

11 Success Strategies For Business Owners



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TABLE OF Contents

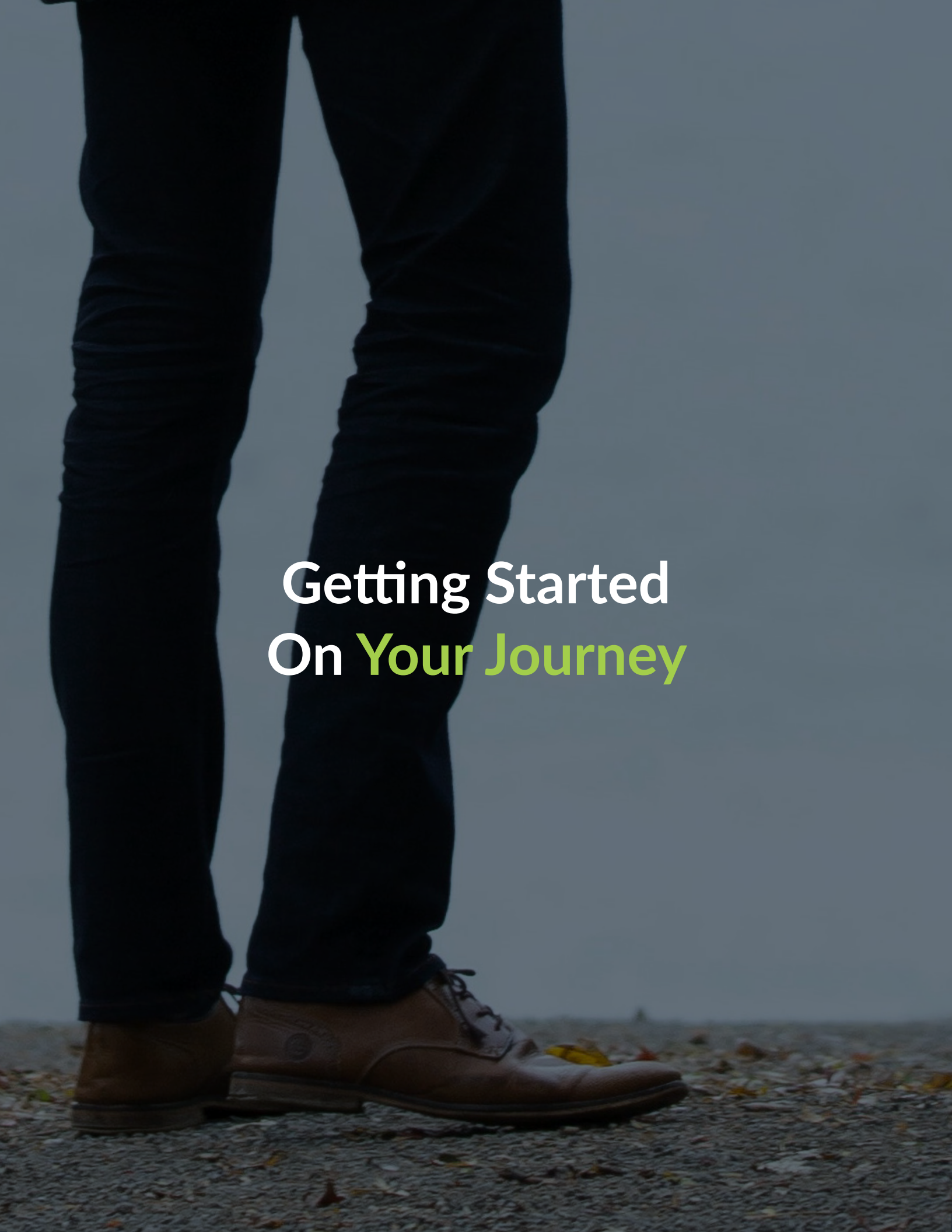
Getting Started On Your Journey 3

The Right Path For Business Owners 4

Eleven Success Strategies for Business Owners

- 1 Understanding Your Situation 6
- 2 Funding Your Buy-Sell Agreement 7
- 3 Securing Your Key People 8
- 4 Covering Your Business Loan Debt 9
- 5 Insuring Yourself For Disability 10
- 6 Protecting Your Health 11
- 7 Supplementing Your Retirement Income 12
- 8 Investing Your Excess Cash 13
- 9 Planning For Capital Gains Tax Liabilities 14
- 10 Planning for Business Succession 15
- 11 Creating Your Estate Plan 16

