Disability planning workshop

Mackenzie insights on ensuring financial help for people living with disabilities

In the third session of our 2022 Spring Exchange Event Series, presented by **Mackenzie Institute** and hosted by **Michael Evans** (Vice President, National Sales Initiatives), **Vivek Bansal** (Director, Tax & Estate Planning) and two of our District Vice Presidents from Retail Distribution – **Adrian Hawkings and Christy Licata** – shared their expert insights on how to plan for the long-term financial security of someone living with a disability, and how advisors can build their practice by offering disability planning.

Event highlights

Living with disabilities is challenging on multiple levels, including physically, mentally and emotionally. It can also pose challenges if income needs and other aspects of financial security are not addressed. The CRA has reported that more than 362,000 Canadians under the age of 49 who qualify for the Disability Tax Credit have not opened a Registered Disability Savings Plan. That represents billions of dollars of contributions not made, and billions more dollars in government grants and bonds not yet received. As an industry, we have both an opportunity and responsibility to close that gap, so more people receive the financial support they need and are entitled to.

Provincial disability benefits

Fortunately, each province and territory of Canada offers some type of government support for individuals living with disabilities. These programs vary, but the benefits are all income-tested and asset-tested and may differ depending on family structure. The financial support is welcome, but not able to sustain most people with disabilities, as the table below illustrates.

Province	Asset test single	Asset test family	Income test single	Income test couple
British Columbia	$100,000	$200,000*	$12,000/year	$14,400/year
Alberta	$100,000	$100,000	$1,072/month	$2,612/month
Saskatchewan	$1,500	$3,000	$6,000/year	$7,200/year
Manitoba	$4,000	$16,000	$200/month + 30% of income above $200	N/A
Ontario	$40,000	$50,000	$10,000/year	N/A
Quebec	$1,500	$2,500	$950/month	N/A
New Brunswick	$10,000	$10,000		
$50,000 in RRSP	$500/month + 30% of earnings balance	$500/month + 30% of earnings balance		
Prince Edward Island	$5,000 + $500/dependent up to maximum of $8,500	$10,000 + $500/dependent up to maximum of $12,500	$500/month + 30% net earnings	N/A
Nova Scotia	$2,000	$4,000	$350/month	N/A
Newfoundland	$3,000**	$5,500**	$150/month + 20% of income above $150	$250/month + 20% of income above $250
Yukon	$2,000	$3,500	$3,900/year	N/A
Northwest Territories	$50,000	N/A	$200/month + 15% of income above $200	$400/month + 15% of income above $400
Nunavut	$5,000	N/A	$200/month	N/A
Province	Asset test single	Asset test family	Income test single	Income test couple

*As long as both spouses are PWD eligible.

** Maximum amount that can be in a support trust is $100,000 Source: RDSP, Henson Trust or TFSA? Mackenzie Tax & Estate Planning

Disability Tax Credit (DTC)

- At the federal level, financial support is often generous and comes in different forms, including the DTC. The recent federal budget proposed to expand the definition of what qualifies as a physical or mental disability. This expansion means 45,000 more individuals will qualify for disability support, based on their restricted ability to perform one or more basic activities of living.
- The DTC is non-refundable, so if the recipient does not need all the financial support this credit offers, that individual cannot claim the entire credit, but supporting parents or grandparents can use it to reduce their own income tax.
- Children under age 18 may receive an additional $5,174 annually from the DTC.
- If a qualifying disability had been diagnosed but no application was made for the DTC, the CRA will allow claimants to go back up to 10 years and adjust affected income tax returns and provide a corresponding refund.

Other tax relief measures

- Individuals with disabilities may also be eligible for tax relief in relation to medical expenses not covered elsewhere, and for attendant care expenses, like a personal support worker.
- A disability supports deduction applies to expenses for physical therapy or rent paid to a care facility.
- The Medical Expense Tax Credit is a non-deductible credit to cover costs related to medical practitioners like dentists, nurses or therapists, and also includes costs related to reproductive technologies (like IVF).
- The DTC, if not used completely by the beneficiary because their income is low, can be transferred to supporting individuals to offer additional tax relief. Medical and attendant expenses are also transferrable if not fully used.
- Other non-refundable credits include:
    - Amount for Spouse or Common-law Partner
    - Amount for Eligible Dependent
    - Amount for Infirm Dependent Age 18 or older
    - Caregiver Amount
    - Family Caregiver Amount
- All of these tax credits can add up to significant and meaningful income for the beneficiary and their family, particularly if you consider that the credit amounts are multiplied federally and provincially at the lowest tax rate available. Below is an example from Ontario of credits available and their financial impact.

Non-refundable tax credit (Federal 2022)	Maximum base amount (Federal)	Maximum base amount (Federal and Ontario)
Spouse or CPL amount	$14,398 (*)	$23,858
Amount for Eligible Dependent	$14,398	$23,858
Caregiver amount for infirm dependent over 18	$7,525 (**)	$12,777
Disability amount	$8,870	$17,781

(*) $12,719 for individuals whose net income for the year is greater than or equal to the amount at which the 33% tax bracket begins.
(**) Canada caregiver amount for children under age 18 and spouse/common-law partner, $2,350

Registered Disability Savings Plan (RDSP)
The RDSP is a creditor-proof, registered investment plan that helps provide long-term security for Canadians with disabilities. RDSPs feature both federal and provincial matching and funding, and non-deductible contributions may be made by anyone on the beneficiary's behalf. Contributions must be made before the beneficiary reaches age 60. While there is no annual limit, the maximum lifetime contribution limit is $200,000.

