

GOOD LIVING: FINANCIAL PLANNING FOR THE HEALTHY, WEALTHY AND WISE.

Building a family enterprise

Sound planning is key to dealing with inevitable changes

Denis Ardagh launched his financial services business in Ajax, Ontario (40 minutes outside of Toronto) in 1978. Providing income tax preparation and accounting services, and later becoming a certified financial planner, he was one of the earliest proponents of retail mutual funds as they became widely available.

One of his most cherished dreams was that his sons, Chris and Greg, would someday join him in the business.

In 1993, when Chris was just about to graduate from university with a degree in science, Denis experienced some significant health problems. "Chris helped my dad out of necessity," says Greg Ardagh, "but liked the business and ended up staying. I finished university soon after and joined in 1997."

In 2001, it was decided that it would be best for the family and Ardagh Financial Inc. if Greg developed some experience on the wholesale side of the industry, and so he worked with a major mutual fund company in Toronto for a few years. "The idea was that I would have the opportunity to spend time with other advisors and learn best practices, and when Dad retired, Chris and I would join forces," says Greg Ardagh.

But Denis Ardagh did not reach retirement. In 2004, he was diagnosed with cancer and passed away soon after, and Greg rejoined his brother in the family firm.

"We're now coming up on our third year," says Greg Ardagh. "We've moved offices, to a much more modern space we designed, have expanded our staff support, and are in the midst of acquisitions."

When it comes to succession planning for small business, says Greg, many people don't want to think about tomorrow. "They just want to live in today. Our job as advisors is to help our clients see into the future, to ask themselves, 'What will happen to my business and my family if I die, or get sick? What happens to my legacy?'"

Entrepreneurs often spend 20 years or more building a business, he says, but fail to put provisions in place to ensure the value they've created can be passed on when they're no longer able to work.

Not surprisingly, the Ardaghs are thorough when it comes to planning for their own business. "My brother and I have key person insurance (life insurance on both partners that pays out to the business in the case of a death) as well as a buy-sell agreement, so that if something happens to me, for example, my wife won't have to step in to support the business."



PHOTO: KIM JEFFERY

Ardagh Financial Inc. founder Denis Ardagh always dreamed his sons Chris (standing) and Greg (seated) would one day join him in the firm. Thanks to careful planning and execution, this goal was realized, but unfortunately after Denis unexpectedly passed away. When it comes to succession planning for small business, the Ardaghs encourage their clients to ask themselves, "What will happen to my business and my family if I die, or get sick? What happens to my legacy?"

The death benefit of key person insurance, says Greg, is generally correlated to the insured partner's contribution to the business. "From the business standpoint, how much is it going to cost to replace that partner if he or she were disabled or died? Obviously, both partners need a life insurance strategy for their personal estate and family, but you also need to consider the survival of the business and plan to keep it intact."

Another product that small business owners should weigh carefully, says Greg, is critical illness insurance. "Many entrepreneurs don't have access to affordable disability insurance, so critical illness insurance is essential. The chance of dying before age 65 is very low, about four per cent, but the likelihood of getting a critical illness before age 65 is 38 per cent. The odds of surviving a critical illness are very high, but if you don't have a source of income outside your business, your family's well-being will not be protected if you get sick."

Succession planning is challenging for all small business owners, but it can be particularly daunting for family businesses, because of the family dynamics involved. In both business success and succession planning, a professional approach is key.

"Many people think it would be wonderful to work with their spouse, children, brother or sister," says Greg. "But in practice, family dynamics will then become involved in the business, and that's not always a good thing."

Success depends, he says,

on reaching the point that the family members leave their family relationships outside the office door and become business partners. "Separating the two isn't always an easy

thing. It takes a lot of patience, understanding and hard work to get to that common ground."

But the rewards of doing so are invaluable. "When you

do get to that point, it's very satisfying. It's not easy to find people you can trust completely in business – and who can you trust more than your own family?" ■

Protect your assets

Of prime concern to entrepreneurs, says Calgary-based financial advisor Robert McCullagh, is creditor and risk protection. "You may work your whole life to build something, and then have it eroded by a situation completely out of your control."

The threat commonly takes the form of a business partner whose financial condition changes, or a shift in the economic cycle that causes your bank to rethink the way they extend credit to you, he says. "Professional service providers such as dentists and engineers face different but equally challenging risks: One Calgary dentist, for example, found that the value of his practice declined by five per cent for every month that he was disabled."

With the right advice and planning, many of these risks can be insured against, says McCullagh. "Term life insurance can fund buyback agreements in partnerships; disability and critical illness insurance may offer protection to sole proprietors, and other strategies can be used to provide creditor protection of retirement assets."

Retirement

Investments

Insurance

Plan to succeed

The main objective of succession planning, says Catherine Swift, CEO of the Canadian Federation of Independent Business, is to keep your business operating successfully. "Some people will just close their business and retire, but most want to try to get some value out of it. The options are then to sell the business or pass on operation to children or other family members."

Without an effective formal plan, says Swift, business owners will not realize full value for their business. "You're probably going to end up paying more taxes than you need to pay – and you could put the entire business at risk."

CFIB is advocating for the deferral of capital gains in order to make the succession process easier and more effective. "Currently, if you hand off your business to a family member, you have to pay the capital gains tax on any increase in value, which may destroy the business," she says.

For more information, visit cfib.ca.