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the newsletter of Prentice Yates & Clark

PRENTICE YATES & CLARK
CHARTERED PROFESSIONAL ACCOUNTANTS

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Rising Interest Rates

Start planning now for interest rate increases.

Historically low rates have encouraged borrowing for equipment, real estate, operating lines of credit and everyday purchases. How much longer interest rates will remain at these levels is an open question but now is a good time to start thinking about the potential impact of higher rates on your business and personal life.

Potential Effects of Higher Interest Rates

Here are some of the effects higher rates could have on your business:

- Higher interest rates will drive up the cost of operations, manufacturing and delivery, which will force small businesses to either increase prices or face a smaller bottom line. If prices go up, consumers cut back their purchases if they need to borrow for vehicles and mortgages, or use lines of credit.
- Any resulting cash crunch may force customers to stretch payment time on their payables. This makes you your customers' banker.
- Payout periods of as much as eight years for equipment and vehicles have led many purchasers to believe that if they can make the monthly payments they can afford the asset. But, as the years pass, the warranty expires, the vehicle value plummets and repair bills mount. It may be difficult to finance a replacement if a significant amount is still owing.
- Personal finances are affected as well. A salary increase decreases company profit while increasing personal income taxes.
- Financial institutions become more selective. New companies without credit ratings may find it impossible to obtain a loan. Established companies may not be able to extend lines of credit.

Review income statements and balance sheets.

Proactive Planning

The following suggestions may help reduce the impact of rising interest rates on your business:

- Review your corporate income statements and balance sheets for the last five years because they reflect the lower cost of outstanding debt as well as the historical cost of your operating assets. Calculate the impact on the corporate bottom line if interest rates increase by two, three or more percentage points.
- Review your asset base. Determine what assets will need to be replaced within the next five years and estimate their replacement cost. If sales and expenses in the next five years remain the average of the last five years, would the increase in asset cost, combined with the need to borrow additional funds at higher interest rates, put undue stress on your operational capability?
- Review your personal debt at the same time as you review the corporate financials.
- Start building a cash reserve within your business.
- Consider reducing the long-term payouts on equipment and vehicles.
- Lock in existing secured loans.
- Lock in mortgages.
- Start incremental price increases to avoid a sudden and dramatic increase that may scare off clients if imposed later.
- Reduce the number of days outstanding for accounts receivable. Review your client base with the goal of reducing the lines of credit granted. Negotiate new payment terms with your long-term customers.
- Consider deposits on all jobs. Potential customers should understand that there are up-front costs that must be paid for, and that you are not a bank but a contractor.
- If your business has credit card balances or lines of credit with high interest rates, pay them off. If business credit cards are essential to your business, structure cash flow to pay off monthly balances.
- Use a percentage-of-completion method for payment on long-term contracts. If payment is not made as arranged, stop working. Better to walk away with a 20% loss then a 100% write off.

Rising Interest Rates - continued

- Review all sources of company credit. Eliminate those with variable rates. Fledgling entrepreneurs should work to establish a line of credit with their financial institutions and increase it over time to ensure that in the future, that line of credit is still available.
- More established businesses should work to reduce the debt on their lines of credit in case a buffer is needed to meet short-term cash needs.

An Ounce of Prevention …

Should interest rates start to rise, the trend is likely to continue upwards. Owner-managers should start now to model their business activity in potential future economic and credit conditions. Business plans derived from these models will help ensure the continued success of their business and family finances when the 2020 decade rolls around.◆

Password Management

Password manager software is an inexpensive way to secure all your passwords.

Our need for passwords to access everything in our life has become pervasive. Every agency, every computer, every credit card, every smartphone requires an exponential explosion of letters, numbers, and symbols to secure all information from hackers, whether it is personal data or corporate information.

To complicate matters, it is no longer permissible (or advisable) on many sites to use a simple password that is easy to remember, such as a word or name. Instead you must create a password with numbers, special characters, upper and lower case letters, and a minimum length.

