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RDSP Review
Tax Policy Branch
Department of Finance
L'Esplanade Laurier
16th Floor, East Tower
140 O'Connor Street
Ottawa, Canada K1A 0G5

Dear RDSP Review,

I am a Registered Disability Savings Plan (RDSP) Holder & Beneficiary. Additionally, I have overseen the creation of three RDSP's for close friends and family members and recommended RDSP's to countless others. I currently work in the financial industry and have a great personal interest in financial advocacy for persons with disabilities and the future success of Registered Disability Savings Plans.

I feel an RDSP has the power to give an individual with a disability long-term financial control over their lives however I have 3 concerns that I would like to address.

1. LDAP Payment Restrictions & Reduced Life Expectancies

Currently the maximum Lifetime Disability Assistance Payment (LDAP) or Disability Assistance Payment (DAP) is based on the difference of the beneficiaries age and 83 unless a doctor is willing to certify that the beneficiary has five or less years to live. The result of this restriction is a beneficiary with statistically reduced life expectancies will:

- Have drastically uneven (bottom heavy) LDAP payments if they are receiving payments for more then five years.

- Have a higher probability of having an Intestate Estate or a multi- generational transfer of tax deferred income; a beneficiary with a statistical life expectancy of 50 would leave 33 years of payments to their estate which they would most likely not be able to use 5 years prior to their death.

- Be more likely to use an RRSP/TFSA as a savings vehicle or request early termination of their Disability Savings Plan (gaining no benefit from the Canadian Disability Savings Bond & Grant).

To better illustrate these problems I would like to look at a hypothetical example.

Mary has Limb-girdle muscular dystrophy. She is supported by her mother and grand-parents who open up an RDSP for her at age 9. Her grand-parents are able to contribute $200.00 for her every month ($2400/year) which meets with a matching grants of $3500 each year, and the full $1000.00 for the Canadian Disability Savings Bond each year. After 10 years Mary's RDSP looks as follows:

	Contributions	Growth Rate	Growth	Total
Government	$45,000.00	5.00%	$14,430.54	$59,430.54
Family	$24,000.00	5.00%	$7,696.29	$31,696.29
Total	$69,000.00	5.00%	$22,126.83	$91,126.83

Total Value of Assets in Plan After Holdback ($45,000.00): $46,126.83

At age 19, ten years after starting the plan Mary's grand-parents pass away leaving Mary and her mother with very few assets after their estate expenses are paid. Mary is well aware of her prognosis and decides she would like to start receiving payments while she is better able to spend the funds. Based on the on-set of her genetic disorder, Mary and her doctor believe she will not live past the age of 35. At the age of 19, Mary is 64 years away from the life-expectancy described by the LDAP equation and more then a decade away from the point her doctor would feel comfortable certifying she has less then 5 years left and trigger the "5 year rule". Because of this, for the first 10 years of payments her maximum yearly LDAP payment would be:

Maximum LDAP = A/(B + 3 - C)

where:

A is the fair market value of the property held by the plan trust at the beginning of the calendar year

B is the greater of 80 and the age in whole years of the beneficiary at the beginning of the calendar year

C is the age in whole years of the beneficiary at the beginning of the calendar year

thus:

Maximum LDAP = $46,126.83/(80 + 3 - 19)

Maximum LDAP = $720.73

That's $720.73 per year, or as most would prefer to receive payment; a monthly payment of $60.06. A decade of payments with a conservative growth rate of 2% would look as follows:

Age	FMV	Max LDAP Payment	Remainder	Growth
19	$46,126.83	$720.73	$45,406.10	2%
20	$46,314.22	$735.15	$45,579.07	2%
21	$46,490.66	$749.85	$45,740.81	2%
22	$46,655.62	$764.85	$45,890.78	2%
23	$46,808.59	$780.14	$46,028.45	2%
24	$46,949.02	$795.75	$46,153.27	2%
25	$47,076.34	$811.66	$46,264.68	2%
26	$47,189.97	$827.89	$46,362.07	2%
27	$47,289.32	$844.45	$46,444.86	2%
28	$47,373.76	$861.34	$46,512.42	2%
29	$47,442.67	$878.57	$46,564.10	2%
30	$47,495.38	$896.14	$46,599.24	2%

