Saving for **education**

You can play a significant part in a child's education and set them up for their life's goals. To make sure the child or children in your life can focus on their education without worrying about their finances, a registered education savings plan (RESP) is a great tool.

What is a registered education savings plan (RESP)?

A RESP is a dedicated savings plan for post-secondary education and can be set up as single plan (for one child) or family plan (for multiple children) and will be available when your child is ready to start their post-secondary journey. The main advantages of RESPs are access to the Canada Education Savings Grant (CESG) and a source of tax-deferred income.

Types of investments for RESPs

Money contributed to a RESP can be invested in a variety of ways – it all depends on your goals and needs. The funds can be kept in a variable savings account, set up as term deposits or invested in mutual funds*.

There are currently three types of RESPs – family plans, single plans and group plans.

Family plans

As the name implies, a family plan is great for a family with more than one child. A family plan can have multiple beneficiaries, but they must be related to the subscriber by blood or adoption. This means the beneficiaries must be the children, grandchildren, brother or sister of the subscriber.

All beneficiaries must be 21 years old or younger (or already a beneficiary under another family plan) when named as a beneficiary under a family plan.

Contributions must end when all beneficiaries turn 31 years old.

If any beneficiary in a family plan does not pursue post-secondary education, the remaining beneficiaries may use those funds for their educational purposes, with a few exceptions. Therefore, the income and grant for a beneficiary not attending post-secondary education will not be lost in a family plan. This is the major advantage of the family plan.

Beneficiaries can be changed at any time. However, if adding a beneficiary, the new beneficiary must be related by blood or adoption to the original subscriber, a sibling and under the age of 21 years.

Single plans (non-family plans)

A single plan can only have one beneficiary. Anyone can open a single plan for any beneficiary. The subscriber can even name themselves as the beneficiary provided they are 18 years of age. The beneficiary can be any age when the single plan is opened.

Contributions to single plans may be made up to 31 years after the year the RESP was opened. For disabled tax credit eligible students, contributions to a single plan may be made up to 35 years after the year the RESP was opened.

The subscriber of a single plan is allowed to replace a beneficiary without returning the grant if the new beneficiary is under 21 years of age and a sibling of the original beneficiary. Unless this condition is met, any CESG in the RESP at the time of the replacement is to be returned to the government.

Choose an RESP plan that fits your needs

Group plans

Group plans are only offered by scholarship plan dealers. They work differently from individual and family plans and each plan has its own rules. They also tend to have higher fees and more restrictive rules. A subscriber can open a group plan for one child and they don't have to be related. Here's how group plans work:

- The subscriber puts money into the RESP according to a set schedule, up to the lifetime contribution limit of $50,000 for a beneficiary
- The money is pooled with contributions of other investors and all of the investment decisions are made for you
- The beneficiary shares in the pooled earning of the investors with children the same age. How much each beneficiary receives depends on how much money is in the group account and the number of children in the group who will be starting post-secondary education

Group plans often have additional rules about how much and how often your child can take Educational Assistance Payments (EAPs), and which education programs are eligible. Know the rules before you open a group plan.

How do RESPs work?

A RESP can be opened for a child, for yourself or another adult. The person who opens the plan is called a subscriber. The subscriber (e.g. a parent) makes deposits into the RESP on behalf of a beneficiary (the student) for their post-secondary education.

RESPs can receive contributions for 31 years after the plan is entered into. Contributions in a plan must be used by the end of the year that includes the 35th anniversary of the plan. This is extended to the 40th anniversary of the plan for disabled tax credit students.

While contributions to a RESP are not tax deductible to the subscriber like a RRSP, the savings accumulate tax-free in the RESP until the beneficiary is ready to attend post-secondary school.

The lifetime limit for contributions to an RESP is currently $50,000 per beneficiary. It's very important to ensure the annual and lifetime contribution limits are never exceeded as Canada Revenue Agency (CRA) charges a penalty of 1% per month on over-contributions.

Canada Education Savings Grant (CESG)

In 1998, the federal government introduced the Canada Education Savings Grant (CESG). The CESG is another way the Government of Canada provides money for a child's education after high school. When a subscriber puts money into an RESP, the Government adds more to help the savings grow faster.

The grant the Government pays into a RESP depends on how much the subscriber puts in and their income level. Each year, the government will match your contribution by 20%, up to a maximum of $500 for each child. You need to contribute $2,500 a year to get the full grant of $500 each year. Your child can carry forward unused grant contribution room until they turn 17. Depending on your income, the government may top up your contribution by an extra 10% or 20% on the first $500 of annual RESP contributions made on or after January 1, 2005.

