



## **Individual Pension Plans...**

Incorporated businesses looking to add a benefit for their owners and top executives might want to consider a tax minimization structure that in recent years has gained in popularity. It is called the individual pension plan.

An IPP is a sound business decision for most business owners and top executives who have regularly maximized their RRSP and have the income to support a more aggressive tax deferral arrangement. IPP's are a business owner/ executive answer to traditional registered retirement savings plans. They are endorsed by the Canada Revenue Agency and offer the best tax and retirement savings solution for individuals 40 years old and older who have a T4 income of more than \$100,000 and have historically maximized their RRSP's and pension contributions. Implementing the IPP solutions will allow both an employer and its key people to receive maximum tax deferral.

### **Other IPP advantages**

**Tax deductibility:** All contributions, interest and expenses are tax deductible to the incorporated business and are a non-taxable benefit to the person the IPP is set up for as long as the money is kept in IPP.

**Creditor proof:** Assets held in the IPP cannot be seized by creditors of the business on condition that the pension plan was set up in good faith-not just because of a looming bankruptcy.

**Ownership of plan assets:** At retirement, the business owner/ executive owns any actuarial surplus. The surplus may be used to upgrade pension benefits or pass the surplus tax-free to his or her spouse, to his heirs or to an estate.

### **Guaranteed lifetime income to members and their spouses**

The pension plan offers a predictable retirement income. An actuary determines the current annual costs of the future retirement income. Eligible spouses receive 66.66 per cent of pension in the event of death of the plan member. Spousal pension benefits may be upgraded to 100 per cent at the time the member retires.

### **Past service funding**

For business owners and executives, the individual pension plan funding formula is more generous than RRSP limits. The pension plan allows business owner to make contributions for years of service prior to the setup of the plan. No other plan or individual investment can offer this benefit. First year contributions with past service funding can be as high as \$369,000.

### **Terminal funding**

One of the most attractive features of the IPP is the possibility of terminal funding. While CRA restricts the benefits that can be pre-funded, at retirement, the pension plan can be amended to provide the most generous terms possible. Some of these include: full consumer price indexing, early retirement pension with no reduction as well as bridge benefits.

Individual pension plans may be the best deferred income plan to provide for both business owners and executives but don't expect a regular financial adviser or benefit consultant to be knowledgeable in all the particulars of IPP's.

Summary:

1. IPP contributions and all fees are tax-deductible to corporation
2. Significantly higher contribution limits provide larger retirement savings
3. IPP provides bulletproof creditor protection from personal & corporate creditors
4. Excellent succession planning tool
5. Excellent estate planning tool if other family members work for the corporation
6. Lump sum contribution can be made to fund early retirement
7. Generous past service funding is available back to 1991

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