

Supplemental Pension Plans

Are you
familiar With
LIRAs *and* LIFs?





The Régie des rentes du Québec

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This publication does not have force of law. In cases of conflicting interpretation, the *Supplemental Pension Plans Act* and its regulations prevail over the contents of this publication.

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A large print version is also available. Call the Régie at 1 800 463-5185.

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Each year, the Régie des rentes du Québec receives many requests for information about locked-in retirement accounts (LIRAs) and life income funds (LIFs).

For example, people who have lost their jobs and are entitled to transfer amounts accumulated in their supplemental pension plan to an LIRA or an LIF often ask us the following questions:

What is an LIRA?

What is an LIF?

Can I withdraw money from an LIRA or LIF?

When can I withdraw money?

How much can I withdraw?

If you would like to know more, you can find general information about LIRAs and LIFs in this booklet.

This booklet does not apply to federal public servants or to workers whose pension plan is subject to federal legislation such as the *Pension Benefits Standards Act* (1985). If you work in the following sectors, you may be subject to federal legislation: inter-provincial rail, air and road transportation, maritime transportation, Indian affairs, radio and television, telecommunications, atomic energy, seeds, feed and flour, chartered banks and federal Crown corporations.



LIRA

Locked-in retirement account



An LIRA is a specific type of registered retirement savings plan (RRSP), to which you can transfer amounts from a supplemental pension plan or an LIF.

The difference with an RRSP is that the funds in an LIRA are locked-in and can only be used to provide a retirement income. You cannot withdraw them unless you provide a medical certificate certifying that your life expectancy has been reduced because of a physical or mental disability. In such a case, you can withdraw all or part of your LIRA balance.

If you are 65 or over, or if you are no longer living in Canada, you can withdraw all of your LIRA under certain conditions.*

Many financial institutions that offer RRSPs also offer LIRAs. You must contact one of these institutions to open an LIRA.

Can I receive an income from my LIRA?

No. LIRAs are used to accumulate retirement savings. To receive an income, you must first transfer the amounts accumulated in your LIRA to an LIF or use the money to purchase a life annuity from an insurer.

* See the section called “Total withdrawal of amounts in an LIRA or LIF.”



LIF

Life income fund



An LIF is a specific type of registered retirement income fund (RRIF) to which you can transfer amounts coming from your supplemental pension plan or your LIRA. The difference with an RRIF (which has no withdrawal ceiling) is that you cannot withdraw more than an authorized maximum amount each year from an LIF.

Many financial institutions that offer RRIFs also offer LIFs. You must contact one of these institutions to obtain an LIF.

What can I withdraw from my LIF?

You can withdraw a life income. Furthermore, it is also possible for some people to withdraw a temporary income from their LIF if they meet certain conditions.



Life income

A life income is the retirement income that you can receive from your LIF each year until your death. As with RRIFs, you must withdraw the minimum required under tax rules. However, since the amount in your LIF must be large enough to provide you with an income until your death, you cannot withdraw more than the authorized maximum each year. The maximum is calculated on the basis of your age, the balance in your LIF and the reference rate set for LIFs.



At the beginning of each year, your financial institution will calculate the minimum and maximum withdrawals you can make for the year in question. You will then receive the amount you request in the number of payments provided for in the contract you signed with your financial institution. The amounts you withdraw are subject to income tax.

Temporary income

It is possible to withdraw an additional amount from an LIF. This is called a temporary income.

To obtain a temporary income, your LIF contract must have a temporary income option and you must apply each year to your financial institution. If you apply for a temporary income and are entitled to one, the bank will calculate the amount you can withdraw and will have you complete the required declarations.

A temporary income cannot exceed 40% of the maximum pensionable earnings (MPE)* for the year of the request, which is 16 200 \$ in 2004. A temporary income is subject to income tax.



* The maximum pensionable earnings (MPE) is the maximum salary on which Québec workers contribute to the Québec Pension Plan for a given year. In 2004, the MPE is 40 500 \$. Therefore, 40% of that amount is 16 200 \$.

Who can receive a temporary income?

