



Individual Pension Plans

Building Your Retirement Future



»» Individual Pension Plan Overview

Features

- ▶ Registered Pension Plan
- ▶ The “Teachers Pension Plan” for business owners and incorporated professionals
- ▶ Governed by Income Tax Act and relevant Provincial pension legislation
- ▶ 1990 Regulations govern today’s IPP
- ▶ Predictable results and lower risk
- ▶ Considerable tax relief

Ideal Candidate

- ▶ Age 45 to 71
- ▶ Maximum T4 Income \$124,722 for 2010
- ▶ Reasonable business history
- ▶ Corporation or Professional Corporation in place to sponsor the plan
- ▶ Employment relationship (T4, T4A, T4PS)
- ▶ Avoid the all dividend strategy
- ▶ Wish to replace the shareholder bonus strategy

Continued Popularity

- ▶ Canadian business owners are approaching retirement in tremendous numbers
- ▶ Many retirement plans require greater discipline
- ▶ Meaningful tax relief is sought
- ▶ Cost and complexity not an issue with the right actuarial partner

Advantages

- ▶ Greater tax deductible contributions
- ▶ Creditor protection
- ▶ Expenses tax deductible
- ▶ Plan Surplus belongs to participants
- ▶ Investment returns balanced by contributions
- ▶ Not subject to provincial payroll taxes (NF, PQ, ON, MB)

Advantages, continued

- ▶ No need to wind up plan on retirement
- ▶ Spouse and adult children may be participants if employed by sponsoring company
- ▶ Ideal for a family business
- ▶ Additional lump sum contributions available immediately before retirement

IPP Maximum Allowable Contributions

Amounts certified by actuary to fund defined benefits. Samples of maximum year 2010 tax deductibility:

Age in 2010	Past Service**	Current Service*
40	\$47,400	\$22,700
45	\$88,300	\$24,900
50	\$133,200	\$27,400
55	\$182,600	\$30,100
60	\$236,800	\$33,000
65	\$296,300	\$36,500
71	\$205,900	\$31,400

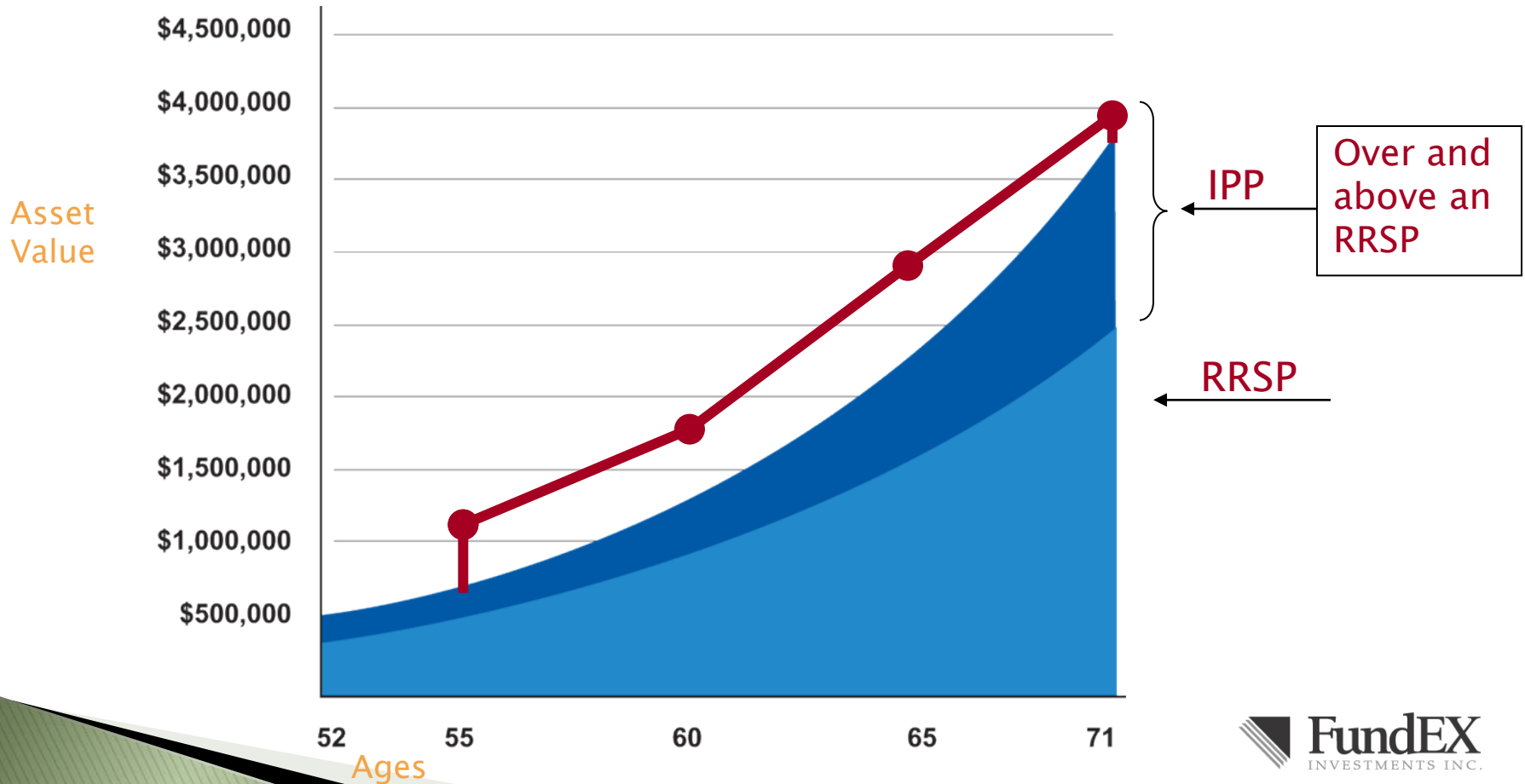
* Based on Maximum Earnings updated to 2010 of \$124,722 per annum

