IPPs (Individual Pension Plans)

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IPP's – "An RRSP Alternative for Business Owners & Professionals"

By: Tom R. Allain, CFP

As a financial planner providing services to business owners and professionals, I am aware of a growing interest in IPP's (Individual Pension Plans)

An IPP is a designated defined benefit pension plan that not only provides for higher pension benefits, they also provide higher levels of tax deferred contributions than those available through a Registered Retirement Savings Plan (RRSP). IPP's are entirely creditor proof with the exception of a marital breakdown.

Ideal candidates are: Owners of an incorporated company; Business professionals; Individuals age 40 or older, and people who earn employment income reported on a T4 north of $100,000 annually.

For Plan members age 50 and over, the annual maximum contribution to an IPP is at least $6,000 higher than the maximum contribution for an RRSP and increases significantly with age thereon.

In addition to providing a tax deduction in the year of contribution, these larger contributions in turn accumulate tax free investment income, ultimately producing a higher pension fund, which pay out higher pension benefits.

It may be possible for IPP members to make additional contributions to purchase past service pension credits back to 1991. This is optional but if you decide to include extra years, it will significantly increase the amount that can be deposited into the plan.

IPP contributions and expenses are fully tax deductible to the business. These deductions could reduce corporate profits, or can be used to increase the amounts required to be withdrawn as bonuses to bring the corporation in line with lower tax rates that are applicable to small business income.

An IPP can be tailored to some degree to the needs of a specific individual. After attaining age 60, an IPP plan member can retire and supplement the benefits provided in the plan by adding unreduced early retirement benefits, cost of living increases and bridging benefits. These early retirement benefits can provide a significant additional tax deduction for the company.

The funds accumulated in an IPP are locked-in, and can only be used to provide an income at retirement. Pension benefits are provided directly to the plan member, and will only be paid to the member's spouse as a survivor's benefit after the member's death. If both spouses die early in retirement, any remaining benefits will be paid to their estate, to be distributed according to their wills.

The cost of administering an IPP varies, but typically falls within the following ranges: Setting up a new plan - $1,500 to $4,500, Annual reporting fees - $400 to $1,200, Actuarial valuation every three years $750 to $1,500. These fees are tax deductible, if paid by the corporation.

In summary, IPP's can provide an excellent alternative to traditional RRSP savings for some individuals. IPP's can be expensive to set up and administer however for business owners or highly paid employees in the right circumstances, IPP's represent a way of accumulating significantly more funds for retirement on a tax-deferred basis that if RRSP's were used alone.

Tom Allain, CFP is an Independent Certified Financial Planner specializing in comprehensive retirement planning, investment and insurance planning to business owners/managers, and business professionals. (905) 796-1219, or email tom@allainassociates.com or visit us at www.allainassociates.com