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Disability Planning: A REALITY CHECK

When you own your own business, you do not have the security of group insurance that employees have. After several years, you may find that you are drawing a substantial

income from a successful venture.

If you became disabled, would your business continue to generate the same profits? If not, how would you meet your mortgage payments and pay for your groceries? When we are independent-minded, we tend to be optimistic, to the degree that we might believe one of the following money myths.

Money Myth #1. I will borrow the money until I get well.

Reality: Few people will lend money to a disabled person. It's hard enough to borrow money when you're in perfect health with a steady income.

Money Myth #2. I'll live off my savings.

Reality: How long would your savings last? Using up your savings at an age when you ought to add to your

investments may ruin your retirement plan.

Money Myth #3. I'll sell off some or all of my business assets.

Reality: How many assets does your business own that are not required for its successful operation? Who will pay fair market value to one perceived as liquidating out of a dire need for cash? The timing may not coincide with market demand for your assets.

Money Myth #4. My business will pay me a salary.

Reality: Your partners may need to hire someone to fulfill your responsibilities. Flip the perspective around. If your partner became disabled, how long could you keep paying him or her a salary in addition to the salary for the replacement? If you are a sole proprietor, and disabled to the degree you cannot work, how could you hire and train someone to work hard enough to produce his own salary and yours?

Business Owner Disability Insurance Check List

- **Income Replacement Insurance** Pays you a cheque to cover a major portion of your present income drawn from the company.
- **Key-Person Insurance** Pays a benefit to enable the business to hire a replacement.

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- **Office Overhead Insurance** Helps you pay for day-to-day overhead and salaries.
- **Buy-Sell Insurance** Creates the cash to allow your partners to buy out your interest, or vice versa, based on a written agreement.

Does Your Business Need AN ESTATE FREEZE?

A solid estate plan is necessary if your business assets possess potential for large capital gains and you have children who may take over the company.

An estate plan can assess the fair market value of an estate and the potential tax on the capital gains that will be due. The company's value is fairly pre-established with your input, as opposed to your executors and lawyers negotiating with the Canada Customs and Revenue Agency after your death.

You can approach a qualified tax accountant, your lawyer, and your insurance advisor to inquire whether they would advise an estate freeze on your kind of business, with your given assets and growth potential, and if so, when would be the best time. These professionals will ask some difficult questions that may create some anxiety, which, you should understand in advance, is quite natural. You may have other children who are not involved in the company. Consider leaving other assets to them such as your home, investment assets, or other real estate.

If you own a cottage possessing sentimental value for all the children you may want to divide its ownership equally between all. When equalizing the estate, life insurance tax-free benefits can be proportionately assigned to certain beneficiaries in varying percentiles to meet your need for fairness. Life insurance could also pay off any serious debt that the company carries.

Estate planning will help you determine who will be the beneficiaries of your estate and who, if anyone, will take over the company. An estate freeze or a partial freeze is a way to transfer all or a portion of new growth in the value of the company to the new owner-heirs. You exchange all or a portion of your existing equity for a class of non-growth voting preferred shares. These preferred shares allow for a fixed income in retirement and the maintenance of future control, enabling the

freezor to take over to save the company from poor management by the new heirs or to sell the company. Shareholder agreements can help control borrowing, or facilitate the purchase of the business by the children operating it, from the children who do not. Estate freezes coupled with the intelligent use of life insurance can help reduce the effect of a massive tax-bite on your estate. Such planning can also free up capital for retirement when you know, for example, that life insurance will pay the tax bill versus money saved for retirement.

Increase YOUR FAMILY'S NET WORTH

Many who run their own business, may be running their children into massive debt if they are to succeed them. It is one thing to pass a company asset to your heirs, quite another if that asset is negated by liabilities.

For example, consider the hog farmer who appears to have the world by the tail—he has several farms, exports his swine by the truckload to the U.S.A., has farmers from all over the world coming to learn his secrets—even from Japan. What nobody, except his banker knows, is that he carries debt in excess of \$7 million. He cannot sleep when an infection hits his hogs because he worries that his American clients might sue the farm—meaning they sue him, his brothers, sisters, spouse, and children. Unfortunately, the threat of being sued is a minor catastrophe compared to the ever-growing loan that exceeds the value of his mortgaged farm, lien-ed-on machinery, vehicles, house, and hogs. Debt is a small word creating great problems. Interest is good if it is working for you—it can kill your business if it is working against you.

This farmer wants to pass the ownership of the hog farm to the children, not let them simply realize the bank ownership. There is only one solution. Life insurance, upon the death of this farmer, can redeem his debt 100% for the full value of all monies owing to the bank and any other creditor. The net worth of the family increases and assures that they can carry on the tradition.