** Subject to RRSP transfer of \$367,950 (Based on individual circumstances)

Asset Value Chart

Comparison between RRSP and IPP assets for a 55 year old to age 71

- IPP Allows for **Additional Funding at Retirement**



»» Individual Pension Plan Case Study

Case Study

- ▶ Bob Smith is a 55 year–old self–employed businessman and has been incorporated for 20 years.
- ▶ Bob has begun to plan for his retirement and is looking for a way to defer the tax on earnings until he is able to withdraw that money as income upon retirement.
- ▶ Comparing the Individual Pension Plan (IPP) to the RRSP strategy, Bob discovers that at retirement the IPP provides him with an increase of up to 65% more assets than his RRSP.
- ▶ As Bob has been in business for 20 years, he qualifies for full Past Service benefits from January 1, 1991.
- ▶ This increases his first year contributions by \$182,600. Coupled with his Current Service contribution of \$30,100, he can contribute \$212,700 tax deductible, from his company to his Individual Pension Plan in the first year.

Case Study – Continued

- ▶ Bob lists all contributions, plus interest growth, to his 71st birthday.
- ▶ Past Service Contribution + Rollover \$ 550,550
- ▶ Total Current Service Contributions to age 71 \$ 904,700
- ▶ Amounts Above + 7.5% per annum compound \$ 3,494,249
- ▶ Additional Funding allowed at retirement \$ 209,335
- ▶ Total Plan Assets at age 71 \$ 3,703,604
- ▶ The total accumulation for an RRSP Only Strategy at age 71 would be \$2,292,353.

IPP vs RRSP Asset Accumulation

Age 55 year old with full past service back to January 1st 1991 and maximum earnings.

Age	IPP	RRSP
60	\$1,118,317	\$750,547
65	\$1,926,925	\$1,273,405
71	\$3,494,249	\$2,292,353

Beneficiary Options

- ▶ Spouse is the main beneficiary
- ▶ Adult children can be named to receive equal benefits
- ▶ Children under the age of 18 should not be elected as beneficiary of an IPP
- ▶ When youngest child attains age 18, the beneficiary designation can be changed

Multiple Options at Retirement

- ▶ Pension from the pension plan
- ▶ Purchase an annuity
- ▶ Transfer to a LIRA

»» Individual Pension Plan Investment Strategies

Mutual Funds Provided through:



Investment Options

- ▶ Like an RRSP there are many investment options that can be used in an IPP including but not limited to:
 - F Class Shares (Stripped down mutual fund)
 - Stocks
 - Bonds
 - Treasury Bills
 - Mutual funds
 - Pooled funds

Mutual Funds Provided through:

Investment Options

- ▶ Unlike an RRSP the concentration in one security can not exceed 10%
- ▶ Within an IPP the management fees incurred may be tax deductible
 - This would be true typically for any investment that charges an external management fee like:
 - F Class Shares
 - Pooled Funds
 - Segregated stock and bond account

Mutual Funds Provided through:

Investment Strategies

- ▶ Since IPP's are a tax sheltered investment structured like RRSP's it is best to allocate the fixed income portion of the portfolio within it
- ▶ Since a return of over 7.5% annualized over 3 years will yield a pension surplus, there is also no need to attain significant returns while taking undue risk
- ▶ An IPP by its very name is a pension and should be treated as such when making any investment decisions. Remember this will be the foundation of your future retirement

Mutual Funds Provided through:

FundEX Disclaimer

- ▶ Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual funds are not guaranteed and are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Fund values change frequently and past performance may not be repeated.
- ▶ Labour Sponsored Investment Funds (“LSIF”) have tax credits that are subject to certain conditions and are generally subject to recapture, if shares are redeemed within eight years. Please note that Mutual Fund Representatives in Alberta are not permitted to sell LSIF.
- ▶ An investor proposing to borrow for the purchase of securities should be aware that a purchase with borrowed monies involves greater risk than a purchase using cash resources only. The extent of that risk is a determination to be made by each purchaser and will vary depending on the circumstances of the purchaser and the securities purchased.
- ▶ Discuss the risks associated with leveraged mutual fund purchased with an investment funds advisor before investing. Purchases are subject to suitability requirements. Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same if the value of the securities purchased declines.
- ▶ Investors should educate themselves regarding securities, taxation or exchange control legislation, which may affect them personally. This web site is for general information only and is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. Please consult an appropriate professional regarding your particular circumstances.

Mutual Funds Provided through: