LEARNING MADE EASY

CST Special Edition

RESP for dummies

A Wiley Brand

Make post-secondary education attainable

Boost your savings with grants

Start saving today

Compliments of cst

Michael McCullough

About CST

We're the creators of Education Savings Plans in Canada. Our founders pioneered a movement to create and deliver solutions to make higher education accessible for all. Over 60 years later, our dedication to our mission is stronger than ever:

- **Almost 700,000 families** have saved with CST[1]
- **Almost 900,000** students helped[1]
- **$4.8 billion+** in total assets[1]
- **$4 billion+** paid to Canadian families[2]

Through our expert guidance and powerful investment options, we help Canadians invest in our children's future with Registered Education Savings Plans (RESPs). With big dreams, anything is possible!

The Canadian Scholarship Trust Plan is only sold by prospectus. The Canadian Scholarship Trust Foundation and its subsidiaries, including CST Savings Inc. and CST Spark Inc., operate under the master brand name CST.

1 Canadian Scholarship Trust Foundation, 2023. **2** Canadian Scholarship Trust Plans 2023 Audited Financial Statements.

RESP

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» Knowing the importance of post-secondary education

» Considering the costs and how families pay

» Exploring RESPs to help you save more money, faster

Chapter 1

Giving Your Child the Freedom to Dream

For parents and caregivers, it's often humbling to see the potential in their children. Early on, they might show a knack for building structures, inspiring group activities or solving problems. The beauty of this realization is that you have the time to plan ways to nurture those talents, ensuring that one day they'll lead productive careers that are fulfilling to them. The key enabler of that is post-secondary education.

But higher education requires planning. It's the biggest cost a typical family will face after buying a home and saving for retirement. It's also the greatest gift parents can give to their child, and the most valuable investment in their future.

Looking at Canada's Post-secondary Landscape

Post-secondary education is increasingly necessary in today's employment market. Three-quarters of job openings in Canada will require it, according to the BC Labour Market Outlook report (2023). And there's no denying the link between higher education and financial well-being. In studies by Statistics Canada, university graduates reported higher job satisfaction than high-school grads. They even live longer on average and enjoy better health.

Calculating the cost of post-secondary education

According to Statistics Canada, the average tuition for a full-time undergraduate student at a Canadian university for the 2023-24 academic year was $7,076. But that's just the start. Most undergraduate programs take four years, and graduate tuition typically costs more. Students have books to buy and transportation to take. If your son or daughter is studying away from home, room and board will push that annual cost above $20,000. And if your child ends up at an American university, it could easily be double that amount or more.

REMEMBER

A 2024 projection by CST pins the cost of a four-year university program in Canada at $78,000 for a student living at home, and $192,000 for a student in residence by 2042.

(Projected tuition costs of a 4-year university program are based on the annual average cost of tuition and compulsory fees across Canada for the previous school year and an assumed average annual increase of 1.1% based on the previous 5 years' average. Room and board are based on typical costs for residence with an average annual increase of 2.8% based on the previous 8 years' average. Projection includes the cost of entertainment, transportation, and books, adjusted using an annual inflation rate of 2.5%. Source: Statistics Canada 2023 and university websites.)

Tapping into typical sources of funding

How do students and their families pay for post-secondary education? Typically, they tap a mix of the following sources:

- Employment income
- Student loans
- Scholarships and bursaries
- Education savings

Most of these funding sources have drawbacks, however. Student loans can leave the graduate with eye-watering debt at the end of their program; the average for a bachelor's degree holder is $30,600 (Statistics Canada, 2024).

R-E-S-P: Find Out What it Means to Me

The founders of CST believed that all Canadians should have the freedom of choice and that meant having access to education after high school. They collaborated with the Canadian government to create an education savings plan to help families overcome the financial barriers to education. Today, the federally backed Registered Education Savings Plan, or RESP, has been supporting parents in saving for their children's education for over 50 years (Library of Parliament, 2004). An RESP offers both tax advantages and eligibility for government grants that will see your education savings pile up faster than they would in an unregistered account.

