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How Farms Can Use Life Insurance to Support Farm Transition Planning

April 24th, 2025

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Speaker: Nicholas Dettinger

Co-operators Life Insurance Advisor

- Agency in Napanee, Ontario
- Licenses:
  - Other than Life - Farm Insurance
  - LLQP – Life Insurance License
  - Mutual Funds Investments Specialist
- My office supports farms all over Ontario, we act as their trusted advisors on many aspects of their operations and transition plans

- Advisor Disclosure – this presentation is educational and not direct financial advice. Please consult with your advisors on any information discussed today

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Advisor Disclosure

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Thank you to the Farm Management Canada Team!

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Co-operators Agency

Napanee , Ontario

Since we are our farmers trusted advisors in many areas we focus on a holistic view. Our office goal is to help keep farms in the family

Our Motivation for today's presentation was a client

- "This is the first time I was happy to talk about finances"

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Today's Agriwebinar

How farms can use Life Insurance to support Farm Transition Planning

- Success Stories
- Unique options for Canadian Farms
- Different Strategies for Farm Transition
- Open Q&A

Barriers to Farm Transition

- Lack of Open (and Effective) Communication
- Lack of a Written Plan
- Financial Strain and Concern
- Policy Changes Affecting Tax Planning

Client Story: Cattle Farm

- Farmer in mid 40s
- Children in early teens
- Recent expansion of farm
- Stressed
- No written plan

Farm Risk Planning

- Risk Avoidance
- Risk Reduction
- Risk Transfer
- Risk Retention

Client Story Outcome

"This is the first time I was happy to talk about finances"

- Debts were paid
- Farm passed to child, another received cash
- Spouse is taken care of

Law of Large Numbers

- Great for investors who want to cash out
- Problem for farm transition plans
- Rule of 72
- Transition costs can rise overtime

Historic national average % change in farmland values (1986-2024)

