

REGISTERED DISABILITY SAVINGS PLAN (RDSP)

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RDSP

Beneficiary eligibility

- ❑ Must be a Canadian resident
 - ❑ Have a Social Insurance Number
 - ❑ Under age 60
 - ❑ Disability Tax Credit (DTC) eligible
 - An individual may apply for the DTC by completing Form T2201, <http://www.cra-arc.gc.ca/E/pbg/tf/t2201/>
 - ❑ Only one beneficiary can be named to an RDSP
 - ❑ A beneficiary can only have one RDSP
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Account Holder eligibility

WHEN BENEFICIARY IS AN ADULT

- ❑ A beneficiary who has the legal capacity to manage their finances
- ❑ If a beneficiary does not have legal capacity to manage finances, the holder of a plan must be the guardian or other representative who is legally authorized to act on behalf of the beneficiary

WHEN BENEFICIARY IS A MINOR

- ❑ A legal parent(s) of the beneficiary
 - ❑ A guardian or public department/agency who is legally authorized to act on behalf of the beneficiary
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RDSP Contributions

- ❑ Anyone may contribute to the plan**
 - ❑ Contributions are not tax deductible**
 - ❑ Contributions grow on a tax deferred basis**
 - ❑ The lifetime contribution limit is \$200,000 per beneficiary**
 - ❑ There is no annual contribution limit**
 - ❑ Contributions are permitted until December 31st of the year in which the beneficiary of the plan turns 59**
 - ❑ New for 2011 you may carry forward unused government grants and bonds starting from 2008**
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Contributions

- New – Beginning July 2011, proceeds from a deceased individual's RSP, RIF or registered pension plan can be rolled into a RDSP of a financially dependent child or grandchild with a disability without triggering taxes or probate fees.**
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Canada Disability Savings Grant

Canada Disability Savings Grant (CDSG)

- ❑ **Maximum annual CDSG – \$3,500** (family net income less than \$81,941*)
- ❑ **Maximum annual CDSG – \$1,000** (family net income greater than \$81,941 *)
- ❑ **Maximum lifetime CDSG available per beneficiary is \$70,000**

Family Net Income is based on:

- ❑ If the beneficiary is a minor, the family's net income
- ❑ Where the beneficiary is an adult, the beneficiary's net income (and spouse if applicable)

CDSG Eligible Until:

- ❑ The last day a beneficiary is eligible to receive the CDSG is December 31st the year in which the beneficiary turns 49 years of age
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Canada Disability Savings Grant

| Family Net Income | Matching CDSG on Annual RDSP Contributions | Maximum Annual CDSG |
|---|--|---------------------|
| Less than or equal to \$81,941* | On the first \$500 in annual contributions (\$3 for every \$1 contributed) | \$1,500 |
| | On the next \$1,000 in annual contributions (\$2 for every \$1 contributed) | \$2,000 |
| Greater than \$81,941* or no income info with CRA | On the first \$1,000 in annual contributions (\$1 for every \$1 contributed) | \$1,000 |

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

* Income thresholds are for 2011. These income thresholds will be indexed annually by CRA.

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Canada Disability Savings Bond

Canada Disability Savings Bond is available to beneficiaries whose net family income is lower than \$40,970.

Canada Disability Savings Bond (CDSB)

- **Maximum annual CDSB – \$1,000** (family net income below \$23,855*)
(Smaller amounts of CDSB with net incomes between \$23,855* - \$40,970*)
- **The maximum lifetime CDSB available is \$20,000**

Family Net Income is based on:

- If the beneficiary is a minor, the family's net income,
- Where the beneficiary is an adult, the beneficiary's net income (and spouse if applicable)

CDSB Eligible Until:

- Last day a beneficiary is eligible to receive the CDSB is December 31st the year in which the beneficiary turns 49 years of age
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Canada Disability Savings Bond

RDSP CONTRIBUTIONS ARE NOT REQUIRED TO OBTAIN THE BOND

| Family Net Income | Canada Disability Savings Bond |
|--|---------------------------------------|
| \$23,855* or less | \$1,000 |
| Between \$23,855* and \$40,970* | Prorated amount of \$1,000 |
| More than \$40,970* | None |

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Payments (withdrawals) from the RDSP

THERE ARE 2 TYPES OF PAYMENTS (WITHDRAWALS) FROM AN RDSP:

