the **Zlotnik, Lamb & Company**

professional services report

[a newsletter for clients and friends spring 2003]

Since its inception, the goal of Zlotnik, Lamb & Company has been to build strong, lasting relationships with its professional clients. Our associates and staff have developed a reputation for quality, integrity, and professionalism. Call us today and find out how we can be valuable members of your planning team.

ZLOTNIK LAMB & COMPANY

Life insurance/Estate Planning/ Wealth Management & Retirement Planning/ Employee Benefits & Pensions/ Structured Settlements

Vancouver

1200 Park Place,
666 Burrard Street,
Vancouver, BC V6C 2X8
Tel: (604) 688-7208
Fax: (604) 688-7268

Victoria

3711 Grange Road,
Victoria, BC V8Z 4S9
Tel: (250) 727-3445
Fax: (250) 479-9716

Toll Free: 1-800-663-3171
www.zlc.net www.zlcpim.net

"Financial advice is only as good as the person you ask."

ZLOTNIK LAMB & COMPANY

Business builder:

Help clients unlock the cash value of their life insurance policies

You already have your clients' basic needs covered: they have life insurance for protection; a retirement plan to ensure a comfortable lifestyle after work; an RESP to get the kids through university; and an estate plan to manage everything else. What's missing in this scenario? How about a plan that maximizes the cash value of your clients' life insurance policy?

You can help your clients enjoy tax-sheltered growth, a substantial tax deduction and favourable tax treatment by tapping into the cash value of their life insurance. Simply use a portion of the cash surrender value (CSV) of their plan to obtain a loan. The loan is then leveraged into solid investments to optimize their financial plan. Here's an example.

THE PROCESS

The first step in the process is to have a life insurance policy in place. Let's assume your client Charlie owns a permanent plan. Over time, Charlie's cash surrender value (CSV) has grown to $600,000. Using this strategy, Charlie can use up to 75% of the net CSV as collateral for a loan. Charlie decides to assign 50% or $300,000 of his CSV to a lending institution. No additional underwriting is required - Charlie already owns the policy!

TERMS OF LEVERAGING

Using a 4:1 leverage ratio, Charlie takes out a $1,200,000 loan. He's only required to repay the interest (usually at prime plus 1%) and he can deduct 100% of his interest costs.

Going back to our original example, let's say Charlie is paying 6% interest. That means he will pay $72,000 in interest per year. At a marginal tax rate of 43.7%, his tax deduction is $31,200. Thanks to this deduction, Charlie's yearly interest cost equals $40,800.

How will Charlie invest these funds? Working with numerous clients in this situation, we've discovered that Manulife's segregated fund GIF *encore* fits this purpose perfectly.

ABOUT GIF *ENCORE*

GIF *encore* allows Charlie to take advantage of market opportunities and protect his investment at the same time. Charlie can choose either a 75% or 100% principal guarantee. So even if the market drops, Charlie can still bank on receiving his original amount at maturity. And no margin calls! Because GIF *encore* is an insurance product, Charlie also receives potential creditor protection, the option to name a beneficiary and an escalating death benefit guarantee.

If we assume Charlie's GIF *encore* investment returns 8% annually, his overall gain from this strategy (after repayment and taxes) is estimated to be $605,512 after 10 years.

From the above example, it's easy to see how using the cash value in a life insurance plan can boost your clients' bottom line. If you would like to find out more on this innovative way to invest, please call your ZLC representative.

Borrowing to invest is suitable only for investors with higher risk tolerance. Your clients should be fully aware of the risks and benefits associated with investment loans since losses as well as gains may be magnified.

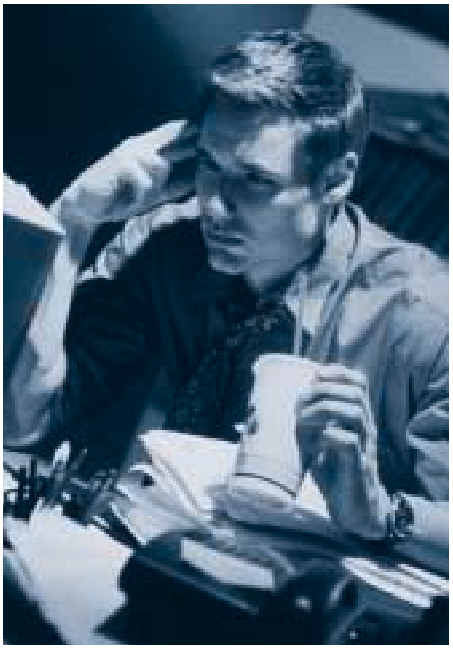
Creditor protection

Ten tips to share with your business clients

Did you know that three out of four Canadian small business owners have not taken adequate steps to protect their personal assets from potential creditors? Where do your clients fit into this statistic?

