

Flashcards

for

RET - Design & Accounting - CAN

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Retirement Compensation Arrangement (RCA) Funding Approach

- With taxable investments -
 - Not very attractive – no interests is paid on refundable tax balance held by CRA, growth of RCA trust is not good
 - Best use – when there are fewer years to retirement, these investments may be the most effective method of funding a RCA promise
- With life insurance -
 - tax-sheltered but taxable in beneficiary' hands
 - Can use policy withdrawals or use the policy as a loan collateral to pay benefits
- Funding with letters of credit

Planning Implications of using RCA

- Providing Superior Retirement Benefits
 - provide more pension and design flexibility than registered plans
- Facilitating purchase and sale of a business
 - permit taking some assets out - reducing purchase price
- Funding of Severance Payments
 - can fund severance payments (paid in installment) while employer get immediate tax deduction.
- Attracting and retaining key employees
 - flexibility provided in the non-registered context of the RCA

A Fresh Look at Retirement Compensation Arrangements: A Flexible Vehicle for Retirement Planning
DA-627-20

When to Recognize Curtailment

1. net gain - recognize when suspension / amendment reducing future years of service is adopted.
2. net loss - recognize when it is probable that a curtailment will occur and the effects can be reasonably estimated.
3. discuss with auditors beforehand to avoid potential recalculations if auditors do not agree with the date

When to Recognize Settlement

- If total cost of all settlements occurring during a fiscal year > sum of the service cost and interest cost for the year
 - must recognize on the date the settlement occurs.
- Settlements may occur early in the fiscal year and only exceed total service cost/interest cost total later in the year
 - settlement accounting is needed only at that point
- Except for settlements occurring on the first or last day of the fiscal year, each settlement date is an interim measurement date

Plan Curtailments & Settlements Under FASB ASC Topic 715 Relating to Plan
Terminations Part 2 – Settlements

Elements of Actuarial Control (Risk Management) Cycle

- Identify all stakeholders, their objectives and ability to influence outcome
- Identify objective of risk system
- Establish risk budget (of obligor); use to evaluate risk levels
- Evaluate risk mitigation alternatives
- Maintain effective feedback process (both EE and public disclosures)

Describe Spot Rate Approach (For Determination of Interest cost and Service Cost)

Common approach: single weighted-average discount rate approach

Alternate approach: Use individual spot rates derived from an acceptable high-quality corporate bond yield curve and matched with separate cash flows for each future year

Alternative Approaches To Calculating Service And Interest Cost Under FASB ASC
TOPIC 715 DA-180-18

Differences Between Public and Private Pension Plans

- Federal oversight – governments have more discretion
- Different budgeting process and accounting standards
- Design issues: need to make up for lack of Social Security, tax deductible EE contributions, earlier retirement age for police and fire fighters
- Higher public transparency