Locked-in RRSPs and Your Options

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1 › Introduction

For most individuals, their employer pensions represent the single most significant retirement asset, the cornerstone of their retirement.

Quite often however, individuals are presented with an opportunity to take their employer pensions in the form of a lump sum payment. This publication has been written to explain why this is possible and to discuss the various issues surrounding the “locking in” of commuted pension plans.

The “locking-in” rules set forth in this publication are based on the federal tax law and either federal or provincial pension law in effect as of January 1, 2011. As this legislation tends to change frequently, ask your advisor at RBC® for the most recent update to the tables included within this guidebook.

2 › Locked-in Registered Retirement Savings Plan (Locked-in RRSP) and Locked-in Retirement Account (LIRA)

A locked-in RRSP or LIRA is created when the commuted (lump sum) value of the employer's and employee's vested contributions plus interest are transferred from a Registered Pension Plan (RPP) to an RRSP.

The locked-in RRSP and the LIRA have virtually identical attributes. No contributions can be made to these accounts. The two terms are sometimes used interchangeably.

British Columbia and federal plans continue to use the term locked-in RRSP. However, the provinces of Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia, New Brunswick and Newfoundland & Labrador have adopted LIRA to designate the account to which pension plan assets are transferred. The province of Prince Edward Island does not yet have any legislation in force that deals with locked-in accounts. As a result, locked-in plans do not exist in PEI, and PEI residents should refer to their specific pension plan documentation for further guidance.

Federal legislation applies to private pension plans for federally regulated businesses such as banking, telecommunications and transportation. Federal legislation also applies to pension plans relating to employment in the Yukon, Northwest Territories and Nunavut.

The options to receive income from a locked-in RRSP/LIRA are as follows:

1. Purchase a life annuity before the end of the year in which you reach the age of 71*.

2. Transfer the funds to a Life Income Fund (LIF) before the end of the year in which you reach the age of 71*.

3. In Newfoundland & Labrador, transfer the funds to a Locked-in Retirement Income Fund (LRIF) before the end of the year in which you reach the age of 71*. (Prior to January 1, 2009, this option was also available in Ontario. As of May 31, 2010, Manitoba eliminated the LRIF option.)

4. In Saskatchewan and Manitoba, transfer the funds to a Prescribed Registered Retirement Income Fund (Prescribed RRIF) before the end of the year in which you reach the age of 71*.

5. For federal plans, transfer to a Restricted Life Income Fund (RLIF) or a LIF.

* Most provinces have a minimum age restriction on the conversion to an annuity, LIF, RLIF, LRIF or PRIF. See Figure 5 in the section "Determining Which Options Apply to You" for details.

3 › Life Income Fund (LIF) and Restricted Life Income Fund (RLIF)

The LIF is available for federal plans and in Ontario, Alberta, New Brunswick, Quebec, Nova Scotia, British Columbia, Manitoba and Newfoundland & Labrador. A LIF is similar to a Registered Retirement Income Fund (RRIF) to the extent that an individual must receive at least the annual minimum payment from a LIF. However, it differs in that there is also a maximum payment restriction. The minimum LIF payment calculation is identical to the minimum RRIF calculation. See **Figure 1** for details of this calculation.

In some provinces, the maximum payment percentage is an actuarial calculation based on a person's age and an interest rate factor known as the CANSIM rate. As the CANSIM rate is reset every year (in November) the maximum payments will fluctuate and as a result future payouts can only be approximated. **Figure 2** provides the LIF/RLIF minimum and maximum payment rates in effect for 2011. In order to provide increased flexibility, some provinces such as British Columbia, Alberta and Ontario have recently amended their legislation to allow the maximum LIF payment to be calculated based on the greater of the rate of return in the previous taxation year and the actuarial calculation provided in Figure 2.