Year	Canada	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	N.L.
1986	-6.9%	-6.6%	-8.2%	-8.3%	-4.9%	-4.8%	1.4%	-2.1%	1.7%	-7.9%	0.0%
1987	-10.2%	-11.3%	-7.4%	-15.3%	-6.8%	-3.9%	0.2%	0.6%	2.1%	-7.5%	0.0%
1988	-7.3%	-1.3%	-8.2%	-10.6%	-11.3%	11.4%	1.0%	-0.1%	2.6%	1.0%	0.0%
1989	4.9%	3.8%	5.7%	0.4%	6.1%	23.8%	4.3%	1.8%	13.1%	6.4%	0.0%
1990	-2.7%	3.0%	-1.1%	-6.9%	3.5%	0.8%	4.1%	5.9%	1.3%	0.0%	0.0%
1991	-5.4%	3.6%	-4.6%	-9.1%	-2.8%	1.1%	2.7%	3.8%	-1.3%	0.0%	6.1%
1992	-2.1%	7.5%	-3.2%	-3.8%	2.4%	0.6%	1.2%	0.0%	0.0%	5.2%	-2.0%
1993	2.0%	14.7%	1.9%	1.6%	2.6%	1.0%	2.9%	0.0%	0.0%	0.0%	-2.0%
1994	8.5%	10.3%	10.1%	9.5%	5.1%	3.4%	6.0%	3.6%	0.0%	21.3%	0.0%
1995	10.0%	13.6%	9.6%	11.9%	5.6%	6.9%	9.8%	24.1%	2.2%	8.5%	0.0%
1996	11.3%	9.8%	9.5%	11.0%	10.5%	12.5%	23.7%	16.3%	4.0%	0.0%	0.0%
1997	8.0%	10.5%	7.8%	5.5%	11.7%	12.3%	10.5%	7.3%	6.9%	5.8%	2.6%
1998	2.7%	-5.3%	5.1%	0.5%	3.4%	4.7%	9.2%	6.7%	0.8%	3.5%	1.7%
1999	0.2%	0.4%	5.7%	-4.8%	0.7%	2.1%	12.9%	15.4%	5.7%	10.4%	2.3%
2000	1.5%	4.4%	4.3%	-2.2%	0.6%	8.5%	11.6%	8.9%	2.5%	2.7%	3.6%
2001	1.4%	0.9%	4.2%	-1.5%	0.3%	4.8%	10.0%	1.0%	2.1%	0.8%	2.3%
2002	5.3%	4.6%	6.4%	3.9%	6.4%	6.3%	8.2%	1.2%	0.0%	0.8%	0.0%
2003	3.8%	4.6%	4.2%	3.1%	3.2%	7.2%	3.3%	4.8%	2.4%	1.5%	0.0%
2004	4.6%	9.4%	9.0%	1.9%	3.7%	6.5%	3.1%	2.6%	0.0%	0.0%	3.8%
2005	3.1%	17.2%	6.1%	1.3%	1.8%	5.7%	0.4%	-0.3%	0.4%	0.0%	3.0%
2006	4.7%	19.3%	8.9%	2.1%	5.8%	3.8%	1.5%	2.9%	2.7%	0.0%	5.8%
2007	11.6%	18.7%	17.4%	11.0%	9.1%	3.9%	4.8%	-1.4%	3.1%	-1.4%	3.3%
2008	11.7%	5.4%	9.1%	14.9%	10.7%	6.6%	11.7%	6.0%	9.7%	-2.4%	4.0%
2009	6.6%	-0.7%	4.8%	6.9%	11.7%	6.2%	5.7%	8.2%	5.7%	-1.4%	2.8%
2010	5.2%	-0.5%	4.4%	5.7%	4.7%	6.8%	3.2%	2.4%	3.7%	3.2%	0.7%
2011	14.8%	0.2%	8.7%	22.9%	4.4%	14.3%	8.9%	1.3%	6.2%	1.5%	0.0%
2012	19.5%	0.1%	13.3%	19.7%	25.6%	30.1%	27.4%	0.0%	9.8%	9.0%	0.0%
2013	22.1%	3.0%	12.9%	28.5%	25.6%	15.9%	24.7%	7.2%	1.9%	4.4%	0.0%
2014	14.3%	4.2%	8.8%	18.7%	12.2%	12.4%	15.7%	8.0%	7.0%	9.3%	0.0%
2015	10.1%	6.5%	11.6%	9.4%	12.4%	6.6%	9.6%	4.6%	6.3%	8.5%	7.7%
2016	7.9%	8.2%	9.5%	7.5%	8.1%	4.4%	7.7%	1.9%	9.1%	13.4%	–
2017	8.4%	2.7%	7.3%	10.2%	5.0%	9.4%	8.2%	5.8%	9.5%	5.6%	–
2018	6.6%	6.1%	7.4%	7.4%	3.7%	3.6%	8.3%	1.8%	-4.9%	4.2%	–
2019	5.2%	5.4%	3.3%	6.2%	4.0%	6.7%	6.4%	17.2%	1.2%	22.6%	–
2020	5.4%	8.0%	6.0%	5.4%	3.6%	4.7%	7.3%	1.3%	1.6%	2.3%	–
2021	8.3%	18.1%	3.6%	7.4%	9.9%	22.2%	10.0%	5.2%	12.3%	15.2%	–
2022	12.8%	8.0%	10.0%	14.2%	11.2%	19.4%	11.0%	17.1%	11.6%	18.7%	–
2023	11.5%	-3.1%	6.5%	15.7%	11.1%	10.7%	13.3%	5.6%	7.8%	7.4%	–
2024	9.3%	11.3%	7.1%	13.1%	6.5%	3.1%	7.7%	9.0%	5.3%	1.4%	–

Farm Risk Planning

A Comprehensive Look: Categories of Risk

People - Occupational Health/Safety | Personal Wellbeing | Hired Labour | Family Relations | Contractors/Advisors

Finance - Money Management | Cash Flow | Debt | Access to Capital | Investments

Markets - Sourcing | Selling | Trade

Strategy - Business Planning | Governance/Structure | Transition Planning | Technology/Innovation | Operational Planning

Business Environment - Public Trust/Consumer Advocacy | Politics/Policy/Regulations | Cybersecurity

