

GUIDE TO REGISTERED DISABILITY SAVINGS PLANS

Saving for a secure future





People with disabilities and their loved ones face a distinct set of financial challenges throughout their lives. To help address these challenges, in 2008 the Government of Canada introduced the Registered Disability Savings Plan (RDSP). Designed to help build long-term financial security for disabled persons, the RDSP makes it easier to accumulate funds by providing assisted savings and tax-deferred investment growth.

This brochure explains the main features of the RDSP and provides some examples to illustrate how the RDSP can best be used.

What is an RDSP?

The RDSP is a tax-deferred savings vehicle introduced by the Government of Canada to help parents and others save for the long-term financial security of a person with a severe disability.

Eligibility

A Canadian resident under the age of 60 who is eligible for the Disability Tax Credit (DTC) is eligible for an RDSP. The DTC is available to individuals who have mental or physical impairments that markedly restrict their ability to perform one or more of the basic activities of living (i.e., speaking, hearing or walking). The impairment must be expected to last a period of one or more years, and a physician must certify the extent of the disability. Individuals can apply to the Canada Revenue Agency (CRA) for the DTC using Form T2201.



To qualify for an RDSP, you must:

- Be eligible for the Disability Tax Credit
 - Be a resident of Canada
 - Be less than 60 years of age
 - Have a valid SIN
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Opening an RDSP account

Only one RDSP can be established per beneficiary. The plan must be established by the disabled individual, unless he or she is not legally competent to sign a contract (e.g., a minor or mentally impaired). When the beneficiary is not legally able to sign a contract, the person(s) legally authorized to act on behalf of the disabled individual can establish the plan.

A change was made in Budget 2012 and under the new rules a “qualifying family member” is allowed to establish an RDSP for a beneficiary who is not contractually competent. The definition of a qualifying family member is only a spouse, common-law partner or a parent. Otherwise, anyone other than the qualifying family member will still have to go through the formal process of being named a legal representative or guardian. This is a temporary change and applies from July 2012 to the end of 2016. Even though this is temporary, it is important to note that the account holder is able to remain as account holder beyond 2016. The temporary nature of the rule simply means that new accounts cannot be opened this way after 2016.

The person who establishes the plan is referred to under the Income Tax Act (Canada) as the “holder” and has principal decision-making ability over the plan (e.g., directing investments and the amount and timing of withdrawals).

The Social Insurance Number (SIN) of the disabled individual is also required.

There can be more than one holder, but only one beneficiary per plan.

An RDSP can be transferred from one financial institution to another as the holder and/or beneficiary wish.



To open an RDSP:

1. Establish if you are eligible for the disability tax credit. If so,
2. Get an application from Mackenzie Investments and fill it out. Your financial advisor can help you with this.

A car accident left 16-year-old Steve disabled. His father, Colin, decided to establish an RDSP on Steve's behalf. Because Steve qualifies for the disability tax credit, he is eligible for an RDSP. On setup, Colin becomes the holder of the plan (as Steve is a minor) and acquires decision-making authority over the plan. It is decided that once Steve reaches the age of majority, he will become a joint holder with his father.

Contributions

Once an RDSP is established, contributions can be made by anyone, with the holder's written consent or by giving the money to the holder to deposit. Written consent is required to ensure the holder of the plan is able to schedule contributions to maximize government grants (described later).

The maximum lifetime contribution is \$200,000 per beneficiary. There is no annual contribution limit – \$200,000 can be contributed in any one year, if so desired.

Contributions are not tax-deductible; however, the earnings on contributions grow tax-free while held in the plan.

Contributions must cease by the end of the year in which the beneficiary reaches age 59.

Once an RDSP is set up, there are five ways to put money in:

1. Contributions by the account holder
2. Contributions by people the account holder has authorized
3. Federal grants and bonds
4. Transfers from a qualified RRSP, RRIF or RPP
5. Transfers of the accumulated income from a Registered Education Savings Plan on which the beneficiary is on both RESP and RDSP

Jennifer, a widow and ailing mother was worried about who would care for her disabled daughter, Susan, following her death and decided to establish an RDSP for Susan with an initial contribution of \$50,000. She then consulted her lawyer and revised her will to ensure an additional \$150,000 would be contributed to the plan upon her death (provided Susan is age-eligible at that time, i.e., under 60). After Jennifer's death, \$150,000 was contributed to the RDSP, thereby maximizing the amount available to Susan.



