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

SECTION:	Life Income Fund/Locked-In Retirement Account
INDEX NO.:	L050-500
TITLE:	LIF Explanation and Tables for Minimum and Maximum Withdrawal Percentages
APPROVED BY:	Cabinet O. Reg. 909, (564/92) s. 18 and 19, and Schedule 1
PUBLISHED:	Bulletin 3/3 (December 1992)
EFFECTIVE DATE:	September 18, 1992. Amended by L050-650 [No longer applicable - replaced by L200-300]

LIF - Another Option for Retirement Planning

Some of the information contained in this article is subject to amendments to the Regulations under the *Income Tax Act* (Canada) which were proposed by the Minister of Finance in the February, 1992 federal budget.

In October 1992, the Minister of Financial Institutions, the Hon. Brian Charlton, introduced Regulation 564/92 under the *Pension Benefits Act* (the "PBA") to provide for the Life Income Fund ("LIF") as a prescribed retirement savings arrangement. The new LIF will allow former members of pension plans to transfer the value of their benefit to a LIF if certain conditions are met.

Why Ontario introduced the LIF option

The Ontario LIF was established in response to demands from pension plan members for a more flexible alternative to the life annuity.

Prior to the introduction of the LIF, individuals with locked-in pension monies were required to purchase an annuity in order to begin receiving retirement income. In cases where locked-in funds had already been transferred to an RRSP, individuals were required to annuitize at age 71 without regard to whether retirement income was needed at that time. As a result, many individuals objected to the loss of continued capital growth from investment earnings and expressed a desire for a more flexible arrangement for tax and income planning purposes.

As an alternative income producing arrangement, LIFs provide increased flexibility by enabling individuals to defer the purchase of an annuity to the end of the year in which they turn 80 years of age. While in the LIF, locked-in monies provide an adjustable flow of retirement income within a specified range of minimum or maximum withdrawals. At the same time, control over the balance of the locked-in capital and its investment is retained by the purchaser, and investment earnings continue to accrue on a tax-sheltered basis.

What is the Ontario LIF?

In literal terms, the Ontario LIF is an arrangement between a carrier (a person who is authorized to sell the Ontario LIF) and an individual (the LIF planholder) who has money that originated in a pension plan which is locked in by pension legislation.

Is the Ontario LIF the same as a RRIF?

Individuals who accumulate tax-sheltered retirement savings which are not locked in under pension legislation have a similar arrangement available to them in the form of a Registered Retirement Income Fund ("RRIF").

Many of the rules that apply to the administration of a RRIF also apply to the LIF. For example, eligible investments and the minimum withdrawal formula.

The most marked difference between the RRIF and LIF is that locked-in pension monies cannot be used to purchase a RRIF. This is because RRIF contracts do not contain a maximum withdrawal restriction. In order to comply with Ontario's pension legislation, the LIF imposes measures to ensure that sufficient capital is retained in the plan for the eventual purchase of a life annuity.

Who can sell a LIF?

The LIF may be sold by any person who is authorized to sell a RRIF and is willing to comply with the LIF requirements. In addition to insurance companies, financial institutions such as banks, trust companies and credit unions are eligible to offer the LIF. Certain securities dealers who are eligible to sell a RRIF may also sell the Ontario LIF.

Who can purchase an Ontario LIF?

Under the Ontario Regulation a LIF may be purchased by any former member of a pension plan who is entitled to a portability option and, upon terminating employment or plan membership in Ontario, meets the LIF age and spousal consent requirements. These conditions also apply to former plan members who have transferred the value of their benefit to a locked-in RRSP and now wish to choose the LIF option. It should be noted that members of pension plans regulated under the federal *Pension Benefits Standards Act* (the "PBSA") are not eligible to purchase the Ontario LIF.

Under section 18 of the Regulation (564/92), the LIF is automatically an option under the transfer provisions of ongoing pension plans registered in Ontario as of September 18, 1992.

Although the Ontario Regulation is now in place, the Regulation under the *Income Tax Act* (the "ITA") will only permit direct transfers from a pension plan to a LIF if the plan submits amendments to Revenue Canada which specifically provide for either the LIF or a retirement savings arrangement option. If the pension plan documents are not amended to permit a direct transfer to a LIF, the members of the plan must first make a transfer to a locked-in RRSP. The funds in the locked-in RRSP can then be used to purchase a LIF.

