



Wealth
Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Locked-in retirement plans

Understanding your locked-in plan to maximize your retirement benefits

Please contact us for more information about the topics discussed in this article.

What happens to your employer pension plan when you leave your current employer? Quite often, you have an opportunity to take the pension benefits in the form of a lump-sum payment. In many cases, you can transfer all or part of the lump-sum payment to a locked-in retirement plan on a tax-deferred basis. This article explains the characteristics of various types of locked-in retirement plans and their maturity options.

Locked-in registered retirement savings plans (locked-in RRSPs) and locked-in retirement accounts (LIRAs)

If you're terminating your employment and you're a member of your employer's registered pension plan (RPP), you may have the option to receive a lump-sum payment or the "commuted value" from the pension plan. The commuted value is a lump-sum amount that represents the present value of all future pension payments that you would have received if you'd remained in the pension plan. If you choose this option, all or part of this payment may be subject to locking-in provisions to ensure the funds will be available to you on retirement. These provisions may require you to transfer all or part of the commuted value to a locked-in RRSP (sometimes referred to as an LRSP) or LIRA. The

portion of the commuted value that you transfer to a locked-in vehicle will not be taxable until you start receiving income from the plan. Any portion you don't transfer and take as cash will be taxable.

Funds deposited in a locked-in RRSP or LIRA must come from an employer pension or another locked-in plan (generally governed by the same pension legislation). You cannot make personal contributions to these locked-in accounts.

Locked-in RRSPs and LIRAs have virtually identical attributes. The two terms are sometimes used interchangeably. Federal plans continue to use the term locked-in RRSP. The provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia, New Brunswick, and Newfoundland and Labrador use the term LIRA.

Generally, you cannot withdraw funds from a locked-in RRSP or LIRA. If you wish to receive funds from these plans, you may be able to unlock some or all of the funds or choose a maturity option. If you don't need income from your locked-in plan, you can choose to defer receiving income, but you must choose a maturity option by December 31 of the year you turn age 71.

Plan jurisdiction

The legislation that governs your pension plan will determine what options you have when you leave your employer. Pension legislation also applies to locked-in plans. The pension legislation that governs your locked-in plan may affect withdrawal limits, your ability to unlock the plan, and what happens to the funds on marriage breakdown or death.

Prince Edward Island (PEI) does not yet have pension legislation in force that deals with locked-in accounts. As a result, locked-in plans don't exist in PEI. If you're a resident of PEI, refer to your specific pension plan documentation for further guidance.

The applicable legislation generally depends on where you worked and earned the pension benefits. For example, if you're currently working in Saskatchewan, your pension will likely be subject to Saskatchewan pension legislation even if you move to another province in retirement.

All the jurisdictions with pension legislation have signed on to the 2020 Agreement Respecting Multi-jurisdictional Pension Plans. This agreement covers members of a company pension plan that operates in different jurisdictions. In such a case, the legislation of the last jurisdiction that a pension member worked in will govern that plan member's associated pension benefits.

In some cases, federal legislation governs your pension. If you're a member of a federal private pension, your pension funds are subject to the federal Pension Benefits Standards Act (PBSA). Where you worked and earned your pension benefits would not matter. The PBSA applies to private pension plans for federally regulated businesses such as banking, telecommunications and transportation. It also applies to pension plans relating to employment in the Yukon, the Northwest Territories and Nunavut.

Some federal public service pension plans are subject to their own legislation. These include the Public Service Superannuation Act (PSSA), The Canadian Forces Superannuation Act (CFSA) and the Royal Canadian Mounted Police Superannuation Act (RCMPSA). If you're a federal public service employee, ask your plan administrator which act governs your pension plan. Information in this article that discusses federal pensions assumes that the member's pension is governed by the PBSA.

The legislation that governs your pension plan will determine what options you have when you leave your employer. Pension legislation also applies to locked-in plans.

