feature

Maximizing Tax-Deferred Retirement Savings

The Individual Pension Plan retirement strategy

How much will be enough to ensure that you are able to retire with the lifestyle that you desire?

When it comes to retirement planning, most Canadians aim to maximize their RRSP contributions. It is becoming increasingly evident that this approach may not be suitable for all people – especially the high-income earner. While RRSPs are a convenient way to save for retirement, there are maximum contribution limits. For instance, a chiropractor earning more than $100,000 in 2007 is subject to the maximum RRSP limit of $19,000. Quite often, this limit is inadequate to meet desired retirement goals. However, there are several options whereby you can still save; however, most solutions involve "taxable" accounts, and any investment income is taxed annually. The long-term effect of tax-on-investment is detrimental to overall returns.

What if there was a solution whereby you could still make annual tax-deductible contributions, the investments would still compound tax-deferred, but the annual limits would be much higher than the antiquated RRSP limits – and you would have full flexibility and control over those assets?

ENTER INDIVIDUAL PENSION PLANS (IPPs)

Introduced in 1991, an IPP is a pension plan that is set up for one person – you. Recent enhancements to the Income Tax Act have made IPPs even more attractive with higher contribution limits, which increase substantially as retirement approaches.

THE IPP AND THE CHIROPRACTOR

IPPs are designed for business owners, such as chiropractors, who are at least 40 years old, and have employment income over $100,000. Annual contribution limits are dramatically larger, and are made over time to ensure the plan is sufficiently funded to meet retirement goals.

For example, Dr. Tom is a 50-year-old chiropractor and earns $100,000 operating a successful practice in Ontario. If he establishes an IPP, he will make a $24,000 tax-deductible contribution in 2007 – versus the $19,000 RRSP limit - and at age 60, his IPP contribution limit will rise to $46,000 – versus approximately $25,000 RRSP limit for that age. At age 65, Tom could expect his IPP retirement income to be 60 per cent higher than his maximum-funded RRSP. The IPP becomes an excellent tool to transfer money from the company to the chiropractor, on both a tax-deductible and tax-deferred basis.

THE IPP VERSUS THE RRSP

IPPs allow substantially larger tax-deductible contributions, and retirement savings build faster in a tax-deferred environment. All plan contributions and expenses,

Continued on Page 42

Mike Magreehan, BBA (Hon), CFP, is an investment advisor with Canaccord Capital in Waterloo, Ontario. He can be reached at 1-800-495-8071 or at mike_magreehan@canaccord.com.

Mike Magreehan, BBA (Hon), CFP

letters to the editor

To the Editor,

I am a chiropractic student at Texas Chiropractic College. During this last trimester I was given the assignment to write a research paper on a chiropractic technique of my choice. After some deliberation, I chose Torque Release Technique®.

As I started gathering information for my paper, it was your magazine that provided most of the articles. I was surprised to note that very little is written about this technique. Thank you for your commitment in providing such valuable information to the profession.

Furthermore, I want to express how impressed I am with your magazine as a whole, especially your mix of articles. While it is important to the chiropractic profession to become more evidence-based in its approach, it is equally important to hold on to the philosophy that makes chiropractic special and unique.

I applaud your magazine for publishing the type of articles that give our profession a sense of balance and completeness.

Sincerely,
Keith C. Robbins

Dear Editor,

I as a chiropractor, and reader, wish you well with your publication. I do, however, have a comment. I noticed that your magazine features many articles about rehab, and sickness, but seems to be lacking, specifically, in the area of chiropractic wellness. Chiropractic is a broad-scoped profession, and has many areas of interest. I – and I know others – would love to read input from some of the philosophical leaders in our profession – the ones that focus on the art and soul of what it is we do day-to-day. I think it would broaden your readership, and give a more balanced and accurate view of our profession.

Thank you for your time, and I wish you continued success.

Dr. R. Bruce Banman,R DC

We invite your comments, concerns and suggestions. Please FAX your "Letters to the Editor" to 519-429-3094 or you may e-mail them to mdidanieli@annexweb.com.

Life's Little Adjustments

Maximizing Tax-Deferred Retirement Savings

Continued from Page 32

such as set-up and annual fees, are tax-deductible. A large initial contribution is often allowed to fund past service, and may be transferred from an existing RRSP.

Whereas RRSP investment losses cannot be made up with new contributions, IPPs allow an individual whose investments have not performed to make additional tax-deductible contributions to bring the plan back on track. IPP assets are creditor-protected. This is critical for business owners because, in most provinces, RRSPs may be seized by creditors.

Unlike RRSPs, IPP funds are "locked-in" until retirement, meaning your ability to access these funds prior to retirement is limited. And, under pension law, the company is required to make annual contributions, and this may be a concern if cash flow is tight.

However, overall, IPPs represent a unique way for chiropractors to maximize tax-deferred retirement savings.

A qualified team of financial professionals, including your accountant, should work with you to discover the wealth-building opportunities of an IPP. •