

ESTATE/PERSONAL PLANNING

SPECIAL MARKETING FEATURE



Michael Aziz of Desjardins Financial Security says insurance-related investments will protect capital.

Insurance as an investment

Michael Aziz has a wealth of cautionary tales about the wisdom of including insurance-related investment products in any estate, large or small. As regional vice-president for Desjardins Financial Security, helping men and women create security for themselves and their loved ones is his business.

The two main benefits of insurance-related investment vehicles are indisputable, he points out. The first is that investors get to name a beneficiary and, after death, the proceeds go with great speed — usually within three to five days after a death is reported — directly to that beneficiary or your favourite charity. No waiting to settle the estate and no probate taxes.

The second is that insurance-related investments can provide the immediate cash that is often vital immediately following a death.

If, for example, a home, cottage or any other property is involved, the heirs may face the burden of having to make mortgage payments and pay operating costs out of their own pockets until bank accounts can be unfrozen or assets distributed. “So many times I have seen situations where the lack of cash imposed tremendous burdens on the loved ones left behind,” Mr. Aziz says. “Just a bit of forethought could have prevented the situation.”

“It just makes enormous common and financial sense to include investments that both protect the capital

and ensure a speedy passage of cash to loved ones,” he says.

Desjardins offers a variety of insurance-related investment products, he says. They fall into two main categories: Guaranteed Investment Funds (GIFs) and Guaranteed Investment Accounts (GIAs). Each has a role to play in estate planning; each is readily available and each is supremely affordable, Mr. Aziz points out.

GIAs, for example, can be purchased for as little as \$500, while GIFs require only a minimum \$500 investment.

GIAs are simplicity itself to understand, Mr. Aziz says. They are the equivalent of Guaranteed Investment Certificates. They carry similar interest rates, are sold in similar denominations and for similar terms. Their great advantage, however, is that they can also carry a named beneficiary who receives full payment on the death of the registered owner.

They also allow holders to maintain control over the investment during their life while immediately benefitting a loved one on their death.

GIFs are more sophisticated products combining the ability to secure the face value of the original investment while, at the same time, participating in any rise in financial markets.

Structured similar to mutual funds, with funds specializing in Canadian equities, bonds, U.S. equities and others, investors buy units but then have a number of options to choose from. The first is to name a beneficiary, who, as with insurance policies, will receive the proceeds of the investment within days of the original buyer's death. Next comes the ability to choose among a range of options to both secure the principal amount invested.

Most commonly, GIFs offer a guarantee that a minimum of 75% of the

Beneficiaries will get the proceeds within days of the investor's death

original policy deposit will be passed on at death and a minimum 75% of the policy value will be paid out should the buyer wish to sell after 10 years.

If the markets are up and the funds are worth more than the purchase price, then that value is what both beneficiaries and investors receive. The point is they will never receive less than 75% of their original deposit (less any withdrawal) “We have gone several steps further at Desjardins,” Mr. Aziz says.

“We now offer funds that guarantee 75% minimum after 10 years and 100% on death, and funds that offer complete 100% protection for both buyer and beneficiary.” The additional cost of guaranteed funds is surprisingly small, he says.

Depending on the level of risk implicit in the investment area, that additional fee can range from as little as 0.05% to 0.5% on top of management fees. “The benefits are considerable, especially in estates,” Mr. Aziz says.

“Death can't be timed. The estates which are almost entirely in equities or traditional mutual funds can see their value considerably reduced if death occurs during one of those periodic market downturns.

“The beauty and great value of GIFs, however, is that they deliver all the potential benefits of investing in mutual funds while protecting against the downside.”

Desjardins offers one more option: a Guaranteed Minimum Withdrawal Benefit. This option allows investors to get a regular set income stream from their GIF over periods of at least 15 years. Invest \$100,000 and the next 14 years brings 7% a year and 2% in the final year.

“We also offer an option that delivers 5% a year for life,” he says. “Invest \$100,000 at age 65 and you are guaranteed \$5,000 a year no matter how long you live.”

It is the perfect solution for those who do not have independent or corporate pension plans, Mr. Aziz says.