In Newfoundland & Labrador, the LIF differs from the RRIF in one other significant way. The LIF requires conversion to a life annuity by the end of the year in which the individual turns age 80. In contrast, the RRIF can continue throughout the individual's lifetime. Note that this mandatory conversion is not required federally or in the other provinces that offer LIFs. In New Brunswick, a LIF does not have to be converted to an annuity at the age of 80; however, LIF assets must be exhausted by age 90.

The RLIF is available for federally regulated plans. The RLIF was introduced in 2008 to allow unlocking of up to 50% of federally locked-in plans. The RLIF has the same maximum limits as a federal LIF (see Figure 2) and the same restrictions, with the only exception being the ability to unlock up to 50% of the amount transferred to an RLIF within 60 days of its creation. If an annuitant is under the age of 71 and wishes to convert RLIF funds back into locked-in RRSP funds, the funds may only be transferred to a Restricted Locked-in Savings Plan (RLSP), which is similar to a locked-in RRSP. An RLSP does not allow contributions or withdrawals and is used to distinguish funds coming from an RLIF, where unlocking of up to 50% would have been available to the annuitant. Funds in the RLSP may only be transferred to another RLSP or RLIF or an annuity.

In Ontario, a new LIF was introduced in July 2007 to allow unlocking of up to 25% of plan balances. An existing LIF (old LIF) could be transferred to the new LIF to unlock up to 25% of the plan balance. Additionally, an LRIF could also be transferred to the new LIF to unlock up to 25%. Starting January 1, 2009 in Ontario, only new LIF accounts can be set up since old LIFs and LRIFs are no longer available. Existing old LIFs and LRIFs can continue if they were set up prior to January 1, 2009 .

Beginning January 1, 2010, locked-in account holders in Ontario have the option to unlock up to 50% of the assets transferred to a new LIF. There is also a window of opportunity for existing new LIF holders to unlock up to an additional 25%, starting January 1, 2010 until December 31, 2010, and for old LIF or LRIF holders to unlock up to 50%, starting January 1, 2011 until April 30, 2012 of the total market value of the assets of the fund.

Starting January 1, 2011, the rules for determining the maximum annual income payment from an old LIF or an LRIF are standardized with the rules for the new LIF in that the new LIF maximum is based on the greater of the rate of return in the previous taxation year and the actuarial calculation in the table.

FIGURE 1

HOW LIF/RLIF PAYMENTS ARE CALCULATED

Minimum Payment

$$\text{Minimum Annual Payment} = \text{Plan balance at December 31 of previous year} \times \frac{1}{90 - \text{Age at December 31 of previous year}}$$

Note: The provinces of British Columbia, Alberta, Manitoba, Ontario, Quebec, Newfoundland & Labrador and Nova Scotia as well as federal registered plans allow the younger spouse's age to be used in the calculation of the minimum LIF/RLIF payment. The province of New Brunswick does not.

The above formula applies until the planholder reaches age 71. At age 71, the new minimum payment schedule for RRIFs will take effect (see Figure 2 for actual percentages).

There is no minimum payment in the year the plan is established.

Maximum Payment

Maximum Annual Payment = Plan balance at December 31 of previous year X Actuarial calculation based on client's age at December 31 of previous year*

* The actuarial calculation is determined using an average government bond yield (called a CANSIM rate), which changes each year. Therefore the maximum percentage will vary from year to year. See Figure 2 for actual 2011 LIF/RLIF maximum percentages. The maximum LIF payment for British Columbia, Alberta and Ontario LIFs is the greater of this actuarial calculation or the previous year's investment return.

The maximum payment available in the first year of the plan is prorated based on the months remaining in the current year, with any part month being equal to a full month. No proration is required in the first year for a British Columbia, Manitoba, New Brunswick, Nova Scotia or Quebec LIF.

