Locked-in Plans

This topic paper provides an overview of locked-in plans and summarizes federal and provincial unlocking provisions.

What is a locked-in plan?

A locked-in plan is similar to a Registered Retirement Savings Plan (RSP) or a Registered Retirement Income Fund (RIF), where the funds are “locked-in” subject to either federal or provincial pension legislation. The funds in a locked-in plan will originally have been transferred from a pension plan to which federal or provincial locking-in rules applied. Under the original pension plan, the intention would have been to provide a regular pension income for the life of the pension member, and possibly for the life of a surviving spouse after the death of the pension member. As a result, the funds are not generally available to the plan member to withdraw in a lump sum (subject to certain unlocking provisions outlined below). In addition, the assets are protected from the plan holder’s creditors.

Pre-retirement savings

Until the plan holder (also known as the “annuitant”) reaches the minimum age to take retirement income (outlined in the chart below, usually 55), the transferred assets must remain in a locked-in retirement savings plan, usually either as a Locked-in Retirement Account (LIRA) or a Locked-in Retirement Savings Plan (LRSP) (the plan offered varies by jurisdiction, see chart on next page). The LIRA and LRSP are restricted versions of the RSP that are designed specifically to hold locked-in assets. Unlike an RSP, assets cannot be withdrawn from an LRSP or LIRA, except under special circumstances, which are described later. In addition, individuals cannot contribute to an LRSP or LIRA: these plans are funded through transfers from pensions or other locked-in plans. When the plan holder reaches the minimum age to take retirement income, or before the end of the year in which the annuitant turns 71, the plan holder can use assets to fund a retirement income for life, e.g. through a transfer to a Locked-in Retirement Income Fund (LRIF) or Life Income Fund (LIF) or the purchase of a life annuity.

Retirement income

When the plan holder is ready to take retirement income, one option is to transfer the assets from the LIRA or LRSP, to a LRIF or LIF (the plan offered varies by jurisdiction). The LRIF and LIF are restricted versions of the RIF, designed specifically to hold locked-in assets. As with any RIF, the LRIF and LIF require a minimum annual amount withdrawn from the plan every year. The amount is based on a schedule of factors that increase with age. The age used may be based on the annuitant, or the annuitant’s spouse or common-law partner (hereinafter referred to as “Partner”). However, LRIFs and LIFs also specify a maximum amount that can be withdrawn from the plan over the course of each year. The determination of the maximum is one of the main differences between LRIFs and LIFs, although with constant changes to pension rules, the differences between the plan types are becoming less significant. LIFs determine a maximum payment based on a factor schedule based on the age of the annuitant. The schedule itself is subject to change annually, and differs by jurisdiction. LRIFs determine a maximum based on the growth in the plan. In some jurisdictions LIFs are also adopting this method. In addition, there is a guaranteed maximum in the first two years.

As a result of recent changes to pension legislation providing additional access to locked-in funds, some jurisdictions have introduced new plan types. For example Ontario introduced the New LIF and federal pension legislation has introduced the Restricted LIF. One-time unlocking is permitted within 60 days upon transfer into these plans. These special plans control further transfers to ensure that this provision is only used once. Manitoba and Saskatchewan introduced the Prescribed RIF to accept transfers from locked-in plans. Funds in a Prescribed RIF are not subject to the LIF maximum withdrawal restriction, however as the plan is established under the provincial pension legislation and is funded, directly or indirectly, from a pension transfer, the assets continue to be protected from creditors.

