Manitoba

Office of the Superintendent - Pension Commission

Update #30
Locked-In Retirement Income Fund

Revised May 2005

Reference: *The Pension Benefits Act, Sections 21(13.1) and 31(4), Regulation, Sections 18.1, 18.2 and 18.3.1*

Effective May 25, 2005 the Regulation was amended to remove the temporary income provisions and permit a one–time transfer or “prescribed transfer” of an amount up to 50% of the balance in one or more LIFs or LRIFs to a prescribed RRIF.

Effective May 25, 2005, no amount shall be paid out of a LRIF as temporary income. However, an owner, who prior to May 25, 2005 was entitled to be paid temporary income from his or her LRIF in 2005 and does not make an application for a “prescribed transfer” from that LRIF, may continue to be paid temporary income until the end of 2005 based on the method of payment in that LRIF contract. Should the LRIF owner however subsequently make an application for a “prescribed transfer” from that LRIF, no further temporary income can be paid despite any provisions that apply to that LRIF contract.

Financial institutions currently on the Superintendent’s List of Financial Institutions with approved forms of contracts that include temporary income will be required to remove the temporary income provisions from their standard form of contract the next time the contract is amended.
Additional information on the one-time transfer of an amount up to 50% of a LIF or LRIF to a prescribed RRIF can be found in Update 32 at:
www.gov.mb.ca/finance/pension/pdf/update32.pdf

LOCKED-IN RETIREMENT INCOME FUND

The Locked-In Retirement Income Fund or "LRIF" was introduced through an amendment to the Regulation, which came into force on August 14, 1998.

Who Qualifies

Plan members who are retiring under defined contribution or money purchase pension plans, as well as individuals with locked-in pension funds in locked-in RRSPs, Locked-In Retirement Accounts (LIRA), or Life Income Funds (LIF) have the option of transferring their pension funds to a LRIF. Plan members retiring under defined benefit pension plans will only be permitted to transfer the value of their pension benefits to a LRIF if the plan provisions permit.

Variable Income

Upon transferring pension funds to a LRIF at retirement, an individual will receive an adjustable flow of retirement income, subject to an annual minimum and maximum withdrawal amount. The withdrawal range is calculated so that there is enough money in the fund to ensure that the individual receives an income for their lifetime. It is important to note that many of the rules that apply to RRIFs also apply to the LRIF.

Minimum Income

The minimum withdrawal an individual must take from the LRIF in any given year, other than the first year of the fund, is determined according to the minimum withdrawal formula for Registered Retirement Income Funds (RRIF) under the Income Tax Act.

Maximum Income

The maximum income payable is based on the investment income earned in the fund in the previous year with a minimum of 6% of the fund in the first two years.

In comparison to the life annuity and LIF, the LRIF is the most flexible option for determining the flow of income. It is, however the most volatile option because the amount that can be taken in any year will change depending on investment earnings during the previous year.

Temporary Income

Effective May 25, 2005, the temporary income provisions of the regulation were repealed. No amount shall be paid out of a LRIF as temporary income.

A LRIF owner, who prior to May 25, 2005 was entitled to be paid temporary income from his or her LRIF in 2005 and who does not make an application for a “prescribed transfer” from that LRIF, may continue to be paid temporary income in 2005 according to that LRIF contract. Should these LRIF owners however subsequently make an application for a “prescribed transfer” from that LRIF, no further temporary income may be paid despite any provisions that apply to that LRIF contract.

No LRIF owner can be paid temporary income after December 31, 2005 despite any provisions that apply to their LRIF contract.

Death Prior to Conversion

Where the LRIF owner dies prior to converting it to a Life Annuity, the balance of the LRIF will be transferred to the spouse or common-law partner. Where there is no spouse or partner, the balance of the fund will be transferred to the beneficiary, or where no beneficiary exists, to the owner’s estate.

If the LRIF owner is a former or surviving spouse or partner of a member or former member, the balance in the fund may be paid to the designated beneficiary, or estate, in a lump sum.

