

**Questions and Answers:
Registered Development Savings Plans (RDSP's)**

1. Why create new terminology that substitutes the word 'development' for 'retirement'?

Answer:

- RRSP's do not work for the poor – the idea that RRSP's are 'retirement' plans is a misnomer for the poor
- A Tax Prepaid Savings Plan (TPSP) for the poor would largely be for developmental purposes
- We wanted to retain familiar terminology for the idea of an individual plan tied to the tax system

2. Why not simply have a TPSP for the poor? Why do we need something different?

Answer:

- Finance Canada¹ sees the inclusion of tax sheltered TPSP income in 'net income' as an open question.
- If the federal government uses the net income definition for tax sheltered TPSP income, seniors' benefits such as GIS (at age 65) would be reduced by 50 cents on the dollar. In combination with provincial supplements such as Ontario's GAINS for the Aged, the recovery rate on net income could be 100% or more.
- In addition, the net income recovery rate on Spouses' Allowance for widow(er)s is approximately 75% at age 60. In other words, some of the most impoverished people in terms of assets would be most penalized by taking out a TPSP.
- An RDSP, (because it is limited to \$25,000 and most would be drawn down prior to the normal age of retirement), may be a more viable option to keep outside of net income.
- If RDSP tax sheltered earnings are kept out of net income, they would not reduce GIS and other income tested benefits.
- In addition, it is not viable to have a TPSP exemption from assets and income in provincial and territorial social assistance programs. The RDSP exemption is realistic.

¹ Finance Canada Consultation on TPSP's: December, 2003; p.24. Inclusion in net income is the fifth of five consultation questions in the Finance Canada consultation document.

3. Must RDSP rules be included in the Income Tax Act

Answer:

- Yes – but only a mention need be made to create the RDSP as a form of TPSP
- If no mention is made in the Income Tax Act, provinces and territories would not have a legal reference to apply the exemption.
- Without this reference, each would have to describe the RDSP concept in law resulting in differences in content and a loss of policy coherence and transparency while adding needless complexity.

4. Why would a province or territory exempt \$25,000 in the form of an RDSP?

Answer:

- Assets policies that increase asset retention reduce reliance on social assistance
- Although there is little public tolerance for people of means to be receiving social assistance, there is an equal lack of tolerance for 'welfare-induced' spending sprees prompted by catastrophic losses in benefits. A viable program of assets retention could garner public tolerance and support.
- In addition, assets and income rules do not adversely affect everyone receiving social assistance. For example, in many jurisdictions, homeowners in receipt of social assistance are permitted to keep an owner occupied home and later realize tax exempt home equity gains at a later point in time.
- Current exemptions on criminal injury awards in Ontario are set at \$25,000. There has been no public outcry respecting either the criminal injuries or homeownership exemptions.

5. Why not simply implement an Individual Development Account (IDA) that is exempt from welfare assets and income rules?

Answer:

- Not all social assistance recipients can save money but a significant number receive minor windfalls through:
 - smaller inheritances
 - lump sum payments of government and other benefits; and
 - payments through compensation schemes
- Matching funds through an IDA are not available for money that does not come from a savings based source.
- Currently, there is no viable 'place' for a social assistance recipient or working poor person to 'park' a sum of money for a later date or for their retirement.