



Investments: The RESP: Frequently Asked Questions (FAQ)

The RESP: Frequently Asked Questions (FAQ)

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An RESP is a “Registered Education Savings Plan” and it is a popular tool to save for education. The idea of the RESP is that you would contribute money into an account, and the government would contribute 20% of what you put in up to \$500 per year. There are additional grants available, but there are conditions based on having lower income. The other reason why the RESP may be beneficial is that the income generated in the account would grow tax free until it is withdrawn. This would happen when the child goes to school, which is usually 18 to 20 years from when the child is born. There are limits to what you can put in – \$50,000 lifetime per child, and the government will only give up to \$7,200 lifetime in grants. The money the government gives you is called the Canada Education Savings Grant (CESG). The subscriber or contributor is the person who contributes money into the RESP and the beneficiary is the person who receives the benefit or the money. The child also has to have a SIN number to have an RESP for them.

Does it Matter When I Contribute?

There are three tables below showing estimates of how the money would grow under 3 scenarios: contributing \$5,000 for 10 years, \$2500 for 20 years, or \$5,000 for 10 years starting at a later date (if cash flows may be a concern).

| | | Assumption | Rate of Growth | 6.00% | |
|------|------|----------------------------------|--------------------------|----------------------|----------------------|
| Year | | Contributions RESP Balance | Account Contributions | Government Grants | Investment Income |
| 1 | 2017 | \$0 | \$2,500 | \$500 | \$180 |
| 2 | 2018 | \$3,180 | \$2,500 | \$500 | \$371 |
| 3 | 2019 | \$6,551 | \$2,500 | \$500 | \$573 |
| 4 | 2020 | \$10,124 | \$2,500 | \$500 | \$787 |
| 5 | 2021 | \$13,911 | \$2,500 | \$500 | \$1,015 |
| 6 | 2022 | \$17,926 | \$2,500 | \$500 | \$1,256 |
| 7 | 2023 | \$22,182 | \$2,500 | \$500 | \$1,511 |
| 8 | 2024 | \$26,692 | \$2,500 | \$500 | \$1,782 |
| 9 | 2025 | \$31,474 | \$2,500 | \$500 | \$2,068 |
| 10 | 2026 | \$36,542 | \$2,500 | \$500 | \$2,373 |
| 11 | 2027 | \$41,915 | \$2,500 | \$500 | \$2,695 |
| 12 | 2028 | \$47,610 | \$2,500 | \$500 | \$3,037 |
| 13 | 2029 | \$53,646 | \$2,500 | \$500 | \$3,399 |
| 14 | 2030 | \$60,045 | \$2,500 | \$500 | \$3,783 |
| 15 | 2031 | \$66,828 | \$2,500 | \$200 | \$4,172 |
| 16 | 2032 | \$73,700 | \$2,500 | \$0 | \$4,572 |
| 17 | 2033 | \$80,772 | \$2,500 | \$0 | \$4,996 |
| 18 | 2034 | \$88,268 | \$0 | \$0 | \$5,296 |
| 19 | 2035 | \$93,564 | \$0 | \$0 | \$5,614 |
| 20 | 2036 | \$99,178 | \$0 | \$0 | \$5,951 |
| | | Totals | \$42,500 | \$7,200 | |

Note: \$500 per beneficiary for each year
Lifetime maximum grants of \$7200 per child
Lifetime Contribution limit of \$50,000 per child

