MEMBER

Retirement Income Options

Knowing Your Retirement Income Options

2009/2010

This Retirement Income Options booklet is provided to you courtesy of a credit union. It is written in everyday language – answering to the need expressed by many credit union members for clear and understandable information on the various retirement income options available to them.

This issue of Retirement Income Options is based on the legislation in effect or proposed as of June, 2009.

The booklet is intended as an information guide only. If any clarification is required, you should refer to the actual legislation, contact Canada Revenue Agency (CRA) or refer to its RRSPs and Other Registered Plans for Retirement Guide, or contact your provincial government's pension regulatory body.

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Getting Started On Your Retirement

A Guide to Good Decisions

Introduction

You've planned ahead by saving for your retirement… you've taken responsibility for your own financial future… and you're ready to enjoy all the leisure and opportunity available to you.

But now there's a major decision to be made: What do you do with your retirement savings? It's an important question for several reasons.

First, a decision made today could "lock you in" to a fixed income for the rest of your retirement years.

Next, the choice of retirement income made by your friend or neighbour may be ideal for them, but less than perfect for you. Choosing the best option for you means examining the lifestyle you plan to enjoy during your retirement, along with other factors.

Finally, there is a surprisingly wide choice of retirement income options available today – much wider than the choices facing your parents when they retired. While having so many options is good in some ways, it can also be confusing unless you understand the differences and are able to choose the ones best suited to your needs.

Which is where this booklet comes in.

Your credit union wants you to reap maximum enjoyment from the retirement savings you've accumulated over the years. This booklet provides you with basic information on the retirement income options currently available. While it won't answer every conceivable question, it will give you enough background to begin choosing the options best suited to your needs.

A Few Things to Remember Before We Get Started

Some of the terms used in discussing retirement income options could be a bit confusing at first, especially terms such as LIRA, LIF, Annuitant, Joint and Last Survivor, and so forth. We'll describe them as we go, but to help avoid confusion, we've included a short Glossary at the back of the book.

Remember that you can convert your RRSP to one or several of the Retirement Income Options described in this booklet at any age, but you must terminate it no later than December 31 of the year in which you turn 71. While you could withdraw all the money from your RRSP as a lump sum before then, by far the best choice is to transfer the funds to an option that will make payments to you over a period of time and continue tax sheltering income earned in the plan.

Also, some rules about retirement income vary from province to province. We'll identify these as they occur.

While we've tried to make this booklet as complete as possible, it is not meant to provide the final decision on its own; this should only be made after a good deal of thought by you, some discussion with your spouse/common-law partner* and/or children, and consultation with a knowledgeable credit union staff member.

** The terms "spouse" and "spousal" are used throughout this booklet and are intended to include a "common-law partner". Please refer to the discussion of "spouse/common-law partner" on page 35.*

A R.I.O. and Rio Are Both Destinations – But the Similarity Ends There

When you're ready to convert your savings to income, you're dealing with a Retirement Income Option, or "RIO". A RIO is a financial product which becomes your own personal pension plan. It may be purchased from a credit union, trust company, insurance company, investment brokerage, mutual fund dealer or bank.

The money to purchase your RIO comes from the funds accumulated in your Registered Retirement Savings Plan (RRSP), your Registered Pension Plan (RPP), your Deferred Profit Sharing Plan (DPSP), or a combination of any of these.

Think of a RIO this way:

For much of your working life, you've been paying into your RRSP, RPP or DPSP. Over all those years, you've had a goal or destination in mind.

Now that you've reached it, it's time for those plans to start paying **you**.

Three RIO Choices Available to Everybody and Seven More Choices Available to Some

All Canadians may choose from three different ways of generating retirement income from their RRSPs. These are:

1. A **Registered Retirement Income Fund (RRIF)** which puts you in control of your investment and the amount of income it pays you.
2. A **Life Annuity** which guarantees a fixed income.
3. A **Term Certain Annuity to age 90 (TCA 90)** which gives you some control over the investment and earnings.

Seven more choices that apply to some are:

4. In most jurisdictions you have the additional option of a **Life Income Fund (LIF)** which combines the benefits of both a RRIF and a Life Annuity.
5. The Federal *Pension Benefits Standards Regulations, 1985* includes **Restricted Life Income Fund (RLIF)**. The annuitant of LIRSP/LIF is permitted to transfer to an RLIF. The RLIF operates similar to a LIF, however, the RLIF includes the one-time 50% unlocking option.
6. Manitoba and Newfoundland & Labrador permit a **Locked-in Retirement Income Fund (LRIF)**.
7. Saskatchewan pension legislation permits the annuitant to transfer to a **SK RRIF**.
8. Manitoba pension legislation permits the annuitant to transfer 50% of a LIF/LRIF to a **MB RRIF**.
9. The *Income Tax Act* Regulations permit **Variable Benefit** (RRIF-type payments) from a money purchase pension plan. Manitoba and Saskatchewan pension legislations permit this option.
10. Alberta pension legislation permits the annuitant to transfer back to the Registered Pension Plan into a **Defined Contribution Retirement Income Account** (DC RIA). The DC RIA operates similar to a LIF.

We'll deal with all ten. First, take a moment to think about the following questions, and indicate your response in the appropriate area. Here's where you may want to discuss your reply with your spouse.

Take a Few Minutes to Answer Questions that Will Help to Focus on Your Retirement Needs and Assets

We said it before, but it bears repeating:

A decision on your RIO should not be made on the spur of the moment. You've worked many years to reach this point, so it deserves a good deal of careful thought before making your choice.

