

What is the purpose of your plan?

When setting up a capital accumulation plan or reviewing an existing one, it is important to define or review the plan's purpose, which sets out its objectives and rationale. The plan's purpose must be clearly defined and the reasons the plan was set up must be well documented so that it can be periodically determined whether the plan is continuing to meet both its objectives and members' expectations. Obviously, the members must be informed of the plan's purpose.

Aspects to consider when establishing the plan's purpose

The plan's purpose must reflect the plan sponsor's objectives. Those objectives may take into account the employer's various needs as well as those of the employees, including:

- ▶ Employee motivation through profit sharing
- ▶ Payment of tax-deferred bonuses
- ▶ Savings for retirement or other financial needs
- ▶ Savings for post-secondary education or for purchasing a home
- ▶ Deferral of tax on savings and investment income

The plan sponsor must list realistic objectives that also take into account the nature and limits imposed by the type of plan chosen. The sponsor must also manage members' expectations without creating unrealistic expectations, which could cause prejudice and result in legal responsibility. We provide below a few examples of possible purposes of a capital accumulation plan.

1. "To provide our employees with a retirement program that is competitive in our industry and that enables them to save money in order to meet certain financial needs upon retirement."
2. "To enable our employees to save for their retirement through a group plan that is flexible, tax efficient and affordable."
3. "To encourage our employees" to participate in our company's growth and financial success by recognizing their contribution through a distribution of part of the company's profits."

Important note: The information provided above shall serve strictly as a guide and includes examples that are neither approved nor recommended by The Manufacturers Life Insurance Company. Given that each situation is different, we recommend that plan sponsors review this matter with their advisors.