To find out whether you meet the conditions for payment of a temporary income, you must first consider your age.

If you are under age 54

If you are under age 54, you can request a temporary income from your LIF each year, but you must meet 2 conditions:

1. You must have only one LIF;
2. The income* that you expect to receive over the 12 months following your application for a temporary income must not exceed 40% of the MPE for the year in which you make the application, that is, 16 200 \$ in 2004. When your income is calculated, the temporary income is not included in the calculation.

The temporary income you can receive is divided into 12 equal monthly payments. However, the monthly payments are made as of the month of your application until the end of the year. For example, if you make your application in January, you will receive 12 monthly payments. If you file your application in September, you will receive 4 monthly payments.



* The term “income” includes any amounts received as a salary, interest, pension or other, including employment insurance, interest income, salary insurance and income security benefits. Income received for the benefit of a third party such as family allowances and child support payments are not counted.

Example

In 2004, Renée is 52 and has 50 000 \$ in her LIF, which has a temporary income option. Renée expects to have an income of 8 000 \$ during the 12 months following her application for a temporary income. She is therefore eligible for a temporary income. Her financial institution calculated the amounts that she can receive from her LIF this year.

If Renée asks for the maximum life income, she will be able to withdraw 3 050 \$ from her LIF.

If she applies for a temporary income, she can receive 10 200 \$, payable in monthly payments of 850 \$ as of the month of her application, until the end of the year. If she applies in January, she will be entitled to 12 monthly payments of 850 \$, for a total of 10 200 \$. If she applies in September, she will be entitled to 4 monthly payments of 850 \$, for a total of 3 400 \$.

Renée therefore has the choice of withdrawing a life income of 3 050 \$ paid according to the number of payments provided in the contract she signed with her financial institution or of withdrawing a temporary income in the form of monthly payments of 850 \$ for the months remaining in the year, starting from the date of her application.



You can contact your financial institution to find out if you are eligible for a temporary income this year and to find out what amount you could receive from your LIF.



If you are between 54 and 65

If you are between 54 and 65, you can apply for a temporary income from your LIF each year, regardless of your other income. The temporary income allows persons who have not reached age 65 to obtain an additional amount from their LIF.

If you apply for a temporary income, your financial institution must adjust the amount of your life income. Your maximum life income will therefore be reduced.

You will receive the temporary income that you request in accordance with the number of payments provided for in the contract you signed with your financial institution.

Example

In 2004, Claude is 58 and has 200 000 \$ in his LIF, which offers the option of a temporary income. His financial institution calculated the amounts to which he is entitled this year.

If he requests the maximum life income, he can withdraw 13 200 \$ from his LIF.

If he requests a temporary income of 16 200 \$, he will be entitled to an adjusted life income of 5 668,62 \$. He can withdraw a maximum of 21 868,62 \$ ($16\,200 \$ + 5\,668,62 \$$) from his LIF in 2004.

Your financial institution can tell you what amount you can receive from your LIF if you request a temporary income.

Persons age 65 or over

If you are 65 or over, you can no longer obtain a temporary income from your LIF, but you can withdraw a life income. This restriction was set because people usually start receiving income from public plans at age 65 (Québec Pension Plan and Old Age Security pension). However, if you meet certain conditions, you could withdraw your entire LIF.

Total withdrawal of amounts in an LIRA or LIF

If you are 65 or over, you can withdraw the entire balance of an LIRA or LIF if the total amount you have in the following types of accounts and funds does not exceed 40% of the MPE for the year of the request, that is, 16 200 \$ in 2004:

- LIRAs
- LIFs
- defined contribution supplemental pension plans
(or in the defined contribution component of a plan)
- locked-in RRSPs

Your financial institution or plan administrator can tell you what amounts you have in these locked-in retirement savings instruments.

Furthermore, no matter what your age, you can withdraw the entire balance of your LIRA or LIF in a lump sum if you have not been residing in Canada for at least two years and if your investments have come to maturity.

To withdraw the entire amount in your LIRA or LIF, you must make an application at your financial institution. The amounts you withdraw are subject to income tax.



