



Wealth
Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Gradually unlocking your life income fund

Please contact us for more information about the topics discussed in this article.

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's a strategy that may help you gradually unlock your LIF on a tax-deferred basis. This approach 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 a) make a direct transfer from your LIF to your registered retirement income fund (RRIF) or to b) directly transfer the excess amount above your minimum payment for the year to your registered retirement savings plan (RRSP), if you haven't yet reached the end of the year in which you turn age 71. If done properly, as a direct transfer, it doesn't 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 wouldn't need to use this strategy if your funds aren't locked in. In addition,

certain pension legislation allows for special lump-sum unlocking, which isn't the focus of this article, therefore not discussed. For these reasons, it's 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're planning to use this strategy.

Assuming the pension legislation governing your LIF allows a transfer to an RRSP or a RRIF and that you're 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 don't need the extra funds, you may directly transfer the \$5,000 to your RRSP or

RRIF on a tax-deferred basis. This transfer doesn't affect your current-year income tax. However, you'll 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 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 you transfer to your RRSP or RRIF will continue to grow tax-deferred until you eventually withdraw the funds, but now they're 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.

Some 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 doesn't 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 for the year when certain conditions are met. However, if you're receiving temporary income, your ability to use the gradual unlocking strategy may be impacted. Under Quebec legislation, you can transfer the amount withdrawn above your minimum LIF payment to an RRSP or a RRIF, but if you're receiving temporary income, the amount that can be transferred is adjusted by a formula.

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're receiving temporary income.

Impact on income-tested benefits

Where you directly transfer the difference between your LIF maximum and minimum to your RRSP, it's reported on a T4RIF and you also get an RRSP contribution receipt so that you can claim an offsetting deduction on your tax return. Although this is a wash on your income tax return so that you're not taxable on the portion that's directly transferred to your RRSP, this may impact certain income-tested benefits. This doesn't occur if you transfer the difference to your RRIF. If you'll be in this situation, you may not want to participate in this strategy.

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 creditors' claims under pension legislation.

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 creditors' claims under pension legislation. Once these funds are transferred to an RRSP or a RRIF, they're no longer protected under pension legislation. The federal Bankruptcy and Insolvency Act 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 don't. If creditor protection may be an issue for you, it's worth consulting a qualified legal advisor about your exposure before considering this strategy.

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 contain 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.



This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Global Asset Management Inc. (RBC GAM), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI) *, RBC Wealth Management Financial Services Inc. (RBC WMFS) and Royal Mutual Funds Inc. (RMFI). *Member-Canadian Investor Protection Fund. Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WMFS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI, Royal Trust Corporation of Canada, The Royal Trust Company, or RBC DS. Estate and trust services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WMFS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. ©/™ Registered trademarks of Royal Bank of Canada. Used under licence. © 2023 Royal Bank of Canada. All rights reserved. NAV0018 (03/23)