Insurance Considerations for Business Owners

Insurance is generally thought of as a risk management tool; however, for a business owner or incorporated professional, insurance can provide multiple benefits, including the potential for significant tax savings. This article looks at three insurance strategies that can be implemented into a wealth management plan to supplement retirement savings, protect a business, and help maximize the value of an estate.

Portfolio Strategy

May saw equity markets give back some of the gains that were seen in the first four months of 2019. As trade negotiations between the US and China broke down, stock markets around the world took the brunt of the impact, more so than economic activity so far. In the US, the S&P 500 was down over 6%, while here in Canada the S&P/TSX was down just over 3%.

We remain optimistic on equities given our view that the odds of a North American recession are still relatively low over the next year, even after factoring in the aforementioned growing trade war between the US and China as well as a flat yield curve in Canada and the U.S.

In fixed income, we remain cautious. Clearly stocks are more expensive than they were five years ago, but so are fixed income markets, and we believe high quality stocks present better relative value than most bonds. As a case in point, more than a quarter of the global bond market trades with a negative yield to maturity (meaning less than zero percent interest rates before accounting for inflation). In North America, yields remain positive but the limited inflationary pressures have also contributed to a flattening of the yield curves. If we combine the limited term-premium paid on longer-term bonds, with reduced premium paid on corporate bonds, in our opinion fixed income investments represent limited relative investment value.

As a result, we maintain an overweight position in short-term investments, an underweight to fixed income and an underweight to equities as we strive to manage downside risk for our clients. As our process identifies an attractive opportunity to increase allocation to fixed income or equity, we will reduce the short-term investment allocation to do so.

As always, if you have any questions, please do not hesitate to contact us.

Insurance Considerations for Business Owners and Incorporated Professionals

Insurance is generally thought of as a risk management tool; however, for a business owner or incorporated professional, insurance can provide multiple benefits, including the potential for significant tax savings. This article looks at three insurance strategies that can be implemented into a wealth management plan to supplement retirement savings, protect a business, and help maximize the value of an estate.

Supplement retirement using the corporate insured retirement strategy

As a business owner/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 Registered Retirement Savings Plan (or Individual Pension Pan), and Tax-Free Savings Account, you may still want to consider additional options for accessing the funds accumulated in your company to help fund your retirement. Implementing the corporate insured retirement strategy can help you accomplish this by using a permanent life insurance policy and leverage to provide:

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

To implement the corporate insured retirement strategy, your company purchases a permanent life insurance policy based on your needs and those of your business. Please note that 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. Premiums are structured to build a cash value within the policy, so that investment earnings within the policy grow tax-deferred until they are withdrawn.

When you are ready to begin receiving retirement income, the life insurance policy is leveraged to access the cash value. Leveraging involves having your company arrange a loan or line of credit through your financial institution using the accumulated cash value within the life insurance policy as collateral for the loan. The funds borrowed by your company are used to fund taxable dividend or bonus payments directly to you. The maximum amount you can borrow ranges from 50 to 90 per cent of the cash value within the policy.

The company will be charged interest on the loan, but often an additional loan can be arranged to cover the interest payments. The accumulated loans must remain within the lending limits, which are based on the accumulated cash value within the policy, to prevent your policy from terminating.

For this insurance strategy to provide the maximum benefit, you should have a long enough time horizon until you retire in order to accumulate a large enough cash value in the policy, so as 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 can result in your corporation's investment portfolio becoming over exposed to fixed income investments. If you would like to diversify your assets without sacrificing liquidity, while simultaneously maximizing the value of your estate, you may want to consider the corporate asset transfer strategy. Individuals with a cash flow surplus in their business who are interested in a tax sheltered flexible investment to house a portion of that surplus, can also benefit from this strategy.

The corporate asset transfer strategy involves having your company purchase a permanent life insurance policy, and transferring a portion of its fixed income investments to the insurance policy, which reduces the taxes on the company's investment income. Even though the insurance carrier may also invest in fixed income investments, the insurance policy's tax sheltering characteristics prevent the substantial erosion of value each year. Eventually, when the death

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benefit is paid, it will be received by the corporation tax-free. The amount that exceeds the adjusted cost base of the policy can be passed on to your beneficiary(ies) tax-free through your company's capital dividend account.

Buy-sell agreements can protect you and your business

For business owners, life changes such as retirement, disability, or death, can impact how your company is owned and operated. Buy-sell agreements (also known as "buyout agreements") between business owners offer a degree of protection against situations that can affect the business. For example, in the event of your business partner's death, where will the money come from to buyout shares from their heirs? Using life insurance to fund a buy-sell agreement can be a cost-effective way to put this important legal agreement in place. The premium is low in comparison to the lump sum that will be paid out, and the insurance proceeds can flow though the company tax-free through a capital dividend account to shareholders for share redemption. This strategy prevents you from having to use your own funds or business assets to fund the agreement or buyout of a deceased or disabled owner's share of the business.

Contact your BMO financial professional for more information on these insurance solutions for business owners.

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