# Access to Locked-in Accounts

## We Want Your Feedback

**A Discussion Paper Prepared By:**

**Alberta Finance**

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## Introduction

Alberta's current pension legislation requires that if plan members leave their employer and take their pension money out of the pension plan, the funds must be placed in a Locked-In Retirement Account (LIRA). These rules were introduced to ensure that pension money is used for its intended purpose, which is to provide lifetime retirement income.

Increasingly however, the government is hearing from the owners of locked-in accounts that the rules are too restrictive.

The purpose of this discussion paper is to ask interested persons and groups, including pension plan members, the owners of locked-in accounts, plan sponsors including employers and unions, and other Albertans to comment on possible changes to the locking-in rules. We want your views on whether the proposals will help to ensure a fair balance between plan sponsor requirements to have pension funds used for retirement income and the wishes of individuals to have more control over their accounts.

## Request for Input

Interested groups and individuals are asked to review this discussion paper and provide their comments to Alberta Finance by **January 31, 2004**.

All submissions should include the name of a contact person and contact details (return address, telephone, fax and e-mail address).

Please note that all comments and opinions received in response to this discussion paper become the property of Alberta Finance. While personal or confidential business information will be protected where possible, Alberta Finance reserves the right to publicly disclose information from the submissions in accordance with the provisions of the *Freedom of Information and Protection of Privacy (FOIP) Act (RSA 2000).*

For a description of how submitted input will be used and disclosed please see the section titled "Next Steps" on page 9.

## Responding to this Discussion Paper

1. You can write to: "Access to Locked-in Accounts"
   c/o Alberta Finance, Employment Pensions
   402 Terrace Building
   9515-107 Street
   Edmonton, AB T5K 2C3

2. You can e-mail us at locking-in.paper@gov.ab.ca.

3. You can send a fax to (780) 422-4283.

This paper and related information are available on the Alberta Finance website, www.finance.gov.ab.ca. If you require further information, telephone the Office of the Superintendent at (780) 427-8322. Albertans outside the Edmonton area may dial that number toll-free by first dialing the Alberta Government toll-free number 310-0000.

## **Background** *(for a history of the locking-in rules see Appendix A)*

"Locking-in" applies only to money that the member earned in a Registered Pension Plan (RPP) sponsored by an employer or a union. The term "locking-in" means that money may not be paid in cash as a lump sum to the member. Instead, it must be used to provide a lifetime retirement income. It does not cover savings in an individual's Registered Retirement Savings Plan (RRSP) or a group RRSP sponsored by an employer.

Pension money may be transferred only to a special restricted RRSP owned by the member, called a Locked-In Retirement Account (LIRA), sometimes known as a locked-in RRSP. The owner makes decisions about the LIRA's investments, but does not have the freedom to withdraw income until he or she reaches age 50. Anytime after that, the owner may start to receive a pension income.

To start an income the owner transfers the funds to a life annuity, Life Income Fund (LIF), or a Locked-in Retirement Income Fund (LRIF) *(see Appendix B)*. Each of these income arrangements is subject to specific rules, including maximum withdrawal limits with the intent that the money will last for the owners' lives, no matter how long they live. These rules are set out in law in Alberta's *Employment Pension Plans Act*, and in Regulations made under the Act.

All provinces in Canada have similar rules but recently some have made changes *(see Appendix C)*.

The locking-in rules have one primary purpose: to make sure that the original promise of the pension plan is preserved. That promise is to provide a retirement pension for the lifetime of the account owner. They also ensure that two other key protections provided by pension plans are maintained: the account is protected from creditors, and the owner's "pension partner" (spouse or common-law partner) has a right to a survivor pension if they outlive their partner.

Currently, there are four exceptions to these locking-in restrictions:

### 1. Financial Hardship

In May 2003, the Alberta government changed its locking-in rules to allow individuals to withdraw some or all of the funds in their LIRA, LIF or LRIF if they, or in some cases their partner or dependants, are suffering from financial hardship. The owner must apply to the Superintendent of Pensions for approval to unlock the funds, showing evidence of financial hardship. Applicants do not have to prove they have no other assets, and there is no maximum number of applications an individual can make. However, the owner must have the consent of their pension partner.

**2. Non-Residency**

An owner may have money unlocked, with the consent of their pension partner, and therefore have complete discretion to withdraw any amount, if he or she leaves Canada and is no longer required to pay Canadian taxes under the federal *Income Tax Act (ITA)*.

