

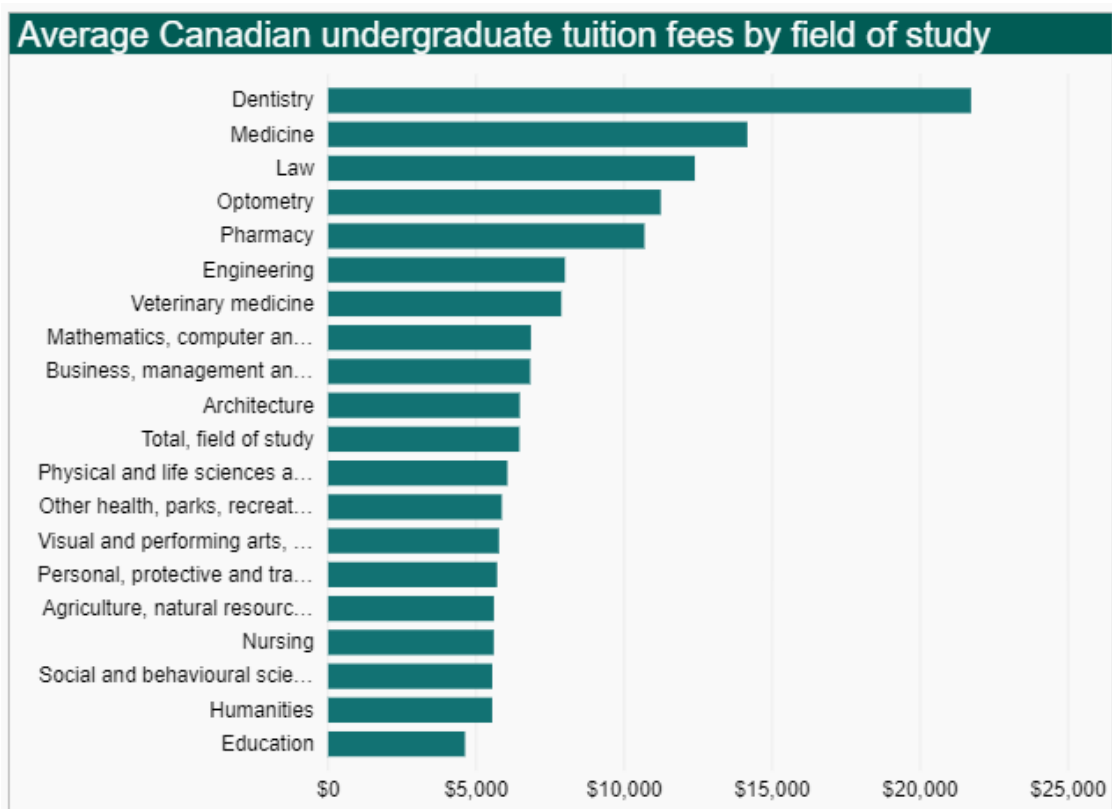


## RESPs: Investing in Education

One of the best investments today is in the further education of your children and grandchildren after they leave high school.

### *The Cost of Knowledge*

The total average cost of a post-secondary education in Canada is \$19,498.75 according to Macleans (<https://www.macleans.ca/education/the-cost-of-a-canadian-university-education-in-six-charts/>). Nearly two-thirds of students say they don't have an RESP. Although many parents are assisting, they aren't doing so in a tax-efficient way.



<sup>1</sup> Statistics Canada, September, 2019

## ***The Value of a Registered Education Savings Plan (RESP)***

Planning and saving for your children's future education should be integral to your investment and savings strategy. The best way to do this is to start a Registered Education Savings Plan (RESP), which can be used as a tax-deferred investment account created for the sole purpose of paying for your children's future education costs. RESPs can be set up at any financial institution and can be registered with the government as a family plan, making all children under the age of 21 beneficiaries of the RESP, or as individual plans, making each child the sole beneficiary of his or her own plans.

Anyone can subscribe to a child's RESP. There are no annual contribution limits, but RESPs have a lifetime contribution limit of \$50,000 per beneficiary. The government adds to the savings by providing educational grants up to a lifetime maximum of \$7,200 per child. The grants are automatically paid into the RESP based on 20 per cent of actual contributions made into the plan during the year plus any grant funding carried forward from previous years to a maximum of \$1,000 per year.

## ***An Investment in Education***

The real financial potential for you is managing an RESP as an investment account. The RESP can be self-directed or professionally managed and invested in the same securities allowed in RRSPs and RRIFs, such as stocks, bonds, and mutual funds. Like these other registered plans, all investment earnings can accumulate, compound, and grow in the plan on a tax-deferred basis. The big difference is that contributions to an RESP are not tax-deductible by the subscribers. Nevertheless, with its investment potential as well as the added federal funding it can attract, an RESP is a far more efficient way to save for your child's education as opposed to simply depositing funds into a bank savings account.

Moreover, when your child is enrolled in a college, university, or other qualifying educational program, the funds withdrawn from the plan are taxed in his or her hands, who would typically be in a lower income tax bracket than the subscriber. Income earned on the RESP investments and all grant funding are taxable to the beneficiary in the year received.

In the event that the designated beneficiary of the RESP does not pursue post-secondary education, the RESP can be re-assigned to another beneficiary without penalty. Otherwise, the plan can be collapsed. The original contributions are returned without tax consequences, but any government grant funding must be paid back. Accumulated income (that is, money earned by the plan's investments) has to be reported as income on your tax return (if you are the subscriber) and is subject to regular income tax as well as up to 20 per cent additional tax. To reduce the tax hit, you are allowed to transfer tax-free up to \$50,000 of that income into your own RRSP if there is contribution room available.

## ***The Earlier the Better***

Clearly, the earlier you start an RESP, the better. An RESP can be in place for up to 35 years. Over that time, it can become a valuable way for you to make a lasting gift to your children or grandchildren. Your Raymond James financial/investment advisor can assist your family in registering an RESP and working out the details of an affordable investment and savings plan to ensure your children have the education to jumpstart and advance their career.

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