Government help: Taking advantage of grants and bonds

To assist in saving, the federal government offers Canada Disability Savings Grants (CDSGs) and Canada Disability Savings Bonds (CDSBs).

The RDSP is eligible for CDSGs and CDSBs until December 31 of the year the beneficiary turns 49.

Canada Disability Savings Grants (CDSGs)

CDSGs are matching grants that the Government will deposit into a beneficiary's RDSP to help accumulate savings. The Government provides matching grants of up to 300%, depending on the amount contributed and family net income.

The chart below outlines 2014 CDSG matching rates:

Family net income*	CDSG matching rates	Maximum annual CDSG
Up to or equal to \$87,907	300% on first \$500 200% on next \$1,000	\$3,500
Over \$87,907	100% on first \$1,000	\$1,000

*2014 rates. For a minor beneficiary, the family net income is that of his or her parents. Where the beneficiary is over the age of majority, the family net income is that of the beneficiary and his or her spouse, if applicable. The income threshold is indexed annually to inflation.

Maximum grant

CDSGs are subject to a lifetime limit of \$70,000 per beneficiary, and are payable until the end of the year in which the beneficiary reaches age 49 if the beneficiary remains a resident of Canada.

As part of a birthday gift, Meg and Allen agree to contribute \$2,000 for each of the next five years to an RDSP for their disabled adult nephew, Tony. Because Tony is age of majority, his family income is used for CDSG purposes. Tony's family net income and grant allocation for the next five years is as follows:

	Family Net Income	Contribution	CDSG
Year 1	\$44,500	\$2,000	\$3,500
Year 2	\$48,350	\$2,000	\$3,500
Year 3	\$50,000	\$2,000	\$3,500
Year 4	\$75,000	\$2,000	\$3,500
Year 5	\$88,000	\$2,000	\$1,000
Total	-	\$10,000	\$15,000

Since there are no annual contribution limits for RDSPs, contributions of up to \$200,000 can be made in any given year. However, where a lump sum \$200,000 contribution is made, no CDSG would be paid after the initial year. RDSP contributors should work with a financial advisor to determine whether lump sum or periodic contributions

Unused grants

Beginning in 2011, you are allowed to carry forward unused grant and bond entitlements for a 10-year period (starting from 2008, the year RDSPs became available). The maximum CDSG that can be paid in any year is \$10,500 and the maximum CDSB is \$11,000. Income thresholds for carry-forward will use the family net income applicable for each year used.

are the better option. Depending on expected rates of return, age of the RDSP beneficiary and cash flow needs, smaller annual contributions may be more suitable. Lump sum contributions would provide a longer period of tax-deferred growth, whereas annual contributions would maximize CDSGs.

RDSP lump sum or annual contributions: an example

Kevin, age 44, has \$10,000 to contribute to his RDSP. He has a decision to make – contribute the full \$10,000 upfront to maximize tax-deferred growth, or, because of annual cash flow needs contribute \$2,000 for each of the next five years. Kevin speaks to his financial advisor, and the following potential outcomes are discussed (assuming a 6% rate of return and family net income of less than \$87,907):

Option 1

Contribute \$10,000 upfront

Total contribution: \$10,000

CDSG: \$3,500

RDSP value after five years: \$18,066

Option 2

Contribute \$2,000 per year for five years

Total contribution: \$10,000

CDSG: \$17,500

RDSP value after five years: \$32,864

Kevin elects Option 2 as it is expected to provide a greater return and flexibility for annual cash flow needs. Also, his overall return may be enhanced if the excess amount each year (the amount that exceeds \$2,000) is invested in a non-registered account.

