Understanding Locked-in Plans

Note: This article replaces our original article Understanding Locked-In Plans

What does "Locked-in" mean?

Locked-in funds originate from a Registered Pension Plan (RPP). If an employee remains with a company until their normal retirement age, their pension plan will provide an income for life. If an employee terminates their employment at a company, or their pension plan is being wound up, their full vested (owned) pension benefits may be transferred to a locked-in plan. Depending on your province of residence these locked-in plans will either be referred to as a Locked-in RRSP (LRSP) or a Locked-in Retirement Account (LIRA).

Pension funds are meant to last employees their lifetimes, even when they have been transferred to a locked-in plan. (The RRSP is not a viable option because it can be collapsed at any time and would defeat the intentions of providing a lifetime pension). As a result, the governing legislation controls these funds, even though the employee can invest them as they wish. Withdrawals are not allowed from LRSPs/LIRAs, except in limited circumstances i.e. you have a shortened life expectancy. At retirement or, at the latest, the end of the year in which you turn 69, the funds from your LRSP/LIRA must be rolled into one or a combination of a Life Annuity, a Life Income Fund (LIF) or, if available in your province, a Locked-in Retirement Income fund (LRIF).

Governing Jurisdiction

Company pension plans in Canada can be established and registered under either provincial or federal legislation. **The legislation governing a client's funds must be established upon opening the locked-in plan, as this will determine what type of plan will be opened**. The pension plan administrator or the financial institution transferring the funds should provide the information necessary to correctly identify the jurisdiction governing the customer's funds.

Provincially Regulated Pension Plans

Most pension plans are established under provincial legislation. For all provinces and territories except Quebec, the province in which the client resides on the date they terminate employment determines the governing jurisdiction, which may in fact differ from the jurisdiction in which the company is registered.

For example, a client living in Ontario the day they terminate their employment will have their funds under Ontario jurisdiction. Even if the client moves to B.C. and transfers their pension funds, the client must still open a LIRA and not an LRSP because the funds are still under Ontario jurisdiction.

For Quebec, clients employed at a location in Quebec regardless of where they live are governed under Quebec legislation and the pension funds transferred out must have a Quebec registration code

Federally Regulated Pension Plans

The client's governing jurisdiction is Canada regardless of place of residence. This applies for crown corporations or companies under federal charter (e.g. all banks, Canadian National Railways and Air Canada). For example, a client living in Alberta (which offers LIRAs) who has federally regulated funds will be required to open an LRSP, since federally regulated funds require LRSPs and not LIRAs.

What is the difference between an LRSP and a LIRA?

LRSPs and LIRAs are essentially the same product.

- An **LRSP** is where the plan issuer signs an agreement with an employer to lock-in pension plan proceeds until retirement.
- The age at which the funds may be converted to an income generating account such as a LIF, LRIF or annuity, vary with the pension legislation governing the plan.
- No additional contributions can be made to the plan, and any amounts earned by the funds also become locked-in.
- **LRSPs are available only in British Columbia, Nova Scotia, Prince Edward Island, the Yukon, Northwest Territories and for federally regulated pension plans, regardless of province**.
- A **LIRA** is a locked-in account governed by provincial legislation; therefore only those who hold provincially registered pension plans may transfer their funds to a LIRA.
- The age at which the funds may converted to an income generating account such as a LIF, LRIF or annuity, vary with the provincial pension legislation governing the plan.
- No additional contributions can be made to the plan, and any amounts earned by the funds also become locked-in.
- **LIRAs are only available in Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick and Newfoundland.**

Maturity Options

The earliest age that you may transfer your LRSP or LIRA into a LIF, LRIF or an annuity varies from province to province. The governing jurisdiction dictates the minimum age when a client can transfer their locked-in funds. The chart below show the earliest age at which a LRSP or LIRA may be transferred.

