Time to Start a Pension: What Do I Do Now?

This publication has been developed as a general guide. It has no legal authority and should not be construed as legal advice. Sections 40 and 41 of the *Employment Pension Plans Regulation* prescribe the rules for a LIF and LRIF. Nothing in this publication supersedes or replaces that regulation. The LIF and LRIF are not insured or guaranteed by the Government of Alberta. You bear the investment risk.

Revised December 2003.

To view this legislation, or any of the specific policy bulletins pertaining to the LIRA, LIF, and LRIF options, please go to the Alberta Superintendent of Financial Institutions web page: www.finance.gov.ab.ca/business/pensions

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Retirement Income Options

In order to retire, it's important for a person to have a good retirement plan. Good retirement planning means:

1. determining what your needs will be;

2. deciding which needs are most important and which are least important; and

3. deciding how you will pay for each of those needs.

Because every person's needs are unique, it's important for you to consider what your needs will be and what form of retirement income arrangement will best allow you to pay for those needs. This will allow you to make the best decisions for your retirement. Some factors you should consider are:

1. the amount of retirement income you will receive and, if you have a choice, how you wish to receive it. (For example, regular monthly payments compared to a yearly lump sum withdrawal),

2. the lifestyle you expect to maintain in your retirement years,

3. your ability to manage your own assets,

4. how much risk you feel comfortable with in terms of changes in the amount of your income,

5. your expectations of how long you will live,

6. your expectations about your future cost of living (that is, the level of inflation).

7. if you have a pension partner, your pension partner's retirement income sources and your expectations about how long your pension partner will live.

Your pension partner is the person you are legally married to, or have not been living apart from for three or more consecutive years. If there is no such person, then your pension partner is a person (including a same sex partner) you have lived with in a relationship for at least three years (or less if there is a child in your relationship)

In Alberta, the money that you have in your LIRA (Locked In Retirement Account or Locked in RRSP) and/or the money that is held for you in a Registered Pension Plan must be used to provide you with *lifetime* income when you retire.

There are four ways of providing for this retirement income. All four of the options have upper limits on how much income you can withdraw in a year, so that the money will last for your lifetime.

The following is a description of the four options that may be available to you.

1. Direct payments for a Registered Pension Plan;

2. Purchase of a Life Annuity;

3. Purchase of a Locked-in Retirement Income Fund (LRIF); and

4. Purchase of a Life Income Fund (LIF).

If your money is no longer in a Registered Pension Plan, you may be able to use more than one type of retirement income arrangement. For example, you could purchase a Life Annuity with a portion of your money to cover some of your basic needs such as food and shelter, and receive the rest of your retirement income in a more flexible form through the LIF and/or LRIF.

All funds in a Registered Pension Plan and/or LIRA must be converted into one, or a combination, of the four options before the end of the year you reach age 69.

Payments from a Registered Pension Plan (option 1) may begin anytime after the earliest date that the Registered Pension Plan permits a person to begin a pension. Depending on the rules of your Registered Pension Plan, you may be given the chance to transfer your benefit from that plan into a LIRA. Any funds held in a LIRA may be moved into a Life Annuity, LRIF, or LIF (options 2, 3, or 4) anytime after you reach age 50.

When trying to decide what is best for you, here is a brief summary of some of the things you should consider.

- The Life Annuity and direct payments from a Registered Pension Plan provide you with a predictable amount of income for life. These options provide the greatest certainty of income because the Registered Pension Plan or the Insurance Company *bears the investment risk* as well as the *risk that pensioners will live longer than expected.* However, this option is the least flexible because once you have elected the form of annuity or pension, it can't be changed. These two options are a good choice if you are looking for a secure monthly income.

- If you are given the option to move your benefit from your Registered Pension Plan into a locked-in product, there are a few things you may want to consider. Page 27 highlights the questions you may want to ask your Registered Pension Plan sponsor.

- The LRIF is the most flexible option in terms of what you can receive as income in any given year. It is, however, the riskiest because the amount that you can receive in any year will change depending on the investment earnings during the past year.

If your investments lose money in one year, the amount you can take out the next year will decline, sometimes quite substantially. The LRIF is a good choice if you want flexibility in your annual income and are prepared, or can afford, to take on the investment risk and the risk that your income may change substantially from year to year.

The LRIF is also a good choice for people who want to leave as much of the money as possible for their pension partner (or their heirs if there is no pension partner) when they die.

- The LIF combines some of the flexibility of the LRIF with some of the certainty of the Life Annuity. However, the LIF also can decrease in value if the investments lose value – for example if the money in the LIF is invested in stocks and the stock prices decrease. It allows for flexible payments until the end of the year in which you reach age 80 but then requires that you purchase a life annuity, but you also have the option to move the money into an LRIF instead of purchasing an annuity.

  If you take out the maximum allowable amounts each year, as you get older your monthly payments will generally remain constant, although they may vary due to investment experience.