Locked-in plan maturity options

The locked-in plan maturity options that are available to you depend on the legislation that governs your locked-in funds. Ask your RBC advisor for a table that summarizes these options categorized by plan jurisdiction. The following sections describe various types of maturity options.

Life income fund (LIF)

A LIF is a registered retirement income fund (RRIF) which is subject to pension legislation. You are required to receive at least an annual minimum payment from the LIF. The calculation for the LIF minimum payment is identical to the minimum RRIF calculation. Like with a RRIF, you're not required to take a minimum payment in the year you establish a LIF. The following formula determines the minimum payment that will apply to a LIF until you reach age 71. At age 71, the minimum payment schedule for RRIFs will apply (ask your RBC advisor for a LIF minimum payment percentage table).

Minimum payment

$$\text{Minimum Annual Payment} = \frac{\text{Plan balance at December 31 of previous year} \times 1}{90 - \text{Age at December 31 of previous year}}$$

The maximum withdrawal restriction varies across the jurisdictions. The maximum withdrawal percentage can also change annually. Ask your RBC advisor for a table that outlines minimum and maximum payment percentages for the year.

The maximum LIF payment for some provinces (i.e. British Columbia, Alberta, Ontario, and Newfoundland and Labrador) is based on the greater of: 1) the maximum payment calculated using the percentage mentioned earlier or 2) the rate of return earned on the investments in the LIF in the previous taxation year. For Manitoba, the maximum LIF payment is based on the greater of: 1) the maximum payment calculated using the percentage mentioned earlier or 2) the amount that's the sum of the previous year's income and gains, net of losses, plus 6% of any amount transferred to the LIF from a LIRA or pension plan in the current year. As of January 1, 2025, there is no maximum withdrawal restriction on Quebec LIFs where the plan annuitant, at the time the application for income is filed, is aged 55 or over.

In the first year of the LIF for some jurisdictions, the maximum payment is prorated based on the months remaining in the current year. Any part month is equal to a full month. There's no proration in the first year for an Alberta, British Columbia, Manitoba, New Brunswick or Quebec LIF.

Restricted life income fund (RLIF)

The RLIF is a maturity option for federally regulated plans. The RLIF has the same minimum and maximum limits as a federal LIF and the same restrictions. The difference between a federal LIF and an RLIF is that you can unlock up to 50% of the value of the RLIF. You must be turning age 55 or over in the year you unlock, and you must unlock within 60 days of transferring funds to the RLIF. If you're under age 71 and do not need an income stream from the RLIF, you can transfer the funds to a restricted locked-in savings plan (RLSP). This is similar to a locked-in RRSP where you can't make personal contributions to an RLSP or withdraw funds from an RLSP. You can transfer the funds in your RLSP to another RLSP. You can also transfer the RLSP to an RLIF or an annuity. You may also be able to transfer the funds in an RLSP to a pension plan, if that plan permits.

Locked-in retirement income fund (LRIF)

An LRIF is only available in Newfoundland and Labrador. LRIFs were available in Alberta before January 1, 2008, in Ontario before January 1, 2009, and in Manitoba before May 31, 2010. As a result of changes in legislation, they no longer exist in Alberta and Manitoba, and you can no longer open LRIFs in Ontario. LRIFs in Manitoba and Alberta have been phased out and transferred to LIFs. Existing Ontario LRIFs are now subject to the rules for New Ontario LIFs.

Newfoundland and Labrador legislation allows you to transfer funds from your pension (if your pension allows) or your LIRA to an LRIF at the earlier of the following: age 55 or the earliest date on which you could receive a pension benefit under the pension plan where your funds originated.

