What Is an RDSP?

By: Joe the Investor

An RDSP is a Registered Disability Savings Plan (1). It is designed for people who are eligible for the disability tax credit (2) and who are looking for an account where savings can be accumulated and not have the disability income reduced or eliminated.

If you are receiving income from a disability support program, there are usually limits on what assets you can have in your name, and how much income you can earn to prevent the disability support income from being reduced. How much assets or income is allowed will depend on what the source of the income is. Typically, if you are receiving disability support income, you can own a house if you live there, are allowed a vehicle for transport, cash for medical expenses, education and purchasing personal items and a certain amount of assets available for spending. Any assets or income beyond these needs would result in a clawback of the disability income. Investing in registered accounts like the RRSP or TFSA would not solve the problem since these sources are counted as assets and income generated. A trust is one way to solve the problem - either a Henson Trust or another type of Trust that can park assets as a separate entity and have limited payouts to stay within the income rules. Trusts can be expensive and require that you trust someone to manage the account (pun intended). An alternative is to build up an RDSP.

There is a link for the Ontario Disability Support Program below (3) which itemizes a series of compensation programs and their conditions. There would be similar rules for federal support income as well. Note that there are benefits available for people with disabilities such as rebate programs for personal expenses, education supplements and amounts for raising children (4). The RDSP is one of the tools in the box to allow you to save money and generate retirement income without sacrificing your current support income.

The RDSP is similar to the RESP in that you can make contributions each year for so many years. There is a lifetime contribution limit of $200,000 but no annual contribution limit. These contributions can be made until someone reaches the age of 59. There are no tax deductions provided for contributions into an RDSP and there are no taxes payable on withdrawals of the original money contributed into the RDSP. There is a possibility of obtaining government grants and bonds (similar to the RESP), as well as investing the monies inside the RDSP while deferring income tax on the growth. (5) This means that assets can be built inside of the RDSP and taxes are payable only upon withdrawal which would allow for years of growing assets without paying tax. Any type of investments can be held inside of an RDSP, including cash, stocks, bonds and mutual funds. Most institutions would provide these types of accounts as well.

The key takeaway is that there are resources available for people with disabilities. The trick is to find the best tool that would benefit your situation the best.

1) https://www.canada.ca/en/employment-social-development/programs/disability/savings.html
2) https://www.canada.ca/en/revenue-agency/services/tax/individuals/segments/tax-credits-deductions-persons-disabilities/disability-tax-credit.html
3) https://www.mcss.gov.on.ca/en/mcss/programs/social/directives/odsp/is/5_1_ODSP_ISDirectives.aspx
4) https://www.canada.ca/en/services/benefits.html
5) https://lautorite.qc.ca/en/general-public/investments/saving-plans/rdsp-registered-disability-savings-plan