MacNicol & Associates Asset Management Inc.

Safe Harbour Safe Future
Since 2001

The INTEGRIS Personal Pension Plan

RRSPs vs IPPs vs PPPs®

MacNicol & Associates Asset Management Inc.

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MacNicol
& Associates
Asset Management Inc.

PERSONAL
PENSION PLAN

GET STARTED

COMPARING THE PPP® TO THE IPP

A smarter way to save for your retirement®

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- BASIC RULES (the « Coles' Notes)

I. There is nothing an IPP can do that the PPP® cannot offer.
II. There are a number of circumstances where the PPP® allows for more contributions than an IPP.
III. Over time, an individual can amass more wealth in a PPP® than an IPP, all else being equal.
IV. The PPP® comes with additional services that would need to be purchased separately in an IPP.

- Thus, over time, assuming the same rate of return, the PPP® is *less* costly and *more* tax-effective.

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What is a PPP® ?

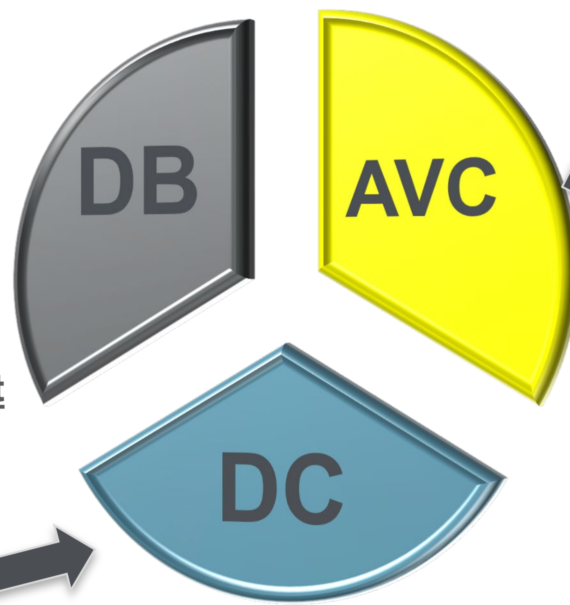
A combination registered pension plan governed by section 147.1 of the *Income Tax Act* (Canada)

Defined Benefit Component

- Traditional “pension plan”
- Scheduled contributions fund a fixed/guaranteed monthly income in retirement

Defined Contribution Component

- Minimum 1% of T4 Income
- Contributions fund a variable monthly income in retirement



Additional Voluntary Contributions

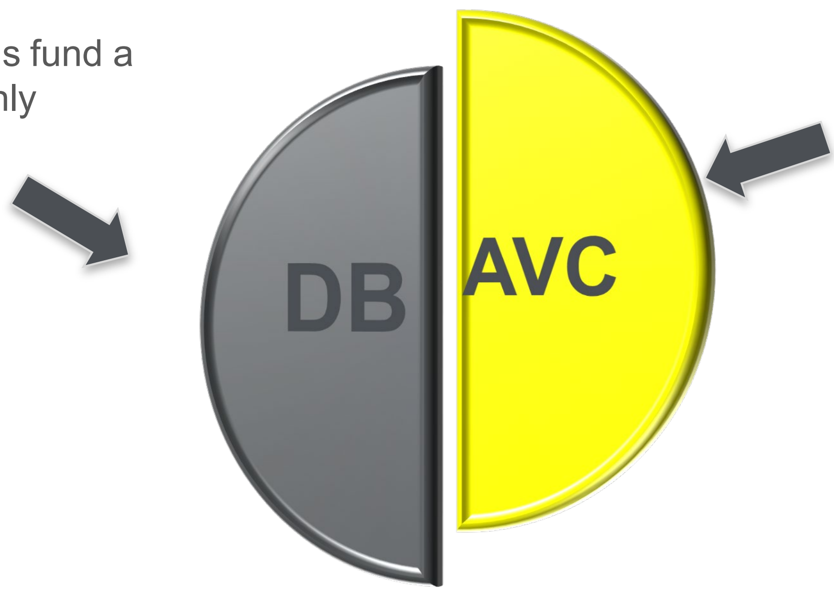
- Never Locked-in
- Allows transfers-in of additional RRSP assets in order to tax deduct Investment Management Fees
- 0% to 17% of T4 income voluntary employee contributions

What is an IPP ?

