Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Aaron Fennell, MBA, CFA
Portfolio Manager & Investment Advisor
Tel: 416-313-6397
aaron.fennell@rbc.com

RBC Dominion Securities
181 Bay Street, Suite 2350
Toronto, ON M5J 2T3
www.aaronwfennell.com

Group registered retirement savings plans

A group registered retirement savings plan (RRSP) is established and administered by an employer for a group of employees and consists of many individual RRSPs. It's not locked-in or governed by provincial or federal pension legislation. A group RRSP is subject to all the tax rules (including contribution limits) that apply to individual RRSPs. The employer generally selects the investment manager for the group RRSP, and the investment manager provides various investment options from which you can choose.

Please note that any reference to a spouse in this article also includes a common-law partner.

Why consider a group RRSP?

Often, one of the main benefits of a group RRSP is employer matching, if this is a feature of your plan. Your employer may match your contributions based on a percentage of your salary. For example, your employer may match your contributions up to a maximum of 6% of your salary.

Group RRSPs can give you access to professional money managers and certain investments at lower costs than investing on your own. Your employer may be able to negotiate lower fees based on the total value of assets in the group RRSP plan. Lower fees leave you with more funds available for investment and tax-deferred growth. However, the investment choices for your group RRSP may be limited by the investment manager, so you may only be able to pick investments from a list.

Participating in your company's group RRSP plan encourages you to save for retirement. If your plan allows, you may be able to contribute to a spousal RRSP instead so that in retirement you can income split with your spouse to reduce your family's tax bill. For example, you may find that your retirement income consists of a large amount of investment income that can't be split with your spouse. By contributing to a spousal RRSP, you can redirect some of your retirement income to your spouse who may be subject to tax at a lower tax rate.

Since contributions to your group RRSP are made directly from payroll, your employer can reduce income tax source deductions, resulting in tax savings now rather than waiting until the following year for a tax refund.

From the employer's perspective, group RRSPs can be cost-effective and easier to administer than defined benefit and defined contribution pension plans, since group RRSPs do not require provincial or federal pension registration or actuarial involvement.

Contributions

Both you and your employer can contribute to a group RRSP, up to a combined total of your RRSP deduction limit for the year (often referred to as your "RRSP contribution room") less any contributions you made to other RRSPs or spousal RRSPs. Contributions are generally not mandatory, except if your company has a "qualifying arrangement"[1] or mandatory group plan.

Before you participate in your company's group RRSP, you need to have RRSP contribution room. If you're just starting to earn employment income and don't have other sources of income that provide RRSP contribution room, you'll need to wait until the following year before you can contribute to the group RRSP. However, if your group RRSP is a mandatory group plan, you will be required to make contributions regardless of your RRSP contribution room.

When you over-contribute to your RRSP, you usually have to file a T1-OVP return and pay a 1% penalty tax for each month the over-contribution is greater than $2,000. However, where contributions to a mandatory group plan result in an over-contribution in the current tax year, there may be relief on the 1% penalty tax. Speak to your qualified tax advisor if you find yourself in this situation.

The total amount contributed to your group RRSP reduces dollar-for-dollar the amount you can contribute in the current year to your individual RRSP or to a spousal RRSP. This differs from contributions to a registered pension plan or a deferred profit sharing plan, where contributions create a pension adjustment (PA), which reduces your RRSP contribution room for the following year.

Vesting and withdrawals

Employee and employer contributions to a group RRSP vest immediately, giving you a non-forfeitable right to the amounts in your group RRSP. Generally, this means you can make withdrawals at any time. However, your plan may have restrictions that discourage you from making a withdrawal, especially where an employer matches your contributions. For example, the plan may limit the number of withdrawals allowed by suspending employer matching for a specified period of time if you exceed the withdrawal limit. It's important that you understand how withdrawals impact eligibility for future employer matching and how that affects your overall savings goals.

1 An arrangement is a qualifying arrangement if all of the following apply:

- It's for two or more individuals;
- The contributions are amounts you're entitled to for services you provided; and
- The contributions are remitted to the RRSP by the person who pays you.

