Critical illness insurance to protect your business

Because of your hard work, your business is successful. You have savings both personally and inside your company. If you were struck with a critical illness you could easily write a cheque to cover the added healthcare and treatment costs. But while you're undergoing treatment and recovering, who's going to look after your business? Who's going to make sure your products and services are still getting out the door so you still get paid?

In the event you succumb to a critical illness (cancer, heart attack and stroke are most common), a critical illness insurance policy can help keep your business running. This type of coverage doesn't look after you; it looks after your business. Here's how it can minimize the financial impact your critical illness will have on you and everyone else who depends on your business.

1. Protects your business

Take a step back and consider what could happen if you're unable to run your business the way you do today:

- You can lose business relationships and opportunities.
- You can lose sales and revenue because your business' productivity decreases, or even ceases.
- Eventually your customers could lose faith in your business' ability to deliver similar quality products and services.
- Creditors might get nervous and call a loan or refuse to renew credit.

What's at stake is obvious. You, your family, your employees, their families and suppliers all depend on the income generated by your business. Your customers value your products and services.

How can critical illness coverage protect your company? It lets your business hire help and pay bills to keep it running while you undergo treatment and recover. Your company would own the policy and pay the insurance costs, which aren't tax deductible.

2. Return-of-premium rider gives you options

A Canada Life™ critical illness insurance policy with a return-of-premium-at-withdrawal rider allows the policyowner to obtain a full refund of the total amount of premiums paid on the policy starting at the 15- or 20-year policy anniversary, or age 65 – depending on the selected return-of-premium rider.[1] If the policyowner's financial situation changes, they can access some of the premiums paid as early as the policy's 10-year anniversary. If the policyowner obtains a full withdrawal under the return-of-premium benefit, the critical illness insurance coverage under the policy ends.

The return-of-premium rider gives your business options regarding what to do with critical illness insurance coverage. If you don't become critically ill under the coverage then when the return-of-premium benefit percentage reaches 100 per cent (i.e. after 15 or 20 years, or age 65, depending on the return-of-premium rider you choose) your business can:

1. Cancel the policy and obtain a refund of 100 per cent of the total eligible premiums paid
2. Use the return-of-premium benefit to buy paid-up critical illness insurance coverage and, potentially, an additional cash payout
3. Continue the coverage and keep paying the same premium while retaining the ability to exercise the above two options at a later date

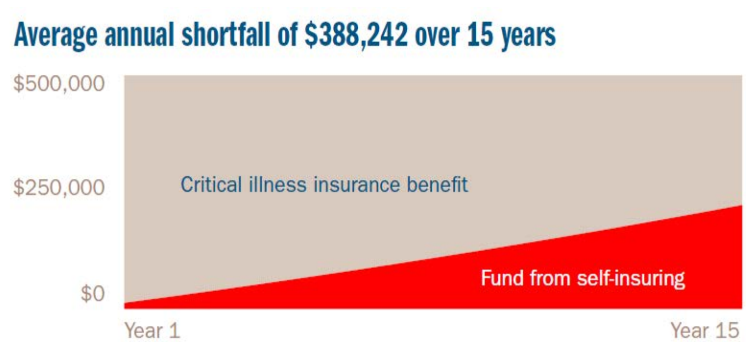
3. Makes good business sense
As both a risk management tool and financial product, a critical illness insurance policy with the return-of-premium rider is money wisely spent.

Stephanie
Stephanie is the owner of Flair Chair, a chain of designer furniture stores located across eastern Canada. She's a 47-year-old nonsmoker that's standard risk. She's on the road frequently to visit her different locations. She's hands on with managing her employees and suppliers. She's recently started seeing critical illnesses develop within some of her friends' families and is interested in learning more about critical illness insurance coverage for herself.

Stephanie and her insurance advisor determine that if she came down with a critical illness, the short-term impact to her business and the larger cost of hiring an interim manager for two years warrants $500,000 of critical illness insurance coverage. The advisor recommends a permanent level cost, paid up at 100, critical illness insurance policy with return-of-premium available at the policy's 15-year policy anniversary. The total annual premium for the coverage is $12,131.36, or $8,050 without return-of-premium. Stephanie's holding company (Holdco) could own the critical illness insurance policy and pay the premiums. This can help protect the policy from Flair Chair's creditors and the policy may not have to be moved out of Holdco in the event Stephanie wants to sell Flair Chair.

