



Wealth  
Management

# the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Aaron Fennell, MBA, CFA  
Portfolio Manager & Investment  
Advisor  
Tel: 416-313-6397  
aaron.fennell@rbc.com

RBC Dominion Securities  
181 Bay Street, Suite 2350  
Toronto, ON M5J 2T3  
www.aaronwfennell.com

## 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.

### 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.

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.

*This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance 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, legal and/or insurance advisor before acting on any of the information in this article.*



This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)\*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Wealth Management Financial Services Inc. (RBC WMFS), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the “Companies”) and their affiliates, RBC Direct Investing Inc. (RBC DI)\* and Royal Mutual Funds Inc. (RMFI). \*Member – Canadian Investor Protection Fund. Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. “RBC advisor” refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WMFS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI or RBC DS. Estate and trust services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies, RBC DI or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WMFS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. In certain branch locations, one or more of the Companies may carry on business from premises shared with other Royal Bank of Canada affiliates. Notwithstanding this fact, each of the Companies is a separate business and personal information and confidential information relating to client accounts can only be disclosed to other RBC affiliates if required to service your needs, by law or with your consent. Under the RBC Code of Conduct, RBC Privacy Principles and RBC Conflict of Interest Policy confidential information may not be shared between RBC affiliates without a valid reason. ®/™ Trademark(s) of Royal Bank of Canada. Used under licence. © Royal Bank of Canada 2024. All rights reserved.