

Registered Disability Savings Plan

Burnaby

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Ability Tax Group | RDSP Resource Centre

*Pursuing financial security for Canadians with
Disabilities*



The RDSP

- ❖ Is a federal government savings program
- ❖ Is available at many financial institutions
- ❖ Includes generous government contributions
- ❖ Does not require any contribution, if your income is low
- ❖ Does not affect your provincial disability income or disability supports

Comparison of Registered Plans in Canada

	Registered Disability Savings Plan	Registered Education Savings Plan	Registered Retirement Savings Plan	Tax Free Savings Plan
Incentives	Grant + Bond	Grant + Bond	Tax Deduction	None
Treatment of Income	Tax-deferred Growth	Tax-deferred Growth	Tax-deferred Growth	Tax-free Growth
Withdrawals	Partly Taxable	Partly Taxable	All Taxable	Not Taxable

Eligibility for the RDSP

- ❖ Disability Tax Credit
- ❖ Under the age of 60 at the end of the year of the initial contribution
- ❖ Valid Social Insurance Number
- ❖ Canadian Resident

Financial Institutions

- ❖ BMO Bank of Montreal
- ❖ Bank of Nova Scotia
- ❖ CIBC
- ❖ Some BC Credit Unions
- ❖ Desjardins Caisse Populaire
- ❖ Fisgard Capital Corporation
- ❖ RBC Royal Bank
- ❖ Financial Planners (BMO | Mackenzie)
- ❖ The TD Waterhouse

Who can set up a plan?

- ❖ The Holder (Account Holder)
- ❖ For a child or youth (to December 31st of the year of the 18th birthday)
 - Parents or legal guardians can set up the plan (parents can remain holders once the beneficiary becomes an adult)
- ❖ For an adult (January 1st of the year of the 19th birthday)
 - A beneficiary may be the holder or they may appoint a Power of Attorney
 - A person legally authorized to act on the beneficiary's behalf may also be the Holder (e.g. Trustee)

Contributions

- ❖ Anyone may contribute to the plan with the written consent of the holder
- ❖ \$200,000 lifetime contribution limit
- ❖ No annual contribution limit
- ❖ Contributions are not tax-deductible
- ❖ Contributions can be made up to the end of the year in which the beneficiary turns age 59

Federal Contributions

To receive the Canada Disability Savings Grant and/or the Canada Disability Savings Bond, the beneficiary must:

- ❖ File an Income Tax Return for two years prior (2010 tax return for 2012 contributions)
- ❖ Apply for the Canada Child Tax Benefit if the beneficiary is a child
- ❖ Be under the age of 50 (December 31st of 49th year)

Canada Disability Savings Grant

Federal Government matches annual contributions at the following rates:

Family Income (2011)	Grant (2011)	Lifetime Maximum
\$85,414 or less	\$3 for every \$1 contributed on the first \$500 (max. \$1,500)	\$70,000
	\$2 for every \$1 contributed on the next \$1,000 (max. \$2,000)	
More than \$85,414 * or no tax return	\$1 for every \$1 contributed on the first \$1,000 (max. \$1,000)	\$70,000

Canada Disability Savings Bond

- ❖ Annual Federal Government contribution to RDSPs of people with low and modest incomes
- ❖ Up to \$1,000 each year to a lifetime maximum of \$20,000 (no contributions necessary but taxes must be filed)

Annual Income (2011)	Amount of Bond	Lifetime Maximum
\$24,863 or less	\$1,000	\$20,000
\$24,863 - \$42,707	\$1,000 reduced on a pro-rated basis	\$20,000

