THE BENEFITS

OF AN

INDIVIDUAL PENSION PLAN

(IPP)

Prepared by

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Accumulate over 75% more in your registered, tax-deferred retirement savings fund with an Individual Pension Plan

An Individual Pension Plan (IPP) is a defined benefit Pension Plan that is registered with the federal and provincial governments and will allow you to accumulate and make significant contributions to your personal retirement fund above and beyond what is possible with a standard RRSP.

Contribution amounts are calculated by an accredited Actuary and are determined by actuarial valuations at three-year periods in order to maintain the integrity of the plan and thereby provide enough assets to pay a pension upon retirement that will last your lifetime.

Who are they right for?
Key executives, business owners and incorporated professionals are usually good candidates for an IPP as they have consistent and significant income. Usually only T4 income is pensionable, dividend income is not pensionable.

How do you set up an IPP?
By law a certified and accredited Actuary needs to be retained as Plan Actuary. In most cases these are usually third-party service providers, as the Actuary needs to remain independent from the investment and custodial function. The plan actuary makes calculations based on the age, gender, past service years with the sponsoring company (if applicable) and the T4 income history of the individual. The Actuary and their firm will also draft all required plan documents and register the plan with the various levels of government.

IPP contribution amounts
Contribution amounts are calculated using your T4 (pensionable earnings) your age; gender and planned retirement date. From this information the Actuary uses mortality tables and estimates for future scenarios with interest rates, average industrial wage increases, management expenses and other variables to make the actuarial assumptions acceptable to CRA.

Retirement
Once you retire you will have a choice of different retirement scenarios, including drawing a monthly pension, converting to an annuity or a LIF (Life Income Fund).

Significant benefits of IPPs:

- Much greater contributions allowed to the individual's registered retirement fund
- Much greater tax deductions for the sponsoring corporation
- Significant tax-deductible contributions at retirement
- Additional tax-deductible contributions can be made in the event of lower investment returns
- Individual retains ownership of pension plan and its surpluses
- Ensures accurate estimations of retirement benefits for easier and more effective estate planning and succession management
- Pension assets are 100% creditor-proof
- No deemed disposition of plan assets upon death. All assets can remain in the plan to provide benefits to surviving members or spouse
- Enables company to deduct all costs associated with the maintenance of the plan, including investment, custodial and actuarial fees

The IPP enables higher annual contributions resulting in a larger retirement fund and more accurate retirement income forecasting easing tax, estate and succession planning.

IPP and RRSP comparison
Contributions to pension plans are determined partially by age, the older you are the more you need to contribute now in order to provide funds upon retirement. As such IPP contributions first start to exceed those of RRSPs around age 38.

Funding the pension plan
The sponsoring company funds the pension plan on behalf of the employee or member based on the recommendations of the Actuary. An actuarial plan valuation is required by government every three years. This ensures the plan is accumulating the assets necessary to provide the future pension for the expected life of the member. Shortfalls in plan assets due to unexpected consequences may allow further contributions. All funding for a pension plan is tax- deductible to the sponsoring company. There is some flexibility to funding times and amounts.

Personalized IPP projections
You may obtain a personalized IPP projection from TT Actuarial.

Case Study
John Smith is a 55-year old business owner who has run a successful business since the early nineties. He is married and has two children. After paying off house and tuition John is interested in creating a large tax- deferred personal retirement fund. After several good years John's company has extra earnings that he would like to be able to put into his personal retirement fund on a tax deferred basis and as a tax-deductible expense to his company. He has contributed to his RRSP for the last 10 years and it has a value of $700,000. He has used his maximum contribution room for the last 4 years, and would now like to find a way to contribute more. By establishing an Individual Pension Plan for himself, John will be able to have his company recognize his past service years, and thereby be able to make an initial funding contribution in year one that is well over $300,000.

Subsequent years will also allow his company to contribute significantly more than he could to an RRSP.

John's Plan Actuary has calculated the following projected yearly contributions that would be acceptable to the CRA (Canadian Revenue Agency) based on annual actuarial valuations.

