The day arrives when you're hopping into the car to head to the hospital because your family is about to be one or a few persons bigger; the baby(ies) are arriving. It is an amazing time in one's life to be creating life and seeing your child(ren) grow and achieve. As parents we worry and fret about many things including saving for college.

At current four years of college will run a minimum of $35,000 all-in if your child does some years at a community college, borrows textbooks, and then finishes up his/her degree at a local college whilst living at home. However, the more likely route is enrolling into a four-year college program with tuition, books, accommodation, and meal plan running $20,000-$25,000 per year; $80,000-$100,000 all-in. Add in a master's degree or doctorate and the all-in range is $150,000-$250,000.

Let's say you have two children, a common size family, going to a four-year university today; it'll cost you $160,000-$200,000. If you didn't plan it's likely you don't have the savings thus you or your child must do without college, succumb to debt, and/or sell an asset(s) like a house or car(s) to pay for it. Furthermore, let's say you have those same two children going to university in eighteen years, inflation of 3% per annum, it'll cost you $260,000-$320,000.

Roughly, to take a common scenario of two children with an age gap of 3 years how much should you save a month in a RESP? Starting from the birth of each child and depending on the rate of inflation, investment growth, and the average $80,000-$100,000 scenario above, parents need to save $200-$250 per child per month in an RESP. Towards the end we can go through this in more detail.

As is probably obvious the numbers are big therefore planning and foresight are necessary. Give us a call and we will be able to bring context and build this into your plan to make it an affordable monthly savings for your family.

A very important tool in the post secondary education area is the Registered Education Savings Plan (RESP). Simply put it is a savings account which is registered with the CRA that has three major benefits. Firstly, investments accumulate capital gains on a tax deferred basis allowing for enhanced compounded growth. Secondly, the government will match contributions at a ratio of 5 to 1 up to a maximum of $500; for example, if you contribute $2,500 the government will contribute $500 equalling an annual savings of $3,000. Finally, income withdrawals are taxed in the hands of the Beneficiary who as a college student has little to no income and thus little to no taxes.

As with all government related schemes there are rules, loops, and hoops to be aware of so let's run through some pertinent content which is by no means comprehensive and I suggest giving us a call to get a complete run down and an integrated plan of action.

There are four parties involved in a RESP:

- Subscriber – the person making deposits; usually parent(s)
- Promoter – the institution who administers the account; bank, brokerage, etc.
- Beneficiary – the person who receives the proceeds from the account; usually child(ren)
- Government

There are three types of RESP:

- Family – one or more Beneficiaries
- Specified – one Beneficiary
- Group – scheme constructed by Promoter into which many people contribute and receive a payout based on contributions

We are not fans of the Group RESP schemes and advise avoiding it entirely for numerous reasons. The remainder of the article will be on the self-directed RESPs namely Family and Specified plans.

Let's pause and look at some of the details related to the above six pieces. Starting at the top with the Subscriber. In the Family RESP the Subscriber and Beneficiary must be related by blood or adoption whereas for the Specified RESP they do not need to be related.

An RESP can only receive contributions within the first 31 years of its 35 year life. Furthermore, in a Family RESP contributions must be specified to a particular Beneficiary and can only be made for Beneficiaries who are under the age of 31.

Quick note: if there is a large gap in age between children it may be an option to open separate plans to avoid the expiration of the plan prior to all Beneficiaries making use of it.

Lifetime contributions are capped by the Income Tax Act at $50,000 per Beneficiary; are not tax deductible and are not taxable when redeemed by either the Beneficiary for educational purposes or by the Subscriber when the money is not used.

Beneficiaries must be Canadian residents and the Promoter must receive the Beneficiaries SIN prior to being designated. In addition to the above the Beneficiaries to a Family RESP must be designated prior to turning 21 years of age. There are few exceptions to the Canadian resident or SIN rule but there are exceptions so consult your financial advisor if this is you.

The following link is a very useful comparison between the Family and Specified RESP: Family vs Specified Plan Comparison

We need to spend a portion of time talking about Promoters. Firstly, not all Promoters allow RESP accounts to hold a broad set of investment types. For example, some Promoter accounts allow the holding of stocks, bonds, ETFs, and GICs, in both Canada and the USA which is nice because a diversified portfolio can be built to achieve the required return goals. However, some Promotors limit what can be bought to just GICs, for example, earning minimal returns that'll hinder the attainment of the required return.

Secondly, not all Promoters administer all the available Government grants which means if you open an account with them you will not receive a grant you may be eligible for. Give us a call to make sure you select a Promoter through whom you have available to you the necessary investment options to achieve a sufficient return and the ability to receive all grants applicable to you.

With a sufficient understanding of the parties involved and the account types let's move on to the Government Grants. At current three types of Grants exist:

- Canada Educational Savings Grant (CESG)
- Canada Learning Bond (CLB)
- Provincial Educational Savings Programs (Quebec, Saskatchewan, and BC)

Let's cover the two main Grants which are both provided by Employment and Social Development Canada (ESDC) as not all provinces have Educational Savings Programs.

