

Optimizing risk and reward for business owners

Business owners have a significant opportunity to build financial security for themselves and their families. The trick is to maximize this opportunity while also minimizing risk.

For example, if you have an employee who is critical to the success of your business, what would happen if they passed away? How could the loss of a major shareholder affect the ownership structure of your company? And down the road, how can you maximize the after-tax value of your business for your heirs?

Cover a key person

The first thing a small business owner should address is ensuring that the passing of a key person will not disrupt, or even destroy, the operations of the business. A key person could be the founder of the company, whose intimate knowledge and vision is irreplaceable. Maybe it's a sales person, the loss of whose relationship skills would mean the defection of important customers. Or maybe it's an employee with unique skills that are fundamentally necessary to the business.

There may not be a way to avoid the risk of losing a critical employee, but insurance can at least hedge this risk by ensuring you have enough funds at the right time to locate a suitable replacement, bring them up to speed, and sustain the company's financial health.

Maintain your ownership

What if the key person who passes away is also a major stakeholder in your business? It's wise to have a buy-sell agreement in place that allows the surviving partners to buy the deceased's ownership and maintain control of the company. However, according to Rob McGavin, Head of Insurance for ScotiaMcLeod, it's not always that simple.

“The question is how will the partners afford to pay for the deceased's share at precisely the time they are required to do so? They could try saving in advance, but nobody knows exactly when the money will be needed, or how much. Borrowing is another alternative, but the loss of a partner could make it difficult to obtain or afford additional credit. Selling business assets might work, but this could also harm the business, or force the partners to accept poor value for the assets.”

The solution is often life insurance because no other vehicle will deliver exactly the amount of money you need at exactly the time you need it, and the costs can be minimal compared to the other options.

Protect your legacy

Life insurance can also be a solution to the problem of capital gains tax owed by your estate upon death. Rather than forcing your heirs to deplete corporate assets – or even sell the business – to pay the tax bill, you can make sure they have adequate life insurance proceeds to cover this need. A variety of insurance-based strategies can ensure that you control the destiny of your business.

Create additional wealth

Not only is life insurance a tool for managing risks and protecting your assets, it is a vehicle that can provide tax-sheltered growth and deliver a tremendous after-tax value for your family. You can also create unique incentive programs for employees using various insurance strategies. For example, you can offer them the potential to use the cash value of a policy to secure retirement income.



Whether you want to enhance your retirement income, reduce taxation, or simply maximize your legacy, there are strategies available that will fit within your overall financial plan and give you, your family, and your business partners greater peace of mind.

Update your business plan

If you've worked hard to build a successful enterprise, it makes sense to treat its financial protection just as seriously as its financial growth.

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