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Tax reporting

Contributions you make to a group RRSP are made directly from your regular employment earnings reported on a T4 slip – *Statement of Remuneration Paid*. If your employer makes contributions to your group RRSP, these contributions are considered taxable benefits to you and are also included in your employment income reported on your T4 slip. You will receive an RRSP contribution receipt for your employer's contributions, as well as your own contributions, which can be claimed as a deduction against the income inclusion.

Your employer is not required to withhold income tax on employment income that was directly contributed to the group RRSP, provided they have reasonable grounds to believe you can deduct the contribution for the year. However, Canada Pension Plan/Quebec Pension Plan and employment insurance (EI) source deductions are generally still required. If your employer makes contributions to your group RRSP, they don't have to deduct EI premiums on their contributions to your group RRSP where withdrawals are restricted to when you retire or cease employment or only under the home buyers' plan or the lifelong learning plan.

Withdrawals from your group RRSP are reported exactly the same as withdrawals from an individual RRSP and are taxed in the same manner as well. You will receive a T4RSP slip – *Statement of RRSP Income*, showing the amount withdrawn and the related withholding tax. The gross amount withdrawn is taxable to you in the year of withdrawal and will be subject to tax at your marginal tax rate. The tax already withheld at source is credited towards your taxes payable.

Options at termination or retirement

When you retire or terminate employment, the funds in the group RRSP can be taken in cash, transferred directly (on a tax-deferred basis) to an individual RRSP or registered retirement income fund (RRIF) at your choice of financial institution, or used to purchase an annuity (also on a tax-deferred basis). Cash withdrawals will be subject to tax at your marginal tax rate in the year of withdrawal. A transfer to an individual RRSP or RRIF doesn't affect your RRSP contribution room. If you purchase a life annuity, you will be fully taxed on the annuity payments in the year you receive them.

When you retire or terminate employment, the funds in the group RRSP can be taken in cash, transferred directly (on a tax-deferred basis) to an individual RRSP or registered retirement income fund (RRIF) at your choice of financial institution, or used to purchase an annuity (also on a tax-deferred basis).

Options on death

The options on death for a group RRSP are identical to those for an individual RRSP. Where you have named a beneficiary on your group RRSP, typically the funds in the RRSP would go directly to the beneficiary on your passing. If you haven't named a beneficiary, the funds in your group RRSP would go to your estate and be dealt with according to your Will or the laws of intestacy if you don't have a Will.

As a general rule, you're considered to have received an amount equal to the fair market value (FMV) of all property held in your group RRSP at the time of your death. This amount is reported on your final income tax return. A beneficiary will not have to pay tax on the amount they receive from your group RRSP if it's been included in your income. Additional amounts paid from your group RRSP, which represent income earned after the date of death, have to be reported as income by the beneficiaries named on the plan or by your estate (if no beneficiary is named) in the year they are received.

There is an exception to this general rule when you name your spouse as the sole beneficiary on your plan documentation. In this case, the FMV of your group RRSP will not be included as income on your final tax return if your spouse directly transfers all property in the group RRSP to their own RRSP or RRIF, pooled registered pension plan (PRPP), specified pension plan (SPP), or to an issuer to buy an eligible annuity for themselves. This direct transfer must be completed by December 31 of the year following the year of death.

Where the conditions for this exception are not satisfied and your spouse or your financially dependent child or grandchild is a beneficiary of your group RRSP (either named as beneficiary on your plan or through your estate), your legal representative may be able to claim a reduction to the amount that's included in your income on your final tax return. The amount of the reduction claimed on your final return would be taxable as income to the beneficiary who actually received it. When your spouse or financially dependent child or grandchild includes this amount in their income, they may be able to defer paying tax on the amount by transferring it to an RRSP, PRPP, SPP, RRIF, registered disability savings plan (RDSP), or to an issuer to buy an eligible annuity, depending on the circumstances. For more information on options at death, please ask your RBC advisor for the article on estate planning for your RRSP/RRIF.

Conclusion

Group RRSPs are a flexible retirement vehicle and can be an easy and cost-effective way to save for your future. If your plan includes company matching, you may want to consider taking advantage of this additional benefit. However, make sure you stay within your RRSP deduction limit for the year and familiarize yourself with any withdrawal limits that your group RRSP plan may have.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.

NAV0040 (10/2024)