Individual Pension Plans
A Retirement Savings Option For Business Owners

The federal government recently introduced tax proposals designed to offset certain tax planning strategies within private corporations. In light of the proposals, many business owners and incorporated professionals are re-visiting the viability of investing passively through their corporation and may be considering alternatives tax planning strategies, such as Individual Pension Plans ("IPPs") to help them save for retirement. Although there is still much uncertainty surrounding the tax proposals, this article provides an overview of IPPs and the benefits they provide.

An IPP is a registered pension plan established for a single plan member, and provides an effective way for your business to fund your retirement pension while reducing corporate income taxes. A business can deduct the cost of the initial lump-sum contribution for past service when the IPP is established, as well as 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.

IPPs are ideally suited for business owners between the ages of 40 and 71 who earn (T4) income over $145,722 per year; providing several advantages over using a Registered Retirement Savings Plan ("RRSP") for retirement savings.

Greater certainty of retirement benefits

As a defined benefit pension plan, the IPP must fund a guaranteed retirement benefit based on the plan member's T4 employment earnings and is determined by an actuarial formula. The annual IPP contribution is equal to the cost of funding the pension benefit (as calculated by an actuary). Depending on your situation, annual IPP contribution limits can be significantly higher than RRSP contribution limits, and increase with age. At around age 40, the annual IPP contribution limit equals that of RRSPs, and continues to increase in subsequent years.

Because IPPs are intended to provide a predictable retirement income stream for the planholder, employer contributions can be topped up when investment returns are less than 7.5%. An actuarial valuation must be performed every three-years, and any funding shortfall may require further contributions which can be made over a five-year period. However, if a funding surplus is generated, the employer may need to take a "contribution holiday."

Figure 1 compares the 2017 IPP and RRSP contribution limits for an individual earning $145,722. While the RRSP contribution limit remains static regardless of the contributor's age, IPP contribution limits vary depending on the age of the IPP plan member. Note that the IPP contribution limit is significantly higher than the RRSP limit.

Figure 1: IPP/RRSP Contribution Limits For 2017

Age	IPP Contribution Limit	RRSP Contribution Limit	IPP Advantage
40	$26,600	$26,010	$590
45	$29,200	$26,010	$3,190
50	$32,000	$26,010	$5,990
55	$35,200	$26,010	$9,190
60	$38,700	$26,010	$12,690
65	$41,900	$26,010	$15,890
71	$37,700	$26,010	$11,690

Assumes T4 earnings of $145,722 in 2017 for the IPP, and earned income of $145,722 in 2016 for the RRSP.
Source: GBL Inc.

Retirement income payments

Once a business owner is ready to retire, which can be as early as age 50, IPP assets can be used to pay a guaranteed retirement benefit amount, or transferred to a locked-in retirement plan to provide future pension benefits. IPP payments are considered taxable income in the year they are received by the plan member.

Eligible investments

Generally, investments eligible for an RRSP are also acceptable for IPPs. However, there is a 10% investment concentration limit on any one security, in order to ensure broad diversification of the plan assets. Related party investments (i.e., shares of a plan member's company) cannot be held within the IPP. In addition, assets within an IPP are protected from creditors.

A retirement savings option worth exploring

IPPs provide generous contribution limits, creditor protection, a guaranteed income at retirement, and the ability for your company to make tax deductible contributions to the plan on your behalf. These benefits make IPPs an attractive option to consider versus saving for retirement using an RRSP.

! For more information about whether an IPP may be suitable for you, please contact your BMO Nesbitt Burns Investment Advisor.

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