

RDSP withdrawals: a closer look

Withdrawals from a Registered Disability Savings Plan (RDSP) can be complicated, as these plans are subject to many rules. This whitepaper will break down the rules and regulations regarding withdrawals from an RDSP, as well as the different types of withdrawals.

A refresher on the RDSP

An RDSP is a registered savings plan intended to help Canadians and their families save for the long-term financial security of a person who is eligible for the Disability Tax Credit (DTC).

Regular withdrawals from the plan must begin by December 31 in the year the beneficiary turns 60. In certain cases, the beneficiary may withdraw from the account prior to age 60. However, they may need to repay some, or all, of the government matching grants or bonds, such as the Canada Disability Savings Grant (CDSG) and Canada Disability Savings Bond (CDSB), when making a withdrawal.

What is the Assistance Holdback Amount (AHA)?

The Assistance Holdback Amount is the total amount of CDSG and CDSB paid into the RDSP within a 10-year period.

Grant and bond repayments are not required if:

- The beneficiary has turned 60; and
- The last grant or bond received was more than 10 years ago and the beneficiary is DTC eligible; or
- In some cases where the beneficiary has a reduced life expectancy of five years or less.

Grants and bonds must be repaid upon withdrawal if:

- Grants and bonds have been received within the 10 years prior to the withdrawal; or
- The beneficiary is no longer DTC-eligible and are less than 60 years old.



Early withdrawals may require repayment of CDSG and CDSB, at a rate of \$3 for every \$1 withdrawn. This is to discourage premature withdrawals, as the RDSP is meant to be a long-term savings plan.

Two types of withdrawals from an RDSP

Withdrawals from an RDSP can be made at any time if the sponsoring financial institution allows single payments. Recurring payments must begin by the end of the year the beneficiary turns 60 and must continue until there are no funds remaining, or the beneficiary dies. Mackenzie Investments does allow recurring payments.

The two types of withdrawals:

1. Lifetime Disability Assistance Payment (LDAP)
2. Disability Assistance Payment (DAP)

What is an LDAP?

An LDAP is a recurring payment made directly to the beneficiary. These payments can begin at any time but must begin by the end of the year the beneficiary turns 60. The beneficiary must repay a portion of any grants and bonds deposited in the RDSP in the 10 years prior to the withdrawal.

If the beneficiary is under age 60 when the LDAP begins, they must withdraw at least \$1 and can withdraw any amount up to a maximum of the LDAP formula mentioned below. If the beneficiary is over age 60, they must withdraw the amount calculated based on the LDAP formula.

Once started, these payments will continue until the RDSP funds are depleted or the beneficiary dies, as previously mentioned.

The LDAP formula

The LDAP formula is as follows:

$$A \div (B + 3 - C) + D$$

A is the fair market value (FMV) of the property in the RDSP at the beginning of the year.

B is the greater of 80 and the age of the beneficiary at the beginning of the year.

C is the actual age of the beneficiary at the beginning of the year.

D is the total of all periodic payments paid, or deemed to have been paid, under certain locked-in annuity contracts, to the plan trust in the calendar year, if applicable. This would not apply to a Mackenzie Investments RDSP account.

Example:

Making an LDAP withdrawal

- 1 Carly opened an RDSP for her 40-year-old son Michael in 2021.
- 2 Contributions can be made until the end of the year until Michael turns 59.
- 3 Since Michael will be 60 in 2041, the CDSG can be received on contributions from 2021-2030 (the year he turns 49), without fear of repayment on withdrawal.
- 4 After 20 years, Michael's FMV of his RDSP is \$154,097, on January 1, 2041.
- 5 No DAPs have been paid since the RDSP was opened.

In 2041, the amount Michael can receive is \$6,420 using the LDAP formula: $A \div (B + 3 - C) + D$

$$\begin{array}{cccc} A & B & C & D \\ \$154,097 & \div & (80 + 3 - 59) & + 0 \\ \hline & & \downarrow & \\ & & \$154,097 & \div & (24) \\ & & \downarrow & & \\ & & \$6,420.70 & & \end{array}$$

What is a DAP?

A Disability Assistance Payment (DAP) is a payment requested by the RDSP holder that is paid directly to the beneficiary or their estate. A request must be submitted each time for a DAP to be paid. DAPs may generate a repayment of CDSG and CDSB (see repayment section above).

What if the RDSP is a Primarily Government-Assisted Plan (PGAP)?

There are additional rules upon withdrawing from an RDSP if the plan is a PGAP.

An RDSP becomes a PGAP in a year where the total of all bond and grant payments made to the beneficiary's RDSP, is more than the total of all personal contributions made to the RDSP. The plan continues to be a PGAP in subsequent years until the personal contributions in the plan exceed the government portion. Withdrawals from the plan will not affect this.

