

## A message from our President

*Tomorrow started yesterday ...*

Jack Welch, the former CEO of General Electric, stated that “if the rate of change on the outside exceeds the rate of change on the inside, the end is near.” Well, the rate of change on the outside of our business has been accelerating at an alarming rate for the past 25 years. We have seen 20% interest rates, three market meltdowns and the longest bull market ever. Technology has changed the way we do business both in terms of how clients are serviced and the products that we sell. We’ve seen the aging of the baby boom generation, the dismantling of life insurance companies and their traditional distribution systems in concert with the emergence of independent financial advisors.

Risk based products such as life insurance have seen flat sales results while the investment market has boomed with the growing wealth in our country. This being said life insurance advisors focused on the high net worth market have prospered as they have provided creative solutions for this growing sector.

Advisors who bring value to their client relationships will continue to prosper in the future. Products and services that have and will be commoditized will be driven by the banks and other large, well capitalized financial services organizations. In the next five years there will be a fundamental shift in the advisor-client relationship due to increasing requirements for disclosure and transparency. Organizations that have built their business on a platform of professionalism and service will be able to provide more product solutions and advisory services than ever before. There will simply be fewer options for the discerning buyer of financial services.

Barrington members are poised to take advantage of the future. We are independent, full service providers focused on our client’s best interests. By associating with each other we are stronger in our relationship with our product suppliers and in the quality and range of advice that we can provide our clients. We’re ready for the future and it’s already here. **B**



Paul Brown

## BWP: a great defense leads to a winning strategy

By Kelly Adams, BComm, CLU, ChFC, CFP

*BWP Advisory Services Inc. and Co-founder Barrington Wealth Partners Inc.*

As coach Glenn McHugh says, “as in football, as in sales, it’s not all about offence. A good defense can win you as many games as a good offence.”

I was recently asked to write an article of interest for our newsletter. I want to share a case that I believe displays a number of the benefits of belonging to Barrington and attending our semi-annual meetings. First let me state, this will not be “technical” - it is all about relationships - relationship with our client, relationship with Barrington Partners, Barrington Wealth Partner’s relationship with our client.

As most of you are aware, my partner Ed Lapointe and myself run a financial, tax and estate planning operation in the Maritimes, based in Halifax. Our main emphasis is on life insurance and money products, with a fairly healthy fee-based clientele. But today I want to talk about group insurance.

### Relationship with our Client

To date our group clientele is made up of a total of three clients. Two of the clients pay us a total of \$28,420 in annual premium. But the client I

want to discuss pays us \$1,009,500 in life and health premium and additional \$350,000 of AD&D annual premium. If you do the math, we have an extremely profitable group department.

We are now in our third year with this group and we could never have landed this client without knowing we have “great” support and bench strength in our Barrington Partners. Three of the people I spoke to before I went after this client were Ian Pippy – Pippy Financial, Bob Olson – ZLC and Scott Hunter of the TK Group. I knew if I needed any assistance in design, renewals, etc. I was only a call away.

When I knew I had my back covered, I closed the deal walking down the 2nd fairway of my home course, Oakfield. I was playing golf with the Chairman of the Board (company is public). Ed and I had, over the last couple of years, been putting private investors in front of him, regarding another project he was involved with. When I asked for the sale he told me the guy who was doing it was a good guy and saw no reason to move.



Kelly Adams

*(cont. on page 2)*

## Insurance audit as a financial check-up

By Milan Topolovec, BA, RHU, CLU, TEP  
President and CEO, TK Group



Milan Topolovec

Why should one consider completing an insurance audit?

The common problem exists in that after an insurance contract is delivered to clients, they rarely bring it out to complete a review. Here are some of the things that an audit will provide:

- Thorough understanding of the contractual obligations.
- Confirm that the coverage you think that you have is actually in force.
- Has the assignment been removed from the policies?
- Is there a method whereby the cash value of your policy can be utilized to pay future premiums?
- Is the policy properly drawn-up, i.e. owner, beneficiary and premium payor? A taxable situation could be waiting around the corner.
- Disability contracts are difficult to evaluate, however, the main component is the “definitions “ under contractual obligation.
  - “Own Occupation”
  - Residual/Partial coverage
  - Waiting Period
  - Accumulated days to satisfy waiting period...etc....
- Should your business be paying for disability contracts and deducting the premiums as a business expense.
- Does your existing policy qualify for reduction of premiums:
  - Stopped smoking
  - Eliminate rating due to improved health
  - No longer participate in hazardous sports

Who says that you cannot secure better premiums for same coverage? Healthy clients qualify for “preferred” underwriting at

reduced premiums. Audits have saved some clients millions of dollars that would have been paid at time of death, as well as premium savings for coverage in excess of \$20,000 annually.

Our experience has demonstrated that an audit has many values that it provides to the insured, owner and beneficiary. **B**

*Milan has had success in sending this article to selected “centres of influence” to help educate them on the value of recommending Insurance Audits to their clients.*

*The Insurance Audit can result in long term cost savings and other benefits for clients and can help solidify the role of the insurance advisor as a valuable part of the client’s team.*

### A great defense (from page 1)

I asked him how many investors he had brought to the table? Client said, “you have a good point, it’s yours.”

The relationship gets you the case; ability and great service will keep it. Since that time we have continued to build strong relationships with the Group Administrator and CFO, and I must admit my knowledge level with the help of my partners has much improved. We have also set up an RCA (straight investment) for four of the executives.

