RRSP*Wrap*™ and PENSION*Plus*™
Retirement Compensation Arrangement (RCA)
Advisor Guide

2009

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RRSP*Wrap*™ and PENSION*Plus*™

Advisor Guide

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Introduction

Current Situation

The ability of small to medium-sized corporations to offer meaningful retirement benefits to owners and key employees has seriously eroded in recent years. Pension consultants today suggest that an adequate pension should be no less than 50 to 70 per cent of an employee's average income for the last three or five years prior to retirement. Lifestyle, retirement plans, travel and other personal priorities are all factors to consider when deciding on the appropriate pension amount. Most business owners are in for a shock when they see the small percentage of required pre-retirement income provided by an RRSP (Registered Retirement Savings Plan), RPP (Registered Pension Plan) or IPP (Individual Pension Plan).

Registered Retirement Savings Plan (RRSP) contribution levels were originally based on the premise that an annual contribution of 18% of salary would provide a business owner with an adequate pension. However, those currently earning more than $100,000 annually at retirement can expect to experience 'pension discrimination' because of the existing caps on RRSP contributions and lower the lower contribution levels in earlier years. In other words, their pension benefits will be significantly lower than the acceptable standard of 50% to 70% of pre-retirement final average earnings.

Background

Prior to 1981, it was common for private business owners to defer taking bonuses until retirement. Corporations purchased Single Premium Deferred Annuities (SPDAs) with the deferred bonus money. The advantage of an SPDA over a GIC was that the SPDA was not subject to accrual tax. They could also be rolled over and, as such, no tax was paid until they were cashed in at retirement. During this period, there was no cap on what could be paid out as a retiring allowance. As well, insurance companies were able to sell "Income Averaging Annuities". When the owner/executive retired and the SPDAs were cashed in, the company faced a big tax bill. However, they paid out the total amount to the owner/executive as a retiring allowance, which was deductible to the corporation. The owner/executive then purchased an Income Averaging Annuity and spread the tax that otherwise would have been payable immediately over several years.

In 1981, the rules changed dramatically and the following vehicles were eliminated:

- SPDAs (staged withdrawal)
- Income Averaging Annuities

The exempt and non-exempt rules for insurance products were introduced, as was a cap on retiring allowances.

A new type of planning evolved. SPDAs were non-exempt but high-cash value life insurance policies were still exempt from accrual taxation. These high cash value insurance contracts were purchased by corporations on the lives of key executives.

A board resolution would be passed to the effect that the cash in these policies could only be used to fund Supplemental Pension Shortfalls. The executives were given letters indicating what would be paid to them at retirement, but with no vesting until that point to avoid the deemed benefit rules. However, not-for-profit corporations could still buy SPDAs and had an advantage over the for-profit corporations.

In 1986, the federal government moved to put everyone on an equal footing with the introduction of the Retirement Compensation Arrangement (RCA) deeming provisions. Not only would the funds that not-for-profit corporations were setting aside for future benefits to executives be deemed to be contributions to an RCA, income or realized gains would also be deemed to be a contribution. The premiums on corporate owned life insurance policies that were to be used to fund supplemental pension benefits were also to be deemed to be a contribution to an RCA, although there was some grandfathering. Matching contributions then had to be made to a Refundable Tax Account (RTA) which would be returned to the company when benefits were paid to the executive.

Since then there has been a rising awareness that defined benefit plans provide inadequate pensions for higher earning employees. Corporations wanting to secure the unfunded portion of these pension promises were informed by the Canada Revenue Agency (CRA) that they could use the RCA provisions. This established an environment where an RCA could be intentionally set up, rather than being merely deemed. The federal government set the example by establishing RCAs for judges and senior civil servants with pension promises in excess of what could be paid from Defined Benefit Pension Plans (DBPP).

RCF developed the first funding product for RCAs in the late 1980's, aimed primarily at the public corporation market with pension shortfalls due to low benefits from Defined Benefit Pension Plans (DBPPs) relative to the promised pensions under the DBPP formula. During the 90's, RRSP and Money Purchase Pension Plans (MPPP) contribution levels were expected to increase so that pension shortfalls would not result in the private sector. However, these increases did not take place as scheduled resulting in an increasing need for the use of RCAs to provide supplemental pension funding for companies using RRSPs and MPPPs.

The recent and scheduled increases in contribution levels for Group RRSPs and MPPPs and benefit caps on DBPP do not lessen the pension shortfall amounts as executive salaries continue to increase at rates greater than inflation.

Pension Plan Overview

Objectives of a Pension Plan

A pension plan is essentially a convenient way to make provision in advance for a permanent income to be paid to an owner/employee from the time when it becomes desirable or necessary for that owner/employee to retire from actively earning a wage or salary. The plan is an arrangement between an employer and its owner/employee for providing an income on retirement to the owner/employee, who has by that time fulfilled certain requirements specified by the plan. A pension plan either defines the amount that is to be contributed, or it contains a formula for determining the amount of each member's pension.

Types of Pension Plans

Other than the Canada Pension Plan (CPP), most individuals will receive retirement income from a company pension plan (Defined Benefit or Defined Contribution), a registered retirement savings plan (RRSP) or Individual Pension Plan (IPP), or other investments. Most often, they are receiving income from a combination of these sources.

Registered Pension Plans (RPPs)

Registered plans provide the closely held corporation and its shareholder with significant long term benefits for tax deferral. Contributions to the registered plan are deductible from corporate income and the taxation of earnings on plan assets is deferred until benefit payments are made to participants. Since the controlling shareholders of a closely held corporation determine its compensation benefit plans, these shareholders are free to choose receiving the advantages provided by the adoption of a registered plan within the prescribed limits.

A registered plan will help the closely held corporation attract and retain employees other than the shareholders. Since closely held corporations must compete with larger publicly held corporations for their employees, a registered retirement plan may be the key to attracting the employees they need.

There are four types of Registered Pension Plans.

Defined-benefit Pension Plans

A defined-benefit plan is a type of RPP which indicates a specific benefit that an employee will receive. The contribution that is made on behalf of each employee to a defined-benefit plan depends on the amount needed to pay the promised benefit. The 2007 maximum annual benefit that a defined-benefit plan can provide is $2,222 for each year of the member's number of years of pensionable service. This maximum will rise to $2,444 in 2009 and will increase on an annual basis to reflect increases in average wage growth thereafter. However, for highly-salaried employees and shareholders who are employees, the pension benefit alone will not be sufficient to maintain their standard of living in retirement, as the maximum allowable pension will likely be only a small fraction of the annual income received during their active business years

Individual Pension Plans (IPPs)

IPPs are employer-sponsored, defined-benefit registered pension plans specifically established for the benefit of significant connected individuals. These individuals are defined as shareholders owning at least 10 per cent of the issued shares of the corporation or for other highly paid employees, defined as those earning more than 2.5 times the Yearly Maximum Pensionable Earnings (YMPE) under the CPP. The YMPE for the CPP is $43,700 for the 2007 tax year.

IPPs are a form of defined-benefit plan, in that they are designed to provide a known level of income at retirement. As with other defined-benefit plans, the maximum pension that can be funded is currently restricted to $2,222.22 per year of service. This means that pension benefits can accrue on maximum earnings of $77,777 (calculated as $2,222.22 multiplied by 35 years of service divided by 2 per cent, the maximum accrual rate permitted by the *Income Tax Act*).

The downside to IPPs is that they are relatively complex to establish and administer, given that they only provide with the individual's RRSP an adequate pension up to $77,777 of pre-retirement income. If significant amounts are in the individual's RRSP, transfers from the RRSP to the IPP may be required. Once established, IPP annual contributions must be made regardless of the corporate profitability. Significant actuarial assumptions and calculations are needed to determine the level of contributions required. An annual statement must be prepared for the plan member and the plan must be evaluated by a qualified actuary every three years. A trust must be established to collect and invest contributions, and to distribute the pension benefits. The cost for administering an IPP varies, but typically falls within the following ranges:

- Setting up a new plan – $1,750 to $5,000
- Annual reporting fees – $500 to $1,250
- Actuarial valuation every three years - $750 to $1,500

Registered Retirement Savings Plans (RRSPs)

As the 1990 pension tax reform created a "level playing field" with respect to many of the contribution levels to and benefits available from the various types of registered plans, many small businesses have elected the simplicity of a low-cost group RRSP as their retirement funding vehicle. The plans require little administration, no actuarial support, and are easy and inexpensive to establish and maintain. For the years 1997 to 2003, inclusive, the maximum combined annual employer and employee RRSP contribution is the lesser of $20,000 and 18 per cent of the employee's previous years earned income less any other pension adjustments. The maximum is scheduled to increase to $21,000 in 2009 and to $22,000 in 2010. However, we have seen in the past that scheduled increases have been postponed for many years. Even if RRSP contribution levels do increase substantially, those who have had RRSPs for twenty years or more will still encounter pension shortfalls in retirement.

It is important to keep in mind that pension benefits are provided directly to the plan member, and in the event of death will be paid to the members spouse as survivor's benefits after the member's death.

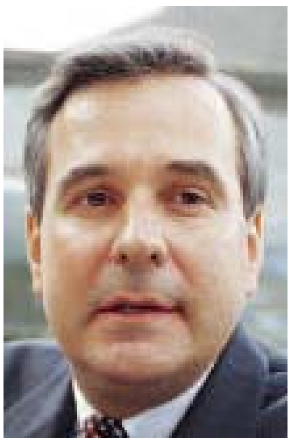
Pension Discrimination

Here are two examples of pension discrimination.

RRSP/Money Purchase Pension Plan (MPPP) Pension Shortfalls

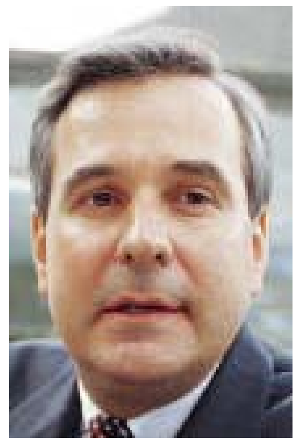
Here we have the Twins

Kevin owns a small engineering firm, while his twin brother works for a large public corporation in the engineering field. They both earn the same, and have the same years of service at retirement. The difference is that one of them works for a Public Corporation with a company pension plan & supplemental agreement, while the other one is a private business owner with only RRSPs to depend on for retirement.



Mr. John Age-45
Executive, Public Corporation

- Salary $200,000 + Bonus
- $459,496 (Final 5 year average salary)
- Company Pension with Supplemental Agreement
- 35 years service at retirement
- **Total Annual Pension (Company Pension & SERP):**
    - **$321,647**



Mr. Kevin Age-45
Executive, Private Business Owner

- Salary $200,000 + Bonus
- $459,496 (Final 5 year average salary)
- Current RRSP balance of $150,000
- 35 years of service at retirement
- **Total Annual Pension (RRSP):**
    - **$104,853**

