

Individual Pension Plans (IPP)

OVERVIEW

Incorporated businesses looking to add a benefit for their owners or valued executives might want to consider a little known financial planning strategy called the individual pension plan (IPP), as an alternative to registered retirement savings plans. They are approved by the Canada Revenue Agency and offer tax and retirement savings solutions for individuals 40 years and older who have a T4 income of more than \$100,000 and have historically maximized their RRSPs and pension contributions.

An IPP is a registered defined benefit pension plan that can be set up for a single participant. It can bring significant tax advantages and lets you determine the amount you would like to contribute towards retirement.

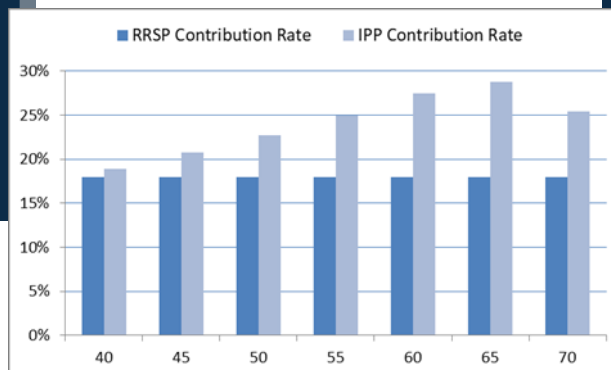
Existing RRSP legislation was created in 1957, at which time inflation and indexing were not taken into account. As a result, RRSP contribution limits have been inadequate for high-income earners. In 1991, the federal government remedied the situation by enacting the IPP legislation to compensate high-income earners disadvantaged by RRSP rules.

An IPP is similar to an RRSP - it uses an investment account to accumulate assets over time to fund retirement. Unlike the RRSP, an IPP allows for the accumulation of greater assets through higher contribution limits. Assets accumulated within an IPP are locked-in and may be used only for retirement purposes.

IPPs may not be suitable for sole proprietors or partnerships, individuals who rely significantly on dividends or other non-T4 income, or for those who have highly cyclical businesses.

Quick Facts

- ◆ IPPs are specifically designed for business owners of incorporated companies, or incorporated professionals.
- ◆ These plans are typically the most beneficial to individuals in their 40s or 50s who are drawing a salary of over \$100,000 from their corporation.
- ◆ Contributions to the plan can be 100% funded by the corporation and are tax-deductible.
- ◆ Set-up fees and administration expenses associated with the IPP are tax-deductible to the corporation.
- ◆ The minimum rate of return for the IPP is 7.5%. If the actual return is less, the company can make additional tax-deductible contributions to make up the difference.
- ◆ Contributions and investment earnings are 100% creditor proof.
- ◆ The contribution amount advantage of the IPP over an RRSP, as a percentage of income, increases with the age of the plan member:



PLANNING CONSIDERATIONS

- ◆ IPP assets are locked-in, which means in most circumstances they can only be withdrawn during retirement and are subject to annual maximums.
- ◆ There is minimal flexibility in the contribution amounts once the plan is in place. Shortfalls in asset values will require additional deposits to get the plan back on track. These can be made over a number of years.
- ◆ Like an RRSP or RRIF, an IPP can transfer tax-free to a surviving spouse at death of the plan member. Alternatively, plan assets can be retained in the plan to provide benefits to the next generation if children are involved in the business and members of the IPP
- ◆ The pension income from an IPP can be split up to 50% with a spouse, just as with other pension plans.
- ◆ Additional contributions for past service are possible, though these amounts must first come from the transfer of existing personal RRSP savings belonging to the IPP member or by using the member's available unused RRSP contribution room, before the company can fund any past service benefit.
- ◆ An IPP is not for all business owners, even when conditions seem ideal, due to their added complexity and cost. However, in certain circumstances it can be a valuable tool in building a retirement solution for the small business owner or incorporated professional.

Consult your accountant, financial planner, or investment manager to determine what strategies are best for you.



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