What if Stephanie becomes critically ill?
If Stephanie becomes critically ill, how would the business make up for the shortfall in funds that the $500,000 of coverage would otherwise provide? The chart below shows the annual shortfall that would occur if Flair Chair instead self-insured by investing the same premium dollars in funds growing at five per cent. Flair Chair's tax rate on passive income is 51 per cent.

Over a 15-year period, the average annual shortfall of self-insuring with the same premium dollars is $388,242. That shortfall would need to be shored up either from Flair Chair's cash flow or by not hiring extra help as a way of cutting expenses. A line of credit may not be available. If the shortfall comes from Flair Chair's cash flow or by not hiring help, then it's unlikely that Flair Chair would be able to maintain an income stream to Stephanie while she's recovering from her critical illness.



What if Stephanie doesn't become critically ill?
If after 15 years Stephanie doesn't become critically ill, Holdco has options regarding what it can do with its critical illness insurance policy.

a) Claim the return-of-premium benefit
If Holdco claims the return-of-premium benefit, it would receive a cheque in the amount of $181,970. This represents a healthy 25.98 per cent before-tax rate of return on the annual return-of-premium cost of $4,081.36. This rate of return can be calculated using Canada Life's *Value of return-of-premium* tool. The critical illness insurance coverage would end if Holdco chose this option.

The return-of-premium benefit would be received by Holdco on a tax-free basis.[2] The funds could either be used by the business or paid out to Stephanie as a taxable distribution.

b) Use the return-of-premium to buy paid-up critical illness insurance coverage
Holdco can use the return-of-premium benefit to purchase paid-up critical illness coverage in the amount of $292,954.[3] Again, this amount can be calculated using Canada Life's *Value of return-of-premium* tool. Stephanie may find this option attractive if she wants her company to retain the coverage and to stop paying premiums.

At year 15 there wouldn't be a residual benefit paid out in conjunction with receiving the paid-up coverage. The benefit amount of the paid-up policy and the amount of the residual benefit, if any, illustrated in the *Value of return-of-premium* tool isn't guaranteed and may change based on interest rates and our experience with expenses, mortality and morbidity.

If Holdco doesn't use the paid-up option at year 15, it may choose to use it every five years after as shown in the table below.

c) Don't claim the return-of-premium benefit and continue paying premiums
Stephanie's company Holdco can continue to maintain the coverage, pay premiums as usual and claim the return-of-premium benefit at a later date. It could even obtain an additional residual benefit if the return-of-premium benefit is able to prepay critical illness insurance coverage in excess of $500,000, the benefit amount of the policy.[4] If Stephanie wants Holdco to maintain $500,000 of critical illness insurance coverage on her then it makes sense to use the paid-up option when the return-of-premium benefit is able to purchase that amount of paid-up insurance.

Age	Return-of-premium benefit	Benefit amount of paid-up policy	Residual benefit
67	$242,627	$377,868	nil
72	$303,284	$467,421	nil
77	$363,941	$500,000	$43,510
82	$424,598	$500,000	$116,051
87	$485,254	$500,000	$193,437

Summary
A corporately owned critical illness insurance policy is a great way to help cover the costs of keeping your business running in the event you're struck with a critical illness. It's typically more effective than self-insuring, and with the return-of-premium rider your company can either recover the eligible premiums it's paid over time or use it to obtain paid-up coverage.

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[1] Return-of-premium at expiry is available on our term to 75 critical illness insurance coverage plans.
[2] The Canada Revenue Agency hasn't issued a formal ruling about the tax treatment of return-of-premium benefits included in a critical illness insurance policy.
[3] Once your eligible return-of-premium benefit amount reaches 100 per cent.
[4] The benefit amount of the paid-up policy and any residual benefit are not guaranteed. The amount of coverage will be determined based on rates in effect at that time and may vary from what's illustrated above based on assumptions of interest rate, expenses, mortality and morbidity. If you choose the paid-up option, all other riders and benefits, except for the loss of independent-existence rider, if applicable, terminate while base coverage continues.