ADVANCED WEALTH PLANNING GROUP

Individual Pension Plans

WELLINGTON-ALTUS

Individual Pension Plans (IPPs) can be a valuable retirement planning tool for incorporated professionals, business owners, or key employees of a company who are not part of a registered pension plan. An IPP provides a defined benefit pension income stream in retirement, beginning as early as age 40 or as late as age 71. An IPP, when used alongside other personal and corporate accounts, can help to enhance retirement benefits beyond what can be accumulated within a Registered Retirement Savings Plan (RRSP).

What is an IPP?

An IPP is an employer-sponsored registered pension plan that provides a defined benefit to the plan member, and is often used by incorporated business owners and professionals who have a history of annual earned income exceeding around $170,000. An IPP can be created for an employee prior to the year in which they turn 72 years of age. Annual contribution limits are a function of Canada Revenue Agency (CRA) mandated limits and the plan member's age.

IPPs are often referred to as "super-sized RRSPs" since annual contribution limits tend to exceed those of a Registered Retirement Savings Plan (RRSP). At age 40, the maximum contributions you can make to an IPP and an RRSP are similar, but at age 65 the maximum contribution to an IPP is around 65% higher than the maximum to an RRSP. IPP contributions are deductible from a corporation's income and reduce the employee's own RRSP contribution limit through a pension adjustment.

Who is involved?

An IPP involves five parties:

1. The employee(s)
2. A sponsoring corporation
3. An actuarial firm
4. An investment advisor
5. The CRA

Benefits of an IPP

IPPs provide:

- Additional tax-sheltered savings room vs. RRSPs
- Corporate deductions for contributions and ongoing administrative expenses
- Consistent and secure income in retirement
- Recognition of past service
- Creditor protection by locking-in benefits
- A deeper long-term relationship with your investment advisor
- Options for business succession planning, as adult children who are working for the company may find it advantageous to join the plan

Is an IPP right for me?

Consider an IPP if you are motivated by:

- Saving more for retirement than is possible with RRSPs
- The ease and efficiency of a corporate deduction, as opposed to corporate payment of salary and a personal RRSP contribution

An ideal IPP candidate:

- Is an incorporated business owner or professional for 3 or more years
- Is 40 years or older
- Receives T4 income

An IPP should be considered when a corporation:

- Has a tax planning consideration (e.g. sale of an asset, consistent high income, or a one-time taxable event)
- Is preparing for an exit event (such as retirement or the sale of its operating business)
- Has a regular history of profitability to fund ongoing IPP contributions

Implementing an IPP

Corporations and employees interested in setting up an IPP must first engage an actuarial firm to provide a quote determining if the projected pension benefit and tax efficiencies meet their needs and objectives. Next, the IPP must be registered with CRA. This process can take two months or more.

Once registered, the IPP is funded according to the actuarial valuation using a combination of corporate cash and existing employee RRSP assets. Additional catch-up contributions for past service may be possible. The IPP is a corporate account and is typically named along the lines of "[Corporation Name] IPP for [Employee Name]". IPP funds are invested by the investment advisor appropriately – typically targeting stable and consistent returns vs. being invested aggressively.

IPPs must undergo a triennial valuation by an actuarial firm to be filed with CRA to justify its maximum contributions.

Quick IPP Candidacy Test:

The following questions can assist in determining if you are an IPP candidate:

☐Y ☐N Are you aged 40+?

☐Y ☐N Is your current earned income $170,000+?

☐Y ☐N Do you have 10+ years of T4 history in the corporation?

If you answered "Yes" to two or more questions, an IPP may be a tax-efficient option to secure your future retirement income.

What happens when I retire?

When an IPP member retires, the following options are available:

- Payments made from the IPP are considered pension income and are eligible for the pension tax credit and income splitting with a spouse/ common-law partner.
- The IPP can be wound up or terminated, with funds moved to the participant's RRSP or Locked-in Retirement Account (LIRA), depending on the commuted value and the provincial legislation that applies. Any amount exceeding the participant's maximum transfer limits are taxable to the participant.
- Lump-sum contributions known as "terminal funding" can provide significant additional tax deductions.

If an IPP has too much or too little capital

Where a triennial valuation determines that an IPP is underfunded, the sponsoring corporation can make additional tax-deductible contributions to the plan.

If the plan is determined to have surplus assets, CRA may not allow additional contributions if the surplus is very large. However, the participant will continue to receive an annual pension adjustment.

IPP at death

Upon death of a plan member, their spouse is the beneficiary of the IPP and will receive the ongoing pension benefit. If there is no surviving spouse or when the surviving spouse passes away, any remaining amount within the IPP will be paid out to the estate of the participant/survivor.

For further information about Individual Pension Plans and other tax planning opportunities, please reach out to your Wellington-Altus advisor.