



Policy Bulletin #11 Life Income Fund

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The purposes of this Bulletin are to explain the characteristics of Life Income Funds (LIFs) and to outline the responsibilities of financial institutions providing LIFs, including how they are to calculate the minimum and maximum withdrawals.

The requirements of the *Employment Pension Plans Act* (the "Act") with respect to the calculation of withdrawals from a LIF are covered, for the most part, in the *Employment Pension Plans Regulation* (the "Regulation"), and in the prescribed addendum that is to form part of all LIF contracts, Schedule 1, Form 2 of the Regulation.

This Bulletin has no legal authority. The Act and Regulation should be used to determine specific legislative requirements.

Legislative References

ACT	Under sections 38, 39(6) or 46 of the Act, a pension plan may, and a LIRA (Locked-in Retirement Account) must, permit the transfer of locked-in funds to a LIF (Life Income Fund) anytime after age 50, or to an immediate or deferred life annuity to provide income for life (starting no earlier than age 50).
REGULATION	The rules governing LIFs and the financial institutions that offer them are mainly set out in section 40 of the Regulation, although other provisions of the Act and Regulation are also relevant, including definitions in the Act and Regulation. Waiver forms relevant to LIFs are found in Schedule 1 as well.
New Locked-in Addendum	To be a LIF, a Registered Retirement Income Fund (RRIF) contract must have attached to it a copy of the addendum prescribed in Schedule 1, Form 2 with respect to LIFs. The LIF addendum must form part of the contract between the owner and the financial institution and the terms of the addendum take precedence over any other provision in the contract where there is a conflict. A copy of the entire contract, including the addendum, must be provided to the LIF owner when a LIF is purchased.

**Terms Used in the
Bulletin and the
Prescribed Addendum**

Locking In: means that the funds in the LIF may not be paid in cash to the Original Owner. Instead they must be used to provide lifetime retirement income, beginning no earlier than age 50, for the Original Owner and their Pension Partner, if any, through the purchase of one or more of

- (a) a LIF,
- (b) a pension or DC RIA under a pension plan, or
- (c) a non-commutable life annuity.

Alberta Locked-in Funds: funds that were originally transferred to a LIRA, LIF, or life annuity from a pension plan to which the locking-in rules of the Act and Regulation apply, by

- (a) a pension plan member who terminated membership in Alberta,
- (b) a surviving Pension Partner of a pension plan member who died while employed in Alberta, or
- (c) a former Pension Partner of a pension plan member who was employed in Alberta at the time of their marriage breakdown.

This does not include the pension funds of persons who worked in Alberta whose pension plans are subject to federal legislation: federal civil, military and police employees, and employees in federally-regulated industries (banking, telecommunications, shipping, and inter-provincial transportation).

Pension Partner: a married or common-law spouse of the Original Owner of a locked-in account; that is, a married spouse who has not been separated from the Original Owner for over three years, or if there is no such person, a common-law spouse living in a conjugal relationship with the Original Owner for three years, or “in a relationship of some permanence” if they have a child.

Owner: an Original Owner (see below), or a Surviving Pension Partner Owner (see below) or a Non-Member Pension Partner (see below).

Original Owner: a former pension plan member who has transferred his/her pension entitlement from the pension plan to a locked-in account

Surviving Pension Partner Owner: a Pension Partner who acquired the account as a result of the pension plan member’s death, whether that death occurred before or after the member transferred their funds out of the pension plan

Non-Member Pension Partner Owner: an Owner who acquired a locked-in account as a result of a matrimonial property settlement.

Waiver: there are several instances where the Pension Partner of an Original Owner may waive (give up) some or all of an entitlement. Various waivers are prescribed in the Regulation to accommodate these different circumstances. References to a numbered form in this Bulletin refer to the specific prescribed waiver that is applicable in the circumstance being discussed. (See [Policy Bulletin # 35 – Pension Partner Waiver Forms](#)).

Defined Contribution Retirement Income Account (DC RIA): an account similar to a LIF that may be offered by a defined contribution pension plan, to and from which locked-in funds may be transferred. (See [Policy Bulletin # 30 – Defined Contribution Retirement Income Accounts](#)).

Purpose of a LIF

A LIF is a restricted form of RRIF designated specifically to hold and invest locked-in pension funds and to pay retirement income in the manner set out in the Act and Regulation. That is, a LIF is subject to all rules of the *Income Tax Act*, Canada that apply to RRIFs. In addition, the Regulation imposes rules which, among other things restrict withdrawals and provide spousal protection.

