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Issue in Focus

Registered Education Savings Plans – Valuable Opportunities for the Students of Tomorrow

By Kevin Girdharry, Elena Simonova,
and Rock Lefebvre

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Executive Summary

The Registered Education Savings Plan (RESP) instituted by the federal government has expanded considerably and has adapted to the changing landscape of post secondary education (PSE) in Canada. Importantly, the goals of the RESP have focused on providing prospective students with affordable savings options and financial support for PSE. The RESP is comprised of several instruments, including the Canada Education Savings Grant (CESG) which has been, by far, the most influential factor in rendering higher education more affordable. Specifically, it makes RESPs highly attractive for parents to invest in the knowledge and skills that their children will require to succeed in the economy of the future. And given that outright grants form part of the regime, RESPs have the potential to become as fundamental in saving for education as registered retirement savings plans are to saving for retirement.

As part of the Certified General Accountants Association's (CGA-Canada) Issue in Focus series, we embark on an examination of the RESP; defining its characteristics and understanding its benefits. As the following pages discuss, it can be concluded that:

> ***The RESP has been continuously refined by government in an effort to serve all Canadian families.*** With greater incentives to lower income families, the government has attempted to transform the reputation of the RESP from a biased savings account to an unbiased valuable savings opportunity for Canada's students of tomorrow.
>
> ***RESPs have the potential to lower student loan disbursements.*** Student loans continue to be a dominant source of funding for PSE. We briefly examine the impact RESPs are currently having on student loan disbursements as well as their potential to change future educational funding.
>
> ***The international community identifies the Canadian RESP as a leading instrument in assisting Canadians to continue their educations.*** Higher education has become a priority internationally, but pursuing it comes at a substantial financial cost. Various countries are addressing the costs associated with PSE and are providing support through various initiatives. We briefly compare Canada's loan to tuition ratio to other nations to see if RESPs are in fact measuring up to their reputation.
>
> ***Despite the attractiveness of CESGs, there is growing concern around the communication and awareness of RESPs to the public.*** Studies have shown that there is a gap in awareness and opportunity between low income and high income families. The current efforts of the government to bridge the gap do not seem to be having a lasting effect. That is, while Canadians are provided with a unique advantage to help their children achieve a higher level of education, there is room for improvement in the utilization rates.

Introduction

Attaining a post secondary education degree has now become a pre-requisite for almost any career. Employers are using educational achievement as an indicator of how valuable and effective candidates will prospectively be to their firms. Parents are also emphasizing higher education as a necessary tool in achieving success in life and in the work force. With tuition and living expenses continuously rising, affording PSE has become a genuine concern for many families. According to a 2008 EKOS Research study seeking to understand parents' attitudes toward savings, respondents most often identified saving for a child's education as the most important savings goal. Paying off major debt ranked second; behind by 1 percentage point[1]. Amidst this financial pressure, the RESP has surfaced as a practical and advantageous instrument in paying for higher education.

The RESP was first introduced in 1972 by the federal government to provide Canadian families with an inducement to save for higher education. An RESP allows for continuous contributions to be made to a registered savings account where earnings accumulate tax free.

The RESP has simply become a sensible opportunity for families to support the future of their children's educations. To encourage savings through RESPs, the government has provided incentives by contributing funds to savings plans based on participant contributions. With these enhancements, the structure of the RESP has transformed itself from a generic savings account to a more advantageous savings vehicle.

