



Unlocking locked-in funds

While pension assets represent an important source of retirement income, locking-in restrictions can hamper retirement income planning flexibility. By making full use of maximum withdrawal limits, thousands of dollars of pension savings can be unlocked while remaining tax-sheltered.

Individuals with pension savings often transfer these assets to a locked-in plan, such as a Life Income Fund (LIF) or Locked-In Retirement Income Fund (LRIF), to provide retirement income. While these plans provide a certain degree of flexibility, the annual minimum and maximum withdrawal limits can restrict retirement income planning.

For those who are looking for additional retirement income flexibility, there is a straightforward strategy that can unlock some of these locked-in funds.

For individuals who need less than the maximum LIF or LRIF withdrawal amount each year, the difference

between this maximum amount and the amount actually withdrawn from the plan can be transferred directly to a Registered Retirement Savings Plan (RRSP) if they are 69 or younger, or to a Registered Retirement Income Fund (RRIF).

The advantage? They are able to unlock a portion of their locked-in savings without losing the benefit of tax-sheltered investment growth. The unlocked funds can be used when the need arises, without maximum withdrawal restrictions.

AN IN-DEPTH LOOK AT THE ISSUE... AND THE OPPORTUNITIES

Pension legislation imposes a maximum amount that can be withdrawn from LIFs and LRIFs because these plans hold pension assets that remain under pension legislation. If the maximum amount is not withdrawn from a locked-in plan, it continues to be locked-in, even though the individual had an opportunity to withdraw it.

Any unused amounts between the minimum and maximum amounts, however, can be transferred to a regular RRSP for those 69 or younger, or to a RRIF each year. This unlocks assets that would otherwise remain locked-in, and also reduces the amount in the LIF that must be annuitized at age 80 (Ontario and Newfoundland).



While the person may not need immediate access to these funds, they gain future flexibility in their retirement income planning.

TIP

■ If funds are currently in a Locked-in Retirement Account (LIRA), individuals can transfer to a LIF or LRIF as soon as pension legislation allows. This is typically at age 55, but varies by province – Alberta is age 50; Manitoba, Quebec, New Brunswick and funds governed by federal legislation have no age requirements. Following this course of action means they will need to make their annual withdrawals earlier than they might have planned – but they benefit by the unlocking occurring earlier as well

MAKING IT WORK

Richard is a 55-year-old investor who transfers a \$250,000 LIRA to a LIF. The funds earn an annual return of 8 per cent.

In the first year you can transfer the full amount allowed since there is no minimum.

In the second year at age 56, the annual:	
LIF maximum is	6.57%*
LIF minimum is	2.94%
Difference is	(3.63% of \$250,000) the amount that can be unlocked is \$9,075

In this example, \$98,800 could be transferred to an RRSP or RRIF over a 10-year period. And since Richard also unlocks the future investment earnings on any amount transferred, the total amount unlocked over the 10-year period becomes \$130,800. If a younger spouse's age was used to calculate the RRIF minimum, more funds would become unlocked each year.

The unlocked funds can provide significant opportunities – providing the financial flexibility to meet changing financial needs during retirement, or for an emergency situation should it arise.

CONSIDER UNLOCKING WITH A LIF INSTEAD OF USING AN LRIF

While not all provinces offer LRIFs, they are a popular option in those provinces that require LIFs to annuitize at age 80.

There is a drawback, however, and that is that the calculation of the LRIF maximum withdrawal amount can reduce an individual's ability to access funds they may need in any given year. Here's why.

The LRIF maximum withdrawal amount changes each year based on investment earnings, and is far less predictable than that of a LIF. A gap between the minimum and the maximum withdrawal amounts only occurs when the investment returns are greater than the LRIF minimum. Although this is usually quite achievable in the earlier years, it becomes more difficult as the age of the LRIF holder increases.



* Assumes Ontario LIF with 50% of maximum available in the first year.



For example, the LRIF minimum at age 71 is 7.38 per cent, at age 80, 8.75 per cent, and at age 85 it's 10.33 per cent. If returns are less than the LRIF minimum, the LRIF minimum and maximum will be the same, offering no choice with respect to how much to withdraw in those years, even if funds are needed in the event of an emergency.

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 for investment purposes.

IDEAL CANDIDATES

An unlocking strategy for pension savings is worth considering for those who:

- Are relying or plan to rely primarily on pension funds as their main source of retirement income
- Are looking for more flexibility in terms of access to their retirement savings
- Anticipate needing less than the maximum amount from their LIF or LRIF over the next several years

TAKE ACTION

The unlocking strategy is an easy one to carry out each year. You simply need to:

- Select the minimum withdrawal amount (or the amount needed as income) from the LIF or LRIF
- Complete form T2030 once a year to transfer any leftover maximum to an RRSP (for those under age 69) or to a RRIF

This is a direct transfer, so no RRSP contribution room is required and there is no withholding tax.

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