MACKENZIE Investments

Common misconceptions about the Registered Disability Savings Plan (RDSP)

The RDSP has been available since 2008, but in many cases there's confusion around some of the more intricate details of the plan. One of the largest benefits of the RDSP is the "free" money (up to $90,000) that beneficiaries can receive from the government by the end of the year they turn 49.

Canada Disability Savings Grant (CDSG)

The Canada Disability Savings Grant (CDSG) is a matching program and the amount a beneficiary is eligible for depends on family net income.

If the beneficiary is under 18, the family net income used is that of the parents.

If the beneficiary is over 18, the beneficiary's family net income is used as of January 1 of the year they turn 19. It is important to note that the family net income reported on tax returns from two years prior will be used for these calculations, and therefore it is generally recommended that RDSP beneficiaries are filing tax returns by age 16 for this purpose.

This is regardless of who the account holder is, whether the beneficiary is dependent on someone, or where the beneficiary lives. If the beneficiary qualifies for the maximum grant for the current year:

- An annual contribution of $1,500 will result in a matching grant of $3,500.
- The lifetime maximum for CDSGs is $70,000.

Canada Disability Savings Bond (CDSB)

The government also offers the Canada Disability Savings Bond (CDSB), which is intended for low to moderate income families. If a beneficiary qualifies for the maximum bond, they can receive $1,000 annually, up to a lifetime maximum of $20,000. No personal contributions to the plan are required.

Benefits of the RDSP

"Free" money (up to $90,000) that beneficiaries can receive from the government by the end of the year they turn **49.**

What is the Assistance Holdback Amount (AHA) and how does it work?

Between the CDSG and CDSB, the federal government may have deposited a significant amount into RDSP accounts. The accounts are expected to be long-term investments for the future income of the beneficiary. To discourage early withdrawals from the RDSP, the government has established the Assistance Holdback Amount (AHA). Over the years, we have found that the AHA and proportional repayment rule are misunderstood by investors and advisors alike.

If the account is being collapsed, the AHA applies. This means all CDSG and CDSB money deposited to the account in the 10 years prior to closure must be repaid to the federal government. Where the confusion seems to arise is when someone makes a partial withdrawal from the account. In that case the government will look to see if ANY CDSG or CDSB was deposited to the account in the 10 years prior to the withdrawal. If the account received CDSG or CDSB during that time, the proportional repayment rule applies: for every dollar withdrawn, the beneficiary must repay three dollars of CDSG and CDSB.

Frequently this rule is misinterpreted. Many RDSP holders believe they can access CDSG or CDSB they received more than 10 years ago, that is no longer subject to the AHA. Unfortunately, that's not true. The CDSG or CDSB received more than 10 years ago belongs to the beneficiary, but they cannot access it unless the entire account is being collapsed or no CDSG or CDSB have been deposited to the account in the 10 years prior to the date of the withdrawal. When a withdrawal is made the government will look to see if CDSG or CDSB was deposited to the account in the 10 years prior to the withdrawal. If it was, for every dollar redeemed, three dollars of CDSG and CDSB must be repaid to the government.

Can an RDSP account be collapsed?

If a beneficiary passes away or loses their Disability Tax Credit, an RDSP can be collapsed. But many RDSP advisors and investors believe the RDSP account can be collapsed at any time. This may not be the case.

If the RDSP is a Primarily Government Assisted Plan (PGAP) — with more government money in the account than private contributions — the maximum amount that can be withdrawn annually is the greater of 10% of the account or the Lifetime Disability Assistance Payment (LDAP) formula. Below is an example of the LDAP formula.

Lifetime Disability Assistance Payment (LDAP) formula

LDAP withdrawal = A ÷ (B + 3 – C) where:

- **A** — **The fair market value of the plan at the beginning of the year.**
- **B** — **The greater of 80 and the age of the beneficiary at the beginning of the year.**
- **C** — **The actual age of the beneficiary at the beginning of the year.**

beneficiary age: **60**

LDAP

beginning of the year amount: **$400,000**

withdrawal amount

$400K ÷ **23** = **$17,391**

(80 + 3 – 60) = 23

If the account is a non-PGAP (with more privately contributed funds than government money) there's no limit to the maximum amount that can be withdrawn from the RDSP.

Can a beneficiary designation be added to an RDSP?

Unfortunately, it's not possible to add a beneficiary designation to an RDSP account. When an RDSP beneficiary passes away, any CDSG/CDSB received in the 10 years prior to the beneficiary's passing must be repaid to the government. The balance of the account is paid to the beneficiary's estate.

Talking about wills and Powers of Attorney

If the beneficiary has capacity and is over the age of majority, you may want to encourage them to have a will so they can determine how the proceeds of the account will be distributed. This may also be a prudent time to discuss Powers of Attorney with them. If they do not have a will, the proceeds of the account would be distributed according to the rules of intestacy in their province. Please note that since the proceeds of the account are paid to the estate, it is not possible to avoid probate on an RDSP account in provinces that have probate tax.

Conclusion

RDSPs have been gaining popularity, but many people still don't understand exactly how they work. Improper planning can greatly affect your RDSP client's financial wellbeing. You may want to reach out to them to ensure they understand exactly how their RDSP works.

For more information on RDSPs, contact your Mackenzie Sales team, or visit us at mackenzieinvestments.com/RDSP.

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