Manulife Financial

For your future™

TAX MANAGED STRATEGY 5

Unlocking locked-in funds

While pension assets represent an important source of retirement income, locking-in restrictions can hamper retirement income planning flexibility. By making full use of maximum withdrawal limits, thousands of dollars of pension savings can be unlocked while remaining tax-sheltered.

Individuals with pension savings often transfer these assets to a locked-in plan, such as a Life Income Fund (LIF) to provide retirement income. While a LIF provides a certain degree of flexibility, the annual minimum and maximum withdrawal limits can restrict retirement income planning.

You are able to unlock a portion of your locked-in savings without losing the benefit of tax-sheltered investment growth.[1]

If you are looking for additional retirement income flexibility, there is a straightforward strategy that can unlock some of these locked-in funds.

If you need less than the maximum LIF withdrawal amount each year, the difference between this maximum amount and the amount actually withdrawn from the plan can be transferred directly to a Registered Retirement Savings Plan (RRSP) if you are 71 or younger, or to a Registered Retirement Income Fund (RRIF).

The advantage? You are able to unlock a portion of your locked-in savings without losing the benefit of tax-sheltered investment growth. The unlocked funds can be used when the need arises, without maximum withdrawal restrictions.

AN IN-DEPTH LOOK AT THE ISSUE… AND THE OPPORTUNITIES

Pension legislation imposes a maximum amount that can be withdrawn from LIFs because these plans hold pension assets that remain under pension legislation. If the maximum amount is not withdrawn from a locked-in plan, it continues to be locked-in, even though the individual had an opportunity to withdraw it.[2]

Any unused amounts between the minimum and maximum amounts, however, can be transferred to a regular RRSP for those 71 or younger, or to a RRIF each year. This unlocks assets that would otherwise remain locked-in while maintaining the tax-sheltered investment growth.

While the person may not need immediate access to these funds, they gain future flexibility in their retirement income planning.

TIP

If funds are currently in a Locked-in Retirement Account (LIRA), individuals can transfer to a locked-in plan such as a LIF as soon as pension legislation allows. This is typically at age 55, but varies by province – Alberta is age 50; Manitoba, Quebec, New Brunswick and funds governed by federal legislation have no age requirements. Following this course of action means they will need to make their annual withdrawals earlier than they might have planned – but they benefit by the unlocking occurring earlier as well.

Note: Some provinces do not allow a transfer back to a LIRA once the LIF option is chosen.[3]

[1] In certain jurisdictions, unlocking locked-in funds may jeopardize the creditor protection that locked-in funds are afforded. Furthermore, unlocking may reduce any survivor benefit and priority payment available to your spouse upon death. In Quebec, locked-in funds (LIFs, LIRAs, and locked-in RRSPs) can, in most cases, be paid directly to your spouse (or common-law partner) avoiding your estate. In the case of unlocked funds (excluding a segregated fund contract RRSP or RRIF) the death benefit will go through your estate and your spouse will be forced to wait until the estate is settled before the funds are received. [2] Quebec, Manitoba, New Brunswick, Nova Scotia, and British Columbia pension legislation permits LIF clients who begin a LIF in the middle of a calendar year with funds transferred from a LIRA or pension plan to take the full maximum payment for the year. First year payments under other jurisdictions must be prorated based on the number of months the LIF was in force. Therefore, depending on your jurisdiction, the amount you can unlock in year 1 may be impacted by when you begin a LIF. [3] The transfer back from a LIF to a LIRA results in an income inclusion and an offsetting deduction is available. Thus, there is no impact at the federal level on your net income or income-tested benefits. However, in Quebec, this may result in an increase in the indirect tax burden (i.e., contributions to the Quebec Health Services Fund) as certain calculations are completed before the offsetting deduction is available.

DON'T NEED THE INCOME?

You may still want to consider an unlocking strategy as early as possible. The minimum payment you have to take into income can be used to make your annual RRSP or TFSA contribution or to make a tax deductible interest payment on money borrowed for investment purposes.

OTHER OPTIONS FOR UNLOCKING FUNDS

In order to provide more flexibility in meeting financial needs during retirement, several pension jurisdictions now provide individuals with the opportunity to unlock some or all of their locked-in funds.

