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**June 6, 2011 Federal Budget Update**  
**Proposed Changes to Individual Pension Plans (IPPs)**

The Federal Budget tabled on June 6, 2011 contains the same proposals as were presented in the March 22, 2011 budget concerning changes to the Income Tax Act with respect to IPPs. These changes could, if enacted into law, under certain circumstances significantly reduce the tax advantages of future new IPPs. IPPs are superior pension schemes for executives, business owners and incorporated professionals that offer greater contributions, deductibility of investment costs, considerable past service contributions at implementation and significant additional contributions after commencement of pension by the employer.

The two budget IPP proposals are as follows:

1. Annual minimum amounts will be required to be withdrawn from IPPs, similar to current minimum withdrawal requirements from Registered Retirement Income Funds (RRIFs), once a plan member attains the age of 72. This rule will apply to all IPPs. and
2. Contributions made to an IPP that relate to past years of employment will be required to be funded first out of a plan member's existing Registered Retirement Savings Plan (RRSP) or money purchase (DC) assets or by reducing the individual's accumulated RRSP contribution room before new deductible contributions in relation to the past service may be made. This rule will apply for applications for recognition of past service submitted after March 22, 2011, the date the previous Budget was introduced.

Proposed IPP Rule #1 would require the payout of IPP assets that are significantly more than the pension amount as defined under an IPP and would lead to substantial risks of not having adequate benefit security on the promised pension. Proposed IPP Rule #2 would penalize individuals who have accumulated a significant amount of personal RRSP funds. The available IPP past service funding room under the proposed rules would be reduced by the amount of personal RRSP funds the individual has that are in excess of the required transfer amount to meet past service eligibility.

The references in the Budget Papers to the proposed changes are unusual in the sense that they do not include draft amendments to the Income Tax Act, the normal procedure for changes of this kind. In view of this, we do not know the detail of how these proposals might be implemented. There are a fair number of questions raised by these proposals which have not been addressed.

The sections of the Income Tax Act which relate to Registered Pension Plans in general and IPPs in particular are very complex in nature. We anticipate, therefore, that the required amendments to accommodate the proposed changes in rules might take months, if not years before they become law. In the interim, we expect announcements from the Registered Plans Directorate of CRA as to how they will deal with new IPP submissions.

We feel that these two proposed new rules are extremely unfair and discriminatory. We along with many other actuarial consulting firms made a joint-submission to the Honourable James M. Flaherty and the Honourable Ted Menzies at Finance in April to request that these proposed IPP changes in the budget be withdrawn and rescinded. For a full copy of our joint-submission, please click [here](#). Apparently, this submission was ignored as the proposals are presented in the June 6 budget are unchanged. We will be re-presenting this submission in the near future with any changes we consider to be appropriate.

Our recommendations to individuals who wish to establish new IPPs are as follows:

1. If your personal RRSP funds are insufficient to meet the required transfer amount for recognition of your full past service, the proposed IPP past service rule has no impact on your situation. It is recommended that you proceed with plan implementation.
2. If your personal RRSP funds are slightly more than the required transfer amount and less than the past service contribution amount available, i.e. your situation is similar to the example below:
  - a. The qualifying transfer amount from the RRSP is \$400,000 and the past service pension value is \$600,000, hence past service funding

room is \$200,000 (\$600,000 less \$400,000). The individual has a current balance of \$420,000 in personal RRSP funds.

- b. Under existing rules, \$400,000 would be transferred from the personal RRSP to the new IPP leaving behind a remaining balance of \$20,000 in the RRSP. The employer would be able to make a past service contribution of \$200,000.
- c. Under the proposed new rules, the full \$420,000 personal RSP balance would be transferred to the new IPP. The employer would only be able to contribute \$180,000 (\$600,000 less \$420,000)

We recommend that you proceed with IPP implementation as follows:

- I. We will specify in the plan documentation that the required transfer amount and the employer past service funding would depend on whether the proposed IPP past service rule in the budget would eventually get passed into the tax legislation.
  - II. The member would transfer in the full \$420,000. If the proposed IPP past service rules in the budget eventually get passed, the full \$420,000 would be part of the defined benefit provision. In the event that the proposed IPP past service rules in the budget do not get passed, the \$400,000 required transfer would be part of the defined benefit provision and the excess \$20,000 will be treated as Additional Voluntary Contributions (AVCs) – similar to RRSP funds kept inside an IPP.
  - III. The employer would only make past service contributions in the amount of \$180,000 (i.e. assuming that the budget proposal would get passed). In the event that the budget proposal does not get passed, the employer would then contribute the remaining \$20,000.
3. If your personal RRSP funds are way more than both the required transfer amount under existing rules and the past service contribution amount available such that there is not a meaningful amount of past service contribution room under the proposed new rule. You may want to consider setting up an IPP with current service only.

We will keep you posted with updated information on these proposed IPP changes in the June 6, 2011 federal budget as soon as they become available.

If you wish to obtain an IPP Quote to determine the past service funding opportunities under the pre-budget rules, please use our IPP On-Line Quoting System at:

<http://www.westcoast-actuaries.com/OnlineQuotingSystem/>

It will also be able to give you the RRSP transfer requirement under the pre-budget rules so you can determine whether you have excess RRSP funds.

Should you have any questions or require further information or clarification, please contact us at (604) 730-1898 or [IPP@WAIInc.ca](mailto:IPP@WAIInc.ca). Our professional staff would be pleased to assist you.

Note that this commentary is prepared based on our speculation on the potential legislation changes. We will continue to update this commentary when the Registered Plan Directorate comes forth with more specific policies and guidelines.