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# FINANCIAL TOOLS + STRATEGIES FOR SUCCESSION PLANNING



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# TODAY'S DISCUSSION: FINANCIAL TOOLS + STRATEGIES FOR SUCCESSION PLANNING

- Canadian Law Firm  
+ Business Insights  
+ Risk Indicators
- Business Journey
- Key Solutions
- Road Map



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LAWYERS  
FINANCIAL

## INDUSTRY INSIGHTS

### % degree of challenge (out of 100) concerning law firms:

- Managing Mental health Issues (ie stress, burn out) 69%
- Attracting and retaining top talent 59% (the long game to succession planning)

These identified challenges lend itself to today's topic of succession planning:

### Succession Planning:

1. Planned Business Continuity and Ease of Exit Strategy
2. UnPlanned Disruptions and Events (identify risks)
3. Navigating Shifts during business lifetime (manage)



Thomson Reuters Institute

## 2024 State of the Canadian Law Firm Market

“Inaugural STATE OF THE CANADIAN LAW FIRM MARKET report: based on a survey of lawyers, in partnership with the Canadian Bar Association examine both how firms evaluate and measure success, as well as how they assess their goals, risks and challenges going forward.”

Critical finding: law firms' definitions of success do not always align with how they are measuring or PLANNING for such success presenting both opportunities and challenges. “



LINK  
TO  
REPORT



## INDUSTRY INSIGHTS

Law firms in Canada have experienced growth, with revenue expected to increase at a CAGR of 0.7% to \$18.5 billion throughout 2024, including an increase of 1.1% in 2024 alone.

***Restructuring, secondary offerings and other capital market activities have facilitated demand for industry legal services.***

***Merger and acquisition activity has increased.*** Law firms are expanding domestically and internationally, leading to increasing consolidation in the industry.

Source:

