

ACCESSING PENSION FUNDS



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Alberta Locked-in Accounts

If you work for an industry that is not federally regulated*, and you work in Alberta on your last day of employment under the pension plan, then the funds from that plan are subject to the *Employment Pension Plans Act* (the Act).

Alberta public sector plans (the Public Service, Teachers, Management Employees, Local Authorities, Special Forces, Provincial Court Judges and MLA Pension Plans) are not subject to the Act, but once the money is transferred out, it must be locked-in under the rules of the Act.

*Federally regulated industries include banking, telecommunications, airlines, shipping, and inter-provincial forms of transportation. In addition, federal civil servants, the military, the RCMP, and employment in the Territories are under the federal regulation. Contact the Government of Canada for information.

If you worked in another province on your last day of work then your pension is regulated under that province and you must contact them for information.

What Happens When I Leave my Employer?

When you leave employment, you may be given the option to transfer your funds from the pension plan into a Locked-in Retirement Account (LIRA). The LIRA is a locked in RRSP at a financial institution.



The transfer of the money from the pension plan to a LIRA does not change the fact that the pension plan was set up to provide you with income for your life after retirement. Therefore, all money transferred to a LIRA is to be used to provide you with retirement income.

If you have a LIRA and are at least 50 years old, you can start receiving pension income. To do so, you must buy a life annuity or transfer to a Life Income Fund (LIF).

Life Annuities

Only insurance companies offer life annuities. These annuities provide you with a guaranteed income for life, which you buy with the money in your LIRA. Payments from a life annuity are like receiving a monthly pension that is paid directly from a pension plan fund. Once you have started to receive an annuity, the insurance company is unlikely to allow you to change it.

The details of the annuity, as well as the amounts paid out, depend on the terms of the contract that you sign with the insurance company. However, the Act requires that any annuity purchased using locked in funds must pay you income for as long as you live. If you have a **pension partner** at the time you start your pension, the standard form of payment to you is a 60% joint and survivor annuity. This pays an amount for both of your lives and continues payments after the first death to the survivor of 60% of the payment when you were both alive. You may choose a different amount only if your pension partner agrees to give up the guarantee by signing the waiver shown on page 8. No waiver is needed if you choose an annuity that pays more than 60% to the survivor.

Life Income Fund (LIF)

Many financial institutions, including insurance companies, banks, trust companies and credit unions, offer LIFs. A LIF gives you more control over the investment of the money but does not guaranteed a specific amount of income.

The LIF must pay a minimum yearly amount because of the rules of the *Income Tax Act*. The maximum amount that may be paid out is based on a factor that is calculated every year. Your financial institution can explain LIF amounts.

You cannot transfer to a LIF unless your pension partner agrees to give up his or her right to the 60 percent joint and survivor pension by signing waiver shown on page 8. When you die, your pension partner will receive the remainder of the LIF account. Payment can be into their Registered Retirement Income Fund (RRIF) or RRSP if your pension partner is under age 71. Or they can take the payment as cash, but taxes will be deducted as required by the *Income Tax Act (ITA)*.

If you have no pension partner when you die, the money goes to the person you name as your beneficiary, or to your estate if you do not name a beneficiary.

If you have a pension partner, but wish to name a beneficiary not your pension partner, and your pension partner is in agreement, they sign [Form 3](#).

Who is my Pension Partner?

Your pension partner is:

- the person to whom you are married, and are not living separate and apart for 3 years, or if there is no one then
- the person with whom you have been living in a marriage-like relationship for at least 3 years, or sooner if there is a child resulting from the relationship either by birth or adoption.



If you are living common-law, it ends on the date that you begin to live separate and apart. Please note that a pension partner can be a same sex person.

However, if you got the locked-in account as a death benefit from your deceased pension partner, or as matrimonial property, then you do not have a pension partner for the purposes of the Act.

Accessing Locked-in Funds

If you have a locked in account, there are five specific times that you may be allowed to unlock funds. These are: shortened life, non-residency, small amount, 50% unlocking on transfer to a LIF, and financial hardship.

