

PPPs Offer Security In Retirement

PENSIONS



BY: **Jean-Pierre Laporte & Craig Machel**



In the opening scene of Netflix's Brazilian series '3%', we are told that the world is divided into two parts: one abundant, another one scarce. In it, 97 per cent of the world's population lives in a dystopian future of deprivation and humiliation while a privileged three per cent live on a tropical island offshore in luxury and plenty.

Ironically, when it comes to retirement savings in Canada, a similar division exists: most Canadians labouring in the small private sector use registered retirement savings plans (RRSPs) and a very small minority (approximately three per cent) use registered pension plans and are thus able to significantly increase their retirement savings. This partially explains why individuals working in the public sector typically retire at age 60 whereas self-employed workers in the private sector generally retire at 65.

Leisure Time

Considering a typical working career of 35 years, these extra five years represent a significant (14.2 per cent) increase in leisure time. More importantly, the defined benefit plans offered to public employees are guaranteed and backstopped by the Canadian taxpayer whereas an RRSP account must last a lifetime, which means that most will

withdraw less each year in a prudent effort to avoid depleting retirement assets too quickly.

Since no one wishes to take away acquired rights from public sector workers, such as gold-plated Canadian defined benefit plans – seen by some commentators as being the envy of the world – the logical next question becomes 'can a small business owner in the private sector emulate what teachers and civil servants have enjoyed for decades when it comes to retirement solutions?' The answer is a resounding 'yes.' In fact, Canadian laws have made the solution available for over 30 years, so one cannot blame our lawmakers for the discrimination in terms of retirement options available in the marketplace.

Various provisions of the Income Tax Act (Canada) allow Canadians who operate their own corporations to establish registered pension plans for themselves either as individual pension plans (IPP) or as personal pension plans (PPP). This simple act of establishing a pension plan is the equivalent of finding the combination to a safe stuffed with riches.

Briefly put, a PPP (superior to its earlier incarnation, the IPP) multiplies the number of tax deductions an eligible Canadian taxpayer can enjoy compared with what is available from an RRSP. These additional deductions include purchasing past service, contributing special payments, exceeding RRSP contributions, writing off the cost of investment management fees, and interest paid to a lender when contributing to the plan as well as 'terminal funding.'

Conceptually, if a corporation increases the value of tax deductions it can claim, and the funds are destined for the tax-sheltered pockets of the key shareholder, the corporation keeps more of its assets and the shareholder's retirement nest egg grows at a much faster pace due to the compounding benefits across more capital each year.

The power of the pension solution isn't restricted to the fact that more money can be invested. The pension plan itself can in-

vest in superior asset classes often unavailable to RRSP clients. For example, sophisticated institutional investors such as the Healthcare of Ontario Pension Plan, the Teachers' Pension Plan of Ontario (Ontario Teachers'), and the CPP Investment Board have access to and include a multitude of alternative investments that are not qualified for RRSP investing. It is no small wonder that marquee assets such as the 407 Toll Highway, the Toronto Maple Leafs, and the Eaton Centre have been owned or continue to be owned by pension plans.

Academic Research

Academic research concludes that modern diversification strategies – which include a variety of alternative asset classes – demonstrate the coveted effect of increasing returns while reducing risk and volatility. It is now possible to replicate the successes learned from Ontario Teachers' and others by adopting a strict and highly disciplined investment policy that reaches beyond the traditional mix of stocks and bonds that was popular after World War II and until the late 1990s.

In fact, an individual's PPP can offer generational planning advantages that are not available in a public plan like Ontario Teachers', such as the ability to transfer PPP assets upon the owner's death to family members that participate in the pension plan.

For business owners and incorporated professionals, personal pension plans can provide substantial benefits. Wealth is about having options and autonomy and a PPP may be the ticket to tropical island paradise.

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