INDIVIDUAL PENSION PLAN (IPP)

Minimum Adequate Knowledge

WESTCOAST ACTUARIES

Table of Contents

Sec
1 Why an IPP?
2 IPP = "Super-Sized" RRSP
3 Who Should Read This Booklet?
4 Eligibility for Pension Coverage
5 Eligibility for Past Service Pension Benefits
6 Impact on RRSP Deduction Limit
7 Investment Rules
8 Benefit Options
9 Maximum Transfer Limit
10 Beneficiary Designation
11 Mandatory Minimum Company Contributions
12 Maximum Deductible Company Contributions
13 Potential Additional Liability on Plan Termination
14 Why Choose Westcoast Actuaries Inc.?

1

Why an IPP?

Maximum contribution limits under a Registered Retirement Savings Plan (RRSP) or a Defined Contribution (DC) pension plan provide sufficient tax-assisted retirement savings for individuals at younger ages. Contributions based on 18% of income up to the maximum dollar limit with compound interest growth for an extended period of time can generate a reasonably adequate amount of pension at retirement.

For individuals who are close to their retirement, the much shorter pre-retirement asset accumulation period does not allow enough time for compound interest to work its magic. A Defined Benefit (DB) pension plan such as an Individual Pension Plan (IPP) would be necessary to provide adequate retirement savings on a registered basis. Unlike the RRSP or DC pension plan limit which is strictly based on income and not based on age, a DB pension plan provides contribution amounts that increase with age. The older the IPP member is, the higher the contribution amount.

A free IPP quote can be obtained by using the IPP On-Line Quoting System © at www.westcoast-actuaries.com to identify the IPP contribution advantage over an RRSP for a specific age and employment income combination.

In addition to the contribution advantage over an RRSP, other IPP advantages include:

- Potential Company past service contributions (see Section 5);
- IPP assets are creditor-proof;
- IPP expenses are tax deductible by the Company; and
- Additional tax-deductible Company contributions can be made if the IPP has a deficit due to lower than expected investment returns or other factors.

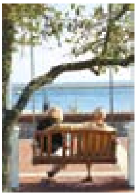
2

IPP = "Super-Sized" RRSP

Under current tax legislation, pension benefits earned by a pension plan member would reduce the member's RRSP deduction limit. Therefore, an IPP is a replacement plan for an RRSP. An IPP is often referred to as a "Super-Sized" RRSP as it allows for the accumulation of more retirement assets on a registered basis than an RRSP due to its contribution advantage for "older" people. The following table summarizes the key similarities and differences between an IPP and an RRSP:

	IPP	RRSP
Registration status	Registered	Registered
Contribution based on	Triennial actuarial valuation report - the older the IPP member, the higher the contribution amount if the income level is the same	18% of prior year earned income up to a specified dollar maximum regardless of age
Contribution deductibility	Contributions by Company deductible against corporate income	Deductible against personal income
Investment income	Tax exempt	Tax exempt
Investment rules	More restrictive - subject to pension fund investment rules	Less restrictive
Taxation of payment	Fully taxable when paid	Fully taxable when paid
Income flexibility	Low – pension is adjusted each year only for inflation	High
Income amounts	Amount calculated by formula using years of service; employment income history; commencement date; form of pension elected and age of spouse, etc.	Any amount between the RRIF minimum based on age and 100% of the account
Forfeited amounts	None – all assets paid to member as pension or to spouse as survivor pension; residual is paid to estate or beneficiary of last survivor	None – tax-free transfer to spouse's plan or payment to estate if no spouse





3 Who Should Read This Booklet?

All parties to an IPP should have a certain Minimum Adequate Knowledge (MAK) of the program to ensure that the IPP complies with both the income tax legislation and the applicable federal or provincial pension legislation.

This IPP booklet is intended for the following readers:

- the IPP member;
- the investment advisor / financial planner;
- the accountant for the member or the Company;
- the person who is involved with IPP-related administration at the Company; and
- the person who handles the T2 and T4 reporting for the Company.

4 Eligibility for Pension Coverage

- the Company (sponsor of the IPP) and the IPP member have a bona-fide employment relationship; and
- the IPP member receives employment-related pension eligible compensation from the Company. Pension eligible compensation is an amount reported on T4 or T4PS for salary, bonus, taxable allowance or distribution from an Employee Profit Sharing Plan (EPSP) [note - self employment income, partnership income and dividend income are not pension-eligible].



5 Eligibility for Past Service Pension Benefits

Recognition of prior years of service for pension purposes is voluntary.

