Alberta Government

Interpretive Guideline #21
Life Income Type Benefit

Issued: May, 2018

This guideline is designed to explain what a Life Income Type Benefit (LITB) is and what is required for a pension plan to offer this benefit option by the provisions of the *Employment Pension Plans Act* (the Act) and the *Employment Pension Plans Regulation* (the Regulation). This guideline summarizes the legislative requirements that apply to the subject matter, and includes (as applicable) additional details to outline the Superintendent of Pensions (Superintendent) expectations and requirements where such authority has been provided by the Act and Regulation. Finally, the guideline outlines best practices and policies that the Superintendent expects from provincially regulated pension plans.

The Act and Regulation should be used to determine specific legislative requirements. Any legal authority of this Guideline rests in the areas in which the legislation delegates authority to the Superintendent to accept a proposal or action.

What is a Life Income Type Benefit (LITB)?

A LITB is a retirement income option that may be offered to members of a pension plan that has a defined contribution (DC) provision. It mirrors the requirements of a Life Income Fund (LIF), with the same minimum and maximum payment requirements, but is provided through the pension plan as opposed to requiring the member to transfer funds to a financial institution.

Advantages of an LITB

There are several advantages to a plan member when an LITB is offered. First, in most cases there is a cost savings for the plan member in terms of lower administrative and investment costs as the member is still part of the pension plan and is not paying individual fees on a retail basis. Secondly, members will usually have the same investment options that they had while a contributing member of their DC plan thus eliminating the need to become familiar with a new set of investment choices.

Establishment of the LITB

To offer a LITB, the pension plan text must be amended to comply with section 78 of the Regulation

Duties of the Administrator

An Administrator must ensure that:

- the LITB is administered in accordance with the Act and Regulation;
- funds in the LITB are invested in a manner that complies with the rules of the Act;
- funds are not paid or transferred from the LITB other than in accordance with section 78 of the Regulation;

- any funds transferred out of the LITB are, subject to section 78 of Regulation, transferred to:
  - a pension plan that permits such a transfer;
  - a LIF; or
  - an insurance company to purchase a life annuity
- any statement referred to in section 90(4)(a) or 90(6)(pre-retirement death benefit waiver) of the Act signed by the pension partner of a member forms part of the contract;
- a copy of the LITB provisions should be provided to the member at the time the contract is established, and
- if the member has a pension partner on the date that the LITB is established, the pension partner has signed Form 8 and filed it with the administrator.

Transfers to and from an LITB

Funds may be transferred to an LITB from:
- an RPP (including the plan in which the LITB is established or another plan); or
- from a LIRA, or
- from a LIF.

Funds may be transferred from an LITB to:
- an RPP (if that plan so permits, but only to an LITB account of that RPP);
- another LITB (in a different RPP); or
- an insurance company authorized to issue annuity contracts in Canada to purchase a life annuity.

Funds cannot be transferred from a LITB to a LIRA.

<u>Duties of the Transferor (Sending) Pension Plan Administrator</u>

1) Transferring funds to another LITB or to a LIF.
   A pension plan administrator must first:
   - ensure that the transferee (receiving) financial institution is an authorized issuer on the Superintendent's List or that the RPP is in fact registered and permits the transfer;
   - ensure that any applicable waivers are transferred to the authorized issuer or new RPP;
   - provide the authorized issuer information as to what has been withdrawn up to the date of transfer in the current fiscal year; and
   - ensure that funds transferred to an RPP will be used to provide retirement income and will not be eligible for subsequent transfer to a LIRA.

2) Transferring funds to a life annuity
   A pension plan administrator must, before transferring funds to purchase a life annuity:
   - ensure that:

- if funds are being transferred to purchase anything other than a 60 per cent joint and survivor life annuity ensure that:
- the member does not have a pension partner as of the date of transfer; or
- the member's pension partner has signed the appropriate waiver form;
- there is no differentiation amongst the annuitants on the basis of gender; and
- annuity payments must commence on or before the last date on which a person is allowed under the Income Tax Act (Canada) to start receiving a pension from an RPP (December 31 of the year that they turn age 71);

- provide the receiving insurance company with certified copies of any signed waivers related to the transfer.

