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Locked-in Accounts

Segment on the Overview

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My name is Brian Mills and I'm the Acting Deputy Superintendent of Pensions at the Financial Services Commission of Ontario.

I'm pleased to welcome you to today's webcast, which will discuss the rules governing locked-in accounts in Ontario.

Over the past few years, we have received substantial inquiries from individuals who either own a locked-in account or are interested in purchasing one. They have asked how locked-in accounts work and about the rules and restrictions for them. They have been interested in knowing about the special applications for withdrawals from locked-in accounts. This webcast will address these questions, and others as well.

After you have listened to the webcast, we'd appreciate it if you could please complete the short survey. It will only take a few minutes, and will greatly assist us in identifying topics for new webcasts and in making future improvements.

Our two webcast speakers Sharon Polischuk and Rebecca Hines will now deliver the presentation. I thank you for your time, and hope you find this webcast both informative and helpful.

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Thanks Brian.

Hello, my name is **Sharon Polischuk.** I'll be hosting this webcast with my co-presenter **Rebecca Hines**.

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The webcast is also available in French. If you prefer to view this webcast in French, return to the FSCO website and simply click on the word "français" in the top right hand corner of the webcast page.

The presentation has been divided into 4 sections and there are self assessment questions throughout. Note that throughout this presentation, there are hotlinks that you can click on for additional related information. When you want to return to the webcast, simply close the link, and you can continue.

You may start and stop viewing the webcast at anytime.

And if you have any questions, please e-mail us at the address provided on the slide.

Finally, please complete the survey at the end.

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This webcast will discuss the rules that apply to "locked-in accounts" in Ontario. We will explain what locked-in accounts are and will provide:

- an overview of each of the four types of locked-in accounts;
- an explanation of the main rules, requirements and restrictions for each type of account; and
- a discussion of special applications that can be made to withdraw money from locked-in accounts in certain situations that are set out in the law.

We will be presenting this information from the perspective of individuals who already own a locked-in account or who wish to purchase one.

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"Locked-in accounts" are special savings arrangements that receive locked-in money transferred from a pension plan. When an individual who was a member of a pension plan leaves their job before retirement age, they can transfer the value of their pension into one of these locked-in accounts.

In addition, members of multi-employer pension plans, or "MEPPs", can transfer their pension money to a locked-in account when they end their membership in the pension plan. And spouses or former spouses of pension plan members have the option of transferring the pension money to which they are entitled to a locked-in account if their spousal relationship ends.

The same way that money in your pension plan has to be preserved for your retirement, the money in your locked-in account also has to be preserved for your retirement, that means you cannot usually get access to it until you reach retirement age. This is why they are called "locked-in".

All locked-in accounts have to be set up as either an RRSP or a RRIF. They must satisfy the requirements of the Income Tax Act of Canada (ITA) for RRSPs or RRIFs as well as the requirements of Ontario pension legislation, the Pension Benefits Act (PBA).

It might be useful to think of locked-in accounts as "RRSPs or RRIFs with additional restrictions" that will preserve the money for retirement.

Unlike other jurisdictions in Canada, Ontario does not review or register locked-in accounts or maintain a list of approved locked-in account contracts. It is up to each financial institution to comply with the laws that govern these accounts.

Locked-in accounts fall under two types – LIRAs (locked-in retirement accounts) and LIFs (life income funds). Under the LIF category, you have the original LIF (also known as "old LIF") and LRIFs (locked-in retirement income funds) as well as the new LIF. In the next few slides we will be talking about these types of accounts and how they work.

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Locked-in retirement accounts are registered retirement savings plans for pension money that have additional rules and requirements. They were formerly called "locked-in RRSPs".

Members of pension plans who terminated their employment before retirement age and are eligible have the option of transferring the value of the pension they earned to a LIRA. This also applies to those whose plan has wound up. It also includes a member's spouse or former spouse who is entitled to a portion of the member's pension as a result of a breakdown in the spousal relationship.

The main features of LIRAs are:
- the money is locked in to retirement;
- no money can be withdrawn except for special circumstances, which we will discuss later;
- the money in the LIRA grows on a tax-sheltered basis; and
- when the LIRA ends, the money can be used to buy a New LIF or an annuity from an insurance company.

