Individual Pension Plan

IPPs: Frequently Asked Questions

General IPP Questions

1 What is an IPP?
2 What is a defined benefit pension plan?
3 Who calculates the amount of contributions to an IPP?
4 Who can establish an IPP?
5 What is special about IPPs?
6 What criteria make an IPP advantageous for an individual?
7 Who is the ideal candidate for an IPP?
8 What is a “connected person”?
9 What are the different types of contributions that can be made to an IPP?
10 Can contributions made to an IPP be withdrawn at any time?
11 Are contributions to an IPP locked-in?
12 Can “past service” be provided when the individual has contributed to a spousal RRSP?
13 What if I have already made my current year’s RRSP contribution?
14 What if I have unused RRSP room at the end of the previous year?
15 What happens if my ability to contribute to the IPP is reduced?

Questions on the fiscal aspects of IPPs

16 Are IPP contributions tax deductible?
17 Are there other tax deductions related to IPPs?
18 When can you start contributing to an IPP?
19 How much time do you have after the end of the fiscal year to make a contribution to an IPP so that the contribution will be deductible for the fiscal year in question?
20 When does an IPP have to be in place in order for the company to deduct contributions to the IPP for a given fiscal year?

Questions on the legal aspects of IPPs

21 Who regulates IPPs?
22 Can the amounts contributed to an IPP be seized by creditors?
23 What happens to an IPP if the company that established it is sold?

Questions on the process of establishing an IPP

24 How can I find out the amount of contributions that can be made into an IPP?
25 What are the steps required to establish an IPP?

Questions on the advantages and considerations of IPPs

26 What are the advantages of IPPs versus RRSPs?
27 What are the main considerations for IPPs versus RRSPs?

Questions on maturity options for IPPs

28 What happens to the IPP monies if your employment or the plan is terminated?
29 What are my payment options at retirement?
30 If I retire before turning 65 will I be able to get my IPP pension right away?
31 What happens to the IPP funds that remain after my death?
32 What happens on the death of the last person entitled to benefits under the IPP?

General Information about Individual Pension Plans

1. What is an IPP?

An IPP is a defined benefit pension plan established by a company for one individual (sometimes two, if the participants are family members). The IPP was developed to offer the maximum benefits permitted by the Canada Revenue Agency.

2. What is a defined benefit pension plan?

As the name indicates, it is a pension plan where the benefits (or the amount of annuities or payments) are defined in advance. The amount of contributions required to fund the promised benefits must therefore be calculated based on a set of assumptions.

3. Who calculates the amount of contributions to an IPP?

An actuary must calculate and certify that the IPP contribution calculation complies with legal requirements.

4. Who can establish an IPP?

Like all pension plans, an IPP must be established by an incorporated company. An individual who wants an IPP must first convince the company that he/she works for to establish the IPP.

5. What is special about IPPs?

For participants meeting certain criteria, IPPs allow for much higher employer tax-deductible contribution amounts than the maximum permitted for RRSPs.

6. What criteria make an IPP advantageous for an individual?

IPPs are most advantageous for an individual who is 40 years of age or older, and who wants to contribute more money on a tax-sheltered basis than the maximum permitted for RRSPs. There's no specific criteria related to the salary of the individual; however, the financial advantages of IPPs increase in relation to the individual's salary up to a maximum.

7. Who is the ideal candidate for an IPP?

Incorporated business owners that meet the criteria outlined above are ideal candidates to establish IPPs for themselves, since a company must establish an IPP and these individuals have the authority to make these types of decisions on behalf of their companies.

8. What is a "connected person"?

A "connected person" is a person who directly or indirectly (spouse, brother, sister, child, grandchild, father, mother) holds at least 10% of a company's shares or the shares of any other corporations linked to the company.

9. What are the different types of contributions that can be made to an IPP?

- Annual contributions: always greater than the maximum permitted by an RRSP for an individual that meets the criteria described above;
- Past service contributions: It is possible to purchase additional years of service in an IPP. It will be necessary to transfer an amount from the participant's RRSP to his/her IPP for the company to contribute the balance of the cost of the past service.
- An additional contribution at retirement: certain benefits cannot be pre-funded due to limitations imposed by the Income Tax Act.
- An additional contribution when terminating the IPP, if annuities are purchased: it is possible to purchase the benefits payable from an IPP from an insurer; in which case, an additional contribution may be required if annuity interest rates are less than 7.5%.

10. Can contributions made to an IPP be withdrawn at any time?

No. Contributions to an IPP cannot be withdrawn for any reason other than for the payment of benefits. When the IPP is terminated, the amount can be transferred to another registered retirement savings product subject to a maximum or used to purchase an annuity.

11. Are contributions to an IPP locked-in?

Yes – generally contributions from an IPP are locked-in on termination. The allowable transfer would be sent to a locked-in registered fund. For connected members, in the Province of Quebec, different rules apply as well as in the Province of Prince Edward Island.

12. Can "past service" be provided when the individual has contributed to a spousal RRSP?

Generally, no. If the individual's contributions in the past have always been to a spousal RRSP, it is unlikely there will be enough room to have the past service certified by CRA. Normally, an individual who has maximized their RRSP contributions can only receive past service benefits by transferring RRSP assets to the IPP or by making a withdrawal. Because the spousal RRSP will not be in the individual's name, a transfer or a withdrawal would not be possible. Any unused RRSP room or personal RRSP funds would need to be used to credit some past service.

13. What if I have already made my current year's RRSP contribution?

You may have to withdraw a part of your RRSP contribution, without penalty or withholding tax.

14. What if I have unused RRSP room at the end of the previous year?

This RRSP room may be used to increase IPP funding for past service.