The following is not a budget but a **method of evaluating your retirement needs**. By thinking about the issues below, you will be better prepared to make decisions on various retirement options.

NOTES:

1. *The figures do not account for income tax payable.*
2. *Consider your health prospects in the near and long term. A dramatic change in your health will have a similar impact on your expenses and lifestyle.*
3. *A budget is invaluable to people living on a fixed income. Please do not use this as a substitute for a budget, but merely as a guide to your overall retirement income needs.*

Things to Consider Before Deciding on a RIO:

Your Lifestyle

1. When you retire, do you plan to:
   - [ ] Remain in your current home?
   - [ ] Sell and purchase another home?
   - [ ] Sell and rent another home/apartment?
   - [ ] Keep your current home and live in a second location for part of the year?
   - [ ] Other:______________________________
2. How much do you plan to travel during your retirement?
   - [ ] All the time/as much as possible
   - [ ] Some/more than now
   - [ ] Almost none
3. During your retirement do you plan to:
   - [ ] Change your activities very little?
   - [ ] Spend more time and money on hobbies, sports or entertainment?
   - [ ] Work on a part-time basis?

Your Expenses

Of your current expenses, how much will you maintain during your retirement?

Household:	$_______month
Personal:	$_______month
Travel/Entertainment:	$_______month
Other:	$_______month
TOTAL, future monthly expenses:	**$____________**

Your Retirement Assets

1. From all your qualified sources, how much do you estimate will be available to transfer to your RIO?

From your RRSP:	$____________
From your RPP:	$____________
From your DPSP:	$____________
TOTAL, RIO investment funds available:	**$____________**

2. What **monthly** income sources do you estimate you'll be receiving – other than your RIO?

From your employer pension:	$____________
From Old-Age Security (OAS)*:	$____________
From Canada Pension Plan**:	$____________
From other sources: (investments, etc.)	$____________
TOTAL, other monthly income anticipated:	**$____________**

* *Currently $516.96 monthly, payable at age 65 but reduced as net income rises.*

** *Check your most recent CPP statement.*

Your Independence

Which of the following statements best describes your attitude toward investing your retirement funds? You may change your mind when you finish this booklet and have learned more about RIOs. If you're completing this with your spouse, be sure to note his/her choices.

[ ] I want a fixed, predictable income with total security.

[ ] I want a fixed income with some control over the terms.

[ ] I want an income that grows to account for inflation, with fixed terms.

[ ] I want an income that grows to account for inflation, with flexible terms.

[ ] I want some flexibility in income and investment.

[ ] I want maximum flexibility in income and investment options.

Your Expectations

1. No one can predict future inflation rates, of course. But everything will cost more as the years pass. Your own anticipated inflation rates will affect your decision on a RIO.

   Your retirement plans assume annual inflation to be:

   [ ] Minimal – not a serious concern (1-3%).

   [ ] Some, but I can accommodate it (3-5%).

   [ ] High enough to deal with seriously (5-8%).

   [ ] Substantial (8%+)________________________

2. What year do you plan to retire?__________________

   How many years will you and your spouse require income from your RIO? ________________________

Think about your answers to these questions as you read this booklet and absorb information on the various RIOs available to you.

A Brief Word About (Shudder!) Taxes:

All the money you've been putting away over the years in your RRSP, RPP and DPSP was not taxed. In addition, the interest or other earnings accumulated over the years has also been free of taxation as long as it remained in the registered plan.

When you terminate ("collapse", "roll over" or "transfer") your registered plans, all the money remains sheltered from tax **if you move it to a RIO**. Only when the money is withdrawn from your RIO as income does it become taxable.

If you terminate your registered funds by withdrawing them as a lump sum, the total amount becomes immediately subject to income tax. This is the best reason for not making lump-sum withdrawals.

Payments received from any RIO qualify for the pension income tax credit if you are age 65 or older – or regardless of age, if received as a result of the death of your spouse.

In addition, the *Income Tax Act* permits pension income splitting between spouses. A taxpayer may allocate up to 50% of pension income with his/her spouse under a joint election made by the taxpayer and his/her spouse.

Choosing a RIO:

1. Registered Retirement Income Funds (RRIFs)

DESCRIPTION:
Plans or accounts registered with CRA designed to provide payments to you, subject to an annual minimum amount.

MOST IMPORTANT QUALITIES:
The most flexible RIO, you control both the amount and frequency of payments and the types of investment; at death, the balance is available for survivors.

BEST SUITED FOR:
People who want to make their own decisions (subject to government limitations) regarding retirement income; people for whom estate preservation is important.

Two things happen during the life of a RRIF:

The RRIF earns money from investments, just as your RRSP did while you were contributing to it, and the

RRIF makes payments to you according to a formula selected by you in accordance with CRA's requirements.

The investments in your RRIF are the same as those which qualify for RRSP investments, such as savings accounts, term deposits, mutual funds, stocks, bonds or mortgages. The selection is determined by you.

RRIF investments should be chosen for both income and security; you don't want to choose investments which may decline in value and interfere with your planned retirement income.

Before you open any RRIF, ask about deposit insurance protection. RRIF investments are insured in the same fashion as RRSPs. There is no insurance against loss on mutual funds, stocks, bonds or mortgages held in your RRIF.

A Few Rules Regarding Withdrawals

You must withdraw at least the "annual minimum amount" from your RRIF each year. For details on the annual minimum amount you must withdraw from your RRIF, check the chart on page 11 or talk to your credit union staff.

