BMO NESBITT BURNS

Individual Pension Plans (IPPs)

Features & Benefits Summary

Features

- An IPP is a registered defined benefit pension plan typically established for the benefit of a single participant. A defined benefit pension plan is designed to provide a lifetime pension starting at a certain age. The amount of the pension is determined by formula, and the contribution equals the cost of providing that pension (as calculated by an actuary).
- If the same or a related company employs the spouse, the spouse may be added to the IPP.
- Suitable candidates for an IPP are: (a) small business owners, (b) senior executives with the support of their company's management, and (c) professionals (e.g. doctors, lawyers, dentists, and accountants) in provinces where they are allowed to incorporate.
- To qualify, the IPP plan member must be an employee receiving T4 income, and be serious about planning for retirement. The company sponsor must have the financial resources to fund the IPP on an ongoing basis.
- Canada Revenue Agency requires a transfer from the plan member's RRSP to offset the contribution generated for past service (i.e. years 1991 to 2006). The Qualifying Transfer is determined by calculating the Pension Adjustment that would have been applied in each year of past service assuming that the individual had been in a defined benefit pension plan during those years. The total of the Pension Adjustments for those years less $8,000 and any unused RRSP contribution room equals the Qualifying Transfer.
- The former $8,000 RRSP over contribution is still available under an IPP and is deductible immediately.
- Contributions to an IPP are tax deductible to the sponsoring employer.
- Expenses of the IPP (including actuarial consulting fees, interest on funds borrowed for contributions, and invest ment related fees) are tax deductible when paid directly by the company sponsor.
- Contributions made within 120 days of the end of the fiscal year are tax deductible within that fiscal year.
- The IPP assets may be invested: (a) by a trust company, (b) under a Trusteed self-directed vehicle, or (c) under a life insurance company contract.
- Generally, if an investment is allowed under an RRSP, it is acceptable for an IPP. As a registered pension plan, there is a 10% investment concentration limit designed to ensure broad diversification of plan assets. Related party invest ments (i.e. shares of the employer sponsor) cannot be held within the IPP.
- Except in certain provinces, IPP assets are locked-in and may not be withdrawn in cash until retirement.
- IPPs offer the same termination, retirement and death benefits as do other Defined Benefit Pension Plans.

Benefits for Business Owners & Professionals

- For individuals over age 40, an IPP allows for higher tax deductible contributions than an RRSP
- Assets within an IPP can be protected from creditors
- In most cases, significant lump-sum past service contributions can be made when first establishing an IPP
- Higher tax deductible ongoing contributions … the older the member, the greater the contribution
- IPP contributions may be topped up if investment returns are insufficient. In an RRSP, poor investment performance cannot be made up for by additional contributions
- Significant tax-deductible lump sum contributions at the time of actual retirement are possible in most circumstances
- Allows small business owners to defer taxes and confidently plan for retirement.

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