

Compete for talent with creative pay packages

Skilled managers and executives are scarce these days as competitive pressures drive up demand for capable leaders who can help companies succeed. How does a Canadian manufacturer compete? Many of them can't provide top-of-the-line salaries but there are other components in the compensation package that offer benefits to both employer and employee.

Stock-based compensation. Many small and mid-size businesses offer stock options that allow employees to acquire company shares at a specified price—generally the value on the day the option is granted for a specified period of time (typically 10 years). For Canadian-controlled private corporations there are no income tax effects until the employee sells the shares. At that time, the difference between the fair market value of the shares and the option price will be taxed as em-



EXECUTIVE DECISIONS

BY GUS BUCKLEY

ployment income in the year the shares are sold. The employee can claim a deduction from taxable income of 50% of this amount.

Deferred profit sharing plans (DPSPs). An employer can reward key employees by distributing a portion of the company's pre-tax profits through a DPSP. Contributions aren't earnings so the employee is not taxed on them or the investment earnings, and they aren't subject to payroll taxes such as EI and CPP.

Many DPSPs include a vesting period of up to two years, which encourages employees to stay with the company.

Setting up a DPSP involves submitting a plan to the Canada Revenue Agency and establishing a trust to which contributions are deposited and invested.

Employer-sponsored retirement plans. There are three major types of employer-sponsored retirement plans:

- A "defined benefit" or "insured retirement" plan offers a future benefit that's insured by an insurance company; thus the employer guarantees the employee will receive a specific benefit at retirement based on a formula that factors in years of employment and salary.

- "Defined contribution" or "money purchase" plans determine the amount of the pension by accumulated contributions and their investment earnings.

- Some employers sponsor a collection of individual RRSPs on behalf of employees. They offer employers the advantage of less regulation and lower administration costs than registered pension plans.

Supplementary executive retirement plans (SERPs). These nonqualified deferred compensation retirement plans are designed to meet specific needs. They include higher contributions or income that's ineligible for other retirement vehicles, such as bonuses or deferred compensation; they accommodate short service or early retirement; and they can be designed to link pension benefits to business results.

Retirement planning

A simple unfunded plan involves a contract that sets out post-retirement benefits to be made to the retired employee on a "pay-as-you-go-basis." There is no pre-retirement funding of benefits and future benefit payments would not be included in the company's financial statements.

Funded or secured SERPs are more of an incentive for key employees. Called retirement compensation arrangements, contributions are deductible and benefits are taxable to plan members upon receipt. A special tax of 50% applies on contributions to the plans and investment income earned. The tax is refunded as benefits are withdrawn.

Individual pension plans (IPPs). They're attractive additions to packages for executives who are 45 or older and earn a salary of at least \$100,000. Employer contributions are deductible to the corporation and the funds are not taxed in the employee's hands until they are withdrawn. Individuals make contributions that are up to 65% higher than those made to an RRSP.

When developing a package, consider the risks and rewards along with your business goals and the company's financial position. The right mix will offer compensation that manages costs and attracts the people who will help your company prosper.

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