Minimum age to Transfer LRSP/LIRA to Income

Jurisdiction	Transfer to LIF/LRIF	Transfer to Life Annuity
B.C.	Earliest retirement age under RPP	Age 55 or earlier if provided in RPP
Alberta	Minimum age 50	Minimum age 50
Saskatchewan *	Minimum age 55 *	Minimum age 55 *
Manitoba	At any age	At any age
Ontario	Age 55 or earlier if provided in RPP	NRA as defined by RPP
Quebec	At any age	NRA as defined by RPP
New Brunswick	Anytime	Anytime
Nova Scotia	No earlier than 10 years prior NRA of RPP	Minimum age 55
Newfoundland	NRA as defined by RPP	NRA as defined by RPP
Federal	At any age	At any age

* Saskatchewan's pension legislation was recently amended to allow the transfer of locked-in assets to a 'prescribed' RRIF either at age 55 or at an earlier age as long as the underlying pension plan allows such a transfer (but not pension plans that are controlled under federal pension plan legislation).

Provincial legislation not in force yet for Prince Edward Island.

NRA= Normal Retirement Age
RPP= Registered Pension Plan

What is a Life Annuity?

Prior to pension reform in the early 1990's, a Life Annuity was the only option for a client. A Life Annuity is a contract whereby the client will receive a guaranteed income stream for life. A Life Annuity will allow customers to know exactly what the payment stream will be for the rest of their lives, but does not allow for continued investment growth.

Life Income Funds (LIFs)

A LIF is an account where the client maintains control of the investments and may continue to invest their portfolio in the same wide range of products held in their LRSPs/LIRAs. The list of qualified investments are the same for RRSPS and RRIFs, with the exception of mortgages which are excluded in some provinces. As is the case for RRSPs, up to 30% of the book value of the plan may be invested in qualified foreign investments.

Legislation requires that you purchase a life annuity (which include a 60% spousal survivor benefit, unless your spouse waives this requirement) by the end of the year in which you turn 80, at the latest. (Note: in Quebec, New Brunswick and Nova Scotia LIFs no longer have to be annuitized).

Withdrawals from a LIF

Each year the amount that you can take out of your LIF will vary depending on the amount of money you withdraw, the income your plan earned and any market fluctuations that may occur. A LIF is similar to a RRIF in that it requires that you take a minimum payment out of the plan each year. The minimum payment levels are calculated using the same method that is used for RRIF payments. Additionally, the LIF accounts are subjected to a maximum withdrawal limit. The maximum amount is established by a formula, which takes into account a discount factor (referred to as the CANSIM Rate) and the persons age.

In the first year a LIF is opened, there is no minimum withdrawal required, however there is still a maximum ceiling if you do take a withdrawal. This maximum is pro-rated for then number of months, including the month you transfer into the plan, that are remaining in the year.

Locked-in Retirement Income Funds (LRIF)

The provinces of Alberta, Saskatchewan, Manitoba, Ontario and Newfoundland provide an additional option of transferring your locked-in plan to a LRIF at retirement. While a LRIF has a minimum and maximum withdrawal limitation, you do not have to purchase a life annuity at age 80. This allows you to manage the investments in your LRIF for as long as you live.

Withdrawals from a LRIF

The minimum annual payment from a LRIF is the same as a LIF, however, the maximum limit calculated differently. The maximum annual withdrawal is the greatest of:

a) the investment earnings (including unrealized capital gains and losses) in the previous year.
b) the market value at January 1 minus the net value of all transfers ever made into and out of the plan.
c) in the year the plan commences and in the following year, 6% of the plan's value
d) in all provinces except Saskatchewan, if funds are transferred from a LIF, payment in the 2nd year is equal to the investment earnings in the previous year from both the LIF and LRIF plans.

If the minimum you are required to withdraw exceeds the maximum, the minimum prevails.

Conclusion

LIFs and LRIFs provide former pension plan members with increased flexibility in planning and managing their retirement incomes.

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