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Unlocking Locked-In Funds May Provide Greater Flexibility

If you have changed jobs in the past, you may have all or a portion of your retirement savings in a locked-in account, such as a locked-in retirement account (LIRA) or a locked-in retirement savings plan (LRSP). These accounts may be created when you receive your vested pension entitlements once you leave a company.

An option at retirement is to convert a LIRA/LRSP to a life income fund (LIF) or locked-in retirement income fund (LRIF). The assets in these plans generally must remain locked-in until a certain age, at which time mandatory and/or voluntary withdrawals may start. The timing and amount of your withdrawals is based on whether your plan is regulated federally or provincially.

In the past, many retirees argued that it wasn't fair to restrict them from accessing their own hard-earned retirement funds, especially if their financial situation had changed. As such, some provinces have changed the rules to allow greater flexibility in unlocking funds in certain circumstances, including financial hardship, shortened life expectancy, non-residency or small account balances.

Unlocking Assets

Depending on your situation, you may wish to unlock some of these funds. Although the rules vary widely across each jurisdiction, some provinces allow the transfer of a current locked-in plan into a "new" LIF, from which you are allowed to make a one-time transfer of up to 50 percent of the plan assets to your registered retirement savings plan, as an example.

As for the remaining assets in the locked-in plan, you may be able to gradually unlock those funds by way of your annual withdrawal requirements. Each jurisdiction has a required minimum and limited maximum withdrawal amount each year. If you do not require funds for immediate use, consider withdrawing the mandatory minimum amount and transferring an amount equal to the difference between the minimum and maximum thresholds to your non-locked-in registered retirement savings plan (RRSP).

Dekker Hewett Group
Canaccord Genuity Wealth Management
609 Granville St., Vancouver, BC, V7Y1H2
T: 604.699.0852
E: dhginfo@canaccord.com
www.dekkerhewettgroup.com

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In doing so, you may be able to unlock a significant amount of your pension funds while maintaining their tax-sheltered protection, which may provide a greater amount of flexibility in your retirement planning. (Note that this strategy may be best used for a LIF as the maximum withdrawal with a LIF is always higher than the minimum withdrawal requirement. This isn't always the case with a LRIF.)

Understanding Your Options

If you have a locked-in retirement account and wish to consider unlocking funds, understand which rules apply to your plan. Contact the plan administrator or human resources personnel of the issuing company to determine the jurisdiction in which your plan is regulated. Seek professional advice to ensure you are aware of all of the options available to you before making any decisions.

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