IPP-Pension Plan for Small Business Owners

Creditor Protection

Business Succession Planning

Estate Planning

Retirement Planning

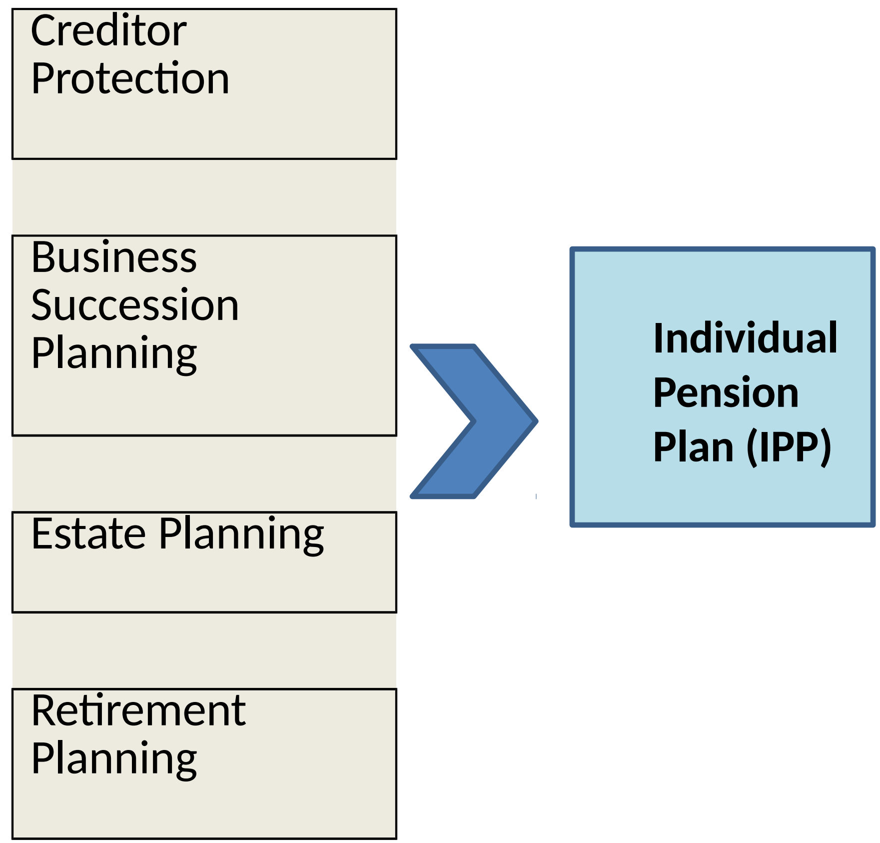
Our Recommended Solution

Creditor Protection - RRSP assets are generally not protected from personal creditors. Assets held inside an IPP/RPP are protected from creditors of the both the employee and the employer, under federal and provincial pension benefits standards legislation.

Business Succession Planning - If it is properly structured, an IPP can provide for terminal funding benefits in the year of retirement. Often, the retirement date of an owner/manager with the date the business is sold and therefore the payment of the terminal funding benefit can have effect of reducing the sale proceeds for the business(thus deferring tax liabilities).

Estate Planning - If you passed away while a member of an IPP, the assets are not necessarily lost. If set up correctly, they can be transferred to your current spouse, a listed beneficiary or they can be transferred to an estate you listed.

Retirement Planning - One of the major advantages of choosing IPP as opposed to a RRSP is the additional tax-deferred savings that can be created. An IPP is generally known to be established as a defined benefit plan which allows for these additional savings, unlike RRSP's which are classified as a contribution plan.