*IBISWorld Industry Reports 2024*



**LAWYERS  
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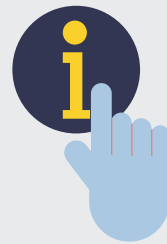


# SUCCESSION PLANNING

## COMMON THEMES IMPACTING BUSINESS OWNERS



**Confusing personal  
income from business  
revenue**



**Not paying for business  
support and service - tax  
deductible advantages**



**Not maintaining cash  
reserves, growing  
wealth, insurance  
protection**



**Not nurturing  
relationships with  
financial institutions**



**Not using SMART  
Goals**



**Not asking for help &  
seeking advisory  
services**

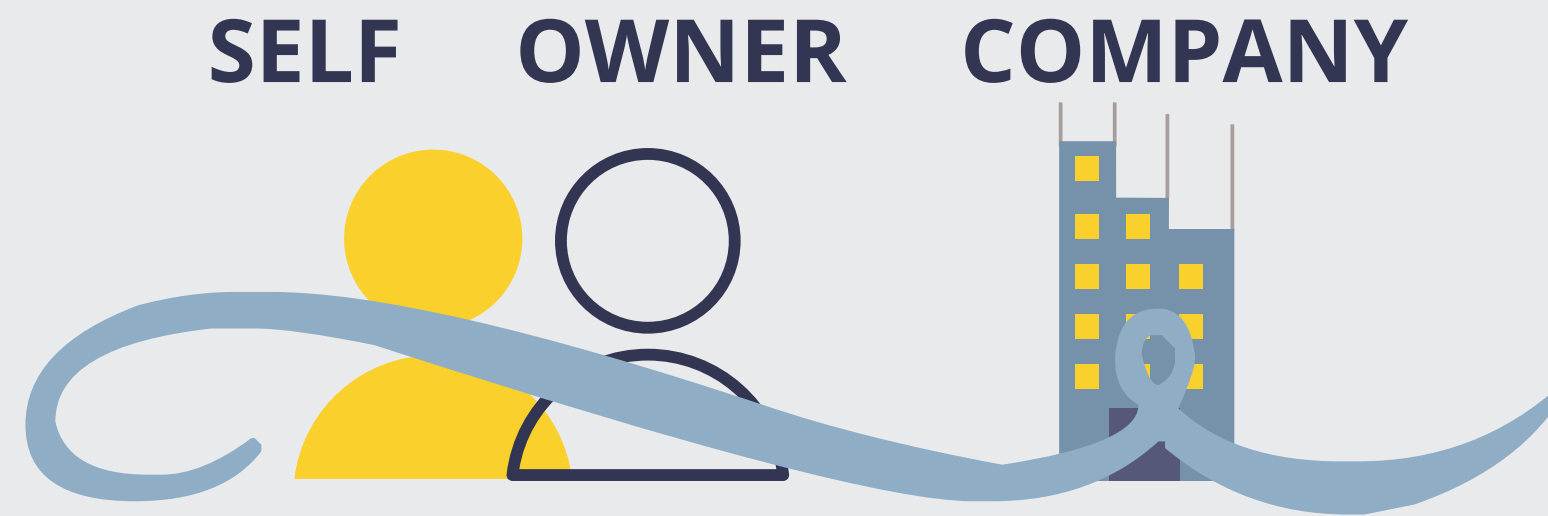


**Not taking care of  
SELF**



# SUCCESSION PLANNING

## THE BIG BLUR, DISTINCT ROLES OF LAWYER VS. OWNER/PRINCIPAL



Understand that the SELF, the lawyer who owns the firm, needs to shift that talent to the Business Owner Role. Delineate the emotional and financial constraints from self to company.

Separate the SELF (You, Your family and Finances) from the PC and firm. You are distinct emotionally and financially from the Boss and the Company.



# BUSINESS PLANNING OVERVIEW

CONVERSATIONS FOR EVERY STAGE OF YOUR BUSINESS GROWTH

LAWYERS  
FINANCIAL

1

SURVIVAL

## PERSONAL PLANNING

### Risk management

- premature death
- Will
- Disability
- Critical Illness

### Retirement planning

- registered plans
- asset allocation
- non registered savings plans

### Other goals

- Children's education Home Purchase
- Tax minimization

2

INVEST

## BUSINESS CONTINUATION PLANNING

### Key Person Protection

- premature death
- critical illness

### Buy sell agreements

- retirement
- disability
- death & critical illness

### Business Overhead

### Protection

### Executive benefit planning

3

GROWTH

## BUSINESS SUCCESSION PLANNING

### Ownership transition

- Sell or liquidate
- Estate equalization
- Retain in family
- Successor training
- Successor buy sell agreement

### Management transition

### Retirement income planning

4

MATURITY

## ESTATE PLANNING

### Will Planning

- Estate equalization

### Tax Planning

- Estate maximization
- Estate Freeze
- Share redemption
- Liquidity

### Trust Planning

- Family trusts
- Spousal trusts
- "Self-settled" trusts

### Philanthropy

- planned giving



## SUCCESSION PLANNING:

### SCENARIOS: UNPLANNED OR CONTINGENCY PLANNING ON EVENTS

1

#### Business Overhead Expense

Business Overhead Protection insurance is designed for principals of closely held businesses or practices and owners of small businesses.

It is most vital for businesses and practices in which the owner's ability to generate income makes the difference between the office being open or closed for business.

Covers Injury/Illness.

[link to Lawyers Financial BOE and Key Person](#)



2

#### Key Person

Designed if your company depends on a critical employee.

A key person is an employee or a business partner/owner whose skills and intellectual capital are so valuable that your business would suffer substantial financial losses due to that person's death or inability to work due to a disability.

This person has knowledge, skills or talent that few others can duplicate.

3

#### Buy/Sell Funding

(A notary is required to draw up the contract)

A buy sell agreement is a legally-binding contract or provision within a shareholder agreement, that stipulates, among other things, what will happen when one of the partners, shareholders or co-owners passes away, becomes permanently disabled or leaves the business. If the agreement calls for the other partners, to purchase a deceased or disabled owner's interests



## **SUCCESSION PLANNING:**

**SCENARIOS: TRANSFERRING BUSINESS AS A GIFT OR SOLD TO SUCCESSORS BEFORE YOU PASS OR AFTER. FUND TAX LIABILITIES**

**4**

### **Personally Owned Life Insurance**

Death of Business Owner triggers a deemed disposition of shares at the fair market value immediately before death. This will create taxable capital gains on the growth of company's shares. The death benefit from a personally owned life insurance policy would be paid tax-free to beneficiaries funding the tax liability they would face at the time. An advantage to being the named beneficiaries over the estate is that the death benefit is free of probate fees and delays and is not accessible by estate creditors' claims.

**5**

### **Corporately Owned Life Insurance**

To address taxes at death; the corporation named as the owner and beneficiary of the life insurance policy. Corporations generally have a lower income tax rate, and therefore, the after-tax cost of the insurance premiums is generally less than personally held insurance. At death, the corporation would receive the life insurance proceeds. This will create the opportunity to pay a tax-free dividend to the shareholders, who can then use various methods to address the taxes.

**6**

### **Estate Equalization**

Family Business:  
Not all of your children may be equally interested in carrying on the family business.  
Life insurance used to provide equitable inheritance to those children who are not active in the business.



