

# The Early 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 Advisors<sup>1</sup> 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 early 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 Sharanna Design Ltd.<sup>2</sup>

- Anna and Sharon each own 50% of the company.
- They are both non-smokers and each draw \$90,000/year.
- Their account manager, John, is 40 years old, a non-smoker, and earns a base salary of \$100,000/year.

### Their situation

- The business is currently being valued as the partners prepare to enter into a shareholders' agreement. Once the agreement is in place, they will use insurance to fund the buy-sell terms.
- Cash flow is irregular and the owners want to leave as much money in the company as possible to sustain growth.
- Last year they set up a Group Insurance program that provides medical, dental and disability insurance to all seven employees to help improve morale and reduce turnover.
- They also bought Business Overhead Protection to ensure the business will be able to meet its everyday operating expenses should either of them become disabled.

### Their objectives

- Anna and Sharon have a colleague who recently lost her business due to illness. The experience brought home the fact that half of all heart attacks happen to people during their working years<sup>3</sup> – the same time frame when the odds of becoming disabled are eight times higher than the chances of dying<sup>4</sup>. They want to manage the risks to prevent their business meeting the same fate.
- In addition to their Business Overhead protection, they want to make sure the business has enough money to restructure or find a replacement should either of them become critically ill, disabled, or die.
- Given the number of accounts controlled by John, they want him to be included in their life and health risk management strategy.

## Our TD Waterhouse Life Licensed Advisor's recommendations<sup>5</sup>

As the first step in tailoring a plan for Sharanna Design, our TD Waterhouse Life Licensed Advisor would conduct a comprehensive review of the business and owners' circumstances and determine the funds available for insurance. The business has approximately \$10,000 annually to spend to ensure its viability.

After careful analysis, our TD Waterhouse Life Licensed Advisor recommends a comprehensive Key Person Protection strategy to address the partners' immediate needs, while providing flexibility to accommodate their evolving plans.

The table below summarizes the various products that can be used when the individuals are 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.

### KEY PERSON PROTECTION OPTIONS

#### Term Life Insurance

- Provides a death benefit for a fixed number of years (e.g., 10-year term) or until the insured reaches a specified age.
- Offers a relatively large amount of coverage for a relatively small premium making it ideal for situations where the need for protection is not permanent (e.g., until the business has sufficient retained earnings to sustain itself through a difficult transition) or funding is limited.
- Typically the cost of coverage remains level throughout the term and the policy may be extended or converted to permanent coverage without providing proof of health.

#### Disability Insurance

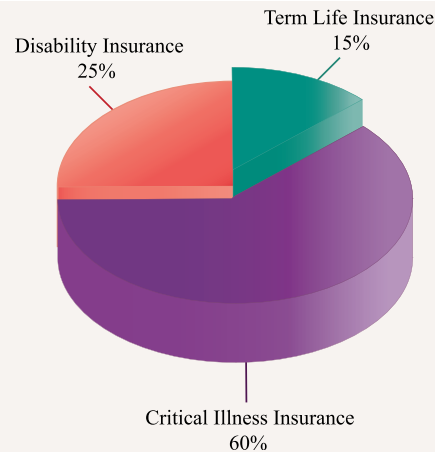
- Provides a monthly payment based on the insured person's salary, if that person is unable to work because of illness or injury.
- The length of time a person must be off work before benefits become payable and the duration of those payments are established when the policy is set up.

#### Critical Illness Insurance

- Provides a lump sum benefit if an insured person is diagnosed with any of a number of medical conditions such as heart attack, cancer or stroke.
- There are no restrictions on how the money may be used.
- Optional policy features may provide for a partial or full return of premiums if no claims are made.

## Funding allocation

This graph shows the approximate allocation of available funds to achieve the business owners' objectives. These funds are in addition to the company's Group and Business Overhead Insurance premiums.



## Recommended coverage

| Type of coverage   | Insured person: Anna                                  | Insured person: Sharon                                | Insured person: John                                  | Rationale   |
|--|---|---|---|---|
| <b>Term Life Insurance</b><br>(10-year term)<br><br><b>Owner:</b><br>Company<br><b>Beneficiary:</b><br>Company   | <b>Coverage:</b><br>\$750,000                         | <b>Coverage:</b><br>\$750,000                         | <b>Coverage:</b><br>\$250,000                         | The first \$250,000 coverage on each of the owners and the \$250,000 on John is Key Person protection – insurance to replace lost revenues and pay replacement recruitment fees should any of the three die. The additional \$500,000 on Anna and Sharon is interim coverage in anticipation of their pending buy-sell agreement.   |
| <b>Disability Insurance</b><br>(with a 90-day elimination period and 1-year benefit period)<br><br><b>Owner:</b><br>Company<br><b>Beneficiary:</b><br>Company              | <b>Coverage:</b><br>\$6,000/month (80% of her salary) | <b>Coverage:</b><br>\$6,000/month (80% of her salary) | <b>Coverage:</b><br>\$5,000/month (60% of his salary) | Given the significant risk of disability, this coverage will give the company a monthly benefit to help offset lost revenues in the event any of the three key people become disabled. The benefit period is set at one year to minimize the cost. If the key person's disability was prolonged, the company would need to replace her/him.   |
| <b>Critical Illness Insurance</b><br>(20-year term – renewable to age 75 – Return of Premium at year 20)<br><br><b>Owner:</b><br>Company<br><b>Beneficiary:</b><br>Company | <b>Coverage:</b><br>\$150,000                         | <b>Coverage:</b><br>\$150,000                         | <b>Coverage:</b><br>\$150,000                         | With a primary objective of protecting the business in the event any of the key people become critically ill, this coverage will give the company a significant lump sum benefit to help offset lost revenues should a medical crisis strike. The Return of Premium feature enables the company to cancel the policy in year 20 and get back all the premiums paid if no claims have been made, reducing the net cost of this valuable protection to the cost of money over the term. |

## 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.*

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Source: Heart and Stroke Foundation of Canada

<sup>4</sup> Source: Commissioner's IDA Morbidity and Commissioner's SO Mortality Tables, Society of Actuaries.

<sup>5</sup> 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.

All insurance products and services are offered by licensed agents of TD Waterhouse Insurance Services Inc., a member of TD Bank Financial Group. All insurance products contain certain restrictions, limitations and terms for continuing coverage as outlined in the specific policy documents. Please be sure to read all materials carefully.

® Trademark of The Toronto-Dominion Bank. TD Waterhouse Insurance Services Inc. is a licensed user.