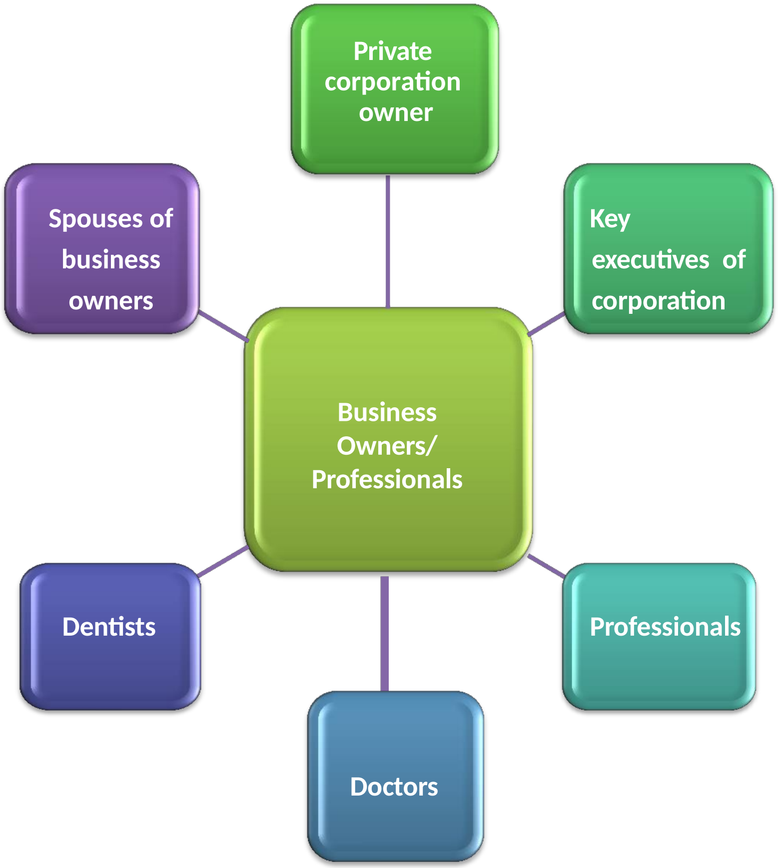
Ideal Candidates

The Ideal candidate for an IPP is an individual who
• is at least 55 years old
• is an employee of a corporation (could be an owner/manager or an executive)
• has an employment income of a least $150,000 per year.
• has a reliable future employment income stream in excess of $150,000 per year
• has no foreseeable need to access the fund set aside for retirement

- ❑ **Relatively close to retirement (age 55 & over)**
- ❑ **Highly successful business owners and highly compensated (T4 income > $150,000 each year)**

Eligibility Criteria

- There are several requisites that make up the ideal candidate eligible for an Individual Pension Plan and while there are no age or income restrictions for setting up an IPP, it is generally recommended that the individual be above the age of 50 with an income of at least $150,000 in order for them to take full advantage of the opportunity that an IPP provides.
- In order to be eligible for an IPP, you must be an employee of a corporation; proprietorship's and partnerships are not considered eligible.
- The compensation that you receive must be a T4-Type(T4, T4A or T4PS) employment income from the employer.
- Contributed maximum amount to RRSP



Advantages & Disadvantages

Advantages
The biggest advantage of an IPP is being able to make current service contributions in excess of normal RRSP contribution limits. This is in part due to the fact that the calculation is based on an individual's age and earnings. These factors eventually lead to larger contributions to an IPP as the account holder ages because their expected time to retirement is shorter.

It is important to note that if the rate of return in the portfolio falls short of the targeted 7.5% required return, the company is able to contribute more funds to top up the plan. Additionally, all amounts that are paid into the IPP by the company are considered tax-deductible to the company.

Unlike RRSP assets, assets that are held inside an IPP are protected from creditors of both the employee as well as the employer, providing a bit more security for your future retirement fund.

If structured properly with other family members included, it may be possible to even use the funds remaining in an IPP after the death of the first generation in order to provide funds and benefits for younger family members. This allows for the tax-deferred inter-generational transfer of a registered asset beyond the passing of the last spouse over onto the children, or other family.

Terminal funding allows the Business owner to make a decision whether to contribute additional funds into the IPP in order to pay for enhanced benefits and higher benefit security. Essentially, it allows for further IPP contribution after retirement and the start of collecting your pension. Amounts can often be in excess of $500,000 and can even reach as high as $1,500,000.

An IPP can be great tool to create bridging benefits for someone who decided to retire early (before the regular age of 65). These benefits can supplement retirement income until they start to receiving CPP and OAS benefits. Including this benefit further enhances the contributions that can be made to an IPP.

Disadvantages
At Sami we strongly believe that all the disadvantaged listed on the right are indeed other few advantages . Please ask your SAMI consultant for details.

Advantages	Disadvantages
Higher contribution amounts	No access to funds while employed
Creditor-proof assets	Locking in
Flexible benefit settlement options	More legislation, therefore higher expenses (Deductible by Corporation)
Higher investment standards	Excess Surplus may reduce future contributions (Investment returns are contributing)
Deficits can be made up using pre-tax dollars	
Terminal funding	
Estate planning	
Locked In	
Corporation can expense all the carrying charges	
Statement of Investment policies and procedures	

Maximum Contribution Amounts

By using a defined benefit plan (IPP), there is a larger contribution room per year than when saving using a RRSP.