The basic CESG is available to everyone and it includes a 20% contribution match up to an annual maximum of $500 and a lifetime maximum of $7,200 per Beneficiary up to Dec 31st in the year the Beneficiary turns 17.

Quick note: in a Family RESP the CESG is sharable between Beneficiaries which will come in handy down below when we want to first deplete the Income Earned and Grant money which is taxable before using the contribution money which is not taxable.

Grant room does accumulate increasing the annual maximum matching of CESG from $500 to $1,000. What this means is if you didn't save in a particular year you don't lose the $500 potential CESG contribution match for that year; but you can save double the following year and receive $1,000. Furthermore, in order to receive the full lifetime maximum Grant of $7,200 you'd need to start saving at the latest age of 9 for each Beneficiary to give yourself 8 years to receive the $1,000 per year and some change in the final year when the Beneficiary reaches his/her 17th year of age.

There are some specific conditions which apply if your child is 16 or 17 and you're saving for the first time which need to be met so take a look at the CRA webpage if this is you. The CESG program also has an additional bolt-on Grant for modest-income families with incomes below $95,529.

Another Grant provided by the ESDC is the CLB which is available to modest-income families. The CLB is an additional grant of up to $2,000 which is broken down into an additional $500 contribution in the first year and $100 per year thereafter until the Beneficiary is age 15.

Now that we have an understanding of the available Grants let's talk about taking money out of the RESP and the taxes involved. We already know that contributions are not tax deductible nor are they taxed when taken out of the RESP by either the Beneficiary or Subscriber. But what about the other two of the three sources of account growth; income earned on the investments and the Grant money?

Income Earned and Grant money is distributed to the Beneficiary as an Educational Assistance Payment (EAP). EAPs must be reported on the Beneficiaries income tax return as income. The amount will be summarized on a T4A, Statement of Pension, Retirement, Annuity, and Other Income issued by the Promoter for the tax year. Generally, Beneficiaries enrolled in college don't have much in the way of income and as such they pay minimal if any taxes on EAPs.

In order to receive EAPs the beneficiary must be enrolled in a qualifying or specified educational program; there are a couple rules here to check out on the CRA webpage: EAP Eligibility Rules. EAPs can be received for up to six months after ceasing enrolment and there are some rules which limit the

amount which can be paid out as an EAP that are a bit intricate to discuss. But the golden rule is don't drop out and your EAP will be less restricted.

But what happens to Income Earned and Grant money which is not used for education? Grant money is returned to the Government. Income Earned is reported on the Subscriber's tax return as income. However, the Income Earned is taxed at the regular tax rate plus an additional 20%. The reason for this is the Government matched contributions at a rate of 5 to 1 thus it wouldn't seem fair that the public kept 100% of the income earned so the CRA takes their 20% of the income earned through taxation.

When it comes time to make withdrawals the Subscriber and Beneficiary determine from which of the two sources, contributions and EAP (which is Income Earned and Grant money), to take the distributions. It is best to use up all of the EAP as early as possible (remember it is sharable in the Family plan) so that if by the end of your educational expenses there is money left in the RESP it is only contributions which are not taxable upon redemption.

To add real life substance let's break down the scenario above where college will cost $285,000 for two kids in 18 and 21 years time with 3% inflation which is conservative because the inflation rate on post secondary education is higher and the cost of college today at $80,000 which is also the lower end of the spectrum.

If you start RESP contributions the day your first child is born, ensure those contributions are enough to receive the maximum $500 per child ($2,500 per child per year), and earn 8% a year on invested money, you'll be able to fund the $285,000. The $285,000 of RESP savings will be made up of $85,000 of non-taxable contributions, $14,400 of CESG, and $185,000 of investment growth.

Important notes:

First, the CESG contributed 14% of the contributed money and thus 14% of the investment growth; the basic CESG per Beneficiary is not just worth the $7,200 lifetime contribution – it's worth the growth on that money too; $13,000, total $20,200 per Beneficiary.

Second, if the money was not tax deferred and transferred as it is in the RESP the $185,000 minus the gains on the CESG benefit ($185,000 - $26,000 = $159,000 * 50%) would be taxed as capital gains in the hands of the Subscriber (Parent/Grandparent) prior to use. Let's be conservative and say the Subscriber's marginal tax rate is 40% indicating the family is left with $127,000 of gains (after paying $32,000 in taxes) and the same $85,000 of contributions for a total of $212,000 of savings.

They have not benefitted from the $41,000 of CESG contributions and investment growth nor from the $32,000 tax deferral and transferral benefit to the Beneficiary who almost certainly and assumedly has little to no taxes.

In summary avoid Group RESPs due to their inflexibility, favor Family RESPs due to their flexibility, start saving early to maximize the compounded growth, be prudent when selecting your Promoter as they are not all equal, do not dropout, and deplete EAPs before depleting contributions for the tax benefits.

Furthermore, call us to help you build a comprehensive integrated financial plan.

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