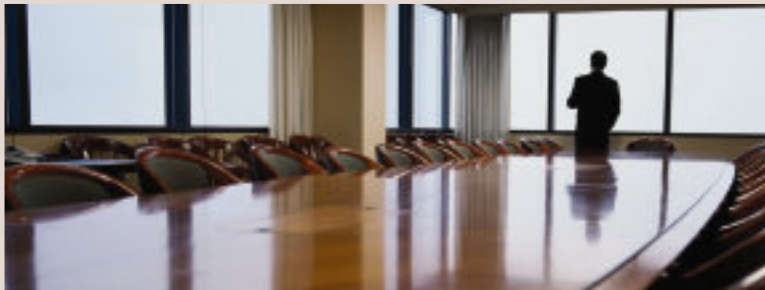




Protect your
business and
enhance your
financial
security



**Business
Insurance
Strategies**



Waterhouse



Ensure your financial security

There are often distinct advantages to being a significant shareholder in a private company. It might not always feel that way, particularly if you are an owner / manager – the risks and responsibilities are with you every single day. But, as a business owner, there are a number of sophisticated, cost-effective ways to manage the risks to your business and personal financial security.

As a TD Waterhouse® client, you have access to a broad range of financial experts who work together to deliver integrated wealth management solutions including:

- Financial planning
- Portfolio management
- Cash management
- Tax planning
- Estate planning
- Succession planning
- Retirement planning
- Insurance planning

By giving you one-stop access to experts in each of these fields, TD Waterhouse can provide you with a comprehensive wealth management solution that meets your business and personal needs today. And we will review and adapt those strategies as your needs change or become more complex.

Immediate protection and tax-advantaged growth

With the right insurance strategies in place, you can protect your business against financial loss due to illness, disability or death. In addition to this unparalleled level of risk management, the tax treatment of certain insurance policies – and their benefits – make them ideal vehicles for income maximization and retirement and estate planning.

- Universal life and whole life insurance have unique tax-advantaged investment opportunities, significantly changing the economics of these policies. In fact, some experts regard tax-exempt life insurance as a distinct asset class and, therefore, an important part of a balanced, diversified investment portfolio.
- Life insurance benefits are paid out tax-free.
- When a company is the owner and beneficiary of a life insurance policy, the total death benefit less the adjusted cost basis flows into the company's capital dividend account. This allows the proceeds to be paid out tax-free to the shareholders.



Financial security for you and your business

The combination of immediate protection, sheltered growth and tax-advantaged death benefits has been refined into a variety of insurance-based strategies that can be used to:

- Protect your business against the death of an owner or other key person
- Plan your business succession
- Meet the tax and estate planning needs of transferring ownership to a family member
- Equalize your estate for your heirs
- Protect your business if an owner, or other key person, suffers an accident, sickness, disability or critical illness
- Provide group life and health benefits to employees
- Shelter a portion of corporate profits from taxes
- Attract and retain key people with supplemental retirement income plans
- Supplement your own retirement income
- Potentially protect some assets from creditors
- Leave a legacy to charity

While your unique circumstances require the expert advice of an insurance specialist, the overview of some typical business stages¹, below, will give you a better idea of how the various insurance strategies on the following page can be used to meet your specific needs – now and in the future. NOTE: not all the circumstances in each business stage need apply in order for the strategies to be appropriate.

BUSINESS STAGES

THE EARLY YEARS (Page 6)

CIRCUMSTANCES: Cash flow tends to be irregular
Debt ratio may be high
Growth dependent on owner and key employees

CONCERNS: What happens if one of the owners or key employees can't work or dies?
How do we keep employees motivated?

STRATEGIES: 1 2 3 4 6

THE ESTABLISHED YEARS (Page 8)

CIRCUMSTANCES: Cash flow reasonably steady
Debt ratio decreasing
Asset and growth management dependent on key executive(s)

CONCERNS: How do we reduce taxes on our capital surplus?
What happens to the business if one of the partners dies?
Have we got the right retirement plans for our key people?

STRATEGIES: 1 2 4 5 6 7

THE SUCCESSION YEARS (Page 10)

CIRCUMSTANCES: Cash flow reasonably steady
Debt ratio reasonably low
Increased asset accumulation
Owner looking to exit the business

CONCERNS: How do I ensure all my heirs are treated fairly regardless of their participation in the business?
Is there an effective way to give money to charity out of the business?