- Before deciding on a LIF or an LRIF, you should obtain quotes from insurance companies that show how much you would receive from a life annuity (option 2). Then, compare that value to the amounts you could reasonably expect to receive under a LIF or LRIF as calculated by a financial institution* that carries these products.

A financial institution is defined as a bank, credit union, trust company, or insurance company that appears on the Superintendent's List of Financial Institutions offering locked-in pension products.

Lastly, if your Registered Pension Plan pays pensions directly out of the plan fund, and you are given the option to transfer your money to a locked-in account, compare the amounts you may expect to receive from a LIF or an LRIF to the amount of monthly pension you would get from the plan.

- The option that suits you best may be different at different times during your retirement. It can depend on how much income you need, how much variation in income you can deal with (due to investment risk), and how actively you can be involved in making investment decisions.

  If you start out with a LIF or LRIF, you can convert those to a Life Annuity at any time. You can convert a LIF into an LRIF in any year and you can also convert an LRIF into a LIF in any year; however, you cannot hold a LIF past the end of the year you reach age 80 because you are required to purchase a life annuity.

Direct Payments from a Registered Pension Plan

A defined benefit pension plan has a formula for determining how much pension you will receive. The amount of pension depends on the number of years you have been in the plan, and may depend on your earnings.

The first option you have for receiving your retirement income is to elect to receive it from the Registered Pension Plan. If you are retiring from a defined Registered Pension Plan, payment from the plan may be the only option that is available to you. Under this option, you will receive a set monthly pension, payable for the remainder of your life.

Most Registered Pension Plans allow members to choose among a number of different forms of pension. All Registered Pension Plans have what is called a normal form of pension, for example a pension guaranteed for your life or 10 years, which ever is greater.

There is one form that all Registered Pension Plans must offer. If you have a pension partner when you retire, you **must** choose a "Joint and Survivor" form of pension that gives your pension partner the survivor benefit, unless your pension partner agrees to sign a **Pension Partner's Waiver** form to give up their right to the survivor benefit. For more information on the waiver form, turn to page 9.

The Joint and Survivor form of pension must pay a survivor benefit of at least 60%. This means that if your pension partner outlives you, he or she will receive 60% of your monthly pension for the rest of his or her life.

Sometimes the "Joint and Survivor" pension reduces to 60% as soon as either pension partner dies. This means if you are the plan member, but your pension partner dies first, your pension *may* decrease to 60%. You should be sure to understand which kind of "Joint and Survivor" pension you are receiving. Most pensions reduce the monthly amount payable to you and your pension partner, compared with the amount you would be paid if you were single, to cover the extra cost to the Registered Pension Plan paying a pension for two lives instead of one.

Pension Partner Waiver Forms

You may choose a form of pension that gives your pension partner less than 60% of your monthly pension for life, but only if your pension partner agrees to sign a **Pension Partner's Waiver Form.** This form states that your pension partner agrees to give up the entitlement to the 60% Joint and Survivor pension.

It is valid only if it is signed within the 90-day period immediately before you start to receive your pension payments, and must be witnessed by someone other than yourself. You must not be present and you must not put pressure on your pension partner to sign it.

Pension plan administrators and financial institutions have copies of these pension partner waiver forms.

Some Registered Pension Plans allow you to have additional guarantees placed on the payments. For example: Some Registered Pension Plans guarantee that they will pay at least 10 years' worth of monthly payments. If you die before 10 years' worth of monthly payments have been paid, the rest of those payments will be made to your pension partner or to your heirs. These types of guarantees are called optional forms of pension. Once you start to receive payments, you can make no further changes to the form or amount that you receive. You should check with your plan sponsor to see what optional forms are available to you.

Another example of an optional form of pension is an unreduced Joint and Survivor Pension. It pays the same monthly amount as long as both of you are still alive. It might be a good choice for a couple where the member is in poor health and may not live long.

If you choose any form that guarantees payments for longer than the normal form, (e.g. 15 years), then the monthly amount you receive will likely be reduced to cover the extra cost to the Registered Pension Plan of making guaranteed payments for a longer period of time.

If you have a pension partner, you will have to have his or her permission to choose an optional form of pension.

In addition, a Registered Pension Plan may allow you to receive a higher pension in the years before you are eligible to receive your Canada Pension Plan and Old Age Security. This may also result in your receiving a lower amount after you turn age 65.

Purchase of a Life Annuity

A Life Annuity is a contract with a life insurance company in which you pay the life insurance company a set amount of money, and in return, the life insurance company agrees to pay you a guaranteed monthly amount of income for as long as you live.

Your second retirement income option is a Life Annuity. A Life Annuity can only be purchased from a life insurance company. A lump sum of all or part of the money in your LIRA or your Registered Pension Plan is transferred directly to the life insurance company. The amount of monthly income that you will receive is based on the amount of the lump sum and the annuity rates in effect at the time of transfer.

