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07/30/2021

Complicated but good: Why this ‘mind-boggling’ personal pension is gaining ground with doctors

Higher allowable contributions, significantly reduced corporate tax and the potential to retire early with undiminished income are just some of the advantages offered by the personal pension plan — an innovative financial product designed to address the needs of incorporated professionals.

By Marjo Johnne

For the last two years, Dr. Lorne Porayko and his partners at 3P Financial in Victoria, B.C., have been helping doctors understand and set up a financial product called a personal pension plan, or PPP for short.

So far, 3P Financial has taken about 50 doctors through its PPP education program and about half of this total have gone ahead and set up a personal pension plan.

“The thing with PPPs is their complexity — I sit down to explain them to people and it makes their head spin and even their accountants find it mind-boggling,” said Dr. Porayko, a critical care physician and anesthesiologist who co-created an investment fund for doctors called the Osler Fund. “But once you do understand it, it makes a lot of sense.”

Launched 10 years ago by Toronto-based Integris Pension Management Corp., the personal pension plan is much like a private-sector version of well-established public pension plans. It’s often compared to an individual pension plan, or IPP, because both products are registered private pensions available to individuals with incorporated companies, and both allow for tax-deductible contributions.

Along with RRSPs and TFSAs, IPPs and PPPs became more attractive to incorporated professionals and business owners after the federal government introduced changes in 2018 that raised taxes on passive income held within their companies. Recent amendments to pension rules in Ontario and New Brunswick—following in the footsteps of Alberta, British Columbia, Manitoba and Quebec—further boosted the argument in favour of IPPs and PPPs by eliminating red tape and provincial government oversight.

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As the newest kid on the block, PPPs are not as known or understood as RRSPs, TFSAs and even IPPs.



Dr. Lorne Porayko



Jean-Pierre Laporte

Jean-Pierre Laporte, founder and CEO of Integris, puts this in perspective by recalling that the first 20 years after the RRSP was introduced saw very little uptake by Canadians. In fact, in 1968—the first year contribution data was available—only 172,000 or less than 1% of Canadians had put money into an RRSP.

(Fun fact: the RRSP was the result of lobbying by the Canadian Medical Association, which wanted a tax-effective retirement solution for physicians.)

“Only when chartered banks started an advertising campaign did RRSP sales start picking up,” said Laporte, a pension lawyer whose innovation with the PPP earned him a Queen Elizabeth II Diamond Jubilee Medal in 2012.

Today, Laporte added, the Integris PPP is on the shelf at RBC Dominion Security, TD Wealth, Scotia Wealth and National Bank Financial. Clients include healthcare professionals such as doctors, dentists and pharmacists as well as lawyers, accountants and franchise owners.

Below are some interesting facts about the Integris PPP:

It allows you to save more and defer more tax

PPPs allow you to contribute more than the allowable maximum for an RRSP or TFSA. For example, in 2021 the PPP contribution maximum ranges from close to \$30,000 to about \$48,000 depending on the age of the plan member. By comparison, the RRSP contribution limit would be just a little under \$28,000 while the TFSA's would be \$6,000. With compounding interest, these differences over time add up to tens of thousands of dollars. In one Integris model comparing an RRSP and a PPP, with both earning 7.5% annually, the PPP owner would save \$488,443 more over 20 years, said Laporte.

In certain cases, such as when you do a “buy back” of past years of salaried work in your practice, your PPP contribution room in a single year can be exponentially higher than that of the maximum RRSP contribution room, according to Laporte. “When we calculate the cost of recognizing those previous years, that’s when you end up with the ability to contribute significantly more.”

You can contribute based on your cash flow

Unlike IPPs, which are defined contribution plans, PPPs are structured with three key components: defined benefit, defined contribution and additional voluntary contributions. This gives business owners more flexibility; for example, if they’re a cyclical business they can switch between defined benefits and defined contributions based on cash flow.

Having an additional voluntary contribution account—where surplus funds from the defined benefit account can be transferred—also protects the plan owner from being penalized for being overfunded at retirement.

At the same time, because PPPs are now exempt from provincial pension rules in most parts of the country, contributions no longer have to be locked in. This provides options for business owners who may, at some point, need to withdraw cash for the company.

They count towards corporate deductions

PPP contributions are paid by the business, translating into reduced corporate taxes. For businesses doing buy back of past service when they first set up their PPP, the tax deductions can be quite significant in the first year, said Laporte.

This ability to claim PPP contributions as a tax deduction provides another incentive for plan owners looking to make up for losses during a market downturn. The fees associated with setting up and managing a PPP can also be claimed as a corporate tax deduction.

“You can get at least three times the amount of tax assistance that the Income Tax Act provides simply by upgrading from an RRSP to a PPP,” said Laporte.

You can bring family members into it—and pass down your wealth tax-free

Do you have a spouse or children working in your business? You can set up a PPP that includes family members who are on the company payroll. This is a distinct advantage over traditional employer-sponsored pension plans, which are required by provincial pension anti-discrimination rules to include all qualified employees.

With PPPs, the money contributed to the plan also stays in the family. That's because monies in a PPP can be passed on to the next generation without incurring taxes from "deemed disposition" rules.

"If my wife and kids work in my practice and I put them into the PPP, when I die my entire pension goes to them with no tax and no probate," said Dr. Porayko. "If I had a public pension and I die, typically only two-thirds would go to my wife and the rest goes to the employees who are members of the public pension. Then when she dies, all of what she was supposed to get goes back to the pension plan."

You can draw from your PPP and split your pension income, regardless of your age

Let's say you're 55 years old today and want to work less hours but keep your income at the same level. With a PPP, you could potentially draw an income from your pension and collect dividends from your corporation while you work part-time. For those who want to boost their pension income while retiring early, the PPP allows for a one-time corporate tax-deductible "terminal funding" that the business pays to fund the cost of doing this.

You can also split your PPP income with your spouse, no matter how old or young you are. By comparison, an RRSP will let you income-split only when you reach the age of 65.

You can invest in all asset classes

Unlike an RRSP or a TFSA, a PPP lets plan owners invest in virtually all asset classes including land and units of limited partnerships. This presents the potential for more growth and better risk management. Integris itself does not invest the assets; plan owners retain control and make investments through their advisor or financial services provider.

You'll need to set aside ample time for the setup

Because the PPP is highly regulated and governed in part by the federal Income Tax Act, setting one up requires a lot more paperwork than would be called for when opening an RRSP or TFSA. Integris has an entire team dedicated to guiding clients, their accountants and advisors through the process of setting up a PPP, said Laporte. The company also looks after reporting requirements as part of its service to clients.

"The heavy paperwork involved in the setup can seem daunting, especially when you're very busy," he said. "But we have a team here and the infrastructure to make this a less painful exercise."

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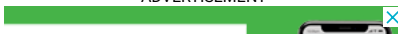


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