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the newsletter of Prentice Yates & Clark

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In This Issue

Insuring Your Children

The value of insuring your children can last a lifetime.

Life insurance is traditionally purchased by adults to cover the catastrophic loss of one of the income producers in the family. Upon the death of the insured, the insurance company pays out money to pay off existing mortgages, credit cards or lines of credit, pay for funeral expenses or provide adequate principal to allow the survivor to support the family.

Insuring a child's life goes somewhat against human nature because no one likes to think their child may die and from that death there may be financial reward. But, if individuals can put aside the emotional aspect of insuring children, they may find it not only makes economic sense but may be one of the best investments for the child's future.

Many More Health Risks Today

Today's children travel more than their parents did when they were children, are exposed to a multiplicity of cultures, ingest products and use items made with synthetic compounds that were not available in the past. They are subjected to more pollutants over a longer period of time and from a younger age. There is no guarantee that today's healthy child might not be incapacitated by cancer, asthma or a life-altering injury. Purchasing insurance at a young age before mishaps occur that may make the child uninsurable as an adult will, under most circumstances, guarantee insurance will be available in the future. Most insurance companies have policies that include insurability riders that permit the child to upgrade coverage without a medical.

If your child waits until 21 years of age to purchase a policy and is required to take a medical they may discover they are uninsurable. The consequence of being denied insurance coverage is life altering as it makes it difficult to insure a mortgage loan, provide for dependants and in some instances may limit the benefits available in employment.

The probability of a child dying is statistically low. Nevertheless, should the child die, even a small death benefit would provide financial assistance for funeral arrangements at a period in life when most families are struggling with mortgage payments and the other costs of living.

The child rider usually expires at the age of 21.

Types of Insurance

Ask your insurance agent about the following:

Child Rider: This is added to a parent's life insurance policy and is the least expensive means of insuring children. The policy payouts are minimal — in the $10,000 to $25,000 range. Depending upon the insurer, it may be possible to insure all the children in the family for the same payout amount for a single premium.

The child rider usually expires at the age of 21. However, policies may have provisions that allow the child insurance to morph into a stand-alone policy for the new adult. This has the great advantage of not requiring a health examination to determine insurability.

Whole Life or Universal Life: This type of policy insures your children's lives. Each child would have their own policy for life regardless of how long they live. Premiums are split between premium amount and investment to enable a cash surrender value to accumulate. Do not count on this policy to pay for the child's higher education. Low returns on the small premiums invested will only provide enough savings to defray some of the education costs. And, of course, they will be able to draw on the cash surrender value of the policy if funds are required.

Term Life: Term life is the most inexpensive policy on the market. There is no cash surrender value. The cost for insuring a young child for $250,000 could be as little as $20-25 per month. Why should you purchase such a high amount of insurance on your child? Consider that when the child comes of age they can take over the policy at its face value and will not have to worry about whether insurance can be purchased.

You Should Know

Children's plans with a base face value and a premium fixed for an established term can be put in place from the time the child is 14 days old up until 12 years of age. The policy's face value will increase without an increase in the monthly premium. For instance, a policy with a face value of $35,000 would increase to $70,000 when the

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Your Past is Your Future

Before starting your own business, make sure it suits your personality traits.

Statistically, three quarters of small business start-ups survive the first year but less than 30% will be in business after five years. Data suggest most new businesses fail because of lack of cash flow, poor sales records, poor marketing skills or inept management. These reasons do not tell the entire story. How do they explain that many organizations in business longer than five years still demonstrate traits more usually associated with start-up failures?

"The child is father of the man," wrote William Wordsworth in his 1802 poem "The Rainbow". There is little doubt the decisions an individual makes depend upon the personal attributes and values acquired as a child. To ignore these values and start a business that goes against them will make success difficult. Thus, starting a business encompasses more than financial logic; hopeful entrepreneurs should look at their business start-up choice in much the same way they would consider a career change.

Be Realistic

Consider your interest in the project, the level of your skills, your experience (both academic and practical), familiarity with the business and the community in which you want to locate your business. This is necessary to determine whether your business is truly a good idea or whether it is based on the shaky premise used by many: *"If I build it, they will come"*.

Values

Identifying your value system is essential. Think about your work ethic, your views on integrity and honesty, your need to satisfy financial and material instincts, in addition to family, community and religious values. Your value system drives your everyday actions and will be expressed and amplified in your business. Introspection will reduce the anxiety of whether the business choice made will undermine your fundamental values.

