

Your Company Name

Retirement Compensation Arrangement

(current date)

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"Generating additional retirement income through tax sheltered accumulation!"

Many businesses would like to provide additional compensation for key employees. This could include providing funds to accumulate additional retirement income, a special payment in contemplation of retirement, or loss of employment, or substantial change in services rendered.

Many business owners are unaware that with a Retirement Compensation Arrangement (RCA):

- * The total amount (100%) of the contribution made by the employer is deductible in the year it is made.
- * The contributions to an RCA are not limited by RRSP maximums, nor do they affect any other Registered Pension or RRSP deposits.
- * Investments in the RCA trust may be creditor protected. If the beneficiary is properly designated, the funds can be protected from bankruptcy, take-overs, sales or mergers.
- * If the beneficiary of the RCA dies prematurely, proceeds can be paid out to the spouse of the deceased.

The establishment of an RCA is an excellent way to provide a key employee with additional retirement income. In the formal structure of this special trust, the employer can make contributions to the RCA. As a "50% refundable tax" is imposed on income earned by the trust as well as contributions to it, a life insurance policy that qualifies under section 148 of the Income Tax Act is an excellent planning tool that can be used to create a tax advantaged account. Purchased as a qualifying investment by an RCA, this policy defers payment of income taxes on the growth within the exempt portion of the policy until the employee withdraws it.

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An RCA is a plan or arrangement created under the Income Tax Act. The employer makes contributions to the custodian of the trust with benefits to be enjoyed by any person on, after or in contemplation of an employee's retirement, loss of employment or any substantial change in services rendered.

In the Income Tax Act, current rules for taxation of an RCA impose a 50% refundable tax on all contributions to the plan, as well as on the income earned in the plan in respect of such net contributions. The tax is refunded through the Refundable Tax Account (RTA) when payments are made to the employee or former employee on the basis of \$1 for every \$2 paid out of the RCA. An exempt life insurance policy is an appealing investment for an RCA since the Fund Value accumulates on a tax deferred basis (provided the funds remain in the exempt portion of the policy). Death proceeds are paid into the RCA pool tax-free but are then taxable when they are received in the hands of other RCA beneficiaries or the deceased's spouse.

Regardless of the size of the contribution to the RCA by the employer, there is no current taxable benefit to the individual(s) for whom the RCA has been set up. The full amount, including the tax, is deductible to the employer each year.

Features of the RCA in combination with funding through "exempt" life insurance offer the following advantages to the individual(s) for whom the plan is set up:

- 1) The amount of the contribution to an RCA is not limited by current Revenue Canada maximums for RRSPs or pensions, nor does it affect employer or employee contributions to such plans.
- 2) Investments in the RCA trust may be creditor proof, if the beneficiary is properly designated, and may be protected from corporate bankruptcy, take-overs, sales and mergers. If the beneficiary of the RCA dies prematurely, proceeds are paid to the RCA tax-free. The plan can be set up to have all or part of those proceeds paid to the spouse of the deceased on a taxable basis.

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It should be noted that under some circumstances it is possible to exhaust the asset values within the RCA while a balance still remains in the Refundable Tax Account (RTA). When this occurs, the custodian may elect to adjust the balance of the RTA to "nil". This election will result in a refund of the remaining balance of the RTA. If the life insurance policy lapses during the withdrawal period, the pension income will be augmented from the RTA. The policy **MUST** lapse in order for the election to be allowed.

Setting up an RCA is complex. There are many issues to consider that are beyond the scope of this illustration. Therefore, the advice of an accountant and/or lawyer should be sought.

NOTE: The AI will be exhausted in year 41

NOTE: The Universal Life Fund Value will be exhausted in year 40

The Fund Value and Death Benefit columns in this illustration are estimated for the years after and including the one where the first withdrawal is made.

This is an illustration only and NOT a Contract. Rates of return and values contained within are projections only and are not guarantees or forecasts of future performance. It must be read in conjunction with a policy illustration from the Life Company.

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CONCEPT ASSUMPTIONS

Insureds

Insured: Middle Age Executive,
Male Age 40 Non-Smoker

Prepared By:

Name: Agent / Broker

Product

Name: Universal Life
Policy Type: Single Life
Face Amount: \$500,000
Payment Method: Planned Deposits (15 Years)
Projected Annual Growth Rate: 6.000%

Alternative Investment

Growth Breakdown: 100% Interest
Effective Tax Rate On Interest: 50.00%
Projected Annual Growth Rate: 6.000%

Other Details

Plan Income: \$50,000
From Year: 26
To: 46

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ALTERNATIVE INVESTMENT FUNDING METHOD

