Investing in RESPs

A Smart Way to Save for Your Family's Future

A Registered Education Savings Plan (RESP) is designed to help you save for post-secondary education for a child (the beneficiary). It offers flexibility, tax-deferred income and investment growth, and contributions are eligible for government grants.

Below are some commonly asked questions, and our answers, on RESPs. For more information, contact your credit union to speak with an investment advisor.

What are the Advantages of an RESP?

By opening an RESP and making regular contributions, the beneficiary may qualify for government grants such as the Canadian Education Savings Grant, the Canada Learning Bond and provincial grants. The income earned within the plan is tax-sheltered until withdrawn. When income and grants are withdrawn for the beneficiary for educational assistance, he or she will be a student and likely to have a low marginal tax rate.

How Much Can I Contribute to an RESP?

The lifetime contribution limit for an RESP is $50,000 per beneficiary.

- If your designated beneficiary predeceases you, the designation on the contract does not provide for the proceeds to pass to that beneficiary's children.
- The content of Wills are subject to federal and provincial legislation that could affect your choice of beneficiaries.

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How Much Grant Money is Available?

The amount of the grants received from federal and provincial governments will depend on a number of factors:

- How much you contribute.
- When you contribute—regular contributions beginning early in a beneficiary's life benefit from compounding growth on government grants.
- Where you live—not all provincial governments provide grants.
- Your family income.

The following is an overview of the different government grants available.

CANADA EDUCATION SAVINGS GRANT (CESG)

All children under the age of 18* who are resident in Canada automatically accumulate CESG contribution room. The Federal government contributes 20% annually on the first $2,500 deposited into an RESP to the end of the year in which the beneficiary attains age 17*. The annual grant maximum is $500 per beneficiary, or $1,000 when the beneficiary has unused CESG contribution room. The lifetime CESG maximum is $7,200 per beneficiary.

20%
ANNUALLY

Some families are eligible for additional CESG on contributions, depending on family income.

** Some restrictions apply for RESP beneficiaries aged 16 and 17.*

CANADA LEARNING BOND (CLB)

The CLB is available to children born on or after January 1, 2004. Eligible beneficiaries receive an initial grant of $500 and subsequent grants of $100 per year of eligibility. However, an RESP must be opened to receive the CLB. Eligibility for the CLB is determined by the child's family's net income and entitlement to the National Child Benefit (NCB) supplement. The lifetime CLB maximum is $2,000 per beneficiary.

BRITISH COLUMBIA TRAINING AND EDUCATION SAVINGS GRANT (BCTESG)

On August 15, 2015, the government of British Columbia implemented the $1,200 BCTESG to assist with post-secondary educational expenses of children residing in British Columbia. The BCTESG is a one-time grant paid directly to an RESP where the eligible child is a beneficiary. There is no requirement to make contributions to the RESP to receive the grant. Instead, the following conditions must be met:

- The beneficiary and a parent/guardian of the beneficiary is a resident of British Columbia at the time the application is completed.
- The beneficiary is born on or after January 1, 2006 and the application is completed between the day the beneficiary turns 6 and the day before the child turns 9.

Note that the eligibility deadline has been extended for children born in 2006 to August 14, 2019. For children born in 2007, 2008 and before August 15, 2009, the deadline is extended to August 14, 2018. For children born on August 15, 2009 or later, the deadline is the day before the beneficiary's 9th birthday.

SASKATCHEWAN ADVANTAGE GRANT FOR EDUCATION SAVINGS (SAGES GRANT)

In 2013, the Saskatchewan government introduced SAGES Grant for children (i.e. residents under the age of 18) living in Saskatchewan who are beneficiaries of an RESP. The Saskatchewan government contributes 10% annually on the first $2,500, deposited into an RESP, to the end of the year in which the beneficiary attains age 17*. The annual SAGES Grant maximum is $250 per beneficiary or $500 when the beneficiary has unused SAGES Grant room), and the lifetime SAGES Grant maximum is $4,500.

SAGES GRANT

**Some restrictions apply for RESP beneficiaries age 16 and 17.*

QUEBEC EDUCATION SAVINGS INCENTIVE (QESI)

In 2008, the Quebec government introduced the QESI which provides residents of Quebec an annual 10% grant on the first $2,500 deposited into an RESP, to a lifetime maximum of $3,600 per beneficiary. Families with lower incomes qualify for additional funds.

How Many Years Can I Contribute to an RESP?

For an individual plan, you can make contributions to an RESP for 31 years, following the year the RESP is opened (35 years for a beneficiary eligible for the Disability Tax Credit). Contributions under a family plan must cease upon the beneficiary turning 31. Note, however, that to qualify for government grants on an individual or family plan, you need to make contributions by the end of the year the beneficiary turns 17.

Who Owns the Funds in the RESP?

The subscriber is the person who opens the RESP and is the registered owner of the plan. A plan can be opened by an individual—a parent, grandparent, family friend—or joint subscribers who are spouses—two parents or two grandparents, for example.

Can I Create One RESP for Multiple Beneficiaries?

Yes, however you will need to set up a specific type of RESP called a Family Plan. There is a limit of one beneficiary per plan, except under a Family Plan, which provides for multiple beneficiaries. The beneficiaries of a Family Plan must be a sibling of every other beneficiary and must be related by blood relationship or adoption (this includes step children and step grandchildren) to the subscriber(s).

Which Post-Secondary Institutions Qualify for EAPs?

Most Canadian post-secondary institutions and programs, including correspondence courses, qualify for the purpose of receiving RESP Educational Assistance Payments. Certain foreign post-secondary institutions may also qualify.

What Happens When it is Time to Withdraw Funds from the RESP?

The subscriber can request educational assistance payments to cover expenses for the RESP beneficiary—such as tuition fees, textbooks, room and board—associated with attending a qualifying post-secondary educational program. These payments are taxable to the beneficiary at his or her marginal tax rate.

How Many Years Does the Beneficiary Have to Use the RESP Funds?

An RESP must be terminated by the end of the 35th year following the year the RESP was opened. The mandatory termination date for an RESP with a beneficiary eligible for the disability tax credit is the 40th year following the year the RESP was opened.

What Happens if an RESP Beneficiary Does Not Pursue a Post-Secondary Education?

If your child opts not to pursue post-secondary education you have several options for the RESP plan.

Note: Where an RESP has reached the mandatory termination date, #3 becomes the only option available.

1) **Change the plan beneficiary*.**

2) **Transfer funds to another RESP*.**

3) **Collapse the plan*.**

If you choose #3 you will have to return the unused government grants (i.e. CESG, CLB, BCTESG, SAGES Grant and QESI grants). The RESP contributions can be withdrawn without penalty. The following options are available for disbursement of income earned within the plan:

- Transfer funds to the subscriber's RRSP or to a spousal RRSP*
- Withdraw the funds*
- Transfer funds to the Designated Educational Institution

**Some restrictions and/or penalties may apply.*

Can I rollover RESP investment income into an RDSP?

To provide greater flexibility for parents who save in an RESP for a child with a severe disability, investment income earned in an RESP can be transferred on a tax-deferred basis to an RDSP if the plans share a common beneficiary.*

** Subject to certain conditions.*

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