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Individual Pension Plans good for over-40 crowd

Business owners & high income execs maximize retirement savings

Business owners, high-income executives and incorporated professionals are increasingly using Individual Pension Plans (IPPs) to maximize retirement savings, particularly if concerned whether they have enough in RRSPs to fund their desired retirement lifestyle. According to Westcoast Actuaries Inc., more than \$200 billion will be invested in IPPs by 2020.

IPPs are one-person defined benefit pension plans that achieve pre-determined income streams in retirement by using tax-deductible contributions. The allowable contributions are generally higher than for RRSPs, enabling tax-free growth of a larger pool of retirement assets. According to GBL Actuaries & Consultants, IPPs permit up to 65% greater accumulation of retirement assets than RRSPs.

IPPs are best suited to those over 40 years of age who have already maximized their RRSPs, but want to enhance their retirement benefits. The ideal candidate earns over \$127,000. Dividends cannot be used to fund IPPs, so business owners must pay themselves a salary adequate for contribution requirements.

IPPs can only be set up by the employer and need to follow Canada Revenue Agency pension plan rules and regulations. Self-employed professionals must form a professional corporation to meet the required employer-employee relationship. Expenses paid by the employer on

behalf of the employee are fully tax-deductible by the employer.

Unlike RRSPs, Individual Pension Plans do not have predetermined contribution limits. Within the rules on how large the defined benefit can be, an individual determines the desired retirement income goal and an actuary determines the contributions required to achieve it.

The actuary reviews the IPP every three years and adjusts the contributions accordingly. Depending on the jurisdiction of the IPP, the actuary can increase contribution requirements if investment returns are inadequate to fund future payments. This allows the deficit to be topped up with larger tax-deductible contributions.

IPPs can contain a variety of investments including investment funds, stocks, bonds, and GICs in accordance with diversification requirements. For instance, an IPP cannot invest more than 10% of the fund's book value in one security and the targeted rate of return is set at a conservative 7.5% per annum. Most individuals opt for professional management of their IPP holdings.

IPPs offer significant advantages, such as higher tax-deductible contributions and tax sheltering of asset growth. An added bonus for many business owners is that the assets are 100% protected from creditors. IPPs allow for past service funding, and,

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Continued from Page 1

if an individual retires earlier than 65, a terminal funding contribution can be made to provide further retirement benefits.

IPPs are not without drawbacks. They have higher set up and administration costs and, unlike RRSPs, the funds are generally locked-in. IPPs can also reduce or eliminate the ability to contribute to a RRSP. If the actuary mandates higher contributions, they must be made up regardless of the financial circumstances of the employer. However, the additional funding can usually be amortized over a five year period.

There are many intricacies to IPPs, so it is imperative to understand all the details. Professional help is advisable, as particular attention must be paid to Canada Revenue Agency rules to ensure IPPs continue to meet pension requirements.

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