Total LDAP Payments Received in 11 years: $9,666.52

Mary now has more assets in her RDSP then when she first started. She has been receiving payments from her RDSP that have made her only marginally better off financially and has not even received 1/2 of the contributions her family has invested in the plan. To complicate matters further a doctor at this point would be willing to certify her life-expectancy as less then 5 years meaning she could withdrawal any amount from the plan, however; constant physical pain, breathing problems, complications from medicine prevent Mary from enjoying her wealth to the fullest. If she increased her yearly payment amount by 500% at the age of 30 (when she was certified as having less then 5 years left to live) after 5 years of increased payments she would still have approximately 70% of the original value of the plan before LDAP payments started ($31,289.52):

Age	FMV	Max LDAP Payment	Max LDAP Payment x5	Remainder	Growth
30	$47,495.38	$896.14	$4,480.70	$43,014.68	2%
31	$43,874.98	$843.75	$4,218.75	$39,656.23	2%
32	$40,449.35	$793.12	$3,965.62	$36,483.73	2%
33	$37,213.41	$744.27	$3,721.34	$33,492.07	2%
34	$34,161.91	$697.18	$3,485.91	$30,676.00	2%
35	$31,289.52	$651.86	$3,259.32	$28,030.19	2%

Regular Vs After Specified Year Election (Total Payments): $4,626.32 Vs $23,131.64

This would make her considerably more financially better off, but she would still leave a considerable amount of assets to her estate at the time of her passing.

The better solution to this hypothetical is simple; correct legislation so the maximum LDAP payment does not use the static variable of 80, but rather 80 or any other number a doctor would be willing to suggest as a maximum life expectancy based on their judgement or based on the powerful volumes of survey data or prognosis information available to medical professionals.

Let's reexamine Mary's situation with the LDAP equation changed to accommodate her predictable life expectancy:

Maximum LDAP = A/(B + 3 - C)

where:

A is the fair market value of the property held by the plan trust at the beginning of the calendar year

B is the greater of *prescribed life expectancy or 80 (whichever is less)* and the age in whole years of the beneficiary at the beginning of the calendar year

C is the age in whole years of the beneficiary at the beginning of the calendar year

With this new equation, her payment schedule would instead look like:

Age	FMV	New Max LDAP Payment	Remainder	Growth
19	$46,126.83	$2,427.73	$43,699.10	2%
20	$44,573.08	$2,476.28	$42,096.80	2%
21	$42,938.74	$2,525.81	$40,412.93	2%
22	$41,221.19	$2,576.32	$38,644.86	2%
23	$39,417.76	$2,627.85	$36,789.91	2%
24	$37,525.71	$2,680.41	$34,845.30	2%
25	$35,542.21	$2,734.02	$32,808.19	2%
26	$33,464.35	$2,788.70	$30,675.66	2%
27	$31,289.17	$2,844.47	$28,444.70	2%
28	$29,013.60	$2,901.36	$26,112.24	2%
29	$26,634.48	$2,959.39	$23,675.09	2%
30	$24,148.60	$3,018.57	$21,130.02	2%
31	$21,552.62	$3,078.95	$18,473.68	2%
32	$18,843.15	$3,140.52	$15,702.62	2%
33	$16,016.68	$3,203.34	$12,813.34	2%
34	$13,069.61	$3,267.40	$9,802.21	2%
35	$9,998.25	$3,332.75	$6,665.50	2%

Total LDAP Payments Received in 16 years: $48,583.86

When Mary starts to receive payments at age 19 she would receive $2844.47/year or $237.04/month. These payments would considerably increase Mary's standard of living throughout her life in a consistent and predictable manner for Mary (as well as the government, Mary's RDSP Issuer and/or Financial Advisor) and would leave most of the investment capital and income to Mary for use during her life not leave a significant amount of funds to her estate after her death.