As a business owner yourself, you know how easy it can be to become so focussed on growing your business that you forget to protect the very assets you're working so hard to build. But as a financial advisor, it's your duty to teach your business clients how to manage this small, but fundamental aspect of their business.

Don't let this one detail derail your clients' financial future. Here are ten tips to help your clients protect their assets from creditors.



1. GET PROFESSIONAL ADVICE

Seeking legal and tax advice may be one of the most important business decisions your clients make, so don't overlook its value. Create a network of financial professionals to assist you with topics outside your area of expertise. This way, you'll be able to design a seamless, comprehensive financial plan for all of your clients' needs.

2. START EARLY

Encourage your clients to implement a creditor protection plan while their company is financially healthy. If they wait until disaster strikes, it will be too late.

"…three out of four Canadian small business owners have not taken adequate steps to protect their personal assets from potential creditors."

3. PRIORITIZE DEBTS

Directors and officers can be held personally liable for statutory debt (i.e., employee wages, source deductions, GST and PST) so ensure that your clients take care of these debts on time.

4. MOVE PERSONAL ASSETS

Suggest that your clients place the family home under their spouse's name. Doing so will keep this asset out of the reach of potential creditors.

5. INCORPORATE

Using the services of a lawyer, review the costs and benefits of incorporating with your clients. Incorporation limits the liability of all directors and officers of the company.

6. USE SPOUSAL RRSPS

A spousal RRSP allows a couple to split income and can protect a business owner or self-employed professional from potential creditors. It effectively transfers wealth from the higher income earner to the lower income earner, allowing your business owner clients to redirect money from themselves to their spouses and away from potential creditors.

7. LOOK TO LIFE INSURANCE

Ensure that your clients designate a "family class" beneficiary on all their life insurance contracts. Family class includes a spouse, child, grandchild or parent of the annuitant. This precaution can prevent potential creditors from seizing insurance proceeds.

8. LOOK INTO INVESTMENTS OFFERED BY LIFE INSURANCE COMPANIES

Segregated funds or even GICs sold by an insurance company can provide your clients with potential creditor-protection. Again, your clients need to purchase these investments before problems arise for them to work effectively.

9. ESTABLISH A HOLDING COMPANY

Take your clients' creditor protection plan one step further by encouraging them to transfer their corporate assets to a holding company. Should problems arise, claims against the main company will be limited.

10. STAY ON TOP OF INSURANCE COVERAGE

Remind your clients to review their insurance coverage periodically. A yearly review will reduce their chances of being exposed to additional liabilities they may not have been aware of.

Protecting your clients' assets can be a complex subject. But you don't need to tackle it alone. We invite you to give us a call to work on your clients' solutions together. Please call your ZLC representative to set up an appointment.

Critical illness insurance

Protecting your clients and their families their whole lives

Thanks to advanced medical procedures, individuals are now able to survive serious health problems and diseases. For example, the immediate death rate from heart attack has decreased by 51% since 1968. And while 50,000 Canadians suffer a stroke each year, 75% of these individuals are expected to survive the initial event. While such medical developments are definitely good news, our healthcare system is far from perfect.

Waiting lists, even for individuals with life-threatening conditions, are only getting longer, forcing some Canadians to seek out-of-country medial attention – and that costs money. Even if individuals are fortunate enough to receive treatment in Canada, they still have to find a way to financially survive the illness afterward. We believe critical illness insurance is the answer to both these concerns.

☐ THE BASICS

Critical illness insurance is a living benefit paid to the policyowner if he or she develops any one of the covered illnesses, diseases, or conditions. Some policies cover up to 22 conditions, including cancer, MS, stroke, Parkinson's disease, Alzheimer's disease, heart attack, blindness, and kidney failure. Coverage options vary from plan to plan.

Benefits are paid out in a lump sum, 30 days after diagnosis. And just like life insurance, this payment is tax-free. Flexible plan options exist to help you create a customized plan for each of your clients.

☐ INDIVIDUAL COVERAGE

Protecting your clients from the financial challenges that may arise from a critical illness is an important aspect of sound planning. With a critical illness plan in place, you can help your clients alleviate these financial strains. The funds provided from a plan can be used to pay medical bills, moving costs (if necessary), the mortgage, car loans or childcare. The decision is in their hands.

And unlike disability insurance, prospects are not required to have an income for a critical illness plan. This feature makes critical illness a great alternative for individuals, such as homemakers, who may need protection and are not eligible for disability insurance.

☐ BUSINESS COVERAGE

Critical illness has several business applications as well. For example, it can be used for key person insurance. In this case, funding can be used to cover the business income shortfall while that individual is replaced.

It can also be used to fund a buy-sell agreement. Critical illness insurance can provide a source of funds to allow existing partners or shareholders to buy out the ill party.

Professionals and business owners benefit from owning a critical illness plan. Funds can be used to cover business overhead, bring in additional help if needed, or help manage business affairs in the meantime.

