

The 2018 Individual Pension Plan

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What is an Individual Pension Plan (IPP)?

- registered defined benefit pension plan
- plan must be sponsored and funded by employer, although plan member may assist with funding (differs from RRSP, where no employer involvement required)
- comprised of one plan member; however, spouse may be added if employed by same or associated employer

The IPP Candidate

Basic Requirements

- owner/manager
- professional with professional corporation
- executive of private or public company
- employee of proprietorship or partnership; however, proprietor or partner ineligible
- individual usually at least age 40
- plan member must receive remuneration from sponsoring employer
- EPSP income qualifies
- earnings must be reported on T4 slip
- dividends not eligible

Features of the IPP

- higher deductible contributions than RRSPs
- contributions increase with age (RRSP contributions remain same for ages 18 to 71)
- assets creditor proof
- contributions and fees deductible by employer
- interest on funds borrowed for contributions deductible as employer expense
- able to “top up” contributions if investment returns insufficient to fund promised benefits (unlike RRSPs)
- opportunity to fund for pre-2018 employment years even though RRSPs maximized
- opportunity to make deductible lump sum contribution at time of actual retirement
- **contributions made within 120 days after corporate year end deductible in corporate year**
- contributions for pre-2018 employment years may be paid immediately in lump sum or amortized over period up to 15 years

IPP Contributions

The charts below illustrate typical contributions to an IPP, assuming that T4 remuneration is \$147,222 per annum and the plan member has been employed since 1991. It is possible to increase significantly the IPP advantage under certain circumstances. IPPs may be implemented up to age 71.

2018 Contributions — IPP vs RRSP

Age at Plan Entry in 2018	IPP Strategy	RRSP Strategy	IPP Advantage
40	\$141,544	\$26,230	\$115,314
45	\$217,981	\$26,230	\$191,751
50	\$301,885	\$26,230	\$275,655
55	\$394,364	\$26,230	\$368,134
60	\$495,603	\$26,230	\$469,373
62	\$538,887	\$26,230	\$512,657
65	\$604,898	\$26,230	\$578,668

IPP Strategy

Age at Plan Entry in 2018	IPP Strategy	Past Service	Current Service	Qualifying Transfer	Voluntary Contribution
40	\$141,544	\$749,100	\$27,744	(\$635,900)	\$600
45	\$217,981	\$822,807	\$30,474	(\$635,900)	\$600
50	\$301,885	\$903,714	\$33,471	(\$635,900)	\$600
55	\$394,364	\$992,890	\$36,774	(\$635,900)	\$600
60	\$495,603	\$1,090,514	\$40,389	(\$635,900)	\$600
62	\$538,887	\$1,132,252	\$41,935	(\$635,900)	\$600
65	\$604,898	\$1,197,874	\$42,324	(\$635,900)	\$600

IPP Contributions (next 5 years)

Contribution Year	Age in 2018						
	Age 40	Age 45	Age 50	Age 55	Age 60	Age 62	Age 65
2019	\$29,825	\$32,760	\$35,981	\$39,532	\$43,419	\$45,080	\$43,659
2020	\$32,062	\$35,217	\$38,680	\$42,497	\$46,675	\$48,461	\$44,994
2021	\$34,467	\$37,858	\$41,581	\$45,684	\$50,176	\$49,698	\$46,326
2022	\$37,052	\$40,697	\$44,699	\$49,111	\$53,939	\$51,266	\$47,653
2023	\$39,831	\$43,750	\$48,052	\$52,794	\$55,315	\$52,833	\$48,971

Note: IPPs may be implemented for ages up to 71

At Retirement

The plan member may elect to commence pension payments anytime from age 50. So long as the plan member is receiving T4 remuneration from the employer/plan sponsor, pension benefits may continue to accrue until the end of the year in which age 71 is attained. One or a combination of the following vehicles may be selected to provide an annual pension:

1. **Life Income Fund (LIF):** the LIF is a RRIF, except that maximums are imposed on annual withdrawals. In several jurisdictions, all or a portion of LIF assets may be unlocked.

2. **Annuitization:** a lifetime annuity may be purchased from an insurance company.

3. **Direct Payment of Pensions:** should the decision be taken not to collapse the IPP upon retirement of the plan member(s), pension payments may be made directly from the funds to the pensioner.