Annuity rates are based on current interest rates and life expectancy tables. Higher interest rates mean you will receive a slightly higher annual income from the life annuity compared to the amount you would receive from the annuity with lower interest rates.

The Life Annuity will be paid to you as long as you live. You may also add guarantees to the Life Annuity. For example, you could buy a Life Annuity that guarantees to make payments for your lifetime, but if you die before 60 monthly payments have been made, the rest of those payments will continue to be made to your pension partner or your heir. Monthly payments will be lowered, however, as more guarantees are placed on the Life Annuity.

If you have a pension partner when you retire, you **must** choose a Joint and Survivor form of annuity that will give your pension partner the survivor benefit. It must pay a survivor benefit of at least 60%. This means that if your pension partner outlives you, he or she will receive 60% of your monthly pension for the rest of his or her life.

You may choose a form of pension that gives your pension partner less than 60% of your monthly pension for life, but only if your pension partner agrees to sign a **Pension Partner's Waiver** Form. See page 9 for more information on these waiver forms.

Purchase of a Locked-In Retirement Income Fund (LRIF)

The LRIF is a third option for you to consider. To set up an LRIF, a portion or all of the money is transferred from your LIRA, your Registered Pension Plan, or a LIF to an LRIF account with a financial institution.

An LRIF is a special kind of RRIF (Registered Retirement Income Fund) that is set up to hold locked-in pension funds transferred from a LIF, a LIRA, or a Registered Pension Plan.

Both a minimum and a maximum withdrawal amount are set each year to make sure that the fund

a) is used for retirement income, and

b) provides income for your lifetime.

Each year you must at least take the minimum withdrawal of income that is required under the *Income Tax Act*. You can, however, take out any amount between the minimum and the maximum. You cannot take out more than the maximum.

If you do not want to pay taxes on the full amount and do not need some of the income, you can roll it over directly to an RRSP (or, if you are over the age of 69, to a RRIF). It will then be available to you to withdraw anytime you wish. The financial institution holding your LRIF will advise you of the minimum and the maximum amounts at the beginning of each year.

The features of an LRIF are as follows.

1. The fund cannot be cashed out in one lump sum. It must be used to provide retirement income for your lifetime.

2. If you wish to transfer funds to an LRIF and you have a pension partner, the transfer may occur only if your pension partner agrees to sign a **Pension Partner's Waiver Form** See page 9 for more information on these forms.

3. All transfers into an LRIF must be locked-in funds. That is, they must have been earned while you were a member of a Registered Pension Plan. Additional transfers of locked-in funds into the LRIF will require an additional **Pension Partner's Waiver Form** because each time you wish to move locked-in funds to the LRIF, your pension partner must have the choice to give up entitlement to the 60% Joint and Survivor Life Annuity.

4. If you die before all amounts in your LRIF have been withdrawn, your pension partner will receive the balance of the funds in your LRIF in a lump sum payment. These funds may keep their tax-deferred status by being rolled over directly to a RRIF, or can be taken out as cash, subject to any taxes that may apply. There are no further restrictions on the amount that can be withdrawn.

5. If you have no pension partner when you die, your heirs will receive the balance of the funds in your LRIF in a lump sum amount, subject to applicable taxes.

6. The financial institution that sells you an LRIF must be on the "Superintendent's LRIF List". This list is published by Alberta Finance. You can get a copy of this list from your plan sponsor, or directly from the office of the Alberta Superintendent of Financial Institutions either by mail, or by viewing the list on our web page:

   www.finance.gov.ab.ca/business/pensions

7. At any time until the end of the year in which you reach age 69, you may decide to stop income payments and transfer the funds in your LRIF to a LIRA. This could happen, for example, if you return to employment and do not need the retirement income while you are employed.

Canada Customs and Revenue Agency, however, requires that all funds in your LIRA(s) must be transferred to a LIF, LRIF, or a Life Annuity by the end of the calendar year in which you turn 69. You also may, at any time, transfer locked-in funds to any locked in vehicle you wish, provided that you are not in a LIF past the age of 80.

8. At any time you may decide to purchase a Life Annuity with some or all of the funds in your LRIF. If you have a pension partner when you purchase a Life Annuity, you must purchase a 60% Joint and Survivor Annuity, unless your pension partner signs a new **Pension Partner's Waiver Form**. For more information on these forms, refer to page 9.

9. Your financial institution will advise you how much your minimum and maximum withdrawal amounts are from your LRIF at the beginning of each year. You must tell the financial institution how much you will be taking out in that year.

Your LRIF is valued at the end of the calendar year. The maximum amount you can take out in a year depends on the investment performance of the LRIF in the previous calendar year.

10. Canada Customs and Revenue Agency sets the **minimum** amount that you must take out each year. The formula for determining the amount is

a) from the time you convert to an LRIF to age 70

The value of your LRIF account at January 1 of each year	**Divided by**	90 minus your age at January 1 of each year.

