

How to benefit from Registered Disability Savings Plan

The group that instigated the “the first disability savings plan in the world” – the Registered Disability Savings Plan (RDSP) – made a to-the-point presentation to ConnecTra members.

Designed specifically for people with disabilities, RDSPs offer substantial returns – for those eligible – which can grow and subsequently be cashed without impacting benefits or pensions.

Planned Lifetime Advocacy Network (PLAN) advocated for the past six years for the development of the RDSP, and will be presenting feedback to the government for future improvements.

Doug Brodhead, PLAN’s Assistant Director of Public Policy, gave an honest appraisal of the RDSP at ConnecTra’s Feb. 19 reception. He reviewed that an RDSP was not necessarily for everyone, and that there were areas he’d like to see improved – as to be expected, he felt, considering this is “the first disability savings plan in the world.”

One of the strengths of this is that money, once accumulated, can be used “whatever way you want and still receive disability benefits” – although earnings are taxable, assets and withdrawals are exempt from social assistance calculations. The aim, he said, is to encourage saving, and to enable people to use money accumulated to improve the quality of their life, ranging from hockey tickets to home improvements.

“It was created to help children, that have severe disabilities, over the long term,” said Brodhead. “It was designed for children but has benefits across the spectrum.

“People aged 30 and below will really benefit the most from it.”

To qualify, people need to be Canadian residents under 60 years of age, with Disability Tax Credits and a valid Social Insurance number.

However, only those under 50 years of age will receive federal and provincial government funding to boost their investments – which can net a substantial windfall.

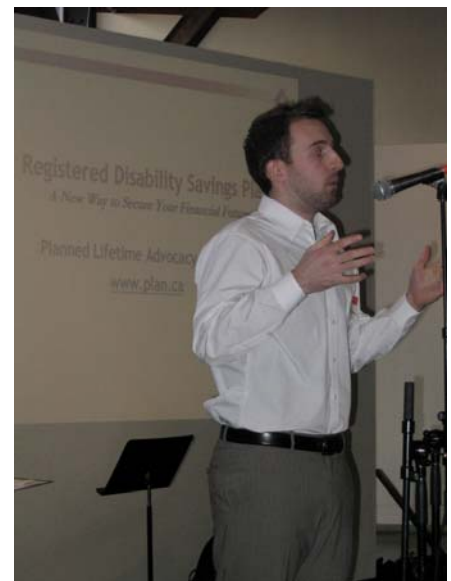
After opening an RDSP with \$25, someone with an annual income of less than \$20,000 can apply for a \$150 grant from the province’s Endowment 150 fund, with the federal government supplying a \$525 grant and a \$1,000 bond. This turns \$25 into \$1,700 (plus interest)! Those earning more receive less from the government.

Money has to remain invested for 10 years in order to obtain the government funding.

Many people present voiced concerns at the age limits – asking why people over the age of 50 were excluded from the grants and bonds, and, as such, if this would be a worthwhile investment.



Explaining: Doug Brodhead



Benefits: Doug Brodhead

Examples: ‘\$360,000 by age 50’

Doug Brodhead, PLAN’s Assistant Director of Public Policy, gave examples, including:

A 20-year-old, earning \$20,000 per year, who contributes \$1,500 to an RDSP over 20 years (paying in a total of \$30,000, and receiving \$90,000 from the government over this time) should expect to have an investment of \$360,000 by age 50.

A 40-year-old paying \$1,500 per year for 11 years would expect to have an investment of \$135,000 by age 50.

“This is one of the biggest issues we’ve come across,” said Brodhead. “We are actively working to get that removed”

The 50-year age limit, he said, is because of the “10 year rule.” Money must be invested for a decade, in order to grow, but plans automatically start making payments at age 60, as the government wants investors to access their savings – rather than amassing a large amount that will remain untouched.

While people aged between 50 and 60 can benefit from RDSPs, as they are an investment option that would not impact benefits and pensions, they might be better off setting up a trust fund – so should seek financial advice, said Brodhead. “If you are younger the RDSP has more benefits, with the grants and bonds from the government.”

Another issue is that there is no named beneficiary – so if the investor dies, any money saved will be resolved by their will.

Two banks are handling this – RBC and Bank of Montreal. People should allow around an hour to complete the paperwork, says Mike Bensimhom, RBC Investment and Retirement Planning (take along you Social Insurance Number and other government ID).

There is a deadline of March 1 for anyone wanting to retroactively receive government grants and bonds for 2008. Any investments made after this time would net 2009 grants and bonds – so by getting in early, the savvy investor can net two years’ worth of government money.

More information:

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In the audience