

Registered Disability Savings Plans (RDSPs)



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For many years, individuals and families of individuals with disabilities have sought the best way to ensure long-term financial security. The Registered Disability Savings Plan (RDSP) is a federally regulated registered savings plan that helps to address this issue.

The RDSP is designed to provide for the long-term financial security of a person with disabilities. Contributions, with the added benefit of government grants and bonds, combined with tax deferred growth, make RDSPs a powerful investment tool.

Eligibility

The person to whom the benefits of an RDSP accrue is referred to as a beneficiary. Any person can be a beneficiary if they:

- are eligible to claim the Disability Tax Credit (DTC),
- have a valid Social Insurance Number (SIN),
- are a Canadian resident, and
- are under the age of 60.

Only one RDSP per qualified person and only one beneficiary per RDSP are allowed.

For more information on the DTC please visit: www.cra-arc.gc.ca

Contributing to an RDSP

The person who establishes an RDSP is referred to as the account holder, however anyone can contribute to an RDSP provided they have written permission of the account holder. An adult who qualifies for the plan can be both the plan beneficiary and the plan holder.

In case the beneficiary is a minor or is not legally able to enter into a contract, another person will be qualified to become the account holder if that person is:

- a legal parent of the beneficiary (legal parents can both be plan holders under a plan);
- a guardian, tutor, or curator of the beneficiary or an individual who is legally authorized to act for the beneficiary; or
- a public department, agency, or institution that is legally authorized to act for the beneficiary.

In case the beneficiary has reached the age of majority but is not legally able to enter into a contract, the qualified persons who can become the holder are:

- a guardian, tutor, or curator of the beneficiary or an individual who is legally authorized to act for the beneficiary; or
- a public department, agency, or institution that is legally authorized to act for the beneficiary.

The beneficiary can be added as an account holder once they have reached age of majority and are legally allowed to enter into a contract.

The plan holder does not have to be a resident of Canada provided that the beneficiary was a resident of Canada when the plan was opened and contributions were made to the plan. The plan holder can also change during the lifetime of a plan.

Building the Value of an RDSP

There is no annual contribution limit to an RDSP. However, each RDSP has a lifetime contribution limit of \$200,000 per plan. All contributions, however, must cease by the end of the year in which the plan beneficiary reaches age 59, or the beneficiary no longer qualifies for the DTC or is no longer a resident of Canada. Contributions must also cease upon the death of the beneficiary.

An RDSP may be eligible for federal incentives called the Canada Disability Savings Grant (CDSG) and the Canada Disability Savings Bond (CDSB).

Canada Disability Savings Grant:

The federal government provides the CDSG to RDSP beneficiaries based on the adult beneficiary's net income and the amount of annual RDSP contributions. Where the beneficiary is a minor, the CDSG is based on the net income of the beneficiary's family and the amount of the annual plan contribution.

The maximum CDSG amount is \$3,500 per year for beneficiaries or families with net incomes of less than \$77,665. The grant will contribute \$3 for every \$1 contributed on the first \$500, and \$2 for every \$1 contributed on the next \$1,000, up to the \$3,500 annual maximum.

Beneficiaries or families with incomes greater than \$77,664 can receive a maximum annual grant of \$1,000. The grant will contribute \$1 for every \$1 contributed up to \$1,000.

When the beneficiary turns 18 years of age, CDSG payments are based on their net income (and spouse if applicable).



The maximum lifetime CDSG is \$70,000 per RDSP beneficiary and CDSG eligibility ends December 31 in the year in which the plan beneficiary turns age 49.

Beneficiary's family net income	Matching CDSG on annual RDSP contributions	Maximum CDSG Payment
\$77,664* or less	on the first \$500 contributed (\$3 for every \$1 contributed)	\$1,500
	on the next \$1,000 contributed (\$2 for every \$1 contributed)	\$2,000
More than \$77,664*	on the first \$1,000 contributed (\$1 for every \$1 contributed)	\$1,000

* Income thresholds are for 2009. Eligibility for the 2009 Grant is based on the family net income for 2007. These income thresholds will be indexed annually by Canada Revenue Agency.

Example 1:

John and Mary, who live in Ontario, opened an RDSP and began making annual plan contributions of \$1,500 per year for six years on behalf of their young son, George, who has a disability. The following chart illustrates their annual income, contribution amount, and CDSG:

George's Age		Family Net Income	Contribution	CDSG
12	Year 1	\$45,000	\$1,500	\$3,500
13	Year 2	\$47,500	\$1,500	\$3,500
14	Year 3	\$55,000	\$1,500	\$3,500
15	Year 4	\$76,800	\$1,500	\$1,000
16	Year 5	\$78,000	\$1,500	\$1,000
17	Year 6	\$80,000	\$1,500	\$1,000
18	Year 7	\$20,000	\$1,500	\$3,500
-	Total	-	\$10,500	\$17,000

Once George turns age 18, the CDSG annual maximum reverts to \$3,500 based on \$1,500 in annual contributions and assuming his income is below \$77,665.

Annual contributions in excess of the amount required to receive the maximum annual CDSG will not attract additional CDSG. The maximum annual CDSG from the government remains either \$1,000 or \$3,500 per year, per beneficiary depending on beneficiary or family net income.

