

A woman with dark hair, wearing a dark blue t-shirt, is smiling and looking towards the camera. She is standing in a warehouse, with her right arm resting on a blue metal shelving unit. The background shows rows of similar shelving units filled with cardboard boxes, and other people working in the distance under bright overhead lights.

# SIPP

THE SIMPLIFIED PENSION PLAN

## A pension plan made-to-measure for small businesses

Québec 

Foreword



## “...a real pension plan that is more flexible and easier to set up and administer.”

**T**he Régie des rentes du Québec alerts Quebecers of the importance of ensuring their financial security at retirement. This includes small businesses, where it has been noted that workers' participation in supplemental pension plans (also referred to as pension funds) is low. As a result of this situation, the Régie offers small businesses a pension formula that is adapted to their needs.

To do so, the Régie consulted small businesses, financial institutions and partners in the retirement field. The consultation allowed us to define certain expectations: small businesses would like to be able to vary contributions and avoid payroll taxes; financial institutions want the administrative aspect to be as simple as possible; and plan members want to have more exemptions from locking-in rules.

In the light of those needs, the Régie made improvements to the simplified pension plan (SIPP) in 2004 in order to allow businesses of all sizes, including small businesses, the possibility of offering a pension plan to their employees.

This document explains the advantages, characteristics and costs of an SIPP. In addition, it presents a summary table describing the main functions of employers, members and financial institutions.

Here is the new SIPP, a real pension plan that is more flexible and easier to set up and administer.

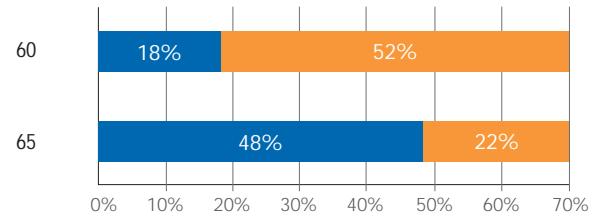
# The SIPP: an advantage for small businesses

The Régie often compares the financial security system at retirement to a three-storey house. The first two floors consist of the public plans: the federal Old Age Security pension (OAS) and the retirement pension under the Québec Pension Plan (QPP). The third floor is made up of personal savings and for some Québec workers, amounts from their supplemental pension plan (SPP).

Financial planners estimate that to maintain one's standard of living at retirement, a worker will need about 70% of his or her average annual gross income for the last three working years. For most workers, public plan benefits will not be enough to maintain their standard of living during retirement. Therefore, it is important that the basic income provided by public plans be complemented with additional income from private retirement savings instruments.

## Percentage of retirement income\* from public plans and private savings

Retirement age



Public plans | Private savings

\* For an average annual career income of 35 000 \$

Source: *Guide to Financial Planning for Retirement 2004-2005*

The table presents the percentage needed from private savings and public plans to maintain one's standard of living during retirement.

The supplemental pension plan is the ideal complement to public pension plans and a major resource

“...67% of respondents preferred the idea of setting up a retirement plan to a salary increase.”

for ensuring financial independence during retirement. In this regard, it is a well-appreciated benefit for workers. More and more, workers are concerned about their financial security during retirement. According to a survey conducted in 2003, 67% of respondents preferred the idea of setting up a retirement plan to a salary increase.<sup>1</sup>

An SIPP helps attract and keep employees as they are aware of the financial advantage and conscious that the employer is interested in their financial security during retirement.

In small businesses, fewer workers benefit from a supplemental pension plan compared to workers in large businesses. With the new SIPP, small businesses can now offer a real pension plan to their employees that is easy to administer and quite flexible.

---

<sup>1</sup> Source: SOM survey carried out in December 2003 for *Question Retraite* and the Régie des rentes du Québec of 1 741 unretired respondents between the ages of 25 and 64, half of whom were not members of a pension plan.