Technically, the LIF is an option for individuals who are between the ages of 54 and 79. According to the Regulation individuals must be within ten years of their normal retirement date under the Canada Pension Plan (i.e. age 55), and must begin receiving payments from the LIF no later than the fund's second anniversary.

Spouses and former spouses of plan members who are entitled to a pension benefit (under a court order or separation agreement) may purchase an Ontario LIF if that option is available to the plan member. However, the spouse must meet the LIF age requirements.

(The age 55 requirement prescribed under the LIF Regulation is consistent with conditions for annuity contracts purchased with locked-in funds. The requirement to commence payments in the second year after purchase is a condition under the ITA that also applies to RRIFs.)

Commutation of annuities permitted for the purchase of a LIF

Under the new Regulation annuities purchased with locked-in funds may be commuted to purchase a LIF if both parties to the annuity contract agree. This provision is applicable to a single or a joint life annuity with or without a guarantee period. In the case of a joint life annuity, a spouse who is in receipt of a lifetime survivor benefit may also commute the annuity to purchase a LIF, if the LIF age requirements are met.

Issuers of annuities who agree to transfer funds to a LIF are obligated to identify the commuted value of the annuity, and the amount that will be available for the LIF purchase. The difference between the two amounts, if any, is the charge applied to effect the transfer.

Beneficiaries (including spouses) who are entitled to payments for the unexpired term of a guarantee period may commute any remaining payments for cash. This option is available if the issuer of the annuity consents.

Flexible withdrawal limits

Under the LIF arrangement, the fiscal year is designed to end December 31 and may not exceed a twelve month period. Carriers are required to calculate withdrawal amounts for each new fiscal year as of January 1st of that year. Planholders are entitled to receive this information from their carrier at the beginning of each year.

Yearly withdrawals from the LIF are designed to fall within a minimum and maximum range. The minimum withdrawal formula in the LIF is based on the formula currently used for RRIFs. However, the federal Minister of Finance will be revising the minimum formula for RRIFs purchased on and after January 1, 1993. Ontario is considering amendments to reflect the new *Income Tax Act* formula for LIFs purchased in 1993.

Effective January 1, 1993, the annual minimum withdrawal amounts under the ITA for individuals age 71 to 77 will be higher than the withdrawal limits under the existing Ontario formula. Annual minimum withdrawal amounts for individuals 79 and 80 years of age are less than those calculated under the Ontario formula.

Ontario LIFs purchased in 1992 can continue to pay out minimum withdrawal amounts calculated under the old formula as long as no additional funds are added to the LIF after 1992.

Minimum withdrawal formula

The existing minimum withdrawal formula (which applies to plans opened before January 1, 1993) is calculated by dividing the balance in the LIF at January 1 of each fiscal year by 90, less the planholder's age on the same date.

The planholder's age must be used as the basis for the withdrawal calculation. (Under RRIF rules a joint annuitant may be named. This allows for the calculation of the minimum withdrawal formula based on the spouse's age. This option is not available under the Ontario LIF.)

In the initial year of the LIF the minimum withdrawal amount is zero. Provided the purchaser is 55 years of age or older, the LIF Regulation permits withdrawals up to the maximum defined by the fund.

The planholder must begin receiving annual payments at least equal to the minimum before the end of the second year. If the planholder does not initiate the withdrawal, the carrier must make the payment to the planholder.

Maximum withdrawal formula

The Regulation under the *Pension Benefits Act* permits cash withdrawals up to the maximum during the initial fiscal year of a LIF, provided that the planholder is 55 years of age, and the transfer has not been made from another LIF. (In the initial year of the fund the maximum is prorated based on the number of months the fund has been in existence.) Where all or part of the assets used to purchase a LIF have been transferred from another LIF, no funds may be withdrawn in the initial fiscal year (maximum amount is zero).

The maximum withdrawal formula is designed to ensure that sufficient money remains in the LIF to purchase a life annuity at age 80.

The interest rate used in calculating the maximum annual withdrawal may be determined using one of the following two methods:

1) By using an interest rate not to exceed six per cent for all years; or,

2) By using an interest rate that is not higher than the prescribed rate (published in the *Bank of Canada Review* under identification number CANSIM B-14013) for the first fifteen years and a rate that does not exceed six per cent for the remaining years.

The interest rate chosen will ultimately affect the balance in the fund that is available for the purchase of a life annuity. For example, use of a lower interest rate results in a lower maximum annual withdrawal amount. As a consequence, the balance available to purchase an annuity at age 80 may be higher.

