**SUPPLEMENTAL PENSIONS**

# The RRSP *Wrap*

## *Don't Retire Without One*

## *Ending Pension Discrimination*

RcF

Retirement Compensation Funding

# Retirement Reality

If you worked for a large public corporation or the Government with a Defined Benefit Pension Plan and, retired in 2015, the maximum benefit that the plan could pay you was $2,818.89 per year of service.

This means that if you had worked for your employer for 35 years, your pension would be $98,661 annually. Based on the "Generally Accepted Guidelines" of 2% x years of service to a maximum of 70%, you would have an adequate pension up to $140,944 of final average income. But, fewer years of service and, higher earnings reduce percentage of covered benefits.

Those with Money Purchase plans like RRSPs have the added concern of contribution caps and reduced investment performance. So, no matter if you have a Defined Benefit or Money Purchase Pension most face **"Pension Discrimination"** for their life's work .

# SERPs

A **Supplemental Employee Retirement Plan** can be implemented by the employer to end "Pension Discrimination". It can be as simple as a letter from the employer to the employee promising to pay the difference between the formulae entitlement and, what can be paid from the Defined Benefit Pension.

A letter promise is only as good as the company making the promise so, many companies offer greater security using **Retirement Compensation Arrangements** which are either funded or hold Letters of Credit that can be triggered if the promise to pay Supplemental Benefits by the company fails.

# RCAs

The **Retirement Compensation Arrangement** provisions are found under Sec 248(1) of the Income Tax Act. This section can also be utilized by Private Corporations relative to Money Purchase Pension Plans

Contributions are **100% tax deductible** to Corporation and, **owner/employee pays no tax** until benefits taken in retirement.

Like RRSPs, allowable contributions to an RCA can be carried forward. Unlike RRSPs, there is no cap on earnings.

RCAs include two accounts, The **RCA Investment A/C (**funds held by Trustee) and, a **Refundable Tax Account (RTA),** with funds sent and retained by a special division of the Canada Revenue Agency (CRA) which are refunded to Trustee as retirement benefits are paid by Trustee and personal tax withheld.

Because of the long time frame of an RCA, a corporate trustee should be used. **RcF has a long standing special arrangement with BMO Trust.**

# Prudence

No business owner should totally look to the sale of the business to provide retirement funds. Prudence dictates diversification into different pots which, should include creditor protected “living pots” like an RRSP or IPP and supplemented by a Corporate Supplemental Pension Plan like an **RRSP*Wrap*™** .

***Money Purchase Pension Plans like RRSPs have contribution caps and, top-ups cannot be made to replace investment losses. The result is that additional funds must be set aside for retirement. Using after tax employment income, bonuses and holding company dividend strategies are no longer the most efficient way of building another “retirement living pot” in today’s tax environment***

# RRSP*Wrap*™

- Ends RRSP ceiling discrimination with no cap on earnings.
- Allows the ‘buy-back’ of past RRSP service for those with limited past contributions
- Places business owners and key employees on an equal pension footing with Executives in public corporations and government
- 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 in an RCA are excluded from the estate and are not subject to probate fees when a beneficiary is named
- Assets are held in a trust and may be protected from creditors
- Ability to top-up to cover Investment losses
- No deemed disposition on death and RCA Trust not subject to 21 year Rule.

# Key Employee Retention

**A major concern of any owner is the retention of key employees.** They have the same retirement concerns as the owner and, current tax treatment does not favour building additional retirement income from, cash bonuses or stock option arrangements.

Offering them the benefits of a Corporate Supplemental Pension Plan vesting at retirement is a sought after benefit by employees.

This can be done as a percentage of final average salary or a “**Target Benefit”** per month based on years of service.

A vesting condition can be that they remain to retirement and, do not compete with the employer thereafter.

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# PENSION*Plus*™

An RCA can be funded using various investments. One of the most effective is the specially designed PENSION*Plus*™ underwritten by a major insurance company and linked to managed funds..

For the same costs of funding reduced Joint with Survivor benefits, full unreduced Primary Benefits can be paid along with full 2/3rd Survivor benefits.

At retirement, benefits are paid from projected cash values in the PENSION*Plus*™ contract (integrated with refunds from the RCA's Refundable Tax Account).

Dependent on age of owner when plan established and, years to retirement, **PENSION*Plus*** can include a side–account of Segregated Funds (like mutual funds but more tax effective as an asset of RCA Trust).

Medicals are required. If primary beneficiary is not insurable, the spouse's life is used (on a Joint basis.)

# Documentation

**RcF's** in house counsel provides a full documentation package to company lawyers and, **RcF** establishes RCA with the Canada Revenue Agency (CRA).

***Pay less tax and build a larger retirement fund with an RRSPWrap™***

***Interested in knowing your entitlement and company deduction***

**Call Your Financial Advisor or**

***e.mail: info@rcf.ca***

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