To qualify, a member's Past Service Pension Adjustment (PSPA) for years after 1989 must be satisfied by either Option #1 or Option #2 below (or a combination):

OPTION #1 A tax-free transfer from the member's RRSP to the IPP [personal RRSP only - spousal RRSP cannot be used]; i.e. the IPP member must be the "annuitant" of the RRSP from which the funds are transferred.

OPTION #2 A reduction in the member's unused RRSP contribution room.

Example The PSPA amount is calculated based on a formula prescribed by tax legislation and the IPP member's employment income history for the years of past service being provided.

The year 1991 was recognized as past service for the IPP member. It was determined that:

- The PSPA is $11,500 based on the member's employment income for 1991 and
- The cost of past service pension benefits for the 1991 year is $25,000 based on the member's current age and employment income for 1991.

Company past service funding with respect to 1991 is established as follows:

PSPA satisfied through:	**OPTION #1**	**OPTION #2**
Cost of Past Service Benefit	$ 25,000	$ 25,000
Less transfer from Member's RRSP	$ (11,500)	$ (0)
Company Past Service Contribution	$ 13,500	$ 25,000
Reduction in Member's unused RRSP contribution room	$ 0	$ 11,500

Past service funding for other years can be similarly determined and aggregated to determine past service contribution by the Company. The years of past service that can be recognized may be restricted by the amount of personal RRSP assets and the unused RRSP contribution room the IPP member has available to satisfy the PSPA.

6 Impact on RRSP Deduction Limit

A connected person is defined in tax legislation as a person who owns directly or indirectly 10% or more of any class of shares of a company or not dealing at arm's length with such person. The spouse, parent or child of a connected person is also deemed to be a connected person based on the arm's length test.

In the year the IPP is implemented:

- a non-connected person's RRSP deduction limit is not affected; and;
- a connected person's RRSP deduction limit is reduced. The reduction is 18% of the person's earned income for RRSP purposes for the year 1990, up to a maximum of $11,500.

For years following IPP implementation, the member can expect to have an annual RRSP deduction limit of $600 per year.

7 Investment Rules

IPP investments must adhere to the following pension fund investment rules:

- Diversification Requirement – no more than 10% of the IPP fund can be invested in a single security on a book value basis at the time the investment is acquired [this requirement does not apply to pooled funds and mutual funds];
- Prudent Man Standard – the IPP fund should be invested in a manner like a prudent man would invest a trust fund; and
- Employer (Sponsor of the IPP) securities - the IPP fund can not invest in the employer's own securities.

8

Benefit Options

Upon retirement or termination, the member can elect one or a combination of the following benefit options:

- an immediate or a deferred pension paid from the IPP; or
- purchase of a non-commutable immediate or deferred annuity from an insurance company; or
- transfer the commuted value of pension benefits to a locked-in plan such as a Locked-In RRSP, Locked-In Retirement Account (LIRA), Life Income Fund (LIF) or Locked-In Retirement Income Fund (LRIF). This transfer option is subject to a "Maximum Transfer Limit" (see Section 9).

Locking-in means that the member **can not** receive a lump sum cash settlement from the IPP. Funds originated from a pension plan are intended for consumption over the member's lifetime as required by federal and provincial pension legislation.

9

Maximum Transfer Limit

The transfer of the commuted value of IPP benefits to a DC type account (Locked-in RRSP, LIRA, LIF, LRIF, etc.) is subject to a maximum transfer limit prescribed by the income tax legislation. The commuted value in excess of this tax-free transfer limit must be either:

- paid to the member in a lump sum [taxable as ordinary income]; or
- left in the pension fund to provide pension benefits prior to age 65 [if the member is not yet age 65].

Since the IPP is designed to maximize pension benefits, a commuted value transfer will, most likely, result in a significant taxable lump sum.

10

Beneficiary Designation

Pension legislation requires that the member's spouse must be made the primary beneficiary for pre- and post-retirement death benefit purposes. The IPP member can designate another beneficiary or beneficiaries to receive death benefits only if the spouse signs a waiver form.

The IPP member can designate a contingent beneficiary to receive pre-retirement death benefits in the event that the spouse predeceases the member. Post-retirement death benefits are governed by the form of pension elected by the member at retirement.