To prevent abuse, I would recommend the government require individuals who do have shortened life expectancies that are more then 5 years but would be less then the age of 80 be required to complete a modified disability tax credit form at a regular frequency that includes a question on life-expectancy.

2. Early Access for Degenerative Diseases & Progressive Disabilities

A diagnosis of a serious, life-changing disability can happen at anytime in a persons life and when they receive the diagnosis they should be able to plan for their financial future *immediately* through with an RDSP. Thousands of individuals are cut out of this privilege because they have a degenerative disease or a progressive disability and it may take years or even decades after diagnosis before their disability has developed to the extend a doctor would certify them as markedly restricted to the extent to qualify for the Disability Tax Credit (DTC) and as such also able to qualify for an RDSP.

As an example, let us take John. John at the age of 21 has just been diagnosed with Huntington's disease. John - with visible twitches being his only symptom does not qualify for this Disability Tax Credit. John through his doctor has become very aware of the prognosis of Huntington's disease; within the next 20 years he will have difficulties with Speaking, Hearing, Walking, Elimination (bowel or bladder functions), Feeding, Dressing as well as well as be markedly restricted in mental functionality and will most likely require life-sustaining therapy. John also knows that his life expectancy from the onset of his disorder is 20 - 30 years meaning he will not see past his 51st birthday.

John could benefit from starting to save from his disability immediately through an RDSP however will need to wait until he is markedly restricted in any two of: Speaking, Hearing, Walking, Elimination (bowel or bladder functions), Feeding, Dressing, be markedly restricted in mental functionality required for daily life or require life-sustaining daily therapy.

John being a financially wise man decides he wants to have better financial control of his future and is able to contribute $175.00/bi-weekly (every pay-cheque) for 12 years in to savings.

If John was contributing when he is first diagnosed (age 21) to an RDSP his savings would look as follows:

	Contributions	Growth Rate	Growth	Total
Government	$54,000.00	5.00%	$21,208.42	$75,208.42
Personal	$54,600.00	5.00%	$21,444.07	$76,044.07
Total	$108,600.00	5.00%	$42,652.49	$151,252.49

Total Value of Assets in Plan After Holdback ($45,000.00): $106,252.49

If John is forced to wait 5 years before his condition has worsened and would be able to normally qualify for the Disability Tax Credit to open an RDSP, John will be worse off financially. He will have 5 years without Canadian Disability Savings Grant and Canadian Disability Savings Bond Contributions, he may have 5 years without tax-deferred income growth (for his contributions and the government contributions) and he will have a clawback of all the government Grants & Bonds (versus the previous situations where only 10 of the 12 year contributions are clawed back). If we assume John saves the same $175.00/week starting at 21 in a TFSA for 5 years then (when he qualifies for the disability-tax credit) opens a RDSP at 26 and transfers the balance in from the TFSA and continues to save $175.00/bi-week for 7 more years until he turns 33 his RDSP would look as follows:

	Contributions	Growth Rate	Growth	Total
Government	$31,500.00	5.00%	$6,970.99	$38,470.99
Personal	$54,600.00	5.00%	$21,444.07	$76,044.07
Total	$86,100.00	5.00%	$28,415.06	$114,515.06

Total Value of Assets in Plan After Holdback ($31,500.00): $83,015.06

The savings difference is a massive $26,895.90. If we peruse the hypothetic situations further - unlike the previous example of Mary, John (because he has contributed more then the government) may make receive any payment he would like and opts for equal payments up to his life expectancy (much like the second example I provided of Mary). The difference the 5 years of savings within the RDSP versus outside the RDSP would be as follows:

Age	Growth	12 Year RDSP			5 Year TFSA + 7 Year RDSP		
		FMV	Monthly Payment	Remainder	FMV	Monthly Payment	Remainder
33	3%	$106,252.49	$421.64	$101,192.85	$83,015.06	$329.42	$79,061.96
34	3%	$104,228.63	$434.29	$99,017.20	$81,433.82	$339.31	$77,362.13
35	3%	$101,987.72	$447.31	$96,619.94	$79,682.99	$349.49	$75,489.15
36	3%	$99,518.54	$460.73	$93,989.73	$77,753.83	$359.97	$73,434.17
37	3%	$96,809.43	$474.56	$91,114.75	$75,637.19	$370.77	$71,187.95
38	3%	$93,848.20	$488.79	$87,982.68	$73,323.59	$381.89	$68,740.86
39	3%	$90,622.16	$503.46	$84,580.69	$70,803.09	$393.35	$66,082.88
40	3%	$87,118.11	$518.56	$80,895.39	$68,065.37	$405.15	$63,203.56
41	3%	$83,322.25	$534.12	$76,912.84	$65,099.66	$417.31	$60,092.00
42	3%	$79,220.23	$550.14	$72,618.54	$61,894.76	$429.82	$56,736.86
43	3%	$74,797.10	$566.64	$67,997.36	$58,438.97	$442.72	$53,126.33
44	3%	$70,037.28	$583.64	$63,033.56	$54,720.12	$456.00	$49,248.11
45	3%	$64,924.56	$601.15	$57,710.72	$50,725.55	$469.68	$45,089.38
46	3%	$59,442.04	$619.19	$52,011.79	$46,442.06	$483.77	$40,636.80
47	3%	$53,572.14	$637.76	$45,918.98	$41,855.91	$498.28	$35,876.49
48	3%	$47,296.55	$656.90	$39,413.79	$36,952.79	$513.23	$30,793.99
49	3%	$40,596.20	$676.60	$32,476.96	$31,717.81	$528.63	$25,374.25
50	3%	$33,451.27	$696.90	$25,088.45	$26,135.48	$544.49	$19,601.61
51	3%	$25,841.11	$717.81	$17,227.40	$20,189.65	$560.82	$13,459.77

Total Payments: $127,082.37 Vs $99,289.44

From the table above we can see there is roughly a 22% difference in pre-tax payments received from the plan if the plan beneficiary has an additional 5 years of access to save in the plan. The total of payments received by John for 18 years if he had access to save in an RDSP for 12 years would be $127,082.37 versus $99,289.44 if he would only have access to save in an RDSP for 7 years - a difference of $27,792.93.

This difference of $1000 - $2000/year - in real world terms, when taking in to consideration the Canadian Pension Plan Disability Benefit & Provincial Low-income and Disability Benefits can be the difference between being above and being below the poverty line in many provinces & territories.

The solution is simple, for persons with disabilities (like John) permit a direct petition for an exemption to open an RDSP as a beneficiary without currently qualifying for the Disability Tax Credit. Require a medical doctor endorse the petition and certify based on their medical findings the individual would within the next 10 years qualify for the disability tax credit.

This change would allow persons with diseases like Huntington's, Multiple Sclerosis, Spinal Muscular Atrophy or countless other diseases the incentive to save now when they and their families are better able to save.

In the event the diagnosis or prognosis is wrong an the individual does not qualify for the disability tax credit within 10 years the plan would be immediately terminated the same way an RDSP is now if there is a cessation of disability; Government Bonds & Grants are repaid to the government (with growth), personal contributions are returned to the individual and investment growth from personal contributions is taxed. A 10 year buffer would ensure that no CDSG or CDSB became vested to a non-qualified individual.

3. Disability Assistance Payments (DAP's) & Poverty

One my greatest difficulties when talking to persons with disabilities about the RDSP is DAP's. If you have contributed more then the government has contributed in an RDSP any amount after government bond & grants have been paid back can be withdrawn - this means you can access your own contributions, the growth from your own contributions as well as the growth from government contributions. If you have contributed less then the government has contributed (and cannot certify a life-expectancy of 5 years or less) you will under most any situation have access to a decidedly small portion your own personal contributions in any given year unless you terminate your RDSP. This is a decidedly slanted system that puts persons in poverty in a position to be less willing to save and more likely not to have access to the funds in a convenient way.