Canada Disability Savings Grant (CDSG) and Bond (CDSB)

- The CDSG is an RDSP-matching, income-tested grant. The CDSG is eligible until December 31 of the year the beneficiary turns 49. The maximum lifetime limit for RDSP matching is $70,000, which is in addition to the $200,000 RDSP limit. The annual limit is $3,500 and may be reduced based on family net income.
- The CDSB is also income tested and the maximum lifetime limit is $20,000. Lower-income families don't even need to make any contributions of their own to receive the maximum annual CDSB payment of $1,000. Higher-income families may qualify for a pro-rated portion, depending on family net income.
- It's possible to "catch up" on grant and bond payments – up to 10 years or to the date of disability diagnosis – if an individual was eligible but did not open an RDSP during that time. The following is a sample calculation for 2022, to show how much financial support can be recovered. In the example, total contributions made were $21,500, but the total catch-up grants amounted to $50,500, meaning it only took five years to fully catch up and the account value reached $72,000.

Catch up on 10 years worth of grants	
2022 – Contribute **$3,500** Gives you $500 x 300% x 7 years = **$10,500**	**2025** – Contribute $5,000 Gives you $500 x 300% x 1 year = $1,500 Gives you $1,000 x 200% x 4.5 years = **$9,000** Total **$10,500**
2023 – Contribute **$4,000** Gives you $500 x 300% x 5 years = $7,500 Gives you $1,000 x 200% x 1.5 years = **$3,000** Total **$10,500**	**2026** – Contribute $4,000 Gives you $500 x 300% x 1 year = $1,500 Gives you $1,000 x 200% x 3.5 years = **$7,000** Total **$8,500**
2024 – Contribute **$5,000** Gives you $500 x 300% x 1 year = $1,500 Gives you $1,000 x 200% x 4.5 years = **$9,000** Total **$10,500**	Total Contributions: $21,500 Total Grants: $50,500 Account Value: **$72,000**

Withdrawing from RDSPs

There are no restrictions regarding the purpose for withdrawals from RDSPs. Using the Lifetime Disability Assistance Payment (LDAP) or Disability Assistance Payment (DAP), RDSP withdrawals are composed of a mix of contributions, income, the CDSG and CDSB. Withdrawals of contributions is not a taxable event. The LDAP is an annual payment starting at any age but must begin by age 60. The DAP is a periodic lump-sum withdrawal that can be paid any time after the RDSP is established. If LDAP or DAP withdrawals occur within 10 years of the last grant or bond being deposited to the account, a repayment (Assistance Holdback Amount) of government monies in the plan will apply at a rate of $3 repaid for every $1 withdrawn.

Estate planning for people with disabilities

Important elements of an estate plan include a will, Henson Trust, Qualified Disability Trust (QDT) and rollover of registered assets:

- A will determines how an estate's assets will be distributed and can also appoint trustees and set up trusts.
- A Henson Trust differs by province and can be inter vivos (during lifetime) or testamentary (after death). The trustee holds full discretion on whether the disabled individual receives any settlement assets to cover medical and other related expenses. The payout does not flow through the hands of the beneficiary and does not affect provincial social assistance benefits. A Henson Trust is income tested but not asset tested, making it suitable for large inheritances.
- The QDT is a testamentary trust. The QDT is taxed at a gradual income tax rate and allows for income splitting with an electing beneficiary (provided the beneficiary receives the DTC and has the mental capacity to sign the election form). Otherwise, the income retained in the trust will be taxed at the top marginal tax rate.
- RRSP/RRIF plan assets can roll over to a disabled child's/grandchild's RRSP or RDSP if certain conditions are met (such as financial dependency on deceased annuitant; the DTC is received). RESP income may also roll over to an RDSP on a tax-deferred basis, and any government matching of RESP funds will not be lost.

Disability planning opportunities for advisors

RDSPs and disability planning in general represent an opportunity for advisors to build their practice by expanding their client and asset bases.

In Ontario, roughly half of clients with more than $1 million in investable assets work with three advisors. This means there is an attractive consolidation opportunity for advisors if they can meet a client's RDSP/disability planning needs and offer a convenient, coordinated strategy to overall financial planning.

Promoting disability planning capabilities to clients and prospects is a proven way for advisors to grow accounts and assets under management. Naming common types of disabilities, such as visual impairment or autism, makes disability planning more relatable and understandable. Even if the clients are not directly affected, they may think of others who can benefit from disability planning and may refer them to their advisor.

Advisors who add disability planning to their practice will position themselves to maintain the trust and loyalty of clients who may need this specific expertise. It's also a good practice for advisors to speak with centres of influence – such as lawyers and accountants – about how they can meet the disability planning needs of the COI's clients and offer other financial capabilities as part of a comprehensive value proposition.

Mackenzie supports advisors

To meet specific client needs, Mackenzie offers a wide range of RDSP-eligible funds, including managed solutions that are typically suitable for such plans. We also offer advisors the expert support of the Tax and Estate Planning team at Mackenzie Investments. The Tax & Estate team can conduct meetings with our Sales Teams and advisors to help them understand and implement aspects of disability planning, plus they can also help advisors host disability planning seminars for clients and prospects. If advisors are unfamiliar with opening RDSP accounts, uncertain if disability-related documentation has been completed the right way or not sure how to transfer RDSP assets to Mackenzie, we can share best practices and provide support to ensure everything is in good order.

For more information and insights about topics discussed in this workshop, or to learn about specific solutions and strategies that you may be considering for client portfolios, please contact your Mackenzie Sales Team.