SAGE Wealth Bulletin

Retirement Compensation Agreement (RCA)

What?

- A government approved retirement plan with some unique features.
- Funding can be in the millions of dollars depending on age and income.

Why?

- Higher income earners need more assets for retirement than an RRSP or IPP can provide.
- Your corporation has been affected by higher marginal tax rates and less flexibility.
- If you are planning to sell your business and want additional upfront tax exemptions beyond the Lifetime Capital Gain Exemption (LCGE) or cannot use the LCGE, or want to purify your corporation to use the LCGE, this is a strong option as sums can be quite substantial.

Who?

- For high income earners (executives, professional athletes >$150K/year) who need more retirement funding.
- Tax planning vehicle for business owners prior to selling their practice or executives that have a large severance.

How?

- We can provide a quotation through an actuarial firm to see how much can be put inside an RCA.
- Initial set-up cost of $6,000. Annual costs of $800.

When?

- Better used <u>before</u> the sale of a business or receiving a severance package, as much more money can be sheltered and tax deferred. An important strategy prior to a sale that requires advanced planning.
- The RCA can be structured so there are no obligations to the new owner after a sale..
- If you already sold your practice*:* Not attractive unless you will have large future income and intend to sell another business down the road.

Main benefits:

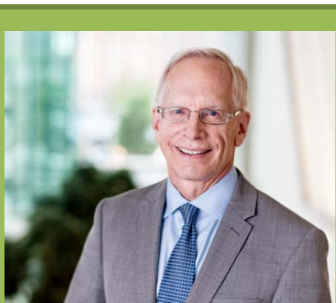
- More flexible than an RRSP and IPP, much more income can be sheltered and the types of investment can vary (i.e. permanent life insurance). Great if you plan on becoming a non-resident and relocating to a lower tax jurisdiction.
- No mandated withdrawals at 71 like RRSPs and IPPs. You can set one up after age 71. Creditor protected.
- The RCA is an estate planning tool that does not collapse upon the death of the beneficiary. Can add 20 years to its duration.

Main requirements:

- Must have T4 earnings to be able to use this strategy (only the last 3 years needed).
- Half of the funds have to go to the Canada Revenue Agency. As withdrawals are made, funds are transferred into the RCA.

Recommendation:

- Ask us for a complimentary illustration and see how much can be saved when selling your practice.



PIERRE FOURNIER, B.ENG.
Associate Wealth Advisor
SAGE Connected Investing
T: 403.221.0431 | 1.877.737.0365
Pierre.Fournier@raymondjames.ca | www.SAGEconnectedinvesting.com

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