Johnstone's Journal

JOHNSTONE'S JOURNAL is published monthly, and designed to provide topical information of interest not only to plan administrators, but to all employees who enjoy coverage under the benefit plan. Feel free to make copies, and use as a payroll stuffer.

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Group Retirement Solutions—the New Standard Employee Benefit

Attracting and Retaining Employees

As the economy appears to be coming out of what has been called "the great recession," employers are again focusing on **attracting and retaining good quality employees**.

We know that benefit programs that address health protection (including extended health, dental and disability benefits) are a standard part of any total compensation package. Now, in an effort to enhance their competitive compensation packages, we are seeing more and more employers offering a group retirement plan that offers financial security.

Also known as Capital Accumulation Plans (CAP), group retirement plans have significant advantages for both employers and employees. By offering tax effective programs that encourage employees to save, employers benefit by creating loyalty and encouraging higher performance. And employees benefit by the increased availability of superior products and services to help them plan for retirement.

Group Retirement Plan Options

Not all retirement plans are created equal, and not all providers offer the full range of services and products to meet your needs. As such, there are many factors which need to be considered before implementing a plan. Here is a brief description of the most common group retirement plans available:

- Structured Group RRSP
- Deferred Profit Sharing Plan (DPSP)
- Defined Contribution Pension Plan (DCPP)

To a lesser extent, both Group Tax Free Savings Accounts (TFSA) and non-registered savings plans may also be considered; however we'll focus on the three most common plans noted here.

Structured Group RRSP

A very good option for small- and medium-sized employers is the Structured Group RRSP. It provides an easy to administer, flexible, low-fee method of allocating employer and employee contributions in separate accounts under the umbrella of a single registered retirement savings plan. Some features to consider:

Control over plan design: The plan is designed to meet the specific needs of the employees. Employers retain control and flexibility over eligibility requirements and contribution levels.

Hassle-free administration: Less time is spent on daily plan administration compared to a pension plan arrangement. Less time and fewer regulatory requirements mean lower costs.

Access to funds: In the design of the plan, the employer can restrict access to the employee and employer required funds, thereby further encouraging the employee to think of their accounts as retirement and not bank accounts. However, upon termination, employees have full access to all funds (vesting is immediate).

Contributions can be accessed for Home Buyer's Withdrawal, Life Long Learning Plan or hardship, as approved by the employer.

Flexibility at termination and retirement: Upon termination, funds can be transferred to another RRSP vehicle. At retirement, contributions can be used to purchase a RRIF or annuity or, because funds are not locked-in, cash withdrawals are allowed, although they are treated as taxable income.

Taxation: Employer contributions are treated as income and added to employees' earnings. Therefore, they will increase payroll taxes such as CPP and WCB.

Deferred Profit Sharing Plan (DPSP)

A DPSP is a simple, flexible arrangement where an employer distributes a portion of the company's pre-tax profits. Specified shareholders (i.e. individuals who own, directly or indirectly, more than 10% of company stock) are excluded. Employees do not contribute to the plan. However, when used in combination with a Group RRSP plan for employee deposits, it promotes a disciplined way for employees to save for their retirement. Some features to consider:

Flexibility in plan design: Contributions can be controlled in one of three ways:

1. Percentage of profits,
2. Fixed dollar amount per member, or
3. Fixed percentage of payroll.

DPSPs can be used in conjunction with a payroll deduction RRSP for employee contributions.

Cost control: Contributions are related to corporate profitability and therefore not required in unprofitable years. Contributions are not added to employee earnings and do not increase payroll taxes. All contributions and expenses are tax-deductible to the employer.

Effective incentive: The employer has ample freedom to reward in relation to employee performance. Employees may be enticed to improve their performance since their efforts help generate company profit, which in turn will be distributed under the DPSP.

Protecting employer contributions: Vesting requirements, similar to pension plans, protect employer contributions, as employees must participate for up to two years before employer dollars are vested (based on provincial requirements).

Employees have flexibility at termination and retirement: At termination, funds can be transferred to another RRSP vehicle. At retirement, contributions can be used to purchase a RRIF or annuity, or, because funds are not locked-in, cashing out the assets is an option.

Defined Contribution Pension Plan (DCPP)

Under a DC pension plan or "money purchase" pension plan, the contributions of employees and employers are invested toward the eventual purchase of retirement income. This plan design encourages long-term savings and loyalty through a vesting schedule and locking-in feature. Some features to consider:

Employer control over plan design: Employers can decide on employee contribution level (employer minimum contribution of 1%). The vesting requirement ensures employee participation up to two years before employer funds are vested (based on provincial requirements).

Tax advantages: Employer contributions are tax deductible and not added to employee earnings, so do not generate payroll taxes.

Retirement income: Money is locked-in so employees can only access funds when retiring. Options at retirement are more restricted than DPSPs or RRSPs, as funds must purchase a retirement vehicle such as an annuity or life income fund.

Administration fees/CRA Registration: Pension plans cost more and are more complicated to administer, as they must be registered with CRA, meet provincial legislative requirements, and are subject to additional fees such as annual policy fees, administration fees, and wind up fees.

Conclusion

As you can see, there are many factors to consider when developing a group retirement plan. However, with proper advice, employers of all sizes can implement a plan that's right for them and their employees. Call us to see how Johnstone's Benefits can help you design the perfect plan.