



NewsForum

Numekevor & Associates Inc.

Health Disaster Relief Programs for Business Owners

The HDRP Specialists

HealthDisasterRelief.com

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Sharpening your axe

A ten-year strategy will help manage employee group health benefit cost

A young man approached the foreman of a logging crew and asked for a job. "That depends" replied the foreman. "Let's see you fell this tree."

The young man stepped forward, and skillfully felled a great tree. Impressed, the foreman exclaimed, "You can start on Monday."

Monday, Tuesday, Wednesday, Thursday rolled by, and on Thursday afternoon the foreman approached the young man and said, "You can pick up your pay check on the way out today."

Startled, the young man replied, "I thought you paid on Friday."

"Normally we do," said the foreman. "But we're letting you go today because you've fallen behind. Our daily felling charts show that you've dropped from first place on Monday to last place today."

"But I'm a hard worker," the young man objected. "I arrive first, leave last, and even have worked through my coffee breaks."

The foreman, sensing the young man's integrity, thought for a minute and then asked, "Have you been sharpening your axe?"

The young man replied, "No sir, I've been working too hard to take time for that!"

The lesson of this story could not be more true when it comes to managing group benefit costs. The escalating cost of employee benefit plans and the current economic crisis makes cost-conscious employers and HR Managers more inclined to shop around when their plans come up for renewal. This tactic is deceptive as it only provides short-term savings. They could make substantive savings and create value for at least 10 years if they just sharpened their axe.

In our continuous effort to improve and sustain this strategy, we created **The 10-Year Strategy Program™**. This program helps employers develop a long-term, 10-year benefits strategy that will significantly control costs, create value for their employees, and help them achieve their overall business goals.

As benefit plan strategists, we offer our clients two choices: basic and advanced. The basic service is to shop the market, which admittedly, hundreds of brokers can do. However, our advanced self-insured program—**The 10-Year Strategy Program™**—takes everything to a higher level, and is only available from us.

Tracey Rutherford, Director of Human Resources, Rutherford Controls Int'l Corp. understands how critical it is to have a benefit



plan that attracts and retains key personnel. "This approach has been very helpful to us in the light of today's highly competitive Canadian labour market where competition for qualified employees continues to intensify."

We created this advanced self-insured program because many companies suffer ongoing frustrations by not developing a long-term strategy. Typically, they try to control cost over the short-term by shopping around their plan. This tactic rarely works and they often:

- Lose money over the long-term
- Lose employees by failing to create value
- Fail to achieve overall corporate goals.

Generally, group insurance premiums are about 30 per cent higher than claims. So by shopping around you are simply creating a vicious circle where this year's

cost savings are next year's increased premium. Moreover, shopping around always results in lesser benefits and increased cost to members. When you slash the plan to save cost, the savings accrue to the insurance company and not to you, the employer.

As benefit plan strategists, we have helped many small and medium size enterprises manage their employee benefit plans to save money and create value for employers and employees alike.

"I can't help but wonder why I did not incorporate our employee benefit plan in this fashion from the very beginning of our company's

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"We have been dealing with Lordy and his staff for over ten years and, unlike our previous advisor, they are not complacent. Their passion for personal service and continuous innovative cost and value driven ideas for our employee benefits plan is second to none."

Tracey Rutherford, Director of Human Resources, Rutherford Controls Int'l Corp. (RCI)

Our client's side

Beating the odds with a one in 156 million shot

By: Mark Rozad

The odds against something happening may be extremely high, but that doesn't mean it can't happen. One of the reasons we need insurance is because there's a chance that something might happen.

September 11, 2010 started out just like any other day with a stop at Tim Hortons. The only real difference was that I was on my way to the annual Rutherford Controls golf tournament at Brookfield Country Club. I had recently retired from RCI so it was good to see the smiling faces when we arrived at the course. My dear friend, Nora, kissed the golf balls for good luck and off we went.

Our four-person scramble team was doing well until we suffered our only bogey of the day on #6 blue. Everything changed, however, on #7 blue, a 95-yard, par 3 surrounded by water on the front and right side of the green. As soon as I hit the ball with my sand wedge I knew it was a good one.



From left: Mark Montague, Mark Rozad, Nora Kennedy and Lordy Numekevor

are estimated to be 12,000 to 1 for an "average player". Turns out, this was the very same hole that my dad had his hole in one on in 1989. The odds of a father and son both making an ace on the same hole is 156 million to one!

I'll never forget my first hole in one. I'm glad I could share my special moment with my good friends, Lordy Numekevor, Mark Montague and Nora Kennedy. If you keep hitting it at the hole, eventually it will fall in.

The ball landed about five feet in front of the pin, slowly rolled towards the hole and then went in! After 35 years of golfing, I finally had my first hole in one! It was a very surreal moment followed by disbelief and much jumping and screaming. It was an awesome feeling and I was floating for days.

According to my research, the odds of getting a hole in one

Health Clinic

Valerian Root

Valerian is a calmatve and tranquilizer whose dried root is prepared in teas, tinctures and capsules. Its properties have been known at least since the time of Hippocrates, and it was prescribed by the ancient Greek physician

Galen for the treatment of headaches, insomnia, nervousness, restlessness, menstrual problems, nervous stomach, and hysteria.