Pension Shortfall: $216,794

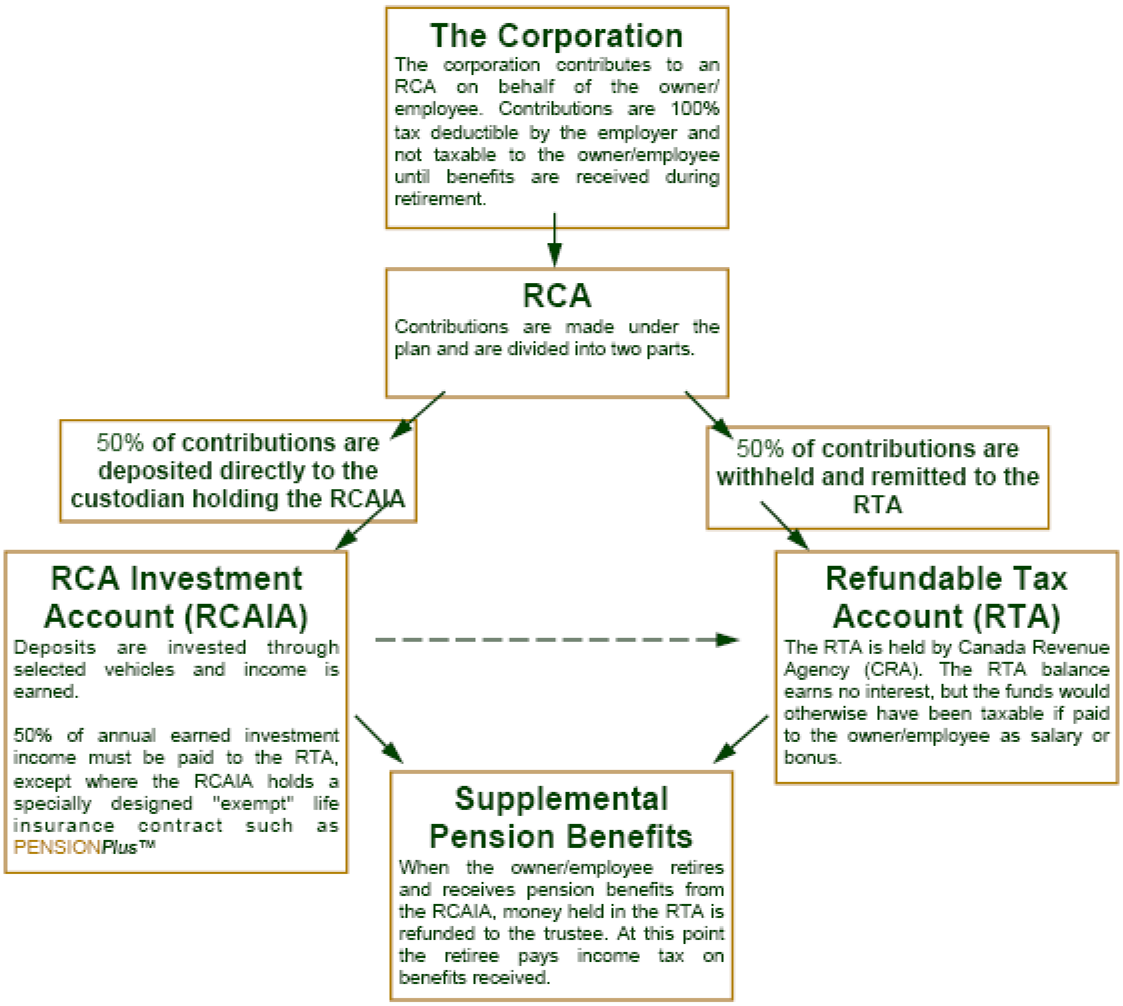
John is quite happy because his company pension plan and Supplemental Agreement will provide an annual benefit of $321,647. But his brother, Kevin, is not too happy because his RRSPs will only provide an annual benefit of $104,853.

Pension Shortfall Funding and Retirement Compensation Arrangements (RCAs)

In our previous example it is likely that Kevin would be willing to contribute significantly more to a registered program, but he is restricted by the capping of both contributions and maximum pension amounts and thus experiences a significant pension shortfall once he retires. Of course he can fill the gap using non-registered savings, but because this approach is not tax-sheltered, he will need considerably more capital to produce his desired pension amount. He can, however, use a Retirement Compensation Arrangement (RCA) to fund his pension shortfall.

What is an RCA?
An RCA is a qualified plan defined under subsection 248(1) of the *Income Tax Act*, whereby the employer contributes funds to another person, which can also include a trust company, who administers the funds in trust for the purpose of providing retirement income for the employee. An employer can also be considered to be a Custodian of an RCA if cash or other assets of a corporation have been set aside for the purpose of providing benefits to an employee. If the asset is a life insurance policy, the deeming provision is covered under Section 207.6(2) of the *Income Tax Act*. Under the ITA, there is no requirement that a corporation, deemed to be a Custodian, must appoint a third party Trustee. The corporation could file all the necessary annual returns etc, however most companies find the amount of administration involved merits using a third party Corporate Trustee to administer the Trust, especially as the duration of the RCA Trust can last as long as 30 to 50 years.

How Does it Work?
First, the corporation contributes to an RCA on behalf of the owner/employee. Contributions are 100% tax deductible by the employer and are not taxable to the owner/employee until received during retirement. Deposits are made through a Trustee into the RCA and are divided into two parts. Fifty per cent of deposits are directed to the RCA Investment Account (RCAIA). The other 50% is submitted to the Canada Revenue Agency (CRA) and is deposited into the Refundable Tax Account (RTA). The funds in the RTA earn no interest, but would otherwise have been taxable if paid to the owner/employee as salary or bonus. Deposits into the RCAIA are invested and income is earned. However, 50% of annual earned investment income must be paid to the RTA. When the owner/employee retires and receives pension benefits from the RCAIA, money held in the RTA is refunded to the trustee on a $1 refunded/$2 benefits paid basis. The retiree then pays income tax on the benefits received.



Tax Treatment of Contributions
Contributions to an RCA are fully tax deductible to the corporation and not taxed in the employee's hands until retirement. The employer may deduct contributions to RCAs in calculating its taxable business income in the ***year*** the contribution is made (paragraph 20(1)(r)).

Employee contributions to an RCA are deductible if they are required by the terms of employment and do not exceed employer contributions in the year in respect of the employee. Note that the entire employee contribution will be disqualified for deduction if it exceeds the permitted amount. Employee contributions are not subject to withholding tax (Reg.103(7)(a)).

The Refundable Tax Account
RCAs are subject to a special 50% refundable tax mechanism. The refundable tax, as defined in subsection 207.5(1), represents a cumulative account as of the end of a taxation year (which is a calendar year) and is determined as:

The aggregate of
• 50% of all contributions (including non-deductible employee contributions) to the RCA for the year and previous years, and
• 50% of the amount, if any, by which the cumulative income and capital gains exceed the cumulative losses and capital losses of the RCA.

less

• 50% of the cumulative distributions and benefits paid out of the RCA.

While an RCA trust is not subject to tax under Part I (paragraph 149(1)(q.1)), the amount of income to be used in the refundable tax formula is calculated under the rules of Part I — including accrued income and taxable income from life insurance and annuities — except that the dividend gross-up does not apply. The full amount of realized capital gains and losses is used in this calculation.

When the annual RCA tax return is filed, the balance of refundable tax payable by or refundable to the custodian is determined by comparing the refundable tax of the RCA at the end of the taxation year to its refundable tax at the end of the preceding taxation year.

If the refundable tax of the RCA at the end of a taxation year exceeds its refundable tax at the end of the preceding taxation year, the custodian is required to pay the balance. If the refundable tax at the end of a taxation year is less than the refundable tax of the previous year, the custodian will be entitled to a refund of the difference. Even though a refund may be made many years after the tax was paid, it will be made without interest.

Example of Calculation of Refundable Tax
An RCA trust is established by the employer in 2008 with a $100,000 contribution. Accordingly, $50,000 is given to the custodian of the RCA and $50,000 is withheld and remitted to the CRA. In 2008, the RCA earns $2000 of interest.

At the end of 2008 the contribution and earnings total $102,000. The RCA's refundable tax is therefore $51,000 (50% of $102,000). $50,000 was remitted by the employer when the contribution was made. The remaining $1,000 would be paid by the custodian when filing the return for 2007.

The Conventional RCA

A variety of conventional investments can be placed in an RCA, such as stocks, bonds, segregated funds and mutual funds. The custodian must manage contributions and investments so that cash is available for the payment of taxes.

Fees for Setup

There are costs associated with setting up a conventional RCA. These administrative costs will vary but typically fall within the following ranges:

- Initial actuarial and consulting fees to set up a new plan —$10,000 to $25,000
  Trustee fees — approximately $6,000 annually

- In addition there are legal costs associated with preparing the RCA documents required, such as the RCA trust agreement and the RCA plan document. These costs usually range from $15,000 to $25,000.

Supplemental Pension Benefits

Amounts paid out of an RCA are taxed as 'other income", not employment income. Amounts received by an employee are included in the employee's income in the year of receipt (paragraph 56(1)(x)).

Where the employee dies and benefits become payable to his or her estate, the benefits will be taxable to the employee in the year of death — either in the final return or in a separate return under subsection 70(2)(rights or things). Where benefits are paid after the employee's death to a designated beneficiary, they will be taxed in the hands of that beneficiary (paragraph 56(1)(z)).

Funds in the Refundable Tax Account (RTA) are returned at retirement under the formula. In simple terms, one half of the difference between the annual benefit to the employee, less the deemed or actual taxable portion of that benefit, is returned annually from the RTA. It is for this reason that any products used to fund a RCA should be fully integrated with the Refundable Tax Account.

Advantages of an RCA

Using an RCA to provide retirement benefits may be advantageous from the standpoint of the closely held corporation for the following reasons:

- 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
- Avoids the administrative compliance standards applicable to registered plans
- Contributions made by the employer are tax deductible and are exempt from payroll taxes
- Secures funding in the year profits are earned thereby minimizing future risk regarding funding
- Provides a disciplined and orderly way to fund an adequate retirement income
- Assets held in the RTA are not subject to market fluctuations
- The RCA is a trust and assets may be protected from creditors with third party Trustee
- Assets are excluded from the estate and are not subject to probate fees when a beneficiary is named.
- The RCA Trust provides long-term tax deferral
- Retirement funds are set aside to protect against the unthinkable and provide diversification
- RCAs for employees assist in holding on to the key employees until the plan is vested and provides a golden handcuff
- RCAs can assist exit strategies on sale of business or family succession
- RCAs can assist in intergenerational wealth transfer
- RCAs provide increased flexibility on settlement options allowing greater control over the timing and income recognition (no minimum or maximum limits or ages for withdrawal of benefits)

RRSP*Wrap*™
(Including IPP*Wrap*™ & MPPP*Wrap*™)

RᶜF (Retirement Compensation Funding), RCA specialists, provide the **RRSP*Wrap*™** that wraps an RCA around the RRSP and/or other registered pension plans to fund the difference between an appropriate pension and income from registered pension or savings plans.

Target Market

- Ages 35 to 55+
- Annual compensation of $125,000-$150,000 and over
- Minimum of eight to ten years to retirement
- Owner or key employee of a small to medium size business
- Member of a select professional group where incorporation is permitted
- Business is generating earnings above the small business limit
- Maximized registered retirement and pension options
- Wants to secure supplemental pension funding

The provisions in the *Income Tax Act* relating to approved superannuation or pension funds or plans are applicable only where the fund or plan provides benefits for employees, officers or directors. This definition applies to anyone actively employed in a business and applies as well to owners, and other officers of the company who are paid for their services with salaries or commissions. Family members are eligible as long as there is a genuine employer/employee relationship and a salary or wage is being paid. If there is doubt, it is important to receive an opinion prior to providing a quotation. RCF and/or the company's accounting and tax advisors may refer to the *Income Tax Act* or other reliable sources to determine employee status.

Pension Entitlement Calculation
Although a Retirement Compensation Arrangement (RCA) provides excellent retirement benefits for a successful private business owner or executive, not everyone qualifies. Contributions to an RCA should not exceed what is required to fund the "Entitlement" under the Generally Accepted Guidelines for pensions, which are:

"*a normal level of benefits would be the same benefit provided under a registered pension plan without regard to the Revenue Canada maximum. This would be 2% x years of service x final five-year average earnings or about 70% of pre-retirement income for an employee with 35 years of service." (CRA Roundtable discussion, 1998)*

Failure to follow the Generally Accepted Guidelines increases the risk that CRA could deem the RCA to be a Salary Deferral Arrangement (SDA) with substantial tax and interest payable by a business owner or other employee.

To ensure the RCA qualifies under CRA's Generally Accepted Guidelines, RCF will prepare an Integrated Final Earnings Calculation, based on information your client provides, and will calculate the Pension Entitlement and the resulting current maximum level of funding. RCF recommends Pension Entitlement recalculation every three years to update the maximum funding level, and to keep the avoid triggering a SDA.

Here is an example of the calculation:

Private Business Owner
Male, age 45

Projected Final Salary	
Current salary of $200,000 indexed at 5% and projected to age 65	$505,390
Desired Annual Pension	
Final Five-year average salary	459,496
70% (2% x 35 years of service)	321,647
Projected annual pension using current RRSP balance of $150,000 at 5.5% rate of return	104,853
Pension Shortfall	**$216,794**

Eligibility for an RCA and the pension entitlement amount depends on a number of variables as outlined below.

Corporate Earnings
Generally, the company should be earning more than the small business limit under the *Income Tax Act.* The minimum annual **RRSP*Wrap*™** deposit amount is $50,000.