STRATEGIES: 5 7 8 9 10

NOTE: the strategies shown below often apply to more than one business stage.

STRATEGIES

- 1 **Key Person Protection:**
Insures your business against the loss of income resulting from the death or disability of a key employee. (Page 7)
- 2 **Disability Buy-Out Coverage:**
Provides the money for non-disabled partners in your business to buy the shares of a partner who becomes disabled. (Page 7)
- 3 **Business Overhead Protection:**
Enables your business to pay the office expenses if you become disabled and cannot work. (Page 7)
- 4 **Group Benefits:**
Sponsored insurance plans (life, health, dental) offered to employees to improve their well-being and increase retention. (Page 7)
- 5 **Corporate Surplus Shelter:**
Combines tax-advantaged investment growth with a potential tax-free capital dividend to shareholders. (Page 9)
- 6 **Insured Buy / Sell:**
Provides the necessary cash flow to buy the shares of a shareholder who dies. (Page 9)
- 7 **Executive Retirement:**
Combines tax-advantaged growth with a potential tax-free future cash flow and creditor protection. (Page 9)
- 8 **Corporate Insured Annuity:**
An alternative to company-owned guaranteed investments that can reduce taxable income and lower the fair market value of the business. (Page 11)
- 9 **Estate Equalization:**
Ensures all your heirs are treated fairly, regardless of participation in the business. (Page 11)
- 10 **Charitable Giving:**
Reduces taxable income now, or at death, while leaving a lasting legacy. (Page 11)



THE EARLY YEARS

When your business is starting out, building and maintaining a positive cash flow is crucial. Energies are focused on growth – but success typically hinges on your efforts and those of one or two key employees. It's important to protect the business against the risk of

individual disability, critical illness or death. You also want to provide incentives to attract and retain the employee talent that will help move the business to the next stage.

Imagine Sharanna Design Limited¹ ...

Sharanna Design grew out of a long-standing working relationship between Anna and Sharon. Each partner owns 50% of the shares and, on top of their demanding work schedules, both women also have the demands of young families.

When they started the business two years ago, it was just the two of them. Now there are seven employees and they've won a number of impressive accounts. One of the keys to their success in bringing in new business is John – a well-connected account manager.

Anna and Sharon have put everything into their business and are determined to make it succeed for the long-term. They also recognize that Sharanna Design needs to be able to keep talented creative people in a market where headhunters are constantly trying to lure them away.

Before going into the business, Anna had consulted a financial planner. At a subsequent review meeting, the planner referred both Anna and Sharon to an insurance specialist² to help address their evolving risk management needs.

INSURANCE STRATEGIES FOR THE EARLY YEARS³

Key Person Protection

Anna and Sharon recognize that it's essential to protect their business against the risk that either of them becomes disabled, critically ill or dies. But with the volume of business controlled by John, they acknowledge that he also should be defined as a key person. Using a combination of term life, critical illness and disability insurance, the partners could safeguard their business against loss of profits and ensure they have some breathing room to restructure or find a replacement should a major life event affect any of the three key people.

Disability Buy-Out

Anna and Sharon have a shareholders' agreement that includes a process for one partner to buy the other's shares if she is no longer able to participate in the business. When they started the company and signed the agreement, they were too busy to address the issue of how either of them would pay for the other's shares. Now they can use disability insurance to provide a source of funding. If either of them were disabled for a given amount of time, the policy would enable the active owner to remain in control of the business and give the disabled owner an assured source of income.

Business Overhead Protection

With a business overhead policy, Sharanna Design could secure protection to meet its everyday expenses should either of the owners become disabled. This would keep the business viable until the disabled owner could return to work and give everyone time to come up with an alternate plan, if required.

Group Benefits

Offering sponsored life and health insurance plans is an effective way to compete for human resources. Cost-effective benefits like medical, dental and disability insurance can help to improve employee productivity and reduce staff turnover. And special benefits for owners and other key individuals can be tailored to meet a variety of needs.

To review other strategies that may also be appropriate for the early years of your business, please refer to page 4.



