AMOVA

FREE GUIDES

Small-Business Owner Protection Guide

Key person coverage, buy-sell funding, owner disability, segregated funds and questions for incorporated owners.

01 Why owners need a different lens

When you own a business, your family's income, your employees' jobs and sometimes your partners' savings all depend on you. This guide explains the protection concepts business owners commonly work through with their financial planner, accountant and lawyer.

02 Key person insurance

- **Concept:** the business owns a policy (life, and sometimes disability or critical illness) on a person whose loss would seriously affect revenue or operations. The business is the beneficiary and can use the money to hire, repay debt or stabilise.
- **Questions:** Who is truly "key"? What would losing them cost in revenue and recruitment time? Are bank loans or personal guarantees tied to that person?

- Tax treatment of premiums and proceeds (including the capital dividend account) should be confirmed with your accountant.

03 Buy-sell agreements and how they are funded

- **Concept:** a legal agreement among co-owners that sets what happens to a share if an owner dies, becomes disabled or leaves. Without one, a partner's spouse or estate may become your co-owner.
- **Funding options people compare:** savings, borrowing, or insurance owned for that purpose. The agreement is drafted by a lawyer; the funding method is a separate decision.

- [ ] Do we have a written shareholders' or partnership agreement?
- [ ] Does it say how the price is set and where the money comes from?

04 Disability protection for owners

- Self-employed people usually have no employer plan. Individual disability coverage and business overhead expense coverage (which helps pay fixed business costs like rent and staff during a disability) are concepts worth understanding. (Source: CLHIA, A Guide to Disability Insurance (http://clhia.uberflip.com/i/199350-a-guide-to-disability-insurance/))

- [ ] If I couldn't work for 6 months, would the business still pay rent and staff?
- [ ] Are my personal bills dependent on business cash flow?

05 Segregated funds: the basics

- **What they are:** investment funds offered through life insurance contracts. They pool money like mutual funds but add insurance features. (Source: AMF Québec (https://lautorite.qc.ca/en/general-public/investments/funds/segregated-funds))

- **Guarantees:** contracts guarantee at least 75%, and up to 100%, of contributions (less withdrawals) at maturity (often at least 10 years) or on death. Guarantees apply only if held to maturity or death, and fees are generally higher than comparable mutual funds because of the guarantee.
- **Beneficiaries:** a death benefit paid to a named beneficiary generally bypasses the estate.
- **Potential creditor protection:** may apply in some situations under provincial insurance law. It is never guaranteed and depends on the facts; ask a lawyer.

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06 Incorporated-owner considerations

- [ ] Should a policy be owned personally or by the corporation? (tax and creditor implications; accountant and lawyer)
- [ ] How do I pay myself (salary vs dividends), and does that affect disability coverage or RRSP room?
- [ ] Is there a plan for the business if I die or can't work (succession, buy-sell, key person)?
- [ ] Are my will(s) and corporate documents aligned?

→ Next step

Want to talk it through? Book a complimentary 30-minute conversation with Amova Financials at amovafinancials.com/book.

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