FOUNDATION
PRIVATE WEALTH MANAGEMENT

Individual Pension Plan
Retirement Options

Get up to 65% more into your retirement plan than a traditional RRSP

An Individual Pension Plans (IPP) is a retirement planning solution which should be considered for business owners, professionals and senior executives who have maximized their RRSP contributions and are looking for significant tax advantages and greater pension benefits.

An Individual Pension Plan is a **Defined Benefit Plan** whereby the corporation makes contributions on behalf of the business owner, their families or key employees in order to properly fund their retirement needs. The IPP is **tailor-made** to the individual member and as such can be customized to meet their needs.

Profile Candidate

To consider an IPP, you should have the following profile:

- Be 40 years of age or more
- Have $75,000 or greater of T4 income,
- Work for the same company for at least 5 years (older professionals with recently established professional corporations may establish IPP's with little or no past service)
- Have the necessary corporate earnings to expense the pension contributions

Things You Should 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- Assets are locked-in and may, in most circumstances, only be withdrawn during retirement.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.
- IPP's affect your RRSP room in the year of setup. Contributing to both in the same year can cause over contribution and subsequent penalties.
- To qualify for **full benefits** within an IPP you need to earn T4 or equivalent earnings of at least **$122,222** in 2009 dollars.
- The corporation must also be prepared to undertake the funding, administration and reporting duties of the Plan (the latter two are handled by **Foundation Private Wealth Management** with the support of the Actuary and the Trustee who may be one and the same).

Advantages of an IPP

- Tax deductibility of contributions to the corporation
- Creditor protection of plan assets is 100%
- Guaranteed lifetime income to participants and their spouses
- Greater yearly funding compared to an RRSP
- Ability to make a past service contribution
- Allows for final funding opportunity to purchase full pension benefits at retirement
- Greater flexibility to transfer plan assets to the next generation
- Surplus plan assets are owned by the member not the company
- Unlike an RRSP, allows for plan assets to be topped up if return of plan is less than 7.5% annually.

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A Case Study for John Smith of Smith Consulting Inc.

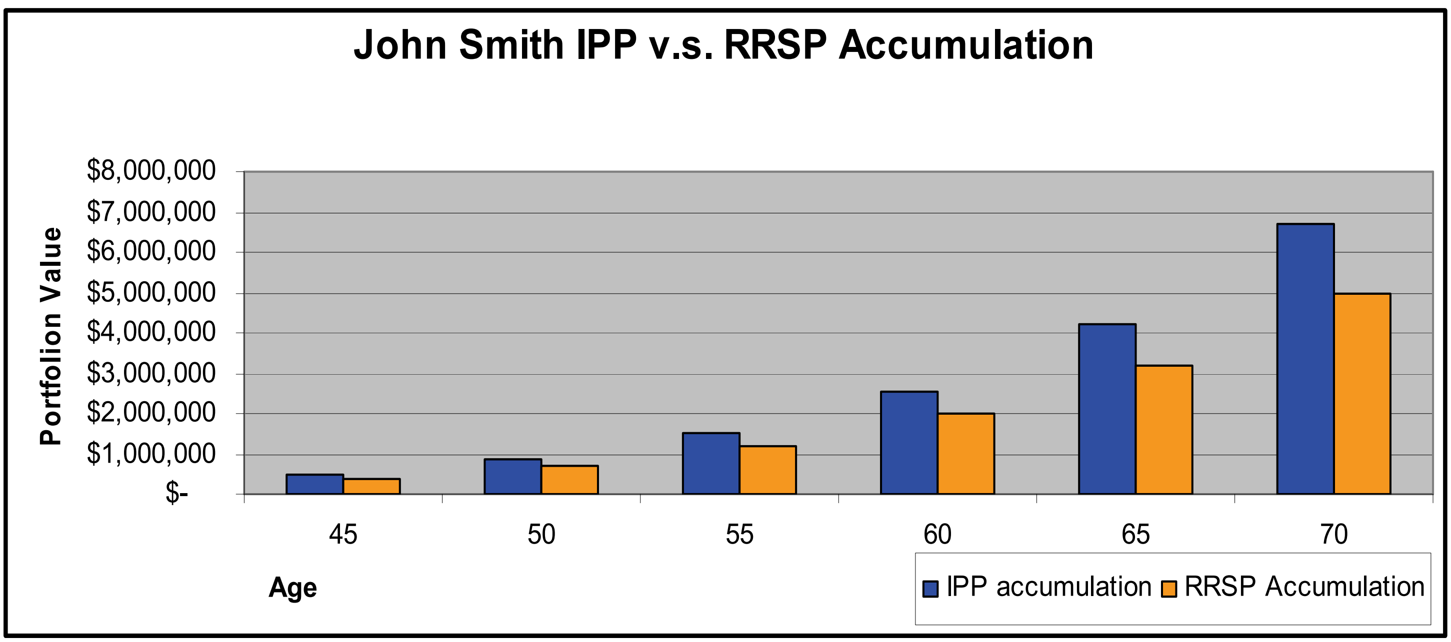
John Smith has been running his consulting company since 1989, but incorporated the business in 1991. At the advice of his accountant he has been taking maximum T4 earnings since the date of incorporation in order to provide him with a greater retirement fund and potential pension benefits down the road.
It is now 2009 and John has reached the age of 45, his company is generating a stable revenue stream and he would now like to create a pension plan to ensure a greater comfort level for him and his wife (Jane Smith) in retirement. John is currently planning to retire at age 71.