A defined benefit registered pension plan governed by section 147.1 of the *Income Tax Act* (Canada)

Defined Benefit Component

- Traditional “pension plan”
- Scheduled contributions fund a fixed/guaranteed monthly income in retirement



Additional Voluntary Contributions

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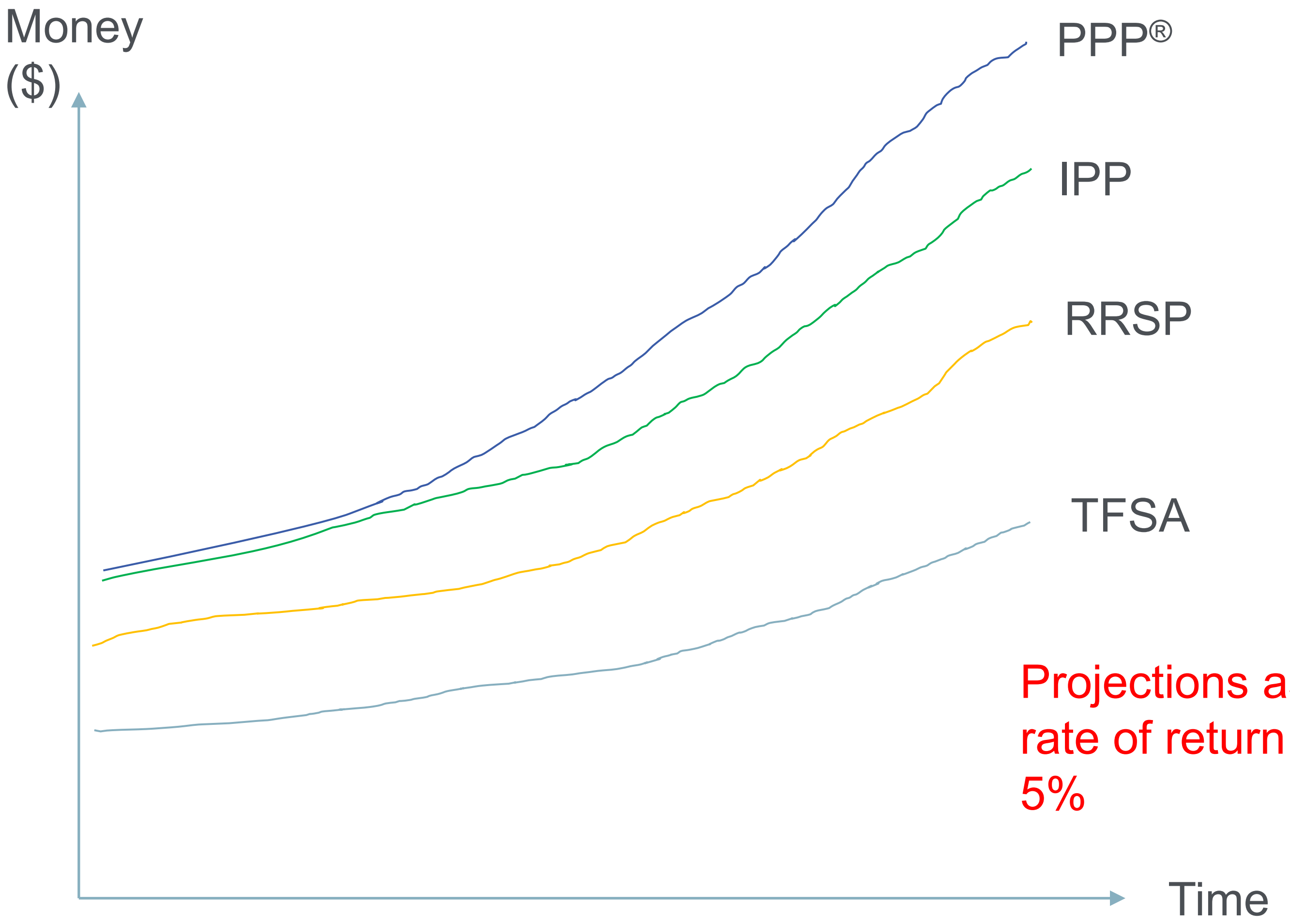
PPP®

