# Individual Pension Plan

## An alternate solution for business owners and senior executives

The retirement planning needs of business owners and senior executives are unique. RRSPs are often restrictive. Consider an Individual Pension Plan

### HOW DOES IT WORK?

- An Individual Pension Plan (IPP) is a defined benefit pension plan essentially set up for one person
- The plan design takes into account the member's salary, age and years of service in order to maximize the money that can be saved for retirement, on a tax deferred basis

### WHY IS AN IPP THE IDEAL SOLUTION?

- The contribution room in an RRSP is determined based solely on the member's salary, up to the maximum allowable rate and dollar limit determined by the government
- By taking into account not only the member's salary but also his/her age and years of service in its design, the IPP is a more effective alternative for the unique retirement planning needs of business owners and senior executives

### WHO CAN BENEFIT FROM AN IPP?

- Individuals over 40 who regularly earn at least $75,000 in employment income (T4)
- Younger individuals, or lower income earners, who have eligible years of past service that they can buy back

### WHAT NEEDS IS THE IPP DESIGNED TO MEET?

#### For small business owners

- Maximize tax-sheltered contributions and benefits for retirement
- Provide ownership and protection of assets, under certain circumstances
- Facilitate the sale of the company or business succession planning

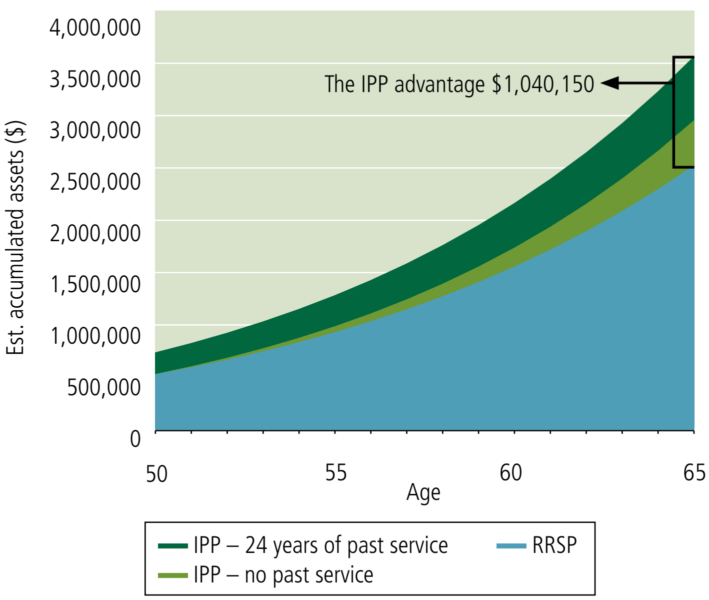
#### For corporations

- Enhance compensation to executives
- Attract and retain key individuals
- Deduct, for tax purposes, plan administration expenses

If an IPP is considered for more than one individual in the same organization, a multiple IPP solution is available that is both flexible and cost effective.

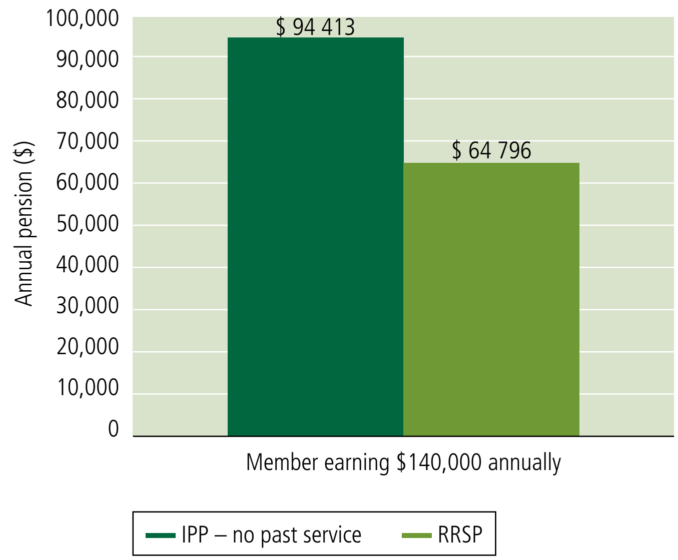
To further enhance benefits, the IPP can be combined with a Retirement Compensation Arrangement (RCA) or other supplementary executive retirement plan.

