

How Can My RDSP Help Me When I Turn 60?

A Guide for Plan Beneficiaries

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How can my RDSP help me when I turn 60?

Congratulations! You made a wise choice to open an RDSP. Now, as you approach age 60, the RDSP really starts to pay off. The RDSP helps you with your ongoing financial needs as you approach retirement age.

What happens with my RDSP when I turn 60?

Before we look at what happens with your RDSP when you turn 60, you need to know that there are two types of 'payments' or withdrawals that you can make from your RDSP.

Payments before you turn 60

Before you turn 60, you are allowed to take one-off, individual 'payments' or withdrawals from your RDSP. These are called Disability Assistance Payments or DAPs.

A DAP is a discretionary payment that can be requested and made to you or your estate at any time.

Example:

Miguel decides he wants to take a course at a local college. He needs a one-time \$5,000 DAP to pay for his tuition for the course.

IMPORTANT TO KNOW:

First, check with the financial institution that holds your RDSP to see if they allow Disability Assistance Payments (DAP). Not all financial institutions allow them.

Payments when you turn 60

When you turn 60, you will commence receiving Lifetime Disability Assistance Payments or LDAPs from your RDSP. Once started, LDAPs are paid to you at least annually. After LDAP payments commence, they must continue.

Example:

Natalie turns 60 years old on August 15, 2030. LDAP payments must begin to be paid to Natalie no later than December 31, 2030.

IMPORTANT TO KNOW:

LDAP Payments are designed to provide you with an income throughout your retirement. LDAP payments are paid to you until you either close your plan, you turn 83 OR the beneficiary passes away.

When payment types can be combined

If your financial institution allows Disability Assistance Payments or DAPs, you may find you want to take a DAP, a one-time withdrawal, even after you have started your Lifetime Disability Assistance Payments (LDAP). Below is an example that shows why someone would want to combine both payment types.

Example:

Aki currently receives a monthly LDAP of \$500 to help cover her expenses. When her computer monitor breaks in January, Aki asks for a one-time \$300 DAP to replace it. So, for the month of January, Aki will receive both her regular \$500 LDAP as well as an extra \$300 DAP to replace her monitor.

Key Learnings: check what you have learned so far:

- ✓ If I need money for a one-time 'payment' or withdrawal before I turn 60, I can ask my financial institution if they offer that option. The one-time payment or withdrawal is called a Disability Assistance Assistance Payment or DAP.
- ✓ I must start taking Lifetime Disability Assistance Payments, or LDAPs, in the year I turn 60.
- ✓ Once I start taking LDAP payments, they must continue.
- ✓ If my financial institution allows one-time DAP payments , I can consider withdrawing a DAP if I need the funds and combine that payment with my LDAP payments.

How much money am I allowed to take out?

When you want to take a ‘payment’ or withdrawal from your RDSP, there are rules that apply. First, let’s focus on the Lifetime Disability Assistance Payment or LDAP payment rules for withdrawal.

Lifetime Disability Assistance Payments (LDAPs)

The RDSP is intended to help with a person’s ongoing financial needs after they turn 60. In some ways, the Lifetime Disability Assistance Payment is like a pension, that starts at age 60.

In the year you turn 60, you and/or your Plan Holder will contact your financial institution and ask for your LDAP payments to begin.

Your financial institution can set up your LDAP payments to be deposited directly into your personal bank account on an annual or a monthly basis.

What is the LDAP formula? What does it mean to you?

To take an LDAP payment from your RDSP, the financial institution must first apply a formula called the LDAP formula. The LDAP formula is used to calculate how much money you can take out each year. The Canadian government, who created the RDSP plan, created this formula.

On what is the LDAP formula based?

- The formula is based on the fair market value of your RDSP and your current age.*
- If you want more details on the formula:**

Simply ask your financial institution or contact Plan Institute at 1.844.311.7526 or info@planinstitute.ca for more details.

