



THE BENEFITS
OF AN
INDIVIDUAL PENSION PLAN
(IPP)

Prepared by

**TT Actuarial Inc.
206 Laird Drive, Suite 208
Toronto, Ontario
M4G 3W4**

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 since 1991 and it has a value of \$750,000. 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	\$339,700	\$27,200
56	40,000	27,800
57	43,000	28,600
58	46,300	29,500
59	49,700	30,400
60	66,600	31,300
61	80,100	32,200
62	86,400	33,200
63	93,800	34,200
64	101,800	35,200
65	110,400	36,300
66	115,900	37,400
67	121,200	38,500
68	89,900	39,700
69	80,000	40,900
70	80,300	42,100
71	80,500	43,400
Total:	\$1,625,600	\$587,900

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	\$1,153,400	\$814,100
56	1,265,000	881,900
57	1,386,500	953,700
58	1,518,800	1,029,900
59	1,662,600	1,110,700
60	1,832,900	1,196,200
61	2,027,800	1,286,700
62	2,241,000	1,382,600
63	2,474,900	1,484,100
64	2,731,300	1,591,500
65	3,012,200	1,705,100
66	3,315,800	1,825,300
67	3,643,200	1,952,300
68	3,957,100	2,086,600
69	4,279,400	2,228,600
70	4,621,300	2,378,600
71	4,983,900	2,537,000

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 \$720,900.

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)

TT Actuarial Inc.

*206 Laird Drive, Suite 208
Toronto, Ontario M4G 3W4*

Tel: (416) 424 - 1765

Fax: (416) 406 - 4484

administration@ttactuarial.ca

www.ttactuarial.ca