Individual Pension Plans (IPPs)

An individual pension plan (IPP) is a personal defined benefit plan. The primary purpose of an IPP is to provide periodic retirement income to the member of the plan at a stated retirement age.

Business owners and key executives with incomes above registered retirement savings plan (RRSP) limits want to be provided with periodic retirement income and build retirement assets large enough to maintain a desired lifestyle. An individual pension plan is a personal defined benefit pension plan, which may achieve the goal of building greater retirement assets.

What are the Key Benefits?

- Retirement income is known in advance, as it is a defined benefit plan
- Growth at 7.5% per annum, with valuations every three years
- Contribution amounts increase with the age of the member, subject to adjustments.
- All contributions and costs are tax-deductible to the sponsoring company
- Potential for credit protection
- Reduces payroll taxes in certain provinces
- Opportunity to keep the plan operating after age 69, if the plan is paying the retirement benefits
- The level of funding required to provide the promised retirement befits is calculated by actuaries, who follow guidelines set down by income tax regulations
- If the pension plan document permits, any plan surpluses belong to the member
- Owners of a corporation have an alternative, tax-efficient way to move funds out of their business now or in preparation of selling the business
- Possible succession planning within an incorporated family business (taxes are deferred upon death)

What you Need to Know

- Assets are locked-in until drawn for retirement income
- The plan must be funded each year by the sponsoring company to reach a growth rate of 7.5% per annum, the company carries the risk for covering deficits
- Income splitting opportunities using spousal RRSPs are diminished
- There are significant costs associated with an IPP included start-up costs, trust documents, registration requirements, triennial actuarial valuations and annual filing requirements
- IPPs are complex

Comparing an IPP with an RRSP

- Retirement income with an IPP is known in advance, since it is a defined benefit plan; RRSP income paid out from a registered pension plan is dependent on the performance of the investments in that plan.
- Contributions to an IPP may be larger than RRSP contribution limits
- IPP contribution schedule is calculated by actuaries and revised every three years
- Assumptions by the income tax regulations require a 7.5% annual return, which is the sponsoring corporations risk; investments in an RRSP cannot guarantee a return.

Who should consider an IPP?

- Owners of a corporation
- Professionals
- Key executives

The ideal plan participant should be over 40 years of age, earn an annual income of more than $100,00 and be employed with their current employer for at least 7 years.