SELECTPATH™
THE RIGHT PATH®

EIGHT SUCCESS STRATEGIES FOR BUSINESS OWNERS
EIGHT *Important Questions*
EIGHT *Effective Solutions*

Table of Contents

Eight Success Strategies For Business Owners

Our Approach

These days, your business and management team have more challenges than ever to succeed. Reaching higher not only means planning, but planning well. If you want to take your business and your team to the next level, you need a partner you can trust to guide you around the pitfalls and put you on The RIGHT Path®. You need a partner like Selectpath Benefits & Financial Inc.

- Our relationship with our clients is one of partnership, and we are committed to providing custom-tailored solutions to your organization's unique needs.

- We'll review and develop your employee benefit plans, group pension, group and executive retirement strategies and business protection planning.

- We shop the marketplace for the best value products and services.

- We are proud to offer administrative support through our Client Care Team. Our service commitment is second to none and often sets us apart from other companies, especially individual advisors and brokers.

You need a process for success. We have one. The RIGHT Path® process for Employers.

OUR PROVEN PROCESS

We follow a proven process that has helped separate us from most other companies. We call it The RIGHT Path® for Business Owners. We have professionals who will help plan for the risks to your business, your retirement and your family. Our process is driven by our commitment to our clients and their diverse need for integrated planning, diverse and expert advice, appropriate products and great service.

If you're ready to take the next step, we are ready to show you the way. Our talented team of specialists are waiting for the opportunity to turn your business and financial planning into an overall protection strategy for you, your business and your family.

SELECTPATH™
THE RIGHT PATH®

Your Choice: Working With A Selectpath Financial Advisor

Comprehensive RIGHT Path Planning for Business Owners

At Selectpath, we believe that a balanced financial plan can do as much for you and your business as a lifetime of hard work. We will explore the best strategies for achieving your success and security. We promise to guide you through a financial plan that's right for you. Selectpath will review and integrate your vision for your business and your life. Working together, we'll define your business and personal financial goals then make appropriate recommendations to help you achieve your goals.

Modular RIGHT Path Planning

At Selectpath, we understand that not everyone is ready to go through our comprehensive RIGHT Path process right now. Knowing this, we have taken components of our process and made them available to clients who are only prepared for modular planning. Modular planning may involve a specific goal, need or risk that you want to address, such as funding your buy-sell agreement or insuring a key executive or using the business to support your retirement. We'll guide you through a process that will help you appropriately assess and fulfill a need versus simply selling you a product.

Product Purchase/Need

At Selectpath, we also understand that restrictions on people's time and resources don't permit them to build a plan. However they still need to protect themselves and their future so we find simple solutions based on specific requests from clients. Although product purchase is not comprehensive, it can fulfill an important and immediate need. We understand that this is the beginning to a relationship that may lead to a more comprehensive approach in the future.

*Please note, this document is a general view of our engagement process. Please refer to our Engagement Agreement for specific details.

Our Process
The RIGHT Path® for Business Owners

1 VisionRIGHT

It's important that we know and understand your vision for your business and you. It is only then that we can create a plan for you.

2 PlanRIGHT

This step focuses on developing a plan to help you achieve your goals. We then research alternatives that best fit your business, your life.

3 RetireRIGHT

Prudent business owners have independent retirement strategies in place. At Selectpath, we not only make sure you have a proper plan in place; we implement strategies that maximize your independent retirement plan.

4 TransferRIGHT

Every business owner dreams of the day they can retire from their business. Selectpath will help put a plan in place that makes sure you can leave the business according to your vision and your needs.

5 ShareRIGHT

Understanding the ownership structure of your current company and related companies is an integral part of the planning process. As important, is how you structure your Shareholders Agreement to account for your wishes and interests.

6 InsureRIGHT

Funding the transfer, retirement and shareholder agreement can be complex. Insurance can help fund these decisions so you don't have to worry about them.

Introduction

While many successful business owners have had success growing their business, this does not necessarily mean they will have success protecting their business, or financially securing the value of their business. RISK is a common word to most business owners who have had to overcome it many times in their quest for success. However, the RISKS we're about to discuss in this book aren't the typical RISKS business owners are used to overcoming. In fact, business owners have little control or recourse over these RISKS and their IMPLICATIONS.

GOOD PLANNING with qualified and experienced `experts` is IMPERATIVE!

There are many business and financial advisors that can sell products and solutions that fit the typical business owner's need to protect their business. Often times these are one-dimensional solutions that try to cover a multitude of RISKS business owners face. They often leave business owners no further ahead.

