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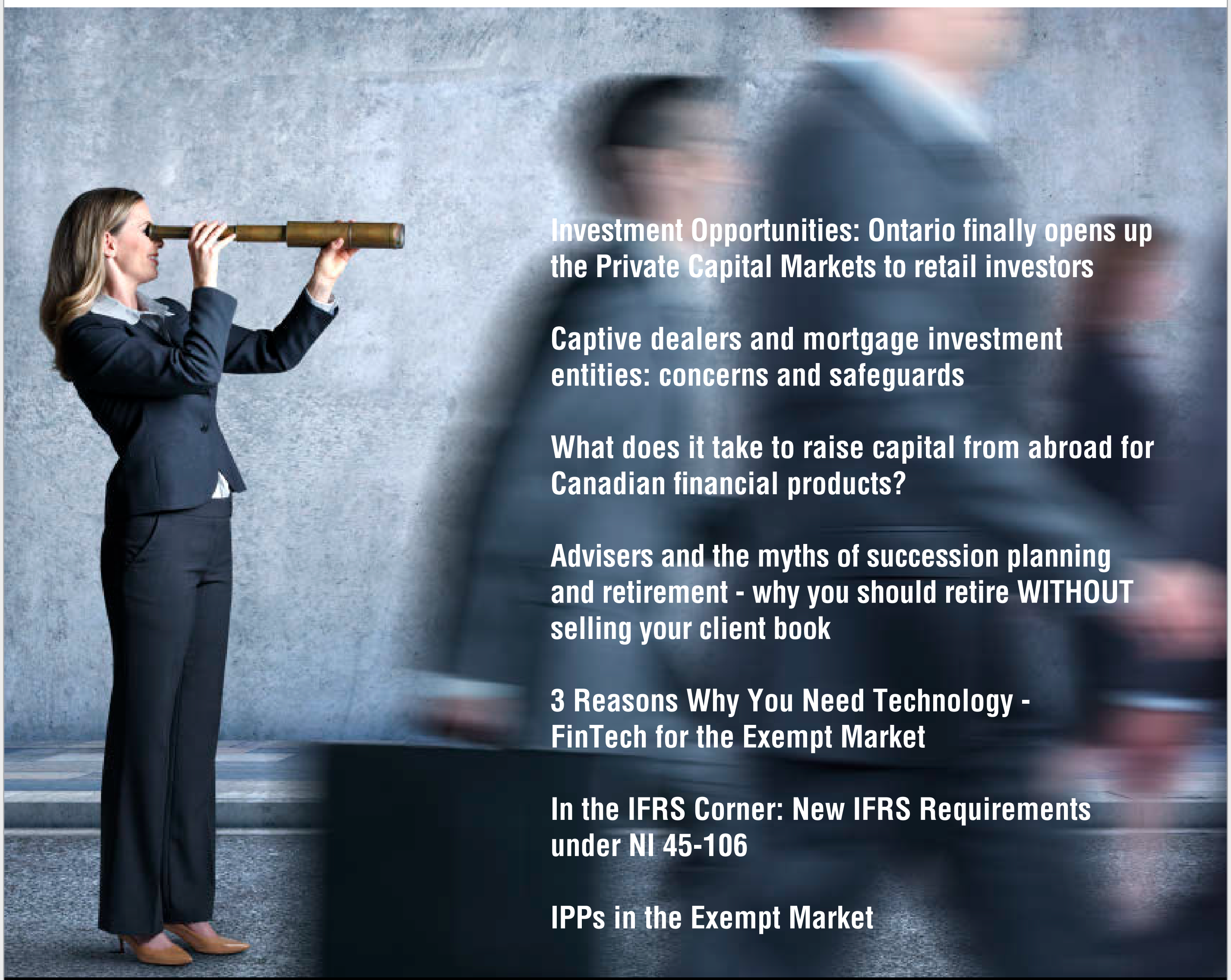

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PRIVATE CAPITAL MARKETS ASSOCIATION OF CANADA

THE NATIONAL VOICE OF EXEMPT MARKET DEALERS, ISSUERS AND INDUSTRY PROFESSIONALS

IPPs in the Exempt Market

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Computershare Trust
Company of Canada
is a federally regulated
trust company providing
registered product trustee
services in all jurisdictions
across Canada.

When saving for retirement, Canadians have many options. One of the more attractive and yet little known or understood options for independent business owners and qualified individuals is the Individual Pension Plan (**IPP**). In the last issue of *Private Capital Markets* magazine (Fall 2015), we discussed how new regulations are opening up the exempt market to more investors. IPPs are another vehicle for which exempt market investors may now be eligible.

