

# TURBOCHARGE YOUR RETIREMENT SAVINGS:

## *INDIVIDUAL PENSION PLANS*



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# WHAT IS AN IPP?

- An employer-sponsored defined benefit pension plan usually with one or two members
- An Individual Pension Plan's (IPP) objective is to maximize an individual's pension by generating reliable retirement income
- An IPP provides effective and significant tax advantages for the business who sets up and funds the IPP on behalf of their employee(s)



# WHO CAN ESTABLISH AN IPP?



IPPs were designed with Incorporated Proprietors and Professionals in mind.

## AN IPP CAN BE ESTABLISHED BY A CORPORATION FOR:

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- Incorporated business owners
- Incorporated professional
- Family members
  - Provided they are employees of the sponsoring company

## INDIVIDUALS MUST BE:

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- Over 40 years of age
- Receiving considerable T4 income
  - Dividends are not pensionable earnings
- Looking for additional retirement income beyond what is possible within RRSP limits



# WHAT MAKES AN IPP SO POPULAR?



## **You can contribute more to an IPP than you can to an RRSP**

More of your money is tax-sheltered and more of your business' money is tax-deductible



## **You can recognize past years of service**

You can go back to January 1, 1991, or your date of incorporation (if later). This can represent a significant tax-deductible contribution



## **You can make up for investment shortfalls**

If your IPP investments don't earn the prescribed 7.5%, you can compensate for that deficit with more tax-deductible contributions



## **An IPP offers flexibility and peace of mind**

You can deduct administrative fees, fund additional benefits at retirement, include succession planning, split your pension when you retire, and the funds are creditor-protected



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# IMPACT ON RRSPs



An IPP lets you transform  
your RRSP savings

- IPPs require the transfer of all, or a portion of, existing RRSP funds and reduces unused RRSP contribution room (to recognize past service)
- Requires the declaration of a Pension Adjustment on a participant's T4 each year
- Reduces future allowable RRSP contributions to \$600 per year

Unlike an RRSP, contributions to an IPP are made by the sponsoring company, not the participants.



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## IPP CONTRIBUTIONS ARE CONSIDERED A TAX DEDUCTIBLE EXPENSE TO THE CORPORATION

There are 4 types of IPP contributions

- **Normal Cost**
  - Annual basis for current year of service
- **Past Service Cost**
  - Recognize years of service before the IPP effective date
- **Deficit Funding**
  - Make up for any investment shortfalls
- **Terminal Funding**
  - Cover ancillary benefits upon retirement



IPP Contributions are determined by an actuary, based on assumptions prescribed by the Income Tax Act (Canada)



# IPP PENSION BENEFITS



## THE MAXIMUM PENSION BENEFIT IS 2 PERCENT OF ANNUAL EARNINGS\*

To calculate IPP pension benefits:

2% of earnings up to maximum of \$2,914 in 2017

$\$2,914 \times \text{years of service} = \text{Pension benefit}$

Example:

$2\% \text{ of } \$145,720 = \$2,900$

$\$2,900 \times 35 \text{ years} = \$101,500$

Therefore, the annual pension benefit would be **\$101,500**

\* UP TO A LEGISLATED ANNUAL DOLLAR LIMIT; INDEXED ANNUALLY.



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# EARNINGS INCLUDED IN CALCULATIONS



## IPP PENSIONS ARE CALCULATED USING:

- Salary
- Wages
- Commissions
- Bonuses

Dividends are not considered pensionable earnings and are excluded in the pension payment calculations.





# FEES AND DEDUCTIONS



## FEES

- Actuarial fees
- Investment management fees
- Interest on loans to make IPP contributions

## DEDUCTIONS

- Fees and contributions are a tax deductible expense to the corporation
- Must be paid directly by the corporation, not the IPP



# TERMINATION OPTIONS



## LEAVE IPP INTACT

- Employee receives pension benefits from the plan
- Pension payments taxable in year received
- Company must remain intact
- Terminal funding

## WIND UP THE IPP

- Transfer to a locked-in registered plan\*
- Excess funds paid out in cash and subject to tax
- More control of assets - no pension restrictions

