



# Individual Pension Plans

An IPP (Individual Pension Plan) is a unique retirement funding vehicle for all business owners, senior executives, incorporated professionals, employed family members, and “connected employees” who own 10% or more of the corporation’s shares.

## What is an IPP?

An IPP is a defined benefit plan sponsored by an incorporated company that allows the plan member to build their retirement savings on a tax-deferred basis. A plan member must earn T4 income from the sponsoring corporation in order to be eligible. An IPP is limited to three or fewer individuals; however, there is no defined limit on how many IPPs a corporation can sponsor.

An IPP can allow up to 65% more in tax-deferred contributions than a Registered Retirement Savings Plan (RRSP) can, making it an attractive opportunity for certain clients.

An actuarial formula is used to calculate an annual pension that is equal to a percentage of an employee’s income multiplied by the years of employment to a maximum defined amount. Depending on the applicable pension legislation, the corporation must have actuarial valuations performed every three to four years.

An actuary will also establish employer contributions to fund the pension. Once an individual has reached age 40, maximum IPP contributions will exceed those of RRSPs. It is also possible to fund the previous year’s pension benefits once the IPP is created. Funding of these past service benefits can result in significant deductible contributions for the employer and further contributions of assets into the IPP.

# IPP Advantages

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## Tax Deductible

All contributions, administration expenses, and investment counsel fees paid to manage the IPP are tax-deductible events for the corporation. They are also a non-taxable benefit to the IPP beneficiary for as long as the money is kept in the IPP.

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## Creditor Proof

Assets held in the IPP cannot be seized by creditors of the business on the condition that the pension plan was set up in good faith.

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## Surplus Assets

In the event of a surplus exceeding the actuary's projection due to investment performance, the surplus may be used to increase pension benefits or transfer the surplus to a spouse, heirs, or estate.

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## Provides Lifetime Income to Members and Their Spouses

An IPP provides a predictable retirement income. An actuary determines the current annual costs of future retirement income. Eligible spouses receive 67% of the pension in the event of a plan member's death. Spousal pension benefits may be increased at the time the member retires.

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## Past Service Funding

An IPP allows business owners to make contributions for years of service prior to the setup of the plan. No other plan or individual investment can offer this benefit, making it an exclusive perk. First-year contributions from past service funding can be as high as \$313,000.

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## Terminal Funding

One of the most attractive features of the IPP is the possibility of terminal funding. At retirement, the IPP can be amended to provide the most generous terms possible. Some of these include full consumer price indexing, an early retirement pension with no reduction, and bridge benefits until Canada Pension Plan payments begin. Terminal funding can result in additional deductible contributions of greater than \$250,000.

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## Summary

An IPP solution allows for potentially hundreds of thousands of tax-deferred income dollars to be invested in an IPP structure, making it possible for owners or executives to have their nontaxable returns compound until retirement.

# Next Steps

**Bellwether Investment Management** can help you through the process of selecting a skilled actuary, ensuring a seamless start to your journey.

Bellwether will require the following information:

- T4 or pensionable earnings for as far back as 1990 or for your entire work duration with the corporation.
- Your date of birth.
- Current RRSP balance.

Afterwards, the actuary will create a quotation that includes a list of all the possible past service contributions and the future contributions required for the IPP. This quotation will give you a clear understanding of the financial aspects involved in the plan.





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This presentation is for informational purposes only. Professional tax and actuarial advice should be obtained prior to establishing an IPP.

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