

# Your Company Name

## Split Dollar RCA

(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.

This illustration is on a "Split Dollar" basis. It is a method of splitting the cost and benefits of a life insurance policy between the RCA trust and the employer who set up the trust. The Split Dollar arrangement is usually documented in a separate contract, defining ownership rights over policy values, death benefits and premium paying responsibilities.

The following illustration demonstrates a Regular Split Dollar plan calculated on a Fund Value basis. The trust owns the Fund Value portion of the policy and receives the Fund Value portion on the Employee's death. The Employer receives the difference between the Fund Value and the Total Death Benefit. The trust pays the lesser of the annual deposit and the growth in the Fund Value for the policy year. The Employer pays the difference, if any, between the total deposit payable and the premiums paid by the trust.

NOTE: The AI will be exhausted in year 40

NOTE: The Universal Life Fund Value will be exhausted in year 42

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

**Calculation Basis:** Fund Value  
**Corporate Tax Rate:** 50.00%  
**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	20,746	10,373	622	10,684	10,684	(10,684)	0
2	42	21,990	10,995	1,301	22,330	22,330	(11,645)	0
3	43	23,310	11,655	2,039	35,004	35,004	(12,675)	0
4	44	24,700	12,350	2,841	48,775	48,775	(13,771)	0
5	45	24,700	12,350	3,667	62,958	62,958	(14,184)	0
6	46	24,700	12,350	4,519	77,568	77,568	(14,609)	0
7	47	24,700	12,350	5,395	92,615	92,615	(15,048)	0
8	48	24,700	12,350	6,298	108,114	108,114	(15,499)	0
9	49	24,700	12,350	7,228	124,078	124,078	(15,964)	0
10	50	24,700	12,350	8,186	140,521	140,521	(16,443)	0
11	51	24,700	12,350	9,172	157,457	157,457	(16,936)	0
12	52	24,700	12,350	10,188	174,901	174,901	(17,444)	0
13	53	24,700	12,350	11,235	192,869	192,869	(17,968)	0
14	54	24,700	12,350	12,313	211,375	211,375	(18,507)	0
15	55	24,700	12,350	13,424	230,437	230,437	(19,062)	0
16	56			13,826	237,350	237,350	(6,913)	0
17	57			14,241	244,471	244,471	(7,121)	0
18	58			14,668	251,805	251,805	(7,334)	0
19	59			15,108	259,359	259,359	(7,554)	0
20	60			15,562	267,140	267,140	(7,781)	0
21	61			16,028	275,154	275,154	(8,014)	0
22	62			16,509	283,409	283,409	(8,255)	0
23	63			17,005	291,911	291,911	(8,502)	0
24	64			17,515	300,668	300,668	(8,757)	0
25	65			18,040	309,688	309,688	(9,020)	0
26	66			18,581	293,979	293,979	15,709	27,500
27	67			17,639	277,798	277,798	16,181	27,500
28	68			16,668	261,132	261,132	16,666	27,500
29	69			15,668	243,966	243,966	17,166	27,500
30	70			14,638	226,285	226,285	17,681	27,500
31	71			13,577	208,074	208,074	18,211	27,500
32	72			12,484	189,316	189,316	18,758	27,500
33	73			11,359	169,995	169,995	19,321	27,500
34	74			10,200	150,095	150,095	19,900	27,500
35	75			9,006	129,598	129,598	20,497	27,500
36	76			7,776	108,486	108,486	21,112	27,500
37	77			6,509	86,741	86,741	21,745	27,500
38	78			5,204	64,343	64,343	22,398	27,500
39	79			3,861	41,273	41,273	23,070	27,500
40	80			2,476	17,511	17,511	23,762	27,500

