

Interpretive Guideline #18 Life Income Funds (LIFs)

Issued: June, 2016

This guideline is designed to explain the characteristics and requirements of Life Income Funds (LIFs) as required by the provisions of the [Employment Pension Plans Act](#) (Act) and the [Employment Pension Plans Regulation](#) (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 (the 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 LIF

A LIF is a Registered Retirement Income Fund (RRIF) that, as part of the RRIF contract, has a prescribed addendum attached to it that prevents the ability to unlock or receive a cash lump sum and makes the RRIF eligible to receive and hold funds transferred from a Registered Pension Plan (RPP) or a Locked-In Retirement Account (LIRA).

To be a LIF, the financial institution issuing the RRIF must be an authorized issuer and the RRIF contract must have attached to it a copy of the addendum prescribed in Schedule 2 of the Regulation with respect to LIFs ([Form 25](#)). The LIF addendum must form part of the contract between the owner and the financial institution and the terms of the addendum take precedence over any other provision in the contract where there is a conflict. A copy of the entire contract, including the addendum, must be provided to the LIF owner when a LIF is established.

No other type of RRIF may hold funds transferred from an RPP or a LIRA, and no funds other than those of an RPP, a LIRA or a LIF may be transferred to a LIF.

The purpose of a LIF is to enable an individual with locked-in pension funds to start to receive retirement income from those funds, provided that the individual is at least age 50. The Act restricts the amount that can be withdrawn from the LIF each year and is designed so that the owner should receive income to at least age 90 depending on investment returns. Protection for the owner's pension partner is also included in the terms of the LIF.

Sections 123 through 141 of the Regulation outline the process for a financial institution to establish a LIF, the conditions that the LIF contract must meet, and the process for transferring funds to and from a LIF. Schedule 2 ([Form 25](#)) of the Regulation provides the prescribed addendum that must be attached to a RRIF to qualify it as a LIF.

Definitions

Authorized Issuer: An Authorized Issuer is a financial institution whose name appears on the [Superintendent's List of Financial Institutions](#) (Superintendent's List) with respect to LIFs.

Locking-In: Means that the funds in the LIF must be used to provide retirement income to the owner, beginning no earlier than age 50, through payments from the LIF including the transfer to the LIF from one or more of:

- a) another LIF with an authorized issuer;
- b) a LIRA with an authorized issuer; or
- c) a Registered Pension Plan (RPP).

Life Income Type Benefit Account (LITB): An account similar to a LIF that may be offered by a defined contribution pension plan, to and from which locked-in funds may be transferred. (See [Interpretive Guideline #2](#) for more information on LITBs).

Member Owner: A former pension plan member who has transferred their pension entitlement from the pension plan to the LIF from the pension plan, a LIRA or another LIF.

Owner: A Member Owner or a Pension Partner Owner.

Pension Partner: With respect to a Member Owner is a person who is:

- a) married to the Member Owner, and has not been living separate and apart from that Member Owner for a continuous period longer than three years; or
- b) if clause (a) does not apply, has been living with the Member Owner in a marriage-like relationship:
 - i) for a continuous period of at least three years preceding the date; or
 - ii) of some permanence, if there is a child of the relationship by birth or adoption

Pension Partner Owner: a Pension Partner who acquired the account as a result of the pension plan member's death, whether that death occurred before or after the member transferred their funds out of the pension plan or as a result of a matrimonial property settlement.

Waiver: The Pension Partner of a Member Owner may waive (give up) some or all of their entitlements provided by the LIF contract. To do this a prescribed waiver form related to the type of entitlement to be waived must be signed and filed with the authorized issuer. These prescribed forms are found in Schedule 6 of the Regulation.

Establishment and Maintenance of the LIF contract by a Financial Institution

Only financial institutions whose names appear on the Superintendent's List with respect to LIFs are permitted to issue LIFs. These financial institutions are referred to as authorized issuers in the legislation.

To be acknowledged and placed on the list, a financial institution must file with the Superintendent's office a completed application and certification form ([Form 22](#)) signed by an authorized representative of the financial institution. As part of that certification the financial institution agrees to attach the prescribed LIF addendum ([Form 25](#)) to each LIF contract and to provide a copy of the full contract, including the LIF addendum to each LIF owner.

When changes are made to the addendum through amendment to the Regulation, as happened on September 1, 2014, the financial institution on the Superintendent's list must ensure that the new addendum is used for all future establishments of LIFs and that owners of existing LIFs are provided copies of the new addendum for their records.

An authorized issuer may be removed from the Superintendent's list if that issuer fails to administer a LIF in the manner required by the Act and Regulation. When this occurs, existing LIFs may remain with the issuer but no new LIFs may be issued.

