CIBC PRIVATE WEALTH MANAGEMENT

ONE-TO-ONE INSIGHTS

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# FOR THE KIDS: SHARPENING YOUR RESP KNOW-HOW

Did you know Registered Education Savings Plans (RESP) have been around for many years and gained popularity in 1998 when Employment and Social Development Canada introduced matching grants? "In my experience, many Canadians who are saving for a child's education may be missing out on valuable government grants and bonds that are available with RESPs," says Jamie Golombek, Managing Director, Tax and Estate Planning, CIBC Private Wealth Management.

Recent stats show that the majority of contributions (61.1%) to RESPs were under $1,500 in total. This tells us most Canadians are not saving enough to maximize grants.[1] Also, over 7.22 million children were eligible for the Canada Education Savings Grant and of these, only 53.5% received it.[1]

Whether you're investing for a young child or you have one attending post-secondary education, here are some basics you need to know.

## What are the benefits of an RESP?

As a tax-deferred savings plan, the RESP helps you save for the post-secondary education of plan beneficiaries, which may include your children or grandchildren. It can hold various eligible investment products, like GICs, mutual funds and individual stocks and bonds.

Contributions to an RESP aren't tax-deductible and you can withdraw your contributions without tax.[2] However, withdrawals of income and government assistance are taxable. Additional benefits include:

- **Tax deferral** – investment earnings inside the RESP accumulate tax-free until they're withdrawn; earnings include capital gains, dividends and interest.
- **Canada Education Savings Grant (CESG)** – equal to 20% of the annual contributions, to a maximum of $500 per year; if there's sufficient unused grant room from previous years, up to $1,000 of CESGs may be received by an RESP in a year; the lifetime maximum CESG entitlement is capped at $7,200 per beneficiary.

## When's the right time to start saving?

People often only start thinking about contributing to a child's RESP well after they're born. However, if you start early, you can reap significant financial rewards down the road.

Let's look at the example below to understand the impact timing can have. Amy and Zack each contribute a total of $36,000 to an RESP, so that the maximum $7,200 of CESG may be paid into the plans. Let's assume contributions are made at the beginning of each year and the rate of return in the RESPs is 3% per annum.

| The situation | Amy | Zack |
|---|---|---|
| | Amy makes early contributions to an RESP, **starting at her grandson's birth**. | Zack makes delayed contributions to an RESP, **starting when his daughter's 10 years old**. |
| | • $2,500 in each year, from her grandson's birth to the year he reaches age 13, and<br>• $1,000 in the year her grandson turns age 14 | • $1,000 in the year that his daughter turned 10 years old<br>• $5,000 in each year when his son is 11 to 17 years old |
| **Total contributions** | $36,000 | $36,000 |
| **RESP balance** *(Rounded to the next $1,000)* at the end of the year when the beneficiary is 17* | $61,000 | $49,000 |

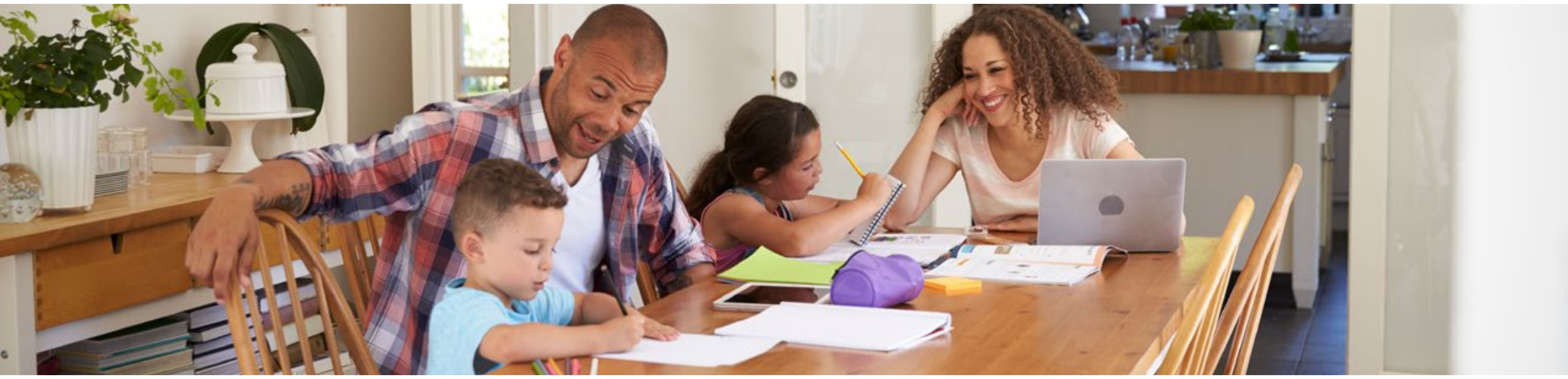
*Assumes 3% rate of return

Although $36,000 of contributions and $7,200 in CESGs were added to each RESP, at the end of the year that the beneficiaries reach age 17, Amy's early contributions would yield about $12,000 ($61,000 minus $49,000) more in an RESP than Zack's delayed contributions.

## Consider maximizing RESP contributions

Although the maximum CESGs of $7,200 for a beneficiary could potentially be reached with contributions of $36,000 ($7,200 divided by 20%), consider increasing the tax-deferred compounding by contributing more than the annual amounts needed to maximize the CESGs. The lifetime maximum for contributions is $50,000 per beneficiary.

In the example above, suppose Amy contributed an additional $14,000 in the year her grandson was born, bringing her total RESP contributions to $50,000. There would be almost $85,000 (about $24,000 more) in the RESP by the end of the year that Amy's grandson reached age 17.



## Did you know?

### Withdrawing from an RESP to pay for education

Once an RESP beneficiary has enrolled full- or part-time in a qualifying post-secondary educational program, you can start to withdraw money from the RESP to help pay for their studies. Your contributions can be withdrawn without paying any tax. When you withdraw government assistance or income earned within an RESP account, that money is called an Educational Assistance Payment (EAP).[3] The amount of EAPs may be limited, particularly when post-secondary education begins.

The EAP includes the income earned in the RESP and any CESGs, provincial grants and Canada Learning Bonds that are received. You can use this money to pay for post-secondary school expenses, including tuition, books and transportation.

When the earnings and government grants are paid out for post-secondary education purposes, they're included in the student's income. Due to various tax credits available to the students, which may include the basic personal amount and tuition amount, tax payable on EAPs may be very little, if any.

**It's a good idea to contribute to an RESP earlier rather than later to maximize benefits. Speak to us if you have questions about incorporating RESPs in your wealth plan. We're always available to discuss your unique situation.**

[1] https://www.canada.ca/en/employment-social-development/services/student-financial-aid/education-savings/reports/statistical-review.html

[2] Certain conditions may apply. For example, if a beneficiary was not enrolled in post-secondary education within the past six months, government assistance may be repayable when you withdraw contributions.

[3] https://www.canada.ca/en/services/benefits/education/education-savings/resp/use.html#h1