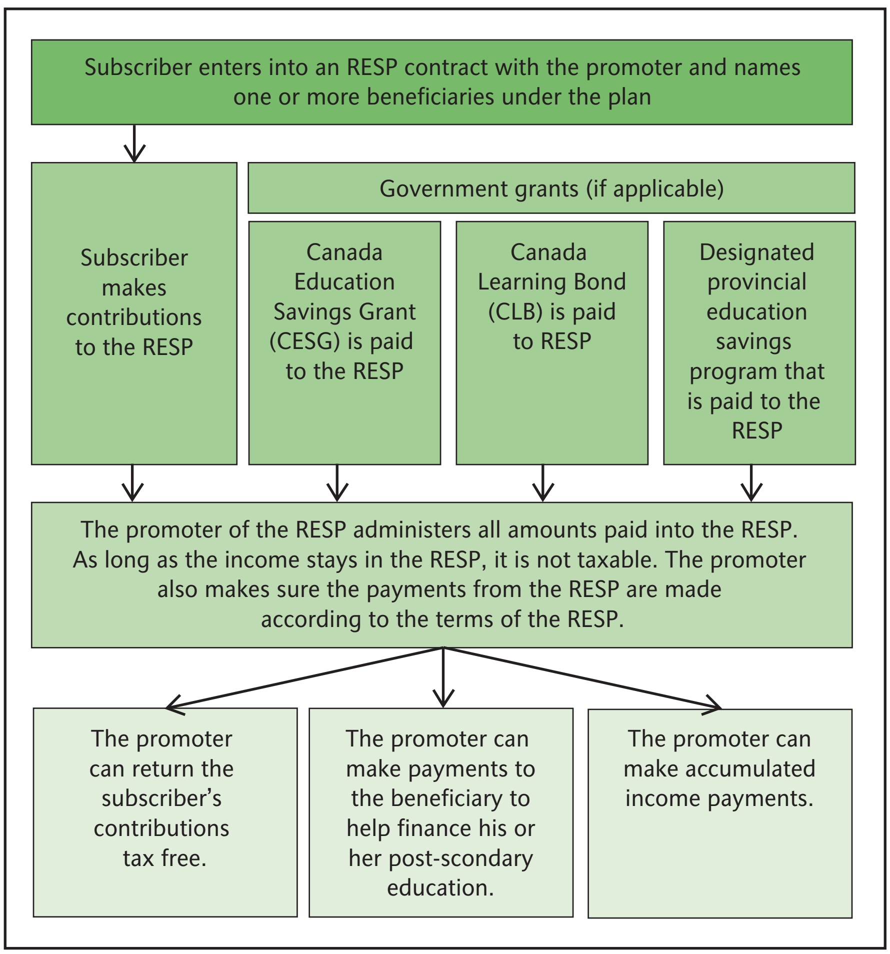
Our examination begins with a backdrop of the RESP and how it works. We demonstrate how advantageous it can be to all Canadians and to low income families in particular. We then compare the RESP in terms of student loan reduction and then internationally. Finally we address the awareness of the RESP to the Canadian public. Arguably, there is a gap between the actions and expectations of government, financial institutions and the Canadian public. One that leads to foregone opportunity for Canadian families to optimally offset the cost of post-secondary education.

1 EKOS Research Associates "Tracking Survey: Parents' Attitudes and Behaviours Regarding Savings & Ad Recall" January 2008

What is an RESP?

The Registered Education Saving Plan is essentially a contract between a subscriber and a promoter that is registered as an education savings account. The subscriber names one or more beneficiaries and agrees to make contributions in their names. Subscribers can include parents, grandparents, spouses, common law partners, or a public primary caregiver. A promoter can be any accredited financial institution that can support the contract.

Figure 1 – How an RESP Works



Source: Canada Revenue Agency – Registered Education Savings Plans (RESPs) 2009.

An account is opened in the name of the beneficiary and can be established as early as prior to the beneficiary's first birthday (as long as a SIN number can be provided). Once established, the subscriber can make contributions to the account without penalty; however, the contribution balance cannot exceed $50,000 during its lifetime[2].

Understanding the Canadian Education Savings Grant and the Canada Learning Bond

In 1998, the government introduced a savings bonus incentive of matching a percentage of subscriber contributions in the form of grants to RESPs. In short, the federal government provides 20 cents on every contributed dollar, up to a maximum of $500 annually. Grants not maximized in a given year can be carried over to a maximum of $1,000 per year. Canada Education Savings Grants (CESGs) are available for all eligible[3] accounts annually regardless of net family income but do have a maximum lifetime payout of $7,200.