| | | Assumption | Rate of Growth | 6.00% | |
|------|------|----------------------------------|--------------------------|----------------------|----------------------|
| Year | | Contributions RESP Balance | Account Contributions | Government Grants | Investment Income |
| 1 | 2017 | \$0 | \$5,000 | \$500 | \$330 |
| 2 | 2018 | \$5,830 | \$5,000 | \$500 | \$680 |
| 3 | 2019 | \$12,010 | \$5,000 | \$500 | \$1,051 |
| 4 | 2020 | \$18,560 | \$5,000 | \$500 | \$1,444 |
| 5 | 2021 | \$25,504 | \$5,000 | \$500 | \$1,860 |
| 6 | 2022 | \$32,864 | \$5,000 | \$500 | \$2,302 |
| 7 | 2023 | \$40,666 | \$5,000 | \$500 | \$2,770 |
| 8 | 2024 | \$48,936 | \$5,000 | \$500 | \$3,266 |
| 9 | 2025 | \$57,702 | \$5,000 | \$500 | \$3,792 |
| 10 | 2026 | \$66,994 | \$5,000 | \$500 | \$4,350 |
| 11 | 2027 | \$76,844 | \$0 | \$0 | \$4,611 |
| 12 | 2028 | \$81,455 | \$0 | \$0 | \$4,887 |
| 13 | 2029 | \$86,342 | \$0 | \$0 | \$5,181 |
| 14 | 2030 | \$91,522 | \$0 | \$0 | \$5,491 |
| 15 | 2031 | \$97,014 | \$0 | \$0 | \$5,821 |
| 16 | 2032 | \$102,835 | \$0 | \$0 | \$6,170 |
| 17 | 2033 | \$109,005 | \$0 | \$0 | \$6,540 |
| 18 | 2034 | \$115,545 | \$0 | \$0 | \$6,933 |
| 19 | 2035 | \$122,478 | \$0 | \$0 | \$7,349 |
| 20 | 2036 | \$129,826 | \$0 | \$0 | \$7,790 |
| | | Totals | \$50,000 | \$5,000 | |

Note: \$500 per beneficiary for each year
Lifetime maximum grants of \$7200 per child
Lifetime Contribution limit of \$50,000 per child

If you want to start the RESP in 4 years, and contribute \$50,000 at \$5,000 per year at that time, the table would look like this. You would be able to “catch up” on government grants up to \$1,000 per year if you contribute \$5,000 per year or more. This table assumes that these grants are caught up as quickly as possible without contributing any extra money.

| Assumption Rate of Growth 6.00% | | | | | |
|---------------------------------|------|---------------|-----------------------|-------------------|-------------------|
| Year | | Contributions | | Government Grants | Investment Income |
| | | RESP Balance | Account Contributions | | |
| 1 | 2017 | \$0 | \$0 | \$0 | \$0 |
| 2 | 2018 | \$0 | \$0 | \$0 | \$0 |
| 3 | 2019 | \$0 | \$0 | \$0 | \$0 |
| 4 | 2020 | \$0 | \$0 | \$0 | \$0 |
| 5 | 2021 | \$0 | \$5,000 | \$1,000 | \$360 |
| 6 | 2022 | \$6,360 | \$5,000 | \$1,000 | \$742 |
| 7 | 2023 | \$13,102 | \$5,000 | \$1,000 | \$1,146 |
| 8 | 2024 | \$20,248 | \$5,000 | \$1,000 | \$1,575 |
| 9 | 2025 | \$27,823 | \$5,000 | \$500 | \$1,999 |
| 10 | 2026 | \$35,322 | \$5,000 | \$500 | \$2,449 |
| 11 | 2027 | \$43,271 | \$5,000 | \$500 | \$2,926 |
| 12 | 2028 | \$51,697 | \$5,000 | \$500 | \$3,432 |
| 13 | 2029 | \$60,629 | \$5,000 | \$500 | \$3,968 |
| 14 | 2030 | \$70,097 | \$5,000 | \$500 | \$4,536 |
| 15 | 2031 | \$80,133 | \$0 | \$0 | \$4,808 |
| 16 | 2032 | \$84,941 | \$0 | \$0 | \$5,096 |
| 17 | 2033 | \$90,037 | \$0 | \$0 | \$5,402 |
| 18 | 2034 | \$95,440 | \$0 | \$0 | \$5,726 |
| 19 | 2035 | \$101,166 | \$0 | \$0 | \$6,070 |
| 20 | 2036 | \$107,236 | \$0 | \$0 | \$6,434 |
| Totals | | | \$50,000 | \$7,000 | |

Note: \$500 per beneficiary for each year
Lifetime maximum grants of \$7200 per child
Lifetime Contribution limit of \$50,000 per child

What if I Don't Contribute Every Year?

You can catch up your contributions up to \$1000 in grant money each year. You can contribute any amount at any time as long as the lifetime amount contributed is under \$50,000.

Can the Child Waste the Money?

In order to withdraw the money, the child must have proof of enrollment in a qualifying school (College, University, and specialized schools like trade schools) the first time the money is withdrawn. After this, the money can be taken out whenever it is needed for books and other school costs. Also, the parent has to ask for the withdrawal from the institution and must direct whether to withdraw from contributions or income for tax purposes.

