

# Saving for your child's education



**Get the facts about RESPs before you invest**

## CONTENTS

What is an RESP?	2
Federal grants can help you save even more	2
What types of RESPs are available?	3
Choosing an RESP	3
Before you invest	6
How the OSC can help	6



A good education is a goal most parents have for their children. But the rising cost of post-secondary education has many parents concerned about whether they will be able to afford to send their children to college or university.

Registered Education Savings Plans (RESPs) can be an effective way to save because they offer tax benefits and allow you to take advantage of federal government grants. There are different kinds of RESPs to choose from, so it's wise to shop around to find the plan that best meets your needs.

# What is an RESP?

An RESP is a special account to help people save for education after high school. The money earned in an RESP isn't taxed until it is withdrawn. You can open an RESP for a child, yourself or another adult. This person is called your "beneficiary".

## Making contributions

The lifetime contribution limit for each beneficiary is \$50,000. If you contribute more than this, you may have to pay a tax on the excess amount. Unlike Registered Retirement Savings Plans (RRSPs), you can't deduct RESP contributions from your taxes.

The number of years you can contribute depends on the plan, but it is usually between 18 and 22 years. An RESP can stay open for up to 36 years.

## Receiving payments

Once your beneficiary is enrolled in a qualifying educational program, they can start receiving payments from the plan. These payments are taxable in the student's hands. Since most students have little or no other income, they will likely pay little or no tax.

## If your beneficiary does not go on to education after high school

You have a few options. Your plan may allow you to choose another beneficiary. In some cases, you can transfer the earnings to your RRSP. Or, you may be able to withdraw the earnings in cash, but you'll have to pay tax on them. You have to return any grants to the government, unless you have a family RESP.

For more information about the tax consequences of RESPs, visit the Canada Revenue Agency website at [www.cra-arc.gc.ca](http://www.cra-arc.gc.ca).

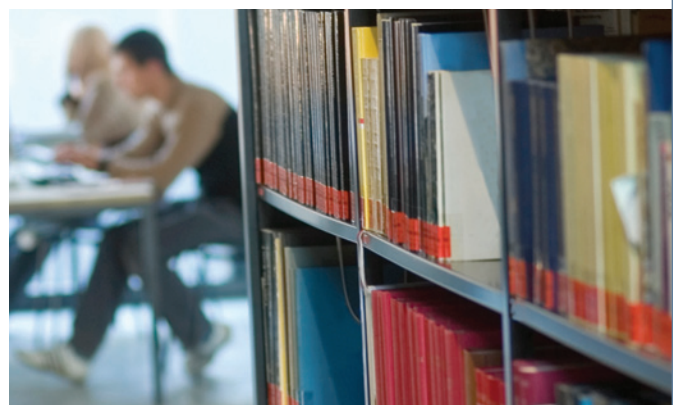


## FEDERAL GRANTS CAN HELP YOU SAVE EVEN MORE

The federal government will match contributions to a child's RESP under the following grant programs:

- The basic Canada Education Savings Grant (CESG) will top up your annual contribution by 20%, up to a maximum of \$500 each year for each beneficiary. The lifetime limit for the grant is generally \$7,200. Additional CESG grants may be available, depending on your income.
- The Canada Learning Bond (CLB) provides an additional grant of up to \$2,000 per child to help families with a modest income. Children must be born after December 31, 2003 to qualify.

Adults are not eligible for these grants. For more information about federal education savings grants, visit [www.canlearn.ca](http://www.canlearn.ca).



## What types of RESPs are available?

There are three basic types of RESPs: individual plans, family plans and group plans.

Anyone can open an **individual** RESP and anyone can contribute to it. This includes parents, grandparents, aunts, uncles and friends. You can even contribute to an individual plan for yourself.

A **family** RESP can have one or more beneficiaries, but each beneficiary must be related to the contributor. The beneficiaries must be under 21 when they're named. Contributions can only be made until a beneficiary turns 21.

A **group** RESP pools the contributions of many investors. Contributions are made according to a schedule and are used to buy plan units. The date the plan matures is set at the time of enrolment and is based on the child's birth date. When the plan matures, the beneficiary usually shares in the pooled earnings of investors with children the same age. If your child does not begin post-secondary studies at the same time as the rest of the group, the earnings you receive from the plan may be affected. And if you drop out of the plan before it matures, you forfeit all of your earnings to the group.

## Choosing an RESP

You can open an RESP through banks, credit unions, mutual fund companies, investment dealers and scholarship plan dealers. You'll need a social insurance number (SIN) for yourself and each beneficiary to open a plan.

The RESP you choose will depend on how many beneficiaries you have, how old they are and what you want to invest in. The table inside this brochure is a summary of the different kinds of plans available and what you need to consider before you invest. Your RESP provider or financial adviser can give you information about specific plans and help you choose the plan that's right for you.



