



Montcalm & Associates

Financial Group

*Changes to the Rules governing
the **Pension Benefits Act***

Affecting Ontario Locked-in Accounts

Ontario Regulation 416/07

- Ontario Regulation 416/07 makes numerous changes to the rules governing locked-in accounts.
- It was enacted on July 27 2007.

Overview of changes

- What are the key changes to the locked-in account rules that may influence the retirement plans of senior employees?

Key changes are:

- A new Life Income Fund (the “New LIF”) is introduced effective January 1, 2008.
- It will provide more flexible payments and allow owners a one-time opportunity to withdraw up to 25% of the amount of their Pension Account in the New LIF.

Key changes are:

- An option to directly transfer money from a locked-in account to an unlocked vehicle, cash, a registered retirement savings plan (“RRSP”) or a registered retirement income fund (“RRIF”) is provided in certain situations.

Key changes are:

- The current Life Income Fund (the “Old LIF”) and the Locked-In Retirement Income Fund (“LRIF”) will no longer be available for purchase after December 31, 2008.

Changes effective July 27, 2007?

- Owners of Old LIFs are no longer required to purchase an annuity by the end of the year in which they reach 80 years of age.
- Owners of Old LIFs will be able to continue their LIF after they reach 80 years of age.

Changes came into effective July 27, 2007?

- Owners of Locked-In Retirement Accounts (“LIRAs”) can now keep the money in their LIRA until the end of the year in which they reach the age of 71 rather than the end of year in which they reach the age of 69. This reflects a change made to the federal *Income Tax Act*.

Old LIF and (LRIF) Locked-In Retirement Income Funds

- I currently own an Old LIF or LRIF. Do I have to make any changes to it to comply with the new rules?
- There is no need to make any immediate changes to your LIF or LRIF as a result of the new rules.

Changes that affect the Old LIF

- Can I still buy an annuity with money in my Old LIF?
- Yes, at any age.

Old LIF and (LRIF) Locked-In Retirement Income Funds

- Will there be any effect on the amount of the annual income payment from the *Old LIF or LRIF* in 2007?
- No.

Old LIF and (LRIF) Locked-In Retirement Income Funds

- Will the new rules change the formula for determining the minimum and maximum amount of the annual income payment for the 2008 year?
- No, not for the Old LIF or LRIF, only the New LIF. The minimum and maximum for the Old LIF or LRIF for 2008 will be calculated using the same formula as in 2007.

Changes that affect the Old LIF

- What are the differences between the Old LIF and the New LIF?
- The New LIF will have another option for determining the maximum annual income payments and you will have a time limited option to withdraw or transfer to an RRSP or RRIF 25% of the value of the funds transferred into a New LIF. (Your Pension Account balance)

Changes that affect the Old LIF

- Can I withdraw or transfer 25% of the funds from my Old LIF?
- No. The 25% withdrawal or transfer option is only available under the New LIF. New documents will require signature by client.

Old LIF and (LRIF) Locked-In Retirement Income Funds

- What happens if I die while I still have my Old LIF or LRIF?
- Your surviving spouse is entitled to the full amount in your Old LIF or LRIF in an unlocked lump sum as of the date of death. If you do not have a surviving spouse on the date of your death, your named beneficiary, or if there is none, your estate, is entitled to receive the amount in your Old LIF or LRIF. Effective January 1, 2008, your spouse will have the option of transferring the full amount to his or her own RRSP or RRIF where permitted by the federal *Income Tax Act*.

Changes that affect the Locked-In Retirement Income Fund (LRIF)

- What are the differences between the LRIF and the New LIF?
- You will be able to withdraw or transfer to an RRSP or RRIF 25% of the value of the funds transferred into a New LIF and one of the methods by which to determine the maximum annual income payment (the cumulative investment earnings since the inception of the LRIF) will be replaced by the maximum amount under the LIF formula. Cont'd

- If you transfer from an LRIF to a New LIF, you will no longer be able to carry forward the unused portion of your LRIF. If you do not use up the unused portion of your annual income payment in a fiscal year before your LRIF becomes a New LIF, you will no longer be able to add the unused portion to the maximum amount you can withdraw in future years.

The New LIF

- When will the New LIF be available?
- The regulation allowing for the New LIF will come into effect on January 1, 2008. After that date, financial institutions will be able to make the New LIF available to consumers once they get approval for their New LIF contract from Canada Revenue Agency.