# Advantages of an SIPP

**A**n SIPP is a defined contribution supplemental pension plan, offered and administered by a financial institution, in which several employers participate. The contributions made by the employer and, if any, by the members, are divided into two accounts in each member's name: one account is locked-in<sup>2</sup> and the other is not locked-in.

The administration of an SIPP is easier than that of a traditional defined contribution plan because the employer does not have to set it up or form a pension committee. Therefore, an SIPP is as easy to set up as a group RRSP (group registered retirement savings plan). In addition, it offers the same protection as a traditional supplemental pension plan.

An SIPP combines some advantages of a group RRSP and a deferred profit-sharing plan (DPSP). Thus, the employer can opt for not locking-in of member contributions and can vary the amount of the employer contribution by paying an additional contribution.

Unlike a group RRSP, contributions made to an SIPP are not subject to payroll taxes, which is a considerable advantage for small businesses. An employer who makes contributions to an RRSP for an employee must consider such contributions to be part of the employee's pay and this "salary increase" is subject to contributions to various government programs.

There is no simple rule for determining the potential savings on payroll taxes that an SIPP will provide because the ceilings and contribution rates vary from one government program to another. The calculation can be made by a representative or consultant authorized to offer group annuities. Here is an example:

---

<sup>2</sup> As a general rule, amounts accumulated in a locked-in account cannot be withdrawn before retirement.

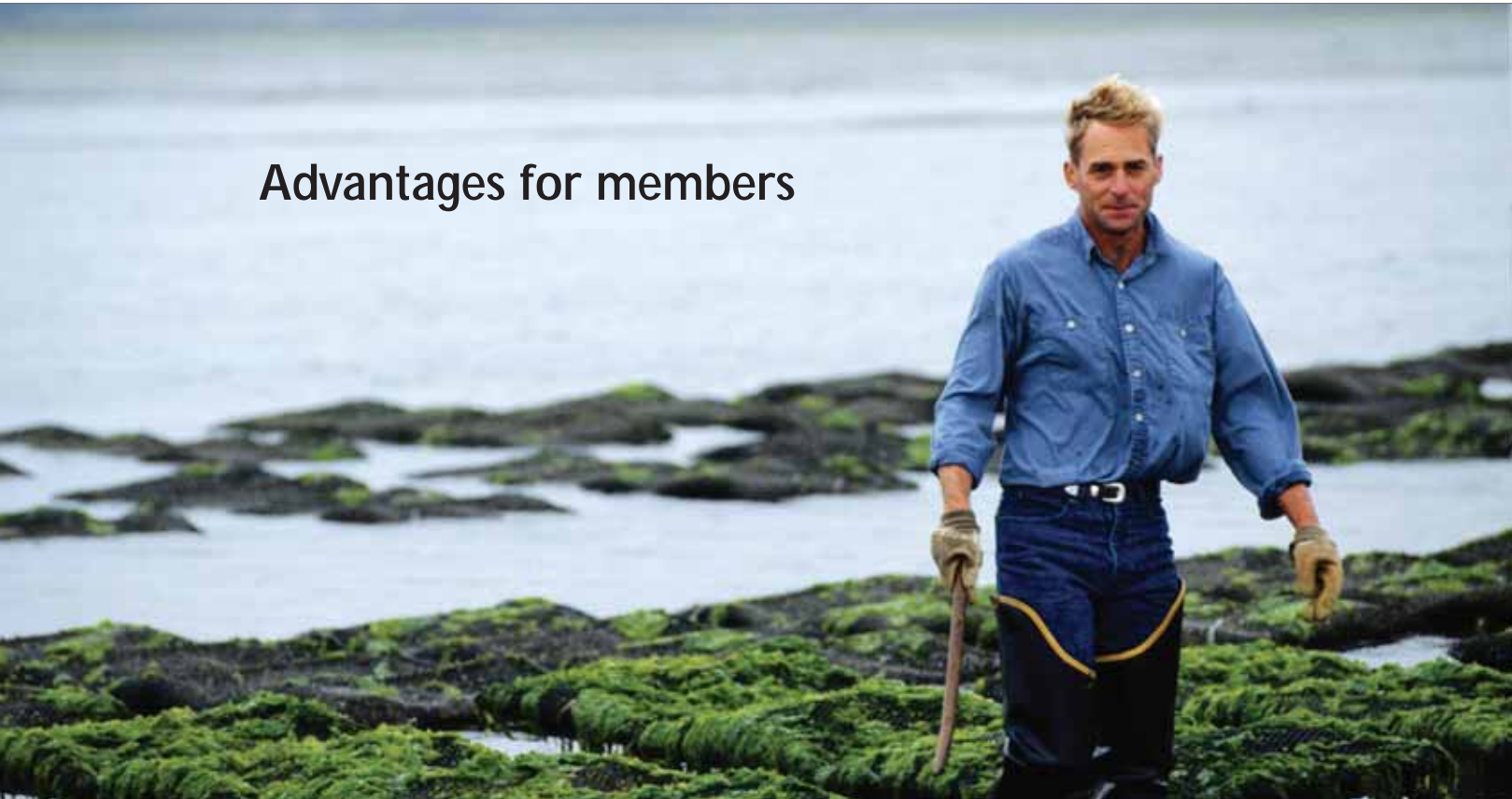
## “Unlike a group RRSP, contributions made to an SIPP are not subject to payroll taxes...”

