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GETTING PERSONAL CANADA: Fitting An RDSP Into A Financial Plan

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TORONTO (Dow Jones)--Securing a registered disability savings plan for loved ones with a disability is a must. But making sure that it is part of the overall financial plan of the beneficiary and the donors to the plan is another matter.

As thousands of Canadians scramble to meet the March 2 deadline for 2008 contributions, financial planners say contributors should look at all options for setting up disability programs in order to maximize benefits for loved ones.

"This is just one aspect of comprehensive planning for clients that advisers have to be aware of and incorporate into their client's portfolio," said Mark Halpern, a certified financial planner and president and founder of illnessPROTECTION.com Inc., a critical-illness and life-insurance advisory firm.

Halpern said making the program compatible with other health-benefit options is key to maximizing disability programs such as RDSPs. These options include impaired annuities, which are annuities for disabled people, and other health-benefit programs that can be set up to fund needs for health benefits on a pretax basis of a disabled loved one. "It requires looking at the big picture," Halpern said. "It can be a combination of some of them, or all of them...every situation is unique."

The RDSP, which is expected to benefit about 500,000 individuals in Canada, is a new tax-deferred savings vehicle to assist families in planning for the long-term financial security of relatives with disabilities.

Family and friends are allowed to give a lifetime contribution of up to C\$200,000 that can grow on a tax-deferred basis. Contributions aren't tax-deductible but they won't be counted as income for the beneficiaries. Contributions may be eligible for Canadian government matching grants of up to C\$3,500 annually, and the plan may be eligible for government bond amounts of up to C\$1,000 a year.

Benefits For Disabled Person Could Reach C\$2M Peter Merrick, a certified financial planner and president of MerrickWealth.com, a Toronto-based financial consulting boutique, said an RDSP alone can grant up to C\$70,000 worth of free money for the beneficiary. If the program can be mixed with the disability tax credit, provincial disability support program, and other benefits available for people with disabilities, Merrick estimates that benefits for the disabled person, depending on the person's circumstances, could reach C\$1.5 million to C\$2 million over a lifetime.

"The return on investment for the time and money is going to be immense," Merrick said. "It all comes down to planning."

At the moment, only two major banks - Royal Bank of Canada (RBC) and Bank of Montreal (BMO) offer RDSPs, which some financial planners and advisers find challenging given the bottleneck in applications to meet the March 2 deadline to enjoy 2008 federal grants.

Bank of Montreal, the first major bank to offer the program in December, has opened nearly 4,000 accounts, and has hired additional employees to manage the applications that are coming in, said David Sharone, product manager for registered plan at BMO Mutual Funds. To make opening the account easier, the bank has set up a call center that people can access via a toll-free number to open an RDSP account.

In the case of RBC, the bank started offering RDSPs Monday, although queries were pouring in before that. Those who haven't confirmed their eligibility to receive the disability tax credit through the Revenue Canada might find it a challenge to meet the March 2 deadline to receive federal grants, said David Birkbeck, head of registered products strategy at RBC. Beneficiaries of RDSPs need to confirm eligibility for the disability tax credit in order to enroll in the program, which could take some time to process.

To prepare for the expected deluge of RDSP applications, the bank has been educating its financial advisers to help clients open an account. "We feel it's important to get required advice on RDSP," Birkbeck said. "It's quite complicated and it needs to fit with whatever financial plan they have."