Converting your Defined Contribution Pension Plan into Retirement Income

There are many important personal and financial items to consider as you prepare your transition into retirement. One of the most important financial decisions that you will encounter is deciding how best to utilize the assets you have saved for retirement and how to convert them into an income stream that will sufficiently support you and your loved ones in retirement.

If you are fortunate to be a member of your employer sponsored Defined Contribution (DC) Pension Plan also known as a Money Purchase Pension Plan (MPPP), there are various options available to you, depending on your provincial/federal jurisdiction. First, let's identify a couple of key terms; vesting and locking-in.

Vesting pertains to the right of an employee to all or part of the employer's contributions. Some plans allow you to be vested immediately while other plans require up to a two years of plan membership before you are vested. Please refer to your employee plan booklet to identify your vesting rule. Once you are vested, your assets in the plan become locked-in (except for your "voluntary" contributions if applicable). Once your pension account is locked-in, funds cannot be taken out of the pension plan as a lump sum cash payment. Locked-in money can only be used to provide you and your spouse, if applicable, with retirement income.

However, some provincial/federal jurisdictions allow a one-time, lump-sum cash withdrawal at time of retirement income conversion ranging from 25% to 50% depending on the jurisdiction that the plan is registered in (in Saskatchewan you can withdraw/unlock 100% of your assets at retirement). If you are eligible and choose to make a cash withdrawal (with spousal consent), please note that the amount of the withdrawal will be subject to withholding taxes and may increase your taxable income for that year.

When choosing a retirement income product you have the flexibility of choosing one or combination of products depending on your provincial/federal pension legislation. The available retirement income options for an MPPP are; purchasing an annuity (single life or joint life and last survivor), invest in a Life Income Fund (LIF), Restricted Life Income Fund (RLIF), invest in a Locked-in Retirement Income Fund (LRIF) or invest in a Prescribed Registered Retirement Income Fund (PRRIF). The table below highlights the products available in each jurisdiction.

	Annuity	LIF	LRIF	PRRIF	RLIF
Province	All provinces	All provinces except PEI & SK	NL	MB & SK	N/A
Federal	Federally regulated companies and territories	N/A	N/A	N/A	Federally regulated companies and territories

An annuity is the simplest of the different retirement income options. In exchange for a sum of money, an insurance carrier will provide you with a stream of income payments. There are two types of annuities; single life annuity and joint life and last survivor annuity. Your annuity payment amount is based on your type of annuity, age (spouse's age for joint annuity), life expectancy, interest rates, amount available for purchase, and guarantee on the annuity. You may find an annuity attractive if you do not wish to be burdened with any investment decisions once you retire or if you don't want to worry about outliving your income. It is very important to note that if you choose an annuity, it is an irrevocable contract. Therefore if you invest in an annuity, you cannot change your mind. However, with any of the other retirement income products, you can at any time convert those assets to an annuity.

A LIF/RLIF is usually purchased between ages 55 and 71 using assets from pension plans and locked-in retirement accounts. A Life Income Fund/Restricted Life Income Fund acts like your savings contributions in reverse. You withdraw from your savings a monthly amount within prescribed limits set by the government. You no longer contribute to it. Unlike an annuity, you maintain control of the assets. In some provinces, there is a requirement to convert your account balance to a life annuity at age 80. If you invest in a LIF/RLIF with some or all of your pension assets, you do have the option at any time to convert your LIF/RLIF to an annuity.

An LRIF is very similar to a LIF, but you do not have to convert your LRIF to a life annuity at age 80. Newfoundland and Labrador is currently the only province that offers an LRIF. There is a minimum LRIF payment calculation. The LRIF maximum payment is specified by provincial legislation and it is calculated differently than the LIF maximum payment.

A PRRIF is a registered account that provides a flexible stream of retirement income. It is a continuation of your pension plan where your money remains tax sheltered until withdrawn. In Saskatchewan 100% of your pension assets may be moved to a PRRIF. In Manitoba, 50% of your pension assets may be moved to a PRRIF. You decide how much income to withdraw each year, subject to a required minimum amount. With a PRRIF, there is no maximum limit on withdrawals so you need to be careful not to withdraw your money too quickly as you run the risk of outliving your funds.

All income received from above mentioned retirement income products are considered taxable income.

We strongly recommend that you speak with a qualified and trusted financial planner before making the most important financial decision pertaining to your retirement income. A knowledgeable planner will assist you with the right strategy that most closely matches your desired retirement lifestyle and needs.