Some pension jurisdictions have introduced a limited one-time opportunity to transfer a portion of LIF funds to a regular RRSP, for those age 71 or younger, or RRIF. This means individuals may be able to unlock 25 – 50% of their locked-in savings without losing the benefit of tax-sheltered investment growth. The amount that's left remains locked-in and is subject to the annual minimum and maximum withdrawal limits.

Some provinces offer a prescribed RRIF (PRIF) that can be used for funds transferred from a pension plan or from a LIF. With a PRIF, the funds remain subject to the applicable pension legislation but there is no limit on the maximum annual payments. The investments in a PRIF continue to benefit from tax-sheltered investment growth.

MAKING IT WORK

Richard is a 55-year-old investor who transfers a $250,000 LIRA to a LIF.*

In the first year he can unlock the full amount allowed since there is no minimum.

In the second year at age 56, the:

LIF maximum is	**6.57%**
LIF minimum is	**2.94%**
Difference is	**3.63% the amount that can be unlocked is $9,075 (3.63% of $250,000)**

For illustration purposes only. Rates of return are not guaranteed, values change frequently and past performance may not be repeated.

In this example, if the funds earn an annual return of 7%, $89,000 could be transferred to an RRSP or RRIF over a 10-year period. And since Richard also unlocks the future investment earnings on any amount transferred, the total amount unlocked over the 10-year period becomes $123,000. If a younger spouse's age was used to calculate the RRIF minimum, more funds would become unlocked each year.

The unlocked funds can provide significant opportunities – providing the financial flexibility to meet changing financial needs during retirement, or for an emergency situation should it arise.

*Assumes Ontario LIF. The withdrawal percentages are based on the client's age, the contract value on January 1, 2014, and the current year's CANSIM rate.

IDEAL CANDIDATES

An unlocking strategy for pension savings is worth considering for those who:

- Are relying or plan to rely primarily on pension funds as their main source of retirement income
- Are looking for more flexibility in terms of access to their retirement savings
- Anticipate needing less than the maximum amount from their LIF over the next several years

TIP

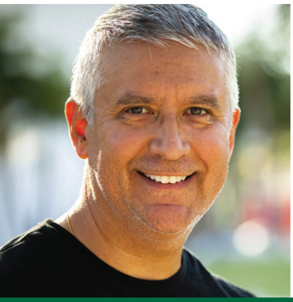
Investors may consider unlocking the maximum provided under the applicable pension legislation combined with an annual unlocking strategy. While they may need to make annual withdrawals earlier, they will benefit from greater flexibility and enhanced access to locked-in funds in the future.

TAKE ACTION

The unlocking strategy is an easy one to carry out each year. You simply need to:

- Select the minimum withdrawal amount (or the amount needed as income) from the LIF and
- Complete form T2030 once a year to transfer any leftover maximum to an RRSP (for those under age 71) or to a RRIF

This is a direct transfer, so no RRSP contribution room is required and there is no withholding tax.



INVESTMENT OPTIONS WITH MANULIFE INVESTMENTS

Manulife Mutual Funds is a fund company that utilizes the talents of four principal asset management firms with proven track records of successfully managing money through different market cycles. Portfolio management teams are located across the world applying their local market knowledge to uncover promising investment opportunities for Canadians. Whether you are just starting out, accumulating wealth or nearing/in retirement, Manulife Mutual Funds has a comprehensive suite of investment solutions to help you meet your financial objectives.

Manulife Segregated Fund Contracts combine the growth potential offered by a broad range of investment funds, with the unique wealth protection features of an insurance contract. Through Manulife segregated fund contracts, investors can help minimize their exposure to risk through income, death and maturity guarantees, potential creditor protection features, and estate planning benefits – all from a single product or insurance contract.

The Manulife Investments Guaranteed Interest Contract (GIC) offers competitive rates plus investment options that include Basic, Escalating Rate and Laddered GIC Accounts. Investors benefit from a guarantee on their principal investment and from several different investment options that can diversify and add flexibility to their portfolio. Manulife Investments GICs can be an ideal solution for conservative investors looking to help grow their wealth, but who are also concerned about minimizing risk.

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