



You're the owner of a for-profit business, and you're considering a new group retirement benefits plan, or making changes to your current plan. But what's the best way to set it up for the greatest benefit to your business?

To help employers save on taxes and boost employee retention, Common Wealth now supports DPSPs. This expands our digital platform to seamlessly integrate RRSP, TFSA, RRIF and DPSP accounts into a single plan, while providing employees with a retirement savings plan for life.

What's a DPSP?

A Deferred Profit Sharing Plan (DPSP) is a workplace savings program that many businesses use for employee incentives, or to help them save for retirement.

Common Wealth's DPSP can be integrated into a group retirement plan that would typically include a group RRSP and TFSA, along with a matching employer contribution. As the employer, you would use the DPSP to make matching RRSP contributions, and the employee would contribute to the RRSP or TFSA portions of the plan.

How it works

- Only you (the employer) can make contributions to the DPSP.
- Only employees can benefit from the DPSP; company owners, spouses, family members or shareholders with more than 10% ownership can't participate, even if they work for the company. Contributions are tax-deductible from company income.
- You can contribute up to an annual limit of either 18% of the employee's annual earned income or half of the money purchase limit (up to \$15,390 for 2022), whichever is less.
- Contributions are made through payroll, and the money is invested in BlackRock target date funds, a proven strategy for effective retirement savings.
- DPSP contributions grow tax-free inside the plan; the employee pays income tax on withdrawals once they retire or leave the company.
- DPSPs typically have a vesting period, which is a holding period before the employee takes ownership of the funds. The maximum vesting period is 2 years. If the employee leaves before their DPSP vests, the account value goes back to you. You can waive the vesting period for special circumstances like retirement or involuntary termination.
- When the vesting period ends, the DPSP works like a restricted RRSP, which means the employee can't withdraw the funds until they leave the company or they retire. You have the option not to restrict withdrawals after the vesting period.

3 reasons to consider a DPSP vs. a group RRSP for employer matching

1. **Return of contributions:** The DPSP account value goes back to you if your employee leaves before the end of the vesting period.
2. **Employee retention:** The DPSP provides an incentive for the employee to stay with your company for at least the duration of the vesting period. Restricting withdrawals on the funds after the vesting period ends can also help with employee retention.
3. **Tax savings:** DPSP contributions are tax-deductible and exempt from federal and provincial payroll taxes. Compared to using a group RRSP for matching contributions, this can provide significant tax savings over time.

Here's how this would look for an Ontario company with 50 employees where each employee receives a contribution of \$1,200 per year:

	Group RRSP	DPSP
Total employer contributions per year (\$1,200 x 50 employees)	\$60,000	\$60,000
CPP (employer share)	\$3,420	0
EI (employer share)	\$1,326	0
Employer Health Levy (employer share)	\$1,170	0
Employer reduction in corporate taxes	-\$8,042	-\$7,320
Total Cost	\$57,874	\$52,680

Savings for the employer: \$5,194 per year

* These calculations assume that employees are normally paid less than CPP and EI maximums, and the company's total payroll is greater than the exempt amounts for the health levy, and the corporate tax rate qualifies for the small business deduction.

What makes Common Wealth's DPSP different?

At Common Wealth, we believe that offering a group retirement plan can have a great impact for both your business and your employees, but it needs to be easy to set up, use and maintain.

Many group retirement benefit plans are paper-based, which makes plan setup and maintenance time-consuming – especially if you're managing both a group RRSP and a DPSP. Common Wealth's streamlined digital platform makes it easy to integrate your payroll contributions and manage multiple plans in the same place.

Key points for your employees

- Employees can transfer in savings from another DPSP, but they can't contribute to the DPSP themselves. They would typically contribute to the RRSP or TFSA portion of the plan.
- The contributions you make to the DPSP are not tax-deductible by the employee – only their own RRSP contributions are tax-deductible.
- DPSP contributions reduce the employee's RRSP contribution room for the following tax year. For example, if you contribute \$1,000 to the employee's DPSP in 2022, their personal RRSP contribution room will decrease by \$1,000 in 2023.
- If they leave the company before the vesting period ends, the DPSP account value will go back to the employer, and their RRSP contribution room will be restored for the following year.
- If they leave the company after the vesting period is over, the money will be transferred into their individual RRSP for ease of consolidating their assets for retirement withdrawals. Employees pay tax on the funds when they withdraw money from the plan.

Ready to find out more?

Talk with one of our consultants about how to set up a group retirement plan that brings the most value to both your employees and your business. [Book a consult!](#)