An employer, whose total payroll is 2 100 000 \$ in 2004, makes an annual contribution of 1 000 \$ for each worker whose basic salary is 35 000 \$. By opting for an SIPP rather than a group RRSP, there is a savings of 130,80 \$ in payroll taxes per worker.

Government programs	Payroll tax savings
Employment insurance	27,70 \$
CSST (contribution rate of 2,15%)	21,50 \$
Commission des normes du travail	0,80 \$
Health services fund	31,30 \$
Québec Pension Plan	49,50 \$
<b>Total:</b>	<b>130,80 \$</b>

Furthermore, the tax rules applicable to an SIPP are also more advantageous than those of a DPSP. Thus, the owner of a business and his or her family members, who often make up the majority of the personnel of a small business, can participate in an SIPP but not a DPSP. In addition, the annual contribution that an employer can make to a DPSP is subject to a ceiling equal to half of that which applies to an SIPP. A ceiling of 16 500 \$ applicable to an SIPP in 2004 is clearly more advantageous than that of the DPSP ceiling of 8 250 \$.

Advantages for members



## “SIPP members actively take part in the management of their retirement savings...”

**S**IPP members actively take part in the management of their retirement savings since they can decide how the contributions in locked-in and not locked-in accounts will be distributed among the various types of investments offered by the financial institution.

In addition, members can pay not locked-in amounts (additional voluntary contributions). At any time, a member can withdraw the latter amounts as well as his or her contribution, if it is not locked-in, and take advantage of a Home Buyers' Plan (HBP) or a Lifelong Learning Plan (LLP), by first transferring them to an RRSP.

Because it is a real supplemental pension plan, an SIPP ensures certain minimum benefits and has the following advantages:

- the employer must make contributions and they belong to the members as soon as they have been paid (immediate vesting);
- the employer contributions are set aside for retirement purposes, thus ensuring a real life income;
- in the case of a member's death, the account balances are paid to the spouse, or if there is no spouse, to a designated beneficiary or to the heirs;
- the contributions made to an SIPP and any income they generate are not seizable;
- the contributions made by the member are deductible from his or her income for income tax purposes;
- it is subject to supervision by the Régie des rentes du Québec, which ensures protection of member benefits.

Also, a member can, provided certain conditions are met, concentrate in an SIPP amounts previously accumulated in other retirement savings instruments.

