Hub offers user-friendly pensions

Business owners, professionals and executives can reap benefits from IPPs

By Stewart Lewis

Hub financial inc. is partnering with an actuarial firm to provide Hub advisors across Canada with a more "user-friendly" approach to individual pension plans. The initiative will be launched this month.

Most advisors avoid IPPs due to the complex rules that govern them. Hub hopes its new step-by-step guide, put together with the help of **Westcoast Actuaries Inc.** , will give its advisors a clearer understanding of IPPs, says John Lutrin, Hub's Vancouver-based executive vice president and chief marketing officer.

"We feel this will create a new market for advisors," Lutrin says.

The tax and pension laws governing IPPs allow planholders to make larger contributions than they could to an RRSP. As a result, says Ian Baker, a principal with Westcoast, advisors have the corresponding potential to get more assets under management.

"It's also a huge door-opener that can lead to providing management with other investments, insurance and estate planning," he says.

Hub will provide advisor support for marketing and IPP set-up, implementation and ongoing maintenance. Westcoast will provide Hub, its advisors and their clients with set-up and administrative documentation, actuarial valuations and the regulatory filings.

IPPs are best suited for clients who own a business. Other candidates for IPPs include incorporated professionals or senior executives who work for incorporated businesses. Plan contributions are made by the plan member's corporation or employer.

The first selling point of an IPP, compared with an RRSP, is that under an IPP, the maximum contributions allowed under the federal Income Tax Act and provincial pension legislation generally increase with age. The maximum RRSP deduction limit, on the other hand, stays the same — regardless of a client's age. This means clients can reap the maximum allowable pension benefit with an IPP.

IPP contribution amounts are determined actuarially using the plan's growth formula, the plan member's age and his or her T4 earnings history. For the Hub/Westcoast IPP, the estimated maximum IPP contributions are based on an actuarial calculation designed to deliver growth of 7.5%. (See the accompanying chart, above.)

At age 40, the estimated maximum IPP contribution limit is 18.6%. Assuming the client has an income of about $100,000, the allowed contribution is not much more than the maximum RRSP contribution — 18%, or $18,000. So the advantage of an IPP may not be apparent to clients this age.

You might, however, have more success selling an IPP to a client in his or her mid-50s. At 55, the IPP maximum is 24.6%, or $25,900, while the RRSP maximum contribution remains at $18,000.

To determine whether your client is a good IPP candidate, says Baker, his company has a quoting system that can be used free of charge, without disclosing your client's identity. It's available at: *www.westcoast-actuaries.com/ipp_resource_centre.htm*.

The second key selling point for an IPP over an RRSP is the ability to respond to market downturns.

Tax deductible

When the market drops, the RRSP contribution limit remains the same. The client is "out of luck" if he or she wants to make up the shortfall, Baker notes. But with an IPP, additional tax-deferred contributions can go into the plan to make up the shortfall in earnings or benefits.

That's because under the law, an IPP is considered to be a defined-benefit pension plan; an RRSP, on the other hand, is a defined-contribution plan.

Another IPP selling point is that contributions can be made based on the plan member's past service to the corporation, as far back as 1991. This allows the company to move any excess cash into a tax-deferred retirement investment.

For a company to make a tax-deductible contribution to an IPP for the past service of a plan member, he or she needs to transfer money from their RRSP, says Westcoast principal, Ian Baker. This avoids "double-dipping" at Ottawa's expense.

Finally, IPP plan members can retire early, and top up the assets in their plans with additional tax-deferred contributions.

IPP contributions are tax-deductible for the employer-corporation. Therefore, IPPs will be more appealing to an owner-manager whose company will pay less taxes.

Senior executives get the benefit of extra contribution room, but IPP contributions must be subtracted from their ability to make RRSP contributions.

The Hub/Westcoast IPP design will enable clients to utilize the maximum allowable pension benefit, but leave them with $600 a year to contribute to their RRSP, Baker says.

There are other limitations associated with an IPP. Unlike an RRSP, it cannot be a spousal plan. Therefore, an IPP does not allow the ability to split income. But a spouse can have an IPP with the company if the company employs him or her and if the plan is based on his or her T4 income.

There are investment restrictions, too. An IPP cannot have more than 10% of its funds invested in a single security. However, that rule does not apply to mutual funds, which are already diversified.

The funds are locked in, including any RRSP funds that have been transferred into the IPP.

The set-up costs for an IPP are often higher than for an RRSP. Most actuarial firms charge $2,000 to $5,000 for plan implementation and $1,000 to $2,000 for triennial actuarial valuation reports, says Baker.

But Westcoast does not charge fees for either of these services. Instead, it charges an annual fee, which is province-dependent, and ranges from $540 to $1,110.

For more information on Westcoast's fee structure please see: http://www.westcoast-actuaries.com/ipp_service_package.htm

Upon retirement or termination of the plan, the client has three options: the plan proceeds can be used to buy a guaranteed life annuity from an life insurance company; the funds can be transferred to a life income fund, locked-in retirement income fund or locked-in retirement account; or payments can be received immediately or on a deferred basis directly from the plan.

Once an IPP is established, contributions are mandatory in some provinces. Hub's IPP specialists will provide this information, says Baker.

In fact, Hub will provide information on all the "implementation responsibilities" of IPPs to its advisors as part of its training program. **IE**