Individual Pension Plans
A Retirement Savings Option For Business Owners

An Individual Pension Plan ("IPP") is a registered pension plan established for a single plan member, and provides an effective way for your business to fund your retirement pension while reducing corporate income taxes.

IPPs are ideally suited for business owners, high-income earning executives, and incorporated professionals between the ages of 40 and 71, and who earn annual T4 income over $154,611 in 2020. For those who fit these criteria, IPPs provide several advantages over using a Registered Retirement Savings Plan ("RRSP") for retirement savings. It is also worthwhile to note that the assets held within an IPP are protected from creditors, which may provide additional peace of mind.

Business tax advantages

A business can deduct the cost of the initial lump-sum contribution for past service when the IPP is established, as well as ongoing, eligible IPP contributions. In addition, all costs and reasonable expenses related to the maintenance of the IPP (such as investment fees) are tax deductible to the company.

Greater certainty of retirement benefits

As a defined benefit pension plan, the IPP must fund a guaranteed retirement benefit based on the plan member's T4 employment earnings, which is determined by an actuarial formula. The annual IPP contribution is equal to the cost of funding the pension benefit (as calculated by an actuary). Depending on your situation, annual IPP contribution limits can be significantly higher than RRSP contribution limits, and increase with age. At around age 40, the annual IPP contribution limit equals that of RRSPs; however, by age 45, the IPP contribution limit surpasses that of RRSPs by more than four thousand dollars [see **Figure 1**] and only continues to increase with the plan member's age. Because IPPs are intended to provide a predictable retirement income stream for the plan holder, employer contributions can be topped up when investment returns are less than 7.5%. An actuarial valuation must be performed every three years, and any funding shortfall may require further contributions, which can be made over a five-year period. However, if a funding surplus is generated, the employer may need to take a "contribution holiday."

Figure 1 compares the 2020 IPP and RRSP contribution limits for an individual earning $154,611. While the RRSP contribution limit remains static regardless of the contributor's age, IPP contribution limits vary depending on the age of the IPP plan member; becoming significantly higher than the RRSP limit.

Figure 1: IPP/RRSP Contribution Limits For 2020

Age	IPP Contribution Limit	RRSP Contribution Limit	IPP Advantage
45	$32,100	$27,230	$4,870
50	$35,300	$27,230	$8,070
55	$38,700	$27,230	$11,470
60	$42,500	$27,230	$15,270
65	$44,600	$27,230	$17,730
71	$38,400	$27,230	$11,170

*Requires T4 earnings of $154,611 in 2020. The RRSP maximum contribution limit for 2020 is $27,230.
Source : GBL Inc.

Retirement income payments

Once a business owner is ready to retire, which can be as early as age 50, IPP assets can be used to pay a guaranteed retirement benefit amount, or transferred to a locked-in retirement plan to provide future pension benefits. IPP payments are considered taxable income in the year they are received by the plan member.

Eligible investments

Generally, investments eligible for an RRSP are also acceptable for IPPs. However, there is a 10% investment concentration limit on any one security in order to ensure broad diversification of the plan's assets. Related party investments (i.e., shares of a plan member's company) cannot be held within the IPP.

A retirement savings option worth exploring

IPPs provide generous contribution limits, creditor protection, a guaranteed income at retirement, and the ability for your company to make tax deductible contributions to the plan on your behalf. These benefits make IPPs an attractive option to consider versus saving for retirement using an RRSP.

The tax considerations involved in establishing an IPP can be complex. Please speak to your tax advisor about the appropriateness of an IPP for you.

For more information about whether an IPP may be suitable for your situation, please contact your BMO financial professional.

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