**3. Shortened Life Expectancy**

An owner suffering from an illness or disability that is likely to shorten his or her life considerably may, with a doctor's certificate and the pension partner's consent, unlock the money and withdraw it in one lump sum or take it as a series of payments for a specific period of time.

**4. Small Amounts**

If the entire account (LIRA, LIF or LRIF) is too small to purchase an annuity, it may be cashed out or converted to an ordinary, unrestricted RRSP or Registered Retirement Income Fund (RRIF). An account worth $7,980 or less is considered too small, and may be cashed out or converted. This "small amount threshold" changes every year, rising with average wages. If the owner is 65 or older and his or her locked-in accounts are worth, in total, $15,960 or less (also changes with average wages), the accounts may all be unlocked.

## Why Has Locking-In Become an Issue for Discussion?

Increasingly, the government is hearing questions and concerns from Albertans about the locking-in rules. A number of factors may account for this including:

- The employment pension plan system is maturing. This means that more people have significant savings, earned within pension plans, which are now in locked-in accounts. People who have considerable locked-in savings, and who are at or near retirement, may want more control over these funds.

- Many locked-in account holders have always considered the maximum withdrawal limits on LIFs and LRIFs too low.

- More recently, interest rates and other investment returns have been low. This means that the income some retirees are receiving from their locked-in accounts is lower than expected. Many want an increase in the amount they can withdraw each year from their accounts.

- Some people view their LIRA as being more like a regular RRSP than like a pension plan which LIRAs are designed to mimic. They know they have full

discretion over decisions for their RRSP and they want the same discretion for their LIRA funds.
- The locking-in rules are an exception to the trend toward more individual responsibility over financial decisions. For example, while owners of locked-in accounts have the freedom and responsibility to make investment decisions for these accounts, they have much less discretion over how income is withdrawn.

## Points to Consider

There are a number of points to consider in discussing the issues around locking-in. These are the points most often made in favour of locking-in:

- Locking-in ensures that the original intent of the employer or union, to provide a retirement pension, is carried out even if members transfer the money out of the pension plan. Employers and unions say that without this assurance they would be less inclined to establish and maintain pension plans.

- Locked-in funds provide protection for pension partners by requiring that they receive survivor pensions.

- Locked-in funds are protected from creditors.

- Locking-in provides that people will have some pension income in retirement, even if they live a long time. This helps reduce poverty among the aged, and reduces the cost pressures on government programs for low-income seniors.

- The intention of locking-in was that during the course of a career a person could accumulate locked-in accounts from different jobs adding up to significant retirement savings.

On the other hand, locking-in rules:

- Prevent individuals from increasing their retirement income in any one year beyond the annual withdrawal limits on LIFs and LRIFs.

- Prevent individuals from using the money for other priorities that may be more important to them at a certain time than retirement savings.

Other considerations:

- Many pension plans are designed to help members maintain their standard of living after retirement if they have been plan members for at least 30 years. If a member has significantly fewer years of plan membership, he or she will receive only a small pension, but it will be for life. Locked-in accounts are the same – a small account will produce a small income.

- Only 32 per cent of working Albertans are members of RPPs. Other retirement savings are in accounts with no withdrawal restrictions, such as RRSPs. Should funds transferred from a pension plan be treated like a pension plan or an RRSP?

- If locking-in rules were substantially weakened what would be the long-term impact on the number of employment pension plans offered in Alberta?

## Proposals

Given the amount of interest in the issue, the Alberta government is prepared to consider changes to the locking-in rules affecting LIRAs, LIFs, and LRIFs. At the same time, the government recognizes that pension plan savings form one of the strongest "pillars" of the retirement income system.

To facilitate discussion with interested parties on possible courses to follow a number of alternatives are described below. These alternatives are not the only proposals that would be considered. It is simply a list of possibilities designed to provoke thought and discussion. Other proposals that are submitted during the discussion process will be considered.

The alternatives listed below can be classified in four categories: **no change,** changes with **minor impact**, changes with **moderate impact**, and changes with **major impact** on the current locking-in rules.

