An Overview of Registered Disability Savings Plans

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One in Five Canadians Affected

Roughly 22% of Canadians over the age of 15 will experience a disability in their lifetime[1]. The prevalence of disability increases with age, and women are more likely to have a disability than men. The most common disabilities are related to pain, flexibility, mobility, and mental health.

Such disabilities make it less likely for a person to find employment. Additionally, some disabilities come with high treatment and associated living costs. These factors combined mean that those with more severe disabilities are far more likely to be living at or near the poverty line. Naturally, it can become difficult to save for the future.

In 2008, the federal government implemented the Registered Disability Savings Plan (RDSP) to alleviate some of this financial difficulty. The primary intent of the plan is to provide Canadians with disabilities the opportunity to create their own long-term security.

An RDSP provides its beneficiary with a tax-deferred investment vehicle, similar to an RESP or RRSP. RDSPs have the added benefit of supplemental government funding and withdrawal options that do not put other income and disability assistance payments in jeopardy.

RDSP Eligibility

To be eligible for an RDSP, the beneficiary must be both a Canadian resident as well as be eligible for the **Disability Tax Credit (DTC)** in the year in which they apply. If the beneficiary is under the age of 18, the plan holder—that is, the person who opens and manages the RDSP—may be a parent, legal guardian, tutor, curator, or public institution.

[1] According to a 2017 survey by Stats Canada

The **DTC** is a non-refundable credit available to help reduce income taxes for those with impairments, and their supporting family members. The primary intent is to offset the extra costs associated with such an impairment.

If the applicant is over the age of 18 and is "contractually competent" according to the Canada Revenue Agency, they can open an RDSP for themselves or act as a joint holder alongside their guardian. However, if the individual does not have contractual competence, a **Qualifying Family Member** can open the plan on their behalf, provided they have the legal authorization to act for the beneficiary. A Qualifying Family Member may be a spouse, common-law partner, or parent/guardian of the beneficiary.

But what does it mean to have a disability in the CRA's eyes, and what defines eligibility? Well, a licensed medical practitioner is required to certify that a person is experiencing **severe** and **prolonged** impairment in their physical or mental function.

More specifically, a significant limitation means that two or more limitations exist together at least 90% of the time, and their cumulative effect would cause a person to take three times longer than a person without impairment to perform one of the following activities:

- *hearing*
- *walking*
- *eating*
- *dressing*
- *seeing*
- *speaking*
- *eliminating*
- *mental functioning*

In the event that a beneficiary is no longer eligible for the Disability Tax Credit, they lose their ability to make contributions to the RDSP until they regain their DTC eligibility. RDSPs can stay open indefinitely. The caveat being that withdrawals from the plan during periods of ineligibility will trigger the **Assistance Holdback Amount (AHA).**

The holdback amount is the total amount of bonds and grants paid into the RDSP within the last 10 years, minus any amount that has been repaid to the government. When triggered, it requires $3 in government grants to be repaid for every $1 withdrawn from the plan, up to the maximum.

Personal Contributions

Anyone can make contributions to the plan, provided they have written permission from the plan holder. Contributions are made with after-tax dollars; they are not tax deductible to the contributor.

The lifetime maximum contribution that can be made to an RDSP (excluding government funding) is $200,000, but there is no yearly limit. Contributions are permitted until the end of the year in which the beneficiary turns 59 years old.

Another form of contribution can occur when the beneficiary's parent or grandparent passes away. In such a case, the parent or grandparent's Registered Retirement Plan can be rolled over on a tax-deferred basis to the RDSP. Such a rollover will not be eligible for any government funding though, and withdrawals from these funds will be taxable in the hands of the beneficiary.

RRSPs, RRIFs, RPPs, SPPs, and PRPPs are all categorized as **Registered Retirement Plans.**

Government Funding

One of the primary benefits of an RDSP is the government-offered supplemental funds: the Canada Disability Savings Grant (CDSG) and the Canada Disability Savings Bond (CDSB). Both the grant and bond can only be received until the end of the year in which the beneficiary turns 49. Withdrawals of these government funds are included in the beneficiary's income and will be subject to withholding tax by the financial institution that issued the RDSP.

RDSP beneficiaries are entitled to previously unclaimed grants and bonds from the years that they were older than 18, going back to 2008 (the year RDSPs were introduced). In addition, beneficiaries are able to carry forward unused CDSG and CDSB entitlements for a period of up to 10 years, to an annual maximum of $10,500 for grants and $11,000 for bonds.

The Grant:

Depending on the adjusted family net income (the beneficiary's income plus that of their spouse or common-law partner), the CDSG will match 100-300% of amounts contributed to the RDSP—up to a maximum of $3,500 per year and $70,000 over the lifetime of the beneficiary.

