

Brief: January 2012

## IPPs — Alive and Well in 2012!

In its March 22, 2011 budget, the federal government proposed new measures concerning the funding of past service credited under an Individual Pension Plan (IPP). In a nutshell, most IPP participants would have had to transfer all of their RRSPs and use all of their unused RRSP room before a new tax-deductible past service contribution could be made. Pension industry leaders became very concerned over the inequities and unfairness of certain aspects of the proposed rules with respect to IPPs, and raised these concerns with the Conservative government. In our *Brief* dated October 2011, we announced good news: An amended version of the draft Income Tax Regulations had received its first reading on October 4, 2011. We were very hopeful at that time that the amended version, which restored the opportunity to make full past service contributions in most situations, would shortly be written into legislation.

We're excited to make everyone aware that Bill C-13, an amended version of the draft Income Tax Regulations, received Royal Assent on December 15, 2011. It appears that the issues raised by pension industry leaders were finally heard and at last addressed. After a long-winded adoption process, it feels wonderful to be able to tell our clients and prospects that the Bill has received Royal Assent and is now law!

This issue of *Brief* provides more information on the amended rules and their impact on IPP prospects. As you will see, the amended rules will restore the opportunity to make significant tax-deductible past service contributions to most IPPs. Chances are, if you were considering setting up an IPP before the Bill was passed, it still makes sense to consider one today.

### How will the required RRSP transfer be calculated under the amended rules?

The required RRSP transfer will be the greater of:

- 1) the amount calculated before the proposed rules were first introduced ("old rules"); and
- 2) the participant's RRSP assets pro-rated as follows:

Years of past service credited, divided by the lesser of participant's age minus 18, and 35

This amount cannot be greater than the cost of the past service being credited under the IPP minus any unused RRSP contribution room.

## What is the impact of these changes on IPP prospects?

The table below shows the impact for different potential IPP prospects, assuming that:

- they received enough employment earnings in each of the past service years to be entitled to the maximum pension benefits
- they can be credited past service since January 1, 1991
- they have no unused RRSP room
- they will use the \$8,000 negative room allowed

Under all these scenarios, the required RRSP transfer under the old rules is \$434,940. We see that these prospects would only be prevented from making a tax-deductible past service contribution if they have rather large RRSP assets.

Age	Past Service Contribution	RRSP value above which IPP contribution decreases	RRSP value above which IPP contribution is nil
40	70,100	455,700	529,100
45	119,900	559,200	713,300
50	174,500	662,800	928,600
55	234,400	724,900	1,115,600
60	300,300	724,900	1,225,400
65	372,800	724,900	1,346,200

Prospects can have a significant amount of RRSPs and still be able to make an important, new tax-deductible IPP past service contribution. For most prospects, these proposed rules mean a complete restoration of the ability to make large past service contributions, which is one of the most interesting features of IPPs.

If you have any questions on Individual Pension Plans or any other pension vehicles, please do not hesitate to contact Buck Consultants.

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2