An LRIF is similar to a LIF in that both allow access to the locked-in funds within defined minimum and maximum levels. The minimum payment is calculated the same way for both types of plans, while the maximum payment calculation for an LRIF is different. The LRIF maximum payment is the greatest of the following amounts:

- The amount of the investment earnings, including any unrealized capital gains or losses, earned from the time the LRIF was established to the end of the most recently completed fiscal year and, with respect to any money in the contract that's derived directly from money

In the first year of the LIF for some jurisdictions, the maximum payment is prorated based on the months remaining in the current year. Any part month is equal to a full month. There's no proration in the first year for an Alberta, British Columbia, Manitoba, New Brunswick or Quebec LIF.

transferred from a LIF, the amount of the investment earnings, including any unrealized capital gains or losses, earned in the LIF in the final complete fiscal year, less the sum of all income paid to the owner from the LRIF;

- The amount of the investment earnings, including any unrealized capital gains or losses, of the LRIF in the immediately previous fiscal year;
- If the payment is being made in the fiscal year in which the LRIF was established or in the fiscal year immediately following its establishment, 6% of the fair market value of the LRIF at the beginning of that fiscal year; or
- The minimum payment.

The maximum payment available in the first year of the LRIF is prorated based on the number of months remaining in the current year, with any part month being equal to a full month.

Prescribed registered retirement income fund (prescribed RRIF)

A prescribed RRIF is available in Saskatchewan and Manitoba. Under Saskatchewan pension legislation, only annuitants who are at least age 55 (or those who've reached their early retirement age based on the pension plan where the locked-in funds originated) are eligible for the prescribed RRIF. Those who are eligible under Saskatchewan legislation can transfer their entire locked-in plan into a prescribed RRIF. Under Manitoba pension legislation, an annuitant who is at least age 55 can transfer up to 50% of the balance in their LIF to a prescribed RRIF.

The main advantage of the prescribed RRIF over the LIF is that there are no maximum withdrawal limits. You're still required to make minimum withdrawals. The minimum amount is the same as the LIF minimum amounts. You cannot convert a prescribed RRIF to a regular RRIF.

Considerations when choosing an option

When you choose a maturity option to access your locked-in RRSP or LIRA funds, there are multiple factors to consider. You can then select the income stream that best suits your personal circumstances. Some major considerations are:

- Your annual income needs;
- Whether you want to actively manage your retirement funds;
- Your estate objectives;
- Your desire for flexibility versus the guarantees of each option;
- The current rate of return and inflation; and
- The potential tax implications of each option.

How much annual income do you require?

If your income needs vary from year to year, you may wish to consider purchasing a LIF, an RLIF, LRIF or a prescribed RRIF, depending on the jurisdiction that governs your plan. These options provide some flexibility in choosing the amount of income you wish to receive in a year. For example, if you don't require additional income in a particular year, you may choose to withdraw only the minimum payment. This would leave more funds in your locked-in plan to grow on a tax-deferred basis.

If you don't require flexibility and would rather receive a level income stream, a life annuity may better suit your needs.

Do you want to manage your investments?

When you purchase a life annuity, you transfer the management and investment risk of your assets to the annuity provider. If you don't want to manage your retirement funds and would like a guaranteed, level income stream, an annuity may make sense for you.

On the other hand, a LIF, an RLIF, LRIF or a prescribed RRIF allow you to retain control of the investment of your funds. You have the potential to grow your retirement funds, but you run the risk that you may receive unsatisfactory investment returns or that your retirement funds may decrease in value.

Your estate objectives

Is it a priority for you to leave an estate for your heirs? If this is an important factor for you, a locked-in plan may be a better option to help you preserve your registered retirement assets for your estate. This is because annuities generally stop making payments on your passing. At the time of your death, assets remaining in your locked-in plan can be transferred to your beneficiary or estate.

Current rate of return and inflation

When you purchase an annuity, you lock in a fixed rate of interest for your lifetime. This can work well for individuals who purchase annuities at times when interest rates are high. In periods when there's a low interest rate environment, you may wish to consider the

When you purchase a life annuity, you transfer the management and investment risk of your assets to the annuity provider. If you don't want to manage your retirement funds and would like a guaranteed, level income stream, an annuity may make sense for you.

various investment alternatives available, which may help you achieve a higher rate of return. Remember that you can use your locked-in funds to purchase an annuity at a later date when interest rate conditions may make an annuity a more favourable option.