Most tax-effective registered pension plan solution allowed under the *Income Tax Act* (Canada)



Projections assume the same rate of return on assets, e.g. 5%

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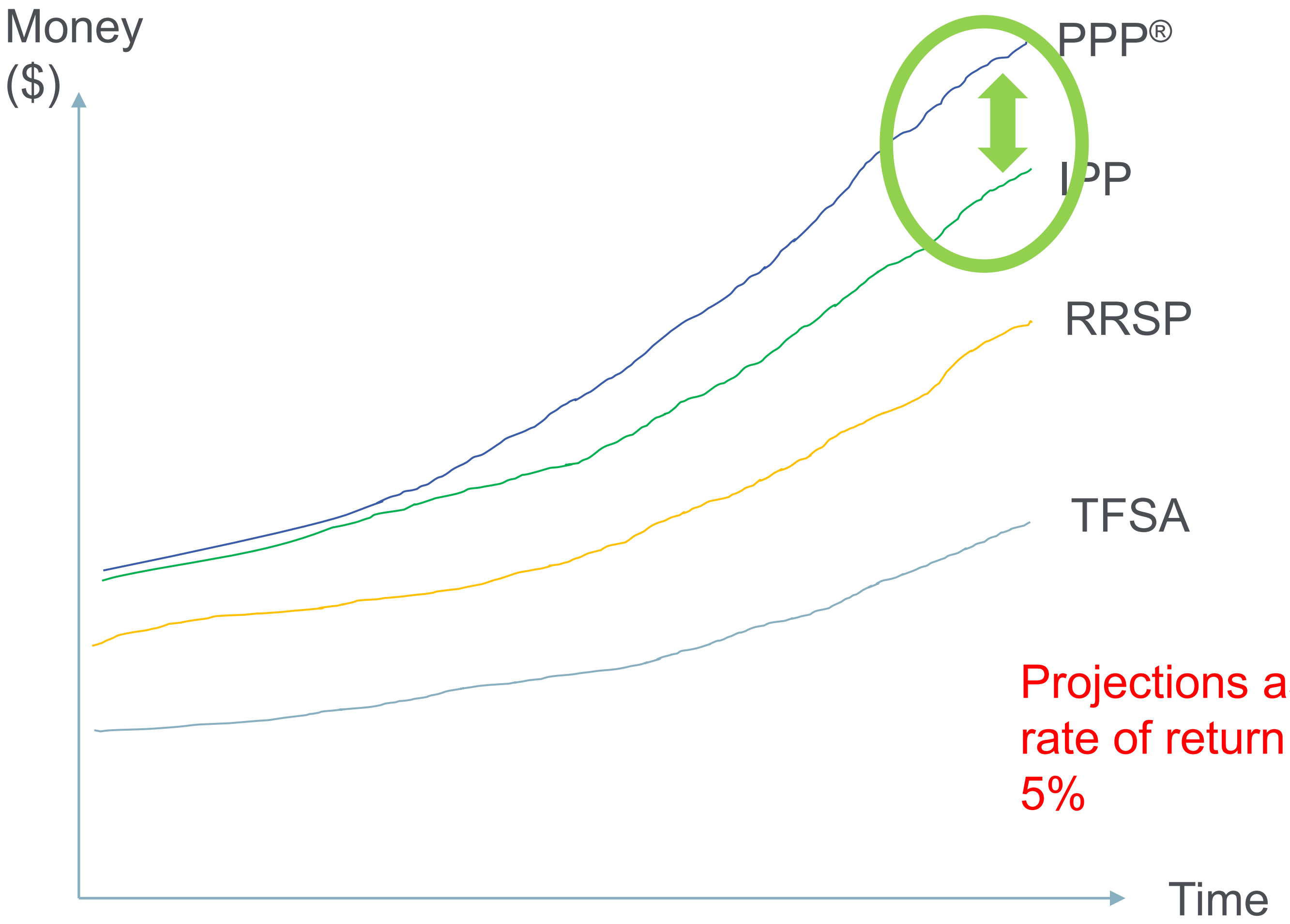
PPP®

How significant is the PPP® upgrade over the IPP ?