You withdraw money from the RRIF according to one of three options chosen by you. Those are:

1. **The Annual Minimum Amount Option**, which guarantees you will receive payments from your RRIF for life.
2. **The Specified Payment Amount Option**, enables you to select a payment amount exceeding the annual minimum amount. You may change the payment amount from time to time.
3. **The Specified Term Payment Option**, which enables you to choose payments over a fixed number of years.

Each option has certain advantages, as well as choices to be made if you select that option. Fortunately, you're not locked into one payment option or another for life; each year you can change the payment plan to accommodate your changing needs, depending on the types of investments you've chosen for your RRIF, and the amount of funds remaining in it.

Let's look at them in detail:

The Annual Minimum Amount Option – the Simplest Formula to Meet CRA's Requirements

No payment is required from your RRIF in the first year, however, CRA requires that a minimum amount be paid out in following years. Choosing this option ensures that your RRIF will continue to generate funds for your lifetime (and that of your spouse, if you choose). The term of the RRIF can be based on the age of your spouse; if a younger spouse, this will result in a lower annual minimum amount requirement, if an older spouse, the annual minimum amount will be higher.

In essence, two formulas apply – one for RRIFs bought with RRSP transfers made before January 1, 1993 (and not added to since) and another for a RRIF first funded after December 31, 1992:

RRIF Purchased prior to January 1, 1993:

Age	Value as at Jan.1
to age 78	90 – age at Jan.1
age 79 – 93	% of plan value at Jan.1 (see following chart)
age 94 +	20% of plan value at Jan. 1

RRIF Purchased after December 31, 1992:

Age	Value as at Jan.1
to age 70	90 – age at Jan.1
age 71 – 93	% of plan value at Jan.1 (see following chart)
age 94 +	20% of plan value at Jan.1

The percentages are applied to the value of your RRIF at the beginning of the year, according to your age at that time. Following is a chart showing a comparison of the two calculations:

Your Age	RRIF Funded Before 1/1/93 %	RRIF Funded After 31/12/92 %
60	3.33	3.33
61	3.45	3.45
62	3.57	3.57
63	3.70	3.70
64	3.85	3.85
65	4.00	4.00
66	4.17	4.17
67	4.35	4.35
68	4.55	4.55
69	4.76	4.76
70	5.00	5.00
71	5.26	7.38
72	5.56	7.48
73	5.88	7.59
74	6.25	7.71
75	6.67	7.85
76	7.14	7.99
77	7.69	8.15

From age 78 on, the annual minimum amount from all RRIFs is calculated according to the following formula.

Age	%	Age	%
78	8.33	87	11.33
79	8.53	88	11.96
80	8.75	89	12.71
81	8.99	90	13.62
82	9.27	91	14.73
83	9.58	92	16.12
84	9.93	93	17.92
85	10.33	94 & older	20.00
86	10.79		

The Specified Payment Amount Option: Changing Amounts to Meet Changing Needs

By the time you reach retirement age, nobody has to tell you life rarely goes according to plan. That's a reason to consider this choice.

With the Specified Payment Option, each year you can determine how much money you wish to take from the plan, and how often. For example, one year you may need $500 a month from the plan; the next year you may want only a single payment of $1,000. As long as the amount meets the annual minimum amount requirement for your age and your investment selection, it's your choice to make.

The Specified Term Option: A Good Way to 'Bridge' Your Income

Instead of specifying the amount of income you want from your RRIF, you may want to specify the number of years the RRIF will pay you before it is depleted.

For example, you might choose this option if you retire at age 55 with an RRSP, but are not eligible immediately for other retirement incomes such as a company pension plan, CPP or OAS. If that's the case, you could convert your RRSP to a RRIF which would pay an income until the other sources begin.

AN IMPORTANT NOTE: Specified Payment Amount and Specified Term options do not ensure an income for life.

Cash Withdrawals: Always an Option for Special Occasions

You're enjoying your retirement, with sufficient income for your needs and you want to "kick up your heels" a little, perhaps by taking that ocean cruise you always dreamed about, or by adding a new sundeck to your house.

With a RRIF, you have the option of making cash withdrawals – but only if the nature of your RRIF investments permits them. Talk to a qualified credit union staff member for details.

And Now a Short Message from CRA

All payments from your RRIF must be declared as income for the year in which you receive them. At the end of the year, you receive a T4RIF slip showing the full amount of RRIF payments received, the amount in excess of your annual minimum amount for that year, and the withholding tax deducted on the excess.

Withholding tax, which is a prepayment of your annual income tax liability, may be deducted from your RRIF payment

If you receive only the annual minimum amount for a year, no withholding tax is deducted.

If you receive more than the annual minimum amount for a year, the amount in excess of the annual minimum amount is subject to withholding tax, which will be deducted from the payment. The amount deducted depends on the amount withdrawn from your RRIF that year in excess of the annual minimum amount.

Amount withdrawn in excess of annual minimum amount for the year	% Withholding tax deducted at source
Up to $5,000	10%
$5,000.01 to $15,000	20%
Over $15,000	30%

If you request $9,000 from your RRIF, and the annual minimum amount required for that year is $3,600, the $5,400 excess amount would be subject to 20% withholding tax, totalling $1,080. The 20% tax rate would be applied whether you requested a single payment or more frequent payments. The $1,080 withholding tax would be remitted on your behalf to CRA by your financial institution.

NOTE: If the personal tax credits on your tax return will result in no tax liability arising from your RRIF income, or if withholding tax would be unreasonable in light of your other income and deductions, you may complete and file a TD1 with your credit union to have less tax withheld from your RRIF payments. A new TD1 must be completed each year.