Why an RESP?

Unfortunately, some parents don't know about RESPs or, by the time they find out about them, they think it's too late to start one. Although 92% of respondents to a 2021 Canada Life survey had heard of RESPs, less than half (49%) of those aware of the savings tool were using them.

TIP

The best way to save for post-secondary education is to start early. Here's why:

- Smaller payments have time to grow into bigger savings.
- Savings get compounded, giving you earnings on earnings.
- You can attract the most grant money possible. To obtain the maximum $7,200 in Canada Education Savings Grants for your child, you need to contribute at least $2,500 per year over 15 years.

What makes an RESP an RESP?

An RESP is a type of savings or investment account that's registered with the Canada Revenue Agency, offering its holders and future scholars tax advantages. It can be opened by anybody (parent, grandparent, uncle, and so on, referred to as the *subscriber*) on behalf of a child or *beneficiary*.

RESPs are eligible for the Canada Education Savings Grant, equivalent to 20% of the subscriber's contributions up to certain limits. And further grants are available to low-income families and students from some provinces (more details in Chapter 2). The savings grow tax-free within the account until such time as the beneficiary is in university, college or trade school for example, and the family starts making withdrawals to pay for it. You can withdraw as much as you contributed (less fees) tax-free. Grants and income over and above that amount are taxable in the hands of the student — but in most cases they will pay little or no income tax because of their modest income.

RESP TERMS TO KNOW

The person who opens an RESP and contributes to it is known as the **subscriber**.

The child or children whose education the account is meant to fund are called the **beneficiary** or beneficiaries.

The financial institution that holds and manages the account is known as the **promoter**.

Contributions are monies paid into the plan by the subscriber(s).

Grants and/or Provincial Incentives represent contributions by the federal and in some cases provincial governments.

Any money withdrawn from the plan over and above the subscriber's contributions (from investment gains and grants) are called **Educational Assistance Payments**. These help students pay for their post-secondary education after high school and are taxable in the hands of the beneficiary.

Head here for a handy video about RESPs.

Focusing on the Key Facts about RESPs

In addition to the grants and tax benefits outlined earlier, RESPs have a number of other advantages:

- **There are almost no restrictions on how the RESP funds can be spent.** You can use them to pay for university, community college, CEGEPs in Quebec, apprenticeships, religious schools and online or correspondence programs. This includes programs outside of Canada and part-time studies. You can also use them to fund associated costs such as travel, room and board. You just need to provide proof of enrolment into an eligible program.
- **Anyone can open an RESP for any child.** It doesn't have to be your own child. Grandparents, for example, find it's a way to invest in their grandchildren's future that they can add to on birthdays and holidays. The child needs to be a Canadian resident with a Social Insurance number.
- **You choose the amount to contribute.** The lifetime maximum is $50,000 per child. You can keep contributing up to 31 years after you open the account.
- **A child can have more than one RESP.** Grant eligibility and the lifetime contribution limit are based on all contributions to all accounts for the same beneficiary.
- **You have multiple options if your child decides not to pursue post-secondary education.** You can name another beneficiary, transfer income into a registered retirement savings plan (RRSP) or withdraw income as an accumulated income payment (AIP; investment gains will be taxable).

Demystifying Fees

REMEMBER

All RESP providers charge fees to pay for expenses such as administration, investment management, commissions, marketing, operations and customer service. These fees are often charged to your RESP account or the investments held within the account, reducing your returns and the amount of money you can give your child to go to school.

Fees can vary widely between companies and products. This is why it's important to compare plan providers before you commit to one.

TECHNICAL STUFF

Consider these fees and what they might cost you:

- Set-up fees for opening an account (some providers have none).
- Annual administration fees (some providers may waive these fees).
- Various transaction and management fees for different investments. For example, fees for buying or selling stocks, exchange-traded-funds (ETFs), mutual funds or the funds you hold.
- Sales charges applied by some scholarship plan dealers.
- Penalties and special service charges, for example to withdraw money early, move it to another provider or change the beneficiary.