\*\*\* AI funds exhausted \*\*\*

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## PENSION INCOME USING LIFE INSURANCE FUNDING METHOD

Pol Yr	Age	Annual Deposit	RCA		RCA		Refundable		After-tax Pension Income
			RTA Balance	Portion of Annual Premium	Fund Value	Portion of Death Proceeds	Policy Wthdrwl	Tax <Paid> Received	
1	41	20,746	10,373	10,373	10,373	10,373	0	(10,373)	0
2	42	21,990	21,368	10,995	21,368	21,368	0	(10,995)	0
3	43	23,310	33,023	11,655	33,023	33,023	0	(11,655)	0
4	44	24,700	45,373	12,350	45,377	45,377	0	(12,350)	0
5	45	24,700	57,723	12,350	58,764	58,764	0	(12,350)	0
6	46	24,700	70,073	12,350	73,026	73,026	0	(12,350)	0
7	47	24,700	82,423	12,350	88,219	88,219	0	(12,350)	0
8	48	24,700	94,773	12,350	104,405	104,405	0	(12,350)	0
9	49	24,700	107,123	12,350	121,647	121,647	0	(12,350)	0
10	50	24,700	119,473	12,350	140,712	140,712	0	(12,350)	0
11	51	24,700	131,823	12,350	161,122	161,122	0	(12,350)	0
12	52	24,700	144,173	12,350	182,974	182,974	0	(12,350)	0
13	53	24,700	156,523	12,350	206,369	206,369	0	(12,350)	0
14	54	24,700	168,873	12,350	231,415	231,415	0	(12,350)	0
15	55	24,700	181,223	12,350	258,229	258,229	0	(12,350)	0
16	56		181,223		274,026	274,026	0	0	0
17	57		181,223		290,938	290,938	0	0	0
18	58		181,223		309,043	309,043	0	0	0
19	59		181,223		328,428	328,428	0	0	0
20	60		181,223		349,180	349,180	0	0	0
21	61		181,223		371,398	371,398	0	0	0
22	62		181,223		395,184	395,184	0	0	0
23	63		181,223		420,650	420,650	0	0	0
24	64		181,223		447,914	447,914	0	0	0
25	65		181,223		477,102	477,102	0	0	0
26	66		172,311		462,230	462,230	41,088	8,912	27,500
27	67		163,949		445,916	445,916	41,638	8,362	27,500
28	68		156,105		428,104	428,104	42,157	7,843	27,500
29	69		148,750		408,735	408,735	42,645	7,355	27,500
30	70		141,854		387,745	387,745	43,104	6,896	27,500
31	71		135,391		365,062	365,062	43,537	6,463	27,500
32	72		129,335		340,613	340,613	43,943	6,057	27,500
33	73		123,660		314,314	314,314	44,325	5,675	27,500
34	74		118,345		286,078	286,078	44,685	5,315	27,500
35	75		113,366		255,811	255,811	45,022	4,978	27,500
36	76		108,705		223,411	223,411	45,338	4,662	27,500
37	77		104,340		188,769	188,769	45,636	4,364	27,500
38	78		100,255		151,771	151,771	45,914	4,086	27,500
39	79		96,431		112,291	112,291	46,176	3,824	27,500
40	80		92,852		70,197	70,197	46,421	3,579	27,500
41	81		89,504		25,347	25,347	46,651	3,349	27,500
42	82		63,961				24,458	25,542	27,500
*** Policy funds exhausted -- RTA paid out ***									
43	83		13,961					50,000	27,500
44	84							13,961	7,679

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## ESTATE BENEFIT WHEN FACE AMOUNT PORTION OF DEATH PROCEEDS IS OWNED BY THE EMPLOYER

Pol Yr	Age	Pre-tax Employer Annual Deposit	After-tax Employer Annual Deposit	Employer Portion of Annual Premium	Employer Portion of Death Proceeds	Portion Taxable as a Dividend (ACB)	Net After-Tax Proceeds to Shareholders
1	41	0	0	0	500,000	0	500,000
2	42				500,000		500,000
3	43				500,000		500,000
4	44				500,000		500,000
5	45				500,000		500,000
6	46				500,000		500,000
7	47				500,000		500,000
8	48				500,000		500,000
9	49				500,000		500,000
10	50				500,000		500,000
11	51				500,000		500,000
12	52				500,000		500,000
13	53				500,000		500,000
14	54				500,000		500,000
15	55				500,000		500,000
16	56				500,000		500,000
17	57				500,000		500,000
18	58				500,000		500,000
19	59				500,000		500,000
20	60				500,000		500,000
21	61				500,000		500,000
22	62				500,000		500,000
23	63				500,000		500,000
24	64				500,000		500,000
25	65				500,000		500,000
26	66				500,000		500,000
27	67				500,000		500,000
28	68				500,000		500,000
29	69				500,000		500,000
30	70				500,000		500,000
31	71				500,000		500,000
32	72				500,000		500,000
33	73				500,000		500,000
34	74				500,000		500,000
35	75				500,000		500,000
36	76				500,000		500,000
37	77				500,000		500,000
38	78				500,000		500,000
39	79				500,000		500,000
40	80				500,000		500,000
41	81				500,000		500,000
42	82						
43	83						