Working With A Right Path Advisor 17

A low-angle photograph of a person's legs from the knees down, wearing dark blue jeans and brown leather oxford shoes. The person is standing on a gravel path covered with dry, fallen leaves. The background is a soft, out-of-focus landscape with a light sky. The text "Getting Started On Your Journey" is overlaid in the center, with "Getting Started" in white and "On Your Journey" in a light green color.

Getting Started On **Your Journey**

The Right Path For Business Owners

These days, your business and management team have more challenges than ever to succeed, but that doesn't mean just having a plan – it means planning well. If you want to take your business and team to the next level, you need a partner you can trust to help you navigate The Right Path to success.

With Selectpath, you'll have a partner committed to:

- ✓ Building strong, mutually-beneficial relationships
- ✓ Providing tailored solutions to your unique needs
- ✓ Reviewing and developing your employee benefit and group pension plans, group and executive retirement strategies and business protection plans
- ✓ Shopping the marketplace for the best-value products and services
- ✓ Offering administrative support through a dedicated Client Care Team

At Selectpath, we take a life-centred approach to financial planning. That means taking the time to develop a deep understanding of your business and personal life so that we can help you develop a plan to achieve your goals.

1 Organization

Life is complicated – that's even more true when you're running a business. We'll help you to get your financial house in order, allowing you to understand your current situation and work towards your goals.

2 Accountability

With so many moving parts, prioritizing goals can be challenging. We can help you identify the most important steps and follow through on them.

3 Objectivity

Decisions between business partners and family members can often be emotionally driven. We will provide an objective, third-party view, helping you come to a decision that benefits everyone.

4 Proactivity

Before any potential planning gaps become an issue, we can help you identify them, avoiding major disruptions to your business or personal life.

5 Knowledge

Once we understand your situation, we'll explain various potential solutions to help you to make an educated decision.

6 Partnership

We'll act as your partner as you navigate planned or unplanned life transitions, such as retirement, business succession, health issues and other major events or milestones.

A low-angle, upward-looking photograph of four business professionals in an office setting. They are all smiling and have their arms raised, with their hands stacked on top of each other in a celebratory high-five gesture. The person in the center is a man in a dark suit and light shirt, looking up with a joyful expression. To his left is a woman with long blonde hair, also smiling. To his right is a man in a blue denim shirt over a white t-shirt, looking up. Another person's arm is visible at the top left. The background shows office elements like a whiteboard with charts and papers, and a desk with a clipboard. The overall mood is one of success and teamwork.

11

Success Strategies For Business Owners

1

Understanding Your Situation

Every business and business owner is unique. The first step in identifying the potential risks and planning opportunities for you is having a deep understanding of your business, your life and your goals.

Financial planning involves balancing numerous business needs with your personal needs during each stage of your business and life:

Survival Stage	Growth Stage	Maturity Stage	
Personal financial planning for the owner Risk management • Premature death • Will • Disability • Critical illness • Global Medical Insurance Retirement planning • Registered plans • IPP and RCA • Asset allocation • Non-registered savings plans • Investment Counsel Other savings goals • Children's education • Home purchase • Tax minimization	Business continuation planning Key person protection Buy-sell agreement • Premature death • Retirement • Disability • Critical illness Business loan protection Executive benefit planning • Global Medical Insurance	Business succession planning Ownership transition • Sell • Liquidate • Estate equalization • Retain in family • Successor training • Buy-sell agreement among successors Management transition Retirement income planning	Estate planning Will planning • Estate equalization • Family law Powers of attorney Tax planning • Estate freeze • Share redemption • Liquidity • Spousal Loans Retirement income planning Trust planning • Family trusts • Spousal trusts Philanthropy

2

Funding Your Buy-Sell Agreement

Buy-sell agreements provide for the transfer of a business' ownership in different circumstances, including:

- **Death or Disability:** The remaining owners may not want to be in business with a deceased owner's heirs or non-active disabled owner, while the heirs or disabled owner may prefer to receive their share of the business in cash.
- **Retirement:** If an owner retires, a buy-sell agreement paves the way for business as usual.
- **Disagreement:** If the owners have a falling out, a buy-sell agreement enables the business to be "wound up" in an orderly fashion.