One study suggests the average individual has at least 25 Internet-accessible accounts with passwords, while other sources suggest that number could be substantially higher. Is it any wonder that most individuals will, whenever possible, assign the same password to as many accounts as they can? Hackers know this and once they compromise one account, it often doesn't take long to gain access to your other accounts.

Use Different Passwords

The best means of protecting your personal information is to use a different, unguessable password for every account. Most password management software includes the ability to generate passwords, and then store them for you. The beauty of using a password manager is that you only have to remember one password to access all of the passwords you need to remember.

High-end password managers support multiple languages and are able to tie in passwords with hundreds of websites. Two-factor authentication is usually required (and should be!) to protect data in the event someone finds your password and logs in on your device or tries to log in on a new device that is not registered.

Set Up

Setting up a password management app generally requires you to download and install the software and add browser extensions for each browser you use. If you use multiple devices, you will need to load the app on each one. To set up an account, you will use your email address and will need to come up with a master password or passphrase (i.e., one long, hard-to-guess password to rule them all).

One primary password gives you access to all your passwords.

After creating the master password comes the arduous task of entering data about the various accounts or sites you need to access.

Some password managers will import your user names, auto fill standard information, and pull passwords from your existing browsers, although, if you haven't saved the passwords in the browser, the data will have to be entered manually. The password manager will typically assess the strength of your current password, and prompt you to generate a new, stronger password (typically at least 16 characters) for that site. Experts also suggest that you revisit your security questions and determine whether you want to change them as an added security measure.

Don't Forget Your Master Password

Unlike a typical website with a "forgot password?" feature, the master password is often not recoverable in that way. There are very few password manager systems that provide a "hint" to enable you to try to rebuild your password. For most, you will have to start all over and rebuild the passwords for every site and every account keystroke by keystroke. Commit your master password to memory; do not click "remember my password" for your master password; typing it often will help you to remember it.

Cost Factor

Most of the providers of password manager software provide free trial subscriptions; several offer a limited version of their software for free, with the ability to upgrade for additional features and support for an annual fee. Freebie options aside, password manager services typically range in price from $20 to $60 annually.

In Case of Emergency …

If a person is incapacitated or dead it will be impossible for someone else to access the accounts. It is important to ensure that the software used provides the ability to set up an emergency contact to inherit your passwords. Some providers allow you to set a waiting period before a trusted individual can access the codes so that the accounts cannot be accessed while you are alive. If someone tries to access your accounts, you will be notified by email. Other providers allow you to designate specific accounts, such as the business account, that can be accessed by specific people, such as your business partner, or to designate personal accounts to a trusted relative or friend.

Large Benefit for Small Cost

Strong passwords are a necessity for everyone, and we all tend to use passwords that are easy to crack; this makes us easy targets for nefarious people looking to steal our information, money or identities. Using a password manager is an inexpensive way of ensuring access to the ever-growing number of sites we must access in our interconnected world while making it difficult for anyone else to gain access to our personal and financial information.◆

Life Is a Gamble

An insurance plan today can support your business and family tomorrow.

No one, with the possible exception of a professional gambler, expects to build a reserve of funds by gambling. Nevertheless, purchasing or not purchasing life insurance is a gamble in itself. If you buy life insurance, you only win if you die early because the insurance pays off your debts; if you don't purchase life insurance, you only win if you live a very long life and pay off your debts without having paid life insurance premiums. What you must decide is whether you want to gamble that you will live to pay off all your obligations, or take a more conservative position and accept that you might die younger and be willing to pay the insurance premiums to ensure that your debts will be paid off at your early death.

