

FORESIGHT™

A New Vision for Group Retirement



GROUP RETIREMENT SAVINGS

Group Retirement Savings Products



Money working for people



How to choose your Group Retirement Savings Plan

You are about to choose a group retirement savings plan for your employees. That means you've probably identified your own needs, as well as theirs. Establishing clear objectives and needs is the key to making the right choice from among the plans offered to you:

RRSP: Registered Retirement Savings Plan

DCPP: Defined Contribution Pension Plan

DPSP: Deferred Profit Sharing Plan

TFSA: Tax-Free Savings Account

YOUR NEEDS	APPROPRIATE RETIREMENT PLANS	
	YES	NO
Do you want to contribute to your employees' retirement plan?	RRSP, DCP, DPSP, TFSA	RRSP, TFSA
Do you want to ensure that the money is used only for retirement?	DCPP	RRSP, DPSP, TFSA
Do you want to increase your contributions as your employees increase theirs?	RRSP, DPSP, TFSA	DCPP
Do you want to contribute only if the company makes a profit?	DPSP	RRSP, DCP, TFSA
Do you want to contribute based on your employees' productivity or performance at work?	RRSP, DPSP, TFSA	DCPP
Do you want the contributions you make to your employees' plans to be vested immediately?	RRSP, DCP, TFSA	DCPP, DPSP

Other considerations:

- The DPSP is almost always offered jointly with an RRSP.
- The contributions you make to an RRSP or a TFSA are considered salary paid to your employees. You must pay payroll taxes (Employment Insurance, etc.) on this additional employee salary.
- Your employees cannot contribute to a DPSP.
- In all provinces, the contributions you make to an RRSP or a TFSA can immediately be vested. The same applies to a DCP in Quebec. In the other provinces, your employees must generally wait two years or less, as you wish, for your contributions to a DCP to be vested.

Types of Group Retirement Savings Plan

Group RRSP

Collection of centrally administered RRSPs. Contributions are tax-deductible and accumulate in a tax-sheltered fund. The Group RRSP is eligible for the Home Buyers' Plan (HBP) or the Lifelong Learning Plan (LLP). Amounts invested in this fund are not locked-in and can therefore be withdrawn at any time unless you choose to restrict withdrawals during employment.

Advantages of a group RRSP over an individual RRSP:

- Employees benefit from attractive group rates since Group RRSP fees are generally lower than those charged for mutual funds sold to individuals. The result is a higher overall return on investment.
- The income tax can be immediately deducted at source for increased take-home pay.
- Contributions are made on a regular basis, which encourages disciplined savings. Payroll contributions assist in dollar cost averaging the investments.

Contributions characteristics

- Employees determine how much they want to contribute; there is no minimum investment requirement or limit on interfund transfers. Lump sum contributions and transfers from other plans are allowed.
- The employer can contribute to the employees' RRSP. The employer is not forced into a minimum funding formula and can adjust the contribution amount at any time.
- Employer and employee contributions can be made in any combination, but cannot exceed the Income Tax Act contribution limit. This limit is the same as for individual RRSPs.
- Employer contributions are considered salary paid to the employee and as such are taxable benefits.

Defined Contribution Pension Plan (DCPP)

Registered pension plan in which the employer and employees make tax-deductible contributions that accumulate on a tax-deferred basis. Accumulated assets are locked-in and will be withdrawn at retirement only through an annuity or a life income fund (LIF). These plans are generally better suited to employers who want to help their employees build retirement income.

Advantages

- Provides a retirement income over and above government plan benefits.
- Can be combined with other plans, such as RRSPs, TFSAs or DPSPs to help the employer attract and retain talented employees.
- Employer contributions are not considered a salary increase. This eliminates the various additional payroll taxes that would otherwise apply.
- The applicable legislative provisions regarding no cash withdrawals, locking-in of contributions, the obligation upon retirement to purchase a joint and survivor annuity¹, offer protection that is not available with RRSPs.

