

One-time Unlocking of Locked-in Funds

Members of an employer-sponsored pension plan who leave their employer before the normal retirement age often opt to transfer the commuted value of their pension benefits to a locked-in retirement account (LIRA) or locked-in registered retirement savings plan (LRSP) (the name of the account depends on the province of jurisdiction of the pension plan).

Locking-in

To ensure that the funds in these “locked-in” plans are used to secure a lifetime retirement income for ex-pension members (and their spouse or partner), the distinguishing features of these plans from a regular registered retirement savings plan (RSP) are that:

- Rolled over to the registered No withdrawal is allowed until the account is converted to a life income fund (LIF) or locked-in retirement income fund (LRIF) *; and

[The LIF is the prevalent plan in all provinces; the LRIF is now only available for plans governed by Newfoundland legislation.]*

- Special rules in provincial pension legislation restrict the withdrawal of funds from a LIF or LRIF to the prescribed maximum amount, other than in special situations such as financial hardship, shortened life expectancy, small balances or non-residency.

In recent years, however, the locked-in rules in many jurisdictions have been loosened to allow for more substantial unlocking of funds.

Unlocking locked-in funds

Prescribed Registered Retirement Income Fund (PRIF)

Of all the provinces, Saskatchewan has gone the farthest – the full value of a LIRA can be transferred to a PRIF, which has no maximum percentage limit on withdrawals.

Manitoba also permits transfer to a PRIF, but limits the amount that can be transferred to a PRIF to 50% of the value of the LIRA.

One-time Lump Sum Unlocking

Alberta, Ontario and federal pension legislation have all been modified to allow for one-time lump sum unlocking of funds at the time of transfer to a LIF.



For both federal and Alberta plans, one-time unlocking applies to 50% of the plan value.

The one-time unlocking percentage for Ontario locked-in accounts has been changed from 25% to 50% effective January 1, 2010.

Conditions for unlocking

Age requirement:

The plan holder must have reached a certain age – in Alberta, it is 50 years old, whereas federal rules limit the unlocking to those 55 years and older.

Ontario has no age restriction on the unlocking. However, a person's age does play a role in determining the earliest date at which that person could purchase a New LIF: an individual may purchase a New LIF at any time during the year before the year in which he or she would have been entitled to start receiving pension payments from the pension plan from which the money used to purchase the New LIF originated. For example, if the pension plan provides that pension payments from the plan could begin at age 55, the individual could purchase a New LIF at any time during the year in which he or she turns 54.

Procedural requirements:

Federal legislation requires the transfer of plan assets to a special account called the Restricted LIF (RLIF) before amounts can be unlocked. The unlocking must occur within 60 days of the transfer to the RLIF.

Ontario legislation necessitates the transfer of assets to a New LIF before unlocking can take place. Again there is a 60-day window for the unlocking.

In Alberta, the unlocking must take place when the plan holder is about to transfer the funds from a LIRA to a LIF.

Should I unlock?

Greater flexibility in terms of access to funds is the most obvious advantage of lump sum unlocking from a locked-in plan.

Funds that are unlocked into a non-locked-in RSP or registered retirement income fund (RIF) can be fully accessed in case of need, while continuing to enjoy tax deferral until withdrawn. The ability to withdraw the desired amount without regard to legislated maximum limits is not only useful in case of lump sum capital needs (such as the purchase of major items) or emergency cash needs, but may also present the plan holder with greater latitude in personal tax planning.

For those who have a number of locked-in plans governed by different legislation, unlocking may also present an opportunity to consolidate assets. This is because locked-in plans whose assets originate from different jurisdictions may not normally be combined, but unlocked portions from different locked-in plans can be combined into one RSP or RIF.

Are there any reasons why you may not wish to take advantage of the unlocking?

One of the most potent arguments against moving funds out of a locked-in vehicle was the loss of creditor protection. This is because only locked-in plans (the funds of which are derived from registered pension plans) enjoy protection from the claims of creditors upon bankruptcy. However, as a result of the amendment to the Bankruptcy and Insolvency Act in July 2008, all RSPs and RIFs are now also exempt from seizure by creditors in the event of bankruptcy. There is no limit on the amount of money that can be protected and the only exception is where RSP contributions were made in the twelve months prior to bankruptcy, unless provincial law provides otherwise.

Perhaps the biggest determinant in deciding whether to unlock is your own comfort level. After all, locked-in rules are meant to protect plan holders from premature depletion of their retirement assets; so if impulsive spending and imprudent investment management are not your weaknesses, unlocking locked-in plans to gain flexibility is worth considering.



The information contained herein has been provided by TD Wealth and is for information purposes only. The information has been drawn from sources believed to be reliable. Where such statements are based in whole or in part on information provided by third parties, they are not guaranteed to be accurate or complete. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any investment. The information does not provide financial, legal, tax or investment advice. Particular investment, trading or tax strategies should be evaluated relative to each individual's objectives and risk tolerance. TD Wealth, The Toronto-Dominion Bank and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered. TD Wealth represents the products and services offered by TD Waterhouse Canada Inc. (Member – Canadian Investor Protection Fund), TD Waterhouse Private Investment Counsel Inc., TD Wealth Private Banking (offered by The Toronto-Dominion Bank) and TD Wealth Private Trust (offered by The Canada Trust Company).
© The TD logo and other trade-marks are the property of The Toronto-Dominion Bank.

Revised 13/02/2012