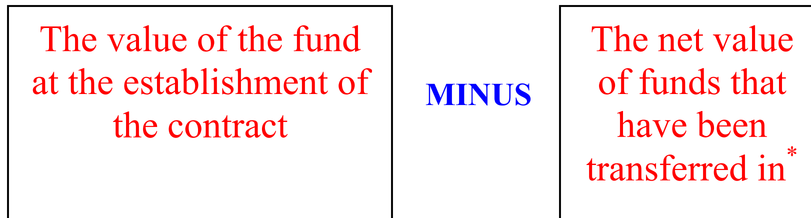
b) and from age 71 on, a set percentage of the value of your LRIF account (see table on page 21 for all the minimum withdrawal values)

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

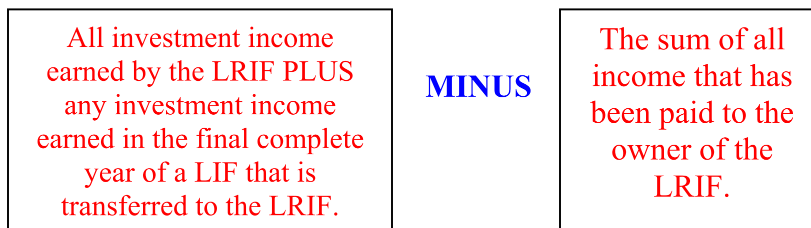
In the event that the amount of the "minimum withdrawal" calculation is greater than the amount of the "maximum withdrawal" calculation, then the minimum withdrawal must still be made.

a) The investment income earned in the fund in the previous calendar year, and

b)



* *Note: the net value of transferred-in funds equals*



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

a) a) and b) as listed in 11 above, and

b) 6% 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.

Purchase of a Life Income Fund (LIF)

Your fourth retirement income option is the LIF. To set up a LIF, a portion or all of the money is transferred from your LIRA, your Registered Pension Plan, or a LRIF to a LIF account with a financial institution. As with the LRIF, there are minimum and maximum amounts that may be withdrawn up to age 80. These amounts are designed to make sure that:

a) you draw income from the fund from the date you purchase the LIF to age 80,

b) a reasonably stable amount of income is provided annually throughout your retirement, and

c) there is enough money in the fund at age 80 to continue monthly payments of about the same amount as you received before age 80, through the purchase of a Life Annuity.

The features of a LIF are as follows.

1. The fund cannot be cashed out in one lump sum. It must be used to provide retirement income for your lifetime.

2. If you wish to transfer funds to a LIF, and you have a pension partner, the transfer may occur only if your pension partner agrees to sign a **Pension Partner's Waiver Form** giving up the entitlement to the 60% Joint and Survivor Life Annuity required by pension legislation. See page 9 for more information on these waiver forms.

3. All transfers into a LIF must be locked-in funds. That is, they must have been earned while you were a member of a pension plan. Additional transfers of locked-in funds into the LRIF will require an additional **Pension Partner's Waiver Form** because each time you wish to move locked-in funds to the LIF, your pension partner must have the choice to give up entitlement to the 60% Joint and Survivor Life Annuity.

4. If you die before purchasing a Life Annuity, your pension partner will receive the balance of the funds in your LIF in a lump sum payment. These funds may keep their tax-deferred status by being rolled over directly to a RRIF, or may be taken out as cash, subject to any taxes that may apply. There are no further restrictions on the amount that can be withdrawn.

5. If you have no pension partner when you die, your heirs will receive the balance of the funds in your LRIF in a lump sum amount, subject to applicable taxes.

6. You may at any time decide to purchase a Life Annuity or move some or all of the funds in your LIF to an LRIF. You must purchase a Life Annuity or move to an LRIF before the end of the year in which you turn 80. If you have a pension partner when you purchase your Life Annuity, you must purchase a 60% Joint and Survivor Life Annuity, unless your pension partner signs a new **Pension Partner's Waiver Form.** See page 9 for more information on these waiver forms.

7. At any time up until the end of the calendar year in which you reach age 69, you may decide to stop income payments and transfer the funds in your LIF to a LIRA. Canada Customs and Revenue Agency requires, however, that all funds in a LIRA must be transferred to a LIF, an LRIF, or a Life Annuity by the end of the calendar year in which you turn 69. You may also choose at any time up to age 80 to transfer your LIF funds to an LRIF.

8. The financial institution that sells you a LIF must be on the "Superintendent's LIF List". This list is published by Alberta Finance. You can get a copy of this list from your plan sponsor, or directly from the office of the Alberta Superintendent of Financial Institutions either by mail, or by viewing the list on our web page:

   www.finance.gov.ab.ca/business/pensions

9. Your financial institution will advise you how much your minimum and maximum withdrawal amounts are from your LIF at the beginning of each year. You must tell the financial institution how much you will be taking out in that year.

