401(k) vs GRSP

Creating a 401(k) comparable retirement plan in Canada

A guide to Canadian group retirement plans

Canadian employer-sponsored retirement plans work in similar ways to plans in the US, but there are some key differences to be aware of. In general, Canada's retirement savings system is easier to navigate than in the US, with less regulatory burden thanks to a single set of governance guidelines and fewer types of accounts.

The main Canadian equivalent of a 401(k) is called a Group Retirement Plan that includes various account types – most commonly, a Registered Retirement Savings Plan (RRSP) account, but may also have a Tax-Free Savings Account (TFSA) or Deferred Profit Sharing Plan (DPSP).

If you're looking to set up retirement benefits for your Canadian employees, the first thing you should know is that today, there's no cross-border, one-stop shop for retirement benefits serving both Canada and the US. You'll need to choose a Canadian provider, and ideally one that will make the process easy for you from start to finish.

Types of accounts

In Canada, most group retirement plans use these types of accounts:

- Group Registered Retirement Savings Plan (Group RRSP)
  The most popular account type used in Canada. Employee contributions are tax-deductible, and employees are required to convert their RRSP to a Registered Retirement Income Fund (RRIF) by age 71, to withdraw their savings as retirement income.
- Group Tax-Free Savings Account (TFSA)
  Similar to a Roth IRA, allows employees to contribute with after-tax dollars.
- Deferred Profit Sharing Plan (DPSP)
  DPSPs are used in conjunction with an RRSP, which allows vesting and can have tax advantages for businesses. Only employers can contribute on their employee's behalf, contributions are tax-deductible for the employee.

401(k)		Group Retirement Plans (with RRSP, TFSA, DPSP accounts)
$23,500 in 2025. If over 50 years, catch-up contribution of $7,500	Contribution limits	RRSP: 18% of income with a max of $32,490 in 2025 TFSA: $7,000 year
401(k) and Roth IRA incur a 10% penalty if withdrawn before 59 years and six months	Withdrawal	RRSP: Withdrawn amount is taxable income, a withholding penalty may apply TFSA: No penalties or tax
Use contribution room each year or lose it	Carry-forward	Unused contribution room can be carried forward
Various vesting schedules	Vesting	RRSP/TFSA: No vesting schedule DPSP: Up to 2 years plan membership
$0.50 to every dollar up to a % of salary	Typical match	Dollar to dollar match up to a 5% of salary

Contribution limits

The Group RRSP contribution limit is 18% of the previous year's earned income, up to a maximum of $32,490 for the 2025 taxation year. For 2025, the TFSA contribution limit is $7,000, with a lifetime maximum of $102,000.

Carry-forward rules

Unlike a 401(k), which has a 'use-it-or-lose it' policy for unused contribution room, both the Group RRSP and TFSA allow unused contribution room to be carried forward.

Plan vesting

A vesting period is the holding period before the employee takes ownership of the funds. While 401(k) accounts have different types of vesting schedules, RRSPs and TFSAs don't have vesting requirements at all, although some employers may choose to restrict their employees' access to their Group RRSP savings. With a DPSP, the maximum vesting period is 2 years.

Withdrawal rules

With a 401(k) and Roth IRA, you incur a 10% penalty if you withdraw the money before the age of 59 years and six months.

With a TFSA, there are no withdrawal penalties or taxes to pay. When employees withdraw from a TFSA, they get their contribution room back.

If employees withdraw money from their RRSP before retirement, they have to pay a withholding tax that varies by the amount they withdraw and the province they live in. Unlike a TFSA, the employee loses their contribution room if they withdraw from their RRSP.

Plan design

Providing matching contributions is considered a best practice for group retirement plans. In the US, employers typically match 50 cents to every dollar contributed by the employee, up to a specific percentage of the employee's salary. However, in Canada, the typical employer match is a dollar-for-dollar contribution up to a specific percentage of the employee's salary.

Plan administration

Similar to in the US, Canadian employees contribute to their group retirement plan directly from their payroll.

Although payroll integration isn't as advanced in Canada as the US, Common Wealth is a leader in this area with integrations and a user-friendly dashboard that works with all payroll systems.

Common Wealth makes plan administration easy by eliminating manual tasks typical with other Canadian providers. It also aligns to the Capital Accumulation Plan (CAP) Guidelines, Canada's primary document governing workplace retirement plans – with a focus on member engagement, investment lineup design and helping plan sponsors meet their responsibilities.

Why choose Common Wealth?

As Canada's first fully digital retirement plan for life, our innovative platform helps employers offer their team a benefit they really value compared to other Canadian providers.

- Lower fees
- Built-in planning
- Easy administration
- Superior service

What you need to get started

To set up a group retirement plan in Canada, you'll need to have Canadian bank accounts set up.

Talk to your advisor about Common Wealth

commonwealthretirement.com