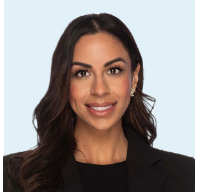
Disability planning in Canada: navigating the RDSP and beyond



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Planning for the future is a foundation for financial well-being, but for people with disabilities and their families, it often comes with unique challenges and considerations. From securing long-term financial stability to navigating government programs and supports, the disability planning journey can be complex. In addition, Canadians with disabilities often face unique financial barriers, due to higher-than-average medical expenses and, in some cases, employment obstacles. Many may face an uncertain financial future, which can cause distress to families and loved ones.

The **Registered Disability Savings Plan (RDSP)** is a powerful financial vehicle created to help individuals with disabilities and their families save for the future. Designed to maximize long-term growth through government grants and bonds, the RDSP offers a pathway to financial security that is both tax-efficient and accessible to those who need it most. However, understanding how to integrate an RDSP into a broader disability planning strategy requires careful thought, knowledge of the rules and a focus on the individual's unique situation.

This insight is intended to help you navigate the essentials of RDSPs and disability planning, offering practical guidance on eligibility, contribution strategies, maximizing grants and bonds, and leveraging tax benefits. It also addresses critical considerations, such as how to coordinate RDSP savings with provincial disability benefits, Henson trusts and estate planning strategies.

Whether you are a financial professional advising clients or a family member planning for a loved one's future, this resource aims to provide clarity, actionable insights and the tools you need to create a secure financial foundation for individuals with disabilities.

Background on RDSPs

The RDSP was launched by the federal government in 2008 to help individuals with disabilities and their families save for long-term financial security. It provides significant incentives through government grants and bonds, making it a powerful tool for maximizing savings.

RDSPs have many benefits and yet awareness of the account remains extremely low. Many eligible Canadians are missing out on a valuable opportunity to secure their financial futures through this registered plan. Advisors have the opportunity to play a tremendous role in increasing education and outreach about RDSPs to encourage more individuals to take advantage of this savings tool. Ongoing conversations about RDSPs is necessary not only to promote their benefits but also to address systemic issues that prevent full accessibility for individuals with disabilities.

What you need to know

Criteria to open an RDSP

1. **Disability Tax Credit (DTC):** The DTC is a non-refundable tax credit available in Canada, aimed at individuals with severe and prolonged impairments in physical or mental functions. The individual must have a medical condition that is severe and expected to last at least 12 months. This includes significant limitations in basic activities such as walking, dressing, feeding or mental functions. A medical practitioner must certify the impairment on Form T2201, which is submitted to the Canada Revenue Agency (CRA) for approval.

Practice point

- A client may be eligible for DTC if they have severe and prolonged impairment that restricts their ability to perform mental functions necessary for everyday life. Mental functions include: adaptive functioning, attention, concentration, judgment, memory, etc.
- People with Type 1 diabetes meet the eligibility criteria under life-sustaining therapy. Medical practitioners no longer have to provide details of therapy for 2021 and later years.
- There are paid third-party resources available to help an individual apply for DTC.

In addition to the federal DTC, each province and territory in Canada offers its own disability tax credit. Beneficiaries should be aware that these provincial credits can provide additional financial relief. For detailed information on the specific amounts and eligibility criteria, please refer to the respective provincial government websites.

2. **Age:** The beneficiary must be under 60 years old at the end of the calendar year in which the RDSP is opened. Contributions cannot be accepted after the year the beneficiary turns 59.
3. **Canadian resident:** The beneficiary must be a resident of Canada when the RDSP is opened and when contributions are made.
4. **Social Insurance Number (SIN):** A valid SIN is required for both the beneficiary and the plan holder.

Practice point

- When completing the RDSP application, the name on the application should be entered exactly as it appears on the SIN documentation. If not, there is a risk that the application will be rejected.

What is the difference between an account holder and a beneficiary?

The **account holder** is the individual or entity that opens the RDSP, makes contributions and manages the plan. This person has the authority to make investment decisions and authorize third-party contributions. An RDSP can have more than one account holder. For example, both parents can act as holders if they are legal guardians of the beneficiary.

The **beneficiary** is the individual with a disability who will receive funds from the RDSP. They are the primary recipient of the savings and benefits accumulated in the plan. The beneficiary is considered the legal owner of the RDSP, although they may not manage it directly if they are underage or lack contractual competence. A beneficiary can only have one RDSP at any given time.

