Retirement Compensation Arrangement

Providing Security for Retirement Benefits

The RCA

A Retirement Compensation Arrangement[1] ("RCA") is an arrangement whereby funds are placed in trust for an individual by an employer (or occasionally an employee) to cover future obligations.

The RCA is a non-registered arrangement. It is normally used to fund Supplemental Executive Retirement Plans ("SERPs") and other benefits that cannot be funded under tax-sheltered arrangements.

RCAs are unique in that 50% of all RCA contributions, as well as 50% of the annual RCA investment income (interest, realized capital gains/ losses, dividends), are remitted to Canada Revenue Agency ("CRA") and held in a refundable tax account. The refundable tax account does not earn investment income.

The refundable tax is returned at the rate of $1 for every $2 paid out of the RCA in benefits.

Contributions to the RCA are tax-deductible to the employer and taxable to individuals upon receipt.

Target Applications

RCAs are very flexible and able to cover a wide variety of needs. They are most beneficial for individuals with one or more of the following characteristics:

Employers and beneficiaries desiring to secure pension and other employment promises in excess of legislated maximums

- owners of growing businesses looking for creative ways to finance their businesses owners desiring to remove assets from their corporations owners desiring a vehicle to accumulate additional retirement assets.

[1] RCAs are defined under S. 248(1) of the *Income Tax Act.*

RCA Investments

The investment opportunities under the RCA are much broader in scope than those available under registered pension plans. In addition to traditional investments (such as stocks, bonds and mutual/ pooled funds), investment strategies include:

- lending money back to the corporation at reasonable rates of interest
- borrowing against the RCA (including the refundable tax account) as a source of corporate capital (referred to as a "levered RCA"[2])
- maintaining an interest in an insurance policy
- utilizing unsecured letters of credit to limit the value of the RCA contribution and thus the refundable tax remittance.

Fiduciary/ Trustee Considerations

Due to the growing popularity of RCAs, there are a number of well established fiduciary options available. The simplest is to set up a trust with two individuals – the plan member and an advisor. Alternatively, a number of trust and insurance companies have products that cater to RCAs.

Advantages of RCAs

Advantages of the RCA include the following:

- significant contribution levels
- flexible plan design applications
- broad range of investment options
- assignable as collateral for loans
- creditor proof
- no impact on registered pension plan or RRSP contribution limits.

Is the RCA Right For You?

Contact our office for a no-cost, no-obligation RCA consultation.

[2] The levered RCA is a more tax-effective strategy than payment of a taxable bonus to the individual for return to the company through a shareholder loan.

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