The Benefit

Year	Age	IPP Contributions	RRSP Contributions
2009	45	$ 24,400	$ 21,000
2014	50	$ 35,100	$ 27,300
2019	55	$ 50,300	$ 35,600
2024	60	$ 72,200	$ 46,600
2029	65	$ 103,700	$ 60,800
2034	70	$ 120,700	$ 79,500

The Facts

- Current Age 45
- Connected employee
- Pension eligibility back to 1991
- John earned maximum pensionable earnings in each year of service
- Past Service eligibility is **$83,800** with an RRSP qualifying transfer of $339,800



Assumptions
Earnings are assumed to increase at 5.5% per annum   Accumulation assumes annual rate of return of 7.5%

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John Smith considers his options for retirement

John Smith is now 55 years old and has considered taking an **early retirement** with his wife. He has been discussing the early retirement option very seriously and would like to review the numbers to determine what type of pension is now available to him.

John has been able to accumulate a significant amount of assets at the corporate level and would like to purchase the maximum pension benefit that he is entitled to. John would also like to consider buying an option to index his pension to inflation.

The Annual Pension Benefit that John Smith Would Receive

Year	Age	IPP Accumulation	Actuarially Reduced Pension (Basic Pension)	Unreduced Pension	Bridge Pension	Unreduced Pension with Bridge
2019	55	$ 1,512,608	$ 84,350	$ 18,575	$ 24,363	$ 127,288
2024	60	$ 2,546,307	$ 153,318	$ 32,225	$ 23,776	$ 209,319
2029	65	$ 4,193,595	$ 278,159	NA	NA	$ 278,159
2034	70	$ 6,705,667	$ 504,117	NA	NA	$ 504,117

Tax Deductible Funding Required from the Company to Purchase Each Benefit

Year	Age	IPP Accumulation	Funding for Unreduced	Funding for Bridge	Funding for Full CPI	Maximum Accumulation
2019	55	$ 1,512,608	$ 321,638	$ 207,699	$ 192,569	$ 2,234,514
2024	60	$ 2,546,307	$ 516,399	$ 109,714	$ 277,318	$ 3,449,738
2029	65	$ 4,193,595	NA	NA	$ 290,796	$ 4,484,391
2034	70	$ 6,705,667	NA	NA	$ 408,692	$ 7,114,359

Assumptions
Earnings are assumed to increase at 5.5% per annum   Accumulation assumes annual rate of return of 7.5%

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John Smith's Options for the Plan

Depending on what happens with John's company and his retirement decision, he would have the following options with the pension plan. Each option below has a brief explanation of when it might be considered by John.

Plan Continuation

This option would be used if the operating company maintains ongoing revenue . It would also allow John to purchase the **maximum pension benefits** at retirement should the company decide to fund them.

Alternatively, John could also transfer the pension to a holding company if the operating company is sold or discontinues operations. This would allow him to again purchase the full pension benefits prescribed under the plan.

Locked In Retirement Account (LIRA)

This option would be considered by John if the company was sold and the plan sponsor (the new owner of the corporation) did not want to maintain the pension plan or if John left the company after he sold the business. A LIRA is typically used when key executives leave the firm they are employed with and they do not have a holding company.

Depending on the funding status at the time of departure or plan discontinuation, John may not be eligible to purchase the full retirement benefit and may in fact have to transfer out a portion of the plan assets as fully taxable income.

Locked-In Retirement Income Fund (LRIF)

This option is simply a conversion of the LIRA option. John would convert to a LRIF when he decides to withdraw income from the plan. Like a RRIF, a LIRA must be converted to a LRIF at the time John turns 71.

Annuity

The ability to annuitize pension benefits at retirement, termination of employment, or at a subsequent date, are always available. Since John is married, a joint and survivor annuity would typically be used which includes a minimum guaranteed period of 5 years and reduces to 66.67% on the death of John.

Annuities are typically more attractive when interest rates are higher, however, once selected, annuities are locked in for life.

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