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What Can I Do With My LIRA?

The money that is in your Locked In Retirement Account can be used to create income in either of two ways. The first is to purchase a life annuity. The second is to transfer the money to a Life Income Fund (LIF). Once you begin your retirement income, you can “unlock” 50% of your LIRA. This 50% can be transferred to your RRSP or RRIF (or taken in cash with taxes payable).

The annuity is the least flexible option. Your capital is transferred to the annuity provider in exchange for monthly payments of interest and principal. The interest rate is fixed at the time of purchase and the principal portion is determined by your life expectancy. If you want to defer purchasing an annuity from your LIRA until interest rates rise, you could transfer the LIRA to a LIF to provide your annual income until interest rates rise.

Your age and the level of interest rates will have the biggest impact on the size of your monthly income from your annuity. The older you are and the higher the interest rates the bigger the monthly income. When interest rates increase, you may choose to buy an annuity and lock in high interest rates for “the rest of your life”.

If you decide to purchase a life annuity, you should choose a joint and last survivor annuity option. This will give continuing income to your spouse if you were to die. You could choose an annuity that will not be reduced on your death, giving your spouse 100% of your annuity. 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.

If you decide to purchase a life annuity, you should choose an annuity with a guarantee. This will give your children some of the capital if you were to die before the guarantee period expired.

You may wish to investigate the purchase of an indexed annuity. This type of annuity will increase each year by a specified amount giving you some inflation protection. The payments for the early years are less than the payments for a non-indexed annuity but generally pay more than a non-indexed annuity within seven years.

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 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.

Canada Revenue Agency (CRA) sets the minimum amount that you must withdraw each year. This amount is the same as a RRIF. The province sets the maximum amount that you can withdraw each year. This is the greater of the investment income earned in the immediately prior calendar year of the contract; the annuity factor of a term-certain annuity to age 85; or the minimum amount required by CRA. You can choose any amount between the minimum and maximum amount. You can begin your income stream at any time after age 50. You may want to start with a LIF then transfer to a life annuity at some point in the future.

The following table shows the minimum and maximum percentage withdrawals for a LIF registered in Alberta:

AGE	MAX %	MIN %	AGE	MAX %	MIN %
50	6.51	2.50	72	10.66	7.48
51	6.57	2.56	73	11.25	7.59
52	6.63	2.63	74	11.96	7.71
53	6.70	2.70	75	12.82	7.85
54	6.77	2.78	76	13.87	7.99
55	6.85	2.86	77	15.19	8.15
56	6.94	2.94	78	16.90	8.33
57	7.04	3.03	79	19.19	8.53
58	7.14	3.13	80	22.40	8.75
59	7.26	3.23	81	27.23	8.99
60	7.38	3.33	82	35.29	9.27
61	7.52	3.45	83	51.46	9.58
62	7.67	3.57	84	100.0	9.93
63	7.83	3.70	85	100.0	10.33
64	8.02	3.85	86	100.0	10.79
65	8.22	4.00	87	100.0	11.33
66	8.45	4.17	88	100.0	11.96
67	8.71	4.35	89	100.0	12.70
68	9.00	4.55	90	100.0	13.69
69	9.34	4.76	91	100.0	14.73
70	9.71	5.00	92	100.0	16.12
71	10.15	7.38	93	100.0	17.92
			94 +	100.0	20.00

It is easy to transfer your LIRA to a LIF. All you have to do is contact your LIRA supplier and indicate that you want to transfer your LIRA funds to a LIF. Your LIRA supplier will get you to sign a trust agreement for your LIF and a government form (T2033) for the transfer. Don't forget to sign the new beneficiary election. There will be a separate form to "unlock" 50% of your LIRA (and your spouse will have to sign a new waiver form). The supplier will then transfer one half of the LIRA funds to the LIF and the other half to either your RRSP or your RRIF. If you wish, you may withdraw the 50% that is now unlocked (and pay the tax).

In many cases the supplier can transfer the actual investments in the LIRA to the LIF and RRIF. For instance, if you have a term deposit in your LIRA that matures in February 2018, one half of that term deposit can be transferred to your LIF and one half to your RRIF so that you receive the same interest rate until maturity.

If you want a different supplier for your LIF than your LIRA, you may have to wait until your investment matures. If your investment matures after the current year, then you may have to pay a penalty to redeem your investment early (you may wish to negotiate the waiving of this penalty). It may be better to transfer your LIRA to a LIF and RRIF with the same supplier until your investment matures. Once the investment matures, you can then transfer from that supplier's LIF and RRIF to a different supplier's LIF and RRIF.

Once the money is in your LIF and RRIF, you must make decisions about what investment you will buy. The choices are virtually identical to the investment choices in your LIRA. You can choose term deposits, mutual funds, savings accounts, stocks, bonds, foreign investments, and even annuities.

The choice should be based on your investment goals and your tolerance to risk. Some individuals will want maximum income and low risk; others will want maximum growth with higher risk (because they do not need the money anyway). Make sure you know your goals and risk comfort level.