**I. No change.**

**II. Minor impact on the current locking-in rules.**

**1. Combine LIF and LRIF maximum withdrawal amounts.**

A simple way of addressing the concern that LIFs and LRIFs allow too little to be withdrawn is to discontinue LIFs and LRIFs, and establish a new type of account that would allow the owner to withdraw the greater of the LIF or LRIF maximum in any year. This would somewhat increase the annual limits in some years. *(See Appendix D for an example)*

**2. Introduce a new LIF product.**

This alternative would replace the LIF and LRIF with a product similar to the LIF offered in some other provinces that allows higher withdrawals before the age of 65, to enhance income until the owner receives Canada Pension Plan (CPP) and Old Age Security (OAS). These LIFs do not require conversion to a life annuity at age 80. Instead the owner can withdraw a percentage each year after age 80, similar to the schedule of percentages that apply before age 80.

3. **Permit mortgage investment.**

Currently, an individual may hold a mortgage on his or her own home within a regular RRSP or RRIF. However, this is not permitted for locked-in accounts. Under this proposal owners of locked-in accounts would be allowed to invest their funds in a mortgage on their own home.

## III. Moderate impact on the current locking-in rules.

1. **Raise "small amount" limit.**

The account balance considered too small to warrant locking-in could be raised to 40 per cent of the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) for persons age 55 or over. The amount considered too small for locking-in for those at younger ages would remain at the current 20 per cent of YMPE. The lower limit would be maintained for younger ages because younger people have more time to retirement during which their retirement savings can grow to produce a reasonable amount of income.

2. **Exempt employees' contributions from locking-in.**

Employees' own contributions would not be locked-in and could be transferred to a regular RRSP or paid as cash, at the employee's option, when the employee terminates employment, or at the pension partner's option if the employee dies prior to retirement. This option has an impact on pension partner protection and creditor protection.

3. **Continue financial hardship withdrawals.**

Regulatory changes allowing the Superintendent to approve unlocking in individual cases of financial hardship were introduced as an interim measure until after a discussion with interest groups on locking-in issues had taken place. These provisions could be made permanent, with or without modification.

4. **Permit one-time partial withdrawal.**

At any time after termination of employment, allow the withdrawal of up to 25 per cent of the lump-sum value of the pension including employer and employee shares. This amount could be transferred to the employee's regular RRSP or paid in cash, at the employee's option. This option has an impact on pension partner protection and creditor protection.

5. **Permit withdrawals from pension plans for non-residents.**

Currently, a lump-sum payment may be made from a locked-in account if the financial institution is supplied with written evidence, from the Canada Customs and

Revenue Agency, that the account holder is no longer a resident of Canada, as defined by the *ITA*. Consent from a pension partner must also be granted as a condition of withdrawal. This proposal extends this provision to pension plans, allowing former plan members who meet the non-residency requirements to be paid a lump-sum on a non-locked-in basis. This option has an impact on creditor protection.

**6. Extend provisions permitting withdrawals from pension plans for shortened life expectancy.**

Commutation of a pension before retirement for shortened life expectancy is already an optional -- though not a required – provision for pension plans and locked-in accounts. This proposal would amend the legislation to require pension plans and locked-in products to offer unlocking of a pension before retirement, and give plans the option of offering it for retirees. The commuted value of a pension in a pension plan would be calculated according to generally accepted actuarial principles. The member/owner could not have the pension commuted or the account unlocked without the consent of his or her pension partner. Requiring the option of unlocking before retirement provides greater fairness to a member with a terminal illness or disability. However, recognizing that commutation after retirement could result in financial disadvantage to the plan, this option would be at the discretion of the plan. This option has an impact on creditor protection.

## IV. Major impact on the current locking-in rules.

**1. Introduce creditor-protected RRIFs.**

Under this option, locking-in would remain in place until age 55. At age 55, locked-in funds could be transferred to a RRIF that would have all the features of an ordinary RRIF (that is, minimum withdrawals required under the *ITA* but no maximum withdrawal limits). A fundamental difference would be that funds transferred to such a RRIF would be protected from creditors.

**2. Discontinue locked-in accounts, but remove the "portability" requirement for registered pension plans.**

This proposal would essentially abandon the concept of locked-in accounts. Under this option, pension plans would no longer be required to allow the transfer of pension funds out of the plan to a locked-in account when an employee terminates employment. This would mean that on employment termination, the employee would not necessarily have the option of "portability", that is, transferring the lump-sum value of their pension to an individual account. Pension plans could set their own rules on portability. If the plan prohibited portability, an employee would be able to receive his pension entitlement only in the form of a pension from the plan. However, if the plan permitted portability, the funds would be transferred to a regular RRSP or paid in cash, at the employee's option. Transferring to a regular RRSP or taking a cash payment would create serious issues with respect to maintaining pension partner protection and creditor protection currently afforded to pension plans and locked-in accounts.

