

Dispelling the Myths - #1: RDSP Income And Disability Income Benefits

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I am shocked at the number of people – families, lawyers, financial planners – who still think that receiving funds from an RDSP will affect a person's provincial disability income benefits. Let's be clear about the facts:

In British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia, Newfoundland, Yukon, Northwest Territories and Nunavut, income from an RDSP is considered exempt income.

This means people can receive any amount from their RDSP and use it for any purpose and NOT affect their disability benefits.

In New Brunswick, the first \$800 of income from an RDSP/month is exempt. This means people can receive up to \$800 from their RDSP and use it for any purpose and NOT affect their disability benefits.

In PEI, an amount equal to the amount that brings a person's income to the Low Income Cut Off (LICO) levels as defined by the Statistics Canada is exempt. The LICO's vary depending on the size of community a person lives in. For 2010, the LICO's ranged from \$1,275 to \$1,852 per month for a single person. This means that a person can receive from their RDSP an amount that brings their income to this level and can use it for any purpose and NOT affect their disability benefits.

In Quebec, the first \$300 of income from an RDSP/month is exempt. This means people can receive up to \$300 from their RDSP and use it for any purpose and NOT affect their disability benefits.

When a person turns 65 years of age, they transfer from provincial disability benefits to Old Age Security and Guaranteed Income Supplement.

Income from an RDSP does not affect a person's Guaranteed Income Supplement. This means a person who otherwise qualifies for Guaranteed Income Supplement will be able to receive any amount from their RDSP and use it for any purpose without affecting their Guaranteed Income Supplement.

While most people are still contributing rather than making withdrawals from their RDSPs, treatment of income is a critical point. Most plans for future financial security include provincial disability benefits.

People's perception of the future value of their RDSPs provides the motivation to open an RDSP or make contributions to an RDSP. If the contributions that they make today will be "clawed back" when they make withdrawals in the future, then they will have little motivation to contribute. Professionals will also make recommendations to people with disabilities and their families on this basis.

Because of the treatment of RDSPs by provincial governments, they are actually advantageous over trusts. All provinces treat disbursements from trusts as income with some exemptions. Most provinces exempt disbursements from trusts for disability related costs – for example, supports, assistive devices, etc. Ontario is the only province that I am aware of that permits a person to receive income from a trust without limitations (\$6,000 per year).



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