In a year when the plan is considered a PGAP, the maximum DAP would be either 10% of the account at the beginning of the year or the LDAP formula above, whichever is greater. If LDAPs are being paid, any DAP cannot exceed the difference between 10% of the account and the LDAP. The minimum and maximum LDAP amount is based on the LDAP formula when the beneficiary is 60 years of age or older. In addition, a beneficiary aged 27 to 58 is permitted to request a withdrawal from the RDSP without the consent of the plan holder.

What are non-PGAP's?

For an RDSP where the personal contribution exceeds or equals the contributions made by the government, there is no maximum that can be withdrawn from the account. However, grant and bond repayments may still apply under the AHA provisions.

Withdrawals using DAPs

The amount you can withdraw as a DAP depends on whether the RDSP is a PGAP or non-PGAP.

In the case of a non-PGAP plan, the RDSP holder can request to withdraw the full value of the RDSP and close the plan, subject to any AHA.

As previously mentioned, in the case of a PGAP, withdrawals are permitted. The amount is calculated by determining the greater amount between 10% of the account, and the LDAP formula.

Example:

Making a DAP withdrawal while receiving LDAP

- 1 Michael has decided to request another withdrawal.
- 2 Considering he has already received an LDAP payment, the maximum DAP payment would be the difference between 10% of the RDSP's value, and the previous LDAP payment.
- 3 The maximum DAP payment would be **\$8,989.30**.

$$\begin{array}{r} 10\% \times \$154,097 = \$15,410 \\ \hline \$15,410 - 6,420.70 \\ \hline \$8,989.30 \end{array}$$

What happens when the beneficiary has a shortened life expectancy?

A beneficiary is considered to have a shortened life expectancy when a physician or nurse practitioner attests in writing that the beneficiary has a life expectancy of five years or less. When this occurs, there are special rules that permit greater access to withdrawals.¹ The RDSP holder has two options.

The first is to keep the RDSP as is. Under this option,

- The repayment rules (AHA) apply on withdrawals.
- Payments may be made at any time.
- The minimum payment does not apply when the beneficiary is less than age 59.
- If the beneficiary survives beyond five years, the plan automatically reverts back to a regular RDSP and is subject to payment calculations and limits.

The second option is to designate the RDSP as a Specified Disability Savings Plan (SDSP).

What is an SDSP?

A Specified Disability Savings Plan (SDSP) gives beneficiaries with a shortened life expectancy even greater access to their RDSP. With an SDSP:

- AHA does not apply and grants/bonds do not need to be repaid.
- Payments must begin before December 31 of the calendar year following the year the plan was designated an SDSP.
- The minimum annual withdrawal amounts must be at least equal to the LDAP formula (with an exception in the first year of an SDSP).
- The sum of the taxable portions of the withdrawals in a year cannot exceed \$10,000 (unless the LDAP formula provides a greater amount to be paid).
- If the beneficiary survives beyond five years, the plan remains an SDSP until revoked by the holder (and an SDSP condition no longer applies).

The value of your advice

RDSP withdrawals must be executed properly to ensure the long-term viability of your clients' plan. Mackenzie Investments is here to support you in helping your clients with these important decisions. For more information on RDSP withdrawals, contact your Mackenzie Investments Sales team.

Glossary

AHA: The Assistance holdback amount (AHA) is the total amount of Canada Disability Savings Grant (CDSG) and Canada Disability Savings Bond (CDSB) paid into a Registered Disability Savings Plan (RDSP) within a 10-year period before an event; less any amount of CDSG and CDSB paid into the RDSP during the same 10-year period that has been previously repaid to the Government of Canada.

CDSB: The Canada Disability Savings Bond is an amount paid by the Government of Canada directly into an RDSP. The Government will pay a bond of up to \$1,000 a year to low-income Canadians with disabilities.

CDSG: The Canada Disability Savings Grant is a government matching grant that is paid up until December 31 of the year the beneficiary turns 49.

DAP: A Disability Assistance Payment (DAP) is a payment requested by the RDSP holder that is paid directly to the beneficiary or their estate.

DTC: The Disability Tax Credit; qualifying for this credit is a requirement for the RDSP beneficiary.

LDAP: The Lifetime Disability Assistance Payment is a recurring payment made directly to the beneficiary.

PGAP: A Primarily Government-Assisted Plan is one in which the total of all bond and grant payments made to the beneficiary's RDSP, is more than the total of all personal contributions.

RDSP: Registered Disability Savings Plan is a long-term savings plan to help people with disabilities who are approved for the Disability Tax Credit save for the future.

SDSP: A Specified Disability Savings Plan gives beneficiaries with a shortened life expectancy even greater access to their RDSP.

¹InfoCapsule 13: Shortened life expectancy - Canada.ca

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