Production – Climate/Weather | Animal Health/Welfare | Nutrients | Pests | Soil/Water | Biodiversity

Source: Farm Management Canada's AgriShield

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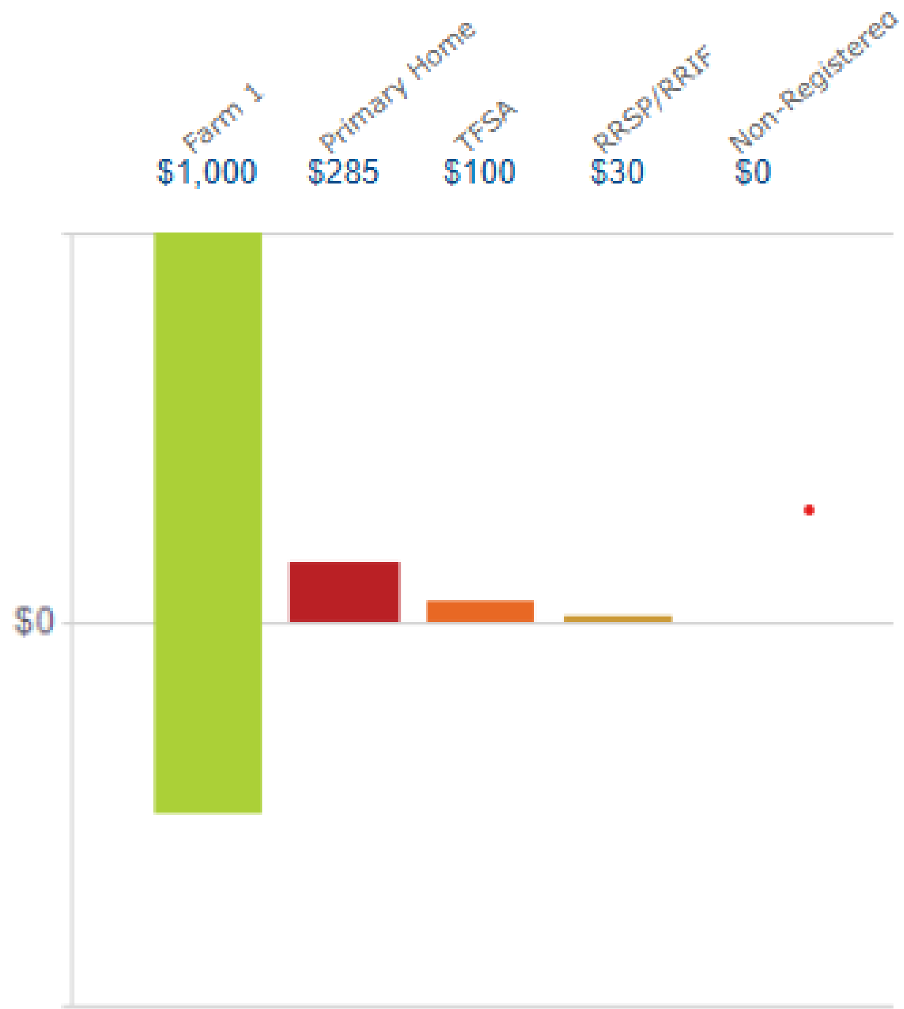
Net Worth Statement



Total Net Worth

$1,415,000

Total Market Value

$2,430,000

Total Liabilities

$1,015,000

Life Insurance is Unique

- Has separate tax code
- Provides tax-free benefit to beneficiary
- The tax rules in the year bound are honored

Types of Policies

Term Life vs Permanent Whole Life Insurance

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Term Life Insurance

- Provides coverage for a set number of years
- The life insured can be any individual
- If passed, beneficiary would receive the funds tax free

Permanent Whole Life Insurance

- Provides coverage on paper to ages over 100
- Policy has set price
- These are better for transition plans

Your <u>*Health*</u> is the Most Important Factor

Health in Farm Transition

- You want every option available
- Difficult to plan in the ages of 65 -70
- Starting in your 30s/40s/50s is easiest

Corporations Can Own Life Insurance

- A Canadian Controlled Corporation can own life insurance on its shareholders
- Premiums paid by the company
- Dramatically increases affordability on large policies

When Policy Triggers in the Corporation

- The corporation that owns the life policy receives the benefit tax -free into the Capital Dividend Account
- Accounting item that earmarks the funds that can pass tax-free

Corporate Will Example

Company Farm Life Policy : has a $1,000,000 benefit on Farmer John and when it triggers, the corporate Will dictates what actions the corporation takes when the funds are received –i.e. debts are paid down, estates are settled, shares are exchanged.