FIGURE 2

YEAR 2011 LIF/RLIF MINIMUM AND MAXIMUM PAYMENTS

		LIF/RLIF Maximum	LIF Maximum	LIF Maximum	LIF Maximum	LIF Maximum
Age at December 31 of Previous Year (2010)	LIF/RLIF Minimum	Federal	BC*, Manitoba, Quebec, Nova Scotia	Alberta*	Ontario*, New Brunswick	Newfoundland & Labrador
55	2.86%	5.26%	6.40%	6.85%	6.51%	6.51%
56	2.94%	5.32%	6.50%	6.94%	6.57%	6.57%
57	3.03%	5.38%	6.50%	7.04%	6.63%	6.63%
58	3.13%	5.44%	6.60%	7.14%	6.70%	6.70%
59	3.23%	5.51%	6.70%	7.26%	6.77%	6.77%
60	3.33%	5.59%	6.70%	7.38%	6.85%	6.85%
61	3.45%	5.67%	6.80%	7.52%	6.94%	6.94%
62	3.57%	5.76%	6.90%	7.67%	7.04%	7.04%
63	3.70%	5.86%	7.00%	7.83%	7.14%	7.14%
64	3.85%	5.96%	7.10%	8.02%	7.26%	7.26%
65	4.00%	6.08%	7.20%	8.22%	7.38%	7.38%
66	4.17%	6.22%	7.30%	8.45%	7.52%	7.52%
67	4.35%	6.36%	7.40%	8.71%	7.67%	7.67%
68	4.55%	6.52%	7.60%	9.00%	7.83%	7.83%
69	4.76%	6.71%	7.70%	9.34%	8.02%	8.02%
70	5.00%	6.91%	7.90%	9.71%	8.22%	8.22%
71	7.38%	7.14%	8.10%	10.15%	8.45%	8.45%
72	7.48%	7.40%	8.30%	10.66%	8.71%	8.71%
73	7.59%	7.70%	8.50%	11.25%	9.00%	9.00%
74	7.71%	8.04%	8.80%	11.96%	9.34%	9.34%
75	7.85%	8.44%	9.10%	12.82%	9.71%	9.71%
76	7.99%	8.90%	9.40%	13.87%	10.15%	10.15%
77	8.15%	9.43%	9.80%	15.19%	10.66%	10.66%
78	8.33%	10.05%	10.30%	16.90%	11.25%	11.25%
79	8.53%	10.78%	10.80%	19.19%	11.96%	11.96%
80	8.75%	11.66%	11.50%	22.40%	12.82%	n/a
81	8.99%	12.75%	12.10%	27.23%	13.87%	n/a
82	9.27%	14.10%	12.90%	35.29%	15.19%	n/a
83	9.58%	15.85%	13.80%	51.46%	16.90%	n/a
84	9.93%	18.17%	14.80%	100.00%	19.19%	n/a
85	10.33%	21.44%	16.00%	100.00%	22.40%	n/a
86	10.79%	26.34%	17.30%	100.00%	27.23%	n/a
87	11.33%	34.52%	18.90%	100.00%	35.29%	n/a
88	11.96%	50.88%	20.00%	100.00%	51.46%	n/a
89	12.71%	100.00%	20.00%	100.00%	100.00%	n/a

* The maximum LIF payment in British Columbia, Alberta and Ontario is the greater of the percentage in the above columns or the previous year's investment return.

4 › Locked-in Retirement Income Fund (LRIF)

An LRIF is currently only available in Newfoundland & Labrador. LRIFs were available in Alberta prior to January 1, 2008, Ontario prior to January 1, 2009, and Manitoba prior to May 31, 2010, however, due to a change in legislation, LRIFs are no longer available in these provinces.

An LRIF is similar to a LIF to the extent that both allow the individual access to their locked-in funds within defined minimum and maximum levels **(see Figure 3)**. However, one difference between a LIF and LRIF is that an LRIF can continue throughout an individual's lifetime (i.e. there is no requirement to convert the remaining funds to a life annuity at a certain age as required in Newfoundland & Labrador or exhaust the assets by age 90 as required in New Brunswick).

Also, the maximum payment calculation for an LRIF is different than the calculation for LIF accounts. As explained in Figure 3, the LRIF maximum payment is the greatest of four amounts. This amount is generally equal to the investment growth earned in the account in the previous year. The investment growth is defined as the value of the LRIF at the end of the previous year less the value of the LRIF at the beginning of the previous year (adjusted for account transfers) plus withdrawals made in the previous year.

