Slide 1

Locked-in Accounts

Segment on New LIFs

Slide 2

Hello, my name is Rebecca Hines and with me is my co-host Sharon Polischuk. This segment of the webcast covers new life income funds. For an overview of the webcast or information on another type of locked-in account or withdrawals in special circumstances, please click on the link appearing at the bottom of this screen. It will take you to our website where you will be able to make your selection.

Slide 3

A New LIF is a registered retirement income fund, or RRIF, with special rules that preserve the money but allows you to be paid a certain amount from it each year.

You can buy a New LIF if you meet the age restrictions and have portability rights, which means you've terminated employment and are entitled to transfer the value of your pension out of the pension fund. You have portability rights if you've left your job before retirement age or later if the plan terms permit, but not if you've been temporarily laid off or are on leave. You also have portability rights if you were a member of a MEPP and your membership was terminated. In addition, if your pension plan has been wound up, you are entitled to portability.

You can also buy a New LIF if you are the spouse or former spouse of a member of a pension plan and you are entitled to a portion of your spouse or former spouse's pension.

You can buy a New LIF or transfer money to your existing New LIF if you have another locked-in account – a LIRA, another New LIF, an Old LIF or an LRIF.

You must satisfy the age restriction and spousal consent requirement.

Slide 4

You can buy a New LIF at any time in the calendar year that precedes the year in which you reach early retirement age under the terms of any former pension plan.

For example, Bob's pension plan provides for normal retirement at age 65. That means that a member of that plan is eligible for early retirement 10 years before normal retirement age, which would be 55. Bob turns 55 in July, 2013. So he could have purchased a New LIF as early as January 1, 2012, which was the earliest date in the year before he reached early retirement age under his plan – even though Bob was 53 at the time.

This means you should check the terms of your plan to determine the early retirement date – it's usually 10 years prior to normal retirement date. It is up to you to advise your financial institution of your early retirement date when you go to buy your New LIF.

Where assets of the New LIF are derived from a spouse's or former spouse's pension plan as a result of the breakdown of a spousal relationship, payments out of the New LIF must begin no earlier than the date on which you reach 55.

Slide 5

If you have a spouse on the day you buy a New LIF, you must get your spouse's written consent before you can buy it. Your spouse is not required by law to provide his or her consent – and if he or she refuses to consent, you cannot buy a New LIF.

But if you and your spouse are living separate and apart on the day of the purchase as a result of a breakdown in your relationship, you do not have to get your spouse's consent to purchase the New LIF.

And if the money that you are using to buy a New LIF comes from the pension benefits of your former spouse due to a breakdown in that relationship, the consent of your current spouse is not required.

For example: Mr. and Mrs. Jackson divorced and Mrs. Jackson transferred a portion of her pension money to Mr. Jackson, who used the money to buy a LIRA. Mr. Jackson remarried and now wants to buy a New LIF. Because the money originated from Mrs. Jackson's pension, he does not need his second wife's consent to buy the New LIF.

Slide 6

Money can be transferred into a New LIF from:

- a registered pension plan, if you are entitled to portability, when you terminate employment, when you terminate membership if you are in a MEPP, your plan winds up or a breakdown of a spousal relationship;
- a LIRA, as long as the transfer is made before the last day of the year in which you turn 71;
- another New LIF; or
- an existing Old LIF or LRIF.

Slide 7

When you buy a New LIF, or when you transfer money to an existing New LIF, from either a registered pension plan, or a LIRA, you can unlock up to 50% of the value of the money transferred into your New LIF.

You can either:

- withdraw it in cash; or
- transfer the unlocked portion to an RRSP or RRIF.

This is a time limited option, you must apply for the withdrawal or transfer within <u>60 days from the day the money was transferred into the New LIF.</u> You should ask your financial institution what date the money was transferred into your New LIF. Once the 60 day period has expired, the 50% withdrawal or transfer option comes to an end.

Example: Moe transfers $100,000 from his LIRA to buy a New LIF on January 15. His bank receives the money on January 20. Moe can withdraw in cash up to $50,000, or he can transfer up to $50,000 to his RRSP, but he must make his application no later than March 21 – 60 days from January 20.

Slide 8

You can only apply once for each transfer of money into your New LIF.

You cannot apply for a withdrawal or transfer if the money came from another New LIF, an Old LIF or an LRIF, except if the assets were transferred in accordance with the terms of an order under the Family Law Act, a family arbitration award or a domestic contract.

