

# Understanding Locked-in Accounts

## For advisor use only

Many employers offer their employees as a company benefit a pension/retirement savings account, where contributions are made to the plan to provide an income for the employee in retirement.

Pension regulations are designed to ensure that the pension benefits offered by an employer are available at the employee's retirement date and that the accumulated pension funds are used to provide a lifetime retirement income for the employee.

Employees who retire, terminate their employment early or find their pension plan being discontinued have various decisions to make regarding their company pension. The options are outlined in the table below.

### What is a locked in account?

A Locked-In Retirement Account (LIRA) and the virtually identical Locked-in Retirement Savings Plan (LRSP) are

Canadian investment accounts designed specifically to hold locked-in pension funds for former plan members, former spouses or common-law partners, or surviving spouses or partners. Funds held inside LIRAs/LRSPs will normally only become available (or "unlocked") to holders upon retirement.

The distinction between a LIRA/LRSP and an RRSP is that, where an RRSP can be cashed in at any time, a LIRA/LRSP cannot. Instead, investments held in a locked-in account cannot be removed until either retirement or a specified age outlined in the applicable pension legislation (depending on the jurisdiction). (Please see next page for withdrawal restrictions.)

Client need	Options
Savings/Asset Accumulation	<ul style="list-style-type: none"><li>■ Transfer the locked-in portion of the pension plan to an LIRA/LRSP. (It can, for example, be invested in an RBC® Guaranteed Investment Fund in the LIRA/LRSP.)</li></ul>
Income/De-cumulation (Nearly Retired/Retired)	<ul style="list-style-type: none"><li>■ Transfer it directly to a payout product — LIF or life annuity (or LRIF where applicable) — provided the client meets the minimum age requirement as stipulated in the pension plan.</li><li>■ The registered owner of the LRSP/LIRA can start to convert the market value of their funds to an investment that will provide an income for life as early as age 55 (depending on their pension plan).</li></ul>

### Governing jurisdiction

Employee pension plans are provincially or federally regulated. The legislation that will govern an individual's locked-in plan is the legislation of the province where the pension plan is registered. Generally this is the province where the individual was employed. The legislation sets out rules and restrictions as well as investment options available for locked-in funds.

The legislation governing an individual's funds is established upon opening the locked-in plan. At the time of transfer, the pension plan administrator or the financial institution transferring the funds will provide the jurisdiction governing the funds.

### Access to locked-in funds

Generally speaking, no withdrawals can be made from an LRSP or LIRA, but most provinces provide special unlocking provisions.

Some examples of these provisions include shortened life expectancy, financial hardship, lump-sum unlocking or small-amount unlocking (varies by province).

To obtain the required forms for all the different applicable provisions, please make sure you visit the website of the applicable pension board (see the links at the end of this document).

Knowing the jurisdiction of your client's pension will assist you in setting up the correct account. It is important to know the provisions governing their pension plan as they may impact your client's decisions at maturity.

**Make sure you, as the advisor, know the important pension regulations of your client's locked-in plan. They may contain certain unlocking privileges that must be taken advantage of BEFORE purchasing a life annuity (for example, Ontario and PBSA have 50% unlocking rights\*). Once locked-in funds are transferred to a life annuity, there are no unlocking privileges.**

\* Legislation can change without notice. Always refer to the applicable legislation for the most up-to-date information.

### Accumulation/savings plans: LRSPs and LIRAs

A LIRA is a specific type of Registered Retirement Savings Plan (RRSP) to which you can transfer locked-in amounts from a pension plan.

Similar to an RRSP, funds in a LIRA or LRSP can be invested in the investment product of the client's choice.

Unlike a traditional RRSP, the funds in a LIRA/LRSP are locked in and can only be used, with some exceptions, to provide a retirement income.

Currently a client may hold a LIRA/LRSP until the end of the year in which they reach age 71, at which point they must then transfer it to a LIF/LRIF/PRIF or purchase a life annuity.

### When can the client transfer a LIRA/LRSP to an income plan?

As early as 50 years of age, depending on the jurisdiction of the pension plan, but most provinces start at age 55.

OR

At the latest, by December 31 of the year in which the owner turns 71.

### What types of income plans are available to LIRAs/LRSPs?

- Life annuity
- Life Income Fund (LIF), Locked-in Retirement Fund (LRIF) or Prescribed RRIF (PRIF), if available in the province of your client\*

See the table below for income plans currently available in each province.

Pension act	LIF	LRIF	PRIF	RLIF
Newfoundland and Labrador	✓	✓		
Nova Scotia	✓			
New Brunswick	✓			
Quebec	✓			
Ontario	✓			
Manitoba	✓		✓	
Saskatchewan	✓*		✓	
Alberta	✓			
British Columbia	✓			
Federal	✓			✓

\* Existing LIF and LRIF accounts may continue, but as of April 1, 2001, only Saskatchewan offers LIRAs and PRIFs.