There are also some restrictions when it comes to the contributions that are put towards an IPP. In fact, the amounts that can be allocated to the IPP are restricted by the Canada Revenue Agency maximum funding formula. Since there amounts are based off of assumptions, the amount can sometimes be generous or conservative. The Canada Revenue Agency tends to play things safer which in certain circumstances can allow an individual to contribute more on an annual basis to an IPP than to an RRSP.

Since an IPP is considered a defined benefit plan, payments are pre-determined based on the payment structure that was chosen (Flat Benefit, Best Average Earnings, etc.) These payments would regularly begin on the day of the employee's retirement.

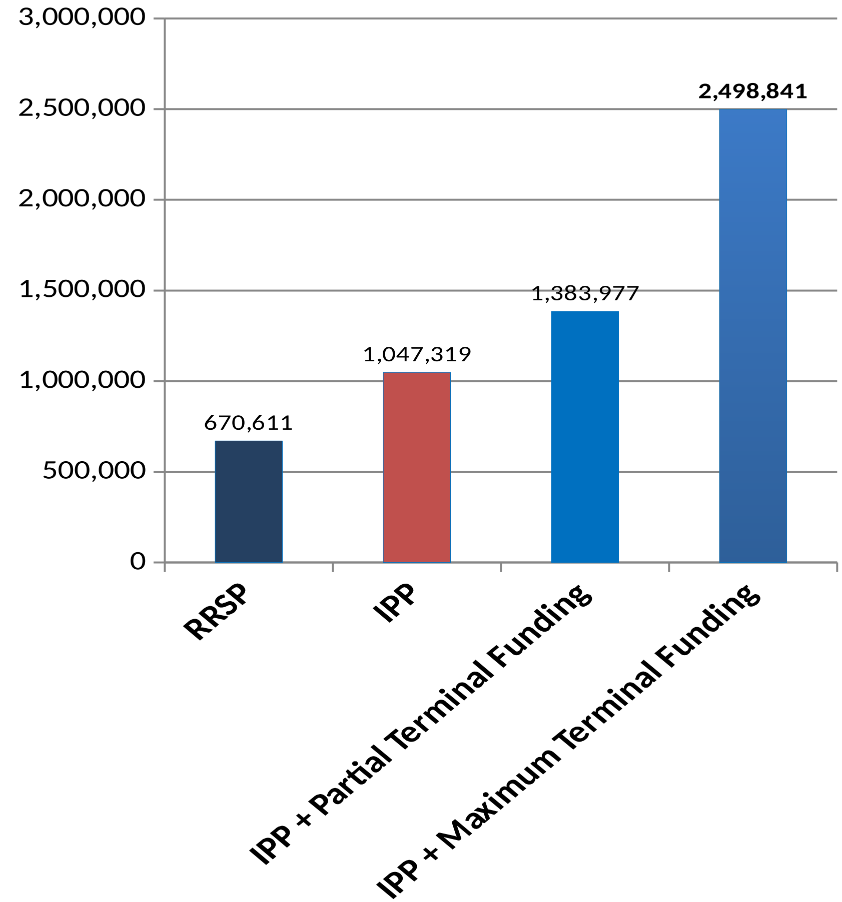
In addition to creating a fund for your retirement, the plan text also specifies what would happen in the event of the employee's death. If for instance, there are other family members included in the plan, the surplus funds would usually be maintained in the plan.

Age	Max. Contribution	% of Income
All Ages	$25,370	18.0%
IPP Current Service Contribution		
50	$32,841	20.7%
55	$36,074	22.7%
60	$39,626	27.4%
65	$41,527	28.7%

What is IPP Terminal Funding ?

- Additional IPP contribution allowable after retirement & start of pension
- Amount often in excess of $500,000 and can be as high as $1,500,000
- Succession planning:
  - Significant contribution lowers company value
  - Facilitates transfer of shares to next generation at much lower cost

How Much More Registered Assets IPP vs. RRSP (Age 60, T4 Income > $150,000 Each Year 1991-2015)



Case Study - IPP vs. RRSP

IPP vs. RRSP Contributions

- IPP set up in 2013 for a male, age 57 with spouse 5 years younger.
- Full past service 1991 to 2012 inclusive (transfer from personal RRSP = $474,260).
- Retired in 2016 at age 60 with maximum "Terminal Funding".
- Assumed net investment return = 7.5% per annum

Contribution	IPP	RRSP	Difference
Past Service	267,624	0	267,624
2013	34,964	23,820	11,144
2014	37,586	24,270	13,316
2015	40,405	24,930	15,475
Terminal Funding (Maximum Part I + II)	1,451,522	0	1,415,522
Total	1,832,101	73,020	1,759,081

Why is IPP Terminal Funding Available ?

