Sample IPP Illustration

BMO Nesbitt Burns

An Individual Pension Plan ("IPP") is a defined benefit pension plan that is designed for high-income earning executives, small business owners, and incorporated professionals, such as doctors, dentists, and lawyers.

Greater Wealth Accumulation

Similar to an RRSP, an IPP acts as a tax-deferred investment account to build up your retirement assets. However, compared to an RRSP, an IPP provides eligible individuals with the opportunity to accumulate much greater assets.

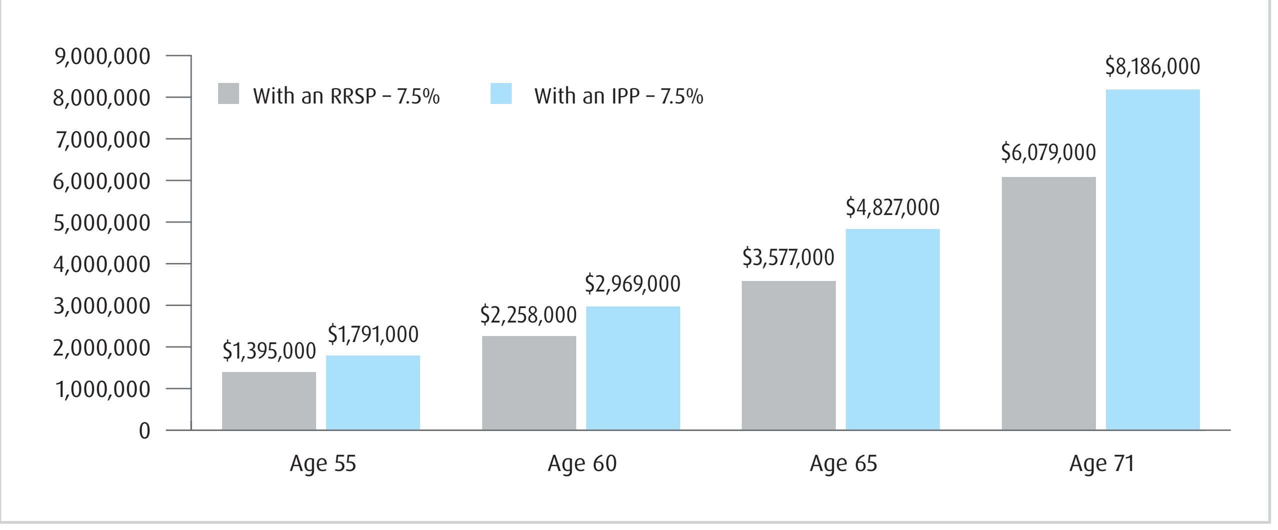
Summary Illustration for an Individual Pension Plan

Ms. Smith **Age: 50** **Years Of Service: 24.0**

An IPP can allow you to significantly improve your tax-assisted retirement savings over the alternative RRSP.

Projected Accumulations

Up to 35% more funds accumulated than an RRSP with 7.5% returns.



IPP contributions must be set assuming a prescribed rate of return of 7.5%. RRSP accumulations are shown above at 7.5% for comparison purposes. If investment returns fall short of 7.5%, additional tax-deductible contributions may have to be made to the IPP to achieve these accumulations.

Larger Contributions

An IPP is an excellent way to increase your retirement assets, if you have already maximized your RRSP contributions. Depending on your age and income, annual IPP contribution limits can be significantly higher than RRSP contribution limits.

Annual Contributions

An IPP also allows on-going contributions that are larger than those you would be allowed to make to your RRSP. In our case study this is how they compare for the next 3 years:

	IPP	RRSP	IPP Advantage
2021	$36,900	$27,830	$9,070 more
2022	$39,700	$29,400	$10,300 more
2023	$42,600	$31,000	$11,600 more

Various Tax Advantages

When an IPP Is established, a business can deduct the cost of the initial lump sum contribution for past service, as well as ongoing eligible IPP contributions. In addition, all costs and reasonable expenses related to the maintenance of the IPP are tax deductible to the company.

Finally, all fees relating to the operation of an IPP are tax deductible to the company. This includes investment management fees as well as actuarial and pension administrative fees paid directly by the company, and not from the IPP fund.

Recognizing Past Service

It is possible to recognize years of past service where a corporation existed and paid a salary to the principal owner. This can be accomplished as long as a portion of ones RRSP is transferred into an IPP.

Required RRSP transfer to allow recognition of past service in the IPP: $667, 600

Tax-deductible corporate contribution* to the IPP relating to past service: $186,600

This contribution which is also tax deductible to the corporation can be made as soon as you set up your IPP or amortized over a number of years.

Source: BUCK LLC Summary Illustration for an Individual Pension Plan (IPP) 2020/12/10

To learn how an IPP can assist you in accumulating greater wealth and tax savings click the button below and one of our Portfolio Managers will be in touch.