**3. Discontinue locking-in.**

This proposal would completely remove locking-in rules. The portability requirement would remain in place, but rather than transferring the lump-sum value of their pensions to locked-in accounts, employees would have the option to transfer their funds to a regular RRSP or RRIF or receive them as cash. Transferring to a regular non-locked-in account or taking a cash payment would create serious issues with respect to maintaining pension partner protection and creditor protection currently afforded to pension plans and locked-in accounts.

## Questions for Discussion

We would like to hear from all interested Albertans, as individuals or as representatives of stakeholder groups, about these proposed alternatives. We would also like your comments on the recently introduced financial hardship withdrawal provisions.

Questions we would like you to consider include:

1. Of the four types of alternatives described (no change, minor impact, moderate impact, and major impact) which do you favour? Within that group, which proposals would you support and why? Which options do you not support and why?

2. Do you think the financial hardship withdrawal provisions should be retained? If so, are there any changes that should be made? If you do not agree with the financial hardship provisions, please explain why.

3. Are there other alternatives you would like to see introduced for the locking-in rules that are not mentioned in this paper?

4. Do you have any other comments or suggestions about the issues raised in this paper?

## Next Steps

Following the review of submissions received by March 31, 2004, Alberta Finance will take the following steps:

1. We will prepare a report that summarizes the views of interested parties.

2. The report will identify the names of individuals and organizations who have made submissions to Alberta Finance. The report will not disclose their business

contact information or any other identifiable personal information about them or any other individuals.

3. The report will not attribute a quote or an opinion to a specific individual unless consent has been obtained from that individual to do so.

4. The report will attribute comments made by individuals representing organizations to the organization and not the individual.

5. The report will be made public and will be accessible via the Internet on or before June 30, 2004.

6. The Government of Alberta will use this report in its consideration of policy options.

## Appendix A

## History of Locking-in

Originally, pension plans were not required by law to release any money to a plan member except as a retirement pension from the plan, or as a refund of the member's own contributions if he or she left the employer before collecting a pension. Employees who left the employer before retirement lost very valuable benefits - the share the employer had contributed toward their pensions.

To help people accumulate retirement savings, the government passed laws requiring "vesting". Vesting means that, at a certain age or after a certain number of years of participating in the plan, the employee has the right to a pension from the plan. Initially, a person earned the "vested" right to a pension when they were at least 45 years of age and had worked at least 10 years for the employer. The vesting requirements were gradually lowered, and now, the employee is vested after 2 years as a member of the plan. This has meant far more people are earning the right to a pension, although if the individual has worked only a few years for an employer, the amount will be small.

As time went on, and workers changed jobs more often, it became clear that the right to receive a pension from the pension plan was insufficient protection for the employee. For example, departing employees could lose contact with their former employer and never collect their future pension.

"Portability" rules were introduced to ensure that vested employees who leave the employer before retirement can choose either to receive a pension from the plan upon retiring, or alternatively, to receive a sum of money representing the full value of the pension, including the share contributed by the employer. "Portability" enables pension money to be transferred into a special account, in the name of the employee, at his or her own financial institution.

At the same time, however, employers and unions wanted to make sure that former employees would still receive lifetime retirement income from this pension money. They asked the government to place restrictions on the money after it left the pension plan. Restrictions were adopted so that, essentially, the money would remain subject to the same rules as would have applied if it had remained in the pension plan. That is, the funds could only be paid out as a lifetime retirement pension like money in a pension plan. These restrictions became commonly referred to as "locking-in".

Locking-in fulfills the public policy objectives of:

- supporting the tax sheltering permitted under an RPP during the life of a plan participant;

- minimizing the impact on the public purse of retirees being left without financial support;

- protecting money transferred from a pension plan from creditors; and

- ensuring that the rights of a pension partner are protected.