Kim, age 44, receives an inheritance of \$200,000. She, like Kevin, has a decision to make. Should she contribute the full \$200,000 upfront, or contribute \$40,000 each year for five years to allow cash flow flexibility? Kim speaks to her financial advisor and the following outcomes are discussed (assuming a 6% rate of return and family net income of less than \$87,907):

Option 1

Contribute \$200,000 as a lump sum

Total contribution: \$200,000

CDSG: \$3,500

RDSP value after five years: **\$272,329**

Option 2

Contribute \$40,000 per year for five years

Total contribution: \$200,000

CDSG: \$17,500

RDSP value after five years: **\$259,926**

Unlike Kevin, Kim opts for Option 1. For her, a lump sum RDSP contribution will likely produce a better return despite forfeited grants. As well, if Kim chooses Option 2, deposits \$40,000 to her RDSP and invests the remaining \$160,000, she could lose part or all of her disability tax credit, as the value of tax credits decreases when income (from investments, employment, etc.) reaches a specified level. Kim contributes the full \$200,000 upfront and considers other options for her annual cash flow needs. In addition, if Kim is receiving provincial disability support, there are limitations as to assets inherited as well as income that may negatively impact Kim's support unless the entire inheritance is contributed to her RDSP.

Canada Disability Savings Bonds (CDSBs)

In addition to CDSGs, lower income families have access to Canada Disability Savings Bonds (CDSBs). The Government may deposit up to \$1,000 a year to the RDSP of a low income beneficiary, even if no contributions are made into the RDSP.

Lower income families may qualify for up to a lifetime maximum of \$20,000 from the Canada Disability Savings Bond (CDSB) program.

Family net income*	Maximum annual CDSB
Up to or equal to \$25,584	\$1,000
Between \$25,584 and \$43,953	\$1,000 is reduced on a prorated basis (based on the formula in the Canada Disability Savings Act)
Over \$43,953	No bond is paid

*2014 rates. For a minor beneficiary, the family net income is that of his or her parents. Where the beneficiary is over the age of majority, the family net income is that of the beneficiary and his or her spouse, if applicable.

CDSB payments are subject to a lifetime limit of \$20,000 per beneficiary, and are payable until the end of the year in which the beneficiary reaches age 49 (if the beneficiary remains a resident of Canada).

Starting in 2011, you may carry forward unused grant and bond entitlement to future years. The carry forward period starts in 2008 and is for a period of 10 years.

Victor and Shauna have a 16-year-old son, Mark, who requires regular life-sustaining therapy and have a family net income of \$20,500. As Mark is eligible for the disability tax credit, he is also eligible for an RDSP. Although Victor and Shauna do not have funds to contribute to an RDSP for Mark, they can establish a plan and still receive CDSBs of \$1,000 a year, since the Government does not require contributions to be made to be eligible for CDSBs.

Note: The Province of British Columbia also provides a one-time Disability Bond amount of \$150 from the Endowment 150 Fund.

Repayment of CDSGs and CDSBs

When withdrawing funds from an RDSP, it is important to be aware of the 10-year rule. CDSGs and CDSBs received in the 10-year period prior to a disability assistance payment must be repaid to the government. This repayment is known as the Assistance Holdback Amount. As of 2014 the repayment is \$3 for every \$1 withdrawn.

The purpose of the Assistance Holdback Amount is to ensure that RDSPs are used for long-term savings, and also to ensure that government funds contributed are

not withdrawn and used as leverage for matching grants in future years. The same rule applies to grants and bonds received in the 10-year period before death or the cessation of a disability. Grants and bonds received before the 10-year period do not have to be repaid.

Because of the repayment provisions, an RDSP might not be the best option for short-term expenses. The scenario below illustrates this.

Arnold, 35 and disabled, has an RDSP that his family has been contributing to for the past 20 years. Arnold wishes to withdraw \$10,000 from his RDSP to purchase a car.

Details of his plans are as follows:

Plan value: \$194,963

CDSGs (last 10 years): \$35,000

CDSBs (family income exceeds threshold): \$0

Arnold's \$10,000 redemption will result in repayment of \$30,000 for CDSG for the 10-year period before the withdrawal. CDSGs received prior to the 10-year period are not subject to repayment.

It is possible to not request grants or bonds for a period if there is a likelihood a Disability Assistance Payment will be required. Grants and bonds can be restarted after the payment.



The 10-year rule

Once a withdrawal of any amount is made, all federal grants and bonds paid into the RDSP in the previous 10 years have to be repaid to the federal government on a \$3 for \$1 basis.

