

The Succession Years

Strategies to ensure your financial security



The strategies you need to achieve your goals are as individual as you are. So while we can't make specific recommendations here, we want to give you an example of how insurance can be used to manage the risks to your business and personal financial security – while providing tax-advantaged investment and wealth management opportunities.

One of our TD Waterhouse® Life Licensed Advisors¹ developed this sample scenario of a typical business to illustrate how certain insurance strategies might give the owners the peace of mind and financial tools they need during the succession years of their business. Please remember that there are a variety of other strategies that may also be appropriate for your situation. We look forward to working with you to develop a customized plan that is uniquely yours.

Imagine U-b-U Uniforms Ltd.²

- Allen, a 65-year-old widower, is sole owner of this successful, second-generation uniform manufacturing business.
- His daughter, Rachel, works with him in the business.
- Allen's other three children do not work in the business.
- Allen is a non-smoker.

The situation

- The operating company (OpCo) is valued at \$15 million and has no debt.
- Allen's holding company (HoldCo) has \$4 million in fixed income investments and the balance of his personal assets total \$15 million.
- Allen has established an Individual Pension Plan and a Retirement Compensation Arrangement, both of which are fully funded.
- Both Allen and Rachel are insured by company-owned Key Person Protection policies in the event of death, disability and critical illness.
- Allen has \$10 million in personal life insurance.

The objectives

- With the value of the business comprising roughly half his estate, Allen's first concern is to find a strategy that will enable him to transfer the business to Rachel and still treat his other children equally.
- As an active and committed alumnus, he also wants to make a significant contribution to his college.
- In the process, Allen is looking to improve the cash flow within HoldCo and potentially reduce its Fair Market Value to moderate the taxes payable on his death.

Our TD Waterhouse Life Licensed Advisor's recommendations³

As the first step in tailoring a plan for U-b-U Uniforms, our TD Waterhouse Life Licensed Advisor would conduct a comprehensive review of the business and owner's circumstances and determine the funds available for insurance. Allen has \$500,000 annually to spend to ensure family harmony is preserved and a lasting legacy is in place.

After careful analysis, our TD Waterhouse Life Licensed Advisor recommends a combination of Corporate Insured Annuity, Estate Equalization and Charitable Giving strategies to meet Allen's needs.

The table below summarizes the various products that can be used when the owner is in good health to effect these strategies. On the next page is the allocation of available funds among the specific products chosen, followed by an overview of the coverage details and a rationale for each recommendation.

CORPORATE INSURED ANNUITY

- Fixed income investments are replaced with the combination of a non-prescribed annuity and a permanent life insurance policy.
- A Life Annuity is a contract sold by an insurance company that provides a guaranteed income stream for the life of the annuitant.
- Permanent Life Insurance (see description of the three forms under Estate Equalization Options below) is used to provide a death benefit to replace the capital used to buy the annuity.
- The income stream from the annuity pays the insurance premium and tax on the interest income received. The balance of the guaranteed annual payment is available for any corporate purpose including additional income to the owner.
- On the death of the owner, the proceeds of the life insurance policy, less the Adjusted Cost Base, flow through the company's Capital Dividend Account and may be distributed to Canadian resident shareholders (heirs) tax-free.

ESTATE EQUALIZATION OPTIONS

- Uses life insurance to equalize the percentage of an individual's estate that goes to each beneficiary.
- Any of the three forms of Permanent Life Insurance described below can be used.

Universal Life Insurance

- Provides lifelong coverage combined with tax-advantaged investment opportunities, which the policy owner controls.

Whole Life Insurance

- Remains in force for the life of the insured and offers a tax-advantaged build-up of cash value.
- The investment component of the policy is professionally managed.
- Built-in guarantees include level premium and minimum death benefit.