As you can see, critical illness insurance can satisfy your clients' personal and business needs. While this coverage should be part of every financial plan, often it's the one piece of the puzzle that is ignored. So don't let your clients overlook the value of this protection.

If you would like more information on critical illness insurance, give your ZLC representative a call for a detailed package. We would be happy to assist you.

Facts and figures

- The Canadian Heart and Stroke Foundation found that one in four people will contract heart disease during their lifetime.
- 25% of all Canadians currently suffer from cardiovascular disease.
- In 1997, Toronto's leading cardiac emergency hospital reported that 91% of heart attack patients survived. 25% of the survivors live long enough to have another heart attack, which most don't survive.
- 85% of critical illness cases will either be a heart attack, stroke or cancer.
- 85% of kidney transplants are successful.
- Of the 50,000 Canadians who suffer a stroke each year, 75% survive the initial event and return to their homes, still requiring assistance for daily living.
- The Canadian Cancer Society lists 125,000 new cancer cases annually, making 1 in 3 Canadians a potential cancer survivor.
- Melanoma, one of the 10 most common forms of cancer, has a 5-year survival rate of 80%.
- 67% of cancer treatment expenses are NOT covered by provincial health care plans.

To insulate your clients' assets from the financial challenge a life-threatening illness poses, look to critical illness insurance. These funds can provide income replacement, supplement an existing group insurance plan, and give your clients the freedom and flexibility to select their medical treatment. That kind of peace of mind is priceless!

Zlotnik, Lamb & Company

At your service

At Zlotnik, Lamb & Company, we strive to provide the best independent advice, products and services to our professional clients. We're confident our advisors have the knowledge and experience you require to make us an integral component of your professional financial team.

Allow us to introduce you to our team of financial professionals. Whether it's detailed financial planning or just a second opinion you're looking for, you can be sure of our help.

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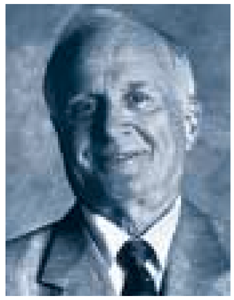
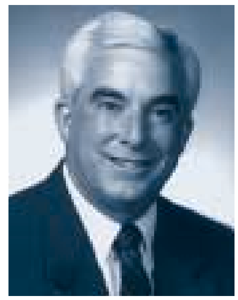

Harold Zlotnik CLU


Peter G. Lamb BA, CLU, TEP


Garry Zlotnik BComm, CA, CFP, CLU, CHFC


Martin Zlotnik BComm, LLB

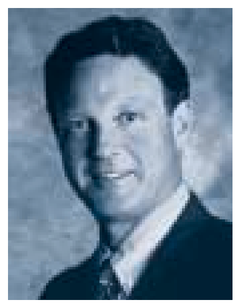

Mark A. Zlotnik CA, CLU, TEP

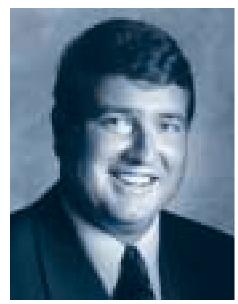

P.M. (Pip) Steele BComm, CFP, CLU, CHFC

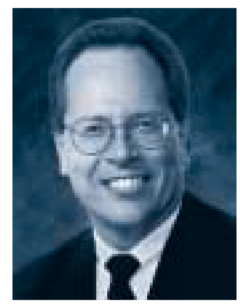

Robert E. Olson BA


H.G. (Howie) Young CFP


Amin E. Jamal ACII, CLU


John V.R. Wark BComm, CA, CFP, CLU, CHFC

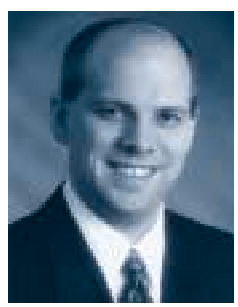

Ross Gibson DIPLT


Ken McNaughton CFP, CLU, CHFC, RHU

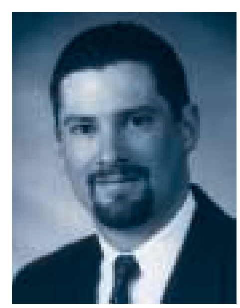

Lynne Zlotnik-Nickford BEd


Lynn Newsome


Anthony P. Ciccone BComm


W.A. (Bill) Finlay BA, CA

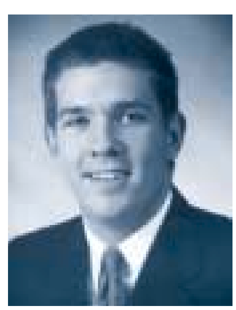

Bruce K. Berger BA, CFP, TEP


Michael A. Healey BA


Harris Abro BProc (Law), TEP


Deborah Goch CA, TEP


Carrie Lyle BComm, MBA, CMA


Kurt Cassidy BA


Aeronn Zlotnik BA


Susan Lus