Unlike the owner of a regular RRSP, a LIRA owner is not permitted to withdraw any money until he or she is at least 50 years old. At that time, a LIRA can be used to purchase one or more of three types of income arrangement: a life annuity, a Life Income Fund (LIF) or a Locked-in Retirement Income Fund (LRIF). From these accounts the owner may begin to withdraw retirement income, but again, there are restrictions. *(See Appendix B for descriptions of these accounts)*.

## Appendix B

## Three Types of Income Arrangement

Like a pension plan, these income funds are designed to provide a pension for the owner's life. Therefore, withdrawals are restricted to ensure that the money lasts for the owner's lifetime. In addition, if the owner has a pension partner, the owner must either purchase a joint life annuity for the lives of both partners, or must obtain his or her pension partner's consent to purchase a LIF or LRIF, because neither of these income arrangements guarantees the partner a pension for life.

**Life Annuity**

If the owner uses the LIRA to buy a life annuity from an insurance company, he or she exchanges the LIRA money for a promise of a set annual income for life, and continuing as a 60 per cent or higher survivor benefit, for the life of a pension partner. The amount of the annuity payment is set - the owner cannot vary it or change the terms of the annuity. If the owner dies leaving no surviving partner, there is no money for heirs or the owner's estate except for the balance of any guaranteed minimum number of payments.

**Life Income Fund (LIF)**

A Life Income Fund (LIF) allows the owner more flexibility, but not complete freedom to choose how much money to withdraw in a year. The amount withdrawn must be between the minimum amount that the federal *Income Tax Act* requires to be withdrawn, and a maximum amount set out in the locking-in rules.

Because a LIF is essentially a pension plan for one person, and there is no one else with whom the owner is sharing the risks (being the investment risk and the risk that the owner will outlive the money), the annual withdrawal limits are set very conservatively, depending on prevailing interest rates, and on the age of the owner. Currently the annual withdrawals are between six and 12 per cent of the fund, becoming higher as the owner's age increases. These percentages are meant to allow approximately the same flow of income, on average, as the owner would have received from an annuity that would last until the owner reached age 90.

No later than the end of the year when the owner reaches age 80, the owner must use the balance of the LIF to purchase a life annuity. If the owner has a pension partner, the annuity must last for both people's lives. If the owner of a LIF dies before purchasing an annuity, the balance of the LIF account is turned over to the pension partner, or to the owner's heirs or estate if there is no partner.

**Locked-in Retirement Income Fund (LRIF)**

A Locked-in Retirement Income Fund (LRIF) also allows the owner to withdraw an amount each year between the *ITA* minimum withdrawal, and a maximum: the investment gains on the fund in the previous year.

Thus, while the LRIF is "flexible" to an extent, the withdrawals are also very conservative, being aimed at preserving as much of the principal of the account as the tax rules will allow. It is designed for those who want to leave as much of the account as possible to their estate. The owner is not required to purchase an annuity at any age. If the owner dies, the balance of the LRIF account goes to his pension partner, a beneficiary named by the owner, or the owner's estate.

The one area in which there are few restrictions on the owner is in the matter of choosing investments. Owners may invest a LIRA, LIF or LRIF in any investment vehicles or securities that they could choose for a regular RRSP or RRIF. This basically covers all common categories of investment, subject to the "foreign content" restrictions of the *Income Tax Act*. It must be a genuine investment offered by some outside party, not an "investment" set up by the owner for the purpose of avoiding the locking-in rules. There is one additional restriction on holders of Alberta locked-in funds: they cannot invest in non-arm's length mortgages, that is, mortgages for themselves or a close relative.

## Appendix C

## Other Jurisdictions

Other Canadian provinces have had similar discussions on locking-in rules. Recently, some of them have taken steps to relax the rules, but no province has abandoned the concept entirely.

Some approaches that have been taken, or are currently being proposed, include:

- Permitting higher withdrawals in the years between ages 55 and 65, when people may be unable to earn as much employment income as in their younger years for various reasons, but they are not yet eligible for OAS and CPP. CPP pensions are available as early as age 60, but at a 30 per cent reduction compared with the amount that would be paid if the owner began the pension at age 65 (CPP is reduced 0.5 per cent for each month that a pension is taken before age 65).

- Not forcing LIF owners to purchase an annuity by age 80, but maintaining a maximum percentage that may be withdrawn, such that the account is still expected to last until age 90 or beyond.

- Allowing owners to invest their locked-in funds in a mortgage on their own home.

