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Pension Options

In Alberta, the money that is held for you in a pension plan must be used to provide you with a lifetime income when you retire.

Direct Payment From a Pension Plan

If you are retiring from a defined benefit pension plan, payments from the plan may be the only option available to you. Under this option, you will receive a set monthly pension for as long as you live. Before commencement of the pension, you may choose from among certain guaranteed forms of pension. Once you start to receive payments, you can make no changes to the amount or form of pension.

Most pension plans allow members to choose between a number of different forms of pension. All pensions are guaranteed for your lifetime. In addition, you may choose to put a guarantee on the pension so that if you die before a set period of time has passed (e.g., 15 years), your beneficiary will continue to receive payments for the rest of the 15 year period. If you choose a guarantee period, the monthly pension will be reduced to take into account then potentially longer payment period.

If you have a spouse when you retire, you must choose the 60% Joint and Survivor form of pension with your spouse designated as the beneficiary. If you want to receive a form of pension that guarantees your spouse less than 60% of your monthly pension for life, then your spouse must sign a Spouse's Waiver Form. This form states that your spouse agrees to give up the entitlement to the 60% Joint and Survivor pension. The form must be signed within the 90-day period immediately before you start to receive your pension payments.

If you leave your employer before retirement, or if you have a Defined Contribution pension plan, you may be allowed to transfer the value of your pension to a LIRA (Lock-In Retirement Account or Locked-in RRSP). This money must be used to provide you with lifetime income when you retire. The following is a description of the options that may be available to you:

1. purchase a life annuity,
2. transfer your money to a Life Income Fund (LIF), or
3. transfer to a Defined Contribution Retirement Income Account (DC-RIA) and
4. unlock one half of the amount in the pension or LIRA and take the amount in cash or transfer it to an RRSP or RRIF

You should understand that you may be able to use more than one type of retirement income arrangement. For example, you could purchase a life annuity that would cover some of your basic needs such as food and shelter, and receive the rest of your retirement money in a more flexible form through a LIF and/or a DC-RIA. Also, even if you start out with a LIF or a DC-RIA, you can at any time decide to convert them to a life annuity.

To decide what is best for you, here are some of the things you should consider.

The life annuity provides you with a set amount of income for life. This option provides the greatest certainty of income because the insurance company bears the investment risk. This is, however, the least flexible option because once you have elected your form of annuity, you cannot change it. This option is a good choice if you are looking for a secure, set, monthly base income.

The LIF is the most flexible option in terms of what you can receive in income in any given year and what you can invest in. It is, however, the least certain because the amount that you can receive in any year will change depending on investment earnings during the past year. Also, if you take out the maximum amount allowed each year, you will run out of capital at age 85. The LIF is a good choice if you want flexibility in your annual income and are prepared, or can afford, to take on the investment risk.

The DC-RIA is the same as a LIF except that it is provided by your employer through your group benefit plan. It combines the flexibility of income that the LIF does but limits the investments to those provided by the employer. If these investment choices have lower fees, you may be better off staying with your employer group plan.

You can unlock up to one half of the amount in your Locked In Retirement Account when you transfer the balance to one of the above retirement income arrangements. If you elect to receive the amount in cash, the amount will be taxable in the year you receive it. If you transfer the unlocked funds to an RRSP or RRIF, there will be no tax consequences on the transfer. The taxes will be paid when the money is drawn out of the RRSP or RRIF.

Purchase of a Life Annuity

Your first retirement income option is a Life Annuity. A Life Annuity can only be purchased from a life insurance company. In this case, a lump sum of all or part of the money in your LIRA or your pension plan is transferred directly to the life insurance company. The amount of monthly income that you will receive is based on the amount of the lump sum and the annuity rates in effect at the time of transfer. Annuity rates are based on current interest rates and life expectancy tables. A common rule of thumb is that at age 65, you will need to pay the insurance company about $10 for each dollar of annual retirement income that you wish to receive. If interest rates are high, (e.g. 10 percent), you will need somewhat less that the $10 for a dollar, and if rates are on the low side (e.g. 5 percent) you will need more than $10 to buy a dollar of retirement income.

