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Individual Pension Plans

Investment Planning Counsel®

IPC INVESTMENT CORPORATION

What is an IPP?

An Individual Pension Plan (IPP) is a registered, defined-benefit pension plan most beneficial to business owners and key employees. Sponsored by a registered corporation, an IPP is set up for a single individual and may include his or her spouse to provide the maximum defined-benefit pension permitted by the Canada Revenue Agency (CRA). Special rules govern contributions and investments, and each IPP must be registered with CRA and, in most cases, the appropriate provincial pension authority.

An IPP seeks to guarantee a certain level of income in retirement. Because of this, and unlike RRSPs, additional contributions by the plan sponsor are allowed if the IPP earns less than 7.5% per year. Allowable investments for an IPP are similar to those permitted for RRSPs.

IPPs are set up with assistance from a professional actuarial firm, which works in partnership with our team.

KEY BENEFITS OF AN IPP

- Allows for larger annual contributions compared to a regular RRSP, creating the potential for increased retirement assets.
- Provides pre-determined retirement benefits that are indexed to increase with inflation.
- For the employer, all contributions and any expenses, including investment management fees incurred to establish and maintain the IPP, are tax-deductible. These expenses may also be paid from the IPP assets.
- Assets are creditor-protected.
- Pension benefits can be split with a spouse in order to reduce overall tax paid by a couple.

ADDITIONAL FLEXIBILITY

An IPP provides for retirement at age 65, but a plan member can begin to receive pension benefits as early as 55. In this case, significant additional tax-deductible contributions may be made. Age of retirement may also be extended to the end of the year in which the member turns 71, with contributions and benefits continuing to accrue.

If circumstances change, an IPP can be terminated at any time. The plan assets are then transferred to the member's locked-in RRSP / RRIF. On termination of an IPP, all plan assets, including surplus assets, are returned to the plan member, spouse or estate as applicable.

Current RRSP assets can be transferred to the IPP to provide benefits associated with past service, depending on whether the service was before or after 1991. The company sponsoring the IPP must make contributions to ensure these benefits are funded. This feature can provide additional tax-sheltered contributions to the IPP.

POTENTIAL DISADVANTAGES TO CONSIDER

The assets accumulated in the IPP must be used to provide a lifetime retirement pension. They cannot be de-registered or used to purchase a conventional RRIF or term-certain annuity unless the plan member is in ill health or leaves Canada.

The IPP has costs associated with establishing the plan and meeting registration requirements. It must also comply with pension legislation, including triennial valuations and annual filing requirements. However, the additional tax savings that flow from the IPP will, in most cases, outweigh these costs. There are maximum funding restrictions for IPPs that are prescribed in the Income Tax Act. Some exceptions apply.

Participating in an IPP usually replaces one's ability to contribute significantly to an RRSP. IPPs are employment-related benefits provided by the employer and there are risks associated with it.

HOW ARE RETIREMENT BENEFITS PAID?

Pension assets may provide a lifetime retirement pension in one of three ways:

1. **A guaranteed life annuity may be purchased from a life insurance company.**

   The form of lifetime pension can be tailored to your individual circumstances. Potential annuity options include the guarantee of a minimum number of payments, joint payment with a spouse and indexing payments to inflation.

2. **The assets may be transferred to a Life Income Fund (LIF) or a Locked-in RIF (LRIF).**

   These options are similar to a regular RRIF, with annual income withdrawals subject to prescribed minimums and maximums. Any assets remaining on death are passed to the member's spouse or estate.

3. **Assets may be used to pay the pension directly from the plan, with any assets remaining at death passed to the spouse or estate as applicable.**

Please contact our team to discuss whether an IPP may be right for you.

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