If you take the unlocked money as cash, income tax will be deducted. If you transfer the money into an RRSP or a RRIF there is no tax deducted. Be aware that taking the money out of a locked in account means that your creditors may have access to the money.

1. Access due to Considerably Shortened Life

If you have a terminal illness or a disability that will shorten your life, you may be able to unlock your pension, LIRA, LITB, or LIF. Your pension partner would have to give up his or her right to a joint and survivor pension by signing the form listed on page 8. Your doctor must write a letter that states you are expected to have a considerably shortened life. The letter does not need to state the type of illness or disability nor how long you will live. You give the waiver and doctor's letter to the pension plan or financial institution that has your money.



2. Access by Becoming a Non-resident of Canada

If the Canada Revenue Agency (CRA) determines that you are a non-resident of Canada for tax purposes, and confirms this in writing, then you may unlock your LIRA or LIF. You can apply for non-residency status by completing the federal form NR-73 E(12). This form is available on the CRA website. Follow their instructions. If you qualify, CRA will send you a letter confirming that you are a non-resident of Canada for purposes of the ITA.



To unlock your money, you must give your pension plan or financial institution a copy of the CRA letter and the form shown on page 8 signed by your pension partner.

Please call the CRA at 1-800-267-5177 if you have questions about non-residency .

3. Access to Small Amounts

Sometimes the money in a LIRA, LIF or a pension plan at termination, is too small to provide a useful pension. A small amount may be unlocked.

For 2014, if you are under age 65 and the amount in any single locked in account is less than \$10,500 on the day you ask for the withdrawal, the account can be unlocked. If you are age 65 or older and the amount in any single locked in account is less than \$21,000 on the day you ask for the withdrawal, the account can be unlocked. There is no pension partner waiver as the amount is too small to provide a pension.

The money is unlocked by the pension plan or financial institution that has your money.

The small amounts are based on 20% and 40% of the Year's Maximum Pensionable Earnings (YMPE). The YMPE is set each year by the Government of Canada for the Canada Pension Plan.



What if my account balance is just above the small amounts limit?

If the amount is over the limit, even by a dollar, then you cannot have your funds unlocked under the small amount rule.

You cannot split accounts to make them small enough to be unlocked.

4. Access by 50% Unlocking

If you are aged 50 or older and have terminated from a pension plan or have money in a LIRA, you may unlock up to 50% of the money when you start a LIF or LITB. Your pension partner would have to give up his or her right to a joint and survivor pension by signing the form shown on page 8.

Can I unlock less than 50% of the account balance?

This is a one time only choice. You may unlock less than 50% of the account, but if you unlock less than 50%, you are not allowed to unlock again later. For example, if you unlock only 30% of your money, you cannot later unlock another 20%.

The money is unlocked because you have chosen to start to receive an income. You cannot transfer the money back to a LIRA after starting a LIF or LITB. The money is unlocked by the pension plan or financial institution that has your money.

When is unlocking not allowed?

Unlocking is not allowed if you are receiving a pension from the plan, or if your pension plan does not allow you to transfer money out of the plan because you have reached early retirement age.

What if I unlock 50% and the money left in the account is less than the small amount?

After unlocking the 50%, if the money left is **less than** the small amount (see pg 5), you may unlock the rest of the account. Because you are able to unlock all the account, the money doesn't have to be transferred to a LIF or LITB because it only creates extra paper work for everyone.



5. Financial Hardship Unlocking (FHU)

If you have one of these 5 reasons of financial hardships, you may be able to unlock money in your LIRA or LIF. You apply to the financial institution that has your account to unlock the money. The application form is available at: finance.alberta.ca/publications/pensions/information-for-individuals.html.

You may apply for each of these reasons only once per account from September 1, 2014 to December 31, 2014.

