

INDIVIDUAL PENSION PLAN

An individual pension plan (IPP) is a registered defined benefit pension plan, designed for one plan member. It allows for greater tax deferred contributions than a Registered Retirement Savings Plan (RRSP)



The ideal candidate

- Individual over the age of 40
- Owner of an incorporated business with at least 10% issued shares (to minimize start-up and administration costs in some provinces)
- Cash rich corporation
- Has a stable salaried income of at least \$75,000
- Maximized their RRSP contributions
- Wants to increase retirement savings

Advantages of IPPs

- Maximize tax deductible contributions (contributions and expenses are deductible to the corporation)
- Allow for the purchase of past service credits
- Pension benefits are protected from creditors
- Flexibility regarding taxation of plan on death
- Contribution amounts increase with age
- If a loan is used to fund contributions, the interest on the loan is tax deductible
- Ability to make up plan deficit (tax deductible by the corporation)
- Any surplus in the plan typically belongs to the employee
- No lock-in rules in some Provinces
- No taxable benefit to the shareholder
- Flexibility in benefit payments
- Contributions are a right, not an obligation
- Pension benefits can be split with the spouse

Disadvantages of IPPs

- Actuarial, investment and accounting fees (although deductible)
- Annual reports must be filed with provincial and federal regulators
- No spousal contributions (unlike RRSPs)
- New RRSP contributions are minimal
- Lock-in rules for some Provinces
- Corporation responsible for the deficit in the plan

At retirement

The individual has three options at retirement:

- The Plan is discontinued and the funds are rolled into a Locked-in Retirement Account, Life Income Fund, Locked-in Retirement Income Fund, Prescribed Retirement Income fund or an RRSP (in some provinces) within CRA limits
- The Plan is discontinued and the funds are used to purchase a life annuity
- The Plan continues and self-annuitizes (when permitted by provincial legislation)

Plan termination

At plan termination, there are three options :

- Transfer the value of the Plan to a locked-in RRSP or RRSP (in some provinces)
- Transfer the plan value to the new employer's pension plan
- Purchase a life annuity with payments starting at normal retirement age

Business viability or cash flow changes

- Contributions to the plan can be frozen
- The Plan Owner can reduce contributions to the Plan
- The Plan Owner can terminate the Plan (voids future contributions)

Investment options

- Generally the same investments that qualify for an RRSP
- Empire Life Segregated Funds are an ideal investment vehicle with valuable guarantees and long history of solid investment performance.

Key elements

- Defined benefit pension plan
- Governed by pension benefits legislation
- Registered with Canada Revenue Agency
- Contributions (as defined) are deductible by the corporation, for income tax purposes
- Employer assumes all statutory and regulatory requirements of the plan
- Retirement benefits provided for services after 1990
- Any surplus in the plan typically belongs to the employee

How can Empire Life help?

- Our Tax and Estate Planning team can help you determine if an IPP is right for you. While Empire Life cannot act as the Trustee of the Plan, Empire Life can,
 - Provide Marketing and technical support.
 - Empire Life has preferred agreements with two Actuarial firms to help you set up and administer an IPP (other firms may be used as well).

Actuarial Firms

Buck Consultants
La Cour du Lac Dow
875 Carling Avenue, suite 440
Ottawa, Ontario
K1S 5P1

Eckler Ltd
800 René-Lévesque Boulevard
West, Suite 2200
Montreal, Quebec
H3B 1X9

STEPUP

Providing you with the estate planning and wealth strategies that matter most, the Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team is comprised of practicing professionals whose primary objective is to support you as you help your clients reach their financial goals.

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