The Personal Pension Plan

What Every Incorporated Health Professional Should Know

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There are a variety of ways in which health professionals can minimize their general taxes through the use of a Professional Corporation (PC). Some of these strategies can also result in greater savings for the professional's retirement years. A new tool has been added to a professional corporate savings arsenal: the Personal Pension Plan (PPP). A PPP is an individual pension plan with a number of additional benefits that stem from the way it is administered and structured.

A PPP is often referred to as a "super RRSP" as it can provide greater tax deductions than a traditional RRSP and a larger retirement nest egg. In lieu of a personal RRSP tax deduction, the PC would be entitled to much larger corporate tax deductions for payments into the PPP. These payments fund the health professional's pension on retirement.

Structurally, a PPP gives a health professional ultimate flexibility and allows a PC to maximize its corporate income tax deductions.

Why would a health professional opt for a PPP instead of an RRSP?

Comparison between an RRSP and a PPP		
	RRSP	PPP
Income Tax	Contributions deductible for the employee.	Contributions and plan costs deductible for the PC and the employee.
Contribution Limit	18% of the previous year's earned income, subject to the CRA maximum, less the pension adjustment.	Established by an actuary according to the CRA rules.
Retirement Benefit	Retirement income depends on the total contributions made and the investment returns.	Retirement income guaranteed and determined by a specific formula.
Investment Risk	The employee takes the risk. Poor investment returns reduce the employee's final retirement benefits.	The employer takes the risk. Poor returns lead to an additional tax-deductible contribution for the PC. The employee's retirement benefits are not reduced.

The PPP offers many benefits

- Tax Deductions: PPP contributions and costs are tax-deductible and paid by the PC. Employees' contributions offer personal tax deductions.
- Creditor Protection: Unlike most RRSPs, the PPP is creditor-proof because its assets are exempt from seizure under provincial pension laws.
- Flexible Contributions: The PPP's flexible design allows health professionals to switch their participation in the PPP to the Defined Contribution provision in difficult financial years and back to the Defined Benefit provision when the company is doing well.
- Tax-Deferred Capitalization: The PPP provides an opportunity for continued tax deferral after retirement if the member elects to take a pension from the PPP.
- Capitalization of Past Years of Service: It is possible for the PC to contribute for recognized years of service before the PPP was established. For this to occur, the PC must have paid the professional T4 income (salary, bonuses, etc.).
- Terminal Funding at Retirement: The PPP provisions can be modified at retirement to provide the following enhancements to the pension benefits: indexation of the pension to inflation, collecting an early retirement pension, and unreduced and temporary supplemental pension until CPP benefits are available. These enhancements may result in an extra contribution, which is also tax-deductible for the PC.

The PPP provides an opportunity to use corporate funds in order to provide a retirement pension for the individual professional. In almost all situations, the PPP can be used to minimize the professional's overall tax liability and maximize the professional's capital.

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