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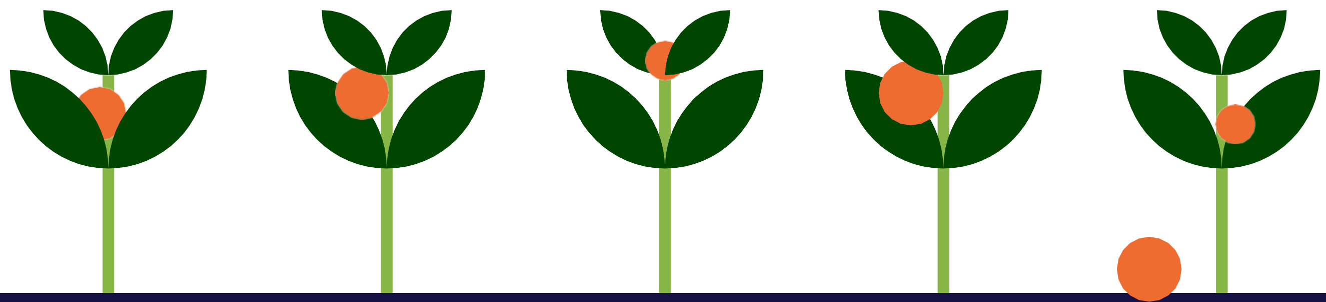
Group Savings Plans "101"

Presented by Justwealth Financial



I. Overview of Group Savings Plans

A Group Savings Plan is a program set-up by an employer (sometimes called "The Sponsor") to help participating employees (sometimes called "Plan Members") save for their retirement.

A Group Savings Plan may be an important part of the overall benefits package that many employers offer.

Types of Group Savings Plans

While there are a number of ways an employer can help employees' save for their retirement, we will focus on two of them: Registered Retirement Savings Plans ("RRSPs"), and Tax-Free Savings Accounts ("TFSAs").

Group RRSPs: are similar to an individual RRSP; however, a Group RRSP is sponsored and administered by the employer. Just like an individual RRSP, all investment earnings are tax-sheltered and the plan must be converted to a Registered Retirement Income Fund ("RRIF) during the calendar year in which the plan member turns 71.

Group TFSAs: are similar to an individual TFSA; however, a Group TFSA is sponsored and administered by the employer. A Group TFSA allows the holder to accumulate tax-sheltered income in a registered savings or investment account. Withdrawals can be made free of tax.

How do Contributions Work?

A Group Savings Plan makes it easy for plan members to contribute to their retirement savings. The employer, as plan sponsor, helps plan members contribute by using direct payroll deductions to regularly deposit funds into members' group savings accounts.

Typically, when beginning a new Group Savings Plan, the plan sponsor will ask each plan member to elect an amount that he or she would like to contribute from their salary to the savings plan. These elections are usually calculated as a percentage of the plan member's annual salary and typically range from 3- 6%.

What about "Matching Contributions"?

Employers can also contribute their own funds to help their plan members save: this is called a "Matching Contribution".

Employers may match some, or all, of the amount that each plan member contributes on a dollar-for-dollar basis. If an employer matches 100% of its plan members' contributions, it effectively doubles each members' retirement savings within the plan.

What about Contribution Limits?

Whether a contribution is made by the plan member or if it is a matching employer contribution, all contributions count towards each member's accumulated CRA contribution limits.

Is it Mandatory for Employees to Participate?

Group RRSP and TFSA plans are voluntary, leaving it to the employee to determine how much he or she wishes to contribute, if at all.

Note, as plan sponsor, an employer does not need to make the Group Savings Plan available to all employees. Employers can use certain qualifiers like length of service or, level of employment, to determine whether an employee qualifies to participate in the plan and whether or not to match their contributions.

What can Plan Members Invest in?

There is a wide array of investment products eligible to be included in a Group Savings Plan: individual stocks and bonds, mutual funds, exchange traded funds, and private equity, to name a few.

The plan sponsor selects the investment provider that will make investment options available to the plan members. The provider should be chosen based on having a well-diversified selection of investment products suitable for a range of potential plan members. Ultimately, each individual plan member is then responsible for choosing the investments that he or she holds in their Group Savings Plan accounts.

Who Else is Involved?

There are a number of responsibilities that fall on an employer as plan sponsor: investment selection, payroll deductions, matching contributions, etc. While the right investment provider can help with many of these decisions, there are additional parties that can assist in administering a Group Savings Plan.

Financial Advisors or Benefits Consultants: Advisors or Consultants with an expertise in designing benefits plans can help sponsors create a plan that meets its members' unique needs. If you are a plan sponsor with group benefits like health or disability already in place, ask your Advisor about a Group Savings Plan – they will likely be able to help you.

Third Party Administrators ("TPAs"): Once the program is in place, calculating the right contribution and making payroll deductions can become an effort. A number of organizations exist that have an expertise in managing many of the administrative tasks related to group benefits, for example, ensuring that contributions are accurately deducted from payroll and allocated to plan members' accounts. A TPA can help free plan sponsors' time to focus on their core business; however, TPAs do charge administration fees for their services, meaning that plan sponsors must weigh the costs, vs. the benefits.