# SIPP characteristics

**A**n SIPP is a contract issued by a financial institution in which several employers can participate. It consists of two parts: one that sets out the provisions applying to all employers and another that deals with the provisions specific to each employer.

The employer assumes a minimum of administrative tasks. The financial institution administers the plan and provides the required information to the members and supervisory authorities, that is, the Régie des rentes du Québec and the Canada Revenue Agency.

The employer has an important influence on an SIPP, deciding the plan provisions such as:

- conditions for membership and withdrawal;
- payment or not of member contributions;
- employer and member contribution rates;
- locking-in or not of member contributions.

The employer can change the plan provisions if certain conditions are respected. For example, the employer contribution can be reduced if the business is experiencing a difficult period. In addition, one SIPP can be replaced with another one from a different financial institution or the employer can stop offering an SIPP.

## Employer contribution

Like all supplemental pension plans, the employer must contribute and that contribution remains locked-in for the purpose of providing a retirement income for the member.

The contributions made by the employer are subtracted from the business income like salaries, and are not subject to payroll taxes.

## “The employer assumes a minimum of administrative tasks.”

### Member contribution

If the members make member contributions, the employer can decide that they are not locked-in. If no such decision is made, the member contributions are locked-in.

### Additional employer contributions and additional voluntary member contributions

The employer can, at any time, decide to make an **additional contribution** for any member, in one or several payments. The contribution is **locked-in**, just like the regular employer contributions.

In addition to his or her member contribution, a member can also make a **not locked-in additional voluntary contribution**. This can be done once a year or more often if the plan allows.

### Transferring from other plans

An SIPP can provide for transferring amounts from other retirement savings, such as a group RRSP or an employer’s DPSP.

### Locked-in and not locked-in accounts

Each member has two accounts. One is locked-in, the other is not locked-in and they have the following characteristics:

	Locked-in account	Not locked-in account
Employer contribution	•	
Additional employer contribution	•	
Member contribution	Employer's choice	
Additional voluntary member contribution		•
Transfer from a DPSP	Employer's choice	
Transfer from a not locked-in source		•
Transfer from a locked-in source	•	

---

### **Investments offered**

The financial institution offers members at least three types of investments from among those authorized by law. The investments must be diversified and have varying degrees of risk and expected rates of return. This allows for the creation of portfolios that are adapted to member needs.

The financial institution invests the amounts paid into each member's accounts according to the member's instructions.

### **Withdrawal from a not locked-in account**

A member can withdraw amounts from his or her not locked-in account at any time by a direct cash withdrawal or by a transfer to an RRSP or a registered retirement income fund (RRIF).

At the end of his or her plan membership, he or she must withdraw all the amounts deposited in that account.

### **Withdrawal from a locked-in account**

The purpose of depositing amounts into a locked-in account is to ensure a life income during retirement. Therefore, a member can withdraw amounts from that account only as of age 55. At the end of plan membership, the balance of the account must be withdrawn. The withdrawals can be made by transfer to a locked-in retirement account (LIRA), life income fund (LIF), another supplemental pension plan or to an insurer for the purchase of a life annuity.

## “A member can withdraw amounts from his or her not locked-in account at any time...”

### Exceptions

A member can withdraw the balance of his or her locked-in account by a direct cash withdrawal or by transfer to an RRSP or an RRIF in one of the following cases:

- if at the end of membership, the balance is less than 20% of the maximum pensionable earnings (MPE) for the current year (in 2005, the MPE is 41 100 \$);
- if a physician certifies that a physical or mental disability reduces the member's life expectancy.

Any contributions that exceed the tax limits are refunded to the member in cash.

### Important!

Withdrawals of money from one of those locked-in or not locked-in accounts is taxable unless the amount is transferred directly to a retirement savings instrument such as an RRSP. In that case, the tax impact will be delayed.

