



Wealth
Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES



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Employee compensation — introduction to employee compensation

Whether you are an up-and-coming executive or a business owner looking to motivate key employees or share the ownership of the business, there are many different forms of compensation that are available to you and your employees that you can consider. This article discusses some of these different forms of compensation.

The information in this article is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax advisor before acting on any of the information in this article.

Executives

If you are an executive or just entering the executive ranks, your compensation structure may be different from the typical employee. Typically, employers want to reward you for reaching the executive ranks by giving you a more lucrative and tax-effective pay package that contains more than just an annual salary.

In many cases, some of your compensation will be tied to the company's share price. This provides an incentive for you to stay with the corporation and help increase shareholder value – the greater the shareholder value, the greater the

potential share price, and in turn, the greater your potential compensation.

Business owners

As a business owner, you may have key employees that have helped you grow the business that you want to reward and retain. You may also be thinking of selling the business or transferring a share of your business to employees who you have chosen to be a successor.

If you are not incorporated, the share-based compensation methods will not be available to you; therefore, you may need to rely on other forms of compensation or contemplate changing the

structure of your business. If you are incorporated, share-based compensation may be a good way to encourage employees to help you grow the company while reducing salary-related expenses for your company.

Types of employee compensation

Employee compensation is always evolving. New plans are developed to meet the challenges of an ever increasing global workforce and changes in employment legislation and government regulations. Here are some of the more common types of compensation.

Cash and Other Benefits:

- Base Salary
- Bonuses
- Employee Loans
- Fringe Benefits

Profits:

- Employee Profit Sharing Plan
- Deferred Profit Sharing Plan

Share-Based:

- Share Purchase Plans
- Stock Appreciation Rights
- Employee Stock Options
- Deferred Shares
- Restricted Shares

Notional Shares:

- Performance Share Units (PSU)
- Deferred Share Units (DSU)
- Restricted Share Units (RSU)

Retirement:

- Registered Pension Plan (RPP)
- Registered Retirement Savings Plan (RRSP)
- Group Registered Retirement Savings Plan (Group RRSP)
- Individual Pension Plans (IPP)
- Supplemental Employee Retirement Pension Plan (SERP)
- Retirement Compensation Arrangements (RCA)

Companies will often have different names for different components of their executive compensation plans. For example, what one company calls a “Deferred Share Unit (DSU)” plan may be called a “Phantom Stock” plan in another. Furthermore, each plan may have their own unique characteristics, which may be different from the plans with the same name with a different employer.

As an executive, you should review and understand your compensation package carefully. Share the details of your compensation package with your financial planner when getting a financial plan prepared to ensure that your financial plan properly captures your financial situation.

If you are a business owner, ensure you receive advice from a qualified legal and/or tax advisor, as the rules governing the various types of employee compensation can be very complex. If your employee compensation packages are not set up properly, negative tax consequences can arise for both you and your employees.



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