Is an Individual Pension Plan (IPP) Right for You?

Professionals and senior executives who earn a high income face a retirement dilemma. The annual contribution limit on RRSPs 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 to this dilemma may be found in an Individual Pension Plan (IPP), a defined benefit pension plan for individuals to address the pension needs of self-employed business owners and incorporated professionals.

How It Works

An IPP allows an incorporated company to establish a registered pension plan in the name of a single employee and to make annual pension contributions (including retroactive contributions) that far exceed annual RRSP contribution limits. These contributions can be made by the company or jointly by the employer and employee.

The Advantages

- Contributions are tax-deductible by the corporation, as are the expenses associated with administering the IPP. Past service contributions can be made and paid over a period of time. In both cases, 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.
- The IPP is protected against the claims of creditors.
- Eligible investments for an IPP are the same as for any defined pension plan and include eligible stocks, fixed income, bond, and investment funds.

The Disadvantages

Because of the administrative requirements, set-up costs, and ongoing expenses involved, an IPP is not for everybody.

- Annual contributions are mandatory. In some provinces, the IPP's ability to pay out the defined benefit must be covered by the employer, including any shortfalls.
- The Ideal Candidate (as described by GBL Inc & WestCoast Actuaries): The ideal candidate is an owner, incorporated professional, or executive, age 40 and over, and earning over $138,500 in the 2014 T4 or T4PS income, whose existing retirement savings are not sufficient to fund their desired retirement income. IPP contribution limits increase with age; therefore, an IPP may also be established for candidates with lower earnings, but the contribution would be proportionately reduced.
- This is a defined benefit pension plan registered with the government and must conform to the rules and regulations affecting all registered pensions plans. For this reason, it is set up by an actuary, registered with CRA. Funds are held in a trust, which must be audited by an actuarial firm every three years.
- 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.

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. Our team at Raymond James Financial Planning Ltd. can work with your financial advisor and accountant to determine whether an IPP makes sense for you as a pension option.

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