Ontario Works Policy Directives

4.7 Pensions, RRSPs and RESPs

Legislative Authority

Section 7(3) of the Act.

Sections 14(1), 15.1, 17(2), 32, 38, 39, and 62(3) of Regulation 134/98.

Audit Requirements

Any pensions, Registered Retirement Savings Plans (RRSPs) and Registered Education Savings Plans (RESPs) are verified and documented and rules are applied consistently and fairly in accordance with provincial standards.

Random file reviews are completed to ensure that the above information is documented and filed accordingly.

Application of Policy

Pensions and RRSPs are determined to be either accessible or non-accessible ("locked-in"). If a pension or RRSP is accessible, it is treated as a non-exempt asset and the applicant or recipient is expected to access these funds, regardless of the penalty involved.

Locked-in pensions and RRSPs are exempt as assets, and applicants and recipients are not required to access these funds.

RESPs that are held by an applicant or recipient (as the "subscriber") in respect of a beneficiary to whom they are related by blood, marriage or adoption are exempt as assets, and applicants and recipients are not required to access these funds.

Funds held in an RDSP are exempt as assets, as long as they are within the RDSP contribution limits set out in the federal **Income Tax Act.** Contributions made to an RDSP, interest earned and reinvested into an RDSP, and payments/withdrawals from an RDSP are fully exempt as income.

RRSPs

RRSPs may be in the form of a Guaranteed Investment Certificate (GIC), mutual fund or other type of investment.

It may be necessary to obtain written notification from the financial institution to confirm that the funds are in fact locked-in. The information obtained from the financial institution must state that the RRSP is locked-in because it originally derived from an employer's pension fund.

The Pensions Benefit Act allows individuals to transfer their retirement funds into another lifetime retirement pension. These funds normally originate from an employer's pension fund. Various reasons exist for transferring these funds into another lifetime retirement pension, including the company ceasing business operations or an employee leaving a company after a certain age or number of years.

These pension funds may be transferred out of the employer's plan only on the condition that they remain locked-in. This means that funds may only be used to purchase a lifetime retirement pension, commencing no earlier than age 55. This is the retirement age fixed by the Pensions Benefit Act.

In some cases the minimum age of 55 may be raised. This appears in the "locked-in agreement" between the employer and the financial institution. Until the beneficiary reaches the retirement age, he/she may have control of the investment but no access to the funds. This type of RRSP is exempt from consideration as an asset.

Upon reaching the retirement age specified on the locked-in RRSP agreement, the recipient is expected to either set up a term annuity or life annuity in order to realize any income that may be available on a monthly basis. Income received from these types of annuities is not exempt and is deducted at 100%.

A file must be reviewed before the date of access to remind the recipient in writing of his/her obligation to pursue an available financial resource. Failure to do so may result in ineligibility or a reduction in assistance.

Locked-in Money Accessed under the Pension Benefits Act

The Pension Benefits Act allows for flexibility in accessing locked-in retirement accounts under specific circumstances upon application to the Superintendent of the Financial Services Commission of Ontario (FSCO). However, applicants and recipients are not required to pursue access to locked-in retirement accounts.

An applicant or recipient may apply to the Superintendent for consent to withdraw money from a locked-in retirement account, life income fund or locked-in retirement income fund because they are experiencing financial hardship.

To qualify for this type of withdrawal from a locked-in fund, a person should demonstrate immediate and pressing financial need and their financial hardship should fall into one or more of the following categories of financial hardship as identified by FSCO:

- Withdrawal Based on Low Income - receiving a total income from all sources before taxes of less than the amount determined by the Financial Services Commission of Ontario (this amount changes each year);
- Withdrawal for a Debt Against Your Principal Residence - facing eviction from a principal residence as a result of debt secured against a principal residence (e.g. a mortgage or taxes);
- Withdrawal for Unpaid Rent - facing eviction from a principal residence as a result of rent arrears;
- Withdrawal for First and Last Months' Rent - requiring first and last month's rent to obtain a principal residence;
- Withdrawal for Medical Expenses - needing to cover reasonable non-reimbursed medical expenses for the treatment of illness or medical disability for the applicant, spouse or a dependent;
- Withdrawal for Renovations to Your Principal Residence - needing to cover reasonable expenses for renovations or alterations of a current or future principal residence made necessary by illness or physical disability; or
- Withdrawal for Renovations to a Dependent's Principal Residence - needing to cover expenses for renovations or alterations of a dependent's current or future principal residence made necessary by illness or physical disability.

