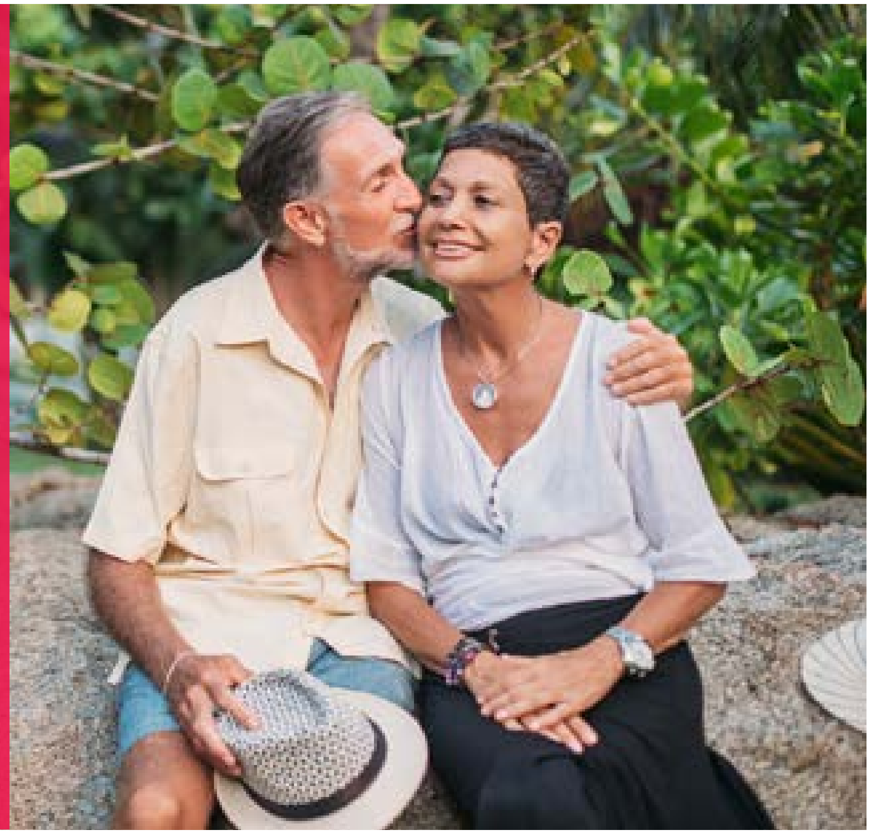
Building your future

Individual Pension Plan

Dramatically boost your retirement assets with tax-deductible contributions



As a business owner, we want you to feel confident about your retirement. An Individual Pension Plan (IPP) is a defined benefit pension plan that allows you to increase your retirement savings and establish long-term financial security.

Are you a good candidate for an IPP?

An IPP is specifically designed for a business owner of an incorporated company, an incorporated professional or executive, age 40 and over, earning $100,000+. That said, an IPP can be established for someone with lower earnings.

An IPP is NOT well suited for:

- Sole proprietors and partners of partnerships
- Business owners who rely on dividends and compensation other than T4
- Highly cyclical businesses

How an IPP works

An IPP is similar to an RRSP in that it uses an investment account to accumulate assets over time as retirement benefits. However, unlike the RRSP, an IPP allows for the accumulation of greater assets – up to 65% more than an RRSP, and like a traditional pension plan, sets your monthly income at retirement. An IPP also provides certain additional guarantees beyond an RRSP to further protect your financial future. Assets accumulated within an IPP are locked-in and may be used only for retirement purposes.

How are IPP contributions calculated?

IPP contributions are determined by a series of actuarial valuation reports in order to ensure you have sufficient assets at the time of your retirement. Your annual income at retirement age is calculated using:

- Your career T4 and T4PS earnings
- Your age
- Assumptions determined by the actuary, which are acceptable to Canada Revenue Agency (CRA)

Contributions are graduated by age, so the older you are, the more your company can contribute. IPP contributions first exceed RRSP contributions around age 40.

The annual contributions compounded at a 7.5% net annual rate of return will ensure your plan has adequate assets to provide for your retirement benefits.

Key benefits of an IPP

- An excellent way to increase your retirement assets and have your company make large tax deductible contributions
- Allows for significant additional tax deductible contributions at inception and retirement
- Safer investment rules and limitations compared to the RRSP
- Allows for additional tax-deductible contributions to be made by the company should the rate of return on plan assets be less than 7.5% a year
- Pension plan surpluses belong to the member
- Pre-determines retirement benefits
- 100% creditor proof
- No deemed disposition of plan assets upon death in certain situations. Plan assets remain in the plan to provide benefits to surviving members
- All costs associated with the pension plan are tax deductible to the company.

What happens when you retire?

Once you retire you will have a choice of retirement vehicles. These include a monthly pension from the plan, an annuity, a Life Income Fund (LIF), or a Locked-In Retirement Income Fund (LRIF).

If you decide to purchase an annuity, you should have your financial advisor obtain a market comparison and choose the insurer. The plan will then transfer funds from the IPP to the life insurance company to purchase the annuity. Annuities can be either single life, covering the life of the plan member only or, if married at date of retirement, a joint & survivor (J&S), with payments that may reduce on the death of the member. The J&S option usually includes a minimum guaranteed period of 5 years and subsequent payments to the surviving spouse in full or reduced by a percentage selected at the time of retirement.

Final things you need to know

- Assets within an IPP are locked-in and can, in most circumstances, only be withdrawn during retirement.
- There is little contribution flexibility – Shortfalls in asset values normally require further contributions to put the plan back on track. This tax-deductible additional funding can be made over several years.
- IPP will reduce or eliminate RRSP room in the year of setup, and in most situations, new RRSP room will be limited to $600 per year moving forward.

To learn more about how your business can benefit from an IPP, contact a GBL representative today.

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5720 4th Street SE, Suite 130
Calgary, Alberta T2H 1K7
Toll Free: (877) 249-2999
Phone: (403) 249-1820
Email: info@gblinc.ca

121 Richmond St West, Suite 503
Toronto, Ontario M5H 2K1
Toll Free: (888) 941-9829
Phone: (416) 941-9829
www.gblinc.ca