Duties of the Authorized Issuer

An Authorized Issuer must ensure that:

- a) the LIF is administered in accordance with the Act and Regulation;
- b) the LIF is and continues to be registered under the *Income Tax Act* (Canada);
- c) funds in the LIF are invested in a manner that complies with the rules of the *Income Tax Act* (Canada) for the investment of RRIF money;
- d) funds are not paid or transferred from the LIF other than in accordance with section 71 of the Act and sections 134 and 136 of the Regulation;
- e) any funds transferred out of the LIF are, subject to section 71 of the Act and sections 134 and 136 of the Regulation, transferred to:
 - o a pension plan that permits such a transfer;
 - o another LIF; or
 - o an insurance company to purchase a life annuity
- f) 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 owner forms part of the contract; and
- g) a copy of the LIF contract, including the required addendum is provided to the owner at the time the contract is established.

Transfer of Funds to or From a LIF

Funds may be transferred to a LIF from:

- an RPP (including an LITB account of that RPP); or
- from a LIRA, or
- from another LIF.

Funds may be transferred from a LIF to:

- an RPP (if that plan so permits, but only to an LITB account of that RPP);
- another LIF (same or different financial institution); or
- an insurance company authorized to issue annuity contracts in Canada to purchase a life annuity.

Funds cannot be transferred from a LIF to a LIRA.

Duties of the Transferor (Sending) Pension Plan Administrator or Authorized Issuer

1) Transferring funds to another LIF or to an RPP LITB Account.

A pension plan administrator or authorized issuer must, before transferring money to a LIF or from a LIF to an RPP:

- 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 another LIF, a life annuity or an LITB account in an RPP.

A pension plan administrator or an authorized issuer must, before transferring funds to another LIF, a life annuity or an LITB account in an RPP:

- ensure that:
 - in the case of a LIF, the transferee financial institution is an authorized issuer;
 - in the case of a life annuity, that the financial institution is an insurance company licensed to sell life annuities in Canada; and
 - in the case of an LITB account, that the fund can accept the transfer;
- if funds are being transferred to purchase anything other than a 60 per cent joint and survivor life annuity ensure that:
 - the owner does not have a pension partner as of the date of transfer; or
 - the owner's pension partner has signed the appropriate waiver form;

- if funds are being transferred to purchase a life annuity:
 - 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 pension plan administrator, authorized issuer or insurance company with certified copies of any signed waivers related to the transfer.

Duties of the Transferee (Receiving) Pension Plan Administrator, Authorized Issuer, or Annuity Issuer

1) Transferring funds from a LIF

A transferee pension plan administrator or authorized issuer receiving funds from a LIF 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 to another LIF, a life annuity or an RPP.

A transferee pension plan administrator, authorized LIF issuer or insurance company issuing a life annuity receiving funds from a LIF must not accept LIF 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 LIF, life annuity or LITB.

Exceptions to Locking-in Act 71

There are four circumstances under which some or all of the funds held in a LIF may be unlocked. If the amount is taken as cash, there will be tax deducted and the gross amount withdrawn is considered taxable income for that calendar year.

1) Small Amounts Unlocking

Funds in a LIF may be unlocked if the total amount in the LIF is less than 20 per cent of the Years Maximum Pensionable Earnings

(YMPE). If the owner is age 65 or older, the threshold is 40 per cent of the YMPE.

No waiver is required for this unlocking.

Please note that it is specifically prohibited to split a LIF into multiple LIFs to cause the balances in some or all of those LIFs to drop below the YMPE limit.

Where the funds in a LIF are below 20 per cent of the YMPE the member may move the funds to an RRSP, RRIF or receive the funds as a cash lump sum less withholding tax and any fees charged.

2) Shortened Life Expectancy

Funds in a LIF may be unlocked if the LIF owner has an illness of disability that is certified by a medical practitioner to be terminal or to likely shorten the owner's life considerably.

If the owner has a pension partner when applying to unlock funds, then the pension partner must first sign and file with the Authorized Issuer a waiver ([Waiver Form 13](#)) agreeing to the unlocking.

Should the owner unlock only a portion of the funds, a new waiver is required if a further withdrawal is requested.

3) Non-residency

If the owner of the LIF provides to the authorized issuer written evidence that the Canada Revenue Agency has confirmed the status of the owner to be non-resident for purposes of the *Income Tax Act* (Canada), then the owner may withdraw, in cash less withholding tax and any fees charged, the funds held in the LIF.

If the owner has a pension partner when applying to unlock funds, then the pension partner must first sign and file with the authorized issuer a waiver ([Waiver Form 13](#)) agreeing to the unlocking.

4) Financial Hardship Unlocking

If an owner is suffering from a specific type of financial hardship, [an application](#) may be made to the authorized issuer to unlock some or all of the funds in the LIF. A summary of the financial hardship program is outlined in this [document](#).

