Savvy business owners may want to explore IPPs and PPPs

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By Susan Yellin | July 28 2020 09:31AM

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There's a lot of alphabet soup out there when it comes to pension plans but the two key elements many incorporated professional and business owners want to know are which ones can best reduce taxes while building a retirement nest egg to match their needs and wants.

Many Canadian business owners and incorporated individuals still use RRSPs, which have been around since 1957, mainly because they just don't know that there are other kinds of pension plans out there.

The problem with the RRSP is that taxpayers can only get the one deduction which is the annual maximum. But savvy business owners and incorporated individuals are also looking at Personal Pension Plans (PPPs) and Individual Pension Plans (IPP) to see what they bring to the table.

Flesh out client's goals

In any case, advisors first need to flesh out the goals of the taxpayer: are they planning on selling the business and using the proceeds for their retirement? Or, will they leave their company as a family business to hand down to the next generation?

To help answer these questions, they might look into getting an IPP, according to **Fraser Lang**, senior vice-president Sales & Business Development at **GBL Inc.** in Toronto.

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A creditor-proof defined benefit pension plan

Basically, an IPP is a creditor-proof defined benefit pension plan which provides for a fixed benefit at retirement based on a formula, including the number of years of credited service. They are best suited for someone over 40 and earning at least $100,000 a year, says Lang. Unlike an RRSP, with an IPP you can accumulate up to 65 per cent more assets than an RRSP, which are locked in and meant for retirement purposes only, says Lang.

IPPs, which have been around since 1991, require an actuarial valuation on set up and every three years after that. Advisors from investment firms like Lang's generally look after the legal documents, tax filing and anything else dealing with the administration of the IPP, although not the investment itself, he said. The cost for administering a single person IPP is about $1,600 in Ontario.

COVID-19 situation

Lang said while IPPs have been around for a while they should be taking on a greater role in tax and retirement planning because of COVID-19.

"In light of the COVID-19 situation, where we have seen a lot of planning in the past of retaining a lot of money within your corporation, I think the idea of diversifying your retirement plan, getting money out of your corporation and that's not subject to creditors, where it grows tax deferred so you can use it for tax-inefficient investments, this provides you with a way to diversify your portfolio," he said.

The Ontario government announced in its fall budget that it was in consultations to look at potentially making IPPs for business owners exempt from provincial legislation – and therefore no need for annual provincial reporting, Lang said. Some provinces already do not enforce annual reporting, he said.

Then there are PPPs. Established in 2014 by **INTEGRIS Pension Management Corp.**, the PPP has the exact same goal as IPPs. But, said **Jean-Pierre Laporte**, CEO of INTEGRIS, a PPP is materially different than other pensions in a number of ways.

PPP is made up of three accounts

The PPP is made up of three accounts – a defined benefit plan (DB), a defined contribution plan (DC) and what's known as a voluntary contribution account. PPP owners can switch from the DB to DC option every year, depending on the cash flow needs of the business.

The voluntary contribution account can contain an RRSP if under 71, or a RRIF if over 71, as well as a deferred or immediate annuity.

Because of the triple combination, LaPorte says people can put aside even more money than any other plan. In 2020, the contribution limit for an RRSP was $27,230. In 2020, the PPP limit ranges from just over

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$29,000 to $45,700.

He says money contributed to the PPP can mean a tax refund for the contributor which grows tax-sheltered inside the plan, making this ideal for those who want to be able to save more for retirement tax free.

“These extra contributions do add up and make the PPP the most tax-effective retirement solution under Canadian law,” said LaPorte. (While the TFSA is one of the few investments in Canada that is not taxed, it has a much lower contribution limit than either the IPP or the PPP.)

PPPs also have a mechanism that if your investment returns don’t deliver on a promised return of 7.5 per cent, averaged over three years, you can make additional tax-deductible contributions to ensure the return, he said. With a PPP, Integris looks after managing the account.

Passing assets to the next generation

With both IPPs and PPPs, children employed in your business and earning a salary are eligible to become members of the plan, ensuring assets pass to the next generation with no taxes or probate fees.

Whether the client selects the PPP or the IPP, management fees and all other costs associated with the plan, like administration fees, are tax-deductible for the incorporated business.

There are about 13,000 active IPPs and PPPs in Canada, estimates Lang.

Cindy Reid-Shelton, owner and CEO of **Intent Planning Group** in Winnipeg, says advisors need to look at all sides of a PPP and an IPP and outline them to clients.

Multiple fee structures

There are multiple fee structures with the PPP so they are still considered to be quite a bit higher, but the measurement for firms like Intent Planning Group is by knowing their client well enough to suggest one over the other.

“Clients go in with eyes wide open,” says Reid-Shelton. “We tell them where the greatest flexibility is [in both plans] and the cost, but also what the benefit it is to having it. There are always pros and cons. Complexity doesn’t always mean more costly.”

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