- 1. Low Income** – Your income for the next twelve months will be less than \$35,000. You may be eligible to unlock up to \$26,250 in 2014.
- 2. Foreclosure** - You or your pension partner have received a letter threatening foreclosure on a debt secured against your main home. The most you can unlock is the overdue amount owing including legal fees.

3. Eviction for Rent Arrears - Your or your pension partner are being evicted from your main home because you owe rent. The most you can unlock is the amount of unpaid rent.

4. First Month's Rent & Security Deposit – You or your pension partner need the first month's rent and security deposit on a new home you will be moving into.



5. Medical Costs & Renovation - You, your pension partner or dependants have medical expenses not covered by a medical plan or any other source in the past and/or next 12 months. You, your pension partner or dependants have made alterations in the past 12 months and/or need alterations to your main home due to illness or disability. The most you can unlock is the expense you have paid or will pay in the past or next 12 months.

You have to include certain documents for each reason. These are:

1. Complete the formula on page 4 of the application.
2. A copy of the foreclosure notice and documents showing the amount of arrears.
3. A copy of the notice of eviction and documents showing the amount of rent arrears.
4. A copy of the lease agreement showing the monthly rent and the security deposit of the new home you will be moving into.
5. A copy of the invoice or estimate for medical treatment or medicine and a doctor or dentist's written opinion that the treatment is needed. A copy of the cost estimate or paid invoice to alter the primary residence; a copy of a physician's opinion that the you, your pension partner or dependant has a disability.

What can I do with the money I unlock?

You can take the money in cash or transfer it to your bank account and taxes would be deducted from the money unlocked. You can transfer the money into your own RRSP or RRIF, so no tax is deducted. You may choose a combination of these options. Contact CRA or your pension plan or financial institution if you have questions about tax.

Summary of Unlocking Provisions and Procedures

Reason	Process	Required Forms
Considerably Shortened Life	<p>All forms are given to the pension plan or financial institution that has your money.</p> <p>Form 6 or 5 are not required if there is no pension partner or if the account owner received the account through death or marriage breakdown.</p>	<p>Form 6 <i>Pension Partner Waiver to Permit Unlocking from a Pension Plan Due to Shortened Life Expectancy or Non-residency</i></p> <p style="text-align: center;">OR</p> <p>Form 5 <i>Pension Partner Waiver to Permit Commutation due to Shortened Life or Taking Non-Residency Status</i></p> <p>Doctor's letter that says you will have a considerably shortened life.</p>
Non-resident of Canada	<p>All forms are given to the pension plan or financial institution that has your money.</p> <p>Form 6 or 5 are not required if there is no pension partner or if the account owner received the account through death or marriage breakdown.</p>	<p>Form 6 <i>Pension Partner Waiver to Permit Unlocking from a Pension Plan Due to Shortened Life Expectancy or Non-residency</i></p> <p style="text-align: center;">OR</p> <p>Form 5 <i>Pension Partner Waiver to Permit Commutation due to Shortened Life or Taking Non-Residency Status</i></p> <p>Letter from Canada Revenue Agency that says you are a non-resident of Canada under the <i>Income Tax Act</i>.</p>
Small Amount	<p>All forms are given to the pension plan or financial institution that has your money.</p>	<p>None</p>
50% Unlocking	<p>All forms are given to the pension plan or financial institution that has your money.</p> <p>Form 7 or 6 are not required if there is no pension partner or if the account owner received the account through death or marriage breakdown.</p>	<p>Form 7 <i>Pension Partner Waiver to Permit Up to 50% Unlocking From a Pension Plan on Establishment of a Life Income Type Benefit Account or Life Income Fund</i></p> <p>Form 6 <i>Pension Partner Waiver on Transfer to a LIF, DC RIA or Annuity—Non-Defined Benefit</i></p>
Financial Hardship	<p>All forms are given to the financial institution that has your LIRA or LIF.</p>	<p>Form 23 <i>Application to Unlock Alberta Funds due to Financial Hardship</i></p> <p>Supporting documents as shown in the application form and page 7 of this booklet.</p>