

RDSP Withdrawal Overview

10 YEAR RULE: If you receive any payments from the federal government in the form of a grant or bond, you will need to wait at least 10 years after the last grant or bond has been received before you start withdrawing from the RDSP. If you decide to withdraw before this ten year waiting period is up, you will have to pay back any grant or bond that has been received in the last ten years (not including interest).

PAYMENT FORMULA: Some payments out of the RDSP must come out as determined by a formula. This formula (simplified) is “Total Amount in the plan” / divided by “Years expected to live”. ** Note that this is not the full formula, just a simplified version for clarity.

AGE: Once you turn 49 grants and bonds can no longer be accepted into your RDSP. Once you turn 60 minimum annual payments will need to start coming out of your plan.

TAXES: Individually added funds are not taxed, yet interest accrued, grants and bonds count as taxable income.

FINANCIAL INSTITUTIONS: It is up to the financial institution as to whether they will allow lump sum payments (other than the formula payments) to come out of the plan. It is important that you speak with different financial institutions before obtaining an RDSP to find out about their payment guidelines as well as types of investments they use for growth, if you are interested.

Five Ways You Can Receive Payments

1) No Federal Contributions: If no grants or bonds have been added to the RDSP from the government there are no restrictions on when you can withdraw from the plan or how much.

2) Annuity: If you would like to have even payments paid out over your lifetime, there is a provision in the legislation to allow for annuity payment. An annuity is where you make a lump sum payment to a financial institution that then pays you income for the rest of your life.

3) More Personal Contributions than Federal Contributions: If you have put in more contributions into your RDSP than the federal government, you are allowed to take out lump sum payments above and beyond the formula. These lump sum payments will not instigate an annual payment and can be received before the age of 60. Once you reach the age of 60, minimum payments as determined by the formula above will begin to come out annually, although you can still take out lump sums larger than the amount determined by the formula.

4) Less Personal Contributions than Federal Contributions: If you have contributed less than the federal government into your RDSP, you can never take out payments that exceed the amount determined by the formula. If you decide you want to take out a lump sum that will not instigate annual payments or if you want to start annual payments before the 10 Year Rule, money being taken out cannot exceed the amount determined by the formula or include money that was added by the government grants or bonds. PLEASE NOTE: As of 2014, instead of just following the formula, you may instead choose to take out up to 10% of the value of the plan per year, as determined on January 1 of that year. See Max amount in the ESDC chart here:
http://www.esdc.gc.ca/eng/disability/savings/issuers/user_guide/section2.shtml#h2.2-h3.5

5) Shortened Life Expectancy: If the person has a shortened life expectancy (within 5 years) the formula does not apply and they can take out payments of any size. If the withdrawal is less than \$10,000 per year, repayment of any remaining grants and bonds paid into the plan within the preceding 10 years is not required until the death of the beneficiary. A doctor must certify this diagnosis for CRA before payments can begin.