The life insurance company guarantees to pay the Life Annuity for as long as you live. In addition, you may add guarantees to the Life Annuity. For example, you could purchase a Life Annuity that guarantees to make payments for your lifetime, but if you should die before 60 monthly payments have been made, the rest of the 60 monthly payments will continue to be made to your beneficiary. You should be aware, however, that the longer the guarantee period, or the more guarantees you put on the Life Annuity, the lower your monthly Life Annuity payments will be.

If you have a spouse when you retire, you must purchase a 60 percent Joint and Survivor Life Annuity with your spouse designated as the beneficiary. You can purchase a Life Annuity that pays your spouse a larger survivor benefit such as 100%. This would reduce the immediate monthly income that you would have compared to a single life annuity or a joint life annuity with a smaller survivor benefit, but the long-term receipts may be greater than with the other options. To choose a form of Life Annuity that provides your spouse with less than the 60 percent income continuation on your death, your spouse must sign a Spouse’s Waiver Form. The form must be signed within the 90-day period before you purchase the Life Annuity. A copy of the form will be provided to you by the life insurance company that sells the Life Annuity.

Transfer to a Life Income Fund (LIF)

The LIF is a second option for you to look at when considering your retirement income options. To set up a LIF, money is transferred from your LIRA or your pension fund to an LIF account with a financial institution.

Both a minimum and a maximum withdrawal amount are set each year to make sure that the fund

a) is used for retirement income, and
b) provides income for your lifetime, or at least age 85.

The fund cannot be cashed out in one lump sum. It must be used to provide retirement income for your lifetime.

Each year you must at least take out the minimum. You can, however, take out any amount in between the minimum and maximum. You cannot take out more than the maximum. The financial institution holding your LIF will advise you of the minimum and maximum amount that you can withdraw at the beginning of the year.

If you have a spouse when you transfer your funds to a LIF, your spouse must sign a Spouse’s Waiver Form giving up the entitlement to the 60 percent Joint and Survivor Life Annuity, required by pension legislation, before the transfer can be made. The waiver must be signed within the 90-day period before the transfer to your LIF. The financial institution providing the LIF will provide you with a copy of the form.

If you die before all of the funds in your LIF have been withdrawn, your spouse or, if you have no spouse, your beneficiary will receive the balance of the funds in your LIF in the form of a lump sum payment.

At any time you may decide to purchase a Life Annuity with some or all of the funds in your LIF. If you have a spouse when you purchase a Life Annuity, you must purchase a 60 percent Joint and Survivor Life Annuity, unless your spouse signs a new Spouse's Waiver Form. The waiver must be signed within the 90-day period before you purchase your Life Annuity. The financial institution you are purchasing your Life Annuity from will provide you with the form.

At the beginning of each year you must tell the financial institution holding your LIF how much you will be taking out in that year.

Canada Revenue Agency (CRA) sets the minimum amount that you must withdraw each year. The formula for determining the minimum amount is:

a) from the time you start your LIF to age 70

the value of your LIF account at January 1 of each year	divided by	90 minus your age at January 1 of each year

And

b) from age 71 on

a set percentage of the value of your LIF account

The following table shows the minimum LIF withdrawals.

Age	% Withdrawn	Age	% Withdrawn	Age	% Withdrawn
71	7.38	80	8.75	89	12.70
72	7.48	81	8.99	90	13.69
73	7.59	82	9.27	91	14.73
74	7.71	83	9.58	92	16.12
75	7.85	84	9.93	93	17.92
76	7.99	85	10.33	94	20.00
77	8.15	86	10.79	95	20.00
78	8.33	87	11.33	96	20.00
79	8.53	88	11.96	97 and on	20.00

The maximum amount that you can withdraw each year is the greater of

a) the minimum amount required by CRA above,

b) the investment income earned in the immediately prior calendar year of the contract, and

c) the annuity factor of a term-certain annuity to age 85.

The annuity factor is based on the number of years and months between your current age and age 85, and the expected investment return on the money in your LIF. The expected return is set each year as the long-term Government of Canada Bond rate (and is at least 6% if the bond rate is less). The maximum withdrawal amount is similar to what you would have received with your pension funds had you purchased a term certain annuity to age 85 instead of a LIF.

The following table shows the maximum LIF withdrawals assuming a 6% investment return.