An individual using an LRIF can convert to a life annuity at anytime. Note that an individual cannot convert from the life annuity option to either a LIF or LRIF. It is possible for an individual to convert directly from a LIF to LRIF and vice versa.

FIGURE 3

HOW LRIF PAYMENTS ARE CALCULATED

Minimum Payment

$$\text{Minimum Annual Payment} = \text{Plan balance at December 31 of the previous year} \times \frac{1}{90 - \text{Age at December 31 of previous year}}$$

Note: The provinces of Ontario (old LRIF)* and Newfoundland & Labrador allow the younger spouse's age to be used in the calculation of the minimum LRIF payment.

The above formula applies until the planholder reaches age 71. At age 71 the new minimum payment schedule that applies to LIF/ RLIF would also apply to LRIFs (See Figure 2 for actual percentages).

There is no minimum payment in the year the plan is established.

Maximum Payment

Maximum Annual Payment = Greatest of the following amounts (1, 2, 3 or 4)

1. The value of the LRIF at the beginning of the year less the net amount transferred in (net cumulative amount transferred in since plan inception)
2. The investment growth in the previous year based on the change in market value
3. If the payment is being made in the calendar year in which the LRIF was established or in the following year, the maximum payment equals 6% of the LRIF value at the beginning of the year
4. The minimum payment

In other words, the maximum in the first two years of the plan will normally equal 6% of the plan balance at the beginning of the year. After the first two years of the plan, the maximum will normally be equal to the investment growth earned in the previous year.

The maximum payment available in the first year of the plan is prorated based on the months remaining in the current year, with any part month being equal to a full month.

* Effective January 1, 2011, rules for Ontario LRIF will become standardized following the rules under new Ontario LIFs.

5 › Prescribed Registered Retirement Income Fund (Prescribed RRIF)

A prescribed RRIF is available in Saskatchewan and Manitoba. Under Saskatchewan pension legislation, only those annuitants who are at least age 55 (or the early retirement age established by the plan where the money originated) are eligible for the prescribed RRIF.

In the province of Manitoba, an annuitant who is at least 55 years old is able to unlock up to 50% of the balance in their LIF and transfer it to a prescribed RRIF.

The main advantage of the prescribed RRIF compared to the LIF and LRIF is that the prescribed RRIF has no maximum withdrawal limits. However, minimum withdrawals are still required, which are identical to the LIF. Another advantage of a Prescribed RRIF is the elimination of the need to convert it to an annuity at the age of 80. Assets in the Prescribed RRIF cannot be commingled with assets in a regular RRIF.

