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Individual Pension Plans
Planning for Your Future

Since the 2003 budget increasing the RRSP contribution limits Individual Pension Plans (IPP) have become “an item”. This has happened for 2 very important reasons.

1. Establishing an IPP can be accomplished by backdating it to 1991. This fact means that your company can make a lump payment to make up for lost ground for the time that the pension was not in place. Your company gets a tax deduction now and you don’t pay any tax until you start receiving your pension.

2. The maximum RRSP contribution room has significantly increased from the $13,500 ceiling for 2002. IPP contribution room has always been greater than RRSP room. Increases in the RRSP contribution room means an even greater increase in IPP contribution room.

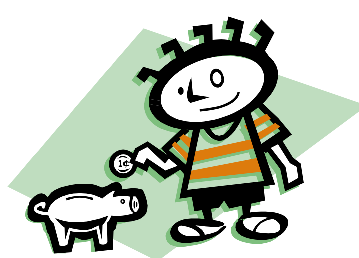
An IPP has become a significant strategic opportunity for the right circumstances.

So What is an IPP Anyway?

An IPP is a defined benefit pension plan. A defined benefit plan is a promise to pay a certain amount of annual pension based on your history of earnings and your years of employment.

And because it is a defined benefit plan it means that your annual pension upon retirement can be up to 2% of indexed earnings (indexed earnings include all your earnings from 1991 to your retirement). Indexing means that your earnings and pension are adjusted by the Consumer Price Index. Subject to some restrictions your pensionable earnings could be 25 years at $100,000 per year or $2,500,000 – 2% is $50,000. $50,000 could be your annual pension. The funding of this IPP would have to be such that this commitment to pay would have to be virtually assured.

As a result IPPs can really benefit the small business owner in a number of circumstances.



Is an IPP for You?

Let's review a number of factors that are important in determining if an IPP is really for you:

Ideal Factors

The ideal factors for getting the maximum out of an IPP include the following:

1. You have been an employee of your incorporated company since the beginning of 1991.

2. Corporate earnings exceed $300,000, the maximum taxable income at the small business rate.

3. You are 50 or over.

4. Your earnings (salaries, wages, bonuses, taxable allowances and benefits, rental income, director's fees) since 1990 have been more than $100,000 annually.

5. If you will be selling your company in the near future you might consider an IPP to reduce current taxable income and to utilize some ready cash.

While the ideal presents the best case scenarios there are other circumstances where an IPP may still work for you. Check with your MacKay LLP advisor.

Advantages of an IPP

Some very significant advantages to having an IPP versus an RRSP are:

1. Imagine a scenario where you just divorced. You spent years maximizing your RRSPs only to have your spouse become entitled to half of your RRSPs. All your planning has gone out the window. You discover that an IPP has higher contribution amounts than an RRSP. This advantage may be a godsend for you. This means that you can put aside more funds for your retirement. And you can use corporate pre-tax dollars to do it!

2. An IPP is creditor-proof, unlike an RRSP which can be attacked. If you or your company ever gets into financial difficulty your pension is protected. It is possible for a creditor to force you to cash in your RRSP to resolve your financial problems.

3. An IPP does have flexible benefit settlement options. Your benefit options include:

   - Your monthly pension can be paid directly from you portfolio liquidating the IPP assets as you go.
   - Your IPP can purchase an annuity from an insurance company in order to meet your monthly pension requirements.
   - Lump sum payments are options under certain circumstances, e.g. any actuarial surplus is owned by the retiree and it is possible to pay it out in a lump sum.

4. An IPP has higher investment standards, as to quality and diversification, compared to an RRSP. In other words your pension will be reasonably safe.

5. You can make up past deficits in retirement funds using corporate pre-tax dollars. Despite the fact that you start the plan today you can fund past services back to 1991. Typically the amount that the corporation will pay to bring the funding up-to-date will be the range of $65,000 to $90,000 but it could be as high as $361,000. Your company can establish your IPP with a lump sum payment that is income tax deductible.

6. It is possible to terminally fund part of your IPP. There are restrictions in pre-funding at retirement but your IPP can be amended to include full consumer indexing, an early retirement pension with no reduction and bridging benefits. Terminal funding is only available at retirement and cannot be funded prior to retirement.

7. Your corporation can contribute to the IPP up to 120 days after the year-end and the payment is still deductible (you record the amount as an accounts payable).

8. There is a guaranteed lifetime income to an IPP member and his spouse. You can purchase a joint-survivor annuity to ensure that the last person to die still has a pension.

Disadvantages

Here are some disadvantages to having an IPP:

1. An IPP lacks the income splitting advantages of purchasing a spousal RRSP. The pension is for one person only. If your spouse works for your company it is possible to set up a separate plan for her as well.

2. There is no access to the funds in your IPP while you are still employed. An RRSP or RRIF can be cashed in at any time.

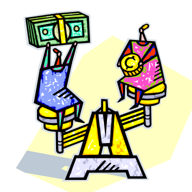
3. The funds in your IPP are very much locked in like other company pension plans. Your IPP makes payments to you on a prescribed basis and that cannot be changed (other than certain limited exceptions).

4. There is significant legislation concerning IPPs and this means higher administration expenses. Your IPP must file a return every year and an actuary must review it every 3 years to ensure that the IPP's investment portfolio is enough to meet the promise of the defined benefit.

5. It is possible that an excess surplus in the plan may reduce future contributions from the company. If your IPP's funds are very successfully invested with earnings beyond a certain limit then it will have more than enough funds to meet the promise of paying out the defined benefits. A surplus is created and, as a result further funding could be deferred until the surplus is used up meeting future needs.

An example of an IPP for an individual at the age of 60:

Past service liability	$ 260,000
Qualifying transfer from RRSP	(167,000)
Past service contributions (from corporation)	93,000
Current year's service contribution	25,000
Total contribution to IPP by corporation	$ 118,000



Notes

1. It will be necessary to use some funding from your RRSP to get your IPP established.

2. In 2005 the maximum RRSP room is $16,500. Clearly the IPP alternative permits a much greater contribution to your retirement plans.

3. Having done the catch up payment, which can be done over a number of years, the annual payment will be reduced to take care of the current service requirements each year.

4. When retirement becomes clear serious consideration will be given to amending your IPP. Amendments will bring the requirement of another tax deductible lump sum payment by your corporation so that you can collect a pension enhanced by indexing and/or bridging and/or early retirement.

See your advisor at MacKay LLP to determine your eligibility for an IPP.