

What's the best life insurance for business owners?



A division of London Life Insurance Company

What's the best life insurance for business owners? The simple answer is that it depends on where you see yourself and at which stage of growth your business is in today. It also depends on your immediate priorities as well as your long-term goals for yourself, your family and your business.

> Your priorities

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- Provide an income for long-term care or home care11

Your financial security advisor can work with your team of professional advisors to help you understand how life insurance fits into the picture, and here are some considerations.



> Your profile

Because you are the owner/manager of your own business, the vast majority of your wealth is tied up in your business. You have a greater need to protect what you've built against unforeseen circumstances such as death, disability, or to ensure liquidity for a variety of reasons including funds for retirement.

If you've just started your own business, you've likely taken out a business loan and your primary focus is on debt repayment. If your business is growing you want to retain your key employees and ensure you attract desirable employees. Your business decisions are well thought out so that your capital is used efficiently. Once your business is well established, a key priority for you is to plan a successful business succession and/or business continuation strategy. From a personal perspective, you want to ensure the future financial comfort for your family. Or perhaps you would like to give to the community by supporting a charitable organization.

When dealing with your professional advisors, you place a high value on knowledge and expertise and expect value-added advice and support. As a business owner, you believe in long-term business relationships and expect a professional, planning-based approach that is focused on you and your business.

Because you are running your own business, you require help with tax-advantaged opportunities. You recognize the need for a team of expert advisors to work with you to help you assess your financial needs and to ensure that your plan will be tax effective, meeting your individual risk tolerance.

Let's look at some needs that many business owners have and how each type of life insurance fits with those needs.

> Your need

You're looking to cover a temporary financial need, such as a mortgage or business loan.

A solution

Through a personal life insurance policy, you can plan to meet more of your personal and business needs in the event of death – including keeping your company viable and allowing your family to continue to live in their dream home or keeping their vacation home. Because you own the life insurance policy, not your lender, you have the freedom to switch your business loan or mortgage to another lending institution without jeopardizing your life insurance coverage. And your coverage isn't reduced by a decline in your loan or mortgage balance.

Term life insurance

Term insurance can cover most debt in a cost-effective way and is an inexpensive way to create a financial foundation of life insurance. Many term insurance plans do a good job of meeting immediate needs and give you the freedom to later move, or convert as it's known, to a permanent product. However, this ability to convert to permanent life insurance can expire as early as age 65. It's important to understand any conversion restrictions when purchasing term insurance in anticipation of your changing insurance needs. Also, term renewal rates can be expensive and you may have to go through additional underwriting to get the best rates available at renewal.

Permanent life insurance – participating insurance/universal life

Permanent coverage can work very well when you expect to have an ongoing need for life insurance after the debt is paid off. Some permanent policies have cash values that may accumulate over time and can be used to help meet a variety of needs or opportunities over your lifetime.



> Your need

You want to retain your key employees and ensure you continue to attract desirable employees.

A solution

The unexpected loss of a key person, particularly in the case of a sole owner who is the driving force behind business operations, may create numerous problems that threaten the viability of your business. Creditors may restrict or withdraw credit, suppliers might tighten payment terms, and customers might re-think their purchase. Employees may question the future of the company. Key-person insurance can reduce the financial impact by ensuring that there is an injection of liquid capital to allow family or management time to find replacement management or recover the cost to the business of the lost person.

Term insurance

In the event that your business loses an owner or employee key to the business' continued success, term insurance can cover most business loans in a cost-effective way ensuring that the business continues. Key employee incentive programs to purchase the business or shares of the business can be structured using term insurance in the event of the owner's death. As term insurance only provides coverage for a specified period, it's quite possible that the insured person may outlive their insurance.

Permanent life insurance – participating insurance/universal life

These policies have cash values that accumulate on a tax-advantaged basis and can be used for many things over their lifetime. Permanent insurance may be used to structure supplementary retirement programs for key employees or to provide funding to attract replacement/new key employees, to fund the purchase of a business by a key employee in the event that the current owner retires or dies. Benefit plans can also be customized for senior executives or key employees using permanent life insurance. The cash value that may be available depends on how the policy is funded and on tax laws in effect at the time funds are withdrawn from the policy.



> Your need

You would like to ensure that you have the funds to buy a business partner's interest at their death or retirement.

A solution

Life insurance coverage is a great way to fund future succession plans or to fund business continuation plans. Insurance can also be used in conjunction with an estate freeze to fund future capital gains taxes, as well as provide a means for estate equalization.

Term insurance

Term insurance will work in the short term in the event of death of one of the partners/insureds. For example, term insurance can provide insurance protection for business succession plans in a cost-effective way and can give you the freedom to later move, or convert as it's known, to a permanent product. However, this ability to convert to permanent life insurance can expire as early as age 65. It's important to understand any conversion restrictions when purchasing term insurance in anticipation of changing insurance needs. Because term insurance only provides coverage for a specified period, it's quite possible you may outlive your insurance. Term renewal rates can also be expensive and you may have to go through additional underwriting to get the best rates available at renewal.

