Tax memo

Canadian tax updates

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Pooled Registered Pension Plans: A new retirement savings vehicle

Considers the key features of a new retirement savings plan aimed at the self-employed and employees of small employers.

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Today the federal government introduced legislation[1] implementing a federal pooled registered pension plan (PRPP)—a voluntary savings plan aimed at individuals who do not have access to employer-sponsored pension plans. Because PRPPs will be administered by regulated financial institutions, the cost and complexity for small employers to offer their employees a retirement savings plan will be reduced.

PRPPs are intended for employees of small and medium-sized employers that do not currently offer their employees a registered pension plan. The legislation also allows self-employed individuals to be members of PRPPs; however, it is unclear how the rules will apply to them.

The provinces and territories must introduce their own enabling legislation to implement provincial and territorial PRPPs.

Taxation

The tax rules for PRPPs are expected in 2011 and will be discussed in a subsequent *Tax memo*. The Department of Finance previously indicated that PRPPs will be subject to most of the existing rules applying to defined contribution (money purchase) registered pension plans, with some exceptions and new requirements.

Contributions

PRPP contribution rates and any increases to those rates will be set by the administrator. The legislation does not specify contribution limits.

An employer that chooses to offer a PRPP to its employees must deduct the members' contributions from remuneration. Employers can opt to make employer contributions on behalf of their employees, but will not be required to do so.

Presumably, self-employed individuals and employees of an employer that does not offer a PRPP will be responsible for remitting contributions to the plan, but this is not addressed in the legislation.

1. Bill C-25, *An Act relating to pooled registered pension plans and making related amendments to other Acts.*

Investing

Administrators will be responsible for investing a PRPP's assets. While the assets are combined for investment purposes, each member will have a personal account and, on enrolling in the plan, can make investment choices from the investment options offered by the administrator. The members bear the investment risk, just as in other defined contribution arrangements.

Withdrawals

The funds in a PRPP generally cannot be withdrawn until the plan member dies, terminates employment with the employer or reaches retirement age. In the last case, the member can elect to receive variable payments, and can make a further election to transfer these payments to another PRPP, a pension plan or certain other retirement savings plans.

For more help

For more information, please contact your PwC adviser or the following individuals:

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