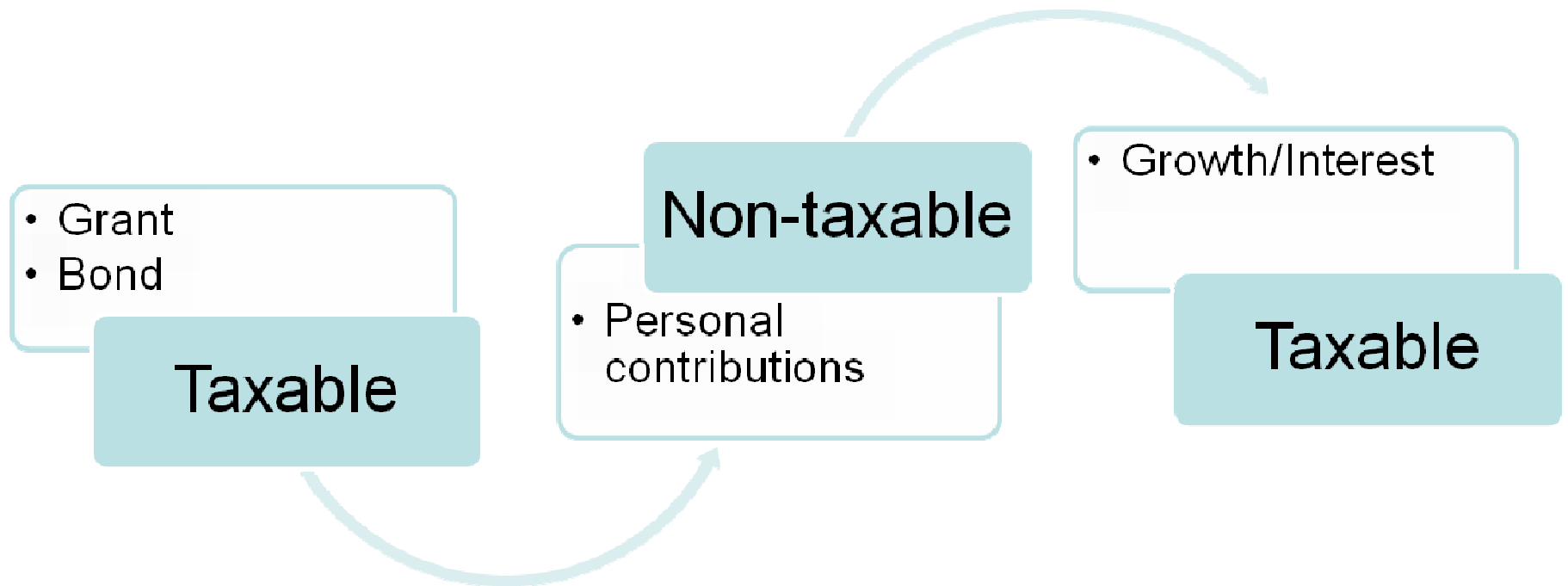
Grant and Bond can be claimed retroactively to 2008

- ❖ People who are opening RDSPs or who didn't contribute enough to get all the Grant they were entitled to in previous years can now receive Grant and Bond amounts from previous years (provided they were DTC eligible and filed their taxes)
- ❖ Bond amounts will be paid automatically, back to 2008
- ❖ Grant amounts can be received by making contributions now for previous years
- ❖ Don't wait too long to use retroactive grant amounts – you can only access them for 10 years and only if you make contributions before Dec 31st of the year in which you turn 49

RRSP Rollover

- ❖ RRSPs and RRIFs may be rolled over at death (on a tax deferred basis) to RDSPs of children and grand children who are financially dependent
- ❖ May not be greater than the RDSP beneficiary's remaining lifetime contribution limit
- ❖ Does not trigger Canada Disability Savings Grant
- ❖ Taxable on withdrawal over time
- ❖ Results in a significant tax savings for the annuitant

Taxation of RDSP upon withdrawal



Payments

Lifetime Disability Assistance Payments (LDAP)

- Regularly scheduled periodic withdrawals
- Must begin by the end of the year the beneficiary turns 60

Disability Assistance Payments

- Amounts withdrawn at the holder's discretion
- May be unscheduled, lump sum withdrawals

Limitations on Payments

- ❖ Holdback amount: withdrawals result in repayment of government contributions received in the previous 10 years (except where life expectancy < 5 years)
- ❖ LDAP Formula: approximately
Fair market value/83 minus age
- ❖ Where government contributions exceed private ones, LDAP formula limits annual payments
- ❖ Where person contributions exceed private ones, no limit on annual payments

Shortened life expectancy

- ❖ When life expectancy is 5 years or less withdrawals will not be limited to the LDAP formula
- ❖ Withdrawals will not trigger repayment of the holdback amount, provided the taxable portion does not exceed \$10,000
- ❖ Upon the death of the beneficiary the holdback amount must be repaid, if there is a sufficient amount remaining in the plan
- ❖ If a person's medical prognosis changes, they can reverse the process (notify the bank, stop withdrawals and begin to make contributions again)

