

Disability savings plan proposed

Set up like an RRSP, money could be saved on a tax-deferred basis for family member with a disability

By Jade Hemeon

Advisors may soon have a new financial product to sell if the Planned Lifetime Advocacy Network and the Credit Union Central of Canada are successful in their efforts to persuade the government to introduce a tax-deferred disability savings plan.

Both groups recently presented submissions to the House of Commons standing committee on finance in its pre-budget consultations, recommending the establishment of a plan that would offer tax incentives to families wishing to set aside funds for a disabled family member.

The fund would be modelled on an RRSP, allowing for deduction of the contributions from income as well as tax deferral on growth within the fund during the lifetime of the disabled person. The plan would become taxable upon the death of the disabled person.

“The need for this kind of a plan arises from the fact that people with disabilities are living longer than previously, due to better health care,” says Jack Styant, executive director of PLAN in Vancouver.

“We are now seeing the first generation of people with disabilities outliving their parents en masse. A pressing concern for parents as they age is what will happen to their disabled children after the parents die,” he adds.

PLAN’s proposal for the disability savings plan suggests contributions could be in the form of money or other financial assets, including RRSPs and RESPs. Expenditures and disbursements would be exempt from taxation, as well as from clawbacks by provincial disability income systems.

Furthermore, both the CUCC and PLAN foresee that withdrawals could be in the form of lump sums or regular payments, and the funds could be used for such purposes as education, rehabilitation, caregivers, drugs, medical devices, a home purchase or modifications, or simply as a regular income supplement.

“We have presented the idea to the parliamentary committee, and my sense is that it’s something they feel is worthy of further exploration,” says Joanne De Laurentiis, president and CEO of the CUCC in Toronto. “It should appeal to the government to encourage those who have the means to put a plan in place to ensure their disabled family members have support after their parents die.

“The idea of a disability savings plan modelled on an RRSP has a lot of merit, and we will continue to support it and participate in any further consultations,” she adds.

Styan says a disability savings plan could help families create self-sufficiency for disabled people, putting more control into the families’ hands and reducing the disableds’ dependence on government programs. Research shows that disabled people are currently vulnerable to poverty and social isolation.

“A savings plan allows a family to design the future instead of leaving it to chance,” he says. “It would be important in the development of the plan to draw a box around those who qualify.”

For example, to qualify for the existing disability tax credit, a disabled person’s income must not exceed \$15,000 a year, and he or she must be significantly impaired in terms of ability to carry out basic daily tasks such as eating, walking and washing. The disability could be mental or physical, and must be verified by a physician.

Research compiled by Statistics Canada shows 3.6 million Canadians are disabled, or about 12.4% of the population, although Styan says about one-third of these people are senior citizens who may have developed disabilities as they aged.

There are about 2.2 million Canadians with disabilities who require some level of assistance in their everyday lives. More than half of disabled Canadians who are older than 15 years of age receive assistance from a family member with whom they live, while others receive assistance from family members with whom they don’t live, or friends, neighbours or the government.

“Disability affects more than the person who is born with or acquires the disability,” Styan says. “Typically, the entire family is affected.”

With continued improvement in their health status, people with disabilities can be expected to have a lifespan equal to that of the general population, according to PLAN. For example, in the 1920s, the average age of death of people with Down’s syndrome was nine. Today, it is above 60 and rising. In addition, the number of elderly mentally handicapped people in Canada who are older than 60 will double in the next 30 years to 100,000, PLAN estimates. The aging of society, combined with increasing longevity of disabled people, is stretching the capacity of government and community services.

The CUCC said in its submission that tax incentives offered by a disability savings plan could act as an impetus for families to contribute to the future well-being of their disabled members.

And if the federal government “signals interest” in its next budget, the logistics of developing a plan could be worked through within a year, and a full-fledged disability savings plan could be in place as soon as 2007, according to Styan.

He says the amount of savings and government costs are dependent on the plan’s design, but PLAN anticipates contributions of between \$60 million and \$230 million a year, with costs to the government of \$15 million-\$47 million a year, including forgone tax revenue. **IE**