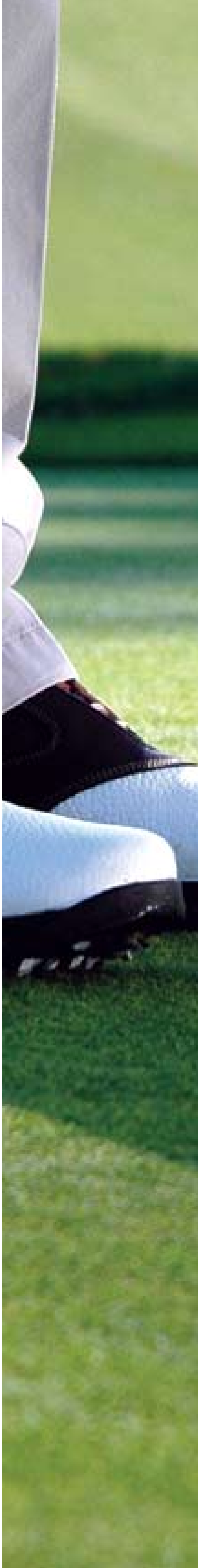
11

Mandatory Minimum Company Contributions

If the IPP is subject to registration with the federal or provincial pension regulator, the Company **must** make a minimum amount of pension plan contributions each year. Minimum contributions [calculated by an actuary] equal

- current service contributions for the member; plus
- amortization of deficits. The amortization period is usually 15 years for a going concern deficit and 5 years for a solvency deficiency (deficit on an assumed plan termination basis).

IPPs for connected persons and highly-paid employees [earning at least 2.5 times the Year's Maximum Pensionable Earnings as defined in the Canada Pension Plan] are exempt from registration in British Columbia, Manitoba, Quebec (connected persons only) and Prince Edward Island. A mandatory minimum Company contribution is not required in these provinces.



12 Maximum Deductible Company Contributions

Maximum deductible contributions are calculated by an actuary using the actuarial assumptions specified in the tax legislation (e.g., a 7.5% per annum interest rate and retirement at age 65, etc.).

The maximum deductible Company contributions over the 3-year period specified in the most recent actuarial report equals:

- the unfunded liability that has not been amortized; plus
- the current service contribution for the member each year.

With an on-going IPP, the maximum deductible Company contributions under income tax legislation override the mandatory minimum Company contributions under federal or provincial pension legislation.

If the IPP has an excess actuarial surplus as revealed by the actuarial valuation, no further tax-deductible contributions can be made until the full amount of excess actuarial surplus has been applied towards funding of the current service contributions each year. Allowable surplus is defined as 25% of the value of the pension benefits accrued by the member.

13 Potential Additional Liability on Plan Termination

If an IPP is subject to registration with the federal or provincial pension regulator, an additional liability on termination of the IPP may occur. Funding the IPP via maximum Company deductible contributions postpones certain mandatory minimum Company contributions until:

- the actual pension commencement date for the member; or
- the plan termination date for the IPP.

After this date, IPP liabilities may increase leading to additional Company funding requirements.

14

Why Choose Westcoast Actuaries Inc.?

Westcoast Actuaries Inc. (WAI) is Canada's leading provider of actuarial and administration services for IPPs. Our focus is quality and efficient delivery of service at reasonable costs to our clients. The key features of our IPP Actuarial & Administration Service Package are as follows:

SERVICES INCLUDED

- Implementation – WAI prepares all required documentation for registration purposes.
- Annual Administration – WAI prepares all required annual filings for compliance purposes.
- Triennial Actuarial Valuation – WAI prepares every three years.

AMOUNT OF ANNUAL FEE

- Amount depends on jurisdiction and province.
  Please visit www.westcoast-actuaries.com for complete details.

PAYMENT OF ANNUAL FEE

- First year fee is payable upon request for IPP implementation.
- Annual fee for subsequent years is due by the end of January each year.

Note: Westcoast Actuaries Inc. **does not charge** a separate fee for implementation or for triennial actuarial valuation. The client pays only the annual fee each year for the services included and listed while the IPP is in place. Westcoast Actuaries Inc. will perform any services not listed on a fee-for-service basis. A fee quote is always provided to the IPP client for prior approval. There is complete cost transparency and cost certainty to the IPP client.

908 - 1166 Alberni Street
Vancouver, BC V6E 2Z3

T: 604-730-1898
F: 604-730-1886

www.WAInc.ca
info@WAInc.ca

Westcoast Actuaries Inc.

Telephone: (604) 730–1898

Toll-free: 1-888-888-1668

www.westcoast-actuaries.com

© Westcoast Actuaries Inc. 2008-2011

The information contained in this booklet is for education and information purposes only. Every effort has been made to ensure the accuracy of the information. Because all situations can not be included in a publication such as this, no person or firm involved in the preparation or distribution of this booklet accepts any liability for its contents or use.