

# An Overview

## WHAT ARE INDIVIDUAL PENSION PLANS?

Individual Pension Plans (IPPs) are employer-sponsored Defined Benefit (DB) pension plans that usually have one member. However, a spouse who is an employee of the same sponsoring company can also be included as a plan member.

You should consider an IPP if you are:

- An incorporated, self-employed business owner or professional who needs to boost your retirement savings
- An employer looking to enhance retirement benefits for a key employee

IPPs are ideal for individuals who want to contribute more to a tax-sheltered retirement plan than what's currently permitted by Retirement Savings Plans (RSPs). They are generally best suited for individuals over 40 with significant employment income.

## HOW THEY WORK

IPPs are established for eligible individuals using a customized model. A Statement of Investment Policy and Procedures (SIP&P) is drafted, outlining how the pension funds will be managed. As with any DB pension plan, the pension income is calculated according to a formula based on a number of factors, such as years of service and salary levels. The employer is responsible for providing guaranteed income, regardless of the investment climate.

As a DB pension plan, the IPP must provide a lifetime retirement pension for the employee. An actuary engaged by the sponsoring company will determine the contributions required in order to fund the promised pension benefit.



An actuarial valuation must be completed at least once every three years (once every four years in certain jurisdictions).

If the IPP participant retires before age 65, additional contributions can be made to the IPP to fund early retirement benefits. Depending on the actual retirement age, the funding of these benefits may help to reduce any surplus in the IPP or allow for additional tax-deductible contributions to the IPP.

Pension benefits become "locked-in" in most jurisdictions, and legislation requires that locked-in money is directed in such a way that maintains an income stream for the individual's retirement years. Pension benefits can be paid directly from the IPP funds. Alternatively, if the IPP is terminated, the IPP funds may be transferred to a Locked-In Retirement Account (LIRA) – or in some cases, to an RSP – to accumulate until age 69, or used to purchase an annuity.

## AN ATTRACTIVE OPTION

IPPs are a valuable retirement tool ideal for incorporated business owners and professionals looking for additional retirement income. They provide a safe way to make higher contributions than permitted by Retirement Savings Plans (RSPs), while enjoying the same tax advantages. IPP contributions are tax-deductible and grow within the plan on a tax-deferred basis – just like an RSP.

Here are some of the intriguing advantages of an IPP:

- As a DB pension plan, retirement income is defined and predictable.
- IPPs help maximize retirement benefits since the amount that can be accumulated within an IPP is greater than what can be accumulated within current RSP contribution limits.
- Investments grow on a tax-deferred basis, meaning you don't pay any tax on investment income generated within the plan until you actually start receiving payments. Typically, this results in much greater growth over time.

- IPPs allow individuals whose investments have not done well to make additional tax-deductible contributions. This ensures that the pre-determined pension can be paid, whereas RSP investment losses cannot be made up.
- Lump sum contributions can be made for past service back to 1991 (or before, if certain conditions are met).
- Contributions to the IPP and the fees to set-up and administer the IPP are tax deductible by the employer.
- Employer contributions to the IPP are not considered a taxable benefit for the employee, and are not subject to payroll taxes.
- If the employer needs to borrow funds in order to make IPP contributions, then the cost of borrowing is also tax deductible.

#### **HOW CAN WE HELP?**

Establishing an IPP can greatly enhance retirement benefits, but it can also be very complex. That's where our team of professionals can help – by making it easy to establish an IPP that's right for you.

#### **PREFERRED ACTUARY**

To provide you with premier actuarial services for your IPP, we are working with Buck Consultants, an ACS company, North America's oldest actuarial firm. Established in 1916, Buck Consultants provides pension and health & welfare consulting to more than 15 million people worldwide through its team of 2,000 professionals.

#### **PROFESSIONAL WEALTH MANAGEMENT**

At RBC Dominion Securities, we have been helping individual and corporate clients achieve their financial goals since 1901. Today, we are Canada's leading provider of wealth management services.

**For more information about establishing an IPP, contact your Investment Advisor today.**



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