IPPs: The Retirement Plan Of Choice for Incorporated Dentists!

IPPs are a wealthy dentists' answer to RRSPs or registered retirement savings plans. They are sanctioned by the Canada Revenue Agency and offer the best tax and retirement savings solution for individuals 40 years old and older who have a T4 income of more than $100,000 and have historically maximized their RRSPs contributions.

In 1991 the federal government introduced into the Income Tax Act the concept of IPPs to compensate high-income earners disadvantaged by RRSP rules. IPPs are generally regarded as an RRSP upgrade.

IPPs are a very attractive tool for business owners and incorporated professionals such as **dentists**, lawyers, and even doctors. Annual contributions are fully deductible by the corporation/IPP sponsor and are a nontaxable benefit for the plan beneficiaries until, like an RRSP, money is withdrawn from the plan.

The IPP tax solution allows for hundreds of thousands of tax-deferred income dollars (from an incorporated business) to be invested into an IPP structure, non-taxable growth of assets which compounds until retirement.

IPP vs. RRSP

Imagine a 45-year-old dentist who has worked since 1991 and has averaged a T4 income of more than $100,000 a year. If he/she decide to 'max-out' their IPP contribution room and RRSP (using a yearly rate of return of 7.5 per cent), they will accumulate $4,796,518 in registered retirement assets. This individual would have a registered retirement yearly benefit at age 69 of $362,549 fully indexed to the consumer price index.

In comparison, if this same individual only utilized their RRSP option from 45 years old to age 69, he/she would only accumulate $3,226,413 in registered retirement tax sheltered assets. This amount of RRSP assets on an annual basis would generate $243,871 of retirement income from age 69 and beyond.

The decision is clear. The dentist who implements both the IPP and RRSP tax solutions as part of their retirement plan would have an additional $1,570,105 of tax-sheltered assets in their registered retirement plans and have an additional $118,678 in annual retirement income.

Other Key IPP Advantages

Creditor proofing

Assets held in the IPP cannot be seized by creditors of the plan or the incorporated business.

Extended contribution period. A company has 120 days after its year-end to make an IPP contribution, which will be considered an expense for the company in the previous business year. Contributions into a RRSP that can be applied back to the previous calendar year need to be made within the first 60 days after the start of the new year.

CRA registration. CRA cannot de-register an IPP on condition that the plan was set-up in good faith by an active corporation.

Ownership of plan assets. At retirement, the IPP member owns any actuarial surplus. It may be used to upgrade pension benefits, or the plan holder may pass it on to his or her spouse, heirs, or estate.

Guaranteed lifetime income to IPP members and their spouses

This pension plan offers a predictable retirement income. An actuary determines the current annual cost of the future retirement income. Spousal pension benefits may be upgraded to 100% at the time the member retires or at the plan member's death.

Past service funding

For business owners, the IPP funding formula is more generous than the RRSP limits. The plan allows companies to contribute for the pension plan member for years of service prior to the set-up of the plan going back to 1991. If the first year of the set-up of an IPP is 2005, the past service and current service funding contribution/corporate deduction could be as much as $361,000. Remember, the maximum 2005 RRSP contribution is $16,500.

Terminal funding

One of the most attractive features of the IPP is the possibility of terminal funding. While CRA restricts the benefits that can be pre-funded, the plan can be amended at retirement to provide the most generous terms possible. Some of these include full consumer price indexing and early retirement pension with no reduction as well as bridge benefits.

Flexible funding options

Money can be used to fund the IPP that has accumulated in retained earnings of a company. Funding can come from outstanding bonuses owed to the plan member by the corporation which makes the contributions directly into the IPP.

Another option would to obtain financing/ loans from a financial institution. All interest on loans to fund IPPs is a tax-deductible expense for the corporation and a non-taxable benefit for IPP members.

Closing Considerations

Most IPPs are created by owners of Canadian controlled private corporations looking for a strategy to take money out of their corporations in a tax effective way.

These individuals looking for both tax and investment solutions that will provide them with:

- wealth preservation
- CRA-sanctioned tax avoidance solutions
- creditor protection
- wealth accumulation
- wealth distribution

In addition, each IPP (to remain registered) will require actuarial and trustee administration billing of approximately $1,500 a year. In real terms, an IPP will need to be accounted for on a company's corporate financial statement.

Obviously, IPPs require a specialty in areas such as accounting, actuary evaluation, investment management, pension legislation, employment law, and benefit plan construction. Incorporated dentists and their accounting professionals will need to seek professional services to aid them in the IPP set-up and maintenance. Therefore, it is well worth the time and money to hire an IPP consultant to assist in the design, implementation, and maintenance of an IPP solution.

Adrian Reynolds and Greg Taylor are Wealth Management Specialists with DentalWealth; a Multi-Family Office that caters to successful dentists and high net worth individuals in the dental industry. They can be reached at: www.DentalWealth.ca