Example 2:

Jimmy, age 40, has \$7,500 available to contribute to his RDSP. He wants to know if it is better to contribute the entire \$7,500 to his RDSP now and reap the benefits of tax-exempt compounding, or make annual \$1,500 contributions over the next five years to reap the maximum benefit of the CDSG. After speaking with his financial advisor, Jimmy has two scenarios to consider (Assume a 7% rate of return on a combined deposit plus CDSG, compounded on an annual basis, with family net income of less than \$77,664):

	Scenario 1 Lump sum contribution	Scenario 2 Annual contribution
Total contribution amount	\$7,500 lump sum contribution	\$1,500 annually for 5 consecutive years.
Total CDSG received	\$3,500 (one time CDSG payment from \$7,500 lump sum contribution)	\$17,500 (\$3,500 annually for 5 years, deposited at the beginning of each year)
RDSP value after 5 years	\$15,428	\$30,766

As the example shows, outside of other financial considerations Scenario 2 provides a greater benefit to Jimmy. While he does not benefit from the tax-exempt growth of the full \$7,500 for the full five years, the benefit of receiving the \$3,500 CDSG annually, (\$17,500 over five years) nearly doubles the value of his investment.

Canada Disability Savings Bond:

In addition to the CDSG, the Canada Disability Savings Bond (CDSB) is available to beneficiaries or families with a net family income lower than \$37,832. RDSP contributions are not required to be eligible to receive for CDSB.

Beneficiaries, with a net income of less than \$21,817, may be eligible to receive government CDSB payments of \$1,000 a year into an established RDSP. Where net income is more than \$21,816 but less than \$37,832, a pro-rated CDSB payment of less than \$1,000 will be paid into the RDSP.

Where the beneficiary is a minor, the CDSB is based on the net income of the beneficiary's family. When the beneficiary turns 18 years of age, CDSB payments are based on their net income (and spouse if applicable).

The maximum lifetime CDSB is \$20,000 per RDSP beneficiary and CDSB eligibility ends December 31 in the year in which the plan beneficiary turns age 49.

Beneficiary's family net income	CDSB
\$21,817* or less (or if the holder is a public institution)	\$1,000
Between \$21,817* and \$37,832*	Part of the \$1,000 based on the formula in the Canada Disability Savings Act
More than \$37,832*	No CDSB is paid

* Income thresholds are for 2009. Eligibility for the 2009 Bond is based on the family net income for 2007. These income thresholds will be indexed annually by Canada Revenue Agency.

Growing the Value of RDSP Contributions

RDSP contributions are similar to Registered Education Savings Plans (RESPs) in that the contributions are not tax-deductible. However, the growth on RDSP contributions is tax-deferred while held within the plan.

Investments that qualify for an RDSP are generally the same as those for Registered Retirement Savings Plans (RRSPs) and RESPs.

BMO Guardian Funds offers a wide variety of investments that qualify for your BMO Guardian RDSP. For more information about BMO Guardian products please visit: www.bmoguardianfunds.com/rdsp.

Withdrawals from an RDSP

There are two types of payments from an RDSP - Lifetime Disability Assistance Payments (LDAP) and Disability Assistance Payments (DAP).

LDAPs are recurring annual payments that, once started, must be paid until either 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. These payments are subject to an annual maximum withdrawal amount based on the beneficiary's life expectancy and fair market value of the plan.

DAPs are a lump sum payment made from the RDSP to the beneficiary or the beneficiary's estate. DAPs may be requested by the beneficiary when they turn 27 provided the total of CDSGs and CDSBs are greater than all plan holder contributions at the beginning of the calendar year.

Both LDAP and DAP can be used for disability or non-disability related expenses. Only the beneficiary will be permitted to receive payments from the plan.

CDSBs or CDSGs received from the federal government within 10 years of receiving either the LDAP or DAP must be repaid to the government. This is known as Assistance Holdback Amount.

LDAPs or DAPs are comprised of contributions and earnings (the amount over and above what was contributed, that is, the income, growth, CDSGs and CDSBs). Income tax applies only to the earnings portion and is paid on amounts withdrawn from the RDSP at the beneficiary's combined federal and provincial or territorial tax rate.

Any assets that continue to grow inside the RDSP are allowed to do so, on a tax-deferred basis.

Contributions are not taxable when withdrawn from the RDSP.

Affect of Death or Cessation of Disability

On the death of the beneficiary, the RDSP structure collapses and the remaining proceeds of the plan, less any CDSG or CDSB payments received in the 10 years preceding the beneficiary's death (which must be repaid to the government), are directed to the beneficiary's estate and distributed according to the individual's will. In case there is no will, the funds will be distributed according to provincial estate laws. Original RDSP contributions are not taxable however the earnings are taxed as ordinary income to the deceased beneficiary's estate.

In the event the beneficiary no longer qualifies for an RDSP, the plan is collapsed and the proceeds are paid directly to the beneficiary after any required repayment to the government of CDSGs and CDSBs. Original RDSP contributions do not incur income tax however the earnings generated while inside the RDSP are subject to tax at the beneficiary's marginal tax rate in the year in which the proceeds are received.

RDSP impact on other federal and provincial government programs

RDSP does not impact other income-tested federal government programs including: Old Age Security (OAS); Guaranteed Income Supplement (GIS); Canada Pension Plan (CPP); and the Goods and Services Tax Benefit (GST Benefit), to name a few.

In most provinces and territories, RSDP benefits do not impact existing provincial social assistance support programs. It is advisable that you check with government offices in your local area for RDSP benefit exemption details specific to your province.

Should you establish an RDSP?

If you or a family member qualifies for the Federal DTC, there are numerous benefits to doing so. Contributions to your RDSP, while not tax deductible, will compound on a tax-deferred basis and over time can add significantly to the value of your plan. In addition, your contributions may attract an additional boost with the Canada Disability Savings Grant.

Even if you do not have the financial means to contribute to an RDSP, you may be eligible for the Canada Disability Savings Bond, which will help you build a more secure financial future.

Learn more

To determine whether the BMO Guardian RDSP is a good choice for your portfolio, please speak with your financial advisor.





Further information on RDSPs is available at:

www.cra-arc.gc.ca

www.bmoguardianfunds.com/rdsp

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