

Pooled Registered Pension Plans: A New Retirement Savings Vehicle

On December 14, 2011, the Department of Finance released income tax legislative proposals for Pooled Registered Pension Plans ("PRPPs"). The tax rules for these new plans are meant to complement the existing Registered Pension Plans ("RPPs") and Registered Retirement Savings Plans ("RRSPs") framework and are to operate in a manner similar to multi-employer money purchase registered pension plans.

The PRPP Act applies to employers who are federally regulated. Provincial governments need to enact enabling legislation to permit provincially regulated employers to participate in Pooled Registered Pension Plans.

The Pooled Registered Pension Plan is intended to encourage the expansion of pension plans in the workplace by:

- Providing a new accessible, straightforward and administratively low-cost retirement option for employers to offer their employees;
- Allowing individuals who currently may not participate in a pension plan, such as the self-employed and employees of companies that do not offer a pension plan, to make use of this new type of pension plan; and
- Enabling more people to benefit from the lower investment management costs that result from membership in a large, pooled pension plan.

What is a Pooled Registered Pension Plan (PRPP)

A Pooled Registered Pension Plan will operate much like a defined contribution Registered Pension Plan. However, unlike current rules pertaining to registered pension plans, it will allow assets of multiple employers to be easily pooled. It also allows self-employed individuals to become members.



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Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He annually provides 100's of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As a Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

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Key Features of a Pooled Registered Pension Plan

- **Members** – Individuals can have a pooled retirement pension plan regardless of employment status. They need a valid social insurance number.
- **Employers** – Employers are not required to provide a Pooled Registered Pension Plan or to make plan contributions to one but they may do so.
- **Enrolment** – Where employers do offer such a plan, employees are automatically enrolled, subject to an opting-out right.
- **Eligibility** – Employers may select to offer a Pooled Registered Pension Plan to a class of employees. Part-time employees can participate after 24 months of employment.
- **Contribution Limits** – Contributions made by the member and the employer are tax deductible. All contributions made by or on behalf of a member will be limited to the member's aggregate unused RRSP contribution limit, which is based on the member's earned income they report on their income tax returns in prior years.
- **Employer contributions** – Employer contributions will not be considered compensation. This means that the employer contributions to these plans will be excluded from withholding requirements and payroll taxes, such as Canada Pension Plan and Employment Insurance. Voluntary contributions made by the employer are not tax deductible by the member.
- **Vesting** – Benefits are immediately vested and locked-in. Benefits can be "un-locked" in limited circumstances.
- **Termination of Employment** – If an employee terminates employment, the employee can transfer his or her account to another registered plan (e.g., an RPP, RRSP or PRPP).
- **Transfers** – The transfer rules for defined contribution registered pension plans generally apply to Pooled Registered Pension Plans.
- **Portability** – The plan is portable. Members who move from job to job can take these plans with them.
- **Administrator** – The employer has the right to select the particular pooled retirement pension plan and the administrator.
- **Investment Income** – Earnings within a plan, as well as contributions made to the plan, are tax-sheltered until paid out of the plan.
- **Payments** – Payments from a plan are taxable to the member.
- **Taxation** – Contributions are based on RRSP limits therefore no pension adjustment needs to be reported, as is required for contributions to registered pension plans. This will reduce the administration associated with Pooled Registered Pension Plans.
- **Death of a Member** – The treatment of plan funds are similar to other registered retirement plans. When a deceased member had a spouse or common-law partner, that person will become the successor member of the plan. (S)he can receive a lump sum payment from the plan or transfer the funds into another plan, including an RRSP, RRIF or RPP on a tax-deferred basis.

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Who is the administrator?

The proposed legislation provides that third parties, and not the employer, will be responsible for administering the plan. As a result, they will assume most of the fiduciary obligations and risks that traditionally rest with employer-sponsored registered pension plans. Under the Act, the administrator must be a business licensed by the Superintendent of Financial Institutions. Regulated financial institutions such as banks, trust companies and insurance companies will qualify as administrators.

The administrator must offer a Pooled Registered Pension Plan at a "low cost". To date, no guidance has been provided as to what "low cost" means.

Tax Deferred Transfers

	Tax Deferred Transfers	
	Surviving Spouse or Common-Law Partner	Infirm, financially dependent child or grandchild
Become successor member, assume ownership of PRPP	Yes	No
Transfer to own RRSP, RRIF, PRPP or RPP	Yes	Yes
Acquire a qualifying annuity	Yes	Yes
Transfer to an RDSP to the extent of contribution room available	No	Yes

The Pooled Registered Pension Plans is an initiative primarily directed at the roughly 60% of Canadian employees and self-employed individuals who do not presently participate in an employer registered pension plan. The timetable for implementation of the Pooled Registered Pension Plans is unclear. Current information suggests they will likely be available January 1, 2013.

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