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## Bridging THE FINANCIAL GAP

Planning to protect your family's financial well-being, is equally important as planning to accumulate wealth. Failure to consider the loss of income as a result

of death or disability could jeopardize your financial goals. For most people between the ages of 20 and 40, assets owned are only slightly higher than the debts that secure them. Your mortgage may nearly equal the value of your house. Estimate the capital required for paying off debts, and to provide an income for a surviving family. Life insurance can bridge that financial gap by covering the capital need. Life insurance requirements may decrease as you approach age 50 provided you accumulate sufficient investment assets. Your children may be out of the nest. You may have more equity in your home, or it may be paid off. You may have accumulated assets such as RRSPs or RRIFs, pensions, annuities and retirement savings.

*Note: Life insurance can provide a tax-free benefit equivalent to income taxes due on RRSPs/RRIFs. This would help deliver the equivalent amount of pre-tax RRSP/RRIF funds to your heirs.*

Review your life insurance every three years as your requirements change. Include a review of your disability insurance as well. Employment income would stop if you became disabled and could not work. Disability insurance replaces income, bridging the gap when there is no paycheque.

## Practical Wealth Creation Ideas

*...for Simplified Financial Success™*

### Disability Buy-Sell Agreements

Two strategies protect shareholders against the liabilities associated with another major shareholder becoming disabled.

#### Criss-Cross Buy-Sell Agreement

- The agreement provides for a mandatory sale and purchase of an interest in the corporation once a shareholder has been disabled for a specified period.
- Shareholders own disability insurance on each other to fund the purchase.
- The agreement guarantees the purchase of the disabled partner's business interest over the period of the policy's payout period.
- Premiums are paid with after-tax income.
- Policy owners receive tax-free disability benefits.
- Capital gains on the sale of the asset can be offset for a time by an allowable reserve, if full proceeds are not collected up front.
- Personally owned income replacement insurance is normally purchased in addition to the above coverage to provide an income to the disabled shareholder (in addition to the buy-out benefit).

#### Corporate Share Redemption

- The agreement provides for the mandatory redemption of the shares once a shareholder has been disabled for a specified period.
- A taxable dividend, equivalent to the full amount of the purchase price, less the paid-up capital value of those shares, is deemed to have been received in the year in which the redemption of the shares takes place.
- The dividend is subject to the Dividend Tax Credit and the Alternative Minimum Tax rules.
- A lump-sum disability insurance contract owned by the corporation covers the funds required for the redemption.
- The corporation could pay out an amount in addition to the redemption value to cover taxes payable by the disabled shareholder.
- A promissory note can cover shortfalls in payment.