Group Retirement Savings Plan

First introduced in 1957, Retirement Savings Plans were created to address certain inequities between those Canadians with access to company pension plans and those that did not. Over the years Registered Retirement Savings Plans have become very popular with Canadians, not only for retirement purposes, but also for the tax benefits.

A Registered Retirement Savings Plan or RRSP is an account that provides tax benefits for saving for retirement. RRSP refers to a provision in the Income Tax Act that allows a person to shelter assets from income taxes until withdrawn.

Types of RRSPs

RRSP accounts can be setup with either one or two associated individuals:

INDIVIDUAL RRSP

An Individual RRSP is associated with only a single individual termed an annuitant. With Individual RRSPs, the annuitant is the contributor.

SPOUSAL RRSP

A Spousal RRSP allows a higher earner, termed a spousal contributor, to contribute to an RRSP in the spouse's name. In this case, it is the spouse who is the annuitant. The spouse can withdraw the funds at anytime, but the spousal contributor can be subject to tax within three years of the date of the last contribution made by the spousal contributor. A spousal RRSP is a means of splitting income in retirement and thus possibility of lowering the marginal tax rate.

GROUP RRSP

In a group RRSP, an employer arranges for employees to make contributions through a schedule of regular payroll deductions. The employee decides the size of contribution per year, based on an established percentage amount of pay and the employer deducts the appropriate payroll period amount accordingly and submit it to CUMIS Retirement Services. The contribution is deposited into the employee's individual account and invested as specified by the employee. The primary difference with a group plan vs. an individual plan is that the employee has the option of realizing immediate tax savings instead of waiting for the savings through annual tax returns. Some Group RRSPs allow for spousal plans as well.

Contributions

The amount you can annually contribute to an RRSP is outlined in the Income Tax Act (Canada). This is known as the deduction limit, or the amount you can deduct from that year's income. The deduction limit is generally calculated as 18% of your earned income from the previous tax year, minus any "pension adjustment", up to a specified contribution limit. The contribution limits are:

Year	Contribution
2019	$26,500
2020	$27,230
2021 and onwards	Indexed

You should note that any RRSP contributions not deducted from income in a tax year are carried forward indefinitely to future tax years. So, for example, if your RSP deduction limit is $8,000 and you contribute and deduct only $3,000, the unused $5,000 contribution is carried forward. Furthermore, it would be increased by your next year's contribution limit as stated in the above table.

While it is possible to contribute more than your contribution limit, it is generally not advised as the excess amount (presently $2,000 over the deduction limit on your last Notice of Assessment and is subject to a significant penalty tax of 1% per month on the overage amount, removing all benefits).

Your RRSP contributions within the first 60 days of calendar year may be reported on your previous year's income tax return provided such contribution does not exceed your contribution limit for that taxation year.

You can contribute to an RRSP until you reach the age of 71, when it must be either cashed out or matured into a Registered Retirement Income Fund ("RRIF").

Tax Advantages

One of the major advantages of RRSPs is that they are tax deductible. This means that the amount of money you put into an RRSP will be deducted from your income. It is deducted based on the marginal tax bracket, or the amount of tax paid on the last dollar of earned income. For a person with a marginal tax bracket of 40%, this could mean that in an investment of $1,000 in an RRSP, they would receive $400 in income tax savings.

Withdrawals

The annuitant or the account holder can cash out an amount from an RRSP at any age (restrictions may apply to your employer sponsored Group RRSP). However, any amount withdrawn qualifies as taxable income and is therefore subject to withholding tax.

Before the end of the year the annuitant turns 71, the RRSP must be cashed out, transferred to a RRIF or used to purchase an annuity.

Special Withdrawal Programs

HOME BUYER'S PLAN (HBP)

You can use your RRSP funds to help purchase your first home under what is known as the Home Buyer's Plan. You can borrow, tax-free, up to $25,000 from your RRSP (and additional $25,000 from a spousal RRSP) towards buying your residence. This loan must be repaid within 15 years after two years of grace.

LIFELONG LEARNING PLAN (LLP)

The Lifelong Learning Plan (LLP) allows you to withdraw amounts from your registered retirement savings plan (RRSPs) to finance full-time training or education for you or your spouse or common-law partner. You cannot participate in the LLP to finance your children's training or education, or the training or education of your spouse's or common-law partner's children. You can withdraw up to $10,000 in a calendar year and up to $20,000 in total from your RRSPs.

You can keep withdrawing amounts from your RRSPs until January of the fourth calendar year after the year you made your first LLP withdrawal, as long as the LLP student continues to meet the conditions and the 10-year repayment period has not begun. This tax-free loan must be repaid into an RRSP within 10 years.