Provincial Implications

- ❖ Assets in an RDSP are exempt for determining eligibility for disability income benefits
- ❖ Assets in an RDSP are also exempt for BC Housing subsidies
- ❖ Funds received from RDSPs can be used for any purpose as long as they are for the benefit of the beneficiary

Federal Implications

- ❖ The RDSP will not impact your:
 - Old Age Security (OAS)
 - Guaranteed Income Supplement (GIS)
 - Canadian Pension Plan (CPP)
 - GST Benefit

When the beneficiary dies...

- ❖ RDSP must be closed by the end of the following calendar year
- ❖ Any Grant or Bond received within the last 10 years must be repaid to the government
- ❖ Proceeds pass to the Estate of the beneficiary
- ❖ Original contributions not taxable
- ❖ Remainder taxed to your or your relative's Estate

RDSP versus Trust?

- ❖ Eligibility
- ❖ Account holder
- ❖ Succession
- ❖ Size limits
- ❖ Planning horizon
- ❖ Property
- ❖ Treatment by disability benefits

When to start an RDSP

- ❖ Family income exceeds the cut-off for higher matched rates (\$81,941 for 2011)
- ❖ Annual rate of return is 5%
- ❖ Families want the RDSP to receive the full \$20,000 in Canada Disability Savings Bond and \$70,000 in Canada Disability Savings Grant
- ❖ No provisions are made for the carry forward of entitlements

When to start an RDSP

Starting Age	Total family contributions	Age that holdback amount = 0	Total amount in RDSP	Total gain	Comments
4	\$38,000	47	\$455,000	\$417,000	Give \$4,000 back to the government and start at 43 with \$374,000
12	\$34,500	47	\$367,000	\$332,500	Give \$1,000 back to the government and start at 46 with \$350,000
18	\$30,000	47	\$321,000	\$291,000	

Four Stories about the RDSP



Marie



- Marie is a 6 year old girl with Down Syndrome
- She lives with her mother in Toronto
- Marie's Mom earns less than \$85,414
- *Marie's grandparents help with her RDSP*

Eligibility



- Marie has qualified for the DTC and her eligibility is lifelong
- Her mother claims the DTC & Canada Child Tax Benefit
- Marie lives in Canada
- Is under the age of 60

Management of the RDSP



- Marie's mom has opened the RDSP on her daughter's behalf
- Marie's mom is the Account Holder
- She could let Marie be the Holder, at adulthood but will probably continue as the Holder
- She's not sure about the future

Contributions



	Annual Contribution
Grandparents' contribution	\$125/month (\$1,500/ year)
No lump sum/additional contributions	
Canada Disability Savings Grant	\$3,500/year
Canada Disability Savings Bond	\$0/year (until 18)
Total	\$5,000/year

Results



Investment Income	5% per year
At 36 years	No Holdback Amount - Contributions could begin without penalty
At 60 years	\$1.16 million
Withdrawals	Limited to LDAP formula amount
At 60 years	Annual income \$50,000 for life

Marshall



- Marshall is a 15 year old living in Glace Bay
- He has a mental illness
- Marshall's parents' net combined family income is less than \$85,414
- Marshall's parents contribute \$125/month and he received a \$25,000 inheritance from his Grandmother

Eligibility



- Marshall's parents applied for the DTC
- His eligibility is good until age 19
- His parent's claim the DTC & Canada Child Tax Benefit
- Marshall lives in Canada
- Is under the age of 60

Management of the RDSP



- Marshall's parents are co-account holders of his RDSP
- They plan to add Marshall as an account holder replacing one of them when he becomes an adult
- Concerned about future but further options are currently limited

Contributions



	Annual Contribution
Parent's contribution	\$125/month (\$1,500/ year)
No lump sum amount in 2011	\$25,000
Canada Disability Savings Grant	\$3,500/year
Canada Disability Savings Bond	\$0/year (until 18)
Total	\$5,000/year

Results



Investment Income	5% per year
At 45 years	No Holdback Amount - Contributions could begin without penalty
At 60 years	RDSP Total \$997,000
Withdrawals	Limited to LDAP formula amount
At 60 years	Annual income \$43,000 for life

