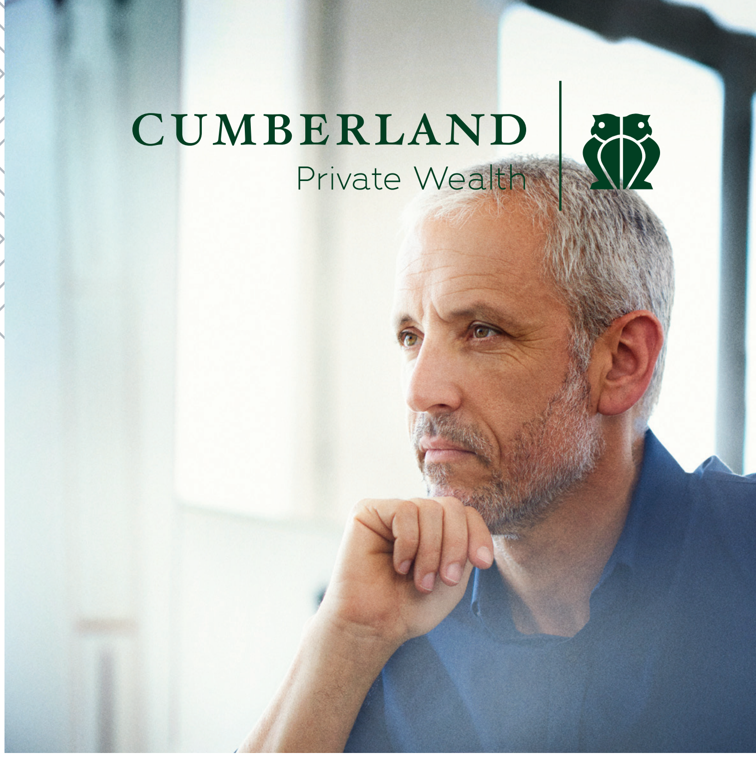

ENHANCED RETIREMENT SOLUTIONS CASE STUDY: The Boomer Business Owner

Jonathan has owned his own company since 1989 and has a history of steadily increasing earnings. He's looking for retirement income solutions as he nears age 65: Is an Individual Pension Plan right for him?

Jonathan, age 62, established his business in the late 1980's and, like many Boomers, is only now starting to think about planning his retirement income.

His accountant mentioned that an Individual Pension Plan (IPP) might be the right retirement income choice for Jonathan, especially in light of recent tax changes impacting small businesses.

An IPP can provide Jonathan with a "defined benefit" (DB) pension designed just for him, based on his earnings from 1991 onwards, and including his previous work history as "past service" to calculate his pension benefits. And, because he is nearing retirement, Johnathan's corporation will be able to make a significant tax-deductible contribution to his IPP.

In 1991, Jonathan's wages were $76,000, but his salary has increased every year by 2.5%. In 2019, his wages were almost $152,000, thus allowing for a maximum pension accrual for 2019. (Contributions to an IPP are tax-deductible to the employer, so tax rules cap the annual pension accrual.)

Running the numbers: How much can Jonathan contribute to an IPP?

Jonathan has $700,000 in RRSPs, and unused RRSP room of $100,000. Based on his circumstances, Jonathan's company can make a tax-deductible contribution of $649,162 to an IPP established for him in 2019:

Total Assets in IPP	Defined Benefit Provision	Defined Contribution Provision (AVC Account)	Total
Company Contribution in respect of 2019	$649,162		$649,162
Transfer from RRSP	$552,000	$148,000	$700,000
	$1,201,162	$148,000	$1,349,162

The tax rules require that $552,000 of the past service be funded with a transfer of RRSP assets. Jonathan transferred the remaining $148,000 of RRSP assets to the Additional Voluntary Contribution (AVC) account. The company can deduct investment management fees relating to the AVC. (Assets in an RRSP would compound net of these fees.) Since he has $100,000 of unused RRSP room, he could make a contribution to his RRSP, and then transfer these assets to the AVC account as well. If the full amount of the past service cannot be funded in the current year, it can be amortized over a 15-year period.

IPP versus RRSP: Reviewing the IPP advantage

How do the IPP contributions compare to saving in an RRSP? Remember that RRSP contributions are limited to 18% of the prior year's "earned income," while IPP contributions increase with age.

In Jonathan's case, the current service contribution for 2019 is 28.5% of his wages—or more than 50% greater than what he could contribute to his RRSP:

Maximum Company Contribution for 2019		Current Service Cost as a % of Salary
Past Service (1991 to 2018)	$606,048	28.5%
Current Service	$43,114	
	$649,162	

IPP Glossary: Current and Past (Pension) Service

A registered pension plan (RPP), including an Individual Pension Plan, is a pension plan that has been set up by an employer and registered by the Canada Revenue Agency to provide the plan member with a pension when they retire. RPPs can include:

- contributions for current service, when you were a member of the plan
- contributions for past service (for 1990 or later years), before you were a member of the plan
- contributions to an Additional Voluntary Contribution (AVC) account NOTE: only defined-benefit pension plans—including IPPs—allow contributions for past service!

The bottom line: IPP benefits for a Boomer business owner

In Jonathan's case, the benefits of an IPP may include:

- Significant tax savings for his corporation: Amounts contributed to an IPP are tax-deductible, along with all expenses associated with implementing and administering the IPP
- Substantial defined-benefit retirement income: Jonathan is accumulating a significant defined benefit pension. As at January 1, 2019, he will have accrued a pension of $84,716 per year, which will be indexed going forward—and CPP bridge benefits can also be provided if he retires before age 65
- Protection from the erosion of the Small Business Deduction: Excess corporate investment assets will be transferred to the IPP, thus mitigating the erosion of the Small Business Deduction
- Enhanced accumulation: The funds in the AVC account will grow on a gross basis, as investment management fees will be paid by Jonathan's corporation
- Protection from creditors: Assets in the IPP are creditor-proof
- Tax savings via pension income splitting: The retirement pension, including any CPP bridge benefits, qualifies for pension splitting with his spouse or common-law partner
- Additional tax-deductible contributions at retirement: Jonathan's company will be able to make a very significant additional contribution, known as "terminal funding," when Jonathan starts to draw his pension

Does this case study sound like you, or anyone you know?

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