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The 5 Step Guide To Releasing Locked in Retirement Funds - Read All the Steps Before Implementing The Strategy

Locked in Pension Accounts (LIRAs) are accounts setup for retirement. Normally, they are only allowed to be used for retirement, and therefore are not accessible before age 55 or the deemed retirement age. The rules vary be each province and federal pension plans also have their own rules, so wherever the pension plan sponsor is will determine whose rules you should follow. This article will be based on someone whose retirement account is in Ontario. Some of the rules are fairly universal across the provinces, but some of them are not. Before starting up the process of withdrawal, make sure you check in your jurisdiction for any differences in the rules.

Step 1)

Determine who administers your pension. Check your pension statement, or ask your employer if you are not sure. If you work for a federally regulated industry, your pension plan may be federally regulated. Once you know which jurisdiction your pension plan falls under, you will know which rules you will be governed by. There are a series of web links provided at the web site below:

http://www.taxtips.ca/pensions/rpp/unlockingrpp.htm

Step 2)

Identify whether you have a hardship situation or simply a withdrawal. The remainder of step 2) is for withdrawals and step 3) would be for hardship scenarios.

There are some circumstances that are labeled as withdrawals and not called hardship scenarios, but allow you to withdraw funds in situations that seem like hardship. I would look at your particular situation in this list as well as the list in step 3) and once you find it, check through the rules and procedure to follow. The rules governing withdrawals may differ from the situations labeled as hardship scenarios. There is also a link beside each situation as to which application form is required for the situation in question. The general link is given below with specific links given beside the specific situation.

http://www.fsco.gov.on.ca/en/pensions/lockedin/Pages/nonhardshipunlocking.aspx

The situations that fall under withdrawals are listed in the bullet points below:

- your life expectancy has been shortened to two years or less (due to physical disability) - Form 5
- you are at least 55 years old and the total value of the funds in **all** of your locked-in accounts is less than $20,040 (for applications signed in 2012) - Form 5 (Please note that in this case, you can transfer all of the money into another tax sheltered account like an RRSP or a RRIF, and there would be no tax consequences until you withdraw money from that account).
- amounts transferred into your locked-in account exceed federal *Income Tax Act* limits - Form 5
- you are a non-resident of Canada and 24 months have passed since the date of your departure from Canada - Form 5
- after December 31, 2010, you transferred money into an Ontario life income fund that is governed by the requirements of Schedule 1.1 and, **within 60 days of this transfer**, you want to withdraw or transfer up to 50% of the total money that was transferred to the Schedule 1.1 LIF - Form 5.2
- you are the owner of an Ontario Schedule 1 LIF or LRIF and you want to withdraw or transfer up to 50% of the money - January 1, 2011 to April 30, 2012 - Form 5.3
- Please note applications using Form 5, Form 5.2 and Form 5.3 **must** be made directly to the financial institution that administers your Ontario locked-in account, not to the Superintendent of Financial Services.

In general, all of these situations would use some variation of Form 5 to be completed, and the forms would be submitted to the institution that runs your pension account.

Step 3)

Hardship Withdrawal

The situations in step 3) would use Form 6 in Ontario and would be sent to the Superintendent of Financial Services instead of the institution who runs your pension plan – please check the jurisdiction in your province or federal regulated plan for an equivalent. The eligible situations which are called hardships for which money can be withdrawn are discussed below. Any further documents or proof required for the given situation is also discussed. Make sure you have these documents available when you are starting the process.

1) Low Income

If your income is more than $33,400 for a year in 2012, the application would be rejected. The maximum amount that you can withdraw under any circumstances is $25,050 in one year, which also turns out to be 75% of the income you expect to make in the coming year. When the form is filled out, you will be asked to list what you expect to earn in the next 12 months, and this will be used to determine how much you can take out of your locked in retirement account. This amount changes each year, so a current form should be used when making the application.

2) Debt Against Principal Residence

You must provide proof of what you need to pay. If it is property taxes, you would need to supply a copy of your property tax bill for your residence. If it is mortgage payments, you would need a copy of the mortgage and a document from the creditor showing what the mortgage payments would be.

3) Unpaid Rent and Foreclosure and Eviction

You would need to provide a letter from your landlord indicating what you would have to pay to bring your tenancy back into good standing. The letter must also threaten eviction if the rent is not paid. Eviction is the indicator of what constitutes hardship in this case.

4) First and Last Months’ Rent

You would need to provide proof of where the property is and how much rent you are required to pay.

5) Medical Expenses

You would be required to show who needs the medical expenses covered as this can apply to you or your dependents. You would have to show your receipts for what you purchased that is related to the condition. Your doctor would have to fill out part of the form to provide evidence for your claim. The doctor who fills in the form must be licensed to practice medicine in your jurisdiction as a medical doctor. A chiropractor for example is licensed in your jurisdiction, but this would not be taken as valid for the application. This situation also works for dental work, so your dentist would be filling out the form and would also need to be licensed to practice in your area.

6) Renovations to Your Residence Based on Medical Needs

This is similar to the medical expenses application but you would also have to show which residence needs the renovations and what exactly needs to be done. You will likely need your doctor to provide a description of the illness and what the residence would need to make it accessible and how it will need to function. If you are going to do the renovations, but haven’t done them yet, you can use estimates to figure out how much to withdraw. Keep these points in mind when deciding what the money is being used for and how it will be viewed in an application. Any supporting documentation that reiterates the same needs will be useful in making clear whether the withdrawal will be possible or not. This documentation should always come from a third party if possible, like an insurance company, your employer, your pharmacy, your hospital or whatever is relevant for the case.

