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# Individual, perk-filled pension plans

*An 'upgrade' to RRSPs, IPPs can be part of total executive benefit package*

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Many top executives and business owners in a competitive employment environment want tailor-made benefit packages that suit their individual needs. Fortunately, for these high-income earners employed by an incorporated or professional corporation, there is an option in the form of individual pension plans (IPPs).

IPPs were introduced into the Income Tax Act by the federal government in 1991 to compensate high-income earners disadvantaged by registered retirement savings plan (RRSP) rules.

By using an IPP as part of a total executive benefit package, a company can attract people who are currently employed and are members of a defined benefit (DB) pension plan. Traditionally, such candidates may not have wanted to leave an employer or DB plan before retirement because tax rules prevent them from transferring the full value of their pension credits to a locked-in RRSP. A company can avoid this obstacle by creating an IPP for these employees and transferring existing pension plans to the new IPP without tax implications.

### IPP versus RRSP

A little known tax-avoidance structure, IPPs are a wealthy person's answer to RRSPs. They are sanctioned by the Canada Revenue Agency (CRA) and offer the best tax and retirement savings solution for individuals 40 and older who have a T4 income of more than $100,000 and have historically maximized their RRSP and pension contributions. IPPs are DB pension plans set up for an individual, a family or a small group of key employees.

IPPs are presented as an RRSP upgrade, with annual contributions fully deductible by the corporation or IPP sponsors, and are a non-taxable benefit for plan beneficiaries until, as with an RRSP, money is withdrawn from the plan. The IPP tax solution allows for hundreds of thousands of tax-deferred income dollars (from an incorporated business) to be invested into an IPP structure, allowing that owner or executive non-taxable interest that compounds until retirement.

Imagine a 45-year-old executive who has worked for the same company since 1991 and averaged a T4 income of more than $100,000 a year. If she decides to max-out her IPP contribution room and RRSP (assuming a yearly rate of return of 7.5 per cent), she will accumulate nearly $4.8 million in registered retirement assets. Opting for this tax solution, she would have a registered retirement yearly benefit at age 69 of $362,549, fully indexed to the consumer price index.

In comparison, if this same executive only uses her RRSP option from 45 to 69, she would accumulate $3.2 million in registered retirement tax sheltered assets. This amount of RRSP assets on an annual basis would generate $243,871 of retirement income from age 69 and beyond.

### Other IPP advantages

**Creditor proof**: Assets held in an IPP cannot be seized by creditors of the plan or the incorporated business.

**Extended contribution period**: A company has 120 days after its year-end to make an IPP contribution, which will be considered an expense for the company in the previous business year. For RRSPs, contributions need to be made within the first 60 days after the start of the new year.

**CRA registration**: The CRA cannot de-register an IPP on condition the plan was set up in good faith by an active corporation.

**Ownership of plan assets**: At retirement, the IPP member owns any actuarial surplus. This can be used to upgrade pension benefits or the plan holder may pass it on to his spouse, heirs or estate.

**Predictable lifetime income to IPP members and their spouses**: IPPs offer a predictable retirement income. An actuary determines the current annual cost of the future retirement income. Spousal pension benefits may be upgraded to 100 per cent at the time the member retires or at the plan member's death.

**Spousal income splitting**: Changes to the Income Tax Act allow employees aged 55 and older who are drawing a pension from their IPP to allocate to their spouses up to one-half of their IPP pension income. This compares to changes to the RRSP stating only individuals age 65 and older can allocate to their spouses up to one-half of their income paid out of their RRSPs.

**Past-service funding**: For owners or executives, the IPP funding formula is more generous than RRSP limits. The plan allows companies to contribute for the pension plan member for years of service prior to the set-up of the plan going back to 1991. If the first year of the set-up of an IPP is 2007, the past service and current service funding contribution or corporate deduction could be as much as $361,000. Remember, the maximum 2008 RRSP contribution is $20,000.

**Terminal funding**: One of the most attractive features of the IPP is the possibility of terminal funding. While the CRA restricts the benefits that can be pre-funded, the plan can be amended at retirement to provide the most generous terms possible. Some of these include full consumer price indexing, early retirement pension with no reduction and bridge benefits.

Imagine an IPP has been created for a 49-year-old owner. As of Jan. 1, 2005, he has T4 earnings of $100,000 and has maintained this level of income since 1991. It is safe to project his income will remain at $100,000 annually adjusted to inflation until retirement. Assume this IPP member will retire at 60 on Jan. 1, 2016, with 25 years of pensionable service (1991 to 2015). Before the retirement benefit begins to be paid out of the IPP, there is a window of opportunity for his company to make a one-time $251,000 terminal funding contribution to the IPP, in addition to regular IPP government prescribed funding contributions and annual growth calculations.

**Flexible funding options**: Money can be used to fund an IPP that has accumulated in retained earnings of a company. Funding can come from outstanding bonuses owed to owners or executives by putting the employees' contributions into the IPP. Another option would be for the employer to obtain financing or loans from a financial institution. All interest on loans to fund IPPs is a tax-deductible expense for employers and a non-taxable benefit for IPP members.

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