

Your Guide to Financial Services



*An overview of Canadian
financial products and services*



CANADIAN BANKERS ASSOCIATION

Building a Better Understanding

On behalf of the banking industry, the Canadian Bankers Association has embarked on a program called Building a Better Understanding. This is our commitment to communicate better and to provide useful financial information to Canadians.

As part of the program, we are offering a free series of publications, ranging from money management and interest rates to mortgages, starting a small business and saving for your children's education. To obtain copies, call toll-free 1-800-263 0231 or visit our web site at www.cba.ca. You can also order by writing to Building a Better Understanding, c/o Canadian Bankers Association, Box 348, Commerce Court West, 199 Bay St., 30th floor, Toronto, Ontario M5L 1G2.

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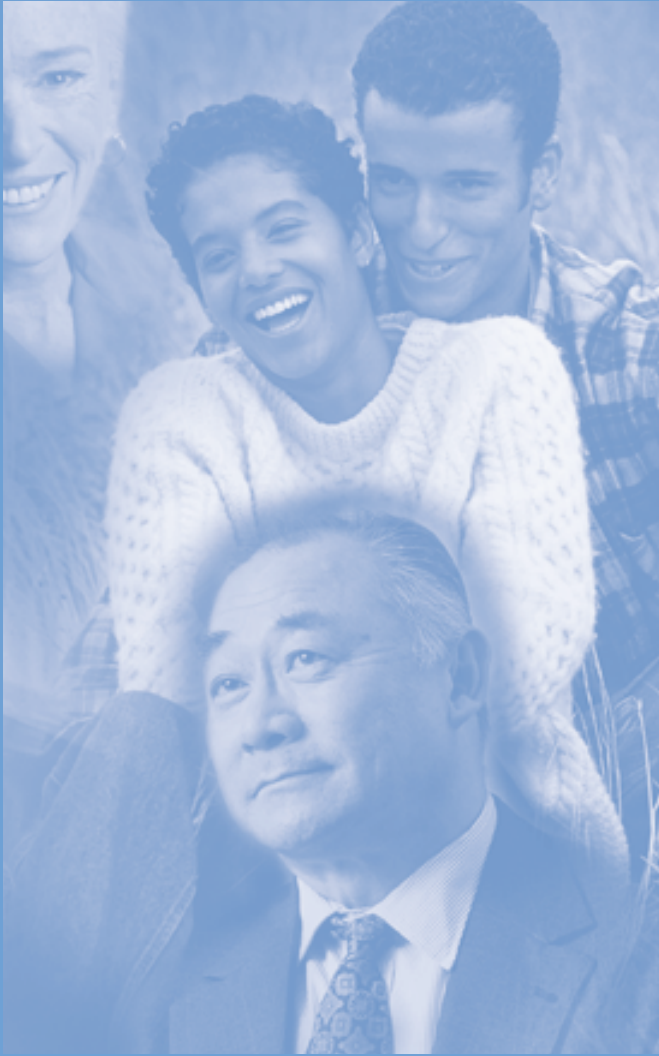
These publications are also available in alternative formats for people who are partially sighted or have limited vision.

La version française de cette brochure est disponible sur demande.

This booklet gives information of a general nature and is not intended to be relied on by readers as advice in any particular matter. Readers should consult their own advisors on how this information may apply to their own circumstances.

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Here's an up-to-date guide for financial consumers that simplifies the many offerings in today's marketplace.

Introduction

You'd be hard pressed to find an industry that has undergone as much change in the past decade as financial services. From automated banking machines, debit cards and telephone and Internet banking, to new investment and insurance options, to legislation that has allowed financial institutions to offer a whole new range of products and services – our industry is on the move.

Sometimes moving this quickly presents a challenge when it comes to keeping our customers informed. We know that there's no shortage of material on individual products and services. But there hasn't been a comprehensive, up-to-date guide for financial consumers that simplifies the many offerings in today's marketplace.

The Canadian Bankers Association hopes to bring it all together by publishing *Your Guide to Financial Services*. First we look at the many players offering financial services. Then we provide a snapshot of commonly used products and services, along with a few that may be a bit more obscure. Keep in mind that all players have different products and services, so you'll need to check out which companies offer what.

To help you target the areas you find most valuable, we have organized the services into five categories:

- Day-to-day banking;
- Credit;
- Insurance;
- Investments;
- Wealth management, retirement and estate planning.

This booklet was designed with you, the Canadian consumer in mind, and we hope it finds a place on your shelf as a handy reference guide. If you're in the market to buy a financial product or service, remember that there is plenty of choice and the market is highly competitive, so shop around. It will be to your advantage.

Financial Services in Canada



What are financial services?

Financial services encompass everything from cheques, credit cards and mortgages to financial planning, insurance and securities; in other words, everything to do with your financial affairs.

With over 550,000 people in the financial sector, it plays an important role in our economy and:

- acts as an intermediary between savers and borrowers;
- sources funds for borrowing and financing;
- facilitates payments and exchange (which involves directing the flow of funds between individuals, businesses and their financial institutions);
- protects and manages assets;
- provides counselling and advice to help people and businesses manage their finances and financial risks.

In the past, legislation dictated which functions financial institutions could perform. Back then, Canada's financial system was divided into four distinct pillars – banking, insurance, securities and trust services. Participants in each of these “pillars” were generally confined to offering products and services within their respective core businesses. Many of these legislative barriers have been removed, allowing increased competition.

The financial services industry continues to evolve, creating new products and services that meet the growing and diverse needs of Canadians.

Who are the players?