Projections assume the same rate of return on assets, e.g. 5%

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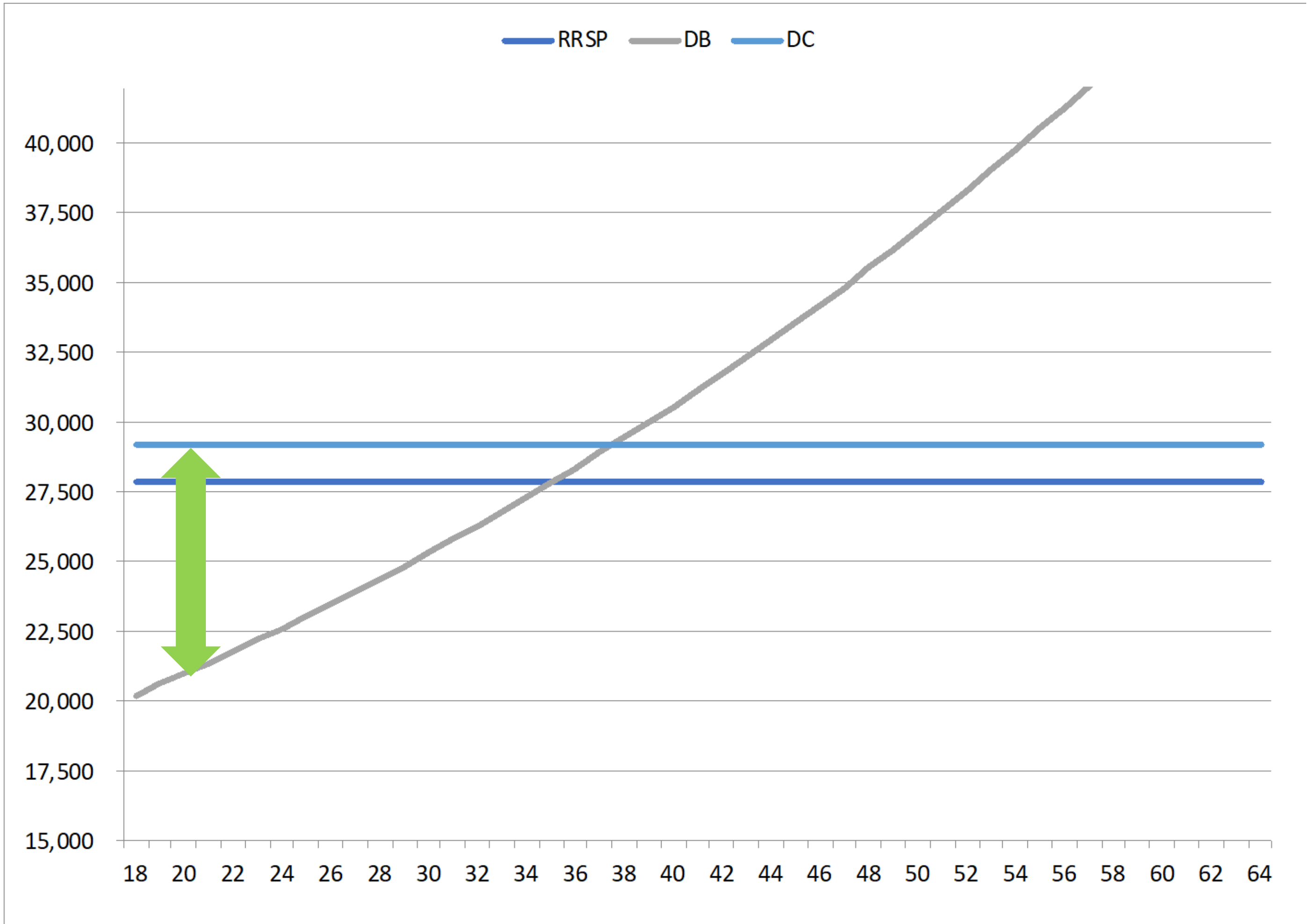
Depends on a number of conditions, some of which are cumulative. – the first one being the"IPP" Loss due to age

- **(A) Age Advantage**



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Depends on a number of conditions, some of which are cumulative.