If the beneficiary is a minor, the legal parent or guardian who is legally authorized to act would be the account holder.

If the beneficiary is an adult, they must have contractual competency to be the account holder. If they don't, then the parent, guardian or other representative authorized to act must be the account holder. For example, if a parent is the legal guardian of the beneficiary and the beneficiary has an adult sibling who is not their legal guardian, then only the parent may become the account holder. The parent and other adult child may not become joint account holders because legal guardianship takes priority.

Until 2026, if contractual competency is in doubt, a qualifying family member (QFM) can open the account without court authorization. This provision allowing QFMs to open an RDSP is temporary and is set to remain in effect until December 31, 2026. However, once established, the account can remain active beyond this date, and the QFM can continue as the account holder. A QFM includes:

- Legal parents.
- Adult siblings.
- Spouse or common-law partner.

This temporary measure allows a parent and an adult sibling of the beneficiary to become joint account holders if there is no other individual with legal authority.

RDSP funding

A total of $200,000 can be contributed to an RDSP over the beneficiary's lifetime. There is no annual contribution limit. This allows for flexibility in how much can be deposited each year. Anyone can contribute to an RDSP with the consent of the account holder. Contributions must be made using after-tax dollars, as they are not tax-deductible.

Government grants and bonds

Canada Disability Savings Grant (CDSG)

The Canadian government matches contributions made to the RDSP at varying rates depending on the beneficiary's family income. A beneficiary can receive up to $3,500 in grants per year for eligible contributions. A beneficiary can receive a lifetime maximum of $70,000 in grants. Grants are available until December 31 of the year the beneficiary turns 49.

Family net income*	CDSG matching rates	Maximum annual CDSG
Up to or equal to $114,750	300% on first $500 200% on next $1,000	$3,500
Over $114,750	100% on first $1,000	$1,000

*2025 rates (indexed annually to inflation).

In the year the beneficiary attains age 19, the family net income is that of the beneficiary and his or her spouse, if applicable. Prior to that, the family net income is that of his or her parents.

Canada Disability Savings Bond (CDSB)

Beneficiaries can receive this bond without needing to make personal contributions if their income is below certain income thresholds. A beneficiary can receive up to $1,000 per year, with a lifetime maximum of $20,000. The beneficiary's family income must not exceed certain limits to qualify for the bond. Bonds are available until December 31 of the year the beneficiary turns 49.

Family net income*	Maximum annual CDSG
Up to or equal to $37,487	$1,000
Between $37,487 and $57,375	$1,000 reduced on a prorated basis
Over $57,375	No CDBS is paid

*2025 rates (indexed annually to inflation).

In the year the beneficiary attains age 19, the family net income is that of the beneficiary and his or her spouse, if applicable. Prior to that, the family net income is that of his or her parents.

Practice point

Is there still a benefit to opening the RDSP account for a beneficiary who is past the age of 49 at which point the government matching for bonds and grants stop? Potentially. The RDSP still provides the beneficiary with an opportunity to save on a tax-deferred basis. In addition, if the beneficiary is to receive a large inheritance from a family member, then the RDSP provides $200,000 of contribution room without affecting most provincial social assistance benefits.

Grant and bond carry-forward

Beneficiaries can carry forward unused grant and bond entitlements for up to 10 years. The maximum annual grant entitlement that can be carried forward is $10,500. For bonds, the maximum is $11,000, which includes $1,000 per year over the 10-year period. There is no need for a separate application to claim carry-forward amounts. The amounts are automatically calculated based on the beneficiary's income tax returns. When contributions are made to an RDSP, the Canadian government first utilizes any available grant room from the highest matching rates (300%, 200% and then 100%) and they are applied to the oldest years first.

Practice point

Family net income is based on the income of the parents until December 31 of the year the beneficiary reaches age 18 as well as the family net income of the beneficiary (and their spouse or common-law partner, if applicable) beginning the year that the beneficiary reaches age 19. The government looks at family net income from two years prior to determine eligibility for the status year. Filing an income tax return at age 17 (even if the beneficiary has nil income) ensures the beneficiary transitions to their individual income assessment at age 19 to maximize RDSP benefits.

Case study

Katherine Welsh ("Kate")

Background

- Age 19.
- Kate is autistic and qualifies for DTC.
- Kate has a part-time job and earns $8,000 annually.
- Kate is single.
- Kate lives with her mother, Anne, who was Kate's primary caregiver while she was a minor.

