Are segregated funds right for an 85-year-old?

Seg funds carry very high fees. Buyer beware

by Janet Gray May 13, 2018

Q. I am 85 years old. Is a segregated mutual fund with an insurance company with an average management expense ratio (MER) of 3.8% a good idea in RIFs ($220,300) and in non-registered mutual funds ($301,000)? Thank you for your reply.

– Bernice

A. Thanks, Bernice for this great question. First of all, it's important to confirm exactly what a Segregated Fund is. Simply put, a seg fund is an investment inside an insurance product and sold only by licensed insurance agents. The management expense ratio (MER) of a seg fund is higher because it covers the fee for the investment as well as the fee of the guarantees. There are often also fees (higher in the early years of ownership) if you want to transfer out of the seg fund. I outline a few more pros and cons of these products below:

The pros and cons:

Seg funds have their positive side. They have a maturity guarantee, (usually after 10 years of owning it) which guarantees you either 75% or 100% of your original seg fund investment amount even if the markets have declined and your amount has reduced. The death benefit guarantee will protect the value of your investment even if the value is decreased at your death. And probate fees can be avoided at death because assets can be passed directly to your beneficiaries. Seg funds will offer creditor protection if you declare bankruptcy. And yes—they work within RIFs or no-registered accounts.

The bad news is the seg funds' high MER of 3.8%. That's very high when you consider that the average actively managed mutual fund MER in Canada is 2.35%—and many index fund investments can be had that have MERs of less than 0.5%.

I suggest you look for a lower MER fee product and make sure your risk tolerance and timeline are taken into account. This is necessary to get better value for your investment savings. It’s also important to include your legacy wishes and tax planning strategies for now and at death, and whether you truly have a need for life insurance.

The bottom line?

I don’t feel segregated funds would be the best option for you. Instead, consider speaking to a financial planner for a larger picture of your current and future financial situation so you can make a balanced and informed decision on both your registered and unregistered investments so they last a lifetime.