An annuity that produces a level stream of income may appear to be ideal for some retirees. However, inflation can easily erode the purchasing power of that income, so keep this in mind when you're deciding whether to purchase an annuity.

Flexibility versus the guarantees of each option

When you've purchased a life annuity, you generally can't cash it in. As such, annuities are relatively inflexible.

Locked-in plans, on the other hand, give you the ability to vary the annual payments you receive, as long as you meet the minimum and maximum payment requirements. You can choose from a wide range of investments for the assets in your locked-in plan and you have the option to transfer your locked-in plan between whichever financial institutions you choose, even after your payments have begun. You can also convert your locked-in plan to a life annuity at any time in the future. This option can be advantageous if interest rates increase and you no longer wish to manage the assets in your locked-in plan yourself.

It's important to give some thought to how you intend to use your locked-in plan funds. Will the funds in your locked-in plan be used for extras, such as trips or home improvements, or will they be your primary source of income? Alternatively, do you wish to leave a large estate to your children on your death? Your answers to these questions may help you determine how much flexibility you'll need from your locked-in plan funds.

Tax implications of each option

Regardless of the option you choose, you will pay tax on the income you receive in the year you receive it. Income from a locked-in plan or an annuity may also allow you to qualify for the pension income tax credit (a federal credit on the first \$2,000 of pension income and potentially a provincial credit).

You may also be able to split up to 50% of the income that qualifies for the pension income tax credit with your spouse. This can result in tax savings for your family if your spouse is subject to a lower tax rate than you.

If you're a single individual or a widow/widower with no financial dependants, little income and a large locked-in plan, you may be concerned about paying tax on a substantial portion of your locked-in plan at the highest marginal tax rate when you pass away. One strategy is to deplete the funds in your locked-in plan by making higher annual withdrawals during your lifetime when you may be paying tax at lower marginal rates. You should be aware that this strategy can result in prepaying tax and you lose the ability to grow your investments in a tax-deferred environment. You may be able to contribute some of the higher withdrawals into your tax-free savings account (TFSA) to continue growing your investments tax-free if you have the available contribution room. You should obtain advice from a qualified tax advisor to determine whether this strategy is right for your situation before implementing this kind of planning.

When you receive income from a locked-in plan, you can vary the amount of income you receive from your plan from year to year, subject to minimum and maximum payment requirements. This allows you to adjust your locked-in plan income to complement your other sources of retirement income. This may allow you to manage your taxable income and avoid the clawback of income-tested benefits such as Old Age Security.

Unlocking your locked-in retirement plan

In special situations, you may be able to withdraw funds from your locked-in plan in excess of the normal maximum limits. You may also be able to unlock your locked-in plan. Amounts that are unlocked are fully taxable to you in the year you unlock, unless you're able to transfer the unlocked amount on a tax-deferred basis to a non-locked-in RRSP or RRIF.

Depending on the pension legislation that governs your locked-in funds, you may be able to unlock all or a portion of your locked-in plan in the following situations:

- Shortened life expectancy;
- Financial hardship;
- Small plan balance;
- Non-residency; or
- Special one-time unlocking.

If you have a spouse or common-law partner, they will generally be required to complete a spousal waiver form in order for you to unlock the funds in your plan. Ask your RBC

If you're a single individual or a widow/widower with no financial dependants, little income and a large locked-in plan, you may be concerned about paying tax on a substantial portion of your locked-in plan at the highest marginal tax rate when you pass away.

advisor for a table that summarizes the special withdrawal situations that are available to you by jurisdiction.

