The Just Word Podcast

Transcript of Episode 45: Personal Private Pensions (PPP)

Guest: JP Laporte

Pat Bolland 00:00
JP a real pleasure to meet you.

Jean-Pierre Laporte 00:02
Nice to be here. Okay.

Pat Bolland 00:03
OK, Some people, I hope a lot of people now have heard about what a PP is ... PPP is? What is it?

Jean-Pierre Laporte 00:12
Well, it's a personal pension plan. That's what it stands for. And Personal Pension Plan is a type of registered pension plan. So registered pension plans have been around for a long, long time. The they find their roots in the very first Income Tax Act of 1917, the one that we use to finance the First World War. So this is very old legislation. But PPP is have only been around for about 10 years. And they're similar to another product, another acronym, the IPP or individual pension plan, except that the PPP is significantly better and more powerful than an IPP for a bunch of reasons.

Pat Bolland 00:55
Okay, well, then let's start at a kind of more basic level, people kind of know what an RRSP Registered Retirement Savings Plan is, how is a PPP different from that?

Jean-Pierre Laporte 01:08
Well, a Registered Retirement Savings Plan or RSP, comes with one annual tax deduction, your annual contribution, or PPP comes with eight deductions. And some of these deductions, dwarf the RSP annual contribution. So it's not even a fair game, if you're a firefight between the two, in terms of how much money a business owner can put aside towards retirement, if they use a PPP instead of the RSP. And I'm happy to walk you through all eight of these deductions.

Pat Bolland 01:44
Yeah, let's do that. Because it sounds interesting.

Jean-Pierre Laporte 01:47
Yeah, I would think so. Well, the big picture is that over a lifetime, it's very easy to triple, if not quadruple the amount of tax deductions that you can claim with an RSP, you can triple or quadruple them if you use a PPP. So that's why I said it's not really a fair fight between the two solutions in terms of which one will get you to retirement sooner. But that's the law. That's how the law works in Canada, and those who know the law and use it, get all these advantages that I'm going to be talking about.

Everyone else, which is about 98% of the population are in the dark, they have no clue. And they're stuck with the RRSP with its single deduction.

Pat Bolland 02:30
Okay, so what are the eight deductions?

Jean-Pierre Laporte 02:33
Sure. So number one is what we call the purchase of past service. So this is where you're a business owner, the company has been paying you a salary or a bonus, or both for a number of years since you started, maybe not maybe only a few years, because you took dividends, here and there. And when we start the plan, we say, You know what, we didn't have a plan back then. Well, that's okay. We're gonna catch up, we're gonna recognize those years past service, as if the plan had been in existence, and we're going to cost it out. And a part, a portion of that costs will come from the corporation. So when the corporation writes a check to the pension plan, it claims a tax deduction. So that's deduction, number one.

Pat Bolland 03:20
That's not, but the individual doesn't get the deduction, the company gets a deduction, the individual just gets cash.

Jean-Pierre Laporte 03:27
Just benefits from having a bigger pension in retirement. Right. Okay. Keep going. That was one. Yeah, that's why number two, so we might blow through our 20 minutes. Number two is the annual contribution that's in excess of the RSP limit. So this year, the RSP gives you up to $29,000 and change of contribution room. With the PPP, especially if you're over the age of 40, you're going to be able to add more to that limit, you're going to be exceeding that limit. In fact, by the time you hit 64, you're about $18,000, more than the RSP maximum, you had $42,000 of contributions instead of the $29,000.

Pat Bolland 04:11
Wow,

Jean-Pierre Laporte 04:12
That's just on an annual basis. So year after year, you keep plowing even more money into this pot, and therefore claim larger deductions, because you're doing that. So that's what I call the annual advantage. Then we have another advantage called, that's number two. Number three, is what's called Special payment. So here's the concept. These pension plans are supposed to pay you a set retirement amount, like imagine you're working for the government, or you're a teacher, and you hit 65 and they say okay, you're entitled to $100,000 a year for the rest of your life. That's the promised benefit. But in order to ensure that there's enough money to pay that benefit, money has to be invested inside the pension plan, and if the people that manage the money screw up or if the markets tanked, like we had with COVID. And, you know, things like that ...

