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VIA E-MAIL

RDSP Review
Tax Policy Branch – Department of Finance
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RE: REQUEST FOR COMMENT – Ensuring the Effectiveness of Registered Disability Savings Plans

BMO Financial Group is pleased to offer its comments for the Government of Canada's review of the Registered Disability Savings Plan (RDSP).

In the 2007 Budget, Finance Minister Jim Flaherty took the important step of introducing the RDSP. With the RDSP, Canada is leading the world in showing how smart policy can help provide financial security and independence for people with disabilities.

At BMO, we strongly supported the introduction of the RDSP, because Canadians with disabilities can face extraordinary expenses and may be limited in their ability to earn enough income to support themselves.

In late 2008, we became the first to offer the new plan to Canadians. We knew that the RDSP would be a terrific savings vehicle that would provide both parents and contributors with peace of mind. We are proud to be a leader in the field.

As is often the case with new financial products, there are always opportunities to improve upon what has already been created. As an example, in February of 2010, the Head of the BMO Retirement Institute, Tina Di Vito, made a number of suggestions on how to enhance Canada's personal retirement savings in *Policy Options* magazine. One of her suggestions was to allow balances in RRSPs and RRIFs to roll over, tax free, into a RDSP – providing one more way to help people with disabilities to live more independent lives with financial security. A short time later, a proposal to allow a deceased individual's RRSP or RRIF proceeds to be transferred, on a tax-deferred basis, to the RDSP of another individual appeared in the 2010 Budget.

BMO recently announced the results of a survey revealing that only 10 per cent of Canadians with a disability, or those with a family member with a disability, are knowledgeable about the RDSP and its benefits; clearly there is a need to ensure more people who are eligible for the RDSP are made aware of how it can help them. At BMO, we are engaged in our own efforts to inform and educate our

clients and Canadians about the existence of the RDSP, including free seminars and workshops that we have held across the country for groups supporting people with disabilities. We encourage all stakeholders to do the same.

We are pleased to support Minister Flaherty's ongoing efforts to make a great program even better. In particular, we applaud and support any initiative that increases the financial security of Canadians with disabilities and lowers barriers to access to the RDSP.

A. Basic Parameters

We strongly support an increase to the lifetime contribution limit of \$200,000. We feel that \$500,000 is a more realistic amount to meet the financial needs of people with disabilities, and would also afford a greater opportunity for extended family members to support a loved one.

B. Establishing Plans and Legal Representation

The current rules on who can be an account holder have the unintended effect of forcing a family to consider restricting an adult child's legal capacity by placing a child under a guardianship or similar order, in order to utilize a RDSP in securing the financial security of the child. That's not right.

We support the broad proposals for the government to reduce the barriers to opening a RDSP, including changing the rules that outline who qualifies as a RDSP holder. BMO supports the submissions of the Canadian Bankers Association in this regard.

C. Savings Accumulation and Access

(i) Rollovers

BMO believes that families should be given enough flexibility to respond to their own unique circumstances with the resources that they have at hand to support the long-term needs of a family member with a disability. With this in mind however, BMO cautions the government that further plan changes, such as permitting rollovers from RESPs, would add significant complexity and cost to the RDSP from an operational and systems perspective. BMO encourages the use of a close consultative process between government and industry prior to implementing any significant changes to the RDSP.

(ii) The 10-Year Rule

The 10 Year Rule causes clients considerable confusion; it may represent one reason why clients or their families may hesitate to open a RDSP. While the RDSP is intended to be a *long-term* savings plan and not an income program, we believe that increasing the flexibility of this rule will not defeat its purpose. For example, a client that is contributing every year and wishes to take full advantage of the RDSP program (and not return any funds to the government) must wait the full 20 years during which contributions are made and a further 10 years to avoid any potential clawback.

We propose that the 10 Year Rule be made more flexible, including:

- Lowering the 10 year period to a shorter term - such as 5 or 3 years.
- Create specific exemptions for circumstances such as "financial hardship".

D. Plan Termination

(i) Cessation of DTC Eligibility

DTC eligibility is critical to the opening and continued maintenance of an RDSP. Clients are often confused as to whether or not (1) they are DTC eligible; (2) their DTC eligibility is current; (3) the consequences of ineligibility or eligibility ending; and (4) their rights for reapplication/appeal.

