

# IPP - Individual Pension Plan A Super-Sized RRSP

## ATTENTION BUSINESS OWNERS & INCORPORATED PROFESSIONALS (i.e. doctors, dentists, engineers, lawyers, etc)

If you are the owner of an incorporated business or professional practice, age 45 or older, and are buying RRSPs for retirement, have you ever considered investing in an Individual Pension Plan – which some refer to as a super-sized RRSP. Individual Pension Plans federally mandated pensions and provincially created for the business owner (or incorporated professional).

Here of the major benefits of an IPP – the super-sized RRSP!



### IPP

- Limits are much higher - could be double your RRSP
- All IPP plans are creditor-proof
- All plans fees and costs are tax deductible
- All borrowing interest costs are tax deductible
- Corporation gets the tax deduction of all costs
- If max deposits from age 45 @ 7% = \$1.9 million at 65
- **DIFFERENCE AT AGE 65 = \$500,000+**

vs

### RRSP

- Limits are set at 18% of income, max of \$19,000
- Majority of RRSP are not creditor-proof
- Plan fees and costs are **NOT** tax deductible
- Borrowing interest costs are **NOT** tax deductible
- All deductions are from personal income
- If max deposits at 7% = \$1.3 million at age 65

### Two other main advantages of an IPP over an RRSP:

- There is the potential for past service contributions to increase your retirement portfolio.
- Can use borrowed money to fund the IPP - and keep your retained earnings for other business purposes.

One strategy to consider: a company uses borrowed funds to pay for the IPP contribution, gets a tax deduction on the deposits plus on the annual loan interest costs. This strategy provides corporations a tax write-off on any deposits, a tax write-off on all loan interest charges, a pension for its owner plus it frees up retained earnings that may be used for other business activities.

Unlike an RRSP, an IPP plan provides contribution amounts that increase with age. The older the IPP plan member, the higher their IPP contribution amount.

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# The Growth of Individual Pension Plans

There are currently over 6,000 Individual Pension Plans in Canada and the market is expected to grow significantly in the future. Some surveys suggest that the number of IPP plans within ten years will grow to over 300,000.

The current tax and regulatory environments are very favourable and conducive to growth for the IPP market as more people are developing professional corporations and/or are self-employed.

The major contributing factors to this growth are:

- **Age Factor** - Canada has an aging population.
- **Investment Volatility** - Many RRSP plans were severely hurt in the past tech correction and this has hurt many retirement projections. IPPs can be funded when markets are down, bringing back up the money required for retirement.
- **Government Increases** - Recent government increases for RRSP and IPP contributions have been more favourable to IPPs than to RRSPs.
- **More Significant Past Funding** - For a new IPP implemented after 2006, a shareholder can potentially have past contributions made with respect to 15 years (1991 - 2005) for past service.
- **Lower Fees** - Actuarial and administration fees are much lower—[iiponline.ca](http://iiponline.ca) fees are Canada's best.
- **Estate Planning** - IPPs offer unique estate planning opportunities depending on your individual situation.
- **Spousal Benefits** - Unlike the traditional large company pension plans, an IPP bestows all benefits to a surviving spouse or children of the plan holder.



The IPP is a pension plan for the small business owner or incorporated professional. It offers higher tax deductions and allows for the maximization of retirement benefits and payouts under current government legislation. The IPP is a sound alternative to those who are maximizing their annual RRSP limits. That is why we call the IPP the...

