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Life Income Fund - Minimum and Maximum Withdrawals

The Ontario life income fund ("LIF") is a tax-deferred retirement savings arrangement which is acceptable for registration under the *Income Tax Act* (Canada), (the "ITA") as a Registered Retirement Income Fund (a "RRIF"). However, no locked-in monies may be transferred to a RRIF for which the specimen document submitted for the approval of the Minister of National Revenue does not also comply with the LIF requirements identified in Schedule 1 of Regulation 909 under the Pension Benefits Act (the "PBA").

The documents for an Ontario LIF must provide information pertaining to spousal protection, disclosure, acceptable transfers and minimum and maximum withdrawal formulae. The specimen document submitted for the approval of the Minister of National Revenue must not permit withdrawals which contravene the following requirements which are applicable to minimum and maximum withdrawals:

1. No withdrawals are permitted before age 55. (Please note that the maximum withdrawal table shows a maximum withdrawal for an individual turning age 55 during the year so that the maximum withdrawal after the individual has turned 55 can be determined.)
2. In the initial fiscal year of a LIF, the maximum withdrawal amount is prorated based on the number of months in that fiscal year divided by 12, with partial months counting as one month.
3. Withdrawals can be made in the first fiscal year of the LIF provided the individual is 55 years old.
4. The maximum withdrawal in a fiscal year is zero if any part of the assets used to purchase the LIF were transferred from another LIF during the year.
5. Withdrawals from a LIF must begin no later than the end of the second fiscal year of the LIF.

6. No annual withdrawals are permitted after December 31 of the year the LIF holder attains 80 years of age. (The balance of the LIF must be transferred to purchase an annuity which complies with the requirements of the Act and the regulations.)

Minimum Withdrawals

A table that identifies the minimum percentage of a LIF balance which must be withdrawn on an annual basis beginning no later than the second year of the LIF is shown below. The minimum withdrawal percentages shown are a result of calculations made in accordance with the requirements under the ITA for minimum annual withdrawals from a RRIF. (Please refer to the penultimate paragraph under this section for clarification of an exception which exists due to the wording of Schedule 1 of Regulation 909.)

The table opposite indicates the minimum withdrawal as a percentage of the LIF balance at the beginning of a fiscal year. The Regulation states that the balance in the LIF at the beginning of a year must be divided by an applicable factor. The table shows the reciprocal of such factors (1/factor) and expresses them as a percentage in order that the annual minimum withdrawal amounts may easily be determined.

Percentages shown in the table are multiplied by the LIF balance at the beginning of the year to derive the dollar amount of minimum withdrawal during the year. Since the minimum formula established under the ITA is applicable to minimum withdrawal requirements for persons age 55 to age 80 (the lifetime of an Ontario LIF), the minimum withdrawal percentages shown below will not change unless the minimum withdrawal formula under the ITA is amended.

An article on the Life Income Fund published in the August 1993 *PCO Bulletin*, 4/1, page 8, indicated that minimum and maximum tables for withdrawals from an Ontario LIF would be published annually. However, because the minimum does not change except as a result of ITA amendments, the PCO will **not** publish a minimum withdrawal table on an annual basis.

Please note that there was an error in the minimum withdrawal table published in the December 1992 *PCO Bulletin*, 3/3, page 18, (Index no. L050-500). That table showed a minimum withdrawal of 8.53% for a person age 80 where the LIF purchase would be subject to Revenue Canada's rules for "new" RRIFs. The correct figure should have been 9.09%. Accordingly, 9.09% is applicable to both the old and the new columns. The 8.53% figure is the *Income Tax Act* minimum withdrawal for a RRIF. However, the minimum withdrawal from a LIF is 9.09% in accordance with the wording of Regulation 909 under the Act. The Government is aware of this difference and an amendment to the Regulation to the PBA is being considered.

In using the table it should be noted that in the initial fiscal year of a LIF the minimum withdrawal is zero. The percentages reflect calculations made in accordance with the ITA's requirements for RRIFs established under the "old" pre-1993 rules and for RRIFs established under the "new" post-1992 rules.

Table 1

Minimum Withdrawal Percentages

Age at Start of Year	New Age During Year	Years to End of Year Turn 90	Minimum Withdrawal as a Percentage of the LIF Balance at the Start of Year	
			(Old)	(New)
54	55	36	0.00%	(same
55	56	35	2.86%	as
56	57	34	2.94%	"old"
57	58	33	3.03%	to
58	59	32	3.13%	age
59	60	31	3.23%	70)
60	61	30	3.33%	
61	62	29	3.45%	
62	63	28	3.57%	
63	64	27	3.70%	
64	65	26	3.85%	
65	66	25	4.00%	
66	67	24	4.17%	
67	68	23	4.35%	
68	69	22	4.55%	
69	70	21	4.76%	
70	71	20	5.00%	
71	72	19	5.26%	7.38%
72	73	18	5.56%	7.48%
73	74	17	5.88%	7.59%
74	75	16	6.25%	7.71%
75	76	15	6.67%	7.85%
76	77	14	7.14%	7.99%
77	78	13	7.69%	8.15%
78	79	12	8.33%	8.33%
79	80	11	9.09%	9.09%

Note: Individuals who purchased the LIF before 1993 may use either the old or the new percentages, between the ages of 71 and 77. At age 78, the "new" percentage must be used.

