TD Wealth

Locked-in Plans

Their role in retirement income planning

When you leave an employer, you can generally transfer the tax-sheltered portion of the commuted value of your pension to a "Locked-in" Plan governed by federal or provincial pension legislation. Under your employer pension plan, the intention would have been to create a lifetime retirement pension for you. Similarly, the funds that are transferred are locked-in, generally constraining access to them until you reach retirement age, usually 55 under most provincial legislation.

These pre-retirement pension funds will be held in either a Locked-in Retirement Account (LIRA) or a Locked-in Retirement Plan (LRSP). Unlike an RRSP, funds cannot be withdrawn from a LIRA or LRSP, except under special unlocking provisions.

In fact, you don't have to touch the locked-in funds until the end of the year that you turn 71, when you must then transfer the assets to a Life Income Fund (LIF), a LIF or a Prescribed Retirement Income Fund (PRIF) in Manitoba and Saskatchewan, a Prescribed Retirement Income Fund (PRIF), or federally to a Register Locked-in Income Fund (RLIF). As you can see these plans function much like the combination of an RRSP and RRIF.

Like a RRIF, you are required to withdraw minimum annual amounts from a LIF or PRIF. However, unlike a RRIF, a LIF or PRIF also specify a maximum amount that can be withdrawn from the plan over the course of each year, based on a factor schedule which depends on the age of the annuitant.

In the meantime, you may have a desire or need to unlock some of the funds in circumstances such as: financial hardship, reduced life expectancy, a small balance or non-residency.

Let's look at the unlocking rules, jurisdiction by jurisdiction:

Alberta

Plan types: LIRA, LIF

The minimum age to convert a LIRA to a LIF is 50.

Spouse/ Common-Law Partner consent required to issue: LIRA (No); LIF (Yes)

When transferring to a LIRA or LIF, the annuitant must be at least 50 years of age. He or she can unlock up to 50% of his/her LIRA on a **one-time basis**. If the remaining balance is less than the **small balance** limit, it can be subsequently unlocked.

If the annuitant is suffering from **financial hardship**, which is defined in the governing legislation, up to 50% of the YMPE could be unlocked.

If the annuitant suffers from significantly **reduced life expectancy**, he or she can withdraw all or some of the funds.

If the value of the plan is a **small percentage** of YMPE, less than 20% of YMPE if the annuitant is younger than 65 and less than 40% of YMPE if the annuitant is 65 or older, the entire amount can be withdrawn as a lump sum.

If the annuitant qualifies as a **non-resident** for Canadian tax purposes the whole amount can be withdrawn in a lump sum.

At **death**, if the annuitant has a spouse or common-law partner who has not waived their rights to the LIF cannot be reconverted into a LIRA, even if the spouse or common-law partner is under age 71. If the spouse or common-law partner is under age 50, the payment is limited to the minimum required by the CRA for a RRIF until the spouse or common-law partner reaches the age of 50. If the spouse or common-law partner has waived their rights or there is no spouse or common-law partner, the funds will be unlocked and paid to the estate or named beneficiary.

British Columbia

Plan types: LIRA, LIF

The annuitant must be a **minimum age** of 50 years old to convert a LIRA to a LIF.

Spouse/Common-Law Partner consent required to issue: No for both a LIRA and a LIF.

One-time unlocking of a percentage of the funds is not allowed except in certain circumstances.

If the annuitant is facing **financial hardship**, which is defined in the governing legislation, up to 50% of YMPE can be withdrawn at any age, once per year.

If the annuitant suffers from significantly **reduced life expectancy**, he or she can withdraw all or some of the funds.

If the value of the plan is a **small percentage** of YMPE, less than 20% of YMPE if you are younger than 65 and less than 40% of YMPE if you are 65 or older, up to 100% can be withdrawn as a lump sum.

If the annuitant qualifies as a **non-resident** for Canadian tax purposes, the whole amount can be withdrawn in a lump sum.

At death, a variety of scenarios can ensue depending on whether there is a spouse/common-law partner and whether a waiver to the death benefit has been signed, or that no further entitlement will apply under s. 145 of the B.C. *Family Law Act*.

Manitoba

Plan types: LIRA, LIF, PRIF

There is no **minimum age** to issue a LIF.

Spouse/Common-Law Partner consent required: LIRA (No); LIF, PRIF (Yes).

