

THE ENTREPRENEUR'S STORY

In 1995, 43-year-old Sam Edwards* was the part owner of a thriving manufacturing business called Specialty Manufacturing. The 50-year-old business was valued at \$900,000, and employed more than 250 people. Sam was in a comfortable financial position, earning more than \$100,000 annually.

However, there were a few business issues that needed to be addressed. Sam had recently taken on two new partners, but there was no shareholders' agreement in place to protect them in the event that one of them died. In addition, the company was paying high premiums for its health benefits plan, since claims were exceptionally high. "We had needs — we needed insurance, we needed it at a good price and we needed proper coverage," Sam says.

In his personal life, Sam wondered if he and his wife, Carolyn, were on the right track for retirement. They had no financial plan and Sam didn't know when he could expect to retire. In terms of protection, he had a \$1-million life insurance policy and no disability insurance.

To help him with his business and personal finance issues, Sam decided to seek professional advice from Stephanie Czachor of Stonehedge Financial Planning Corp.

EXPERT ADVICE

After conducting a Starter Session with Sam, Stephanie discussed various options to tackle his financial issues in the Life Planning Session. Once Sam and Stephanie agreed on a course of action, Stephanie created a detailed plan for his business and his personal finances in the Financial Planning Session.

On Stephanie's advice, Sam and his two partners drafted a shareholders' agreement with their lawyer. After that Stephanie placed a \$300,000 corporate owned life insurance policy on each of the partners so they could buy out each other's shares from their respective estates in the event of death. "I demonstrated that waiting to buy the insurance later would end up being more expensive," Stephanie says.

Stephanie also placed corporate owned critical illness coverage on each of the two younger partners so that if either of them contracted 1 of 26 covered critical illnesses, money would flow into the business to be used to redeem their shares. Alternatively, in the event that the illness did not leave them permanently disabled, the money could be used to provide extra cash flow to the business during their temporary absence.

To tackle Specialty Manufacturing's high health plan costs, Stephanie signed the company up for an administrative-only services health and dental plan, as well as stop-

loss insurance. This would allow it to self-insure up to a specific amount, while the insurance company would cover the rest. And, unlike most group insurance plans, premiums would not be increased annually at renewal. "That's what makes this option so attractive," says Stephanie. "Otherwise, companies can raise premiums by 50 percent the following year." Already low stop-loss premiums usually also remain unaffected even if stop-loss insurance is collected upon, since the group is pooled with thousands of others.

Another strategy Stephanie used was to sign the partners up for a health spending account that allows the company to put an unlimited amount of money into an account for qualified medical and dental expenses on their behalf. This money flows out to the employees and owners tax-free, but the contributions are tax-deductible to the company.

In terms of Sam's personal insurance protection, after a thorough "needs analysis," Stephanie concluded he needed to purchase another \$750,000 in permanent life insurance protection to ensure that Carolyn could stay in their family home, keep their Florida condo and maintain exactly the same standard of living that they are currently enjoying.

In addition, Stephanie insured Sam with a disability policy, since if he were to become disabled, the majority of household income would be gone. The policy she selected included a premium refund rider, which ensures Sam gets back half of what he paid — tax-free — every 8 years if he doesn't collect.

Most importantly, Stephanie created a financial plan for Sam that would allow him to retire at age 65. Since 1995, she has ensured that Sam and his wife maximize their RRSPs and get the optimal return on their investments so they can reach their retirement goals. She also conducts quarterly Progress Review Sessions with Sam and Carolyn to keep them on track and to update their financial game plan as needed. The need for regular reviews is obvious when one observes the changes in Sam and Carolyn's situation over the last 15 years: the death of two parents and the resulting inheritances, the birth of three grandchildren, a lottery win, the sale of Sam's shares in Specialty Manufacturing to his two partners, and a bout of cancer for Carolyn. For each of these life events, changes had to be made in their financial picture. Life is dynamic and so is Energized Entrepreneur Program®.

OUTCOME: ENERGIZED ENTREPRENEUR

Although Sam decided to sell his business shares to his partners several years ago, the shareholders' agreement made the buyout and other short-term transactions easier.

Specialty Manufacturing also benefited from the new administrative-only benefits plan.

Not only did the company have more control over its benefits package, but it also saved on costs. “It was a much more accurate reflection of what things actually cost,” Sam says.

In the long run, Sam also saved money by buying an additional \$750,000 in life insurance. Premiums would be four times higher now because of general cost increases, as well as the fact that he is older and his health has declined.

In addition, by buying disability insurance, Sam is potentially saving his household from losing \$100,000 in annual income should he become disabled. And, as a result of the premium refund rider, he received \$24,000—tax-free— in 2007.

Having a financial plan also put things into perspective for Sam. “The plan forces you to consider how much money you’ll need to retire and what your limitations are,” he says. And with Stephanie managing the Edwards' RRSPs and investments and structuring them to be creditor-proof, he feels more secure about his future.

“When you’re running your own business, your business and personal life intermingle. Stephanie’s there to listen to your entire picture,” says Sam.

*names have been changed for confidentiality purposes