Be well-advised.

> The Role of Insurance in Wealth Planning

Executive retirement solutions

ASSANTE ESTATE AND INSURANCE SERVICES INC.

Executive retirement solutions

Everyone wants enough retirement income to maintain their pre-retirement standard of living. For high net worth individuals, RRSPs and pensions only provide a portion of that income. However, several executive retirement solutions are available, specially designed to fill the retirement income gap.

Are you on track to properly fund your retirement?

You are working hard to achieve financial strength, accumulating assets that enrich your life and the lives of your loved ones. Much of your effort is devoted toward building the necessary financial resources for retirement. That includes maximizing your annual RRSP contributions and investing wisely in your non-registered portfolio.

But are you on track to fulfill your retirement dreams? Many financial experts subscribe to the "70% rule," stipulating that you will require approximately 70% of your annual pre-retirement income each year to live comfortably during retirement. Also consider that today most people are living longer and hope to retire earlier.

Meet your goal with an executive retirement solution

If an individual earns $120,000 before retirement and hopes for $84,000 of annual retirement income, an RRSP alone is unlikely to meet the objective. Of course, non-registered investments can help to support the desired retirement lifestyle, but you may prefer specially designed, tax-advantaged plans for retirement. The most popular supplementary retirement plans include:

> **Individual Pension Plan (IPP) –** a registered plan offering tax-deferred growth that replaces your RRSP and guarantees a fixed pension amount.

> **Retirement Compensation Arrangement (RCA) –** a non-registered plan that supplements your RRSP and pension for a total annual amount equaling 70% of your annual pre-retirement income.

> **Insured retirement plans –** a tax-advantaged plan using the tax-deferred growth in a permanent life insurance policy to trigger a series of tax-free loans during retirement.

The Individual Pension Plan (IPP)

An Individual Pension Plan (IPP) is a registered defined benefit pension plan. If you establish an IPP, you cannot make future RRSP contributions, although your existing RRSP assets will continue to grow on a tax-deferred basis. “Defined benefit” means that you determine your annual retirement benefit when you set up the plan, with the assistance of an actuarial professional.

The maximum annual pension for 2018 is equal to $2,944 multiplied by the number of years of service. This pension limit will increase according to the industrial wage index. The maximum annual IPP pension is $147,222 in 2018.

To be eligible for an IPP, the plan member must receive remuneration from the employer sponsoring the plan, with earnings reported on a T4/T4A slip.

Often, you are able to “kickstart” an IPP with a significant deposit representing years of service prior to setting up the plan. The size of the deposit is based on several factors, including the amount of funds earned while employed by the company, and your RRSP holdings – unused RRSP room can be very helpful in increasing your IPP funding for past service.

Generally, your investment choice is similar to that of an RRSP, and the plan can be managed much like a self-directed RRSP. Pooled funds from an insurance company or mutual funds are the more common vehicles for plan assets. Investments grow on a tax-deferred basis, and all assets in an IPP are creditor-proof.

The main advantage of an IPP over an RRSP is that you are able to contribute significantly higher amounts each year, and IPP contributions increase with age. Contribution limits may be anywhere from about 25% to 65% higher than the limits of an RRSP. Another key advantage of IPPs is that you are able to “top up” contributions if investment returns are lower than expected, so you are sure to receive the defined benefit you determined when the plan was established.

Contributions can be made solely by the company, or on a shared basis with the employee. Unlike RRSPs where contributions are personally tax-deductible, all IPP contributions are tax-deductible to the corporation, lowering taxable revenue.

In itself, an IPP is not an insurance product, but IPPs are closely tied to insurance companies and products. IPPs can be established and administered through an insurance company, investments can be made in an insurance company’s pooled funds, and upon retirement the annual pension may be secured through a lifetime annuity purchased from an insurance company.

> **Individuals best suited for an IPP**

IPPs can be established for owner/managers, professionals who are incorporated, executives of private or public companies, and employees of a proprietorship or partnership. The plan must be sponsored and funded by the employer.

An IPP best suits individuals aged about 45 to 50 with an annual income in excess of $100,000. IPPs can work exceptionally well for individuals with a relatively low RRSP value and who are eligible to make a significant deposit for past service.

