

Locked-in Retirement Plans

Locked-in benefits

While staying with one employer for your entire career used to be the norm, statistics indicate that most of us will work for four or five different employers prior to retirement. If you are entitled to a vested pension benefit under a pension plan, each job transition may provide you with an opportunity to transfer your pension to a vested and locked-in registered plan. At retirement, these funds would be rolled into one or more of the locked-in maturity options designed to provide you with a lifetime income.


The locking-in of pension benefits is an important concept. Pension regulations are designed to ensure that the pension benefits promised by an employer are available at the employee's retirement date and that the accumulated pension funds are used to provide a lifetime retirement income for the employee. Prior to the early 1990s, buying a life annuity was the only maturity option available to someone who had a Locked-in RRSP. In response to the large number of individuals who wanted more flexibility, many of the provinces and the federal government have amended their pension acts to allow additional maturity options.

Locked-in RRSPs and Locked-in Retirement Accounts (LIRA)

Generally, the pension legislation that will govern an individual's locked-in plan is the legislation of the province where the individual last worked. However, pension plans for employees in certain industries that are "Federal undertakings," such as banking, communications and transportation industries, have resulting locked-in plans that are governed by the Federal Pension Benefits Standards Act.

Depending on the pension legislation of your province, the locked-in alternative to an RRSP is referred to as either a Locked-In RRSP or a Locked-In Retirement Account (LIRA). The purpose of both plans is to ensure that locked-in funds will be used to provide you with a lifetime retirement income.

At retirement or, at the latest, the end of the year in which you celebrate your 71st birthday, the funds must be rolled from your Locked-In RRSP/LIRA into one or a combination of a life annuity, or, if available in your province, a Life Income Fund (LIF), Locked-in Retirement Income Fund (LRIF) or prescribed RRIF (P-RRIF).



Maturity Options for Locked-in RRSPs/LIRAs				
Pension Act	LIF	LRIF	Prescribed RRIF	Restricted LIF/RLIF
Newfoundland	✓	✓		
Nova Scotia	✓			
New Brunswick	✓			
Quebec	✓			
Ontario	✓			
Manitoba	✓		✓	
Saskatchewan			✓	
Alberta	✓			
British Columbia	✓			
Federal	✓			✓

Members of a provincially regulated pension plan may only transfer their commuted pension entitlements to a LIRA or Locked-In RRSP approved by the province where they were employed. Subsequent transfers of these locked-in funds are subject to similar restrictions, even if the former employee's province of residence has changed. For example, funds held in an Ontario LIRA may only be transferred to another LIRA, LIF, life annuity or registered pension plan, each of which must be governed by Ontario pension legislation. Similarly, a federally regulated plan can only be transferred to another federally regulated plan.

Life Income Funds (LIF)

A LIF is similar to a Registered Retirement Income Fund (RRIF); except the LIF is locked-in and has additional restrictions which vary slightly from province to province. While both a RRIF and a LIF require that you take a minimum payment out of the plan each year, there is one major difference between the plans. While there is no maximum withdrawal limit on a RRIF, the LIF places a limit on your annual withdrawals.

The maximum LIF payments for Quebec, Manitoba and Nova Scotia plans will continue to be determined in the same manner as prior to age 80, however the maximum will level off at 20% by age 88.

In New Brunswick, Newfoundland, Ontario, Saskatchewan and federally, the maximum LIF payments beyond age 80 increase quickly and in the year you turn 89 you must withdraw 100% of the plan value. In Alberta and British Columbia, in the year you turn 89 you must withdraw 100% of the plan value.

Calculating the maximum withdrawal

The maximum annual withdrawal permitted under a LIF is established by a formula. Each year the amount that you can take out of your LIF will vary depending on your

age and the value of your plan at the beginning of the year. The chart on pages 5 and 6 shows the minimum and maximum LIF withdrawal percentages for 2019. To determine the minimum and maximum amount you can take out of your LIF, go to the Age on January 1st column, locate your age and multiply the value of your LIF (on January 1st) by the percentage indicated under the appropriate columns.

Using the percentages from the chart, here is an example of an individual who, on January 1st, is 65 years old and has a LIF valued at \$100,000 that is governed by Ontario legislation. The minimum and maximum amounts that can be withdrawn for 2019 are calculated as follows:

Assuming the LIF was established prior to 2019, our 65-year-old must withdraw at least \$4,000 and, if he or she wishes, could withdraw up to a maximum of \$7,380.

