

More options for parents of disabled



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**By
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The most critical consideration for parents and grandparents of a child with a severe disability is how to best ensure that the child's financial security when they are no longer alive to provide support.

If you don't know much about the Registered Disability Savings Plan (RDSP), it is not too late to learn about it and help clients who could benefit. The government has extended the 2008 RDSP contribution deadline to March 2, 2009.

The first RDSP was registered in 2008, but unfortunately very few financial institutions invested in creating the platforms for offering these programs, unlike the efforts most financial firms

took to capitalize on the new Tax-Free Savings Account frenzy.

Fortunately in 2009, 11 financial organizations across Canada have taken the lead and are now approved to offer RDSPs.

It will only be available to families whose child qualifies for the 'disability tax credit' or disability amount in the Income Tax Act. The child must be approved by the Canada Revenue Agency (CRA) as being 'markedly restricted' in the activities of daily living in one or more of several ways.

This plan is very similar to the already-established registered education savings plan (RESP). These contributions will not be tax deductible by the contributor, but the investment earnings in the plan will be tax deferred until withdrawal. The lifetime RDSP contributions will have a limit of \$200,000.

The RDSP will allow a lump sum contribution. However, the disadvantage of a lump sum contribution will be that it will not have the advantage of the government contribution associated with other dollar contributions except in the single year of settlement.

Capital contributions withdrawn from the RDSP will not be

taxed, as the tax has already been paid on these sums. Accumulated investment income will be taxable in the hands of the beneficiary, as it is withdrawn. Properly planned, this will result in not just deferral of taxes but also non-taxation, due to the use of the personal exemption and disability tax credits available to the disabled person.

For each RDSP that is established, a Canadian Disability Savings Grant (CDSG) will be paid until the end of the year in which the beneficiary turns 49. There will be a maximum lifetime CDSG limit of \$70,000. The family income ranges and corresponding federal contributions will be indexed to 2008, when the RDSP begins.

Ottawa will also provide a modest Canada Disability Bond,

much like the RESP Canada Learning Bond, for very low income households.

Monies can be contributed to the RDSP until the end of the year in which the beneficiary turns 59. Payments must begin when the beneficiary turns 60. There will be limitations on how much can be removed each year, which will significantly hamper using the funds for larger necessary purchases such as homes or accessible vans. Present information states the annual maximum withdrawal limit will be based on the recipient's life expectancy, and the fair market value of the RDSP.

To ensure that RDSP payments do not reduce federal income-tested benefits, amounts paid out of an RDSP will not be taken into account for the purpose of calculating income-tested benefits

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delivered through the income tax system, such as the Canada Child Tax Benefit and the Goods and Services Tax credit. In addition amounts paid out of RDSP will not reduce Old Age Security or Employment Insurance benefits.

In provinces like Ontario, the provincial government is making it possible for social assistance recipients to take advantage of RDSPs. Ontario has made changes to its social assistance rules, meaning that both RDSP assets and withdrawals are fully exempt from counting as assets or income. Thus the RDSP will not impact these recipients' social assistance payments.

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