### Protection for spouses

If a member dies, the balance in the locked-in and not locked-in accounts is paid to the member's spouse in a lump-sum payment. If there is no spouse or if the spouse has renounced it, the balance is paid to a designated beneficiary or the heirs.



## Unseizable

The contributions paid to an SIPP and the income they produce are unseizable. The same is true for the amounts transferred from a locked-in account.

Exceptions apply, particularly for partition of family patrimony or regarding support payments to the former spouse.

## “The contributions paid to an SIPP and the income they produce are unseizable.”

### Division of power with a certified worker's association

The employer and the certified worker's association (union) representing the members can reach an agreement on sharing some of the decision-making powers that are usually in the hands of the employer. For example, joint decisions can be made concerning membership requirements and member withdrawal and the locking-in or not of member contributions.

Such an agreement between the employer and the certified worker's association is an integral part of the SIPP text. However, it does not have to be part of the collective agreement negotiations.

### Retirement information committee

If an employer's SIPP has more than 50 members, a retirement information committee can be set up, if a majority of the members request one.

The role of the information committee is to make sure that the plan is well understood by providing the members with all the documents and information received from the financial institution. The committee acts as the intermediary between the members and the financial institution. Thus, the members have easier access to the information. The committee can also provide other information with respect to retirement and make suggestions to the employer and the financial institution in order to improve the plan.

## Cost of SIPPs



## “...the employer decides how the employer, the members and the pension fund share the operating costs of the plan...”

**T**he administration of an SIPP by a financial institution involves three types of expenses:

- investment expenses related to fund management;
- plan operating costs;
- the operating expenses of the retirement information committee (if any).

### Investment expenses

Investment expenses include brokerage, investment adviser and securities custodian fees. In an SIPP, those expenses are charged to the members' accounts.

### The operating costs of the plan and retirement information committee, if any

Under the rules applicable to SPPs, the employer decides how the employer, the members and the pension fund share the operating costs of the plan, that is, the expenses incurred by the financial institution to meet the legal requirements and rules applicable to an SPP.

Those requirements include the fees related to the registration of the plan and those required by the Régie des rentes du Québec, as well as the fees required for producing an annual notice for each member and for transferring accounts to other retirement savings instruments.

Also included are the operating expenses for the retirement information committee, if any. Those are additional expenses that are paid by the employer or the members.

# Setting up an SIPP in a business



“...contact a financial institution that offers one or an adviser authorized to offer group annuities.”

**T**o set up an SIPP, the employer must contact a financial institution that offers one or a representative or adviser authorized to offer group annuities. Those specialists will help the employer determine the characteristics of the plan, based on the employer's needs.

---

The list of financial institutions that offer SIPPs is available on the Régie's Internet site.

---



## Main roles of the SIPP players



	SETTING UP THE PLAN	CONTACTS WITH THE RRO <sup>2</sup> AND THE CRA <sup>3</sup>	MEMBERSHIP AND MEMBER WITHDRAWAL	CONTRIBUTIONS	INVESTMENTS
EMPLOYER <sup>1</sup>	<p>Decides to participate in an SIPP.</p> <p>Chooses a financial institution.</p> <p>Determines the characteristics of the plan.</p>		<p>Sets the requirements for membership and withdrawal.</p> <p>Informs the employee of his or her eligibility.</p> <p>Notifies the financial institution of memberships and withdrawals.</p>	<p>Sets and pays the employer contribution.</p> <p>Sets the member contribution and decides whether it is to be not locked-in.</p> <p>Can pay an additional contribution for any member.</p> <p>Collects contributions and sends them to the financial institution.</p>	
MEMBER				<p>Pays the member contribution (usually through deductions from his or her salary).</p> <p>Can make a not locked-in additional voluntary contribution.</p>	<p>Distributes the amounts placed in his or her accounts among the investments offered.</p>
FINANCIAL INSTITUTION	<p>Sets up an SIPP.</p> <p>Writes the plan text according to the specifications of each employer.</p>	<p>Has the plan registered.</p> <p>Pays the required fees.</p> <p>Sends the administrative documents.</p>	<p>Opens two accounts for each member: one locked-in and the other not locked-in.</p> <p>Closes the accounts for any member who withdraws from the plan.</p>	<p>Credits the contributions to the member's accounts.</p> <p>Notifies the Régie and the members if a contribution has not been paid within 60 days following the prescribed deadline.</p> <p>Refunds to the member any contributions that exceed the tax limits.</p>	<p>Determines the investments that it offers among those authorized by law.</p> <p>Makes the investments chosen by the members.</p>