\* Dependent on provincial pension legislation

## PURCHASE A GAURANTEED LIFE ANNUITY

- Terminal funding
- Generally limited or no estate benefits on second death



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# IPP ADMINISTRATION



## IPP ADMINISTRATION IS HANDLED BY AN ACTUARIAL FIRM.

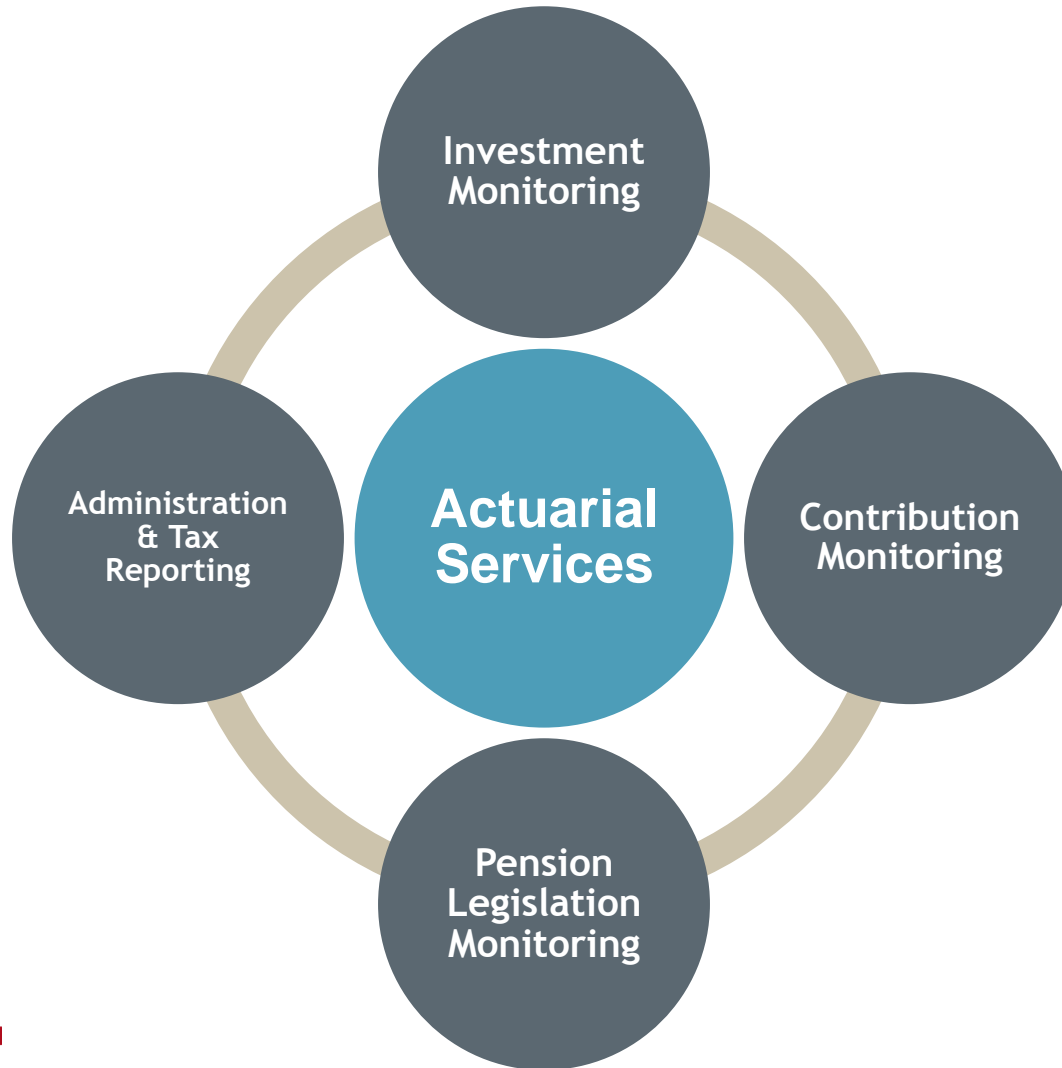
- Filing & Reporting Requirements
- Model Plans
- Tax and Pension Advice
- Actuarial Valuations

CIBC Wood Gundy has partnered with four actuarial firms to meet your IPP administration needs.

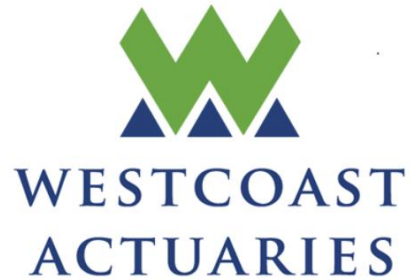


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# ACTUARIAL SCOPE OF SERVICE



# CIBC WOOD GUNDY PARTNERS



MALLETTE



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## AN IPP REQUIRES REGULAR ACTUARIAL VALUATIONS

- Assess the performance of the IPP fund and the financial health of the pension plan
- Produced to establish the amount of the contributions to be made to the IPP fund
- Conducted annually, or every 3 or 4 years, depending on the province and whether the member is connected or non-connected



**An actuarial valuation**

**Inspects the  
Progress and  
Performance**

of the IPP to ensure you are on track and headed in the right direction.



