Pro-Text
By Darren Reith

Is an IPP Right for You?

Are you over 40 and earning a six-figure income? Why not consider looking beyond a Registered Retirement Savings Plan (RRSP) to build your nest egg. For the right person, Individual Pension Plans (IPPs) can generate significant tax advantages beyond those provided by an RRSP. Additionally, an IPP can also produce higher pension benefits.

An IPP is a defined benefit pension plan – if you are a business owner or senior executive, an IPP offers both maximum tax relief and a maximum retirement pension. The result? You won't have to rely solely on your RRSP's performance to provide a long and happy retirement. That's because IPPs also offer guaranteed lifetime income. Any surplus in the plan belongs to you. This is an advantage IPPs have over other pension plans where any surplus stays in the fund and is used by the company to pay for benefits for other members of the plan.

Do you qualify for an IPP?

"If you are in your 50s, running your own incorporated business and earning a six-figure income," says Louise Guthrie, Assistant Vice-President, Manulife Investments Tax and Regulatory Services, "you're in a financial position to seek a more aggressive tax deferral arrangement than exists with your RRSP. If you run the business with your spouse, you could be ideal candidates for a two-person IPP."

To qualify for an IPP, you must:

- Have employment income reported on a T4
- Be an employee of an incorporated company; and
- Be age 40 or older and earn an income of at least $75,000 from the company sponsoring the IPP.

What are the advantages of an IPP?

- Employees over the age of 50 enjoy an annual maximum contribution that is at least $6,000 higher than the maximum contribution for an RRSP.
- Pension benefits are protected from creditor under pension legislation, unlike most RRSPs.
- Guaranteed lifetime income – the IPP offers a predictable retirement income. An actuary determines the current annual funding requirements of the future retirement income
- As you age, contributions to the plan increase. The amount depends on your salary, age, and years of service with the company. If past service is being provided and you have contributed to an RRSP after 1990, you must transfer your RRSP funds to the IPP. The company then pays the balance of the cost to provide for past service from 1991.
- IPP contributions and expenses are fully tax deductible to the business. If you borrow money or amortize the past service cost, you can deduct interest charges.

IPPs Have Drawbacks

While idea savings vehicles for many, IPPs are not for everyone. It's important to remember IPPs are defined benefit pension plans and not RRSPs with higher limits. At retirement, or if you leave the company, or decide to wind up the plan – any surplus that is not required to pay for the promised benefits is paid to you in a lump sum and is fully taxable. You must also pay for actuarial and administrative services as well as provincial filing fees that don't apply to an RRSP.

Most actuarial firms will change the same to administer an IPP as any other type of defined benefit plan. In addition to the actuarial and administration fees – other fees could include annual provincial filing fees and trustee fees, where applicable. Your advisor will guide you to an actuarial firm that best reflects your needs.

"Before making any decisions, speak with your financial advisor and be sure you understand all the benefits and drawbacks to IPPs," says Louise Guthrie. "To make the most of your IPP, you've also got to have a long-term financial plan in place as well as a firm handle on your income flow."