The New LIF

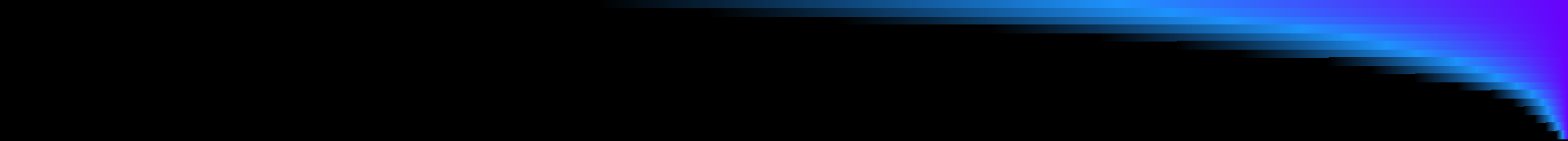
- Who will be able to purchase the New LIF?
- An owner of an Old LIF, an LRIF, a LIRA, or **a member of a registered pension plan who has terminated employment** and is entitled to an immediate pension, or the member's former spouse, may transfer their commuted value to a new LIF.

The New LIF

- What are the significant features of the New LIF?
- First, you will be able to keep the New LIF past age 80. If you took the maximum income payment each year, your New LIF would be exhausted by age 90, but if there are assets remaining in the New LIF at age 90, you may continue to keep it and withdraw income from it in subsequent years. Cont'd

- Second, the maximum annual income payment will be the greater of the amount you could be paid under the formula in the New LIF (which is the same as the formula in the Old LIF) or the amount of the investment earnings of the New LIF in the previous year.

Cont'd

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- Third, you will be able to withdraw or transfer to an RRSP or RRIF up to 25% of the amount transferred into the New LIF.

The New LIF

- How will the 25% withdrawal work?
- Owners of a New LIF will have the one-time option of withdrawing or transferring to an RRSP or RRIF an amount up to 25% of the total market value of the assets transferred into the New LIF.

Cont'd

- The transfer to a New LIF may be from an Old LIF, an LRIF, a LIRA, or from a registered pension plan when an individual who is entitled to an immediate pension terminates employment and is entitled to a transfer of his or her commuted value.
- The 25% withdrawal will not apply when assets are transferred from one New LIF to another New LIF.

The New LIF

- When will I be able to make a 25% withdrawal? How do I apply, and to whom?
- The owner of the New LIF will be able to apply to the financial institution that issued the New LIF within 60 days from the date the assets were transferred to the New LIF. Application must be made on a form that is issued by the Superintendent of Financial Services. The form will be available in January 2008.

The New LIF

- What would happen if I failed to make the 25% withdrawal within the 60 days? Is there another opportunity to make the 25% withdrawal?
- No. If you do not apply to make the 25% withdrawal within 60 days of a transfer of funds into a New LIF, **there will not be another opportunity** to take advantage of this provision.

The New LIF

- If I own a New LIF and I want to transfer money from it, to which vehicles may I make the transfer?
- You may transfer money to another New LIF or use the money to purchase an annuity. You will not be able to transfer money from a New LIF to a LIRA.

The New LIF

- What happens if I die while I own a New LIF?
- Your surviving spouse will be entitled to the full amount in your New LIF in an unlocked sum as of the date of death or will have the option of transferring the full amount to his or her own RRSP or RRIF where permitted by the federal *Income Tax Act*. If you do not have a surviving spouse on the date of your death, your named beneficiary, or if there is none, your estate, is entitled to receive the amount in your New LIF.

The New LIF

- Will FSCO (Financial Services Commission of Ontario) continue to publish an annual table that sets out the maximum withdrawal schedule?
- Yes, The annual table will continue to be published and extended to ages beyond age 80.

2007 Maximum Annual Payment Amount Table for an Ontario Life Income Fund (LIF)

**Maximum Payment as a
Percentage of the LIF**

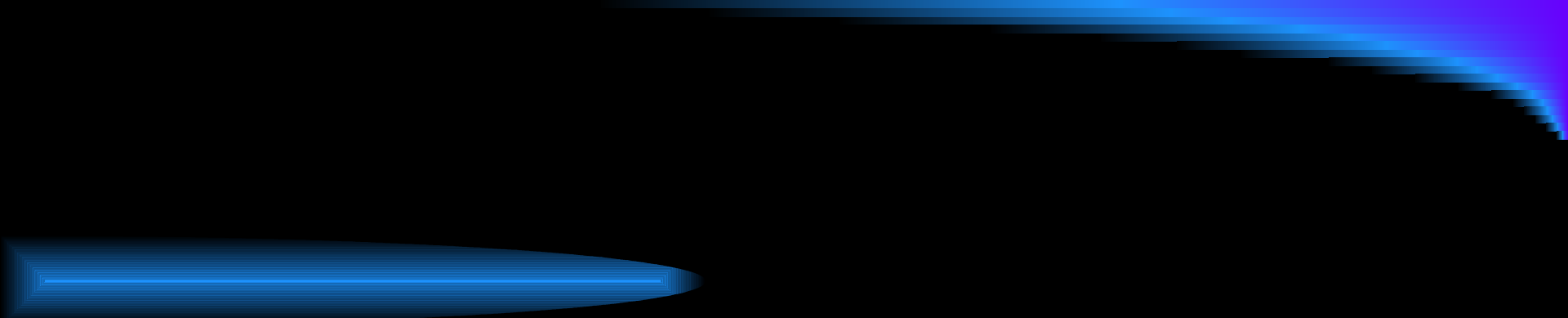
**Years to End of Year
Age 90 is Attained**