- Increasing the amounts that are considered "too small" to be locked-in. The maximum amounts that may be unlocked vary widely among provinces, but the maximum is 40 per cent of YMPE ($15,960) at age 55. As well, New Brunswick allows a limited one-time transfer of up to 25 per cent of the value of a LIF to a regular RRIF.

- Saskatchewan has essentially eliminated the requirement for LIRA money to be used to purchase a LIF, LRIF or life annuity. This province allows a LIRA owner, at age 55 or over, to transfer the money to a regular RRIF that is protected from creditors.

- Manitoba allows a locked-in account to be commuted if the total amount of locked-in funds in all Locked-In RRSPs, LIRAs, LIFs or LRIFs owned by the member or former member, when combined and compounded annually at a rate of 6 per cent per year for each year by which the age of the member or former member is less than 65, is less than 40 per cent of the YMPE in the year in which the application is filed.

## Appendix D

## A LIF and LRIF Example

The following example assumes that $100,000 has transferred from a LIRA on September 15, 2003. On January 1, 2003, the owner is age 55. It is assumed that the fund earns the following investment income:

September 15 – December 31, 2003 the fund earns $5,000
January 1 – December 31, 2004 the fund earns $10,000
January 1 – December 31, 2005 the fund earns $2,000

The first part of this example illustrates the withdrawal amounts available from an LRIF. The second part illustrates the withdrawal amounts available from a LIF. Lastly, the third part illustrates the withdrawal amounts that would be available if the maximums for each of the LIF and LRIF were combined as explained in proposal two (see page 5).

### 1. Yearly Maximum Withdrawal Amounts in an LRIF

A. The **maximum** amount that you can take out each year is the greater of

i. the investment income earned in the fund in the previous calendar year, and
ii. the value of the fund at the establishment of the contract MINUS the net value of funds that have been transferred in*.

** Note: the net value of transferred-in funds equals all investment income earned by the LRIF PLUS any investment income earned in the final complete year of a LIF that is transferred to the LRIF MINUS the sum of all income that has been paid to the owner of the LRIF.*

B. For the **first two years only**, the maximum amount you can take out is the greater of

i. i and ii above, and

ii. 6 per cent of the value of the contract at the beginning of the contract year.

In the year that you first establish the LRIF, the maximum amount that you may take out is adjusted for the number of months remaining in the year. For example, if you establish an LRIF in October, then you would only be permitted to withdraw 3/12ths of the maximum.

**1st Fiscal Year: September 15 to December 31, 2003**

The minimum amount that must be withdrawn under *ITA* rules is **$0**.

The maximum amount is the greatest of:

**a. $0**, the investment income from the time the LRIF was established, adjusted for payments received;
**b. $0,** the investment income in the previous calendar year of the LRIF; and
**c. $2,000 =** 6% x $100,000 x 4/12.

*Therefore, the owner can withdraw as little as $0 and as much as $2,000 for the year 2003.*

**2nd Fiscal Year: January 1 – December 31, 2004**

Assume that the owner, now 56, withdrew $1,500 in the year 2003. The value of the LRIF at January 1, 2004 is $103,500 ($100,000 + $5,000 - $1,500).

The minimum amount that must be withdrawn under *ITA* rules is **$3,043** = 2.94% x $103,500.

The maximum amount is the greatest of:

**a. $3,500,** the investment income from the time the LRIF was established, adjusted for payments received;
**b. $5,000,** the investment income in the previous calendar year of the LRIF; and
**c. $6,210** = 6% x $103,500.

*Therefore, the owner can withdraw as little as $3,043 and as much as $6,210 for the year 2004.*

**3rd Fiscal Year: January 1 – December 31, 2005**

Assume that the owner, now 57, withdrew $6,000 in the year 2004. The fund balance as of January 1, 2005 is $107,500 ($103,500 +$10,000 - $6000).

The minimum amount that must be withdrawn under *ITA* rules is **$3,257** = 3.03% x $107,500

The maximum amount is the greatest of:

**a. $7,500,** the investment income from the time the LRIF was established, adjusted for payments received; and
**b. $10,000,** the investment income earned in the previous calendar year of the LRIF.

