I lost my home in a fire. Can I tap my LIRA to cover costs?

A loophole in LIRA rules would be helpful in times of hardship

by Tom Feigs
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Q: My house was burnt in the Fort McMurray fire. I am now unemployed and my husband and I are struggling to make the mortgage payments on top of our rent payment. Our savings are now drained as well as money received from insurance—the town house was part of a condo and is being rebuilt.

We have a significant amount locked up in a LIRA and it seems ridiculous for our mortgage to go to foreclosure (as it will be soon enough) before we have a chance to sell it and get our money out when it's finally rebuilt next year. Are there any LIRA loopholes for people who lost their homes in these fires? Can we take money out of the LIRA to help us out financially now?

—Karen

A: Karen, the Fort McMurray fire is a disaster in many ways. There was huge property damage, displacement, disruption of infrastructure, and disruption of employment. The biggest strain has to be the pace at which all of this gets solved. How do you get by financially when you have continuous living expenses while employment opportunities are suddenly limited?

I'm so sorry this has happened to you, Karen. Making mortgage payments and rent payments with insurance benefits drying up is extremely difficult. Relief funds are vital but not helpful in your case as they are directed to rebuilding efforts. Where does this leave you as an in-betweener?

A LIRA (Locked-In Retirement Account) falls under provincial pension legislation. It is designed to be a source of income after your working years come to a close. In Alberta, a LIRA can be unlocked once you reach age 50+

There are also five hardship provisions that can be used to apply for unlocking the money in your LIRA.

1. Income expected to be less than $36,867 in the next 12 months
2. Risk of foreclosure of your main home

3. Eviction for Rent Arrears
4. First Month's Rent and Security Deposit
5. Medical Costs

It appears #2 applies to Karen's situation. Use this Alberta Government form and submit it to the financial institution holding your LIRA with the requisite mortgage and income information.

The LIRA withdrawal will be deemed as taxable income in that same year. This may end up being an effective tax planning exercise in the long run. If you happen to be in a low-income situation in the same year of the LIRA withdrawal, the amount of tax to be paid will be much less. This can be calculated at taxtips.ca. Then when you can finally sell the townhouse, you can contribute $52,000 of those funds into your TFSA and the rest into an Investment Account. If you can allow these funds to grow until retirement the tax you will pay will be far less than if you had the LIRA. Tax planning may be far from your personal priority right now but is a nugget to look forward to in the future.

Take time to examine how your LIRA funds are invested before rushing to your withdrawal. Ask your investment advisor to outline the potential charges as a result of the liquidation of funds within the LIRA. Ask for these potential charges to be reduced.

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