Pooled Registered Pension Plans (PRPPs)

How the PRPP Works

Federal Pooled Registered Pension Plan legislation came into force in 2012. It is designed to provide a retirement savings option for the self-employed and businesses that do not have an employee pension plan. It is attractive for those companies that cannot afford the cost of administering an employer-sponsored plan or a company RRSP, and do not want the fiduciary liability that may accompany such a plan.

The contributed funds will be placed with a financial institution such as a bank or insurance company that will pool the small contribution amounts to be invested more efficiently and cheaper and obtain a better return on investment. This federal plan covers only employees in federally regulated industries, federal government employees and employees in the territories of Nunavut, Northwest Territories or the Yukon. Each province has the opportunity to pass its own “mirror” PRPP legislation or opt out.

Canada’s Pension Plan Crisis

This legislation is one more step on the road to solving Canada’s pension plan crisis. At present, too few Canadians are covered by corporate pension plans and too few are contributing enough to their RRSPs to provide adequate retirement income. In addition, companies that have been sponsoring defined-benefit plans have found them too expensive to continue to support.

Part of the solution to the crisis seems to be to provide opportunities for the self-employed and employees to save enough for their own retirement through regular workplace contributions. The implicit idea of the PRPP is that it is easier for working Canadians to benefit from the “pay yourself first” model by making a PRPP contribution out of gross earned income before it is received, and then budgeting day-to-day living expenses from net income.

Many employees find it easier (and less painful) to have money deducted at source than setting savings aside later in an RRSP. The PRPP gives the self-employed and employees who do not have employer pension plans the opportunity to save for their retirement in the same way participants in employer-sponsored pension plans are already doing.

Setting up a PRPP

The first step in setting up a PRPP is to choose a licensed third-party administrator for the plan. The use of a third-party administrator is especially advantageous if the employer is a small or medium enterprise (SME) because the administrator will take on most of the responsibilities that now fall to the employer under employer-sponsored plans. Employers are not liable for acts or omissions of the administrator. The employer can choose to participate in a PRPP or not. If so, the employer is responsible for collecting and remitting all contributions to the administrator. If not, the employee can participate alone through a PRPP administrator. The account is registered and each member is identified by their individual Social Insurance Number.

Contribution Amounts

The maximum contribution is the eligible RRSP contribution amount allowed to each eligible working Canadian based on their earned income. (This amount is indicated on the previous year's Notice of Assessment.) The employer may pay a portion of this amount if it chooses to do so. Suppose, for example, the employer agrees to match the employee's contributions dollar for dollar. If the employee has an annual contribution limit of $10,000, the employee can contribute $5,000 and the employer can contribute $5,000. However, the employee can deduct only $5,000 on line 208 of the income tax form. The matching $5,000 put into the PRPP by the employer is tax deductible to the employer, but is not included in the employee's total income for the year. This employer contribution is not subject to CPP/QPP or EI withholding taxes. PRPPs are eligible for the pension tax credit and may be considered in the pension income splitting calculation. The contributions made to a PRPP do not impact the Pension Adjustment and thus, unlike a Registered Pension Plan, do not have to be reported on a T4 at the end of the calendar year.

The PRPP goes with employees wherever they work.

Portability

Since the plan is attached to the employee through their Social Insurance Number, the plan goes with the employee if they are terminated or leave the company. The employee's PRPP account can be set up again with a new employer to receive that employer's contributions, if any.

Contribution Deadlines

Individuals may make contributions to their PRPP between January 1 in a calendar year and for the first 60 days of the following year. Contributions can be made until the end of the year in which the individual celebrates their 71st birthday.

Employees
The deadline for making contributions to a PRPP by a member is the same as for the RRSP. Contributions must be made within 60 days after the calendar year end. In the event the 60 days falls on a weekend or when leap year comes around, the contribution date is adjusted accordingly.

Employers
Employers are not obligated to make contributions to an employee's plan. Any employer contribution must be made within 120 days of the calendar year end.

Withdrawal/Transfer

If one withdraws funds from a PRPP they are subjected to income tax. PRPP funds may be transferred between RPPs, RRSPs and RRIFs. Because there are restrictions on the movement of funds, it is important to seek guidance from your financial advisor or CPA before acting.
Funds can be transferred to an individual's PRPP account from the same plan belonging to a spouse or common-law partner if these transfers are required because of a breakdown of the marriage or common-law partnership, or death.

Investment Restriction

PRPP investments do not necessarily need to conform to the qualified investment rules that are established for RRSPs. However PRPP investments should not include investments in which a member has a significant interest (i.e., more than 10% of a class of shares).
Further, the investment portfolio should not hold more than 10% of any one business or non-arm's-length group.

Age and Death

Contributions are not allowed by either the employee or the employer after the year in which the member turns 71. The PRPP can be:

1. paid out as a singular payment (with tax consequences)
2. used to purchase a life annuity
3. paid out in a fashion similar to a RRIF

When a member dies, the fair market value of the PRPP is included in the member's income in the year of death unless the member has directed that the funds be transferred to a surviving spouse or common-law partner. (There are provisions for financially dependent children or grandchildren and those who are dependent as a result of disabilities.)

Win/Win

The PRPP model has many advantages for both employer and employee. The employer incurs minimal costs and no fiduciary responsibility while offering a systematic but voluntary savings plan to employees. If the employer has some kind of contribution-matching arrangement, employees may feel greater loyalty to the company. Such a matching arrangement is tax deductible to the employer without increasing the taxable income of the employee. These are all compelling reasons why owner-managers may wish to investigate the PRPP as a possibility for their business if permitted under their provincial legislation.

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