Western RIF Unlocking Questions & Answers

Q: Why is pension money locked-in? What does locked-in mean?

A: The primary objective of a private pension plan, like the one you participated in through your employment at the University of Western Ontario, is to provide income to meet the needs of employees when they retire. The locking-in of pension money has helped to ensure that pension benefits accumulated on a tax deferred basis are used for providing retirement income. Generally, locking-in has served to help protect Canadians in their effort to save for retirement, as well as to distribute the “spending” of the retirement savings over their lifetime in retirement by imposing a “maximum” or limit on how much can be withdrawn from the account each year.

Q: Are all my retirement savings designated as “locked-in” pension money?

A: Not all retirement savings in a registered, tax-sheltered account is designated as “locked-in”. Retirement savings which you voluntarily contributed to your Western pension account or to your RRSP or a spousal-RRIS at your financial institution is already designated as “non-locked-in” or cashable money. This means that there is no limit or maximum imposed on what you can access each year. But, be careful! Anything you withdraw from these accounts will become taxable income in the year you receive it!

Q: What does it mean to “unlock” pension money?

A: Locked-in pension money can only be accessed on or after a specified retirement age (usually 55) and even then it’s withdrawal from the locked-in account must be spread out over time. This is partially achieved by the “maximum” payment restriction which applies to all locked in accounts (Old LIF, New LIF and LRIF). As you withdraw locked-in pension money from your account it becomes taxable income to you in the year you withdraw it.
Unlocked or non-locked-in pension money doesn’t have any limit on how much can be withdrawn and when. In this way, unlocked pension money gives you more control and flexibility to withdraw amounts that meet your needs. Non-locked-in pension money is held in a RRIF, from which you must still make a ‘minimum’ withdrawal each year.

If you “unlock” some of your locked-in funds, it means the unlocked pension money can be:

i) Transferred on a tax sheltered basis to an RRSP at your financial institution (this option only applies if you are under age 71). While in an RRSP the money is still invested, however you are not required to make withdrawals.

ii) Transferred on a tax-sheltered basis to a RRIF a retirement income fund for non-locked-in pension money). While in a RRIF you are still required to withdraw at least a prescribed ‘minimum’ amount each year.

iii) Receive a taxable cash payment. The value of the cash payment will be included in your income in the year in which it is received. Taxes owed will depend on your total income for that year.

Generally we recommend you consider options (i) and (ii). Remember that once the money is in the RRIF you will have the ability to withdraw more, if you need and want to!

Q: If I do the “unlocking” does it mean that I have to pay income tax on all the money I have unlocked?

A: No, the process of “unlocking” money does not need to have an income tax consequence. By transferring the “unlocked” money to either your RRIF account or RRSP account (only applicable if you are under age 72), you can maintain the current tax-sheltered which exists in the locked-in account.

Q: Can I unlock money at any time?

A: Changes to the locking-in rules for pension money tend to be infrequent. The last major change was in 1987! This ability to unlock up to 50% of your account is a one-time option. For members who transfer assets from a pension account or LIRA to a New LIF, the unlocking must happen within 60 days of the transfer. Members who have their locked-in
assets in an Old LIF or LRIF were provided a one-time option to unlock between January 1, 2011 and April 30, 2012.

Q: How do I calculate the amount I am eligible to unlock?

A: The amount available for you to unlock is 50% of the amount deposited to your New LIF. For members who unlocked from an Old LIF or LRIF, the previous year-end balance was the reference balance for unlocking.

Q: Can I unlock 50% each time I transfer to a New LIF with another institution?

A: No, the government has established strict rules so that the unlocking can only be done once. If you had assets in an Old LIF or LRIF at Western, the unlocking option existed from January 1, 2011 until April 30, 2012. If you subsequently transfer your assets to a New LIF at Western or to another financial institution, you will not be able to do any unlocking.

If your money is already in a New LIF, you would have been provided with unlocking options at the time the money was deposited to the New LIF. You will not have another opportunity to unlock if you later transfer to a New LIF at a financial institution.