Today there are over 3,000 individual institutions offering financial services. Banks, trust companies, credit unions and caisses populaires, insurance companies, mutual fund firms, pension funds, investment dealers, mortgage and loan companies compete to offer Canadians a range of solutions. They may be as simple as a basic savings account or as sophisticated as wealth management and estate planning. Some players offer a full range of products and services, while others specialize in specific areas.

Banks: Up until the mid-20th century, the bank's main function was to act as society's "financial intermediary," pooling the funds of savers through deposit-taking and making them available to borrowers. While their core services are still deposits and loans, banks have expanded to offer hundreds of different products and services to a diverse clientele. Offerings include basic savings and chequing accounts, RRSPs, money orders, foreign exchange, letters of credit, mortgages, financial planning, insurance products such as creditor life insurance and investment products.

Banks in Canada are federally regulated and governed by the Bank Act, which establishes the legislative framework for the banking system. Banks are categorized as either Schedule I or II. The main difference between the two is ownership. The shares of Schedule I banks must be widely held, which serves to restrict any one shareholder or group from having control over a bank. Schedule I banks include The Bank of Nova Scotia, National Bank of Canada, Royal Bank of Canada, Bank of Montreal, Toronto Dominion Bank, CIBC, Laurentian Bank of Canada and Canadian Western Bank. The shares of Schedule II banks, on the other hand, are closely held (by foreign banks or other eligible financial institutions). Examples include HSBC Bank Canada, Banca Commerciale Italiana of Canada, Amex Bank of Canada and Citibank Canada. Following legislative changes in 1992, banks were allowed to own insurance, trust and securities subsidiaries. Today most of Canada's large banks have subsidiaries in these areas.

Credit Unions and Caisses Populaires: These are deposit-taking financial institutions that provide a wide range of products and services that may include savings and chequing accounts, mortgages, traveller's cheques, personal loans, RRSPs, savings bonds, debit cards and mutual funds. Credit unions operate under provincial legislation and regulations. A distinguishing characteristic between them and banks is that they are member-owned; every member owns at least one share and has a say in the overall direction. Membership is often based on common bond of association, such as a profession, place of employment, geographic community, religion or cultural background. The services offered by any single credit union or caisse populaire will vary depending on the unique needs of its membership. Examples are les Caisse Populaires Desjardins de La Pocatière, Saskatoon Credit Union, Newfoundland and Labrador Credit Union and Duca Community Credit Union Ltd.

Trust Companies: These depository institutions offer many similar products and services as banks, such as mortgages, chequing accounts and loans, as well as investments. A trust company specializes in offering fiduciary services which include estate planning, investment administration, setting up trusts, preparing wills and executor assistance. As "trustees," they can also manage assets placed in trust for charitable causes, pension plans and other purposes. Examples include Royal Trust, Canada Trust, Desjardins Trust Inc., and Community Trust Company Ltd.

Insurance Companies: These companies specialize in life insurance or general insurance such as property and casualty (e.g., home and auto insurance). They can also offer a broad range of financial products and services to both individuals and corporations, including pension fund management, mutual funds and registered products such as RRSPs and RRIFs. Examples are Aetna Life Insurance Company, The Dominion of Canada General Insurance Company, Manulife Financial and Assurances Générales des Caisses Desjardins Inc.

Mortgage Loan Companies: Very specialized, they are mainly in the business of taking deposits and granting

loans to individuals and businesses. Their main lending activity is residential mortgage loans. Examples are Victoria & Grey Mortgage Corporation and League Savings and Mortgage Company.

Finance Companies: Finance companies mainly engage in extending financing to individuals or for business operations. There are various types of finance companies in Canada and they can be specialized by activity/industry or they can be diversified. Consumer loan companies offer cash lending directly to individuals (eg., Avco Financial Services Canada Ltd, Trans Canada Credit Group). Business financing companies can provide financing for equipment, inventory, sales, facilities and small business ventures. For instance, venture capital companies like Accolade Capital Inc. and BCE Capital Inc. primarily offer financing for new, high-growth companies. Financial leasing companies, including Commcorp Financial Services Inc., provide machinery, equipment and car leasing. Diversified companies like Newcourt Credit Group are involved in financing a range of commercial activities (export trade, commercial mortgages, etc.).

Securities Dealers or Brokers: Their business revolves around the trading of securities for clients. Many investment dealers perform a host of other financial services including underwriting (which involves facilitating the issue of new stock and debt such as bonds), fund management, offering financial advice, particularly on acquisitions/mergers and corporate restructurings. There is a distinction between “discount” and “full-service” brokerage houses. The former simply executes securities trades for clients (without giving any advice), whereas the latter offers wealth management services, which include research services and portfolio analysis. Research Capital Corporation, Yorkton Securities Inc. and Nesbitt Burns are examples of full service brokers. All of the major banks have discount brokerage operations.

Investment Intermediaries: There are investment intermediaries whose primary role is investing in a portfolio of securities and other investments on behalf of their shareholders/unitholders. They range from investment companies, mutual funds and mortgage companies to trustee pension funds, retirement savings funds and segregated funds. Examples of investment intermediaries include Templeton Management Ltd, Beutel Goodman & Company Ltd. and Fonds Des Professionels Du Quebec Inc.

Independent Financial Advisors/Companies and Many Accounting Firms: A range of financial planning services is also available through these advisors and organizations. They offer customized financial plans, help with planning your estate and retirement, and provide strategies for minimizing your taxes.

