Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Gradually unlocking your life income fund

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Do you have a life income fund (LIF), and are you only withdrawing mandatory annual minimum LIF payments? Have you already taken advantage of any unlocking opportunities under the pension legislation governing your LIF but would still like to unlock your funds sooner? If so, here's a strategy that may help you gradually unlock your LIF on a tax-deferred basis. This approach could provide additional flexibility should you ever require cash from your LIF in excess of your annual maximum payment amount.

The strategy — in brief

This strategy relies on the Canadian income tax rules that permit you to make a direct transfer from your LIF to your registered retirement income fund (RRIF) or to directly transfer the excess amount above your minimum payment for the year to your registered retirement savings plan (RRSP), if you haven't yet reached the end of the year in which you turn age 71. If done properly, as a direct transfer, it doesn't impact your RRSP contribution room. Of course, you wouldn't need to use this strategy if your funds aren't locked in (e.g. in the case of a prescribed RRIF with no maximum withdrawal limit). In addition, certain pension legislation allows for special lump-sum unlocking, which isn't the focus of this article and therefore not discussed.

Although the income tax rules allow you to do this transfer, the pension legislation governing your LIF will either limit the amount you can transfer or may not allow any transfer. Your locked-in funds are governed by the pension legislation that applied to the pension plan the funds came from. Because of this, it's important to determine which pension legislation governs your LIF and whether it allows a transfer from your LIF to an RRSP or a RRIF. Certain provincial limitations are briefly discussed in the section on some special circumstances. You may also want to consult with a qualified pension and/or tax advisor if you're planning to use this strategy.

Where the pension legislation governing your LIF allows a transfer to an RRSP or a RRIF and you're only withdrawing the minimum amount, the maximum amount you can transfer on an annual basis is the difference between the LIF maximum and minimum for the year. You can transfer an amount less than this difference as well. For example, if the minimum you must receive this year is $20,000 and the maximum is $25,000, the difference between your maximum and minimum payment would be $5,000. If you don't need the extra funds, you may directly transfer the $5,000 to your RRSP or RRIF on a tax-deferred basis. This transfer doesn't affect your current-year income tax. However, you'll still be subject to tax on the $20,000 minimum payment you receive. Continuing with the example, if instead of taking the LIF minimum amount, you decide you need $22,000 this year, the amount you can directly transfer to your RRSP or RRIF would be reduced to $3,000, since the maximum that can be removed from the LIF in the year is $25,000.

The funds you transfer to your RRSP or RRIF will continue to grow tax-deferred until you eventually withdraw the funds, but now they're no longer locked in. You can access these funds, if required, without being restricted by a maximum withdrawal limit.

You can repeat this transfer process each year to gradually unlock funds from your LIF over time.

Some special circumstances

Saskatchewan prescribed registered retirement income fund (pRRIF)

If your locked-in plan is governed by Saskatchewan pension legislation, at maturity you can convert it to either a pRRIF or a life annuity. Since one of the unique features of a pRRIF is that there's no maximum withdrawal restriction, this strategy doesn't apply to you. If your funds are in a pRRIF, your funds are already unlocked. You can't transfer funds from a pRRIF to an RRSP or a RRIF.

Quebec

As of January 1, 2025, this strategy is no longer possible for Quebec plans, as transfers from a LIF to an RRSP or a RRIF are no longer allowed. In addition, for individuals age 55 or more, there's no maximum limit on withdrawals from a LIF. So, after you're age 55, you can withdraw any amount from your LIF, but it can't be transferred to an RRSP or a RRIF. Of course, you must at least withdraw the minimum amount.

Prior to 2025, transfers from a LIF to an RRSP or a RRIF were allowed. In addition, temporary income allowed you to withdraw more than the maximum LIF payment for the year when certain conditions were met, but the amount that could have been transferred from your LIF to an RRSP or a RRIF was adjusted by a formula. As of January 1, 2025, temporary income from a LIF is still available if you're under age 55 but no transfers to an RRSP or a RRIF are allowed.

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Nova Scotia temporary income

Nova Scotia's pension regulations do not permit you to make any transfer to an RRSP or a RRIF while you're receiving temporary income.

Prince Edward Island

The unlocking strategy is unavailable in Prince Edward Island, as the province doesn't have any pension legislation. Each locked-in plan is governed by the terms of the pension plan from where the funds were transferred.

Impact on income-tested benefits

Where you directly transfer the difference between your LIF maximum and minimum to your RRSP, it's reported on a T4RIF and you also get an RRSP contribution receipt so you can claim an offsetting deduction on your tax return. Although this is a wash on your income tax return so you're not taxable on the portion that's directly transferred to your RRSP, this may impact certain income-tested benefits. If you'll be in this situation, you may not want to participate in this strategy. A direct transfer from your LIF to your RRIF does not generate any tax slips and will not affect income-tested benefits.

Creditor protection

One drawback of transferring your locked-in funds to an RRSP or a RRIF is the potential loss of creditor protection. Locked-in assets are exempt from many creditors' claims under pension legislation. Once these funds are transferred to an RRSP or a RRIF, they're no longer protected under pension legislation. The federal Bankruptcy and Insolvency Act provides creditor protection to certain RRSPs and RRIFs in all provinces but only in the event of bankruptcy. Some provinces have their own creditor protection legislation on certain registered plans that extend your protection outside of bankruptcy, but some provinces don't. If creditor protection may be an issue for you, it's worth consulting a qualified legal advisor about your exposure before considering this strategy.

Conclusion

The strategy outlined in this article may allow you to unlock a small part of your LIF on an annual basis. If you want to have access to more of your locked-in funds and financial flexibility in the future, you may want to consider using this strategy. If you currently have a LIF, speak to a qualified pension and tax advisor to determine if this strategy is available and makes sense in your circumstances.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.

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