6 › Determining Which Options Apply to You

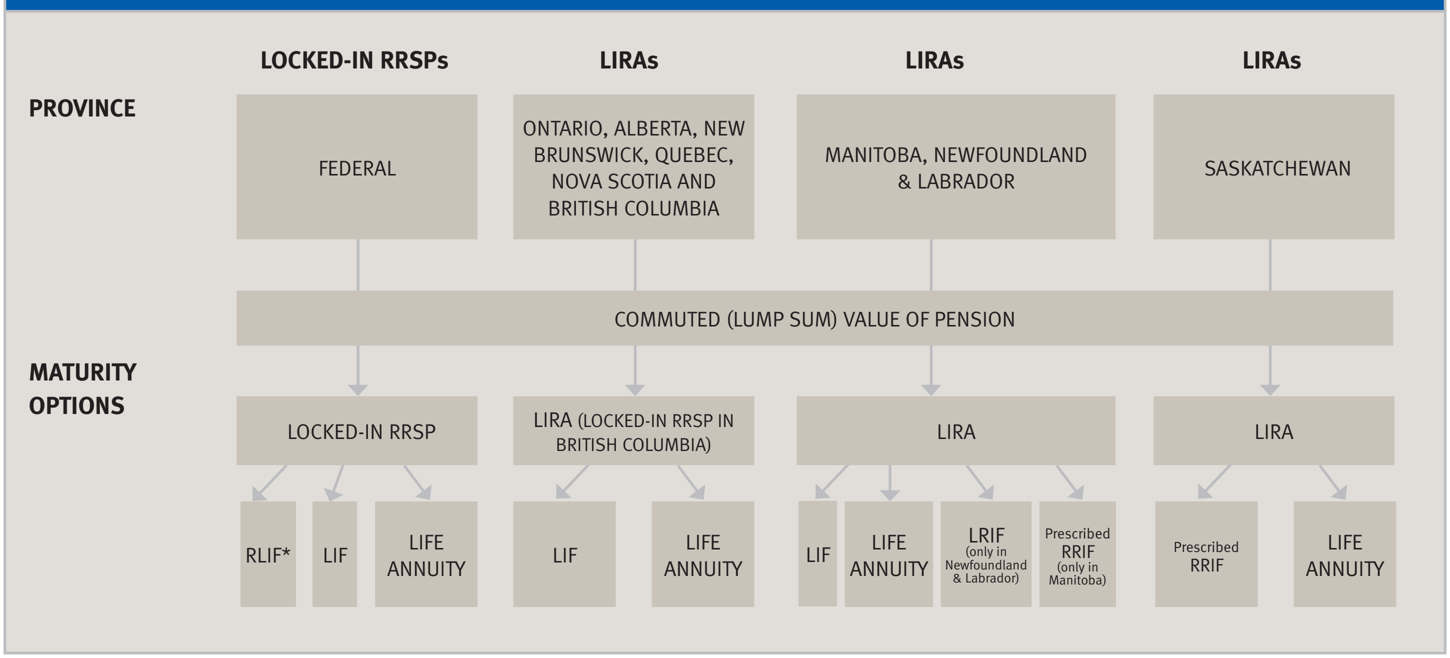
The available maturity options for your provincially locked-in funds will generally depend on the province in which you worked when the pension benefits were earned. For example, if you worked in the province of Saskatchewan, but are living out your retirement in the province of British Columbia, then your locked-in funds are subject to Saskatchewan pension legislation.

Individuals with federal private pensions are generally governed by the Canada Pension Benefits Standards Act (PBSA) regardless of the province they worked in. Some federal public service pension plans have their own acts such as the Public Service Superannuation Act (PSSA), The Canadian Forces Superannuation Act (CFSA) and the Royal Mounted Police Superannuation Act (RCMPSA). Federal public service employees should refer to their plan administrator to determine which act governs their pension plan.

Information in this publication related to federal pensions assumes the member's pension is governed by the PBSA. Please see **Figure 4** for a summary of the available maturity options.

FIGURE 4

SUMMARY OF MATURITY OPTIONS



* For age 55 or over

Figure 5 outlines the differences in the maturity options available as well as when the maturity options can commence.

Upon marriage breakdown, a portion of locked-in plans can be transferred to the non-member spouse. However, the assets will remain locked-in for both the member and non-member spouse. **Figure 6** summarizes special withdrawals that can be made from locked-in plans. If an individual meets the criteria to unlock their locked-in plan, then the amount that is unlocked will be fully taxable. To avoid this taxable amount, it may be possible in certain circumstances to transfer the unlocked amount on a tax-deferred basis to the annuitant's non-locked-in RRSP or RRIF.

Some provinces allow unlocking of their locked-in plans due to non-residency. (See Figure 6 for details.) In order to unlock due to non-residency, the annuitant must supply proof that they have become a non-resident of Canada for income tax purposes. Written confirmation from the Canada Revenue Agency (CRA) that the annuitant is a non-resident of Canada will generally serve as sufficient proof for this purpose. If the annuitant has a spouse or common-law partner, then a spousal waiver form must be signed by the annuitant's spouse/common-law partner in order to unlock the plan due to non-residency.