Disclosure

Authorized issuers must provide the following information to a LIF owner:

- 1) Within 30 days after the beginning of each calendar year:
 - 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 LIF minimum and maximum amounts for this year;
 - a statement that the owner must tell the issuer how much the owner wants to receive this year; and
 - if the owner does not tell how much, the issuer will pay the minimum amount for the year.
- 2) Within 30 days after money is deposited into the LIF:
- the amount deposited, and
 - the new balance of the LIF;
- 3) A LIF issuer must,
- if the owner of the LIF transfers money to another LIF, a pension plan or a life annuity, provide a statement within 30 showing:
 - the value of the LIF last year;
 - the value of the LIF just before the transfer; and
 - the amounts transferred in, the investment returns, the administration expenses, any other payments or withdrawals for the LIF between January 1st and the date of the transfer.
 - if the owner of the LIF unlocks money due to shortened life expectancy, financial hardship or non-residency, provide a statement within 30 days showing:
 - the value of the LIF last year;
 - the value of the LIF just before the payment;
 - the amounts transferred in, the investment returns, the administration expenses, any other payments or withdrawals for the LIF between January 1st and the date of the payment;
- and
- if the owner of the LIF dies, provide a statement within 60 days after receipt of proof of death showing:
 - the value of the LIF last year;
 - the value of the LIF just before the payment;
 - the amounts transferred in, the investment returns, the administration expenses, any other payments or withdrawals for the LIF between January 1st and the date of the owner's death.

Death Benefits

When the owner of a LIF dies, death benefits are paid as follows:

- 1) for a **member owner**:
 - a. with a pension partner on the date of death, as a RRIF or in cash payable to the pension partner;
 - b. 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;
- 2) for a **pension partner owner**:

the named beneficiary or estate receives the cash lump sum payment less withholding tax and any fees charged.

- Records Retention** While not required by legislation, it is considered best practice for the transferor to maintain a record of the owner showing:
- the name of the owner;
 - the amount transferred;
 - where funds were transferred;
 - the date of transfer; and
 - a copy of waivers.

- Waivers** There are several waivers that may be applicable under a LIF. They are:
- | | |
|---------|---|
| Form 10 | Pension partner waiver to establish a LIF from a LIRA |
| Form 13 | Pension partner waiver to permit unlocking from a Locked-in Product due to shortened life expectancy or non-residency |
| Form 15 | Pension partner waiver to establish a LIF from a pension plan |
| Form 16 | Pension partner waiver of entitlements to a death benefit after establishment of a LIF |

Provisions of the LIF Addendum To be a LIF, an RRIF contract must have, attached to and forming part of it, the prescribed addendum, which contains most of these rules. The prescribed addendum provisions take precedence over any other terms in the LIF contract where there is a conflict.

- The addendum provides:
- that the only funds that may be transferred into a LIF are from a LIRA, another LIF or locked-in money from a pension plan including the LITB account;
 - that the LIF must be administered in accordance with the Act and Regulation;
 - that investments must comply with the rules for the investments of RRIFs under the *Income Tax Act, Canada*;
 - that copies of any waivers signed by a pension partner of a member owner must be attached to and become part of the LIF contract;
 - that the fiscal year of the contract ends on December 31;
 - for death benefit payments;
 - that the income may vary annually;
 - for the calculation of minimums and maximums
 - that the owner must decide the income to be paid at the beginning of each fiscal year after receiving the statement and may decide those amounts for more than one calendar year if there is a guaranteed rate of return for a longer period;
 - for money transferring in and out
 - that in the event of marriage breakdown the LIF may be split between the owner and the ex-spouse with a matrimonial property order or agreement filed with the LIF issuer (note: the ex-spouse's portion remains locked-in).(See [Interpretive Guideline 05 – Division and Distribution of Pension Benefits on Marriage Breakdown](#));
 - that funds in a LIF may not be seized or attached by creditors, nor may the owner assign them or use them as collateral;
 - that funds may be seized or attached under a maintenance enforcement order or by Canada Revenue Agency;
 - unlocking provisions and requirements including the restriction on

- splitting the LIF to reduce it to a small amounts;
- who is liable when funds are transferred improperly.

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. Please contact Canada Revenue Agency (CRA) for more information about the minimum withdrawal from a RRIF. 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 the greater of the following two calculations:

- The investment gains from the preceding calendar year of the LIF, or,
- 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)

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

'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:

- an interest rate of not more than 6 per cent per year, or
- 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 a LIF cannot be converted back into a LIRA, where a LIF owner is a member owner, and in a marriage breakdown situation there is a pension partner who is younger than age 50, the pension partner's share of the LIF may be transferred to LIF in that pension partner's name despite the age issue.

However, until the pension partner reaches age 50, the permitted maximum withdrawal from that LIF is based on the CRA minimum withdrawal requirements for a RRIF.

The 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.

Table of Maximum and Minimum Withdrawals from LIFs under Alberta's Jurisdiction for the Year 2016 (as a percentage of the Account Balance at January 1).

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

<u>Age at Jan. 1</u>	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%

For further information please contact:

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