You must make the application on FSCO pension form 5.2, to your financial institution, within 60 day from the day the money was transferred.

Slide 9

You can invest the money in your New LIF in any way that is allowed under the Income Tax Act. You can have a self-directed LIF or the investment can be handled by your financial institution.

You must be paid a certain amount of money from your New LIF each year. We will discuss this in greater detail shortly.

Money in a New LIF, including all accrued interest and investment earnings, may only be transferred to another New LIF or to purchase a life annuity.

If you want to transfer the money in your Ontario New LIF to a financial institution elsewhere in Canada, that institution must agree in writing that they will administer the money according to Ontario law. That means if you move to Manitoba and transfer your New LIF there, it will be governed by Ontario law and you will only have the Ontario options available to you.

You cannot transfer the money in your New LIF outside Canada because the requirement that the money be administered according to Ontario law cannot be enforced outside Canada.

You can apply to withdraw money from your New LIF under certain situations that are set out in the legislation, if you qualify. We will discuss this in greater detail later.

Slide 10

Each year except for the first year of the New LIF, a certain minimum amount of money must be paid out of the New LIF. In the first year, you can choose not to be paid any money from your New LIF.

The minimum that must be paid is set out in a formula in the Income Tax Regulations. The minimum is the same amount that would be required to be paid for a RRIF.

There is a maximum amount that can be paid from the LIF. The maximum amount is based on a formula set out in the Pension Benefits Act.

Slide 11

The maximum amount that can be paid from a New LIF each year is the greater of:

- the amount determined under a prescribed formula in the regulation, known as the "LIF formula", and
- the amount of investment earnings including unrealized capital gains or losses your New LIF earned in the previous fiscal year.

The maximum amount under the LIF formula changes each year, depending on your age and how much money is in your LIF at the beginning of the year.

You must advise your financial institution at the beginning of each year of how much you want to be paid from your New LIF for the coming fiscal year and whether you want to be paid at the beginning of the year or in monthly payments. If you do not notify them of the amount you want to be paid, they must pay you the minimum amount.

Slide 12

There are some special rules that apply to the maximum amount you can be paid in certain circumstances. The first is the maximum payment you can receive in the initial year of the New LIF.

In the first example, you have purchased a "brand new" New LIF and have transferred money into it. If the money came from another New LIF, an Old LIF or an LRIF, the maximum that can be paid from the "brand-new" New LIF for that year under the PBA is **zero.**

But note that the Income Tax Act requires that you be paid a minimum amount from the originating New LIF. So even if you have not received any payment from the originating account before the transfer, your financial institution will have to pay you the minimum.

Before you make the transfer, make sure you receive your payment from the originating account.

If the money is being transferred from a registered pension plan or a LIRA, then the maximum is calculated based on the amount in the "brand-new" New LIF at the start of the fiscal year, which would be the date you purchased the New LIF. If the fiscal year begins on a day after January 1, the amount would be prorated over the number of months remaining in the year.

Slide 13

In the next example, you transfer money to a New LIF you already own. Once again, it depends on where the money is coming from.

If you make the transfer at any time during a calendar year from a registered pension plan or a LIRA, the maximum you can be paid for that year is calculated on the amount that was in your New LIF on January 1 of that year, <u>before you transferred additional money in.</u>

If you transfer money from an existing New LIF, an Old LIF or an LRIF to another New LIF, you will not be paid any income from the successor New LIF in the year of transfer. So before you make the transfer, make sure you receive your yearly payment from the originating New LIF.

Slide 14

There are special rules for determining the maximum amount that can be paid from a New LIF in the year following the transfer of money from another New LIF, an Old LIF or an LRIF.

The maximum is the greatest of:

- the amount determined under the LIF formula, using January 1 of the year in question as the starting point;
- the amount of investment earnings attributable to the New LIF during the previous year, starting from the date the New LIF was established; and
- the amount of the investment earnings attributable to the transferring fund in the previous year up to the date of transfer, plus the investment earning attributable to the receiving New LIF for the balance of that year.

While the last amount will usually be greater than the second amount, it is possible that the amount earned under the New LIF exceeds the total earnings of both accounts. That could happen if you lost money in the transferring fund and earned a greater amount in the New LIF.

