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SLATER FINANCIAL GROUP

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With the back-to-school season in full swing, it's the perfect time to talk about one of the most effective tools available to help families save for post-secondary education: the Registered Education Savings Plan (RESP). With the rising costs of tuition and other educational expenses, planning ahead can make all the difference. RESPs offer a range of benefits designed to make education savings easier and more effective. Let's explore the key benefits and our recommended best practices for maximizing the value of your RESP.

Upcoming Event: Register here for our upcoming webinar on October 16, 4 PM; Planning for a Lifetime of Inflation Protected Income.

Mark

RESP BENEFITS AND BEST PRACTICES

An RESP is a registered plan designed to help parents, grandparents, and other family members save for a child's post-secondary education. You can contribute up to $50,000 per beneficiary over the plan's lifetime (maximum 35 years), and the funds grow tax-deferred until they are withdrawn. Additionally, RESPs offer several advantages that can significantly boost your savings.

Key Benefits of an RESP

1. Government Grants

One of the biggest advantages of an RESP is the ability to receive government grants. The Canada Education Savings Grant (CESG) offers a 20% match on your contributions, up to $500 per year per beneficiary, with a lifetime maximum of $7,200. This is essentially free money from the government to help grow your child's education fund.

For lower-income families, the Canada Learning Bond (CLB) provides an additional grant of up to $2,000. This ensures that families from all income levels can benefit from the RESP program. Read about the exciting upcoming changes here.

2. Tax-Deferred Growth

Contributions to an RESP are not tax-deductible, but the earnings on those contributions grow tax-free within the account. This means your investments can compound over the years without being reduced by taxes. Taxes only come into play when the funds are withdrawn for qualifying educational expenses, and even then, the student typically pays little to no tax, as they're often in a low tax bracket.

3. Investment Flexibility

With an RESP, you have the freedom to choose how you want your contributions invested. As with many registered plans, you can invest in cash, bonds, Guaranteed Investment Certificates (GICs), mutual funds, or stocks. Most post-secondary educations cost more than what the contribution room and maximum grants allow, so it's important to make sure your savings grow at a decent pace. This flexibility allows you to tailor your investment strategy to meet your goals and timeline.

4. Flexible Use of Funds

RESP funds can be used for a wide range of educational expenses. This includes tuition, books, electronics, transportation, housing, food, and other costs that come with attending a post-secondary institution. Whether your child attends university, college, trade school, or an apprenticeship program, RESP funds can be applied to any qualifying educational program.

5. Contributions from Family and Friends

RESPs aren't just for parents—anyone can contribute to a child's RESP through gifting. Whether it's grandparents, aunts, uncles, or family friends, having multiple contributors can accelerate the growth of the education fund.

6. What If the Child Doesn't Attend Post-Secondary?

Sometimes life takes unexpected turns, and a child may decide not to pursue post-secondary education. Fortunately, RESP funds are flexible. You can allocate remaining funds to another beneficiary on the plan or even transfer the funds to your RRSP (as long as you have contribution room). This way, you can make sure your savings are put to good use.

Best Practices for Maximizing your RESP

While an RESP's benefits are substantial, following best practices can help you maximize this powerful savings tool.

1. Start Early

Time is your greatest asset when it comes to saving for education. Opening an RESP as early as possible allows you to take full advantage of compound growth. The earlier you start, the more time your investments have to grow and the more CESG grants you can accumulate over the years. Whether you want to make monthly or annual contributions, we recommend setting up automatic payments. Set it and forget it! Watch this clip from our webinar with Jamie Golombek: Planning with Registered Plans to learn more about RESP compound growth and contribution options.

2. Maximize Government Grants

Aim to contribute enough each year to receive the maximum Canada Education Savings Grant (CESG), which means contributing at least $2,500 annually to secure the $500 government match. When withdrawing funds, use the CESG grant money first to ensure that no government contributions are left unused, as they must be returned otherwise.

Keep in mind that an RESP must be open for at least 15 years to take full advantage of the CESG. At the end of those 15 years, there's still $14,000 left in contribution room. It may make sense to contribute $14,000 as soon as you open the RESP and every year thereafter, contribute $2,500. This allows you to use all the contribution room available, maximize compound growth on the $14,000 and still receive the maximum amount of $7,200 in CESG.

3. Revisit and Adjust Your Investment Strategy Over Time

As your child gets closer to post-secondary education, it's a good idea to reassess your investment strategy. While a more aggressive approach may be suitable when your child is young, shifting to a more conservative allocation in the years leading up to enrollment can help protect your gains. Balancing risk and reward ensures that you have the funds available when you need them, without exposing them to unnecessary volatility.

4. Be Mindful of Leftover Funds

If there are leftover funds after your child completes their education, you have options. You can allocate the remaining RESP funds to another beneficiary (another child on your family RESP), or transfer them to your RRSP (if contribution room allows). To qualify for the transfer, the RESP must have been in place for at least 10 years, the beneficiary must be over 21 and not attending a qualifying post-secondary institution, and you must be a Canadian resident. You can also withdraw any of your contributions for any purpose without penalty. As for the growth in the account (Accumulated Income Payment or AIP), you can transfer up to $50,000 (lifetime maximum) to your RRSP. Any unused grants must be returned to the government.

5. Coordinate Contributions from Others

Remember to coordinate contributions from other family members or friends if they wish to contribute to your child's RESP. It's important for you, as the parent, to remain the plan subscriber. This simplifies estate and probate processes in case of unforeseen circumstances, such as a grandparent passing away, and helps avoid any legal challenges.

RESPs are a smart and flexible way to save for your child’s education. They offer valuable government grants, tax-deferred growth, and the flexibility to use the funds for various educational expenses. By following these best practices, you can maximize the benefits of your RESP and help secure your child’s financial future.

Reach out to us

At Slater Financial Group, we're happy to speak with you or your family members, friends or colleagues trying to navigate many of these details. In addition, our clients have the benefit of tapping into the many resources available to us here at CIBC.

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About us

Your Trusted Partner in Wealth Management*: Empowering Families, Enriching Futures*

Since 1995 we have made ourselves available to act as a sounding board for anyone who may need urgent financial advice or just a second opinion. We have been able to help many families by providing comprehensive wealth management services. As a result, our business now comes to us almost exclusively through referrals.

So, if you're approached by a friend, neighbour or family member, or if you know someone who needs a sympathetic ear, please let them know we always have time to listen, and do our best to help. By making ourselves available this way, we're striving to make people's financial lives less stressful and better, knowing that we're *“doing well by doing good."*

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