Special Tax Rules Applied to RRIFs Purchased with Spousal* RRSPs

** The terms "spouse" and "spousal" are used throughout this booklet and are intended to include a "common-law partner". Please refer to the discussion of "spouse/common-law partner" on page 35.*

RRIFs purchased with funds from a spousal RRSP may be subject to "attribution rules".

If a contribution has been made to a spousal RRSP in the year the payment from the RRIF is received or the two preceding years, payments in excess of the annual minimum payment amount are taxed as income of the contributor. Although the payment is made to the RRIF planholder, he or she must claim only the annual minimum amount as income. The balance must be claimed by the contributing spouse. Normal withholding tax rules apply.

What Happens to Your RRIF in the Event of Your Death?

If any funds remain in your RRIF, your surviving spouse may assume ownership of the plan or transfer the funds to his or her own RRIF or annuity. If he or she is not older than 71, the funds may be transferred to an RRSP.

There are provisions for the transfer of a RRIF, without immediate taxation, to a dependent child or grandchild who is financially dependent on the deceased annuitant. Restrictions apply.

If you have not specified your spouse as beneficiary of your RRIF (or your spouse predeceases you), funds in your RRIF will be paid in a lump sum to your estate or named beneficiary. The estate is responsible for any tax owing.

In most provinces, you are permitted to name a beneficiary directly on the RRIF itself rather than by will. Check with your estate planner for more details.

Choosing a RIO:

2. Life Annuities

DESCRIPTION:
Contracts between you (the Annuitant) and a Life Insurance Company that will provide you with payments for life, regardless of the number of years you live.

MOST IMPORTANT QUALITY:
Fixed payments for life, guaranteed for a minimum term you decide on.

BEST SUITED FOR:
People who prefer security over all other aspects of retirement income.

At one time, the majority of Canadians with savings to invest for their retirement once chose a Life Annuity. In recent years, the flexibility offered by RRIFs has made them more attractive to most people. However, new features available in Life Annuities have generated new interest in them.

One way to understand a Life Annuity is to compare it with a life insurance policy. Both are available only through insurance companies and a Life Annuity is like a life insurance policy in reverse. With a life insurance policy, you make regular payments to the insurance company; with a Life Annuity, the insurance company pays you as long as you're alive… and may pay a beneficiary, depending on the type of annuity you purchase.

Most life insurance companies are members of a consumer protection plan which is intended to safeguard your life annuity income if the company fails to meet its obligations.

When discussing Life Annuities, you will usually hear the term "buy". And that's exactly what you do: You buy the annuity with the funds in your RRSP. Just as you do when you buy a new car or refrigerator, you can shop around for a Life Annuity, making your purchase on the basis of the company offering the largest income and the largest payment upon your death. You might also consider the reputation and financial stability of the insurance company.

NOTE: Lump sum cash withdrawals are not available with annuities.

The Life Annuity offered will vary in payment from one insurance company to another, but all will consider the following factors:

Age

How many years can the insurance company expect to pay you an income?

Current Interest Rates

How much can the insurance company expect to earn from your funds?

Gender

Traditionally, women live longer than men, meaning their annuity payments tend to be lower. Some insurance companies are offering unisex rates for Life Annuities.

RRSP Funds

More funds purchase bigger annuity payments.

Single or Joint Life

If an annuity purchased to provide an income for a couple guarantees continued income for the surviving spouse, payments are adjusted according to the spouse's gender and age.

Type of Annuity

There are two types to choose from. See below for details.

Two Basic Types of Life Annuities

The two basic types of Life Annuities available are Single Life, and Joint And Last Survivor. The amount you receive depends on the plan you choose.

Single Life annuities are based entirely on your age and gender, and cease entirely upon your death – whether this occurs twenty days or twenty years after you purchase the annuity. The advantage of a Single Life annuity is that it provides the highest payment amount.

Joint And Last Survivor annuities ensure an income for the surviving spouse. Payments cease upon the death of both spouses. If desired, you can arrange a Joint And Last Survivor annuity which reduces payments upon the death of one spouse, providing more money while both are alive.

Additional Features in Annuities Add Flexibility

Insurance companies offering Life Annuities continue to add more flexibility to their products in order to compete with RRIFs. Here are some features which enable you to adjust your annuity according to your anticipated needs:

1. **Guaranteed Period.** This option ensures that payments will continue should you die within the period selected by you. You can choose guaranteed periods from 5 years up to age 90; the longer the guaranteed period, the lower the payments. If you die before the period ends, your RRSP annuity payments continue throughout the guaranteed period to your spouse, or an amount is paid to your estate.

   You can even combine Guaranteed Period and Joint Life features in your annuity, which may provide an estate should both spouses die within the guaranteed period.

2. **Integrated Income**. If you retire before age 65, when you would traditionally begin receiving Old Age Security payments, you could purchase a Life Annuity which decreases at 65. This would generate a higher income prior to age 65, with the OAS funds making up the difference after 65.

3. **Indexing for Inflation.** Over the years, inflation can "eat away" at a fixed income. To overcome this, you can build an indexing factor of 1% to 4% annually into your annuity payments, increasing their amount each year to accommodate inflation. Be aware, however, that this can substantially reduce your income in the initial years of your annuity.

4. **Commutable Life Annuities.** Some insurance companies offer life annuities which can be cashed-in prior to death. These are subject to restrictions and penalties if the annuity is terminated.

A Simple Tax Formula for Annuities

All income received from an RRSP annuity is considered taxable, and must be claimed as such when you file your annual tax return. Withholding tax is not deducted from annuity payments.

Choosing a RIO:

3. Term Certain Annuities to Age 90 (TCA 90)

DESCRIPTION:
A RIO that pays out the full amount of principal and income earned in regularly scheduled payments by age 90.

