CANACCORD Genuity Wealth Management

CLINTON ORR Wealth Management Group

Financial Focus
Getting Money Out of a LIRA

The Financial world has a lot of jargon: RRSP, TFSA, RRIF, LIRA, LIF and PRIF just to name a few. Amongst the sea of acronyms I frequently receive questions about LIRA, specifically what is it? And how do I get my money out of it?

LIRA stands for Locked-In Retirement Account. If you worked for a company, contributed to the pension plan and later left the company there is a good chance you have a LIRA. Governments, both provincial and federal, generally do not allow you to cash in your company pension, so the money needs to be transferred into a locked-in account. There are numerous ways a company can set up a pension plan, so there are circumstances that allow cashing in a pension or transferring it to an unlocked. However LIRAs are a frequent occurrence.

There are rules that govern LIRAs. Depending on how the company set up the pension, your LIRA will fall under either provincial or federal legislation. If the pension is under provincial legislation it does not necessarily have to be from the province you work in. For example it is possible to work in the Manitoba branch of a large company and for that company's pension to fall under Ontario legislation. The details of your LIRA will vary depending on the legislation. For the most part, however, you cannot access the money in a LIRA. In order to start drawing on the account the money in a LIRA must first be shifted to a Life Income Fund (LIF). Under some legislation you must 55 years of age or older before you can shift a LIRA into a LIF. Under Manitoba legislation there is no minimum age. Under all legislation there is a maximum age for conversion, by the end of the calendar year in which you turn 71 your LIRA must be shifted into a LIF.

Once the money is in a LIF you can start withdrawing from the account. LIFs have a minimum annual withdrawal as well as a maximum annual withdrawal. The government regulates how much money you can withdraw from your LIF. Both the minimum and maximum withdrawals increase with age. For example if your LIF falls under Manitoba legislation and you are 65 years old, in 2018 your minimum withdrawal would be 4% of your LIF and the maximum amount you would be allowed to withdraw is 7.20%.

In some situations additional withdrawals are permitted. Generally, if there is financial hardship, the amount in your LIRA is small, you have a shortened life expectancy or have become a non-resident of Canada you are allowed to withdraw more from your locked-in account. Again because of the multiple levels of regulation, the details of these additional withdrawals will vary depending on the specific legislation that governs your locked-in account. For example if your LIRA or LIF falls under Manitoba legislation, the government does not permit additional withdrawals because of financial hardship.

In 2008, then Finance Minister, Jim Flaherty introduced changes that allow Canadians with LIRAs to unlock 50% of the account. Similar to other aspects of LIRAs the details of how you can implement the 50% unlock will vary depending on the legislation that applies to your account. In general, you are allowed to 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 needed. It should be noted that any withdrawal from a LIRA, LIF or unlocked account is fully taxable.

The rules around LIRAs can be complicated. How you access these accounts should be planned and be part of your overall retirement strategy.

Clinton Orr B.Comm (hons.), CIM, CFP, DMS, FMA lives in Beausejour and is an Investment Advisor at Canaccord Genuity Wealth Management