Provisions of the LIF Addendum

The rules governing LIFs and the financial institutions that offer them are mainly set out in sections 38 and 40 of the Regulation, although other provisions of the Act and Regulation are also relevant, including definitions in the Act and Regulation.

To be a LIF, a RRIF contract must have, attached to and forming part of it, the prescribed addendum, which contains most of these rules. The prescribed addendum provisions take precedence over any other terms in the LIF contract where there is a conflict.

A copy of the entire contract, including the prescribed addendum must be provided to each LIF Owner at the time that the LIF is established.

The addendum provides that

- funds may be transferred into a LIF only from a LIRA, another LIF or from a pension plan (including the DC RIA provision of a pension plan);
- the LIF must be administered in accordance with the Act and Regulations;
- investments must comply with the rules for the investments of RRSPs under the *Income Tax Act*, Canada (Note: the prohibition against investing in the mortgage of the Owner or a relative of the Owner has been removed);
- only Alberta Locked-in Funds may be held in the LIF;
- if the Owner is an Original Owner with a Pension Partner at the time funds were first transferred from a LIRA or pension plan to the LIF;
- unless that Pension Partner signs and files with the LIF issuer a waiver under Part 2, Option 3 of [Form 6](#), before that Original Owner's death, that Pension Partner is the automatic beneficiary of the LIF. A pension partner may revoke this waiver at any time prior to the death of the Owner;
- copies of any waivers signed by a Pension Partner of an Original Owner must be attached to and become part of the LIF contract;
- on the death of an Original Owner, who at the date of death had a Pension Partner who had **not** waived beneficiary status, the amount in the fund must be paid to the surviving Pension Partner as either a transfer to that Pension Partner's RRSP or RRIF or in cash, as chosen by the Pension Partner;
- if there is no surviving Pension Partner as described above, the LIF is to be paid in cash to the beneficiary, if one has been designated, or to the estate of the Owner, as applicable;
- the fiscal year of the contract ends on December 31;
- the Owner will be paid an income the amount of which may vary annually;
- the payment of the income to the Owner will commence not later than the last day of the second fiscal year;
- the value of the contract shall be the fair market value for the purposes of asset transfer, purchase of a life annuity contract, payment or transfer on the death of the Owner, and determination of maximum benefits payable [in cases where the fair market value of the contract is not used to calculate income, the contract must set out the methods and factors that will be used to establish fair market value];
- the Owner must establish the amount of income to be paid during each fiscal year at the beginning of that fiscal year after receiving

the required information from the financial institution and may establish those amounts for more than one calendar year if the financial institution is guaranteeing a rate of return for a period of longer than one year;

- the amount of income to be paid to the Owner in a fiscal year is not less than the minimum required under the *Income Tax Act* and not more than the amount calculated in accordance with the formula set out in the Calculation of Maximum Annual Withdrawal section below. The contract must also set out how the interest rate used in the calculation of the maximum income is established, using either of the alternatives shown in the Calculation section below;
- for the initial fiscal year, the minimum amount to be paid is zero and the maximum amount is adjusted in proportion to the number of months in the fiscal year, with a partial month counting as a full month;
- if money comes from another LIF, the payment schedule that was established under that LIF continues after the transfer.
- if an additional transfer is made into the contract and that amount has not previously been in a LIF, an additional withdrawal will be allowed, calculated as if the new amount were used to purchase a separate LIF starting that year;
- at any time, funds in the LIF may be transferred to another LIF, to purchase a life annuity or to a DC RIA (see transfer rules below);
- before transferring funds to a LIF, DC RIA or life annuity, the LIF issuer must provide the Owner and, in the case of a transfer to another LIF or DC RIA, the receiving financial institution or administrator with a statement reconciling the account balance from the previous fiscal year end and what the Owner's payment elections was (see Disclosure below);
- in the event of marriage breakdown the LIF may be split between the Owner and the ex-spouse pursuant to a matrimonial property order filed with the LIF issuer (note: the ex-spouse's portion remains locked in). (See [Policy Bulletin # 3 – Division and Distribution of Pension Benefits on Marriage Breakdown](#));
- funds in a LIF may not be seized or attached by creditors, nor may the Owner assign them or use them as collateral; exceptions to this are seizure or attachment under a maintenance enforcement order (see [Policy Bulletin #36 – Maintenance Enforcement Act Provisions](#)) and seizure by Canada Revenue Agency;