Government Lending and Savings Institutions: Government participates in a significant way as a financial-type intermediary. Examples include the Province of Ontario Savings Office, Alberta Treasury Branches, the Business Development Bank of Canada and the Farm Credit Corporation. A feature of government lenders is that they typically work toward filling credit gaps in the financial system, sometimes for groups representing higher levels of risk.

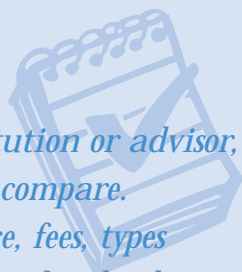
Other Credit Providers: There are a number of other companies whose main business is not the provision of financial services but nevertheless they offer their customers a limited range of credit and charge products. Most people will be familiar with credit cards offered through retailers (e.g., Canadian Tire, Eaton's); similar products are available through a range of companies.

TIP:

When choosing a financial institution or advisor, make sure you shop around and compare.

Consider reputation, convenience, fees, types of services available, and your comfort level.

Also keep in mind that many people use the services of more than one company to help them manage their financial affairs. For instance, you can use one institution for savings, one for a mortgage and another for investments.





Day-to-day banking

Our “day-to-day” banking needs range from personal accounts for money to cheques and client cards to safety deposit boxes and money orders. Banking services basically offer you ways to safeguard and manage your day-to-day money. You can do your banking not only at banks, but at trust companies, credit unions and caisses populaires. Let’s look at the many products and services available to consumers.

Accounts: A personal account (also called a deposit account) is where you deposit your money. More than just safekeeping your funds, a personal account lets you cash cheques, withdraw funds, pay bills, transfer money and receive interest. Financial institutions give their accounts different names – often based on marketing considerations – but generally there are three types of personal accounts:

- **Savings Account:** provides safe storage for money and pays interest.
- **Chequing Account:** popular and practical, this account is for money you need from day to day like paying bills and other expenses.
- **Combination Account:** part savings and part chequing, this account may pay interest on deposits.

Your
Financial
Needs

Service charges and flat-fee plans vary according to the financial institution.

Automated Banking Machine (ABM): This self-service machine lets you conduct routine banking transactions. Using a client card and confidential Personal Identification Number (PIN), banking machines can make withdrawals and deposits, transfer money between accounts, access international networks, make cash advances, update records and pay bills. Accessible 24 hours a day, ABMs are everywhere – bank lobbies, grocery stores, airports and shopping malls, just to name a few.

Bill Payment: Utility bills, taxes and credit card bills can be paid through this service at your financial institution. If you have regular monthly bills, such as a loan or telephone bill, you can arrange a pre-authorized payment plan. This automatically releases regular payments from your account on specified days.

Cheques: If you have an account with chequing privileges, you can write cheques to others as a way of paying for goods and services. A cheque is a written order to the financial institution to pay a specific amount of money from your account to the party named on the cheque. If you write a cheque to someone who wants a guarantee that the funds are available, you can have the cheque “certified.” The financial institution withdraws the specified amount of money from your account when you arrange for the cheque and guarantees that the money is available for the person to whom you are writing the cheque.

Client Card: The client card (also known as a banking card or debit card) is the “key” that identifies you as account holder and gives you quick and secure access to your funds through automated banking machines (ABMs) or retailers with *Interac* Direct Payment terminals. It is used in combination with a confidential Personal Identification Number (PIN). This number is a security measure to ensure that only the intended customer has access to his or her account.

Direct Deposit: This service provides a direct transfer of funds electronically from governments or employers to a specific

account. The customer is automatically credited with the money that is due. Direct deposit ensures instant access to your money.

Foreign Currency Exchange: Foreign currency exchange is the changing of money from one country's currency to another. It is a service offered by a wide variety of financial companies.

Funds Transfer: This is when funds are transferred between accounts held by the same customer. You can arrange this yourself or have it done automatically without visiting your branch. Transfers can be done via an ABM, telephone banking, the Internet or pre-approved payment.

Interac Direct Payment: When you have a banking or client card (i.e., debit card), you can use it to pay for purchases. Retailers offering *Interac* Direct Payment (IDP) have a point-of-sale terminal where you swipe your card and key in your personal identification number to authorize the automatic transfer of funds from your account to the retailer's account. IDP is a safe and secure way of handling your money.

Money Orders and Drafts: These instruments direct your financial institution to pay a specified amount to the person/organization named on them, offering a secure way to send money.

Night Depositories: The night deposit service is like a nocturnal cash box. Customers can deposit cash or drop off important financial documents by placing them in a special sack supplied by the bank. This sack can then be placed in a specified locked chute or wicket at the branch 24 hours a day, 7 days a week and accessed by a branch employee with a special key.

Overdraft Protection: If a cheque is issued without enough funds in the account to cover it, the customer risks having the payment refused and being charged an administration fee by their financial institution. With overdraft protection, the financial institution covers the amount overdrawn in a chequing account by advancing the funds (usually up to specified limit).

PC/Internet Banking: This service allows you to conduct banking activities such as transferring money between accounts or paying bills from your personal computer. There are two ways – through a direct computer connection to your bank using its software or through your bank's web site.

Private Banking: This personalized banking service is offered to high net-worth individuals with complex credit and investment needs.

Safety Deposit Boxes: A secure place to deposit valuable objects or important documents. These items are placed in private boxes housed in the vault of the financial institution and under the exclusive control of the customer. The financial institution has only one of the two keys needed to open the box; the customer has the other. Without both keys, the box cannot be opened.

Safekeeping of Valuables: Usually offered on a temporary basis, this service allows customers to leave valuables such as share certificates, bonds and investment certificates in the vault of the financial institution.

