

Individual Pension Plan (IPP) Quick Reference Guide

Version 2012-01

For a shareholder or executive who is over 40 years of age, an Individual Pension Plan (IPP) established and funded by the employer can provide better retirement savings opportunities than what is available to the employee personally through an RRSP. This IPP Quick Reference Guide provides the reader with some basic IPP information.

What is an IPP?

An IPP is established by an employer to provide pension benefits for an employee at retirement. The pension amount is calculated based on the employee's T4 employment income for the years of service recognized under the IPP.

Please note that an IPP is an employer-established program that replaces RRSP savings by the employee. Once the IPP has been set up in 2012, the employee's RRSP deduction limit will be reduced to \$600 each year from 2013 onward. If the employee owns 10% or more of the company (employer) or not dealing at arm's length, the RRSP deduction limit for 2012 will also be reduced.

Who is eligible for an IPP?

- ◆ An employee who receives pension-eligible T4-type employment income from the employer (**Note: self-employment income and dividend income are NOT pension eligible**); and
- ◆ The Board of Directors of the employer approves the establishment of the IPP.

What are the key advantages of an IPP?

- ◆ Higher contribution than regular RRSP for employees over age 40 (note that the IPP contribution advantage over RRSP increases with age);
- ◆ Employer can make further tax-deductible contributions if the IPP has a deficit;
- ◆ IPP assets are creditor-proof; and
- ◆ Pension income can be split up to 50% with spouse for income tax purposes.

What is the maximum 2012 current year IPP contribution?

Age	IPP Cont.	RRSP Cont.	IPP Cont. Advantage
40	\$24,926	\$22,970	\$1,956
45	\$27,380	\$22,970	\$4,410
50	\$30,076	\$22,970	\$7,106
55	\$33,037	\$22,970	\$10,067
60	\$36,289	\$22,970	\$13,319
65	\$39,862	\$22,970	\$16,892

*** amounts shown for selected ages only ***

Can an employer make past service contribution to a new IPP in 2012?

Yes, subject to the following requirements:

1. The employee received pension-eligible T4-type employment income during the years for which past service pension benefits are being provided; and
2. The employee must transfer an amount (calculated based on the T4 income amount for that year) from his or her own personal RRSP into the IPP. The maximum transfer amount required for each service year is summarized below:

<u>Year of Past Service</u>	<u>Transfer Amount</u>	<u>Year of Past Service</u>	<u>Transfer Amount</u>
1991	\$11,500	2001	\$23,220
1992	\$11,500	2002	\$23,220
1993	\$12,500	2003	\$23,220
1994	\$13,500	2004	\$23,220
1995	\$22,820	2005	\$23,220
1996	\$22,820	2006	\$23,220
1997	\$23,220	2007	\$23,220
1998	\$23,220	2008	\$23,220
1999	\$23,220	2009	\$23,220
2000	\$23,220	2010	\$23,220
		2011	\$23,220
		Total	\$442,940
		For All Years From 1991 to 2011	

If the employee does not have sufficient personal RRSP funds to satisfy the transfer requirement, the number of past service years recognized for pension purposes may have to be reduced. This will also reduce the past contribution room available to the employer.

What is the maximum 2012 total IPP contribution including past service?

Year	Description	Age 40	Age 45	Age 50
Past Service 1991 to 2011	Total Pension Value 1991-2011	\$ 504,861	\$ 554,568	\$ 609,168
	Less Value Funded By Transfer From Employee's RRSP to IPP	<u>(442,940)</u>	<u>(442,940)</u>	<u>(442,940)</u>
	Value Funded By New Employer IPP Past Service Contribution	\$ 61,921	\$ 111,628	\$ 166,228
2012	Value Funded By New Employer IPP Current Service Contribution	<u>24,926</u>	<u>27,380</u>	<u>30,076</u>
Total All Years	Maximum Total Employer IPP Contribution	<u>\$ 86,847</u>	<u>\$ 139,008</u>	<u>\$ 196,304</u>

Year	Description	Age 55	Age 60	Age 65
Past Service 1991 to 2011	Total Pension Value 1991-2011	\$ 669,144	\$ 735,021	\$ 807,366
	Less Value Funded By Transfer From Employee's RRSP to IPP	<u>(442,940)</u>	<u>(442,940)</u>	<u>(442,940)</u>
	Value Funded By New Employer IPP Past Service Contribution	\$ 226,204	\$ 292,081	\$ 364,426
2012	Value Funded By New Employer IPP Current Service Contribution	<u>33,037</u>	<u>36,289</u>	<u>39,862</u>
Total All Years	Maximum Total Employer IPP Contribution	<u>\$ 259,241</u>	<u>\$ 328,370</u>	<u>\$ 404,288</u>

***** the older the employee, the higher the IPP contribution by the employer *****

The figures in this IPP Quick Reference Guide assume:

- ◆ Age shown is the employee's exact age as at January 1, 2012; and
- ◆ Employee was hired on or prior to January 1, 1991 with employment income each year in excess of \$132,333.

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