Good education
A great investment

NATIONAL BANK
FINANCIAL

Investing in the future
It all starts with our children

Whether it's university, college or a trade school program, helping a deserving child obtain a quality education is one of the best long-term investments you can make. The child might be your own, a grandchild, niece or nephew, or even the child of a close friend.

Post-secondary education can cost a lot of money. The federal and provincial governments sponsor special student loans, but that means that the new graduate must start his or her career in debt.

Fortunately, tax breaks and a federal subsidy make it possible for you and other caring adults to pre-fund a child's education through one or more lump sum deposits or gradual periodic savings in an account known as a Registered Education Savings Plan, or RESP.

The RESP is a very popular education savings vehicle, and for a good reason. When designing this program, the federal government included generous incentives to encourage families to start saving for post-secondary education when their children are still young.

The program offers tax breaks and income-splitting potential, as well as a federal subsidy called the Canada Education Savings Grant (CESG) and a special grant called the Canada Learning Bond (CLB) for low- to mid-income families. Two provinces, Alberta and Quebec, also offer subsidies to encourage saving for the cost of post-secondary education.

This brochure gives a brief overview of the Registered Education Savings Plan and the Canada Education Savings Grant. Your advisor can provide you with more detailed information.

The RESP: the best way to pre-fund post-secondary education

The RESP offers four main advantages.

Advantage 1

The RESP is a special account established as a trust for one or more children. This means that the education money is kept separate from other family assets.

Research has found that children who know that money is available are more motivated to pursue post-secondary education.

Advantage 2

Money in the plan compounds on a tax-deferred basis. That can substantially increase the accumulation over 18 to 20 years.

Note, however, that unlike RRSP contributions, your RESP contributions are not tax deductible.

Advantage 3

The plan's earnings and capital gains are taxed only on withdrawal – and then it's the student, not the contributor, who gets taxed.

Students typically pay little or no tax because they tend to have low incomes, and also benefit from education tax credits. Canada's basic personal tax credit allows you to earn up to $9,000 before having to pay income tax. This means that, from a tax perspective, the RESP can be a particularly effective income-splitting tool.

The contributions that funded the plan come out tax free because those payments were made in after-tax dollars. The subscriber(s) who funded the plan can reclaim that money, or let the student use it.

Advantage 4

The federal government adds money to the account through the Canada Education Savings Grant and, if applicable, the Canada Learning Bond.

The governments of Alberta and Quebec also pay grants to RESPs for eligible children in those provinces.

Canada Education Savings Grant

A helping hand for your RESP.

How would you like an immediate 20% return on the money you invest? That’s essentially what the federal government offers to RESP subscribers with the CESG.

The government will match 20% of your RESP contribution each year through the Canada Education Savings Grant. This grant is capped at $500 a year, so the full match is paid if you and/or other subscribers put in $2,500 a year. The CESG is also subject to a lifetime limit of $7,200.

There is no annual limit on how much you can contribute to an RESP. Technically, if you have the cash on hand, you could contribute as much as $50,000 for each beneficiary – the lifetime maximum – in the first year. This would allow you to earn compounding returns on a larger chunk of capital.

On the other hand, the plan would only be entitled to one $500 CESG, since the grant is linked to your annual contribution and capped at $500 a year. An interesting approach would be to contribute $17,000 in the first year and then $2,500 a year for the next 14 years.

This would give you a sizeable nest egg in the plan to start with and still allow you to receive the full CESG lifetime amount for the plan. If this sounds good to you, or if you would like to look at some other possibilities, your advisor would be happy to run the numbers for you.

Keep in mind that the CESG is paid directly to the RESP, increasing the amount invested. Entitlement begins in the year a child is born and runs until age 18. In all, these grants can total $7,200.

There is also a special incentive aimed at helping low- and middle-income families to set up RESPs. The federal match for the first $500 is raised to 30% or 40%, depending on the subscriber's family income.

CESG and family income

Net family income	Grant paid on first $500 contributed
$37,885 or less	40%, boosting the subsidy on that $500 to $200. In addition, these families can apply for a Canada Learning Bond (CLB) – a $500 government payment to the plan that is not tied to subscriber contributions. Those receiving the National Child Benefit Supplement can also receive an extra $100 a year for up to 15 years.
More than $37,885 but not over $75,769	30%, boosting the subsidy to $150.
Over $75,769	The normal 20% grant is paid, so the CESG on your first $500 contributed would be $100.

