Individual Pension Plans (IPPs)

Ten ways to benefit

Buck is committed to providing effective retirement solutions that fit the unique needs of business owners. Take a look at the top 10 reasons business owners aged 40 and up implement IPPs and how this one-of-a-kind product could benefit you.

1. Integrate a fiscally sound registered investment vehicle to your retirement plan

An IPP is the most tax-efficient retirement savings plan on the market. Business owners work hard and deserve the best for retirement; IPPs not only generate solid retirement income for an individual, but effectively provide significant tax advantages to the business. IPPs can be set up by one or more companies for both business owners themselves earning T4 income, as well as any key employees that receive employment income from the company (T4 earnings).

2. Contribute significantly more tax-deductible and tax-sheltered retirement savings than under any other registered savings plan including an RRSP

An IPP is a defined benefit (DB) pension plan. For this type of pension plan, the Income Tax Act defines maximum benefits that can be provided. For individuals over the age of 40, the contribution required to fund the maximum allowable benefit is larger than the allowable contribution to an RRSP. Therefore, IPPs allow for a greater pool of funds than RRSP contributions can allow for, meaning more of your money is tax sheltered, and more of your business' money is tax-deductible.

3. Contribute for past service

It's possible to take past service into account under DB pension plans, and an IPP is no exception. Benefits are defined based on the individual's earnings and number of years of service. Therefore, business owners that have received employment earnings in past years from their company can make an important tax-deductible contribution to fund the pension benefits related to those years of service. It should be noted that an RRSP transfer is usually required to fund a portion of the past service.

4. Contribute an important amount at retirement

The Income Tax Act prevents the pre-funding of certain ancillary benefits while business owners are active employees. However, at retirement, these benefits can be fully funded. Therefore, another important tax-deductible contribution can be made at retirement, if desired. Since many business owners wish to take some money out of their company in a tax-efficient manner at retirement, an IPP is the perfect vehicle to do so.

5. Make up for any investment shortfalls

Benefits promised under a DB pension plan are not affected by investment performance. The contributions required to fund the DB pension are calculated by an actuary using various assumptions that are prescribed under the Income Tax Act, including an assumption that the IPP funds will earn an average of 7.5% per year. Other things being as assumed, if an IPP's investment performance is lower than 7.5%, the plan sponsor can make additional contributions to make up for the shortfall, translating into yet another important tax deduction. This is never possible in the case of RRSPs.

6. Enroll other family members

There is often more than one family member that owns or works for the business. If the spouse or children of business owners receive employment earnings from the company, they can participate in the same IPP and maximize their tax-sheltered retirement savings too. (An IPP can have more than one participant even though its name suggests that it is only for one individual.)

7. Deduct the administration expenses related to the IPP

All administrative expenses, including investment management fees (IMFs) paid directly by the business, as well as any interest on money borrowed to make contributions, can be deducted from the revenue of the company. This feature is entirely unique to IPPs and is not possible under any other investment vehicle. This is a significant advantage as IMFs are a significant expense over the life of any retirement savings vehicle.

8. Contribute up to 120 days after the end of a fiscal year

Business owners often like to review their financials before deciding the amount of money they would like to put aside for their retirement in any given year. With IPP's, unless otherwise required by provincial regulations, a company has 120 days after the end of a fiscal year to make and deduct a contribution in respect of that and previous fiscal years; plenty of time to make a prudent decision.

9. Fund a survivor pension for your spouse

The "normal form" of retirement benefits payable from an IPP is a fully indexed lifetime pension continuing to a surviving spouse at 66.7%, with a guarantee of at least 60 payments at 100%. Optional forms of payment, such as a pension continuing at 100%, can also be elected. Therefore, business owners can assure the financial security of their spouses even if they are not themselves employees of the company.

10. Split your pension payments as soon as you retire

Pension income can be split with the business owner's spouse as soon as retirement benefits commence to be paid, as opposed to age 65 for RRSPs.

Services

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