Age
The program mostly benefits private business owners/executives from 35 to 55 years of age.
• Clients can be younger than 35 if earning significant compensation
• Those aged 55 to 65 may face reduced spousal survivor benefits depending on deposit amounts

Years of Service
Years of service is the amount of time the client was employed at the company

Current Compensation and Index Rate
Ideally, the client's final five-year average salary should exceed $150,000 a year. Specifically, annual compensation must exceed $125,000 for clients under 50, and $150,000 for clients 50 and older. The salary index rate affects eligibility as a higher percentage increase boosts the final five-year average salary and therefore the pension entitlement.

RRSP/MPPP/IPP Balances and DBPP Payments
The client's estimated pension from an RRSP, MPPP, IPP, or DBPP is calculated and subtracted from the pension entitlement to establish the amount to be funded through the RCA.

Integrated Final Earnings Calculation
The Integrated Final Earning Calculation should be recalculated every three years to reflect any changes in circumstances and to minimize the risk of triggering the Salary Deferral Rules.
If future compensation decreases and RRSP rates of return increase, the RCA Entitlement will be lower and RCA contributions must be adjusted downward. Conversely, if compensation increases and RRSP rates of return stay the same or lower, the RCA Entitlement will be higher and RCA contributions can be adjusted upwards. Any unfunded contribution amounts required to produce the RCA Entitlement can be made up in the future before and/or after retirement.

The following illustration shows how this pension shortfall of $216,794 can be made up using a Retirement Compensation Arrangement

Illustration of a Conventional, Non Insurance, RCA

Male, Age 45
Assumed Return on Deposits 5.5%

Retirement Benefit: $216,794
Annual Deposit: $139,922

				RCA INVESTMENT ACCOUNT (RCAIA)					REFUNDABLE TAX ACCOUNT (RTA)				EXECUTIVE PAYMENTS
				RCAIA (A)					RTA (B)				A+B
	YEAR	AGE	ANNUAL CONTRIBUTION	INVESTMENT CONTRIBUTION	TOTAL EARNINGS 5.5% NET	**TO RTA**	TO EXEC	YEAR END BALANCE	1/2 GROSS RCA CONTRIBUTION	1/2 TAXABLE EARNINGS FROM RCAIA	**REFUNDS FROM RTA**	RTA BALANCE	**PRE-TAX ANNUAL RETIREMENT BENEFIT**
1	2009	45	139,922	69,961	3,848	0	0	73,809	69,961	0	0	69,961	0
2	2010	46	139,922	69,961	7,802	1,924	0	149,647	69,961	1,924	0	141,846	0
3	2011	47	139,922	69,961	11,864	3,901	0	227,571	69,961	3,901	0	215,708	0
4	2012	48	139,922	69,961	16,038	5,932	0	307,639	69,961	5,932	0	291,600	0
5	2013	49	139,922	69,961	20,327	8,019	0	389,907	69,961	8,019	0	369,580	0
6	2014	50	139,922	69,961	24,734	10,163	0	474,439	69,961	10,163	0	449,705	0
7	2015	51	139,922	69,961	29,262	12,367	0	561,295	69,961	12,367	0	532,033	0
8	2016	52	139,922	69,961	33,914	14,631	0	650,539	69,961	14,631	0	616,625	0
9	2017	53	139,922	69,961	38,695	16,957	0	742,238	69,961	16,957	0	703,543	0
10	2018	54	139,922	69,961	43,607	19,347	0	836,458	69,961	19,347	0	792,851	0
11	2019	55	139,922	69,961	48,654	21,803	0	933,269	69,961	21,803	0	884,615	0
12	2020	56	139,922	69,961	53,840	24,327	0	1,032,743	69,961	24,327	0	978,903	0
13	2021	57	139,922	69,961	59,168	26,920	0	1,134,952	69,961	26,920	0	1,075,784	0
14	2022	58	139,922	69,961	64,643	29,584	0	1,239,972	69,961	29,584	0	1,175,329	0
15	2023	59	139,922	69,961	70,269	32,322	0	1,347,880	69,961	32,322	0	1,277,612	0
16	2024	60	139,922	69,961	76,049	35,134	0	1,458,756	69,961	35,134	0	1,382,707	0
17	2025	61	139,922	69,961	81,988	38,024	0	1,572,680	69,961	38,024	0	1,490,692	0
18	2026	62	139,922	69,961	88,091	40,994	0	1,689,738	69,961	40,994	0	1,601,647	0
19	2027	63	139,922	69,961	94,361	44,045	0	1,810,015	69,961	44,045	0	1,715,654	0
20	2028	64	139,922	69,961	100,804	47,180	0	1,933,599	69,961	47,180	0	1,832,795	0
21	2029	65	0	0	91,652	50,402	216,794	1,758,055	0	50,402	0	1,883,197	216,794
22	2030	66	0	0	87,972	0	158,559	1,687,469	0	0	62,571	1,820,626	221,130
23	2031	67	0	0	84,067	0	158,974	1,612,562	0	0	66,579	1,754,047	225,552
24	2032	68	0	0	79,928	0	159,321	1,533,169	0	0	70,743	1,683,305	230,063
25	2033	69	0	0	75,546	0	159,597	1,449,119	0	0	75,068	1,608,237	234,665
26	2034	70	0	0	70,913	0	159,799	1,360,233	0	0	79,559	1,528,678	239,358
27	2035	71	0	0	66,017	0	159,922	1,266,327	0	0	84,223	1,444,455	244,145
28	2036	72	0	0	60,850	0	159,964	1,167,213	0	0	89,064	1,355,391	249,028
29	2037	73	0	0	55,401	0	159,920	1,062,695	0	0	94,089	1,261,302	254,009
30	2038	74	0	0	49,660	0	159,785	952,569	0	0	99,304	1,161,998	259,089
31	2039	75	0	0	43,616	0	159,556	836,629	0	0	104,714	1,057,284	264,271
32	2040	76	0	0	37,257	0	159,229	714,657	0	0	110,327	946,956	269,556
33	2041	77	0	0	30,572	0	158,798	586,432	0	0	116,150	830,807	274,947
34	2042	78	0	0	23,550	0	158,259	451,723	0	0	122,187	708,620	280,446
35	2043	79	0	0	16,176	0	157,607	310,293	0	0	128,448	580,171	286,055
36	2044	80	0	0	8,440	0	156,837	161,896	0	0	134,939	445,232	291,776
37	2045	81	0	0	0	0	161,896	0	0	0	141,668	303,564	297,612
38	2046	82	0	0	0	0	0	0	0	0	303,564	0	303,564

This is an illustration of an RCA funded with investment products such as mutual funds or bonds and is meant for comparison purposes only and not for the sale of such products.

This illustration shows the annual contributions required to fund the annual pension entitlement using conventional investments. The employer makes annual deposits of $139,922. These deposits are fully tax deductible to the employer. The deposit is split between the RCA Investment Account and the Refundable Tax Account with $69,961 going to each. The investment return for the RCAIA is calculated using a 5.5% rate of return. The year end balance for the RCA Investment Account reflects the employer deposits, and the 5.5% return, with 50% of the annual earnings being submitted to the Refundable Tax Account The Refundable Tax Account earns no income, but is the recipient of the deposits from the employer and 50% of the annual investment earnings of the RCAIA. Starting at age 65, an income of $216,794 (Indexed at 2%) is paid out to the retired employee, who then pays any tax owing on that income.

PENSION*Plus*™

Some pension commentators have said that the RCA is a flawed pension plan, in that contributions to an RRSP or a Registered Pension Plan (Defined Benefit or Money Purchase) are all fully tax deductible, the difference being that interest or other earnings in an RCA do not compound tax free.

As such, the performance of a RCA cannot equal that of a RRSP or RPP, at least, in theory. In practice, there is a funding option that can dramatically improve the performance of an RCA — the use of an exempt life insurance policy.

PENSION*Plus*™, underwritten by a wide range of insurance carriers, uses a tax-sheltered life insurance plan as the RCA funding vehicle. Most commonly, a Universal Life policy is used, but a Whole Life can be used in special circumstances.

Life Insurance in the RCA

Subsection 207.6(2) of the *Income Tax Act* sets out special rules that apply when an interest in a life insurance policy is acquired to meet an obligation of an employer to provide RCA benefits. Pursuant to subsection 207.6(2) the person who acquires the interest in the policy is considered to be the custodian of an RCA and the interest in the life insurance policy is deemed to be the "Subject Property" of the arrangement. Twice the amount of premiums paid under the policy is treated as a contribution to the arrangement. The employer is required to withhold and remit the special refundable tax from any payment towards the policy and file the required returns. Payments under the policy, including policy loans, and refunds of refundable tax distributed to the employer (not as custodian) or the employee are treated as distributions by the arrangement. A term insurance policy should not be used to fund an RCA.

Subsection 207.6(2) does not apply to life insurance policies acquired by an RCA as an investment of the RCA. The fact that the amount of RCA earnings is calculated under Part I of the *Income Tax Act* has certain implications for life insurance. With an exempt life insurance policy there is no taxation of earnings until there is a policy gain as the result of a disposition. This is a great advantage of a life insurance policy as an asset for an established RCA.

Although only the cash values of a policy are a source of funds for retirement income for the employee, the subject property of an RCA includes not only the interest in the cash values but also the insurance portion of the policy, which would flow through the RCA trust. The insurance portion provides survivor benefits. Policy proceeds received as a consequence of the employee's death are tax free to the trust. The distribution of these funds to the beneficiaries or the employer in a deemed RCA holding corporate- owned life insurance, produces refunds of the refundable tax until all such tax has been refunded to the trustee. The distribution of the remainder has no further tax implications for the trust.

All amounts received by beneficiaries or the employee in a deemed RCA holding corporate- owned life insurance, are taxable, including mortality gains under life insurance policies.

Policy proceeds become cash in the hands of the trustee, losing their identity as insurance proceeds. As a result, amounts received by private corporations out of RCA trusts will not be eligible for the capital dividend account. The same applies where insurance proceeds are paid directly to the corporation as beneficiary in deemed RCA situations; they are deemed to have been paid to the RCA trust, followed by a cash distribution from the trust.

Limitations

It's important that there is a minimum of 10 years to retirement regardless of age when using **PENSION*Plus*™** Therefore, clients over 60 are unlikely to benefit because of the short time to retirement. The concept will work if the life insurance COI and fees are less than the percentage of the interest earned on the sheltered income in the policy that would otherwise be paid to the RTA in a Conventional RCA. Therefore older ages and/or smokers may not benefit from the **PENSION*Plus*™**. If the employee is not insurable, his or her spouse's life or that of another owner/employee may be used.