The following discussion will introduce you to several important business RISKS that you need to embrace in your 'business protection plan'.

RISKS:

1. A shareholders buy-sell agreement that can't be funded.
2. Business risk of losing a key person due to illness, disability or retirement.
3. No personal retirement plan in place for key employees and owners.
4. Paying too much tax now and on future transactions, events.
5. Personal risk of disability or illness to owners or executives.

Our aim is to help you PLAN WELL for the protection and eventual transfer of your business:

- Transfer your business according to your dreams not your nightmares.
- Establish a personal retirement plan from the business.
- Integrate all areas of your business and personal financial situation.
- Ensure your business will be compensated for the loss of key employees or owners.
- Structure your business success plan in a tax effective manner for now and events in the future.
- Establish funding strategies should you or your partners want to leave the business.

"We make sure our client's business vision becomes their reality, not a nightmare"

Here are several important questions all business owners need to ask themselves:

- Should we insure our business?
- How will we fund our shareholders agreement? How do we minimize the tax consequences?
- How will the business cover capital gains tax liabilities?
- What will happen to the business with the loss of a key employee?
- How can we use the business to support our retirement?
- How can we effectively manage business investment income taxes?
- Are owners and executives at personal risk of disability or illness?

If you aren't able to answer all of these questions with confidence, you might want to inquire about our FREE Vision Audit. Selectpath offers a free analysis of your current situation and protection plan. There is no obligation on your part. We'll do a thorough analysis so you can be informed, so that you can make the best decisions for the continued success and protection of your business.

"SHOULD WE INSURE OUR BUSINESS?"

For individuals, no estate plan is complete without a will. Similarly, no business plan is complete without a shareholder or partnership agreement containing buy/sell provisions that allow for the orderly transfer of business interests upon retirement, disability or death. Selectpath Advisors work with business owners to sort through their options in addressing these issues. Our focus is putting you on The RIGHT Path® for Business Owners, so you can make informed decisions for your business.

PRIORITIES

The average business owner will probably spend more than 25% of his or her day planning for tomorrow – how much inventory to order, credit requirements, or how to increase sales. But the same business owner will typically spend no more than four hours per year in planning for the eventual transfer of his or her business interests upon death, disability, or retirement, even though such interests might make up a major portion of their net worth. A Selectpath financial advisor can help by reviewing your current situation and working with you to plan for the future transfer of your business interests in the event of the death, disability or retirement of a co-owner. These plans, and the resulting agreements, are designed to provide for the smooth transition of your business by satisfying the needs of employees and creditors, while maintaining the value of the business for the purchaser.

HOW DOES IT WORK?

Business and financial advisors generally agree that life insurance is the most efficient means of funding an agreement of death or disability. A Selectpath advisor will be able to analyze and recommend the best alternative for funding a buy-out at retirement. There are a number of issues involved. Should the agreements be funded with corporate-owned or personally-owned life or disability insurance? What are the tax consequences of the options? What is the best alternative for funding buy-out obligations at retirements? *We can help answer those questions.* We will be able to provide you with sample agreements that can be reviewed by your own legal advisors in drafting an agreement specifically suited to your situation.

VALUING YOUR BUSINESS

A business valuation can be performed by a Certified Business Valuator, your Accountant or an industry specific expert. However, your Selectpath representative can provide you with the planning framework to assist you in your preparation for a business valuation.

WHERE DO I GO FROM HERE?

You've already taken the first step in taking control of the future of your business by requesting this information, and acknowledging the importance of "business protection" to achieving your long-term objectives. The next step is working with a Selectpath Advisor to help you develop your financial strategy.

Funding Your Buy-Sell Agreement

Buy/sell agreements provide for the transfer of the ownership of the business in different circumstances – death, disability, retirement or disagreement. At death or disability, for example, the remaining owners may not want to be in business with the deceased owner's heirs or the non-active disabled owner. As well, the heirs or disabled owner may prefer to receive the value of the deceased owner's share of the business in cash. If an owner retires, an agreement paves the way for business as usual. If the owners have a falling out, a buy/sell agreement will enable the business to continue to be "wound up" in an orderly fashion.

A buy/sell agreement should deal with:

- Who will buy the shares;
- What the terms of the sale will be;
- When the sale will take place;
- Where the money to buy the shares will come from; and
- How much the purchase price of the shares will be.

Proper funding should be in place to ensure that money is available to buy the shares of a deceased or disabled owner, should the event occur. Life insurance provides the necessary dollars at a far lower cost than borrowing to fund a buy-out. Funding the buy-out directly from cash flow can be difficult, as the loss of the owner has probably already placed strains on the cash flow of the business. The best alternative is to be prepared with life insurance.