Personality Traits

Understanding your personality traits is essential to determining business areas of interest to you and may also help predict the likelihood of success. Self-assessment tests are available on the Internet. You may want to interpret the results and discuss them with a trained psychologist, which will reduce personal biases and provide positive insight into areas you could explore further. These tests can also show areas where a person with your traits would probably not feel comfortable.

Think about your work ethic and your views on integrity and honesty.

Ask Yourself

Being self-employed, whether you work alone from home or are an owner-manager with employees, can be overwhelming when you realize responsibility for success rests on your shoulders alone. But, if you choose a path that does not meet your personality's needs, the trek to success will be arduous.

Ask yourself:

Do you need to feel you have accomplished something by the end of each day?

Are you better suited temperamentally to variety or routine?

Do you ride high in the blue sky of optimism or in the overcast sky of pessimism?

Are you a take-charge, responsible kind of person?

Is recognition by your peers, your community or your clients essential?

Do you work better alone or collaboratively?

Are you a people person?

Is detail your forte or are you more of a conceptual thinker who leaves the detail to others?

Do you find yourself excited by new ventures that challenge, or do you prefer the familiar?

Are you better suited to a nine-to-five, organized work environment or do you prefer to work as needed within a somewhat chaotic, high-pressure environment?

Do you feel at ease dealing with the public or are you better suited to deal with small groups or individuals?

Is your definition of your own success dependent upon how much money you make or is it measured in job satisfaction?

Do you require a familiar home base or can you move your operations or travel to a more promising environment?

Are you able to work in a small stand-alone environment or are you more comfortable with a support network?

Can you handle criticism by staff and peers and still move on your convictions or do you need to appease everyone?

Do you need the security of a known income stream or can you live on the edge of financial uncertainty?

Are you self-disciplined enough to apply yourself or do you need third-party persuasion?

Can You Beat the 70% Factor?

The inability of 70% of start-ups to survive more than five years is significant. Certainly, poor financial planning, lack of cash and erroneous marketing projections contribute to failure but they don't necessarily tell the whole story. Maintaining a new business may be difficult when the failure to match the business to the personality traits of the owner-manager prompts burnout, stagnation and a general desire to quit because the business is not satisfying personal needs. As corporations continue to downsize and traditional career paths fade away, the success of those building their own future through self-employment may well lie in matching strengths and weaknesses with a business venture built on similar values. ♦

We Have an Emergency!

An emergency plan is an essential part of every business plan.

Natural disasters like the one that hit Goderich, Ontario, in August 2011 appear to be increasing in frequency but they are not the only disasters businesses should prepare for. Since the risk of employee injury, fire, sabotage or vandalism exists every day, a disaster plan should be put in place.

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Contact Information

List the locations and contact numbers for hospitals and paramedics, police and fire department and, if your community has one, the location of the emergency response service. For businesses that work with hazardous or explosive materials these contacts are probably already well known. The list should be posted near all land phones and on all smartphones. Other important contacts include your electricity provider, natural or compressed gas providers, as well as the municipality in the event contamination of water or sewer lines is a possibility.

Staff Safety

Ensuring safety for all employees is imperative. List all personnel along with their location (e.g., physical work station), home address, telephone and cell number. The more contact points, the sooner all employees can be accounted for. If any employees have trouble understanding the operating language of your business, indicate the language spoken. Staff with special needs should be highlighted if special evacuation is required.

Consider providing all employees with first aid training. Organizations such as St. John's Ambulance will instruct staff in first aid and procedures for emergencies. Although not a substitute for care provided by paramedics or others with specialty training, first response to stop bleeding or provide resuscitation has saved lives.

Delegation of Responsibility

Who takes charge in an emergency? Members of the Health and Safety Committee are obvious initial choices since they will have knowledge of the company's disaster risks. At least one person and an alternate should be well trained in the kind of emergency measures likely to be required at your place of business. These people will function as leaders in training others and will lead in the actual disaster. Owner-managers must also be an integral part of the team to provide both physical and moral support to all staff.

Disasters don't just happen during the 9-to-5 work day. Crisis leaders must understand that disaster management is a 24-hour on-call responsibility. Furthermore, one person cannot know or respond to all situations; specific tasks should be delegated to a particular person or group. Cross training is essential in case those with the primary responsibility are unable to perform their duties.

Redundancy in planning for disaster cannot be overstated. At least two individuals should have knowledge of procedures and protocol. Accordingly, care should be taken to ensure that key personnel are not out of the office or on vacation at the same time.

