Sarah bought the fund units using the deferred sales charge (DSC) option, her investment will be charged 4.5 per cent on the value of her original deposit – or $9,000 – in fees (when paid out to her estate).

Probate and estate fees vary by province and depend on the complexity of the estate. Let's assume that the probate fees and the amounts that must be paid to an executor, an estate lawyer and an accountant will cost about 2.5%. Together those expenses add up to $4,275.

So Sarah's beneficiaries will receive just $166,725, and their inheritance will be paid to them months down the road. Additionally, because the will becomes part of the public domain through probate, heirs may end up arguing among themselves about what was given to whom.

[1] This article applies to all provinces other than Quebec. For Quebec residents, refer to the Quebec edition, MK1938.

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LYNN'S LEGACY

On the other hand, naming a beneficiary other than one's estate directly for a segregated fund contract means that the death benefit will flow outside of the estate and avoid probate. This helps preserve a client's confidentiality[2], allows for a quicker death benefit payout – usually within two weeks of written notification of death and claims documentation having been provided in good order – and can result in significant savings to an estate.

For example, let's say that Sarah's twin sister Lynn chooses to invest $200,000 in Manulife Ideal Signature Select™, a segregated fund contract, and names a beneficiary(ies) on the policy. She, too, dies three and a half years later and her contract's market value has also decreased to $180,000. Her investment bypasses probate and Manulife, as a matter of policy, waives the DSC. Furthermore, Lynn's deposits have a minimum 100 per cent death benefit guarantee (proportionally reduced for withdrawals), so any drop in fair market value won't affect the amount her beneficiaries receive.

In Lynn's case, the death benefit guarantee is $200,000. That's $33,275 more than Sarah's $166,725, and Lynn's beneficiaries should receive this sum from the insurance company within a couple of weeks of written notification of death and provision of claim documents in good order. Also, Lynn's privacy[2] as well as that of her beneficiaries' should be protected from the curiosity of strangers and other heirs, reducing the potential for financial abuse by unscrupulous individuals and family disagreements.

[2] In Saskatchewan the advantage of preserving a client's confidentiality does not apply as jointly held property and insurance policies with a named beneficiary are identified on the application for probate despite the fact that these assets do not flow through the estate and are not subject to probate fees.

Are you expecting to give or receive an inheritance?

	Sarah's Mutual Fund Investment ($)	Lynn's Segregated Fund Investment ($)
Original Investment	**200,000**	**200,000**
Fair Market Value in Fourth Year	180,000	180,000
Value of Death Benefit "Top up"	N/A	20,000
Deferred Sales Charge Fee (4.5%)[3]	-9,000	N/A
Probate and Estate Fees (2.5%)	-4,275	N/A
Net Proceeds	**166,725[4]**	**200,000**

For illustration purposes only.

INTERESTED IN LEARNING MORE?

By incorporating segregated fund contracts into your estate plan, you can better protect the confidentiality of your beneficiaries and help them realize significant savings. Moreover, the death benefit guarantee and capacity to avoid probate and estate administration fees help ensure that more assets are transferred to loved ones – which is often the most important objective of many estate plans.

Beyond what was mentioned in this article, segregated fund contracts offer a number of other benefits. For example, if a beneficiary of the family class[5] is named, the death benefit is generally protected from the owner's creditors during his/her lifetime.[6] The death benefit is excluded from the owner's estate as it is paid directly to the beneficiary, placing it beyond the reach of the owner's creditors.

For more information on this and other benefits, make the time to talk to your advisor today to find out whether segregated fund contracts have a place in your estate plan.

[3] Many fund companies, including Manulife Investments, may waive the DSC or low-load sales charge on the death of the owner. [4] DSC is calculated based on the original cost. Other estate fees are based on the value of the investment less DSC charged on the redemption. [5] In provinces other than Quebec, a family class beneficiary is the spouse, child, grandchild or parent of the annuitant. In Quebec, it is the spouse, descendents or ascendants of the owner. [6] Creditor protection is not absolute and may be nullified where a fraudulent settlement or claim for dependant's relief has been made.

For more information contact your advisor
or visit manulife.ca/investments

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