Investment options

Qualified investments for RDSPs are generally the same as those for Registered Retirement Savings Plans (RRSPs) and Registered Education Savings Plans (RESPs) and include cash, stocks, bonds, GICs, mutual funds and a variety of other investments.

It is important to talk to your financial advisor to ensure that investments are appropriate for RDSPs. Where a non-qualified investment is acquired by an RDSP or where a qualified investment ceases to be qualified, a tax of 50% of the fair market value of the investment would be levied, and income earned on the investment would also be taxable.

Taking money out of your RDSP

RDSP withdrawals are also known as disability assistance payments. There are two types of payments from an RDSP – Lifetime Disability Assistance Payments (LDAPs) and Disability Assistance Payments (DAPs).

Lifetime Disability Assistance Payments

- LDAPs are recurring annual payments that once started, must be paid until the plan is terminated or the beneficiary has died.
- LDAPs may begin at any age, but must commence by the end of the year

in which the beneficiary turns 60.

- Payments are generally limited to a maximum tied to the fair market value of the plan and the beneficiary's life expectancy (age 80 in most cases). The maximum amount does not apply where a physician certifies that the RDSP beneficiary is not expected to survive beyond five years.

Disability Assistance Payments

- DAPs are lump sum payments made to the beneficiary or the beneficiary's estate.
- DAPs may only be made if the plan's fair market value after payment will be more than the Assistance Holdback Amount (CDSGs and CDSBs received in the 10-year period prior to a disability assistance payment).

Both LDAPs and DAPs can be used for disability or non-disability-related expenses.

As of 2014, LDAP and DAP maximums can now be the greater of the maximum based on age or 10% of the value of the plan at the beginning of the year, whichever is greater.

Beneficiaries are not required to pay taxes on their RDSP until withdrawals are made or the RDSP is terminated.

Taxation of withdrawals

Disability assistance payments generally consist of original contributions, investment income, CDSGs and CDSBs (subject to repayment obligations). Because original contributions are non-deductible when contributed, they are non-taxable on withdrawal. Investment income, CDSGs and CDSBs are fully taxable to the RDSP beneficiary when received.

RDSP holders cannot encroach on capital alone, as each payment will consist of both taxable and non-taxable amounts. Generally speaking, the proportion of the payment that would be non-taxable is the same as the proportion of total contributions to total plan value.

If an RDSP beneficiary has little or no other income, a portion, if not all of the withdrawal can be received without incurring any tax liability due to the combined effect of the disability tax credit and the basic personal amount on the beneficiary's tax return. Taxable portions of withdrawals will be reported on a T4A-RDSP tax form.

Note: RRSP, RRIF or RPP proceeds transferred from deceased parent or grandparent will be taxable to the RDSP beneficiary.

Fred just celebrated his 60th birthday, so by the end of the year must begin withdrawals from his RDSP. His financial advisor advises him that \$24,500 must be withdrawn from his plan, an amount calculated based on Fred's life expectancy of age 80. Details of his RDSP are as follows:

Plan value: \$587,996

Total contribution: \$200,000

CDSGs: \$35,000

CDSBs: \$0

Of the \$24,500 payable in the year, \$8,333 would be non-taxable ($\$200,000/\$587,996 \times \$24,500$). The excess, \$16,167 would be taxable to Fred.

However, if Fred has no other income, he can receive the taxable RDSP distribution of \$16,167 and not incur any taxes after taking into account his disability tax credit and basic personal amount.

Note: As of 2014, withholding tax will apply to the taxable portions withdrawn from an RDSP. The tax withheld can be claimed by the beneficiary on his or her tax return. The amount withheld should be taken into consideration when determining the withdrawal amount.



Eligible transfers

An RDSP may be transferred to another RDSP for the same beneficiary. To ensure RDSP beneficiaries only have one plan, the transferring plan must be terminated immediately after the transfer. Also, the receiving plan must agree to pay minimum amounts for the year where the transferring plan has not yet done so (generally applicable to beneficiaries age 59 or older).

Tax-deferred transfers from RRSPs, RRIFs or RPPs to an RDSP to the maximum contribution limit are permitted as of July 2011. These transfers must be from an RRSP, RRIF or RPP of a deceased parent or grandparent if the beneficiary of the RDSP was financially dependant on that individual. Tax-deferred transfers of the taxable amount of RESPs are allowed as of 2014.