7) Renovations For a Dependents' Principal Residence

This is similar to the above for your principal residence.

Following is a link for the possible forms used for all situations – scroll down to Form 6.

http://www.fsco.gov.on.ca/en/pensions/Forms/Pages/default.aspx#form5

Step 4)

Check what the conditions or limitations are under the rules. Aside from what was discussed above, if you have creditors looking for money from you, and you have enjoyed creditor protection as a result of your money being in a locked in account, you will lose that protection once the money is withdrawn. In other words, creditors can take your money upon withdrawal if you owe them money and cannot pay them back.

All withdrawals would be subject to taxes. The CRA would also get access to money before you do if there are taxes you owe as well as money you would receive for your withdrawal. You can withdraw more money from your LIRA to account for the tax bill, but the taxes will be paid before money comes to you. If there is a way to time your withdrawal to lower the tax bracket that you are in when you receive the money, this should be considered. Please note that if you are withdrawing money from your locked in Pension Account or LIRA and transferring it to another tax sheltered account, like an RRSP or an RRIF, there would be no tax consequences until the money is withdrawn from the RRSP or from the RRIF.

If you are receiving benefits from the government based on income such as Employment Insurance or Old Age Supplement, you may get these reduced or suspended as this withdrawal would be considered income in the year that it is done. The amount of money withdrawn should also be considered, because if the amount is small enough, these benefits will not be affected. One way to know what to do in this situation is to do a hypothetical tax calculation and see if any benefits are lost. Find out how much you would pay in taxes under two scenarios: if you do the withdrawal and if you don't. If you do your own taxes, you can do this like any tax return but it would be hypothetical in that you would not submit it to the government – this is only to find out what the consequences would be. If you have an accountant or professional who does your taxes, they could do this scenario testing as well before you go through with the process.

The minimum amount to be withdrawn would be $500, and each locked in account would require a separate application. You can receive money in a lump sum or in monthly payments depending on your need. You will be asked how you want to be paid, so be clear on when you would need the money and be prepared to back up your claim with the timing of payments set forth by whoever needs to be paid. Make sure any documents you provide are current – this means dated within the last 12 months of your application. You can only do one application per every 12 month period in a low income financial hardship situation. For these hardship scenarios, you can only apply for a withdrawal from a Locked in Retirement Account. If the money is in a current or former pension plan, the hardship application would not be accepted. Any applications that you make in a given situation are kept by the institution or the government, and they will ask if you have applied in the past. Keep all of your records and if you need to apply more than once for a hardship or other withdrawal scenario, you will be able to verify this with them. Keep records whether you succeed in withdrawing money or not and for whatever reason you apply for.

You will be asked for your assets and liabilities – what you currently have and what you currently owe to all parties. If you have assets over and above liabilities that can be used to cover your need for money, you may be required to sell these before a hardship withdrawal would be approved. Keep this in mind when doing your application.

The bottom line is for any situation, you must show that you really need the money and don't have other options. You must also show that the money will be used for a real hardship, and this must be verified by a third party – a bank, your employer, your landlord or a relevant professional to make sure you are being honest. If you can yes to these questions, you will then have to show it through your application.

Step 5)

Are there are any other options I have other than doing this? Generally, this withdrawal should not be done unless you have exhausted your other options. You should also look at your whole financial picture to determine what the effects of doing this are for the present and going forward.

Questions to ask yourself are the following:

If I take money out of my locked in account, how will my investment options change?

If you are transferring money from a locked in account to an RRSP or a RRIF, this question may not apply, but the types of investments you can access may change. If you are pooling small amounts of money together to make a larger pool of money, you may save on paperwork, account fees, trading fees and time/effort through simplifying your investments. If your locked in account only has access to mutual funds, you may be able to do different types of investments like exchange traded funds, buying stocks/bonds directly or lending money as an investment. These options may be available in all types of accounts, but the dollar amount required may be prohibitive for small accounts.

A related question to this one would be “is now a good time to make a withdrawal in terms of the investment climate, or can it be done later?”

It is assumed that you have a choice in when you withdraw the money. If you do not, this question is likely not relevant. If you are making a withdrawal to simplify your retirement accounts, or transferring between accounts, this question may be useful in determining what to do next.

If I take money out of my locked in account, will my retirement money be jeopardized?

The Locked in Retirement Fund is intended to be money used in retirement. It should only be taken out if it is really needed, otherwise the purpose for having these accounts is defeated. This is why it is relatively cumbersome to get access to the money. These accounts should be used as a last resort.

Is there a better time to take my money in terms of taxes?

The tax scenario discussed in step 3) is useful to answer this question. Another related question is: how will my tax situation change once this money is withdrawn? In general, you are moving your income forward, and paying taxes sooner. If you are not making much money in the present but will make more money in the future, this may be an advantage. If the reverse is true, you may be penalizing yourself more by taking money out now.

This article is designed to allow you to think through all of your options and form a strategy before starting the process of withdrawing locked in retirement money. The decision is very personal, but these factors can help you understand all of the factors involved or to know where to seek help.

If you need specific information for your needs, contact me, Joe Barbieri by email at joetheinvestor.today@gmail.com, or by telephone at 647-286-8020 for an independent consultation on what your options are. **Note: This article is intended for people who want to learn about the world of finance and how to research for themselves. If you would like to buy or sell investment products, or specific advice on investment products, tax or legal issues, please consult your investment advisor, accountant or legal counsel.**