What if I Have More Children?

You can start a second RESP or transfer the first RESP to a second child if they use the funds instead of the oldest child. Transferring between children can be done with any type of RESP account. The second child would have to be named the beneficiary on the RESP before they can have access to money.

What if My Child Does Not Go To School?

There are several options. The first is to keep the RESP in case your child changes their mind. You can keep an RESP open for 36 years after it is started. The money can be transferred to another child if you have more than one. Any money that is contributed can be taken back by the contributor without penalty. The CESG grant money would go back to the government. All of the income generated is taxed at your income tax rate at the time of withdrawal plus 20%. You can transfer this money into an RRSP if you have RRSP room.

Transferring to an RRSP

If you know for a fact that your children will not be going to post-secondary education, you should stop contributing to your RRSP about 3 to 4 years in advance of this date to allow RRSP room to build up. If you do this, any RESP money that is not utilized for education can be transferred to the RRSP without tax penalty. The government grant would be taken back, but you would be saving taxes on the income generated before your children go to school. The current penalty is 20% taxes on the income generated, which could be quite a lot of money. There is still plenty of time to plan for this and it is something to keep in mind once your children reach their teenage years.

Does My Child Have to Be Full Time in School?

A part time student also qualifies for withdrawals from an RESP.

Does it Have to Be a College or University or Can it Be Any Type of School?

It can be a college or university as well as a trade school, CEGEP (province of Quebec) or any institution approved by a provincial authority under the Canada Student Loans Act, Canada Financial Assistance Act, Province of Quebec Act for financial assistance, an institution certified by the federal Minister of Human Resources and Skills Development, or a school outside of Canada. Visit the web site "Canlearn.ca" for more details.

What Type of Account Do I Need and Where Do I Open it?

There are two main types of accounts, a pooled or group RESP and a self-directed RESP. The group plans tend to have a lot of restrictions so the self-directed type of account is the one recommended. This type of account can be opened at any bank or institution. There are also family plans and individual plans. There is not much difference between these plans in terms of what you can do or not do. To ask for a self-directed RESP, ask for a plan that allows you to buy individual stocks and Exchange Traded Funds (ETFs)

What Can I Invest In?

Any investment that can be held in other registered accounts can also be held in an RESP. This would include, cash, bonds, equities, mutual funds, Exchange Traded Funds (ETFs) and other securities that are traded on an exchange or in a market. Limitations would depend on what type of RESP account you have and where it is located. It is advised to account for the time horizon and timing of withdrawals, risk tolerance, comfort level, and knowledge of investments as well as fees and account restrictions.

Are There Rules When I Take the Money Out?

The money inside the RESP that is paid out is divided into 2 parts: money that was contributed (or Post-Secondary Education Payments), and money that was given by the government or came about as a result of growth of the money inside the plan (Education Assistance Payment). The rule is that if you contributed the money, there are no taxes on it and no limits as to when it is taken out. For money that comes from somewhere else, there are limits so taxes and timing are important.

During the first 13 weeks of school, you can only withdraw \$5,000 worth of money that you did not contribute. After that, you can withdraw more of this type of money without limit. The advice is to take out other people's money before taking out the contributions in case your child does not finish school. If there is grant money left in the RESP and no child can use it, the grant money is given back to the government.

Can I Use an RESP As an Adult?

Yes, by opening an individual non-family RESP and naming yourself both the subscriber and the beneficiary, you can contribute up to \$50,000 total over the life of the plan. The attraction lies in the fact that you are eligible for the EAP regardless of whether you attend or pass the class, and that correspondence classes qualify. Although RESPs for adults are not eligible for the Canada Education Savings Grant, they can be one of the few investments that allow assets to grow on a tax-deferred basis, which is particularly valuable if you don't have any RRSP or Tax-Free Savings Account (TFSA) contribution room.

Contact me, Joe Barbieri by email at joetheinvestor.today@gmail.com, or by telephone at 647-286-8020 for an independent consultation on what these options are. **Note: This article is intended for people who want to learn about the world of investments and how to research for themselves. If you would like to buy or sell investment products, or specific advice on investment products, tax or legal issues, please consult your investment advisor, accountant or legal counsel.**