Financial Services Commission of Ontario
Commission des services financiers de l'Ontario

SECTION:	Locking In
INDEX NO.:	L100-600
TITLE:	Self-Directed RRSPs And Home Mortgages
PUBLISHED:	Bulletin 3/2 (October 1992)
EFFECTIVE DATE:	When Published [No longer applicable - replaced by L200-100 and L200-200]

Note: *Due to legislative changes, the references to "locked-in RRSPs" should now read "locked-in retirement accounts" and the reference to "Revenue Canada" should now read the "Canada Customs and Revenue Agency". In addition, the fines for convictions under the PBA for both corporations and individuals are now up to $100,000 for a first conviction, and up to $200,000 on each subsequent conviction.*

Self Directed RRSPs and Home Mortgages

The Pension Commission continues to receive calls on a regular basis dealing with the use of locked-in RRSP funds to finance the purchase of a home. The federal government's new homebuyers program which was announced in the spring budget raised the issue of the status of locked-in retirement savings.

In Ontario, locked-in pension funds held in an RRSP cannot be cashed out to buy a house, or used to hold a personal mortgage. Locked-in funds can, however, be held in self-directed RRSPs. Self-directed RRSPs offer a number of investment options not usually available under other RRSPs. Options include Canada Savings Bonds, Bonds, Mutual Funds, Treasury Bills, individual stocks - and home mortgages. And, unlike regular RRSPs, self-directed plans allow investors to take advantage of investments offered at a number of financial institutions.

By definition, self-directed RRSPs require owners to play a greater role in managing the plan - a requirement often suited to more experienced investors. Fees for the administration of self-directed RRSPs also tend to be higher. Annual fees are charged in addition to regular transaction fees. Although these expenses are tax deductible if paid outside the plan, improved investment returns may make these additional costs worthwhile.

Ontario's pension law requires strict adherence in the administration of locked-in funds. Self-directed RRSPs designed to hold a personal mortgage must be administered at arms-length from the homeowner. The mortgage must be insured and set at rates generally available in the open market. If mortgage payments are in default, the administrator of the mortgage may foreclose. In such circumstances, the property can be sold and any outstanding loan amount must be paid back into the locked-in RRSP.

Financial institutions administering locked-in self-directed RRSPs must observe both federal and provincial legislation. Revenue Canada regulates investment options available, such as the percentage of assets which may be invested in foreign property. Ontario requires locked-in funds to be administered according to the Pension Benefits Act.

According to the PBA, financial institutions which allow locked-in funds to be removed from RRSPs are subject to prosecution. On conviction, fines of up to $100,000 may be levied against a corporation, while individuals are liable to penalties of $25,000.

Some provinces produce a list of prescribed financial institutions which qualify to administer locked-in funds. Ontario has not adopted this approach but financial institutions are reminded of their obligation to administer locked-in funds according to the requirements of the PBA.