15. What happens if my ability to contribute to the IPP is reduced?

In certain provinces, once the IPP is established, there is an ongoing obligation to make contributions. However, in the event of cash flow difficulties, it may be possible to suspend contributions. When conditions improve, contributions may be resumed. If necessary, the IPP may be wound up at any time. If the IPP is not required to be registered provincially, there are no minimum funding requirements and therefore contributions do not have to be made.

Questions on the fiscal aspects of IPPs

16. Are IPP contributions tax deductible?

Yes, contributions made to an IPP are tax deductible for the employer, or for the participant, if he/she contributes directly to the IPP. In addition, contributions made to an IPP are not subject to payroll taxes.

17. Are there other tax deductions related to IPPs?

In addition to deducting company contributions, an employer can deduct administrative and investment costs related to an IPP, as well as the interest on any amounts that the employer has to borrow to make the company contributions to the IPP.

18. When can you start contributing to an IPP?

Contributions can be made as soon as the documents required to register the IPP with the government authorities have been submitted.

19. How much time do you have after the end of the fiscal year to make a contribution to an IPP so that the contribution will be deductible for the fiscal year in question?

Contributions made during the 120 days after the end of the company's fiscal year end, and which were payable over the course of the fiscal year, can be deducted for this fiscal year.

20. When does an IPP have to be in place in order for the company to deduct contributions to the IPP for a given fiscal year?

In order to deduct contributions for a given fiscal year, all of the documents required to register the IPP with government authorities must be submitted before the end of the 120 days after the fiscal year in question.

Questions on the legal aspects of IPPs

21. Who regulates IPPs?

- Canada Revenue Agency: defines the maximum benefit that can be granted within an IPP and, consequently, the maximum contributions that can be made to an IPP;
- Provincial laws on pension plans: define the rules governing minimum funding requirements;
- Regulations on pension plan investments: establish how IPP funds can be invested.

22. Can the amounts contributed to an IPP be seized by creditors?

As long as the amounts are within the IPP, they are generally protected from creditors. However, the benefits payable can be seized.

23. What happens to an IPP if the company that established it is sold?

The new owners have the choice of terminating or continuing the IPP. Determining what to do with the IPP should be discussed during the negotiations surrounding the sale. A transfer of sponsorship may be possible if certain conditions are met.

Questions on the process of establishing an IPP for a prospect

24. How can I find out the amount of contributions that can be made to an IPP?

After completing an IPP client information form provided by your Investment Advisor, WMSS will prepare a personalized illustration. The documents that you will receive will outline the main characteristics of IPPs and show the amount of contributions that could be made in your specific situation.

25. What are the steps required to establish an IPP?

- Provide the necessary information to produce a personalized illustration;
- Review the illustration; in particular the amounts that could be contributed to an IPP;
- Complete an Engagement & Implementation Form to hire Buck Consultants Limited to set-up an IPP;
- Discuss the investment strategy for the IPP funds.

Questions on the advantages and considerations of IPPs

26. What are the advantages of IPPs versus RRSPs?

The main advantages for individuals meeting the criteria described above are as follows:

- Annual contributions greater than to an RRSP;
- Possible to make contributions for past service;
- Additional contribution at retirement;
- Potential for additional contribution if an annuity is purchased;
- Ability to compensate for investment losses through additional contributions;
- Generally protected against creditors.

27. What are the main considerations for IPPs versus RRSPs?

- Income splitting in the form of a spousal contribution is not allowed with an IPP;
- High levels of surplus in the plan may limit future contributions, while a deficit in the plan may require additional funding;
- IPPs are subject to pension legislation at both the federal and provincial levels, which will result in "locking-in" requirements, except in certain provinces;
- Expenses for the plan set up, administration and wind up are higher than those of an RRSP.

Questions on maturity options of IPPs

28. What happens to the IPP funds if your employment or the plan is terminated?

The IPP funds are transferable to another registered product, but are subject to maximum transfer rules. Generally, any money in excess of the maximum transfer limit will be paid in cash to the member, and will be taxable. If you are eligible for early retirement, the same options are available as outlined in Question 29 below.

29. What are my payment options in retirement?

As a pension plan, the IPP must be used to finance a lifetime pension income. The IPP may be funded until the retirement date, or it may be terminated prior to retirement, in which case the pension payments may be deferred to a later date. At retirement, one of the following three options are available:

- Pension payment from the plan (Company must remain open)
- Transfer the IPP to a registered product
- Purchase of an annuity from an insurance company

30. If I retire before turning 65 will I be able to get my IPP pension right away?

Yes, you can get your pension before you turn 65. An IPP may begin paying a pension as early as age 50, or as late as the year-end in which the individual turns 71.

31. What happens to the IPP funds that remain after my death?

The IPP provides for a survivor pension and for guarantee periods. Should you die before the end of the guarantee period, the full amount of the pension will continue to be paid to your spouse or other designated beneficiary for the remainder of that period. After the guarantee period, the normal form of pension provides for the continuation of the pension payments to an eligible surviving spouse at a rate of 662/3% of the IPP participant's pension.

32. What happens on the death of the last person entitled to benefits under the IPP?

Anything left in the IPP fund is surplus that belongs to your estate and would be distributed in accordance with your beneficiary designation or your Will. The fund becomes entirely surplus, because all liabilities end when the last beneficiary of a pension promise under an IPP dies. Your beneficiaries will be subject to income tax when they receive their share of the surplus. Contrast this result with an RRSP or RIF, where your estate is taxed, on your final income tax return, on the residual value, subject to limited deferral provisions. The IPP shifts the income tax burden on the residual funds to your beneficiaries, which may result in a lower level of income tax on those funds

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