The Plan

Formalize your disaster plan and have it printed along with all the contacts and emergency numbers in pocket manuals to be provided to all employees. Manuals should be used during training; downloadable versions with updates should be available online.

The Manual

All new personnel should be provided with the step-by-step disaster plan manual. An individual responsible for emergency procedures should review the manual with all employees and provide employees with a walkthrough of the evacuation route and protocols.

For those who believe a paper manual is redundant, keep in mind that disaster often means communities go without power and communications for days. When your smartphone dies with its power source you'll be glad you had a paper memory.

The Training

Training should include exposure to outside experts who can go over possible scenarios and procedures. Staff may be surprised that the procedures required during a flood are not the same as those for a tornado.

Any changes to procedures, emergency numbers and personnel contact information should be updated on a regular basis and provided to staff. During a disaster not everyone will know that Frank had the day off and isn't in the building.

Evacuation Protocol

Create an evacuation plan. For instance, if there is a fire in the plant, who takes responsibility for ensuring the fire alarm is sounded, that all staff are evacuated, that they meet at a prearranged location and a roll call is taken to ensure no one is missing?

Who calls 911 and notifies management?

Has an escape route been planned and is it clearly marked?

Is the escape route plausible? If there was an explosion would the escape route be blocked by fire, inventory or debris?

Is the emergency exit always unlocked and not blocked at any time?

Practice evacuation just as you did with school fire drills. Evaluate

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Disaster planning may be one of your best investments.

PYC Briefs

J.J. Pauze, Charlie Petralito, Viola Bardhoshi and Paul Jarozsko will be attending the CHF conference in June. We will be delivering one workshop; "Accounting and Audit Issues for Housing Co-ops".

We would like to welcome Sanjana Jabin to our administrative staff.

Congratulations to Colin Tozer and Rohan Sharma who have successfully completed the Core Knowledge Exam (CKE) and will be attending the School of Accountancy (SOA) in June 2014.

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Insuring Your Children...▶ *continued from front cover*

child reaches 21. Until 28, the young adult has the option of increasing the insurance to $350,000 without a medical exam. This policy provides a cash surrender value from the commencement date to either the date of death or the date the policy is cancelled. The cash surrender value for the $35,000 option from the age of one to 21 could be in the $7,400 range. In that the premium cost for this policy is about $31 per month over a 20-year period, the cost of the insurance is offset by the cash surrender value available.

Call Your Agent

Surprisingly, the number of insurance companies that provide specific information about children's life insurance on the Web is minimal. Combine that with the fact the insurance that may be offered can change depending upon your province or territory of residence, it is in your best interest to contact your insurance broker and have a serious talk about any insurance available for your children.

Tax Consequences

Premiums paid for insurance coverage are not tax deductible. Proceeds from insurance policies are not taxable in Canada. Amounts borrowed from the cash surrender value are not considered income and therefore are tax free.

Your Children Will Thank You

Life insurance for your children may seem a thankless gift your children will not fully understand until they mature. At some point down the road, when they purchase their first house, get married, or bring their first child into the world, they will understand the importance of what you did so many years ago and say thank you. ♦

We Have an Emergency ...▶ *continued from previous page*

the results and determine how procedures or escape routes need to be changed to ensure safety. Make certain that staff takes the drills seriously; one day their own lives and the lives of their colleagues may depend upon it.

Business Impact

From a business point of view, disaster planning may be one of your best investments. Should a disaster occur and your business execute an effective emergency plan, the risk of a lawsuit for gross negligence will be greatly reduced.

Review of Insurance Policies

Development of the plan will call for the examination of insurance policies. Property insurance will not necessarily provide coverage for the specialized areas included in disaster policies. Insurance coverage for disasters is not all inclusive; it may cover floods from ruptured water mains but not floods from that near-by creek that overflows as a result of a freak torrential downpour.

Meet with your insurance agent to determine whether your current policy covers existing plant, inventory, equipment and third-party liabilities. *Find out what it does not cover.* Owner-managers must understand what is excluded from the policy. If wind damage or flooding are not specifically covered, get a quote on the cost of riders that could be added to the policy. ➡

But if it Does

"It won't happen to us" is the wrong attitude. Even if the odds of a disaster occurring in your business seem remote, nevertheless, if the unthinkable does happen, you and your employees will know that everything possible has been done to be prepared. ♦

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