In any of these scenarios, a buy-sell agreement should address and answer the following questions:

Who is buying the shares?

What are the terms of the sale?

When is the sale taking place?

Where is the money coming from?

How much is the purchase price?

To ensure that money is available to buy the shares of a deceased or disabled owner, you should have the proper funding in place. Life insurance can provide the necessary dollars at a far lower cost than borrowing money to fund your buy-sell agreement.

The goal of any buy-sell agreement is simple – satisfying all parties to allow the business to continue to operate. We have the expertise to structure an effective funding vehicle that complements your buy-sell agreement, so don't wait until it's too late.

3



Securing Your Key People

Key Owner/Executive Protection

Business owners and other key executives spend considerable time and effort to acquire the experience, knowledge, reputation, relationships and skills that make them valuable to your business. If they die, your business loses a key member of its management team, which can have severe financial impacts.

During the disruption that follows the death of a key person, it's not uncommon for:

- **Lenders to cut back credit**
- **Creditors to press for immediate payment**
- **Debtors to delay making payments**
- **Employees and customers to lose confidence**
- **Competitors to take advantage of the situation**

However, you can greatly reduce the impact of this situation with a life insurance policy that protects your key owner or executive. If they die, the life insurance proceeds give your business working capital to meet immediate needs and provide funds to recruit, hire and train a successor. The value of these benefits far exceeds the cost of life insurance.

Key Employee Protection

The most important element of any successful business is your people, which doesn't just include your experienced senior executives. Other key employees could be:

- **Top salespeople who continue to shine year after year**
- **Technical wizards who find the best technology for the job**
- **Office managers who turn administrative units into works of art**

The loss of a valuable employee through death or permanent disability can negatively impact the position and public perception of your business, but this situation doesn't mean the end of your success or loss of your momentum – key employee protection plans exist to fulfill this specific need.

A corporate-owned life or disability insurance policy on key employees will provide your business with tax-free dollars to offset lost revenues and reassure concerned creditors, giving you time to regroup and find your key employee's successor.

There's no need to panic – the right package will buy you time. We can tailor your key person coverage package to ensure you have the funds to keep your business operating at peak form.

4



Covering Your Business Loan Debt

If you're a small business owner, you know how difficult it can be to obtain adequate debt financing, as creditors often require you to guarantee a loan personally. However, in the event of a key person's death, it may cause creditors to demand immediate repayment of any outstanding debts.

This unfortunate situation can place a significant burden on the business, forcing the liquidation of assets at fire sale prices on top of other financial struggles. If you've personally guaranteed the debts incurred by your business, you or your estate may be liable for any outstanding debts that your business cannot pay.

Your solution is to purchase a life insurance policy for you and your key executives. When purchased for business loan protection, a life insurance policy can:

- Help you negotiate loans and repay business debts with tax-free proceeds
- Prevent you or your estate from becoming personally liable for business debts
- Offer tax-deductible premiums if collaterally assigned to a restricted financial institution

A creditor may require you to purchase collateral life insurance to protect their interests, particularly if the key person's death could affect the value of business assets used to secure the debt. In other cases, you'll want to ensure that debts can be fully repaid to minimize financial risks for your heirs and to permit the business to continue free of debt.

These risks may be uncommon, but you should never assume they couldn't happen to you. Our knowledge and expertise will help you prepare for the most consequential risks of business ownership.

