


LIFE INCOME FUND (LIF) & LOCKED-IN RETIREMENT INCOME FUND (LRIF) MAXIMUM INCOME CALCULATIONS

(Revised May, 2005)



Summary of January 1/03 changes to the LIF/LRIF

- The LIF maximum is now calculated based on prescribed annuity factors. The LRIF maximum formula is unchanged
- The requirement under the LIF to purchase an annuity at age 80 has been removed
- The LIF/LRIF payment is no longer required to be prorated



General LIF & LRIF provision

For purposes of these calculations

- when a carrier change occurs, the original carrier must pay out the outstanding sum before the funds are transferred to a new carrier. No withdrawals allowed with the new carrier until following year



MAXIMUM INCOME PAYABLE BY LIF

LIF calculation

- Calculation of minimum withdrawal is calculated in accordance with the RRIF rules
- The maximum withdrawal for an individual in any calendar year is determined by

$M = F \times B$ where

LIF calculation continued


- F is the applicable prescribed annuity factor based on the reference rate for the year and the owner's age at the end of the immediately preceding year
- B is the balance of the fund at Jan 1 or the date of transfer

LIF calculation continued

- The reference rate for a year means the greater of 6% and the percentage determined for the year by

(a) adding 0.5% to the average yield as at Nov 30th of the immediately preceding year, as published by the Bank of Canada for Government of Canada long-term bonds identified as CANSIM series V122487; and

(b) converting the rate determined in (a), based on semi-annual compounding, to an effective annual rate, and rounding it to the nearest multiple of 0.5%.



LIF CALCULATION MULTI-YEAR PERIOD

LIF calculation multi-year period

- If the financial institution guarantees the return for a period of two or more fiscal years, the amount of income to be paid during each of those years must be set by the owner at the beginning of the period in accordance with the following formula.

LIF calculation multi-year period continued

- The amount in the 1st year is the maximum amount
- The amount in the 2nd or any later year within the period must not exceed the maximum determined by the following formula:

$$L = M \times J/K$$

LIF calculation multi-year period continued

- In this formula:
 - M is the maximum amount determined for the initial period
 - J is the LIF balance on Jan 1 of the year
 - K is the reference balance determined on Jan 1 of the year, calculated as:

LIF calculation multi-year period continued

(a) the reference balance at the beginning of the previous year, reduced by M , plus

(b) the amount in (a) multiplied by the reference rate for the year, if it is one of the first 16 fiscal years of the fund, or 6% in any other case

In applying this formula to the 2nd year of the period, the reference balance referred to in (a) is the LIF balance at the beginning of the initial year of the period.

LIF calculation multi-year period example

- Based on:
 - maximum amount in year 1 is \$10,650.00
 - LIF balance on Jan 1 of the 1st year is \$150,000.00
 - LIF balance on Jan 1 of the 2nd year is \$153,285.00
 - reference rate 6%

LIF calculation multi-year period example continued

- $L = M \times J/K$

$$M = \$10,650.00$$

$$J = \$153,285.00$$

$$K = (\$150,000.00 - \$10,650.00 = \\ \$139,350.00) + (\$139,350.00 \times .06 = \\ \$8,361.00) = \$147,711.00$$

$$L = \$10,650.00 \times \$153,285.00 / \$147,711.00 = \\ \underline{\underline{\$11,051.89}}$$



MAXIMUM INCOME PAYABLE BY LRIF

LRIF calculation

- Minimum withdrawal - minimum for RRIF.
- Maximum withdrawal = **greatest of:**
 - a) Market value at beginning of year minus net value of all transfers into the fund. Includes transfers in or out, but no withdrawals included.