The Retirement Compensation Arrangement (RCA)

A Retirement Compensation Arrangement (RCA) is a non-registered retirement plan established and funded by a company to supplement pension plans and RRSPs for employees, senior executives or owner/ managers. Contributions are fully tax-deductible for the company.

A formula is used to determine the amount of contributions. The general idea is that upon retirement your annual income from pensions, RRSPs and your RCA should be approximately equal to 70% of your pre-retirement annual income. With this solution, you can rest assured you will receive the retirement income you need.

There are no restrictions on the types of investments an RCA can hold. You can choose investment funds, stocks, bonds or GICs – though these vehicles are subject to tax on earnings and are all taxed as income. One common method is to use a tax-exempt permanent life insurance policy as the investment vehicle in an RCA, so you can take advantage of its tax-deferred savings component. All investments in an RCA are typically creditor-proof.

The RCA begins with contributions going from the employer to a trust – an RCA trust. The formula used to determine contribution amounts takes into consideration your years of service with the company and your historical salary level. Depending on past service, you may be able to begin your RCA with a significant lump sum at the outset – or spread the amount over several years.

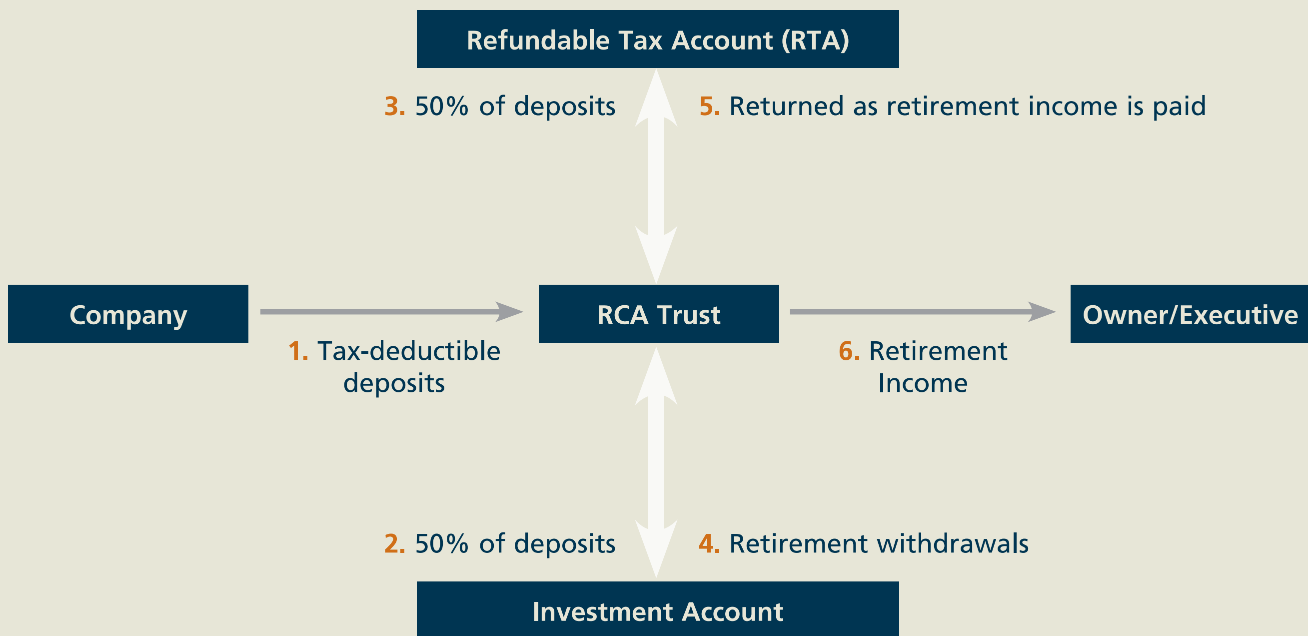
Whether a contribution is a lump sum for past service, or one of your regular deposits made over the years, the funds are equally divided between two accounts. Half goes into the RCA Investment Account where it's invested in the desired vehicles. The other half is remitted as refundable tax to a Refundable Tax Account (RTA) held by the Canada Customs and Revenue Agency (CCRA). Funds in the RTA do not earn interest.