1. Lifetime Disability Assistance Payment – (LDAP)
 2. Disability Assistance Payment – (DAP)
- Made up of a portion of contributions, income and Grants and Bonds
 - Can be used for disability & non-disability related expenses
 - Only the beneficiary can receive payments from the RDSP

“10 YEAR RULE” APPLIES TO ALL PAYMENTS FROM AN RDSP

- On all RDSP payments, all Grants and Bonds received in the 10 years preceding the RDSP payment must be returned to the government
 - This amount is known as the “assistance holdback amount”
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Lifetime Disability Assistance Payment

- ❑ LDAPs are recurring annual payments that, once started, continue until the death of the beneficiary
 - ❑ LDAPs may begin at any age but must commence by the end of the year in which the beneficiary turns 60 years of age
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Lifetime Disability Assistance Payment

The maximum annual LDAP amount is limited by a legislative formula that considers the fair market value of the plan and the life expectancy of the beneficiary

$$\text{Maximum LDAP} = \frac{\text{Value of plan}}{3 + \left(80 - \text{age} \right)}$$

Maximum LDAP example: \$300,000 RDSP, beneficiary, age 60

$$\frac{\$300,000}{3 + \left(80 - 60 \right)} = \text{\$13,043 annual maximum LDAP}$$

- ❑ LDAPs are subject to the Assistance Holdback Amount rule
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RDSP Disability Assistance Payment

DAPS ARE A LUMP SUM PAYMENT MADE FROM THE RDSP TO THE BENEFICIARY OR TO THE BENEFICIARY'S ESTATE

$$\text{Maximum DAP} = \frac{\text{Value of plan}}{3 + \left(80 - \text{age} \right)}$$

Maximum DAP example: \$300,000 RDSP, beneficiary LE 80, age 27

$$\frac{\$300,000}{3 + \left(80 - 27 \right)} = \text{\$5,357 maximum DAP}$$

- ❑ DAPs are subject to the Assistance Holdback Amount rule

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Taxation

- ❑ The RDSP payments (withdrawals) are made up of the following:
 - Contributions
 - Income growth
 - Grants and Bonds

 - ❑ Contributions are NOT taxable

 - ❑ Income-growth, Grants and Bonds are taxable in the hands of the beneficiary
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Impact on other Government Programs

AN INDIVIDUAL'S RDSP WILL NOT IMPACT ANY OF THE FOLLOWING PAYMENTS:

- Old Age Security (OAS)
 - Guaranteed Income Supplement (GIS)
 - Canada Pension Plan (CPP)
 - Goods and Services Tax Benefit (GST Benefit)
 - Most provincial disability support programs – please check with your province
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Death of beneficiary

UPON THE DEATH OF A BENEFICIARY:

- ❑ Grants and Bonds received in the 10 years preceding the beneficiary's death must be returned to the government
 - ❑ The remaining holdings of the plan – Grants and Bonds older than 10 years, income growth and contributions – will pass to the beneficiary's estate
 - ❑ The plan's proceeds will be distributed according to the individual's will
 - ❑ If the individual dies without a will, the funds will be distributed according to provincial estate laws
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Loss of eligibility

UPON LOSS OF DTC ELIGIBILITY:

- ❑ The RDSP must be collapsed
 - ❑ Grants and Bonds received in the 10 years preceding the beneficiary's loss of DTC eligibility must be returned to the government
 - ❑ The remaining holdings of the plan – Grants and Bonds older than 10 years, income growth and contributions – become an asset of the beneficiary
 - ❑ Proceeds to beneficiary are taxable in the hands of the beneficiary (net of contributions)
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Financial Planning Challenges:

- ❑ Ensuring your Will addresses the Special Needs of your child.
 - ❑ Your Will should address the guardianship for your child.
 - ❑ Plan for adequate emergency funds to be available.
 - ❑ Provide long-term assistance for your Special Needs child.
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Your Options

- Save extra today.
 - Informal Trust Accounts. At age 18 all money is controlled by the Beneficiary of the Trust (Your Special-Needs Child).
 - Use an RDSP.
 - Universal Life Insurance.
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Save Extra Today

Risks include:

- Subject to income tax.
 - Principal invested is not guaranteed.
 - In the event of the death of the accountholder it is subject to probate, taxation and delay in passing to heirs.
 - What if markets are slumping at the time of need?
 - What if a spouse dies prematurely?
 - No creditor protection.
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Informal Trust Accounts

- ❑ At age 18 all money is controlled by the Beneficiary of the Trust (Your Special-Needs Child).
 - ❑ Potential for disqualification of ODSP benefits.
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Use an RDSP

- Restrictions on accessing funds from within the RDSP.
 - Claw-back of benefits if RDSP is accessed within 10 years of government Grant/Bond payments.
 - All withdrawals subject to income tax on growth.
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Universal Life Insurance

- ❑ Universal Life - Life Insurance with an Investment component.
 - ❑ Investment component may be invested in GICs, Bonds, Balanced Funds, Index Funds, Equity Funds, etc.
 - ❑ Investment component is tax sheltered.
 - ❑ At death, Tax-Sheltered Growth is paid out Tax-Free to your Beneficiary.
 - ❑ Investment component has cash value, and can be accessed by the policyholder, if needed.
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Universal Life Insurance Benefits

- ❑ Tax-sheltered growth.
 - ❑ Broad choice of investments available.
 - ❑ Creditor protection.
 - ❑ Easy to access cash value in policy, if needed.
 - ❑ Instant Wealth Transfer on passing.
It is a tax-free transfer of money to your named beneficiary
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ODSP Considerations when using Life Insurance

- ❑ Direct receipt of insurance proceeds may disqualify your Special-Needs child from Ontario Disability Support Payments (ODSP).
 - ❑ Once a person receives an asset, their ODSP benefits can be reduced or eliminated.
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How do we avoid this from happening?

- By utilizing a special type of trust called a 'Henson Trust' in the will.
 - Designed to preserve ODSP for your Special-Needs child.
 - You must seek the advice of a Lawyer with expertise in this area of law for the proper set-up of a Henson Trust.
 - Money from an insurance policy is deposited to the Henson Trust. This keeps the money at 'arms-length' from the child and thus maintains ODSP.
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Universal Life in Estate Planning

- Husband & wife, John & Helen, ages 48 & 42, have a disabled son Jason 18, and a daughter Sarah who is 17 years old.
 - Jason is intellectually handicapped. John and Helen want to ensure that there is funding available to support Jason independent living when they are not around.
 - They own their home, but have an outstanding mortgage of \$120,000 that will be paid off in 10 years.
 - John & Helen have revised their Wills and are considering how to fund the Henson Trust for Jason.
 - Their challenges are:
 - Long-term – provide funding for Jason’s independent living.
 - Immediate – provide funding for the surviving spouse should either Helen or John die prematurely.
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- ❑ Helen & John know there is a long waiting list for Ministry sponsored living spaces. Location of any available space should it become available may not be convenient.
 - ❑ They wish Jason to have the option of living in a more independent setting in future when they are no longer living.
 - ❑ They envisioned Jason perhaps living in a condominium setting with one or more roommates to share costs. They wanted an ownership option for their son, giving some permanence to his independent living situation.
 - ❑ It is assumed that some kind of support would be required for Jason and they wanted the resources available to provide this for Jason.
 - ❑ A three-bedroom condominium in Mississauga can be purchased for about \$240,000 today. Assume inflation rate of 3% and this figure rises to about \$370,000 in 15 years, and \$580,000 in 30 years.
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Their Decision...

- ❑ Invest in a Joint-last-to-die Universal Life Insurance policy with a \$350,000 death benefit.
 - ❑ Incorporate Term Life Insurance on each parent for \$230,000 to provide financial support to the surviving spouse should either parent pass within 12 years.
 - ❑ At the same time, open an RDSP and fund \$125 per month, or \$1,500 per year and obtain grants and bond.
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Policy details...

- Pay for the Universal Life Policy on a monthly basis. The premium is \$375/month or \$4,500 per year over a 12 year period.

 - The type of Universal Life policy used guarantees:
 - Cost of Insurance
 - Payment periods
 - Cash Values
 - No surrender charges
 - Guaranteed interest rate.
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How the coverage details were
determined.....