Summary of Unlocking Provisions

Jurisdiction	Plans	Minimum age to take retirement income	One-time unlocking?	Small amounts threshold (plan assets as % of YMPE)	Allow release for financial hardship?	Allow release for shortened life expectancy?	Allow release for non-residency?	Upon death, funds remain in locked-in status?
Federal	LRSP LIF	None	50% Age 55+	55+: 50%	Yes	Yes	Yes	Yes
British Columbia	LRSP LIF	55	No	Any age: 20% 65+: 40%	No	Yes	Yes	Yes
Alberta	LIRA LIF	50	50% Age 50+	Any age: 20% 65+: 40%	Yes	Yes	Yes	LIRA (Yes) LIF (No)
Saskatchewan	LIRA	55	100% to PRIF Age 55+	Any age: 20%	No	Yes	No	No
Manitoba	LIRA LRIF	None	50% to PRIF Age 55+	Formula	No	Yes	No	LIRA (Yes) LRIF (No)
Ontario	LIRA LIF	55	50% Age 55+	55+: 40%	Yes	Yes	Yes	No
Quebec	LIRA LIF	None	No	65+: 40%	No	Yes (LIRA only)	Yes	No
New Brunswick	LIRA LIF	None	Formula	Formula	No	Yes	Yes	No
Nova Scotia	LIRA LIF	55	No	65+: 40%	Yes	Yes	No	No
Newfoundland & Labrador	LIRA LIF LRSP	55	No	Any age: 10% 55+: 40%	No	Yes	No	No

Notes: Saskatchewan offers the PRIF for retirement income; Ontario does not permit transfers to LRIFs after 2008; Manitoba LRIFs are being discontinued on December 31, 2010.

One-time unlocking

Where permitted, an application may be made under this provision for a one-time unlocking of plan assets. Depending on the jurisdiction, the proceeds may be paid out in cash or transferred to a registered plan that does not restrict withdrawals (RSP, RIF or Prescribed RIF).

Federal: One-time unlocking of 50% of the plan value is permitted within 60 days of transfer to a Restricted LIF for plan holders who are at least 55 years old. The amount may be transferred to the individual's non-locked-in plan (RSP or RIF).

Alberta: One-time unlocking of 50% of the plan value is permitted upon transfer to a LIF for plan holders who are at least 50 years old. The amount may be received in cash or transferred to the individual's non-locked-in registered plan (RSP or RIF).

Saskatchewan: A plan holder who is at least 55 years old may apply to transfer the full value of their LIRA or LIF to a Prescribed RIF. This is not limited to a one-time event.

Manitoba: A plan holder who is at least 55 years old may apply for a one-time transfer up to 50% of the value of their LIRA, LIF or LRIF to a Prescribed RIF.

Ontario: One-time unlocking of 50% of the value is permitted within 60 days of transfer to a New LIF as of 2010. The amount may be received in cash or transferred to the individual's non-locked-in registered plan (RSP or RIF).

New Brunswick: One-time unlocking is permitted from a LIF. Amounts must be transferred to the individual's non-locked-in registered plan (RSP / RIF). The maximum amount that can be transferred is the lesser of:

- Three time the annual maximum payment for the year, or
- 25% of the balance of the LIF on the first day of the fiscal year

This amount is over and above the annual maximum payment from the LIF for the year.

Small amounts

All jurisdictions now allow the full value of the locked-in plan to be withdrawn in cash or transferred to the individual's non-locked-in registered plan (RSP or RIF) if the account falls below a certain threshold balance, depending on the plan holder's age.

Federal: If the plan holder is 55 or older, funds may be withdrawn if the value of the plan is less than 50% of the Year's Maximum Pensionable Earnings (YMPE)[1]. Assessment is done across all federally regulated plans. This provision does not apply to locked-in RSPs.

British Columbia: Funds may be withdrawn at any age if the value of the plan (assessed on an individual plan basis) is less than 20% of the YMPE. If the plan holder is 65 or older, funds may be withdrawn if the value of all plans (assessment done across all plans) is less than 40% of the YMPE.

[1] The YMPE is $50,100 for 2012 and changes annually

Alberta: Funds may be withdrawn at any age if the value of the plan is less than 20% of the YMPE. If the plan holder is 65 or older, funds may be withdrawn if the value of the plan is less than 40% of the YMPE. Assessment is done on an individual plan basis. Plans cannot be split up in order to fall below the threshold.

Saskatchewan: Funds may be withdrawn if the value of the plan does not exceed 20% of the YMPE. Assessment is done across all plans.

Manitoba: Funds may be withdrawn if the value of all plans, compounded annually at a rate of 6% per year for each year the age (as of December 31 of the year of application) of the plan holder precedes age 65, is less than 40% of the YMPE. Assessment is done across all plans.