*Therefore, the owner can withdraw as little as $3,257 and as much as $10,000 for the year 2005. Since this is the third year of the LRIF, the 6% calculation is not applicable.*

## 2. Yearly Maximum Withdrawal Rates under a LIF up to age 80

Continuing with the example of the owner who is 55 years old and has $100,000 in a LIRA, the owner decided to convert into a LIF on September 15. Using the factors shown in the table below, the maximum amounts that could be withdrawn in that first three years are illustrated below.

The maximum amount that can be withdrawn from a LIF depends on the LIF withdrawal factor for the account owner's age at January 1 of any year. The LIF withdrawal factor is calculated yearly and varies with the rate of return on a 10+ year Government of Canada Bond.

**The withdrawal factors (represented as a per cent and based on a six per cent interest rate) will never be lower than the following:**

| Age at Jan. 1 | Rate (%) | Age at Jan. 1 | Rate (%) |
|---|---|---|---|
| 50 | 6.27 | 65 | 7.38 |
| 51 | 6.31 | 66 | 7.52 |
| 52 | 6.35 | 67 | 7.67 |
| 53 | 6.40 | 68 | 7.83 |
| 54 | 6.45 | 69 | 8.02 |
| 55 | 6.51 | 70 | 8.22 |
| 56 | 6.57 | 71 | 8.45 |
| 57 | 6.63 | 72 | 8.71 |
| 58 | 6.70 | 73 | 9.00 |
| 59 | 6.77 | 74 | 9.34 |
| 60 | 6.85 | 75 | 9.71 |
| 61 | 6.94 | 76 | 10.15 |
| 62 | 7.04 | 77 | 10.66 |
| 63 | 7.14 | 78 | 11.25 |
| 64 | 7.26 | 79 | 11.96 |

The maximum withdrawal calculation using the above factors is:

$$\boxed{\text{Account Balance}} * \boxed{\text{LIF Withdrawal Factor}} * \boxed{\text{Months remaining in the year} \div 12} = \boxed{\text{Maximum Amount}}$$

**1st Fiscal Year: September 15 to December 31, 2003**

The minimum amount that must be withdrawn under *ITA* rules is **$0**.

The maximum amount that could be withdrawn would be:

| | | | | | | |
|---|---|---|---|---|---|---|
| $100,000 | * | 6.51% | * | 4/12 | = | **$2,170** |

*Therefore, the owner can withdraw as little as $0 and as much as $2,710 for the year 2003.*

**2nd Fiscal Year: January 1 – December 31, 2004**

Assume that the owner, now 56, withdrew $1,500 in the year 2003. The value of the LIF at January 1, 2004 is $103,500 ($100,000 + $5000 - $1,500).

The minimum amount that must be withdrawn under *ITA* rules is **$3,043** = 2.94% x $103,500.

The maximum amount that could be withdrawn would be:

| | | | | | | |
|---|---|---|---|---|---|---|
| $103,500 | * | 6.57% | * | 12/12 | = | **$6,800** |

*Therefore, the owner can withdraw as little as $3,043 and as much as $6,800 for the year 2004.*

**3rd Fiscal Year: January 1 – December 31, 2005**

Assume that the owner, now 57, withdrew $6,000 in the year 2004. The fund balance as of January 1, 2005 is $107,500 ($103,500 + $10,000 - $6,000).

The minimum amount that must be withdrawn under *ITA* rules is **$3,257** = 3.03% x $107,500

The maximum amount that could be withdrawn would be:

| | | | | | | |
|---|---|---|---|---|---|---|
| $107,500 | * | 6.63% | * | 12/12 | = | **$7,127** |

*Therefore, the owner can withdraw as little as $3,257 and as much as $7,127 for the year 2005.*

### 3. Combine LRIF and LIF Maximum Withdrawal Amounts

By combining the LRIF an LIF maximum withdrawals the account owner would be able to withdraw the higher amount of the two calculations. How this would apply to the above example is described in the following table.

| Year | ITA Minimum | LRIF Maximum | LIF Maximum | Combined Maximum |
|---|---|---|---|---|
| 2003 | $0 | $2,000 | $2,170 | $2,170 |
| 2004 | $3,043 | $6,210 | $6,800 | $6,800 |
| 2005 | $3,257 | $10,000 | $7,127 | $10,000 |

*Therefore, in years 2003 and 2004 the maximum amount that could be withdrawn would be based on the LIF calculation and would be $2,170 and $6,800 respectively. In 2005 the maximum amount that could be withdrawn would be based on the LRIF calculation and would be $10,000.*