NewsForum

Numekevor & Associates Inc.

Health Disaster Relief Programs for Business Owners

The HDRP Specialists | HealthDisasterRelief.com | Summer 2017

The early years

Attitude, gratitude, and altitude

Hurray, hurray it's been 30 years believe it or not! We have made it this far in the tough and challenging business of selling life insurance.

I owe it all to you, my clients, as we could not have come this far without your belief in me right from the get go — even when most of you could hardly understand me as I had literarily just come off ***"the boat."*** I will forever be grateful, and yes, it is all about attitude, gratitude and altitude!

So, while we prepare for the big 30 celebration on April 1, 2018 we thought it would be appropriate to give you a peek at the early years and a glimpse into how we got here from there.

We begin here, on the front page, with my first introduction to the community at the well attended and popular Black Awareness Day in July 1988. I was barely four months on the job. This article appeared in what was then, the K-W Record.

Inside we have reproduced articles I contributed to The Record to show how bullish I was about my future in the insurance business: I had come to stay for the long haul!

It may surprise you that my #1 job has not changed in the last three decades.

Protecting and preserving your families and businesses against such catastrophic events as disability and death of the anchor person is still my focus.

Crown makes presence felt at Black Awareness Day

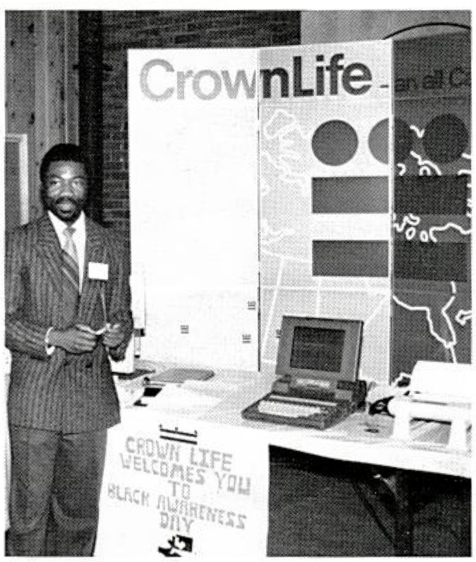
Crown's involvement in Black Awareness Day has made Lordy Morgan Numekevor, a rookie agent with the Kitchener agency, very proud of his company.

This was the third annual Black Awareness Day, held this year on April 24 at the Kitchener Farmers' Market. The purpose of the event is to enhance Waterloo Region's awareness of the contribution made by members of its thriving black community, provide positive role models for its younger black generation and allow the members of the black community the opportunity to network with each other.

Among the day's activities were a fashion show featuring the latest exotic spring and summer fashions, tasty Caribbean and African dishes, speeches by the mayors of both Kitchener and Cambridge, and entertainment by the famous black singers Salome Bey and Erroll Starr.

Also featured was Crown's booth, the first financial company to participate in Black Awareness Day. Numekevor remarked that with its computer, "Summer Fun and Sun" prizes, and blue background, it was the best and most attractive booth at the event. "My booth attracted both the old and young alike. As a result I was able to obtain several leads and even made some appointments on the spot."

Numekevor said that when the day was done he was satisfied that Crown Life had been presented and projected among the black community as a company that cares and is part of the black community. He expressed thanks for the support of Paul Bannock, Vice President, Canada Individual Sales, and Jim Stan, Manager of the Kitchener agency, who helped make Crown's involvement in the day the success that it was.



Lordy Morgan Numekevor represented Crown Life at Kitchener-Waterloo's Black Awareness Day.

Personal Financial Advisor

Originally published Tuesday, November 21, 1995

Protecting the family business from Revenue Canada

by Lordy Morgan Numekevor

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The XYZ owners' concern is becoming quite commonplace, as more and more family entrepreneurs would like to pass their wealth to their young ones in light of the rather gloomy outlook for future job opportunities. The federal and provincial governments are going through a period of major restructuring in order to balance their budgets resulting in massive lay-offs. The private sector has a new attitude characterized as "right-sizing."

