Manitoba

## Pension Commission

# Update #29
# Life Income Fund

*Revised May 2005*

***Reference:*** *The Pension Benefits Act, Sections 21(13.1) and 31(4), Regulation, Sections 18.1, 18.2 and 18.3.1*

Effective May 25, 2005 the Regulation was amended to remove the temporary income provisions and permit a one–time transfer or "prescribed transfer" of an amount up to 50% of the balance in one or more LIFs or LRIFs to a prescribed RRIF.

Effective May 25, 2005, no amount shall be paid out of a LIF as temporary income. However, an owner, who prior to May 18, 2005 was entitled to be paid temporary income from his or her LIF in 2005 and does not make an application for a "prescribed transfer" from that LIF, may continue to be paid temporary income until the end of 2005 based on the method of payment in that LIF contract. Should the LIF owner however subsequently make an application for a "prescribed transfer" from that LIF, no further temporary income can be paid despite any provisions that apply to that LIF contract.

Financial institutions currently on the Superintendent's List of Financial Institutions with approved forms of contracts that include temporary income will be required to remove the temporary income provisions from their standard form of contract the next time the contract is amended.
Additional information on the one-time transfer of an amount up to 50% of a LIF or LRIF to a prescribed RRIF can be found in Update 32.

## LIFE INCOME FUND

The Life Income Fund or "LIF" was established in response to members of pension plans demanding a more flexible approach to tax and retirement income planning. Upon retirement, pension plan members were looking for an alternative to the life annuity which would allow them to maintain control over their pension capital and its investment, as well as the flow of income.

### Who Qualifies

At retirement, individuals who belong to a money purchase pension plan, those who belong to defined benefit plans, which permit, and former members of any pension plan with locked-in pension funds in a locked-in RRSP or Locked-In Retirement Account (LIRA) now have the option of transferring their pension funds to a LIF, instead of taking a pension from the pension plan or purchasing a life annuity from an insurance company.

### Variable Income

Upon transferring pension funds to a LIF at retirement, an individual will receive an adjustable flow of retirement income, subject to an annual minimum and maximum withdrawal amount. The withdrawal range is calculated so that there is enough money in the fund to ensure that the individual receives an income for their lifetime. It is important to note that many of the rules that apply to RRIFs also apply to the LIF.

**Minimum Income**

The minimum withdrawal an individual must take from the LIF in any given year, other than the first year of the fund, is determined according to the minimum withdrawal formula for Registered Retirement Income Funds (RRIF) under the Income Tax Act.

**Maximum Income**

The maximum income that can be taken from the LIF each year is equal to the LIF fund balance multiplied by the applicable prescribed annuity factor. The annuity factor to be used each year is based on the member's age and the reference rate at the end of the immediately preceding year.

The reference rate for a year means the greater of 6% and the percentage determined for the year by

> (a) adding 0.5% to the average yield as at November 30th of the immediately preceding year, as published by the Bank of Canada in the *Bank of Canada Review* and expressed as a percentage, for Government of Canada long-term bonds identified as CANSIM series no. V122487; and
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> (b) converting the rate determined under clause (a), based on semi-annual compounding of interest, to an effective annual rate of interest, and rounding it to the nearest multiple of 0.5%.

**Temporary Income**

Effective May 25, 2005, the temporary income provisions of the regulation were repealed. No amount shall be paid out of a LIF as temporary income.

A LIF owner, who prior to May 25, 2005 was entitled to be paid temporary income from his or her LIF in 2005 and who does not make an application for a "prescribed transfer" from that LIF, may continue to be paid temporary income in 2005 according to that LIF contract. Should these LIF owners however subsequently make an application for a "prescribed transfer" from that LIF, no further temporary income may be paid despite any provisions that apply to that LIF contract.

**No LIF owner can be paid temporary income after December 31, 2005 despite any provisions that apply to their LIF contract.**

**Death Prior to Conversion**

Where the LIF owner dies prior to converting it to a Life Annuity, the balance of the LIF will be transferred to the spouse or common-law partner. Where there is no spouse or partner, the balance of the fund will be transferred to the beneficiary, or where no beneficiary exists, to the owner's estate.

If the LIF owner is a former or surviving spouse or partner of a member or former member, the balance in the fund may be paid to the designated beneficiary, or estate, in a lump sum.

**Transfers**

Funds in a LIF may be transferred to another approved LIF contract, to a LRIF, to a Locked-In Retirement Account, or be used to purchase a life annuity.