Permanent life insurance – participating insurance/universal life

Permanent insurance provides benefits at time of death but can also provide a source of income to you in your lifetime. These policies have cash values that accumulate on a tax-advantaged basis and can be used for many things over your lifetime, such as funding to finance a business opportunity, to buy out a partner's interest upon retirement or to give your business the ability to make a transition. At the time of death of your partner, the death benefit could be used to buy out your partner's interest or to fund a business continuation plan. The cash value that may be available depends on how the policy is funded and on tax laws in effect at the time funds are withdrawn from the policy.

Your financial security advisor can work with your team of professional advisors to help you understand how life insurance fits into the picture, and here are some considerations.

> Your need

You'd like a tax-effective way of supplementing retirement income for you and your spouse.

A solution

Life insurance coverage can be used as a strategy for tax-advantaged accumulation to complement your current retirement income program and increase your estate values. A permanent life insurance plan allows you to accumulate cash value growth inside the life insurance policy, within certain legislative limits, without paying income tax on the growth.

Term life insurance

Most term insurance policies do not contain cash values and therefore cannot meet this need.

Permanent life insurance – participating insurance/universal life

A permanent life insurance policy may be used in two ways to supplement your retirement income. The cash values can be accessed to provide a retirement income through a policy loan or partial surrender, or you may be able to use the policy as collateral for a consumer loan at a third-party lending institution. As well, the combination of a single-life annuity pension and a permanent life insurance policy can maximize your pension income while living and provide funds for a surviving spouse after your death. For more detailed information about the options and methods for accessing the accumulated cash value in a permanent life insurance policy and the benefits and risks associated with each option request a copy of the *Options for gaining access to policy cash values* brochures.



> Your need

You'd like to ensure your spouse's lifestyle is protected.

A solution

Life insurance is a great way to protect your spouse's lifestyle by replacing your future income in the event of your unexpected death.

Term life insurance

Term insurance is well suited to meeting high, short-term protection needs for the lowest initial cost, and gives you the freedom to later move, or convert as it's known, to a permanent product. However, this ability to convert to a permanent product can expire as early as age 65. It's important to understand any conversion restrictions when purchasing term insurance in anticipation of changing insurance needs. Because term insurance only provides coverage for a specified period you run the risk of outliving your coverage period. Term renewal rates can also be expensive and you may have to go through additional underwriting to get the best rates available at renewal.

Permanent life insurance – participating insurance/universal life

Permanent coverage offers considerable flexibility and options during your life. Permanent coverage is a great way to lock-in insurability and rates while you are healthy as well as accumulate tax-advantaged savings for the future. Cash values may be used to help finance a business opportunity, a sabbatical or retirement. Some permanent policies offer more flexibility than others – be sure to ask for details. For more detailed information about the options and methods for accessing the accumulated cash value in a permanent life insurance policy and the benefits and risks associated with each option, request a copy of the *Options for gaining access to policy cash values* brochures.

> Your need

You'd like to ensure that taxes owing on your estate are paid, leaving your assets intact for your heirs.

A solution

Life insurance coverage is a great way to ensure your estate has the liquidity needed to pay final taxes. Ask for our *Protecting your estate* brochure for more information.

Term insurance

Term insurance only provides coverage for a specified period, often only until you reach age 75 or 80, so it's quite possible you may outlive your insurance.

Permanent life insurance – participating insurance/universal life

The proceeds from a permanent life insurance policy can provide your heirs or estate with the liquidity needed to pay final taxes, capital gains and settlement costs, preserving as much of your estate as possible (cottage, family business, investments, etc.) for your heirs.

> Your need

You would like to leave a legacy for your heirs or a favourite charity.

A solution

A carefully arranged planned gift can be tax effective, and at the same time balance your final needs and the needs of your family. Life insurance coverage allows you to leave a lasting personal legacy. You can provide your favourite charity with stable funding over the long term, without reducing the estate available to your heirs or jeopardizing your future financial independence.

Term life insurance

The majority of term insurance contracts end when you reach the age of 75 or 80. Therefore, it is generally inadvisable to use term insurance for protecting your estate or for charitable giving because you run the risk of 'outliving' your coverage period.

Permanent life insurance – participating insurance/universal life

Purchasing a permanent life insurance policy using excess income or cash is an ideal way to create a tax-advantaged asset while you are alive and leave a meaningful gift, outside of your estate, to your heirs or a favourite charity. You can use three different strategies to fund a charitable bequest or donation using life insurance. Your financial security advisor can explain how to structure a planned gift using life insurance to fit your unique and personal situation – be sure to ask for details!

As a business owner you have diverse needs and the type of life insurance you choose depends on your short – and longer-term needs, as well as your preferences for flexibility and risk.

