

Retirement compensation arrangement

Supplemental retirement funding for key executives



A retirement compensation arrangement (RCA) is a concept introduced by Canada's Department of Finance in an effort to apply some direction over the non-registered pension options made available to employees. It allows a company to make tax deductible contributions to provide for retirement income beyond current pension contribution restrictions.



Pension consultants suggest that an adequate pension income in retirement should be approximately 70 per cent of pre-retirement salary. Registered pension plans (RPP), individual pension plans (IPP) and RRSP contribution levels are based on the premise that the annual contribution limits, set by the Income Tax Act, will provide an adequate retirement income.

If you earn more than \$150,000 annually, your retirement income could be significantly lower than 70 per cent of your pre-retirement income due to the annual limits on contributions. Retirement compensation arrangements are defined under sub-section 248(1) of the Income Tax Act to allow additional funds for an employee's retirement. Contributions to an RCA are 100 per cent tax deductible to the corporation and tax isn't paid by the individual employee until retirement benefits are received.

Payments from an RCA enhance those from your RRSP, individual pension plan and/or registered pension plan to top-up private pension income to the 70 per cent target.

Highlights of an RCA

- corporately funded private pension plan paid for with tax deductible dollars
- enhances retirement income
- allows for the catch-up of lost RRSP contribution room
- provides a disciplined approach to funding an adequate retirement income
- assets are held in trust and may be protected from your corporation's creditors

Highlights of the Canada Life program

Gordon B. Lang and Associates provides:

- an actuarial certificate documenting allowable contributions
- reduced actuarial and consulting fee
- annual tax and trust reporting
- flexible plan set-up
- individually tailored trust and employment documentation

Canada Life offers a wide selection of products for funding the RCA.

How a retirement compensation arrangement works

The corporation

The corporation contributes to an RCA on behalf of the individual employee. Reasonable contributions are 100 per cent tax deductible by the employer and are not taxable to the individual employee until received during retirement. Payroll taxes do not apply to RCA contributions.

Fifty per cent of deposits are directed to the RCA custodian.

Fifty per cent of deposits are remitted to CRA and held in the refundable tax account (RTA).

RCA investment account (RCAIA)

Deposits are invested in selected vehicles and income is earned. Fifty per cent of annual taxable investment income must be paid to the RTA. Funds accumulated in an exempt life insurance contract are not subject to the 50 per cent tax.

CRA refundable tax account (RTA)

The RTA is held by Canada Revenue Agency. The RTA balance does not earn interest but the funds would otherwise have been taxable if paid to the employee as salary or bonus. Payroll taxes would not apply to RCA contributions.

Supplemental pension benefits

When the employee retires and receives pension benefits from the RCA, money held in the RTA is refunded as benefits are paid to the custodian. The retiree pays income tax on retirement benefits received at his/her marginal tax rate.

How entitlement is calculated

The ability to deduct potentially large sums of money has made the RCA a powerful retirement planning tool. Contributions must be reasonable in the eyes of Canada Revenue Agency* to be deductible for income tax purposes.

Failing to follow these guidelines will increase the chance that CRA will not see your retirement benefits as an RCA, but rather as a salary deferral arrangement. If this happens, substantial tax will have to be paid.

Our association with Gordon B. Lang & Associates

Canada Life has formed a strategic alliance with Gordon B. Lang & Associates to provide a tailored RCA program funded by insurance and/or investment products underwritten by Canada Life.

To ensure the RCA meets Canada Revenue Agency's generally accepted guidelines, an integrated final earnings calculation is prepared by Gordon B. Lang & Associates. This determines the generally acceptable entitlement from the RCA and the appropriate maximum level of funding for the RCA.

As your circumstances change, this entitlement calculation and funding level must be reviewed and recalculated.

Who can I speak to if I'm interested?

Call your advisor or visit www.canadalife.ca.

*formerly Canada Customs and Revenue Agency or CCRA

Is an RCA right for you?

An RCA may be appropriate for you if:

- you're an employee earning more than \$150,000 with high future earning potential
- you're a business owner seeking to replace the traditional bonus-down strategy
- you're an executive, professional or business owner who will not be a resident of Canada in retirement



For more information about Canada Life and its products, visit www.canadalife.ca or contact your advisor.

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