Under the LIF and direct payment options, investment control is maintained and, upon death of the pensioner, the remaining assets pass to the beneficiaries.

On Death

- all assets of IPP available for transfer to spouse, another beneficiary or estate of plan member
- transfers to spouse may occur on tax-free, rollover basis
- if spouse exists at time of plan member's death, then spouse required to be beneficiary, unless spouse waives rights
- if surviving spouse is plan member and continues to receive T4 remuneration from sponsoring employer, then spouse may continue participation in plan (value of death benefit or assets may remain in plan until plan wound up or value transferred to retirement fund or annuity)

On Termination prior to age 71

LIRA

- plan assets transferred to locked-in RRSP or Locked-in Retirement Account (LIRA) subject to Income Tax Act prescribed maximums (any surplus assets revert to plan member)
- funds may accumulate in LIRA on tax-deferred basis without requirement to make withdrawals until end of calendar year plan member turns 71
- several techniques exist to permit additional corporate deductible lump sum funding at termination

LIRA is a special RRSP that may not be collapsed and that ultimately must be converted to a LIF or life annuity. Locked-in assets may be unlocked in the event of non-residency.

In several provinces locked-in assets may be all or partially unlocked once retirement income commences.

Investment Options

- generally, if funds RRSP eligible, then eligible for IPP
- plan may be managed like self-directed RRSP
- at time of purchase, no individual equity holding may represent more than 10% of fund's market value
- pooled and mutual funds eligible

Fiduciary Options

- corporate trustee
- life insurance company
- self-trusted, with three individual trustees, one of whom must be at arms length

Frequently Asked Questions

- Q.** *What if I have already made my 2018 RRSP contribution?*
- A.** You must withdraw a portion of your RRSP contribution without penalty or withholding taxes.
- Q.** *What if I have unused RRSP room at the end of 2017?*
- A.** This room may be used to increase IPP funding for pre-2018 employment years.
- Q.** *Can I make future RRSP contributions?*
- A.** All future retirement savings will be made through the IPP. Existing RRSP assets, however, will continue to grow on a tax-deferred basis.
- Q.** *What happens if ability to contribute to the IPP is reduced?*
- A.** Once the IPP is established, there is an ongoing obligation to make contributions. However, in the event of cash flow difficulties contributions may be suspended. When conditions improve, contributions may be resumed. If necessary, the IPP may be wound up at any time.

Is the Individual Pension Plan for you?

For a no-cost, obligation-free analysis to determine if the IPP will benefit you, please complete the attached questionnaire and forward it in confidence to *McFarlane Amerlee* Consulting Limited.

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Individual Pension Plan Questionnaire

Company: _____ Fiscal Year End: _____

Address: _____

City: _____ Province: _____ Postal Code: _____

Telephone: () _____ Fax: () _____

Email Address: _____

Prospective Plan Member Information

Name: _____ Gender: M or F

Marital Status: _____ Date of Birth: _____ Date of Hire: _____
(dd/mm/yyyy) (dd/mm/yyyy)

Spouse Information (to be completed only if spouse employed by same or related company)

Name: _____

Date of Birth: _____ Date of Hire: _____
(dd/mm/yyyy) (dd/mm/yyyy)

1. Are you a "connected person" (i.e., do you own 10% or more of any class of shares of the company or are you related to anyone who does)? Yes _____ No _____
2. Do you or did you (or your spouse, if applicable) participate in a DPSP or a registered pension plan sponsored by your company or another company? (provide details if yes) Yes _____ No _____
3. Do you or did you (or your spouse, if applicable) collect compensation from more than one employer associated with the company mentioned above? (If yes, please provide a breakdown of compensation from each employer.) Yes _____ No _____

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Year	Plan Member Earnings*	Spouse Earnings
2018 (estimate)		
2017		
2016		
2015		
2014		
2013		
2012		
2011		
2010		
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*T4 or T4PS earnings

NOTE: If a decision is made to proceed with plan implementation, please provide copies of T4 slips for the above noted years.

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	Plan Member	Spouse
Unused RRSP room ** @ December 31, 2017		
Value of own ** RRSP accounts @ December 31, 2017		
Value of own *** (not spousal) RRSP account at present time		
Estimated Retirement Year or Age		

** Do not include new 2018 RRSP contribution room

*** Including account to which spouse has contributed