

Insurance

Protecting Your Family and Business

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If you are a business owner, your focus is likely on the long-term viability of your business. Decisions you make today may impact your business tomorrow and thereafter. Think back to the last time you made a major purchase for your business, such as a piece of equipment. Before making that ultimate decision, you probably examined all your options and evaluated the costs and benefits of making the purchase.

Have you ever evaluated the costs to the business if you were no longer involved in it? A long-term disability or even death could have a devastating affect on your business.

Have you put the proper plans in place to mitigate the risk of this happening? Many people are unaware of the important role that insurance products can play in protecting both your family and your business, by helping to ensure the financial survival of each, in the event of an unforeseen disability or death.

The list that follows represents just a few of the common results that insurance can achieve, in either a personal or business context, or possibly both.

Putting Your Family First

You are busy running a business and dealing with urgent matters, so dealing with your personal insurance needs may be something that you intend to do. If you have a spouse and/or children who depend on your income, you must consider what would happen if you were not able, or no longer around to run your business. What will happen to your family may depend on what you have done to ensure their financial security in the event of one of these unforeseen circumstances.

Insurance can play a role as an effective income replacement tool, either in the event of death or disability.

Protecting Against the Loss of a Key Member of Your Team

To maintain its success, your business relies on the leadership, experience or skills of one or more individuals. That person could be you, your business partners or a few key employees whose absence from your company could lead to its demise.

You can protect your business against the risk of these employees suffering from a premature death, by insuring them with key person insurance. Your business would purchase life insurance on the employee, pay the premiums and become the beneficiary of the policy. In the event of that key person's death, the business would receive the insurance proceeds, which can provide the funds necessary to help survive the tragic occurrence.

Creating Effective Funding for a Buy-Sell Agreement

If you have one or more business partners, your shareholder agreement likely requires that you have a buy-sell agreement in place, a document that outlines what should be done in the event of the death, disability or retirement of one of the shareholders. The agreement is

meant to simplify the eventual buy-out by establishing valuation methods, terms of sale and other important components. There must be funding in place that ensures the terms set out in the agreement are met when the surviving shareholders are called to purchase the business interest.

There are a number of options that you have to create this funding, such as saving, borrowing or selling assets. Another viable option you should consider is a life insurance policy which can serve to be the most inexpensive, yet most valuable method of financing available. Unique to this funding model, as opposed to the others, is its guaranteed effectiveness in providing the necessary cash required at the time it is needed most.

Creating a Comprehensive Succession Plan

Your hard work and determination, coupled with your family's support over the years has helped you build your business into the success it is today. It's important to you that this family business remain just that – a family business.

Something else you must consider when creating your succession plan is the amount of capital gain taxes on the business that will be owed at the time of your death. Doing nothing to plan for this could result in your family having to borrow funds or possibly liquidate company assets in order to pay the large tax bill that your estate would owe. Another solution would be to purchase a permanent life insurance policy in the amount of the estimated tax bill which would be used to pay those taxes.

Perhaps only one of your children has shown interest in running your business once you no longer want to or are unable to. If you wish to leave your business to that child, purchasing a life insurance policy naming your remaining non-involved children as beneficiaries can be a way to provide for them. By doing so, you will have equalized the inheritances to each of your children, and you will have done so without having had to remove capital from the business to accomplish the same result.

Paying Tax-Free Dividends to Shareholders

In setting up any of the above listed insurance policies, consideration must be given as to whether it makes more sense for them to be personally owned or corporately owned. If your business qualifies as a Canadian Controlled Private Corporation (CCPC), you may have the opportunity to pay out tax-free dividends through the Capital Dividend Account (CDA), if the policies are corporately owned. The CDA keeps track of surpluses accumulated by a small business and a large portion of the insurance proceeds from a corporately owned policy can qualify as a surplus for the account, and therefore can flow into it tax-free. That positive balance in the CDA could, in turn, be paid out as tax-free dividends to your company's shareholders.

Conclusion

Putting the proper life insurance policies in place to meet your business and family needs is not an easy task. By working with your life insurance licensed ScotiaMcLeod advisor and our team of specialists, they can help you to design and implement the appropriate insurance plan, no matter how complex your needs may be. Most importantly, they will look at the big picture, ensuring that your long-term needs are met, with any solutions that are put in place today.