Locked-in Plans

Their role in retirement income planning

When you leave your employer's Registered Pension Plan (RPP), you can generally transfer the tax-sheltered portion of the commuted value of your Defined Benefit Pension Plan or market value of your Defined Contribution Pension Plan to a "Locked-in" Plan governed by federal or provincial pension legislation.

It is important to note that the pension jurisdiction is determined by the pension administrator and is not dictated by your province of employment or residence. Therefore, you may hold locked-in funds from the same or different employers that are subject to different pension legislations. Pension legislations allow for funds to be 'unlocked' under certain circumstances or life events. These may include; a one-time unlocking, financial hardship, non-residency withdrawal, reduced life expectancy, or small balance.

Locked-in funds

For the purposes of this article, a Locked-in Retirement Account (LIRA), a Locked-in Retirement Savings Plan (LRSP), a Life Income Fund (LIF), a Locked-in Retirement Income Fund (LRIF), a Restricted Life Income Fund (RLIF) or a Prescribed Retirement Income Fund (PRIF) will be referred to as a "locked-in plan".

The intention of an RPP is to provide you with retirement income during your lifetime, and if applicable, retirement income for a surviving spouse or common-law partner. Contributions made to an RPP, whether they were made by you or your employer, will be locked-in, constraining your access to them.

When funds are held in a Registered Retirement Savings Plan (RRSP) they are subject to taxation upon withdrawal but a plan holder can withdraw any amount at any time. When funds are held in a locked-in plan they are also subject to taxation upon withdrawal, but the amount that the plan holder can withdraw will be wholly or partially limited by their age, account balance and other considerations.

The following chart provides an overview of unlocking mechanisms available by jurisdiction, for more information please speak to your TD Advisor to obtain the Locked-in Plans article(s) for the applicable jurisdiction(s). They each carry varying criteria and procedures by jurisdiction, many of which are based on the Year's Maximum Pensionable Earnings (YMPE), which for 2020 is $58,700.

			Unlocking Provisions				
Jurisdiction*	Plan Types	General Minimum retirement age	One-Time Unlocking	Small Balance	Financial Hardship	Non-Resident Withdrawal	Reduced Life Expectancy
Alberta	LIRA, LIF	50	✓	✓	✓	✓	✓
British Columbia	LIRA, LIF	50	✗	✓	✓	✓	✓
Manitoba	LIRA, LIF	LIF - No minimum PRIF - 55	✓	✓	✗	✓	✓
New Brunswick	LIRA, LIF, PRIF	LIF - No minimum Annuity - 55	✓	✓	✗	✓	✓
Newfoundland	LIRA, LIF	LIF, LIRA - 55	✗	✓	✗	✗	✓
Nova Scotia	LIRA, LIF, LRIF	55	✗	✓	✓	✓	✓
Ontario	LIRA, LIF	55	✓	✓	✓	✓	✓
Quebec	LIRA, LIF	No minimum	✗	✓	✗	✓	✓
Saskatchewan	LIRA, LIF	55	✗	✓	✗	✓	✓
Federal**	LIRA, LIF, PRIF	55	✓	✓	✓	✓	✓

*Prince Edward Island does not have pension legislation
**Federal includes North West Territories, Yukon and Nunavut

It should be noted that these rules are subject to change at any time and the pension legislation for the applicable jurisdiction should be reviewed prior to initiating an unlocking request. Where there is a discrepancy between the information contained in this article and the information provided by the applicable pension legislation, the latter takes precedence.

As spouses and common-law partners have specific rights under certain pension legislations, they may need to consent prior to transferring funds as once transferred they would not provide an income to the surviving spouse and common-law partner. In addition, there may be specific legislations that require your spouse and common-law partner to be the beneficiary should you pass away, and the funds may or may not continue to be locked-in when transferred to your surviving spouse and common-law partner.

To unlock or not unlock

The term 'unlock' refers to accessing funds via the provisions noted above. In some cases, it may result in funds being withdrawn from the locked-in account, which would incur withholding taxes and be considered taxable income in the year it was received. In other cases, it may be to an RRSP, Registered Retirement Income Fund (RRIF) or annuity which would constitute a direct transfer and therefore would not immediately be considered taxable income and would not impact existing RRSP contribution room. Under certain unlocking provisions, some or all of the unlocked funds must also be withdrawn and are therefore immediately taxed. This may increase current income and reduce tax-deferred growth over time.

> Once funds are unlocked, and more readily available, there may be an increased temptation to withdraw funds to pay down debts, or use towards short-term objectives. This may impact your ability to maintain your lifestyle during retirement

There are many reasons why it may be necessary to access locked-in funds, such as financial hardship or shortened life expectancy. This will be a personal and perhaps emotional decision, when weighing your options, you should consider the long-term impact to your other objectives when those funds are no longer available.

On the other hand, there may be preventative advantages to un-locking. For example, you don't need the funds immediately, but you qualify under a provision such as small balance or one-time unlocking and completing the unlocking procedure now may provide for flexibility in the future. It is important to note there may be immediate tax considerations, and the tax filing process may be more complex. There are often a number of administrative steps to complete in order to process an unlocking and some jurisdictions require government approval before a request can be processed by a financial institution.

Once funds are unlocked, and more readily available, there may be an increased temptation to withdraw funds to pay down debts, or use towards short-term objectives. This may impact your ability to maintain your lifestyle during retirement. It is important to remember that if the funds had remained in the pension plan there would not be an option to access them sooner, and they would only be available in the retirement period.

Retirement income planning

When locked-in funds are part of your retirement income there are a number of considerations such as when to convert into a locked-in retirement income product and how much can or should be withdrawn.

Similar to a RRIF the decision to convert to an income fund or purchase an annuity must be implemented no later than December 31st of the year the plan holder turns 71. The annual minimum payment will be calculated in the same manner as in a RRIF account, taking into consideration the annuitant's age (or their younger spouse) and the balance in the account on January 1st. In the case of a RRIF account the annuitant could withdraw more at any time during the year, up to the full value of the account. However, when dealing with a locked-in account, an annual maximum also applies to ensure funds remain in the plan.

When considering when and how much to withdraw an individual should look at their overall financial picture, as there may be different income needs or tax implications for each individual or couple. Clarifying the following areas will help your advisor to illustrate what options may be preferable or advantageous for you; What age do you want to retire? What other sources of income will you have during retirement? Do you have a spouse or common-law partner? If so, what are their retirement objectives and expected income sources? Do you have other locked-in funds? What are your other investable assets that will fund retirement, ie: RRSP, TFSA or non-registered?

Your retirement income planning should also factor in your estate planning objectives or priorities. If you expect your beneficiary to be your spouse or common-law partner (or a qualifying beneficiary such as a disabled child) then these funds would be eligible for a tax-free rollover. Perhaps you would prefer that a larger amount remain for their needs and you would therefore favor using other assets or income during your lifetime. Alternatively, if the beneficiary is not a spouse or common-law partner/qualifying beneficiary you may prefer drawing down at a faster rate during your lifetime to reduce the estate tax liability on death.

Considerations

Review the unlocking rules in the applicable jurisdiction with your TD advisor and consider whether you wish to unlock funds, if you qualify and if unlocking will fit within your overall wealth plan. Speak with a tax advisor about the implications of a withdrawal.