

# A pitch for investment security

## 'Finsurance' from Manulife will guarantee your principal, but it's not cheap

Worried that your retirement savings will expire before you do? Enter Manulife Investments, which will be happy to sell you – through your financial adviser – some "finsurance" to secure your peace of mind.

As of Oct. 23, the insurance and financial-services giant has been marketing Income Plus, Canada's first guaranteed minimum withdrawal benefit fund, a category that has become increasingly popular in the United States in recent years, with some \$350 billion (U.S.) in assets.

Aimed at baby boomers near or at retirement age, this new product niche in Canada is expected to capture \$28 billion (Canadian) to \$54 billion in assets within five years, says Roy Firth, executive vice-president of Manulife Investments. Other Canadian insurance companies are expected to launch similar products in the coming years, he says.

"Our primary market is those people within 10 years of retirement, late savers, people approaching retirement who realize they haven't saved enough. They need security and they can't afford some bad years," as might happen in higher-risk investment portfolios.

"More and more Canadians are very vulnerable as they approach retirement. They find it increasingly difficult to create a monthly retirement income that is predictable, sustainable and potentially able to grow."

For a minimum investment of \$50,000, the product guarantees the return of principal of up to 5 per cent a year in monthly payments for at least 20 years. The money is invested in segregated funds selected to match the investor's individual risk profile, chosen from those offered by companies such as CI Investments, AIM Trimark and Mackenzie Investments.

Every three years, the amount of an investor's monthly guaranteed withdrawal benefit is "reset," and increased accordingly if the underlying segregated funds investment has performed well. By purchasing the product up to 10 years before withdrawals begin, investors can lock in a minimum income bonus of up to 50 per cent.

"You can contribute today and start withdrawing tomorrow if you want to," explains Firth, though he adds that the amount of your 20 years of monthly payouts will increase the longer the money is invested without withdrawals. For each year that regular withdrawals are deferred, up to 10 years, the guaranteed withdrawal benefit is increased 5 per cent.

Income Plus is designed to protect investors within the "retirement risk zone" from the potentially devastating impact of losing capital during a market downturn within five to 10 years before or after they start drawing down their savings. This vulnerable group will never be able to recover what they've lost by waiting for later upturns in the market, says Firth.



Manulife Investments executive vice-president Roy Firth, surveying headquarters in Waterloo, is touting a new product targeted at investors near or at retirement age.

Firth points to research by Moshe Milevsky of York University's Schulich School of Business and Thomas Salisbury of York's department of mathematics and statistics. The timing of returns and losses during the life of an investment portfolio are critical during the payout phase.

"The impact of the sequence of returns changes everything," explains Firth, who says Income Plus allocates holdings to reflect these timing concerns.

Income Plus is a very tax-efficient product because the payouts are viewed by Canada Customs and Revenue Agency as a return of principal, so are not taxed as interest or capital gains, adds Firth.

And because the product is from an insurance company, the assets held in Income Plus are shielded from personal liability claims or bankruptcy action, according to Manulife's literature.

Upon your death, the principal is returned to your survivors, allowing them to avoid the probate and other legal fees routinely involved in the post-death transference of a regular investment portfolio, the company says.

Income Plus may have some attractive features, but this "finsurance" doesn't come cheap, cautions David O'Leary, manager of fund analysis for Morningstar Canada, who has evaluated the offering.

"It really is a combination product. It's sort of like insurance wrapped around an investment product," says O'Leary. "There is a cost to it." Segregated funds, he points out, often have higher management expense ratios, typically 50 to 60 one-hundredths of a percentage point higher than mutual funds because of the guaranteed return. "You really have to understand the cost. If it's not right for you, you are really paying a lot for it."

O'Leary studied the product for a Morningstar analysis.

"Income Plus serves a useful function, but it isn't magic," he wrote. "It simply combines some of the benefits of an annuity with those of a segregated fund.

Although the plan boasts that it guarantees the investor's principal, it does this through payments over the course of at least 20 years." That delay makes a big difference, he argued.

"Simply receiving your money back after tying it up for 20 years shouldn't comfort many investors. Inflation alone will ravage the portfolio's value if it earns nothing for such a long period of time."

On the other hand, O'Leary says, some investors will cherish the security — however pricey — Income Plus offers.

"It's hard to put a price on being able to sleep at night."

Beth Marlin — Special to the Star, Nov. 30, 2006.

Photo provided by Stuart Nimmo