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II. Benefits for Employers

Easy Administration

Relative to pension plans, Group Savings Plans may be subject to less complicated regulations, which may make them easier and less costly to administer. This generally benefits smaller companies. Once the plan has been set up, the plan sponsor's main responsibility is administering payroll contributions (which can be facilitated by a TPA).

Flexibility

Group RRSPs and TFSAs are more flexible in nature than pension plans. As a result, they can be used by a wide array of plan sponsors as part of a wide array of benefits plans. This flexibility and ease of administration, also allows them to exist alongside pension plans as an added benefit in many schemes.

Happy Workers!

Studies show that employees transfer their financial stress to the workplace, resulting in lower productivity and more absenteeism. A survey of Canadian employees completed by AON, a global benefits provider, found that:

- ~50 of respondents are unable to save for their retirement
- ~50% fear not being able to retire when they'd like due to inadequate savings
- Nearly two-thirds of Canadians want their employers to help them solve their retirement savings dilemma

In a competitive environment for talent, a Group Savings Plan, as part of an attractive total benefits package, can help plan sponsors retain employees, improve employees' sense of their financial well-being and lead to more employee satisfaction.[1,2,3,4.]

Taxes

While the benefits of contributing to an RRSP are well known to Canadians, there are also potential tax benefits available to employers tied to Group RRSP contributions. We would encourage all employers who are considering establishing a plan to consult with a tax professional.

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III. Benefits for Employees

Forced Saving

Being disciplined about saving can be challenging. By pulling funds directly from payroll and funneling those monies to plan members' retirement savings accounts, a Group Savings Plan is one of the most effective ways to ensure that individuals are saving towards retirement.

Regular Investing

Just as a Group Savings Plan helps employees save regularly, it also helps them invest regularly. Funds deposited into an employee's savings account can be invested when received, putting their savings to work right away.

Flexibility

The flexible nature of Group RRSPs and TFSAs affords them a number of features that can benefit a wide array of employees.

Employees can invest in a wide variety of investment products, suited to their investment goals, risk tolerance and time horizon. Also, Group RRSPs and TFSAs do not need to be locked-in, meaning a plan member can make a withdrawal at any time, should their circumstances warrant, for example as part of the CRA's Home Buyers' Plan or Lifelong Learning Plan.

Lastly, Group RRSPs and TFSAs are easily portable. Should the plan member leave for another employer, the group account can be converted to an individual account.

Taxes

The same taxation benefits that are available to individual RRSPs or TFSAs are also available in a Group RRSP or TFSA. Contributions count just as any other contribution would towards the plan member's annual and lifetime contribution limits.

It should be noted, there are tax considerations related to matching contributions. We encourage all plan members to consult an appropriate professional for taxation advice.

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Helpful Links

Canada Revenue Agency on Group RRSPs: https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/benefits-allowances/financial/registered-retirement-savings-plans-rrsps.html

Canada Revenue Agency on Group TFSAs: https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/benefits-allowances/financial/tax-free-savings-account-tfsa.html

Canada Revenue Agency on Contribution Limits: https://www.canada.ca/en/revenue-agency/services/tax/registered-plans-administrators/pspa/mp-rrsp-dpsp-tfsa-limits-ympe.html

Canada Revenue Home Buyers' Plan: https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/rrsps-related-plans/what-home-buyers-plan.html

Canada Revenue Lifelong Learning Plan: https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/rrsps-related-plans/lifelong-learning-plan.html

Ontario Securities Commission on Pensions & Savings Plans: https://www.getsmarteraboutmoney.ca/plan-manage/retirement-planning/pension-savings-plans/

Footnotes:

1. International Foundation of Employee Benefit Plans: "Financial Education for Today's Workforce: 2016 Survey Results".
2. Willis Towers Watson: "Global Benefits Attitudes Study 2015".
3. PWC: "Employee Financial Wellness Survey 2017".
4. Aon: "Aon DC and Financial Wellbeing Employee Survey 2018"

The Justwealth Team

Executives with considerable investment industry experience

James Gauthier, MBA, CFA

Co-founder & Chief Investment Officer

Previous: BNS, TD, RBC, Mercer | Experience: 20+ years

James is a seasoned asset allocator who for over 20 years has devised a wide range of innovative and sophisticated asset allocation policies for institutions, high net worth clients, and large wrap programs in Canada. James' portfolio construction expertise has been utilized by thousands of Financial Planners, Investment Advisors and Portfolio Managers across Canada.

Andrew Kirkland, CFP CIM

Co-founder & President

Previous: Invesco | Experience: 15 years

Andrew is recognized as a fintech and investment industry leader with multiple award nominations. Prior to founding Justwealth, Andrew spent over a decade assuming roles of increasing responsibility in the areas of operations, business development and client-servicing at one of Canada's largest independent asset managers. Andrew takes great pride in providing outstanding service and quality advice to the Canadian investment community.

Richard Burton-Williams, MBA

Head of Justwealth Institutional

Previous: Barclays, Lehman, MRG | Experience: 15+ years

Richard's background in investment banking and consulting includes 15 years of advisory, client-service, finance, strategy and deal-making experience within Canada, the U.S. and internationally. Richard's experience has focused on the Canadian financial services sector, including assignments for some of Canada's largest banks, wealth managers, financial technology providers, specialty lenders and insurers.

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