Employers, RRSP/LIRA carriers, LRIF carriers or LIF carriers must advise the financial institution issuing a LIF contract, in writing, that the pension funds are locked-in and must be used to provide a pension.

**NOTE**: *When a LIF owner requests a transfer from one LIF to a new LIF or LRIF during a given calendar year, the financial institution issuing the new LIF or LRIF contract cannot make any payments, to the LIF owner during that year. The LIF owner must be sure to make any desired withdrawals from the old LIF before making the transfer.*

**Pension Waiver Form Required**

If the LIF owner has a spouse or common-law partner and elects to purchase an annuity with the fund, the form of pension must be a joint life pension reducing to not less that 2/3rds on the death of the owner or the spouse or common-law partner, unless the owner and the spouse or common-law partner jointly complete the "Pension Waiver Form" (form MG-1701) prior to purchasing the life annuity.

If the LIF owner is a former or surviving spouse or partner of a member or former member, a joint life pension is not required in the event the LIF owner has a spouse or common-law partner and elects to purchase an annuity with the fund.

**Superintendent's List of Approved LIRAs/LIFs/LRIFs**

Section 18.1 provides that a transfer of locked-in money to a LIF can be made only if the financial institution, which is to receive the money, has

a. filed with the Superintendent for approval a copy of the standard LIF addendum which contains all the contractual provisions required in subsections 18.1(15) and 18.2(3),
b. been notified in writing that its name has been placed on the Superintendent's List of Financial Institutions for purposes of the LIRA/LIF/LRIF, and
c. not been notified by the Superintendent that its name has been removed from that list

To qualify as a LIF, a financial institution must file the standard form of contract it intends to use which must conform with the requirements in sections 18.1(15) and 18.2(3) of the regulations under *The Pension Benefits Act.* Please note that financial institutions are **not** required to file their Registered Retirement Income Fund Contract, Declaration of Trust or Application Form. **Only** a standard addendum conforming with the requirements in sections 18.1(15) and 18.2(3) need be filed for approval. Confirmation that the RRIF contract has been registered with Canada Revenue Agency along with the registration number must also be submitted.

In the event the requirements of the regulation are met, the financial institution's name will be placed on the Superintendent's List of Financial Institutions for the purpose of the

LIRA/LIF/LRIF. Any amendment to the standard addendum must also be filed with the Superintendent.

To facilitate the preparation of the addendum to be filed with the Commission, a sample addendum has been developed. Financial institutions may wish to refer to this addendum in preparing their standard addendum. However, institutions are also advised to review the applicable provision of the regulations when preparing such addendum. A copy of the most recent Superintendent' List of Financial Institutions may be obtained from the Pension Commission of Manitoba, or by viewing our website.

## Example 1 (LIF One year period example)

**An individual aged 64 has a fund balance on January 1 of $150,000. Based on a reference rate 6%, determine the minimum and maximum amount in year 1.**

Minimum = minimum amount set for a RRIF by Canada Revenue Agency. The following formula applies for those 70 and under. For those 71 and older, see Canada Revenue Agency Table of Factors.

**Minimum** = $\frac{\text{Value of RRIF}}{(90-64)} = \frac{\$150{,}000}{26} = \$5{,}769.23$

In the formula M = F x B

**M** is the maximum amount
**B** is the balance of the fund on January 1 of the year plus, in the case of a transfer to the LIF in the year other than a transfer directly or indirectly from an LRIF or another LIF the amount of the transfer on the date of transfer.
**F** is the factor (from the table in the schedule) that corresponds to the reference rate for the year and the owner's age at the end of the year immediately preceding the fiscal year.

**Maximum** M = F x B = 0.071 x $150,000 = $10,650

## Example 2 (LIF Multi-year period example)

**The reference rate is 6%. The maximum amount in year 1 is $10,650. The LIF balance on January 1 of the 1st year is $150,000 and the LIF balance on January 1 of the 2nd year is $153,285**

L = M x J/K

M = $10,650
J = $153,285
K = ($150,000 -$10,650 = $139,350) + ($139,350 x .06 = $8,361)
= $147,711

L = $10,650 x $153,285/$147,711 = $11,051.89

*This update has no legal authority. The Pension Benefits Act of Manitoba and The Pension Benefits Regulation, 188/87 R amended should be used to determine specific requirements.*