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Manulife Financial offers to pay people to leave a retirement product that was once a sensation

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If you're part of the crowd who put money in Manulife Financial Corp.'s IncomePlus guaranteed retirement income product after it debuted in 2006, watch your mail for a surprising offer.

You can continue to hold IncomePlus, or move without penalties into the company's GIF Series 75 segregated (seg) funds with some money thrown in as a sweetener by Manulife. Yes, a major financial company is offering a bonus to get clients *out* of one of its products.

The knock on IncomePlus has always been unusually high fees and a lack of flexibility. But there's no question that its core mandate speaks to a primal need that some people have for assurances that their retirement savings won't run out. In its heyday, IncomePlus guaranteed that you could withdraw 5 per cent of your investment annually for life starting at the age of 65.

IncomePlus was designed for people who put a high value on guaranteed income, but also have conventional retirement savings that could be used to cover large, unexpected expenses. Rona Birenbaum, a financial planner with Caring For Clients, said IncomePlus is still appropriate for this type of investor. "If the product was sold properly in the first place, it should only be sold now if the client's situation has changed."

In 20 years of covering personal finance, I have rarely seen a buzz over a new investing product like there was with IncomePlus. Deposits surged past $6-billion within two years, and other insurers quickly introduced similar products of their own.

Then came the global financial crisis and its aftermath. Manulife found itself having to commit significant funds to backstop guarantees that clients would never run out of income.

“We know that some of our customers feel the product doesn’t meet their needs any more,” said Marie Gauthier, associate vice-president of segregated funds at Manulife Financial.

Manulife stopped offering IncomePlus in 2013. Now, it's trying to entice clients who bought the early version of the product, sold between 2006 and 2009, to head for the exit. The company says this version accounts for about half of current IncomePlus assets.

Manulife began mailing letters to eligible clients this week, which means they should start arriving any day now. If you get one of these letters, be sure you understand the difference between IncomePlus and GIF Select 75. Both involve investments in segregated funds, which are a type of mutual fund offering a degree of principal protection and estate planning features. IncomePlus adds the guaranteed income for life feature, at an extra cost.

Something to consider if you get the letter is whether you have additional retirement savings to draw from. This may not be the case because in the initial excitement over IncomePlus, both clients and advisers got carried away with its promise of guaranteed income. “I know from stuff we’ve seen that a lot of times, everything [the client] had was put into this vehicle,” said Daryl Diamond, a Winnipeg-based certified financial planner (CFP) and author of *Your Retirement Income Blueprint*.

IncomePlus can work well to generate reliable income at the promised rate. But you can negatively affect your guarantees if you withdraw a block of your original investment or increase the amount of income you draw.

High fees are another issue with IncomePlus. There are two fees to understand – those charged by the seg funds used in IncomePlus and the fee associated with the guarantees of the product, which ranged from 0.55 per cent to 1.25 per cent. An example provided by Manulife uses a global neutral balanced fund with a management-expense ratio of 2.91 per cent and an IncomePlus fee of 1.25 per cent, for an astronomically high total of 4.16 per cent.

“Some [clients] are still happy with the guarantees in IncomePlus, but some of them find the fees are too high,” Manulife’s Ms. Gauthier said.

Here’s some context that shows just how high those fees are: Guidelines produced for Canadian financial planners suggest using 4.48 per cent as a gross return in projecting long-

The money Manulife is offering clients who switch out of IncomePlus can be considered compensation for those hefty guarantee fees paid in the past. The payments are calculated according to factors such as the market value of the client's IncomePlus holding, the guaranteed payment amount, and the client's age. Expect payments to average 13 per cent to 15 per cent of the market value of an IncomePlus contract. The payments are taxable when deposited into non-registered accounts.

Clients are encouraged to discuss the change with the selling adviser, who will in most cases receive a $500 payment from Manulife as compensation for the work involved.

The fees charged on IncomePlus look particularly high in light of the fact that the product doesn't allow you to stretch for higher returns by using all equity funds. This option is open to you if you accept Manulife's offer to move out of IncomePlus and into its GIF Select 75 series of seg funds.

These funds are comparatively expensive in today's fund universe, as seg funds tend to be, but they have some advantages. Notably, seg fund holdings can be passed to a named beneficiary after you die without probate fees.

There are two notable takeaways when you switch to GIF Select 75 from IncomePlus. The first is a reset feature whereby the pool of money you have available to withdraw from in retirement is adjusted higher every three years to reflect increases in the market value of your account.

The second takeaway is the loss of a 5-per-cent bonus paid every year an IncomePlus client doesn't make a withdrawal. These bonuses add to the amount used to calculate your guaranteed withdrawals.

Ms. Birenbaum described the terms of the original version of IncomePlus as "generous." But the product has a flaw as a retirement income tool – those guaranteed 5-per-cent payments assume you won't need to dig into your principal. "The majority of Canadians in my view are going to spend down their capital," she said. "Also, that 5 per cent [annual income] is not inflation indexed."

Mr. Diamond said the appropriate use of IncomePlus would be to combine it with the Canada Pension Plan, Old Age Security and any personal pension benefits to cover what he calls "hellif required.

All investors, whether they bought IncomePlus or not, should remember it for the lesson it teaches about not buying hot new investment products on hype. “As many of these new things are, IncomePlus was oversold, missold and not properly understood by advisers and investors,” Ms. Birenbaum said. “And I even think Manulife didn’t quite know what it was creating.”

Q&A: Manulife’s offer to IncomePlus clients

What’s the deal?

Switch out of IncomePlus into Manulife’s GIF Select 75 segregated (seg) funds and receive a bonus to be deposited in your seg fund account.

What is IncomePlus?

The technical term is guaranteed minimum withdrawal benefit. In exchange for investing a lump sum with Manulife, you get a guaranteed flow of income in retirement.

Who is eligible for the offer?

Owners of the original series of IncomePlus, sold in the mid to late 2000s. Different versions of IncomePlus were offered in later years.

How and when will I hear about the offer?

Manulife began mailing out notifications to eligible IncomePlus customers starting in mid-September.

How much might the bonus be worth?

An average 13 per cent to 15 per cent of the market value of your IncomePlus account.

Why is Manulife making this offer?

IncomePlus has become increasingly expensive to offer in a cost-effective way. The bonus is a way of compensating clients for fees they paid to have their retirement income guaranteed

If I'm happy with IncomePlus, can I pass on the offer?

Yes, it's up to clients.

Can I do a partial transfer and get the bonus?

No, only full transfers are eligible.

What about tax?

There are no tax consequences if you move from IncomePlus to GIF Select 75 while keeping your money in the same segregated funds; moving into different funds in a non-registered account would be a taxable disposition. The bonus amount is taxable in a non-registered account.

What is the deadline for deciding?

Manulife must receive documentation that you want to switch by Friday, Dec. 14. If you do nothing, you will remain in IncomePlus. You can still switch out of IncomePlus after the deadline, but without a bonus.

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