MOST APPEALING QUALITIES:
The security of an annuity with some investment control; at death, amounts are available to survivors.

BEST SUITED FOR:
People seeking security for their investment with the chance to react to changing economic conditions.

Designed to provide regular income until you or your spouse reach age 90, TCA 90s generate payments from earned interest plus portions of the principal. If you choose a TCA 90, the payments to you would be based on a combination of three factors: your age; the amount originally invested; and the rates of interest earned during the terms of the annuity.

In the event of your death prior to age 90, a TCA 90 may continue to make payments to your spouse until what would have been your 90th year or paid as a lump sum to your spouse, depending on the terms of the annuity. If there is no spouse at the time of your death prior to age 90, the full value of the annuity would be paid in a lump sum to your estate.

As an alternative when you purchase the annuity, you may direct payments to continue until your younger spouse turns 90. This decreases the amount of annual payments, but increases the number of years.

Choosing Limited Investment Control

A basic TCA 90 will pay a guaranteed amount through the term of the annuity.

You may choose, however, to have limited investment control over the way your funds are deposited so that the annuity earnings and payments are periodically adjusted with changes in interest rates. If you choose this option, you must make a key decision which directly affects the income earned for the rest of the annuity.

How long is the term for the annuity deposit?

Once chosen, this term is automatically renewed over the life of the annuity; it cannot be changed. For example, if you choose a fixed rate five-year term deposit, the annuity will earn that amount for five years. When renewed, the interest rate in effect **at that time** will continue for the next five years, and so on.

Be aware, when choosing a TCA 90 with limited investment control, that your income is subject to changing interest rates. For example, a fixed rate five-year term at 6% may look unattractive now. But in five years, when the term is automatically renewed, the interest may be much higher and your income could increase accordingly. It could also be lower, resulting in a drop in income.

The guiding rule: Be prepared for fluctuations.

NOTE: You can always switch from a RRIF to an annuity if you wish by "spending" the capital in your RRIF to buy the annuity. In some cases, you may also be able to convert an annuity to a RRIF; check the terms of your annuity before signing to see if this option is available to you.

All payments from TCA 90s are taxable income, reported on a T4A form mailed to you at the end of each year.

TCA 90s can be purchased from insurance companies as well as some credit unions, banks and trust companies.

Choosing a RIO:

4. Life Income Funds (LIFs)

DESCRIPTION:
In some jurisdictions, LIFs provide payments for life by acting as a RRIF to age 80; by then, the balance must be converted to a Life Annuity or, if provided for in the applicable jurisdiction, to an LRIF. LIF governed under SK pension legislation may transfer to a SK RRIF. LIF governed under MB pension legislation may transfer to a MB RRIF*.

In AB, BC, MB, NS, ON, QC and Federal *PBSA, 1985*, pension legislation does not require termination of the LIF at age 80. In NL and SK, a LIF must be converted to a life annuity at age 80.

* *The Manitoba pension legislation provides the option of transferring up to 50% of an MB LIF/LRIF to an MB RRIF. Pre-approval from the Manitoba Superintendent of Pensions is required.*

MOST APPEALING QUALITY:
Flexibility in the early years of your retirement, security in later years.

ONLY AVAILABLE FOR:
Those with "locked-in" funds in RRSPs (except SK) or Registered Pension Plans.

Life Income Funds (or LIFs) combine the features of a Life Annuity and a RRIF, and were introduced as an alternative to Life Annuities for pension funds.

In those jurisdictions where a LIF must be terminated at age 80, the LIF functions like a RRIF, providing you with flexibility in both your investment decisions and amount of payment made. On December 31 of the year you reach your 80th birthday (or before then, if you so choose), the LIF must be converted to a Life Annuity, generating a fixed income.

Sources of Funds for Your LIF

If you have saved for retirement in one of the following types of plans, a LIF may be ideal for your needs.
The plans are:

1. Registered Pension Plan (RPP)
2. Locked-in RRSP
3. Locked-in Retirement Account (LIRA)
4. Locked-in Retirement Income Fund (LRIF) in certain jurisdictions

Participation in one of the above plans does not automatically ensure that you can convert it to a LIF upon retirement even if you reside in a province with legislation that permits LIFs. Check with your pension administrator.

Locked-in RRSPs and LIRAs must be converted to an eligible RIO by December 31 of the year you reach 71 years of age.

What to do? First, decide whether the benefits of a LIF match your needs. If so, ask your pension plan administrator if LIFs are an option for your pension amounts.

LIF Payment Options

A Life Income Fund can be purchased from credit unions, trust companies, insurance companies, banks and other organizations approved by the regulator of pensions in your province.

If you choose a LIF, you must withdraw annual minimum payments according to current RRIF levels; maximum payments are calculated based on the average yield of Government of Canada marketable bonds. Depending on the governing jurisdiction, legislation may provide for adjustments to this rate should the rate be less than 6%. Within these limits, you can make annual adjustments to the payment amount and frequency according to the agreement with the carrier administering the LIF.

In those jurisdictions where required, when you reach age 80 and funds have been converted to a Life Annuity (or in jurisdictions where permitted, to an LRIF or SK RRIF), future payments are governed by the conditions of the new contract. In the other jurisdictions, your LIF can continue.

- If funds are left in an AB LIF, the payments will end in the year you reach age 85.
- If funds are left in a BC, MB, NS, QC LIF, the payments will continue for life.
- If funds are left in a NB, NL, ON, SK, *PBSA, 1985* LIF, the payments will end in the year you reach age 90.

