PEI Business Federation
"Non Profit Organization dediciated to PEI Business"

Segregated Funds vs. Mutual Funds

Comparison: The following chart summarizes many of the important differences and similarities between Segregated Fund insurance products and Mutual Funds.

	Segregated Funds	**Mutual Funds**
Overview	Your net premiums are invested in the segregated funds of an insurer which, in turn, invests in securities such as stocks, bonds and money market investments. Segregated Funds are insurance products.	Money is pooled and invested on behalf of unit holders in securities such as stocks, bonds and money market investments.
Regulated by	Provincial Life Insurance Acts	Securities Legislation
Capital Growth Potential	Yes	Yes
Track unit value in the newspaper	Yes	Yes
Diversify investments	Yes	Yes
Financial Protection	At death and maturity, premiums minus withdrawals are usually guaranteed, between 75% and 100%.	No guarantees on investment performance. Theoretically, you could lose everything.
Death Benefit	Beneficiaries receive either the guaranteed death benefit or the market value depending on which is greater.	The estate or beneficiaries [2] will get the market value only – there are no guaranteed minimums.
Probate Protection	At death, proceeds can be paid directly to a named beneficiary, avoiding the estate administration process, and the cost of probate fees.	At death, proceeds are an asset of the estate and are subject to the estate, administration process and legal fees. It could be some time before the estate can distribute the mutual funds.
Creditor Protection	Designations in favour of a parent, spouse, child or grandchild may result in the insurance money being exempt from seizure. This is sometimes referred to as "creditor protection". The money cannot have been deposited as: • Part of a fraudulent conveyance (transferring money to keep it out of reach of existing creditors). • Within a specific time period before bankruptcy	No protection against the claims of creditors.
RRSP Eligible	Yes	Yes
RESP Eligible	Yes – only one company though	Yes
Taxation Implications for non-registered investments	You are only taxed on the income you actually receive. Taxation is based on how long you own the Segregated Fund units within the income period. • E.g. if you buy units one day before the fixed date, you are only assessed for one day's income. The unit seller is assessed for income made before the end date. You can use capital losses to offset capital gains from other sources. For accounting purposes, acquisition fees are excluded from the adjusted cost base and treated separately .	You could be taxed on income you never received. Taxation is based on who owns the mutual fund units on a given date at the end of the income period. • E.g. if you buy units one day before the end date, you are assessed for all income earned in that period, even though you did not benefit from that income. Capital losses must be carried forward by the fund and are not allocated to you, the unit holders. Acquisition fees are included in the adjusted cost base.
Under what circumstances might these be more suitable?	Non-registered or registered funds. Investors approaching retirement. Investors who like the security of guarantees. Business owners who want creditor protection.	Non-registered and registered funds. Investors who want a wide variety of specialized fund choices in their investments. Investors willing to give up guarantees for potential increased returns.

1. Segregated funds are individual variable insurance contracts that are regulated under the Life Insurance Act.
2. Only applies to registered contracts.