To further assist middle and lower income families, an enhanced CESG was introduced in 2004 based on net family income. In addition to the initial grant, families earning $38,832 or less earn an additional 20 cents per contributed dollar up to the first $500 contributed. Families earning between $38,833 and $77,769 earn an additional 10 cents up to the first $500 contributed annually.

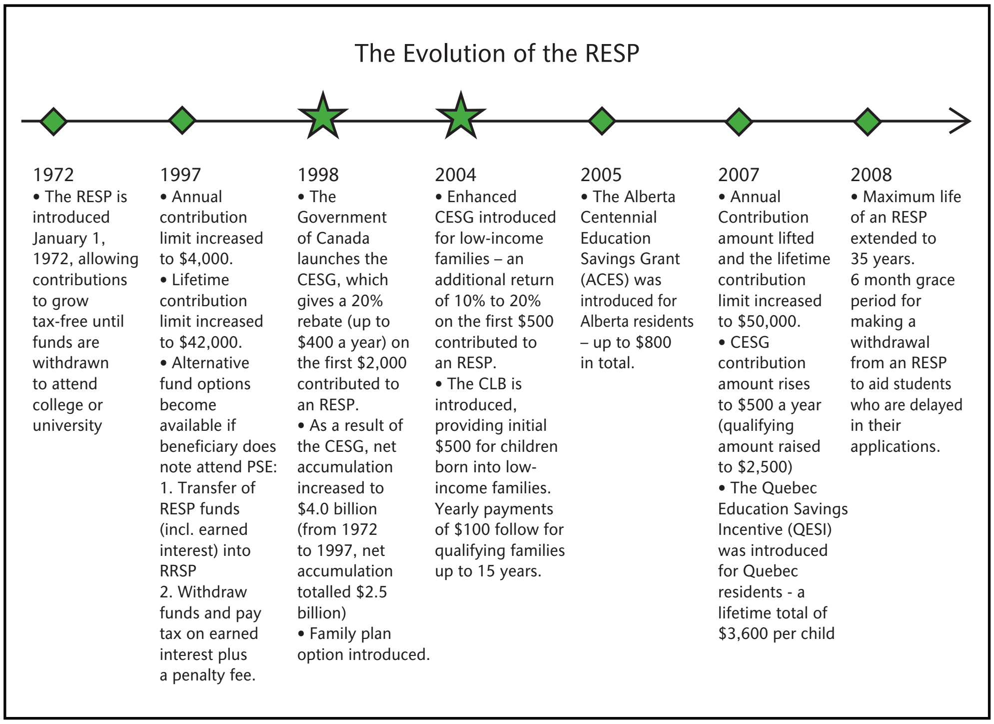
In accordance with the enhanced CESG provisions, the government introduced the Canada Learning Bond (CLB). Eligible families are those that already qualify for the National Child Benefit (NCB) Supplement. These families receive an initial $500 towards their child's RESP. Thereafter, $100 increments will be deposited annually as long as the family continues to qualify for the NCB supplement for up to the child's age of 15 years, to a maximum of $2,000.

The RESP has periodically been revised and evolved over the years. Below provides a timeline of evolution of the RESP and how the federal government continues to try and make the RESP a more practical choice for education savings.

2 Refer to Appendix for details on the various types of RESPs available

3 Eligible accounts include those that have a beneficiary 15 years of age or younger. For 16 or 17 year old beneficiaries to receive the CESG, they must either have a minimum of $2,000 in contributions before they have turned 16 or have had a minimum of $100 of annual contributions made in at least any four years prior to having turned 16.

Figure 2: The Evolution of the RESP



Source: Department of Finance Canada "Tax Expenditures and Evaluations" *The Budget Plan 1997, 1998, 2004, 2006, 2008, 2009.*

Conditions of using RESP

If for any reason the beneficiary does not attend a qualifying post-secondary institution, options are available to recover all funds. That first option is to transfer the RESP to another beneficiary i.e. a younger sibling (in this case, government grants will be kept if only the newly identified beneficiary is not already receiving grants). The second option is to have the RESP funds transferred to an existing RRSP account. This transfer will remain tax free where a penalty will only arise if the transfer incurs an over contribution to the RRSP. The final option is to have the money withdrawn at which time the earned income will be taxed according to the subscriber's marginal tax rate. The earned income will also be subject to an additional 20% penalty. With the exception to the first, all options require the return of all government contributions.