The goal is simple: satisfy all parties so the business can get on with business. Although a buy/sell agreement is a legal document, it still needs to be properly funded. If it isn't, an unexpected crisis could cause serious financial concerns for the business and its owners. A properly funded buy/sell agreement provides access to adequate funds to facilitate any share purchase obligations contained within the agreement.

Selectpath can structure an effective and efficient funding vehicle to complement your buy/sell agreement. Don't wait until it's too late.

Covering Capital Gains Tax Liabilities

Through hard work and good personal financial planning, you may have acquired property that has increased in value. Perhaps your family cottage was bought for next to nothing before the current growing demand for vacation property, or your taste for obscure works of art is now shared by the wider art buying public. In either case, you now have property that is worth far more than your original cost.

If you are a business owner, you have worked hard to build the value of your business. You may have started virtually from scratch or with relatively little initial investment. The effort you have put forth has led to a sizable increase in the market value of your business as your surplus has grown and debt has been reduced. At this point, the value of your business may have increased well beyond your initial investment.

In either case, the growth in the value of your property carries with it a hidden liability. For example, if you die or sell the shares of your business, or decide to sell the family cottage, a capital gains tax is triggered on the amount by which the value of your property exceeds your investment. When dealing with estate planning, it is important to ensure that your estate has enough liquid capital to cover this potential capital gains tax liability. This is most often done through personal life insurance funded with personal after-tax dollars. Business shares, however, can be dealt with differently.

The owners of an incorporated business have the option of buying insurance through the corporation and using corporate dollars to pay the premiums. When the owner dies, the business receives the life insurance benefit proceeds tax-free. It can use the funds to declare a tax-free dividend to the shareholders so that they can purchase the shares from the estate of the deceased. Or, it can be used to redeem the shares of the deceased shareholder directly, thereby providing the cash necessary to pay the tax. When dealing with the capital gains on business shares, particular care must be exercised to avoid undesirable tax consequences.

We can help you minimize the impact of capital gains tax on your estate.

Key Person Protection

KEY OWNER/EXECUTIVE PROTECTION

Business owners and other key executives spend considerable time and effort to acquire the knowledge, experience, judgment, reputation, relationships and skills that make them valuable to the business. When they die, the business loses a key member of the management team and this can have a severe financial impact.

During the disruption that follows the death of a key player, lenders may cut back credit, creditors may press for immediate payment, debtors may delay making payments, employees and customers may lose confidence, and competitors may take advantage of the situation.

Large corporations are often in a much better position to prepare for key executive turnover because of sheer size and numbers. Unfortunately, in small business situations, finding an immediate replacement with the same qualifications as a deceased owner or executive is much more difficult.

It is often necessary to look outside of the business to find a replacement, causing delays, disruption and reduced efficiency. The resulting effect on business profits may further weaken the financial stability of the business. In the absence of proper planning, the very survival of the business may be affected by the death of a business owner or a key executive.

The impact of this situation can be considerably reduced if the business has purchased an insurance policy on the life of the business owner and/or key executives. If they die, the life insurance proceeds give the business working capital to meet immediate cash needs and provide a source of funds for finding, attracting, hiring, and training a replacement for the deceased executive or to hire interim management.

Key person insurance provides assurance to a small business's creditors and employees that the business will continue even if a key person dies. The life insurance proceeds provide immediate cash to cover the business's working capital needs and to find and train a suitable replacement for the person who died.

The value of these benefits to the business should far exceed the cost of the life insurance.

KEY EMPLOYEE PROTECTION

Disasters come in all forms. In the business world, the loss of a key employee can translate into corporate red ink. Simply put, the most important element of a successful business is its people; more specifically, its most valuable people.

The key employees of a company are not just its experienced senior executives; they also include top sales people who continue to shine year after year, technical wizards who always seem to find or invent the best technology for the job, and top-notch office managers who mold administrative units into works of art. The loss of a valuable employee through death or permanent disability could seriously affect the position and public perception of a company. Its sales could drop, the company's cash flow could slow and its position with creditors could become strained. At the very least, a new person has to be recruited, trained and guided to replace the key employee.

Situations like these need not spell the end of the success of the business or the loss of momentum, because key employee protection plans are available to satisfy the needs of the business sector. A corporate-owned life insurance and/or disability insurance policy on key employees will provide a business with tax-free dollars to offset lost revenues and reassure concerned creditors, giving the business time to regroup and replace its key individual.

You don't have to panic; the right package will buy you time. We can tailor a key person coverage package to ensure you have the funds to keep your business operating at peak form.

