



Making “Locked-In” Funds Work for You

Ian Burns and Shelley Johnston

Locked-in retirement plans are used to hold monies that originated from registered pension plans. This generally occurs when you change jobs or retire. Governments created locked-in accounts to make sure that the money directed into a pension plan on your behalf would be available when you retire and wouldn't be spent on other things. When locked-in money is converted into some kind of retirement income product, it gets paid to you just like a pension plan. It is designed so that your funds will last you a lifetime. Because the funds are intended to give you lasting income, there are more rules than with non-locked-in funds regarding minimum and maximum payments, the minimum age you can start to withdraw the money, and so on.

You've probably heard of these funds, or at least their initials! Depending on the pension legislation in your province, your locked-in assets may be transferred to one of the following:

- Locked-in Retirement Account (LIRA)/locked-in RRSP,
- Restricted Locked-in Savings Plan (RLSP),
- Life Income Fund (LIF),
- Locked-in Retirement Income Fund (LRIF)- now only available in Newfoundland,
- Prescribed Retirement Income Fund (PRIF) - available only in Manitoba and Saskatchewan, and
- Restricted Life Income Fund (RLIF).

Typically any monies transferred from a pension plan to a locked-in plan must remain locked in as these monies are only to be used to provide retirement income. One of the major challenges people have is accessing

their monies when needed most. Due to the pressure on governments, many provinces have introduced rules to permit greater flexibility and control over your retirement income.

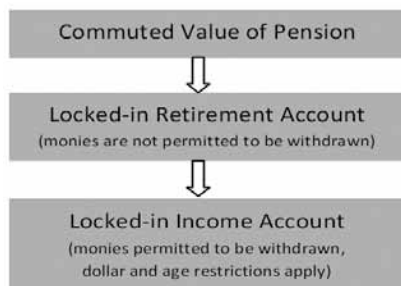
For example, some provinces provide for a one-time unlocking of funds. Individuals living in New Brunswick can unlock up to three times the maximum annual withdrawal of a LIF, up to a limit of 25% of the value of their LIF. Albertans who are over the age of 50 can unlock up to 50% of their locked-in pension when funds are transferred from a LIRA to a LIF. These unlocked monies can be transferred into an RRSP, RRIF or taken as cash. Manitobans have a similar option. However, their unlocked monies must be transferred to a PRIF. Those in federal pensions can do the same as Albertans, however, they must be age 55 or over.

Ontarians can also unlock up to 50% of their LIF. They must do so within 60 days of transferring their monies into a LIF. You may unlock less than 50%, but keep in mind that this is a one-time opportunity. Therefore, if you only unlock 30% you cannot go back and unlock the remaining 20% at a later date.

The benefit is the unlocked funds can be used when you want them without being limited to the maximum withdrawal restraints. It gives you flexibility to take advantage of opportunities down the road. Typically, the unlocked funds are transferred to an RRSP with no immediate tax consequences.

• **Time Sensitive** - There is still a window of opportunity for old LIF or LRIF holders in Ontario to unlock up to 50% – the deadline is April 30, 2012. If you currently are in an old LIF or LRIF in Ontario (opened prior to January 1, 2010), you have until April 30, 2012 to take advantage of this one-time 50% withdrawal/transfer option. Once this date has passed, the 50% unlocking opportunity will be lost forever.

As you can see, every province offers something a little different. This is the reason why it is important to contact



your provincial regulator to determine what you can do with your locked-in funds.

There are some other exceptions which may provide special access to your locked-in money, and yes, not all of these options are available in all provinces. Also, some of these options have age restrictions attached to them and may require your spouse's consent.

Age Restrictions

Many provinces place an age restriction on when you can start drawing an income from your locked-in plans. For example, some provinces state that you must be age 55 or older; others state that you can begin no earlier than the earliest date on which you would have been entitled to receive your pension for which the monies were transferred, for example age 53.

Unlock Small Balances

Most provinces allow the unlocking of small balances for accounts where the amount is under a certain dollar amount. If that is the case, all you need to do is put in a request at your financial institution holding that

account to unlock it and they will provide you with the necessary forms to complete. Again, every province is different – some have age restrictions, and some base this on individual account size rather than the sum of all locked-in accounts. For example, in British Columbia:

- For all ages, if the value of your individual LIRA or LIF is under \$9,600 (20% of the YMPE [Year's Maximum Pensionable Earnings] for 2011), you can request your monies to be unlocked. (Applies to each individual account size.)
- For those 65 years old and older, if your LIRA or LIF is under \$19,320 (40% of the YMPE for 2011), you can request your monies to be unlocked. (Applies to the sum of all locked-in plans.)

Shortened Life Expectancy

If you have a condition that is likely to considerably shorten your life expectancy, you may be able to unlock all or a portion of your locked-in account. Some provinces state that you must have a terminal illness and have less than 2 years to live. In some cases, you may require your partner's consent and your condition will need to be certified by a qualified medical practitioner.