Duties of the Transferee (Receiving) Pension Plan Administrator,

1) Transferring funds from a LIF
A transferee pension plan administrator must not accept funds unless:
    - the financial institution is an authorized issuer on the Superintendent's List with respect to LIFs;
    - the RPP to which funds are to be transferred permits such a transfer and has a provision to provide an LITB with the funds; and
    - the money is being transferred from an RPP, another LIF or a LIRA.

    Where a copy of a signed waiver has been provided by the transferring authorized issuer or pension plan administrator, the transferee must attach that waiver to its LIF contract or the member's pension plan file.

2) Transferring funds from a LIF, or an RPP.
A transferee pension plan administrator, must not accept funds unless they:
    - ensure that the transferor is an authorized issuer on the Superintendent's List with respect to LIFs or is an RPP administrator;
    - have received certified copies of any relevant waivers; and
    - have received any other information needed to administer the new LITB.

Disclosure

The plan administrator must provide a statement to an LITB member

1) Within 30 days after the beginning of each calendar year showing:
    - the amounts of any transfers made in last year;
    - the investment returns last year;

- any administration expenses deducted, any payments or withdrawals last year;
- the value at the end of last year;
- the LITB minimum and maximum amounts for this year;
- a statement that the member must tell the administrator how much the member wants to receive this year; and
- if the member does not advise the administrator how much to pay, the default position will be the minimum amount for the year.

2) Within 30 days after money is deposited into the LITB showing:
   - the amount deposited, and
   - the new balance of the LITB.

3) An administrator must,
   - if the member of the LITB transfers money to another LITB, a LIF or a life annuity, provide a statement within 30 days showing:
   - the value of the LITB last year;
   - the value of the LITB just before the transfer; and
   - the amounts transferred in, the investment returns, the administration expenses, any other payments or withdrawals for the LITB between January 1stand the date of the transfer.
   - if the member of the LITB unlocks money due to shortened life expectancy, or non-residency, provide a statement within 30 days showing:
   - the value of the LITB last year;
   - the value of the LITB just before the payment;
   - the amounts transferred in, the investment returns, the administration expenses, any other payments or withdrawals for the LITB between January 1stand the date of the payment; and
   - if the member of the LITB dies, provide a statement within 60 days after receipt of proof of death showing:
   - the value of the LITB last year;
   - the value of the LITB just before the payment;
   - the amounts transferred in, the investment returns, the administration expenses, any other payments or withdrawals for the LITB between January 1stand the date of the member's death

Death Benefits

When the owner of an LITB dies, death benefits are paid as follows:

1) if there is a pension partner on the date of death, as a transfer to a RRIF, RRSP or in cash payable to the pension partner;

2) if the pension partner has signed Form 16 or there is no pension partner, the named beneficiary or estate receives the a cash lump sum payment less withholding tax and any fees charged;

Calculation of Minimum Annual Withdrawal

The minimum withdrawal for any calendar year is calculated in accordance with the formula for minimum RRIF withdrawals as required under the *Income Tax Act* (Canada).It is a percentage of the value of the fund as of January 1 in the year, based on the age of the owner at January 1 of the same year. Alternatively, the age of the pension partner may be used in calculating the **minimum** benefit payable each year. However, the owner's age, and not that of the pension partner, must be applied to determine the **maximum** amount payable in any year, as outlined below.

A table containing the applicable minimum percentages is attached for convenience. In the first fiscal year, the minimum required is zero ("0").

