



## Is Your Business Prepared For The Sudden Departure Of One Of Its Owners?

### HERE'S THE PROBLEM

If your business loses an owner, the remaining owners must decide how the business will continue. Generally, you have four options. You can close down the business, but you likely wouldn't want to after all the time, energy and money you've put into it. You can continue the business with the new owner (for example, the spouse of the deceased owner), but do you want to be



*Without a buy-sell agreement, you may be posting a "For Sale" sign*

in business with this person? You can sell your shares, but who will buy them and at what price? Or finally, you can purchase the shares from the deceased owner's estate.

### WHAT ARE YOUR OPTIONS?

A formal buy-sell agreement covers the terms of ownership and operation of the business. It usually deals with the death, disability

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## Group Guaranteed Issue Critical Illness Insurance

1% of Canadians suffer from Cancer, Heart Attack or Stroke, "the big three," every year. Group Critical Illness insurance is a vital part of an employee benefit plan. This benefit will become as common to a plan as Life insurance and LTD are to any benefit package for your employees.

We, as Canadians, are continuing to recover from Heart Attack, Stroke and Cancer; the average of survival is increasing. The average recovery period for a Heart Attack is less than 90 days, therefore there is a need to "Bridge the Gap" between the onset of the illness and benefits. The answer is Critical Illness Insurance coverage. The need for financial assistance through these tough times is obvious and often lies on the good will of the employer, work colleagues and family. Critical illness insurance coverage for your employees takes away the need to "pass the hat".

Cancer (Source: The Canadian Cancer Society)

-1 in 3 Canadians will contract some form of life threatening cancer.

-Incidence has increased 29% since 1970.

-67% of current cancer costs are unfunded.

-12% men & 13% women decrease in death rate since 1988

Heart Attack (Source: Heart and Stroke Foundation)

-1 in 4 Canadians will contract heart disease.

-1 in 2 heart attack victims are under the age of 65.

-90-95% of heart attack victims survive the first attack.

Stroke (Source: Heart and Stroke Foundation)

-1 in 20 run the risk of having a stroke before age 70.

-50% decrease in heart and stroke death since 1950

-1 in 3 stroke victims are under the age of 65

~Michele Garst

### THE INTEGRATIS SUITE OF SERVICES -

- |                                    |                           |                      |  |
|------------------------------------|---------------------------|----------------------|--|
| » Employee Benefit Plans           | » Group RRSP Plans        | » Financial Planning | » Disability Management Programs             |
| » Life Insurance                   | » Pension Plans           | » Estate Planning    | » RCAs (Retirement Compensation Arrangement) |
| » Disability Insurance             | » Pre-Retirement Planning | » Tax Sheltering     | » IPPs (Individual Pension Plans)            |
| » EAP's (Employee Assistant Plans) | » Annuities               | » Buy-Sell Funding   |  |
| » Critical Illness Insurance       | » Business Succession     |                      |  |



## THE IN'S AND OUT'S OF RESP'S

If you are thinking of setting up an RESP for a child, be sure you know as much about the process and rules as possible. Here are seven important things to consider.

### Know the RESP contribution limit

The maximum *combined* contribution from all subscribers (the persons making the contributions) to each beneficiary (the eventual student) is \$4,000 per calendar year to a lifetime maximum of \$42,000. The RESP contribution limit is a "use it or lose it" limit — it cannot be carried forward to future years. If you did not make a contribution to the RESP last year, you cannot put \$8000 into the RESP this year to make up for it.



That being said, the RESP contribution limit remains at \$4000 per year, so she could catch up on the carry forward of the RESP by one year. In this same example, Cammie's parents could put in \$4000 for 2003, which will qualify for the CESG for 2003 and also the previous year, 2002. Next year, the parents could contribute another \$4000, which will qualify for the 2004 CESG and the 2001 grant. By 2007, the parents will have caught up on the unused CESG credits. They will have put in \$20,000 and the government will have put in \$4,000.

### You can have more than one RESP

You can have as many RESP's as you want, but regardless of the number of plans, the limits apply to each *beneficiary*. So, for example, if a parent and a grandparent each wanted to set up an RESP for their child or grandchild, the total amount both subscribers can contribute each year is still \$4,000. Families should take care to ensure that the \$4000 limit per year and the \$42,000 lifetime limit are not exceeded.

