

## Pensions Law

March 8, 2012

### Draft Rules Regarding Federal PRPPs

At the end of last year, the Federal Government introduced the *Pooled Registered Pension Plans Act* (the "PRPP Act"), for the establishment and administration of Pooled Registered Pension Plans (PRPPs) and proposed amendments to the *Income Tax Act* to accommodate the creation of PRPPs. The PRPP Act and the proposed tax amendments are not yet in effect.

#### The "What" and "Why" of PRPPs

PRPPs are a proposed new voluntary retirement vehicle that will allow unrelated employers to participate in a plan that pools their assets and is administered by a third party administrator who assumes most of the duties of administering the PRPP. The PRPP Act will apply to federally regulated employers, the self-employed and employers in the Yukon, the Northwest Territories or Nunavut.

PRPPs are intended to expand the retirement system by providing employers, employees and the self-employed with the option of participating in a "large-scale and low-cost" defined contribution-type pension plan. The attraction from an employer's standpoint is the ability to provide a benefit to employees without incurring the cost or risks of administering the plan. However, the employer may still have risks with these vehicles, for example, in its selection of the PRPP provider.

#### Eligible Administrators and Employer Obligations

Eligible administrators of PRPPs are anticipated to be financial services institutions such as banks and insurance companies, although this will be clarified in forthcoming regulations. Administrators will be licensed and regulated by the federal Superintendent of Financial Institutions, and will be required to register the terms of each PRPP on offer.

Employer obligations will include selecting a PRPP provider, pension adjustment and tax reporting, enrolment of employees, management of opt-out elections and deducting and remitting employee and employer contributions, if any.

#### Implication of the Proposed Tax Rules

The draft tax rules are similar to those governing RRSPs, in that contributions by the employer or the employee to a PRPP will be allowed up to the employee's RRSP room for that year. Unlike the rules applying to RRSPs, however, under the proposed rules employers will be able to contribute directly to a PRPP without that amount being included in the employee's income and without generating payroll taxes. Also, employees will be able to draw annual income directly from the PRPP rather than being required to roll the money over into a LIF or RRIF. Other salient aspects of the proposed legislation are the provisions for transfers between plans (i.e., RRSP to PRPP) and cashing-out of PRPPs.

#### Next Steps

We will continue to keep you apprised of developments in the proposed PRPP laws, as well as any new provincial enabling legislation regarding PRPPs.

Please contact any member of our Pensions, Benefits and Compensation Group for more information on these developments in pension law.