	RESP PROVIDERS			
	BANKS AND CREDIT UNIONS	MUTUAL FUND COMPANIES	INVESTMENT DEALERS	SCHOLARSHIP PLAN DEALERS
	(INDIVIDUAL AND FAMILY PLANS)			(INDIVIDUAL, FAMILY AND GROUP PLANS)
<b>INVESTMENT OPTIONS</b>	<ul style="list-style-type: none"> <li>■ Savings accounts</li> <li>■ GICs</li> <li>■ Mutual funds</li> </ul>	<ul style="list-style-type: none"> <li>■ Mutual funds</li> </ul>	<ul style="list-style-type: none"> <li>■ T-bills</li> <li>■ Bonds</li> <li>■ Mutual funds</li> <li>■ Stocks</li> </ul>	In general, a plan must invest in fixed income securities, such as T-bills, GICs and bonds.
<b>RISK AND RETURN</b>	GIC products are low risk and have fixed returns. Mutual funds and stocks may offer potentially greater returns, but they are riskier than GICs because you can lose some or all of your investment if the value falls.			Investment options have lower risk and tend to have fixed returns.
<b>INVESTMENT DECISIONS</b>	You or your adviser chooses an appropriate mix of investments.			All of the investment decisions are made for you.
<b>CONTRIBUTIONS</b>	You decide when and how much to contribute, up to the lifetime limit.			<p>If you have an individual or family plan, you decide when and how much to contribute, up to the annual and lifetime limits.</p> <p>If you have a group plan, you will have to make contributions according to a set schedule, which you determine when you open the plan. Your contributions are pooled with those of other investors. If you miss a contribution to a group plan, your account may go into default and your plan may be terminated. If you are allowed to stay in the plan, you may have to pay extra fees and interest on the missed payment. The interest owing can grow over time to an amount that is difficult to repay.</p>
<b>COSTS</b>	<p>The fees depend on the investments you choose. They may include:</p> <ul style="list-style-type: none"> <li>■ <b>sales charges</b> if you buy mutual funds</li> <li>■ <b>management fees</b>, which could include trustee fees and administrative fees if you buy mutual funds. These fees reduce your investment returns.</li> <li>■ <b>commissions</b> if you buy or sell stocks or bonds</li> </ul> <p>There are generally no fees to buy GICs, Canada Savings Bonds and other deposit products.</p>			<p>You can expect to pay:</p> <ul style="list-style-type: none"> <li>■ <b>enrolment fees</b></li> <li>■ <b>administration fees</b></li> <li>■ <b>investment management fees</b></li> <li>■ <b>depository fees</b></li> <li>■ <b>trustee fees</b></li> </ul> <p>Most fees are deducted from your early contributions, which decreases the earning power of your investment.</p> <p style="text-align: right;"><i>Chart cont'd on following page.</i></p>

## RESP PROVIDERS cont'd

**BANKS AND  
CREDIT UNIONS**

**MUTUAL FUND  
COMPANIES**

**INVESTMENT  
DEALERS**

**SCHOLARSHIP PLAN DEALERS**

**(INDIVIDUAL AND FAMILY PLANS)**

**(INDIVIDUAL, FAMILY AND GROUP PLANS)**

### WITHDRAWALS

You can withdraw your contributions at any time without paying any tax. However, you may have to return any grants on those contributions to the federal government. You can withdraw the earnings if you meet certain conditions. If you take the money out in cash, you'll have to pay tax. In some cases, you can reduce or eliminate the tax by transferring the earnings to your RRSP.

These plans may have more restrictions than other types of plans on how much and how often you can make withdrawals.

Make sure you check the prospectus before you invest.

### CANCELLING THE PLAN

You receive your contributions back, less any fees.

You can transfer the earnings to your RRSP if you have contribution room, or you can withdraw the earnings in cash, but you'll have to pay tax.

You have to return any grants to the government, unless you have a family RESP.

These plans are sold by prospectus, a legal document that describes how the plan works. You have 60 days to review the prospectus. If you change your mind, you can cancel your purchase during this time at no cost to you.

If you cancel the plan after 60 days, you receive your contributions back, less the fees. Since substantial fees are paid up front, the amount of money you get back is always less than what you put in.

If you have an individual or family plan, you can transfer the earnings to your RRSP if you have contribution room, or you can withdraw the earnings, but you'll have to pay tax.

If you have a group plan, check your agreement with the scholarship trust company. You may have to forfeit the earnings if you cancel the plan or your child does not go on to post-secondary education.

There are many circumstances that may result in your child not beginning post-secondary studies at the same time as the rest of the group. Find out how this affects your plan.

There may be other conditions imposed by the dealer, so it is very important to read and understand the plan's prospectus before you invest.

You have to return any grants to the government, unless you have a family RESP.



## BEFORE YOU INVEST

### Ask:

- What fees are you expected to pay? When do you have to pay them?
- What kinds of post-secondary programs qualify?
- When and how will payments be made from the plan?
- What happens if your beneficiary does not go on to post-secondary education? Can you transfer your RESP to another plan or to other beneficiaries?
- What happens if you want to cancel your plan? How easy is it to get your money out? Will you forfeit your earnings?

### Make sure you:

- Read all the documents you are given about the plan. If you don't understand the plan or the investment, don't invest.
- Get it in writing. Never make an investment based on verbal representation.
- Take your time and do your research. Don't give in to sales pressure.
- Check the registration and qualifications of your investment representative.



## How the OSC can help

Anyone selling securities or offering investment advice in Ontario must be registered with the Ontario Securities Commission (OSC), unless they are exempt from this requirement. You can contact us to check whether someone is registered. We can investigate complaints, but the best way to protect your investment is to be an informed investor. The OSC does not insure or guarantee RESP investments.

### Contact the OSC before you invest

Telephone: 416-593-8314

Toll-free: 1-877-785-1555

e-mail: [inquiries@osc.gov.on.ca](mailto:inquiries@osc.gov.on.ca)

[www.osc.gov.on.ca](http://www.osc.gov.on.ca)

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