Reducing risk to you and your family as a business owner

Unforeseen events, such as illness, disability or death, can have a devastating effect on a business owner and their family. Insurance is an important part of a comprehensive wealth management plan, and helps to provide financial protection for individuals, their families and their businesses against the unexpected. It is also a risk-management tool that provides a business owner or incorporated professional multiple benefits, including the potential for significant tax savings.

There are several insurance strategies that may be integrated into your wealth plan to supplement retirement savings, maximize the value of your estate and help protect you, your family and your business.

Supplement your retirement using the corporate insured retirement strategy

As a business owner or incorporated professional, a large portion of your net worth is likely tied up in your company. Even if you have maximized the tax-sheltering opportunities provided by your TFSA, RRSP or Individual Pension Plan, you may still want to consider additional options to help fund your retirement by accessing the funds accumulated in your company. Implementing the corporate insured retirement strategy with a permanent life insurance policy can help you accomplish this by providing several key benefits:

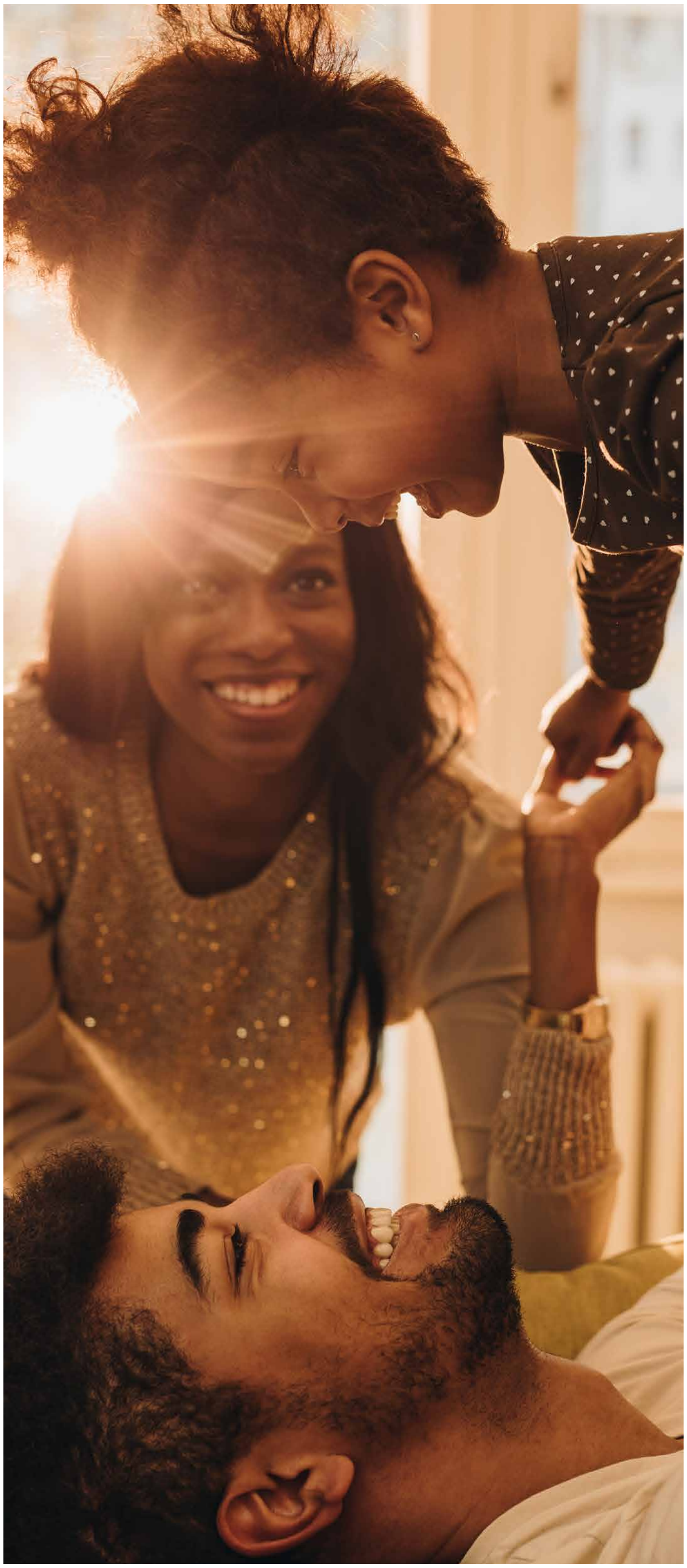
- Life insurance protection
- Tax-deferred growth of funds
- Tax-free access to those funds in the future
- A tax-free benefit for your estate

To implement the corporate insured retirement strategy, your company purchases a permanent life insurance policy on your life. Premiums are structured to build cash value within the policy, so that investment earnings are tax-deferred until they are withdrawn. The premium payments will not be considered a taxable shareholder benefit if your company is both the owner and beneficiary of the life insurance policy.

When you retire, the life insurance policy is leveraged to access its cash value. Leveraging involves having your company arrange a loan or line of credit using the cash value of the policy as collateral. The leveraged funds are used to make taxable dividend or bonus payments to you.