Stop Payment: By giving the financial institution an order to cancel payment of a cheque, automatic transfer or direct deposit, you can reverse a previous order (i.e., you are “stopping” payment).

Telephone Banking: A service that offers customers the convenience of using the telephone (at home, office or other location) to conduct a range of banking activities 24 hours a day.

Traveller's Cheques: A payment instrument that allows you to carry funds in different currencies, including Canadian. Similar to a cheque, traveller's cheques are accepted around the world much like cash. Issued in various denominations, when signed by the holder, the payee provides change in the local currency or lets you buy goods or services. These are a safe way to carry large amounts of money because they can be replaced if they are lost or stolen.



Credit

During our lifetimes, most of us need to borrow or access money, generally through financial institutions or loan companies. The borrowed funds must be repaid in full, usually in installments and with interest. Because lenders incur risk, they must charge a corresponding rate of interest based on that risk.



Common types of consumer credit, including personal loans, credit cards, lines of credit and mortgages, are described below.

Charge Account: An account offered by one retailer for its own sales (e.g., Eaton’s, The Bay). Some accounts require full repayment within a certain amount of time, while others require a minimum or regular payment at specific times.

Charge Card: Similar to credit cards, the charge card (e.g., Diner’s Club/EnRoute) allows customers to make purchases at participating merchants with borrowed funds. Some cards must be paid in full each month, while others require a minimum monthly payment on the outstanding balance.

Credit Card: These cards allow the holder to pay for purchases on credit at millions of establishments around the world. The borrowed funds are made available by the financial institution. Using a credit card is like taking out a short-term loan. However, as long as you pay off your credit card in full every month, you pay no interest on the loan. (You may have to pay an annual fee for the card). Consumers can choose from a variety of credit cards that offer different features and rewards.

Leasing : Leasing is a way to acquire the use of an asset and is popular for such items as cars or computer equipment. Payment is spread over a specific period of time. Unlike a loan (under which the purchaser owns the asset) leasing is like a long-term rental. At the end of the lease, you don’t automatically own the asset – you have the option to buy the asset at its “residual value” (the worth of the asset at the end of the lease).

Line of Credit: A credit line is a form of ongoing credit up to a pre-approved limit. It is available for use when needed, and you pay interest only if the funds are used. This is what differentiates it from conventional loans, which have a specific purpose and predetermined repayment schedule. With a line of credit, the customer can choose to make the suggested repayments of principal and interest on the due dates, or pay only the interest on the sums borrowed. After analyzing the customer's net worth and ability to repay, the financial institution determines a "safe" maximum credit limit and provides a pre-approved line of credit. The customer can use this line of credit to make a broad range of purchases or payments, rather than borrowing a certain amount for a specific purpose.

Loans: A personal loan can take various forms and can be used for any number of purposes from buying a car to financing a renovation to paying for a vacation or new furniture. A number of repayment options are available with variations and/or restrictions determined by the lender. Types of loans include:

- **Term/Installment Loan:** Term loans are a form of installment credit or money repayable at a specified time. Generally, two varieties are offered: a fixed rate loan that provides a rate of interest set for the specific term of the loan, and a variable rate loan that provides a set monthly payment, but fluctuating interest rates for the entire term of the loan.
- **Life Insurance Loan:** If your life insurance policy has a cash surrender value and has accumulated enough money, you may be able to obtain a loan against it through your life insurance company. The value of the policy is decreased by the amount of the loan until fully repaid.
- **Government Student Loans:** These loans are issued and guaranteed by both provincial and federal governments, but administered by financial institutions.

- **Margin Loans:** An investor can borrow money from a broker to buy a security (typically when confident that the price of a security will go up). When buying “on margin,” up to 50% of the purchase price of the security can be borrowed. Interest is charged on the borrowed funds, which ultimately must be paid back. If the price of the security falls, the investor will be required to post more collateral or cash to offset the loss of the investment’s value.

Manufacturer and Dealer Financing: If you are buying a car, this is one option to help you finance your purchase. Car dealers provide financing in affiliation with some financial institutions and car manufacturers.

Mortgage: A mortgage is simply a personal loan used to purchase a property, where you pledge that property as security for the loan. Various mortgage options are available (e.g., open, closed, short-term, long-term, variable rate, fixed rate) that offer flexibility and choice for terms, interest rates and amortization periods. For more information, see the Canadian Bankers Association’s *Mortgage Wise* booklet.

Insurance

Insurance is designed to protect you from loss, grow your assets or help you save for the future. It is also a critical part of ensuring your financial well-being.

With most forms of insurance, you are charged a premium. For this premium, you get a certain dollar amount of insurance protection, depending on the policy's coverage. For life or private health insurance, premiums are based on such criteria as your health and age, as well as amount and length of coverage. Property insurance premiums are based on factors like the value of your property and potential risks.

By pooling risk, insurance companies are able to spread those risks across a large number of policies. As a result, a policyholder benefits by being protected against a major loss. Insurance can also be used to save for the future, create an estate or supplement a pension plan. This is where Whole Life and Universal Life insurance come in (see definitions below).

You can buy insurance directly through an insurance company or intermediary such as an agent (who may represent a single company) or broker (who may shop the insurance marketplace on behalf of the consumer). Certain employee benefit packages offer insurance plans to their employees as well.

Each insurance policy varies, depending on the insurer, terms and conditions, so make sure you carefully read and understand everything you sign your name to. Here's a look at the basic types of insurance in Canada.