Work with your lawyer on drafting the right Will for your needs. We're happy to work with your team !

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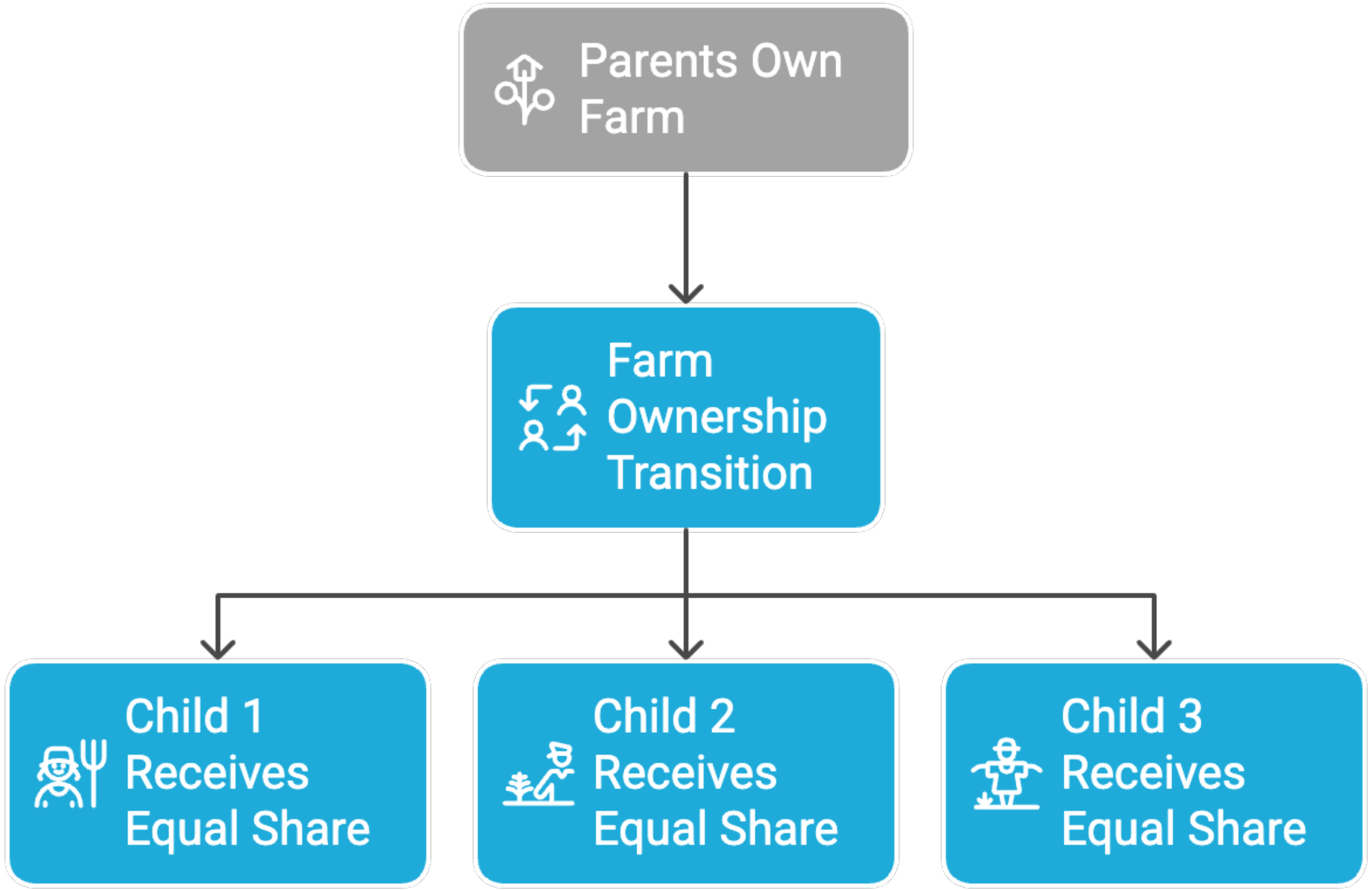
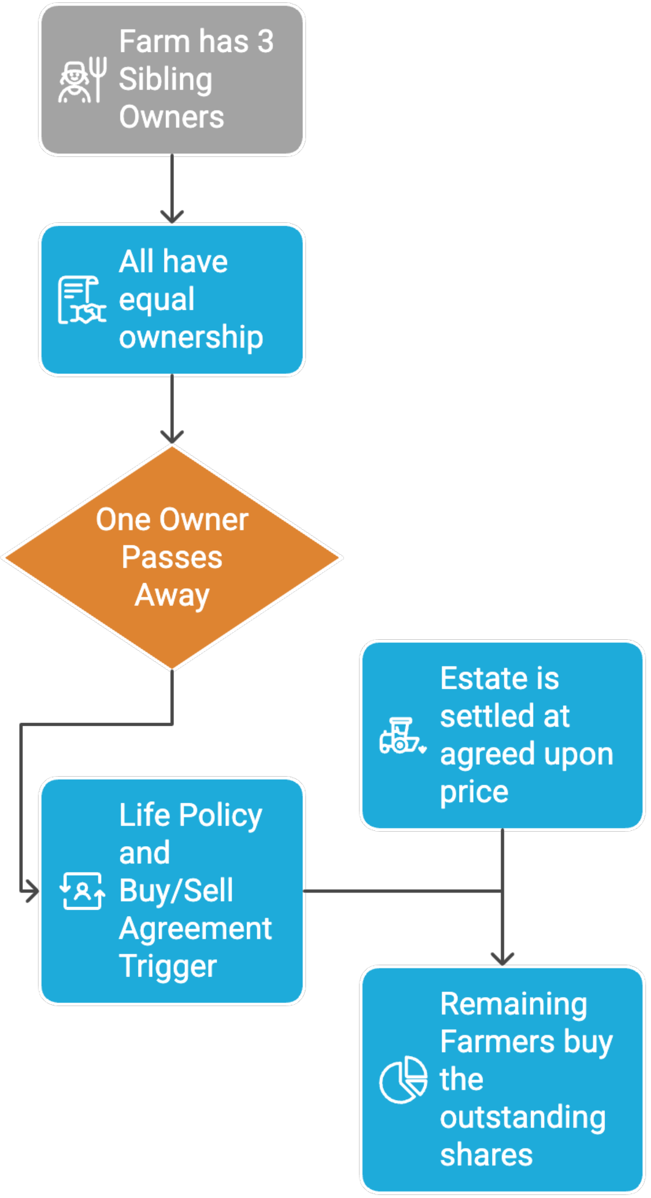
The Most Challenging Scenario