Questions and Answers

What happens to my LIRA or LIF if I die?

When you die, the balance in your LIRA or LIF will no longer be locked-in. It is payable to your spouse or, if you do not have a spouse, to your designated beneficiary or heirs. The amounts withdrawn are subject to income tax unless certain exemptions provided under tax rules apply. If you would like more information on this subject, contact the Canada Revenue Agency by telephone at 1 800 959-8281.

Can my spouse renounce his or her right to receive the balance of my LIRA or LIF when I die?

Yes, your spouse can, at any time before payment of the death benefit, renounce his or her right to receive the balance of your LIRA or LIF. The only requirement is that your spouse must provide the financial institution with a written notice of renunciation. Your spouse can also revoke his or her renunciation. The revocation must be sent to the financial institution in writing, before you die.

Can I transfer my LIF to another LIF during the year?

Yes, you can transfer your LIF to another LIF during the year. However, the transfer could be delayed if your investments have not come to maturity at the date you request the transfer. You must also make sure to withdraw all the amounts you want for the rest of the year before making the transfer because the amounts transferred from your first LIF cannot be used to provide you with an income until the beginning of the following year.

The same rule applies to payment of a temporary income, except in the case of fundholders under age 54. If a fundholder meets the conditions for entitlement to a temporary income, an amount can be paid, even if the LIF was transferred during the same calendar year.



If I have an LIRA, must I wait until I am 55 to withdraw a retirement income?

No. You can transfer the amounts in your LIRA to an LIF at any time in order to withdraw a retirement income. The transfer could be delayed if your investments have not come to maturity at the date you request the transfer.

Can I go back to an LIRA if I no longer wish to withdraw an income from my LIF?

Yes. You can transfer your LIF to an LIRA at any time until the end of the year in which you reach the age of 69. The transfer could be delayed if your investments have not come to maturity at the date you request the transfer.

Am I required to transfer the amounts in my LIRA to an LIF at a certain time?

Yes. You must transfer the amounts in your LIRA to an LIF or convert the amounts to a life annuity at the end of the year in which you reach the age of 69 regardless of when your investments mature.

Can my LIRA or LIF be seized?

Sums originating in a pension plan subject to the *Supplemental Pension Plans Act* and that have been transferred to an LIRA or LIF cannot be seized except for purposes of partition of family patrimony, payment of a support debt or compensatory allowance. However, no more than 50% of the amounts can be seized.

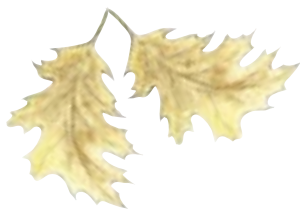
Do I have to purchase a life annuity with my LIF at age 80?

No. Since 1 January 1998, it is no longer necessary to convert an LIF into a life annuity at age 80.

Other publications on LIRAs and LIFs

- *Newsletter Express*, 18 December 1998
(how the *Act* applies)
- *Newsletter Express*, 8 May 2000
(Transfers from an LIF to an RRSP or RRIF)

Those documents are available on the Régie's Internet site:
www.rrq.gouv.qc.ca.



Your satisfaction is our priority!



To find out more about our commitments to you:

Service Statement

The Régie des rentes du Québec has made commitments to provide the public with: reliable service, simple procedures, courteous and personalized service, adequate information about your rights and responsibilities, efficient management, competent employees and accessible and rapid services.

You can obtain a copy of the *Service Statement* on our Internet site, at our client services centres or at the office of your member of the National Assembly.

Services Commissioner

If you believe your situation has not received all the attention it deserves, you can contact the Services Commissioner, who will treat your complaints and comments completely independently. The Commissioner has the power to make recommendations to facilitate the resolution of disputes and improve client service. Complaints are kept strictly confidential and there is no need to fear personal repercussions.

You can contact the Services Commissioner by mail or through the Internet. You can also call the Régie (see the back cover of this brochure).



How to reach us

For more information about LIRAs and LIFs, please contact us:

By Internet

www.rrq.gouv.qc.ca



By telephone or fax

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By mail

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