

Better Business Pensions

GUEST COLUMN

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Think about your top five clients. I'll bet that at least one of them is a business owner.

That's understandable — from the advisor's perspective, business owners are ideal clients.

For one, owners are generally savvy enough to appreciate the value of professional advice, yet wise enough to delegate management to a qualified expert. They are usually well connected, making it easier to ask for high-quality referrals. And the complexity of their financial affairs offers advisors a stimulating professional challenge. All in all, that's a combination that's hard to beat.

The problem is, competition for business-owner clients is fierce. If you want to attract and retain

more business owner clients you need to establish yourself as an expert in the strategies owners can use to build and protect their wealth. The Individual Pension Plan is a good example.

Think of an IPP as a pension plan in miniature: a defined-benefit pension created by a corporation for the benefit of a single person. Like a traditional pension, an IPP is registered with the provincial and federal governments and governed by appropriate legislation. Designed for owners and key employees of incorporated small and medium-sized businesses, an IPP can be superior to an RRSP for the right person.

An IPP is created by the corporation, which then makes contributions to the plan on behalf of the its beneficiary. Contributions are deductible by the corporation, as are the fees and costs paid by the company to

maintain the plan. Like an RRSP, assets within an IPP grow on a tax-sheltered basis, and can be invested in a number of qualified investments. Upon the beneficiary's retirement, the IPP can be used to make regular payments to the beneficiary, which are taxable in the beneficiary's hands.

Unlike an RRSP, there are no pre-set contribution limits to an IPP. But there are limits to how large the retirement benefit can be, and pension regulations limit the assumptions used to determine how much should be contributed today to provide a given benefit in retirement. The calculations are based on a number of factors: age, income level, length of service, investment performance within the IPP and inflation. All of this means an IPP is best suited for those earning more than \$100,000 a year of employment income and over 45 years old.

BENEFITS TO YOUR CLIENT

Use the following points to explain to your clients how an IPP is superior to a traditional RRSP:

- IPP contribution limits can greatly exceed those to an RRSP.
- This type of plan can offer a more predictable income during retirement.
- It's possible to receive credit for years worked before the IPP started meaning a large lump-sum contribution can be made to the IPP when it is created.
- Larger contributions can be made in later years if investment performance has not met targets.

THINGS TO WATCH OUT FOR

As with any financial strategy, there are a number of trade-offs with IPPs. Be aware of the following:

- Unlike an RRSP, funds from an IPP cannot be used to fund a house purchase, tuition fees, or a financial emergency.
- While a spousal RRSP can be a good income-splitting strategy, there is no equivalent with IPPs.
- An IPP is generally more expensive than an RRSP. In addition

to start-up costs, actuarial calculations are required every three years to see if performance is in line with assumptions. (But, these costs are deductible.)

- Pension adjustment rules mean that participation in an IPP will greatly reduce or even eliminate the amount the employee is able to contribute to an RRSP.
- Regulations require corporations to make IPP contributions every year, regardless of fiscal health.
- A surplus in the plan could reduce contributions.

For business owners, the IPP is a superior wealth-creation tool. For advisors, they are an excellent practice-building tool. **AER**

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