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INSURING SUCCESS

S.O.S.™ protects and profits

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Business owners and incorporated professionals often underestimate the importance of having life insurance and other living benefits such as critical illness insurance (CI), long-term disability insurance (LTD) and long-term care insurance (LTC) to protect them - until their health goes awry.

These products are key parts of a protection portfolio and need to be considered as part of an overall financial planning strategy with a professional insurance advisor, ideally a Certified Financial Planner.

Unfortunately, most business owners don't have the proper protection in place. They are kept busy taking care of their clients, staff, shareholders, partners, creditors, etc., so they haven't invested the time to take care of their own financial "housekeeping."

They usually don't have the right amount of protection in place because insurance premiums can appear very high and unaffordable. If only the insurance costs could be reduced to zero, then everyone would have what they truly need.

My Investors' Digest article of Aug. 25, 2017 explained how to get large life insurance policies without tying up your own money.

In a similar vein, the Shared Ownership Strategy (S.O.S.™) for critical Illness insurance allows business owners and incorporated professionals to enjoy the best of both worlds: proper protection for themselves, their families and their business – with a substantial, guaranteed and tax-free return on investment.

What is critical illness insurance?

CI remains the best-kept insurance secret in Canada. Despite being around for more than 20 years, most insurance advisors have never sold a policy.

Features of CI coverage include:

• CI covers more than two dozen conditions like heart attack, cancer, stroke, bypass surgery;

• Pays up to $2 million in a tax-free lump sum 30 days after diagnosis of a covered condition;

• The money has no strings attached and can be used as you wish;

• Returns all your premiums if you don't make a claim and just stay healthy (if you add an optional return of premium rider to your policy)

Imagine paying your car or home insurance premiums for 15 years and getting back all your money if you don't make a claim.

Most people have either never heard of CI or confuse it with long-term disability insurance.

Shared ownership, lower cost

Shared ownership arrangements have been used for many years to acquire permanent life insurance while providing attractive tax benefits to companies' shareholders/owners/managers and key persons.

This strategy is still a very attractive way to acquire life insurance at the lowest possible cost.

The CI Shared Ownership Strategy involves sharing the ownership rights to a CI policy. To apply it, there are three prerequisites: a cash flow within the company, an insurable individual (be it a company owner, shareholder, executive or other key person) and a professional insurance advisor.

What the strategy accomplishes

This strategy is most appropriate for companies with a single shareholder, age 25 to 55, who is also a key employee (e.g. owner- managed businesses and professional corporations). Both the company and the employee/shareholder stand to benefit.

If you are a company owner, shareholder, executive or key person this strategy will:

• Protect against financial consequences of a critical illness

• Ensure continuity of your business in the event of a critical illness

• Provide a tax-free benefit if you remain in good health

• Provide a tax effective way to withdraw money from the corporation

How the strategy works

Firstly, purchase Critical Illness Insurance (CI) coverage on participating company owner(s), shareholder(s), key people and executives with premiums paid for by the company.

Then, choose the optional return of premium (ROP) rider with the CI – it provides for full reimbursement of all the premiums any time after 15 years if there's no claim for a critical illness.

Designate the company, not the insured owner(s), shareholder(s), key people and executives, as the beneficiary of the CI policy's critical illness benefit. The company pays the insurance premium for the CI benefit only, using tax-effective corporate dollars.

Name the insured individual, not the company, as the beneficiary of the ROP premium reimbursement. The insured individual pays the premium personally for the ROP portion only.

At any time after 15 years, the insured individuals can receive a cheque from the insurance company for all premiums paid by both the company and the individual up to that point.

Some people decide to "self-insure" – they don't buy CI insurance because they have access to their own money if they ever experience a critical illness and/or they think they can invest the CI premiums in a traditional investment portfolio and "do better."

Insurance as profit opportunity

The investment opportunity in the CI Shared Ownership Strategy is very attractive, allowing shareholders to withdraw funds from their corporation tax-free. This strategy should not be ignored by even the savviest investor.

When set up properly, the ROP (which includes all the premiums paid by the corporation) is received by the shareholder/employee.

The rates of return are very high, often in the pre-tax range of more than 30 per cent. This return assumes the shareholder or employee does not get critically ill and elects to take the ROP after 15 years.

Of course, the company needs steady cash flow to pay the insurance premiums for 15 years, since the full reimbursement of premiums (ROP) is only available after that time. If CI protection is needed beyond 15 years, a separate contract should be used.

It's prudent to consider the practical issues (as well as the tax and legal issues) in determining whether the CI Shared Ownership Strategy is appropriate for you, and if there are any downside risks given your own personal situation.

This strategy involves tax and legal issues that should be considered with the assistance of your own professional advisors to determine which ownership structure is most suitable for your needs – whether owning the policy individually or corporately in its entirety, or taking on a shared ownership arrangement.

In addition to evaluating the tax and legal issues associated with the CI Shared Ownership Strategy, you should take a step back to review your overall insurance, retirement and estate planning programs with an experienced Certified Financial Planner to ensure that you are properly protected, no matter what happens.

Our seasoned advisors are available to help readers across the country. Please don't hesitate to contact us for a no-obligation consultation.

Mark Halpern is one of Canada's top life insurance advisors, a Certified Financial Planner (CFP), Trust and Estate Practitioner (TEP) and CEO of WEALTHinsurance.com®.
He guides successful business owners, who are already challenged for time, through the complex process of ensuring the people and organizations they care about are taken care of.
If you are like his other successful business owner clients, you are looking to reduce your tax obligations, preserve your wealth and leave a legacy. Incompletions rob us of energy. Mark collaborates with your professional advisory team to achieve your desired outcomes. His approach is simple. He makes sure what is important to you gets done. He gets you organized, provides a big picture view of your financial affairs, determines your strategy and helps you take action. He will simplify the complicated, so you and your family can rest easy.
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