Age	IPP	RRSP
55	$376,900	$26,500
56	55,000	27,230
57	59,700	28,000
58	64,800	28,800
59	70,400	29,700
60	76,400	30,600
61	82,900	31,500
62	89,900	32,400
63	97,600	33,400
64	105,900	34,400
65	114,900	35,400
66	94,800	36,500
67	76,600	37,600
68	77,000	38,700
69	77,300	39,900
70	77,600	41,100
71	77,700	42,300
Total:	**$1,675,400**	**$574,030**

After making the qualifying transfer from his RRSP to his pension fund, there is still some money left in the RRSP. John then rolls over the remaining RRSP balance into the pension plan, where his company pays all the administration and investment management expenses directly to the service providers, allowing the fund to grow cleanly without the drain of any expenses being paid yearly from the fund

John’s Actuary has calculated that his retirement fund will be almost double at retirement than what it would have been as an RRSP:

Age	IPP	RRSP
55	$1,076,900	$726,500
56	1,196,500	788,200
57	1,328,000	853,600
58	1,472,500	922,900
59	1,631,200	996,400
60	1,805,400	1,074,300
61	1,996,600	1,156,800
62	2,206,400	1,244,100
63	2,436,300	1,336,600
64	2,688,400	1,434,500
65	2,964,600	1,538,000
66	3,237,200	1,647,600
67	3,508,000	1,763,500
68	3,795,500	1,886,000
69	4,100,600	2,015,500
70	4,424,200	2,152,300
71	$4,767,300	$2,296,800

It is clear from these calculations that the pension fund will be significantly larger at retirement than a simple RRSP.

John’s Actuary has explained the qualifying transfer requirement as set by the CRA, and how this activates the past service component which allows him to have his company make a significant opening payment into his pension fund. The amount is determined by a formula set by the CRA, which his Actuary has calculated for him as $679,320.

This is done as a transfer of assets and does not trigger any tax. His Investment Advisor confirms that his RRSP has the amount needed for the transfer and on John’s instruction proceeds to make the arrangements to move the required assets to the new IPP account, which his advisor has just set up for him.

Since there is essentially no difference between the RRSP accounts and the IPP account, both being registered accounts allowing the tax deferred accumulation of assets, John decides to roll the remaining assets of his RRSP into the pension fund so that his company can also pay for its management costs, all costs associated with a pension being tax- deductible to the company.

John’s Actuary and Fund Adviser have also prepared the SIPP (the Statement of Investment Policies and Procedures) which is a governing document of the pension plan and sets guidelines and general responsibilities for such things as account management, fund objectives and asset allocation. The Actuary has also worked with John to draft a trust agreement, in which John, his wife and a trusted friend are acting as trustees to the plan. In all of this John has been confident that he is getting the right advice as his Actuary is a pension specialist that works on large corporate plans as well as smaller individual plans such as his.

John’s Actuary has worked with him to complete the various sets of registration documents that are required by the provincial and federal governments. As John lives in Oakville, Ontario, these will be submitted to FSCO (Financial Services Commission of Ontario) which is the provincial pension and insurance regulator and on the federal level to the CRA.

John’s wife is planning to work for his company and John’s Actuary informs him he can add his spouse to the IPP (or set up a separate plan for her) when she begins to collect T4 income. Likewise, his children can also be added to the plan if they join the company at some future date.

John’s Actuary informs him of some of the other benefits of an IPP: at any time he can have his company cancel the plan, and roll his assets back into an RRSP; also, his options at retirement, which include continuing the plan to pay out a monthly pension under an operating or successor company, setting up an annuity or a life income fund.

These options, benefits and the increased flexibility of an IPP, as well as the estate and succession planning features further convinces John that he has found the right solution for his wealth management structure.

Actuarial Assumptions

- Timing of Valuations:
  Annual
- Discount Rate:
  6% per annum
- Post-retirement Indexation of Pension:
  2.91% per annum
- Fund Return (Gross):
  6% per annum
- Investment Management & Actuarial Fees:
  1.25% per annum paid by the Company (outside the Plan)
- RRSP Management Fees:
  1.25% per annum paid by the RRSP (inside the Plan)
- Future Salaries (annual increase):
  3% per annum
- Mortality:
  CPM2014 with CPM-B Improvement Scale
- Timing of Contributions:
  beginning of year
- Pensionable Earnings:
  Maximum T4 Allowed
- Past Service Start Date:
  Complete years from 1991
- RRSP Qualifying Transfer:
  $679,320 as required for maximum past service funding

Services offered by TT Actuarial Inc.

- Individual and Corporate pension plans
- Fair Market Insurance Policy Valuations
- Executive Compensation consulting
- Pension governance and plan reviews
- Retirement Compensation Arrangements (RCA)

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