TIP

Add up all the fees you'll potentially be charged by different promoters to get a realistic picture of comparative costs; note that some promoters may offer a sales charge refund.

IN THIS CHAPTER

» **Understanding the Canada Education Savings Grant**

» **Discovering three different types of RESP**

» **Exploring self-directed versus managed investing**

Chapter 2
Organizing Your Child's Financial Future

RESPs can open up a world of opportunity for your child or children. In this chapter we look at how you can take advantage of government funding for your RESP, as well as the different types of RESP.

Understanding Government Grants and Eligibility

A huge part of RESPs' appeal is the way they supplement your own savings with government grants. It's not just you who wants to see your child succeed, remember. The government has an interest in having the next generation of workers and taxpayers acquire the skills to fill leading-edge jobs and carry the economy forward.

Types of grants available

Every child beneficiary of an RESP is entitled to the Canada Education Savings Grant (CESG). This is free money, courtesy of the federal government, that's added to your account following every contribution you make. It equates to 20% of your contributions to a maximum of $500 per year and, cumulatively, $7,200 per child.

If you don't contribute the $2,500 necessary to attract the full $500 grant in any one year, it's possible to catch up in later years and obtain more than $500 in a year based on unused contribution room.

TIP

On top of the standard CESG, your family may be eligible for an Additional CESG and other grants:

- **Additional CESG.** Families with a lower annual net income may be entitled to an additional 10% or 20% grant on the first $500 contributed in any one year.
- **Canada Learning Bond (CLB).** Lower-income families can receive $500 in the first year and $100 for each additional year they qualify to a maximum of $2,000.
- **Quebec Education Savings Incentive (QESI).** The Quebec government tops up residents' contributions to the tune of 10% on the first $2,500 contributed in any one year to a lifetime maximum of $3,600 per child.
- **Additional QESI.** Lower-income Quebeckers are entitled to a further 5% to 10% on the first $500 contributed every year.
- **British Columbia Training and Education Savings Grant.** The B.C. government offers $1,200 for each child in the province born in 2006 or later, payable on their sixth birthday and retroactively available up to age nine.

CASE STUDY: EMMA AND JACK

Ontario residents Emma and Jack are in their 30s and have a newborn baby, Liam. Emma is a customer service agent and Jack a graphic designer. Their household income is $120,000 per year.

They agree to put aside $100 a month in an RESP. If their income and savings rate stay the same and they earn 5% return, the couple will amass more than $41,024 by the time Liam graduates high school — $20,400 in contributions, $4,080 Canada Education Savings Grant (CESG) and $16,544 in investment gains.

But their hope is that, as their household earnings increase and their own university debts get paid off, they can boost their contributions and the grants received. Liam can expect to attend a four-year program close to home with most or all expenses taken care of. **(Illustration only, please see disclosure on p.12.)**

Understanding Different Types of RESP

Before you open an RESP, you need to figure out what format best suits your situation. There are three types of plan to choose from, and you can decide how you want to invest your savings: in a do-it-yourself or managed portfolio.

REMEMBER

Compared to other accounts, such as a Registered Retirement Savings Plan (RRSP), an RESP has a short time horizon. The asset mix ideally becomes more conservative as your child's graduation date approaches. (Some financial advisors will reallocate your savings in this way for you in a managed account.) That way, your savings will be less vulnerable to a stock-market setback at the wrong time.

Group, family and individual plans

TECHNICAL STUFF

Not all RESPs are the same. They come in three basic formats:

- **Group plan.** Enrolment in a group plan is designed to save for one child at a time; perfect for someone who's looking for a disciplined savings approach. These plans are provided by Scholarship Plan dealers who usually invest the money in low-risk investments. It pools the contributions and earnings of all subscribers and adheres to a strict contribution schedule. When the plan matures, children of the same age cohort share in the investment gains.