Clinical trials have confirmed the use of valerian for treating insomnia, especially the insomnia

that accompanies menopause. The advantage of valerian over tranquilizers such as Valium and Xanax is that it reduces sleep latency, the time required to fall asleep, without a period of bedtime drowsiness and without creating a "hangover" or grogginess the next morning. Valerian has greatest effect in treating chronic insomnia, rather than short-term sleeplessness. It also soothes the digestive system and may prevent cramping caused by irritable bowel syndrome.



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existence. Besides the tremendous savings for the cost of health benefits for all employees versus the standard health benefit providers, this plan also allows us to maintain control over the amount of benefits that employees are eligible for." This is how Richard Grubb, president of R.G. Custom Mfg Inc. sees the value in the sharpened-axe strategy.

According to Rose and Charmaine of Way-Mar in Wallenstein, "We are very pleased with the financial results of changing to a self-insured plan. We are now offering better coverage for our employees, including dental benefits. We also have significantly higher enrolment on this plan and yet are able to maintain similar costs to our previous plan. By going to the self-insured plan, the administration costs have been reduced and this saving has been passed on to the plan members. It is a great way to emphasize the value of on-going health in our work environment."

Using a tactic such as splitting premiums 50-50 with plan members is a blunt-axe approach. In the next several Newsforum issues, I will be discussing the seven, blunt-axe cost-cutting mistakes employers make when trying to take control of the escalating cost of their employee benefit plans.

Visit us at www.the10yearstrategy.ca or call 800-964-8797 to learn how our sharpened-axe strategy could benefit your company.

Rethinking RRSPs



Business owners tend to pay themselves enough each year to ensure they can maximize their RRSP contributions. Yet, given the tax deferral opportunities available to small businesses, Jamie Golombek concludes that leaving funds in the company may make more sense than taking a salary

If you're an incorporated small business owner, chances are you've probably been advised at one time or another to pay yourself at least enough salary from your corporation to allow you to contribute the maximum amount to an RRSP. This is because the ability to contribute to an RRSP is dependent on receiving "earned income" in the prior year. Earned income includes salary and bonuses but does not include dividends. Subject to an annual cap, the annual RRSP contribution limit is calculated as 18 per cent of the prior year's earned income. For example, in 2010, you would have to receive a salary of at least \$124,722 to be able to contribute the maximum amount to an RRSP (\$22,450) for 2011.

There are potentially two flaws with this reasoning, at least for Canadian-controlled private corporations (CCPC) with taxable income subject to the preferred corporate small business tax rate¹. First, if you need the cash, depending on your province of residence, you may actually pay more tax on the funds withdrawn as a salary than if the same funds were taxed to the corporation and then withdrawn as dividends. Second, if you don't need the cash, you give up a significant tax deferral by withdrawing the funds as a salary to be taxed immediately rather than leaving the cash in the corporation to be taxed at a much lower small business corporate tax rate.

These two points are based on what is commonly known as the "theory of integration."

The Theory of Integration

The Canadian income tax system is designed in such a way that an individual should be indifferent between earning income personally or through a private corporation. In other words, an individual should pay the same amount of tax on active business income whether that income was earned personally or earned (and taxed) through a corporation and then paid out as a dividend to be taxed in the shareholder's hands. This is known as the theory of integration.

Under perfect integration, it should make no difference for a business owner if she takes a salary or dividends because she will pay the same amount of tax either way. In the case of a salary, it is tax deductible to the corporation — thus reducing its taxable income — but is instead taxed in the hands of the business owner at the appropriate personal rate. In the case of dividends, corporate income tax is paid on the income, and the after-tax amount is paid out as a dividend and taxed in the business owner's hands at the preferred dividend rate. Under perfect integration, the total personal income tax paid by a business owner on a salary should be equal to the combined personal and corporate income tax paid where the remuneration is taken in the form of a dividend.

Perfect integration is achieved when the combined federal-provincial personal tax rate is 43.5 per cent and the combined corporate tax rate is 20 per cent (12 per cent federal and 8 per cent provincial). As an illustration a perfect theoretical integration on \$1,000 of income is achieved when the tax paid on \$1,000 of personally earned income (\$435) is equal to the sum of the tax paid by a corporation (\$200) on \$1,000 of corporately earned income and the tax paid at the shareholder level (\$235) when the \$800 net corporate after-tax income is paid out as a dividend and taxed in the individual shareholder's hands.

The Tax Deferral Advantage

The tax rate advantage, however, is only half the story if you don't personally need the cash. Where you have other sources of cash to fund your living expenses, for example, it may not be necessary to extract any funds from the corporation at all. In this case, by choosing to have the business income taxed in the corporation at the preferential small business rate and reinvested inside the company — instead of paying that income out as a salary to be taxed immediately at a much higher personal tax rate — the business owner can benefit from a generous and potentially long-term tax deferral.