- ❑Active IPPs must be funded at rates prescribed in tax regulations:
  - ➢ Interest rate = 7.5% per annum
  - ➢ Inflation (CPI) = 4.0% per annum
  - ➢ Maximum indexing of CPI less 1% (i.e., 4.0% - 1.0% = 3.0% per annum)
  - ➢ Hence funding at a "Net Discount Rate" of 4.5% per annum (7.5% vs. 3.0%)
- ❑After commencement, pension can be fully CPI-indexed (vs. CPI less 1%)
- ❑Matured IPPs with no active members can be funded on an annuity cost basis.
- ❑Terminal Funding:
  - ➢ Improve indexing from CPI less 1% to Full CPI [Part I]
  - ➢ Change to funding on annuity cost basis [Part II]
  - ➢ [Part I] only = Partial [ability to add children for planning purposes]
  - ➢ [Part I] + [Part II] = Maximum [can't add children for planning purposes]

Case Study – IPP vs. RRSP
IPP Fund

$474,260 RRSP Transfer + $267,624 Past Service Contribution

Year	Jan. 1st Balance	IPP Contributions	Investment Income	Dec. 31st Balance
2013	741,884	34,964	56,929	833,777
2014	833,777	37,586	63,917	935,280
2015	935,280	40,405	71,634	1,047,319
+ Terminal Funding Contribution Early 2016 $1,451,522				
=Total IPP Assets After Terminal Funding $2,498,841				

How Much Is IPP Pension?

- Depends on years of pensionable service, employment income history and the maximum pension limit at retirement
- Pension would increase in future due to:
  - increase in the maximum pension limit based on Canadian wage index
  - accrual of more years of pensionable service
- Example
  - Maximum pension limit for 2016 is $2,890.00 of annual pension per year of pensionable service
  - If employment income each year >$144,500, would receive annual pension of $2,890.00 for each year of service, e.g. $144,500 x 2% = $2,890.00
  - Retirement at January 1, 2016
  - Pensionable service = 25 years (Jan. 1, 1991 to Dec. 31, 2015)
  - Pension = $2,890.00 x 25 = $72,250/year ($6,021/month)
  - If retiring prior to age 65, also bridge benefit of $9,583/year ($799/month)

IPP Annual Pension Depends on Future Investment Performance (Real Rates of Return)

Real Rates of Return	RRSP	IPP (Without Terminal Funding)	IPP (Maximum Terminal Funding)
Registered Assets	$670,611	$1,047,319	$2,498,841
Annual Pension @ 1% Per Annum	$23,716	$37,038	$88,369
Annual Pension @ 3% Per Annum	$32,205	$50,296	$120,003
Annual Pension @ 5% Per Annum	$41,730	$65,171	$155,494
Annual Pension vs. RRSP	-	+56%	+273%

Check your feasibility for IPP?

Answer the questions below with Y/N

No.	Question Description	Response (Y/N)
1.	Does the Employee want a pension from a "Super sized RRSP"?	
2.	Does the Employer want larger deductions than an RRSP can provide?	
3.	Do the Employer and Employee want the IPP for the long-term?	
4.	Is the Employee at least age 50?	
5.	Does a bona-fide Employer - Employee relationship exist?	
6.	Does the Employee receive T4 income?	
7.	If the IPP is subject to provincial pension regulation, is the Employer willing to make regular contributions?	
8.	Is the Employee willing to follow investment guidelines?	
9.	Is the Employee willing to have IPP monies locked-in?	
10.	If the actual experience with respect to the IPP account investment income and wage inflation differ from the assumed rate resulting in an experience loss, is the Employer willing to make additional contributions?	
11.	If the IPP account investment income exceeds the assumed rate resulting in an excess surplus in the plan, is the Employer willing to forgo making contributions?	

Questions / Further Information:

Tel: 647-500-0040

Email:

support@ownersequityfund.com