10. Canada Customs and Revenue Agency sets the **minimum** amount that you must take out each year. The formula for determining the amount is

    a) from the time you purchase your LIF to age 70

The value of your LIF account at January 1 of each year	**Divided by**	90 minus your age at January 1 of each year.

    b) and from age 71 to 79 a set percentage of the value of your LIF account (see table on page 21 for all the minimum withdrawal values)

11. The **maximum** amount that you can take out each year is based on a factor that takes into account the number of years and months between your current age and age 90, and the expected investment return* on the money in your LIF. The maximum withdrawal amount is similar to what you would have received if you had used the funds to purchase a term-certain annuity to age 90.

    *The minimum expected investment return for the first 15 years is the same as the interest rate on Government of Canada 10+ year bonds (but will never be less than 6%). After the first 15 years, the rate assumed is 6%.

    Because the expected investment return changes as interest rates change, and because your LIF can change in value depending on investment returns, the determination of the maximum amount that you may withdraw in a year may vary from year to year. However, the maximum LIF withdrawal factors, as a percentage, will never be less than those values listed in the table on page 25.

12. In the year that you first establish the LIF, the maximum amount that you may take out is adjusted for the number of months remaining in the year. For example, if you establish a LIF in February, then you would only be permitted to withdraw 11/12ths of the maximum.

Information from the Fund Holder

Annual Statement

If you have a LIF or an LRIF, the financial institution holding your money must give you the following information at the beginning of each calendar year of the fund:

a) the amount of money transferred in during the past year, if any,

b) the amount of investment income earned during the past year,

c) the amount of payments made and transfers made out of the fund during the past year,

d) the amount of any fees or service charges taken from the fund during the past year,

e) the balance of the fund as of the beginning of the calendar year,

f) the minimum amount that you must take out during the next year, and

g) the maximum amount that you may take out during the next year.

Transfer Statement

When you purchase a Life Annuity with funds held under a LIF or an LRIF, or transfer your funds from a LIF to an LRIF (and vice versa), the financial institution holding your money must give you a statement containing all of the information required for the annual statement as of the date of the transfer.

Death Benefit Statement

If you die before the total amount in your fund is used up or before a Life Annuity is purchased, the financial institution holding your money must give your pension partner or, if there is no pension partner, your beneficiary or the executor of your estate, a statement containing all of the information required for the annual statement as of the date of death.

Additional Information

Canada Customs and Revenue Agency (CCRA) Factor for **Minimum** Yearly LIF/LRIF Withdrawal Rates

Age at Jan. 1	Rate (%)	Age at Jan. 1	Rate (%)
50	2.50	73	7.59
51	2.56	74	7.71
52	2.63	75	7.85
53	2.70	76	7.99
54	2.78	77	8.15
55	2.86	78	8.33
56	2.94	79	8.53
57	3.03	80	8.75
58	3.13	81	8.99
59	3.23	82	9.27
60	3.33	83	9.85
61	3.45	84	9.93
62	3.57	85	10.33
63	3.70	86	10.79
64	3.85	87	11.33
65	4.00	88	11.96
66	4.17	89	12.71
67	4.35	90	13.62
68	4.55	91	14.73
69	4.76	92	16.12
70	5.00	93	17.92
71	7.38	94+	20.00
72	7.48		

Sample Calculations

1. Yearly **Minimum** Withdrawal Amounts under a LIF or an LRIF

   a) If your account balance at the beginning of the year is $100,000 at age 67 your minimum withdrawal would be $4,348

$$\frac{\text{Account balance at January 1}}{90 - \text{age}} \qquad \frac{\$100{,}000}{90 - 67} = \frac{\$100{,}000}{23} \quad = \quad \$\,4{,}348$$

   b) At age 73, if you had $100,000 if a LIF at the beginning of the calendar year, your minimum withdrawal would be $7,590.

Account Balance	*	Canada Customs & Revenue Agency Factor (see page 21)	=	$7,590
$100,000	*	7.59%		

2. Yearly **Maximum** Withdrawal Amounts in an LRIF

This example assumes that $100,000 has transferred in 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

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

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

The maximum amount is the greatest of:

a) $0 that equals the investment income from the time the LRIF was established, adjusted for payments received;
b) $0 that equals the investment income in the previous calendar year of the LRIF; &
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 withdrew $1,500 in the year 2003, meaning that the value of the LIRF at January 1, 2004 is $103,500 and the owner is age 56.

The minimum amount that must be withdrawn under CCRA rules is **$3,043** = 2.94% (see page 21) x $103,500.

The maximum amount is the greatest of:

a) $3,500 that equals the investment income from the time the LRIF was established, adjusted for payments received;
b) $5,000 that equals the investment income in the previous calendar year of the LRIF; &
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 withdrew $6,000 in the year 2004, meaning that the fund balance as of January 1, 2005 is $107,500 and the owner is age 57.