LRIF calculation continued

- b) Investment income earned during the previous year

Investment income is the balance of the LRIF at date of calculation minus balance of LRIF at beginning of previous year plus withdrawals made during previous year (adjusted to take into account transfers into and out of the LRIF)

LRIF calculation continued

- c) In first & second year, 6% of the value of the fund at beginning of year
- d) In the year following a transfer from a LIF, the investment income earned under the LIF and LRIF



LRIF calculation continued

- New money (from a LIRA or RPP) transferred to existing LRIF additional maximum can be paid out based on the new funds being transferred in



LRIF calculation continued

- A LRIF is transferred to a new carrier during a fiscal year, the investment income earned with the original carrier is added to the investment income earned under the new carrier, meaning the entire fiscal year's investment income is taken into account when calculating the withdrawal for the new year

LRIF calculation continued

- Transfer of funds from LRIF into LIF or LIRA (after min./max withdrawal for the year) and then transferred back to an LRIF constitutes the 1st year of the LRIF

LRIF example #1 [1st year of fund]

Year 1 - age 56

- (Assume an LRIF commences on October 1 with a transfer from a LIRA/RPP of \$100,000)
- The minimum withdrawal for the period October 1 to December 31 is \$0 because no minimum withdrawal is required by ITA in the first year
- The maximum withdrawal in the first year will always be 6% of the balance in the LRIF

LRIF example #1 continued

Maximum withdrawal is \$6,000 which is the greatest of:

- the minimum amount = \$0
- the value of the LRIF at the beginning of the year less the net value of funds transferred in
= \$100,00 - \$100,000 = \$0
- the previous year's investment return = \$0
- 6% of the value of the LRIF at the beginning of the year
= 6% x \$100,000 = \$6,000

LRIF Example #2 [2nd year of fund]

Year 2 - age 57

- (Assume withdrawals of \$6,000 were made in YR 1 and no amounts were transferred into or out of the LRIF. The market value of the LRIF is \$105,000)
- The min. withdrawal for this calculation = 3,181.82
- The maximum withdrawal is \$11,000, which is the greatest of:

LRIF example #2 continued

- the value of the LRIF at the beginning of the year less the net value of funds transferred in
 $= \$105,000 - 100,000 = \$5,000$
- the previous year's investment return
 $= \$105,000 - \$100,000 + \$6,000 = \$11,000$
- 6% of the value of the LRIF at the beginning of year
 $= 6\% \text{ of } \$105,000 = \$6,300$
- This illustrates that the maximum withdrawal in the 2nd year is not necessarily 6%

LRIF example #3 [negative investment return]

Year 3 - age 58

- Withdrawals of \$4,000 were made in Year 2 and no money was transferred into or out of the LRIF. Market value of LRIF is \$98,000.
- Minimum withdrawal for this calculation = \$3,062.50

LRIF example #3 continued

- The maximum withdrawal is \$3,062.50 which is the greatest of :
 - the minimum amount = \$3,062.50
 - the value of the LRIF at beginning of year less the net value of funds transferred in
= \$98,000 - \$100,000 = (\$2,000)
 - the previous year's investment return
= \$98,000 - \$105,000 + \$4,000 = (\$3,000)

LRIF example #3 continued

- In years of poor investment performance, the maximum withdrawal and the minimum withdrawal could be the same.

LRIF example #4 [partial transfer out of funds]

Year 4 - age 59

- Withdrawals of \$3,062.50 were made in Yr 3 and \$50,000 was transferred from the LRIF to purchase a life annuity. The market value of the LRIF is \$60,000.
- Minimum withdrawal for this calculation = \$1,935.48

LRIF example #4 continued

- The maximum withdrawal is \$15,062.50 which is the greatest of :
 - the minimum amount = \$1,935.48
 - the value of the LRIF at beginning of yr less the net value of funds transferred in
= $\$60,000 - (\$100,000 - \$50,000) = \$10,000$
 - the previous year's investment return
= $\$60,000 - (\$98,000 - \$50,000) + \$3,062.50 = \$15,062.50$

LRIF example #5 [transfer of LIRA or RPP funds into existing LRIF]

- Money from an employer or LIRA is transferred into an existing LRIF or LIF
- Funds have never been in a LIF/LRIF before
- Another min./max amount can be calculated in the year of transfer, even though a withdrawal from the original LIF/LRIF has been made.

LRIF example #5 continued

Year 5

- Market value of the LRIF is \$50,000 at Jan. 1
- Withdrawal of \$5,000 was made at Jan. 1
- \$50,000 was transferred into the LRIF on July 1, from a LIRA.

LRIF Example #5 continued

- Maximum withdrawal at July 1
 - **6% of 50,000 = \$3,000**
- combined payment for 1st year
 - **\$5,000 (Jan. 1 withdrawal) + \$3,000 (July 1 withdrawal) = \$8,000**