Maximum Withdrawals

The provisions identified in Schedule 1 of Regulation 909 restrict the amounts which may be withdrawn annually. In accordance with subsection 5(3) of Schedule 1, one of the two prescribed methods of calculating the maximum withdrawal must be applied for all years of the LIF. The two methods permitted under Schedule 1 are:

- 1) calculation of an interest rate not to exceed six per cent per annum for all years; or,
- 2) calculation of an interest rate that is not higher than the prescribed rate (the rate published in the Bank of Canada Review under CANSIM B-14013 for the December preceding the 1st day of January in the year a calculation is made) for the first fifteen years and a rate that does not exceed six per cent for the remaining years.

The formulae for determining maximum annual withdrawal amounts using the CANSIM method is shown below. A table which identifies the maximum percentage of a LIF balance which may be withdrawn in 1994 using the maximum interest assumptions permitted under the CANSIM method is also included.

Please note that the presentation of the maximum table is identical to that for the minimum table. Maximum withdrawals are shown as a percentage of the LIF balance at the beginning of the year.

The following explanations may be of assistance in using the maximum withdrawal table.

1. The applicable maximum withdrawal percentage in the table is applied to the LIF balance at the start of the year to determine the maximum dollar amount of withdrawal in the year.

To illustrate, for an individual who turns age 60 during 1994 (attained age is 59) and whose LIF has a balance of \$100,000 at January 1, 1994, the maximum withdrawal during 1994 would be:

$$\$100,000 \times 7.40699\% = \$7,406.99.$$

2. The maximum withdrawal in a year is based on the number of years from January 1st of the year to December 31st of the year the individual turns age 90. Thus the "age at start of year" is the age just before January 1st, and the "new age" is the age the member will attain during the year including January 1st birthdays.
3. The table does **not** represent withdrawal maxima for years other than 1994. The maximum withdrawal will change every year regardless of when the LIF was purchased. The maximum withdrawal table for 1995 will be published as soon as it is available in 1995. (See Winter 1995 *PCO Bulletin*, 5/4, index no. L050-651)

Table 2

Maximum Withdrawal Percentages

<u>Age at Start of Year</u>	<u>New Age During Year</u>	<u>Years to End of Year Turn 90</u>	<u>1994 Maximum Withdrawal as a Percentage of the LIF Balance at the Start of Year</u>	
54	55	36	7.07854%*	*prorated over the number of months the plan-holder was age 55.
55	56	35	7.13467%	
56	57	34	7.19514%	
57	58	33	7.26037%	
58	59	32	7.33081%	
59	60	31	7.40699%	
60	61	30	7.48949%	
61	62	29	7.57897%	
62	63	28	7.67618%	
63	64	27	7.78199%	
64	65	26	7.89737%	
65	66	25	8.02348%	
66	67	24	8.16162%	
67	68	23	8.31334%	
68	69	22	8.48045%	
69	70	21	8.66507%	
70	71	20	8.86976%	
71	72	19	9.09757%	
72	73	18	9.35217%	
73	74	17	9.63808%	
74	75	16	9.96087%	
75	76	15	10.32751%	
76	77	14	10.75142%	
77	78	13	11.24589%	
78	79	12	11.82864%	
79	80	11	12.52382%	

Note: The above table is based on the maximum interest assumptions permitted using the CANSIM method. The CANSIM interest rate (December 1993) of 7.12% is applicable for the first 15 years following January 1, 1994 and 6% thereafter. The maximum withdrawal table for 1995 will be published as soon as it is available in 1995.

Ontario Life Income Fund - Maximum Annual Withdrawal Formulae Using the CANSIM Method

Description of Mathematical Formulae Required to Establish the Annual Maximum Withdrawal Amount Using the CANSIM Method

C Represents the fund balance at the starting date of the fiscal year;

H Represents the number of years between 1 January of the year in which the calculation is made and 31 December of the year during which the pensioner reaches age 90;

i_1 Represents the applicable interest rate for the first 15 years. This rate may not exceed that obtained for long-term bonds issued by the Government of Canada for the month of December proceeding the year of valuation (B-14013).

i_2 Represents the applicable interest rate for the period after the first 15 years. This rate may not exceed 6%.

$$V_1 = 1/(1+i_1)$$

$$V_2 = 1/(1+i_2)$$

N Represents the number of months in the initial fiscal year of the fund, with every portion of an incomplete month counting as one month.

M Represents the maximum withdrawal authorized during a fiscal year. The limit "M" is established as follows:

$$M = C/F * N/12$$

F Represents the value, at the starting date of the fiscal year, of a pension of which the annual payment is \$1 payable at the beginning of each year between that date and the 31 December of the year during which the pensioner reaches age 90. Calculation for the value "F" is made using the following formulas:

1. When H is equal to or less than 15 years and the calculation is made on 1 January:

$$F = (1 - V_1^H) / (i_1 * V_1)$$

2. When H is equal to or less than 15 years and the calculation is made on a date which is not 1 January:

$$F = 1 + V_1^{J/365} * (1 - V_1^{(H-1)}) / (i_1 * V_1),$$

where "J" is the number of days between the first day of the month in which the calculation is made and the end of the fiscal year of the LIF.

3. When H is greater than 15 years and the calculation is made on 1 January:

$$F = (1 - V_1^{15}) / (i_1 * V_1) + V_1^{15} * ((1 - V_2^{(H-15)}) / (i_2 * V_2))$$

4. When H is greater than 15 years and the calculation is made on a date which is not 1 January:

$$F = 1 + V_1^{J/365} * (1 - V_1^{14}) / (i_1 * V_1) + V_1^{(14+J/365)}$$

$$* ((1 - V_2^{(H-15)}) / (i_2 * V_2))$$

where "J" is the number of days between the first day of the month in which the calculation is made and the end of the fiscal year of the LIF.