The income thresholds are updated yearly. Here, we are showing the impact of this special provision using the levels set for 2008.

If you live in Alberta and your child was born in 2005 or later, the provincial government offers a special grant as an inducement to open an RESP. Under the Alberta Centennial Education Savings Plan, the government will pay $500 to your RESP right after it's set up, regardless of your annual family income. Additional grants of $100 are then paid to your RESP when the child is 8, 11 and 14. Details can be found at www.advancededucation.gov.ab.ca/aces.

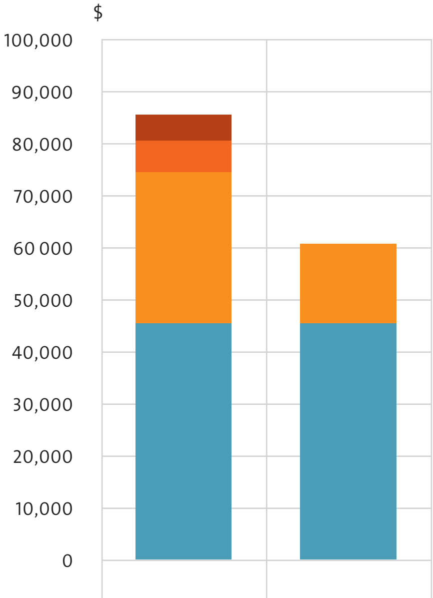
If you live in Quebec, there is also an inducement program in the form of a refundable tax credit introduced by the Quebec government in 2007. This tax credit equals 50% of the CESG for that year, up to a cumulative lifetime limit of $3,600.

The chart on the next page shows how much more a tax-sheltered RESP can accumulate than a regular savings account where the income is fully taxed.

We included only the basic CESG, not the Canada Learning Bond.

In each case, we assumed an annual deposit of $2,500 made at the beginning of the year for 18 years, and an annual return of 5% before tax. We also assumed that interest on the regular savings account was taxed at 40%, while the RESP earnings compounded tax free.

RESP versus regular savings: a comparison



	Inside RESP	Outside RESP
Total contributions over 18 years	$45,000	$ 45,000
Growth on capital	$ 28,848	$ 15,292
CESGs	$ 7,200	$ 0
Growth on CESGs	$ 5,499	$ 0
TOTAL	$ 86,547	$ 60,292

Clearly, the total of contributions, CESGs, and the returns generated by both within an RESP provides a substantial edge over putting the same money into a regular savings account.

Your RESP: individual or family plan?

The RESP rules provide for two types of plans: individual and family. A family plan covers several children, while an individual plan covers just one. You could, for example, set up one individual RESP for each of your children.

The family plan is run as one pool and makes it easy to focus money on the children most in need. For example, if one of your children is attending a local college (which is likely to cost less) and another goes off to a distant university (likely to cost more), you could allocate more money to the latter. Note, however, that the amount each beneficiary can receive from CESGs is limited to $7,200.

The individual plans – ideally funded and invested in exactly the same way – are easier to understand, provide a more direct tie between each child and the adult contributing the money, and more easily accommodate situations where an age gap or different planning means that the children will need money at different times. If one child does not pursue post-secondary education or does not need the full amount in the account, the money can be transferred to a sibling's RESP.

For more information about these questions, visit the Human Resources and Skills Development Canada Web site at http://www.hrsdc.gc.ca/eng/learning/education_savings/publicsection/CESP/RESP_FAQs.shtml.

THE RESP: A WORTHWHILE INVESTMENT… THAT WORKS WELL WITH OTHERS

An RESP is a must for anyone committed to helping a child succeed in life.

It can also work as part of a strategy that builds on the combined effects of the RESP, RRSP, and TFSA.

If your available cash flow is limited, you could contribute to your RRSP and then use the tax refund generated as an RESP contribution. Suppose you're in the 40% tax bracket. A $5,000 RRSP contribution would generate as much as $2,000 in tax savings. A $2,000 RESP contribution would qualify for a $400 Canada Education Savings Grant. Putting it all together, you and your child would have $7,400 in untaxed money compounding on a tax-sheltered basis.

Similarly, you could contribute enough to your RESP each year to qualify for the maximum government grants, and put any additional money you want to save for your children's education into your TFSA. This money would also compound tax-free, with the added benefit that all withdrawals would remain completely tax free without being subject to any of the restrictions that apply to RESP withdrawals.

For more details about any of these strategies or about RESPs in general, talk to your advisor.

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