

Funding Disability: Clawbacks discourage private savings

By Janet Freedman

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Ask any family who has a relative with a disability what their major concern is and they will answer “what happens to our family member when we die?” But another common question is “how do we cope financially when we are retired and still caring for them as well as trying to cope with our own declining health?” It is rare for siblings or other family members to take over, which means the burden falls onto different levels of government, community services and the charitable sector.

For the first time in history, people with disabilities are outliving their parents. At the same time, the aging baby boomer generation will put enormous pressure on government’s ability to address other social issues. As financial advisors and planners, our job is to look ahead and support changes in the system which will benefit all of our clients and their families.

Advances in medicine since the 1940s have been truly remarkable. An acquired brain injury, for example, is no longer an automatic death sentence, nor does a diagnosis of any one of numerous illnesses or injuries. Rather, survival rates have increased dramatically as has life expectancy. Along with those changes has been a move away from institutional care and towards community-based care and, in very many cases, parent or family-based care.

The Ontario Brain Injury Association, for example, reports that 19% of adults with brain injuries live alone; 58% are cared for by families; 5% are in community residences, and 9% are in institutions. Of children with brain injuries, 88% are cared for by their parents.

Surveys show that the vast majority of Canadians support an adequate lifestyle for people with disabilities. But provincial and territorial social assistance programs are inadequate to fund a quality life. Eligibility is based on assets, and there is income and means-testing, making these programs a last resort. As financial advisors, we see people who just miss out on being eligible for benefits, families who are struggling to cope and an unevenness in the treatment of trusts and workers compensation plans across provincial and territorial jurisdictions.

Social assistance programs are designed to provide the basic minimum and no other options. It is a “ceiling” of coverage or support rather than a “floor.” So every dollar of additional income, including gifts, (with a few minor exceptions) reduces social assistance by one dollar. Gifts are treated differently depending on the social programme — Guaranteed Income Supplement reduces at about a 5% rate on each dollar. Old Age Security isn’t reduced until income is close to \$60,000 and then at a rate of 15% on the dollar.

Some groups, though, have been very aware of this impending demand and are actively working to come up with new strategies. The Planned Lifetime Advocacy Network in Vancouver has sketched out a proposal in conjunction with the Credit Union Central of Canada and the Caledon Institute on Social Policy to develop a Registered Disability Savings Plan. The mandate of the RDSP would be to provide a tax-assisted savings plan similar to an RRSP to which people with disabilities and their families could contribute.

Research shows that, to encourage savings that will lead to self sufficiency, tax deferral or another incentive, such as with the RESP where the government contributes a certain amount into the plan, is required. The main focus of the RDSP is to raise the income floor for lower income people with disabilities. Rather than being limited by the ceiling of social assistance payments, the idea is to allow income to be received without provincial welfare being reduced dollar for dollar.

Just like an RRSP, the contributions would be tax-deductible and the income earned in the plan would not be taxable during the lifetime of the annuitant. It would not result in claw back of GIS or other income support programmes, but rather would be taxed in the same way as other income when received. There would be no restrictions on how the money could be spent as long as it is for the benefit of the person with the disability.

Most people with disabilities do everything they can to be financially self sufficient. But provincial programs provide a very minimal level of support; the federal government provides some assistance through the tax system, but it is only of benefit to those who have higher income or other family members who can claim the credit. The RDSP in fact would create more of a partnership with federal and provincial governments and family members and people with disabilities to ensure an adequate rather than minimal standard of living.

This is a much more effective model than one which relies on strained government resources to provide inadequate levels of income that family members are unable to increase without jeopardizing government support. And this plan would enable income to be paid from the plan to the relative with the disability while the parents are still alive. Most other options (trusts, Henson Trusts and RRSP rollovers) happen only upon death of the RRSP/RRIF annuitant — if there is anything left.

In an in-depth November 2005 paper written by former department of finance official Keith Horner, published by the Caledon Institute of Social Policy, the estimated contributions to a RDSP range from \$60 million to \$230 million per year depending on how it is designed. The estimated costs to the federal government in deferred tax revenue would be \$15 to \$47 million a year and about half that for provincial governments.

Encouraging private support of people with disabilities advances two public policy objectives — improving the lives of people with disabilities and limiting pressure on government programmes.

This article originally appeared in Advisor's Edge Report. Janet Freedman CFP, RFP is president of Finance Matters, a fee-only financial planning firm in Toronto, and co-author of Hit by an Iceberg: Coping with Disability in Mid-Career.