DPSP & RRSP

How a Deferred Profit Sharing Plan works

If you're considering a new group retirement plan or making changes to your current plan, you might be wondering what plan design offers your business the greatest benefit.

Common Wealth's retirement platform seamlessly integrates RRSP, TFSA, RRIF and DPSP accounts into a single plan for maximum flexibility.

Tax Advantages for Employers

A group RRSP and DPSP is a great way to help employees save. Employer contributions to a DPSP offer a tax-deductible business expense and are exempt from both provincial and federal payroll taxes.

Employer contributions are directed to the DPSP and can be vested for a maximum of 2 years. Employees can contribute to an RRSP, TFSA or both, depending on how you want to configure your plan.

Employee Benefits

For employees, DPSP contributions and asset growth are not taxed until they are withdrawn from the plan. This can lead to bigger investment gains over time, due to the compounding effect. The goal is to maximize savings by deferring tax payment until you are in a lower tax bracket or retired.

DPSP contributions are not considered pensionable earnings and are not subject to CPP contributions, which helps to reduce the overall tax burden for employees.

DPSP Benefits

- DPSP enables a vesting period of up to two years, which may improve employee retention
- If employees leave before the vesting period ends, the DPSP account value goes back to the employer
- A DPSP offers more tax deductions and payroll tax exemptions for businesses

How a DPSP compares to a GRSP

DPSP		GRSP
Only employer	Who can contribute?	Both employer and employee
Employer can contribute 1/2 of the money purchase limit ($15,760 in 2023)	Maximum contribution	18% of employee's annual income ($30,780 in 2023), including employer contribution
Yes, up to 2 years	Vesting period	No
Goes back to employer if employee quits before vesting period, and subject to withholding tax	Contribution ownership	Employee owns funds immediately
Employees only; no owners, relatives, or spouses of owners, or anyone with more than a 10% stake in the company	Eligibility	Owners and employees can participate
For-profit companies only	Availability	All organizations
Contributions are tax-deductible for the employer, and contributions grow tax-free for employees	Tax incentives	Employer contributions are taxable income for the employee, but employees get immediate tax savings and contributions grow tax-free
Employer must report the pension adjustment on the member's T4	Administration	Employer must report employer contributions on the member's T4
Two-year vesting period may be viewed unfavorably	Appeal to employee	Employee ownership and more flexible contribution options more favorable

Both RRSP and DPSP are great options to help reward employees. The main difference is that in a group plan with a DPSP and RRSP, RRSP contributions are made by employees, and DPSP contributions are made by the employer and can include a vesting period.

Talk to your advisor about Common Wealth

commonwealthretirement.com