### Know the CESG contribution limit

The Canadian Education Savings Grant (CESG) contribution limit is different from the RESP contribution limit. The CESG limit is only \$2000 per year per child who will qualify for the CESG. Unlike the RESP limits, the CESG limit can be carried forward if not used. In fact, each child, resident in Canada, began to accumulate grant contribution room since January 1st, 1998. For example, if Cammie was born in 1998 but did not have an RESP until this year (2003), she will have accumulated a total of \$12,000 (\$2,000/yr. x 6) in grant contribution room by the end of this year.

### Age and time limits

Contributions can be made each year for 21 years. Contributions made on behalf of a beneficiary of a family plan must be made before the beneficiary's 21st birthday. The plan must be "collapsed" before the end of the 25th year following the year the plan was entered into. This allows the plan to continue to provide tax-deferred growth while the beneficiary is pursuing post-secondary education.

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## HEALTH CARE IN CANADA (Sad but True!)

Two patients limp into two different Canadian medical clinics with the same complaint. Both have trouble walking and appear to require a hip replacement.



The first patient is examined within the hour, is x-rayed the same day and has a time booked for surgery the following week.

The second sees his family doctor after waiting a week for an appointment, then waits eighteen weeks to see a specialist, then gets an x-ray, which isn't reviewed for another month and finally has his surgery scheduled for a year from then.

Why the different treatment for the two patients? The first is a Golden Retriever; the second is an elderly man.

## Is Your Administration Up to Date?

In today's benefit world, access to online administration, third party administrators, instant data transfer, etc., all allow for ease of administration. However, the information provided is only as good as the accuracy and timing in which it is relayed.

Insuring that employee information is kept up to date on a regular basis is essential to the integrity of the insurance plan.

It is critical that employee information is updated immediately, or within the allowable 31 day grace period provided by the majority of insurers. Many employers have been faced with lawsuits from disgruntled employees / family members due to insufficient or incorrect information passed along to the insurer - which in turn has an effect on benefits payable to the employee.

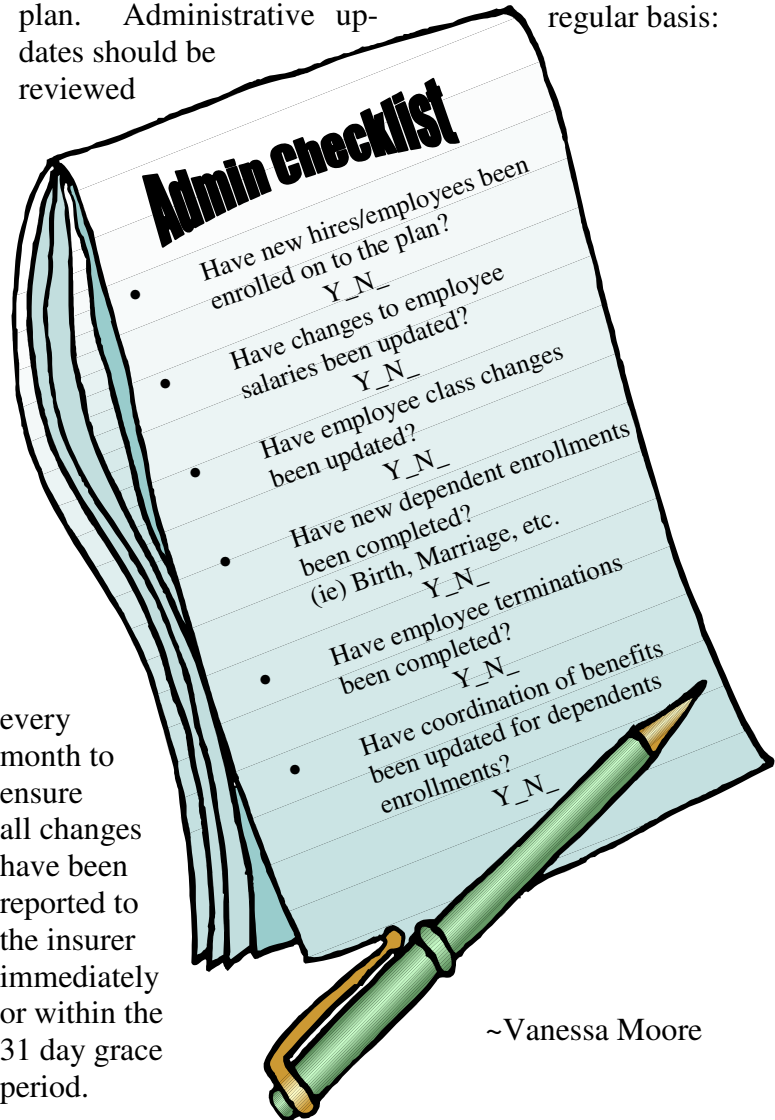
For example; many Life Insurance benefit amounts are derived from salary (ie) 1x annually employee earnings. If a change in salary occurs and is not forwarded to the insurer for update, the benefit amount payable to the employee's beneficiary upon their untimely death would not reflect the true amount that employee was eligible for. Another example of crucial importance is that

