

The Navigator



Wealth
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INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC WEALTH MANAGEMENT SERVICES



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Gradually unlocking your life income fund

Do you have a life income fund (LIF) and are you only withdrawing mandatory annual minimum LIF payments? Have you already taken advantage of any unlocking opportunities under the pension legislation governing your LIF but would still like to unlock your funds sooner? If so, here is a strategy that may help you to gradually unlock your LIF on a tax-deferred basis. This could provide additional flexibility should you ever require cash from your LIF in excess of your annual maximum payment amount.

The strategy – in brief

This strategy relies on the Canadian income tax rules that permit you to make a direct transfer from your LIF to your registered retirement income fund (RRIF); or to directly transfer the excess amount above your minimum payment for the year to your registered retirement savings plan (RRSP), if you have not yet reached the end of the year in which you turn 71. If done properly, as a direct transfer, it does not impact your RRSP contribution room.

Although the income tax rules allow you to do this transfer, the pension legislation governing your LIF will either limit the amount you can transfer or may not allow any transfer. As such, you may not be able to take advantage of this strategy under certain circumstances. Your locked-in funds are governed by the pension legislation that applied to the pension the funds came from. Obviously you would not need to use this strategy if your funds are

not locked-in. In addition, certain pension legislation allows for special lump-sum unlocking which is not the focus of this article and therefore not discussed. For these reasons, it is important to determine which pension legislation governs your LIF and whether it allows a transfer from your LIF to an RRSP or a RRIF. You may want to consult with a qualified pension and/or tax advisor if you are planning to use this strategy.

Assuming the pension legislation governing your LIF allows a transfer to an RRSP or a RRIF and that you are only withdrawing the minimum amount, the maximum amount you can transfer on an annual basis is the difference between the LIF maximum and minimum for the year. You can transfer an amount less than this difference as well. For example, if the minimum you must receive this year is \$20,000 and the maximum is \$25,000, the difference between your maximum and minimum payment would be \$5,000. If you do

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not need the extra funds, you may transfer the \$5,000 to your RRSP or RRIF on a tax-deferred basis. This transfer doesn't affect your current year taxes. However, you will still be subject to tax on the \$20,000 minimum payment you receive. Continuing with the example, if instead of taking the LIF minimum amount you decide you need \$22,000 this year, the amount that you can directly transfer to your RRSP or RRIF would be reduced to \$3,000 since the maximum that can be removed from the LIF in the year is \$25,000.

The funds that you transfer to your RRSP or RRIF will continue to grow tax-deferred until you eventually withdraw the funds, but now they are no longer locked-in. You can access these funds, if required, without being restricted by a maximum withdrawal limit.

You can repeat this transfer process each year to gradually unlock funds from your LIF over time.

Special considerations

Saskatchewan prescribed registered retirement income fund (PRRIF)

If your locked-in plan is governed by Saskatchewan pension legislation, at maturity you can convert it to either a PRRIF or a life annuity. Since one of the unique features of a PRRIF is that there is no maximum withdrawal restriction, this strategy does not apply to you. If your funds are in a PRRIF, your funds are already unlocked.

Quebec temporary income

Temporary income allows you to withdraw more than the maximum LIF payment when certain conditions are met. However, if you are receiving temporary income, your ability to use the gradual unlocking strategy may be curtailed. Under Quebec legislation, you can transfer the amount withdrawn above your minimum LIF payment to an RRSP or a RRIE, but if you are receiving temporary income a formula adjusts the amount that can be transferred.

Nova Scotia temporary income

Nova Scotia's pension regulations do not permit you to make any transfer to an RRSP or a RRIF while you are receiving temporary income.

Creditor protection

One drawback of transferring your locked-in funds to an RRSP or a RRIF is the potential loss of creditor protection. Locked-in assets are exempt from many creditor claims (in and outside of bankruptcy) under pension legislation. Once these funds are transferred to an RRSP or a RRIF they are no longer protected under pension legislation. The federal Bankruptcy and Insolvency Act (BIA) provides creditor protection to certain RRSPs and RRIFs in all provinces but only in the event of bankruptcy. Some provinces have their own creditor protection legislation on certain registered plans that extend your protection outside of bankruptcy but some provinces do not. If creditor protection may be an issue for you, it's worth consulting a qualified legal advisor about your exposure before considering this strategy.



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Conclusion

The strategy outlined in this article may allow you to unlock a small part of your LIF on an annual basis. If you wish to have access to more of your locked-in funds and financial flexibility in the future, you may want to consider using this strategy. If you currently have a LIF, speak to a qualified pension and tax advisor to determine if this strategy is available and makes sense in your circumstances.

This article may outline strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax/ legal and/or insurance advisor before acting on any of the information in this article.

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