BRITISH COLUMBIA

April 8, 2004

To: LIF Issuing Financial Institutions

Re: Amendments to LIF Provisions in the Pension Benefits Standards Regulation

This letter is intended to inform life income fund ("LIF") issuing institutions about recent changes to the British Columbia Pension Benefits Standards Regulation (the "Regulation"). These changes came into effect on April 1, 2004.

Summary of Amendments

Changes to the LIF have been made in response to requests for more flexibility, and in order to promote regulatory harmony with similar provisions in other Canadian jurisdictions.

There is no longer a requirement to purchase an annuity. Until now the LIF in BC has required that the remaining money in the LIF be used to purchase a life annuity by the time the owner reached age 80. Many provinces have modified this requirement either through introduction of a locked-in retirement income fund (the "LRIF"), or more simply through removing the annuity requirement from the LIF. BC has adopted the latter approach, with the result that there is no longer a requirement to purchase an annuity at any age. The purchase of an annuity, however, is still an option available to the owner.

Until now the maximum annual withdrawal for a LIF in BC was based on a prescribed formula. Under the changes made to the LIF, the prescribed formula has been replaced with a table of prescribed factors, similar to the approach taken in Manitoba, Quebec and Nova Scotia. The table of prescribed factors for BC, and the determination of the yearly reference rate, will be the same as for those other three provinces. The reference rate for 2004, is 6%.

In addition, in order to enable LIF owners to enjoy actual investment returns that turn out to be greater than the theoretical returns upon which the factors are based, LIF owners will be able to access the value of their investment returns that are above the prescribed maximum withdrawal. To enable this, the maximum annual withdrawal for a LIF in BC will be the greater of the result derived from application of the relevant prescribed factor, and the previous year's investment returns under that LIF contract. Note that in order to qualify, the previous year's investment returns must have been under the same LIF contract.

In line with the changes made in several other provinces, there is no longer a requirement to prorate the maximum withdrawal for the first year of a LIF based on the number of months remaining in the year from when the LIF is opened. Withdrawals are not permitted during the initial year of a LIF if the funds were previously in a LIF during the same year.

. . /2

Financial Institutions Commission

- Superintendent of Financial Institutions
- Superintendent of Pensions
- Superintendent of Real Estate
- Registrar of Mortgage Brokers
- Credit Union Deposit Insurance Corporation of British Columbia

Mailing Address:
1900 -1050 West Pender Street
Vancouver BC V6E 3S7
Telephone: 604 660-2947
Facsimile: 604 660-3170

Web Address:
www.fic.gov.bc.ca

In order for a financial institution to be able to administer the above provision correctly, the financial institution must know if the LIF funds were previously in a LIF during the same year. Consequently, there is now a requirement that if the funds from a LIF are being transferred from one financial institution to another, the transferring institution must advise the receiving institution in writing that the funds have been in a LIF, and the date on which they were transferred from the LIF.

Consequently, if a person wishes to transfer a LIF to another financial institution and still withdraw the allowable maximum for that year, the yearly maximum must be withdrawn before transferring to that institution, as no further withdrawals are permitted that year after the transfer.

Transitional Provisions

The regulatory provisions that came into effect on April 1, 2004, are designed to give time to financial institutions to transition over to the new LIF model. The transition period runs throughout the remainder of 2004.

Special provisions are designed to allow financial institutions to continue to offer LIF contracts while their standard form contract is being redeveloped to comply with the new requirements. A financial institution with an approved LIF that appears on the superintendent's list but has yet to be amended to meet the new requirements, may continue to issue such LIF contracts to clients during 2004. Any such LIF contracts issued to clients must subsequently be amended to comply with the new requirements by December 31, 2004.

Financial institutions are expected to redevelop their standard form LIF contracts throughout the remainder of 2004. An approved LIF that appears on the superintendent's list of approved contracts must either be amended to meet the new requirements by December 31, 2004, or be removed from the list.

In order to allow financial institutions time to redevelop their administration systems, the maximum withdrawal from a LIF during 2004 may be based on either the prescribed formula in effect until now, or on the new prescribed formula.

Unlocking of Small Accounts

Unlocking of small accounts in locked-in RRSP and LIF contracts is now permitted under changes made to the Regulation. The accounts must have a total value not exceeding 20% of the Year's Maximum Pensionable Earnings in order to qualify. For 2004 this amount is $8 100. Accounts containing more than that amount cannot be subdivided into smaller accounts in order to qualify. There is no prescribed form associated with this new provision.

. . /3

Note that Form 3, "SPOUSE'S CONSENT TO TRANSFER LOCKED-IN PENSION FUNDS TO A LIF OR TO RECEIVE LIF TYPE PAYMENTS DIRECTLY FROM A PENSION PLAN" has been revised to coincide with the changes to the Regulation.

The amendments to the Regulation are contained in B.C. Regulation 131/04. A copy of these amendments is posted on the Financial Institutions Commission web site located at: http://www.fic.gov.bc.ca/pensions/

A printed copy of these amendments, along with the complete Pension Benefits Standards Regulation and *Pension Benefits Standards Act*, are available from Crown Publications Inc., 521 Fort Street, Victoria (telephone: 250-386-4636, fax: 250-386-0221).

An updated electronic copy of the Pension Benefits Standards Regulation, along with more information on the *Pension Benefits Standards Act* is available on the Financial Institutions Commission web site located at: http://www.fic.gov.bc.ca/pensions/

If you have any further questions about the requirements of the *Pension Benefits Standards Act*, or the Pension Benefits Standards Regulation, please contact the Financial Institutions Commission at 604-660-2947.