

money MAKERS

Ideas & Tips to Enhance Your Bottom Line

BUILD MORE WEALTH WITH AN INDIVIDUAL PENSION PLAN

The Canada Revenue Agency (CRA) has established a special type of pension plan for business owners, known as the Individual Pension Plan (IPP). For many, this type of plan can build substantially more wealth faster than the traditional RRSP.

The commentary contained in Money Makers is not intended, nor should it be relied upon, to replace specific professional advice. We recommend that readers consult their professional advisors regarding issues raised in this publication.

An IPP is a special kind of registered pension plan for business owners, with membership limited to an individual and spouse. It is sponsored and funded by your company on a tax-deductible basis.

Such a plan can be an ideal retirement savings vehicle for business owners and professionals, because it builds greater wealth to enjoy upon retirement than an RRSP.

Here's why:

1. Annual tax-deductible contributions are higher than maximum allowable RRSP contributions.
2. Past service contributions and the transfer of existing RRSP assets are allowed. This can often be in the hundreds of thousands of dollars, thereby "kick-starting" your savings.
3. IPP rules permit lump sum payments to the plan upon retirement, in order to fund early retirement.

Other Benefits of an IPP are:

1. Contributions are a tax-deductible company expense.
2. Early retirement is permitted at age 55.
3. An IPP is a trust and can provide creditor protection.
4. Unlike an RRSP, an IPP permits additional contributions if the plan assets earn less than 7.5%.
5. An IPP is a defined benefit pension plan, guaranteeing annual pension benefits at retirement.
6. All expenses incurred to establish and maintain an IPP are tax deductible to the company.

An Example – IPP vs. RRSP

The Smith's, ages 49 and 45 respectively, decide to establish an IPP. They have operated a successful business for the past 15 years and CRA permits calculation of past service benefits. He contributes \$17,200 in the first year and \$38,200 as a past service contribution. She contributes \$15,500 in the first year and \$40,000 as a past service contribution.

Total contributions in the first year are \$384,900, including \$274,000 rolled over from their RRSP's as qualifying transfers.

In the following years, Mr. and Mrs. Smith's annual contributions to an IPP will, in most cases, exceed RRSP limits.

Total IPP assets when Mr. Smith turns 69 *	\$4,624,143
Additional contribution to the IPP upon retirement (Mr. Smith age 69; Mrs. Smith age 65)	\$558,816
Total assets on retirement	\$5,182,959

If Mr. and Mrs. Smith had used RRSP's to save for retirement, and each had made their annual maximum contributions, and they were able to achieve the same annual returns as the IPP, they would have accumulated **\$3,188,946**.

The IPP **accumulates \$1,994,013 more** than the Smith's combined RRSP's. This is a substantial difference.

Wilkinson & Company LLP can help you determine if an IPP strategy is right for you. To find out more, call your Client Services Partner today or contact us through our website at www.wilkinson.net.



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