PENSION*Plus*™ RCA Illustration

Male, Age 45, Non-smoker
Assumed Interest Rate 5.5%

Annual Retirement Benefit: $216,794
Annual Pre-Retirement Deposits: $139,922

GROSS CONTRIBUTIONS				RCA INVESTMENT ACCOUNT (RCAIA) Interest Assumption: 5.5% (net of MERs)									REFUNDABLE TAX ACCOUNT (RTA)				EXECUTIVE PAYMENTS
RCA				UNIVERSAL LIFE POLICY						SIDE ACCOUNT			RTA				
	YEAR	AGE	ANNUAL CONTRIBUTION	TOTAL PREMIUM TO INSURER	TO POLICY	DEATH BENEFIT	ACCOUNT VALUE	**FROM POLICY**	TAXABLE PORTION OF WITHDRAWALS	TO SIDE ACCOUNT	TAXABLE INTEREST	**TO RTA**	1/2 GROSS RCA CONTRIBUTION	1/2 TAXABLE INTEREST FROM SIDE ACCOUNT	**REFUNDS FROM RTA**	RTA BALANCE	**PRE-TAX ANNUAL INDEXED RETIREMENT BENEFIT PLUS FEES**
1	2009	45	139,922	69,961	69,961	2,046,544	68,544	0	0	0	0	0	69,961	0	0	69,961	0
2	2010	46	139,922	69,961	69,961	2,119,989	141,989	0	0	0	0	0	69,961	0	0	139,922	0
3	2011	47	139,922	69,961	69,961	2,197,731	219,731	0	0	0	0	0	69,961	0	0	209,883	0
4	2012	48	139,922	69,961	69,961	2,280,294	302,294	0	0	0	0	0	69,961	0	0	279,844	0
5	2013	49	139,922	69,961	69,961	2,367,746	389,746	0	0	0	0	0	69,961	0	0	349,805	0
6	2014	50	139,922	69,961	69,961	2,460,408	482,408	0	0	0	0	0	69,961	0	0	419,766	0
7	2015	51	139,922	69,961	69,961	2,558,617	580,617	0	0	0	0	0	69,961	0	0	489,727	0
8	2016	52	139,922	69,961	69,961	2,662,490	684,490	0	0	0	0	0	69,961	0	0	559,688	0
9	2017	53	139,922	69,961	69,961	2,772,397	794,397	0	0	0	0	0	69,961	0	0	629,649	0
10	2018	54	139,922	69,961	69,961	2,900,757	916,233	0	0	0	0	0	69,961	0	0	699,610	0
11	2019	55	139,922	69,961	69,961	3,030,545	1,046,021	0	0	0	0	0	69,961	0	0	769,571	0
12	2020	56	139,922	69,961	69,961	3,168,634	1,184,110	0	0	0	0	0	69,961	0	0	839,532	0
13	2021	57	139,922	69,961	69,961	3,315,620	1,331,096	0	0	0	0	0	69,961	0	0	909,492	0
14	2022	58	139,922	69,961	69,961	3,471,892	1,487,368	0	0	0	0	0	69,961	0	0	979,453	0
15	2023	59	139,922	69,961	69,961	3,637,867	1,653,343	0	0	0	0	0	69,961	0	0	1,049,414	0
16	2024	60	139,922	69,961	69,961	3,814,241	1,829,717	0	0	0	0	0	69,961	0	0	1,119,375	0
17	2025	61	139,922	69,961	69,961	4,001,510	2,016,986	0	0	0	0	0	69,961	0	0	1,189,336	0
18	2026	62	139,922	69,961	69,961	4,200,207	2,215,683	0	0	0	0	0	69,961	0	0	1,259,297	0
19	2027	63	139,922	69,961	69,961	4,410,903	2,426,379	0	0	0	0	0	69,961	0	0	1,329,258	0
20	2028	64	139,922	69,961	69,961	4,194,402	2,649,687	0	0	0	0	0	69,961	0	0	1,399,219	0
21	2029	65	0	0	0	4,027,326	2,600,605	218,044	127,466	0	0	0	0	0	0	1,399,219	218,044
22	2030	66	0	0	0	3,923,003	2,588,201	177,116	109,654	0	0	0	0	0	45,289	1,353,930	222,405
23	2031	67	0	0	0	3,830,063	2,580,428	170,478	111,112	0	0	0	0	0	56,375	1,297,555	226,853
24	2032	68	0	0	0	3,734,404	2,568,000	173,520	118,477	0	0	0	0	0	57,870	1,239,684	231,390
25	2033	69	0	0	0	3,631,377	2,547,592	179,562	127,901	0	0	0	0	0	56,456	1,183,228	236,018
26	2034	70	0	0	0	3,518,779	2,517,510	186,680	138,221	0	0	0	0	0	54,058	1,129,169	240,738
27	2035	71	0	0	0	3,395,546	2,476,745	194,294	149,088	0	0	0	0	0	51,259	1,077,911	245,553
28	2036	72	0	0	0	3,260,493	2,424,339	202,232	160,397	0	0	0	0	0	48,232	1,029,678	250,464
29	2037	73	0	0	0	3,112,902	2,359,517	210,440	172,120	0	0	0	0	0	45,033	984,645	255,473
30	2038	74	0	0	0	2,951,969	2,281,340	218,906	184,242	0	0	0	0	0	41,677	942,968	260,583
31	2039	75	0	0	0	2,777,259	2,189,007	227,624	196,746	0	0	0	0	0	38,170	904,798	265,794
32	2040	76	0	0	0	2,588,438	2,081,673	236,586	209,595	0	0	0	0	0	34,524	870,274	271,110
33	2041	77	0	0	0	2,385,484	1,958,601	245,775	222,754	0	0	0	0	0	30,758	839,516	276,532
34	2042	78	0	0	0	2,168,255	1,818,949	255,174	236,195	0	0	0	0	0	26,889	812,627	282,063
35	2043	79	0	0	0	1,936,778	1,661,949	264,770	249,884	0	0	0	0	0	22,934	789,693	287,704
36	2044	80	0	0	0	1,691,226	1,486,807	274,548	263,762	0	0	0	0	0	18,910	770,783	293,458
37	2045	81	0	0	0	1,430,207	1,291,019	284,480	277,723	0	0	0	0	0	14,848	755,934	299,328
38	2046	82	0	0	0	1,156,891	1,075,573	294,512	291,620	0	0	0	0	0	10,802	745,132	305,314

1 The Taxable Portion of Withdrawals is treated the same as interest and used to calculate the refunds from the RTA.

2 The Side Account is the side fund of the universal life policy. It is the portion of the contribution that exceeds the Maximum Tax Actuarial Reserve (MTAR) set by CRA and is NOT exempt from accrual taxation. One-half of all earnings must be paid to the RTA.

3 Refunds from the RTA are pre-determined by a formula set out by the CRA. They are calculated as follows: Previous Year's Annual Retirement Benefit less Previous Year's Taxable Portion of Withdrawals divided by 2.

The underlying illustration was prepared using a Universal Life Insurance Policy with Yearly Renewable Term (YRT) Cost of Insurance Option. The Taxable Portion of Withdrawals is treated the same as interest and used to calculate the refunds form the RTA. The Side Account is the portion of the deposit that exceeds the MTAR line and is NOT exempt from accrual taxation; One-half of all earnings must be paid to the RTA.

Refunds from the RTA are pre-determined by a formula set out by the CRA. They are calculated as follows:

$$\frac{\text{Previous Year's Annual Income Benefit less Previous Year's Taxable Portion of Withdrawals}}{2}$$

For example:

$$\frac{218{,}044 \text{ (Year 21)} — 127{,}466 \text{ (Year 21)}}{2} = 45{,}2 \text{ (Year 22)}$$

PENSION*Plus*™ Survivor Benefit
2/3 Survivor Benefit

GROSS CONTRIBUTIONS				RCA INVESTMENT ACCOUNT (RCAIA)										SURVIVOR BENEFITS
RCA				UNIVERSAL LIFE POLICY				INVESTMENT ACCOUNT (RCAIA)				RTA		
	YEAR	SPOUSE AGE	ANNUAL CONTRIBUTION	TOTAL PREMIUM TO INSURER	TO POLICY	FROM POLICY	TAXABLE PORTION OF WITHDRAWALS	DEATH BENEFIT	FROM INVESTMENT ACCOUNT	ANNUAL INTEREST 5.5%	BALANCE	REFUNDS FROM RTA	RTA BALANCE	PRE-TAX ANNUAL INCOME BENEFIT
39	2047	79	0	0	0	0	0	1,156,891	199,493	63,629	1,021,027	5,401	739,731	204,895
40	2048	80	0	0	0	0	0	0	134,623	56,156	942,560	74,369	665,362	208,992
41	2049	81	0	0	0	0	0	0	134,596	51,841	859,804	78,576	586,786	213,172
42	2050	82	0	0	0	0	0	0	134,494	47,289	772,599	82,942	503,845	217,436
43	2051	83	0	0	0	0	0	0	134,313	42,493	680,779	87,471	416,373	221,784
44	2052	84	0	0	0	0	0	0	134,049	37,443	584,172	92,171	324,202	226,220
45	2053	85	0	0	0	0	0	0	133,699	32,129	482,603	97,045	227,157	230,745
46	2054	86	0	0	0	0	0	0	133,259	26,543	375,887	102,101	125,056	235,359

1. Upon death of the plan member, the insurance proceeds (death benefit) are paid to the RCA Investment Account and are invested. Alternatively, an annuity structured with the RTA can be purchased to pay survivor benefits.
2. The interest assumption used is 5.5% net of Mangement Expense Ratios (MERs), commissions, and other fees. An increase in the rate of return will provide additional benefits to the named beneficiaries after the death of the spouse. If there is a decrease in the rate of return, spousal payments and/or benefits to beneficiaries upon spouse's death could be adversely affected.
3. Any balances remaining in RCAIA and RTA on death of plan member and spouse are distributed to named beneficiaries under the terms of the RCA Plan Document.

Upon the death of the plan member, the death benefit is paid to the RCA Investment Account and is invested. Alternatively, an annuity structured with the RTA can be purchased to pay survivor benefits. The interest assumption used is 5.5%. An increase in the rate of return will provide additional benefits to the named beneficiaries after the death of the spouse. If there is a decrease in the rate of return, spousal payments and/or benefits to beneficiaries upon the spouse's death could be adversely affected. Any balances remaining in the RCAIA and RTA upon death of the plan member and spouse are distributed to the named beneficiaries under the terms of the RCA Agreement (Plan Document).

Comparison of RRSP*Wrap*™ and PENSION*Plus*™

Male, Age 45
5.5% Return on Deposits

Based on a deductible annual allowable contribution of: $139,922   Income Stream: $216,794 (indexed @ 2%)

RCA			CONVENTIONAL RCA		PENSION*PLUS*™ RCA	PENSION*PLUS*™ RCA ANNUAL PROJECTED PENSION ADVANTAGE
YEAR		AGE	1 PLAN MEMBER BENEFIT	JOINT WITH SURVIVOR BENEFIT	2 PLAN MEMBER BENEFIT	ADDITIONAL PLAN MEMBER BENEFIT
21	2029	65	216,794	171,562	218,044	46,482
22	2030	66	221,130	174,994	222,405	47,411
23	2031	67	225,552	178,494	226,853	48,359
24	2032	68	230,063	182,063	231,390	49,327
25	2033	69	234,665	185,705	236,018	50,313
26	2034	70	239,358	189,419	240,738	51,319
27	2035	71	244,145	193,207	245,553	52,346
28	2036	72	249,028	197,071	250,464	53,393
29	2037	73	254,009	201,013	255,473	54,461
30	2038	74	259,089	205,033	260,583	55,550
31	2039	75	264,271	209,134	265,794	56,661
32	2040	76	269,556	213,316	271,110	57,794
33	2041	77	274,947	217,583	276,532	58,950
34	2042	78	280,446	221,934	282,063	60,129
35	2043	79	286,055	226,373	287,704	61,331
36	2044	80	291,776	230,900	293,458	62,558
37	2045	81	297,612	235,518	299,328	63,809
38	2046	82	303,564	240,229	305,314	65,085
		SPOUSES AGE	SURVIVOR BENEFITS			
39	2047	79	0	160,233	204,895	44,662
40	2048	80	0	163,437	208,992	45,555
41	2049	81	0	166,706	213,172	46,466
42	2050	82	0	170,040	217,436	47,396
43	2051	83	0	173,441	221,784	48,344
44	2052	84	0	176,910	226,220	49,310
45	2053	85	0	180,448	230,745	50,297
46	2054	86	0	184,057	235,359	51,303
					TOTAL ADDITIONAL PROJECTED INCOME USING PENSION*PLUS*™	**$1,378,609**

1 Conventional RCA benefits excludes the annual $1,500 trustee fees charged by BMO Trust Company.

2 PENSION***Plus***™ benefits includes $1,250 to pay the annual trustee fees to BMO Trust Company. This shows that PENSION***Plus*** ™ has lower trustee fees, and can cover the fees if the corporation no longer exists at or after retirement of the Plan Member.

PENSION*Plus*™ is a tax-sheltered insurance policy which offers several additional advantages not available from a conventional RCA. Survivor Benefits are allowed under the Generally Accepted Guidelines since they are included in virtually all Defined Benefit Pension Plans and are mandated now in some provinces. If they are added to a conventional RCA, the cost of funding the RCA would increase. If a pre-retirement death benefit were added, this would also increase the cost of funding a conventional RCA. With **PENSION*Plus*™** as the funding asset, both these benefits are received at no additional cost. If no survivor benefits are indicated, the cost of funding the RCA can be reduced by using **PENSION*Plus*™**.

