

When Should We Start an RDSP For Our Child?

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I've had numerous families of younger children ask me, "Should we start our child's RDSP now or should we wait until he's 18?" My answer, until now, has been, "It depends. Every family's situation is different. You should sit down and do the math."

The question arises for families whose net adjusted family income exceeds the cut-off that determines if the Canada Disability Savings Grant is calculated at 100% on the first \$1,000 or 300% and on the first \$500 and 200% on the next \$1,000. For 2011, the cut-off is \$81,941.

Because net adjusted family income is that of the parents if the beneficiary turns 17 during the tax year, and that of the beneficiary if the beneficiary turns 18 or older during the tax year, and because the beneficiary's income is almost always lower than the cut-off amount, parents assume it's better to wait until the beneficiary is an adult. On that basis, some people have even assumed that the RDSP is only for adults.

Three scenarios

I think the best way to determine whether to start today or to wait until your child turns 18 is to do a comparative calculation. I've compared the outcomes of starting when a child is 4 years, 12 years and 18 years of age. After having done the calculations, my conclusion is that the old adage, "the sooner you start the better off you will be", holds true.

To make sure that we're comparing apples with apples rather than apples with oranges, I've made the following assumptions in all three scenarios:

- Family income exceeds the cut-off for higher matched rates (\$81,941 for 2011)
- Annual rate of return is 5%
- Families want the RDSP to receive the full \$20,000 in Canada Disability Savings Bond and \$70,000 in Canada Disability Savings Grant
- No provisions are made for the carry forward of entitlements

Here are my results:

Starting Age	Total family contributions	Age that holdback amount = 0	Total amount in RDSP	Total gain	Comments
4	\$38,000	47	\$455,000	\$417,000	Could give \$4,000 back to the government and start at 43 with \$374,000
12	\$34,500	47	\$367,000	\$332,500	Could give \$1,000 back to the government and start at 46 with \$350,000
18	\$30,000	47	\$321,000	\$291,000	

What does it all mean?

At age 4, a family would have to contribute \$38,000 rather than \$30,000, at age 18, to get all of the available \$70,000 in Canada Disability Savings Grants.

If a family started at age 4, the beneficiary would have approximately \$455,000 in their RDSP rather than approximately \$321,000 if they started at age 18.

It means that, in order to access the entire Grant and Bond amount and not pay any of the holdback amount, all of the beneficiaries would need to wait until they were 47 to utilize their RDSP. If, however, the beneficiary whose RDSP was begun when they were 4, wanted to give \$4,000 of their \$374,000 back to the government, they could begin to use their RDSP at age 43.

It also means that the gain in starting at 4 years is approximately \$417,000 versus approximately \$291,000 in starting at 18 years of age.

When should you start?

You must decide what is most important to you, but for me, the answer is clear. By starting earlier, you will be providing a greater amount to your son or daughter and they will have more flexibility in when they want to be able to begin to use the funds. The old adage, "The earlier you start the better" holds true. What are you waiting for?



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