

The Benefits of Education Savings Plans



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With another school year fast approaching, parents reflect on how fast their child is growing and how they will one day go to college or university rather than the bus stop at the end of the street. Many parents also start to worry about the rising costs associated with post-secondary education and how they will ever afford to pay the tuitions for their child.

With this in mind, I thought it was appropriate to focus this month's financial article on a government-registered, tax-sheltered product that doesn't include the word "retirement" in its title; the Registered Education Savings Plan, or RESP. Simply put, a Registered Education Savings Plan is a special government regulated savings plan that helps you and your family start saving now for your child's education after high school. But the RESP is no ordinary savings account.

First a bit of background. The RESP was introduced on January 1, 1972, as a savings plan that allowed deposits to grow tax-free until the sponsored child went to college or university. However, the RESP gained much more notoriety when, in 1998, the Government of Canada launched the Canada Education Savings Grant (CESG), which gave a 20% rebate on funds (up to \$400 each year) on the first \$2,000 contributed to the RESP. The CESG was enhanced in 2004 for low-income families by increasing the refund 30% to 40% on the first \$500 contributed to an RESP.

How does an RESP work? Each child named as a beneficiary of a Registered Education Savings Plan can benefit with up to \$50,000 in contributions over the life of the plan. The child can get benefits totaling of as much as \$7,200 in rebates over the life of the plan. There is no limit to the annual contribution, however the government will only rebate on the first \$2,500 deposited each year, placing the saving grant directly into the same plan. In order to get the full benefit of grants, it's best to spread out contributions over several years.

Investment income on savings within an RESP grows tax free until your child is ready for post-secondary education. Earnings on the RESP at the time of withdrawal are then taxed in the hands of the student, who typically pays little to no tax.

It may be interesting to note that parents are not the only ones who can open up a RESP for a child. Grandparents, relatives, guardians and friends can open up RESP's for your child. An RESP can be opened through a local credit union, bank or investment firm like Queensbury Securities Inc.. The account opener must have a valid social insurance number for themselves as well as the child who will benefit from the plan. However, if there are multiple plans for one child, the lifetime contribution of \$50,000 cannot be exceeded when adding up all savings plans.

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With estimates that the average post-secondary education in Ontario could exceed \$130,000 in as little as 20 years, it makes good sense to open an RESP for your child as soon as possible. And tuition fees are not the only cost associated with post-secondary education. A common misconception is that RESP money can only be used for tuition. This is not the case, as RESP money can be used on residence fees, textbooks, and any other costs associated with the education. In order withdraw funds the beneficiary must be able to provide a proof of enrolment.

In order withdraw funds the beneficiary must be able to provide a proof of enrolment. There are also options should your child decide not to pursue a post-secondary education after years of contributions. It's best to have all this information provided to you prior to opening an RESP for you child or children so you know all your options.

To discuss this article or to arrange a free, no obligation review of your portfolio, please contact me at larry.gallant@queensbury.com or by calling 905-892-2100.

Larry J. Gallant is a independent investment advisor with Queensbury Securities Inc., a member of the Canadian Investment Protection Fund and the Investment Industry Regulatory Organization of Canada.