Minimum Withdrawal	Maximum Withdrawal
$\$100,000 \times 4.0\% =$ \$4,000	$\$100,000 \times 7.38\% =$ \$7,380

Note: All amounts are gross.

Withdrawals in the first year

In the first year a LIF is opened, there is no minimum withdrawal required; however, if you choose to make a withdrawal, there is still a maximum ceiling. For plans regulated by Ontario and Newfoundland, the maximum is pro-rated for the number of months remaining in the year, including the month you transfer into the plan.

Using the previous example, if the LIF is opened in May of 2019, the maximum would be pro-rated over eight months, so the maximum withdrawal for 2019 would be \$4,920 ($\$7,380 \div 12 \text{ months} \times 8 \text{ months}$).

Locked-in Retirement Income Funds (LRIF)

If your pension plan is regulated by the province of Newfoundland, you have the additional option of transferring your locked-in plan to an LRIF.

The minimum annual payment from an LRIF is the same as a LIF; however, the maximum annual withdrawal is the greatest of:

- (a) the investment earnings (including unrealized capital gains and losses and excluding withdrawals) in the previous year;
- (b) the market value at January 1st minus the net value of all transfers ever made into and out of the plan (not including withdrawals); and
- (c) if funds are transferred from a LIF, payment in the 2nd year is equal to the investment earnings in the previous year from both the LIF and LRIF plans.

Note: In years one and two of a new LRIF, the maximum rate is 6%. In year three, the above calculation applies.

If the minimum you are required to withdraw exceeds the maximum, the minimum prevails.

Like a LIF, you are not required to make a withdrawal from your LRIF in the year the plan is opened; however, if you would like to make a withdrawal, you are limited to the pro-rated maximum amount.

Prescribed RRIFs (P-RRIF)

Saskatchewan and Manitoba have a maturity option called the P-RRIF. The P-RRIF provides increased flexibility in determining withdrawals because they do not have a maximum annual withdrawal limit. Unlike a regular RRIF, the P-RRIF is governed by provincial pension legislation.

Saskatchewan no longer offers LIFs or LRIFs as a maturity option for locked-in funds. Instead, individuals have the option to roll the funds into a P-RRIF. If you currently have a Saskatchewan LIF or LRIF you may continue with those plans or roll them into a P-RRIF. Manitoba allows for a one-time transfer of up to 50% of the balance in a LIF or LRIF into a P-RRIF. You must be age 55 to open a P-RRIF.

Access to locked-in funds

Although no withdrawals can be made from a Locked-In RRSP or LIRA, most provinces will allow access to locked-in plans in limited situations. Under certain conditions, you can unlock your locked-in funds in cases of shortened life expectancy, non-residency, financial hardship, lump-sum unlocking or when the balance in all of your locked-in accounts is less than a certain threshold, which varies by province.

Eligible investments

The list of qualified investments for locked-in plans is the same as for RRSPs and RRIFs, with the exception of mortgages which are excluded in some provinces. You cannot use your locked-in account to take advantage of the Home Buyer's or Lifelong Learning Plans.

Conclusion

Locked-in plans provide former pension plan members with increased flexibility in planning and managing their retirement incomes. If you would like to discuss your particular situation in more detail, please contact your BMO financial professional.



Accessing Locked-in Plans

Province	Earliest age to convert to LIF/LRIF	Shortened life expectancy	Small balance	Non-residency	Financial hardship	Lump-sum unlocking	Funds unlock to spouse on death of annuitant*
Newfoundland	Age 55 unless earlier retirement date specified in RPP	Yes	Yes	No	No	No	Yes
Nova Scotia	Age 55 unless earlier retirement date specified in RPP	Yes	Yes	Yes	Yes	No	Yes
New Brunswick	Anytime	Yes	LIRA only	Yes	No	Yes	Yes
Quebec	Anytime	LIRA only	Yes	Yes	No	No	Yes
Ontario	Age 55 unless earlier retirement date specified in RPP	Yes	Yes	Yes	Yes	Yes	Yes
Manitoba	Anytime	Yes	Yes	Yes	No	No ¹	LIRA - No LIF/LRIF - Yes
Saskatchewan	Age 55 unless earlier retirement date specified in RPP	LIRA only	LIRA only	Yes	No	No	Yes
Alberta	Age 50	Yes	Yes	Yes	Yes	Yes	LIRA - No LIF/LRIF - Yes
British Columbia	Age 50	Yes	Yes	Yes	Yes	No	No
Federal	Anytime	Yes	Yes	Yes	Yes	Yes	No

* If no surviving spouse, the plan is always unlocked to a designated beneficiary or the estate.