Sandeep



- Sandeep is a 22 year old living in Vancouver
- His disability is not clear but he struggles with many daily tasks
- His annual income is \$24,863

Eligibility



- Sandeep qualified for the DTC for 10 years to 2020
- His parent's received approximately \$15,000 in a retroactive claim and put \$10,000 into his RDSP
- Sandeep lives in Canada
- Is under the age of 60

Management of the RDSP



- Sandeep and his brother are co-holders of his RDSP.
- Sandeep has named his brother as a Representative under the Representation Agreement Act (BC only) to enable him to be a legal representative



Contributions

	Annual Contribution
Private contributions	\$0
Lump sum amount in 2010	\$15,000
Canada Disability Savings Grant – first year only	\$3,500
Canada Disability Savings Bond	\$1,000/year
Total	\$1,000/year after year one



Results

Investment Income	5% per year
At 52 years	No Holdback Amount - Contributions could begin without penalty
At 60 years	RDSP Total \$187,000
Withdrawals	Limited to LDAP formula amount
At 60 years	Annual income \$8,100/year for life

Story 4: Francine



- Francine is a 34 year old nurse living in Sherbrooke
- She has fibromyalgia
- She receives CPP-D so her estimated annual income is about \$13,524

Eligibility



- Francine has applied for and been granted the DTC for 5 years
- She lives in Canada
- Is under the age of 60

Management of the RDSP



- Francine is the holder of her RDSP.
- She has named her sister as a Power of Attorney in the event that she requires assistance in managing her financial affairs.



Contributions

	Annual Contribution
Private contributions	\$125/month (\$1,500/year)
No lump sum contributions	
Canada Disability Savings Grant	\$3,500/year
Canada Disability Savings Bond	\$1,000/year
Total	\$6,000/year

Results



Investment Income	5% per year
At 52 years	No Holdback Amount - Contributions could begin without penalty
At 60 years	RDSP Total \$289,000
Withdrawals	Limited to LDAP formula amount
At 60 years	Annual income \$12,500/year for life

The RDSP Calculator

www.rdsp.com

- ❖ Visit www.rdsp.com
- ❖ Click on “RDSP Calculator Download”
- ❖ Fill in fields
- ❖ Click on “View Report”
- ❖ Scroll down to Report

RDSP Calculator version 1.0
For more information and the latest version of the RDSP Calculator, visit rdsp.com

Developed for families by **PLAN** and **Simon Evans**

The Calculator is a tool to help you assess the potential of opening and contributing to an RDSP. The estimates provided by the Calculator are for information purposes only. The profile of your RDSP may differ from the Calculator projection.

Once you have answered the questions below and viewed the projections, you can print this report. Run various scenarios to see how it would effect the value of your RDSP.

Answer these 12 questions to see what your RDSP could look like

Open RDSP at age...	<input type="text" value="5"/>
Eligible for Disability Tax Credit?	<input type="text" value="Yes"/>
Contribute to RDSP till age....	<input type="text" value="35"/>
Adjusted Family Income is...	<input type="text" value="Less than \$21,287"/>
Annual Family Contribution	<input type="text" value="\$1,500"/>
Investment Strategy	<input type="text" value="Conservative-GIC's, Bonds, Mutual"/>
Lump Sum Contribution?	<input type="text"/> At age.. <input type="text"/>
Earning your wings early?	<input type="text"/> At age.. <input type="text"/>
Ideal age to start receiving payments from the plan?	<input type="text" value="40"/>
Province/Territory of residence?	<input type="text" value="BC"/>

Enter your info in the cells to the left

Use your tab key to move between cells, input numbers or select options from the drop down menus when they appear.

RDSP Information/Resources

- ❖ Contact us for assistance with your Disability Tax Credit application, previous year's tax adjustments, maximizing your tax returns
- ❖ Check our resources at www.rdsresource.ca

Thank you for your time

The material in this presentation is intended as a general source of information only, and should not be construed as offering specific tax, legal, financial or investment advice. Every effort has been made to ensure that the material is correct at time of publication, but we cannot guarantee its accuracy or completeness. Interest rates, market conditions, tax rulings and other investment factors are subject to rapid change. Individuals should consult with their personal tax advisor, accountant or legal professional before taking any action based upon the information contained in this presentation.