Individual Pension Plan (IPP)

SUMMARY

What is it?

An individual Pension Plan (IPP) is a registered defined benefit pension plan which allows an individual to build their retirement income under a tax sheltering umbrella and is typically setup for just one member.

If you are a business owner or an executive, an IPP can create additional contribution room over and above an RRSP.

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Advantages

- May provide higher contributions than permitted by the RRSP (Currently capped at $27,230)
- Similar to an RRSP, funds grow on a tax-deferred basis.
- Provides creditor protection, as compared to the keeping the funds in the company.
- Contributions are tax deductible for the company, offering annual tax savings, while the employee doesn't pay tax until they withdraw in retirement.
- Early retirement can be funded by a lump-sum tax deductible contribution.

Disadvantages

- Individual's RRSP contribution room is reduced to near zero by a pension adjustment (which equals the value of the IPP benefit earned in the previous year)
- IPPs are not as flexible and as liquid as an RRSP. Once the funds are paid into the IPP, they are locked in and neither the principal nor interest earned can be withdrawn prior to retirement.
- IPPs have higher set up costs and greater complexity than RRSPs, with the need for ongoing administrative work, such as annual reporting and regular actuarial valuations.
- Annual contributions are mandatory

Who is it for?

- Individuals with higher income (i.e. individuals receiving > $100,000), so that the company can maximize its IPP contributions
- Individuals age 40 or older, to ensure that IPP contributions can exceed the amount the individual could save on their own through a RRSP.
- Receives T4 income from the company
- Has service with the company or a related employer prior to implementation

Please note: Even if the individual is making $50,000 year but have been in business for many years, an IPP may still be an effective retirement solution.

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