RCF | Retirement Compensation Funding
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RCA Quick Reference Guide

Eligibility / Candidates

- Private Corporation Owner/ Executive earning above the Small Business Limit or accumulating excessive amounts of cash and investments in the company.
- Key Executives (No concern over corporate tax rates).
- Executives with underfunded corporate pensions plans (Group RRSP, MPPP).
- Executives with unfunded SERP or using Letter of Credit.
- Executives with Stock Option Plans.
- T4 Income should be in excess of $125,000 - $150,000.

Contributions

- 100% tax deductible to Corporation, not taxed to Executive until distribution at some point after retirement.
- No funding limits but funding must be reasonable to the retirement benefit which must comply with established pension limits. The benefit is calculated based on generally accepted guidelines of 2% x Years of Service x Average Final Earnings (1998 CRA Roundtable Discussion).
- Can be made post-retirement as part of an effective business succession strategy.

Withdrawals

- Flexible settlement options allowing greater control over the timing and income (No min or max or age requirements unlike RRSPs, IPPs, and other DC and DB plans).
- 21 Year Rule does not apply to the RCA Trust, thus allowing for an efficient generational asset transfer (eg: parent to children or grandchildren).
- Distributions from RCA will be taxed at future personal tax rates at time of distribution.
- Qualifies for low withholding rates 15% to 25% for retirement off-shore.

On Death

- If Plan Member passes away, then the Beneficiaries (eg: Spouse/Children) pay the taxes at their own rates.
- RCA Trust assets are excluded from the estate and are not subject to probate fees when a beneficiary is named.
- If RCA Investment Account is funded with a life insurance policy, the death benefit is paid tax-free to the RCA Trust for Survivor Benefit.

Security & Estate Benefits

- The RCA Trust provides long-term tax deferral and tax-sheltered growth can be achieved through the use of exempt insurance policies (**PENSION*Plus***™ or **PENSION*Plus* GIF**™).
- Strongest level of creditor protection if assets are held in a 3rd party Corporate Trustee (**BMO Trust Company**) away from both Business and Personal assets.
- Retirement funds are set aside to protect against the unthinkable and provide diversification.
- Refundable Tax Account (RTA) acts as downside protection from volatile market fluctuations.
- RCAs for employees assist in attracting and retaining key employees and provides a golden handcuff until the plan is vested.
- Allows it to exceed the maximum benefit and contribution levels applicable to registered plans for selected employees.
- Provides a retirement plan for owners and other key employees without including rank-and-file employees in the plan.
- Provides a disciplined and orderly way to fund an adequate retirement income.

RCF RETIREMENT COMPENSATION FUNDING

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PENSION FUNDING ALTERNATIVES & COMPARISONS

	Registered Retirement Savings Plan (RRSP)	Individual Pension Plan (IPP)	Retirement Compensation Arrangement (RCA)	Insured Retirement Plan (IRP)
Type	Defined Contribution	Defined Benefit	Defined Benefit / Money Purchase	N/A
Defined in Income Tax Act	Yes	Yes	Yes	No
Caps	On contribution	On benefits	On benefits	None
Contributions	Voluntary	Mandatory	Voluntary	Voluntary
Provides Adequate Pension For:	Income up to $111,111	Between $111,111 - $125,000	Income over $125,000 - $150,000	No Limit
Tax Deduction	Personal	Corporate	Corporate	None
Age/Years to Retirement	Up to Age 71	Over age 45 / Age 71	Any age	Any age
Contribution Limits	Lowest	Higher	Very High	No limit
Tax Sheltered Growth	Yes	Yes	Yes, if life insurance funded	Yes
Three Year Actuarial Review	No	Mandatory	Optional	No
Annual Filing Requirements	No	Yes	Yes	No
Creditor Protection	Yes - With some limits	Yes	Yes	Limited
Set Up Fees	None	$3,000 to $5,000	$5,000 to $50,000	None
Annual Fees	0 to $250	$1,000 to $2,000	$1,000 to $10,000+	None
Funds Locked-in	No	Yes	No	No
Maturity Options	Cash/RRIF/Annuity	LIRA/LIF/Withdrawals	Flexible	None
Requires Leverage	No	No	No	Yes*

***Collateral Loans for Insured Retirement Plans:** The client must satisfy the lending requirements of the bank offering the loan and the decision to lend rests solely with that institution. The illustrated bank loan rate is not guaranteed and will likely differ from the rate the bank offers when the loan is secured. The bank loan rate is not linked to the policy's growth. The accumulating bank loan could outpace the growth in the insurance policy. If the actual loan ratio exceeds the maximum loan ratio set by the bank, the bank may require additional collateral or payment of part of the loan, or, in some cases, could force the surrender of the policy. If the policy is surrendered, the policy owner would likely be required to pay tax. The bank may agree to allow the policy owner not to make interest payments on the loan during his or her lifetime and to add the interest that accumulates to the loan principal. This may cause the loan balance to increase rapidly. If this is a concern, the policy owner should consider making regular interest payments. Since the bank loan is generally repaid from insurance proceeds that are received on death, it is important that the loan ratio not be exceeded during the insured's lifetime. Therefore, a more optimistic life expectancy should be used. There is no guarantee that the banks will continue to offer this program. However, the collateral assignment of insurance policies has been available for some time. Lending against liquid collateral security is likely to be available through most, if not all, lending institutions in the future.