SUCCESSION ARTICLE
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OPPORTUNITY KNOCKS

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Over the last two years one of the most popular investment products has been the Guaranteed Investment Fund offered by life insurance companies. These plans provide minimum guarantees at death and at maturity. Some of the plans also allow you to reset the minimum guarantee periodically. These plans have taken the investment industry by storm, garnering a significant market share.

The mutual fund companies themselves, such as CI, AGF and Mackenzie have partnered with life insurance companies to offer these products, with the mutual fund companies providing the investment management and the life insurance companies providing the guarantee.

What Is The Guarantee?

The guarantee, which can vary by company, provides that the life insurance company guarantees, at death or at maturity (which must be a minimum period of 10 years), 100% of the capital invested less any withdrawals. If the fund provides for a reset feature, the owner, at his/her option, can elect to reset the guarantee based on an increased fund value. As a consequence, the maturity will be 10 years from the date of the reset. Each company has their own rules with regard to reset features.

Again, the cost of this guarantee varies by company, but ranges from 1⁄4 to 3⁄4 of a percent annually.

Example:

A client of ours purchased a Guaranteed Investment Fund in the amount of $400,000 in July of 1999. The fund value increased to $520,000 on March 3, 2000. The policyholder reset the guarantee on that date. In April the policyholder passed away at a time when the value was $480,000. As the client had reset the guarantee at $520,000, this is the value that was payable to the estate.

Opportunity:

Until now these funds have not been included in minimum capital requirements, which life insurance companies must maintain. This capital requirement is set by the Office of the Superintendent of Financial Institutions to

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ensure a company has enough capital to cover the risks on its books. The Federal Regulator is planning to announce a new capital requirement for guaranteed investment funds by September. In a nutshell, what this means is that the life insurance companies will have to increase reserves, and in all likelihood increase the cost of providing these guarantees.

For mature clients over age 60, we certainly feel that this is an excellent investment option. We would suggest setting up an account prior to any rule changes.

These plans continue to have the advantage of bypassing probate and creditor protection afforded life insurance policies, if individually owned.

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