RESPs are designed to not only reward savings but to also provide tax relief to subscribers and beneficiaries. Contributions to, and investment income earned in, an RESP are not taxable at any point during the life of the account. Unfortunately, but logically, contributions are not tax deductable for income tax purposes. Government contributions (CESG & CLB) and their earnings only become taxable to the beneficiary at the time of withdrawal. The beneficiary will most likely pay little or no tax on the withdrawals (assuming that the student has no or very little other income).

Subscriber contributions withdrawn from the fund are called Post Secondary Education (PSE) payments that can be withdrawn at any time. Withdrawing government contributions (CESG, CLB & accumulated interest) come in the form of Educational Assistance Payments (EAPs). In order to receive EAPs, the beneficiary must be enrolled in a qualifying educational program full-time or part-time[4].

Introduced in the 2008 Budget, beneficiaries are entitled to receive EAPs for up to six months after discontinuing enrolment, provided that the payments would have qualified under normal EAP guidelines.

To illustrate how effective an RESP can be, consider a relatively simple example. A family with a combined net income of over $77,000 annually wants to invest in their 4 year old child's education. They look to open a RESP, and contribute $550 a year (0.71% of their annual net income). Assuming a 4% annual rate of return, total savings equal to over $12,000 when the child turns 18 years old.

Family contributions make up $10,463 of the total savings (accrued interest included) where the government contributions provide an additional $2,262 (in the form of CESGs, enhanced CESGs, and its accrued earnings) that otherwise would not exist under any other savings plan. Saving inside an RESP can yield an education fund worth 33% more than savings outside an RESP.

Figure 3: Advantage of Saving with an RESP[5]

Savings Options	Number of Years Contributing	Annual Contribution	Total Contribution	Total CESG (Grant)	Total Value of Savings*
RESP with CESG	14 years	$550	$7,700	$1,640	$12,725
RESP (No CESG)	14 years	$550	$7,700	-	$10,463
Outside RESP (Taxable Earnings)	14 years	$550	$7,700	-	$9,523

4 See Appendix for further details and definitions on EAP payments and PSE qualifications

5 Assumptions made for *Total Value of Savings*: Dual-earning couple with full-time positions, annual wage increase of 3% per year, qualified for enhanced CESG for years 1 & 2 only, a balanced bank investment portfolio established after year 9 contributing $2000/year, standard tax deductions applied.

Impact of CESGs on RESP Enrolment

The Canadian Education Savings Grant (CESG) has boosted RESP enrolments since it was founded in 1998. CESGs raised RESP net accumulation savings by 60% (from $2.5 billion to $4.0 billion) in its first year.[6] Government payments of CESGs have totalled $4.44 billion since inception, with a 2008 payment of $587 million (enhanced CESG payment amounted to $67 million).

The age groups of RESP beneficiaries that receive CESGs are as follows[7]:

Age Group	CESG Participation Rate
0-4 year olds	35.8%
5-9 year olds	45.2%
10-14 year olds	40.6%
15-17 year olds	34.0%

The age groups of 5 – 9 and 10 – 14 year olds are the most heavily weighted, making up 61% of all participation. Family preferences can be seen in terms of an education savings timeline and financial feasibility. Saving for education appears to be more of a priority for families of 5-14 year olds than any other. An assumption can be made that parents are prioritizing childcare costs during toddler years and during teenage years either rely on other forms of funding (i.e. scholarships, grants, loans, and part-time work savings) or view their PSE savings fund as sufficient to attend PSE.