# ACTUARIAL ILLUSTRATION SYSTEM

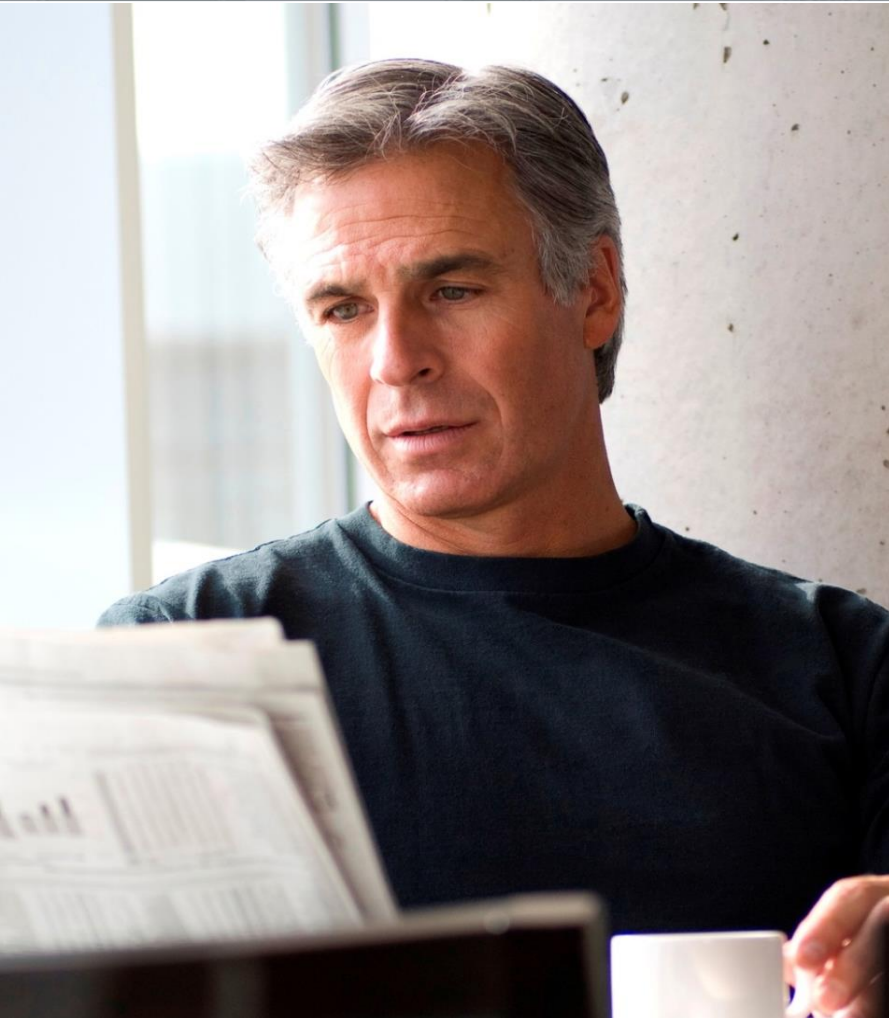


- Free of charge
- Breakdown of growth potential
- Past/current service contributions
- IPP vs RRSP comparison
- Retirement options
- Pension payments