Where an applicant or recipient has withdrawn locked-in pension funds, under any heading, which do not result in the person exceeding the allowable asset limit, the amount is exempt as income.

Where an applicant or recipient has withdrawn locked-in pension funds under the "Withdrawal Based on Low Income" category, which exceed the allowable asset limit, the withdrawn amount is exempt as income if it is used to purchase an exempt asset or a specific item that the Administrator is satisfied is necessary for the health and well-being of a member of the benefit unit, or used for education, training or participation expenses. Otherwise, the amount which exceeds the allowable asset limit is included as income in the month received and as an asset thereafter.

Where an applicant or recipient has withdrawn locked-in pension funds under any other category, which exceed the allowable asset limit, the withdrawn amount is exempt as income if used for the purpose it was intended. If the withdrawn amount is not used for the purpose intended, the amount which exceeds the allowable asset limit, and less the application fee and taxes charged, is included as income in the month received and as an asset thereafter.

The Pension Benefits Act also allows people who are facing a life expectancy of less than 2 years to access locked-in accounts and pension plans.

Once an applicant or recipient reaches an age that allows access to a locked-in retirement account, they are not required to transfer locked-in pension funds, a locked-in RRSP or a locked-in Retirement Account (LIRA) into an account that makes income payments when the person reaches the age that allows access. However, if an applicant or recipient chooses to transfer money from such accounts to an account that makes income payments, the payments, whether lump sum or not, may or may not be exempt (e.g., payments are exempt if used to purchase an exempt item). Any payment received by an individual is treated as income in the month received and as an asset thereafter, unless otherwise exempt.

Registered Education Savings Plan (RESP)

An RESP is a tax-sheltered account that enables money to be accumulated for the sole purpose of funding post-secondary studies.

The following is exempt with respect to RESPs:

- The full amount of any RESPs held by a member of the benefit unit in respect of a beneficiary to whom they are related by blood, marriage or adoption are exempt as assets.
- Gifts received and voluntary payments into RESPs are exempt as income, including any amounts contributed to the RESP by the federal government under the following initiatives:
    - Canada Learning Bond (CLB) for children in low-income families who receive the National Child Benefit Supplement (NCBS). CLB provides an initial $500 payment at birth, followed by annual instalments of $100 until age 15 in each year that the family is eligible for the NCBS.
    - Canada Education Savings Grant (CESG) is available for children up to age 17, regardless of family income. The CESG provides 20 cents for every dollar on the first $2,000 of annual RESP savings. Depending on family income, an additional grant on RESP savings may be available:
        - For families with income below $37,178*, the grant is 40 cents for every dollar on the first $500 saved for the child's RESP each year.
        - For families with income between $37,178* and $74,357, the grant is 30 cents for every dollar on the first $500 you save in your child's RESP.

          *This amount is updated each year based on the rate of inflation.
- Payments from an RESP, intended and used for post-secondary education, received by a member of a benefit unit are exempt as income. Post-secondary education costs consist of the cost of tuition, other compulsory fees, books, instructional supplies and equipment, transportation, and disability-related expenses.

Funds withdrawn from an RESP, in any form, and not used for post-secondary education are not exempt as income or assets.

Registered Disability Savings Plan (RDSP)

An RDSP is a tax-sheltered account that allows families to save for their children with disabilities, and help people with disabilities plan for their future needs. To establish an RDSP, a person must first qualify for the federal Disability Tax Credit (DTC). The federal government assesses eligibility for this tax credit on a case by case basis.

RDSPs are composed of the following three components:

- **Contributions** are limited to a lifetime amount of $200,000 per beneficiary, with no annual limit. Anyone can contribute to an RDSP including the beneficiary and their family.
- **Canada Disability Savings Grants** (CDSGs) – The federal government will match annual contributions with CDSGs up to a lifetime CDSG limit of $70,000. Matching rates will vary depending on family income.
- **Canada Disability Savings Bonds** (CDSBs) – The federal government will provide up to $1,000 per year to RDSPs established by low- and modest-income families, up to a lifetime limit of $20,000. There is no requirement for a person to contribute to an RDSP in order to access CDSBs. The amount of CDSBs will vary depending on family income.

The following is exempt with respect to RDSPs:

- All funds held in RDSPs are exempt as assets when assessing eligibility for Ontario Works.
- Contributions made to RDSPs by family members, other third parties, or the federal government through the CDSGs and CDSBs are exempt as income.
- Interest earned and reinvested into an RDSP are exempt as income.
- All payments/withdrawals from an RDSP for any purpose are exempt as income.