Pol Yr	Age	Annual Deposit	Deposit to AI	Annual Growth	RTA Balance	AI Balance	Refundable	After-Tax Pension Income
							Tax <Paid> Received	
1	41	24,700	12,350	741	12,721	12,721	(12,721)	0
2	42	24,700	12,350	1,504	25,823	25,823	(13,102)	0
3	43	24,700	12,350	2,290	39,318	39,318	(13,495)	0
4	44	24,700	12,350	3,100	53,218	53,218	(13,900)	0
5	45	24,700	12,350	3,934	67,535	67,535	(14,317)	0
6	46	24,700	12,350	4,793	82,281	82,281	(14,747)	0
7	47	24,700	12,350	5,678	97,470	97,470	(15,189)	0
8	48	24,700	12,350	6,589	113,115	113,115	(15,645)	0
9	49	24,700	12,350	7,528	129,229	129,229	(16,114)	0
10	50	24,700	12,350	8,495	145,826	145,826	(16,597)	0
11	51	24,700	12,350	9,491	162,922	162,922	(17,095)	0
12	52	24,700	12,350	10,516	180,530	180,530	(17,608)	0
13	53	24,700	12,350	11,573	198,666	198,666	(18,136)	0
14	54	24,700	12,350	12,661	217,347	217,347	(18,680)	0
15	55	24,700	12,350	13,782	236,587	236,587	(19,241)	0
16	56			14,195	243,685	243,685	(7,098)	0
17	57			14,621	250,996	250,996	(7,311)	0
18	58			15,060	258,526	258,526	(7,530)	0
19	59			15,512	266,281	266,281	(7,756)	0
20	60			15,977	274,270	274,270	(7,988)	0
21	61			16,456	282,498	282,498	(8,228)	0
22	62			16,950	290,973	290,973	(8,475)	0
23	63			17,458	299,702	299,702	(8,729)	0
24	64			17,982	308,693	308,693	(8,991)	0
25	65			18,522	317,954	317,954	(9,261)	0
26	66			19,077	302,492	302,492	15,461	27,500
27	67			18,150	286,567	286,567	15,925	27,500
28	68			17,194	270,164	270,164	16,403	27,500
29	69			16,210	253,269	253,269	16,895	27,500
30	70			15,196	235,867	235,867	17,402	27,500
31	71			14,152	217,943	217,943	17,924	27,500
32	72			13,077	199,482	199,482	18,462	27,500
33	73			11,969	180,466	180,466	19,016	27,500
34	74			10,828	160,880	160,880	19,586	27,500
35	75			9,653	140,706	140,706	20,174	27,500
36	76			8,442	119,928	119,928	20,779	27,500
37	77			7,196	98,525	98,525	21,402	27,500
38	78			5,912	76,481	76,481	22,044	27,500
39	79			4,589	53,776	53,776	22,706	27,500
40	80			3,227	30,389	30,389	23,387	27,500
41	81			1,823	6,300	6,300	24,088	27,500

*** AI funds exhausted ***

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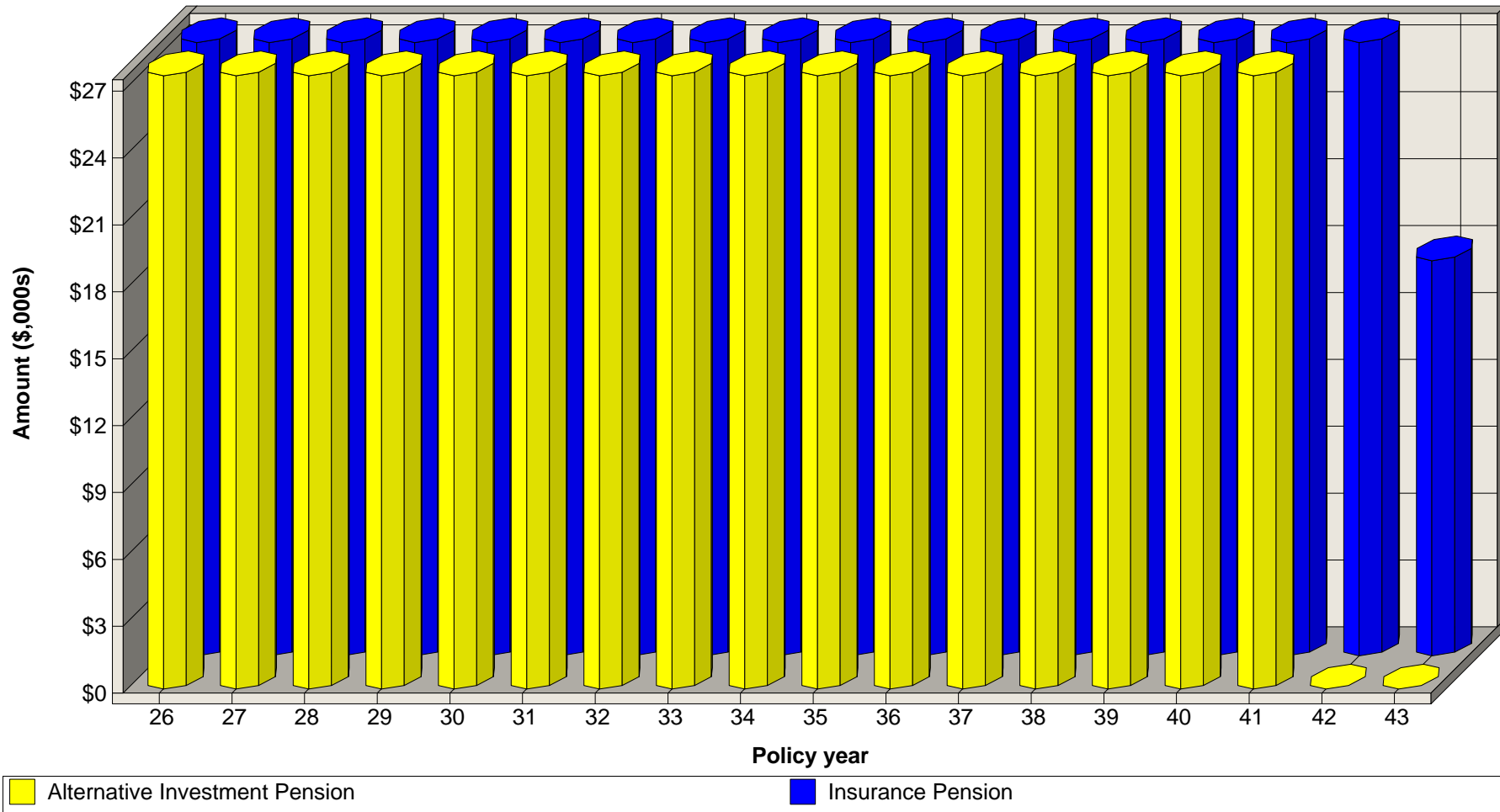
LIFE INSURANCE FUNDING METHOD