> Your need

You'd like to provide your child(ren) with financial resources for the future – whether or not they're actively involved in your business.

A solution

Your child's future means everything to you – you want your child to enjoy all the things life has to offer. Life insurance coverage is a great way to create a financial foundation for the future. Insurance can provide a flexible asset that grows along with your child.

Term life insurance

Term insurance is an inexpensive way to put a foundation of life insurance in place for your child. Term insurance often offers the flexibility to convert to a permanent policy. You can also choose an option that guarantees your child the right to buy additional life insurance in the future, regardless of the state of their health.

Permanent life insurance – participating insurance/universal life

A permanent life insurance policy provides a flexible asset that grows along with your child. The relatively low level premium that starts your child's insurance program can be maintained throughout adulthood. You can help protect your child's ability to enhance his or her insurance program by including an option in the policy that guarantees them the right to buy additional life insurance in the future, regardless of their state of health. Later, when your child takes control of his or her own financial security planning, ownership of the policy can be transferred to them on a tax-deferred basis, creating potential tax advantages as well.



> Your need

You'd like to provide an income for long-term care or home care for you or a family member.

A solution

Life insurance coverage can be used as a strategy for tax-advantaged accumulation to complement your current savings program and increase your estate values. A permanent life insurance plan allows you to accumulate cash value growth inside the life insurance policy, within certain legislative limits, without paying income tax on the growth. There are several ways to gain access to policy cash values to meet your need for additional income.

Term life insurance

Most term insurance policies do not contain cash values and therefore cannot meet this need.

Permanent life insurance – participating insurance/universal life

A permanent life insurance policy may be used in two ways to supplement your retirement income. The cash values can be accessed to provide additional income through a policy loan or partial surrender, or you may be able to use the policy as collateral for a consumer loan at a third-party lending institution. For more detailed information about the options and methods for accessing the accumulated cash value in a permanent life insurance policy and the benefits and risks associated with each option, request a copy of the *Options for gaining access to policy cash values* brochures.

There are tax considerations associated with the uses of a life insurance policy mentioned in this brochure. Consult your tax advisor about your particular situation. Your financial security advisor is able to provide more information.

Features and benefits of term life and permanent life insurance.

There are two kinds of life insurance – term life insurance and permanent life insurance. They are two very different kinds of protection that satisfy many, very different, life insurance needs. Term may be all the insurance you ever need, or it may be used as an interim step before purchasing permanent insurance. Possibly, a combination of term and permanent in the same policy may be the best solution for you. Let’s look at the features of both kinds of life insurance protection: term and permanent.

Features	Permanent life insurance		
	Term life	Participating life	Universal life
Coverage for life	Provides coverage for only a specified term.	Yes.	Yes.
More than one life can be covered	Can be structured to provide coverage on more than one life, but pays the death benefit on the first death or pays the death benefit on the last death.	Can be structured to provide coverage on more than one life, but pays the death benefit on the first death or pays the death benefit on the last death.	Can be structured to provide coverage on more than one life, but pays the death benefit on the first death or pays the death benefit on the last death.
Guaranteed premiums	Initial premium is generally guaranteed. Renewal rate guarantees vary by company.	Premiums for the basic insurance coverage are guaranteed. <i>However</i> a policy combining term and permanent coverage may contain both guaranteed and non-guaranteed premiums. Please review the life insurance illustration provided by your financial security advisor to determine what is, and is not, guaranteed.	A universal life policy typically contains guarantees on some of the monthly charges. For example, cost of insurance charges are usually guaranteed whereas premium tax, policy fees and any insured life fee may not be. When purchasing a universal life policy it's important to understand which monthly fees are guaranteed and which can change.
Guaranteed cash values	Cash values are generally not available.	Yes.	Cash values are available but not generally guaranteed.
Guaranteed death benefits	Guaranteed for a specified period.	The basic death benefit is guaranteed. Additional death benefits purchased with dividends may or may not be guaranteed.	Generally not guaranteed.
Policyowner dividends	Generally not available.	Participating policyowners share in the success of the pool of participating policies in the participating account through the payment of policyowner dividends. Dividends are not guaranteed and will vary upward or downward from those illustrated by a number of variables such as investment returns, mortality experience, expenses (including taxes) and other relevant factors.	Generally not available.
Term riders and/or benefits	Availability may vary by company.	Yes.	Yes.
Investment options	Not available.	You do not select investment options. The investment portion of a participating policy is managed by the insurance company. Assets in the participating account are invested primarily in bonds, mortgages, equities and real estate.	You choose investment accounts from a variety of guaranteed fixed-income, index-linked, and managed investment accounts.



The life insurance you choose depends entirely on your individual situation. Your financial security advisor offers a range of life insurance products that can provide term, permanent coverage or a combination of both. Together, you can determine your needs and decide which product is best for you.