Pension Regulator Websites

• Government Pension Plans

Canada Pension Plan, Old Age Security
Service Canada - www.servicecanada.gc.ca

• Quebec Pension Plan

Régie des rentes du Québec - www.rrq.gouv.gc.ca/en

• Canadian Forces and RCMP

Veterans Affairs Canada - www.vac-acc.gc.ca/clients

• Private Pension Plans - Federally Regulated

The Office of the Superintendent of Financial Institutions (OSFI) - www.osfi-bsif.gc.ca

The Office of the Superintendent of Financial Institutions (OSFI) is an independent agency of the Government of Canada. Under the Office of the Superintendent of Financial Institutions Act, Pension Benefits Standards Act, 1985 (PBSA) and the Pension Benefits Standards Regulations, the office of OSFI regulates and supervises private pension plans in federally regulated business, works, and undertakings, such as banking, telecommunications, and inter-provincial transportation. OSFI is also the regulator for pension plans established in respect of employment in the Yukon, the Northwest Territories, and Nunavut.

• Private Pension Plans - Provincially Regulated

Every jurisdiction in Canada, except the province of PEI, has pension standards legislation that establishes minimum requirements for pension plans. (PEI passed minimum standards pension legislation many years ago, but it has not been proclaimed into force.)

• British Columbia

British Columbia Financial Institutions
Commission Pensions Department -
www.fic.gov.bc.ca

• Alberta

Alberta Superintendent of Pensions -
www.finance.gov.ab.ca

• Saskatchewan

Saskatchewan Financial Services Commission Pensions
Division - www.spsc.gov.sk.ca

• Manitoba

The Manitoba Pension Commission - Manitoba Labour and
Immigration - www.gov.mb.ca

• Ontario

Financial Services Commission of Ontario (FSCO) Pension
Division - www.fscs.gov.on.ca

• Quebec

Autorité des marchés financiers - www.lautorite.qc.ca

• Prince Edward Island

Public Service Commission - www.gov.pe.ca

• New Brunswick

Office of the Superintendent of Pension - Department of
Justice and Consumer Affairs - www.gnb.ca

• Nova Scotia

Labour and Workforce Development - www.gov.ns.ca

• Newfoundland and Labrador

Department of Government Services Insurance, Pensions
and Securities - www.gov.nl.ca



Non-Residency

Those who become non-residents of Canada, as defined by Canada Revenue Agency (CRA), will be able to apply to have their locked-in accounts terminated and paid in cash with the applicable non-resident tax withheld, or in some cases transferred to an RRSP or RRIF. Proof of non-residency will be required and spouses may be required to provide consent.

Financial Hardship

There are a variety of situations where you may be able to claim financial hardship, but you must be prepared to prove it. For example, you may find yourself in need of money to help pay for certain medical expenses, or renovations to accommodate an illness or disability, or maybe you are at risk of eviction due to unpaid rent or mortgage payments. Not all provinces offer this option.

A Word of Caution

Monies withdrawn from your locked-in accounts are subject to income tax, some of which will be withheld at that time of withdrawal and later, depending on your final income for the year, you may owe additional income tax. Always remember to ask if there are any additional fees, whether it be from the regulator, the financial institution or the investments themselves.

Also, keep in mind, withdrawing funds may affect your eligibility for certain government benefits, such as social assistance, etc.

Most important, your locked-in monies are ultimately to be used to provide you with a lifelong retirement income. However, by withdrawing large amounts, this will have a negative impact on your future retirement income.

As a spouse, you should be aware that you are not required by law to give your consent. It is your personal decision whether you consent to one of these provisions since you are entitled to some of these monies.

Another important point to remember is that any monies withdrawn or unlocked are no longer creditor protected and thus may be seized by creditors, except when the assets are transferred to a prescribed RRIF.

Beware of Pension Unlocking Schemes

Remember, anytime you withdraw monies from a locked-in account you will always pay tax, even if you meet one of the special access provisions mentioned above.

If someone tells you there is a way to access your monies from your locked-in account, and better still without paying any tax – Beware! Remember the saying: If it is too good to be true ...well, you know the rest.

If someone tells you there is a way to access your monies, other than what we have mentioned, or can show you a way to avoid paying tax, it is likely a scam. These schemes are highly sophisticated and, of course, designed to look legitimate. Before doing anything, contact your local government pension regulator. Don't become a victim – protect yourself. These scams have had detrimental financial ramifications for some people. This includes a total loss of their locked-in funds, as well as facing reassessment of their tax returns by CRA, resulting in tax consequences as well as significant financial penalties.

In Summary

For many people, locked-in funds represent a large portion of your retirement assets, so it is important to consider your options very carefully and to seek professional advice. Sometimes our emotions cloud our short-term judgment. Remember to take a long-term approach and stay flexible (as circumstances are always changing).

Ian Burns, CLU, ChFC, EPC and Shelley Johnston, CFP, EPC, The Pension Specialists, Authors of "Pay Attention to Your Pension", Whitby, ON, (888) 279-0622, info@pensionspecialists.ca, www.pensionspecialists.ca