Why Ontario IPPs are more rewarding for connected persons

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Individual pension plans (IPPs) offer many advantages over Registered Retirement Savings Plans (RRSPs), including increased tax-deductible contribution room, tax-deductible maintenance fees, and improved forecasting that eases tax, estate, and succession planning. These advantages result in greater retirement savings, and many employed Canadians who are not covered by private workplace pension plans can and should be taking advantage of IPPs.

That said, when assessing how your client might benefit from an IPP, it's important to make a distinction between connected and non-connected persons in Ontario. IPPs for connected persons in Ontario have fewer rules and requirements, making them even more advantageous compared to RRSPs.

IPPs for connected persons in Ontario are exempt from provincial legislation — i.e., Financial Services Regulatory Authority of Ontario (FSRA) regulations. They do fall under the Canada Revenue Agency (CRA) *Income Tax Act* and Regulations, but the provincial exemption in Ontario affects various aspects of plan requirements and maintenance and results in a more appealing offering. Therefore, it's essential to assess whether your client is connected or not to their company.

A connected person is a person who does not deal at arm's length with the employer, is a specified shareholder of the employer based on subsection 248(1), paragraph (d) of the *Income Tax Act*, or holds, alone or in combination with someone they do not deal with at arm's length, 10% or more of the issued shares of any class of shares of the employer or related employer.[1]

Rules for connected persons in Ontario

As suggested, IPPs for connected persons have a little more administrative freedom in Ontario. These plans are not required to offer annuitization of funds on retirement (a member can withdraw their lump-sum entitlement at retirement age), and funds withdrawn from the plan do not have to remain locked in (funds are not restricted to retirement purposes). There is less rigour around investment guidance, with rules similar to those governing RRSPs. A valuation report is only required every four years and has less onerous disclosure requirements. Lastly, the plan sponsor has full discretion over contribution timing and amount within the allowance of the maximum funding rules (dictated by the *Income Tax Act* rules and regulations for designated plans, which an IPP typically qualifies as).

Rules for non-connected persons in Ontario

In contrast, IPPs for non-connected persons are bound by the FSRA rules and regulations in Ontario. This includes a requirement to lock in funds transferred out of the plan (up to certain limits) and a requirement to offer annuitization of pensions on retirement. A Statement of Investment Policies and Procedures is required to formalize the plan's investment oversight, and with this requirement come additional rules and limits for plan investing. Funding valuations are required every three years, and more disclosures regarding the plan's exposure to risk must accompany each valuation. Lastly, contributions must be made to the plan based on minimum funding valuations of the going concern and solvency/wind-up positions revealed in the plan's latest filed report (these contributions are limited by the maximum funding rules that apply to all designated plans).

Understanding these distinctions will allow you to inform your clients of all the IPP features they may find appealing and rewarding. Save and print this article so you can use the chart as a quick reference. If you're not sure if your client is a connected person, reach out to your actuary to discuss it.

[1] Registered Pension Plans Glossary, 2025; definition paraphrased from the CRA website.

Ontario requirements for IPPs

	Connected Persons	Non-connected Persons
CRA registration	Yes	Yes
FSRA registration	No	Yes
Locking in of benefits	No	Yes
Annuitization of funds	No	Yes
Valuation report frequency	Every four years	Every three years
Investments	Investment rules are closely tied to RRSP rules	Statement of Investment Policies and Procedures and according rules apply
Valuation report disclosures	Fewer disclosure requirements	Disclosure of plan risks stress-testing
Funding requirements	Full discretion of plan sponsor regarding contributions for current service and deficiencies within maximum funding limitations (CRA)	Must meet minimum funding standards of current service and amortization schedules for going concern and solvency deficiencies (FSRA) while respecting maximum funding limitations (CRA)

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