COMPLETE OR PARTIAL WITHDRAWAL OF A NOT LOCKED-IN ACCOUNT	COMPLETE OR PARTIAL WITHDRAWAL OF A LOCKED-IN ACCOUNT	INFORMATION TO MEMBERS	AMENDMENT TO THE PLAN AND TERMINATION
		<p>In the absence of a retirement information committee, sends the members' requests for information to the financial institution and sends the members the institution's responses.</p>	<p>Can amend the plan provisions.</p> <p>Can withdraw from the plan in effect to participate in a plan at another financial institution.</p> <p>Can stop offering the plan.</p>
<p><b>During membership:</b> Can withdraw amounts at any time.</p> <p><b>At the end of membership:</b> Must withdraw the balance of the account.</p>	<p><b>During membership:</b> Can withdraw amounts:</p> <ul style="list-style-type: none"> <li>• If a physical or mental disability reduces his or her life expectancy;</li> <li>• As of age 55.*</li> </ul> <p><b>At the end of membership:</b> Must withdraw the balance of the account.*</p> <p>* The amounts withdrawn must remain locked-in unless the balance when membership ends is less than 20% of the MPE.</p>	<p>Can participate in setting up a retirement information committee.</p> <p>Can request from the retirement information committee or in the absence of a committee, from the employer, any document that the financial institution is required to provide.</p>	
<p>Makes the withdrawals according to the members' instructions and the prescribed conditions.</p>	<p>Makes the withdrawals according to the members' instructions and the prescribed conditions.</p>	<p>Provides to any eligible member a plan summary and a description of his or her rights and obligations.</p> <p>Provides the employer and the retirement information committee, if any, with any document relating to the plan administration.</p> <p>Provides the members with:</p> <ul style="list-style-type: none"> <li>• An advance notice of any amendment;</li> <li>• An annual statement of contributions paid to their accounts, etc.</li> </ul>	<p>Can amend, divide, merge or terminate the plan it offers and withdraw an employer from the plan.</p>

<sup>1</sup> Some employer rights may be subject to an agreement on sharing the employer's powers with a certified worker's association (union). If applicable, the employer must inform the financial institution.

<sup>2</sup> Régie des rentes du Québec  
<sup>3</sup> Canada Revenue Agency

A high-angle, first-person perspective shot of a person's legs and feet lying on a lush green lawn. The person is wearing dark grey or black trousers and black dress shoes. A black belt is visible at the waist, which is also wearing light blue trousers. The grass is vibrant green and appears to be a well-maintained lawn. The text "How to reach us" is overlaid in white on the right side of the image.

How to reach us

To obtain information about SIPPs, contact one of the financial institutions that offer them or a representative or adviser authorized to offer group annuities.

You can also contact the Régie des rentes du Québec:

**Internet**

[www.rrq.gouv.qc.ca](http://www.rrq.gouv.qc.ca)

**Telephone or fax**

Telephone: (418) 643-8282

Fax: (418) 643-7421

**Mail**

INFORMATION OFFICER  
Direction des régimes de retraite  
Régie des rentes du Québec  
Case postale 5200  
Québec (Québec) G1K 7S9



[www.rrq.gouv.qc.ca](http://www.rrq.gouv.qc.ca)

*Régie des rentes*  
**Québec** 