

# Live *your* dream.



## IPC Business Owners Report

### *Retirement Funding for Business Owners*

Many rewards come with running your own business – freedom, independence, the ability to be creative, and hopefully, financial rewards. However, some business owners neglect to plan for their retirement, and fail to take advantage of the available options. If you own an incorporated business, the Individual Pension Plan (IPP) maybe a better choice for saving for your retirement on a tax-deductible basis than a regular RSP.

#### **Why a better choice?**

An IPP permits the accumulation of up to 60 per cent more assets than an RSP.

#### **What is the difference between an RSP and an IPP?**

The main difference is that IPPs consider the future while RSPs consider the past.

Contributions to RSPs are based on maximums set by the Canada Revenue Agency each year based on income earned the previous year. The investment returns on the RSP are sheltered from tax, and when you retire, income from your plan is used to help fund your retirement. The amount of income you receive is based on the size of your deposits, how long those deposits were made and the rate of return the investments earned.

On the other hand, an IPP looks at retirement income from a different end—income needed at retirement—and works backward to determine the size of the contribution required to create sufficient capital. Your corporation makes contributions into an IPP on your

behalf. Contributions are tax deductible, as are the actuarial and accounting fees incurred to establish and manage the plan.

The IPP is similar to an RSP in that it uses an investment account that accumulates over time to provide retirement benefits. However, unlike the RSP, the IPP provides certain guarantees such as indexing of pension income and providing income for the life of the annuitant and spouse.

#### **What are the benefits of an IPP?**

- The IPP allows for larger tax deductions – up to 60 per cent more in contributions to your retirement account.
- If you have maximized your RSP contributions, the IPP is an excellent way to increase retirement assets and have your company make large tax-deductible contributions.
- An IPP allows a significant tax-deductible contribution immediately prior to retirement.

- “Pension Fund” asset management is available; rates of return are safer.
- Additional tax deductible contributions can be made by the company should the rate of return on plan assets be less than 7.5 per cent a year.
- Pension plan surpluses belong to the member.
- There are pre-determined retirement benefits.
- An IPP provides the ability to “succession plan” when family members work in the business.
- There is 100 per cent creditor proofing of plan assets.
- There is no deemed disposition of plan assets upon death. Assets remain in the plan to provide benefits to surviving members.
- It provides guaranteed lifetime income to member and spouse.

#### **Establishing an IPP makes sense, even if you are young**

IPP contributions first exceed RSP contributions at approximately age 38. Therefore, to qualify for maximum IPP benefits, T4 earnings should be greater than \$105,550 in 2006 dollars and you should be 38 years or older.

#### **How do you fund the IPP?**

An actuary will determine your retirement benefits and the annual contributions needed to fund those benefits are calculated.

Annual contributions compounded at a 7.5 per cent net annual rate of return will ensure your plan has adequate assets to provide your retirement benefits. A valuation is completed every three years by your actuary to ensure the plan stays on track.

Shortfalls in plan assets normally require further contributions to set the plan back on track. This tax-deductible additional funding can be made over a period of up to five years. Similarly, if a surplus is generated in the plan, the sponsoring corporation may be required to take a contribution break.

#### **What happens at retirement?**

At retirement you have a choice of retirement vehicles: a monthly pension from the plan, an annuity, a Life Income Fund (LIF), or a Life Retirement Income Fund (LRIF).

To find out which vehicle would be the most appropriate for you and your family, do not hesitate to contact our office.