The December CANSIM rate specified by Regulation 564/92 may not be available at the beginning of each fiscal year of the plan. Ontario is reviewing a more feasible requirement. The Regulation will be revised to reflect any decision made regarding the requirement to use a CANSIM rate for the month before the first month in the fiscal year.

Transfer options under the LIF

Regulation 564/92 allows LIF planholders to transfer any or all of the assets of the LIF to another LIF, or purchase an immediate life annuity. Individuals may also transfer the assets to a locked-in RRSP, but must do so before the end of the year in which they turn 71 years of age.

The annual minimum withdrawal requirement restricts transfers to prescribed retirement savings arrangements to an amount in excess of the prescribed minimum (which must be paid out yearly). Maximum withdrawal limits do not apply to amounts which may be transferred from a LIF to one of the other prescribed arrangements.

Spousal entitlements

If the planholder dies before a life annuity has been purchased, the planholder's spouse or, if there is none, another named beneficiary, or if there is none, the estate, is entitled to receive a benefit equal to the balance in the fund.

A spouse living separate and apart from the planholder is entitled to make a claim against LIF assets as part of the division of marital property. However, spouses living apart from the planholder on the date of the purchaser's death are not entitled to a death benefit.

Spouses have the option to waive their right to survivor's benefits. These benefits may be reinstated by the spouse if the waiver is revoked prior to the purchase of an immediate life annuity. In this situation, a joint and survivor annuity must be purchased.

Information that must be provided by the carrier

Section 3 of the Regulation requires that the LIF plan document provide for all of the matters described in Schedule 1 (as per section 2(1) of Schedule 1).

A number of the eleven sections which comprise Schedule 1 are discussed throughout this article. Other requirements described in the schedule include: a description of the purchaser's powers (if any) regarding the investment of fund assets, the method of determining the value of the fund upon the death of the planholder, and the fiscal year the fund must end.

While all sections of Schedule 1 must be included in the LIF plan document, carriers are also specifically referred to their obligation to include terms of any fund transfers necessary for establishing the LIF (subsection 6(2)), the terms for amending the arrangement (section 10), and a description of information regarding fund activity based on section 11.

If the planholder dies before a life annuity is purchased, the carrier must provide the beneficiary with information on the sums deposited, accumulated earnings, payments made out of the fund, fees charged against it during the previous fiscal year, and the balance in the fund at the beginning of the fiscal year.

Responsibility of carriers

Carriers are reminded of their responsibility to administer the Ontario LIF in accordance with the requirements of the *Pension Benefits Act* (the "PBA") R.S.O 1990, c. P.8, Regulations, and published Commission policies governing locked-in funds. Locked-in monies may only be transferred for the purchase of a LIF, a locked-in RRSP, or an annuity as prescribed. No variation in the payment for LIFs is permitted.

Under Regulation 564/92, carriers that offer the LIF are not required to obtain the approval of, or register the documents with, the Pension Commission of Ontario. Revenue Canada does, however, require LIF/RRIF documents to be filed. It should be noted that LIFs must meet the requirements of the *Income Tax Act* (Canada) and be amended to do so as necessary.

The specimen Retirement Income Fund ("RIF") document, registered with Revenue Canada (Taxation) as an arrangement eligible to accept monies that are locked-in pursuant to the Act, should reflect the provisions identified in Schedule 1 of Regulation 564/92.

The Ontario LIF and LIFs established in other jurisdictions

At the request of the carriers which are permitted to sell LIFs, all jurisdictions intending to introduce the LIF will endeavour to create a product that is reasonably consistent across Canada.

The features of the Ontario LIF closely parallel the Quebec model in the key areas of the formula for annual withdrawal, the transfer provisions, and the information available on the annual statement. However, some adjustments have been made to bring Ontario's LIF into compliance with specific requirements under the Ontario PBA and Regulations.

At present, no reciprocal agreement exists for the Ontario LIF to be transferred outside Canada. Owners may, however, transfer the balance of their LIF to a locked-in registered vehicle in another jurisdiction within Canada. To do this, the financial institution making the transfer must ensure the funds will continued to be administered as locked-in by the financial institution which receives the transfer.

Minimum Withdrawal Formula:

$$\frac{\text{Amount in LIF at start of year}}{\text{90 - Purchaser's age at start of year}} = \text{Minimum dollar withdrawal in year}$$

This formula reflects percentages used under the "old" pre-1993 rules. Reference Table 1: "Minimum withdrawal as a percentage of the LIF balance at the start of the year".