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The life income fund was introduced in 1992 to provide greater flexibility and allow for some money to be paid out during retirement.

LIFs are RRIFs - registered retirement income funds – with additional restrictions:
- first, a certain minimum amount under the ITA must be paid out as income each year;
- there is a maximum amount that can be paid as prescribed under the PBA, which changes each year;
- the maximum amounts are calculated based on a formula in the regulations; and
- the money in this vehicle grows on a tax sheltered basis.

The LIF owner continues to receive annual payments as long as an amount remains in the account.

There are certain age restrictions on who can buy a LIF and a requirement that the purchaser's spouse must agree to the purchase, which we will discuss shortly.

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Original LIF – 1992 ("Old LIF")
- A certain amount must be paid as income each year
- The minimum amount must be paid each year based on ITA rules
- The maximum that can be paid out based on the "LIF formula"
- It had to purchase an annuity no later than age 80
- And there is no unlocking.

Locked-In Retirement Income Fund 2000 ("LRIF")
- It is the same as the Old LIF plus,
- The maximum payment greater of amount under the LIF formula and investment returns in the previous year

- There is carry-forward for amounts not withdrawn
- And there is no unlocking.

New LIF – 2008 ("New LIF")

- The annuity purchase requirement was eliminated
- The maximum payment is the greater of the amount under the LIF formula and investment returns in the previous year
- Up to 25% of money transferred into a New LIF can be unlocked. This 25% was increased to 50% in January 2010.

Harmonized rules – January 1, 2011

- All 3 types of LIF rules are the same going forward. All LIFs pay the same minimum ITA amounts and maximum PBA amounts.
- The former LRIF carry-forward has been eliminated.
- The requirement to purchase an annuity at age 80 was also eliminated.
- Unlocking –
    - Old LIFs and LRIFs were permitted to unlock 50% - This was a time limited option which expired in April 2012. There is no more unlocking of the old LIF or LRIF.
    - The original new LIF 25% unlocking was increased to 50% starting in January 2010. There was a time limited option for those who had taken out 25% previously to take out an additional 25%. This option expired in December 2010.
    - An old LIF or an LRIF can be rolled into a new LIF but there is no provision for unlocking 50% under the new LIF in this event.

- There are some differences: There can be no transfers of money into an existing Old LIF or an LRIF; No Old LIFs or LRIFs can be bought.

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A "New LIF" was introduced in 2008. This version of the LIF had some new features:

- the requirement to purchase an annuity from a LIF was eliminated;
- the maximum amount that could be paid out was the greater of the amount under the formula or the investment return of the previous year, there was no carry-forward; and
- within 60 days of the purchase of a New LIF or the transfer of money into a New LIF, the owner could withdraw in cash or transfer to an unlocked RRSP or RRIF, up to 25% of the money transferred into the New LIF; this amount was increased to 50% in 2010.

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Q1. How many locked-in accounts are currently available in Ontario?

A) Only one, LIRAs

B) Two - LIFs and LIRAs

C) Three - New LIFs, LRIFs and LIRAs

D) Four - LIRAs, New LIFs, Old LIFs and LRIFs

E)	None of the above

The answer to Q1 is D. There are currently 4 types of locked in accounts in Ontario.

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Q2. Is the 50% withdrawal or transfer option available to all LIFs and LRIFs?

A)	Yes, from all LIFs and LRIFs

B)	No, only from New LIFs

C)	Yes, just from LRIFs

D)	No, only from old LIFs

E)	None of the above

The answer to Q2 is B. The 50% withdrawal or transfer is only available from New LIFs.

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For more information, you can visit our FSCO website using the links provided here.

You may also call our FSCO contact centre at the number on the screen or send an e-mail to the address on the screen.

The rules which govern Ontario locked-in accounts can be found under four schedules in the regulations under the PBA:
- Old LIFs – schedule 1
- New LIFs – schedule 1.1
- LRIFs – schedule 2
- LIRAs – schedule 3

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This concludes **this segment of our webcast.**

Thank you for your interest and we hope you have found the presentation to be helpful. **To view the other segments of this webcast, please click on the link appearing at the bottom of this screen.**

Otherwise, please remember to complete the survey as it will go a long way in ensuring future webcasts are helpful to you.

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