THE ESTABLISHED YEARS

With the company established and cash flow steady, the focus is on managing assets, maintaining growth, and ensuring key executives remain committed to the business. Permanent life insurance products can shelter the investment growth of corporate surpluses

from tax. In the event of the death of an owner, term or permanent life insurance can keep the business in the hands of the surviving owners. And there are a variety of insurance-based retirement strategies that provide secure, flexible retirement income options for owner(s) and other high-earning executives, with the added benefit of repositioning funds outside the company.

Imagine Pack Brothers Luggage Shop¹ ...

Owned by three brothers, Pack Brothers Luggage Shop has 31 stores, annual sales of \$15 million and more than 120 employees.

Over the past few years, corporate assets have increased significantly and there is surplus capital “trapped” inside the company. To make matters worse, the investment income generated by this capital is taxed at the highest corporate rate. But if it was taken out by either dividend or salary, it would then be taxed at the owners’ highest personal rate.

The brothers are also concerned that they have put off funding their buy / sell agreement. They now feel it’s important to ensure the cash flow is there to buy out shares if one of them dies.

With one owner now in his 50s, the three brothers have started to talk about their retirement plans. The older brother is particularly worried about his retirement income stream given that the majority of his personal assets are tied up in the company. On the subject of retirement, they also want to see what they can do to strengthen the “golden handcuffs” on their Vice President, Operations.

When the older brother expressed his concerns to his investment advisor, the advisor referred him to an insurance specialist. With extensive experience in similar situations, the insurance specialist was able to make a series of recommendations to address both the personal and business needs of the brothers.

INSURANCE STRATEGIES FOR THE ESTABLISHED YEARS³

Corporate Surplus Shelter

One way to release “trapped” surplus capital is to buy a tax-exempt permanent life insurance policy with the company as both the owner and beneficiary. Surplus funds are then transferred into the policy where growth is sheltered from tax. Upon the death of a life insured, the company receives a tax-free death benefit that, minus the adjusted cost base, is credited to the Capital Dividend Account (a notional account all private companies are entitled to, that keeps track of various tax-free surpluses). The final piece of the puzzle – and the one that makes it all work – is that surpluses in the Capital Dividend Account can be paid out tax-free to Canadian resident shareholders.

Insured Buy / Sell

There are a variety of ways to use insurance to guarantee the necessary cash flow to buy the shares of a shareholder who dies. One is for the owners to hold life insurance policies on one another. If any of these policies is permanent insurance, the strategy has the added benefit of potentially providing additional retirement income to the policyholder through the accumulating cash value. In all cases, the objective is to ensure that none of the heirs of the company's owners are forced into the business in a situation that could be less than ideal for all concerned.

Executive Retirement

Whether for an owner / manager or a key executive, there are a number of insurance-based strategies that can ensure a secure, flexible source of retirement income well beyond what is possible in an RSP or defined contribution plan. Individual Pension Plans are defined benefit plans that have significant funding opportunities, including the potential for past service contributions. An Insured Retirement Plan combines the tax-advantaged benefits of an exempt life insurance policy with tax-free future cash flow. A Retirement Compensation Arrangement (RCA) is a special unregistered retirement plan where tax-exempt insurance can be used to optimize investment growth. In all cases, these strategies have the potential to creditor-proof the relevant funds and are often central to the tax planning process at the time of a buyout.

To review other strategies that may also be appropriate for the established years of your business, please refer to page 4.



THE SUCCESSION YEARS

The successful, mature business typically has steady cash flows, low debt ratios, well-managed assets and executive retirement plans in place. As the owner / manager's retirement nears, corporate insured annuities can be used to reduce taxable income and lower the fair market value of the business. In addition, business owners who are concerned with issues of fairness – how to equalize the children's inheritance when one or more do not want to participate in the business – and “giving back to the community”, can use life insurance strategies to secure effective solutions.

Imagine U-b-U Uniforms Limited¹ ...

Allen's father started this private school uniform business 75 years ago. At age 59, Allen is comfortable that the restructuring they have been through over the past three years has positioned the company to survive for another generation. The company is debt free and has a sizeable portfolio of low yielding, guaranteed investments.

Allen's daughter, Rachel, has worked in the business since she was in high school. His two older sons and younger daughter also briefly worked in the business, but it wasn't for them. Allen is comfortable with the idea that Rachel alone should inherit the business. But the value of the company will certainly be more than 50% of his estate and he needs to find a way to treat all his children equally. He also wants to make a generous contribution to his college's long-term financial health.