Goals

- To build long-term savings for Kate's future.
- To take advantage of government grants and bonds available through the CDSG and CDSB.

Catching up on grants and bonds

- Kate opened an RDSP account in 2025 with the help and guidance of her advisor.
- Kate wants to catch up on the grants and bonds for the past 10 years because she has been DTC eligible for over 10 years and her net income is in the lowest threshold for grant and bond matching, thus making her eligible for both grants and bonds.

Utilizing practice point

- Since Kate turned 19 in 2025, we would look to her net income along with the net income of her spouse or common law partner (CLP), if she has one.
- If Kate filed a tax return in 2023 (when she was 17), even if her income was nil, CDSG/CDSB would be based on her income in that year. If she did not file, then it would be based on her mother's net income as her primary caregiver.

Withdrawing from an RDSP

There are two types of withdrawals (payments) from an RDSP:

1. **Lifetime disability assistance payments (LDAPs):** These are recurring annual payments that continue until the beneficiary's death. Once initiated, these payments must be made at least annually until the funds in the RDSP are exhausted or the beneficiary passes away. It is essentially the income stream for the beneficiary. Payments can begin at any age but must commence by the end of the year in which the beneficiary turns age 60.

Withdrawal amount calculation

$$\frac{A}{(B + 3 - C)} \qquad \frac{\$400{,}000}{(80 + 3 - 60)} = \$17{,}391$$

A is the FMV of the property held in the plan at the beginning of the year.

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

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

2. **Disability assistance payments (DAPs):** These are lump-sum payments that do not recur on a regular basis. They can be requested at any time after the RDSP is established.

   Some examples of when DAPs are used include paying for medical devices, out-of-pocket costs for medical expenses, to fund education and specialized training, to pay for care and support, emergency expenses, etc.

Assistance holdback amount ("AHA")

If any government grants or bonds were deposited into the RDSP within the last 10 years, withdrawals are not permitted without having to pay some of those grants and bonds back. The assistance holdback amount (AHA) is the total amount of grants and bonds that are in the RDSP currently, minus any grants and bonds that had already been paid back in the previous 10 years. The AHA is designed to ensure that government assistance provided through grants and bonds is preserved within the RDSP for long-term savings.

The proportional repayment rule means that for every $1 withdrawn from an RDSP, the client will lose $3 of any grants or bonds paid into the plan in the previous 10 years as they will need to be repaid to the government. All personal contributions and interest earned are considered the property of the beneficiary and won't have to be repaid to the government.

Practice point

Withdrawals that are taken when the beneficiary is aged 60 should not be subject to AHA because government matching for bonds and grants stop at the age of 49, which is outside of the previous 10-year window.

Taxation of withdrawals

Withdrawals are made up of original contributions, investment income, Canada Disability Savings Grants (CDSG), Canada Disability Savings Bonds (CDSB) and tax deferred rollovers. Tax will be withheld on payouts relating to investment income, CDSG and CDSB to reduce tax at year-end. Generally, because original contributions are non-deductible when contributed, they are non-taxable when withdrawn. Investment income, CDSGs and CDSBs are fully taxable to the RDSP beneficiary when received.

Case study

Katherine Welsh ("Kate")

Using the case study with Kate cited earlier, we can see how LDAP and DAP payments would work along with the AHA rules with the example below.

- **LDAP:** Kate would likely start taking her LDAP at age 60. She can take it earlier but will need to be mindful of AHA rules.
- **DAP:** If Kate needed to withdraw $2,000 for medical devices, this would be considered a DAP. She has $20,000 in her RDSP:
    - **Personal contributions:** $12,000;
    - **Government grants/bonds:** $6,800 received in the last 10 years; and
    - **Interest:** $1,200.

Based on the 10-year rule, she would need to pay back $6,000 in government contributions. If she needed to withdraw an additional $1,000 a month later, she would only be required to pay back the $800 in government contributions because there were no other grants or bonds received in the account before making this additional withdrawal.

What happens if a beneficiary is no longer DTC eligible?

No further contributions can be made to the RDSP, and no CDSGs or CDSBs will be paid into the plan once the beneficiary becomes DTC-ineligible. The assistance holdback amount (AHA) will be calculated based on the amount immediately preceding DTC ineligibility. This amount must be repaid if withdrawals occur. Tax-deferred rollovers of RRSP/RRIF are now permitted when the DTC is lost. If the beneficiary regains DTC eligibility, normal RDSP rules resume, allowing for contributions and new grants and bonds to be deposited into the account.