Note that since assets in a locked-in plan are governed by pension legislation, they are generally protected from creditors (other than an order for support payments or equalization on marriage breakdown).

However, any withdrawals from a locked-in plan, including any unlocking of the plan, could then subject the assets to creditors, except when the assets are transferred to a Prescribed RRIF.

Figure 5

DETAILS BY PROVINCE FOR LOCKED-IN MATURITY OPTIONS

	Federal	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Nova Scotia	New Brunswick	Nfld. & Labrador
Maturity Options	LIF	LIF	LIF	–	LIF	LIF	LIF	LIF	LIF	LIF
	Life annuity	Life annuity	Life annuity	Life annuity	Life annuity	Life annuity	Life annuity	Life annuity	Life annuity	Life annuity
	–	–	–	–	–	–	–	–	–	LRIF
	–	–	–	Prescribed RRIF	Prescribed RRIF	–	–	–	–	–
	RLIF	–	–	–	–	–	–	–	–	–
Age Limitation	**Federal**	**British Columbia**	**Alberta**	**Saskatchewan**	**Manitoba**	**Ontario**	**Quebec**	**Nova Scotia**	**New Brunswick**	**Nfld. & Labrador**
Initial LIF/ RLIF/LRIF/ Prescribed RRIF payment	Anytime except for RLIF (1)	Age 55 (2)	Age 50	Age 55 (2)	Anytime	(3)	Anytime	(4)	Anytime	Age 55 (2)
Initial annuity payment	Anytime	Age 55 (2)	Age 50	Age 55 (2)	Anytime	(3)	Anytime	(4)	(5)	Age 55 (2)

(1) Available at age 55 or older.
(2) Maybe earlier if Registered Pension Plan provides for earlier payment.
(3) Cannot begin earlier than the earliest date the Registered Pension Plan allows.
(4) Payments may commence at the earlier of age 55 or 10 years before the normal retirement date under the Registered Pension Plan.
(5) Payments must not commence earlier than 10 years before the normal retirement date under the Registered Pension Plan.

Figure 6

DETAILS BY PROVINCE FOR SPECIAL WITHDRAWAL FROM LOCKED-IN PLANS

	Federal	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Nova Scotia	New Brunswick	Nfld. & Labrador
Early payout for shortened life expectancy	Yes – physician certificate and spousal consent	Yes – physician certificate and spousal waiver	Yes – physician certificate and spousal waiver	Yes – physician certificate and spousal waiver	Yes– physician certificate and spousal consent	Yes – physician certificate and spousal consent	LIRA yes – physician certificate and spousal consent LIF no	Yes – physician certificate	Yes – physician certificate and spousal waiver	Yes – physician certificate and spousal consent
Unlocking due to financial hardship	Yes (1)	No	Yes – must apply directly to provincial government	No	No	Yes – must apply directly to provincial government	No	Yes – must apply directly to provincial government	No	No
Unlocking of small plan balances	Yes (2)	Yes (4)	Yes (5)	Yes (7)	Yes (8)	Yes (11)	Yes (14)	Yes (16)	Yes (18)	Yes (20)
Unlocking due to non-residency	Yes – if non-resident for at least 2 years	Yes – if non-resident for at least 2 years	Yes (confir-mation from CRA required)	No	Yes – if non-resident for at least 2 years	Yes – if non-resident for at least 2 years (12)	Yes – if non-resident for at least 2 years	No	Yes – if non-resident and not a Canadian citizen	No
Unlocking of funds and transferring to RRSP/RRIF or lump sum	Yes – up to 50% (3)	No	Yes – up to 50% (6)	Yes – 100% transfer to Prescribed RRIF	Yes – up to 50% to a Prescribed RRIF (9)	Yes – up to 25% before Jan. 1, 2010; up to 50% on or after Jan. 1, 2010 (13)	No	No	No	No
Withdrawals in excess of maximum LIF/LRIF	No	No	No	Prescribed RRIF available with no maximum	No (10)	No	Yes (15)	Yes (17)	Yes (19)	Yes (21)
Unlocking of LIRA or locked-in RRSP due to death of annuitant and transfer to spouse	No	No	No	Yes	No	Yes	Yes	Yes	Yes	Yes
Unlocking of LIF or LRIF due to death of annuitant and transfer to spouse	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: YMPE is the Year's Maximum Pensionable Earnings and is adjusted each year to reflect average Canadian wage levels. The YMPE for 2011 is $48,300.

