Individual Pension Plan (IPP)

GROUP RETIREMENT SAVINGS

Agenda

- Definition of an IPP
- Comparison with an RRSP and other advantages
- Registration and minimum funding requirements
- Case study

Definition of an IPP

What is an IPP?

- A defined benefit pension plan
- A plan registered with and governed by the Canada Revenue Agency. It could also be registered with provincial legislation
- A solution for an entrepreneur who:
  - wants to optimize and protect his or her retirement income
  - at the same time, wants to take advantage of an optimal tax-deferral strategy for her or his situation, and
  - wants to withdraw significant tax-sheltered amounts from his or her business

An IPP can be used to:

- To protect the participant's pension plan from market fluctuations (by way of company contributions)
- To offer the participant more retirement income
- To offer a product that is more interesting from a tax perspective than an RRSP (in terms of contributions)
- To withdraw significant tax-sheltered amounts from the company

Comparison with an RRSP and other advantages

RRSP

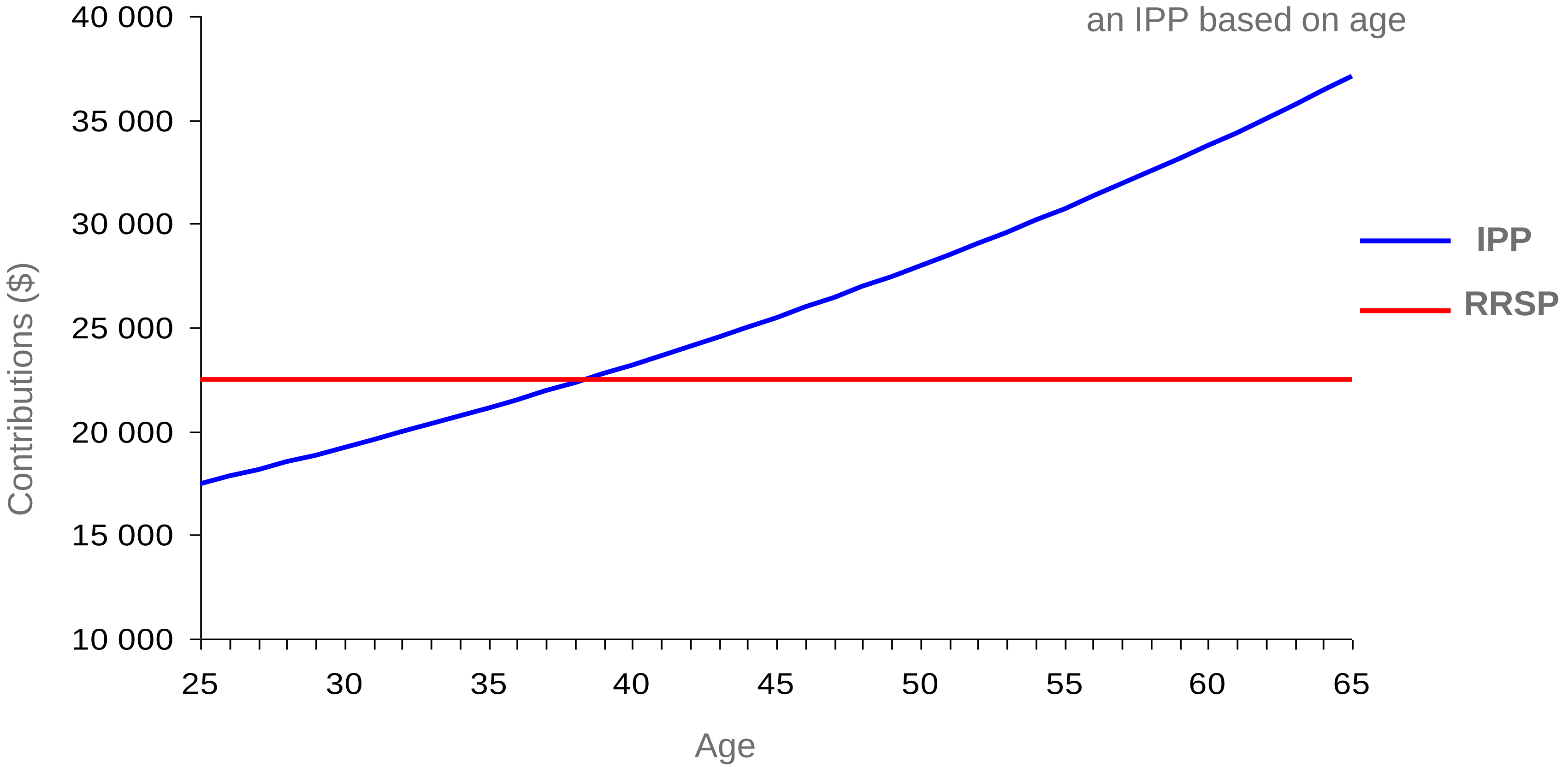
- Annual contribution corresponding to 18% of earnings, up to an annual maximum amount

IPP

- Annual contribution corresponding to the amount to be paid into an IPP to fund the additional pension benefit that accumulates in a year
- Cost varies based on the age of the participant
- Contributions are not considered a taxable benefit for the participant

Comparison with an RRSP: *Contributions*

Maximum contributions that can be paid into an RRSP and an IPP based on age



Past Service Buyback

- Possibility of recognizing years of service prior to the IPP being set up
- The years worked since 1991 with the company can be bought back in the IPP (T4 earnings required)
- Part of the buyback cost is financed by a transfer from the participant’s RRSP, a reduction of the unused RRSP room or a combination of the two (based on the past service pension adjustment (PSPA)
- The difference between the total cost of the buyback and the transfer from the RRSP is payable by the company (fully deductible)

Other advantages of an IPP

- Administration and management fees may be charged to the company and represent a fully tax-deductible expense
- Assets held in an IPP are not subject to seizure and are therefore creditor protected
- IPP income splitting is possible before age 65 (for an RRSP it's only possible after age 65)

Case Study

Case Study: Data Used

- IPP set up on January 1, 2012
- Entrepreneur age 50 (connected person)
- Has worked for the company since 1991
- T4 earnings used:
  - From 1991 to 1999: $100,000
  - From 2000 to 2009: $125,000
  - In 2010 and 2011: $150,000
- Unused RRSP room: $0
- RRSP contributions accumulated: $450,000

Contributions for past service

- Number of years bought back: 21 years (from 1991 to 2011 incl.)
- Total value of buyback: $609,300
- Transfer required from RRSP: $331,300
- Employer contribution for past service: $278,000

Current service contributions

- Contributions required in 2011: (excluding past service buyback) $29,000
- Maximum allowable RRSP contribution: $22,970

Case Study: Amounts Accumulated for Retirement

- Projected amount in the IPP at retirement, if maximum allowable contributions are paid in: $ 3,314,000
- Projected amount in the RRSP at retirement, if maximum allowable contributions are paid in: $ 2,414,000
- Additional amount accumulated in the IPP: $ 900,000

Questions?

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