- **(A) Age advantage (Continued…)** :
  - If younger family members are made plan members, they are allowed to contribute more than under an IPP, year after year.
  - Example: 25 year old with $160,000 T4 can contribute $43,293 more than under an IPP. If the assets grow at 7% until age 71, the PPP advantage gap is: $ 723,793

		INPUTS IN YELLOW						
		7.00%	ROA		FEE	2800		
		71	Retirement Age					
							INTEGRIS FEE	
age	IPP loss			Years to RA	ROA	FV	(average)	Net Advantage
18		71		53	7.00%	$0.00	2800	
19		71		52	7.00%	$0.00	2800	
20		71		51	7.00%	$0.00	2800	
21		71		50	7.00%	$0.00	2800	
22		71		49	7.00%	$0.00	2800	
23		71		48	7.00%	$0.00	2800	
24		71		47	7.00%	$0.00	2800	
25	$ 6,145	71		46	7.00%	$138,094.27	2800	$135,294.27
26	$ 5,708	71		45	7.00%	$119,881.99	2800	$117,081.99
27	$ 5,262	71		44	7.00%	$103,284.95	2800	$100,484.95
28	$ 4,808	71		43	7.00%	$88,199.66	2800	$85,399.66
29	$ 4,346	71		42	7.00%	$74,508.94	2800	$71,708.94
30	$ 3,874	71		41	7.00%	$62,071.82	2800	$59,271.82
31	$ 3,394	71		40	7.00%	$50,823.31	2800	$48,023.31
32	$ 2,905	71		39	7.00%	$40,654.95	2800	$37,854.95
33	$ 2,406	71		38	7.00%	$31,468.73	2800	$28,668.73
34	$ 1,898	71		37	7.00%	$23,200.43	2800	$20,400.43
35	$ 1,380	71		36	7.00%	$15,765.04	2800	$12,965.04
36	$ 852	71		35	7.00%	$9,096.45	2800	$6,296.45
37	$ 315	71		34	7.00%	$3,143.11	2800	$343.11
	$ 43,293					$760,193.65	56000	$723,793.65

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Depends on a number of conditions, some of which are cumulative.

- **(A) Age advantage (continued…)**

  - If younger family member decides to simply use an RRSP to avoid the IPP loss and its long-term consequences, there are two other issues:

1. This precludes the creation of surplus on the death of the older family member to be used without taxation by the younger member (he or she is not part of a pension plan, but in an RRSP).
2. This precludes the ability of the younger RRSP annuitant of doing an RRSP double dip contribution in addition to the DC-PPP contribution in the first year.

- Example: age 25, double dip contribution of $27,830 to RRSP growing until age 65 at 6% creates extra registered assets of $283,451.53

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Depends on a number of conditions, some of which are cumulative.

- **(B) Excess Surplus Advantage**:
  - If assets in the IPP [or DB/PPP] earn more than 9.375%, the plan will be in excess surplus.
  - Based on 40 previous years of TSX and DOW, this happens about 50% of the time.
  - IPP customer must take a Contribution Holiday => no corporate tax deductions.
  - IPP customer assessed a Pension Adjustment since another year of credited service is counted by the plan. The Pension Adjustment eliminates the client's otherwise available RRSP room.
  - PPP customer facing the same issue can flip into DC mode.
    - 1% of Salary can be transferred from overfunded DB account to DC account. This creates a small 1% Pension Adjustment.
    - Since DB component no longer in use, there are no other Pension Adjustments.
    - Next year, PPP client can contribute 17% of Salary to their RRSP to claim a personal tax deduction.
    - Also, freshly contributed RRSP assets can roll tax deferred (via T2033) into AVC account.
    - IMFs on ex-RRSP assets now in AVC become additional corporate tax deductions.

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Depends on a number of conditions, some of which are cumulative.

