Transfers of Locked-in Funds

What are my options?

Alberta
FINANCE

Pre-Retirement Options for Locked-In Pension Funds

In Alberta, the pension benefits you earn after December 31, 1999 must be locked-in once you have completed two years of membership in your pension plan. In addition, any pension benefits that you earn between January 1, 1987 and December 31, 1999 are locked-in after five years of continuous employment with your employer. Benefits that are earned prior to January 1, 1987 are locked-in after 10 years of continuous employment, as long as you are age 45 or older. The *Employment Pension Plans Act* (the Act) requires this locking in clause. Your pension plan may lock in benefits before the deadlines above. You should check with your employer or plan administrator to see what locking-in rules apply in your pension plan.

Locked-in pension benefits normally cannot be cashed out. Both the employee and employer contributions, plus all interest earned, must be used to provide you with an income for life when you retire. "Locked-in" does not, however, mean that the benefits must stay in the same account until retirement. When you terminate membership in your pension plan, you may leave your locked-in funds in the plan, or you may be able to transfer them to:

a) the pension plan of a new employer, if that pension plan permits the transfer;

b) a life insurance company to purchase a deferred life annuity as long as the pension plan permits;

c) a Locked-In Retirement Account (LIRA); or,

d) a Life Income Fund (LIF) or a Locked-in Retirement Income Fund (LRIF) as long as the pension plan permits.

If you decide to leave your funds in the pension plan, your plan may not allow you to move them out at a later date if you change your mind. If it does not allow delayed transfers, you will have to leave your money in the plan until you retire and will then receive a pension. If you die before retiring, your pension partner or beneficiary if you have no pension partner will receive the pre-retirement death benefit offered by the plan. This may be less than the full value of your locked-in account.

There may be an advantage to leaving your funds in the plan if cost of living increases are granted to pensioners. To decide if leaving your funds in the plan is a good choice, you should check the plan provisions regarding the option to transfer benefits out of the pension plan, pre-retirement death benefits, and cost of living increases. If cost of living increases are given at the discretion of your previous employer, you should find out the past history of granting increases of your pension plan.

This ability to transfer locked-in funds is called *'portability'*. It is available to almost all pension plan members at the time they terminate membership in their pension plan. Some pension plans may not allow members who are eligible to start receiving a pension, (usually 55 years old and over), to transfer their benefits from the pension plan. This is the only time that portability can be refused.

Portability Options

Portability is available to:

a) a pension plan member who has terminated membership in their plan; or,

b) the pension partner of a deceased plan member.

In addition, if you have no pension partner when you die, your beneficiary or your estate will receive the death benefit, but only as a lump sum that will be reduced by applicable taxes.

Transfer to a New Employer's Plan

Funds transferred to a new employer's pension plan are usually put in a separate account. This way, they are kept separate from the benefits you will earn under your new employer's pension plan. Normally the transferred money will earn interest based on the investment returns of the plan fund as a whole. In some cases they are used to purchase specific pension benefits under the new plan. Not all pension plans permit funds to be transferred in from another pension plan. You will need to check with your new employer if you want to make such a transfer.

If you leave your new employer, the funds that you transferred in will remain locked-in, but will again be transferable.

Purchase of a Deferred Annuity

A deferred annuity can be purchased from a life insurance company. This contract will guarantee you a set amount of monthly income starting when you retire and continuing throughout your lifetime.

In addition to the lifetime guarantee, you may add additional guarantees to the contract. For example, you could add a guarantee such that if you die before 10 years' worth of monthly payments have been made, the rest of those 10 years of monthly payments will be made to your named beneficiary or estate.

If you have a pension partner when you start to receive your annuity payments, you must choose a form of annuity with a guarantee that if you die before your pension partner, monthly payments will continue to your pension partner for his or her lifetime. The monthly payments after your death must be at least 60 per cent of the monthly amount before your death. This is known as a *'60% Joint & Survivor'* option.

If your pension partner does not want to receive this option, they must sign a special form that waives (gives up) the 60% the entitlement. You can get this form from the insurance company where you purchased the annuity. This form is not valid unless it was signed within 90 days before you start to receive your pension payments. It must have been signed freely and voluntarily by your pension partner – not under pressure.

Once you purchase an annuity contract, you probably will not be able to transfer your funds anywhere else.

You should also be aware that each time you add a guarantee the amount of monthly payment you receive will decrease. That's because it costs the insurance company more to guarantee a certain number of payments and they recover the cost by lowering your payments.

Transfer to a LIRA

A LIRA is a special type of Registered Retirement Savings Plan (RRSP). It is designed to hold locked-in pension funds. It works the same as a regular RRSP, except for the following features:

1. Funds in a LIRA cannot be paid out in cash. They must be used to provide income when you retire.

2. Creditors cannot take funds in a LIRA and you cannot use funds in a LIRA as collateral.

3. Funds in a LIRA cannot be invested, directly or indirectly, in your mortgage or in the mortgage of a family member.

4. You can begin to receive retirement income anytime after you reach age 50. You must start to receive your retirement income by the end of the calendar year that you turn age 69.

5. Retirement income can only be provided though one of the following three contracts:

    a) a life annuity contract;
    b) a Life Income Fund (LIF); or,
    c) a Locked-in Retirement Income Fund (LRIF).

    You can also have your LIRA funds transferred into a Registered Pension Plan if that plan permits it.

    All three contracts provide for payments for your lifetime. If you purchase an annuity contract <u>without</u> the 60 per cent joint and survivor option, or if you purchase a LIF or LRIF, then your pension partner must sign a special form that gives up the 60 per cent entitlement. These forms can be obtained from the financial institution holding your LIRA at the time you are ready to start your retirement income.

6. If you die before you start receiving your retirement income and you have a pension partner on your date of death, then the funds in your LIRA must be transferred to a LIRA in your pension partner's name.

7. If you die before you start receiving your retirement income and you do not have a pension partner when you die, then the funds in your LIRA will be paid to your beneficiary or estate in a lump sum and reduced by any applicable taxes.

8. The Alberta Superintendent of Financial Institutions (ASFI) publishes a list of companies offering LIRA contracts. It is also found on the Alberta Finance Web Site at: www.finance.gov.ab.ca/business/pensions

9. You may choose to invest your LIRA in any investment that you could make in an RRSP, except your own or a close relative's mortgage. You may change your investment at any time that you are permitted under your contract with the financial institution.

Transfers to a LIF or LRIF

Life Income Funds (LIF) and Locked-in Retirement Income Funds (LRIF) are a special type of Registered Retirement Income Fund (RRIF). They are designed to hold locked-in pension funds. You must be over 50 years old to have one of these products.

A LIF and a LRIF are different from a LIRA because retirement income is paid to you from these funds, however, many of the protections and provisions applicable to a LIRA will apply to a LIF or LRIF.

For more information about LIRAs, LIFs, LRIFs, or Life Annuities, please contact the administrator of your pension plan or:

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