Pat Bolland 05:08

yeah,

Jean-Pierre Laporte 05:08
... there might be a deficit, there might be a loss inside the pension fund. The law says if there's a loss, the corporation which you own, which is your own money anyway, the corporation can write an extra check. And we call that a special payment. And that's also tax deductible. And that's used to backfill the pension fund because it wasn't growing fast enough. So that ensures that you're on track to receive your promised benefit.

Pat Bolland 05:38
Wow, that's ...

Jean-Pierre Laporte 05:39
yeah, I know, I can't do that with an RSP, you lose money in an RSP, the only thing you can do is pray that it's going to recover ... with us, so you don't pray, you write a check, and you write that off, so you don't have to pay the tax. So that's the special number three. Number four is what I call the RSP. Double Dip. So in the year that you set up your pension plan, obviously, you're going to get your annual deduction for contributing to the pension plan. And that annual contribution is based on your current year salary as a percentage of your salary. But the RSP is also available to you because the RSP contribution this year, is based on last year's earned income. So in the current year, you can do a double contribution, and double the tax relief and put more money to work.

Pat Bolland 06:30
But that's is that only in the first year that you make the contribution.

Jean-Pierre Laporte 06:33
So there's another one, it's much smaller, but in the first year you get you can get either a full or a partial tax deduction for your RSP. So that's number four. Number five is for subsequent years to answer your question is you're allowed a tiny $600 per year, extra contribution to your RSP, which in pension jargon, we call that the PA offset a PA offset amount. So it's a little 600 bucks, it used to be 1000 bucks in the 90s. And then they changed it to $600. So it's a little ...

Pat Bolland 07:10
Cheap, those cheap government guys.

Jean-Pierre Laporte 07:13
So that was number five. Number six, is the fact that unlike an RSP, where you're not allowed to write off the investment management fees, right, when you're paying someone to look after your RSPs, those fees come off the top and you can't write them off. With us you can. So the investment and the fees are completely tax deductible to the business,

Pat Bolland 07:35
But you can write them off outside the plan, like on your personal account.

Jean-Pierre Laporte 07:39
No, not personal, your corporate account

Pat Bolland 07:41
on your corporate got it? Sorry, I keep thinking personal right?

Jean-Pierre Laporte 07:44
No, no, no, it's this is a corporate solution. But you own the corporation, so it's really your money anyway,

Pat Bolland 07:49
right ...

Jean-Pierre Laporte 07:51
deduction. Number seven, is the fact that if you borrow money, let's say from a line of credit, or from a Holdco, or some other entity, in order to make contributions to the plan, the interest is also tax deductible. So you can leverage these these plans,which you can do with an RSP. You can't do that with a TFSA. You're not allowed to write off the interest.

Pat Bolland 08:16
So I can borrow a whole whack of dough, and then make a back payment. Going back to rule number one, if you will, or deduction number one, plus all the years. Wow, a lot of benefits. Okay, number eight.

Jean-Pierre Laporte 08:28
Number eight is the mother of all tax deductions. It's called terminal funding. Terminal funding and the largest terminal funding tax deduction I've seen in my career was $2.1 million. Okay, so terminal funding is when you decide to turn on the pension before the normal retirement age. So let's say go back to our teacher example of collecting $100,000 a year for the rest of your life starting at 65. Well, if that if that individual said I don't want to wait till 65 I'm sick of kids. I want to retire at 55. I want to go back to school to teach. Well, you could retire at 55. But not at 100,000. The teachers Pension Plan Board the administrators of the plan will say you know why we're going to have to reduce your pension. We're going to penalize you because for every month that you're taking advantage of this. So you end up maybe I don't know what $40,000 a year for the rest of your life.

Pat Bolland 09:30
Yeah.

