INDIVIDUAL PENSION PLAN (IPP):

is it right for you?

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Professionals and senior executives who earn a high income face a retirement dilemma. The annual contribution limit on a Registered Retirement Savings Plan (RRSP) effectively limits the amount an individual can save each year on a tax-deferred basis. As a result, high income earners may be unable to build up a tax-sheltered savings account to match their pre-retirement income.

One solution may be found in an IPP, a defined benefit pension plan for individuals to address the pension needs of self-employed business owners and incorporated professionals.

What is an Individual Pension Plan (IPP)?

An IPP is a Defined Benefit (DB) pension plan that allows business owners to increase retirement savings and establish long-term security. It was established to offer the maximum benefits permitted by the Income Tax Act. Similar to an RRSP, an IPP uses an investment account to accumulate assets over time as retirement benefits; however, for individuals meeting the right criteria, an IPP allows the employer to make much higher tax-deductible contribution amounts than the maximum permitted for an RRSP.

It is important to note that an IPP is not as flexible or as liquid as an RRSP. The funds, once paid into an IPP, are locked in and neither the principal nor interest earned can be withdrawn prior to retirement.

Who should consider an IPP?

The ideal candidate for an IPP is an owner or incorporated professional, age 45 or over, and earning over $100,000. IPP contribution limits increase with age, so, an IPP may also be established for candidates with lower earnings; however, the contribution limit would be proportionally reduced.

How does an IPP work?

An IPP allows an incorporated company to establish a registered pension plan in the name of one employee (sometimes two, if the participants are family members) and make annual pension contributions (including retroactive contributions) that can far exceed annual RRSP contribution limits. These contributions are typically made by the company.

Some advantages of an IPP

- Contributions are tax-deductible by the corporation, as are expenses associated with administering the IPP.
- Past service contributions can be made and paid over a period of time. Since IPPs allow for greater contributions than RRSPs, past service contributions are similar to unused RRSP contribution room. They provide an opportunity to make catch-up contributions for the cumulative difference between what was contributed to an RRSP and what could have been contributed to an IPP.
- Incorporated professionals enjoy a significant reduction in their income tax liability.
- For the individual, the pension benefits can be considerably higher than what could be achieved through an RRSP alone.

- Eligible investments for an IPP are the same as for any defined pension plan and include eligible stocks, fixed income, bonds, and investment funds.

While not for everyone, an IPP creates a personal pension plan that provides a pre-determined retirement benefit, often well beyond what's available from an individual RRSP, while reducing corporate income taxes for the employer.

If you think an Individual Pension Plan might be right for you, call me at (416) 777-4944 or via email at mark.shimkovitz@raymondjames.ca. We can work together and with your accountant to determine if an IPP makes sense for you as a pension option.