The minimum amount that must be withdrawn under CCRA rules is **$3,257** = 3.03% (see page 21) x $107,500

The maximum amount is the greatest of:

a) $7,500 that equals the investment income from the time the LRIF was established, adjusted for payments received; &
b) $10,000 that equals the investment income 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.

4th Fiscal Year – January 1 – December 31, 2006

Assume that the owner withdrew $10,000 in the year 2005, meaning that the fund balance as of January 1, 2003 is $99,500 and the owner is age 58.

The minimum amount that must be withdrawn under CCRA rules is $3,114 = 3.13% (see page 21) x $99,500

The maximum amount is the greatest of:

a) $-500 (negative $500) that equals the investment income from the time the LRIF was established, adjusted for payments received; &
b) $2,000 that equals the investment income in the previous calendar year of the LRIF.

Since the CCRA minimum exceeds the calculated maximum, the owner must withdraw exactly $3,114 for the year 2006.

Suppose that on May 15, 2006, the owner transfers in $25,000 from a LIF (Life Income Fund) and assume the LIF had investment income in the year 2005 of $5,000. By moving the funds from his LIF into his LRIF in 2006, an extra withdrawal of $5,000 is permitted, (or that amount can be "carried forward" to another year).

3. Yearly **Maximum** Withdrawal Rates under a LIF up to age 80

The maximum amount that can be withdrawn from a LIF depends on the LIF withdrawal factor for your age at January 1 of any year. Because the LIF withdrawal factor is calculated yearly and varies with the rate of return on a 10+ year Government of Canada Bond, you will have to ask your financial institution what rate will apply to you.

The withdrawal factors (represented as a percent and based on a 6% 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

Examples

(a) If you are age 50 and have $123,000 in a LIRA and have decided to convert your LIRA into a LIF on May 15, then using the factors shown in the table on page 25, the maximum amount that you could withdraw in that first year is:

Account Balance	*	LIF Withdrawal Factor	*	Months remaining in the year	=	Maximum Amount
$123,000	*	6.27%	*	8/12	=	$5,141

(b) If you have $85,000 in your LIF and are age 63, and if you have been in a LIF for more than a year, then using the factors shown in the table on page 25, the maximum you could withdraw for the calendar year is:

Account Balance at December 31	*	LIF Factor for your age	=	Maximum Amount for the year
$85,000	*	7.14%	=	$6,069

4. Yearly **Maximum** Withdrawal Rates under an LRIF

The chart below summarizes the criteria used in determining the maximum payment from an LRIF:

Year	6% of the Account Balance	Investment Income earned over the prior calendar year	Investment Income over the life of the LRIF that hasn't been withdrawn
1st – Date the LRIF is established	The calculation applies	Not relevant in year one	Not relevant in year one
2nd – January 1 of the next calendar year	The calculation applies	The calculation applies	The calculation applies
3rd – January 1 of future years	No longer relevant	The calculation applies	The calculation applies

The day the LRIF is established, you are permitted to withdraw funds as a pension for the current calendar year. You have not yet earned any investment income in the LRIF (since the LRIF did not exist), so you can withdraw up to 6% of the account balance. This is intended to represent a typical investment income you might have earned over a normal calendar year.

January 1 of the next calendar year starts the second year of the LRIF. You may not have had twelve full months in which to earn investment income, thus you can take the greater of 6% of the account balance and the investment income earned by the LRIF over the previous partial calendar year.

At January 1 of each following calendar year, the LRIF will have had 12 months to earn investment income. For that reason, the 6% rate of return assumption is no longer relevant and you may withdraw the greater of the investment income of the LRIF over the previous calendar year, or the investment income that the LRIF had earned from the date it was established that hadn't been withdrawn. This is also known as the "carry forward" value.

Depending on what type of investments you hold in your LRIF, the investment return could be negative over a calendar year. If this occurs, and if you have no "carry forward" because you always withdraw the maximum amount possible, you will only be able to withdraw the minimum percent according to your age as required by the Canada Customs and Revenue Agency as shown on page 21.

Transfer to a Locked-in Vehicle – Is it Right For You?

When you decide to retire, your Registered Pension Plan (RPP) may allow you to transfer the benefits you earned in the RPP into a Locked-In Retirement Account (LIRA) in your name with a financial institution. You're also allowed to keep your benefits in the RPP.

Deciding what to do can seem confusing, because there are a number of factors that may influence your decision. Below are some questions that you should ask your employer before deciding whether to leave your benefits in the plan or transfer them to a LIRA and the reasons you should be asking them.

1. *Is my RPP a defined benefit pension plan, or is it a defined contribution pension plan?*

   In a defined benefit plan, there is a formula for determining how much annual or monthly pension you are entitled to at retirement and this dollar value is paid to you in the form of regular retirement income by the RPP regardless of how the investments of the Registered Pension Plan's assets are performing.

