Wealth Management

RBC Wealth Management Services

Gradually unlocking your LIF — to a RRIF or RRSP

If you are only withdrawing minimum payments from your Life Income Fund (LIF), you might want to consider using this simple strategy to unlock your LIF sooner

Do you have a LIF, and are you only withdrawing mandatory annual minimum LIF payments? Would you like to unlock your locked-in funds sooner—aside from any opportunities permitted under your relevant pension legislation—without incurring any additional tax? If so, here is a simple strategy to help you gradually unlock your LIF tax-deferred to a RRIF or RRSP, and give you peace of mind from the additional financial flexibility should you ever require cash in excess of your maximum LIF payment restriction.

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

The strategy – in brief

This strategy takes advantage of a provision in the Income Tax Act that permits you to make a direct tax-deferred transfer from your LIF to your RRIF (or to your RRSP, if you have not yet reached the end of the year in which you turn 71). This provision applies across all provincial and federal pension plan legislation governing LIFs and neither impacts nor requires RRSP contribution room.

The amount you can transfer (or unlock to your RRSP or RRIF) on an annual basis would be any amount between the mandatory set minimum and maximum annual payments of your LIF. The minimum LIF payment calculation is identical to the minimum RRIF calculation. Alternatively, the maximum payment calculation varies by pension jurisdiction and is based on an actuarial formula that considers your age and an interest rate factor, known as the CANSIM rate, which is reset every year. Your advisor can advise you what the minimum and maximum payments are for you, in addition to helping to determine the amount you can transfer this year.

The maximum amount you could transfer each year would be the difference between these two amounts. For example, if your advisor indicates the mandatory minimum required payment this year is $20,000 and the maximum is $25,000, the difference between your maximum and minimum payment would be $5,000, and can be requested to be directly transferred to your RRSP (if 71 years or under this year) or RRIF tax-deferred – in addition to the minimum required payment. The marginal tax rate will be applied to your minimum required payment you receive, but no taxes will be owing on the amount which has been directly transferred to your RRSP or RRIF with this strategy.

Also with this strategy, you will continue to defer tax on the transferred amount – until you eventually withdraw the funds from your RRIF or RRSP. Once the funds have been transferred to your RRSP or RRIF, you will have the peace of mind of knowing that you can access the amount you transferred (subject to your marginal tax rate) if required – without being restricted by any maximum payment. When preparing your tax return, you would claim an offsetting deduction for the amount that was transferred on line 232 (if transferred to a RRIF) or on line 208 (if transferred to an RRSP).

You could repeat this process each year to optimize the amount you unlock from your LIF over time.

Special considerations

- **Prescribed Retirement Income Fund (PRIF)**: Saskatchewan-regulated pension plans must be converted to either a PRIF or a life annuity when you are considering retirement income options (i.e., locked-in RRSPs governed under Saskatchewan pension legislation are not eligible for conversion to a LIF). Since one of the unique features of a PRIF is that it only has a mandatory annual minimum payment requirement (i.e., no maximum annual payment limit), this strategy does not apply to you if you currently have a PRIF.
- **Temporary income (available in Quebec, Nova Scotia, and Newfoundland and Labrador)**: If you are receiving temporary income, it is important that you consult your relevant provincial pension legislation as this unlocking strategy may not be permitted. For example, Quebec's legislation allows you to transfer an excess amount from your minimum payment, but the formula is adjusted for temporary income considerations. In the case of Nova Scotia, the pension legislation simply does not permit you to make any such transfers to an RRSP or RRIF while you are receiving temporary income. While Newfoundland and Labrador's legislation is currently silent on this issue, it does not necessarily mean that the strategy is allowed.

Conclusion

If you wish to unlock your LIF sooner than pension legislation permits, and do not need funds in excess of your mandatory annual minimum LIF payments, consider implementing this strategy annually to gradually unlock your funds tax-deferred to your RRIF or RRSP. Speak with your advisor to determine whether this strategy is right for you and to assist you with the direct transfer process if you decide to implement it.

If you have any questions or require clarification of any of the issues discussed in this document, do not hesitate to contact your RBC advisor or discuss them with your own tax advisor.

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