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Sales for the XYZ company will hit the $1 million mark this year and the share value has almost tripled since it began operation just over five years ago. The potentially high capital gains tax liability in case of the owners' death is obvious, and is the main concern for the family because their common objective is to transfer the business to the younger generation with minimal tax implication.

The company, which is owned by the spouses of two brothers, mushroomed out of the so-called "green revolution" with a cleaning product that is exceptionally environmentally friendly. The brothers are the key employees and the death or disability of either one of them will have a devastating impact on the business

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In essence, both the private and public sectors are becoming lean and mean! It is against this background that the need for proper tax planning for the family business owner cannot be over-emphasized.

Under the capital gains rules in the Income Tax Act, a business is considered a growth asset and as such is subject to capital gains taxation. Currently, 75 per cent of the growth (capital gains) since 1971 is taxable at death.

Here is an example of how capital gains tax liability may be calculated:

Original investment in the business	$100,000
Value in 25 years at 10 per cent annual growth	$1,083,470
Less original investment	$100,000
Capital gain	$983,470
Taxable capital gain at 75 per cent	$737,603
Income tax at 50 per cent	$368,801

Even though arrangements could be made with Revenue Canada for payment over a period of 10 years, security for the amount owning must be given, not to mention the hefty interest charges which will apply.

For small businesses and farmers, there is some respite available in the form of a $500,000 lifetime capital gains exemption which will be reduced by amounts claimed under the former $100,000 capital gains exemption. It is, however, important to point out that nobody knows how long this tax break will be available. It could be taken back by the federal government at any time without prior notice.

It is also important to note that the estate of the deceased will not be permitted by Revenue Canada to dispute the business to the heirs until all taxes have been paid or other arrangements have been made for their payment. However, with proper planning, advantage could be taken of the spousal roll-over and the taxation of capital gains may be deferred until the death of the second spouse.

In the case of the XYZ company, the planning should incorporate the fact that the two husbands are the key employees. Though the death of one of them will not create any capital gains tax liability, it will definitely have a serious adverse impact on the bottom line of the company. As such, there is a need to provide for a "business stabilization fund" (for a "keyperson insurance," as it is more commonly known) as well as a fund to pay the capital gains tax.

There are essentially three methods of providing for these funds. First, the company could begin saving toward it. But this method ignores the risk element of sudden death which means the liquid fund may not be

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Group disability plan may disappoint

By Lordy Numekevor

When John Jokoto, vice-president of a medium-size company, returned to work part-time following a mild heart attack, he had no idea his company's group disability insurance policy would not be ready for him.

Off the job three and a half months, he fully expected that in two weeks he would begin receiving benefits to supplement his shortfall in income while he worked on a reduced schedule.

To his surprise, the company's insurer advised he would only have been eligible for benefits had he been away at least 120 consecutive days, and then only if he was judged to still have a total disability. Now that he was back at work, he didn't qualify at all.

Like Jokoto, many business executives are unaware that group long-term disability coverage is designed less for senior managers than for employees. The structure and contractual definitions in such policies make it difficult for executives to claim benefits.

Lawrence Geller, a Burlington-based disability insurance expert, has written that most long-term disability policies offer only "catastrophic" coverage, while most disabilities are partial and progressive by nature.

Few are catastrophic, that is, health conditions that take six to 12 months to finally affect a person's total ability to earn income. Yet most group policies require 120 consecutive days of total disability before benefits are paid.

Given their work responsibilities, it's almost impossible for executives to be absent for 120 days. Their companies are unable to "fill-in," so they return to work, regardless of whether it's the best for their health.

In the typical group long-term disability contract, the definition of "total disability" means that during the first 24 months of a claim, the employee must have a complete inability, because of sickness or injury, to engage in their normal occupation.

