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Actuaries & Consultants 2010

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Gordon B. Lang & Assoc. Inc.

- Main offices:
  - Toronto, Calgary, and Vancouver
- Branches:
  - Ottawa, Montreal, Halifax, Edmonton, and Prince George
- A full service approach.

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Gordon B. Lang & Assoc. Inc.

- Specialty products developed for:
  - Professionals with professional corporations
  - Owners of private companies
  - Senior executives of large private and public companies

Strategy

- To provide, within a government approved approach, structures to entrepreneurs that will:
  - Clarify retirement planning
  - Provide tax relief now and in the future
  - Reduce risk to capital
  - Enhance retirement income

Individual Pension Plans (IPP)

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Features

- Registered Pension Plan
- The “Teachers Pension Plan” for business owners and incorporated professionals
- Governed by Income Tax Act and relevant Provincial pension legislation
- 1990 Regulations govern today’s IPP
- Predictable results and lower risk
- Considerable tax relief

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Ideal Candidate

- Age 45 to 71
- Maximum T4 Income $124,722 for 2010
- Reasonable business history
- Corporation or Professional Corporation in place to sponsor the plan
- Employment relationship (T4, T4A, T4PS)
- Avoid the all dividend strategy
- Wish to replace the shareholder bonus strategy

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Continued Popularity

- Canadian business owners are approaching retirement in tremendous numbers
- Many retirement plans require greater discipline
- Meaningful tax relief is sought
- Cost and complexity not an issue with the right actuarial partner

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Advantages

- Greater tax deductible contributions
- Creditor protection
- Expenses tax deductible
- Plan Surplus belongs to participants
- Investment returns balanced by contributions
- Not subject to provincial payroll taxes (NF, PQ, ON, MB)

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Advantages, continued

- No need to wind up plan on retirement
- Spouse and adult children may be participants if employed by sponsoring company
- Ideal for a family business
- Additional lump sum contributions available immediately before retirement

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IPP vs RRSP Annual Contribution Room

Age	IPP	RRSP	IPP Advantage
55	$30,100	$22,000	$8,100
56	$32,300	$22,400	$9,900
57	$34,700	$23,700	$9,000
58	$37,300	$25,000	$12,300
59	$40,100	$26,400	$13,700
60	$43,200	$27,800	$15,400
61	$46,400	$29,300	$17,100
62	$49,900	$31,000	$18,900
63	$53,600	$32,700	$20,900
64	$57,600	$34,500	$23,100
65	$62,000	$36,300	$25,700

* Based on Maximum Earnings for 2010 of $124,722 per annum, increasing at 5.5% per year

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IPP Maximum Allowable Contributions

Amounts certified by actuary to fund defined benefits. Samples of maximum year 2010 tax deductibility:

Age in 2010	Past Service**	Current Service*
40	$47,400	$22,700
45	$88,300	$24,900
50	$133,200	$27,400
55	$182,600	$30,100
60	$236,800	$33,000
65	$296,300	$36,500
71	$205,900	$31,400