- **<u>(C) Contribution Holiday Advantage</u>**:
  - If corporate sponsor decides that it doesn't want to fund the plan, for whatever tax or other business reasons….
  - IPP customer is like as if there was a Contribution Holiday = no corporate tax deductions.
  - IPP customer still assessed a Pension Adjustment since another year of credited service is counted by the plan. The Pension Adjustment eliminates the client's otherwise available RRSP room.
  - PPP customer facing the same issue can flip into DC mode.
    - 1% of Salary can be contributed by the company. This creates a small 1% Pension Adjustment..
    - That year, PPP client can contribute 17% of Salary to the AVC account to claim a personal tax deduction. That would create a 17% pension adjustment.
    - IMFs on AVC become additional corporate tax deductions.

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Depends on a number of conditions, some of which are cumulative.

- **(D) Smarter Asset Allocation Strategy**:
  - Under an IPP a properly diversified portfolio will have a mixture of bonds and stocks.
    - Bonds more likely to earn less than stocks.
    - Blended average return is often in the 6% to 8% range
    - Thus, there is little scope for additional tax-deductible corporate contributions in the form of Special Payments.
  - Under a PPP, we can maintain the same portfolio construction but we place the Bonds/Fixed Income assets in the DB component and the Stocks in the DC/AVC account.
  - At valuation time (every year or once every 4 years in Quebec) the actuary will look at the returns in the DB account and declare an actuarial deficit.
  - The rates of return achieved in the two other accounts are ignored.
    - A low DB return translates into much larger Special Payments..
    - …thus much larger tax relief for the company
    - And we have still maintained the overall portfolio construction

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Depends on a number of conditions, some of which are cumulative.

- **<u>(D) Smarter Asset Allocation Strategy (continued…)</u>**:
  - Having more ‘secure’ DB assets also gives the advisor and client more “dry powder”.
  - If market suffers a correction (e.g. March 23, 2020) the bonds and GICs can be liquidated (no tax because they are in a PPP) and the cash used to go on a ‘spending spree’.
  - Classic “buy low/sell high” strategy, with the added bonus that any profit taking along the way is done without triggering any tax (because the newly purchased stocks in the DB account are within a PPP.)

Depends on a number of conditions, some of which are cumulative.

- **(E) Cross-Subsidization on Wind Up**
  - Issue with IPP on wind up: only a fraction of the IPP assets can flow on a tax-sheltered basis to an RRSP/RRIF/LIF/LIRA on wind up due to *Income Tax Regulation* 8517
  - PPP solution:
    - Firstly, amend PPP's DC rules to increase contributions from 1% to 18%
    - Secondly, transfer the value of 18% of T4 each year from DB account using surplus, into the DC account.
    - Finally, when the PPP is terminated, 100% of DC cash can go directly to a LIRA/LIF/RRSP/RRIF with no immediate tax.
    - Need to be a bit more pro-active once a client indicates their plans to wind up the pension plan. Cross-subsidization needs a few years to truly save clients significant cash.

Extra

Fiduciary Oversight

- IPPs don't come with fiduciary oversight provided by a dedicated team of pension lawyers.
- Those services (often $500/hr) have to be disbursed, out of pocket by the IPP client
- These supervisory services come with the PPP include: auditing the work of the actuaries, governance audits, interventions with regulatory authorities

Extra

Fiduciary Oversight - Examples

- Assistance with marriage breakdown procedures to split pension income with ex-spouse
- Surplus reversion application and communications with regulatory authorities and appeals.
- Corporate law support relating to pension plan in sale of a business context – assignment of plan to new sponsor etc.
- Audit of the work done by the actuarial service providers
- Advocacy work with tax and pension authorities at the highest levels in Canada (Dept of Finance, Provincial governments etc.)
- Tax optimization reviews (inter-generational wealth transfers, terminal funding, lifetime capital gains exemption, surplus management etc.) and coordination with tax and legal advisors on the transaction.
- Setting up and management of specialized tax-exempt pension holding corporations for alternative investing

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Conclusion

More Money + More Service = A lower cost than IPPs

- The various tax advantages translate into more registered capital available in retirement than under an IPP.
- The provisions of supplemental fiduciary services means that the client isn't being asked to pay a third party professional outside of the annual actuarial administrative fees.
- Therefore PPP provides more net value than an IPP.

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