Calculation of Maximum Annual Withdrawal

The maximum withdrawal (M) for an individual in any calendar year is <u>the greater of the following two calculations:</u>

1. The investment gains from the preceding calendar year of the LIF, or,
2. The amount determined by the formula:
   M = C/F, where

   C = the LIF account balance on the first day of the fiscal year (which after the initial year will always be January 1); and

   F = the value on the first day of the fiscal year (which after the initial year will always be January 1) of a $1/year term certain annuity to age 90.

   'Long' Formula: (Use this formula whenever the owner is less than Age 75)

$$F = \frac{(1+R) \times [1 - 1/(1+R)^{15}]}{R} + \frac{1.06 \times [1 - 1/(1.06)^{(T-15)}]}{0.06 \times (1+R)^{15}}$$

   'Short' Formula: (Use this formula once the Owner is Age 75 or older)

$$F = \frac{(1 + R) \times [1 - 1/(1+R)^{T}]}{R}$$

   where **T** = [90 minus the owner's age] and **R** is either of the following interest rates:

   a) an interest rate of not more than 6 per cent per year, or
   b) for the first fifteen years, a rate that is greater than 6 per cent as long as that rate does not exceed the CANSIM Series V-122487 rate as of the end of November in the previous year, and 6 per cent thereafter.

Marriage Breakdown where the Pension Partner is Younger than Age 50	Because an LITB cannot be converted back into a LIRA, in a marriage breakdown situation if there is a pension partner who is younger than age 50,the pension partner's share of the LITB may be transferred to an LITB in that pension partner's name despite the age issue. However, until the pension partner reaches age 50, the annual payment from that LITB is based on the CRA minimum withdrawal factor for a RRIF. This withdrawal factor is based on the following calculation:

$$\frac{1}{(90 - \text{pension partner's Age})}$$

Multiply this amount by 100 to determine the appropriate withdrawal percentage.

For further information please contact:	
Superintendent of Pensions Alberta Treasury Board and Finance Room 402, 9515 - 107 Street Edmonton, AB T5K 2C3 For toll-free dialling within Alberta, call 310-0000 and then dial 780-427-8322.	Telephone: 780-427-8322 Fax: 780-422-4283 Email: Employment.Pensions@gov.ab.ca Internet: **http://pensions.alberta.ca** Sign up for electronic notifications: **http://pensions.alberta.ca/subscribe.html**

Table of Maximum and Minimum Withdrawals from LIFs under Alberta's Jurisdiction for the Year 2018 (as a percentage of the Account Balance at January 1).

NOTE: The amounts generated by this table are for a 12-month period.

Age at Jan. 1	Under Alberta EPPA LIF Max	Under Income Tax Act LIF Min
50	6.27%	2.50%
51	6.31%	2.56%
52	6.35%	2.63%
53	6.40%	2.70%
54	6.45%	2.78%
55	6.51%	2.86%
56	6.57%	2.94%
57	6.63%	3.03%
58	6.70%	3.13%
59	6.77%	3.23%
60	6.85%	3.33%
61	6.94%	3.45%
62	7.04%	3.57%
63	7.14%	3.70%
64	7.26%	3.85%
65	7.38%	4.00%
66	7.52%	4.17%
67	7.67%	4.35%
68	7.83%	4.55%
69	8.02%	4.76%
70	8.22%	5.00%
71	8.45%	5.28%
72	8.71%	5.40%
73	9.00%	5.53%
74	9.34%	5.67%
75	9.71%	5.82%
76	10.15%	5.98%
77	10.66%	6.17%
78	11.25%	6.36%
79	11.96%	6.58%
80	12.82%	6.82%
81	13.87%	7.08%
82	15.19%	7.38%
83	16.90%	7.71%
84	19.19%	8.08%
85	22.40%	8.51%
86	27.23%	8.99%
87	35.29%	9.55%
88	51.46%	10.21%
89	100.00%	10.99%
90	100.00%	11.92%
91	100.00%	13.06%
92	100.00%	14.49%
93	100.00%	16.34%
94	100.00%	18.79%
95+	100.00%	20.00%