5

Insuring Yourself For Disability

A disability can cause your business to suffer, which means you may not be able to rely on it for your income. Have you considered what would happen if you became severely injured and unable to operate it on a day-to-day basis? Ask yourself:

How would your business function?

Could you retain key employees?

Would your clients remain loyal?

Could you cover your expenses?

How would your partners react?

Aside from your employees, your business' most valuable asset is you. In the business world, you must think of yourself and your future income potential as assets – wouldn't you insure any other multi-million dollar asset?

Instead of liquidating your assets, surrendering your savings, depending on your spouse's income, borrowing money or relying on CPP, EI or group insurance, individual disability coverage is exactly what you need to protect you and your business.

Group disability insurance is designed to cover your salaried employees at the lowest possible cost, often precluding you from insuring all forms of income. Conversely, individual disability coverage is tailored to business owners like you, ensuring you have the right protection in the event of a long-term injury or permanent disability.

At Selectpath, we'll always ensure you and your business are properly insured for severe injuries and disabilities.

6



Protecting Your Health

Becoming ill may not be something you think about often, but who will take care of your business if you need to take care of your health?

Critical Illness Insurance

With the additional expenses of hiring one or more temporary replacements and the possibility of declining revenue due to your absence, your business simply cannot operate at its full potential without you. That's a problem if you rely on your business to cover your everyday living expenses.

In this case, the solution is critical illness insurance – coverage that ensures business as usual during your recovery. After making it through the waiting period following your diagnosis with one of the conditions outlined in your policy, critical illness coverage provides a cash benefit, allowing your business to survive and persevere along with you.

Critical illness insurance gives you the peace of mind that if you experience a serious health issue, you will have the time and financial stability needed to focus on what really matters – getting healthy again.

Global Medical Insurance

The Canadian medical care system is good for most medical needs, but for major health issues, wait times can be months or even years.

Global medical insurance can help you identify health concerns earlier, direct you to the best care for any issues identified and provide the money needed to pay for your medical care.

This means you can get better treatment faster, and can help you to get back to running your business in less time.

This is also an option that some business owners use for executives and key employees, ensuring they can also get the best, fastest care available in the world.

7



Supplementing Your Retirement Income

As you become more successful, you may wish to leave money in your business as retained earnings. If withdrawn, this income would be subject to the top personal marginal tax rates. However, investment income earned within a corporation is subject to punitive passive income tax rates.

There are few methods for you to move this money outside the corporation in a tax-effective manner:

Individual Pension Plan (IPP)

An IPP allows you to move corporate dollars from the business into a registered plan and deduct the contribution as a business expense.

Here are some benefits of an IPP:

1. May allow substantially more contributions than an RRSP
2. Tax-deductible investment and admin fees
3. Past service and terminal funding may allow significant deductible contributions when the plan is established and when you retire
4. Adding children involved in the business to the IPP can continue tax-deferral benefits to the next generation

Life Insurance

Using the accumulated value in a life insurance policy provides you with cash flow in the future, such as when you retire, by serving as collateral for a bank loan. Alternatively, using the tax-deferred accumulation of funds within the policy allows you to withdraw a portion of these funds to supplement your retirement income.

Retirement Compensation Arrangement (RCA)

RCAs may be used as a tax shelter in a year with very high taxable income, such as when selling your business. These can be used to spread the income over a number of years to lower your average tax rate, keeping more for your retirement income.

We can teach you these methods and other tax-effective ways to leverage the value of your business to supplement your retirement income.

8



Investing Your Excess Cash

As a business owner, you may accumulate excess surplus not necessary for your day-to-day operations. Rather than withdrawing it, you can avoid taxable personal income by leaving this money within the business. Given that any money you withdraw from your business is taxable, what are your short-term, mid-term and long-term alternatives?

Short-Term

Safe, conservative and low-risk investments, such as 30 to 90-day GICs or high-yield bank accounts, allow your surplus to grow and cash to earn additional revenue. However, you still need access to your cash should the need arise – that's why we provide high-quality alternatives to low-yield chequing accounts typical of traditional banking.