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For benefits to continue after 24 months, however, the employee must be completely unable to engage in any occupation, or any employment they are qualified to accept, or could become qualified to accept.

Most executives work their way up the job ladder, getting involved in most facets of company operations. As such, they're prime candidates to fail the two-year test and to be considered employable in another job, regardless of any disparity in pay. This essentially means their benefits could be cut off at the whim of the insurer.

Another inadequacy of many group long-term disability contracts is the lack of progressive protection. Once you are diagnosed with a heart condition, for example, you won't qualify for additional coverage, even though your income may grow substantially.

Why then, do such group contracts remain popular? As Geller put it, "group disability is where quality and amount of coverage meet the lowest common denominator of the group." In other words, the reason is price.

The alternative to group disability coverage is a personal or private insurance contract that is guaranteed renewable and can't be cancelled. Premiums, while costlier, are frozen at guaranteed rates and the terms can't be changed. And while group disability contracts typically cover only salary, personal contracts can be drawn up to also include coverage for taxable benefits such as bonuses, dividends and company contributions to RRSPs.

Personal disability insurance is portable and continues even should the holder become unemployed.

Profitability and productivity are benchmarks by which all executives are measured. An executive disabled by a back problem or heart attack must answer several questions.

If I go on disability, will the company still be as profitable? Will my absence for four consecutive months or longer create a situation where I must be replaced?

Do I give up my corporate future for a marginal disability benefit that does not allow me to return to work part-time or maintain a presence at the company while I satisfy my four-month waiting period? And if I choose to stay working and forgo benefits, will I put my health in jeopardy?

From *The Record*, Small Business section, February 11, 1998.

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available when critically needed and other assets may have to be liquidated to pay the tax or to stabilize the business.

The second method is to borrow, but banks and other creditors traditionally are reluctant to lend funds to a business in which a shareholder or key person has died.

The third alternative, life insurance, is not only the most economical, but also the most practical method of addressing the problem. Practical because income tax liability arises on the death of the taxpayer and it is the same event that triggers the payment of life insurance proceeds. If appropriately designed, life insurance proceeds will be available to pay the taxes on the death of either the first or second spouse. It can also provide the cash flow to cushion the business through the difficult times created by the death of the key person. And it is the most economical because many long-term life insurance plans designed for paying income tax and other estate liabilities are available at premiums which can be less than one per cent of the face amount insured.

It is advisable to seek expert advice when planning tax protection measures.

President's Corner

The more things change, the more they stay the same

In 1995, I wrote this piece for The Record where I outline the case of Glen, an entrepreneur who lost everything when a sudden disability rendered him unable to work.

It is impossible to read this article without noting how very little has changed when it comes to the risk Canadians face relative to their ability to meet their everyday debt and lifestyle expenses in the event of a health crisis.

In March 2017, Statistics Canada reported that the level of household debt had risen for the fourth quarter in a row.

"Total household credit market debt, which includes consumer credit, and mortgage and non-mortgage loans, totalled nearly $2.029 trillion in the final quarter of last year," explained the Financial Post. "Canadians owed $1.67 for every dollar of disposable income"[1].

Today, the probability of suffering a catastrophic financial loss is believed to be greatest when facing a critical illness, not disability or death. That is because the things that used to kill us, now disable us. According to actuarial statistics, one in two – that is 50 per cent! – of Canadians will suffer a serious or critical illness prior to age 70.

Sounds incredible, but with a quickly aging population, incidents of cancer, heart attack, stroke and kidney failure are increasing at alarming rates.

In light of these numbers, there could not be a better or more urgent time to protect ourselves against the high potential of bankruptcy.

Critical Illness (CI), the new kid on the block, has become a very popular product because, unlike its cousin Disability Insurance (DI), it pays a lump sum benefit. And while not a replacement for DI, it complements it.

With CI, a lump sum payout is made upon a diagnosis from a list of over 20 life-threatening diseases including ***the big three***: heart attack, cancer, and stroke.

