



TAX, RETIREMENT
& ESTATE PLANNING
SERVICES

WEALTH TRANSFER 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 second spouse¹, 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 belongs to you.

WHY ARE IPPS SO POPULAR?

The maximum pension limit for 2014 is \$2,770 per year of service. This limit is subject to increases based on the Average Industrial Wage.

At age 50, the annual maximum contribution is \$7,218 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 second 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

Most 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 now 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, anytime 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.

Contribution comparison 2014

Age	IPP (\$)	RRSP (\$)	Difference (\$)
40	26,097	24,270	1,827
45	28,665	24,270	4,395
50	31,488	24,270	7,218
55	34,588	24,270	10,318
60	38,005	24,270	13,735
65	41,282	24,270	17,012

Source: Westcoast Actuaries. For illustration purposes only.

IDEAL CANDIDATES

- Owners of an incorporated company
- Individuals age 40 or older
- People who earn employment income reported on a T4 of at least \$138,500 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

INVESTMENT OPTIONS AVAILABLE THROUGH MANULIFE INVESTMENTS

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

MANULIFE MUTUAL FUNDS

For Canadians looking to build wealth, Manulife Mutual Funds can offer an ideal solution. Through both Manulife Funds and Manulife Corporate Classes, investors and their advisors can build fully-diversified portfolios that provide exposure to stocks, bonds and money market securities from Canada and abroad.

Manulife Mutual Funds also offers access to three carefully selected asset allocation portfolios of Manulife's leading funds through Manulife Leaders Portfolios. These "fund-of-funds" portfolios feature active management to ensure each portfolio is well positioned throughout a market cycle.

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 ideally suited 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 a income benefit guarantee. Therefore this type of product may not be suitable 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. Investors can choose from a Basic GIC Account (Cashable or Non-cashable), or specialty options such as the Laddered GIC Account that can significantly reduce the impact of fluctuating rates.

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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