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Brad Brain: An overlooked opportunity

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Smart Money

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Many readers will be familiar with RRSPs, RESPs, and TFSAs. These are all preferred programs with great features that help people achieve their financial goals.

There is another horse in the stable though, and this one is not as well utilized. Granted, it will not be applicable to every reader but, even still, its quite disappointing how few people are using the Registered Disability Savings Plan, or RDSP.

For families that are dealing with a disability the RDSP offers substantial incentives. And yet, very few of the people that are eligible are taking advantage of the RDSP.

I attribute the lack of uptake to two reasons. The first is that RDSPs are fairly complicated and not easy to understand. But that’s okay, there are people like me that can help you to navigate through the jargon.

I think the second reason that participation has been underwhelming is that disabilities are expensive. It is hard to save for the future when you need the money to look after yourself or your family today. But that is actually not a very good reason to ignore the RDSP either.

Obviously, disabilities are expensive, and you need money today to deal with it. But you are still going to need to need money to deal with it down the road too, and you don’t actually need to put any of your own money in when you open an RDSP.

The RDSP is a long-term savings plan. Often a parent or family member will set it up for the benefit of someone with a disability. The disabled person needs to be eligible for the disability tax credit and be under age 59 when the plan is established.

There are several advantages of the RDSP. The most dramatic are the matching grants and government bonds, similar to an RESP. But also important is that when the beneficiary eventually takes income out of the plan it will not jeopardize any income-tested benefits that the beneficiary may be receiving.

The matching grant is paid into the RDSP by the Government of Canada. Depending on the beneficiary’s family income, the grant can be as much as 300 percent of what the family contributes. The grants can reach up to $70,000 over the life of the plan.

The Canada disability savings bond does not require a contribution though. The government will contribute up to $1000 a year to a maximum of $20,000 for low income Canadians with disabilities. For eligible people, all you need to do to receive the bond is simply open the account.

All this sounds great. So what’s the catch? Well, here the scenarios can get little complicated, and I am going to simplify it for the purposes of this column. Basically you need to leave the government money in the plan for ten years.

I think this is where some people lose their enthusiasm. They can't see leaving the account to grow for a decade or more, usually because they are feeling the strain of the financial obligations right now. But trust me on this. Disabilities don't all of a sudden become less of a financial burden. I know you need cash now, but you are also going to need cash down the road.

Typically when we discuss the RDSP the client will experience a weighing process. On one hand, the generous matching incentives on the government grants are very enticing, but on the other hand they might not have a lot of extra money to tie up in RDSP contributions. I get that. But bear in mind that, unlike the RDSP grant, the RDSP bond does not require any contributions. A person can still from the RDSP even if you they do not have any spare cash to invest right now.

This column is very easy to sum up. Don't overlook this opportunity. If yourself, or someone in your family is under age 59 and eligible for the disability tax credit, talk to a financial planning professional about the RSDP.

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