Ontario: If the plan holder is 55 or older, funds may be withdrawn if the value of the plan is less than 40% of the YMPE. Assessment is done across all plans.

Quebec: If the plan holder was 65 or older at the end of the previous year, funds may be withdrawn if the value of the plan is less than 40% of the YMPE. Assessment is done across all plans.

New Brunswick: Funds may be withdrawn if the value of the plan is less than 40% of the YMPE divided by 1.06 for each year the age the plan holder precedes age 65. Assessment is done across all plans. The total of the pension adjustments reported to the CRA must be zero for the two taxation years immediately preceding the request for withdrawal.

Nova Scotia: If the plan holder is 65 or older, funds may be withdrawn if the value of all plans is less than 40% of the YMPE. Assessment is done across all plans.

Newfoundland & Labrador: Funds may be withdrawn at any age if the value of the plan is less than 10% of the YMPE. If the plan holder is 55 or older, funds may be withdrawn if the value of the plan is less than 40% of the YMPE. Assessment is done across all plans governed by Newfoundland pension benefits legislation.

Financial hardship

Application can be made under this provision if the plan holder faces financial hardship. Criteria regarding hardship are outlined below.

Federal: To qualify for withdrawal under the financial hardship provision, one of the following criteria must be met:

- The plan holder expects to make medical expenditures of more than 20% of their income. In this case the maximum withdrawal will be the lesser of the medical expenses or 50% of the YMPE.
- The plan holder expects to earn less than 75% of the YMPE in the calendar year. In this case the maximum withdrawal will be (50% x YMPE) - (2/3 x expected income) – (financial hardship withdrawals).

Note: Application may be made under both criteria, but the maximum withdrawal is 50% of the YMPE.

Alberta: To qualify for a withdrawal under the financial hardship provision, one of the following criteria must be met:

- The plan holder or their partner risks eviction from their principal residence due to rent arrears
- The plan holder or their partner risks foreclosure due to debt secured against the principal residence
- The plan holder or their partner needs first and last month's rent on a principal residence
- The plan holder has incurred necessary medical expenses (including those incurred by their spouse/dependent) not covered elsewhere
- The plan holder needs money for home renovations due to a disability or illness that affects the individual or their spouse or dependent
- The plan holder's expected annual income is less than 2/3 of the YMPE
- The plan holder requires the funds for payment of income taxes in arrears
- The plan holder is facing a situation of financial hardship deemed to qualify by the Superintendent of Pensions

Ontario: To qualify for a withdrawal under the financial hardship provision, one of the following criteria must be met:

- The plan holder or their spouse risks eviction from their home or rented residence
- The plan holder has incurred necessary medical expenses (including those incurred by their spouse/dependent) not covered elsewhere
- The plan holder expects to earn less than 2/3 of the YMPE over the next 12 months
- The plan holder needs first and last month's rent
- The plan holder needs money for home renovations to accommodate the use of a wheelchair or other needs related to a disability or illness that affects the individual or their spouse or dependent

Nova Scotia: To qualify for a withdrawal under the financial hardship provision, one of the following criteria must be met:

- The plan holder has defaulted on mortgage payments for their principal residence or risk eviction
- The plan holder has medical expenses (including those incurred by their spouse/dependent) not covered elsewhere
- The plan holder expects to earn less than 40% of the YMPE over the next 12 months.

Shortened life expectancy

Application can be made under this provision if the plan holder suffers from a terminal illness or disability that is expected to shorten the plan holder's life. If application is made, the individual will receive income from the plan either in the form of a lump sum or periodic payments. A doctor must certify in writing that the plan holder's life is expected to be considerably shortened due to terminal illness or disability.

Non-residency

Where permitted, individuals who have been a non-resident of Canada for at least two years may apply under this provision to withdraw or transfer all of the funds from their plan. The plan holder must provide written confirmation from the Canada Revenue Agency (CRA) that they have been a non-resident of Canada for the purposes of the Income Tax Act for at least two years at the time they sign the application. If application is made under this provision, the full value of the plan must be withdrawn or transferred to the individual's non-locked-in registered plan (partial unlocking not permitted).

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