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Don't Have a Pension? Create Your Own!

It seems that the rich guaranteed benefit pension plans are going the way of the dodo bird. As an entrepreneur, that seems even more true. After all, you are your own retirement control board. Nobody ever planned a pension for you.

However, with the recent Private Tax Corporation tax rules change, it feels like many opportunities have been taken away. What's left for business owners and senior level executives to help build wealth. You can create your own pension.

Here are a few ideas that have worked for many of the senior level executives and self-employed.

- 1) **IPP's:** IPP's are Individual Pension Plans that provide a customized retirement account for senior level executives and CEOs – particularly those that are self-employed – that can allow you to contribute additional funding when compared to a traditional RRSP. By building higher pension options, you have an income source in retirement that provides a higher payout than the RRSP, and has guarantees built in as the business manages the risk. This option ensures that you can pull additional funds from the company while you are actively building. IPP's also add an additional layer of creditor protection, as they are considered pension plans.

Setting up an IPP has some additional steps as it must be registered with FSCO (Financial Services Commission of Ontario), and follow various pension steps to ensure fundability. These additional requirements incur added costs, but in higher income situations, the benefit can often outweigh those costs as you are transferring assets out of the corporation to a creditor-protected account for the pension beneficiary.

- 2) **PPP:** Personal Pension Plans are a variation of IPP's that are strategically laid out to provide an enhanced pension plan for the business owner, and key employees. The benefit is that the business takes on some of the risk of funding the retirement, and there can be the same enhanced funding requirements when needed. However, the PPP also has the flexibility of shifting between a Defined Benefit Pension plan, Defined Contributions Pension Plan and Voluntary Additional Contributions. The 3 layer flexibility makes this solution appropriate when there are multiple family members involved at different stages of life. It also provides better relief for the company with less obligation when there are cyclical shifts in the cashflow. This newer version is a great solution for family owned corporations that want enhanced protection, flexibility and ability to shift assets between generations.

- 3) RCA. Retirement Compensation Arrangement. This strategy is often utilized by business owners, self-employed and executives that want a supplementary pension benefit. It has the best options for maximizing contributions, and doesn't affect IPP's or RRSP's. However, as the funds are split between RCA, and the Refundable Tax account, there are other factors to consider, such as more modest growth expectations. This strategy often leans itself more to the clients that have very high income needs in retirement, or that expect to retire outside of Canada, or needs additional creditor protection. Care needs to be taken with this strategy, as there are a number of special rules as with IPP's. It's important to ensure a full analysis and review is done before setting up an RCA to ensure the benefits outweigh the regulatory costs.
- 4) Insured Retirement Solutions. Using life insurance is usually something we think about just for our beneficiaries. However, in some cases, purchasing a life insurance policy through a corporation can provide a creditor-protected environment that allows assets to grow in a tax-deferred environment, and that policy can be used as collateral for your retirement income. This strategy provides some tax-free income, and helps to enable a potential benefit being passed along tax-free to your heirs, less the withdrawn amounts and the interest created.

When thinking outside the box, there are sometimes solutions that can work depending on your situation. However, as in every case, when you are trying to create a more custom plan, there are often additional rules to consider. When the situation is right, these strategies can work very effectively. High Income? Looking for alternatives? Advanced planning opportunities are sometimes necessary with high income individuals. To find out more? Contact me at www.janinepurves.com

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