Sandra has saved with her autistic daughter Jane in an RDSP for 20 years putting away $100.00/month. At the age of 27 Jane and her mother Sandra discover Jane has taken well to hug-therapy and are interesting in purchasing a Grandin Hung Machine. The machine has a cost of $5,000. Jane & Sandra have contributed a total of $25,200 to Jane's RDSP and have also received $80,900 in Government Grants & Bonds. The contents of the RDSP are expressed as:

	Contributions	Growth Rate	Growth	Total
Government	$80,900.00	5.00%	$64,145.53	$145,045.53
Personal	$25,200.00	5.00%	$19,981.06	$45,181.06
Total	$106,100.00	5.00%	$84,126.59	$190,226.59

Total Value of Assets in Plan After Holdback ($38,000.00): $152,226.59

DAP yearly maximums share the same equation as LDAP yearly payment maximums, so the maximum one-time DAP Sandra & Jane could receive from the account for a hug machine would be:

Maximum Payment = A/(B + 3 - C)

where:

A is the fair market value of the property held by the plan trust at the beginning of the calendar year

B is the greater of 80 and the age in whole years of the beneficiary at the beginning of the calendar year

C is the age in whole years of the beneficiary at the beginning of the calendar year

thus:

Maximum Payment = $190,226.59/(80 + 3 - 27)

Maximum Payment = $3,396.90

So, even though Sandra and Jane had personally contributed $25,200 to Jane's RDSP, have received an additional $19,981.06 in investment growth, have 10 years of "vested" Government Bonds & Grants (worth $39,000), have $64,145.53 in investment growth from Government Contributions, and had previously not touched a penny of the savings nest for 20 years the absolute maximum they could receive as a DAP would be $3,396.90 - a partly sum that could not buy Jane a hug machine to help with her autism.

Sandra & Jane can collapse the RDSP in the form of a voluntary termination - but all grants & bonds will need to be repaid to the government (as well as investment growth) and all investment income will be taxed in full which could increase the beneficiaries income bracket and prevent them from receiving provincial benefits.

If Sandra & Jane had known of this situation previously, they could have opted out (or revoked) receipt of the Canadian Savings Grants and contributing MORE to the plan then the government. Contributing more to the plan then the Government would allow Sandra and Jane would have much more flexibility in receiving DAP Payments. If Jane & Sandra (like before) contribute $100/month starting at Jane's 7th birthday and they only received the Canadian Disability Savings Bond at $1000/year (and not the Grants) after 20 years Jane's RDSP would look as follows:

	Contributions	Growth Rate	Growth	Total
Government	$20,000.00	5.00%	$16,280.41	$36,280.41
Personal	$25,200.00	5.00%	$19,981.06	$45,181.06
Total	$45,200.00	5.00%	$36,261.47	$81,461.47

Total Value of Assets in Plan After Holdback ($20,000.00): $61,461.47

Because Sandra & Jane contributed more then the Government she could withdrawal up to $61,461.47 from the account for her daughters needs including the $16,280.41 worth of growth from the governments contributions. The withdrawal (in most provinces) would also not affect Jane's provincial disability benefits. Most likely Sandra & Jane would withdrawal just the $5,000.00 they needed and then resume saving in the same plan leaving $56,461.47 in the RDSP account for later use and continuing to save $100.00/month.

The latter solution seems like the better solution, however it is a type of "Sophie's choice" for the poor and low-middle income households; Dangle significant Government Grants in front of individuals with disabilities, but also frighten them away with the possibility of not having access to funds when the person with the disability may want or need them.

My recommendation for this situation is to change the implementation of the Disability Assistance Payment entirely. I would recommend rewarding those who invest in the plan long-term (even if they cannot contribute more then the government) by making a Maximum Disability Assistance Payment that accumulates more and more with each year the plan is open and a withdrawal is not done.