Disability Assistance Payments (DAPs)

To recap, Disability Assistance Payments (DAPs) are one-off, individual ‘payments’ or withdrawals from your RDSP.

When you and/or your Plan Holder request a Disability Assistance Payment , your payment may be deposited directly into your personal bank account.

What is the DAP formula? What does it mean to you?

To take a DAP payment from your RDSP, the financial institution must first apply a formula called the DAP formula. The DAP formula is used to calculate how much money you can take out at

that time and under what circumstances. The Canadian government, who created the RDSP plan, created this formula.

On what is the DAP Formula based?

- ❑ *The formula is based on the fair market value of your RDSP and your age in the year of withdrawal. The result of this calculation is compared with 10% of your plan value. Your maximum DAP will be the higher value of the two.*
- ❑ **If you want more details on the formula:**

Simply ask your financial institution or contact Plan Institute at 1.844.311.7526 or info@planinstitute.ca for more details.

When LDAP and DAP payments can be combined

If your financial institution allows Disability Assistance Payments, you may find you may want to take a DAP, a one-time payment, after you have started your Lifetime Disability Assistance Payments.

To combine a one-time DAP payment with your regular LDAP payments, the financial institution must first apply a formula. The formula is used to calculate how much money you can take out at that time and under what circumstances. The Canadian government, who created the RDSP plan, created this formula.

Key Learnings: check what you have learned so far:

- ✓ In the year I turn 60, I will need to ask my financial institution to begin my Lifetime Disability Assistance Payments. My financial institution will apply a formula to calculate how much money I will be paid each year, based on the fair market value of my RDSP and my current age.
- ✓ If I need a one-time 'payment' or DAP before I turn 60, I can ask my financial institution if they offer that option. My financial institution will apply a formula to calculate how much money I can withdraw based on the fair market value of my plan and my age.
- ✓ If I request a DAP payment along with my LDAP payments, my financial institution will apply a formula to calculate how much money I will be paid each year.

What is the '10-year rule'? What does it mean to you?

When you ask for any 'payments' or withdrawals from your RDSP, the financial institution must first apply the '10-year rule'.

One of the benefits of having an RDSP is that under certain circumstances, the government gives you, the beneficiary, grants or bonds. Many people receive these grants and bonds. We call them 'government contributions'.

Grants or bonds are funds deposited directly into your RDSP either monthly or quarterly.

❑ The most important thing for you to know about the '10-Year Rule':

If any grants or bonds have been paid into your RDSP within the last ten years, you will need to pay a penalty of \$3 per \$1 withdrawn, which is a repayment of grants and bonds, back to the government. Government contributions (grants and/or bonds) paid to you will vest after a ten year period. While these grants and bonds may not be available for withdrawal without penalty, at this point they have become the vested assets of the beneficiary.

❑ Example:

In 2010, Jameel's parents opened an RDSP plan for him. In 2010, the government contributed \$10,500 in grants and bonds to Jameel's RDSP account. To avoid a withdrawal penalty, the \$10,500 deposit must stay in Jameel's account for at least 10 years. After 10 years, the \$10,500 deposit becomes the vested asset of the beneficiary.

❑ If you want more details on the formula used to calculate the withdrawal penalty:

Simply ask your financial institution or contact Plan Institute at 1.844.311.7526 or info@planinstitute.ca for more details.

Key Learnings: check what you have learned so far:

- ✓ Government contributions (grants and/or bonds) paid to you will vest after a ten year period.
- ✓ If you have been paid a grant or bond within the last ten years and then decide to withdraw from your RDSP, you will have to repay some grants and bonds to the government. This is charged in the form of a withdrawal penalty.

Next Steps

Congratulations! You are taking all of the right steps to research what to expect from your RDSP as you approach the age of 60.

If you need any more information, simply ask your financial institution or contact Plan Institute at 1.844.311.7526 or info@planinstitute.ca for more details. Plan Institute is here to help!

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