Accidental Death & Dismemberment: This insurance is purchased as protection against accidental death or dismemberment (i.e. loss of an arm, a leg or other body part).

Auto Insurance: If your vehicle is in an accident or damaged through vandalism, auto insurance pays for the expenses you incur. It also protects you from financial loss (liability) resulting from damage to someone else's property or injuries to other people. In Canada, the law requires that you possess third-party liability insurance.

Credit Insurance: This is group insurance that provides the customer with protection for a loan if they become disabled from an accident or illness and cannot work to repay the loan, or if they die before the borrowed funds are repaid. The insurer will either continue to make the payments for the customer in the case of disability, or will pay the outstanding balance of the loan to the financial institution if the customer dies.

Critical Illness: This insurance is intended to provide financial assistance to people diagnosed with certain medical conditions, such as cancer. It must be purchased before the customer is diagnosed with an illness.

Disability Insurance: In the event you can't work due to a short or long-term illness or injury or a permanent disability, this insurance provides you with a source of income and/or medical home care.

General Insurance: General insurance covers a wide range of risks that do not deal with life, disability or extended health coverage. This type of insurance includes unpredictable losses, natural disasters, negligence and legal liability. Individuals and companies concerned about these potential hazards pay premiums to an insurance company, which reimburses them in case they suffer a loss, are sued or must pay damages. General insurance products include home and property, vehicle and travel (see separate definitions).

Health Insurance: In Canada a certain level of medical treatment is covered by provincial health insurance plans. Individuals can obtain supplemental health insurance for services and expenses for medical treatment, such as prescription drugs and dental care, that are not covered by their province. Supplemental health is often provided through your employer.

Home Insurance: Protects policyholders from direct losses or damage (through theft, fire, etc.) that occur to their home and its contents. For tenants and condominium owners, there is insurance that covers the contents of your residence and any improvements you have made. Home insurance coverage comes in a variety of packages, ranging from basic ("no-frills") to comprehensive.

Life Insurance: The purpose of life insurance is to provide income or lump sum benefits to your survivors – children, spouse, other family members – in the event of your death. It's a way of securing

your family's financial future by providing them with some replacement income, as well as covering your final expenses and debts. There are many life insurance products geared for different needs, but basically, there are two types:

- **Term Insurance:** A term policy offers protection for a specified length of time (e.g., 1, 5, 10, 20 years). Once the term expires, the insurance ends. If renewed, premiums are adjusted over time (usually increased) to reflect the increased probability of death. This is a popular type of insurance coverage because it is fairly inexpensive.
- **Permanent Insurance:** This type of insurance covers you for as long as you live. There are several types: whole life, universal life and variable life.
 - *Whole Life:* It offers insurance protection plus a cash value savings fund (like a savings account), allowing you to save over a longer term. Part of the premium you pay goes toward insurance coverage and the rest is deposited in an account within the policy that earns interest and grows tax-deferred. There is a fixed premium for as long as the policy is in place. Accumulated savings are returned to the policyholder when the policy matures. If the policy matures only at death, the savings are passed on to beneficiaries.
 - *Universal Life:* Similar to whole life insurance as it provides coverage for life and combines a savings component with insurance. However, universal life offers the flexibility of a number of payment and premium options. As well, policy-holders have a say in how the savings are invested. Universal insurance does not guarantee a fixed return on the savings portion, as is the case with most whole life policies. Policyholders bear more of the investment risk because they have the opportunity to earn market returns on the excess premiums. Income generally varies depending on prevailing interest rates or the stock market.
 - *Variable Life:* A combination of whole life and universal life, this type of policy provides insurance coverage and a cash value account, in which the money is invested in a money market fund or a common stock fund. The policyholder cannot change the coverage amount or the amount of the premiums.

The death benefit, while guaranteed in part, varies depending on the investment performance of the cash value account.

Mortgage Life Insurance: You can obtain this coverage when you take out a mortgage. If you die before the mortgage is paid off, the insurance will cover the balance, usually up to a set maximum.

Mortgage Payment Insurance: It insures that your regular mortgage payments are covered in the event of a negative change in your financial situation.

Straight Life Annuity: Purchased through an insurance company, you receive fixed regular payments for as long as you live. No funds will be transferred to your spouse, dependents or your estate after you die.

Travel Insurance: It basically provides protection for medical expenses incurred while travelling outside of Canada that exceed the amount covered by provincial health care plans. Travel insurance can also cover travel expenses that result from cancellations, lost tickets, etc.



Investments

Investing is getting your money to work for you – in other words, making money on your money.

In Canada we have plenty of investment products, ranging from the straightforward (Canada Savings Bonds) to the complex (derivatives). You don't have to be an expert on every type of investment – what's important is knowing yourself. What are your goals, objectives and tolerance for risk? Once you have decided, then you can find investments that reflect your needs, expectations and unique situation.

Here's a brief description of some typical investment products in Canada. For more information, pick up the CBA's booklet, *Investing Your Dollars*.

Bankers' Acceptance: A low-risk, safe investment, a BA is highly "liquid" and offers a fixed rate of return. Issued by a corporation and guaranteed by a bank, it is sold on a discounted basis to mature on a specific date. BAs usually start at \$100,000 and terms range from one month to a year.

Blue Chip Stock: Typically stocks of large, reputable and actively-traded companies with a record of regular dividend payments.

Bonds: A bond is a "debt" investment issued by governments and corporations to raise/borrow money. When you buy a bond, this means you are really lending money to the issuing government or corporation. In return, the issuer of the bond promises to pay interest on the borrowed money for a specific period, and agrees to repay the principal borrowed at the maturity date (the end of the bond's life).