   In a defined contribution plan, when you retire, your pension account can be used to purchase a life annuity from an insurance company. The monthly benefit you receive will be based on the annuity rates in effect when that purchase is made. Your pension account will buy a higher monthly benefit if you purchase the annuity when annuity rates are high than when they are low. It is important to ensure that any estimate you are using to make a decision is based on up-to-date annuity rates. Alternatively, it can be used to purchase a LIF or an LRIF.

2. *Is my pension benefit formula integrated with the benefits payable under the Canada Pension Plan (CPP)? If so, how does it affect the benefit payable to me?*

   Some defined benefit pension plans may give you an increased monthly pension if you retire before you are eligible to receive benefits under the CPP. Once you start to collect CPP, you will not receive this additional benefit.

3. *Is my pension indexed to reflect increases in the cost of living?*

   Some defined benefit pension plans may automatically provide that every year the pension payable to you will be increased to reflect the increases to the cost of living. This is called a cost of living adjustment (COLA). Other plans may provide these increases whenever the plan has enough money to pay for them. Still others may provide no COLA at all.

4. *At what age is early retirement permitted?*

   All pension plans must state what is the earliest age a member becomes entitled to start their pension. Typically, starting a pension at an earlier age means your monthly benefit is reduced. This reflects the cost to the pension plan of allowing you to collect your pension for longer.

5. *If I retire early, what will be my monthly pension?*

   If you retire early, you will receive a lower monthly benefit than you would if you retired at the normal retirement date. However, some defined benefit RPP's may remove the reductions (or lessen them) depending on your age and/or the number of years you were a member of your RPP.

6. *What is the normal retirement age under the RPP?*

   All pension plans must state what age a member becomes entitled to start their pension at an unreduced rate. This age is also called "pensionable age".

7. *What will be the amount of the surviving pension partner's benefit when I die?*

   Although you were the member of the RPP, it is likely that both you and your pension partner will depend on your pension for your retirement years. When you die, your pension will continue to be paid to your pension partner but at a reduced rate.

   In Alberta, at least 60% of the monthly payments paid to you must continue to your pension partner. However, some RPP's provide for a greater survivor benefit, or allow you to choose a form of pension providing a lower level of survivor benefit, provided that your pension partner agrees to waive (give up) his or her right to the 60% joint and survivor pension.

8. *Will I receive a lower pension because I have a pension partner who must be paid a survivor benefit?*

   Generally, the monthly pension you receive if you have a pension partner is adjusted and is smaller than the amount you would receive if you did not.

   The monthly pension is adjusted to reflect that fact that the pension will be paid over the rest of your life as well as the life of your pension partner.

   The amount that the monthly pension is adjusted by will depend on a number of factors (such as the age and the life expectancy of your pension partner).

The adjustment is made using assumptions about how long you and your pension partner will live. If those assumptions prove true, the total amount of pension paid to you during the rest of your life, as well as the life of your pension partner, being equal to the total amount paid to you if the pension was paid for your lifetime only.

9. *If I keep working after my normal retirement date, how will my pension be adjusted?*

   There is no requirement to retire at the normal retirement date. Some plans allow you to continue to earn further benefits while you work beyond your normal retirement date, while other plans allow you to start your pension and keep working (although you will earn no additional benefits).

10. *What happens if I retire but then go back to work with my former employer?*

    If you retire and start to collect a monthly pension, but decide to go back to work at a later date for the same employer your pension might continue to be paid to you, meaning you don't earn additional benefits. On the other hand, you may be allowed to suspend your pension payment and when you finally retire, the pension paid to you is updated to reflect the additional service you had with the employer.

11. *If I die before I start collecting a pension, what happens?*

The benefits you earn in your RPP are payable as a death benefit to your pension partner. If you don't have a pension partner, they are paid to your heirs. The amount of benefit that goes to your pension partner is subject to certain minimum standards:

a. For years of membership before 1987, your pension partner gets the contributions you made to the Plan plus the interest earned, and

b. For years of membership from after 1986 to before 2000, your pension partner will receive 60% of the total (or commuted) value of your pension earned during that period, and

The commuted value of your benefit is the amount of an immediate payment (as a lump-sum) that is an estimate of the value of a future series of periodic payments

c. For years of membership after 1999, your pension partner receives 100% of the commuted value of your pension.

If you don't have a pension partner, then (as a minimum) your heir would receive the value of your contributions (plus interest) made for years of membership before 2000 and 100% of the commuted value of your benefit after 1999.

Some pension plans may pay a higher death benefit than these minimum amounts.

12. *If I die after I start collecting a pension, what happens?*

If you die after you start to receive your pension, then what continues to your pension partner (or heirs) depends entirely on the form of pension you were collecting before your death.