Term to 100 Life Insurance

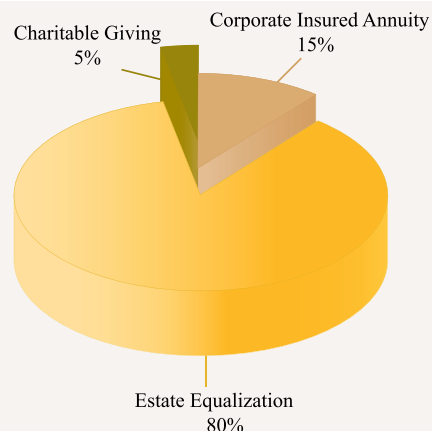
- Low cost.
- Offers guaranteed lifetime protection with premiums payable to age 100.
- Provides a level death benefit and guaranteed premiums.

CHARITABLE GIVING

- Uses any of the Permanent Life Insurance products described above to leverage corporate funds to make a charitable donation.
- The death benefit from a corporate-owned policy flows through the company's Capital Dividend Account to the owner's estate.
- The charitable donation is made by Will and the estate uses the tax credit to offset capital gains on the disposition of the owner's shares.

Funding allocation

This graph shows the approximate allocation of available funds to achieve the business owner's objectives. These funds are in addition to the premiums for existing corporate-owned and personal coverage.



Recommended coverage

Products used	Insured person: Allen		Rationale
<p>Corporate Insured Annuity</p> <p>Term to 100 Life Insurance</p> <p>Life Annuity</p> <p>Owner: HoldCo</p> <p>Beneficiary: HoldCo</p>	<p>Term to 100 Life Insurance coverage:</p> <p>\$3,000,000</p>	<p>Life Annuity annual income:</p> <p>\$230,000</p>	<p>This strategy will improve HoldCo's after-tax cash flow by roughly 50%. It also has the potential to reduce the Fair Market Value of HoldCo by \$3 million, which could significantly reduce the taxes payable upon Allen's death.</p>
<p>Estate Equalization</p> <p>Term to 100 Life Insurance</p> <p>Owner: OpCo</p> <p>Beneficiary: OpCo</p>	<p>Coverage:</p> <p>\$15,000,000</p>		<p>By allocating one-third of the proceeds to each of his three children who do not participate in the business, Allen has a cost-effective way of equalizing his estate, given his desire to transfer the business to Rachel. The balance of the equalization strategy can be accomplished through his will.</p>
<p>Charitable Giving</p> <p>Term to 100 Life Insurance</p> <p>Owner: OpCo</p> <p>Beneficiary: OpCo</p>	<p>Coverage:</p> <p>\$1,000,000</p>		<p>On Allen's death, this coverage will provide the company with \$1 million in life insurance proceeds, which will flow through to the estate (minus the Adjusted Cost Base) and can then be donated to his college. The estate will receive a tax credit to offset taxable gains.</p>

Ensure your financial well being

As a TD Waterhouse client, you have access to an exceptional team of banking, estate, trust, insurance and investment professionals who work together to deliver sophisticated wealth management solutions. As an integral part of this team, your TD Waterhouse Life Licensed Advisor is an objective specialist who has been carefully trained to provide a customized strategy using products from a variety of leading insurance suppliers.

Protect your business and personal financial goals – and the well being of your family. Find out what specific strategy recommendations your TD Waterhouse Life Licensed Advisor has for your unique situation.

We look forward to being of service.

¹ TD Waterhouse Life Licensed Advisors are licensed insurance agents of TD Waterhouse Insurance Services Inc. They offer insurance products from a variety of leading insurance suppliers.

² The people and situations identified in this brochure are fictional. The life stages and strategies identified are presented for illustration purposes only and are not intended to reflect the full range of stages or strategies available to customers. These examples are intended to assist customers in identifying their needs. While assumptions and values used for the examples were reasonable at the time the examples were prepared, using tax laws in effect at that time, they are for illustration purposes only. The circumstances emphasize the attributes of the products and strategies being described.

³ The insurance strategies described are not always appropriate. Particular insurance strategies should be evaluated in consultation with a TD Waterhouse Life Licensed Advisor or other professional.

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