The additional benefits are outlined below:

- Pre-retirement death benefit if policy is on employee's life
- Survivor benefits if policy is on employee's life
- Fully integrated with Refundable Tax Account (RTA)
- Tax-sheltered earnings in policy
- Reduced trustee fees
- No significant setup fee
- No actuarial and consulting fees*
  *The client would pay any legal or accounting fees charged by their own advisors

Another important advantage of **PENSION*Plus*™** is that the earnings within the policy are tax sheltered. There is no requirement to transfer a percentage of the policy accumulation to the RTA.

However, there are additional design advantages with **PENSION*Plus*™**:

- With most life insurance policies used in RCAs, the minimum cost of insurance makes the cost of using the policy more expensive than a conventional RCA. For this reason, many companies-suggest split-dollar arrangements, which come with their own-set-of-problem & **PENSION*Plus*™**, funded with a Universal Life, uses the minimum premium to provide the survivor benefits. The premium deposited in excess of the minimum premium grows over time to provide enough cash to pay the primary retirement benefits.
- The additional insurance used to keep the universal life plan within **PENSION*Plus*™** from attracting accrual taxation up to retirement is used to provide the pre-retirement death benefit.
- At retirement, any excess insurance not required to keep the policy exempt or to provide survivor benefits, is reduced.
- Providing the survivor benefits by way of a life insurance benefit is the most efficient way of returning the tax-sheltered earnings to the RCA Investment Account.

Comparison of PENSION*Plus*™ with an Individual Leveraged Plan

A very popular retirement strategy is to use a maximum funded universal life policy to provide tax free retirement income by using the policy as collateral for a series of loans where interest is capitalized and the loan is paid off only at the death of the insured person. While, this strategy can be very effective, there are some disadvantages and risks that must be communicated to the client.

- There is no employer commitment or participation in this strategy. The owner/employer has to set up the insurance policy with after-tax dollars and is responsible for continuing the deposits according to the original plan.
- Tax laws could change, making the use of a policy as collateral a policy disposition. It may be unlikely that such a change may occur because it affects so many other assets used as collateral. Nevertheless, the client should consider the risk.
- The life expectancy used in the loan calculations may be inaccurate. If the client lives longer than expected and the loan ratio exceeds the maximum bank lending loan ratio, he or she needs to know that there is a risk of the lender calling the loan and forcing the surrender of the policy, thereby creating a huge tax liability.
- In a lower interest rate environment, even with a constant spread, there will be lower overall values and the amount of annual loans may be decreased.
- The insurance company is not a party to the bank loan and cannot guarantee that a bank will grant the loan. Although many insurance companies have agreements with one or more banks, they cannot guarantee how the banks will govern themselves in the future and once the loan agreement is in place.

PENSION*Plus*™ uses the Retirement Compensation Arrangement, which is outlined in *the Income Tax Act* and recognized by the CRA. Setting up an RCA as outlined by the CRA avoids much of the risk outlined above. The risks common to all individual plans are that the life expectancy of the retiree can be much longer than expected and the performance of the investments within the plan may be lower than expected. However, unlike the leveraged plans, with **PENSION*Plus*™** there is no creditor waiting to call in the loan, thus triggering the necessity to pay income tax on the policy gains.

Comparison of PENSION*Plus*™ with a Corporate Leveraged Plan

Sometimes, corporate leveraged plans are suggested as an alternative to an RCA. The *Income Tax Act* sets out very specific rules with respect to plans, which promise to pay retirement benefits to employees. A corporate leveraged life insurance policy used by an employer to pay retirement benefits to a business owner or other employee, can fall into that category if there is an employer obligation (whether or not in writing) to provide retirement benefits to the owner or other employee. In this instance the plan would be deemed to be an RCA under 207.6(2) and subject to all the RCA requirements.

The CRA's RCA Guide (T4041) also states that, "An employer may acquire an interest in a life insurance policy to fund benefits for an employee's retirement, loss of an office or employment or any substantial change in services the employee or personal service corporation provides. In this case, we consider this interest to be an RCA and the employee to be the custodian of the RCA."

It will be difficult to argue that corporate insured retirement plans are not for that purpose, particularly since illustrations show a post retirement income stream.

PENSION*Plus* GIF™

PENSION*Plus*™ is a special configuration of a Universal Life product in an RCA utilizing the "exempt" taxation provisions under income tax regulation 306, designed to provide unreduced Survivor Benefits at the same cost of funding only Primary Benefits.

PENSION*Plus* GIF™ assumes funding for both Primary and Survivor benefits but, reduces the allocation for Survivor benefits and, lowers the performance target for primary benefits. Primary benefits are split between a Guaranteed and a Variable pool of assets. The guarantee is 4% and the net performance objective on the variable pool is also 4%. Any excess performance reduces funding costs. The variable pool is invested in Segregated Funds; Mutual Funds or Portfolio Managed.

Both **PENSION*Plus*™** and **PENSION*Plus* GIF™** require an insured life. With **PENSION*Plus*™**, this can be the Plan member, the Survivor or a substitute life. With **PENSION*Plus* GIF™**, the Plan member is used.

The target markets for **PENSION*Plus* GIF™** are:

(1) Business owners earning over the small business limit (currently $400k) concerned with their retirement income. The guarantees and the lower performance target on the variable pool will provide greater security of benefits. Contributions are 100% tax deductible to the Corporation and, there is no tax to the owner until benefits commence in retirement.
(2) Employees in Group RCAs. The investment risk to Plan Member is reduced with earnings over 4% and excess mortality benefits mitigating the cost of funding to Plan Sponsor.
(3) Executives in Public corporations with "Pension Shortfall" funding secured by an RCA as part of their retirement package. The guarantees will provide greater security.

Financial Advisors now have two funding options from **RCF** for RCAs:

(1) **PENSION*Plus*™** where all RCA Investment Account assets are held in the "exempt" insurance contract and;
(2) **PENSION*Plus* GIF™** where the Survivor and fixed income funding (to CRA limits) are held in the "exempt" insurance contract and the variable pool is "on book" in Segregated Funds; Mutual Funds or Portfolio managed.

Marketing and Sales Support

The sale and implementation of an RCA can be complicated. The **RRSP*Wrap*™** and **PENSION*Plus*™** have been designed to simplify both the sales and implementation process. The sales approach starts with four simple questions.

1) Are you worried that your RRSP will provide you with an inadequate pension?
2) Do you think RRSP contribution levels are too low?
3) Do you own or are you a key employee of a business?
4) Would you like a 100% tax deductible solution to your pension needs?

"Yes" answers to these four questions indicate than an **RRSP*Wrap*™** may be an option.

Only four pieces of information are required to generate the initial illustration:

- Dates of birth of client and spouse
- Years of service
- Current salary and bonus
- Current RRSP balance

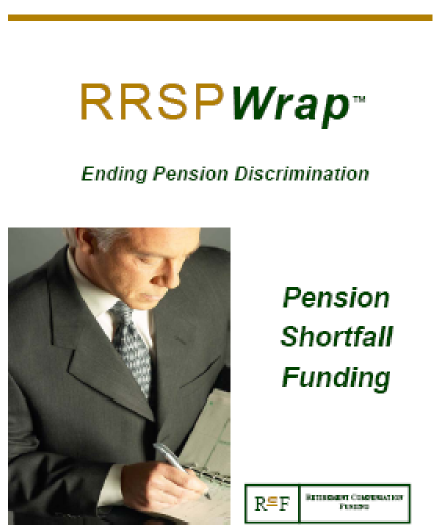
We have provided a number of marketing and sales support materials to help you every step of the way. The **RRSP*Wrap*™** and **PENSION*Plus*™** sales process will help you show your clients exactly how an RCA can work for them.

Pre-approach

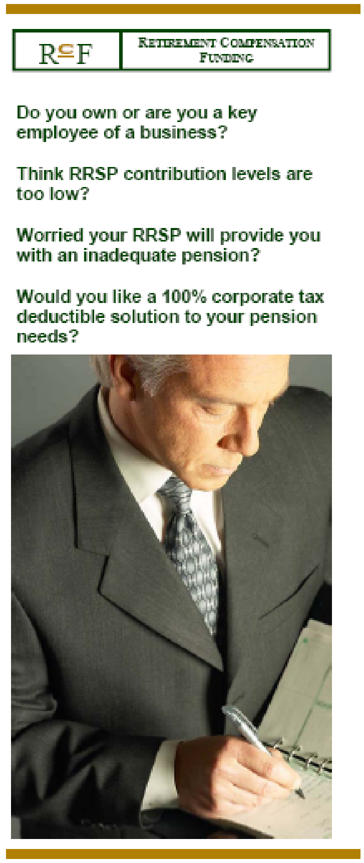
We have created two marketing pieces to assist you in catching the interest of potential clients

- **RRSP*Wrap*™ Point of Sale Brochure** (1005 EN or 1019EN, the latter being a PDF Format that allows you to enter your contact information into the Brochure)

- **Sample pre-approach letter**



RRSP*Wrap*™ Mailer Brochure (1004EN or 1018EN, the latter being a PDF Format that allows you to enter your contact information into the Brochure)



The mailer brochure is designed to pique the client's interest. The brochure outlines the problems faced by owners and executives of small to medium-sized private corporations in providing adequate pension benefits within the constraints of registered pension plans.

Sample Pre-approach Letter

We have prepared a sample pre-approach letter. It is important that you do not make any changes without consulting an RCF Consultant.

<Date>
<Prospect Name>
<Prospect Address>
<Dear Prospect>

<Dear Prospect>

As you know, the ability of small to medium-sized corporations to offer meaningful retirement benefits to owners and key employees using RRSPs has seriously eroded in recent years. If you are earning more than $90,000 annually, you can expect to experience **Pension Discrimination** because of the cap on RRSP contributions. In other words, your pension benefits will likely be significantly lower than the acceptable standard of 70% of pre-retirement income.

Let me ask you four simple questions.

- Do you think RRSP contribution levels are too low?
- Are you worried that your RRSP will provide you with an inadequate pension?
- Would you like to tax shelter investment earnings on additional money set aside for retirement?
- Would you like to defer tax on these funds to rates at retirement

If you answered "Yes" to these four questions, you may be a candidate for an Individual Pension Plan (IPP) or a Retirement Compensation Arrangement (RCA)

An IPP is a defined benefit pension plan. "Defined Benefit" means that your pension amount is determined by a specific formula when the plan is established. As a result, an IPP usually allows for higher contributions than an RRSP and, as a registered pension plan, all contributions grow on a tax-deferred basis. Under certain conditions, contributions can be made for past years of service, resulting in additional tax-deferred growth. **However, if your annual earned income is $125,000 or more, an IPP will not be sufficient to allow you to fully fund your maximum pension entitlement.**

Fortunately, there is a solution. Provisions in the *Income Tax Act* allow for Retirement Compensation Arrangements (RCAs) which can be used in addition to an RRSP or an IPP to provide supplemental pension funding. All contributions to the RCA are **deductible by the corporation** and there is **no tax to the owner/employee** until benefits are received from the RCA.

I have formed a strategic alliance with **RCF** Retirement Compensation Funding, a leading authority on supplemental pension funding. They are providing me with a full package of services to allow you to benefit to from this important pension funding opportunity. This includes all of the required calculations to establish your pension entitlement plus an administration and documentation package for your accountants and lawyers if you qualify for an IPP or an RCA.

But that's not all. **RCF** also brings you **PENSION*Plus*™** . With a conventional RCA, ½ of all gains in the RCA Investment Account must be credited to what is called a Refundable Tax Account (RTA) that earns no interest. **PENSION*Plus*™** is an investment alternative using a special "exempt" insurance contract owned by the RCA Trust and fully integrated with the Refundable Tax Account.

With **PENSION*Plus*™**, annual transfers to the RTA are substantially eliminated, there are no significant setup fees and the Trustee fees are significantly reduced. For the same cost of funding a Conventional RCA, an Insured RCA Trust provides not only additional survivor benefits but also a pre-retirement death benefit.

Only four pieces of information are required to generate a proposal for you: the dates of birth of you and your spouse; the date you started your company; your base salary and bonus and your current RRSP balance.