Let's re-examine the situation with Sandra & Jane where they put away $100.00/month starting at age 7 in an RDSP. At the age of 27 Jane and her mother Sandra are still interested in purchasing a Hung Machine. The machine still has a cost of $5,000. Jane & Sandra have contributed a total of $25,200 to Jane's RDSP and have also received $80,900 in Government Grants & Bonds. The contents of the RDSP are expressed as:

	Contributions	Growth Rate	Growth	Total
Government	$80,900.00	5.00%	$64,145.53	$145,045.53
Personal	$25,200.00	5.00%	$19,981.06	$45,181.06
Total	$106,100.00	5.00%	$84,126.59	$190,226.59

Total Value of Assets in Plan After Holdback ($38,000.00): $152,226.59

The Maximum DAP Payable would be calculated each year (using the LDAP equation as it exists) and if not used would be added on to the maximum available the next year - much in the same way un-used RSP Contribution is carried forward from year to year. To illustrate the Maximum DAP for each year would look as follows for Sandra & Jane's situation:

Age	Balance At Start of Year	Contributions	Growth	Cumulative DAP Amount
7	$0.00	$5,100.00	5.00%	$0.00
8	$5,355.00	$5,100.00	5.00%	$71.40
9	$10,977.75	$5,100.00	5.00%	$219.75
10	$16,881.64	$5,100.00	5.00%	$451.00
11	$23,080.72	$5,100.00	5.00%	$771.57
12	$29,589.76	$5,100.00	5.00%	$1,188.33
13	$36,424.24	$5,100.00	5.00%	$1,708.67
14	$43,600.46	$5,100.00	5.00%	$2,340.56
15	$51,135.48	$5,100.00	5.00%	$3,092.56
16	$59,047.25	$5,100.00	5.00%	$3,973.86
17	$67,354.61	$5,100.00	5.00%	$4,994.38
18	$76,077.35	$5,100.00	5.00%	$6,164.80
19	$85,236.21	$5,100.00	5.00%	$7,496.62
20	$94,853.02	$5,100.00	5.00%	$9,002.22
21	$104,950.67	$5,100.00	5.00%	$10,694.97
22	$115,553.21	$5,100.00	5.00%	$12,589.29
23	$126,685.87	$5,100.00	5.00%	$14,700.72
24	$138,375.16	$5,100.00	5.00%	$17,046.06
25	$150,648.92	$5,100.00	5.00%	$19,643.46
26	$163,536.37	$5,100.00	5.00%	$22,512.52
27	$177,068.18	$5,100.00	5.00%	$25,674.45

Total Value of Assets in Plan After Holdback ($38,000.00): $152,226.59

With this system the saving incentive remains and the beneficiary in the situation previous could make the Disability Assistance Payment they were hoping for.

In the above example the beneficiary would still need to wait 11 years before the DAP amount accumulated to the level to facilitate a sizable enough payment to buy a hug machine. This is because of the low age in the first few payment calculations and the low balance. This system, I will admit could be just as bad for beneficiaries of a low age who have not contributed much into the plan - for anyone else including those who have held the plan for a considerable amount of time, those who have made sizable initial deposits, and those who are of an older age this is a much preferable way of allowing persons with disabilities of low means the ability to contribute funds to an RDSP and receive government grants without the worry of not having adequate access to their funds. For those who are younger or have not contributed long to the plan and have contributed less the the government, the option of collapsing the plan in the form of a voluntary termination would be a less harsh due to the small amount of investment income that would be existing in the plan and paid out at termination (most likely not resulting in a clawback of provincial benefits).

I feel the recommendations I have presented in this letter can potentially increase the adoption of RDSP's. I am available for clarification or further consultation at any time. I appreciate this opportunity and hope the Department of Finances findings though this, and other consultations makes Canada a more equitable place for persons dealing with serious and serve disabilities.

Sincerely yours,

Travis Coady