* Based on Maximum Earnings for 2010 of $124,722 per annum

** Subject to RRSP transfer of $367,950

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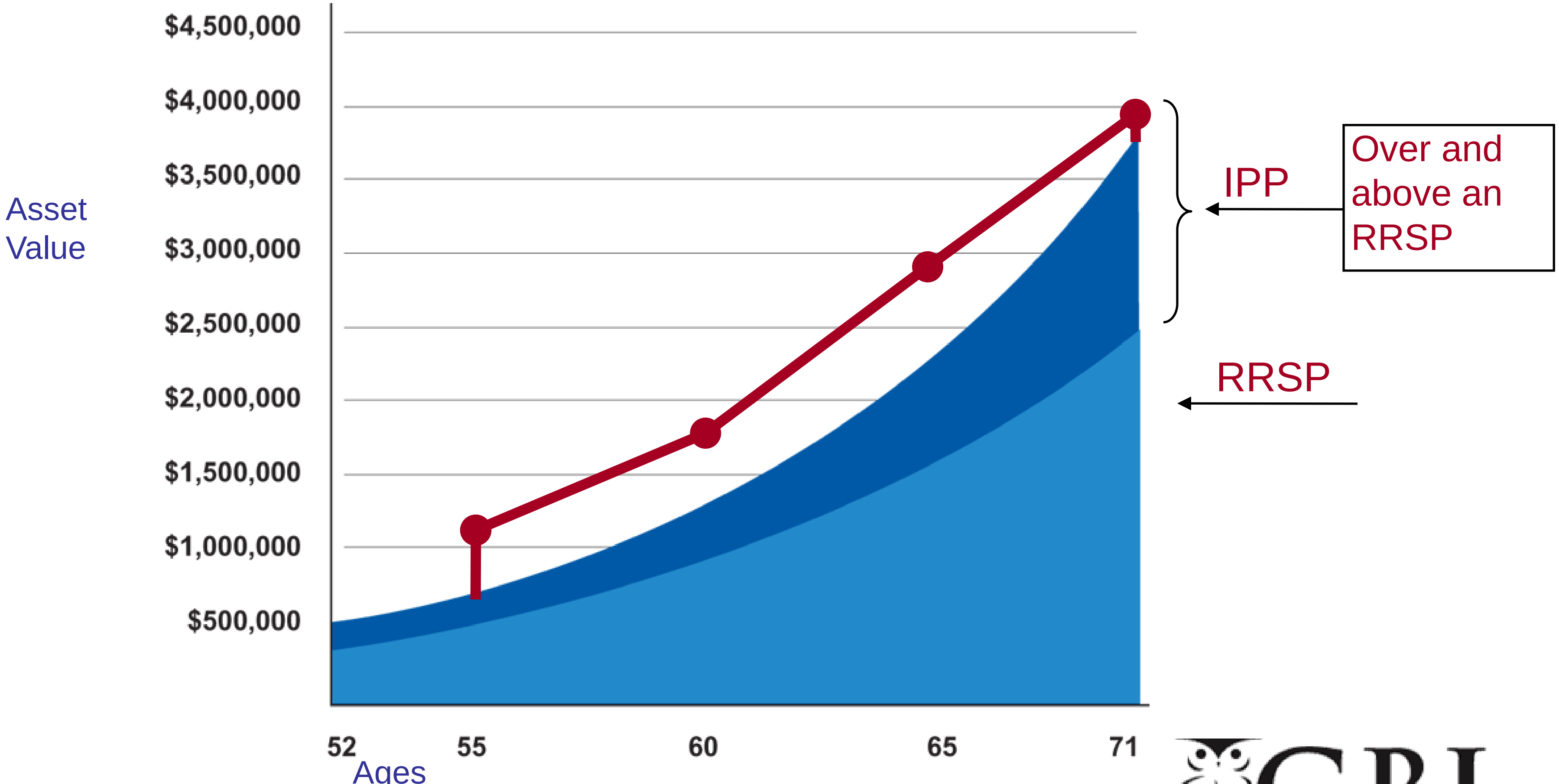
Asset Value Chart

Comparison between RRSP and IPP assets for a 55 year old to age 71

- IPP Allows for Additional Funding at Retirement



Case Study

- Bob Smith is a 55 year-old self-employed businessman and has been incorporated for 20 years.
- Bob has begun to plan for his retirement and is looking for a way to defer the tax on earnings until he is able to withdraw that money as income upon retirement.
- Comparing the Individual Pension Plan (IPP) to the RRSP strategy, Bob discovers that at retirement the IPP provides him with an increase of up to 65% more assets than his RRSP.
- As Bob has been in business for 20 years, he qualifies for full Past Service benefits from January 1, 1991.
- This increases his first year contributions by $182,600. Coupled with his Current Service contribution of $30,100, he can contribute $212,700 tax deductible, from his company to his Individual Pension Plan in the first year.