What is an IPP?

An IPP is a registered defined benefit pension plan, established by an employer or business owner to provide pension benefits for an employee after retirement that allows the employer to make the maximum contribution to a registered plan.[1]

Who is eligible for an IPP?

Westcoast Actuaries, an actuarial consulting firm, advises their clients that they are eligible for an IPP if they:

- are a shareholder or executive, who is over 40 years of age;
- make more than $100,000;
- own a corporation;
- are an employee, who receives pension-eligible T4-type employment income from the employer; and
- have the Board of Directors of the employer approve the establishment of the IPP.[2]

Clients of dealing representatives, who operate professional services corporations, such as law firms and doctor's offices, could be eligible to invest in IPPs.

What are the advantages of offering an IPP to your clients?

For an eligible client, the advantages of an IPP can be extensive, especially when the individual is the business owner, as all eligible employer contributions are made on a tax-deductible basis for the company's tax purposes, and are not taxable to employees until received as pension income. The employer can also make further tax-deductible contributions if the IPP has a deficit at a subsequent actuarial valuation.

Additionally, contribution limits are higher than a regular RRSP for employees over the age of 40 and the employer can both make contributions for an employee's eligible past service and make additional contributions upon the employee's retirement and commencement of pension.

"If you're earning $150,000 per year at age 60, your contribution advantage in an IPP could be over $15,000 per year compared to an RRSP," says Stephen Cheng from Westcoast Actuaries. "When the IPP is set up, if a 60-year-old individual has 10 years of previous employment history with the company, the company has the opportunity to contribute up to $150,000 to the IPP."

Pension income from an IPP can be split up to 50% with a spouse for income tax purposes. Assets within an IPP are protected by a trust, as well as pension legislation, and are creditor-proof.[3]

Are there any disadvantages to an IPP?

"An IPP is a complex financial instrument and requires a lot of pieces to get it off the ground," says Michael Byrne of Self-Employed Personalized Pension Plans (**SEPPP**). "You need an actuary to determine contribution limits, a custodian, a trustee and tax planners, and without someone to coordinate all of these players effectively, it can be a difficult process."

Potential downsides to an IPP are that the funds are locked-in and only accessible in retirement, and that there can be higher start-up and administrative costs. However, for qualified individuals, there is the possibility to greatly increase the amount of money saved for retirement in an IPP vs. an RRSP, and this may well justify the higher costs of an IPP. Furthermore, expenses related to the administration of an IPP are all tax-deductible to the corporation.[4]

What are the opportunities in the IPP space?

The IPP market has considerable growth potential – it is an underutilized space, especially for the exempt market, due in part to the complexity of putting together a compliant offering. Michael Byrne explains: "Historically, there have been a lot of roadblocks to an IPP for the exempt market and, consequently, out of roughly two million opportunities across Canada there are only 8,000 or so individuals taking advantage of the IPP. SEPPP, Computershare and our actuary partners have built an infrastructure that will satisfy all of the CRA requirements for opening an IPP."

The difficulty in the past for individuals trying to take advantage of IPPs has always been the complicated process involved with setting up and administering these plans. But now, Computershare has partnered with SEPPP and Westcoast Actuaries to design a simplified process that enables dealing representatives to easily set up an IPP on behalf of eligible clients. Dealing representatives and their clients can tap in to the exempt market through their IPP, and have the advantage of working with one provider, that manages the complexities of setting up and administering their IPP.

Given the recent changes to exempt market regulations, a collective of IPPs could combine to wield the purchasing power of larger institutional pensions, providing individual pension holders with a true pension-style portfolio, containing a blend of exempt market and public equity assets.

Computershare is proud to be a part of this unique structure and emerging space in Canada and can help you and your client open IPP accounts and file the necessary documents.

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Notes

1. *Westcoast Actuaries, "Individual Pension Plans," http://www.westcoast-actuaries.com/information-centre/individual-pension-plans/*
2. *Westcoast Actuaries, "Individual Pension Plan Frequently Asked Questions," http://www.westcoast-actuaries.com/information-centre/individual-pension-plans/FAQ.aspx#a1*
3. *Westcoast Actuaries, "IPP Advantages & Disadvantages vs. RRSP," http://www.westcoast-actuaries.com/information-centre/individual-pension-plans/Advantages.aspx*
4. *Discovery Finance, "IPP – Supersize Your Retirement Savings," http://www.discoveryfinance.com/ipp-your-ultimate-retirement-savings-tool.html*