¹ Except for transfer to Manitoba RRIF.



2019 Minimum & Maximum LIF Withdrawals

Age ¹ on Jan 1	LIF Minimum ²	LIF Maximum			
		Federal	New Brunswick, Newfoundland, Ontario, Saskatchewan	Manitoba, Nova Scotia, Quebec	Alberta, British Columbia
50	2.50%	4.49%	6.27%	6.10%	6.27%
51	2.56%	4.52%	6.31%	6.10%	6.31%
52	2.63%	4.56%	6.35%	6.10%	6.35%
53	2.70%	4.60%	6.40%	6.10%	6.40%
54	2.78%	4.65%	6.45%	6.10%	6.45%
55	2.86%	4.69%	6.51%	6.40%	6.51%
56	2.94%	4.74%	6.57%	6.50%	6.57%
57	3.03%	4.80%	6.63%	6.50%	6.63%
58	3.13%	4.86%	6.70%	6.60%	6.70%
59	3.23%	4.93%	6.77%	6.70%	6.77%
60	3.33%	5.00%	6.85%	6.70%	6.85%
61	3.45%	5.08%	6.94%	6.80%	6.94%
62	3.57%	5.16%	7.04%	6.90%	7.04%
63	3.70%	5.26%	7.14%	7.00%	7.14%
64	3.85%	5.36%	7.26%	7.10%	7.26%
65	4.00%	5.48%	7.38%	7.20%	7.38%
66	4.17%	5.61%	7.52%	7.30%	7.52%
67	4.35%	5.75%	7.67%	7.40%	7.67%
68	4.55%	5.91%	7.83%	7.60%	7.83%
69	4.76%	6.08%	8.02%	7.70%	8.02%
70	5.00%	6.28%	8.22%	7.90%	8.22%
71	5.28%	6.51%	8.45%	8.10%	8.45%
72	5.40%	6.77%	8.71%	8.30%	8.71%
73	5.53%	7.07%	9.00%	8.50%	9.00%
74	5.67%	7.42%	9.34%	8.80%	9.34%
75	5.82%	7.82%	9.71%	9.10%	9.71%
76	5.98%	8.29%	10.15%	9.40%	10.15%
77	6.17%	8.83%	10.66%	9.80%	10.66%
78	6.36%	9.46%	11.25%	10.30%	11.25%
79	6.58%	10.20%	11.96%	10.80%	11.96%
80	6.82%	11.10%	12.82%	11.50%	12.82%

Age ¹ on Jan 1	LIF Minimum ²	LIF Maximum			
		Federal	New Brunswick, Newfoundland, Ontario, Saskatchewan	Manitoba, Nova Scotia, Quebec	Alberta, British Columbia
81	7.08%	12.19%	13.87%	12.10%	13.87%
82	7.38%	13.56%	15.19%	12.90%	15.19%
83	7.71%	15.32%	16.90%	13.80%	16.90%
84	8.08%	17.67%	19.19%	14.80%	19.19%
85	8.51%	20.96%	22.40%	16.00%	22.40%
86	8.99%	25.89%	27.23%	17.30%	27.23%
87	9.55%	34.12%	35.29%	18.90%	35.29%
88	10.21%	50.59%	51.46%	20.00%	51.46%
89	10.99%	100.00%	100.00%	20.00%	100.00%
90	11.92%	100.00%	100.00%	20.00%	100.00%
91	13.06%	100.00%	100.00%	20.00%	100.00%
92	14.49%	100.00%	100.00%	20.00%	100.00%
93	16.34%	100.00%	100.00%	20.00%	100.00%
94	18.79%	100.00%	100.00%	20.00%	100.00%
95 and above	20.00%	100.00%	100.00%	20.00%	100.00%

¹ In all provinces except New Brunswick, the minimum withdrawal for a LIF may be based on your spouse's age. For all provinces, the maximum withdrawal is based on the annuitant's age.

² You do not have to make a withdrawal in the first year your LIF is established.



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