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Pooled Registered Pension Plans: Overview

A pooled registered pension plan ("PRPP") is a pension plan. The key feature of PRPPs is that the responsibilities which an ordinary registered pension plan imposes on employers, are instead borne by regulated financial institutions.

These FIs will be the manager of the PRPP and will pool together large numbers of beneficiaries and contributors. This is intended to provide economies of scale; PRPPs are intended to be low-cost because administration costs can be spread widely from a single provider.

- This has been the principal driver behind the federal government's encouragement in creating a PRPP regime, along with the desire to promote retirement savings.

Everything in a PRPP is provided by the administrating financial institution. The FI is responsible for plan administration, investment management, payment of benefits, and communications.

The only role that an employer will generally have in a PRPP, is that they may enrol workers directly in the plan (with opt-out ability for workers). The legislation even provides that employers have no liability for acts of the plan administrator. Participants in a PRPP need not be registered by employers, however. Self-employed persons or those whose employers decline to participate may join a PRPP.

The current framework for PRPPs is established by the federal government's *Pooled Registered Pension Plans Act.* The legislation (as Bill C-25) received Royal Assent in June 2012. The tax framework is established by proposed ITA section 147.5 (see the next page, "Tax Issues"). However, provinces are still negotiating the harmonized rules by which PRPPs are to operate at the provincial level, and commentators are suggesting that this won't happen before 2014 at the earliest.

Ontario and other provinces have made suggestions that they would like a strengthened CPP instead of the PRPP model. The last Ontario Budget set out the provincial government's misgivings.

Quebec has simply gone ahead and implemented their own rules, the Voluntary Retirement Savings Plan, since they do not plan to harmonize their regime with the other provinces. (This actually gives them something of a first-mover advantage regarding the federal negotiations). Quebec will make it mandatory to offer VRSPs is you have five or more employees (unless the employer already has a retirement savings plan of some kind).

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PRPPs : Tax Issues

What is different about the PRPP tax regime (contained in proposed section 147.5) from the tax regime in respect of other pension plans?

First, there is no pension adjustment required. Second, all employer contributions must vest immediately. Third, the ITA (and the PRPP Act itself) imposes no qualified investment rules.

The key elements of the proposed PRPP tax rules are summarized below:

No particular employer-employee relationship required for participation in a PRPP.

Contributions to a PRPP are deductible if made by an employer, or by the member him/herself. Employers are not required to participate and there is no minimum contribution.

All PRPP contributions for a year made by and on behalf of a PRPP member will be limited to the member's available RRSP contribution limit for the year; the legislation limits employer contributions in any year to the RRSP dollar limit for that year for that employee (to prevent overcontribution problems) unless otherwise directed. (This is why no pension adjustment is required).

The only restrictions from a tax point of view on PRPP investments are the restricted investment rules in proposed subsection 147.5(3) which prevent: (a) self-dealing or self-dealing on behalf of plan members; and (b) a concentration limit of 10% of the plan's assets (this means 10% of the entire plan, as opposed to 10% of any account). There's a knowlege standard; the provision only kicks in where the administrator knows or ought to know that the investment is restricted.

Transfers from a PRPP to/from RPPs, RRSPs, RRIFs, etc. generally replicate the rules for DC plans.

The only payment options generally available will be similar to those for DC plans: a member can transfer amounts to an RRSP or RRIF; or can purchase a life annuity; or can pay "variable benefits" (essentially a RRIF payment scheme) from their PRPP account. Spouses/partners of deceased members have similar options, including transfers to their own accounts.

So the basic rules work as follows: employer contributions are not counted as income under 6(1)(a)(i). Income from the PRPP is counted as income under section 56. Overcontributions beyond the RRSP limit are subject to Part X.1 tax (in fact, for many purposes, the PRPP account is just deemed to be an RRSP of that member). Retiring allowances can be contributed to a PRPP just as an RRSP.