In addition, half of all earnings in the Investment Account are transferred to the RTA each year as refundable tax. There is one exception to this: if Investment Account funds are invested in a tax-exempt life insurance policy, the growth in the policy does not go to the RTA. Compared to other investment alternatives, this strategy can result in more money in the earnings-based Investment Account and less money in the no-interest RTA. This is the feature that makes the RCA an effective insurance solution for wealth planning.

When the employee retires, funds are paid out in a lump sum or over time, and taxed at the post-retirement tax rate. For every two dollars paid from the Investment Account to the retired employee, CCRA pays out approximately one dollar from the RTA – which goes to the retired employee. Payments received by the individual will be included in his or her income in the year received.

> **Individuals best suited for an RCA** RCAs are generally suitable for individuals aged 35 and older, and who are at least 10 years away from retirement. Typically, individuals should have an income exceeding $100,000. And, due to tax treatment, the company's earnings should exceed the small business deduction.

How RCAs work



1. Employer fully funds RCA Trust at outset, or makes deposits over time.
2. Half of the deposits goes to the RCA Investment Account.
3. Half of the deposits is remitted to the Refundable Tax Account (RTA). The RTA also receives half of all earnings from the Investment Account, unless Investment Account funds are held in a tax-exempt life insurance policy, in which case no refundable tax is remitted.
4. Upon retirement, funds are paid out in a lump sum or over time.
5. For every two dollars paid from the Investment Account, CCRA pays out one dollar from the RTA.
6. Funds received by the employee are included as taxable income in the year received.

The insured retirement plan

The insured retirement plan uses the tax advantages of tax-exempt permanent life insurance to create a stream of retirement income without incurring income tax.

You purchase a whole life or universal life insurance policy, which includes a tax-deferred savings component. Then you invest the maximum amount allowable, to take full advantage of the tax-free accumulation of earnings. You can invest in your choice of domestic or foreign equities and bonds, cash or GICs. By retirement, your policy builds a sizeable cash value, thanks to years of tax-deferred growth.

Your investments in a universal life insurance policy can be creditor-proof, provided you have properly designated a beneficiary.

Upon retirement, you arrange for a series of bank loans, using the cash value of your insurance policy as collateral. At this point, the bank wants to see your funds in guaranteed investments. When you transfer funds from equities to guaranteed investments as you approach retirement, you do not trigger capital gains.

The loans are structured so that the sum of the loans plus interest do not exceed a specified amount, usually from 75% to 90% of your policy's cash value. You do not pay income tax on these borrowed funds, as money borrowed against your policy is tax-exempt according to current tax laws. The savings in your policy remain untouched and continue to grow tax-free.

You do not need to repay any of these loans during your retirement years. The loan amounts plus interest will be repaid to the lending institution from the insurance policy's tax-free death benefit when you pass away. In addition, the balance of your insurance proceeds will go to your beneficiaries – your heirs or a charity.

> **Individuals best suited for an insured retirement plan**

The insured retirement plan is most suitable for anyone who is aged 35 and older, and at least 10 years away from retirement. There are no restrictions on annual income, but this plan suits those who contribute the maximum available limit to their RRSP every year.

This solution can be used by employees, self-employed individuals and professionals. For owner/managers and executives, your Assante advisor can show you a variation of the insured retirement plan where the business owns the policy and the owner/manager or executive receives supplemental income during retirement.

Determining which executive retirement solution suits you

In many instances, the appropriate type of executive retirement solution will be decided simply by personal preference. For example, you may like the idea of knowing you will receive a predetermined pension amount, and choose an Individual Pension Plan.

Another deciding factor is your particular financial situation and goals. If you want to help create a legacy for your children at the same time as you're planning for your retirement, you may prefer the insured retirement plan. With one life insurance policy, you can achieve multiple objectives.

In addition, your Assante advisor may illustrate how the different solutions compare in meeting your retirement income objectives. You should also ask your Advisor about the set-up procedures and costs involved, especially for IPPs and RCAs.

In some cases, it is beneficial to use both an Individual Pension Plan and a Retirement Compensation Agreement.

Ultimately, it's not a decision you make alone. Your Assante advisor will consult with you and any of your professional advisors, including your lawyer and accountant, when recommending an executive retirement solution.

For more information

For additional information, or to learn more about Assante Estate and Insurance Services Inc., please contact your Assante advisor or visit www.assante.com.

Using borrowed money to finance the purchase of securities involves greater risk than using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines.

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