

Individual Pension Plan (IPP)

Get up to 60% more into your retirement assets than an RRSP

An IPP is a defined benefit pension plan. Unlike the RRSP it sets your monthly income at retirement.

Covered earnings for pension plan purposes are up to \$100,000, in 2005 dollars. An IPP permits the accumulation of greater assets, up to 60% more than an RRSP.

The IPP is similar to an RRSP in that it uses an investment account that accumulates over time to provide retirement benefits. Unlike the RRSP, the IPP provides certain guarantees. The amounts are generally locked in and may generally be used only for retirement purposes. Plan contributions are determined by a series of Actuarial Valuation Reports in order to provide sufficient assets at retirement.

Key Benefits of the Individual Pension Plan (IPP)

- Allows for larger tax deductions – up to 60% more in contributions into your retirement account
- The IPP is an excellent way to increase retirement assets and have your company make large tax deductible contributions
- Allows a significant tax deductible contribution at retirement
- Safer investment rules and limitations compared to RRSPs
- Allows for additional tax deductible contributions to be made by the company should the rate of return on plan assets be less than 7.5% a year
- Pension plan surpluses belong to the member
- Provides pre-determined retirement benefits
- Ability to “succession plan” when family members work in the business
- 100% creditor proofing of plan assets
- No deemed disposition of plan assets upon death. Plan assets remain in the plan to provide benefits to surviving members.

All costs associated with the pension plan are tax deductible to the company.

Who can take advantage of the IPP?

Key candidates for an IPP are business owners, their families, key executives and professionals with Professional Corporations.

The only stipulation is that the sponsoring company must be incorporated.

Who is the ideal candidate?

An owner, incorporated professional, or executive, age 35 and over, and earning over \$100,000 in T4 or T4PS income, is the ideal candidate. However, IPP may also be established for candidates with lower earnings.

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What you need to know

- Assets are locked-in and may, in most circumstances, only be withdrawn during retirement.
- There is little contribution flexibility – in most circumstances the plan must be funded each year.

How it works

Calculating Your Retirement Benefit

Your annual income at retirement age is calculated using:

- Your career T4 or pensionable earnings
- Your age
- Assumptions determined by the actuary, which are acceptable to CRA

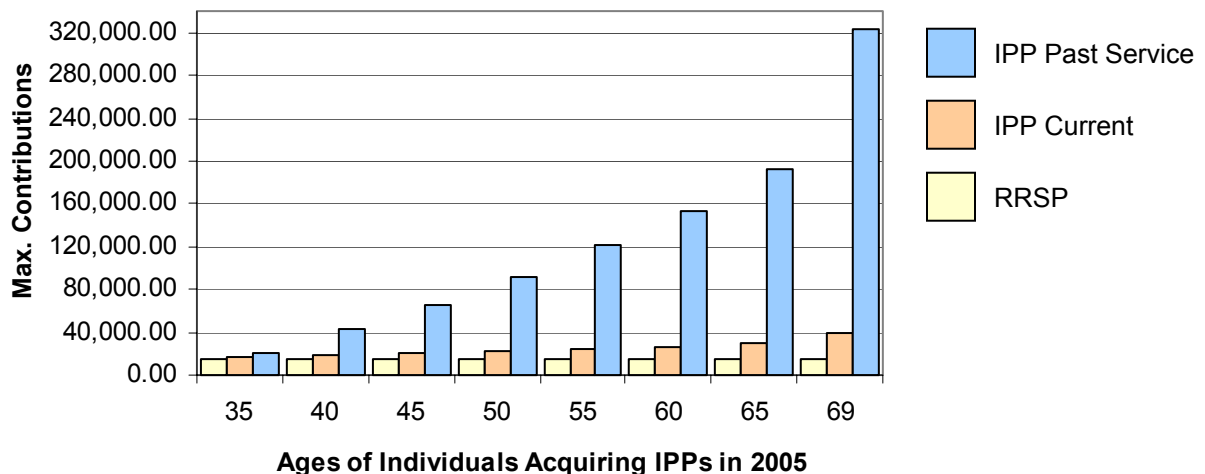
Earnings are used to determine the amount you can contribute. You need to earn T4 or equivalent earnings of at least \$100,000 in 2005 dollars to qualify for full benefits within an IPP.

Contributions are also graduated by age. The older you are, the more you can contribute.

IPP Contributions first exceed RRSP Contributions around age 35. Above this age your IPP contribution room will be higher than your RRSP contribution room. See chart below.

To qualify for maximum IPP benefits, T4 earnings should be larger than \$100,000 in 2005 dollars and you should be age 35 years or older. RRSP maximum for 2005 is 16,500.

Illustration of 2005 Pension Plan Contributions



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How it works, continued

IPP Maximum Allowable Contributions Post February 2005 Federal Budget

Amounts certified by actuary to fund defined benefits* Samples of maximum year 2005 tax deductibility:		
Age in 2005	Past service from 1.1.91**	Current Service
35	\$20,700	\$16,300
40	\$42,300	\$17,900
45	\$66,100	\$19,700
50	\$92,200	\$21,600
55	\$120,900	\$23,700
60	\$152,400	\$26,100
65	\$192,400	\$29,000

* Based on Maximum Earnings updated to 2006 of \$100,000 per annum
** Subject to RRSP transfer of \$199,200
Note: The past service contribution does not have to be made in one year. It can be funded over a period of 15 years, but must be fully funded by age 65

Funding the Pension Plan

Once the actuary has estimated your retirement benefits, the annual contributions needed to fund those benefits are calculated.

The annual contributions compounded at a 7.5% net annual rate of return will ensure your plan has adequate assets to provide your retirement benefits.

A valuation is required to be completed every three years by your actuary to ensure the plan stays on track.

Shortfalls in plan assets normally require further contributions to put the plan back on track. This tax-deductible additional funding can be made over a period of up to 5 years. If a surplus is generated in the plan, the sponsoring corporation may be required to take a contribution holiday.

Retirement

Once you retire you will have a choice of retirement vehicles. The choices are generally a monthly pension from the plan, an annuity, a Life Income Fund (LIF), or a Life Retirement Income Fund (LRIF).

If you decide to purchase an annuity, you should have your financial advisor obtain a market comparison and choose the insurer. The plan will transfer funds to the life insurance company to purchase the annuity.

Annuities can be either single life, covering the life of the plan member only or, if married at date of retirement, a joint & survivor (J&S), with payments generally reducing on the death of the member. The J&S option includes a minimum guaranteed period of 5 years and subsequent payments to the surviving spouse in full or reduced by a percentage selected at the time of retirement.