Segregated Funds vs Mutual Funds: What are the differences?

Get to know the fundamental differences and learn which product is right for you.

Segregated funds and mutual funds share some key benefits, such as:

> They're both professionally managed investment funds that pool financial contributions from investors.
> Both can be invested in a variety of products including RRSPs, Non Registered, TFSA, RIF, LIRA and LIF.
> Generally speaking, you can redeem your investments and get current market value at any given time.

But, there are also some fundamental differences:

> Only life insurance companies offer "seg" funds. The name derives from the fact that funds are held separate from the general assets of the company.
> Seg funds guarantee all or most of your principal investment upon maturity or death. Mutual funds generally have no guarantees at all.
> Seg funds are considered an asset of the insurance company and held in trust for the investor. That means you're protected against the insolvency of the insurance company, something mutual funds can't offer.

Which solution is right for you? Take a closer look at the differences.

Segregated Funds	
Benefits and guarantees	Your principal investment has a maturity or death benefit guarantee of 75% or 100%, depending on the level of protection you choose.
Protection from market volatility	Seg funds are susceptible to market fluctuation, but your maturity and death benefit guarantees give you extra protection.
Automatic resets	Depending on your age at purchase and your guarantee level, seg funds have a death benefit reset to protect your investment growth in the event of a premature death.
Estate planning	Both RRSPs and non-registered segregated funds with a named beneficiary are not subject to probate.**
Creditor protection	Seg funds are life insurance contracts. In the event of a lawsuit or bankruptcy, with an appointed family member as the beneficiary, your funds may be protected from creditors. This is especially important for business owners.

Mutual Funds	
Benefits and guarantees	There are typically no maturity or death benefit guarantees on mutual funds.
Protection from market volatility	Most mutual funds are affected by changes in the stock market. If the markets perform poorly, you could end up with a lot less than you started with.
Automatic resets	Mutual Funds don't have a maturity or death benefit guarantee, so this isn't an option.
Estate planning	Only RRSPs with a named beneficiary are not subject to probate.**
Creditor protection	Mutual funds have no protection from creditors except in limited circumstances.

**Note: After someone dies, their estate is subject to probate, which is the legal validation of their will. Probate or estate administration fees can be as much as 1.5% of the estate in some provinces. During probate, assets are frozen to bypass probate not only saves up to 1.5% of assets, it also relieves the burden on family of having to possibly go through a lengthy and complicated process to access funds.

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