We suggest the following for improving the communication around DTC eligibility:

- Government should provide clear communication to all DTC qualified persons regarding their right to open a RDSP and the assistance available to them from the government in terms of available grants and bonds.
- Government should provide clear confirmation (by ITS) to the issuer/carrier if a client's DTC eligibility has expired. This information should provide more information regarding the reasons for the rejection, so that an issuer/carrier can provide their client with better direction as to how to address the indicated rejection.
- Government should provide clear communication to the client regarding the termination of the DTC, the legal consequences on the RDSP of the termination and the process for appeal. This is important as the issuer/carrier is not in a position to meaningfully assist a client with issues related to the client's DTC status.
- There should be a "grace period" before the RDSP contract is wound up and monies returned to the government, to allow the issuer/carrier to contact the client to offer customer assistance and information and for the client to reapply for DTC eligibility. Some sort of "grace period" is particularly important for clients who have recurring or periodic disabilities.

E. Improving Administration and Reducing Red Tape Savings

Administrative rules should not present an unnecessary burden for RDSP issuers. Complex or onerous rules also serve to decrease the appeal of the RDSP to eligible financial institutions.

(i) Are existing administrative rules effective in supporting the objectives of the RDSP?

File transmission from issuer/carriers to HRSDC: Currently financial institutions transmit files once a month to HRSDC. This time lag has the effect of delaying clients from receiving grants and bonds. For example, if a client opens an account just after a file batch has been submitted, that client must wait almost a month for their data to be transmitted and then almost another month (or very often more if information between CRA and HRSDC is inconsistent) for confirmation of receipt of grants and bonds. HRSDC should consider accepting files more regularly, such as twice a month.

HRSDC communication with issuers/carriers: A RDSP Q&A for issuer/carriers should be developed and published on the HRSDC website. This would reduce the number of duplicative enquiries to HRSDC and enhance information exchange between HRSDC and issuer/carriers.

Contract registration timelines: Currently timelines on contract registration, file transmission, plan transfers between financial institutions, plan contributions, bond and grant contributions and "exceptions" filing are inflexible and contribute to duplicative, delayed and out-of-time work for

all involved, including CRA, HRSDC and financial institutions. If timelines cannot be eliminated or at least made more flexible, a more robust exceptions/exemptions request process (instead of outright denial) would help ease these processes.

(ii) Can existing administrative rules be easily understood by beneficiaries and their families?

Administration information on plan rules: Families require more information about the plan rules. To this end, the HRSDC public website should be enhanced. For example: regarding withdrawals from RDSPs, the website only includes the withdrawal calculation, which is fairly complex. Adding an example, or developing a calculator to show the impact on withdrawing from the RDSP would benefit RDSP holders and their families.

Administration information on DTCs: The government has an opportunity to more effectively communicate the rules around DTC eligibility and status to the community generally, as well as to individual DTC applicants and their families.

(iii) Do existing administrative rules present an unnecessary administrative burden for RDSP issuers?

The RDSP is a fairly complex product and in addition to systems developments, issuer/carriers must engage numerous manual processes and reviews to ensure a RDSP account receives the appropriate grants and bonds. Rules surrounding payments and assistance holdback amounts should be simplified not only for the ease of the issuer/carrier, but for the ease of use of the client. In addition, numerous policies have been released outside of the ITS, but that still require systems enhancements (example: residual transfers, negative re-adjudication and nullified account processes) adding additional layers of complexity and cost. Effective financial planning for Canadians needs a framework of transparent and consistent administrative rules; the RDSP is no different. We are eager to work with the government on a proactive basis to establish any required RDSP enhancements or changes. Ongoing consultation with issuers/carriers, particularly regarding requirements development is critical.

BMO Financial Group thanks the Department of Finance for this opportunity to provide our thoughts on ensuring the effectiveness of the RDSP.

We strongly support developments that increase access to the RDSP to Canadian families, and we look forward to further consultation regarding improving its effectiveness. Should you have any questions about this submission, please feel free to contact us.

Yours truly,



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