Bonds are offered to the public at a particular price which may or may not be equal to the bond's "face value" (the amount of the loan to be repaid). Some bonds are issued on a "discounted basis" (at a price less than their face value) and at maturity you receive the face value. This difference is your interest income.

You can hold a bond to maturity for a predetermined return. Or you can sell it in the bond market before it matures (although this is not a primary motivator of income investors). If sold prior to maturity, you'll receive the market value of the bond based on prevailing interest rates for similar bonds. This could result in a

capital gain or loss (after a bond is issued, it can gain in value if interest rates fall or fall in value if interest rates rise). Some common types of bonds include:

- **Government Bonds:** Issued and guaranteed by a government (federal or provincial) for terms of one to 30 years.
- **Canada Savings Bonds (CSBs):** Issued and guaranteed by the federal government, with varying terms. Although they are called bonds, CSBs are different. Unlike most other bonds they can't be sold to someone else as they may be cashed prior to maturity for full face value plus any accrued interest.
- **Corporate Bond:** These are issued by corporations in various terms, backed by specific assets of the issuing company.
- **Debentures:** A type of unsecured bond, meaning they are not backed by real estate or other property that can be sold to repay the bondholders if the company goes bankrupt. Instead, they are simply based on the reputation of the issuing company.
- **Strip Bonds:** Some bonds are separated into two components by an investment dealer. The investment dealer "strips" or separates the interest coupons from the face value of the bond. The interest coupons are then sold to an investor who wants all of their income at the maturity date of the bond. Unlike most conventional bonds, you don't receive fixed interest payments with strip bonds; instead the interest is compounded until maturity.
- **Junk bonds:** Also known as high yield bonds, these are issued by companies without long track records of sales or earnings and/or have a low credit rating. They have been used as a means of financing takeovers.

Commercial Paper: Similar to Bankers' Acceptance, but without the guarantee of a bank.

Derivatives: A security whose value is determined by the market price of some underlying asset/investment, such as a stock or a commodity. Examples of derivatives include warrants, futures and options.

Futures: These are contractual agreements that derive their value from an underlying asset. They are an obligation to buy or sell a specific commodity like coffee, corn, oil or stock, on a set date for a predetermined price.

Guaranteed Investment Certificate (GIC)/Term Deposit:

These debt investments have a fixed term and a set rate of interest. Traditional GICs offer a guaranteed rate of interest for the term of the certificate, which can be paid periodically or upon maturity. The holder generally cannot make withdrawals during this period without penalty. Today there are many variations of GICs with different features. A relatively new form is the “market-linked” GIC, which gives you the potential of a higher yield than on a traditional GIC. With these, your principal is guaranteed, but instead of earning a fixed rate of interest, any returns you earn are tied to a stock market index.

Investment Account: Financial institutions offer varying types of these accounts designed to hold your investments (i.e., stocks and mutual funds).

Mortgage-Backed Securities: These investments represent an ownership share in a pool of mortgages insured by the Canada Mortgage and Housing Corporation (CMHC). Investors in mortgage-backed securities buy units of \$5,000, and receive a monthly payment that is a blend of the principal and interest accruing from the pool of mortgages. Unlike bonds, the principal is repaid over time, not at maturity. Terms range from one to 10 years.

Mutual Fund: This is an investment product in which your money is pooled with other investors’ money. Mutual fund companies hire professional managers who use the pooled money to buy a portfolio of investments and monitor each of the investments on an ongoing basis. By investing in a mutual fund, you purchase units of that fund which can go up or down in value depending on the fund’s performance. While there are 1,000 plus mutual funds on the market, most share common traits but have different objectives. They can be grouped into these categories: “equity/growth funds” that invest in a broad portfolio of stocks; “balanced funds” that invest in a mix of stocks, bonds and cash; “income/bond funds” that invest in bonds, mortgages or shares that generate dividends; “international funds” which invest around the world; and “money market funds” that invest in safe investments such as treasury bills.

Options: These are contracts that let you buy or sell a security like a stock at a set price between now and a certain date. The option contract is either a “call option” or a “put option.” A “call option” gives the right but not the obligation to purchase a security at the specified price on or before the expiry date, regardless of what price it is currently trading at in the market. These are purchased by investors who think the price of a security is going to rise and invest to lock in at a set price. A “put option” gives the right but not the obligation to sell the security (put) to another investor at the strike price on or before the expiry date, regardless of the present market value of the shares. Put options are bought by investors who think the price of a security is going to fall.

Penny Stock: A low priced, speculative security. Penny stocks typically trade for less than a dollar a share and are often those of “unproven” companies.

Precious Metals: Gold, silver and other precious metals are equity investments that can be held in the form of bullion (the actual metal) or certificates of ownership.

Segregated Funds: These are similar to mutual funds in that your money is pooled with the money of other investors to buy a broad portfolio of assets. You may reap the rewards of the fund’s market appreciation, but face the risk that the fund may decline. The key distinction with segregated funds is that they offer a level of protection or a guarantee against loss of principal: part (at least 75%) or all of the original investment is returned when the fund matures or upon death of the owner. To get the guarantee, you must keep your money in the fund for the entire term of maturity (usually 10 years). With segregated funds, your investment may not grow – if the fund declines, you may only get back your principal.

Stocks: Issued by corporations, buying stocks is a form of ownership where the investor buys a share of a company. Share prices fluctuate with business cycles, industry outlook and company profitability. Two main categories of stock are preferred and common.