A **one-time unlocking** of 50% of the funds in a LIF can occur at 55 or older to a Prescribed Retirement Income Fund (PRIF). A PRIF is similar to a RRIF, except that it is also subject to certain rules set out in Manitoba's legislation.

There is no provision for unlocking due to **financial hardship.**

If the annuitant suffers from a significantly **reduced life** expectancy of less than two years, the total amount can be withdrawn in a lump sum.

If there is a **small balance**, less than 40% of YMPE, the entire amount can be withdrawn as a lump sum at any age.

If the annuitant qualifies as a **non-resident for two calendar years** for Canadian tax purposes, the whole amount can be withdrawn in a lump sum.

At **death**, if the annuitant has a spouse or common-law partner who has not waived their right to the death benefit from the LIRA, it must be transferred to the spouse/common-law partner as either a lump sum or into a locked-in plan. If the spouse/partner has waived their rights or there is no spouse/partner the funds will be unlocked and paid to the estate or named beneficiary. Unlocking is permitted with a LIF.

New Brunswick

Plan types: LIRA, LIF

There is no **minimum age** to issue a LIRA or a LIF.

Spouse/Common-Law Partner consent is not required to issue.

One-time unlocking is allowed with no minimum age. The annuitant of a LIF can transfer to his/her RRIF. The maximum withdrawal amount is the lesser of: three times the annual maximum payment for the year the withdrawal is requested, or 25% of the balance in the LIF on the first day of the year (Jan 1st.)

Unlocking is not permitted for **financial hardship**.

If the annuitant faces **reduced life expectancy**, the total amount can be withdrawn in full or received as a series of payments.

If there is a **small balance** in the LIRA, less than 40% YMPE, the total amount can be withdrawn in a lump sum.

A non-Canadian citizen or resident can withdraw in certain defined circumstances.

At **death**, the plan proceeds must be transferred on an unlocked basis to the annuitant's spouse/common-law partner, if there is one.

Newfoundland and Labrador

Plan types: LIRA, LIF, LRIF

The **minimum age** to convert a LIRA to a LIF or LRIF is 55.

Spousal/Common-Law Partner consent is required to issue a LIRA and convert it to a LIF or LRIF

There is no **one-time unlocking** of funds.

If the annuitant faces **reduced life expectancy** at any age, the funds can be withdrawn completely or partially.

If there is a **small balance**, less than 10% of YMPE if you are younger than 55 and less than 40% of YMPE if you are 55 or older, the entire amount can be withdrawn as a lump sum.

Unlocking for **temporary income** is permitted for a LIF or LRIF. The annuitants must be between 55 years of age (or the age on which the owner would be entitled to receive a pension benefit under the plan), and less than 65. The total pension income (includes all LIFs, LRIFs, Life Annuities and pension plans governed by Newfoundland law) received by the annuitant for the calendar year in which the application is made is less than 40% of the YMPE under the CPP.

There is no unlocking for **non-residents**.

At **death**, the plan proceeds must be transferred on an unlocked basis to the spouse/common-law partner, if there is one.

Nova Scotia

Plan types: LIRA, LIF

The **minimum age** to convert a LIRA to a LIF is 55.

Spousal/Partner consent required: LIRA (No); LIF (Yes)

There is no **one-time unlocking** of funds.

Generally, if the annuitant is facing **financial hardship**, which is defined in the governing legislation, up to 50% of YMPE can be withdrawn at any age, up to one time per 12 month period. LIF annuitant must be at least 54 but less than 65. However, the legislation provides for different maximums depending on the type of financial hardship.

If the annuitant faces **reduced life expectancy** of less than two years, the funds can be withdrawn completely or partially.

If there is a **small balance** in the fund that is less than 50% of YMPE and the annuitant is at least 65-years old, a lump sum for the entire amount can be withdrawn.

If the annuitant becomes a **non-resident**, the entire amount can be withdrawn as a lump sum.

At **death**, the plan proceeds must be transferred on an unlocked basis to the spouse/common-law partner, if there is one.

Ontario

Plan types: LIRA, LIF

The **minimum age** to convert a LIRA to a LIF is 55.

Spousal/ Common-Law Partner consent is required to issue a LIRA and to convert a LIRA to a LIF.

A **one-time unlocking** of the fund up to 50% is permitted within 60 days after receiving funds in a new LIF.

If the annuitant is facing **financial hardship**, which is defined in the governing legislation, up to 50% of YMPE can be withdrawn at any age, once per year.