\*\*\* Policy funds exhausted -- RTA paid out \*\*\*

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## ESTATE BENEFIT WHEN FACE AMOUNT PORTION OF DEATH PROCEEDS IS OWNED BY THE EMPLOYER

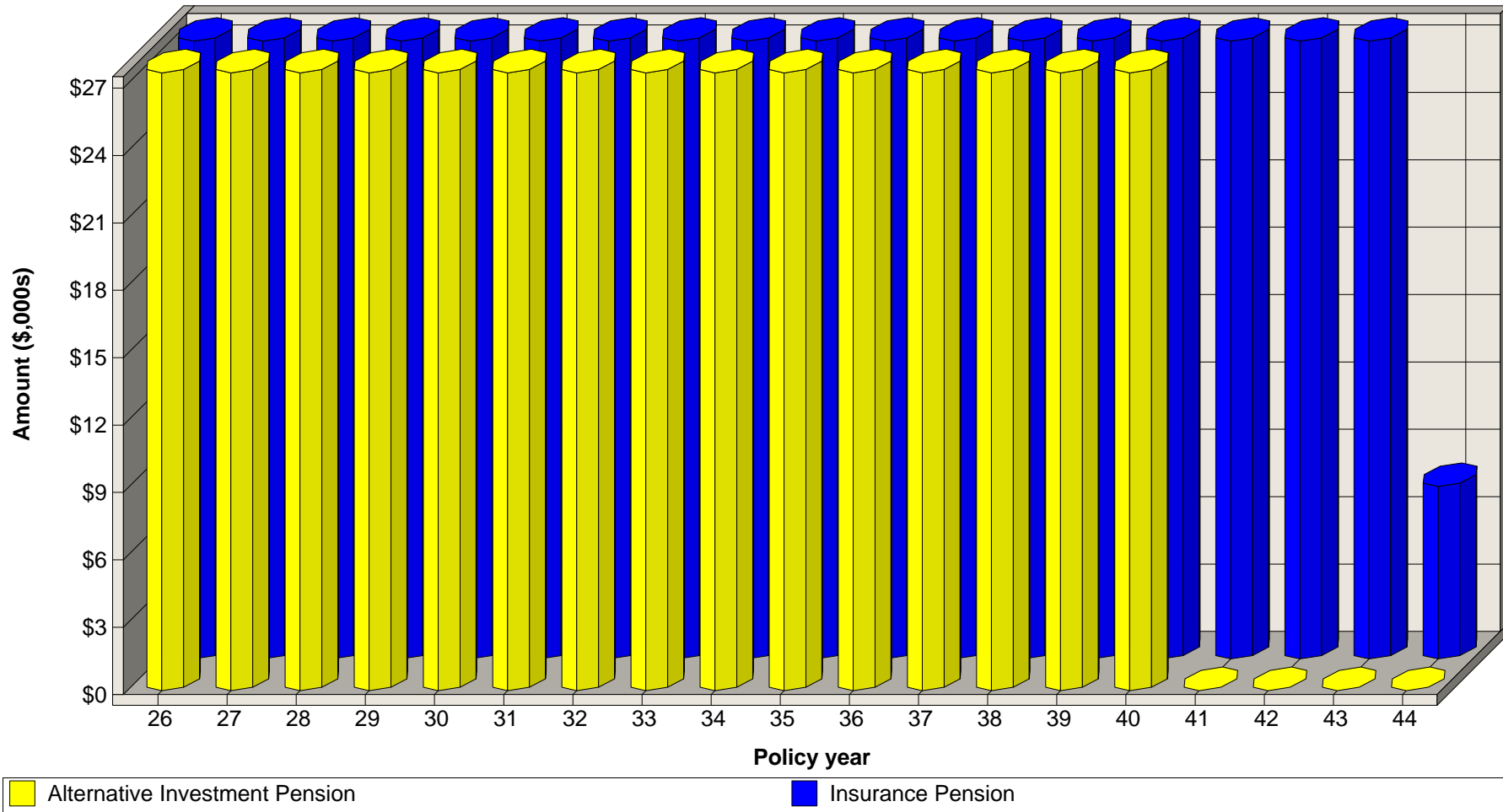
Pol Yr	Age	Pre-tax Employer Annual Deposit	After-tax Employer Annual Deposit	Employer Portion of Annual Premium	Employer Portion of Death Proceeds	Portion Taxable as a Dividend (ACB)	Net After-Tax Proceeds to Shareholders
44	84						



# Your Company Name

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

## Split Dollar RCA



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.