Age	% Withdrawn	Age	% Withdrawn	Age	% Withdrawn
50	6.51	62	7.67	74	11.96
51	6.57	63	7.83	75	12.82
52	6.63	64	8.02	76	13.87
53	6.70	65	8.22	77	15.19
54	6.77	66	8.45	78	16.90
55	6.85	67	8.71	79	19.19
56	6.94	68	9.00	80	22.40
57	7.04	69	9.34	81	27.23
58	7.14	70	9.71	82	35.20
59	7.26	71	10.15	83	51.46
60	7.38	72	10.66	84	100.0
61	7.52	73	11.25	85 and on	100.0

Transfer to a Defined Contribution Retirement Income Arrangement (DC-RIA)

Your third retirement income option is a DC-RIA. It is exactly the same as a LIF except that it is provided by your employer through its group plan. To set up a DC-RIA, money is transferred from your LIRA or pension fund to a DC-RIA account with the employer's group benefits provider. Again, there are minimum and maximum amounts that may be withdrawn. These amounts are exactly the same as the Life Income Fund shown above.

The fund cannot be cashed out in one lump sum. It must be used to provide retirement income for your lifetime. At the time that you transfer your Defined Contribution Pension Plan to a DC-RIA, you can unlock 50% of the account balance. This amount can be taken as cash (with taxes withheld) or transferred to an RRSP or RRIF. This amount may be kept within your employer's group plan or transferred to any other financial institution.

If you have a spouse when you transfer funds to start your DC-RIA, then your spouse must sign a Spouse's Waiver Form giving up the entitlement to the 60 percent Joint and Survivor Life Annuity required by pension legislation. The waiver must be signed within the 90-day period before you start your DC-RIA. Your employer will provide you with a copy of the form.

You may at any time decide to purchase a Life Annuity with some or all of the funds in your DC-RIA. If you have a spouse when you purchase your Life Annuity, you must purchase a 60 percent Joint and Survivor Life Annuity unless your spouse signs a new Spouse's Waiver Form. The form must be signed within the 90-day period immediately before you purchase your Life Annuity.

At any time, you can transfer your DC-RIA to a LIF at a financial institution not associated with your employer. You cannot transfer the DC-RIA to a LIRA.

Federally Regulated Pensions

If you work for a company whose pension is regulated by the federal government (banks, transportation companies, telecommunication companies, etc.) your pension options are similar to the provincial options except that you cannot start your income until age 55 (compared to age 50 for Alberta) and the income must last your lifetime or at least to age 90 (compared to age 85 for Alberta).

Similar to Alberta, you can unlock 50% of the federal locked-in amount and take it in cash (and pay the tax) or transfer (tax deferred) to an RRSP or a RRIF. The two options for retirement income from a federally regulated defined contribution plan or a LIRA from a federally regulated pension plan are:

1. purchase a life annuity, or
2. transfer your money to a Life Income Fund (LIF).
3. unlock one half of the amount in the pension or LIRA and take the amount in cash or transfer it to an RRSP or RRIF

Purchase of a Life Annuity

Your first retirement income option is a Life Annuity. A Life Annuity can only be purchased from a life insurance company. In this case, a lump sum of all or part of the money in your LIRA or your pension plan is transferred directly to the life insurance company. The amount of monthly income that you will receive is based on the amount of the lump sum and the annuity rates in effect at the time of transfer. Annuity rates are based on current interest rates and life expectancy tables. A common rule of thumb is that at age 65, you will need to pay the insurance company about $10 for each dollar of annual retirement income that you wish to receive. If interest rates are high, (e.g. 10 percent), you will need somewhat less that the $10 for a dollar, and if rates are on the low side (e.g. 5 percent) you will need more than $10 to buy a dollar of retirement income.

The life insurance company guarantees to pay the Life Annuity for as long as you live. In addition, you may add guarantees to the Life Annuity. For example, you could purchase a Life Annuity that guarantees to make payments for your lifetime, but if you should die before 60 monthly payments have been made, the rest of the 60 monthly payments will continue to be made to your beneficiary. You should be aware, however, that the longer the guarantee period, or the more guarantees you put on the Life Annuity, the lower your monthly Life Annuity payments will be.

