Group registered retirement savings plan (RRSP)

Advantages

- May be a purely voluntary plan and/or include employer contribution.
- No provincial legislation – employer has considerable flexibility.
- No restrictions on eligibility or timing of employer contributions. (Member contributions should be submitted on a monthly basis as a minimum.)
- Employer contributions can be random or scheduled.
- Members can make additional lump-sum contributions at any time.
- Contributions aren't locked in.
- Spousal plans are allowed, which enhances income splitting in retirement. As well, with spousal plans the contributor claims a tax deduction up front on contributions.
- If permitted by the plan, assets can be used for Home Buyers' Plan (HBP) and Lifelong Learning Plan (LLP) as outlined under the Income Tax Act. Members have maximum flexibility on termination, death or retirement. All assets can be taken in cash, transferred to an RRSP or registered retirement income fund (RRIF) or used to purchase an annuity.
- No plan-level government reporting by the employer (service provider issues contribution receipts and tax slips).

Considerations

- Members own all of the assets in their accounts.
- Withdrawals from the group RRSP can be restricted by the sponsor/employer.
- Assets can be used by the member for any purpose and not necessarily for the purpose the employer may have intended, such as retirement.
- Employer contributions are deemed taxable income and any applicable payroll taxes will be required, including employment insurance, Canada Pension Plan, workers' compensation and health taxes.
- Administration fees paid by the employer are a taxable benefit to the employee; however, they're a deductible business expense for the employer.

Deferred profit sharing plan (DPSP)

Advantages

- No provincial legislation – employer has more flexibility than with a registered pension plan (RPP).
- Income Tax Act and Canada Revenue Agency (CRA) requirements must be met in order to qualify, including registration of the plan with the CRA.
- No restrictions on timing of employer contributions except at year end.
- There is considerable flexibility on termination death or retirement. All assets can be taken in cash or transferred to a registered retirement savings plan (RRSP)/registered retirement income fund (RRIF) or used to purchase an annuity.
- Contributions aren't locked in.
- Limited government reporting (CRA filing plus pension adjustment reporting).
- Service provider issues tax slips for payments from the plan.
- Employer retains control while avoiding the more restrictive pension legislation.
- All employer contributions must be vested within two years of membership.
- Employer can restrict in-service withdrawals on the DPSP.
- A DPSP is generally used in conjunction with a group RRSP. Contributions to the DPSP may or may not be tied to employee contributions into the RRSP.
- Employer contributions aren't taxable to the employee and do not attract payroll taxes. The employee only pays tax on amounts when withdrawn from the plan.
- Employer stock is generally an eligible investment option.

Considerations

- No employee contributions allowed.
- Employer contributions are subject to maximum limits.
- Must be a for-profit corporation and any employer contribution must be made out of profits.
- No connected persons can join the DPSP. (Connected persons refers to those with 10 per cent or greater ownership and non-arms-length family members/relatives. See CRA definition for more specific information.)
- Slightly higher administration cost.
- Assets can be used by the member for any purpose and not necessarily for the purpose the employer intended, such as retirement.

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