## The Super-Sized RRSP Plan

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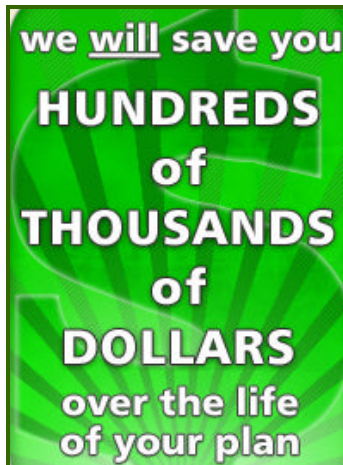
# The \$25 Billion Pension Haircut

*The Globe and Mail* article by Dr. Keith Ambachtsheer Director Rotman International Centre for Pension Management at the University of Toronto, May 21, 2007 on

*“The \$25 Billion Pension Haircut.”*

Following are some major points in the article:

*“The deadly combination of investor and industry marketing savvy is costing Canadian investing through mutual funds as much as \$25 billion per year. Sustained wealth reduction of this magnitude will cut the retirement income of Canadians investing in their retirement savings through the mutual fund sector in half or worse. This is a case of market failure on a massive scale, seriously undermining the retirement prospects of millions of Canadians, especially those working in the private sector. The politicians should be focusing on this massive shortfall and not fiddling with the ABM fees.”*



The Rotman International Centre for Pension Management at the University of Toronto recently directed a study comparing the investment results of similar investment mandates between Canadian pension plans and mutual funds. It found that the pension plan results bettered the mutual funds results by a startling 3.8% per year.

Applying the 3.8% return “haircut” to the \$690 billion Canadians have invested in mutual funds implies a wealth transfer of over \$25 billion, leading to material shortfalls in retirement income down the road.

The obvious questions investors must ask themselves are:

- Why do Canadian mutual fund investors willingly put themselves in this highly disadvantage situation and...
- Why do Canadian pension participants achieve materially higher returns relative to their mutual fund counterparts?

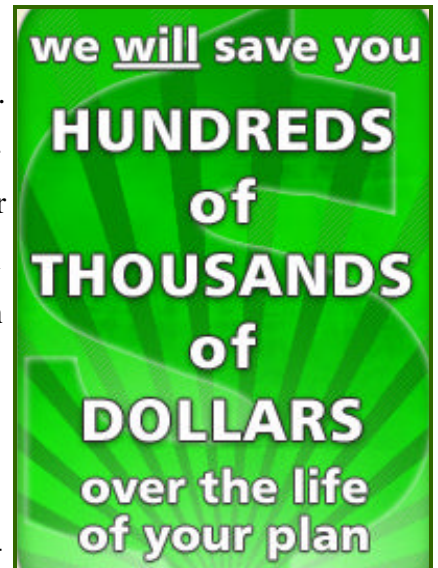
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Half the answer to the first question lies in the naiveté of investors. Behavioural finance research suggest that most people are far from rational investors. Instead, they are financially unsophisticated. Lacking in knowledge, self-discipline and firm preferences, and easily influenced by outside “experts.” For example, a recent Pollara survey asking Canadians why they had invested in mutual funds, found 85% were persuaded by “someone who provided me with “advice and guidance.” This response leads directly to the other half of the answer to the first question. The investment industry has been very good at exploiting the naiveté of its customers.



Regarding the second question, pension funds produce materially better investment results because they do not pad their own bottom-line profitability by exploiting the financial naiveté of their customers. Instead, their single goal is to achieve the highest possible return for pension plan participants within pre-assigned risk budgets. So pension funds have no marketing costs. They have no obligation to produce profits for its owners the way most mutual fund companies do. Pension funds do not need to play bravado games trying to continuously prove they are smarter traders than the competition, often leading to high and very expensive portfolio turnovers. Instead, pension funds have recognized that trading shares is a waste of time and money.

***This is what IPP On Line will do for you.***

*...What about Canada's governments? Should they treat the \$25 billion haircut Canadian mutual fund investors will experience just a simple case of caveat emptor? (Buyer Beware) Or is this the case of massive market failure requiring aggressive remedial action? The Australian and Dutch government responses some 15 years ago are instructive: mandated pension coverage of their entire national workforces by occupational pension plans. This is pretty well the case for Canadian public sector workers. In contrast, only 27% of our private sector workers are members of occupational pension pans.*

*And the other 73%? This is where Ipp On Line can help.*

*Our governments' current potion appears to indeed be "caveat emptor."*



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