- funds may not be paid in cash to an Owner except with respect to the commutation options for
 - small amounts (See [Policy Bulletin # 24 – Maximum Commutable Amounts](#))
 - non-residency (See [Policy Bulletin #25 – Commutation due to Non-Residency Status](#))
 - shortened life expectancy (See [Policy Bulletin #26 – Commutation due to Shortened Life Expectancy](#));
- if locked-in funds are incorrectly released to an individual, the LIF carrier will be liable to provide the appropriate amount of retirement income;
- if the locked-in funds are incorrectly transferred, the transferring financial institution may be required to fund another locked-in account that meets the requirements of the Act and Regulation.

Calculation of Minimum Annual Withdrawal

The minimum withdrawal for any calendar year is calculated in accordance with the formula for minimum RRIF withdrawals as required under the *Income Tax Act*. It is a percentage of the value of the fund as of January 1 in the year, based on the age of the Owner at January 1 of the same year. Alternatively, the age of the Pension Partner may be used in calculating the **minimum** benefit payable each year. However, the Owner’s age, and not that of the Pension Partner, must be applied to determine the **maximum** amount payable in any year, as outlined below.

A table containing the applicable minimum percentages is attached for convenience. Please contact Canada Revenue Agency (CRA) for more information about the minimum withdrawal from a RRIF. In the first fiscal year, the minimum is zero ("0").

Calculation of Maximum Annual Withdrawal

The maximum withdrawal (M) for an individual in any calendar year is the greater of the following two calculations:

1. The investment gains from the preceding calendar year of the LIF, or
2. The amount determined by the formula:

$M = C/F$, where

C = the LIF account balance on the first day of the fiscal year (which after the initial year will always be January 1); and

F = the value on the first day of the fiscal year (which after the initial year will always be January 1) of a \$1/year term certain annuity to age 85.

'Long' Formula: (Use this formula whenever the Owner is less than Age 70)

$$F = \frac{(1+R) \times [1 - 1/(1+R)^{15}]}{R} + \frac{1.06 \times [1 - 1/(1.06)^{(T-15)}]}{0.06 \times (1+R)^{15}}$$

'Short' Formula: (Use this formula once the Owner is Age 70 or older)

$$F = \frac{(1 + R) \times [1 - 1/(1+R)^T]}{R}$$

where **T** = [85 minus the Owner's age] and **R** is either of the following interest rates:

- a) an interest rate of not more than 6% per year, or
- b) for the first fifteen years, a rate that is greater than 6% as long as that rate does not exceed the CANSIM Series V-122487 rate as of the end of November in the previous year, and 6% thereafter.

Examples at the end of this Bulletin illustrate the calculation of the minimum and maximum withdrawals, assuming that the calculation is done as at January 1.

Disclosure

At the beginning of each fiscal year of the fund (i.e. January 1), the LIF provider must send the Owner a statement containing the following information:

- the amount transferred in during the past year;
- the amount of investment income, gains and losses earned during the past year;
- the amount of payments made and transfers out of the fund during the past year;

- the amount of any fees or service charges taken from the fund during the past year;
- the balance of the fund as of the beginning of the fiscal year;
- the minimum amount that must be taken out during the next year; and
- the maximum amount that can be taken out during the next year.

When transferring LIF funds to another financial institution to purchase a LIF or to a DC RIA the transferring institution must provide the following information to the Owner and the receiving institution or plan administrator:

- a statement that the funds are locked-in under the Act and Regulation;
- the amount of investment income, gains and losses earned in the current fiscal year of the LIF;
- the amount that has already been paid out to the owner in the current fiscal year;
- a copy of the statement provided to the Owner; and
- copies of any completed Pension Partner waiver forms.

The LIF provider must also issue a death benefit statement to a Surviving Pension Partner or to the beneficiary where there is no pension partner. The death benefit statement must contain the information required on the annual statement, updated to the date of death of the Owner.

Requirements for Transferring funds in or out

Transfer in

Only Alberta Locked-in Funds may be held in a LIF. Funds may be transferred to a LIF from another LIF, from an LIRF, or from a pension plan (including a DC RIA).

Transfers Out

Funds may be transferred from a LIF from another LIF or to a pension plan provided it is to purchased immediate pension or to a DC RIA account.