Jean-Pierre Laporte 09:31
Substantial dip in your standard of living just because you wanted to start sooner. That's the normal rule. But under the PPP. By relying on the terminal funding rules, what happens is we say okay, I want to start I'd say at 55 at 50 at 40. There's no minimum age. And then they say there's a penalty obviously, but we're going to add two special benefits. We're going to do a early retirement subsidy pensionplus a CPP bridge pension. So these are temporary payments that are coming out of the pension plan to bridge you from the early retirement day you select it to age 65. So, what we've done is

we've created brand new liabilities, costs inside the pension fund for which we need money. We're where does that money come from? It comes from our own corporation. So when the corporation sells stocks or whatever, in order to fund this, well, you're gonna get a tax deduction at the corporate level.

Pat Bolland 10:36
Okay, I kinda understand it. But it's complicated. That's probably why most people have never heard of it, because nobody wants to try to explain it.

Jean-Pierre Laporte 10:48
Yeah, that's part of the problem. It's very sophisticated. But it's the cost of being able to triple or quadruple your wealth without taking any risk. Right, because all of this that I talked about, is guaranteed. Well, because it's tax refunds. It's not me being better at picking stocks. In fact, if I'm really bad at picking stocks, and my rate of return is low, I can do those special payments. so you're whichever way you go.

Pat Bolland 11:17
Right, right. If this goes back, the PPP goes back in legislation 100 years? Why is it only 10 years ago that they flicked the switch?

Jean-Pierre Laporte 11:37
Oh, it's because it's my company that created the PPP.

Pat Bolland 11:56
Integris?

Jean-Pierre Laporte 11:57
Integris came out with a PPP. And we took the existing legislation, and we repackaged it, we made it more flexible. And we branded it the PPP to distinguish it from the older model, like the IPP or the RSP. But it's all based on the same legislation.

Pat Bolland 12:18
And are you the only ones that provide it?

Jean-Pierre Laporte 12:20
No, we we got copied by a financial institution in the province of Quebec now.

12:27
So, RPS

Pat Bolland 12:29
Can anyone use a PPP?

Jean-Pierre Laporte 12:32

Yep. Well, anyone that's got a company that's incorporated, that's taking T4 income. Right, you need to take you have to have employment income, because it's an employment pension plan.

Pat Bolland 12:42
Right. Okay. So then, let's say I get to retirement, how do I unwind it? Am I just going to take that $100,000 A year or is it indexed?

Jean-Pierre Laporte 12:53
Yeah, So Pat, yeah, you have options, right, you can either take a pension ... the 100,000 ... 50,000 whatever it is, for as long as you live. And if you pass away, that continues to your spouse. So that's one option. Another option is to say, you know, I don't want to have this pension plan anymore, you can wind it up, you can terminate it, and then take the money and send them to an RRSP, or a RRIF, Registered Retirement Income Fund.

13:20
Or

Pat Bolland 13:21
It's the same way you would do with an RSP, you wind down an RSP, and you throw it into a Registered Retirement Income Fund.

Jean-Pierre Laporte 13:26
That's right. Or you could purchase an annuity from a life insurance company. And then the annuity provider, their life insurance company is on the hook for paying you your payment, your pension. And then you don't even invest the money anymore, because it's the professional money managers from the insurance company that are looking after growing the monies inside the contract. It's their responsibility.

Pat Bolland 13:52
Okay, so then the ultimate question is, why don't more people know about this?

Jean-Pierre Laporte 13:59
Good, good, good question. Part of it, is that as you pointed out, at the very beginning, this is very sophisticated and complicated. And it's not being taught. It's not taught to the accountants, the financial advisors don't learn about it. So the the intermediaries in the marketplace that should be talking to clients about it don't even know themselves. It's only a tiny, tiny elite in Canada that actually knows about these rules, and are giving are making it available to their clients. So that's part of the problem. The other thing is the large financial institutions that could spend money and go on an ad campaign and really Blitz the market and say, Hey, you guys should upgrade from your RSP to your to a PPP. Those financial institutions have no vested interest in doing so because they're already making money on your RSP dollars. So Why kill themselves to cannibalize their own book business. Right?

