The Registered Disability Savings Plan (RDSP):
Securing a Financial Future for Canadians with Disabilities

Lawrence: Welcome to The Empowered Investor podcast. I'm your host, Lawrence Greenberg, and I'm joined by my cohost, Jackson Matthews. Jackson. How are you?

Jackson: I'm doing well. Thanks Lawrence. I'm happy to be back on the episode. It's been a while since I was last on. It's probably been about a year, so I'm very glad to be back.

Lawrence: We're happy to have you. So, for those who don't know, Jackson is a client facing advisor here at the firm, just like myself and Marcello and Ruben, who does the French podcast. In today's episode, we have a very interesting one. It's on the RDSP, the Registered Disability Savings Plan. So, there's another acronym for Canadians.

It was on RRSP or an RESP, it's an RDSP. This is an account for people who have disabilities.

Jackson: Basically, to follow up on what you just said, it's an account for people who have already been approved for the disability tax credit. And this account has certain settings that enable them to save for their long-term financial security. So essentially, to be eligible for this account, you have to have a T 2201 form written and approved by a medical practitioner, and it has to be approved by the CRA as well.

Oftentimes it happens where people will get the T 2201, but it'll get rejected by the CRA. So there are two levels of admissibility.

Lawrence: That's very important. So that's the eligibility for the tax credit itself, which we covered in detail in our previous episode with Christine Brunson, that this is actually a very tricky tax credit to qualify for.

A doctor has to sign off and it needs to be filled out in a way where the CRA will approve the eligibility of it. If you're curious about that and you want to know more about how you may or may not be eligible for the RDSP, I would highly recommend you first listen to the previous episode.

Jackson: Good show!

Also the way the RDSP works. Is it's kind of a hybrid between the RESP and an RRSP so it's a hybrid of the RESP because there are grants to be received from the government and the withdrawals are divided into taxable and non taxable components and then similar to the RRSP because its intent is to create a regular retirement income later in life.

Lawrence: So kind of like a RIFF, it's very interesting because with all these accounts, there's a lot of rules and stipulations and timing that's needed. So let's jump in. Jackson, who could be a beneficiary of the RDSP?

Jackson: The first criteria automatically is you have to be approved for the disability tax credit. On top of that, you have to have a valid social insurance number. You have to be a resident of Canada when the plan is entered into, and you have to be under the age of 60 to open the account. So you could open the account when you're 59, but not when you're 60 or older.

Lawrence: Okay, and from what I understand, you could open the account for a family member, or you could open it for yourself if you qualify for that, correct?

Jackson: That's correct.

Lawrence: Let's talk about how you add money into the RDSP, how you accumulate funds, and how you take advantage of this wonderful account.

Jackson: The contributions are not tax deductible as opposed to an RRSP. There is no annual limit to contributing to the account. However, there is a lifetime limit.

The annual limit can't pass the lifetime limit which is $200,000 and you can make contributions into this account until the end of the year in which the beneficiary turns 59.

Lawrence: Okay, so for those who could open this account, you have $200,000 of excess capacity to save, which is really meaningful.

And even better than that is the next section is how the government is creating incentives to help people save for their retirement who have disabilities, the first of which is grants. Why don't you walk us through the first suite of grants?

Jackson: There's two kinds of grants that you can receive in this account.

There's the Canada Disability Savings Grant, and there's the Canada Disability Savings Bond. Both of them are grants, let's just be clear about that. But let's start on the first one, the Disability Savings Grant. The government will pay a matching grant on your contributions, and they'll match it.

Either a three to one, two to one, or one to one, depending on the beneficiaries adjusted family net income.

Lawrence: Wow.

Jackson: Yeah, it is a powerful grant matching scheme and like I said, it's based on the beneficiaries adjusted family net income. So, it is income tested, and below the age of 18, when the beneficiary is under 18, they basically look at the parent's income, and once the beneficiary is older than 18, then they look at the beneficiary's income.

Lawrence: Okay, interesting. And how much, if you max out any ability that you can and you make your annual contributions, how much lifetime grants can you qualify for?

Jackson: You can get $70,000 of beneficiary lifetime grants.

Lawrence: Let's talk about how the CRA or the federal government looks at your income and what type of grants you can be eligible for depending on your income.

Jackson: If the beneficiary's adjusted family net income is below the threshold of $106,000, then on the first $500 contribution, it'll be a three to one grant match. So you'll receive $1,500 a year of grants. And then on the next $1,000 contribution, you'll get a two to one grant matching. So you'll receive $2,000 of grants.

So if you make a contribution of $1,500. You'll receive $3,500 of grants in a given year.

Lawrence: Wow. So $1,500 and get $3,500 back. That's a pretty good rate of return. That is very powerful stuff.

Jackson: Yeah. And so following up on that, if your family's income is above that threshold of $106,000, then on the first thousand dollar contribution, you get a one to one grant matching.

So you get a thousand dollars of grant. It's not as high as the other grant matching, however, it is still a 100% rate of return.

Lawrence: It's a 100% rate of return. It's backed by the Canadian government. Even if you're high income, which I think people may not think at first glance, even if you're relatively high income, you could still get grants from the government which is still a powerful tool for you.