These days, more of us are doing what we can to reduce the risk of a health catastrophe: We eat better and we exercise more. With CI, we can also reduce our risk of financial catastrophe.

Call me and we will find the solution that protects you.

Lordy

1 (http://business.financialpost.com/personal-finance/debt/household-debt-creeps-up-to-a-fresh-record-with-canadians-owing-2-trillion-by-the-end-of-2016/wcm/72a57a5c-4ba4-4b32-b0e7-46c0b4b8dae6)

Maintaining your lifestyle during a disability

by Lordy Morgan Numekevor

Glen's working life seems to be coming to an unexpected end, and so is his 15-year marriage. He owned and operated a successful taxicab business throughout his marriage; his wife stayed home to raise their three young children. They had just moved into their new house in October of 1993 full of high hopes for the future when, unexpectedly, things came crashing down one fateful day in early November. Glen was about to pick up a fare when, in a flash, he passed out by the curb. The doctors determined that a brain tumor removed 10 years earlier had re-appeared. The prognosis after this second surgery was not encouraging and Glen was, of course, not allowed to drive. He had no disability insurance and within months he and his family lost their house.

Unfortunately, there are countless such tragedies happening all around us. In 1982, the federal Minister of Health and Welfare and provincial counterparts launched a study of needs and possibilities in this area. A study group reviewed existing sources of income protection and concluded that there is definitely a need to eliminate several gaps and deficiencies in the current system. They concluded that too many Canadian workers do not have any income protection in the event of disability; that others have some protection, but not enough; and that others may have adequate protection initially but would quickly be in financial difficulty because of the impact of inflation.

The above conclusions are in fact understatements of the real situation, because the statistics are frightening. For example, a 35-year-old has one chance in three of suffering a disability that will last three months or more by the age of 65. At any time before age 65, the risk of disability is about 50 per cent higher than the risk of death. About 50 per cent of all mortgage foreclosures in North America are due to disability and not unemployment! Contrary to popular opinion, accidents cause only two out of 10 long-term disability claims; illnesses such as heart attacks and mental or nervous disorders cause eight out of 10 such claims.

So why this paradoxical behavior on the part of Canadians? One of the main reasons for this is that the majority of Canadians still believe that the government will take care of them in their time of disability. Some have learned the hard way and others are now seeing the reality of the situation in the wake of both federal and provincial government cutbacks on our until-now sacrosanct welfare system. Some Canadians are simply not aware of the gravity of the situation or the statistics.

Disability is considered by the experts as "living death" simply because it is the most traumatic form of economic death. During a time of disability, not only is one's income cut off, but other funds earmarked for purposes like retirement will have to be used to pay for the additional costs of medical treatment and rehabilitation.

A disability income policy is the most practical, dependable, and economical method of maintaining one's lifestyle and financial independence during a disability simply because it preserves savings, investments and other forms of income for their intended purposes.

Lordy Morgan Numekevor, BBA, RHU, CLU, is a Disability and Corporate Benefits Specialist with Golden Triangle Insurance and Financial Services Ltd., Waterloo.

About the company. We've focused on small business owners and executives since 1988. Founded by Lordy Morgan Numekevor, Numekevor & Associates is one of Canada's leading corporate insurance advisory organizations. We are the innovators of Health Disaster Relief Programs (HDRPs) combining comprehensive benefit and insurance programs to give you, the business owner, the peace of mind you're after. Contact Numekevor & Associates Inc., 88 Robson Avenue, Cambridge, Ontario, N1T 1L2, Tel: 519-621-4422; Fax: 519-621-1466; hdrp@numekevor.com; www.numekevor.com. About the newsletter. This newsletter belongs to our clients; it is published twice per year. Submissions of original articles, photos or artwork are welcome. For guidelines contact us at 519-621-4422 or email hdrp@numekevor.com. We reserve the right to edit articles for length and clarity.