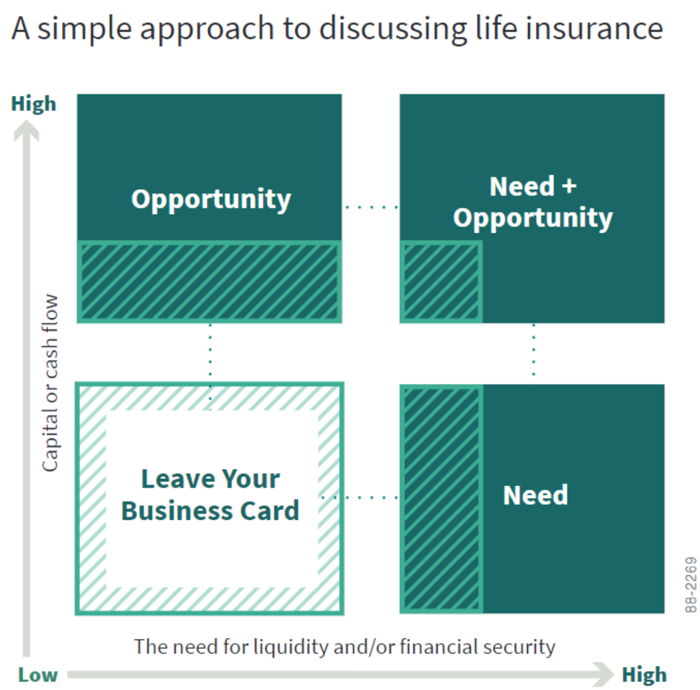
Discussing life insurance with business owners

You have a meeting planned with a successful business owner and want to talk about life insurance. Have you planned your approach? Where will you start and end the discussion? This article can help give your meetings more focus by mapping a simple approach for discussing life insurance with business owners. Your end goal is to show your clients the full picture of how life insurance can help with their estate planning.

Life insurance: needs and opportunities

Life insurance may appeal to a business owner because it can help:

1. **Address their financial needs** – This can include liquidity while the insured is alive and financial security needs at death (for example, income replacement and estate protection). This is the traditional "life insurance needs" discussion.
2. **Create financial opportunities** – It's a tax-efficient way to transfer wealth from a corporation to surviving family members. This is generally the "life insurance opportunities" discussion. It's often supported by strategy illustrations from tools.
    - Example: Corporate estate transfer+ - a product that compares the estate values from a corporate-owned life insurance policy to a corporate-owned investment.



Each option can be useful for a client. However, it may be better to begin discussing their life insurance needs.

To be clear, clients don't necessarily need one policy to address their insurance needs and another for insurance opportunities. One life insurance policy can address both of the client's insurance needs and still provide tax planning and estate-enhancement opportunities.

Facts

In the case of both the needs and opportunities discussions, you're going to need facts about your client to discover the best suited insurance solution (if any).

Canada Life™ has both short- and long-form fact finders for business owner clients on our advisor site.

- **Short-form**: helps focus on the business from a high-level. It may not have all key information.

- **Long-form**: gathers information about the business as well as, family, personal net worth, income, existing insurance and crucial information on softer issues (for example, goals, objectives, concerns and investment philosophy, etc.). These comprehensive reports can help you best identify a client's insurance needs and opportunities.

Some client documents will also reveal important facts. For business owners, a key document is a detailed corporate organizational chart (an accountant or a lawyer will typically prepare this information for the business). Ideally, it should show you:

- Who owns what shares
- The fair market value
- Potential for growth (for example, fixed-value or common)
- Tax attributes (for example, adjusted cost base and paid-up capital)

This can be helpful because it can give insight into:

- Where the insurance should be owned
- How the insurance proceeds may be paid out of the corporation(s)
- If any corporate restructuring is necessary for the insurance proceeds to make it to the intended recipient

Wills can also help you understand how your client wants to distribute their estate. It could also reveal many other facts clients may not raise in a conversation, like children from prior marriages, desire to use a spousal trust or if the client has charitable giving objectives.