Factors to Consider

To understand why you would need to provide these funds, ask yourself: Will my spouse be able to pay for:

1. my funeral?
2. our home (including any outstanding mortgage) and way of life for the children?
3. outstanding credit card debt?
4. funds borrowed from the RRSP to put a down payment on the house?
5. the monthly mortgage/rental, utility and maintenance?
6. day care?
7. my personal income tax liability as an owner-manager if I have not repaid draws or have not deducted sufficient taxes at the source?
8. short-term loans from the company?
9. personal guarantees to financial institutions if there is no other source of income?
10. our children's future education or future medical costs should they currently have special needs or develop them in the unforeseeable future?
11. RRSPs, investments or TFSAs for the future needs of our family?
12. the capital gains tax (if) the second residence (e.g., a cottage) has to be sold?
13. an equalization of my estate? For example, the family cottage has been left to three survivors, but only one has a real interest in preserving it. What will happen to the cottage if that person does not have the financial means to pay out the two other survivors? Does that mean the property would have to be sold to meet the terms of the will? Should life insurance be purchased to provide a cash payout to the other two beneficiaries to prevent the sale of the property and therefore keep it in the family?

Entrepreneurs should not defer purchasing life insurance.

What about Now?

Term life insurance provides coverage at a fixed premium for a limited period of time (i.e., the term). After the term expires, coverage at the previous rate is no longer guaranteed. Term insurance is usually the lowest-cost way to purchase a substantial death benefit.

Putting off purchasing life insurance is not an option entrepreneurs should consider because (in the event of your passing):

- your business associates will need cash flow to fill your vacancy
- life insurance becomes more expensive as you get older: your province of residence, your life style, the amount of the payout and your gender will impact the insurance premium; for a non-smoking 25 -year-old man, for example, the yearly premium for $600,000 of renewable five-year term life insurance may cost you $600* per year; however, as you age, the amount goes up: at age 46 (around $900) and age 55 (around $1,500); the problem with term life insurance is that, after the term expires, the policy has no value.
- **Please note that all amounts and calculations are generic estimates. Each individual's circumstances will impact the premium.*
- even if you paid an annual premium of $1,500 (hypothetically) from age 25 to 55, the total cost of your premiums would be only $45,000, but the payout would be $600,000, which is an excellent return on your investment
- conversely, if you invest $1,500 per year at 5% compounded annually for 30 years, you would have only about $100,000 at age 55
- if you incur serious physical problems or develop a medical condition, you may not be able to purchase life insurance.

Key-Person Insurance

Key-person insurance is paid for by the company, with the company as beneficiary. This type of insurance is designed to cover the consequences of losing an indispensable person such as the founder or owner who can no longer contribute to the business through death or disability. Funds will be available to keep the operation going while restructuring is taking place after your death.

Key-person insurance can provide funds to buy your share from your survivors without the business assuming additional debt. A key person payout can be used to back your personal guarantees on business loans as well as pay deferred taxes and other regulatory deductions.

Life is a Gamble - continued

How Much Should You Buy?

How much insurance you need depends upon what you need to insure: self-employed earnings, current assets, debt, savings, cost of living, business and family structure, as well as the future needs of family and the business. To determine this amount, first put together a summary of the collective assets and debts of your business and your family unit along with details of the cost of your current life style and future expectations. Contact an insurance agent, discuss your situation and design a policy that will meet your needs.

Something to Think about

Don't gamble with your future. Accidents and illness happen. Hope for the best but plan for the worst. Think about your business and family situation and what would happen if you were not there. Do not leave your survivors in jeopardy when you can take care of their futures today. ◆

Inside PYC

Congratulations to **Katya Bell** in reaching the 10 year milestone of service at PYC. Katya is a dedicated and valuable member of the firm and is responsible for managing all aspects of the firm's administrative support.

We would like to welcome **Chris Germano** as a new member of our professional staff.

Congratulations to **Jacquie Graham, Manager of Metta Housing Co-operative Inc.** who won the raffle courtesy of Prentice Yates & Clark at the recent CHF Conference and Trade Show in Niagara Falls.

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