Transfers

Funds in a LRIF may be transferred to another approved LRIF contract, to a LIF, to a Locked-In Retirement Account, or be used to purchase a life annuity.

Employers, RRSP/LIRA carriers, LIF carriers and LRIF carriers must advise the financial institution issuing a LRIF contract, in writing, that the pension funds are locked-in and must be used to provide a pension.

NOTE: *When a LRIF owner requests a transfer from one LRIF to a new LRIF or LIF during a given calendar year, the financial institution issuing the new LRIF or LIF contract cannot make any payments, to the LRIF owner during that year. The LRIF owner must be sure to make any desired withdrawals from the old LRIF before making the transfer.*

Pension Waiver Form Required

If the LRIF owner has a spouse or common-law partner and elects to purchase an annuity with the fund, the form of pension must be a joint life pension reducing to not less than 2/3rds on the death of the owner or the spouse or common-law partner, unless the owner and the spouse or common-law partner jointly complete the "Pension Waiver Form" (form MG-1701) prior to purchasing the annuity.

If the LRIF owner is a former or surviving spouse or partner of a member or former member, a joint life pension is not required in the event the LRIF owner has a spouse or common-law partner and elects to purchase an annuity with the fund.

Superintendent's List of Approved LIRAs/LIFs/LRIFs

Section 18.1 provides that a transfer of locked-in money to a LRIF can be made only if the financial institution, which is to receive the money, has

a. filed with the Superintendent for approval a copy of the standard LRIF addendum which contains all the contractual provisions required in subsections 18.1(15) and 18.2(3),
b. been notified in writing that its name has been placed on the Superintendent's List of Financial Institutions for purposes of the LIRA/LIF/LRIF, and
c. not been notified by the Superintendent that its name has been removed from that list.

To qualify as a LRIF, the financial institution must file the standard form of contract it intends to use which must conform with the requirements in sections 18.1(15) and 18.2(3) of the regulations under *The Pension Benefits Act*. Please note that financial institutions are **not** required to file their Registered Retirement Income Fund Contract, Declaration of Trust or Application Form. **Only** a standard addendum conforming with the requirements in sections 18.1(15) and 18.2(3) need be filed for approval. Confirmation that the RRIF contract has been registered with Canada Revenue Agency along with the registration number must also be submitted.

In the event the requirements of the regulation are met, the financial institution's name will be placed on the Superintendent's List of Financial Institutions for the purpose of the LIRA/LIF/LRIF. Any amendment to the standard addendum must also be filed with the Superintendent.

To facilitate the preparation of the addendum to be filed with the Commission, a sample addendum has been developed. Financial institutions may wish to refer to this addendum in preparing their standard addendum. However, institutions are also advised to review the applicable provision of the regulations when preparing such addendum.

A copy of the most recent Superintendent's List of Financial Institutions may be obtained from the Pension Commission of Manitoba, or by viewing our website.

Calculating the Maximum Withdrawal Amount

The following example demonstrates how the maximum withdrawal amount is calculated.

Assumptions:
Previous year's investment earnings =6%
Age = 64
Capital = $150,000

Minimum = minimum amount set for a RRIF by Canada Revenue Agency. This formula applies for those 70 and under. For those 71 and older see Canada Revenue Agency table of factors.

= Value of RRIF/ (90-64) = $150,000 / 26 = **$5,769.23**

Maximum = the greatest of:

a. the LRIF balance at the beginning of the year less the difference between the amounts transferred to the LRIF before that time and the amounts transferred out of the LRIF before that time,
b. the income and gains earned by the LRIF during the immediately preceding year, net of any losses realized by it in that year,
c. for the first two fiscal years of the fund, 6%
d. in the year following the transfer from a LIF, the investment income earned in the LIF and the LRIF in the previous fiscal year.

Example (based on first year of fund):

M = 6% of fund = 6% x $150,000 = **$9,000**

Note: Additional examples of the calculations can be found on the website under "Sample Calculations"

This update has no legal authority. The Pension Benefits Act of Manitoba and The Pension Benefits Regulation, 188/87 R amended should be used to determine specific requirements.