RRSP/RRIF/RPP rollover to RDSP

As of July 1, 2011, legislation was passed allowing for a tax-deferred rollover of RRSP, RRIF or RPP monies to a disabled dependent child or grandchild of a supporting annuitant. The rollover can be up to the maximum contribution limit. The tax on the rollover amount will be deferred until the beneficiary withdraws from the RDSP. The rollover is applicable when the funds come from the RRSP, RRIF, or RPP of a deceased individual. The beneficiary must be a financially dependent child or grandchild of the deceased who is eligible for the DTC. The rollover allows for a tax-deferred transfer of proceeds, meaning that taxes on the amounts rolled over are deferred until they are withdrawn from the RDSP. The amount rolled over counts against the RDSP's lifetime contribution limit of $200,000. Canada Disability Savings Grants (CDSG) or Bonds (CDSB) are not available for amounts rolled over into an RDSP.

Utilizing this rollover strategy can significantly reduce tax liabilities on an estate. For instance, rolling over funds into an RDSP can lower the taxable portion of an estate, providing substantial tax savings.

Case study

Katherine Welsh ("Kate")

Anne Welsh (Kate's mother)

- Age 58.
- $500,000 in her RRSP.
- Kate qualifies for DTC and is financially dependent.
- Two other adult children (not disabled).

If there was no rollover to Kate, the $500,000 would be taxable to Anne's estate, leaving a tax bill of $265,000.* If $200,000 was rolled into Kate's RDSP, the remaining $300,000 would be taxable to Anne's estate, leaving a tax bill of $159,000.* The rollover saves the estate $106,000 in tax. As Kate withdraws from the RDSP, she would be taxed at her marginal rate, which we assume would be significantly lower than that of the estate.

*Assuming a marginal tax rate of 53%.

RESP AIP to RDSP

To rollover funds from an RESP to an RDSP both the RESP and RDSP must have the same beneficiary. The investment income from the RESP can be rolled over into the RDSP as an AIP on a tax-deferred basis. The amount rolled over from the RESP counts against the RDSP's lifetime contribution limit of $200,000. It does not qualify for additional government grants or bonds.

Estate planning

A proper estate plan is significant when leaving money to an individual with a disability because it ensures their financial security while preserving access to essential provincial benefits and programs.

If a parent dies intestate (without a will), their assets are distributed according to the laws of intestacy in their jurisdiction. An inheritance received directly by an individual qualifying for DTC can jeopardize their eligibility for provincial disability benefits. Without proper estate planning, such as establishing a Henson Trust, the child's inheritance could be counted as an asset, potentially disqualifying them from essential provincial support programs like:

- Alberta – Assured Income for Severely Handicapped (AISH).
- British Columbia – Persons with Disabilities (PWD).
- Manitoba – Employment and Income Assistance Program (EIA).
- New Brunswick – Disability Support Program.
- Nova Scotia – Direct Family Support (DFS).
- Northwest Territories – Disability Allowance for Persons with Disabilities on Income Support.
- Ontario – Ontario Disability Support Program (ODSP).
- Prince Edward Island – AccessAbility Supports Program.
- Quebec – Financial Assistance for Domestic Help Services.
- Saskatchewan – Saskatchewan Assured Income for Disability Program (SAID).
- Yukon – Yukon Social Assistance Program.

*Newfoundland and Labrador, and Nunavut also offer income support programs.

A **Henson Trust** is a fully discretionary trust designed to benefit individuals with disabilities, particularly those who receive federal and provincial government assistance. If drafted correctly, the named trustee has absolute discretion over whether to distribute funds from the trust to the beneficiary, when to make those distributions, and in what amounts. It is structured to ensure that the assets held within it do not count as assets for the purpose of determining eligibility for social assistance. Since the beneficiary does not have a vested interest in assets held in trust, they are not considered part of the beneficiary's personal assets.

Another benefit of a Henson Trust is that if the trust beneficiary has qualified for the DTC, the trust, under certain circumstances, can be taxed as a qualified disability trust (QDT). This would allow for income generated to be taxed in the trust at the lower graduated marginal tax rates that the trust beneficiary would be subject to, and not a flat top rate in each province and territory.

As of 2019, Henson Trusts are recognized in Alberta. Henson Trusts are not recognized in the Northwest Territories and Nunavut. In Newfoundland and Labrador, social assistance benefits will be reduced if the trust's assets exceed $100,000.