Request an Illustration

BMO Private Wealth

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WEALTH MANAGEMENT GROUP
BMO Nesbitt Burns

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BMO Wealth Management

A Guide to Individual Pension Plans

BMO Wealth Management

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General Overview

An Individual Pension Plan ("IPP") is a defined benefit pension plan that is designed for high-income earning executives, small business owners, and incorporated professionals, such as doctors, dentists, and lawyers. An IPP allows eligible individuals to accrue retirement income on a tax-deferred basis and is an excellent way to increase your retirement nest egg, as contributions are higher than those available through a Registered Retirement Savings Plan ("RRSP"). An IPP is most suitable for individuals between ages 40 and 71 who have T4 earnings generally greater than $171,000 in 2022.

An IPP must have a corporate sponsor, and the plan holder must receive T4 income from the sponsoring company. Additionally, the sponsoring company must have consistent cash flow in order to fund the mandatory annual contributions to the IPP.

How IPPs Work

Like an RRSP, an IPP acts like an investment account to build up your retirement assets. However, compared to an RRSP, an IPP provides eligible individuals with the opportunity to accumulate much greater assets. Once your IPP has been set up, your plan sponsor (i.e., your employer) will make annual contributions to your IPP, based on an amount calculated by the plan's designated actuary. GBL is BMO Nesbitt Burns' actuary of choice, and is one of Canada's leading experts on IPPs.

Your BMO Nesbitt Burns Investment Advisor will make recommendations and monitor the investments in the account on an ongoing basis. The assets within an IPP are locked-in, and can generally only be used for retirement, which allows them to grow and safeguards your financial security.

Contribution Types

Contributions to an IPP can be one of three types.

1) Current service contributions

These contribution amounts are determined by a series of actuarial valuation reports that start upon the date of your IPP's set up, and are paid annually by the plan sponsor directly to your IPP until you retire or leave the company of the plan sponsor. Contributions are graduated by age, so the older you are, the more the plan sponsor can contribute to your plan. IPP contributions first exceed RRSP contributions at around age 40.

The designated actuary will complete a valuation every three years to ensure the IPP stays on track. At this time, the actuary will review the IPP's assets, contributions, as well as the plan member's earnings for the past three years. These figures are used to set current service contributions for the next three years. The actuary will also determine whether the IPP has a surplus or deficit. The prescribed 7.5% annual rate of return for the plan may require additional contributions if a deficit occurs, so that the overall benefit matches the actuary's calculation. Conversely, if the plan is in a surplus position in excess of 25% of the required assets, the plan sponsor may have to take a "contribution holiday."

2) Past service contributions

Upon registration of an IPP, you may be able to capture a past service contribution if eligible, back to January 1, 1991, or to the date of incorporation, whichever is more recent. The past service contribution can add tens of thousands of dollars in additional tax-free contribution room. However, please note that a past service contribution can only be captured for service from the time the company was incorporated, and the plan member was employed and receiving T4 income from that company.

To make a past service contribution, you must first rollover a Qualified Transfer, which is a transfer of funds from your RRSP or Defined Contribution Plan to the IPP, to satisfy all, or part of the past service pension adjustment. The plan sponsor would fund the balance of the past service contribution with tax-deductible contributions called a "past service contribution."

3) Additional voluntary funding at retirement

Also referred to as "terminal funding," upon your retirement you're allowed to make an additional tax-deductible contribution, which can be in the hundreds of thousands of dollars. The exact amount will be calculated by the plan's designated actuary. The terminal funding generally serves the purposes of providing improved early retirement benefits, bridging benefits from the Canada Pension Plan and Old Age Security, and full post-retirement CPI indexing. Terminal funding is generally recommended for those who decide to draw a pension from the IPP or purchase an annuity, and will not be taking the lump sum commuted value at retirement.

IPP Advantages

For qualifying individuals, an IPP provides several key advantages over an RRSP. The following are some of the key advantages.

Increased savings

An IPP is an excellent way to increase your retirement assets, if you have already maximized your RRSP contributions. Depending on your age and income, annual IPP contribution limits can be significantly higher than RRSP contribution limits. As you can see from **Figure 1** below, IPPs first exceed RRSP contributions at around age 40, and continue to rise as the plan holder's age increases. While you may contribute to an RRSP and an IPP at the same time, establishing an IPP will effectively reduce your RRSP limit (in most cases to $600 per year) throughout the lifespan of the IPP. In addition, IPPs offer higher tax-deductible current service contributions than RRSPs.

Figure 1: IPP/RRSP Contribution Limits For 2022

Age	IPP Contribution Limit	RRSP Contribution Limit	IPP Advantage
45	$35,500	$29,210	$6,290
50	$39,000	$29,210	$9,790
55	$42,800	$29,210	$13,590
60	$47,000	$29,210	$17,790
65	$49,300	$29,210	$20,090
71	$42,500	$29,210	$13,290

*Requires T4 earnings of $171,000 in 2022. RRSP maximum contribution limit is $29,210 for 2022.
Source: GBL Inc.

Business tax advantages

When the IPP is established, a business can deduct the cost of the initial lump-sum contribution for past service, as well as deduct ongoing eligible IPP contributions. In addition, all costs and reasonable expenses related to the maintenance of the IPP (such as investment fees) are tax deductible to the company.