LIFs may be purchased in all provinces except SK and PEI. In addition, each province controls the design of LIFs for its residents, creating differences in their characteristics.

Taxation and Estate Considerations of LIFs

Your income from a LIF is taxed as though you were receiving payments from a RRIF. No withholding taxes are applied except on income above the annual minimum payment level.

If you should die before your LIF has been converted to an annuity, your spouse assumes ownership of the plan. (NOTE: some jurisdictions permit the spouse to waive their entitlement and permit the annuitant to name a different beneficiary). In most provinces the lock-in restrictions do not apply to spouses – allowing full control of funds. If you are not survived by a spouse, the funds are paid out to your estate or a named beneficiary.

Once the plan has been converted to an annuity, however, payments continue to your spouse according to the terms of the plan.

Choosing a RIO:

5. Restricted Life Income Fund (RLIF)

DESCRIPTION:
Only available for funds governed under the *Federal Pension Benefits Standards Act, 1985 (PBSA, 1985)*. The RLIF operates similar to a LIF governed under *PBSA, 1985* jurisdiction.

MOST APPEALING QUALITIES:
In addition to the flexibility in the early years of your retirement and security in the later years, the RLIF includes a one-time 50% unlocking option.

ONLY AVAILABLE FOR:
Those funds governed under Federal *PBSA, 1985*.

Sources of Funds for Your RLIF

If you have saved for retirement in one of the following types of plans, an RLIF may be ideal for your needs.

The plans are:

1. Registered Pension Plan (RPP)
2. Locked-in RRSP (LIRSP)
3. Life Income Fund

Participation in one of the above plans does not automatically ensure that you can convert to an RLIF upon retirement. Check with your pension administrator.

Locked-in RRSPs do not permit withdrawals prior to retirement. You must convert the funds to a LIF, RLIF or life annuity by December 31 of the year you reach 71 years of age.

RLIF Payment Options

An RLIF can be purchased from credit unions, trust companies, insurance companies, banks and other organizations.

If you choose an RLIF, you must withdraw annual minimum payments according to the current RRIF levels; maximum payments are calculated based on the greater of the average yield of Government of Canada marketable bonds and 6%. With these limits, you can make annual adjustments to the payment amount and frequency according to the agreement with the carrier administering the RLIF.

There is no requirement to convert the RLIF to a Life Annuity at age 80.

Taxation and Estate Considerations of RLIFs

Your income from an RLIF is taxed as though you were receiving payments from a RRIF. No withholding taxes are applied except on income above the annual minimum payment level.

If you should die before your RLIF has been depleted, your spouse assumes ownership of the plan. The spouse may transfer the remaining funds to an LIRSP, a Restricted Locked-in Savings Plan (RLSP), a LIF, Life Annuity or Deferred Annuity.

Choosing a RIO:

6. Locked-In Retirement Income Funds (LRIFs)

DESCRIPTION:
A RRIF which must make payments for life by regulating the maximum payment withdrawn in any year.

MOST APPEALING QUALITIES:
Flexibility of income and investments throughout the entire term of the plan; at death, the balance is available to survivors.

ONLY AVAILABLE FOR*:
Those with "locked-in" funds governed under Manitoba and Newfoundland and Labrador pension regulations.

** Saskatchewan LRIF is not available for purchase. LRIF opened prior to April 1, 2002 will continue until depleted or transferred to a SK RRIF.*

** Ontario LRIF opened prior to 2009 will continue until depleted or transferred to a LIF.*

The key differences between a LIF and a LRIF are the maximum payment calculation and the elimination of the need to convert the plan to a life annuity at age 80.

A LRIF functions like a RRIF with one exception: the plan must provide payments for life; it cannot be terminated before you die. Cash withdrawals are permitted, however, as long as the total of any withdrawals and regular payments does not exceed the maximum allowable each year.

Sources of Funds for Your LRIF

Funds for a LRIF can come from the following types of plans:

1. Registered Pension Plan (RPP)
2. Locked-in Retirement Account (LIRA)
3. Life Income Fund (LIF)

Participation in one of the above plans does not automatically ensure that you can convert to a LRIF upon retirement even if you reside in a province with legislation that permits LRIFs. Check with your pension administrator.

Locked-in RRSPs and LIRAs do not permit withdrawals prior to retirement. You must convert the funds to an LRIF, a LIF or a Life Annuity by December 31 of the year you reach 71 years of age.

LRIF Payment Options

Payment options with an LRIF are a little complex.

You can choose any amount between the Annual Minimum Amount and Maximum Payment.

To calculate the annual minimum amount (the amount you **must** withdraw each year), use the RRIF formula.

To calculate the Maximum Payment, **for the first two years** of your LRIF the amount is usually the greater of:

- The total of the investment income earned in the previous calendar year

OR

- For Year One, 6% of the value of the LRIF when it commenced and for Year Two, 6% of its value on January 1.

In subsequent years, the maximum payment will not usually be greater than the total investment income earned in the previous year, until the minimum RRIF payment exceeds this amount.

Recent legislative changes in the various pension jurisdictions have resulted in slight variations in how the maximum payment is calculated. Talk to someone who can create sample figures for you, such as qualified staff members at your credit union.

Taxation and Estate Considerations of LRIFs

LRIF payments are taxed identically to those received from a RRIF. Withholding tax is applied only to that portion of income above the annual minimum amount level. You will receive a T4RIF form at the end of each taxation year recording the amount withdrawn and the withholding taxes paid.

In the event of your death, your surviving spouse assumes ownership of the LRIF. (NOTE: some jurisdictions permit the spouse to waive their entitlement and permit the annuitant to name a different beneficiary). The locked-in restrictions drop on death of the annuitant, allowing full control of funds. If there is no surviving spouse, any funds remaining in your LRIF are paid to your estate or named beneficiaries.