## SUCCESSION PLANNING:

### SCENARIOS: RETIREMENT AND WEALTH , MAXIMIZING VALUE OF YOUR ESTATE

7

#### Retirement Funding

Concerns for business owners whether they will have enough money after the business transfer to provide for their retirement adequately.

A split-dollar life insurance plan allows the business to own the death benefit and you, the retiring business owner, to own the cash value.

This would apply to permanent life insurance (not term life)

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#### Corporately Insured Annuity Strategy

Summary :

A more complex 2-part strategy that involves a permanent life insurance policy and the purchase of an annuity purchased from the funds liquidated from corporate fixed income investments. The life insurance contract becomes payable on death, proceeds flow through the CDA account as tax free dividend, with limitations epeending on the ACB.

9

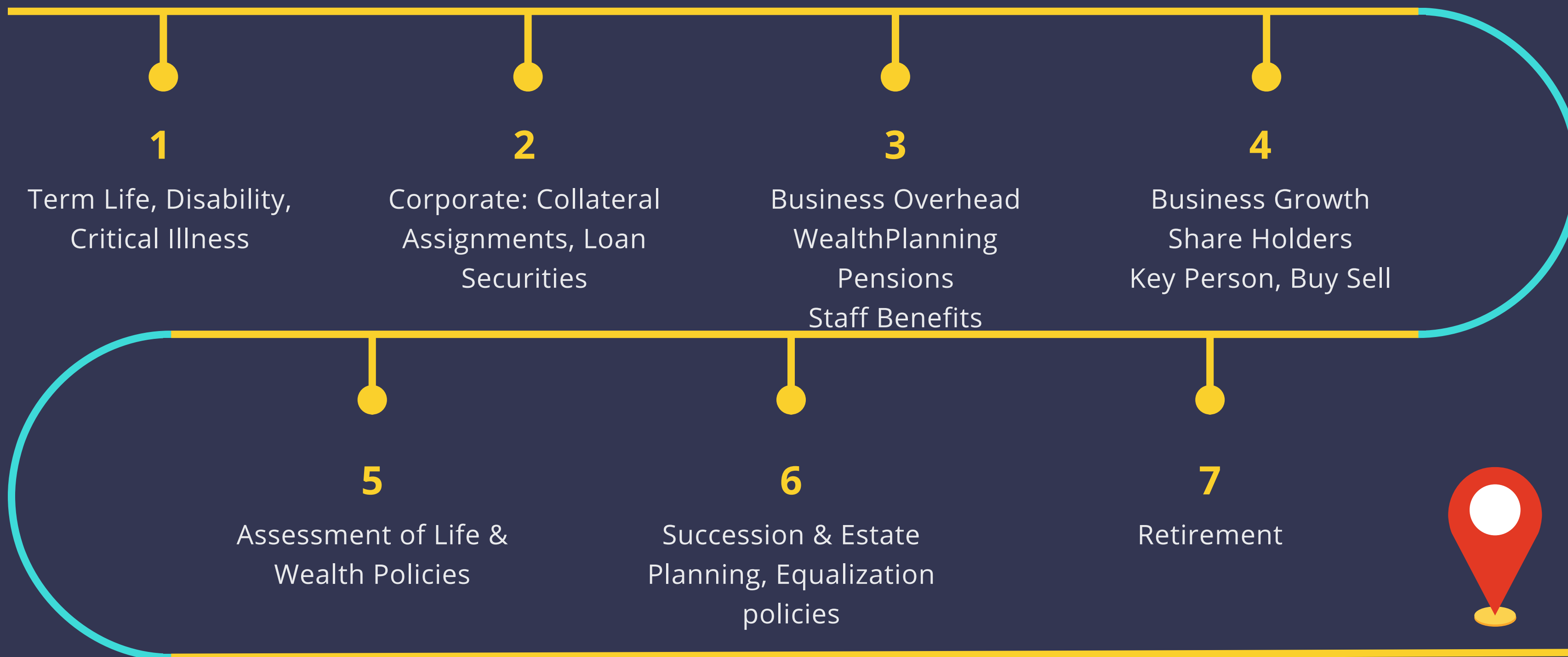
#### Corporate Estate Reallocation

This strategy involves reallocating a portion of your company's surplus cash into a life insurance policy which grows on a tax-deferred basis, and upon the death of the insured, proceeds are paid to your beneficiaries tax-free. Moving capital from a conservatively invested, tax-exposed environment to one that is tax-deferred may significantly increase the value of your estate, especially when those assets currently sit within a small business corporation or holding company.



# LAWYER'S BUSINESS ROAD MAP

Milestone considerations, every journey is customized for each lawyer







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# BOOK TIME WITH YOUR FINANCIAL PLANNING TEAM



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