Case Study - Continued

- Bob lists all contributions, plus interest growth, to his 71st birthday.

Past Service Contribution + Rollover	$ 550,550
Total Current Service Contributions to age 71	$ 904,700
Amounts Above + 7.5% per annum compound	$ 3,494,249
Additional Funding allowed at retirement	$ 209,335
Total Plan Assets at age 71	$ 3,703,604

- The total accumulation for an RRSP Only Strategy at age 71 would be $2,292,353.

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IPP vs RRSP Asset Accumulation

Age 55 year old with full past service back to 1.1.1991 and maximum earnings.

Age	IPP	RRSP
60	$1,118,317	$750,547
65	$1,926,925	$1,273,405
71	$3,494,249	$2,292,353

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Beneficiary Options

- Spouse is the main beneficiary
- Adult children can be named to receive equal benefits
- Children under the age of 18 should not be elected as beneficiary of an IPP
- When youngest child attains age 18, the beneficiary designation can be changed

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Multiple Options at Retirement

- Pension from the pension plan
- Purchase an annuity
- Transfer to a LIRA

Implementation

- GBL is a full service firm with specialists in the field to work with you
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Retirement Compensation Arrangement (RCA)

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Features

- Defined under section 248(1) of the Income Tax Act
- Means of delaying personal income tax on contributions to the time and place of a person’s choosing
- Provide flexibility for corporate and personal financial tax planning

Ideal Candidate

- Business owner or key employee
- Any age can benefit (including over 71)
- Facing a substantial one time payment or large periodic payments
- Considering retirement abroad

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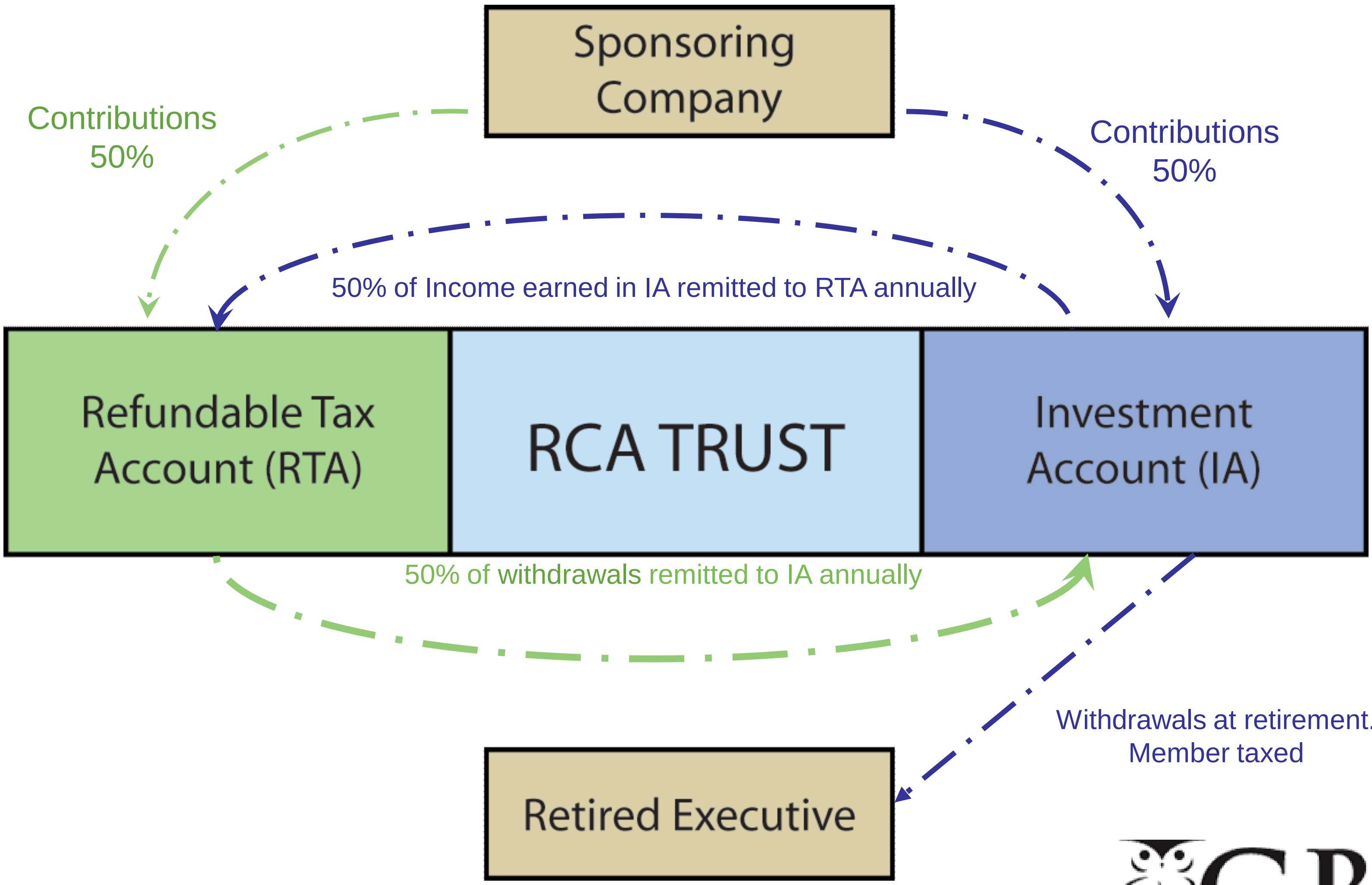
RCA Structure