Quebec: Although Henson trusts originated as a common law concept, they have been recognized in Quebec as a valid tool to benefit beneficiaries of RDSPs, similar to other provinces. The Superior Court of Quebec confirmed the legitimacy of Henson trusts as fully discretionary trusts in the case of Curateur public v. A.N. (Succession de).[1] This decision ensures that assets held in a Henson "style" trust do not affect the beneficiary's eligibility for provincial benefits, thereby providing a secure financial planning option for families with disabled members.[i]

An individual should meet with an estate planning lawyer to ensure that the Henson Trust is drafted correctly. An individual should appoint an appropriate trustee, one that has good financial management skills, is trustworthy and understands the legal and tax requirements associated with managing the trust. The individual or entity should be familiar with the disability legislation in their jurisdiction. Clients may consider a corporate trustee since the trust will likely last for the duration of the beneficiary's life.

The will should also include language for rolling over funds from an RRSP, RRIF or RPP to a RDSP. An estate planning lawyer will include clear and specific language.

[1] Québec (Curateur public) v. A.N. (Succession de), 2014 QCCS 616.

Case study

Katherine Welsh (“Kate”)

Anne Welsh (Kate’s mother)

Anne needs a will

- Without a will that includes a fully discretionary trust set up for Kate, she is at risk of receiving her inheritance outright, which could lead to her losing government benefits, such as provincial disability benefits.
- This could mean she loses access to monthly disability support income, prescription drug coverage and funding for medical equipment etc.

Henson Trust

- A Henson Trust is a fully discretionary trust that allows the named trustee to determine how and when the trust assets are distributed to a beneficiary. Since the beneficiary doesn’t have control or legal entitlement to the funds, the assets in the trust are not considered part of the beneficiary’s personal assets.

Language for RRSP/RRIF rollover

- Anne’s will should be updated to include language directing RRSP funds to be transferred to Kate’s RDSP where permitted.
- Kate would need to be financially dependent on Anne at the time of her death.

Importance of choosing an appropriate trustee

- Trustee should be trustworthy and financially savvy.
- The trust would likely exist for the duration of Kate’s lifetime; thus it will be important to choose the appropriate individual or entity to act — a corporate trustee may be a good option.

Impact on social assistance benefits

Funds held within an RDSP are exempt from being counted as assets when assessing eligibility for most social assistance programs (see above). This means that individuals can accumulate savings in their RDSP without jeopardizing their eligibility for these benefits.

In addition, payments from an RDSP do not impact other income-tested federal government programs, including Old Age Security (OAS), Guaranteed Income Supplement (GIS), the Goods and Services Tax Benefit (GST Benefit) and other social assistance benefits such as subsidized housing and long-term care.

Quebec: Generally, RDSPs do not affect eligibility for social benefits programs in Quebec. The capital held within an RDSP is excluded from being considered as liquid assets or property. Additionally, LDAPs from an RDSP are excluded from income calculations up to a limit of $950 per month for adult beneficiaries. However, any LDAPs exceeding this amount may impact the amount of social assistance benefits received.

What happens on the death of the beneficiary?

The RDSP must be terminated by December 31 of the following calendar year after the beneficiary’s death. Any government grants and bonds that have been in the RDSP for less than 10 years must be repaid to the government. After repaying any necessary grants and bonds, the remaining funds in the RDSP will be distributed according to the beneficiary’s will. If there is no will, distribution will follow the rules of intestacy as set out by provincial law. If the beneficiary has capacity, it is recommended that they meet with an estate planning lawyer to create a will so the estate can be divided as per their wishes.

US tax considerations

If the RDSP plan holder and/or beneficiary are US citizens and Canadian residents, there could be unintended US tax implications. A US plan holder may be subject to US tax on all grants and income while a US beneficiary could be subject to US tax upon withdrawal of earnings. The US typically does not recognize the tax-deferred status of a RDSP, therefore, income, gains and grants/bonds in the RDSP may be subject to tax in the US, with no offsetting foreign tax credit (since this income is tax-deferred in Canada while funds remain in the RDSP). There could also be a US reporting requirement known as Report of Foreign Bank and Financial Accounts (FBAR), although Forms 3520/3520-A are no longer required due to changes in US tax rules in 2020.

Peace of mind starts with a conversation

Speak with a financial advisor to help you navigate through the various options and help determine the best fit for you. For more information on RDSP plans and detailed information please visit us at **mackenzieinvestments.com/RDSP**.

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