[Your personalized ending]

Sincerely,

The Client Presentation

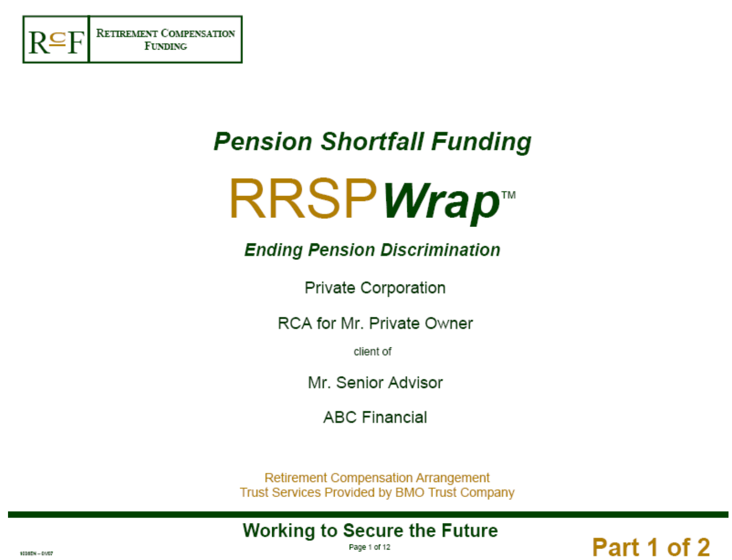
The purpose of the initial sales presentation is to have the client first understand and appreciate the advantages of the **RRSP*Wrap*™** strategy. This presentation also informs the client of the various funding options available for the RCA, one of which is a tax sheltered exempt life insurance policy such as **PENSION*Plus*™**. This presentation includes.

- **RRSP*Wrap*™** Brochure (1005EN)
- **RRSP*Wrap*™** Sample Illustration Part One (1007EN)
- **PENSION*Plus*™** Sample Illustration Part Two (1008EN)
- **RRSP*Wrap*™** Request for Illustration (1000EN)

RRSP*Wrap*™ Brochure (1005EN)

You can use this brochure to outline the current situation for small business owners and explain the pension discrimination problem. This brochure provides a graphical explanation of how an RCA works. In addition, there is an example of a pension shortfall and the pension entitlement calculation. The brochure also highlights the benefits of the **RRSP*Wrap*™** and gives some information on who qualifies for an RCA.

RRSP*Wrap*™ Sample Illustration Part One (1007EN)


RCF Retirement Compensation Funding

Pension Shortfall Funding

RRSP*Wrap*™

Ending Pension Discrimination

Private Corporation

RCA for Mr. Private Owner

client of

Mr. Senior Advisor

ABC Financial

Retirement Compensation Arrangement
Trust Services Provided by BMO Trust Company

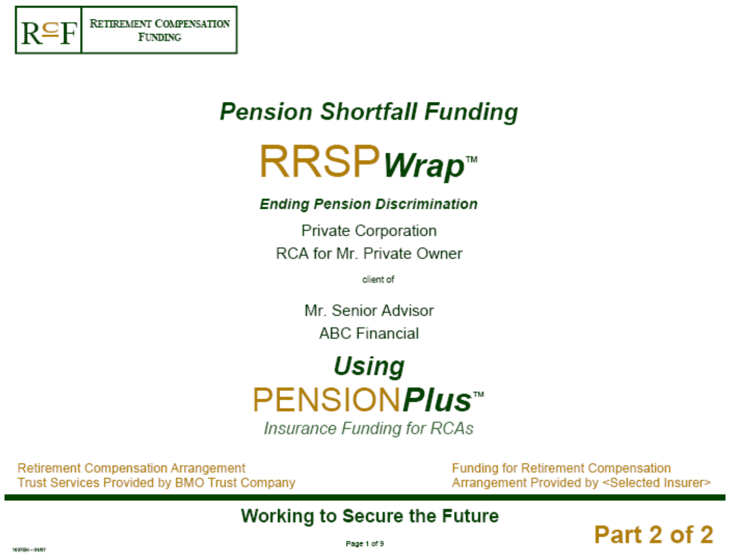
Working to Secure the Future

Page 1 of 12

Part 1 of 2

Sample Illustration Part One shows the client how the pension entitlement is calculated and how the **RRSP*Wrap*™** is used to fund additional pension benefits. This sample illustration demonstrates the benefits of a conventional RCA.

PENSION*Plus*™ Sample Illustration Part Two (1008EN)



R^C^F Retirement Compensation Funding

Pension Shortfall Funding

RRSP*Wrap*™

Ending Pension Discrimination

Private Corporation
RCA for Mr. Private Owner

client of

Mr. Senior Advisor
ABC Financial

Using

PENSION*Plus*™

Insurance Funding for RCAs

Retirement Compensation Arrangement
Trust Services Provided by BMO Trust Company

Funding for Retirement Compensation
Arrangement Provided by <Selected Insurer>

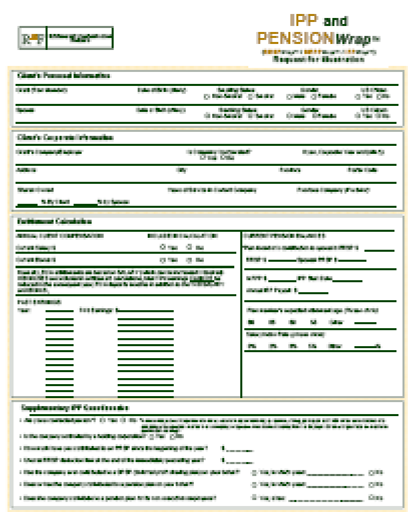
Working to Secure the Future

Page 1 of 9

Part 2 of 2

Sample Illustration Part Two demonstrates the additional benefits of **PENSION*Plus*™** using a Universal Life as the funding vehicle.

RRSP*Wrap*™ Request for Illustration (1000EN)



IPP and PENSION*Wrap*™

Request for Illustration

Another important objective is to obtain the input data used in determining the RCA entitlement amount. Use the Request for Illustration to order a personalized illustration to establish your client's pension entitlement (the maximum amount of additional funding allowed). Fax the completed form to R^C^F and you'll receive a customized **RRSP*Wrap*™** illustration. You should review the criteria on the reverse of the form to ensure your clients fit the **RRSP*Wrap*™** profile before completing and submitting a ***Request for Illustration.*** A separate request is required for each person. Accuracy of information is critical and will prevent the need for the creation of multiple illustrations, which is very time consuming.

Tips for Filling out the Form

Dates of Birth

Obviously, the date of birth of the client is very important. The program mostly benefits private business owners/executives from 35 to 55 years of age.

- Clients can be younger than 35 if earning significant compensation
- Those aged 55 to 65 may face reduced spousal survivor benefits depending on deposit amounts The date of birth of the spouse is also important because it is used to calculate survivor benefits and life expectancy.

Spouses

When dealing with spousal RCAs, make certain that the spouse actually has the same years of service. Sometimes when an owner is asked when he started the business, it is mistakenly assumed that the spouse started at the very same time.

Mid or Late Term Hire

If dealing at arm's length, many companies will provide extra service credits for executives who are leaving pension credits on the table with their former employer. In the last Supplementary Employee Retirement Plan (SERP) survey done by William M. Mercer, the credit was 2 years for each year of continuous service.

What this means is that if a senior executive was hired at age 60, under the normal rules, the new corporation could only provide him with a 10% pension (2% x 5 years). However, with a 2-year credit for each year of continuous service, the pension would rise to 30%.

The lowest age for mid-term hire adjustments that can be used for the 2-year credit is age 55.

For service credits, the employee and employer must be dealing at arm's length and there should be evidence that the employee is leaving a substantial pension behind. In no case will years of service credits be allowed if the combined pensions from the former and new employer exceed 70%.

Current Compensation and Index Rate

Ideally, the client's final five-year average salary should exceed $125,000 a year. Specifically, annual compensation must exceed $125,000 for clients under 50, and $150,000 for clients 50 and older. The salary index rate affects eligibility as a higher percentage increase boosts the final five-year average salary and therefore the pension entitlement.

For the private business owner, compensation that can be used in making the pension entitlement calculations can be paid in two ways:
• Base salary
• Bonuses

How compensation is paid is very important particularly with respect to triggering the salary deferral rules A simple way of determining what should be included is to find out what will be paid after the RCA is established.

For example, let's assume a business owner is now receiving the following compensation:

Salary $200,000
Bonus $150,000
$350,000

If the intention is for the owner to continue to receive all two parts after the RCA is set up, then the initial "integrated final earnings" calculation can be based on $350,000 of compensation. However, if the bonuses are not to be paid, the starting point is $200,000. Where a pattern of paying bonuses has been established, it would be very risky to replace bonus payments with RCA contributions since this could well trigger the salary deferral arrangement rules. Instead, a reasonable combination of salary, bonus and RCA contributions should be determined.

As part of the due diligence process, R^CF will confirm certain data such as T4 compensation with the client's accountants, or by being provided with the T4s

RRSP Balance
For employees dealing at arm's length, RRSP balances do not have to be included in the "integrated final earnings" calculation. However, if they are part of a group RRSP, an MPPP or an RPP, their balances are included. If RRSP balances are not included, a notional RRSP or MPPP balance will be illustrated commencing with the RCA which will reduce the RCA contributions.

For example, an arm's length employee with 25 years of service could be provided a supplemental pension of 50% (2% x 25years). His/her RRSPs will hopefully give them at least the additional 20% to bring them up to a 70% pension.

For owner/managers not dealing at arm's length, current RRSP balances, or notional MPPP balances commencing with the RCA must be included. If they are also a participant in a company's RPP or have an IPP, all balances are included in making the pension entitlement calculation.

Spousal RRSP balances must also be included in making the calculation for owner/managers not dealing at arm's length.

Non-arm's Length
For the purpose of the pension entitlement calculation, non-arm's length means a controlling interest in the corporation either directly or indirectly through family members or a trust. If a corporation were controlled 50/50 by two non-arm's length owners, RCF would usually take the side of caution and include RRSP balances. However, if the company was owned 1/3rd each, we would not include the RRSP balances, except if the owners are husband and wife. Siblings owning less than 50% are considered to be dealing at arm's length.

When the Customized RRSP*Wrap*™ Illustration Part One is Received
You should review the **RRSP*Wrap*™** illustration with your client to confirm the accuracy of the client's original information and determine the level of additional funding the client's company is prepared and eligible to provide.

Discussing the use of **PENSION*Plus*™** as the funding vehicle in the resulting RCA is the second step. The client must understand the extra benefits that can be achieved by using **PENSION*Plus*™**. The survivor benefit resulting from the use of **PENSION*Plus*™** is always calculated at 2/3rds of the initial entitlement. For younger ages, the contribution to the RCA might also be reduced if there is more cash and death benefit in the contract than required to pay the survivor benefit.

Once the client is in agreement, you should then complete and fax the form on the last page of Part One to RCF to obtain a **PENSION*Plus*™** illustration using an insurance carrier of your choice.

When the Customized PENSION*Plus*™ Illustration Part Two is Received

The **PENSION*Plus*™** presentation is a confirmation of the extra advantages received by using **PENSION*Plus*™** as the asset in the RCA Investment Account. The presentation includes:

- The customized **RRSP*Wrap*™** Illustration Part One, outlining the conventional RCA. This could be the original or new, if there was a change to the data.
- The customized **PENSION*Plus*™** Illustration Part Two, showing a comparison between the benefits offered by the **PENSION*Plus*™** funding as compared to a conventionally funded RCA.
- An Insurance Illustration confirming all of the figures in the **PENSION*Plus*™** Illustration.
- A comparison as to what would happen if the same funds that are being contributed to the RCA were paid to the owner/executive and invested to generate interest, capital gains or invested in an individual leveraged life insurance plan. These comparisons are based on personal tax rates in the province in which the client is a resident.

Again, you should review the **PENSION*Plus*™** illustration with your client, confirming the annual funding level desired by the company. If, at this point, the client and company wish to go ahead and establish the RCA you should then complete the life application.

Frequently Asked Questions

What if my client is uninsurable?

Your client may be able to use a substitute life. This substitute may be your client's spouse or another employee of the contributing corporation. You should note that there is a requirement for the existence of an insurable interest in establishing a life insurance policy to fund an RCA.

Who owns the RCA?

The RCA is a trusteed arrangement. In the case of PENSION***Plus***™ the trustee is the BMO Trust Company, which holds the assets for the benefit of the employee plan member in accordance with the requirements of the *Income Tax Act*.

Who owns the insurance policy?

The insurance policy is owned and issued in the name of the trustee in trust for the employee, the plan member of the RCA.

