Locked-in Retirement Savings Plans

If you were a member of a pension plan and subsequently terminated your participation in that plan, you are generally given options on what to do with your vested portion. The amount available to you can either be left in the plan until you reach the plan's normal retirement date, used to purchase an annuity or you can transfer the amount to a Registered Retirement Savings Plan ("RRSP"). If you choose the third option, there are conditions imposed on the RRSP by the provincial regulator who oversaw the pension plan from which the amount came from. The main condition is that the amounts deposited into the RRSP must remain "locked-in" until you reach normal retirement age. The following is a description of the types of locked-in plans currently in place.

Locked-in Retirement Accounts/ Locked-In RRSPs

Locked-in Retirement Accounts (LIRAs) or locked-in RRSPs ("LRSP")(the name varies from one province to another) are virtual mirrors of regular RRSPs, with one important difference: LIRAs/LRSPs hold assets that originated in your employer-sponsored pension plan and, for that reason, usually restrict access to the funds until the plan holder reaches retirement age. In contrast, funds in a regular RRSP may be withdrawn at any time, albeit with tax consequences (except when they are being used to pay for higher education or a first home).

A LIRA/LRSP provides an alternative to leaving the funds in a pension plan when, for example, your membership in a pension plan ends, or if a marriage or common-law relationship breaks down and pension credits must be split. Transferring a lump sum from a pension plan to a LIRA allows the income earned by this money to continue accumulating on a tax-deferred basis as long as it remains in the plan.

In recent years, LIRAs/LRSPs have grown to resemble regular RRSPs even more closely. Under pressure from Canadians who consider the locked-in provisions unfair, pension regulators in various jurisdictions have been relaxing some of the rules. For example, since 2000, plan holders in Ontario may apply to withdraw locked-in funds for reasons of financial hardship or shortened life expectancy. In addition, most provinces now allow for a percentage of a LIF, one of the programs used to turn your LIRA/LRSP into a retirement income stream, to be unlocked and transferred to a personal RSP or taken in cash, less withholding tax.

By the end of the year in which the taxpayer turns 71, a LIRA/LRSP must be transferred to one of the following:

1) a life annuity provides regular periodic payments for life, depending on the purchaser's (and perhaps their spouse's) age and sex, and current interest rates
2) life income fund (LIF) allows control over investments in the account, and is subject to minimum and maximum annual withdrawals
3) locked-in retirement income fund (LRIF) (where available) allows control over investments in the account, and is subject to minimum and maximum annual withdrawals

Federal or provincial pension legislation defines the minimum age at which a LIRA/LRSP can be transferred to a life annuity, LIF or LRIF.

CUMIS®

CUMIS® is a trademark of CUMIS Insurance Society, Inc. and is used under licence. 01/09