Using The Business To Support Retirement Income

As you become more and more successful, you may wish to leave money in your business as retained earnings, since the income would be subject to top personal marginal tax rates if withdrawn. Retained earnings, however, may generate investment income to the corporation, in which case business investment income taxes may eliminate any tax savings. There are few methods for you as a business owner to move this money outside the corporation in a tax-effective manner.

An Individual Pension Plan represents one opportunity for owners to invest corporate dollars in their own retirement and may prove more effective than RRSPs. You can move money from the business into a registered plan and deduct the contribution as a business expense. The effectiveness of an Individual Pension Plan depends largely on your age and current earnings.

Other opportunities exist with the use of life insurance. One alternative uses the accumulated value in a life insurance policy to provide you with cash flow at a point in the future, such as at retirement, by serving as collateral for a bank loan. Tax-deferred accumulation of funds within the life insurance policy and tax-free access to those funds through the advances from the bank loan can make this financial planning concept an effective tax planning strategy.

A second alternative uses life insurance to support retirement income through the tax-deferred accumulation of funds within the policy and the opportunity to withdraw a portion of these funds to supplement retirement income.

Finally, business owners face the common problem of finding tax efficient investment alternatives in addition to RRSP or Pension maximization. Conservative leveraged investing provides business owners the opportunity to boost their investment capital and multiply their potential returns by investing with "other people's money" (interest on investment loans are generally tax deductible). As with most investment strategies, the potential for enhanced returns is accompanied by greater risk. Risk can be offset by investing in capital protected investments such as segregated funds.

We can help by showing you tax-effective ways to use life insurance and other financial vehicles to order to provide for your retirement income needs.

Business Investments
Short-Term and Long-Term

As a business owner, you may accumulate excess surplus not needed for the day-to-day operation of your business. You may wish to avoid personal taxable income by allowing this money to remain within the company rather than make taxable payments to yourself. When you withdraw money from your company, it's taxable, even though you may enjoy tax breaks by receiving the money as dividend income. Of course, surplus cash in your company or holding company can be categorized as either short-term, mid-term, or long-term. So what are your alternatives?

SHORT TERM

Safe, conservative, low-risk investments such as 30-90 day Guaranteed Investment Certificates (GICs) or High Yielding Bank accounts allow surplus to grow and your cash will earn additional revenues; however, you still need access to your cash should the need arise. Selectpath can provide, through institutional partners, high quality alternatives to low yielding chequing accounts that are typical of most operating accounts with the "big five" Banks.

MID TERM TO LONG TERM

High Yield Bond & Income Funds, Conservative Balanced funds and 5 year GIC's can provide excellent alternatives for mid to long-term corporate investments. Investments generating capital gains or dividends can be a compelling tax effective alternative.

LIFETIME TO ESTATE

Short-term fixed income vehicles produce an annual investment income, which can be taxed at the top corporate rate of approximately 48%, depending on your province. In contrast, the regular tax on the first $200,000 of active business income is about 20%. A wiser alternative, and one that may outperform regular investments such as GICs and CSBs, is to have the business use the surplus cash to purchase life insurance.

With life insurance, excess surplus in the business can generate a higher estate value for your heirs than traditional savings vehicles. It provides tax-deferred growth of the business surplus, a tax-free death benefit to the corporation and ultimately allows this capital to be paid out to your heirs virtually free of tax, using capital dividends. Alternatively, the capital can be retained in the business and used for other purposes. This strategy is even more compelling for long term investments held in holding companies which have been set up for long term tax deferral.

Regardless, of your corporate investments time horizon, Selectpath can design an investment or insurance package to fit your needs.

Disability Coverage For Owners And Executives

If you're like many business owners, you may never have considered what would happen if you suddenly became ill or injured and couldn't devote the usual amount of time and energy to your business. A disability can cause your business to suffer because your business depends on you. In fact, if your business suffers you may no longer be able to rely on it to provide your income. Many business owners are unaware that during a disability, a company cannot continue to write off owner salaries resulting in a higher corporate tax burden.

ASK YOURSELF:

- How long could your business function if you were unable to be there?
- How long will your clients remain loyal and continue to support your business?
- How long could you retain key employees?
- How long could your business continue to pay the fixed expenses?
- How will your creditors, suppliers, and clients react when they become aware that you are no longer active in the business?

Consider your future income loss. A 45 year old earning $7,000 a month (with a 2% inflation factor) has an income potential of $2, 040,979 to age 65. Would you consider insuring a two-million dollar asset? Protect your business' greatest asset – YOU.