Who has control over the RCA?

The trustee has control over the RCA and can make changes in accordance only with the Trust Agreement and the Plan Document only if requested and with the approval of the committee appointed by the contributing corporation and the employee Plan Member.

Can the RCA be modified?

The Trust agreement cannot be modified. The plan document can be modified but only if the corporation and the plan member mutually consent through the committee.

What happens if premiums cannot be paid at some future date?

The RCA funds are left to accumulate according to the instructions in the plan document. If the problem is temporary financial difficulties, the deposits can be recommenced when conditions improve. If conditions dictate that no further contributions can be made, the face amount of the policy should be reduced to the lowest amount required to maintain the policy's values on a tax-sheltered basis.

Does the beneficiary have to be connected with the business or the spouse of the employee?

The beneficiary can be anyone designated by the employee plan member. We recommend that the beneficiary be the plan member's spouse in order to mimic the spousal survival benefits normally available through a registered pension plan, but ultimately the plan member makes the designation.

What happens to the RCA if the employee dies prior to retirement?

The beneficiary(ies) established in the Plan Document will commence receiving benefits paid out of the assets of the RCA Trust. Although only the cash values of a policy are a source of funds for retirement income for the employee, the subject property of an RCA includes not only the interest in the cash values but also the insurance portion of the policy, which would flow through the RCA trust. If the plan member was the insured under the policy held as the principal asset by the trustee, the death benefit is received on a non-taxable basis by the RCA and can be invested to allow the anticipated payments (including refunds of refundable tax) made out of the RCA to the beneficiary. If the plan member was not the insured, the assets in the policy and the Refundable Tax Account (RTA) are utilized to make payments to the beneficiary.

Is there protection or benefit for a surviving spouse?

There is no requirement for spousal benefits to be part of an RCA. However, instructions are set out in the plan document and can provide for continuing benefits to a designated or alternative beneficiary or the employee's estate. Of course, the spouse is most often designated as the beneficiary.

What happens at retirement?

At retirement, ownership remains with the trustee. The trustee, in accordance with directions from the committee, will arrange for the required pension to be paid out to the plan member. The pension income is a combination of cash withdrawals from the insurance policy and refunds from the Refundable Tax Account.

Is the pension income taxable?

All distributions from the RCA trust to the plan member are taxable. The custodian is responsible for withholding the required amount of tax on the distributions. The plan member reports the amount distributed and claims the income tax deducted on his or her income tax return for the year it is received.

Does the $2,000 Pension Income Amount apply to income from an RCA?

The $2,000 Pension Income Amount does not apply to income from an RCA, but would generally apply to pension or superannuation payments from a pension plan received as a life annuity.

Can the RCA buy an annuity to provide pension income?

When the custodian of an RCA buys an annuity contract to provide pension income for the plan member, Canada Revenue Agency (CRA) considers that the amount paid to buy the contract is a taxable distribution out of the RCA trust to the beneficiary. The full amount is taxable in the year the custodian buys the contract, and the custodian has to issue a T4A-RCA slip showing the distribution and the amount of income tax deducted.

However, the trustee of an RCA can purchase an annuity structured with refunds from the RTA to make the desired payments from the RCA. On the death of the employee plan member, the use of such a structured annuity by the RCA is one of the most efficient methods of providing equal payments to the beneficiary over a number of years.

If a Plan Member changes employer, what happens to an RCA?

When a Plan Member changes employer, if the former employer, who established the RCA, consents to the transfer of the assets to a new RCA established by the new employer under section 207.6 (7) of the *Income Tax Act*, the trustee can transfer the assets including the insurance policy and the RTA to the new RCA, and the new employer can make contributions to the RCA to fund the policy. If the former employer does not consent to the transfer, or the new employer declines to fund an RCA, the existing RCA remains intact and will continue to grow without new contributions. Generally, the face amount of the policy would be reduced to the lowest amount required to maintain the policy's values on a tax-sheltered basis.

Is there an age at which the employee plan member must start receiving RCA benefits?

Unlike registered pension programs, there is no age at which a person must start to receive retirement benefits from the RCA.

Should we reduce the PENSIONPlus™ insurance coverage ifs we cannot make the RCA contribution?

Contributions can be deferred if the corporation cannot afford to make a contribution payment. The RCA funds are left to accumulate, while the cost of insurance is automatically deducted from the Account Value. However, if it becomes a permanent issue, then the insurance amount should be reduced to the lowest amount required to maintain the policy's values on a tax-sheltered basis. If it's a temporary issue, and the corporation does have some cash, then we recommend that the bare minimum to cover the pure morality cost should be submitted (along with a matching cheque to the Refundable Tax Account). This way there is more money to be directed toward the investment options within the PENSION***Plus***™.

Who completes the tax filings?

BMO Trust Company completes the T3-RCA Return. However, the Plan Member's corporation is responsible for the completion of the T737. The T737 is a confirmation or summary of funds paid to the RCA. It can be completed by the Accountant, corporation, or one's Financial Advisor. However, it has to be signed by the signing authority of the corporation. Of course, if no contribution was made, no T737 is required.

Do we need to do a triennial (or inforce) review?

Technically, the answer is no. However, to ensure that the RCA remains onside, we recommend that one is done every three years just to be safe. Many times you will find that you can contribute more money into the RCA than originally illustrated due to conservative earning assumptions at the inception of the RCA or unexpected increased earnings. Alternatively, the RCA could be over funded resulting in SDA concerns.

Can an RCA Trust hold assets other than life insurance and segregated funds?

Yes, it can hold other investments such as stock (but not recommended because of taxation), bonds, and real estate. However, RCF's specially reduced trustee fee with BMO Trust Company only covers life insurance and segregated funds. As such, any other assets will result in a substantial increase in annual trustee fees and a payment of one half of the income to the Refundable Tax Account (RTA). It is up to BMO Trust's discretion as to how much they will charge. As always, all fees are tax deductible to the corporation.

What if you can contribute more than what* PENSION*Plus*™ *can hold on a tax-sheltered basis

If the Plan Member is retiring soon or it just having a good year and the higher level funding will not continue, then you can hold the excess funds in the Side Account (the non tax-sheltered portion) on the Universal Life policy, you can have the Trustee hold the funds, or Segregated Funds can be purchased to fund the excess amount. However, if retirement is at least 10 years down the road and the higher funding level is going to continue, then the RCA Trust can apply to the insurance carrier to increase the amount of insurance required to keep the excess funds tax sheltered. However, the Plan Member will have to go through Medical Underwriting based on his/her attained age. This can be an issue and the cost of insurance might be too high if the Plan Member is older. Therefore, it does depend on a case by case basis to determine the best strategy.

Does it make sense to establish an IPP for an existing RCA Plan Member?

Depends on the age of the client, service back to 1991, and balance in RRSP. Since IPP benefits must be integrated with the RCA, there is no increase in total benefit at retirement. An inforce or triennial review of your RCA should be done to determine if you can add more money into the RCA. Generally speaking, the more your T4, the more you can put into your RCA. There are no limits to contributions or benefits as long as your T4 income can justify it.

Can I take funds from the Capital Dividend Account (CDA)?

Since the PENSION***Plus***™ contract is owned by the RCA, the CDA is not applicable. The CDA only comes into play with corporate owned insurance contracts. In the event of a death, the proceeds of the policy are payable to the RCA Trust tax-free. At retirement, regular income distributions are made by the RCA Trust directly to the Plan Member, and taxed at the Plan Members personal tax rate. They are not made through the corporation.

Is income splitting possible in an RCA between a Plan Member and Spouse.

It is not possible to split income from an RCA Trust between the Plan Member and the Spouse. Any distribution from the RCA Trust has to go to the Plan Member, and will be taxed accordingly. It is the Plan Members prerogative to give that money to his/her spouse. Of course, if the Plan Member has passed away, then it will be distributed to the beneficiaries named in the Plan Document, and treated as taxable income to them. If the Spouse is an employee of the company, a separate RCA Trust can be established.

I've left my employer, can I take my RCA with me?

Subsection 207.6(7) provides for the tax-free transfer of amounts between RCA trusts if a lump-sum amount (including the RTA) is transferred directly from one RCA trust (the transferring plan) to another RCA trust (the receiving plan). The former employer has to agree to the transfer, and the new employer will need to establish the new RCA Trust and agree to the transfer to it.

Are loans required (like IRPs) to withdraw funds from insurance contracts in the RCA?

No. That is the great advantage of the PENSION***Plus***™ RCA and why an insurance contract held in an RCA can provide more benefit than if used as an IRP. IRPs are best used for individuals who cannot establish an RCA.

Procedures for establishing a PENSION*Plus*™ RCA

This document outlines the step-by-step procedure for establishing an RCA using R^CF. The responsibilities of all parties are covered. Please read this document carefully.

Step 1: Check Year End

RCAs are corporate year-end driven. It is important to identify the company's year-end before beginning the process.

Retirement Compensation Funding (RCF) should be kept informed of upcoming year-end deadlines.

Because it is critical to have the RCA set up before the corporate year-end, so that the corporation can get its tax deduction for the RCA, RCF first prioritizes their workload according to the proximity of the corporation's year-end and then on a first-in, first-out basis. Every effort is made to establish all RCAs by the corporate year-end. However, due to the procedures required and normal underwriting time for larger cases, the earlier in the corporate fiscal year you can begin the process, the better.

Step 2: Part 1 Illustration

The first illustration that must be shown to the client is called the Part 1 Illustration. It is also referred to as the **RRSP*Wrap*™** illustration. This illustration outlines the client's entitlement, and illustrates a conventional Non-Insurance funded RCA.

1. **Complete illustration request**

   The Advisor "Request for Illustration Form" (Form #1000EN). The Advisor faxes the request to RCF at 416.364.4092. RCF will log the receipt of the Request.

2. **RCF reviews**

   RCF reviews the request. If RCF determines the Request is ineligible, RCF will communicate via email with the Advisor as to why the Request is ineligible.

3. **RCF sends illustration**

   If the Request is deemed to be eligible, RCF will:

   - Prepare Part 1 of 2 customized **RRSP*Wrap*™** (or **IPP*Wrap*™** / **MPPP*Wrap*™**) Illustration, showing the maximum corporate contribution and pension entitlement calculation. **It's important that accurate information be submitted in order to avoid having to re-run the illustration several times.**

   - Send Part 1 illustration directly to the Advisor

4. **Present Part 1 illustration to client**

The Advisor receives the Part 1 illustration, and the Advisor presents it to the client. An RCF Consultant can be made available to assist in the presentation to client if required.

Step 3: Part 2 Illustration

The second illustration that must be shown to the client is called the Part 2 Illustration. It is also referred to as the **PENSION*Plus*™** illustration. This illustrates an RCA with Universal Life Insurance used as the investment solution.

1. **Complete illustration request**

   If the client wishes to continue with the second part of the illustration, the Advisor has page 12 of Part 1 of the **RRSP*Wrap*™** Illustration signed by the client(s) and faxed back to RCF at 416.364.4092.

   This serves both to request a customized **PENSION*Plus*™** illustration, and to confirm the accuracy of the input data.

   It's important to send in accurate information regarding the actual amounts to be invested in the RCA. Each PENSION*Plus*™ illustration will be prioritized according to the proximity of the corporate year-end.

2. **If no request, RCF follows up**

   RCF will follow up with the Advisor two weeks from the date the Part 1 illustration was sent out by RCF and will continue to follow up every month until either a signed page 12 & Corporate Verification Form requesting a Part 2 of 2 Illustration, or a decline from the client, is received.

3. **RCF reviews and sends illustration**

   Upon receipt of the second request, RCF will prepare and send Part 2 of 2 of the **PENSION*Plus*™** illustration supported by the corresponding life insurance illustration as selected by the Advisor. A letter outlining the procedures for establishing a **PENSION*Plus*™** RCA accompanies the illustration, should the client decide to proceed.

   Please note that a PENSION*Plus*™ illustration cannot be prepared using the field version of the life insurance company's illustration software. RCF uses special software which allows the life insurance illustration to be integrated with the Refundable Tax Account (RTA), and minimizes the cost of insurance.

4. **Present Part 2 illustration to client**

   The Advisor receives the Part 2 illustration, and the Advisor present it to the client.