If you have a spouse when you retire, you must purchase a 60 percent Joint and Survivor Life Annuity with your spouse designated as the beneficiary. You can purchase a Life Annuity that pays your spouse a larger survivor benefit such as 100%. This would reduce the immediate monthly income that you would have compared to a single life annuity or a joint life annuity with a smaller survivor benefit, but the long-term receipts may be greater than with the other options. To choose a form of Life Annuity that provides your spouse with less than the 60 percent income continuation on your death, your spouse must sign a Spouse's Waiver Form. The form must be signed within the 90-day period before you purchase the Life Annuity. A copy of the form will be provided to you by the life insurance company that sells the Life Annuity.

Transfer to a Life Income Fund (LIF)

The LIF is a second option for you to look at when considering your retirement income options. To set up a LIF, money is transferred from your LIRA or your pension fund to an LIF account with a financial institution.

Both a minimum and a maximum withdrawal amount are set each year to make sure that the fund

a) is used for retirement income, and
b) provides income for your lifetime, or at least age 90.

The fund cannot be cashed out in one lump sum. It must be used to provide retirement income for your lifetime.

Each year you must at least take out the minimum. You can, however, take out any amount in between the minimum and maximum. You cannot take out more than the maximum. The financial institution holding your LIF will advise you of the minimum and maximum amount that you can withdraw at the beginning of the year.

If you have a spouse when you transfer your funds to a LIF, your spouse must sign a Spouse's Waiver Form giving up the entitlement to the 60 percent Joint and Survivor Life Annuity, required by pension legislation, before the transfer can be made. The waiver must be signed within the 90-day period before the transfer to your LIF. The financial institution providing the LIF will provide you with a copy of the form.

If you die before all of the funds in your LIF have been withdrawn, your spouse or, if you have no spouse, your beneficiary will receive the balance of the funds in your LIF in the form of a lump sum payment.

At any time you may decide to purchase a Life Annuity with some or all of the funds in your LIF. If you have a spouse when you purchase a Life Annuity, you must purchase a 60 percent Joint and Survivor Life Annuity, unless your spouse signs a new Spouse's Waiver Form. The waiver must be signed within the 90-day period before you purchase your Life Annuity. The financial institution you are purchasing your Life Annuity from will provide you with the form.

At the beginning of each year you must tell the financial institution holding your LIF how much you will be taking out in that year.

Canada Revenue Agency (CRA) sets the minimum amount that you must withdraw each year. The formula for determining the minimum amount is:

a) from the time you start your LIF to age 70

the value of your LIF account at January 1 of each year	divided by	90 minus your age at January 1 of each year

And

b) from age 71 on

a set percentage of the value of your LIF account

The following table shows the minimum LIF withdrawals.

Age	% Withdrawn	Age	% Withdrawn	Age	% Withdrawn
71	7.38	80	8.75	89	12.70
72	7.48	81	8.99	90	13.69
73	7.59	82	9.27	91	14.73
74	7.71	83	9.58	92	16.12
75	7.85	84	9.93	93	17.92
76	7.99	85	10.33	94	20.00
77	8.15	86	10.79	95	20.00
78	8.33	87	11.33	96	20.00
79	8.53	88	11.96	97 and on	20.00

The maximum amount that you can withdraw each year is the greater of

a) the minimum amount required by CRA above,

b) the annuity factor of a term-certain annuity to age 90.

The annuity factor is based on the number of years and months between your current age and age 90, and the expected investment return on the money in your LIF. The expected return is set each year as the long-term Government of Canada Bond rate (and is at least 6% if the bond rate is less). The maximum withdrawal amount is similar to what you would have received with your pension funds had you purchased a term certain annuity to age 90 instead of a LIF.

The following table shows the maximum LIF withdrawals assuming a 6% investment return.

Age	% Withdrawn	Age	% Withdrawn	Age	% Withdrawn
55	6.51	67	7.67	79	11.96

56	6.57	68	7.83	80	12.82
57	6.63	69	8.02	81	13.87
58	6.70	70	8.22	82	15.19
59	6.77	71	8.45	83	16.90
60	6.85	72	8.71	84	19.19
61	6.94	73	9.00	85	22.40
62	7.04	74	9.34	86	27.23
63	7.14	75	9.71	87	35.20
64	7.26	76	10.15	88	51.46
65	7.38	77	10.66	89	100.0
66	7.52	78	11.25	90 and on	100.0