Pol Yr	Age	Annual Deposit	RTA Balance	Annual Premium	Fund Value	Estate Benefit	Policy Wthdrwl	Refundable	After-tax Pension Income
								Tax <Paid> Received	
1	41	24,700	12,350	12,350	10,373	510,373	0	(12,350)	0
2	42	24,700	24,700	12,350	21,368	521,368	0	(12,350)	0
3	43	24,700	37,050	12,350	33,023	533,023	0	(12,350)	0
4	44	24,700	49,400	12,350	45,377	545,377	0	(12,350)	0
5	45	24,700	61,750	12,350	58,764	558,764	0	(12,350)	0
6	46	24,700	74,100	12,350	73,026	573,026	0	(12,350)	0
7	47	24,700	86,450	12,350	88,219	588,219	0	(12,350)	0
8	48	24,700	98,800	12,350	104,405	604,405	0	(12,350)	0
9	49	24,700	111,150	12,350	121,647	621,647	0	(12,350)	0
10	50	24,700	123,500	12,350	140,712	640,712	0	(12,350)	0
11	51	24,700	135,850	12,350	161,122	661,122	0	(12,350)	0
12	52	24,700	148,200	12,350	182,974	682,974	0	(12,350)	0
13	53	24,700	160,550	12,350	206,369	706,369	0	(12,350)	0
14	54	24,700	172,900	12,350	231,415	731,415	0	(12,350)	0
15	55	24,700	185,250	12,350	258,229	758,229	0	(12,350)	0
16	56		185,250		274,026	774,026	0	0	0
17	57		185,250		290,938	790,938	0	0	0
18	58		185,250		309,043	809,043	0	0	0
19	59		185,250		328,428	828,428	0	0	0
20	60		185,250		349,180	849,180	0	0	0
21	61		185,250		371,398	871,398	0	0	0
22	62		185,250		395,184	895,184	0	0	0
23	63		185,250		420,650	920,650	0	0	0
24	64		185,250		447,914	947,914	0	0	0
25	65		185,250		477,102	977,102	0	0	0
26	66		179,730		458,837	958,837	44,480	5,520	27,500
27	67		175,003		438,685	938,685	45,272	4,728	27,500
28	68		171,037		416,562	916,562	46,034	3,966	27,500
29	69		167,805		392,377	892,377	46,768	3,232	27,500
30	70		165,281		366,034	866,034	47,476	2,524	27,500
31	71		163,442		337,425	837,425	48,161	1,839	27,500
32	72		162,268		306,434	806,434	48,826	1,174	27,500
33	73		161,740		272,938	772,938	49,472	528	27,500
34	74		161,740		236,904	736,904	50,000	0	27,500
35	75		161,740		198,708	698,708	50,000	0	27,500
36	76		161,740		158,220	658,220	50,000	0	27,500
37	77		161,740		115,303	615,303	50,000	0	27,500
38	78		161,740		69,811	569,811	50,000	0	27,500
39	79		161,740		21,590	521,590	50,000	0	27,500
40	80		132,215				20,475	29,525	27,500
*** Policy funds exhausted -- RTA paid out ***									
41	81		82,215					50,000	27,500
42	82		32,215					50,000	27,500
43	83							32,215	17,718

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Proposal For: Middle Age Executive Prepared By: Agent / Broker

Retirement Compensation Arrangement



Male 40 NS. PRODUCT: Universal Life. FACE AMOUNT: \$500,000. TAX RATE: 45.00%
Plan Income: \$50,000, From Year 26 To 46 Estimated Fund Growth Rate: 6.00%.
NOTE: Must accompany a policy illustration. E.&O.E.