RCF*News*

ISSUE 16

PENSION*Plus*™ *FAQ II:*
You Have More Questions. We Have More Answers

For RCF***News*** Issue #8, an FAQ was released to address common questions we receive. As time goes on, so does the need for more answers.

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

As mentioned in the Issue #8 FAQ, 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 an 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 PENSIONPlus™ 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.

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