Slide 15

If you have a spouse on the date of death, he or she is entitled to:

- a lump sum payment in cash, equal to the value of your New LIF on the date of death, plus all accumulated investment earnings from the date of death to the date of payment; or
- transfer the money in your New LIF as of the date of death, plus all accumulated investment earnings from the date of death to the date of payment, to his or her RRSP or RRIF, assuming he or she meets the ITA requirements for such a transfer.

Your spouse may waive his or her survivor entitlement by delivering a written waiver on FSCO pension form 4.1, "Waiver of Survivor's Benefits from an Ontario Locked-In Account" to the financial institution. Your spouse may cancel his or her waiver by delivering a written cancellation to the financial institution before your death.

The survivor benefit will be paid to your designated beneficiary, or if there is no beneficiary, to your estate if:

- you have no spouse;
- your spouse has waived entitlement and has not cancelled the waiver prior to the date of your death;
- you or your spouse are living separate and apart at the time of your death; or

- the money came from the pension plan of a former spouse due to the breakdown in that spousal relationship.

Slide 16

Certain information must be provided to you at the beginning of each fiscal year by your financial institution:

For the previous fiscal year:
- the sums deposited in the fund;
- any accumulated investment earnings (including any unrealized capital gains or losses);
- the payments made out of the fund;
- the withdrawals taken out of the fund; and
- the fees charged against the fund.

You must also be advised of the value of the assets in the fund as of the beginning of the fiscal year, the minimum amount that must be paid during the year, and the maximum amount that may be paid during the year.

Slide 17

You may make an application for a withdrawal of some money from a New LIF in specified situations, which we will discuss later.

You cannot assign your New LIF to someone else; commute it; or surrender it.

Your New LIF cannot be seized by creditors but any money that is withdrawn from it may be seized.

If your spousal relationship comes to an end, you and your spouse or former spouse may divide the money in your New LIF in accordance with a court order, family law arbitration award or domestic contract. No more than 50% of the money as of the family law valuation date in the New LIF can be assigned to the spouse or former spouse.

A new LIF can be attached to settle a court order for support payments.

Slide 18

Since 2011, <u>most</u> of the rules for New LIFs, Old LIFs and LRIFs have been harmonized.

The same rules for New LIFs, Old LIFs and LRIFs apply with respect to minimum and maximum payments, withdrawals in special circumstances, survivor benefits on death, the division of the money on spousal breakdown and payment related to support orders.

The main differences are that no new purchases of an Old LIF or LRIF are allowed, and money cannot be transferred into Old LIFs or LRIFs. There are also differences relating to where money in an Old LIF or LRIF can be transferred.

The 50% withdrawal or transfer option is not available for Old LIFs or LRIFs.

Slide 19

Q1. Can you buy a New LIF if you are 54?

A) It depends on the early retirement age in your pension plan

B) No. You must wait until 65

C) Yes, at any time

D) No. You must wait until 60

E) None of the above

The answer to Q1 is A. It depends on the early retirement age in your pension plan.

Slide 20

Q2. I transferred money from my New LIF to another New LIF I opened but it's now past the 60 day period. Can I withdraw 50%?

A) It's up to your financial institution

B) No. You've missed the 60-day period

C) No. The 50% withdrawal does not apply to transfers from New LIFs to other New LIFs

D) No. You can only withdrawal up to 25%

E) None of the above

The answer to Q2 is C. No. The 50% withdrawal does not apply to transfers from New LIFs to other New LIFs.

Slide 21

For more information, you can visit our FSCO website using the links provided here.

You may also call our FSCO contact centre at the number on the screen or send an e-mail to the address on the screen.

The rules which govern Ontario locked-in accounts can be found under four schedules in the regulations under the PBA:

- Old LIFs – schedule 1
- New LIFs – schedule 1.1
- LRIFs – schedule 2
- LIRAs – schedule 3

Slide 22

This concludes this segment of our webcast on Locked in Accounts.

Thank you for your interest and we hope you have found the presentation to be helpful. **To see another segment of the webcast, please click on the link appearing at the bottom of the screen.**

Please remember to complete the survey as it will go a long way in ensuring future webcasts are helpful to you.

To stay up-to-date on FSCO’s latest information concerning FSCO's regulated sectors, sign up to our subscription centre. You'll get important sector updates, information and tips sent directly to your preferred email or RSS account.