This formula reflects percentages used under the "old" pre-1993 rules. Reference Table 1: "Minimum withdrawal as a percentage of the LIF balance at the start of the year".

In the "Minimum withdrawal as a percentage of the LIF balance at the start of the year" columns, the rates are identified as "old" and "new". These columns show applicable rates for LIFs set up before 1993, and lists the new percentages under the *Income Tax Act* which must be used for LIFs set up after 1992.

The table below shows the minimum percentage of the LIF balance (at the start of the year) which must be withdrawn annually. The minimum withdrawal rates expressed as a percentage of the LIF balance (as per the table) are fixed. The dollar amount of the withdrawal must be calculated yearly based on this fixed percentage.

Table 1

Age at Start of Year	**New Age During Year**	**Years to End of Age 90**	**Minimum Withdrawal as a Percentage of the LIF Balance at the Start of Year**	
			Old	**New**
55	55	36	0.00%	(same
55	56	35	2.86%	as
56	57	34	2.94%	"old"
57	58	33	3.03%	to age
58	59	32	3.13%	70)
59	60	31	3.23%	
***60**	**61**	**30**	**3.33%**	
61	62	29	3.45%	
62	63	28	3.57%	
63	64	27	3.70%	
64	65	26	3.85%	
65	66	25	4.00%	
66	67	24	4.17%	
67	68	23	4.35%	
68	69	22	4.55%	
69	70	21	4.76%	
70	71	20	5.00%	
71	72	19	5.26%	7.38%
72	73	18	5.56%	7.48%
73	74	17	5.88%	7.59%
74	75	16	6.25%	7.71%
75	76	15	6.67%	7.85%
76	77	14	7.14%	7.99%
77	78	13	7.69%	8.15%
78	79	12	8.33%	8.33%
79	80	11	9.09%*	9.09%*

Note: Individuals who purchased the LIF before 1993 may use either the old or the new percentages, between the ages of 71 and 77. In order to use the old percentages, no new funds may be added to the LIF after December 31, 1992. At age 78, the "new" percentage must be used.

* Corrected figures

Notes: Individuals who purchased the LIF before 1993 may use either the old or the new percentages, between the ages of 71 and 77. At age 78, the "new" percentage must be used.

* For example, the minimum withdrawal in a year for a person aged 60 at the start of the year, whose LIF has a balance of $200,000 at the start of the year, is as follows:

$200,000 x 3.33% = $6,667.67 (minimum withdrawal for the fiscal year.

Maximum Withdrawal Formula:

$$\frac{\text{Amount in LIF at start of year}}{\text{Present value of payments of \$1 dollar per year to end of age 90}} = \text{Maximum dollar withdrawal in year}$$

The table below shows the maximum percentage of the LIF balance (at the start of the year) which may be withdrawn annually. The maximum annual withdrawal at each age must be recalculated on January 1st of each fiscal year. The dollar amount of the withdrawal must be calculated yearly based on the applicable percentage for that year.

Table 2

Age at Start of Year	**New Age During Year**	**Years to End of Age 90**	**1992 Maximum Withdrawal as a Percentage of the LIF Balance at the Start of Year**
54	55	36	0.00%
55	56	35	8.23%
56	57	34	8.29%
57	58	33	8.36%
58	59	32	8.43%
59	60	31	8.51%
***60**	**61**	**30**	**8.59%**
61	62	29	8.68%
62	63	28	8.78%
63	64	27	8.89%
64	65	26	9.01%
65	66	25	9.13%
66	67	24	9.27%
67	68	23	9.42%
68	69	22	9.59%
69	70	21	9.77%
70	71	20	9.97%
71	72	19	10.19%
72	73	18	10.44%
73	74	17	10.71%
74	75	16	11.02%
75	76	15	11.36%
76	77	14	11.77%
77	78	13	12.24%
78	79	12	12.80%
79	80	11	13.47%

Note: The above table is based on the CANSIM interest rate (December 1991) of 8.97% for the first 15 years following January 1, 1992, and 6% thereafter.

* For example, the maximum withdrawal in a year for a person aged 60 at the start of the year whose LIF has a balance of $200,000 at the start of the year is as follows:
$200,000 x 8.59% = $17,180.00 (maximum withdrawal for fiscal year)