

Your Children's Future: Education Savings Plans

A recent Statistics Canada survey showed that nearly 90% of Canadians want their children to attend university or college. Unfortunately, the same survey showed that only 40% of parents have actually started setting money aside for post-secondary education. Due to rising tuition fees, you may need to set aside more money than you had counted on.

If tuition fees continue to rise at the same rate that they have over the past 10 years, a child born today can expect to pay as much as \$130,000 for a four-year undergraduate degree once tuition, fees, room and board and food is factored in. If your son or daughter wants to enter one of the professions – such as dentistry or law – that number could be even higher.

The good news is that there are specialized savings plans available to help you deal with this pending cash crunch. A Registered Education Savings Plan (RESP) could allow you to place up to \$42,000 per child in a tax shelter, and also receive an additional \$7,200 in Canada Education Savings Grants (CESGs) from the government!

Your contributions and CESGs will accumulate and grow tax-free in an RESP. When funds are withdrawn for education expenses, only the growth and CESG portion of the plan is taxable in the hands of the student(s)–who will, in all likelihood, be in a low tax bracket.

With 70% of all new jobs now depending on some form of education after high school you may be asking yourself “How do I get started?” First, prior to opening an RESP your child must have both a birth certificate and a Social Insurance Number. Once you have these you can open an RESP.

What type of RESP do you need?

The first choice you have to make is whether you want to open an Individual Plan or a Family Plan. An Individual Plan is opened for just one beneficiary and this beneficiary does not have to be related to you. A Family Plan can have one or more beneficiaries; however each beneficiary must be related to you. The benefit of a Family Plan is more flexibility. One example is if there are three related beneficiaries and only two of them go on to post secondary education, the contributor is allowed to direct the entire income to the two of his three children who are attending school. The contributor can also decide how to divide the earnings and grant among the beneficiaries, as long as none of the beneficiaries receive more than \$7200.00 in total grant money.

Canada Education Savings Grant (CESG)

The amount of the grant is based on your family income. The amount can change over time as your family income changes.

Depending on your family income, your child could receive an additional grant on RESP savings that you make after December 31, 2004 on behalf of a child:

- If your net family income is below \$36,378*, the Canada Education Savings Grant will give you **40 cents** for every dollar on the first \$500 you save in your child's RESP each year. If you save more than \$500, you will get **20 cents** for every extra dollar, up to a maximum of \$2,000.
- If your net family income is below \$72,756*, the Canada Education Savings Grant will give you **30 cents** for every dollar on the first \$500 you save in your child's RESP each year. If you save more than \$500, you will get **20 cents** for every extra dollar, up to a maximum of \$2,000.

No matter what your net family income is, the grant provides at least **20 cents** for every dollar of the first \$2,000 of annual RESP savings made on behalf of a child. If you make \$2,000 in RESP contributions in one year, you will receive between \$400 and \$500 in CESG (depending on your family income).

*— These amounts are updated each year based on the rate of inflation.

Your net family income is reported on your Canada Child Tax Benefit statement (commonly known as “baby bonus”, or “family allowance”) that you receive from the Canada Revenue Agency each July. It is important to apply to the Canada Revenue Agency for the Canada Child Tax Benefit as it may affect the amount of CESG you will receive

As of January 1st, 1998, each child who is a resident of Canada began to accumulate grant contribution room regardless of whether or not the child is a beneficiary of an RESP. Unused grant eligible contribution room can be carried forward to produce a maximum annual grant of \$800, per beneficiary, in any given year. (The maximum contribution amount remains at \$4000 and does not carry forward).

Which post-secondary educational programs qualify?

Qualified educational programs include apprenticeships and programs offered by a trade school, CEGEP, college or university.

Usually, a qualified educational program is a course of study that lasts at least three weeks in a row, with at least 10 hours of instruction or work each week. A program at a foreign educational institution must last at least 13 weeks.

What happens if no beneficiary pursues a post-secondary education?

If no beneficiary pursues post-secondary education, and no replacement beneficiary has been named, the grant must be returned. The growth and the contributions within the plan can be returned to the contributor. The contributions are returned without penalty and up to \$50,000 of the growth portion can be transferred to your RSP or spousal RSP. If you do not have RSP contribution room, or if the growth amount exceeds \$50,000, a tax of 20%, in addition to regular taxes, will be applied to the withdrawal.

Want more information?

Contact your personal financial advisor or our office: joanne@reithandassociates.com.
Before making any investment decisions consult your personal financial advisor.
Personal investment objectives must be considered before entering into any plan.