RCF News
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PENSION*Plus*™ FAQ: *You Have Questions. We have Answers*

We get a lot of questions about the establishment and ongoing administration of the PENSION***Plus***™ funded Retirement Compensation Arrangement (RCA). PENSION***Plus***™ uses a customized life insurance policy as the funding vehicle for the RCA. Here is a compilation of the most frequently asked questions, along with their answers. We hope that this article provides you with valuable information you can use when answering questions from your clients with respect to setting up new RCAs and dealing with the ongoing administration of RCAs you may have already established.

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 $1,000 Pension Income Amount apply to income from an RCA?

The $1,000 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 person changes jobs, what happens to an RCA?

When a person changes jobs, 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.

R^C^F is the creator of the RRSP***Wrap***™, IPP***Wrap***™, MPPP***Wrap***™ and PENSION***Plus***™. RCA trust services are provided by BMO Trust Company.

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