The CESG can only be used for post-secondary education. If your child decides not to proceed with post-secondary education, the Government will take back the money they've provided in grants.

The lifetime maximum of a CESG is currently $7,200 per beneficiary. If the annual RESP contribution is not made, the CESG room can be carried forward for future years.

Canada Learning Bond (CLB)

The CLB is another tool through the Government of Canada to help save for post-secondary education. The CLB will be paid into RESPs opened for those children born on or after January 1, 2004 and who are eligible under the National Child Benefit Supplement (NCBS). The CLB entitles eligible children to $500 for the first year and $100 each eligible following year, up to the calendar year the child turns 15.

The CLBs are allocated to a specific child; unlike CESGs, they cannot be shared with other beneficiaries. There is no requirement to make contributions in order to qualify for the CLB.

Provincial grants – BCTESG

In addition to the CESG and CLB, there are provincial programs as well, such as the British Columbia Training and Education Savings Grant (BCTESG), available since August 2015. Details include:

- $1,200 one-time grant
- Paid into an RESP upon application between the beneficiary's 6 and 9 birthday
- The beneficiary must be born on or after January 1, 2007
- The beneficiary must have an RESP prior to the grant application
- The beneficiary and a parent/guardian must be residents of BC at the time of the grant application
- Allows for grant sharing among siblings

Educational Assistance Payment (EAP)

When a student is ready for post-secondary education, they start taking payments from their RESP, which are called an Educational Assistance Payment (EAP). EAPs can be used to help finance the cost of a student's post-secondary education, including tuition, books and living expenses. A beneficiary must be enrolled full-time or part-time in a qualifying educational program at a qualifying post-secondary institution to qualify for an EAP. Withdrawals may be taken within a six-month grace period after enrollment in a qualified educational program ceases.

There are payment limits to how much a beneficiary can withdraw from their RESP.

- **Full-time students** - $5,000 for the first 13 consecutive weeks of full-time studies. After this, there is an annual threshold limit.
- **Part-time students -** $2,500 for the 13-week period of enrollment in part-time studies.

EAPs are taxable to the beneficiary, although most students will likely pay little or no tax because they have little or no additional income and can take advantage of tax credits for students.

Six reasons to open a RESP

1. Government grants. The federal government adds to your RESP savings each year through the CESG. Lower income families may also qualify for the Canada Learning Bond. Certain provinces also offer a provincial grant, such as the BCTESG
2. RESP savings grow tax free. You don't pay tax on any investment earnings as long as they stay in the RESP. That means your savings can grow faster.
3. EAPs are taxable in the hands of the student. When your child enrols in post-secondary education, they can start taking payments, called educational assistance payments (EAPs), from their RESP. EAPs are made up of the investment earnings and government grant money in the RESP. Tax on EAPs is payable in the hands of your child — not you. Since students tend to have little or no income, they likely won't have to pay much tax on the payments. Contributions can be withdrawn by you or by the student tax-free.
4. A variety of investment options. You can choose investments that best suit your investment objectives, risk tolerance and time horizon. Different providers offer different investment options. Examples include stocks, bonds, mutual funds*, GICs.
5. Friends and family can contribute. Anyone can set up and contribute to an individual RESP for your child – not just you. Your child's RESP can grow more quickly with contributions from friends and family. Consider encouraging monetary gifts over toys on special occasions to contribute to your child's RESP.
6. RESP accounts can stay open for 36 years. If your child chooses to defer their education plans after high school, they can still use the RESP money when they are ready to go back to school. But check the rules of your RESP to make sure there are no restrictions on waiting to continue their education. Under specified plan rules, RESP accounts for beneficiaries eligible for the disability tax credit can stay open for up to 40 years.

Is a RESP right for you?

If you want to help your child, or a child in your life save for their future education, a RESP is a good tool. In order to register for an education savings plan, both the subscriber and the beneficiary must have a social insurance number (SIN).

The best approach is to speak with a G&F expert who can guide you through your goals and set up a customized Smart Money Plan™. Your planner will work with you to help you determine which options make sense for you and the child in your life.

How to get started

Connect with us to set a plan that's right for you. Visit us in-branch, call our Member Hub (604-419-8888) or book an appointment with an advisor online. (https://www.gffg.com/Personal/AboutUs/ContactUs/Financial/)

*Mutual funds are offered through Credential Asset Management Inc. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Unless otherwise stated, mutual fund securities and cash balances are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer that insures deposits in credit unions. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. ®Credential is a registered trademark owned by Credential Financial Inc. and is used under license.

G&F FINANCIAL GROUP