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# CASE STUDY: IPP VS. RRSP



## Thomas, Age 55

- Income: \$145,720 per year
  - Retirement Age: 65
  - Past service from January 1, 1991
  - Connected with plan sponsor
  - RRSP Savings of \$625,000
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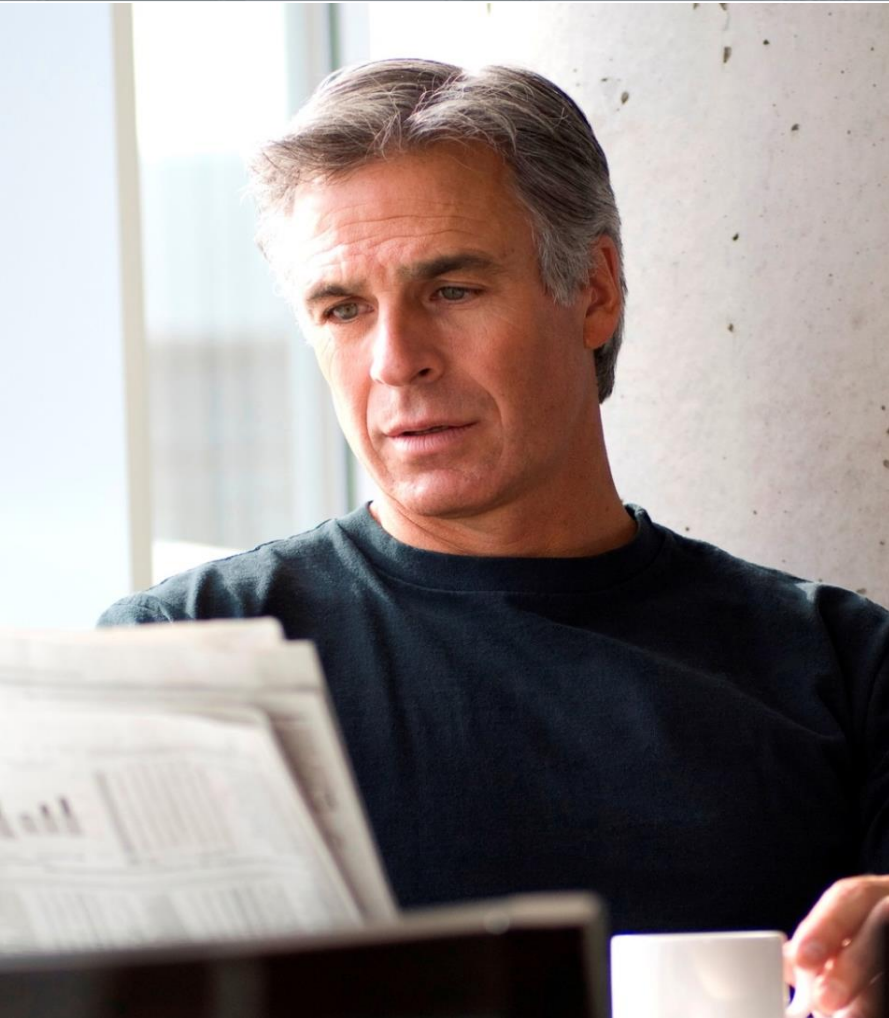
## Past Service Contributions

- Total past service contributions of \$912,763
- Transfer of \$604,060 from Thomas' RRSP
- Cash contribution by the company of \$308,703





# CASE STUDY: IPP VS. RRSP



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## Current Service Contributions

	IPP	RRSP
2017	\$36,398	\$26,010
2022	\$52,252	\$32,494
2027	\$71,569	\$42,469
2032	\$82,805	\$55,505



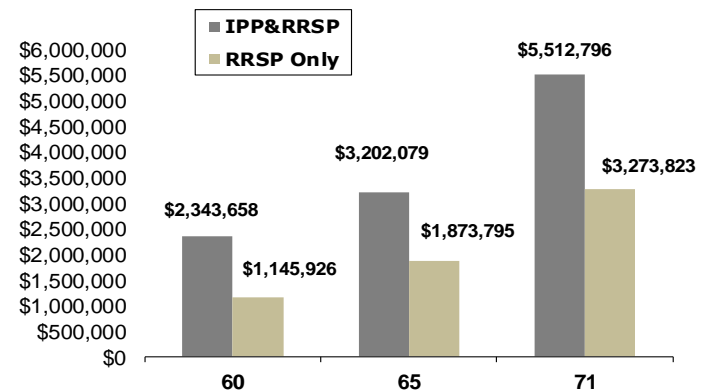
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## Accumulations



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## Annual Retirement Income

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	IPP	RRSP
Age 65	\$202,200	\$131,800
Age 71	\$411,800	\$268,100

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# KEY EXECUTIVE OFFER

**CIBC Wood Gundy offers other products and services to help address the needs of our business owner clients**

Retirement Compensation Arrangements (RCA)

Group Retirement Plans

Group and Health Benefits

Business Transition Planning



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# Questions?

[www.woodgundy.com](http://www.woodgundy.com)

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Given the complexities involved, specialized tax and pension advice must be sought to ensure an Individual Pension Plan (IPP) is appropriate to individual situations. An IPP strategy must be considered within the context of a comprehensive financial and estate plan.



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