



Off-setting the Pension Gap

Retaining key employees through Retirement Compensation Arrangements

Establishing a Retirement Compensation Arrangement (RCA) is an ideal way to attract and retain high-calibre employees by providing a worthwhile retirement plan for business owners, corporate executives and other professionals.

Essentially a super-sized pension plan, the RCA allows companies to make tax deductible retirement contributions on behalf of key employees. Highly attractive to key executives, an RCA can save income taxes, provide retirement funding and help protect assets by ending RRSP and pension-maximum discrimination.

Your dedicated JSL team is qualified to handle all aspects of your RCA—from plan set-up and administration to meeting governance and filing requirements—while our Certified Financial Planners are available for consultation to assist in making well-informed financial decisions.

Benefits for the employee:

- Flexible
- Funds aren't locked in
- Creditor-proof
- Exempt from payroll taxes
- Taxed at the time of withdrawal, dependent on place of residency
- Ability to defer money to a time and place of your choosing

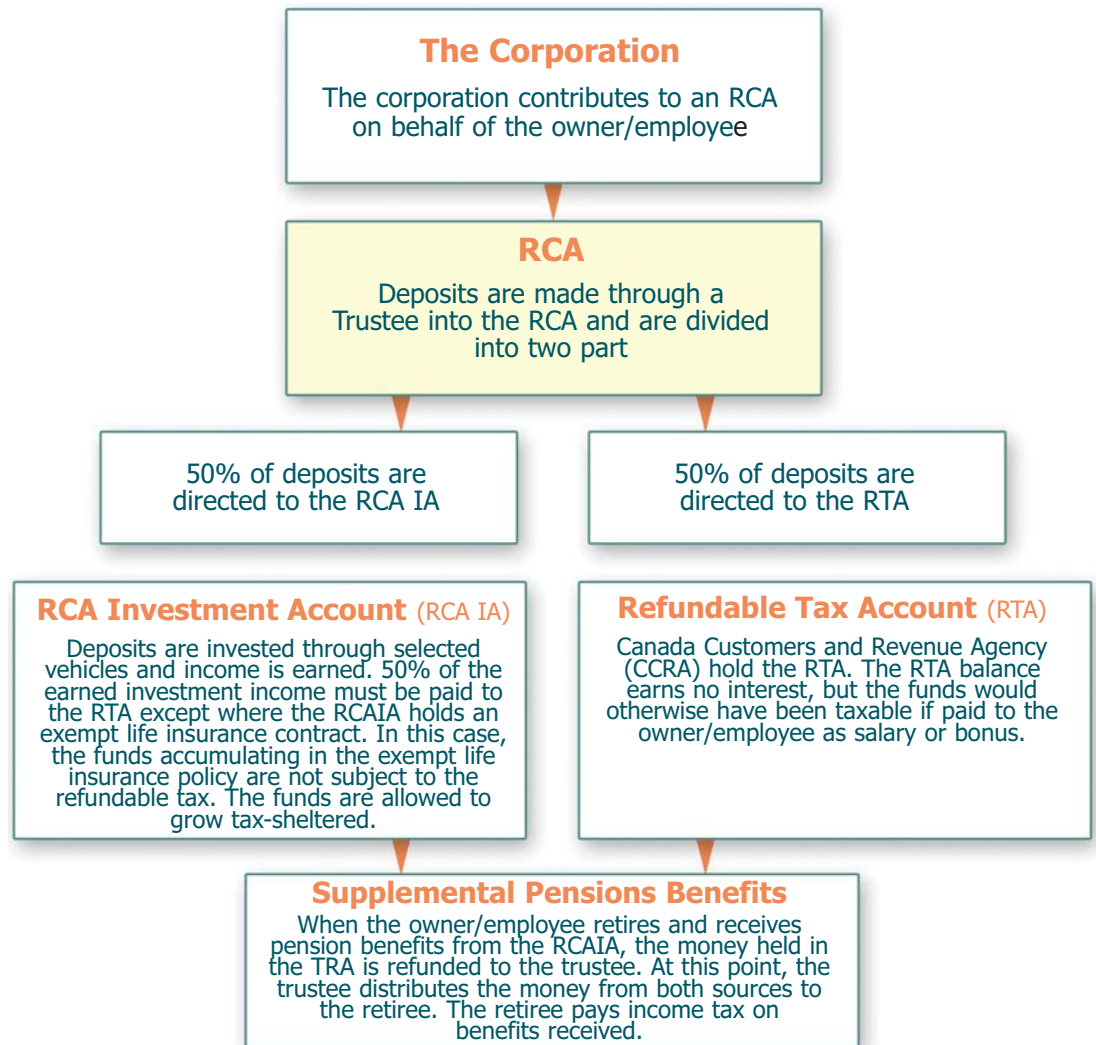
Benefits for the employer:

- RCA's can be a useful component of a company's retirement package by providing flexibility and cash-flow benefits. Other benefits may include:
 - "Golden handcuffs" to retain key executives
 - Flexibility in timing of contributions (i.e. contributions can track profitability)
 - Facilitates succession planning
 - Funds aren't locked in
 - Creditor-proof



How it works

The employer sets up an RCA to provide retirement benefits for its employees, each year making a deductible contribution on behalf of those employees named in the plan. Fifty per cent of all the contributions are made to an investment account (IA), while the remaining 50% is remitted to a refundable tax account (RTA) with CRA. The investment account (IA) is self-directed and is subject to yearly remittance to the RTA.



Alternatively, the trust can purchase a life insurance policy on the life of the employee to over-fund the policy, which then increases the cash value of the plan. This cash value is later used to provide the benefits to the employee at retirement.



With rules far less rigorous than those relating to RRSPs, the flexibility of RCAs can provide an employer with a wide range of alternatives regarding employee participation, funding methods and timing of benefits.

RCA tax is refundable to the plan on a basis of one dollar for every two dollars of benefits paid out during the year. The employee is taxed on benefits when they are paid out of the plan. However, employers should keep in mind that contributions must be deemed “reasonable” in order to be deductible to the corporation and thus an actuarial certificate may be required in order to demonstrate that the benefit provided in the agreement are not excessive.

For more information

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Is an RCA right for me?

By increasing retirement assets to the maximum level allowable, RCAs are ideal for the high income earner (business owners, executives and professionals) looking to sustain a particular standard of living into retirement.

This strategy also appeals to the business owner who can see additional benefits in its flexibility and can adapt it to meet his/her business and tax strategies.

Withdrawing funds at retirement

The beneficiary draws from the assets of both the RTA and the RCA Trust at retirement. These withdrawals are flexible and are not subject to any restrictions on maximum or minimums; however, they are subject to tax at the applicable rate.

Imagine this...

You're a business owner coming up on retirement. In recent years, you've managed an average annual income of \$180,000.00 and you're looking to retire on an income of \$126,000.00 (or 70% of your working income.)

Because of Canada Revenue Agency's ceiling on your RRSP contributions, you'll end up with an RRSP that's only large enough to produce an income of \$85,000.00 per year, leaving you with a pension gap of \$41,000.00. An RCA can provide the income needed to adequately cover that shortfall.