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TITLE: Transfer to Locked-in RRSP May Result In Loss Of Rights

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Taken from the "Your Questions Answered" column published in the PCO Bulletin. Please see the disclaimer at the beginning of the directory.

I am providing retirement planning advice to a client whose employment terminates next month. Under the terms of his employer's pension plan, my client may begin to receive pension payments in two years, at age 53. Would it be to his advantage to elect an option to transfer the value of the pension benefit to a locked-in RRSP?

First, we should state that the PCO does not offer advice on financial planning for retirement. However, the matter of electing to transfer the value of pension benefits to a locked-in RRSP for the purpose of receiving income at age 53 requires clarification since that transfer would result in a loss of rights in pension law.

If an individual wants to draw retirement income at age 53, a transfer should not be made to a locked-in RRSP. These funds cannot be used to purchase an annuity or a LIF that commences payment prior to age 55. Any rights provided under the terms of a pension plan for retirement at an earlier age are lost when the value of pension benefits are transferred to a locked-in RRSP.

Therefore, this person may elect to leave the benefit entitlement in the pension plan and begin receiving payment from it at age 53. Another option to consider is to transfer the value of the pension directly from the pension plan to an insurance company for the purpose of purchasing a deferred annuity payable at age 53.

PCO Staff Comment: This article was accurate at the time of writing, however the Regulations under the Act have been changed (O. Reg 409/94, s. 21 (2.1)) to permit a member to retain any early retirement rights the member may have been entitled to under the terms of the plan prior to the transfer of locked-in money.