Advantages

- Contributions are deductible
- Bullet-proof creditor protection
- Avoids payroll taxes
- Benefits taxable when received
- Defers tax to a time when the member chooses
- Allows for tax bracket management and income splitting

Requirements

- Corporate sponsor
- An employment relationship with the corporate sponsor
- Past corporate relationship, employees who previously received T4 or T4PS
- An Actuarial Certificate to establish reasonableness of the contributions
  - Average of best 3 years of earned income.

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Applications

- Employment
  - Executive pension funding (SERPs)
  - Employee retention - deferred vesting
  - Severance
- Ownership
  - Replace the shareholder bonus
  - Leveraging
  - Exit strategy
  - Expatriate planning

Employment

- Create golden handcuffs. Vesting can be customized to suite the employer
- Create group RCAs for executives and key employees

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Ownership – Shareholder Bonus

- Routinely attract provincial payroll taxes and top marginal rates
- Allows the tax on the bonus to be postponed to future years. Better brackets = lower rates
- Money is out of the company and creditor proof
- Risk is diversified and reduced

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Ownership - Leveraging

- Most financial institutions, including international banks, will loan up to 90% of the overall RCA value back to the company.
- Opens up a large tax sheltered source of capital to the company, while retaining small business tax rate.
- Retain the right team – tax lawyer, accountant, actuary, and lender.

