Manulife Investment Management

Tax, Retirement & Estate Planning Services

Tax Managed Strategy 12

Individual Pension Plans and the family business

With changes to pension limits and the ability to include an Individual Pension Plan (IPP) in a succession plan, IPPs have become the RRSP alternative for many business owners. Normally on the death of the surviving spouse[1], registered assets create a tax liability in the estate. An IPP for a family business can be an effective way of transferring registered assets to the second generation on a tax deferred basis.

What is an Individual Pension Plan?

An Individual Pension Plan (IPP) is a defined benefit pension plan. If you are a business owner, an IPP offers both maximum tax relief and a maximum retirement pension.
The result?

You won't have to rely solely on your Registered Retirement Savings Plan's (RRSP's) performance to provide a long and happy retirement. That's because IPPs also offer guaranteed lifetime income and any surplus in the plan may be payable to you.

Why are IPPs so popular?

The maximum pension limit for 2019 is $3,025.56 per year of service. This limit is subject to increases based on the Average Industrial Wage.

At age 50, the annual maximum contribution is $8,000 higher than the maximum contribution to an RRSP. As you get closer to retirement the cost to provide the benefit increases. You can also include service back to 1991. This is optional but if you decide to include extra years, it will significantly increase the amount that can be deposited into the plan.

[1] Includes a spouse or common-law partner as defined by the Income Tax Act (Canada).

Opportunities

The family business

Normally on the death of the surviving spouse, registered assets create a tax liability in the estate. An IPP is an ideal way to keep the assets in a tax-deferred vehicle when involving a family business.

If the business is continuing after the parent retires, the family member (usually a son or daughter) taking over the business can be added as a member of the existing plan. By leaving the plan intact, any assets not used to provide benefits to the retired parent will remain and can be transferred to the second generation without triggering tax.

Sale of a business

Some small businesses are sold to family members or partners. The proceeds from these types of asset sales are treated as taxable income. By setting up an IPP and using terminal funding, a deduction can be created against this income.

Early retirement

Legislation requires funding projections to be based on a retirement age of 65.

However, any time after attaining age 60, a member of an IPP can retire and supplement the benefits provided in the plan by adding unreduced early retirement benefits, cost of living increases and bridging benefits. These early retirement benefits can provide a significant additional tax deduction for the company.

Ideal Candidates

- Owners of an incorporated company
- Individuals age 40 or older
- People who earn employment income reported on a T4 of at least $151,500 from the company sponsoring the Individual Pension Plan

Take Action

- Request a quote from your advisor showing the deposits that can be made based on your age and length of service while incorporated
- Compare the benefits of an IPP to an RRSP
- Work with your advisor to establish an IPP if you determine it is right for you

Contribution Comparison 2019

Age	IPP ($)	RRSP ($)	Difference ($)
40	28,600	26,500	2,100
45	31,400	26,500	4,900
50	34,500	26,500	8,000
55	37,900	26,500	11,400
60	41,600	26,500	15,100

For illustration purposes only.

Investment Options Available Through Manulife

Manulife and its subsidiaries provide a range of investments and services including:

Mutual funds from Manulife

Mutual funds can help meet your specific financial needs, throughout your life. Whether you are just starting out, accumulating wealth or are nearing/in retirement, mutual funds offered by Manulife, can provide you with solutions to help build a portfolio that meets your needs. Manulife is committed to providing quality investment products and services so you can enjoy life and worry less.

Manulife Segregated Fund Contracts

For conservative investors looking to grow their wealth but who are also concerned about minimizing risk potential, segregated fund contracts from Manulife Investments may provide an ideal solution. The appeal of these contracts is the combination of the growth potential offered by investment funds, and the unique wealth protection features of an insurance contract.

Through Manulife's segregated fund contracts, investors can help minimize their exposure to risk through death, maturity and in some cases, income guarantees, potential creditor protection features, and the estate planning benefits – all from a single investment. These contracts may be ideal for mature investors planning their estate, investors concerned about the effects of market volatility, as well as small business owners.

However, with an IPP the annual pension required to be paid at retirement will usually be greater than the income guarantees offered by a segregated fund contract with an income benefit guarantee. Therefore, this type of product may not be ideal as an investment held by an IPP trust.

Manulife Investments GIC

For individuals seeking a guaranteed rate of interest while protecting their initial investment, a Manulife Investments Guaranteed Interest Contract (GIC) offers competitive rates and multiple investment options.

The Manulife Investments GIC also offers unique protection features that are available from an insurance company, such as the potential for protection from creditors plus estate planning benefits. For Canadians looking for a low risk investment with a guaranteed rate of interest, a Manulife Investments GIC offers benefits that are different than other financial institutions' Guaranteed Investment Certificates (GICs).

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For more information, please contact your
advisor or visit **manulife.ca/investments**

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