I want to make sure people understand that if you are eligible for any of these things, the DTC and the RDSP, and you've fit the criteria, very good stuff. Let's talk about the other type of grants that you may receive.

Jackson: The second grant is called the Canada Disability Savings Bond, this grant is basically for low income families in Canada. The beneficiary has a lifetime grant limit for $20,000 in this kind of grant.

You also don't need to make contributions to the account to receive this grant because it is for low income families. There's also a threshold for this grant, basically if the beneficiaries adjusted family net income is $35,000 or less, then you receive the grant of $1,000 per year up to $20,000 of this kind of grant.

If your family's net income is between $35,000 and $53,000, then you receive part of the $1,000 grant, however, you won't receive the full one. And it's basically prorated based on a formula. If your family's net income is above $53,000, then you would not be eligible for this kind of grant, which is the bond.

Lawrence: So the Canada Disability Savings Bond is not a bond. This is money that goes right into the account regardless if you make a contribution or not. So if you're low income, it just comes into the account. And the word bond is quite confusing. This isn't bond is in like fixed income or a treasury bond.

This is simply a grant as you explained. There's two types. There's $90,000 potentially on the table. If you are not eligible for the Canada's place savings bond, then it's $70,000. That is a lot of money that you are able to take advantage of. And what happens if you open the account a little later in life and you want to catch up? Can you do so?

Jackson: You can carry forward up to 10 years of unused grant and bond entitlements. So if you're, let's say 35 years old and you make your very first contribution, you can essentially carry forward 10 years of unused grants and basically catch up for those grants. Now, like I said at the beginning, the last contribution that is eligible for grants is at the age of 49 years old. So you can't catch up on grants and bonds at the age of 50, let's say.

Lawrence: So, if you're in your 40s, this is actually a tool that you can qualify for and try to catch up as well. The overall consensus in the industry is that this is only for young people and, yes, it is more powerful the younger you are, if you want to help your child, say, for example.

But if you're in your 30s and 40s, you could catch up and you could still take advantage of a lot of these programs, which is very important.

Now we've talked about making contributions, how much you can contribute over your lifetime, what the grants and bonds looks like. Now let's talk about how money actually comes out of the account.

Jackson: You have to start withdrawing from the account at age 60. These are required withdrawals and they are reoccurring payments on an annual basis. The withdrawals are an escalating percentage of the account that come out on a systematic basis. And in that sense, it's kind of like a RIFF account, like a registered retirement income fund.

You can also receive penalties for withdrawing earlier than 60. You might have to pay back some grants or bonds depending on when was the last time that you made a contribution that earned a grant and bond. Following up on this, each RDSP withdrawal has a proportion of grants, income, and principal, and that's determined by a formula.

The grants, bonds, and investment income are taxable to the beneficiary. However, the principal, once withdrawn, is not taxable.

Lawrence: The principle is your money. You put into the account that could come out tax free, just like an RESP. And then all the grants and the growth on the capital depreciation and the dividends, for example, in the account over its lifetime is also taxable as a regular income to the beneficiary.

That's very important. And from what I understand, it's a fixed percentage, unlike an RESP, you can't cherry pick on what you want to take out. It's a blended payment. The idea of the plan is to create reoccurring revenue in retirement, same as a RIF or a pension, for example. So that's what this account is meant to do. So the money has to come out of the account. Very interesting.

Let's talk about what the benefits are to this account, especially how it contrasts to other types of accounts that are available here in Canada.

Jackson: I'd say the number one benefit is obviously that it helps people with disabilities save for their financial future.

There are very generous government grants that can be taken advantage of, and it's also tax deferred growth. Like Lawrence mentioned, if you start the account earlier in life, there is more power to you in the sense of compounding deferred tax. There is a $200,000 lifetime capacity. You can defer tax on $200,000 of capital.

That is powerful. Another benefit is that you can receive up to $70,000 of lifetime government grants and $20,000 of government bonds. So that's for a total of $90,000. That's extremely generous grants that the government is giving for this account. And lastly, this account can have multiple contributors.

So obviously you have the beneficiary and you have the account holder. However, multiple people can contribute to this account. So a parent, a grandparent, a spouse, and the benefit of that is that more capital is coming from different sources. If one single person can't afford to max out a $200,000 lifetime capacity for each beneficiary, then you can also lean on a grandparent or a spouse just to achieve that lifetime limit.

Lawrence: Very well said, Jackson, what are your takeaways for this account and for this episode?

Jackson: I would say I only have one takeaway and that is if you feel like you're eligible for the disability tax credit or the RDSP, then I strongly encourage you to look into that because it can pay large dividends down the line.

The DTC is a strong tax saving tool or credit, if you will. And the RDSP has very generous grants for those applicable and it can strengthen your financial situation down the line. Absolutely. And how about you, Lawrence, what's your takeaway?

Lawrence: Okay, for me, as we did our research for the show, it really became evident to me how complex this account truly is.

This podcast episode was quite general. There's a lot of rules and a lot of mechanisms going on kind of under the hood. If you have this account, I'd highly recommend you get advice on how to plan for it and how it fits into your financial situation. Again, very complex, highly recommend people seek help.

So with that, Jackson, thanks for being on the show today.

Jackson: Thank you for having me.

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