Current Financial Situation

- ❑ John earns \$60,000 /yr; Helen earns \$42,000/yr.
 - ❑ Mortgage & Line of Credit debt = \$130,000.
 - ❑ John has a company pension plan.
 - ❑ John & Helen own RSPs = \$125,000.
 - ❑ Cash Savings = \$5,000
 - ❑ Sarah's RESP = \$25,000
 - ❑ John has group life insurance with a \$200,000 death benefit .
 - ❑ Helen has group life insurance with a \$100,000 death benefit.
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Net Worth Calculation

Together they own:

| | | | |
|--------------------------|-----------------------------|----------------|-------------------------|
| <input type="checkbox"/> | Home | | \$ 400,000 |
| <input type="checkbox"/> | Cars (2) | | 15,000 |
| <input type="checkbox"/> | Artwork,jewellery,valuables | | 15,000 |
| <input type="checkbox"/> | Cash | | 5,000 |
| <input type="checkbox"/> | RSPs | | 125,000 |
| <input type="checkbox"/> | Investments (RESP) | | 25,000 |
| <input type="checkbox"/> | Pension Benefits | | ? |
| <input type="checkbox"/> | Insurance policies: | John | 0 covered \$200,000 |
| | | Helen | 0 covered \$100,000 |
| | | Total - | <u>\$585,000</u> |

Together they owe:

| | | |
|--------------------------|----------------------|-------------------------|
| <input type="checkbox"/> | Mortgage | \$120,000 |
| <input type="checkbox"/> | Loans/Line of credit | <u>10,000</u> |
| | Total - | <u>\$130,000</u> |

| | |
|------------------------|------------------|
| Value of What They Own | \$585,000 |
| Value of What They Owe | <u>\$130,000</u> |

Net Worth \$455,000

What if John dies first:

| | |
|---|---------------|
| <input type="checkbox"/> Mortgage & Line of Credit..... | \$ 120,000 |
| <input type="checkbox"/> Education fund for Sarah <small>(currently have \$25,000 saved, need \$50,000, assuming 4 yrs @\$12,500/yr)</small> | 25,000 |
| <input type="checkbox"/> Emergency funds..... | 15,000 |
| <input type="checkbox"/> Final Expenses..... | <u>15,000</u> |
| Total immediate expenses: \$ <u>185,000</u> | |

Current assets and insurance available are;

| | |
|--|--------------|
| <input type="checkbox"/> John's Group coverage | \$ 200,000 |
| <input type="checkbox"/> Bank accounts..... | <u>5,000</u> |
| Total current assets: \$ <u>205,000</u> | |

How we calculate the needs

| | |
|---|----------------------|
| Immediate expenses | \$ 185,000 |
| Survivor income required (Lump sum to provide \$32,000/yr for 10 years invested at 5%) | <u>250,000</u> |
| Total immediate & long-term needs | \$ 435,000 |
| less Total Current assets & Insurance | - <u>205,000</u> |
| Estimated Term Life Insurance Needs | <u>\$230,000</u> |

Life Insurance Projection

| Year | Annual Deposit | Guaranteed Cash Value | Total Death Benefit | |
|------|----------------|-----------------------|---------------------|-------------------------------|
| 1 | 4,500 | 0.00 | 810,801.18 | |
| 2 | 4,500 | 0.00 | 811,618.37 | |
| 3 | 4,500 | 0.00 | 812,451.90 | |
| 4 | 4,500 | 0.00 | 813,302.09 | |
| 5 | 4,500 | 2,450 | 814,169.28 | |
| 6 | 4,500 | 3,150 | 815,053.83 | |
| 7 | 4,500 | 4,200 | 815,956.08 | |
| 8 | 4,500 | 5,600 | 816,876.37 | |
| 9 | 4,500 | 7,000 | 817,815.08 | |
| 10 | 4,500 | 8,750 | 818,772.54 | Term life riders end. |
| 11 | 4,500 | 10,500 | 360,458.72 | |
| 12 | 4,500 | 12,950 | 362,178.63 | Monthly premium payments end. |
| 13 | 0.00 | 15,750 | 359,475.29 | |
| 14 | 0.00 | 19,250 | 356,717.91 | |
| 15 | 0.00 | 23,100 | 353,905.39 | |
| 16 | 0.00 | 26,250 | 353,983.49 | |
| 17 | 0.00 | 30,100 | 354,063.16 | |
| 18 | 0.00 | 34,300 | 354,144.42 | |

Thank-you.