(footnotes on next page)

Footnotes for Figure 6: Details by Province for Special Withdrawals from Locked-in Plans

Federal

(1) Individuals with low income (less than 75% of YMPE) or high disability or medical-related costs can withdraw up to 50% of YMPE per calendar year. For low income individuals, the maximum amount is 50% of YMPE less two-thirds of expected income less financial hardship withdrawals.

(2) For age 55 years or older, with total federal locked-in funds not exceeding 50% of YMPE.

(3) Effective May 8, 2008, age 55 years or older; one time option at time of converting from a locked-in RRSP or existing LIF to an RLIF.

British Columbia

(4) a) All ages and less than 20% of YMPE; applies on individual account basis.
b) At least age 65 and less than 40% of YMPE; applies on the sum of all locked-in plans.

Alberta

(5) a) All ages and less than 20% of YMPE; OR
b) At least age 65 and less than 40% of YMPE.

(6) Effective November 1, 2006, age 50 years or older; one time option at time of converting to a LIF or annuity.

Saskatchewan

(7) LIRA only — all ages and less than 20% of YMPE where the owner has no other locked-in money.

Manitoba

(8) If the total of the Manitoba locked-in money in all the owner's LIRAs, LIFs and LRIFs plus interest at the prescribed rate to the end of the year in which the owner turns 65 is less than 40% of the YMPE for the year in which the owner's application for withdrawal is made.

(9) Effective May 25, 2005, age 55 years or older; one time option to unlock up to 50% of balance in LIF.

(10) As of May 25, 2005, no amount may be paid out of a LIF or LRIF as temporary income.

Ontario

(11) At least age 55 and total value of the funds in all of your Ontario locked-in accounts is less than 40% of YMPE.

(12) Cannot transfer to an RRSP/RRIF; must take lump sum subject to withholding taxes.

(13) Effective January 1, 2008, age 55 years or older; one time option to unlock up to 25% at time of converting to a new LIF or within 60 days of conversion. Effective January 1, 2010, age 55 years or older and purchases a new LIF; one time opportunity to unlock up to 50% of the total market value of the assets of the fund.

Old LIF and LRIF owners, one time opportunity between January 1, 2011 and April 30, 2012 to unlock up to 50% of the total market value of the assets of the fund.

Existing new LIF owners, one time opportunity between January 1, 2010 and December 31, 2010 to unlock an additional 25% of the total market value of the assets of the funds that were transferred to their new LIF account on or before December 31, 2009.

Quebec

(14) At least age 65 and less than 40% of YMPE.

(15) a) Under age 54, the additional temporary income can be withdrawn equal to 40% of YMPE less 75% of individual's income provided income from other sources does not exceed 40% of YMPE.
b) At least age 54 and under age 65, additional temporary income can be withdrawn regardless of your other income based on special Quebec tables; however, cannot be greater than 40% of YMPE.
c) No additional temporary income if at least age 65.

Nova Scotia

(16) At least age 65 and less than 40% of YMPE in all of your locked-in accounts.

(17) a) At least age 54 and under age 65, additional temporary income can be withdrawn based on special Nova Scotia tables; however, cannot be greater than 40% of YMPE.
b) No additional temporary income if at least age 65.

New Brunswick

(18) a) At least age 65 and less than 40% of YMPE.
b) Less than age 65 and less than 40% of YMPE divided by 1.06 for each year before age 65.

(19) One lump sum lifetime withdrawal equal to three times maximum annual LIF % but not greater than 25% of the balance in the LIF; spousal consent required.

