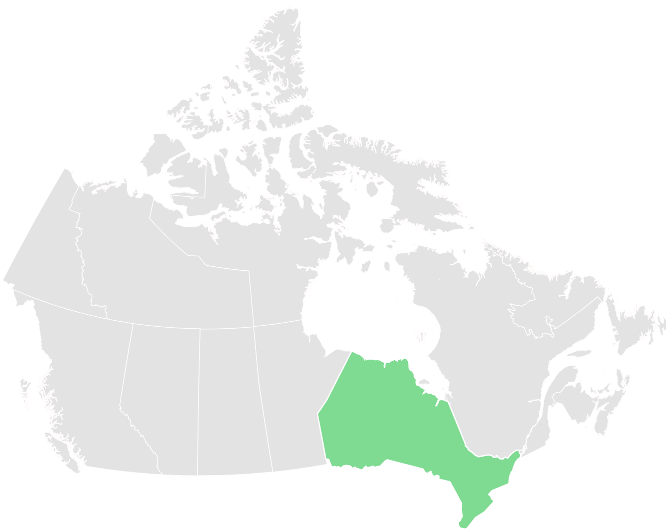
TD Wealth

Locked-in Plans

Understanding the Ontario Pension Legislation



If you have funds in a "Locked-in" Plan governed by the Ontario pension legislation, the following will provide an overview of certain requirements and procedures for you to access your funds. 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.

It should be noted that these rules are subject to change at any time and the Ontario pension legislation 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.

Please visit:
https://www.fsrao.ca/consumers/pensions/locked-pension-accounts

Year's Maximum Pensionable Earnings (YMPE): Unlocking provisions are often based on the YMPE which for 2020 is **$58,700.**

Locked-in Retirement Account (LIRA): A LIRA is similar to a Registered Retirement Savings Plan (RRSP), however a plan holder cannot contribute additional funds to the account and will be restricted in how funds can be withdrawn. Funds are fully taxable when withdrawn. The plan holder may convert to a Life Income Fund (LIF) or purchase an annuity as of 55 years old or earlier if permitted by the pension plan and must do so no later than December 31st of the year in which they turn 71.

Life Income Fund (LIF): A LIF operates similarly to a Registered Retirement Income Fund (RRIF), with the main difference being that in addition to a minimum prescribed amount that must be withdrawn as income each year, there is also a prescribed maximum.

Minimum Retirement Age: Generally age 55, but may be earlier depending on the age at which the member may receive their pension benefits under the terms of their specific pension plan.

One-time unlocking:

- The one-time unlocking request must be made within 60 days from the date the money is transferred from a LIRA to a New LIF.
- The plan holder must be at least 55 years of age to open a New LIF. In some instances unlocking can be done earlier depending on the terms outlined in the client's pension documents.
- Up to 50% of the total market value of the assets transferred from the LIRA to the New LIF can be unlocked.

- Unlocked funds can be transferred to an RRSP or RRIF account, or withdrawn subject to the applicable federal, provincial, and non-resident withholding taxes.
- The plan holder and their spouse, if applicable would need to complete Form 5.2: Consent of the Owners Spouse to the Withdrawal or Transfer.

Small balance:

- The plan holder is at least 55 years old, and the total value of all locked-in accounts is less than 40% of the YMPE (i.e. a combined total of less than $23,480 for 2020).
- The entire amount can be withdrawn as a lump sum.
- The plan holder and their spouse, if applicable would need to complete Form 5: Consent of the Owners Spouse to the Withdrawal or Transfer.

Financial hardship:

- Up to 50% of the YMPE can be withdrawn at any age from a LIRA or LIF under the financial hardship provisions.
- There are four reasons allowed for requesting a withdrawal under financial hardship;
  - Medical Expenses (Form FHU1)
  - Arrears of Rent or Mortgage (Form FHU2)
  - First and Last Months' Rent (Form FHU3)
  - Low Expected Income (Form FHU4)
- One request per reason above is allowed per calendar year.
- Supporting documentation may be required and is detailed on the application form.
- Spousal consent is required and included on the application form.

Non-resident withdrawal:

- The plan holder must be a non-resident for Canadian income tax purposes for at least two years and obtain a written confirmation from the Canada Revenue Agency (CRA).
- The plan holder will be allowed to unlock the full value of their LIRA or LIF at any age.
- The plan holder and their spouse, if applicable would need to complete Form 5: Consent of the Owners Spouse to the Withdrawal or Transfer.

Reduced life expectancy:

- A physician licensed to practice medicine in Canada must provide a letter of opinion stating that the illness or physical disability is likely to shorten the plan holder's life expectancy to less than two years.
- The plan holder can withdraw the full value of their LIRA or LIF in a lump sum, or in a series of payments. Withdrawals are subject to applicable federal, provincial, or non-resident withholding taxes.
- The plan holder and their spouse, if applicable would need to complete Form 5: Consent of the Owners Spouse to the Withdrawal or Transfer.

At death:

- If the annuitant of a LIRA passes away;
  - The funds will be unlocked and the surviving spouse or common-law partner can transfer the amount to their RRSP or RRIF, or receive a cash lump sum payment.
  - If the surviving 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.

Considerations

Review the unlocking rules with your TD advisor and consider how unlocking may fit within your overall wealth plan and assist you in meeting your retirement goals. Ensure you also speak with a tax advisor about the implications of a withdrawal.