



Should You Join Your Company Group RRSP?

So, you've recently started a new job and now you need to make a decision about signing up for the company Group RRSP. You may already have your own RRSP and TFSA.....so why would you join the Group RSP?

Answer. It's great that you have a job where your employer is encouraging retirement savings. Outside of the public sector, registered pensions are very rare offerings, but many proactive and progressive employers have opted instead to offer other plans, such as Deferred Profit Sharing Plans (DPSP) and Group RRSPs, to help their employees prepare for retirement.

Perhaps the main reason for this move away from pensions and toward other group savings plans, such as Group RRSPs and DPSPs, is increased flexibility, and decreased costs. Registered pension plans are governed by the Pension Benefits Standards Act, and as such, have a fiduciary responsibility and very stringent funding requirements as well. Also, pension plans are typically quite costly to administer, with significant overhead, internal governance and reporting requirements. Many employers have moved away from pensions, and toward other forms of retirement savings plans.

Unlike a registered pension plan, Group RRSP and DPSP contributions by the employer are not mandatory. This gives the employer added flexibility to suspend contributions for a period of time if the company is experiencing financial difficulty. While that's an advantage to the employer, it is a potential disadvantage to the employee.

Group RRSP

A Group Registered Retirement Savings Plan (RRSP) is like an individual RRSP, but with a few modifications. The main differences with a group RRSP are the investment selection, plan administration and method of contribution. A Group RRSP is typically set up by the employer, and also administered by the employer on a group basis.

For your individual RRSP, you might set up a regular monthly contribution, make a lump sum contribution on an annual basis, or some combination of both. However, with a Group RRSP, contributions are made by payroll deduction, a on a pre-tax basis. **This is an advantage** to the plan member as you receive your tax "refund" automatically and more money is invested directly into your RRSP immediately.

In most Group RRSP structures, the employer matches the employee's contributions up to a specified amount. This is **another excellent reason** for you to participate in your group plan – that matching contribution could double your deposit amount automatically. For example, an employer might match an employee's contributions up to 5% of salary. So in this case, if you were making \$50,000 and contributed \$2,500 to your group RRSP, your employer would also contribute \$2,500.





Deferred Profit Sharing Plan – DPSP

The first thing to note is that only the employer can contribute to a DPSP – employee contributions to a DPSP are not permitted. Typically, the employee has the exact same investment choices in the DPSP as in the Group RRSP.

Sometimes, the employer also contributes the matching portion directly to the employee's Group RRSP. However, in many situations, the employer's matching contribution goes into a DPSP rather than directly to the employee's Group RRSP.

Why would an employer do this? Why not just put the matching contribution into the Group RRSP?

Any money contributed to the Group RRSP account, whether it comes from the employee or the employer, immediately belongs to the employee. That is, it is immediately *vested*, and if the employee quits, the money still belongs to the employee. But with a DPSP, the employer can place a short-term restriction on the ownership of the employer's contributions.

Vesting Period

In this context, the *vesting period* refers to the period of time before the money in the DPSP is unconditionally owned by the employee. If the employee quits or is terminated before the end of the vesting period, the money in the DPSP reverts back to the employer.

This is the key reason why some employers use a DPSP in addition to Group RRSP. While the Group RRSP cannot have a vesting period, an employer can impose a *vesting period* up to a maximum of 2 years with a DPSP. In general, employers do this in order to retain employees and reduce turnover.

For example, if the DPSP had a 2 year vesting period, and the employee quit after only 1 year with the company, the employee would forfeit the money in the DPSP – those contributions would go back to the employer.

Note that the amount that the employee contributed to the Group RRSP always belongs to the employee. It is only the amount contributed by the employer in the DPSP that is subject to the vesting period.

PA – Pension Adjustment

It's important to note that contributions made by the employer to your DPSP result in a *pension adjustment*. A pension adjustment simply means that your RRSP contribution limit is reduced by DPSP contributions.

While there is no limit to the number of RRSP accounts you can own, there is a limit to the amount you can contribute to your RRSPs in total, this limit is all encompassing, for Pensions, RRSPs, Group RRSPs, and DPSPs as well.





To illustrate, consider the following:

- Salary of \$50,000
- Group RRSP and DPSP
- Employer matches contributions up to 5% of salary

In this case, if the employee contributes 5%, to the Group RRSP, which is \$2,500, the employer would also contribute \$2,500 to the DPSP. Recall that the total RRSP contribution limit is 18%. So in this example, 18% of \$50,000 is \$9,000. Since \$5,000 was already contributed to the Group RRSP and DPSP, the employee can contribute only \$4,000 more to an individual RRSP (or Group RRSP) before the year's limit is reached.

Group Savings Bottom Line

As a general rule, if there is an employer matching contribution, it makes good sense to join your group plan. It also makes good sense to contribute at least the amount required to receive the maximum possible contribution from your employer. Otherwise, you'd be leaving "free money" on the table.

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