If you prefer a more flexible contribution schedule or if your child pursues a shorter study program or decides not to pursue post-secondary education, you have the option of enrolling in or transferring to a Family or Individual Savings Plan.

- **Family plan.** Those saving for multiple children may opt for a family plan. The savings here may be used by any or all named beneficiaries in any proportion so long as they're siblings and under age 21. The contribution and grant limits are based on the number of children covered.
- **Individual plan.** This type of plan can be used towards the post-secondary education of any beneficiary, including self. There are no age restrictions for naming a beneficiary.

CST offers all these RESP types.

CASE STUDY: JULES

Jules is a 26-year-old single parent in Coquitlam, B.C. She works as a receptionist and takes home $50,000 a year. She's also attending college part-time, hoping to upgrade her skills. She wants her newborn son to have opportunities that she didn't, and wants to put away whatever she can for his future.

She decides to open an individual plan with $100 monthly contribution. As a result, she manages to get a good start on her son's education fund with $840 in the first year comprised of $500 Canada Learning Bond (CLB), $240 of Canada Education Savings Grant (CESG) and $100 of Additional CESG (ACESG) excluding any investment gains.

If, beginning in year two, Jules continues contributing $100 a month, her savings will grow to approximately $49,661 by her son's 18th birthday, made up of $20,400 in contributions, $5,780 in CESG, $2,000 from the CLB, $1,200 from the B.C. Training and Education Savings Grant and $20,281 in investment earnings, assuming 5% annual rate of return. This would nearly fully cover a four-year stay-at-home program. **(Illustration only, please see disclosure on p.12.)**

Digging into DIY versus managed investing

Another choice families setting up an RESP must make is how the account will be managed. The most basic distinction is between a do-it-yourself (DIY) versus a managed account:

- **DIY RESP.** A do-it-yourself RESP is overseen by the subscriber. They set up a brokerage or mutual fund account, choose the investments to put in, and determine the contribution schedule themselves. DIY RESPs are only possible in individual/family plan types - not group RESPs.
  - **Pros:** This is usually the lowest-fee way to invest with no portfolio management fees. It also offers full customization to the particular needs of the individual and the maximum flexibility to change course if need be.

- **Cons:** A DIY account may face a higher risk of capital losses, due to the lack of professional management. You may not fully understand when and how to de-risk the portfolio as your child's graduation date approaches.

» **Managed investing.** Choosing an investment professional or team to manage the RESP saves the subscriber the time and worry that come with managing their own investments. Managed RESP accounts are customized to meet certain risks, objectives and client's needs and are possible for all the three RESP types.

- **Pros:** Investment professionals strategically monitor and make necessary adjustments to the account. You may be asked for input, but you don't have to do the work.
- **Cons:** Though fees will vary depending on the level of service provided, managed investing often entails higher expenses than the DIY route and the potential for lack of customization.

(Please note that the above is an extremely simplified summary of the topic, restricted to one pro and one con for each of the investing methods.)

TECHNICAL STUFF

The Canada Revenue Agency limits the types of investments that can be held in an RESP. Some of the RESP-eligible investments include equities (stocks), bonds, mutual funds and exchange-traded funds (ETFs).

CASE STUDY: SARIKA AND AKHIL

Akhil, 32, is an IT consultant from Laval, Quebec, who immigrated to Canada with his wife Sarika, 30, a marketing manager, and their newborn daughter. With a household income of $180,000, as Quebec residents they qualify for the Canada Education Savings Grant (CESG) and they can take advantage of that province's Quebec Education Savings Incentive (QESI). They don't qualify for other grants aimed at lower-income families.

Optimistic about their daughter's future in Canada, they aim to contribute $200 per month to a family plan that can be used for their

(continued)

(continued)

daughter's education. At that rate of contributions, they'll receive $480 in CESG and $240 from their provincial government under QESI, for a total book value at the end of year one of $3,120 excluding any investment gains.