**Balance as at
January 1, 2007***

Age at January 1, 2007

New Age During 2007

48	49	42	6.19655%
49	50	41	6.23197%
50	51	40	6.26996%
51	52	39	6.31073%
52	53	38	6.35454%
53	54	37	6.40164%
54	55	36	6.45234%
55	56	35	6.50697%
56	57	34	6.56589%
57	58	33	6.62952%
58	59	32	6.69833%
59	60	31	6.77285%
60	61	30	6.85367%
61	62	29	6.94147%
62	63	28	7.03703%
63	64	27	7.14124%
64	65	26	7.25513%
65	66	25	7.37988%



66	67	24	7.51689%
67	68	23	7.66778%
68	69	22	7.83449%
69	70	21	8.01930%
70	71	20	8.22496%
71	72	19	8.45480%
72	73	18	8.71288%
73	74	17	9.00423%
74	75	16	9.33511%
75	76	15	9.71347%
76	77	14	10.14952%
77	78	13	10.65661%
78	79	12	11.25255%
79	80	11	11.96160%

* The maximum annual payment percentage is calculated on the basis of a twelve-month fiscal year to December 31, 2007 using the interest assumptions on the previous page.

Option to transfer money from a locked-in account to an unlocked account

- How have the rules for transfers of locked-in accounts changed?
- Effective January 1, 2008, owners of LIRA's Old LIFs, LRIFs and, when they become available, New LIFs, will have new transfer options in two situations:

Cont'd

- When the owner of a locked-in account dies, his or her surviving spouse will be able to transfer the survivor benefit directly to his or her own RRSP or RRIF where permitted by the federal *Income Tax Act*. Under the current rules, the surviving spouse can only take the benefit in a lump sum.

Cont'd

- When the owner of a locked-in account is over the age of 55 and has less than 40% of the Year's Maximum Pensionable Earnings in all of his or her locked-in accounts, the owner may transfer the entire amount directly to his or her own RRSP or a RRIF rather than receiving it in a lump sum.
- 2007 YMPE = \$43,700
- 40% of \$43,700 = \$17,480

Plan member is 55 on January 1, 2008

OLD LIF

- Market value \$150,000
- 2008 no minimum withdrawal
- 2009 maximum withdrawal \$9,848

NEW LIF

- Market value \$150,000
- 2008 unlock \$37,500 immediately
- Unlocked dollars can be cash, or remain tax deferred
- 2009 maximum withdrawal \$7,386 or prior year investment earnings, whichever is greater

On Jan 1, 2009 – A new LIF with a market value of \$112,500 Jan 1, 2008 + investment earnings of 10% during 2008 will accommodate an increase in the 2009 maximum withdrawal from \$7,386 to \$11,250.

Plan member is 60 on January 1, 2008

OLD LIF

- Market value \$150,000
- 2008 no minimum withdrawal
- 2009 maximum withdrawal \$10,412

NEW LIF

- Market value \$150,000
- 2008 unlock \$37,500 immediately
- Unlocked dollars can be cash, or remain tax deferred
- 2009 maximum withdrawal \$7,809 or prior year investment earnings, whichever is greater

At age 60 you may qualify for C.P.P. maximum payment of \$604.63, indexed for life.

Plan member is 65 on January 1, 2008

OLD LIF

- Market value \$150,000
- 2008 no minimum withdrawal
- 2009 maximum withdrawal \$11,275

NEW LIF

- Market value \$150,000
- 2008 unlock \$37,500 immediately
- Unlocked dollars can be cash, or remain tax deferred
- 2009 maximum withdrawal \$8,456 or prior year investment earnings, whichever is greater

At age 65 you may qualify for C.P.P. maximum payment of \$863.75 plus O.A.S. (Ontario Old Age Security) payment to a maximum of \$502.31.

Pension plan members in 2008

- Employers *will have to* advise Montcalm & Associates of the termination of an employee immediately upon termination, if not sooner.
- Failure to do so may result in the one time 25% RSP transfer option being lost.

Financial Services Commission of Ontario

- Changes to the Rules for Ontario Locked-In Account information was reproduced using the Financial Services Commission of Ontario's interpretation of Ontario Regulation 416/07, filed July 27, 2007 under the Pension Benefits Act.
- See www.fsco.ca for additional information and updates.
- Give our office a call 1 877-999-8521.