Choosing a RIO:

7. Saskatchewan RRIF (SK RRIF)

DESCRIPTION:
A RRIF governed under Saskatchewan pension legislation.

MOST APPEALING QUALITIES:
The funds are not locked in; no restriction on the maximum payment amount; flexibility of income and investments throughout the entire term of the plan; at death, the balance is available to survivors.

ONLY AVAILABLE FOR:
Those with funds governed under Saskatchewan pension regulations. Although you cannot co-mingle locked-in funds from other pension jurisdictions, the Saskatchewan pension legislation does permit co-mingling of non-locked-in funds with funds locked-in under Saskatchewan pension legislation. Check with your credit union to determine if your SK RRIF is permitted to hold non-locked-in funds.

The key differences between a LIF, LRIF, or RLIF and a SK RRIF is the elimination of the maximum payment restriction.

A SK RRIF functions like a RRIF.

Sources of Funds for Your SK RRIF

Funds for a SK RRIF can come from the following types of plans:

1. Registered Pension Plan (RPP)
2. Locked-in Retirement Account (LIRA)
3. Life Income Fund (LIF)
4. Locked-in Retirement Income Fund (LRIF)
5. Saskatchewan Pension Plan (SPP)

Participation in one of the above plans does not automatically ensure that you can convert to a SK RRIF upon retirement even if you reside in Saskatchewan. Check with your pension administrator.

LIRAs do not permit withdrawals prior to retirement. You must convert the funds to a SK RRIF or a Life Annuity by December 31 of the year you reach 71 years of age.

You can choose the same payment options available for an ordinary RRIF.

Taxation and Estate Considerations of SK RRIFs

SK RRIF payments are taxed identically to those received from a RRIF. Withholding tax is applied only to the portion of income above the annual minimum amount level. You will receive a T4RIF slip at the end of each taxation year recording the amount withdrawn and the withholding taxes paid.

In the event of your death, your surviving spouse assumes ownership of the SK RRIF. Your spouse may waive designated beneficiary entitlement, thereby allowing you to appoint someone other than your spouse as the beneficiary of your SK RRIF.

Choosing a RIO:

8. Manitoba RRIF (MB RRIF)

DESCRIPTION:
A RRIF governed under Manitoba pension legislation.

MOST APPEALING QUALITIES:
The funds are not locked in; no restriction on the maximum payment amount; flexibility of income and investments throughout the entire term of the plan; at death, the balance is available to survivors.

ONLY AVAILABLE FOR:
Those funds governed under Manitoba pension regulations.

The key difference between a LIF or LRIF and a MB RRIF is the elimination of the maximum payment restriction.

A MB RRIF functions like a RRIF.

Sources of Funds for Your MB RRIF

Funds for a MB RRIF can come from the following types of plans:

1. Life Income Fund (LIF)
2. Locked-in Retirement Income Fund (LRIF)

Manitoba pension legislation permits a MB LIF/LRIF annuitant, who is at least 55 years of age, a one-time transfer of 50% of each LIF/LRIF contract to a MB RRIF. Pre-approval from the Manitoba Superintendent of Pensions is required. The eligible amount is restricted by outstanding spousal entitlements and orders under *The Garnishment Act or The Family Maintenance Act*.

You can choose the same payment options available for an ordinary RRIF.

Taxation and Estate Considerations of MB RRIFs

MB RRIF payments are taxed identically to those received from a RRIF. Withholding tax is applied only to the portion of income above the annual minimum amount level. You will receive a T4RIF slip at the end of each taxation year recording the amount withdrawn and the withholding taxes paid.

In the event of your death, your surviving spouse assumes ownership of the MB RRIF. Your spouse may waive designated beneficiary entitlements, thereby allowing you to appoint someone other than your spouse as the beneficiary of your MB RRIF. Prior to your death, you and your spouse may revoke the waiver signed by your spouse. Then upon your death, the proceeds of your MB RRIF would be transferred to your spouse.

Choosing a RIO:

9. Variable Benefit Account (VBA)

DESCRIPTION:
A RRIF-type pension payment from a Variable Benefit Account (VBA) under a defined contribution pension plan.

MOST APPEALING QUALITY:
Your pension funds remain with and invested by the pension plan administrator. You have flexibility to increase or decrease your payments within the guidelines of the *Income Tax Act* and the pension plan. On the death of the former member, the balance is available to survivors.

ONLY AVAILABLE FOR:
Defined contribution pension plans that have been amended to permit this type of pension income. Manitoba and Saskatchewan pension legislations permit the Variable Benefit Account.

The key difference between a VBA and a LIF/LRIF/RLIF/MB RRIF/SK RRIF is that the funds remain with the pension plan administrator.

Sources of Funds for Your VBA

Funds for a VBA can come from:

1. Registered Pension Plan (RPP)
2. LIRA
3. LIF/LRIF

Saskatchewan pension legislation will permit the transfer of a SK RRIF to a VBA. Check with your pension plan administrator to determine if your SK RRIF contract can be transferred back to the originating Registered Pension Plan and into a VBA.

Manitoba will not permit the transfer of a MB RRIF to a VBA.

Choosing a RIO:

10. Defined Contribution Retirement Income Account (DC RIA)

DESCRIPTION:
A LIF type pension payment from a DC RIA under a defined contribution pension plan governed under Alberta pension jurisdiction.

MOST APPEALING QUALITY:
Your pension funds remain with and invested by the pension plan administrator. On death of the former member, the balance is available to survivors.

