Financial Focus

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Accessing your Lira **June 2021**

By Clinton Orr

If you have retired, changed jobs, or pulled a pension, there is a good chance you have a LIRA. These are locked in accounts designed for pensions. Exactly how do they work? And how do you get access to the money? We will tackle those questions.

For starters, LIRA stands for Locked-In Retirement Account, however it's possible you have a Locked-In RRSP or Locked RRSP. Regardless of the name, the premise is the same, you work for a company, contribute to the pension and later when you leave, the money moves to a form of locked-in account. A LIRA is governed by legislation, which determines when and how you can access the money. The federal government has legislation that governs LIRAs, as does each province. To make matters more confusing, where you live does not necessarily determine the type of legislation that governs your account. It depends on how the company sets up the pension. Perhaps it's a large company operating in many provinces, so they decide to use federal legislation, or maybe their main office is in Saskatchewan, so they use that legislation. The rules for each legislation are not the same, there are differences. So before pulling money out of your LIRA you need to determine which set of rules apply, and you need to know the legislation.

Now that we know the legislation, how do we access the money? You cannot withdraw from a LIRA. In order to access the money, the LIRA must first be converted to a Life Income Fund (LIF). One aspect that is consistent across all the legislation is that a LIRA must be converted to a LIF by the end of the calendar year you turn 71. Accessing the money prior to that depends on the rules for your LIRA. Most provinces allow you to access the pension anytime after the age of 55, Alberta and BC however use the age of 50, and Manitoba and the Federal legislation do not have a minimum age.

Now that the money is in a LIF, you can start withdrawals. The legislation regulates how much you can withdrawal; there is a minimum annual withdrawal as well as a maximum annual withdrawal. Both the minimum and maximum withdrawals increase with age.

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As an example, if your LIF is under Federal legislation and you are 63, the minimum withdrawal for 2021 is 4% and the maximum is 4.64%, under Manitoba rules the minimum remains the same but the maximum is 7.20% and under BC rules the minimum is still 4% but the maximum is 7.38%.

There are circumstances where additional withdrawals are possible. Generally, if there is financial hardship, the amount in your LIRA is small. If you have a shortened life expectancy or have become a non-resident of Canada, you can withdraw more from your LIRA. Exactly how these additional withdrawals take place depends on the legislation. For example, under Manitoba legislation, the government does not permit additional withdrawals because of financial hardship, but a withdrawal for that reason is permitted under Ontario legislation.

In 2008, the federal government made changes, so Canadians with LIFs can unlock 50% of the account. Like other aspects of locked-in accounts, the details of how you can implement the 50% unlock depends on the specific legislation. In general, you can transfer the funds in your LIRA to a LIF and then 50% of your LIF can be unlocked. The unlocked portion does not have a maximum withdrawal, you can take as much from the unlocked account as you'd like.

It is important to note that any withdrawal from a LIRA or LIF is fully taxable. The rules for LIRAs can be complicated and there are tax consequences. How you access these accounts should be planned and be part of your overall retirement strategy.

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