Up to 90% of the cash value within the policy can be borrowed. The company will be charged interest on the loan, but often this can be covered by an additional loan. The total borrowing must remain within lending limits based on the accumulated cash value within the policy to prevent your policy from terminating.

For this insurance strategy to provide the most benefit, you should put it in place well before you retire to accumulate sufficient cash value in the policy to generate the income you'll require.



Tax-efficient succession planning using the corporate asset transfer strategy

Often, business owners let assets accumulate inside their company to take advantage of lower corporate tax rates. This often means overexposure to fixed income investments. The corporate asset transfer strategy helps to diversify your company's portfolio without sacrificing liquidity, while simultaneously maximizing the value of your estate. This strategy can also provide a flexible tax-sheltered investment vehicle for any cash flow surplus in your business.

Your company purchases a permanent life insurance policy on your life and transfers a portion of its fixed income investments to the insurance policy. The policy's tax-sheltering characteristics prevent the substantial erosion of the value of these investments each year. Eventually, when the death benefit is paid, it will be received tax free by the corporation.

The amount that exceeds the adjusted cost base of the policy can be passed on to your beneficiaries tax free through your company's capital dividend account.

Protect yourself, your family and your business

Retirement, illness, disability or death of key personnel can have a major effect on the continuity of your business. There are several insurance strategies that can help to manage such life changes for you, your partners and key employees.

Key person insurance is an effective way to help protect against the loss of an individual critical to the success of the business, whether they leave by choice or due to death, illness or disability. The policy should cover the estimated financial loss to the business as a result of the loss of the key person.

Buy-sell agreements (also known as “buy-out agreements”) between business owners offer a degree of protection. In the event of your business partner's death or disability, life insurance is a cost-effective way to fund a buy-sell agreement to purchase shares from your partner's heirs. The premium is low in comparison to the lump sum that could be paid out through a capital dividend account to shareholders for share redemption. Your company will not be taxed on the lump sum, and you can avoid using your personal or business assets to buy out your partner's share of the business.

Continued

Life insurance

Life insurance can protect the business, owner, and their family. There are two types of life insurance policies: term and permanent. Both types can be used to ensure the continuity of your business and the financial protection of your family.

Term insurance

Term insurance provides a tax-free lump sum payment to the named beneficiaries of the policy, if death occurs within the policy's term. This can cover funeral expenses, settle outstanding debts or mortgages, and help to replace the income of the deceased. For a business owner, term life insurance costs less than permanent life insurance. This reduces pressure on your capital and can help ensure you have the funds to keep your business going if you, a business partner or a key employee should die unexpectedly. There may be an option to transition to lifelong protection with permanent insurance when the time is right, without having to answer additional medical questions. Term insurance can be used as a cost-effective solution for funding a buy-sell agreement.

Permanent insurance

Permanent insurance, such as policies for whole life and universal life, provides lifetime coverage, as long as the premiums are paid. It can be used for estate preservation, business succession planning, supplementing retirement income, income tax reduction and paying one's final taxes and estate settlement costs.

Premiums for permanent life insurance are higher initially than for term insurance, but generally don't increase with age or if your health status changes. In addition to the life insurance component, there may be an investment component.

Permanent insurance is a key component of the corporate insured retirement and corporate asset transfer strategies discussed previously.

Disability and critical illness insurance

You, your partners and key employees may be vital contributors to your business. But what if one of you became seriously ill or disabled and was unable to work? Such an unfortunate event could have a serious impact on your livelihood and your business.

Disability insurance is designed to help mitigate risk by providing your business with financial support if you or a business partner can no longer work or perform duties because of an illness or injury. If this were to occur, you would receive a monthly payment after a waiting period has passed.

Critical illness insurance pays out a lump sum amount if diagnosed with one of a specific list of illnesses, such as cancer, heart attack or stroke. Once approved, the tax-free lump sum benefit can be used to pay off your mortgage, supplement an income of a spouse or partner who takes time off to help support you, for specialized medical treatments, or to provide funds to sustain operation of your business while you are away from managing the business recovering. Receiving this lump sum doesn't affect eligibility for other disability benefits from company or government health plans.

Regardless of your age or stage in life, insurance should be part of a comprehensive wealth management discussion

---

For a business owner, a disability or critical illness insurance policy could cover overhead expenses related to running your business and also help pay for costs such as rents and employee salaries. It can also be used to fund a buy-sell agreement. These insurance policies provide a safety net to allow you to focus on your health while your business continues to operate without affecting your other investments and goals.

Conclusion

You have worked hard to build your business, but an unexpected event like an illness, disability or death can have a devastating impact on you, your family and your business. It is important to plan for the unexpected, so that recovery can take place and the business can continue to function.

Regardless of your age or stage in life, insurance should be part of a comprehensive wealth management discussion. As well as providing financial protection against life-changing events, insurance can be leveraged to provide tax-efficient strategies for your company and for retirement. Speak with your BMO financial professional to assess your personal and business insurance needs.

BMO Wealth Management

We're here to help.™

09/19-1137