Locked-in Plans

Understanding the Federal Pension Legislation (including Northwest Territories, and Yukon)

If you have funds in a "Locked-in" Plan governed by the Federal 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 Federal 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:
http://www.osfi-bsif.gc.ca/Eng/pp-rr/faq/Pages/default.aspx

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however a plan holder cannot contribute additional funds to the account and will be restricted in how funds can be withdrawn. Funds are fully taxable when withdrawn.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 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Income Fund (RRIF), with the main difference being that in addition to a minimum prescribed amount that must be withdrawn as income each year, there is also a prescribed maximum.

Restricted Life Income Fund (RLIF): A RLIF has the same characteristics as a LIF, with the exception that it allows for a one-time unlocking provision. The unlocked funds could then be transferred to a RRSP or RRIF, effectively removing any withdrawal limitations from this portion.

Restricted Locked-in Savings Plan (RLSP): A RLSP is a locked-in account that consists of funds transferred in from a RLIF. RLSP accounts are utilized when the plan holder wishes to utilize unlocking provisions without creating an income stream. The plan holder must convert back to an RLIF or purchase an annuity no later than December 31st of the year in which they turn 71.

Minimum Retirement Age: 55 years old.

One-time unlocking:

- The plan holder must be at least 55 years of age to open a LIF or RLIF.
- The one-time unlocking request must be made within 60 days from the date the money is transferred into a RLIF from a pension plan, LRSP, or LIF.
- Up to 50% of the total fair market value of the assets transferred into a RLIF can be unlocked.
- Unlocked funds can be transferred to an RRSP or RRIF account. The funds cannot be taken directly in cash from an RLIF. Cash, subject to applicable withholding taxes, can be subsequently withdrawn from the RRSP or RRIF.
- The spouse or common-law partner would need to sign Form 2: Attestation(s) Regarding Spouse/Common-Law Partner.

Small balance:

- The plan holder is at least 55 years old, and the total value of all locked-in accounts is less than 50% of the YMPE.
- The entire amount can be withdrawn as cash (taxable) or transferred to an RRSP or RRIF account.
- The plan holder would need to complete and notarize Form 3: Attestation of Total Amount Held in Federally Regulated Locked-In Plans.
- The spouse or common-law partner would need to sign Form 2: Attestation(s) Regarding Spouse/Common-Law Partner.

Financial hardship:

- A maximum of up to 50% of the YMPE can be withdrawn at any age from a federal locked-in account under the financial hardship provisions.
- There are two reasons allowed for requesting a withdrawal under financial hardship;
  - Low Income (earning less than 75% of YMPE)
  - High Medical or Disability-related Costs (expenses are more than 20% of annual income)
- More than one withdrawal per calendar year is permitted provided that the second request is done within 30 days of the first withdrawal.
- The plan holder would need to complete and notarize Form 1: Attestation Regarding Withdrawal Based on Financial Hardship.
- The spouse or common-law partner would need to sign Form 2: Attestation(s) Regarding Spouse/Common-Law Partner.
- For withdrawals relating to High Medical or Disability-related Costs, the application must include a certification signed by a licensed physician stating that the treatment or adaptive technology is required to accommodate a condition or disease.

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 federal locked-in account at any age.
- Withdrawals are subject to applicable non-resident withholding taxes.

Reduced life expectancy:

- The application must include a certification signed by a licensed physician stating that a mental or physical disability has considerably shortened the life expectancy of the plan holder.
- The plan holder can withdraw the full value of their federal locked-in account in a lump sum, or in a series of payments. Withdrawals are subject to applicable federal, provincial, or non-resident withholding taxes.

At death:

- If the annuitant has a surviving spouse or common-law partner the funds will remain in a locked-in account.
- 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 the 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.