



Canada Life™

**Could a disability cost
you **your business?****



Buy/Sell Plan

**A disability insurance
solution for business**

Jane and Paul are founding shareholders in a consulting company celebrating five years of excellent growth.

Paul has recently been experiencing dull persistent headaches. Several medical appointments later, he is diagnosed with a brain tumour. He needs immediate treatment and recovery is uncertain. Although Paul's health is the top priority, there are still important business decisions to be made. Paul's expertise and client relationships are vital to the business. A cash flow crisis quickly emerges. What can Jane do?

- Cut Paul from the payroll? Will he be willing and able to survive without an income?
- Cut other salaries? The business is already short-staffed in Paul's absence.
- Buy Paul out and restructure? Their bank manager is concerned and will not approve a loan. Paul hopes to recover and will not sell for a reduced value.

One year later, Jane has downsized but kept the business open. Paul has survived but still cannot work. Jane needs to restructure and move forward. The business is worth much less than a year ago, but Paul and his family want a full return on his investment.

How could they have avoided this situation?

Buy/Sell Plan

How does a Buy/Sell Plan work?

- A Buy/Sell Plan (disability insurance policy) provides a lump sum payment at either 365 or 720 days of total disability.
- The insured amount is used according to the provisions of a buy/sell agreement for the business or one or more business owners to purchase the shares or ownership interest of a totally disabled shareholder or partner.

How much coverage is available?

- Issue limits range from a minimum of \$50,000 to a maximum of \$1,000,000 per insured owner.
- The actual issue limit is based on business financial statements to be provided at the time of application for insurance.

What are the advantages?

- A fixed expense for protection against potentially costly and unproductive drain on business
- Suppliers and creditors may be reassured
- Can be used to fund the disability buy/sell agreement in whole or in part
- Definition of disability for purposes of the agreement can be linked to the definition of disability in the Buy/Sell Plan (disability insurance policy)
- Third party decides whether the definition of disability has been met
- Helps reduce potential rancour among shareholders or partners



What are the chances that your business will be affected by disability?

The % probability of at least one long-term disability lasting at least 90 days before age 65

Age	Number of business owners			
	1	2	3	4
30	66(23)	80(32)	88(40)	93(48)
40	60(21)	75(30)	84(38)	90(45)
50	49(19)	63(27)	74(34)	81(40)

(probability of death in brackets)

Source: 1985 Commissioner's Disability Table A (Experience Table)
CIA 86-92 Aggregate Mortality Table

Disabilities lasting longer than 90 days tend to be long term. How long could your business survive?

Percentage of people who will become disabled for at least 90 days prior to age 65 and average duration of disability

Age	% Disabled	Average Duration
30	42%	3.2 years
40	37%	3.9 years
50	28%	4.7 years

Source: 1985 Commissioner's Disability Table A (CIDA) blended
50/50 male/female and 50/50 accident/sickness

In structuring a buy-sell agreement and establishing the ownership of a disability buy/sell policy(ies), consideration should be given amongst other things, to the tax consequences for the business and for the owners. The following information is provided for reference only.

Types of structures:

Cross-purchase: The shareholders/partners of the business own the disability buy/sell policies and the healthy shareholder(s) or partner(s) purchase the share(s) or partnership interest of the disabled shareholder or partner.

Trust: A trust is used to own and pay for the buy/sell policies and collect and distribute the proceeds according to the provisions of a cross-purchase arrangement in the buy-sell agreement.

Corporate entity purchase: The corporation owns the disability policies and purchases the shares of the disabled shareholder directly.

Tax consequences of different types of structures

Note that under the provisions of the Income Tax Act (Canada) certain amounts received by a corporation tax-free can be flowed through tax-free to shareholders as a capital dividend via the Capital Dividend Account (CDA).

While life insurance proceeds may be credited to a CDA, the proceeds from a disability insurance policy such as a disability buy/sell policy cannot.

	Premium	Proceeds of the policy	Disabled shareholder or partner	Healthy shareholder(s) or partner(s)
Cross-purchase	Not tax deductible	Not taxable	May incur taxable capital gains on the sale of the shares or partnership interest. In the case of shares of a qualified small business corporation, a capital gains exemption may be applicable which could be used to offset capital gains.	Receive a "bump-up" in the adjusted cost base (ACB) of their shares or partnership interest equal to the purchase price. The bumped-up ACB can be used when calculating capital gains in the future in the event of disposition of their shares.
Trust	The tax consequences are the same as described above regarding a cross-purchase arrangement.			
Corporate	Not tax deductible	Not taxable	Repurchase of shares may result in a taxable deemed dividend. No capital gains exemption would be applicable.	There is no "bump-up" in the ACB of their shares and so they assume the tax liability on any capital gains that may be reportable in the future in the event of a disposition of their shares.

For more information about Canada Life and its products, visit www.canadalife.ca. For more information about how disability insurance may fit your needs ask your financial advisor for an illustration.

The Canada Life Assurance Company, a subsidiary of The Great-West Life Assurance Company and a member of the Power Financial Corporation group of companies, provides insurance and wealth management products and services. Founded in 1847, Canada Life is the country's first domestic life insurance company.

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