Additional benefits

Assets held within an IPP cannot be seized by creditors. Further, your plan sponsor is required to top up the IPP with additional contributions if investment returns are below 7.5% per annum.

It's not mandatory to wind up the plan at retirement, and there is no deemed disposition of plan assets upon the plan member's death. The funds within the IPP will be paid to your spouse/common-law partner, or designated beneficiary. There are also options for multi-beneficiary and multi-generational plans within an IPP, making it ideal for succession planning in family-run businesses.

Investment Options

Generally speaking, investments that are eligible for an RRSP are also acceptable for IPPs. However, there is a 10% investment concentration limit on any one security to ensure broad diversification of the plan's assets. Related party investments, such as shares of the plan member's company, can't be held within the IPP.

Retirement and Funding Options

At retirement, you can decide whether you would like the funds to remain within the IPP and receive payments from the plan. Alternatively, you can transfer the IPP to an appropriate locked-in retirement account, such as a Locked-in Retirement Account ("LIRA"), Life Income Fund ("LIF"), or Locked-in Retirement Fund ("LRIF"). Further, depending on your province of residence (i.e., in Ontario, Saskatchewan, Manitoba, Quebec, and P.E.I), you can transfer the IPP to a Registered Retirement Income Fund ("RRIF"). You also have the option to purchase a life annuity.

Key Roles and Responsibilities

Because IPPs are complex, there are several key roles involved in their establishment and ongoing maintenance. Under pension benefits standards legislation, the plan member can, in fact, play several roles in addition to being the plan member, including being an authorized officer of the plan sponsor/employer, the investment manager, and one of three trustees.

Plan member

IPPs typically have one plan member, who is the business owner, executive of an incorporated company, or an incorporated professional. If there is a second plan member on the plan, it is typically the spouse or common-law partner of the first plan member.

Plan sponsor

The plan sponsor (may also be referred to as the plan administrator) establishes and is responsible for overseeing the IPP. The plan sponsor makes all required contributions to the IPP on behalf of the plan member, on the recommendation of the designated actuary.

The plan sponsor also has overall legal responsibility for the IPP, including its establishment, design, compliance, investment and administration.

Designated actuary

The designated actuary assesses the financial circumstances of the potential plan member, and recommends whether an IPP is a suitable retirement savings option. The actuary assists with the design of the IPP, and drafts and provides several important required documents, including the Plan Text, Trust Agreement, and Statement of Investment Policies and Procedures.

The actuary also applies for the IPP's registration with the Canada Revenue Agency ("CRA") and, if required, to the provincial regulatory authority under the pension benefits standards legislation. Other responsibilities include, but are not limited to:

- Prepares all tax filings with the provincial regulatory bodies and the CRA;
- Prepares periodic actuarial valuations for the IPP, and makes recommendations for past service and current service contributions to the IPP; and
- Instructs BMO Nesbitt Burns (on behalf of the plan sponsor) in regard to transfers and withdrawals from the IPP, upon the plan member's retirement or death, as well as in the event the IPP is terminated.

Investment manager

The investment manager is appointed by the plan sponsor to make the investment decisions for the assets of the IPP; however, the plan member may assume this role.

Trustees

Trustees are appointed by the plan sponsor to hold the IPP assets in trust for the plan member(s). Trustees may be an individual or a corporation. If individual trustees are appointed, there must be at least three trustees who are Canadian residents. Additionally, at least one of the trustees must be independent of the plan sponsor, except in exempt provinces.

Custodian/Investment dealer

BMO Nesbitt Burns serves as the custodian and investment dealer for your IPP. Your BMO Nesbitt Burns Investment Advisor is responsible for recommending and monitoring the IPP's investments and ensuring they are consistent with the Statement of Investment Policies and Procedures, and that the account doesn't hold any related-party investments or prohibited investments.

Establishing an IPP at BMO Nesbitt Burns

The time it takes to set up an IPP and receive final approval from the Canada Revenue Agency can be lengthy, and includes the following:

Step 1: Complete all required documentation and an IPP questionnaire, which is submitted to GBL to determine whether an IPP is a suitable option for your situation.

Step 2: GBL prepares a customized illustration of the proposed IPP. If you decide to proceed, you will need to complete additional documentation. GBL will send your completed IPP application to the CRA. Within four to eight weeks, the CRA will send a conditional approval to GBL.

Step 3: You will be required to complete BMO Nesbitt Burns account opening documentation (Client Account Agreement, and an IPP document booklet, which includes the Investment Advisory and Custodial Services Agreement).

Step 4: Within two to eight months of the initial filing of the IPP documents, the CRA will send their final approval and confirm your IPP's registration. Within 90 days of receiving final registration notification from the CRA, the IPP plan member must make the qualifying transfer from his/her RRSP into the IPP account (if applicable).

Step 5: Your BMO Nesbitt Burns Investment Advisor sets up the IPP, at which time the plan sponsor can make past service and current service contributions, as instructed by GBL.

Interested in an IPP?

The tax considerations involved in establishing an IPP can be complex. Please speak to your tax advisor about the appropriateness of an IPP for your situation.

Please speak with your BMO Nesbitt Burns Investment Advisor for more information about IPPs.

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