ONLY AVAILABLE FOR:
Defined contribution pension plans that have been amended to permit this type of pension income. Alberta pension legislation permits DC RIA.

The key difference between a DC RIA a LIF/LRIF/RLIF/MB RRIF/SK RRIF is that the funds remain with the pension plan administrator.

Sources of Funds for Your DC RIA

Funds for a DC RIA can come from:

1. Registered Pension Plan (RPP)

2. LIRA

3. LIF

Flexibility in Investments for LIF, RLIF, LRIF, SK RRIF or MB RRIF

You have a wide range of investments to choose from such as:

- Variable and fixed-term deposits (including Guaranteed Investment Certificates and Term Deposits)
- Mutual funds
- Qualified stocks and bonds

Once you've converted your funds to a LIF, RLIF, LRIF, SK RRIF or MB RRIF you must begin receiving payments no later than the following year. But here's an interesting option:

Until age 71, you can terminate your LIF, LRIF or SK RRIF and convert it back to a LIRA. This would be an appealing option if you retire at age 60, with extra income anticipated from OAS, CPP and other pension sources when you reach 65. You could receive an income from your LIF, LRIF or SK RRIF until then, convert the plan back to a LIRA to build value, and reactivate it as a LIF, LRIF or SK RRIF, whenever you choose (although this must happen by the end of the year you reach 71). (Alberta discontinued the option of transferring a LIF to a LIRA. An Ontario LIF governed under Schedule 1 and LRIF can only be transferred to an Ontario LIF governed under Schedule 1.1. A *PBSA, 1985* RLIF can only be transferred to a *PBSA, 1985* RLSP).

Where Do You Go From Here?

We suggest a visit to your credit union.

Qualified staff will be pleased to discuss any aspect of your retirement options which were not covered in this brochure – or explain in more detail some of the plan features and options.

Above all, don't be overwhelmed by the choices listed here. In many ways, this wide range is designed to benefit you by providing flexibility to meet your individual and changing needs.

You've worked hard to reach a point where you can take control of your retirement income.

Your credit union wants to work just as hard to help you choose the ideal plan for you.

For further information on whether your former contribution pension plan permits VBA or DC RIA, you are encouraged to contact the pension plan administrator.

Glossary

Annuitant
The person to whom payments are made from an annuity OR the person who owns an RRSP or RRIF.

Annuity
A contract between an individual and an insurance company where, in exchange for a one-time payment, the insurance company guarantees to make regular payments to the annuitant according to an agreed-upon schedule.

CRA
Canada Revenue Agency (formerly Revenue Canada).

CPP
Canada Pension Plan. A federal government plan to which employees and employers make contributions, and which pays a pension to contributors or their survivors at retirement.

DC RIA
Defined Contribution Retirement Income Account.

Deposit Insurance
Insurance coverage for deposits at credit unions, trust companies and Canadian banks in the event the financial institution is unable to repay its depositors.

DPSP
Deferred Profit-Sharing Plan. A registered plan to which an employer credits selected employees with a share of profits of a business, if any. DPSP credits in a year reduce deductible RRSP contributions the following year.

Joint and Last Survivor
In an annuity, a contract which continues to make payments after the death of one spouse for the rest of the other spouse's life.

LIF
Life Income Fund.

LIRA
Locked-in Retirement Account.

LRIF
Locked-in Retirement Income Fund.

MB RRIF
A Registered Retirement Income Fund restricted by Manitoba pension legislation.

Mutual Fund
A financial product in which many people pool their money to be invested by professional investment managers.

OAS
Old Age Security. A monthly payment from the federal government to qualified residents or former residents of Canada, beginning at age 65.

RIO
Retirement Income Option.

RPP
Registered Pension Plan. A registered plan funded by the employer and employees to provide a pension income to employees.

RLIF
Restricted Life Income Fund governed under Federal *Pension Benefits Standards Regulations, 1985.*

RLSP
Restricted Locked-in Savings Plan governed under Federal *Pension Benefits Standards Regulations, 1985.*

RRIF
Registered Retirement Income Fund.

RRSP
Registered Retirement Savings Plan. A registered plan in which you save money for your retirement years. Contributions, within annual limits, are tax deductible and the income earned is tax sheltered. RRSP funds must be used to purchase a RIO before the end of the year you turn 71.

Single Life
In an annuity, a contract which ceases making payments upon your death.

SK RRIF
A Registered Retirement Income Fund restricted by Saskatchewan pension legislation.

Spouse/Common-Law Partner
Income tax legislation defines the term “spouse” to be an individual who is a party to a legal marriage.

As well, the term “common-law partner” has been introduced and is defined as two persons, regardless of sex, who cohabit in a conjugal relationship and who have cohabited throughout the 12 month period that ends at that time. This period can be less than 12 months if both partners are the natural or adoptive parents of the same child, or if one common-law partner has a child who is wholly dependent on the other for support and over whom the other has custody. The term “common-law partner” does not apply if at the particular time the individuals were separated for 90 days or more due to a breakdown of the conjugal relationship.

NOTE: Pension legislation in the various jurisdictions also defines the term “spouse” and other individuals who have similar rights under the applicable legislation.

TCA
Term Certain Annuity: a contract which distributes all principal and interest to an annuitant in regularly scheduled payments for a specific period of time.

TCA 90
Term Certain Annuity to age 90.

Term Deposit
An investment which pays a fixed interest rate to the depositor for a fixed period of time.

VBA
Variable Benefit Account.

Withholding Tax
Tax deducted from a payment to you and remitted to CRA as a credit toward income tax payable by you.

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