(Note: funds in a LIF may **not** be transferred to a LIRA or to a pension plan other than as noted above)

Duties of a Transferor (Sending) Financial Institution

A financial institution transferring money to another LIF, pension plan or annuity contract must

- notify the transferee (receiving) plan administrator of financial institution that the funds are Alberta Locked-in Funds
- provide copies of any waivers filed with it and attached to the LIF contract
- if funds are transferring to another LIF, ensure that the transferee financial institution is on the Superintendent's List with respect to LIFs,
- if funds are transferring to a DC RIA, ensure that the pension plan is registered under pension legislation,
- if funds are transferring to a LIF or DC RIA, provide the transferee financial institution or plan administrator with the account reconciliation referred to in the Disclosure section above.

Duties of a Transferee (Receiving) Financial Institution or Plan Administrator

The financial institution issuing a LIF or the pension plan receiving funds into a DC RIA must not accept the funds unless

- in the case of a LIF, it is an acknowledged financial institution on the Superintendent's List with respect to LIFs,
- in the case of a DC RIA, the pension plan is registered under pension legislation and the plan DC RIA provisions that comply with Alberta legislation and permit such a transfer,

all the money being transferred is Alberta locked-in funds.

Acknowledgement on the Superintendent's List with Respect to LIFs

Only financial institutions whose names appear on the Superintendent's List of Financial Institutions with respect to LIFs are permitted issue LIFs.

To be acknowledged, a financial institution must file with the Superintendent's office a completed application and certification form (See [Form 42](#) on website) signed by an authorized representative of the financial institution. As part of that certification the financial institution agrees to attach the prescribed LIF addendum (See [Form 2](#) on website) to each LIF contract and to provide a copy of the full contract, including the LIF addendum, to each LIF Owner.

Effective August 10, 2006 the “old Superintendent’s List” (the old List) is closed. Financial institutions on the old list who wish to continue to sell LIFs must re-apply, using [Form 42](#), to be acknowledged on the “new Superintendent’s List” (the new List). **The new application must be filed with the Superintendent on or before December 16, 2007 if the financial institution wishes to be on the new List by December 31, 2007. Any financial institution not on the new List by December 31, 2007, will not be able to issue LIFs after that date.**

Transitional Provisions

Financial institutions on the old List as of August 10, 2006 may continue to sell LIFs under the prior rules until the earlier of the date that they are acknowledged on the new list or December 31, 2007. Once on the new list, all the “new rules” apply and old LIFs must be converted to new LIFs within 90 days from receiving the consent of the Superintendent to offer the new products.

Notwithstanding this, effective August 10, 2006, all “old” LIF contracts are deemed to have in them provisions that

- permit an Owner to invest in their own or a relative’s mortgage,
- permit the Pension Partner of an Original Owner to waive beneficiary entitlements using Form 6, Option 3,
- include the 50% unlocking provisions of Schedule 1.1 of the Regulation.*

Amendments to the old LIF addenda need not be filed in this regard.

Individuals who established a LIF prior to November 1, 2006 will be given a one time opportunity to unlock up to 50% of the funds held in the LIF. This option must be exercised by December 31, 2007. After that date no unlocking will be permitted from a LIF in this manner. If the LIF Owner is an Original Owner with a Pension Partner, the option may only be exercised if that Pension Partner has signed the waiver under Option 1 of part 1 of [Form 6](#).

All LIF issuers must, with the January 2007 annual statement advise pre-November 1, 2006 LIF Owners of the 50% unlocking option unless they have already availed themselves of the option. Once a pre November 1, 2006 LIF Owner has exercised this option the account must be flagged until January 1, 2008 to ensure that the option is only given once.

Examples

Example 1 (Owner is less than 70 years of age)

This example assumes that the LIF account balance on January 1 is \$100,000, and that the owner's age is 55. Assume the CANSIM Rate at the previous November 30 was 6.12%, and $T = 30 = (85 - 55)$. This is the first year that the LIF was established; hence there are no income gains and losses from the previous calendar year of this LIF.

$$F = \frac{(1 + 0.0612) \times [1 - 1/(1 + 0.0612)^{15}]}{0.0612} + \frac{(1 + 0.06) \times [1 - 1/(1.06)^{(30-15)}]}{[0.06 \times (1 + 0.0612)^{15}]}$$

where, $1.0612^{15} = 2.4376$ and $1.06^{15} = 2.3966$

$$F = \frac{1.0612 \times (1 - 1/2.4376)}{0.0612} + \frac{1.06 \times (1 - 1/2.3966)}{0.06 \times 2.4376} = 10.2264 + 4.2234 = \underline{14.4498}$$

The maximum withdrawal from the LIF ($M = C/F$) for the first year (under this scenario) is:

$$M = \$100,000 / 14.4498 = \$6,920 \text{ (or 6.92\% of \$100,000)}$$

The minimum withdrawal under the CRA rules is:

$$2.86\% \times 100,000 = \$2,860$$

Therefore, the Owner can withdraw as little as \$2,860 and as much as \$6,920 for the first year.