Mid-Term to Long-Term

High-yield bonds, income funds, conservative balanced funds and five-year GICs can provide excellent alternatives for mid to long-term corporate investments, generating capital gains or dividends that are tax-effective and compelling for business owners.

Lifetime to Estate

Permanent life insurance can be used as an additional asset class within your company to complement your corporate investments. With life insurance, excess surplus in the business can generate a higher estate value for your heirs than traditional investments like GICs by providing:

- Tax-deferred growth of the business surplus
- A tax-free death benefit to the business
- A low tax or tax-free payout using capital dividends

Alternatively, the capital can be retained in the business and used for other purposes, which is most compelling for long-term investments held in holding companies set up for long-term tax deferral.

Insurance is also excluded from the passive income test, so it can be used to ensure that you continue to receive the full benefit of the small business tax rate in your operating company.

Regardless of your corporate investment time horizon, we can design an investment or insurance package that fits your unique needs.

Holding Companies

A holding company is often used by business owners to separate their investment assets from their operating company. This can help alleviate pressure from the passive income test, protect your assets from litigation and allow you to sell your business while preserving your investments.

9



Planning For Capital Gains Tax Liabilities

Do you own property that's increased in value over the years? Perhaps your family cottage was purchased before an exploding demand or your niche taste in art is now shared by the wider public. It's also possible that through hard work and strong financial planning, your business is worth far more than your initial investment.

In any case, the growth in your property's value contains a hidden liability. For example, if you die or sell the shares of your business, a capital gains tax applies to the amount by which its current value exceeds your investment.

When it comes to estate planning, it's critical to ensure that your estate has enough liquid capital to cover this potential capital gains tax liability. You can achieve this through personal life insurance funded with personal after-tax dollars.

Planning for capital gains tax liabilities for business shares, on the other hand, often involves the owners of an incorporated business buying insurance through the corporation and using corporate dollars to pay the premiums.

Lifetime Capital Gains Exemption

This valuable tax benefit allows a significant portion of the gain on small business shares to be exempted from taxes. With proper tax planning, you may be able to multiply the benefit of the exemption using a family trust.

Careful tax planning is required to ensure you qualify for the exemption and to extend the benefits to family members through a family trust. This involves ensuring that excess passive assets don't disqualify your business from receiving the exemption.

We can work in a partnership with your current accountant to integrate appropriate coverage according to your current tax plan, or if needed, we can provide a referral to an accountant who specializes in this type of tax planning.

For business shares, it's important to exercise great care to avoid undesirable outcomes on capital gains tax. Let our experts help minimize your exposure to capital gains tax.

Planning for Business Succession

You've worked hard to build your business, so planning for its transfer is a worthwhile investment of time. When done effectively, succession planning can help reduce taxes, create a dependable source of retirement income and keep the peace with your family and business partners.

Preparing Yourself

Before jumping into the process, you should have clarity on your personal goals:

- Do you want to continue working part-time for the business after the transfer?
- Do you want to sell to family or a third party?
- How much income do you need from the business?

Asking yourself these questions and having a financial plan can help create a succession plan customized to you.

Preparing Your Business

There are many moving parts during the succession process, so it's important to start as soon as possible. Preparing your business for sale may involve taking steps to ensure that you will benefit from the lifetime capital gains exemption and implementing tax strategies, like an estate freeze. An estate freeze is commonly used when transferring to family in order to defer tax on future growth of the company to the next generation, while maintaining some control over the company and keeping the ability to draw an income.

Transferring to Family

Start as early as possible to allow time to train your successor(s) to be an effective replacement. That may mean a gradual transfer of control so that you can continue to support them during the transition period. If not all of your children are involved in the business, be clear on how you plan to provide fair treatment to everyone. This can help to avoid conflict and open a healthy dialogue about your plans for the future.

Selling to an Outside Buyer

If you're not transferring to family, finding a buyer can be a challenge. We can provide access to private company advisory services to help you to find a buyer, maximize the selling price, structure the deal and provide advice on the sale. This may involve negotiating a share sale rather than an asset sale, which can often save hundreds of thousands in tax.