Comparison of the Life Annuity, LIF, and LRIF Payouts – What you need to know

The decision on whether to purchase a Life Annuity, or convert your LIRA into a LIF or an LRIF or some combination of these choices must be made on an individual basis. You should understand your own needs, the way each of the products works, and their advantages and disadvantages. The following may assist you in choosing a retirement product that best suits your needs.

LIFE ANNUITY:

Advantages

- Guaranteed for your lifetime – you do not have to worry about the performance of investment markets.
- Provides a steady and predictable amount of income.

Disadvantages

- Once you set the terms of your contract, it is unlikely that your insurance company will permit you to change the terms of that annuity.

LOCKED-IN RETIREMENT INCOME FUND (LRIF):

Advantages

- Designed to maximize the amount that is paid to your pension partner or beneficiary on your death. If you continually earn positive investment returns, you could potentially use very little of the initial dollar value of the LRIF.
- You have control over the investment of the funds in the LRIF.

Disadvantages

- The maximum withdrawals depend entirely on investment earnings. There is the chance that yearly withdrawal amounts will change greatly from one year to the next.
- The income may not be enough to meet your needs if you were counting on depleting your retirement savings before you die.

LIFE INCOME FUND (LIF):

Advantages

- You have control over the investment of the funds in the LIF.
- The payouts in a LIF are designed to be similar to those in an annuity. That is, they are more stable and do not react as much to extreme investment income changes as the LRIF.

Disadvantages

- You are required to convert the LIF to a Life Annuity or an LRIF by December 31 of the year you turn age 80.
- LIF annual payments may still be affected by varying investment returns, although not nearly to the same degree as in an LRIF.
- This is a pension plan for you (and your pension partner). You have to “insure” yourself against the possibility of outliving your retirement funds, without the advantage of sharing that risk with a large group of people like a regular pension plan. Therefore, the withdrawals are conservative and may not be enough for your needs.

Sample Worksheet

Following is a sample worksheet for your use in gathering some of the information you will need when selecting income options and planning your retirement finances. There may be items that you wish to add to the worksheet and items that are not relevant to your particular situation.

Annuity quotes can be obtained from most insurance companies. LIF and LRIF estimates may be obtained from any of the financial institutions on the Superintendent's List of Financial Institutions offering locked-in pension products. Copies of that list are available from:

Alberta Finance
Alberta Superintendent of Financial Institutions
#402 Terrace Building
9515 – 107 Street
Edmonton, Alberta
T5K 2C3

Phone: (780) 427-8322
In Province Toll-Free: 310-0000
and ask for 427-8322

Fax: (780) 422-4283

Internet:
http://www.finance.gov.ab.ca/business/pensions

Once you have completed the worksheet, you should discuss the information with your pension partner, or other family members, if applicable, and/or your personal financial advisor.

Sample Worksheet

1. Estimated Costs (monthly)

Basic		Other	
Food (etc.)	____________	Personal	____________
Housing	____________	Entertainment	____________
Utilities	____________	Travel	____________
Transportation	____________	Health	____________
Clothing	____________	Other	____________
Insurance	____________		____________
Taxes	____________		____________

2. Your Income and Estimated Amounts (monthly)

Fixed		Flexible	
Old Age Security	____________	RRSP(s)	____________
Canada Pension	____________	Other Income	____________
Registered Pension Plan(s)	____________	LIRA(s) (still to be converted)	____________
	____________		____________
	____________		____________
Annuity/LIF/LRIF (see items 4, 5, & 6)	____________		____________

3. Your Pension Partner's Income Sources and Estimated Amounts (monthly)

Fixed		Flexible	
Old Age Security	____________	RRSP(s)	____________
Canada Pension	____________	Other Income	____________
Registered Pension Plan(s)	____________	LIRA(s) (still to be converted)	____________
	____________		____________
	____________		____________
Annuity/LIF/LRIF (see items 4, 5, & 6)	____________		____________

4. Annuity Quotes (monthly)

Name of Insurance Company	Form of Pension	Amount

5. Income Estimates for LRIF

Name of Financial Institution	Assumed Interest Rate	Minimum Payment	Maximum Payment

6. Income Estimates for LIF (to age 80)

Name of Financial Institution	Assumed Interest Rate	Minimum Payment	Maximum Payment
________________	________________	_________	_________
________________	________________	_________	_________
________________	________________	_________	_________

Estimated Balance Remaining for Annuity Purchase at Age 80

Name of Financial Institution	If Minimum Payments Taken	If Maximum Payment Taken
________________	______________	______________
________________	______________	______________
________________	______________	______________

7. Personal Notes

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Other Publications Available from Alberta Finance, Alberta Superintendent of Financial Institutions (ASFI):

The Employment Pension Plans Act and *Regulation* (the Act and Regulation)

- outlining minimum requirements of pension legislation

Transfers to Locked-in Accounts

- a brochure on the locking-in requirements of the Act and Regulation

Accessing Pension Funds

- a brochure on accessing locked-in funds due to circumstances other than retirement