Legal characteristics

- A DCPP is governed by the applicable pension plan legislation and the administrator of the plan is required to administer the plan in compliance with this legislation.
- All pension plans must be registered with the province where most participants are working or, depending on the employer's industry, with the Federal government.

¹ Type of annuity that allows the spouse to receive, on the annuitant's death, a reduced annuity generally equal to 60% of the initial amount the annuitant was receiving. The spouse can give up this annuity.



Deferred Profit Sharing Plan (DPSP)

Plan in which the employer distributes a portion of the company profits to some or all of the employees. Employees cannot contribute to a DPSP, but can contribute to other plans offered by the employer. The DPSP is usually offered jointly with an RRSP.

Advantages

- An excellent way of encouraging employees to contribute to the success of the company and help achieve its goals.
- Excellent complement to an RRSP. Employer contributions are tax-deductible as operating costs and, like an RRSP, the deposits and investment income are tax-sheltered. However, the same contributions to an RRSP are considered part of an employee's salary and are thus subject to payroll taxes.

Contributions characteristics

- Made based on the year's profits and/or profits of previous years that have not been allocated.
- Not locked-in. Employees cannot withdraw them during employment. Depending on the plan's specifications, vesting of contributions may require up to two years of plan participation.
- Employer is not bound to permanent financial commitments. Employer does not have to contribute during a financial year in which the business suffers a loss. Employer is not required to disclose company profits to employees; the contribution formula is set out in the plan text.

Tax-Free Savings Account (TFSA)

Plan in which contributions are not deductible for income tax purposes. However, the investment income, including capital gains, earned in a TFSA will not be taxed, even when withdrawn. The ability to tax-shelter investment income is comparable to that of an RRSP or a registered pension plan.

Advantages

- Can be offered as a stand-alone plan or as an add-on to an existing plan.
- Any unused contribution room can be carried forward year over year to allow for bigger top-ups over time.
- Amounts can be withdrawn at any time, and any amounts withdrawn can be subsequently re-contributed.
- Neither the investment income earned in a TFSA nor the amounts received through a will affect eligibility for federal benefits, such as the Guaranteed Income Supplement and/or Old Age Security.

Characteristics

- Available since January 2009 for Canadian residents over the age of 18.
- The contribution limit is up to \$5,000 a year regardless of any amounts contributed to an RRSP/RPP. The limit is indexed to inflation and will increase in multiples of \$500.
- Subject to the same investment restrictions as RRSPs.

Comparison between Group Retirement Savings Plans

	DCPP	RRSP	DPSP	TFSA
Registration / jurisdiction	Provincial or Federal and CRA ¹	CRA	CRA	CRA
Fees payable to regulatory authorities	Yes	No	No	No
Salary Increase	No	Yes "Payroll taxes"	No	Yes "Payroll taxes"
Employee Eligibility	All	All	All, unless connected person ²	Canadians having attained the age of 18
Minimum employer contribution required	Yes	No	No	No
Employee contributions	Allowed	Allowed	Not allowed	Allowed
Spousal contributions	No	Yes	No	Yes
Vesting ³	According to legislation	N/A	After 2 years of participation, at the latest	N/A
Locking-in ⁴	Yes	No	No	No
Administrator	Employer, pension committee or board of trustees	N/A	Trustees	N/A
Annual meeting	Required in Quebec only	Not required	Not required	Not required
Investment	Individual instructions or common policy	Individual instructions	Individual instructions or common policy	Individual instructions
Investment policy	Required unless individual instructions (QC) Others: Required	Not required	Not required	Not required

¹ CRA stands for Canada Revenue Agency.

² This term is defined under the *Income Tax Act*. Connected persons are individuals who own at least 10% of the shares of the company establishing a DPSP.

³ Vesting means: the right of participants to receive employer contributions if they meet the conditions of the plan.

⁴ Locking-in means: freezing the benefits of a pension plan for the purposes of retirement.

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