

RDSPs: Are you eligible for a financial future?

BY CAROLINE GEORGE

One original idea and six years later it's finally here: the Registered Disability Savings Plan (RDSP). Launched in December 2008, the RDSP assists people with disabilities to secure financial stability for the long term.

What makes RDSPs so attractive is that they are tax-free deferred investments, which earn they work just like RRSPs, and that RDSP owners are eligible for all kinds of grants, bonds and free money from the federal government, depending on their family income.

Who offers it?

RDSPs are available nationally through BMO, CIBC and RBC. In Quebec, RDSPs are available through the Quebec Federation of General Practitioners (FMOQ).

"We had our challenges, but we made a commitment to the government because we saw the value of RDSPs and the importance of it for Canadian families," says David Sharone, product manager of registered plans at BMO Mutual Funds, the first financial institution to offer the plan in Canada.

"There are hundreds, maybe thousands of people who qualify for it, but may not be aware of it," says Jack Styan, executive director of the Vancouver-based Planned Lifetime Advocacy Network, the group that lobbied the federal government for the plan.

Although exemptions for the plan vary from province to province, Styan says provincial legislatures have made great progress since the announcement of the plan's launch by the feds in 2008.

"When we look at the response to the RDSP, ten out of 13 jurisdictions have fully exempted the RDSP as an asset and fully exempted any income from it with respect to people receiving disability benefits. That's incredible continuity in comparison to the trust legislations that exist," Styan says.

Who is eligible?

To meet the criteria for the RDSP, you must be under 60, a Canadian resident with a social insurance number and eligible for the Disability Tax Credit (DTC). If you're under 18 your family must be receiving the Canada Child Tax Benefit. Simple, right?

Wrong. Qualifying for the DTC requires more than placing a tick in the appropriate box. Guardians or beneficiaries must fill out the DTC certificate (form T-2201), have it reviewed by their medical specialist and send the completed application



Photo: Jupiterimages

Start your nest egg now with a RDSP.

to the Canadian Revenue Agency prior to opening and RDSP account.

"They (the forms) are fairly complex and do require some advice and council," says David Birkbeck, head of registered products strategy at RBC. "But at the end of the day it's something that is worth doing," says Golombek. "It may take an hour to go through the paperwork and properly open up the plan, but doing so can open up substantial opportunity to get government money as well as tax deferred savings for someone with a disability."

How does it work?

To help beneficiaries of the RDSP accumulate sizeable retirement nest eggs, the federal government (Canada Revenue Agency) offers financial incentives. Jamie Golombek, a managing director, tax and estate planner with CIBC in Toronto, says the incentives are what make opening an RDSP worthwhile. "There are grants and bonds available for these plans that are very, very generous," says Golombek. A family earning under \$75,000 a year can put in \$1,500 and access \$3,500 in grant money (from the federal government) and potentially another \$1,000 in bonds in that same year." (There are lifetime limits of \$70,000 in grant money and \$20,000 in bonds.)

Lower-to-middle-income families who qualify for the Canadian Disability Savings Grant (CDSG) and Canadian Disability Savings Bond (CDSB) are eligible for even more "free money" from the feds. For every dollar invested, the government, through the CDSG, will make a contribution of \$3 – after an initial \$500 investment – and \$2 for each dollar contributed – after the next \$1,000.

Anyone can contribute to a beneficiary's RDSP, and there are no restrictions on when or how you decide to use your funds. But there are penalties for early withdrawal and any grant or bond received within ten years of opening the RDSP must be repaid if withdrawn.

"The concern that the government has is that people will contribute to these plans for a few years to get the government money and suddenly take it all out," explains Golombek.

The good news is that "in 30 years time we have the potential to have a whole segment of people with disabilities with enough assets to live on....without question it could change the lives of some people," says Styan.

For more information please visit www.rdsp.com 