

The Navigator

RBC WEALTH MANAGEMENT SERVICES

Pensions Part 4 – Group RRSPs

This article is the final part of a four-part series on employer retirement plans. Due to the complexity and variety of employer retirement plans, instead of one lengthy article, we have broken down the content into four separate articles: Defined Benefit (DB) Registered Pension Plans, Defined Contribution (DC) Registered Pension Plans, Deferred Profit Sharing Plans (DPSPs) and Group RRSPs. In all the articles, the term “pension plan” refers to an employer-sponsored retirement plan – not a government pension plan like Canada Pension Plan (CPP) or Quebec Pension Plan (QPP).

This article gives a detailed overview of how Group RRSPs work.

A metaphor that is sometimes used for retirement planning is the three-legged stool – that is, your retirement income sources can be thought of as the legs of a three-legged stool. In order to have a financially secure retirement, all three legs of the stool should be sturdy enough to keep the stool upright. The three legs of the retirement income stool are:

- › Government income sources
(e.g., CPP/QPP and Old Age Security (OAS))
- › Employer retirement plans or pensions
- › Personal savings
(registered and non-registered savings)

(Note that in some cases, you may have adequate personal savings or an adequate employer pension to have a financially secure retirement even though one or two of the other legs are not significant contributors).

This series of articles is intended to provide you with information on the employer retirement plans leg of the retirement income stool.

Due to pension legislation being different among the various provinces and territories and due to each pension plan having its own unique terms, there may be situations where the information in the articles will not apply to a specific employer retirement plan. Therefore, it is imperative that you consult your employer’s pension administrator for final confirmation on any questions you may have on your employer retirement plan.

What is a Group RRSP?

A group RRSP is a non-locked in RRSP that is established by an employer for a group of employees. It is not governed by provincial or federal pension legislation. Group RRSPs are subject to all the rules including contribution limits that apply to regular non-locked in RRSPs, although the employer may impose certain restrictions on the Group RRSP. For example, the employer may state that the Group RRSP cannot be set up as a spousal RRSP or that Group RRSP funds cannot be transferred to your own RRSP at a financial institution when you terminate your employment or retire.



RBC Wealth Management

The employer generally selects the investment manager(s) for the Group RRSP but the investment manager(s) provides various investment options from which each employee can choose. In certain circumstances it may be possible for funds in a Group RRSP to be invested by the employee's own investment advisor.

Group RRSPs are cost-effective and easier to administer, from the employer's perspective, than DB and DC RPPs since Group RRSPs do not require provincial or federal pension registration. In addition, most employees understand the concept of a Group RRSP whereas greater education can be required for RPPs, which are more complex.

Contributions

Both the employer and the employee can contribute to a Group RRSP up to a combined total of the employee's RRSP contribution limit for the year. The RRSP maximum contribution limit for 2012 is \$22,970. Contributions are not mandatory for either the employer or the employee but if they make contributions they will vest immediately.

Taxation Issues

If an employee makes contributions to a Group RRSP these contributions are made directly from their regular earnings. If an employer makes contributions to the Group RRSP these contributions are considered employment income to the employee and are reported on the employee's T4 slip. However, the employee will receive a contribution receipt for their employer's contribution, as well as their own effectively offsetting any income inclusion. The employer is not required to withhold income tax from employee or employer contributions to the Group RRSP but CPP/QPP and EI deductions are still applicable.

Pension Adjustment

Contributions to a Group RRSP will generate an RRSP contribution receipt for the employee, whether the contributions are made by the employer or the employee. However, neither contribution will generate a Pension Adjustment.

If employees intend to maximize their annual RRSP deduction room, they must consider Group RRSP contributions that were made by both employer and themselves during the current year to determine how much they can top-up their RRSP without over-contributing. The total amount contributed to group RRSPs reduces how much can be contributed to an individual RRSP dollar for dollar.

Options at Termination or Retirement

When the employee retires or terminates their employment, the funds in the Group RRSP are generally transferred on a tax-deferred basis to a regular non-locked in RRSP or RRIF at their own financial institution. This transfer does not affect the employee's unused RRSP contribution room. Alternatively, the employee could use the Group RRSP funds to purchase a life annuity or make a cash withdrawal, subject to full taxation at marginal tax rates.

Survivor Benefits

The survivor benefits options for a group RRSP are identical to those for a regular non-locked in RRSP. The options are:

- › Funds can be rolled over on a tax-deferred basis to a surviving spouse's or financially dependent disabled child or disabled grandchild's own RRSP or RRIF.
- › Funds can be used to purchase a life annuity.
- › If the beneficiary of the Group RRSP is a financially dependent minor child or grandchild then the Group RRSP funds can be used to purchase a term to age 18 annuity for the minor child or grandchild. In this case, the Group RRSP funds are not taxable to the deceased employee's estate at the time the annuity is set up but the annuity payments will be taxable to the minor child/grandchild in the year they are received.
- › Funds can be rolled-over on a tax-deferred basis to a registered disability savings plan (RDSP) held for a child or grandchild of any age who is financially dependent on the deceased because of physical or mental infirmity.
- › If the beneficiary is not a spouse or financially dependent child or grandchild, the funds in the Group RRSP at the time of the annuitant's death would be fully taxable as income on the deceased's terminal tax return.

When the employee retires or terminates their employment, the funds in the Group RRSP are generally transferred on a tax-deferred basis to a regular non-locked in RRSP or RRIF?

› Please contact us for more information.