

## **The Locked-in pension account**

### *A Response to Canada's Coming Pension Crisis*

**Summary:** There looms a pension crisis for Canadians in the near future. The federal government will be unable to fund the pension requirements of the baby boomer retirees let alone the requirements of subsequent generations of retirees. A Locked-in Pension Account (LIPA) would allow for individuals to privately fund LIPA's with the money being held in trust for the future benefit of the named beneficiaries of the LIPA.

#### **Statement of the problem**

Our federal and provincial finance ministers are seeking solutions to protect older Canadians from income shortfalls during their retirement years, but there are few solutions on the horizon. At the same time, many older Canadians, through hard work and extraordinary windfalls in the housing market, find they have accumulated a great deal of wealth, but ironically, have little cash flow to supplement their own retirement.

It is estimated that as much as \$1 trillion dollars will pass to the next generation of Canadians through estate transfers. Acutely aware of the value of their estates, many older Canadians have concerns about the wisdom of passing on such large lump sum estates to children and grandchildren.

Creating a new financial instrument could provide seniors with income now from their valuable estates and at the same time allow them to utilize family wealth to ensure that their children and grandchildren are able to receive private pension income when they retire.

A Locked in Pension Account ("LIPA") would be an idea unique to Canada and carries with it the promise to provide a creative solution to our specific demographic quandary where the size of the retired population will soon far out weigh the working population. It also has the potential to remove some of the well documented and anxiously anticipated strain on the government's ability to provide Old Age Security and Guaranteed Income Supplement funding to Canadian seniors as the baby boomer bulge exits the workforce. Furthermore, a LIPA would provide an investment vehicle that could ensure financial independence for subsequent generations of Canadians..

#### **Details of the problem**

Large pools of wealth in private portfolios transferred to a LIPA would have the potential to significantly reduce the drain on government pension resources. It could also represent significant tax savings to individuals who make a decision to move wealth into a LIPA.

The LIPA would work similar to already available trust vehicles but with tax advantages to the donor or the settler, such as a non-refundable tax credit based on the amount transferred into the LIPA. Funds inside the LIPA would be allowed to accumulate tax free and be professionally managed and guided by a conservative investment strategy.

The donor would be permitted to access a percentage of the income generated by the LIPA while they remain alive.

Named beneficiaries of the LIPA would only be allowed to withdraw a legislated percentage of the capital and income of the LIPA after age 55, similar to Locked In Retirement Accounts (LIRAs). This would ensure the long term viability of the LIPA for future generations.

Because of the tax advantages, the decision to create a LIPA would be made by the donor before death and would be an irrevocable decision.

It is anticipated that the tax foregone (by the granting of a tax credit to the donor and by a deferral of a valuation of the donor's estate) is far outweighed by the reduction of costs related to pension benefits over the long term and the reduction in the benefits payable under Old Age Security.

#### THE CHAMBER RECOMMENDS

That the Federal Government immediately introduce legislation for the creation of the Locked-In Pension Account to ensure the financial independence of retired Canadians.

Submitted by the financial community