## Investors-Aid Co-operative Consumer Report:

## No Cost Big Benefit Group RSPs

The best way to save money is to use a Group RSP. It is simple, painless, and sometimes the employer kicks in to help you along. There are thousands of them all across the country used by companies and organizations, providing a basic, sometimes no cost benefit to members or employees.
But they can be a potential minefield for employers and employees if they aren't set up right.

Here is what you need to know.

### Summary: Where's the Value?

*While life insurance companies continue to be the dominant provider of group plans, they may no longer offer the best value to consumers.*

*Of all providers, RBC is making the strongest commitment to becoming a larger player in this area. Service levels are comprehensive; investment options are varied and very low cost; one-on-one enrolment and planning sessions increase participation rates; and there are no set up costs. Optional reductions on banking costs, salary-based staff, and low start up minimums make RBC the recommended choice for most companies or organizations.*

*In reviewing the findings of our research, RBC well deserves its #1 ranking.*

*A close #2 is the TD Future Builder program. While the investment options and set up costs are almost the same in cost and variety, there are no banking packages available and lower service levels related to one-on-one enrolment. As TD develops, it will be a likely contender for #1.*

*Based on costs and service levels, life insurance agents and full-service advisors at banks and investment firms are not a recommended choice. Where employee or organization member savings are involved, safety needs to be the number one priority. Commission-driven agents and advisors tend towards higher cost and higher risk investment products. Because of limited time and resources, they also tend to provide service mainly to wealthier members of the group at the expense of others. This can lead to lower participation levels and/or dissatisfied members.*

*And with all providers there may be a tendency to 'upselling.' This can be largely avoided by referring to a list of low cost investment options that the Co-op can provide.*

### What is a Group Plan?

A group RSP is simply a collection of individual RSPs where the employer arranges for employees to make contributions through regular payroll deductions on a pre-tax basis. An application form is completed and contributions specified. The employer then deducts that amount from your pay in pre-tax dollars as allowed by Revenue Canada and forwards it to the bank or insurance company administrating the group plan. Contributions are then deposited into individual RSP and invested as each member has specified.

Retirement plans like group RSPs, defined contribution, or deferred profit sharing plans are known as Capital Accumulation Plans (CAPs). They are governed by administration guidelines set out in the **Joint Forum Capital Accumulation Plan Guidelines** at **www.jointforum.ca**.

## Instant Tax Savings

With a group RSP there is no waiting for a tax refund. Contributions are made on a pre-tax basis by payroll deduction, so the amount of tax deducted is calculated after your group RSP contribution is made, giving an instant tax saving. You won't overpay taxes during the year; you've already had your tax refund.

A group RSP cuts your taxes instantly at source to give you that money as extra take-home pay to spend or save as you see fit.

## How it Works

| | No Group RSP | Group RSP |
|---|---|---|
| Monthly Salary | \$2,500 | \$2,500 |
| GRRSP Contribution | \$0 | \$300 |
| Taxable Amount | \$2,500 | \$2,200 |
| Tax Deducted at Source | -\$443 | -\$369 |
| Take Home Pay | \$2,057 | \$1,831 |

As the table shows, each dollar invested in a group RSP will cost this employee only 75 cents.

## Why they are so important to your employees

In addition to instant tax savings, a group RSP helps employees in many other ways:

1. You can't forget to contribute and no thought is required.
2. Depending on administrator, other affinity benefits may be available.
3. Maximize growth by allowing money to be invested longer.
4. Dollar-cost averaging lowers securities' prices.
5. Helps to avoid market timing
6. Eliminates need to take out an RSP loan.
7. Helps employees to begin planning for retirement
8. Can provide access to some of the best investment options
9. Avoid the last minute scramble to 'get the RSP done'.
10. Plan assets are portable if employee leaves.
11. Allows for spousal accounts

## …and for employers

1. The group RSP is a free benefit that the employer can provide to their employees.
2. They fit with existing plans but at far lower cost.
3. Investment costs can be far lower than for an employee saving on their own.
4. It can help attract and retain employees, especially if the employer contributes as well.
5. Employer does not have to guarantee a specific amount of income for a retiring employee.
6. Plan administration is done by the bank, mutual fund company, or life insurance company.

## NOT all group plans offer value

In Canada there are four main providers of group RSPs, group savings, and Deferred Profit Sharing plans; life insurance companies, banks, mutual fund companies, and full-service advisors at investment firms.