#### Relationship with Barrington Partners

In addition, one year ago, with help from our partners, John “the Navi Plan” Lunz and Bill Vollmer, we completed our first Navi Plan with the President and CEO of the company and placed a nice critical illness and over-funded UL case. Navi Plan is now the basis for all of our planning. Thanks ARCA!

Recently, my client bought a company in the U.S. with 100 employees spread over 15 states. My client phoned to ask my input on how the group plan should be integrated into their worldwide operation. The US has extremely complicated rules and compliance issues around “health” coverages. I knew right away I was in way over my head. I needed help. But I was able to say with confidence, “I will get right on it”.

The fact was the existing group broker in the US was AON, one of the biggest in the world. To me, I consider this a threat, “time to play defense”. I had to be able to show my client that I could not only write the business, I had to show that they were much better off retaining control in my hands and in turn their hands.

#### Barrington Wealth Partner Relationship with our Clients

Why was I so confident in my position? Because I knew I had a great defense to call on when I needed it - my partner Scott Hunter of the TK Group. Scott has a number of Canadian clients with businesses resident in the US. He in turn has an established relationship with a broker in Boston.

I informed my client of my Barrington partnership with Scott and how his operation was an extension of our firm. Since then we have had several conference calls and have been awarded the group. We made it clear to Scott that we want his associates to write and manage the US group in concert with us, but at a profit to them. For us, this was a great save or goal line stance that keeps our relationship intact with our client with nothing but opportunities in the future to grow as they grow.

Thanks Barrington Wealth Partners Inc.! **B**

## Tax Advisory Update

By Edward J. Lapointe, CA, CFP, RFP, TEP

Several TAG Team members recently attended the CALU meeting in Ottawa where the Canada Revenue Agency (CRA) provided their annual comments to questions provided by CALU at the Tax Policy Roundtable session. We thought a short summary of the responses might be of some interest to our members.

- CRA confirmed that a separate class of nominal value shares could be used to distribute proceeds of a life insurance policy. There will be no shareholder benefit assessed provided that the issue price reflects the fair market value of the special share at the time of issuance. This would avoid any issues where, other than the intended shareholders, the beneficiary could claim an interest in the proceeds. CRA did not, however, express their view on what the value of the special share might be.
- CRA also confirmed that the deemed disposition rules in section 148 of the Income Tax Act ("ITA") would not apply where one company, which owns an insurance policy, is wound up into its parent under section 88 of the ITA. This would allow planning to move policies that would otherwise result in a taxable disposition.
- If you borrow money to buy an annuity, then interest on the loan will be deductible – but the deductible amount will be restricted to the taxable income from the annuity. However, CRA has said that they will accept a 100% deduction for the lesser of the NCPI or premium paid on any policy securing the loan. This would still be subject to the pro-rata test of the outstanding loan to the death benefit of the policy.
- CRA also confirmed that borrowing more money to pay interest on an earlier loan would create additional deductible interest. This would apply to leveraged insurance concepts where the interest is illustrated as compounding. However, you should ensure the interest expense is actually paid annually.



Ed Lapointe

- Lastly, CRA agreed that if a parent and child were joint insureds with the parent the policy owner and child the contingent owner of a last-to-die policy, the ownership of the policy would pass, tax-free, to the child. This may be of interest as a way to over-fund a policy and pass the CSV tax-free to the child with minimal erosion of the CSV to insurance costs. National Life has a policy that they will issue on a joint basis, even if one insured is uninsurable.

A complete copy of the Tax Policy Roundtable questions and answers can now be found on the CALU website at [www.calu.ca](http://www.calu.ca). This can be useful information to pass on to your contacts that are tax advisors.

Lastly, although not in the formal questions, there were some other interesting comments:

They are still reviewing Critical Illness policies, perhaps looking at the return of premium feature. They also mentioned they were considering their position on the 8-10 policies.

There was an interesting question proposed as to whether the death benefit paid to a corporation as a result of the death of the annuitant of a segregated fund would create CDA. Who knows when they will get around to commenting on that one?

Something that wasn't mentioned was any progress on the interest deductibility rules. So they are not in such a hurry any more. If you'd like further comments on any of the points made here, please contact one of the TAG Team members. **B**

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## Who you gonna call? The TAG team!

The Tax Advisory Group, aka The TAG Team, is a group of four Chartered Accountants who are tax specialists within Barrington Wealth Partners: Ed Lapointe (BWP Advisory Services Inc.), Christine Black (ARCA Financial Group Inc.), Mark Zlotnik and Deborah Goch (both of Zlotnik, Lamb & Company). The TAG Team is an in-house tax resource for the Barrington members for insurance and estate planning matters.

As a special complimentary service available to Barrington members, Deborah Goch has been designated as the primary tax resource and is available to provide general tax advice on estate and insurance planning as well as answer "one-off" questions. In addition, she is the editor of "The Barrington Partner Report" newsletter. The other TAG Team members are available as necessary as an alternate resource.

Deborah is also available to consult with Barrington members on specific cases which may include meetings or discussions with clients and their professional advisors and assistance with the plan design, analysis of relevant tax issues, preparation of presentation materials and case management including financing matters and underwriting management, as necessary. These consultation services are available at an additional cost, which would be determined on a case by case basis.

Of course you will have the chance to meet the entire TAG Team at the semi-annual Barrington meetings where they provide a regular update on tax issues and marketing ideas. See you there!

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