- **Preferred Stock (or shares):** This special type of stock regularly pays you a set amount of money from the company’s profits in the form of dividends (because of this, preferred stock is regarded more as a bond-like investment). Preferred stock holders have preference over common stock holders in the payment of dividends and liquidation of assets. However, they typically don’t have voting

rights. Preferred stocks are normally purchased by investors who want a steady stream of income (dividends), which is taxed at a lower rate than interest income.

- **Common Stock (or shares):** With common shares, you typically have voting rights (e.g., on the selection of directors). Unlike a bond or other fixed income investment, there is no promise of a return of capital. If the company is profitable, the equity owner may share in the profit by way of dividends and may benefit from a possible increase in value of the shares. Should the company suffer a bad year, the value of the company and its shares will likely fall. Common shares are usually purchased for potential capital appreciation.

Term Deposits: Usually called Guaranteed Investment Certificates (GICs), these are short-term fixed rate investments.

Treasury Bill: A T-Bill, as it's often called, is a short-term investment issued by a federal or provincial government. Sold in amounts of \$1,000 or higher and offered in terms of one month to a year, it is considered a safe investment. You purchase a T-bill at a discount to its face value. The difference between the purchase price and value of the T-Bill when it matures is your income.

Trust Units (investment/income trusts): Trust units are similar to stocks in that they can be traded, fluctuate in value and vary in risk from high to low. But unlike stocks in which you own a share of the company, when you purchase trust units they represent a share of a company's income stream or royalties. They are issued to raise cash, typically for a specific operation or asset (e.g., natural gas, oil, real estate, pipelines and utilities). Cash flow that the company generates from a specific operation or asset is split between all trust unit holders several times a year. Trust units are purchased by income-seeking investors. However, distributions are not guaranteed and will depend upon factors such as changing business conditions, market prices and obviously what the investment trust is based on. Trust units do not have a maturity date. Real estate investment trusts and resource-based royalty trusts are common types.

Wealth management, retirement and estate planning

An aspect of our financial affairs that we should never neglect is wealth management and estate planning. This means organizing and managing our wealth and assets throughout our lifetimes and planning for their distribution after we die. Here we look at the offerings that help us – from annuities to financial planning services to retirement savings plans to trusts and wills. (For additional information, see the Canadian Bankers Association booklet *Planning for Retirement.*)



Annuity: A contract providing for a series of payments to an individual, designed to stretch a sum of money over a lifetime. Pertaining to retirement, an annuity is usually purchased from an institution which then pays the purchaser a monthly amount for life or a set period. It converts an already existing sum of money into income until the death of the investor. Rates, payments and options vary. Three main types of annuities are:

- **straight-life:** can only be purchased through a life insurance company and gives you fixed regular payments for as long as you live. No funds are transferred to your spouse, dependents or estate after your death.
- **joint-and-last survivor:** geared to married couples, this annuity pays a set amount through both spouses' lifetimes. Payments continue after the death of the first spouse and stop after the death of the second.

- **term-certain:** payments made until age 90 and if you die before then, payments to your surviving spouse continue until the year you would have turned 90. If you have no surviving spouse, remaining payments are cashed out and paid to your estate.

Deferred Profit Sharing Plan: This tax-sheltered plan is used by employers to build a retirement fund for employees based on a share of the company's profits.

Defined Benefit Pension Plan: Sponsored by an employer, this is a pension plan that promises to pay a certain level of benefit at retirement and is based on a pre-determined formula.

Defined Contribution Plan: With this pension plan both you and your employer make specific annual contributions to an account based on your earnings. Your pension is determined by how much you have contributed over the years and the interest that has been generated.

Discretionary Investment Management: This is a service for clients who want their investment portfolios fully managed by a professional. The investment or portfolio manager helps choose suitable investments to build a customized portfolio and handles day-to-day decisions involved in managing them.

Estate Planning: The process of arranging your personal affairs in the event of your death or mental incapacity. A well-designed estate plan ensures that your affairs are looked after in a timely, orderly and tax-effective manner – according to your wishes. It also helps ensure your family is looked after. Proper estate planning includes preparing a will, tax planning, signing a power of attorney and perhaps purchasing life insurance.

Executor Services: An executor is the person or institution named in your will to administer your estate. Trust companies in Canada can act as the executor for your estate, performing such duties as paying your debts, filing tax returns and completing your funeral arrangements. A trust company can also serve in the capacity

of co-executor (sharing the estate administration with another executor) or as agent for an executor (assuming the administration of the estate while leaving the major decisions to the actual executor, typically a family member).

Financial Planning: Helps people identify and meet their goals by managing their financial resources. This means taking a complete picture of the client's profile – their investments, tax, insurance, retirement planning and estate planning. Based on an analysis, financial planning delivers a set of recommendations.

Life Income Fund (LIF): An income option created for Locked-In Retirement Accounts to provide retirement income. It is similar to a Registered Retirement Income Fund with the following key expectation: a LIF has a maximum annual withdrawal based on a percentage of the value of the fund.

Locked-In Retirement Account (LIRA): An account created from pension credits held with a former employer and transferred after the employee leaves.

Locked-In Retirement Income Fund (LRIF): If you have pension funds in a Locked-In Retirement Account you may have the option of converting the funds into a LRIF. A LRIF is a retirement income option that operates on the same minimum and maximum payout principals as Life Income Funds.

Power of Attorney: This is a legal document which you sign (and have witnessed), authorizing a person or persons to make decisions for you if you should become incapable of making these decisions for yourself. There are two kinds of powers of attorney: one for managing your financial affairs and the other for your personal care.