WHAT ARE YOUR OPTIONS?

- Liquidate some or all of your personal or business assets?
- Use your personal savings?
- Surrender your RRSPs?
- Apply for a personal or business loan?
- Depend on your spouse's income?
- Borrow money from your family and friends?
- Rely on Canada Pension Plan (CPP/QPP)?
- Rely on Employment Insurance or Workers Compensation?
- Rely on Group Insurance or Association Plan?
- Individual Disability Coverage

WHY INDIVIDUAL DISABILITY?

- Group Long Term Disability is designed to cover the salaried employees at the lowest possible cost. As most employees only have one source of income, it is designed to replace that income or rehabilitate the employee to another occupation.
- There are many weaknesses in group long term disability contracts which may preclude a business owner from insuring all forms of income.
- In simple terms, individual disability insurance is designed and tailored to the business owner and professional marketplace.

Critical Illness Coverage For Business Owners

Who's taking care of your business while you're taking care of yourself?

Getting sick isn't something most of us think about much and Bob was no exception. Until he had a heart attack. Today, thanks to medical advances and healthy living. Bob is recovering and getting on with his life. Unfortunately, that life doesn't include the business he had worked so hard to build. Although Bob survived his illness, his business didn't. It would be a different story if he had included critical illness insurance in his financial plans.

Getting better costs money -- As Bob discovered treating and coping with illness can mean significant and often unexpected costs. For the business owner, this can be especially difficult because the business that pays your everyday living expenses may be at risk if you can't work.

Critical Illness insurance helps finance solutions that ensure your business can continue without you for a time. It provides a cash benefit if you're diagnosed with one of the conditions as defined in your contract and you survive the waiting period. So you can focus on what really matters…getting better.

Significant impact on your business -- Think about it. If you had a heart attack today and couldn't work for six months or a year, would your business continue to thrive without you? This example shows how a cash benefit from a Critical Illness policy would have made the difference and allowed Bob to return to a financially sound business when he was back on his feet.

Before his heart attack, Bob had been taking a salary of $120,000 a year from the business, which he needed to continue to do to pay his personal expenses. Because he wasn't able to work for 6 months, he was faced with additional business expenses that he hadn't planned for. The table below illustrates what happened to his financial picture.

With Bob away, costs went up; sales revenues went down. The business didn't have the financial resources to continue and it collapsed leaving Bob's personal finances in chaos as well. Bob could have bought a Critical Illness policy to cover these additional costs and let him recover in peace without the stress of worrying about his business and personal finances.

We can't promise you'll never need Critical Illness. But if you do, you have peace of and knowing it will let you focus on what really matters…getting better.

Additional Business Expenses	6 Month Cost
Business manager to replace Bob	$36,000
Salesperson to replace Bob	$24,000
Reduced sales income (sales declined significantly without Bob's daily presence in the business)	$120,000
Total additional business expenses	**$180,000**

Business Loan Protection

It can be difficult to obtain adequate debt financing for a small business. Creditors will often require the business owner to personally guarantee a loan. The death of the business owner or another key executive may cause creditors to demand immediate repayment of outstanding business debts.

This can place a significant burden on the business and force the liquidation of key business assets at fire sale prices at a time when business results may already be severely impacted by the death.

In addition, if the business owner has personally guaranteed the debts incurred by the business, the owner or the owner's estate may be liable for any outstanding debts that the business is unable to pay.

If effective planning hasn't taken place, the business may not survive the owner's or another key executive's death.

A solution is for the business to purchase an insurance policy on the life of the business owner(s) or other key executives. Proceeds from the life insurance policy are taxfree and may be used to pay down the outstanding business debts.

A creditor may require a small business to purchase collateral life insurance to protect the creditor's interests, particularly if the death of the business's owner could affect the value of business assets used to secure the debt. In other cases, the business owner may simply want to ensure that business debts will be fully repaid if he or she dies to minimize financial risks for heirs and to permit the business to continue free of debt.

Generally, life insurance premiums paid for business loan protection are not deductible for tax purposes. However, if a life insurance policy has been collaterally assigned to a restricted financial institution, a portion of the premiums may be deductible.

A life insurance policy purchased for business loan protection can help a business negotiate loans and repay business debts with tax-free life insurance proceeds when a a business owner or another key executive dies. It can also prevent business owners or their estate from becoming personally liable for the business debts if the owner dies.

SELECTPATH
THE RIGHT PATH®

The Next Step Is Yours.

Take The First Step On
The RIGHT Path®!

Call us today for more information.
(519) 675-1177 or **(888) 327-5777**
or visit us at www.selectpath.ca