Manulife

Individual Pension Plan

Some of your questions answered

1. Who sponsors an IPP?

The Individual Pension Plan (IPP) is sponsored by the member's business or employer, which has to be incorporated.

2. Who pays the contributions?

The sponsoring company usually pays all the contributions and administration fees though the member may be required to transfer some or all of his/her RRSP holdings.

3. How are contributions determined?

A pension actuary estimates what contributions will be needed in order to fund the promised benefits based on prescribed economic and demographic assumptions. The level of contributions and actual experience of the pension fund must be re-assessed periodically (often every 3 years). With time, the IPP may end-up either in a surplus or a deficit situation.

4. Can the member still contribute to his/her RRSP?

Yes, if no past service is provided under the IPP, the member can generally make a $600 contribution per year into his/her RRSP. In addition, the member can usually contribute to some extent to his/her RRSP in the year the IPP is established, subject to the usual RRSP contribution limits and restrictions applicable to connected persons.

5. Can the member transfer all or part of his/her RRSP holdings into the IPP?

Yes, under certain conditions. In order for an IPP to recognize past service, there must be sufficient unused RRSP contribution room available. If this is not the case, the member can transfer all or part of his/her RRSP holdings into the IPP to create the necessary room (refer to question 6 for more information). The amount transferred into the IPP is usually smaller than the value of benefits credited under the IPP.

6. What is a Past Service Pension Adjustment (PSPA)?

In the context of an IPP, the PSPA is the sum of the post-1989 past service pension credits granted to the IPP member.

A PSPA is required to be declared to, and approved by, the tax authorities before the past service pension credits can be granted. In particular, the PSPA serves to ensure that the overall limit on tax-assisted retirement savings of 18% of income is respected in regards to prior years of service, irrespective of the type of retirement savings vehicle used by the member.

7. What type of earnings qualify as pensionable under the IPP?

The total salary received by the member from the employer during the plan year, including any payment for commissions, bonuses and profit-sharing, but excluding dividends (i.e., T4 earnings).

8. Can the member's spouse have an IPP?

The member's spouse can have an IPP if he/she is an employee of the sponsoring company and is of an age and earns a salary – and, where applicable, has past service with the company – that make his/her participation feasible.

9. What happens if the member dies before retirement?

If death occurs prior to retirement, the value of accrued benefits is payable in cash (subject to income tax) to the named beneficiary of the member or, if none, to the member's estate, except if pension legislation requires payment to be made to the qualifying spouse. Payment to a spouse may be transferred into the spouse's RRSP or LIRA depending on the applicable legislation.

10. Can the IPP surplus be transferred to the business owner's children when he/she dies?

Yes, under certain conditions. When the owner retires, one of the children employed in the business may replace him/her as active participant in the IPP. The pension owing to the owner will be paid out directly from the plan assets. Should there remain any plan assets, upon the retiree's death, that are not payable to the spouse, a designated beneficiary or the estate, this surplus in the IPP can continue to be used to cover, on a tax-deferred basis, the cost of benefits of the participating child.

11. What happens if the plan is terminated?

All accrued benefits are immediately vested in the member and may become payable at his/her normal retirement age through the purchase of an annuity. Alternatively, the value of these benefits – subject to government set maximums - may be transferred into a prescribed retirement vehicle (e.g., Locked-in Retirement Account (LIRA) and Life Income Fund (LIF)), where required by law. Otherwise, the value of the benefits may be transferred into an RRSP, a RRIF or paid out in cash, subject to withholding tax.

If the IPP is overfunded, depending on the plan rules and within certain limits, part of the surplus may be allocated to the member and used to upgrade pension benefits and any remaining surplus paid in cash to the employer, or member, subject to income tax. If the plan is underfunded, the shortfall may have to be made up by the sponsoring employer, depending on applicable legislation.

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