In the subsequent year, the owner would be age 56 at January 1. The same formula would be applied with $T = 85 - 56 = 29$. The appropriate CANSIM rate (at the previous Nov. 30) would be applied for the 15-year period, with 6% applied for the balance of the period ($29 - 15 = 14$).

In the first year, the maximum ('M') must be pro-rated; that is, 'M' must be multiplied by the number of full or partial months in the period between opening the LIF and the calendar year end, and divided by 12.

In the above example, if the Owner had established the LIF on April 15, the minimum withdrawal for the first year would be \$0 (in accordance with the *Income Tax Act*) and the maximum would be $\$6,920 \times 9/12 = \$5,190$

Example 2 (Owner is over the age of 70)

This example assumes that the LIF account balance on January 1 is \$100,000, and that the owner's age is 76. Assume the CANSIM Rate at the previous November 30 was 6.12%, and $T = 85 - 76 = 9$. In the previous year, income gains and losses on the LIF account was \$14,000.

Step One: Perform the Calculation:

$$F = \frac{(1 + 0.0612) \times [1 - 1/(1 + 0.0612)^9]}{0.0612}$$

where $1.0612^9 = 1.7068$

$$F = \frac{1.0612 \times (1 - 1/1.7068)}{0.0612} = 7.1804$$

The withdrawal from the LIF ($M = C/F$) for this year (under this scenario) is:

$$M = \$100,000 / 7.1804 = \$13,926 \text{ (or 13.93\% of \$100,000)}$$

Step Two: Compare this Amount to the Investment Gains from the Previous Calendar Year of the LIF

Since the investment gains from the previous year (\$14,000) is greater than the permitted withdrawal using the withdrawal factor (\$13,926), the maximum withdrawal permitted from the LIF is \$14,000.

The minimum withdrawal under the CRA rules is:

$$7.99\% \times 100,000 = \$7,990.$$

Therefore, the Owner can withdraw as little as \$7,990 and as much as \$14,000 for this year.

Where the financial institution carrying the LIF fails to administer the LIF in accordance with Section 40 of the Regulation, and funds are paid in a manner contrary to the requirements of the Act or Regulation, that financial institution continues to be liable. It must provide the retirement income that would have been payable, had a payment contrary to the Act or Regulation not been made.

Table of Withdrawals from LIFs under Alberta's Jurisdiction for the year 2006 (as a percentage of the Account Balance at January 1). NOTE: The amounts generated by this table are for a 12-month period. Therefore, if a LIF is started in a month other than January, appropriate pro-ration is required.

Age at Jan. 1	Minimum Withdrawal from LIF	Maximum Withdrawal from LIF ¹
50	2.50%	6.51%
51	2.56%	6.57%
52	2.63%	6.63%
53	2.70%	6.70%
54	2.78%	6.77%
55	2.86%	6.85%
56	2.94%	6.94%
57	3.03%	7.04%
58	3.13%	7.14%
59	3.23%	7.26%
60	3.33%	7.38%
61	3.45%	7.52%
62	3.57%	7.67%
63	3.70%	7.83%
64	3.85%	8.02%
65	4.00%	8.22%
66	4.17%	8.45%
67	4.35%	8.71%
68	4.55%	9.00%
69	4.76%	9.34%
70	5.00%	9.71%
71	7.38%	10.15%
72	7.48%	10.66%
73	7.59%	11.25%
74	7.71%	11.96%
75	7.85%	12.82%
76	7.99%	13.87%
77	8.15%	15.19%
78	8.33%	16.90%
79	8.53%	19.19%
80	8.75%	22.40%
81	8.99%	27.23%
82	9.27%	35.29%
83	9.58%	51.46%
84 or older	9.93%	100.00%

¹ If the interest gains and losses in the previous calendar year are **GREATER** than the amounts generated by this table, that amount will instead be the calculated maximum for the current calendar year in the LIF.

For further information please contact:

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For toll-free dialling, contact your local Alberta Government R.I.T.E. line by calling 310-0000.