Newfoundland & Labrador

(20) a) All ages and total of all Newfoundland locked-in plans is less than 10% of YMPE; OR
b) Earlier of age 55 or earliest date on which the owner would have been entitled to receive a pension benefit and the plan balance is less than 40% of YMPE.

(21) Must be under age 65; additional income can be withdrawn equal to 40% of YMPE less total pension income received from all employers/LIF/LRIF/life annuities not including CPP.

7 › Choosing Between a Life Annuity or LIF/RLIF/LRIF/Prescribed RRIF

Both the life annuity and LIF/RLIF/LRIF/Prescribed RRIF have advantages and disadvantages. The maturity option you choose to access your locked-in RRSP or LIRA funds will depend upon a number of factors such as:

HOW MUCH ANNUAL INCOME WILL YOU REQUIRE?

If you will require a variable amount of annual income from your locked-in RRSP or LIRA funds, then you could consider the LIF/RLIF/LRIF/Prescribed RRIF option to allow you some flexibility in the amount of income received in the year. For example, if you do not require additional income in the current year, you could receive the minimum payment, leaving more funds within the LIF/RLIF/LRIF/Prescribed RRIF to grow tax-deferred. You may also consider transferring the difference between the minimum and the maximum to a non-locked-in registered account to provide additional flexibility by unlocking some of these funds without impacting your tax liability.

DO YOU WANT TO TAKE AN ACTIVE ROLE IN THE MANAGEMENT OF YOUR ASSETS?

An annuity will transfer the management and investment risk of your assets to the insurance company that you purchased the annuity from.

A self-directed LIF/RLIF/LRIF/Prescribed RRIF will allow you to retain control of the investment of your funds, but you will then have to accept the investment risk.

DO YOU WANT THE ABILITY TO UNLOCK A PERCENTAGE OF LOCKED-IN FUNDS?

As federally and some provincially regulated plans allow for unlocking of certain percentages when converting to a LIF/RLIF/LRIF/Prescribed RRIF, this option adds flexibility and increased access to your funds. The remaining locked-in funds in the LIF/RLIF/LRIF/Prescribed RRIF may be used to purchased an annuity if you wish.

DO YOU WANT TO PRESERVE THIS ASSET FOR YOUR ESTATE?

Upon death, the full value of the LIF/RLIF/LRIF/Prescribed RRIF will be payable directly to your designated beneficiary or estate. Taxes may be payable on this amount depending on who the beneficiary of the LIF/RLIF/LRIF/Prescribed RRIF funds is. The estate benefit provided by an annuity will depend on whether a survivor benefit or guarantee period is purchased.

8 › Choosing Between a LIF or LRIF

Both the LIF and LRIF will provide a certain amount of flexibility in the amount of annual income received. The LRIF is currently only available in Newfoundland & Labrador. LRIFs were available in Alberta prior to January 1, 2008, in Ontario prior to January 1, 2009 and in Manitoba prior to May 31, 2010. Any Manitoba LRIF set up prior to this date must be transferred to a LIF before 2011.

The main differences between the LIF and the LRIF are:

- In Newfoundland & Labrador a LIF must be converted to a life annuity by the end of the individual's 80th year;
- Once conversion to an LRIF has taken place, it can continue for life or can be commuted at anytime to purchase an annuity;
- If the locked-in assets will be a major source of retirement income, then consider the LIF as the LIF will likely provide more predictable maximum payments compared to the LRIF.
- The maximum payment from the LIF will generally be higher than the maximum payment from the LRIF, especially for a conservative investor over the age of 70;
- Unless converted to an annuity, the LIF can be converted to an LRIF, and vice versa, any time.

9 › Summary

Since your locked-in funds can represent a significant retirement asset, it is important that you carefully consider the available maturity options. Remember to maintain your flexibility as circumstances are always changing and you will most likely want to ensure that you can take advantage of opportunities as they arise.

Your advisor at RBC can assist you in determining which available maturity options are most appropriate for your circumstances.

For more information,
speak with an Investment Advisor
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