Previously unclaimed grant entitlements are paid for the previous two years when a contribution is made into the RDSP, up to an annual maximum of $10,500. But the government applies the entitlements in descending order, starting with the highest available matching rate of 300%, followed by any grant entitlements at 200%, then 100%, if applicable. The retroactive entitlements are first applied to the oldest year, beginning in 2018 and then move forward.

The Bond:

Meanwhile, the CDSB is $1,000 paid directly into the RDSP for low-to-modest-income Canadians with disabilities, regardless of their contributions. There is a $20,000 limit over the lifetime of the beneficiary.

When an RDSP is opened, any previous years' bond entitlements up to $1,000 per year will be paid into the plan over the preceding 10 years plus the current year. Bonds are based on adjusted family net income in each of those years and will be paid if the RDSP beneficiary was otherwise eligible for the bonds for each year respectively.

Withdrawals

In 2014, a 10-Year Proportional Repayment Rule was implemented regarding withdrawals. In essence, if a withdrawal is made within 10 years of a contribution that generated a government grant or bond, $3 of government funds must be repaid for each $1 withdrawn, up to the AHA maximum. As such, it's recommended that all contributions that generate government funds should be given 10 years to grow before withdrawing.

An RDSP can normally fall into one of two classifications, determining how withdrawals can be made:

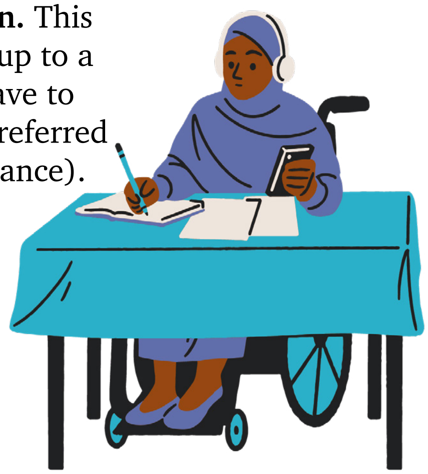
1. **Primarily Government Assisted Plan (PGAP),** where the majority of funds come from government grants and bonds. A PGAP will be subject to minimum and maximum withdrawal limits, defined by a formula and depending on the beneficiary's age.

2. A **non-PGAP** is a plan where private contributions equal or exceed government contributions. This classification has no maximum withdrawal limit but must make specified minimum payments starting in the year the beneficiary turns 60.

Most one-time withdrawals from an RDSP are known as **Disability Assistance Payments,** and can be made at any time with a mix of contributions, investment income, and CDSG/CDSB. The beneficiary will not have to report a withdrawal on their income tax return (since tax was already paid on this amount by the contributor), but investment income and government funds are taxable in their hands.

Before the end of the year in which a beneficiary turns 60 years of age, an RDSP must begin making a specific type of payment known as a **Lifetime Disability Assistance Payment (LDAP).** These annual payments continue until the plan terminates or the beneficiary passes away. LDAPs have yearly limits, ensuring the RDSP can continue paying out throughout the beneficiary's life.

If a licensed medical practitioner certifies that the beneficiary has less than 5 years to live, an RDSP can become a **Specified Disability Savings Plan.** This plan does not need to follow LDAP limits; a beneficiary can withdraw up to a taxable maximum of $10,000 per year. The beneficiary also will not have to repay the grants or bonds paid in the preceding 10 years. This is the preferred strategy when an RDSP falls under PGAP classification (with a low balance).



But if the beneficiary does not want to convert their RDSP to a Specified Disability Savings Plan, the RDSP can instead make any size of LDAP withdrawals. They will still be subject to an Assistance Holdback Amount and the Proportional Repayment Rule. This is the preferred strategy when an RDSP falls under a non-PGAP classification or has a high balance.

If a beneficiary passes away before the RDSP is fully withdrawn, the plan must be paid out to their estate by December 31st of the year following their death. Any remaining grants and bonds in the plan must be repaid to the government by the estate.

In Conclusion...

The advantages of an RDSP should not be overlooked: tax-deferral, a degree of tax-free withdrawals, and significant government grants. With creative planning; flexibility; and stewardship, an RDSP can gain upwards of $90,000 in additional contributions.

RDSPs help Canadians with disabilities attain long-term security throughout their life. With constant changes to disability legislation and federal budgets, new opportunities are constantly appearing. Understanding the various types of savings accounts is a complex feat. People who are feeling overwhelmed in managing their wealth will benefit from the services of an investment counsellor.

The team at Qube can work with you to make sense of your unique circumstances and investment preferences. We are committed to providing a personalized investment experience that takes into account your individual needs and goals. The right planning from a trusted professional at Qube can provide you with valuable knowledge and, more importantly, a greater sense of financial security. To start the process, reach out to us at info@qubeinvest.ca or give us a call at (780) 463-2688.

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