**Table 1: Estimated accumulated assets**




Note: The examples and graphs shown on this and the following page are for illustration purposes only and are not guaranteed. A formal quotation, taking into account the member's particulars, is necessary in order to produce an illustration that is representative of the actual situation.

**Table 2: Pension comparison**




Remark: The increased pension is a result of the IPP's design and its ability to allow for contributions above what can normally be tax-sheltered under an RRSP and the corresponding investment income generated thereon over time.

## MAXIMUM TAX DEDUCTIONS

Small businesses and corporations can tax shelter thousands of dollars more in an IPP than they can by using alternate methods to contribute to an RRSP alone.

Assets held in the IPP grow and remain tax-sheltered even during retirement, if the pension is paid out directly from the plan.

Years of past service with the current employer can be recognized, subject to certain conditions, resulting in additional tax-deferred contributions and retirement benefits.

Table 1 shows an example of the possible asset accumulation at 7.5% compound interest per annum using an IPP as compared to contributing to an RRSP alone up to the maximum permitted, for a member aged 50 earning a salary of $140,000 per year and retiring at age 65.

## OWNERSHIP OF ASSETS

Depending on how the plan text is worded, the IPP assets, including the actuarial surplus, if any, may become the property of the member, on plan wind-up. Within certain limits, the surplus may be used to upgrade retirement benefits, although some of it may be subject to income tax. If there is a funding shortfall, it may have to be made up by the employer, depending on applicable legislation, but the additional contributions are tax deductible.

## PROTECTION OF ASSETS

The IPP generally provides protection from creditors in situations where the IPP is required to be registered with pension authorities and is fully subject to provincial or federal pension legislation. Seizure may apply in cases of tax recovery by tax authorities and defaults on alimony payments or compensatory allowances.

## OPTIMUM BENEFITS

The IPP is designed to generate the most pension and ancillary benefits a registered pension plan can provide. An employee, aged 50, participating in an IPP until age 65 can expect to receive at retirement, under certain conditions, an annual pension approximately 46% higher than by using an RRSP alone (refer to Table 2).

Furthermore, depending on the circumstances, additional benefits may be provided:

- Unreduced early retirement pension
- Post-retirement indexing equal to full Consumer Price Index (CPI) increases
- Bridge benefits

## FLEXIBILITY AT RETIREMENT

- The IPP pension may be paid out directly from the plan or its value used to purchase a life annuity
- Alternatively, the value of the benefits may be transferred into a Life Income Fund (LIF) or a Registered Retirement Income Fund (RRIF), when permitted by applicable legislation
- Retirement can be as early as age 55 or as late as age 71

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## WE TAKE CARE OF IT ALL

An IPP is subject to a number of statutory requirements that make it important to have the plan in the hands of an experienced service provider. At Manulife, all IPP services are available in one place.

## ADMINISTRATION

Manulife and its specialized personnel, dedicated to the funding and administration of defined benefit pension plans, provides for a trouble-free plan through a turn-key solution:

- Initial consultation
- Ongoing advice on plan design
- Preparation of the plan text
- Plan registration with the relevant authorities, when required
- Preparation of initial and subsequent actuarial valuations
- Monthly fund statements for the plan sponsor
- Annual statements for members
- Preparation of Annual Information Returns and/or other reports and forms required by pension authorities
- Annual calculation of the Pension Adjustment (PA) for T4 tax reporting purposes

## INVESTMENT OPTIONS

The IPP assets are invested through our i-Watch investment program that offers, through some of the best fund managers in the business today, a wide range of market-related funds, which are diversified by:

- asset class (e.g., equity, fixed income, balanced),
- geographic region (e.g., domestic, U.S., foreign), and
- investment style (e.g., value, growth, active, passive)

In addition, IPP assets may be invested in a variety of term deposit funds.

The plan sponsor may track the evolution of IPP assets through Manulife's secure website, as well as access various investment related decision-making tools and information.



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