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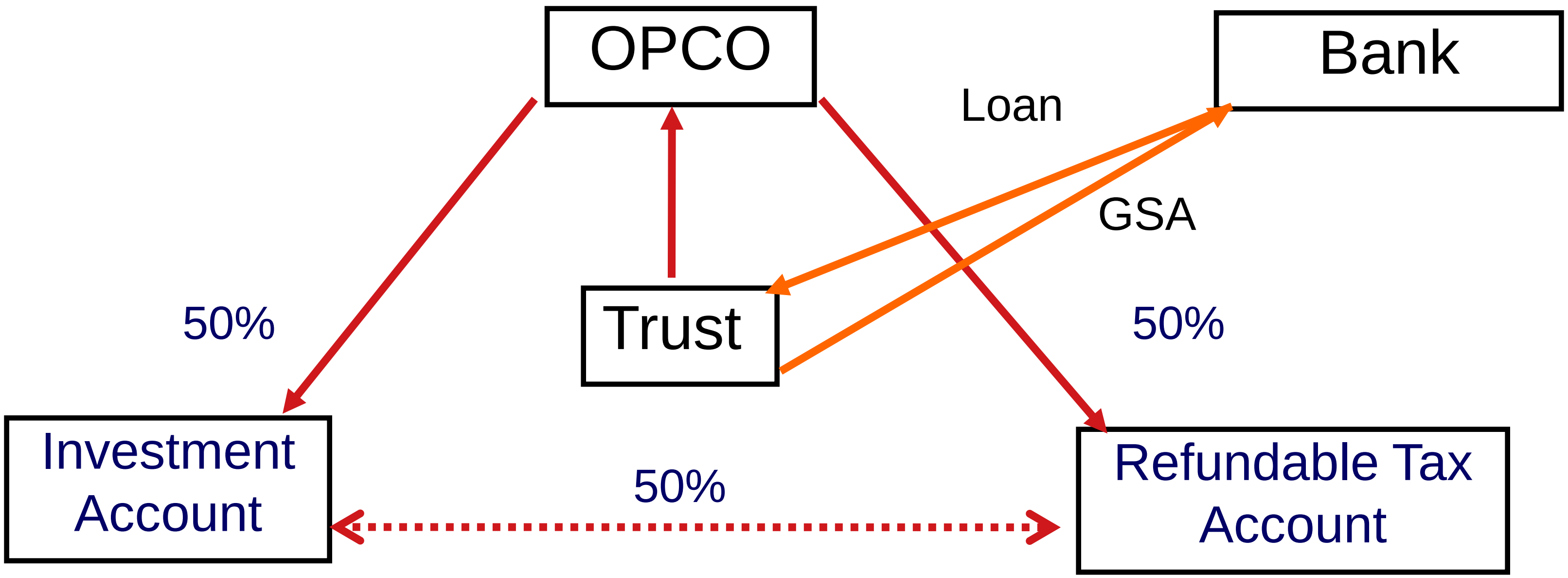
Ownership - Leveraging



Ownership – Exit Strategy

- The great majority of Canadian businesses will be subject to some form of transition in the next two decades
- The RCA is ideal for business sales in the $1-10 million range
- Simple to implement
- Insured RCA can assist with estate preservation

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Ownership – Exit Strategy

- Most small business owners are under a misconception on how they will sell their business
- Frequently it will be in the form of an asset sale
- Asset sales frequently generate substantial single-year income (and therefore tax) spikes for the company
- RCA allows an offsetting deduction without the vendor taking all of the proceeds into income in a single year

Ownership – Exit Strategy

	Bonus	RCA Single	RCA (Spousal)
Initial Contribution	$3,000,000	$3,000,000	$3,000,000
Annual After-Tax Withdrawals (over 10 Years)	$190,000	$190,000	$95,000 per spouse
Terminal Portfolio Value (after 10 years)	$67,300	$334,500	$704,100
Total Tax Paid	$1,660,500	$1,314,900	$985,000

- Assumptions:
- 5% Rate of Return
- Returns paid as interest income realized annually.
- 10 year time horizon.
- Interest income / withdrawals are only source of income.
- Bonus out taxed at top marginal rate (Ontario), includes EHT.

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Ownership - Expatriate

The Ideal Candidate:

- Beneficiary will not be a Canadian resident upon retirement.
- Employee is a non-Canadian and will return home upon completion of term of employment

Ownership - Expatriate

- Lump sum payments may be subject to as little as 25% withholding tax
- Withdrawals from an RCA are subject to tax in contracting states
- Periodic payments are subject to a 15% tax rate in many cases

Ownership - Expatriate

- Canadian citizens may choose to retire in a country other than Canada
- Obtaining a non-resident status is not an easy process. Must sever all economic ties with Canada to avoid a deemed disposition

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Implementation

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