If they continue contributing $200 per month until their daughter turns 18, they'll capture $7,200 in CESG and $3,600 in QESI to which they're entitled. At a 5% annual rate of return they can expect to raise just under $87,258 by the time their daughter starts university; enough to put her through a four-year program, living at home. **(Illustration only, please see disclosure below.)**

The examples in this book assume all scheduled contributions will be made and are not intended to show actual future values. Investment returns and the actual future value of an education savings plan cannot be predicted or guaranteed. The illustrations assume an annual rate of return rate of 5% and assume grants and incentives are collected at the beginning of each year until maximum grant is collected for each scenario. In addition, we compounded the savings and interest at the beginning of each year.

The cost illustrations in the above case studies provided are for educational purposes only pertaining to RESPs. Actual expenses may vary significantly based on factors such as university choice, program of study, location, housing arrangements, and personal lifestyle. We recommend consulting specific universities and conducting thorough research to obtain accurate and up-to-date financial information tailored to individual circumstances.

IN THIS CHAPTER

» Considering key factors in your choice of provider

» Ensuring you're in safe hands

Chapter 3

(More than) Ten Key Questions to Ask Before Choosing an RESP Provider

The previous chapters explain what an RESP is and what kind of plan might be right for you. All that remains is the choice of promoter to handle your funds. Shop around. Since you'll likely work with them for 15 years or more, and the plan can stay open for up to 36 years, it's worth putting the effort in now to find a good fit.

Here are the key questions to ask about every prospective RESP provider:

- **Are they experts in investing specifically for education savings plans?** Investing for education involves understanding the specific time frame and the financial constraints growing families face. Make sure your provider is on your side.

- **Are they education savings specialists?** Banks, credit unions, digital brokerages and mutual fund companies all offer RESPs. However, a dedicated RESP provider will have the specific expertise you're looking for and have a long history in the RESP industry.
- **Will I have a dedicated sales representative?** A mobile-friendly interface is convenient, but you also want someone to connect with you when you have a question.
- **Do they have experience and a credible history?** Find out how long the promoter has worked in the area. Examine their track record, including past returns for participating families.
- **Is the process simple and easy?** Young parents are often new to investing. It's important to have a provider who can walk you through the steps and spell out the options.
- **Are the fees competitive?** Compare any annual management and transaction fees with those of other companies offering a similar level of service.
- **Do they provide any boosts to your savings?** Some dedicated education savings specialists offer incentives such as a fee refund at completion.
- **Will they help you get the most from government grants?** An education savings specialist will identify and help you apply for every additional funding source you may be eligible for.
- **Do they provide scholarships and extra funding?** An education-first provider may have its own scholarship programs for exceptional students and families in need.
- **Do they have exclusive rewards and offers?** Certain providers reward customers with deals and exclusive offers throughout their savings journey.
- **How easy is it to access information or make changes to account once your plan is set up?** Verify if your promoter provides a self-serve website or a toll-free number, and note that some representatives may service their subscribers for the lifetime of the plan.

Invest in a better future for your children

Higher education is a must for career and personal success, but can come with a hefty price tag. Fortunately, a generous savings tool – a Registered Education Savings Plan – is waiting for you to grab with both hands! This investment for your child's post-secondary education is enhanced by government grants and enjoys tax-free growth. So what are you waiting for?

RESP For Dummies is your guide to demystifying confusing financial jargon and making the most of the powerful savings options available to you. Armed with the friendly guidance in this book, you can take the first steps towards making your child's dreams a reality.

Inside…

- Take a peek at Canada's post-secondary landscape
- Figure out the key facts about RESPs
- Benefit from generous government grants
- Dive into the different investment and account options
- Demystify taxes and transfers
- Make the most of RESPs as a friend or family member
- Be inspired by case studies

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