Prepaid Funeral Deposits: This service administers the funds held in trust by funeral homes and cemeteries for individuals who have pre-arranged and pre-paid funeral and related services.

Registered Education Savings Plan (RESP): An RESP is designed to help parents save for their children's education. It is not an investment itself, but a savings plan in which a variety of investments can be held. Money in the plan is allowed to grow tax-free until the child is ready to pursue a post-secondary education. At that time, the money is withdrawn to help finance the costs and taxed at the child's rate of income. There is a range of plans with many different

features. RESPs can be set up for one child or several children in a family. There are group plans (or scholarship trusts) where investment income is pooled and shared among a number of children. For more information, refer to CBA's booklet *Saving for Your Children's Education*.

Registered Retirement Savings Plan (RRSP): An RRSP is not a specific type of investment but a savings strategy for your retirement. Within your RRSP, you can hold a variety of investments. The money you put into the plan (known as your contributions) can accumulate with interest income tax-free until withdrawn. There are various types of RRSPs designed to meet different investment needs. These include deposit RRSPs (your investment choices are generally limited to savings accounts and GICs) and mutual fund RRSPs. If you want a broader range of investments, you can opt for a "self-directed RRSP," where you can pick the investments, monitor their progress and transfer and sell funds and stocks. Another type is a "spousal RRSP," whereby one spouse contributes to an RRSP in the name of the other. Some employers offer "group RRSPs" where you contribute to an RRSP, but it is administered by your employer.

Registered Retirement Income Fund (RRIF): A RRIF is a plan in which some or all of your RRSP investments are converted into an income stream to last throughout your retirement years. With a RRIF, you continue to control and invest your retirement savings, while the income generated within the RRIF continues to grow tax-free until withdrawn. The conditions of the RRIF are that a minimum amount must be withdrawn from the fund each year.

Retirement Planning: Offered by many financial companies, retirement planning services include counselling, assistance and strategies to help you meet your retirement goals.

Reverse Mortgage: This is an option for retired homeowners who need to supplement their income while continuing to live in their homes. In essence, it is a way to tap into the value of your home. A homeowner takes out a mortgage on his or her home and the proceeds are used to buy an

investment that provides an income source or a lump sum payment. When you die and your property is sold, the proceeds are used to pay off the mortgage. Before choosing this strategy, be cautious – reverse mortgages are not for everyone, so obtain financial advice.

Tax Planning: Tax planning is an important part of estate planning and the entire financial planning process. There are numerous ways to reduce taxes, including charitable donations, trusts or RRSPs to spouses or dependent children. Tax planning is a complex area and should be discussed with your financial advisor or accountant.

Trust: A trust is a tool for tax, estate and financial planning. When you establish a trust, assets (e.g., real estate, stocks, bonds, savings accounts) are set aside within the trust and legal title to them is transferred to another person. A trust can be used in numerous ways – to protect family assets, to hold or distribute property, to save for a child's education or hold his/her inheritance, to provide for family members with special needs, to minimize taxes, or to provide support for your favourite charity. Trusts require a trustee (they manage the trust); money/assets to be held in trust; a settlor/donor (they set up the trust and provide the money/ assets); and at least one beneficiary.

There are two main categories of trusts: living (inter-vivos) trusts and testamentary trusts. A living trust is established while you are alive and takes effect when the trust is set up. These are often used to split income with family members who are in a lower tax bracket. A testamentary trust, established under a will, becomes effective upon your death. Beneficiaries of the trust receive the assets held in the trust according to your wishes. An example is a spousal trust, where your spouse receives income from the trust throughout his/her lifetime after your death.

Trustee services: Certain financial institutions will administer all aspects of trusts on behalf of their clients. These services range from setting up a trust and distributing assets to beneficiaries to managing investments and settling tax matters.

Will: This legal document sets out your wishes for the distribution of your estate. You should appoint an executor (the person/trust company named in the will to administer it) to carry out your wishes and take care of such tasks as distributing your assets, filing tax returns, protecting your property and paying expenses.

For More Information

You can learn more about the financial services industry and its products and services by contacting your own financial institution or financial advisor. The following associations and educational institutes are also good sources:

- Canadian Bankers Association: 1-800-263-0231, www.cba.ca
- The Institute of Canadian Bankers: 1-800-361-4636, www.icb.org
- Investor Learning Centre: 1-888-452-5566, www.investorlearning.ca
- Investment Funds Institute of Canada: 416-363-2158, 1-888-865-4342, www.ific.ca
- Investment Dealers Association of Canada: 416-364-6133
- The Canadian Securities Institute: 1-800-274-8355, www.csi.ca
- Credit Union Central of Canada: 416-232-1262, www.cucentral.ca
- Caisses Desjardins: 1-800-361-5121, www.desjardins.com
- Canadian Association of Financial Planners: 1-800-346-2237, 416-593-6592, www.cafp.org
- Canadian Life and Health Insurance Association: 416-777-2221, www.clhia.ca
- Canadian Finance and Leasing Association: 416-860-1133, www.cfla-acfl.ca
- Insurance Bureau of Canada: 416-362-2031, www.ibr.ca
- Insurance Institute of Canada: 416-362-8586, www.iic-iac.org
- Interac Association: 416-362-8550, www.interac.org

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The Canadian Bankers Association, established in 1891, is a professional industry association that provides its members – the chartered banks of Canada – with information, research and operational support, and contributes to the development of public policy on issues that affect financial services. The CBA also provides information to the public on industry and financial issues.



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