Allen is working with a financial planner who has referred him to an insurance specialist. The insurance specialist conducted a thorough review of Allen's personal and business situation and recommended three strategies to augment his existing planning and address his main concerns.

INSURANCE STRATEGIES FOR THE SUCCESSION YEARS³

Corporate Insured Annuity

A corporate insured annuity allows business owners to leverage their guaranteed investment vehicles. The company's interest-bearing investments are sold and the proceeds used to buy a non-prescribed annuity (an annuity where the actual interest income is taxable) and a permanent insurance policy. The income stream from the annuity will pay the insurance premium and tax on the interest income received. The remaining amount would be available for corporate purposes, including additional income to the owner(s). The insurance policy can also be leveraged for other investments. Then, upon the death of a life insured, the proceeds of the policy would flow through the company's Capital Dividend Account and could be distributed to Canadian resident shareholders, tax-free. In addition to the benefits of reduced taxable income now and an eventual tax-free benefit to shareholder / heirs, because the value of the annuity approaches zero, the strategy also lowers the fair market value of the company for capital gains purposes.

Estate Equalization

Estate equalization is a strategy that uses life insurance to equalize the percentage of a parent's estate that goes to each child, thereby ensuring fairness and maintaining family harmony. In Allen's case, Rachel would inherit the business and, in addition to their share of the remainder of his estate, each of his other children would receive the death benefit from one or more permanent life insurance policies calculated to balance the net result.

Charitable Giving

There is a particularly effective charitable gifting strategy that uses corporate funds. Essentially the company would buy a permanent life insurance policy on Allen. After his death the value of the policy would be paid to the company, which would then have the proceeds flow through the Capital Dividend Account to Allen's estate. The charitable donation would be made by way of Allen's will and his estate could then use the deduction to offset the capital gains on the disposition of his shares.

To review other strategies that may also be appropriate for the succession years of your business, please refer to page 4.



Take the next step

The strategies reviewed on the previous pages have hopefully given you a better understanding of how insurance can be used to ensure your personal and corporate financial well-being. By helping you to manage risk far more efficiently than you could do on your own, these insurance strategies can provide significant financial benefits and real peace of mind. And by giving you access to tax-advantaged investment opportunities, they can also contribute to the accumulation of wealth for your shareholders, yourself and your loved ones.

Your TD Waterhouse insurance specialist will work with you and your financial advisor to customize the insurance strategies that best meet your business and personal needs. In developing these recommendations, TD Waterhouse draws on a full range of life, health and wealth protection products from Canada's leading financial services companies.

You've worked hard for your success. Let the TD Waterhouse team help you develop effective strategies to protect and enhance it. For more information or to confirm your appointment with one of our insurance specialists, please call your advisor today.

Core insurance products⁴

LIFE

- **Term Life Insurance** provides a death benefit for a fixed number of years (e.g., 10-year term) or until the insured reaches a specific age.
- **Permanent Life Insurance** is a generic term for coverage that can last for life. Included in this category are:
 - **Whole Life Insurance** – which remains in force for the life of the insured and offers a tax-advantaged build-up of cash value.
 - **Universal Life Insurance** – which provides lifelong coverage combined with tax-advantaged investment options that you control.
 - **Term to 100** – offers guaranteed lifetime protection with premiums typically payable to age 100.

GROUP INSURANCE

- **Group Insurance** provides coverage for a defined group of individuals (and sometimes their dependents) for one or more of the following types of insurance: life, health, dental, short-term disability and long-term disability.

LIVING BENEFITS

- **Disability Insurance** – income replacement if you are unable to work because of illness or injury.
- **Long-Term Care Insurance** – funds that can be used for living assistance if you become unable to care for yourself.
- **Critical Illness Insurance** – lump sum payment if you are diagnosed with a medical condition such as heart attack, cancer or stroke.

INVESTMENTS

- **Life Annuity** – a contract sold by insurance companies that provides a guaranteed income for life.
- **Insured Annuity** – a two-part plan that combines income (annuity) with a guaranteed return of capital to your estate (life insurance).
- **Segregated Funds** – investment funds offered by insurance companies that combine the growth potential of mutual funds with the security of insurance.



Waterhouse