

R^CF News

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“Target Benefit” Pensions for Key Employees

By Roy W. Craik

The Federal Government recently announced new “Target Benefit” pension legislation for Federally Incorporated companies. This does nothing for most Private Corporations that are provincially incorporated.

Defined Benefit Pension Plans (DBPPs) are still the most desired by Employees. Defined Contribution or Money Purchase Pension Plans (MPPS/RRSPs) are of great concern to most Employees.

As a “retention benefit” for key employees, offering some form of Guaranteed “Target Benefit” pension is still possible for provincially incorporated companies utilising the Retirement Compensation Arrangement provisions of the Income Tax Act .

Employee Concern

Why are Employees worried? The market collapse in 2008 did not effect those in Employer Guaranteed DBPPs. But, those in MPPPs/RRSPs were not as lucky and, no longer have that same level of security. In fact, given today's investment climate, most Employees have no real idea what their retirement income will be. It is a guesstimate at best for most.

Pensions came to the labour market to generate loyalty and provide incentive to stay with a company to retirement. **Today, the sad reality in many companies, is that Shareholders, Banks and other capital lenders have become more important than the Employees that generate the income.** Under current legislation in bankruptcy situations, even employees participating in a Defined Benefit Pension can lose a large portion of their benefits if the plan was under-funded at bankruptcy.

This does not have to be the case. RcF's new PENSIONPlus “Target Benefit” SERP (Supplemental Employee Retirement Plan) allows Private Corporations to provide Guaranteed Benefits to key employees and, mitigate the funding risk.

Employer Solution

For fair-minded Employers, current legislation allows for the establishment of Defined Benefit SERPs, secured with fully deductible funding and employee tax deferred until benefits commence in retirement. **Grateful Employees** will be motivated to stay with their Employer until normal retirement to collect. **Shareholders/Owners** are rewarded in the long-term by the retention of their most valuable asset, an experienced and loyal work force.

Gross Benefits

Under "Generally Accepted Guidelines", a normal pension would be 70% after 35 years of service. With benefit or contribution caps and a volatile investment environment most employees will never reach this target. As worrisome, is the ability of an Employee's other investment assets to make up the shortfall in pension benefits. By the time most Employees hit retirement, they have paid off their mortgage, educated their children and, perhaps invested in a recreational home, they have little in other investments. Potential inheritances can be delayed/reduced if parents live beyond normal life expectancies. In fact, some retirees might have to provide financial assistance to parents.

Pension Income for most retirees is the most important and critical component of their retirement. The loss of even \$2k to

\$3k monthly can turn a happy retirement into one of despair. Even for higher earners and those in the C-Suite, the loss of 20% to 30% (if not more) of their pension, could seriously jeopardize their retirement plans.

Living Target Benefits

What every Employee needs is a minimum guarantee (1% x years of service) to provide **"Living Money"**. For enjoyment in retirement, the **"Play Money"** comes from the remaining 1% x years of service. If investments do not perform in the RRSP or MPPP, all is not lost.

Retirement Security comes at a cost, which most Employees well understand. The "quid-pro-quo" so to speak is for SERP Members in the Group RCA to allow a mortality component be added on their lives and held as an asset of the Group RCA.

Target Benefit SERP

Utilizes a Group RCA for all employees. PENSIONPlus customized "Exempt" insurance contracts are held by RCAs and compound tax-sheltered assets until death allowing loans against cash values for net benefit payments (after refunds from Refundable Tax Account) thus increasing efficiency of RCA Investment Account. The mortality component reduces the cost of funding survivor benefits and enhances long term investment performance.

Yield

Today, yield is elusive. Professional managers are probably more capable of finding yield than most individuals. By transferring the Group RCA's Investment Account assets to be managed by professionals as part of a "layered mortality plan" on lives of SERP Members, they receive the 1% x year of service or guaranteed benefit and, the Plan Sponsors' cost of the guarantee is mitigated. **A win-win for Employer and Employee.**

Summary

There is much talk of **"pension problems"** and **"shortfalls"** but little action. Employees want solutions. Companies that grasp and take the initiative will be rewarded. Those that do not, risk the loss of key employees to other employers. **For Empathetic Employers** that understand the pension dilemma and the need for guaranteed **"Living Money"**, Guaranteed Target Benefit SERPs funded and secured by Group RCAs are the solution.

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