Wealth Management

Retirement Compensation Arrangement (RCA)

A Retirement Compensation Arrangement (RCA) can be an effective retirement planning tool for high-income earners. It may be more flexible than Registered Retirement Savings Plans (RRSPs) and Registered Pension Plans (RPPs). RRSPs and RPPs are subject to contribution limits that may not provide you with sufficient retirement income in the future.

RCAs have the potential for providing you with more income in your retirement years.

How does an RCA work?

Suitable candidates

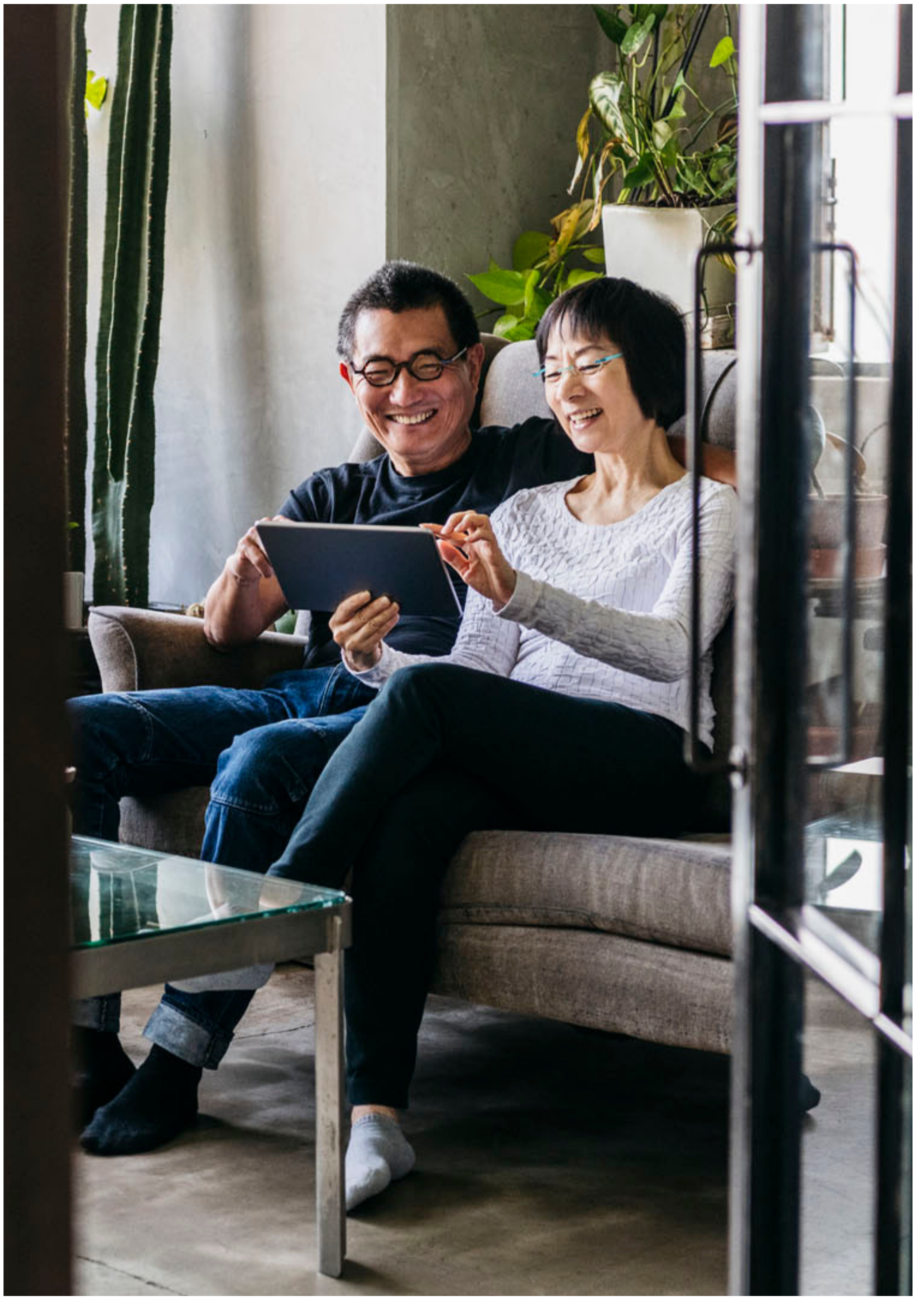
- Those with T4 income earnings in excess of $150,000.
- Incorporated business owners and professionals.
- Senior executives (retention strategy).
- Professional athletes (e.g. NHL players).
- Employees retiring outside of Canada.
- Employees receiving large severance payments.
- Individuals planning to sell their business.

Contributing to an RCA

- Can be set up as either a Defined Benefit (DB) or Defined Contribution (DC) pension plan arrangement.
- A 50% refundable tax is imposed on all contributions to the plan, as well as income earned within the plan to a Refundable Tax Account (RTA).
- Actuarial valuations may be recommended to determine reasonable employer contributions.
- Contributions do not reduce an employee's RRSP contribution room; rather, it can act to complement these retirement vehicles, providing increased retirement earnings.
- Employer contributions, including the refundable tax, are 100% tax-deductible by the employer and are not taxable to the employee until the employee receives them.

Investments inside an RCA

- Can invest in securities similar to those allowed in an RRSP (stocks, bonds, mutual funds, GICs, etc.).
- Placing funds in an RCA helps diversify where assets are held (as the RCA is a separate tax entity, you'd be splitting your investments between your corporation and your RCA without triggering tax consequences).
- Tax-exempt life insurance policy (split-dollar policy).



For business owners and professionals, RCAs can be used to supplement RPP benefits and other savings to better ensure that you maintain your standard of living once you withdraw from active employment.

Retirement options

- Retirement benefits start based on requirements set out in the trust agreement. Unlike the RRSP, the member is not required to start withdrawing after the year they turn age 71. Benefits can take one of three forms:
  - Lump-sum withdrawals that are either specified or discretionary;
  - Pension payments set up like a defined benefit plan; or
  - Full withdrawal to purchase an annuity (usually involves full termination of the plan).
- If the sponsor company is sold, options exist to transfer the RCA to another company or terminate the plan.

The corporation

The corporation contributes to an RCA on behalf of the owner/employee.

RCA

Deposits are made through a trustee into the RCA and are divided into two parts.

50% of the deposits are directed to the RCA account.

50% of the deposits are directed to the RTA.

RCA investment account

Deposits are invested through selected vehicles, and income is earned. 50% of the realized investment income must be paid to the RTA, except where the RCA investment account holds a tax-exempt life insurance policy. In this case, the funds accumulating in the tax-exempt life insurance policy are not subject to the refundable tax. The funds are allowed to grow tax-sheltered.

RTA (Refundable Tax Account)

The Canada Revenue Agency (CRA) holds the RTA. The RTA balance earns no interest, but the funds would otherwise have been taxable if paid to the owner/employee as salary or bonus.

Supplemental pension benefits

When the owner/employee retires and receives pension benefits from the RCA, the money held in the RTA is refunded to the trustee. For every $2 withdrawn from the RCA investment account, $1 is refunded from the RTA to the RCA investment account. The retiree pays income tax on the benefits received.

RCAs from RBC Wealth Management

Establishing an RCA can greatly enhance retirement benefits, but it can also be complex. That's where our team of specialists can work with your qualified professionals to help — by making it easy to establish an RCA that's right for you.

To learn more about RCAs, please contact us.

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