But even with all of this choice, you need to dig to find value.

Defining what your costs will be for plan set up is the first priority. As a rule, the lower these costs are to both sponsor and employee, the better the group plan. Second, you need to know that your employees are being offered the best investment options. There can be a dizzying array on offer, but the best are low cost and conservative. Third, an employer needs to make sure employees want to participate in the plan and perceive it as a benefit. There should be one-on-one investment planning available for all members and seminars to introduce the plan. Again, not all providers do this well.

The employer or association has two responsibilities: to ensure that a group plan offers the best value available to members; and that it is administered in compliance with the Guidelines for Capital Accumulation Plans set out by the Joint Forum of Financial Market Regulators (**www.jointforum.ca**). *This document is also available on the Co-op website*.

## Group Plan Provider Ranking

Following is a ranking of providers based on cost, investment options, and planning services. *Please note that we have only ranked those providers with national coverage. There are large credit unions for example, that offer group plans in limited areas.*

### #1 – RBC Group Financial Services

It is very hard to beat the plans offered by RBC Group Financial Services. The business plan is focused on long term asset gathering, rather than quick income, which is very consumer-friendly.

**Plus +**

1. No cost for set up and ongoing administration
2. Investment options are some of the best and lowest cost in Canada starting at .63%
3. Index funds included in investment options
4. Commitment to one-on-one planning time for each member
5. Plan introduction and retirement planning seminars
6. No minimum numbers (you can start with 2)
7. National coverage
8. Plans can also include low cost banking packages
9. Planners work mainly on salary rather than commission
10. High levels of ongoing service through bank branches close to group plan member
11. Plans available for different levels of investment experience

**Minus –**

1. Group plans are stand alone; life, health, dental have to be negotiated with a different provider.

### #2 – TD Future Builder

While they are using the same asset gathering business model and there is no cost, TD is thinner on geographic coverage and offers no preferential banking packages. TD is also more focused on channeling new RSP assets into higher cost Comfort portfolios.

**Plus +**

1. No cost for set up and ongoing administration
2. Good, lower cost investment options available starting at .79%
3. Commitment to one-on-one planning time for each member
4. Same low minimum
5. National coverage, but limited compared to RBC
6. Planners mainly on salary
7. High levels of service through bank branches close to group plan member
8. Plans available for different levels of investment experience

**Minus –**

1. Higher cost investment options encouraged
2. No introductory or retirement planning seminar
3. No preferential banking package

### #3 – Life Insurance Companies

The dominant players in group plans are Canada's insurance companies. They have built on an existing presence in insurance to add group plans as part of a package. (Regulations prohibit the banks from cross-selling.) The major players from the insurance industry are Great West Life, Sunlife, Manulife, Desjardins, and Industrial Alliance.

Plus **+**

1. The convenience of one stop shopping that can include group life, dental, extended medical. However costs could only be reduced on the group RSP with little flexibility on the insurance
2. National coverage from most of the major life insurance companies

**Minus –**

1. Reasonable investment choice, but limited indexing
2. High costs associated with life agents paid on commission
3. Higher investment costs ranging from 1.25-2.50% for MERs
4. Online registration and/or limited agent contact
5. Limited ability of one insurance agent to serve large groups
6. Potentially low participation rates because of above
7. More complex negotiations required based on forecast participation and commission rates.
8. Higher minimums; $3000-$5000 monthly cash flow and/or $50,000 as an initial transfer
9. One investment plan only
10. Concerns about financial strength of smaller life insurers. Check ratings with Standard & Poors and A.M. Best.

### #4 – CIBC, BMO, and Scotiabank

These three banks have made much less of a commitment to building a group plan presence. Plans are offered exclusively through full-service advisors working in their brokerage subsidiaries.

Investors-Aid recommends caution when using full-service advisors in the set up of group RSPs of savings plans. Investment costs and minimums are too high and service levels to most members are low. Being commission-driven, advisors will tend to 'cherry pick' the large accounts and ignore the smaller ones. This can lead to low participation rates and an underutilized benefit.

### #5 – Smaller Investment Firms Working with Mutual Fund Companies

Full service advisors from smaller investment firms can set up group plans with one of the larger mutual fund companies such as Mackenzie Financial.

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Added concerns with these providers:

1. Less regulatory supervision at smaller firms
2. Higher costs
3. Lower member service levels due to limited manpower
4. Excessive administration and paperwork for the mutual fund company

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