Keep in mind, however, that this is only a tax deferral as the after-tax corporate income will be taxed a second time in the hands of the shareholder when it is paid out as a dividend. Naturally, the value of this deferral will depend on the length of time the funds can be left in the corporation as well as the rate of return earned on the funds.

Jamie Golombek, CA, CPA, CFP, CLU, TEP, is managing director, tax & estate planning, with CIBC Private Wealth Management in Toronto. He can be reached at Jamie.Golombek@cibc.com. For a full copy of this study, including the results of a detailed example, please visit cibc.com. This article has been adapted for NewsForum. Part two next issue.

The good old days

In the old days, cooking was done in a big kettle hung over the kitchen fire. Every day they lit the fire and added things to the pot. They ate mostly vegetables and did not get much meat. They would eat the stew for dinner, leaving leftovers in the pot to get cold overnight and then start over the next day. Sometimes stew had food in it that had been there for quite a while, hence the rhyme: "Peas porridge hot, peas porridge cold, peas porridge in the pot nine days old."



Critical Illness Insurance: Definitions are critical



One of the best insurance products the Canadian insurance companies ever provided to consumers in recent memory is the now popular critical illness insurance. However, the value of this product is being diminished by the new so-called "Benchmark" definitions.

Critical illness insurance was originally created by the famous South Africa heart surgeon, Dr. Marius Barnard, when he discovered after several years in

practice that, "You need insurance, not only because you're going to die, but because you're going to live".

The reasons for the creation of critical illness insurance include the following:

- Dr. Barnard recognized that traditional disability insurance was primarily designed to handle gradual debilitating long term illness, and not critical illness which strikes suddenly.
- Advances in medical science, pharmacological research and technological breakthroughs are prolonging life, but not the quality of life.
- Lifestyle changes and workplace stress are contributing to an ever increasing number of critical illnesses.
- Most critical illness victims survive the initial event and eventually make a full recovery.
- Critical illness insurance can help guarantee the quality of life.

Since 1988, when critical illness was introduced in Canada, consumers have benefited tremendously from its lump sum payout. It was a slow start for the product but eventually it began to take off with full steam. The product's success, however, has had its challenges, and in some respects, its undoing.

Among the many challenges, the one that stands out is the fact that advisors have not been trained well enough to understand the definitions of the covered conditions, or to know the obvious and subtle differences between products from the different companies. As a consequence consumers appear to have been misinformed resulting in the following startling statistics:

- About 30 per cent of declined applications are due to personal or family health reasons, and

- About 40 per cent of critical illness claims are denied for failing to satisfy the policy's definitions.

In my own experience, where a \$200,000 claim was paid, it was the medically and legally sound definition of heart attack that saved the day.

Unfortunately, the medically and legally sound definitions of the covered conditions are now being watered down by new, standardized ones called "benchmark" definitions. According to the insurance companies, the reason for introducing standardized definitions is to facilitate the training of advisors and bring clarity to the definitions. In view of the increasing number of claims—an indication of the success of the product from the consumers' perspective—one could safely say the real reason is to save cost.

To help consumers make the right purchasing decision about their critical illness insurance policy, we have put together a "Benchmark Challenge" a simple one-page tool as shown in the insert below.

INDIVIDUAL CRITICAL ILLNESS INSURANCE "BENCHMARK" CHALLENGE				
DEFINITIONS COMPARISON TEST		New Benchmark	Our Plan	Your Plan
1.	Cancer definition covers <i>Hodgkin's Disease</i> and <i>Leukemia</i> (neither is a tumor).	NO	YES	
2.	Heart Attack definition states <i>diagnostic tests</i> can be either <i>elevated cardiac enzymes</i> or <i>biochemical markers</i> , (neither testing method is currently in universal usage throughout the country)	NO	YES	
3.	Stroke definition is satisfied <i>without paralysis</i> or <i>cognitive impairment</i> , persisting for 30 days or more.	NO	YES	
4.	Stroke definition covers events due to <i>trauma</i> (when accidental and not self inflicted)	NO	YES	
5.	Kidney failure definition states the failure of <i>a kidney</i> , not both, (avoids dilemma at claim time if insured has only one)	NO	YES	
6.	Multiple Sclerosis definition is satisfied without a degree of <i>severity</i> or <i>multiple MRIs</i> .	NO	YES	
7.	Benign Brain Tumor definition is satisfied <i>without requiring surgical or radiation treatment</i> , <i>paralysis</i> or <i>cognitive impairment</i> and doesn't have an initial <i>90-day moratorium</i> .	NO	YES	
8.	Parkinson's Disease definition is satisfied without the <i>loss of 2 of 6 ADLs</i> .	NO	YES	
9.	Major Organ Failure definition includes a <i>Pancreas</i> and only requires the failure of " <i>a lung</i> " or " <i>a kidney</i> ".	NO	YES	
10.	Coma definition permits a <i>Glasgow Coma score above 4</i> , and a medically induced coma required to save a gravely ill patient's life is acceptable. (Glasgow Coma scale's lowest possible score is 3.)	NO	YES	
TOTALS		0	10	

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. Publication dates are January and July with deadlines in November and May. 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.