Impact on Social Assistance Benefits

Payments from an RDSP do not impact other income-tested federal government programs, including:

- Old Age Security (OAS)
- Guaranteed Income Supplement (GIS)
- Canada Pension Plan (CPP)
- The Goods and Services Tax Benefit (GST Benefit)
- Social assistance benefits

As well, generally speaking RDSPs assets and payments should not have a negative impact on eligibility for programs such as subsidized housing and long-term care. However, each province and territory has legislation that provides support to persons with disabilities, so be sure to check with your legal and/or financial advisor for the most up-to-date legislation in your province.

What if the beneficiary dies or is no longer disabled?

When an RDSP beneficiary dies the RDSP will collapse and full proceeds of the plan will be paid to the beneficiary's estate or the beneficiary, respectively (subject to CDSG and CDSB repayment obligations).

Original contributions remain non-taxable, while CDSGs, CDSBs and investment income received will be taxed as ordinary income to the beneficiary or his or her estate. Recognizing that a beneficiary's estate will receive RDSP proceeds on death of the beneficiary, provision should be made in the beneficiary's will for distribution of the assets so that the beneficiary has greater control over the intended distribution of the assets.

If the beneficiary dies without a will, the proceeds would be distributed according to the laws of intestacy for the province or territory in which the beneficiary resided. These laws generally provide for the spouse and children of the deceased, if any, followed by the next closest relatives.

However, relying on the laws of intestacy could lead to unintended distributions, particularly if the beneficiary has a preference that non-related individuals (e.g., friends, caregivers) inherit. Because the rules differ between jurisdictions, it is important to speak to a lawyer in the jurisdiction of the RDSP beneficiary to determine applicable rules.

If the beneficiary ceases to be eligible for the disability tax credit because their condition has improved, the RDSP must either be collapsed by the end of the year following the cessation of the DTC, or an election, with medical verification can be made to put the RDSP "on hold" (no contributions or withdrawals) for up to four years. If there is a relapse and the beneficiary is again DTC-eligible, then the RDSP can be restarted without requiring an entirely new application.

Karen recently passed away. At the time of her death, her RDSP was valued at \$251,471 of which \$100,000 was original contributions. No grants or bonds were received in the 10-year period prior to death. On death, Karen's estate received a payment of \$251,471, of which \$100,000 was non-taxable. The remaining \$151,471, consisting of grants, bonds and investment income was taxable on her final tax return.

Other Planning Issues

Henson Trust

Named after the Henson family, a Henson trust is a formal trust to which assets can be contributed on behalf of a disabled individual. Because the trust is discretionary in nature (i.e., the trustee has full discretion over when, how and if assets are distributed to the disabled beneficiary), the trust can provide a certain level of financial support without having the disabled beneficiary's provincial benefits clawed back. It should be noted that some provinces, Alberta, for example, do not recognize such trusts.

In many provinces, Henson trusts will continue as an effective estate planning strategy alongside RDSPs. Suitability should be discussed with a financial advisor and lawyer. Greater flexibility may be achieved through a Henson trust as maximum and minimum withdrawals do not normally apply. Short-term expenses may also be addressed more easily in the absence of CDSG and CDSB repayment provisions. As an estate planning strategy, a contribution of \$200,000 could be put into an RDSP during the contributor's lifetime with any excess being left to a trust in the deceased contributor's will.

For more information on the RDSP or to set up a plan, please contact your financial advisor.

The material in this brochure is intended to provide information of a general nature only and should not be construed as offering specific tax, legal, financial or investment advice. Although we have endeavored to ensure its accuracy and completeness as of **January 24, 2014**, we assume no responsibility for any reliance upon the brochure. Market conditions, tax laws and investment factors are subject to change. Individuals should consult with their financial advisor, accountant or legal professional before taking any action based upon the information contained in this brochure. The Canada Disability Savings Grant (CDSG) and the Canada Disability Savings Bond (CDSB) are provided by the Government of Canada. Eligibility depends on family income levels. Speak to a tax advisor about RDSP's special rules; any redemptions may require repayment of the CDSG and CDSB.