Funding Your Retirement

Business owners rely on the value of their company as a source of retirement income. This can be structured as a continued salary, lump-sum payment or series of payments. Planning around the sale proceeds is important to provide tax-efficiency, helping you enjoy a successful retirement.

Whether you're passing your business on to a family member or selling it to an outside buyer, we can help you create a succession plan that will turn your successful business into a successful retirement.



Creating Your Estate Plan

Thorough estate planning can provide:

- Tax-efficiency
- Family harmony
- Speed of estate distribution
- Control over who receives assets and when
- Peace of mind that your family will be cared for

Here are some common business owner estate issues that we can help you address:

Estate Equalization

Creating a fair outcome for your children can be challenging when only some are involved in the business. An effective way to plan for this is to implement permanent life insurance to provide for children not involved in the business. Good planning and communication can prevent family disputes over the distribution of your wealth.

Will and Power of Attorney (POA)

As a business owner, creating or updating your will and POA can be a daunting task. You're busy with day-to-day operations, and there are many issues to consider. If this sounds familiar, we can help you start the process by discussing your wishes and referring you to a lawyer specializing in will planning for business owners. We can also refer you to corporate executor services. This valuable service can help you with the will planning process and handle the distribution of your estate, taking the burden off your loved ones.

Trust Planning

Trusts are a versatile tool that can help ensure your wealth is used according to your wishes. They can be used to defer some or all of your estate distribution until your children are at an age where they will be able to manage it, protect spendthrifts from depleting their money or provide lifetime income for disabled beneficiaries. The terms of a trust can be customized to your unique needs, ensuring your wishes are met.

Charitable Giving

If there is a charitable organization that supports a cause important to you or that's had an impact on your life, you may plan to donate to them upon your death. Integrating that decision into your estate plan can make the gift more tax-efficient, allowing you to increase your donation or leave more to your other beneficiaries.

Charitable giving can be done in many ways, including donating a specific amount, a percentage of your estate value and donating specific corporate or personal assets. One charitable strategy unique to business owners is the insured private share donation. This involves donating shares of a holding company, then immediately redeeming those shares using insurance proceeds, creating a donation tax credit in your estate and allowing your holding company to pay out tax-free dividends to your beneficiaries. We can show you how various charitable giving strategies can be used to meet your philanthropic goals.

Working With A Right Path Advisor

Our Right Path Advisors are experienced and educated professionals dedicated to finding the best financial plan for your needs. After setting goals and expectations upfront, you'll have three different options for financial planning with us:



Comprehensive Financial Planning

At Selectpath, we believe that a balanced financial plan can do as much for you and your business as a lifetime of hard work. With your unique circumstance in mind, we'll work together to:

- Explore your vision, values and financial situation
- Review the best strategies and define your financial goals
- Guide you through a financial plan that's right for you and your business



Modular Financial Planning

We understand that not everyone is ready for our comprehensive planning process, which is where our modular planning comes into play. Modular planning may involve a specific goal, need or risk that you want to address, such as funding your buy-sell agreement, insuring a key executive or using the business to support your retirement.

As opposed to simply selling you a product, your Right Path Advisor will guide you through this process to assess and fulfill your specific goal, need or risk.



Product Purchase/Need

Due to restrictions on your time and resources, you may not be in a situation where you can build a comprehensive or modular financial plan. However, you still need to protect your future. That's why our experts can also find simple solutions based on your specific requests or questions.

While the product purchase model is not comprehensive, it can fulfill an immediate need for your business. This option is also a great starting point to build a relationship with your Right Path Advisor, leading to a more comprehensive plan in the future.

Many business owners have success growing their business, but that doesn't mean they'll succeed in protecting it or securing its value. Some risks are simply out of your control, which is why you need strategies to help you overcome them on your path to success.

If you're ready to start your journey, we're ready to show you the way. Our talented team of specialists await the opportunity to turn your business and financial plan into an overall protection strategy for you, your business and your family.

SELECTPATH **25**^{YEARS}

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Need help incorporating these strategies
into your business practices?

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