It may not always make sense to unlock your locked-in plan. Since pension legislation governs the assets in a locked-in plan, your locked-in plan assets are generally protected from creditors (other than an order for support payments or equalization on marriage breakdown). If you unlock your locked-in plan, whether you decide to take a lump sum or transfer your funds to an RRSP/RRIF, these assets may now be exposed to the claims of creditors.

Another aspect to consider is if you convert an Ontario LIRA to a LIF and you take advantage of the Ontario 50% unlocking rules, you're required to receive an income stream from the funds that remain in the LIF, starting in the year following the year you unlocked the funds. This can have an impact on your income and the marginal tax bracket that applies to you. If you don't need the additional income, unlocking may not make sense for you.

Marriage breakdown

Upon marriage breakdown, you may need to transfer a portion of your locked-in funds to your spouse pursuant to a separation agreement or court order. Depending on the legislation that governs your locked-in plan, there may be limits to the amount of funds you can transfer to your spouse. The funds you transfer to your spouse will generally need to remain locked in. Each jurisdiction determines how your spouse can access those locked-in funds.

In some cases, you may receive locked-in funds from a former spouse due to the marriage breakdown or on their death. If you remarry or enter into a new relationship, your new spouse or partner may not be automatically entitled to your locked-in plan assets on your death, depending on the jurisdiction that governs your plan. In such a case, you may be able to name a beneficiary other than your spouse for your locked-in funds.

Speak with a qualified legal advisor if you require more information regarding your locked-in plans on marriage breakdown.

Death

Generally, the beneficiary of your locked-in funds must be your spouse. If you wish to name a beneficiary who is not your spouse or common-law partner, your spouse or common-law partner must complete a waiver form to give up their right to your locked-in funds, if the legislation governing your plan permits this. If you don't have a spouse or common-law partner, you may name any beneficiary you wish. Please note that you cannot designate a spouse as a successor annuitant on a locked-in plan.

If you designate a qualifying beneficiary (e.g. a spouse, common-law partner or financially dependent child or grandchild) for your locked-in plan, the plan may be taxable in their hands on your death. They may also be able to transfer the funds in the locked-in plan to a registered plan of their own or use the funds to purchase an annuity, on a tax-deferred basis. If the plan is not left to a qualifying beneficiary, the fair market value of the plan on the date of death will be taxable on your final tax return. Any growth after the date of death is generally taxable to the beneficiary.

Depending on the jurisdiction that governs your locked-in plan, the funds may remain locked in when there's a transfer to your spouse or common-law partner on death (ask your RBC advisor for the special withdrawals table that outlines these rules). If the funds are paid to anyone other than a spouse or common-law partner, the funds are unlocked.

Planning for your retirement

Your locked-in funds may represent a significant part of your retirement assets. Give careful consideration to the maturity options available to you. It's particularly important to consider your need for flexibility when you're choosing the option that will provide an income stream for your retirement. You should also take into account your income needs, investment time horizon and risk tolerance.

If you already have a locked-in plan, you may be able to unlock all or part of your plan, which may provide greater access to your funds. Speak with a qualified tax advisor to determine if you can unlock your pension funds and if you can, whether it makes sense to do so in your circumstances.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.



**Wealth
Management**

This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Wealth Management Financial Services Inc. (RBC WMFS), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI)* and Royal Mutual Funds Inc. (RMFI). *Member – Canadian Investor Protection Fund. Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WMFS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI or RBC DS. Estate and trust services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies, RBC DI or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WMFS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. In certain branch locations, one or more of the Companies may carry on business from premises shared with other Royal Bank of Canada affiliates. Notwithstanding this fact, each of the Companies is a separate business and personal information and confidential information relating to client accounts can only be disclosed to other RBC affiliates if required to service your needs, by law or with your consent. Under the RBC Code of Conduct, RBC Privacy Principles and RBC Conflict of Interest Policy confidential information may not be shared between RBC affiliates without a valid reason. ®/™ Trademark(s) of Royal Bank of Canada. Used under licence. © Royal Bank of Canada 2025. All rights reserved.