- There has been no real conversation about the finances
- Owners are in their 60s, possible health condition
- Multiple children
- 1 or 2 want to take over, unaware of cost

Equalization is the Struggle



Buy-Sell Agreement



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Difficulty in Late -Stage Planning

- Retirement savings being drawn
- No written plan or will
- Large amount of debt on business
- On-farm & off-farm children unaware of future
- Making things equal becomes difficult when affordability is a challenge
- Leads to selling the farm

Additional Information

- Permanent Whole Life Plans build cash value overtime
- Can be used as for collateral loans
- Insured retirement plans

Estate Cost Example

Fair versus equal

It's important to treat all heirs fairly. In farming, however, fair doesn't always mean equal distribution of the farm property among heirs. An equal division of assets may leave the farm unviable. It can also lead to tensions between active and inactive farming heirs, such as:

- **Heirs may inherit an equal portion of the farm**, but not all heirs actively maintain it or are interested in doing so.
- **A farming heir may have to rent land** from other family members or borrow money to buy them out.
- **Some land may be deemed more valuable** than other land, which makes it difficult to split evenly.

How can life insurance help?

Life insurance can play a helpful role in farm-succession planning, as a cost- and tax-effective way to divide an estate fairly: when farming heirs take over the farm and inherit the farm assets, non-farming heirs receive the benefit of the life-insurance policy.

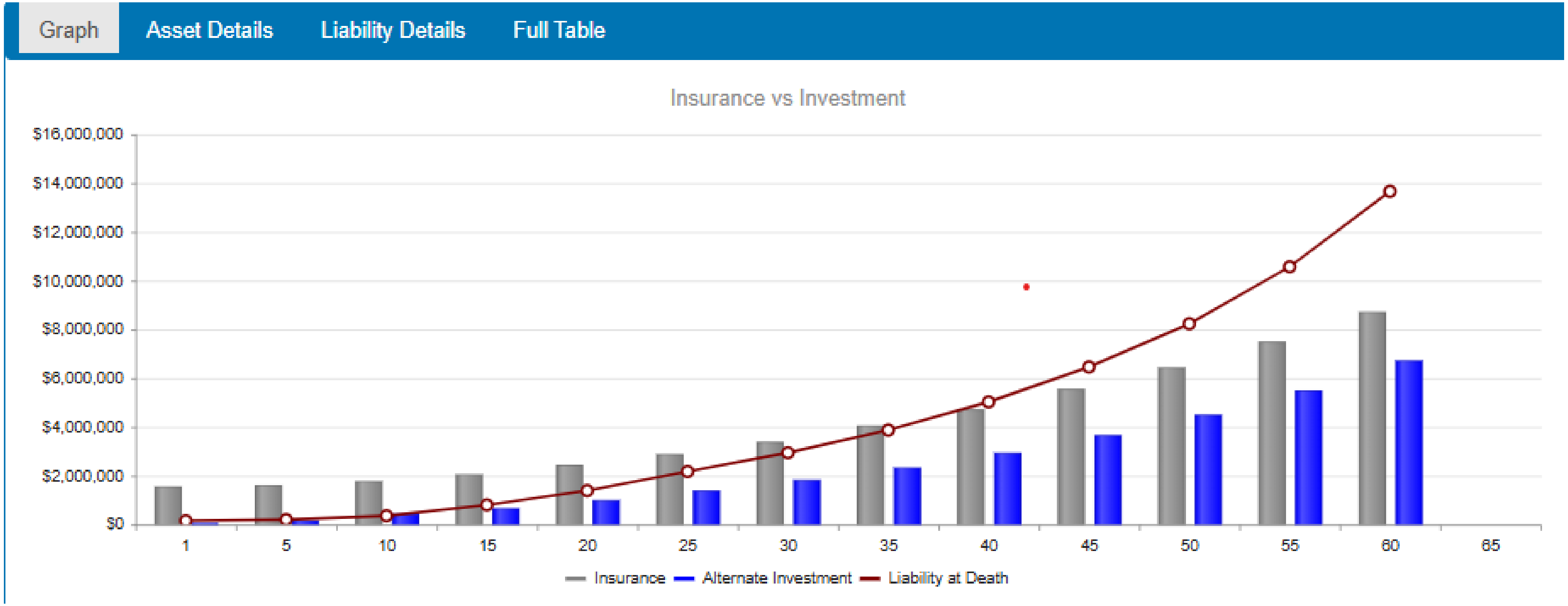
Here's an example of how a life insurance-policy can cost significantly less than other succession options, over time:

- **You purchase life insurance (for 20 years)**[1]
  - 1-million policy
  - Monthly cost: $1,863
  - **Total cost: $447,228**

- **You save funds to create a legacy (for 20 years)**
  - $1 million (after tax on investment earnings)[2]
  - Monthly cost: $3,575
  - **Total cost: $857,975**

- **One heir borrows money to pay out other heirs**
  - 1-million mortgage over 20 years[3]
  - Monthly cost: $6,571
  - **Total cost: $1,577,100**

Model Your Needs



Remember…

Your *Health* is the Most Important Factor

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Keeping Farms in the Family

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Happy to schedule a chat over coffee

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Questions?

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