Corporate financial statements are important to look at for field underwriting purposes. The balance sheet doesn't always paint an accurate picture of the company's value, but it shows the company's financial health – and if it's saving cash or has investments that can be repositioned into life insurance.

Step 1: life insurance needs

The list of life insurance needs for a business owner is finite. It can include the insurance needs applicable to non-business owners along with a handful of needs specific to business owners (for example, liquidity needs for paying capital gains taxes on death). You'll need to discover facts from your clients that match these potential insurance needs. Some common life insurance needs are listed below.

Insurance needs	Possible supporting facts
Financial security of family (income replacement, estate protection)	The business can't support the client's family if they died.
Capital gains taxes	The client owns shares of a private company, investments and/or real estate with an accrued capital gain.
Other taxes (for example, from registered assets or probate fees)	The client owns registered assets and/or will have a probated will.

Insurance needs	Possible supporting facts
Retiring debt (personal or commercial)	The client has a mortgage, commercial mortgage, or commercial line of credit.
Estate equalization	Not all children are involved in the business and/or the client has vacation property that won't be enjoyed equally.
Matrimonial and dependant obligations	The client has a spouse, ex-spouse and/or dependants.
Funding buyout arrangements	The business has other shareholders or partners.
Key person	The business would suffer financially if the client or other key personnel died.
Charitable bequests	The client is involved in a charity, donates regularly and/or has a private foundation.

Step 2: life insurance opportunities

In many cases, clients will have insurance needs. They may also want to find ways to minimize their tax obligations and enhance their estate value with a lower-risk asset. This leads us to the life insurance opportunities discussion. Clients who can benefit the most from this discussion are in good health (standard risk from an insurance underwriting perspective), and once the insurance plan takes effect, continue to own a combination of both investment and insurance assets.

In the context of this general discussion on opportunities, life insurance can help with the following two objectives:

1. **Enhance estate value**: for a business owner, corporate-owned life insurance is an effective way to enhance a client's estate value. This is because the growth of policy values is tax advantaged to the extent it remains in the policy and within legislative limits. In many cases most of the death benefit that's received tax-free by the corporation can get paid out as tax-free capital dividend to a Canadian resident shareholder. Compare these advantages to a corporate investment that generates taxable income and gets paid out to the estate, or other surviving shareholder, as a taxable distribution.

   Our Corporate estate transfer+ illustration tool compares our permanent life insurance products to a corporate investment.

2. **Enhance estate value with the potential for cash flow**: if the client's insurance policy has cash value, it may be accessed as a source of funds in one of three ways:

   1. Cash withdrawal – withdraw cash directly from the policy via a cash withdrawal or partial surrender[1]
   2. Policy loan – take a loan from the insurance company using the policy's cash value[1]
   3. Collateral loan – assign the policy to a bank as collateral for a loan[2]

Our corporate estate transfer+ tool shows accessing a policy's cash value via cash withdrawals or policy loans. Our corporate asset efficiency tool shows accessing a policy's cash value via a collateral loan. Each tool compares the insurance strategy to a corporate investment.

Summary

Having a planned approach to discussing life insurance with business owner clients can help focus your meetings and ensure you've explored all the ways insurance can help with their estate planning. This article outlines a simple way of structuring an approach: start with insurance needs and then address insurance opportunities. For both parts of the discussion, a thorough fact find is essential.

1. Cash withdrawals and policy loans may result in a taxable policy gain. If you withdraw money from your policy, it will reduce the policy's cash value. If you take a policy loan or withdraw money from your policy, it will reduce the amount of the insurance payout the named beneficiary will receive.

2. Collateral loans involve risk. They should only be considered by sophisticated investors with high risk tolerance and access to professional advice from a lawyer and accountant. The terms of future availability of collateral loans cannot be guaranteed. The loan or line of credit must be negotiated between the policyowner and the lender. It is subject to the lender's financial underwriting and other requirements. The policyowner should have enough income and capital to cover the interest and loan repayment, as well as the insurance premium.