## De-accumulation (income) plans: life annuities, LIFs, LRIFs and PRIFs

### Life annuity (such as an RBC Payout Annuity)

In exchange for a lump-sum premium amount, a life annuity will provide the client with a guaranteed stream of income for life.

### Life Income Fund (LIF)

A LIF is similar to a Registered Retirement Income Fund (RRIF), except the LIF holds locked-in funds with certain provisions and restrictions, which may vary slightly from province to province.

The client maintains control of their investments and is subject to minimum and maximum annual withdrawals based on the age of the owner. Note that for a RRIF, there are only minimum withdrawal requirements.

The various provincial pension acts contain restrictions that are intended to preserve the money in these locked-in accounts for retirement and provide a lifetime stream of retirement income for former members of a pension plan and their spouse, if any.

If the LIF is legislated in Newfoundland and Labrador, the client must purchase a life annuity at age 80.

All other provincially regulated LIFs can be held for life.

### Locked-in Retirement Income Fund (LRIF) — only offered in Newfoundland and Labrador

In Newfoundland and Labrador, your client has the additional option of transferring their locked-in plan to an LRIF.

An LRIF is the same as a LIF except that the client does not need to purchase a life annuity at age 80. This means that the client may continue to manage their investments in their LRIF for as long as they live.

The minimum annual payment from an LRIF is the same as a LIF; however, it is subject to its own maximum payment calculation.

### Prescribed RRIF (PRIF) — only offered in Manitoba and Saskatchewan

While similar to a LIF, it provides increased flexibility in determining withdrawals because it does not have a maximum annual withdrawal limit.

### Spousal waiver

In most jurisdictions, if the pension plan member has a spouse, the spouse is entitled to at least 60% of the monthly pension payable after the pensioner's death. The purpose of this provision is to ensure there is continuing pension income for a surviving spouse when the pensioner dies.

A spouse can give up their joint and survivor rights at the time of the member's retirement by signing a spousal waiver form. Both spouses must sign the form and be fully informed of what rights are being waived.

## Provincial legislation at a glance

Province	Earliest age to convert to LIF/LRIF	Shortened life expectancy	Small balance	Non-residency	Financial hardship	Lump-sum unlocking	Funds unlocked for spouse on death of annuitant
NL	Age 55*	Yes	Yes	No	No	No	Yes
NS	Age 55*	Yes	No	No	No	No	Yes
NB	Any time	Yes	Yes	Yes	No	No	Yes
QC	Any time	LIRA only	Yes	Yes	No	No	Yes
ON	Age 55*	Yes	Yes	Yes	Yes	Yes	Yes
MB	Any time	Yes	Yes	No	No	No	Yes
SK	Age 55*	LIRA only	No	No	No	No	Yes
AB	Age 50	Yes	Yes	Yes	Yes	Yes	LIRA – No; LIF – Yes
BC	Age 55*	Yes	Yes	Yes	No	No	No
Federal	Any time	Yes	Yes	Yes	Yes	Yes	No

\* Unless otherwise specified in the pension plan.

## Best practices

Know the pension legislation of your province, and keep in mind that some of your clients may have a locked-in plan legislated in a different province than their province of residence.

Make sure to visit the website of the applicable pension board to obtain all the required forms and current information.

Pension legislation	Website links
Newfoundland and Labrador	<a href="http://www.gs.gov.nl.ca/">www.gs.gov.nl.ca/</a>
Nova Scotia	<a href="http://www.novascotia.ca/lae/pensions/">www.novascotia.ca/lae/pensions/</a>
PEI	<a href="http://www.gov.pe.ca/">www.gov.pe.ca/</a>
New Brunswick	<a href="http://www.gnb.ca/search/">www.gnb.ca/search/</a>
Quebec	<a href="http://www.rrq.gouv.qc.ca">www.rrq.gouv.qc.ca</a>
Ontario	<a href="http://www.fsco.gov.on.ca">www.fsco.gov.on.ca</a>
Manitoba	<a href="http://www.gov.mb.ca/">www.gov.mb.ca/</a>
Saskatchewan	<a href="http://www.sfsc.gov.sk.ca/">www.sfsc.gov.sk.ca/</a>
Alberta	<a href="http://www.finance.alberta.ca/business/pensions/">www.finance.alberta.ca/business/pensions/</a>
British Columbia	<a href="http://www.fic.gov.bc.ca/">www.fic.gov.bc.ca/</a>
Federal	<a href="http://www.osfi-bsif.gc.ca">www.osfi-bsif.gc.ca</a>

## For more information regarding RBC Payout Annuities, please:

- Contact your **RBC Insurance Sales Consultant** at **1-866-235-4332**
- Or visit **[www.rbcinsurance.com/rbcpayoutannuity](http://www.rbcinsurance.com/rbcpayoutannuity)**



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