If the annuitant faces **reduced life expectancy** of less than two years, the entire amount can be withdrawn as a lump sum.

If there is a **small balance** in the fund of 40% YMPE or lower when the annuitant is 55 or older, a withdrawal of the entire amount in a lump sum can be withdrawn.

If the annuitant becomes a **non-resident** at any age, a lump sum withdrawal of the full amount can be made.

At **death**, the plan proceeds must be transferred on an unlocked basis to the spouse/common-law partner, if there is one.

Quebec

Plan types: LIRA, LIF

There is no **minimum age** to convert a LIRA to a LIF.

Spouse/Common-Law Partner consent is not required to convert a LIRA to a LIF.

There is no **one-time unlocking** of funds.

An annuitant with **reduced life expectancy** can withdraw funds from his or her LIRA in full or in part, or as a series of payments.

If there is a **small balance** left in the fund, equal to or lower than 40% YMPE, when the annuitant is 65 or older, funds can be withdrawn completely or partially, and transferred to an RRSP or RRIF, or withdrawn in cash.

If the annuitant becomes a **non-resident** at any age, a lump sum withdrawal of the full amount can be made.

Temporary payments are permitted from LIF accounts only. The annuitant must have been under the age of 54 as of December 31st of the previous year and have only one LIF. The income that the client expects to receive over the next 12 months must be no greater than 40% YMPE for the year in which the client has applied for the temporary income.

At **death**, the plan proceeds must be transferred on an unlocked basis to the spouse/common-law partner, if there is one.

Saskatchewan

Plan types: LIRA, PRIF

A LIRA can be converted to a PRIF when the annuitant turns the **minimum age** of 55.

Spousal/Common-Law Partner consent required to issue: LIRA (No); PRIF (Yes)

There is no **one-time unlocking** of funds.

There is no unlocking due to **financial hardship**.

If the annuitant faces **reduced life expectancy**, the funds can be withdrawn in full or in part.

If there is a **small balance** left in the LIRA, equal to or less than 20% YMPE, at any age, the full amount can be withdrawn as a lump sum.

If the annuitant becomes a **non-resident** at any age, the full amount can be withdrawn as a lump sum.

At **death**, the plan proceeds must be transferred to the spouse/common-law partner, if there is one, on an unlocked basis or to a locked-in plan.

The **North West Territories, Yukon** and **Nunavut** fall under the federal pension legislation. **Prince Edward Island** does not have pension legislation.

Federal (and NWT, Yukon & Nunavut)

Plan types: LRSP, LIF, RLIF (Federal employees can also utilize a plan similar to the LRSP known as a Registered Locked-in Savings Plan, or RLSP.)

There is **no minimum age** to convert a LRSP to a LIF or RLIF.

Spouse/Common-Law Partner consent is not required to issue a LRSP or convert a LRSP to a LIF.

One-time unlocking is permitted if you are 55 or older. You are allowed to transfer up to 50% of your funds into a tax-deferred savings vehicle, such as an RRSP or RRIF. If the amount in the fund is a **small balance**, below 50% of YMPE when you turn 55, you are able to unlock the total value of your locked-in funds. The funds may be withdrawn as cash, or transferred to a tax-deferred savings vehicle such as a RRSP or a RRIF. Your spouse or partner must consent.

If you are facing **financial hardship**, which is defined in the governing legislation) 50% of the YMPE or less, the funds may be withdrawn as cash, or transferred to a tax-deferred savings vehicle such as a RRSP or a RRIF. Your spouse or partner must consent.

If the annuitant faces **reduced life expectancy**, the total value of the fund can be withdrawn.

If the annuitant becomes a **non-resident**, the total value in the fund can be withdrawn.

There is no provision regarding unlocking funds upon the **death** of the annuitant.

Should you unlock?

Unlocking funds from a locked-in plan provides you with access to your funds, greater control on what you withdraw, and the ability to consolidate several sources or retirement funds.

Your own comfort level may be the biggest factor in making a decision whether or not to unlock. Ultimately, you don’t want to deplete your retirement funds before you retire.

Now you can:

- Review the unlocking rules in your jurisdiction with your TD advisor and consider whether you wish to unlock monies from your fund. How will unlocking fit within your overall Financial Plan and assist you in meeting your retirement goals?
- Speak with a tax specialist about the implications of a withdrawal, and potential tax-effective strategies for using withdrawn funds.

08/2017