

Many employers offer long term savings programs either through group RRSPs or Pension Plans and understanding how they work can help you take advantage of these employment benefits.

DEFINED BENEFIT PENSION PLAN

Within a Defined Benefit (DB) Pension Plan, employees are entitled to a specific monthly amount upon retirement. The amount received will depend on years of service, salary earned and a number of other factors that can vary by employer. Because a DB Plan guarantees a specific benefit or payout upon retirement, the risk falls to the employer to ensure the Plan is adequately funded to meet the needs of its retirees. For this reason, the number of DB Plans has fallen dramatically in the last 30 years and they are now almost non-existent in the private sector. Union and government employees often have DB Plans which is one of the reasons those positions tend to be highly coveted.

DEFINED CONTRIBUTION PENSION PLAN

Defined Contribution (DC) Pension Plans are on the rise and according to Statistics Canada have essentially doubled from 30 years ago. DC Plans differ significantly from DB Plans in that the employer makes contributions which the employee then invests; there is no set amount to be received in retirement. Rather, the nest egg you build is dependent on how well the investments perform. Although there is usually a considerable range of options for investing, the risk lies with the employee to be responsible for managing the investments.

With benefit plans such as the ones mentioned above, employers are subject to a vesting schedule whereby employees may forfeit a portion or all of their benefits should they depart their employer for another job short of this vesting period. In this way, a vesting schedule encourages employee loyalty.

Keep in mind that with all contributions made, whether by the employer or employee, that employee's RRSP contribution room is reduced by the amount that has been contributed to their Plan. This is known as a Pension Adjustment (PA) and can be found on the Notice of Assessment.

GROUP RRSP

Lastly, some employers offer what is called a Group RRSP. These plans are functionally very similar to the DC Plan in that contributions are made by an employer on behalf of an employee. Although not technically a Pension, as it is administered under the income tax act rather than under pension law, it too serves to build up retirement savings for its employees.

For DC Plans and Group RRSPs, many employers offer matching programs such that employers will match up to a certain amount based on an employee's contributions. When doing this kind of contribution, an employee's contributions are done with pre-tax dollars, meaning income tax is not submitted on that portion which is an additional benefit.

Benefit plans whether DB, DC or Group RRSP, are a fantastic workplace benefit. To best take advantage of these benefits, make sure that you are making the maximum contribution to get the full benefit of employer matching and know the investment options available to you. If you're one of the lucky few to be part of a DB plan, count your blessings and don't change jobs!

