Locked-in Pensions

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Unlocking Locked-in Pensions

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Although there are significant restrictions on the use of locked in assets, here are a number of planning ideas that can provide additional flexibility for your locked-in funds!

The most significant development worth noting is a recent change in Ontario pension legislation which now provides a "one time" opportunity to unlock up to 25% of your locked-in account.

Less obvious but none the less, very effective is a strategy unlocks the difference between the minimum and maximum withdrawal limits on an annual basis. In Ontario, you can begin accessing your locked-in accounts as early as age 55. Once a Life Income Fund (LIF) and/or a Locked-In Retirement Income Fund (LRIF) has begun, as long as the minimum withdrawal amount is taken as income, the difference between the annual minimum withdrawal and maximum withdrawal can be transferred to a non-locked Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF).

The transfer of any amount to a non-locked RRSP or RRIF effectively unlocks that money and provides greater flexibility. By making full use of maximum withdrawal limits, thousands of dollars of pension savings can be unlocked while remaining tax-sheltered.

One possible downside to this strategy is that the minimum amount must be taken into income each year. If implemented early enough however, you can lower the minimum amount that is required to be withdrawn. If you don't need the income, you may still want to consider this strategy as early as possible and use the minimum payment you have to take into income to make your annual RRSP contribution or use it to make a tax deductible interest payment on money borrowed to investment purposes.

With the help of your advisor, the steps to implement this strategy are fairly straight forward:

- On an annual basis, you request a lump-sum transfer equal to the difference between the minimum and the maximum withdrawal amounts. You can make this request anytime you wish throughout the year. To affect this direct transfer, you complete CRA form T2030 "Direct Transfer Under Subparagraph 60(I)(v)".

- Offsetting receipts are issued by the LIF/LRIF carrier and the receiving RRSP/RRIF institution. The resulting inclusion and deduction from your income will be a wash, and thus will result in a non-taxable event.

- This direct transfer has no impact on your current available RRSP contribution room.

Other planning ideas to consider;

If you are at least 55 years old and the total value of all your assets held in every Ontario LIRA, LIF, and LRIF you own is less than 40% of the current year's Maximum Pensionable Earnings (YPME), you can apply to withdraw all the money in your LIRA, LIF, or LRIF accounts.

If you have an illness or physical disability that is likely to shorten your life expectancy to less than 2 years, you can apply to withdraw all or part of the money in your LIRA, LIF or LRIF.

You can obtain more information on the last two planning ideas by visiting the Financial Services Commission of Ontario website at www.fsco.gov.on.ca. Follow the link under Consumer Information

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