5. **Acceptance by client**

If the client accepts the illustration, the Advisor have the client sign page 9, and fax the signed page 9 to RCF. RCF will follow up with the Advisor until either a signed page 9 or a decline from the client is received.

Step 4: Apply for PENSION*Plus*™ RCA

1. **Complete Contact Information Sheet**

   The Advisor completes the Contact Information Sheet (Form #1001EN) and returns it to RCF**.**

2. **Complete Application for Life Insurance**

   The Advisor completes the partially completed Life Application that was prepared by RCF. This application has been specially prepared for RCA purposes with emphasis on the Owner and Beneficiary:

   Policy Owner
   The owner must be shown as *"(Name of Corporation) as Custodian for (First Initial and Last Name of Individual) RCA."*

   Beneficiary
   The primary beneficiary must be shown as *"BMO Trust Company as Trustee for (First Initial and Last Name of Individual) RCA Trust."*

   Authorization for Life Company to obtain information
   The individual to be insured must sign in this section.

   Agreement and authorization relating to this application
   This section must be signed by the individual to be insured and two corporate signing officers and their titles provided **or** one signing officer with his or her title provided and the corporate seal affixed.

   Receipt and Limited temporary insurance agreement
   There is no temporary insurance available for **PENSION*Plus*™**. These RCA cases are COD only. **The Temporary Insurance Agreement should not be completed or any premium accepted for the policy at this point.** Payment of the premium to the Insurance Company and the Refundable Tax Account (RTA) is **ONLY** made once the RCA number is obtained.

3. **Complete the Title/Ownership Change Form**

   Advisor signs the partially completed Life Co's Title/Ownership Change Form that was specially prepared by RCF. This section must also be signed by two corporate signing officers and their titles provided **or** one signing officer with his or her title provided and the corporate seal affixed. This form changes ownership of the policy to "BMO Trust Company as Trustee for (First Initial and Last Name of Plan Member) RCA Trust." **Leave the form undated. The form will be executed the same day the policy is issued.**

4. **Submit the paperwork to RCF**

   The Advisor sends the following directly to RCF for processing and RCF will submit to the insurance company:

   - Underwriting Memo specially prepared by RCF
   - Completed and signed Application for Life Insurance

- **RRSP*Wrap*™** (**IPP*Wrap*™** / **MPPP*Wrap*™**) or **PENSION*Plus*™** RCA Ledger (Part 1 of 2 and Part 2 of 2) signed by both the corporation on behalf of the RCA Trust, the individual insured and the Advisor
- **PENSION*Plus*™** / Life Insurance illustration signed by both the corporation on behalf of the RCA Trust, the individual insured and the Advisor
- Completed, signed, and Title/Ownership Change Form.
- Confirmation of client's salary and pension balances. (Copy of T4 or letter from accountant and most recent RRSP statement)

It is imperative that all the above documents are completed correctly with the appropriate signatures. Please note that if any of these requirements are missing, the Insurance Company will not be able to settle the policy.

5. RCF coordinates the underwriting

RCF will order all Medical requirements and track the case throughout underwriting. They will communicate with the Insurance Company and Re-Insurance to ensure the cases is underwritten in a timely manner. RCF has many years of experience in underwriting large policies for RCA purposes.

Step 5: RCF establishes the RCA

Once approval is received from Underwriting, RCF will notify the Advisor. RCF will then immediately contact the CRA to obtain an RCA employer account number

Once the RCA employer account number is obtained the documentation process can begin. **Please note that the RCA number cannot be obtained prior to underwriting approval.**

RCF will partially complete Form T733 Application for a Retirement Compensation Arrangement (RCA) Account Number and send the Instructions on how to complete the T733 and collect the RCA contribution to RCF.

Step 6: The RCA is funded

Once Form T733 is signed, and money has been collected, the Advisor will forward the T733, Cheques, and any outstanding insurance delivery requirements to RCF. RCF will process all requirements and forward them to the Insurance Company, CRA, and the Trustee (BMO Trust Company).

Step 7: Policy Settles and Ownership Changes

The Insurance Company now settles the Policy and processes the Change of Ownership

Any outstanding requirements must be received before the Insurance Company can issue the policy. In order to settle the policy, Insurance Company **MUST** have the following:

- Underwriting approval
- Payment of the premium
- Signed illustration matching the policy to be issued
- Any other Amendments or delivery requirement they may request

The Insurance Company will issue and settle the policy and immediately process the Change of Ownership (ownership of the policy now has to be moved to the trust). The policy will be sent to BMO Trust Company (via RCF) with the registered Change of Ownership attached**.**

Step 8: RCF communicates with client's lawyer

RCF then communicates with the client's lawyer to arrange for the legal and trust documentation to be completed and signed.

The client must retain his/her own lawyer to review and sign all of the RCA documentation. It is important the client understands that **independent legal advice** is necessary and is part of our arrangement and understanding with RCF and BMO Trust Company.

Please note that this documentation can ONLY be provided to the client's lawyer from RCF. It CANNOT be distributed to Advisors for their review under any circumstances.

See Appendix B for a list of the legal documentation required.

Step 9: Final Insurance Paperwork Delivered

1. Insurance Company sends paperwork to Advisor and RCF.

The Insurance Company's New Business Case Coordinator will send a copy of the policy details page, certificate of insurance and insurance summary to the Advisor and RCF who will place a copy in the file.

2. Advisor delivers insurance paperwork to client.

The Advisor will deliver the policy details page and the certificate of insurance to the client.

Step 10: Thank You Package Sent to Client

RCF will send the "Thank You" package to the client and a copy to the Advisor. The letter does contain the following:

- Acknowledges that the policy has been approved
- Indicates that the client's legal counsel has been contacted (See Appendix B)
- Includes a copy of policy details page sent to client
- Reminds them that Entitlement & Funding review is recommended every three years (See Appendix C)
- Includes a Schedule of Future Requirements (See Appendix D)
- Includes copy of the RCA Ledger (Part 1 & Part 2) and Insurance Illustration
- Login/Password to RCF**CLIENT*Net*** which provides Plan Members access to tax forms, hand guides, and customer service support for RCF supplemental and pension shortfall solutions 24 hours a day.

Step 11: Ongoing funding

Work may be required on the part of the Advisor to facilitate funding of the account. See Appendix D for details.

Step 12: Triennial Entitlement & Funding Review

RCF will conduct an **Entitlement and Funding Review** every 3 years. The Advisor is responsible for communicating any material change in client circumstances to RCF. See Appendix C for details.

APPENDIX A

REQUEST FOR ILLUSTRATION CHECKLIST

	YES	NO
1. Is the Client's Personal Information section complete? (Name, DOB, Smoking Status)		
2. Is the Client's Corporate Information section complete? (Name, Years of Service)		
3. Is the Entitlement Calculations section complete? (Salary, Bonus, RRSP Balance, IPP Payout)		
4. Is the Advisor section complete?		
5. Does the corporation/individual intend to deposit a minimum of $50,000/yr?		
6. Is the corporation earning above the small business limit?		
7. Is their current compensation at least $100,000-$125,000 per year?		

NOTE: If NO is answered to questions 1-4, please hold request until all information is complete

If no is answered to questions 5-7, please forward RCF Consultant for follow-up and discussion

Appendix B

RCA Documentation

The client must retain his/her own lawyer to review and sign all of the RCA documentation. It is important the client understands that **independent legal advice** is necessary and is part of our arrangement and understanding with RCF and BMO Trust Company.

Please note that this documentation can ONLY be provided to the client's lawyer from RCF. It CANNOT be distributed to the Advisors for their review under any circumstances.

Here is a list of the legal documentation required:

Trust Document
This agreement has been provided to RCF by BMO Trust Company and is in a form acceptable to them for the establishment of the RCA. It sets out the agreement between the Trust Company, the Corporation and the plan member. It also sets out the role of the Committee and the responsibilities and the relationship between the parties.

Plan Document
This document sets out the rights and responsibilities of the Corporation and the plan member in relation to the RCA with respect to time of payments, amounts, beneficiary designations, etc.

Appointment of Committee
The plan member and the Corporation appoint the Committee in accordance with the Trust Agreement and Plan Document.

Letter of Appointment of Committee
The Committee designation establishes whom the Trustee deals with and gives the Trustee directions, as well as makes determinations under the Plan Document.

Beneficiary Designation
This document establishes who will receive the benefits in the event of the plan member's death, as well as who will receive the benefits in the event the beneficiary(ies) either does not survive the member or dies prior to full payment from the RCA.

Resolution of Directors
For the corporate minute book, the resolution establishes the proper corporate approval for the RCA.

Compliance Requirements
Under the Federal Proceeds of Crime (Money Laundering) and Terrorist Financing Act, BMO Trust Company will request various documents from the client's lawyer including notarized Articles of Incorporation, Certificate of Corporate Status and Corporate Profile Report, and identification as per BMO Handy Guide (Forms of Identification).

Appendix C

Entitlement and Funding Review

Entitlement and Funding Review

An entitlement and funding review will be conducted every three years from the date of closing in order to conform to the CRA's generally accepted guidelines. This review is provided as a continuing client service arrangement

- Prepare package and send to Advisor
- Advisor receives package and contacts Plan Member

The advisor should be aware of any **material** change within the corporation, i.e. change of fiscal year end, change in ownership, sale of the business, substantial increase/decrease in compensation levels or RRSP status, etc. and notify RCF in the event a review of the file or policy is required.

Appendix D

Schedule of Future Requirements

IMPORTANT – Please retain and review

Upon initial filing of the T733 *Application for a Retirement Compensation Arrangement (RCA) Account Number* and the first payment of refundable tax, the CRA will acknowledge receipt and issue*, Statement of Account,* which includes a blank remittance voucher. This voucher is used to make subsequent payments directly to the Winnipeg Tax Centre. Please record the RCA number for future reference.

Subsequent Annual Contributions

If the annual contributions to the RCA are made just before the corporate year end in order to have the deductions in that year, the date for the payments should diarized by both the advisor and corporation so that the payments are not missed.

(i) One cheque for one half of the employer's annual contribution payable to the Receiver General for Canada for the Refundable Tax Account. Please indicate your RCA name and number on the back of the cheque and send it with *Form T901B*.

The address is: Employer Services Division
RCA Unit, CRA
66 Stapon Road
Winnipeg MB R3C 3M2

One cheque (for the policy contribution) to the trustee matching the amount to the Receiver General, must be made payable to BMO Trust Company and returned to the trustee. Please indicate RCA name and number on the back of the cheque.

The address is: BMO Trust Company
1 First Canadian Place
10th Floor,
Toronto, ON M5X 1H3

ATTN: Bob Mathew
Director, Trust Services

The two cheques must be sent at the same time, and must be sent no later than the last day of corporation's fiscal year in order to receive the tax deduction for that year.

1. The corporation must file annually a T737-RCA information return, which includes a T737-RCA Summary, *Return of Contributions Paid to a Custodian of a Retirement Compensation Arrangement (RCA),* and the related T737-RCA slips, *Statement of Contributions Paid to a Custodian of a Retirement Compensation Arrangement (RCA).* The corporation must file this return by the last day of February following the calendar year in which contributions were made. Failure to file the T737 returns on time may result in significant late filing penalties. The custodian's copy of T737 must be mailed (or faxed-416-359-0402 Att: Bob Mathew) to BMO Trust Company by the end of February, or the trustee cannot file the tax return for the trust.

   The client's accountant can usually complete this return on his/her behalf.

- If at anytime you decide not make an annual contribution, please let your advisor know. If you cannot maintain the level of your contribution you have the opportunity to decrease insurance coverage necessary to maintain exempt status of policy
- Instructions for allocation of premium deposit, side account, and existing funds (or changes there to) must be sent by the Appointed Committee (if two persons both must sign) using a *Universal Life Financial Transaction Application* to BMO Trust Company, Attn: Bob Mathew
- BMO Trust Company will receive annual statement 60 days from policy date and send a copy to you
- You have provided a blanket authorization for BMO Trust Company to pay taxes from the side account if value in account is above benchmark
- Please inform BMO Trust Company, Att: Bob Mathew, of any change in the address, telephone number, fax number of the corporation, the Member, or the Committee
- Every three years your advisor will review your policy with you in accordance with the generally accepted guidelines of Canada Revenue Agency (CRA). At this time you will need to supply a current T4 slip and RRSP balance.