of classifications of employees. Many employers offer different benefit schedules to employees dependent upon their occupation. For example, Long Term Disability may be extended to Salaried Employees only. Upon promotion of an Hourly employee to the Salaried class offering LTD coverage, if the insurer is not informed to move this employee to the Salaried class with LTD coverage, and the employee becomes disabled, the employee would not be eligible to the LTD benefit as he/she is rightfully entitled, as the plan was not properly administered.

These are extreme examples; however, they do occur far too often, along with many other unfortunate circumstances that were brought on by insufficient administration of a group plan. Generally speaking, lawsuits brought on by employees/family members who have not received coverage they should have been entitled to, cost the employer much more than the intended benefit amount (ie) additional amounts may be rewarded in a settlement to the employee for court costs, distress, etc. Hence the importance of keeping all employee information current with the insurer.

It is the responsibility of the **employer** to ensure the plan information remains current for all employees with regards the group plan. Administrative updates should be reviewed

Please feel free to use the following checklist each month, as a reminder to update your benefit plan on a regular basis:



~Vanessa Moore

every month to ensure all changes have been reported to the insurer immediately or within the 31 day grace period.

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**Penalty tax on over contributions**

If contributions are made in excess of the annual or lifetime limits, they are subject to a penalty tax of 1% per month of the amount of the over contribution at the end of that month. If the RESP has more than one subscriber, the penalty is based on the proportion of contributions per subscriber. Withdrawing an over contribution will reduce the amount, if any, that is subject to the penalty tax. However, the over contribution will still be included in the calculation of the \$42,000 lifetime limit for that beneficiary.

**Transferring RESPs**

Subject to the terms of the plan, partial or full transfers are permitted under the

*Income Tax Act.* The transfer of an amount from an RESP to another RESP is considered eligible if:

- There is a common beneficiary between the originating plan and the receiving plan; or
- A beneficiary under the receiving plan is under 21 years of age, and is a brother or sister of a beneficiary under the originating plan.

While the *Income Tax Act* permits transfers, transferring funds can be costly. Make sure you know what, if any, fees the transferring institution charges to facilitate the transfer.

~ Mike Townshend

Source: Canadian Business Online

*“By all these lovely tokens  
September days are here,  
With summer’s best of weather  
And autumns best of cheer.”*

~ Helen Hunt Jackson

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and retirement of one of the owners, as well as disagreements about running the business that result in an owner wanting out. The agreement often includes a formula or process for valuing the business to simplify the buy-out of an owner.

Generally, the agreement deals 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 what the purchase price will be

**THE BEST SOLUTION**

Proper funding must be in place to ensure the agreement is viable. Without funding, agreements can fall apart because the remaining owners, obligated under the terms of the agreement to purchase the departing owner’s shares, may not be in a financial position to do so.

There are a number of ways to fund a buy-sell agreement:

- you can start saving today
- you can borrow the funds

from a bank

- you can take the funds from current earnings
- you can sell assets
- you can purchase life insurance and disability insurance to provide the funds needed.

Insurance can be the most cost-effective solution to fund a buy-sell agreement. It guarantees that money is available when needed. What you get is peace of mind knowing things are taken care of.

~Jackie Cyr

Source: Manulife Financial

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