Pat Bolland 15:03
Right.

Jean-Pierre Laporte 15:04
Like, it's so. So there's no, there is no incentive, unfortunately, in the industry,

Pat Bolland 15:10
So it's not generally used number one, there's a degree of education. Number two, despite all these benefits, they're complicated.

Jean-Pierre Laporte 15:20
They're complicated to explain. But once you're in one, I mean, you make your contribution, it gets invested by your trusted money manager, which is not us, we don't touch the money. And then the pod just grows faster, because there's more money, if I can put three to four times more money than you. And we're both earning the same rate of return. I'm gonna retire sooner, I'm gonna have a lot more money than you. I mean, it's just basic math.

Pat Bolland 15:46
Yeah, you know, it's interesting, somebody once asked me what my most expensive expense was in my lifetime. And immediately, I said, my mortgage, and they said, No, you're wrong. It's because of time, it's your taxes, you know, 40, or 50, or 30%. Every year, every year that you work adds up to more than your mortgage. It was an interesting perspective. So what you're looking at is exactly that. reduce your taxes, don't avoid taxes, but reduce the amount of tax to pay and get all the benefits.

Jean-Pierre Laporte 16:21
We're all about complaining, oh, well, one secret that I have to share with your audience, is that if you have an RRSP, and heaven forbid, but you let's say you've got $3 million, you've been really good. You've been saving, and then you grew your pot to three $3 million. And you go for a drive with your spouse on the country road, and bang, you go both get killed by a Mack truck.

Pat Bolland 16:46
Thanks, JP, you're really painting a nice picture was,

Jean-Pierre Laporte 16:49
but that's the reality. What happens, there is no roll over to a spouse, you're both dead. So that $3 million is not subjected to what's called a deem disposition. The government deems that you sold everything in your RSP at fair market value the day before you die. And now your estate is left with a $1.5 million tax bill.So you thought you had 3 million, you only have 1.5 million. So it's not just a tax you've paid along your along your life, like you were talking about. It's the deemed disposition on death. So that's what happens in an RSP, or a RRIF. Or if you keep the money in the shares of your company, a lot of people don't use RRSPs or PPPs. They just keep it in their company. They think, oh, well, it's, you know, low tax. Well, something else is going to be knocking on their door. It's called the taxman. So what happens if you do this in a PPP? And let's imagine that you have children that are working in your family business, so they're on the payroll as well, so they're eligible to join your plan. Same thing happens, you go onto country road with your spouse, bang, get hit by the Mack truck, you both die, nothing happens. The full 3 million becomes pension surplus. Its surplus, because there's no one to

pay attention to there are no survivors. So the through the full 3 million stays inside the plan. And because your children are also members of the plan, that surplus is now theirs

Pat Bolland 18:19
Wow,

Jean-Pierre Laporte 18:19
you just you just saved your family. $1.5 million in taxes. Well, you tell me which of the two products is better?

Pat Bolland 18:29
It's too hard to explain, as you pointed out from the very beginning in 20 minutes, but JP where can they where can people go for more information? Well, the best place is to is to go to Integris Pension Management Corp to our website Integris dash mgt.com. That's really because we have videos we have memos, legal memos, we have PowerPoint slides, FAQs, articles. Even when I was on BNN, I was explaining what a PPP is to one of the finance journalists. So you know, we try to do multimodal ... different people learn different ways we have calculators you can play around with. If you want to really really learn about this, you can take a course from the INTEGRIS University that's offered through the knowledge bureau. So there are courses you can take online. There's lots and lots there's no shortage of information. The problem is awareness. People have no clue that this stuff exists and therefore they keep paying tax because they don't know any better. Yeah. JP we go on forever. But thank you so much for your time.

Jean-Pierre Laporte 19:43
I'm glad to be here. Thanks a lot.

19:45
Jean-Pierre Laporte is the Consultant and CEO of Integris Pension Management