6 Net accumulation has reached $23.7 billion as of December 2007

7 Human Resources and Skills Development Canada “Canada Education Savings Program, Annual Statistical Review” December 2008

Impact of Government Contributions on Low Income Families

The Canadian RESP has attracted interest because of the savings bonus offered by the federal government to all Canadians families. The bonus is extended even further to mid and low income families, giving them a greater opportunity to afford post secondary education. Taking a more in depth look at these incentives, the following chart demonstrates how much can be benefited from participating in RESPs:

Figure 4: RESP Potential Total Savings After Initial Year of Participation

Family Type	Annual Contribution	CESG Contribution	CLB Contribution	Enhanced Contribution	Total Savings After Initial Year
High Income Family $77,770+	$400	$80	-	-	$480
Middle Income Family $77,769 - $38,833	$300	$60	-	$30	$390
Low Income Family $38,832- (scenario 1)	$150	$30	$500	$30	$710
Low Income Family $38,832- (scenario 2)	$200	$40	$500	$40	$780
Low Income Family $38,832- (scenario 3)	$300	$60	$500	$60	$920

* Annual contribution amounts were chosen based ont he avereage national savings rate of 4.6% [8]

Low income families have a real opportunity to substantially save for their children's education. Scenario 1 shows total savings after the first year (before interest) can accumulate to $710, where the majority of total savings actually comes from government contributions (79%). The attempt to bridge the income disparity between low and high income families in terms of education opportunity is evident. A low income family that contributes 63% less than a higher income family ($150 vs. $400) actually ends up with 48% more in total savings at the end of the first year.

Granted, government contributions will not continue at this pace in the following years (CLB annual contribution reduces to $100 to qualified families going forward), but this initial year of savings alone amounts to 15% of a one year's tuition (average university tuition fees were $4,917

8 Statistics Canada "Economic Indicators (monthly & quarterly)" May 2010

for 2009/2010[9]). Projecting the maturity of an RESP for a low income family that contributes $150 a year ($12.50 per month) for their child from 0 to 17, can total over $8,200[10].

Admittedly, this student would still need to rely on alternative forms of funding (i.e. Canada student loans, bursaries, scholarships), but the RESP still represents a valuable asset in this case because it provides substantial financial support that otherwise would not exist. Having additional funds will definitely have a positive impact on a student's academic performance and livelihood. Furthermore, RESP funds are classified as non-repayable funds and will not contribute to student debt and the overall financial burden for the student.

9 Statistics Canada Table 1 "Average Undergraduate Tuition Fees For Canadian for Full-time Students, by Province" October 2009
10 Assuming 4% market rate of return, $150 annual contribution, and no significant change in net family income

Student Loans & RESPs

Student loans have always been a main source of funding for education. According to an Undergraduates Students' survey[11], over half (58%) of respondents had some type of student loan (40% claimed government student loans specifically) in 2008. Student loans disbursements in Canada have increased by 22% between 2002 and 2008 and undergraduate tuition fees have increased by 26% during the same time. With student loans rising at relatively the same pace as tuition costs, it appears students continue to use student loans as a primary source of funding.

Interestingly, RESP withdrawals saw a 42% increase between 2003 and 2008. This increase is significant as it indicates that students are participating in RESPs, even though their impact is currently not substantial. 7% of survey respondents indicated that RESPs were a significant source of their funding (up 40% from 2005). Among those with RESPs, these funds made up over one third ($5,022)[12] of their total funds for that year of study.

Along with rising tuition costs, average overall student debt rose from $11,250 to $15,466 between 2000 and 2008. University enrolments also saw an increase of 3.8% during the same time period. One could assume that decreasing student (and/or parents) wealth is the reasoning behind the rise in student debt. With university attendance on the rise, students may be entering with lower personal wealth; however, this did not seem to be the case according to the survey respondents. It indicates that 1 in 4 students had consistently set aside personal savings specifically for PSE. In addition, 42% consistently directed their summer employment earnings toward PSE as well (an average of $3,987). Rising consumer debt and living costs may be responsible for this accumulating debt.

Interestingly enough, it was noticed that overall average personal debt was similar among all students (student loan borrowers and non-borrowers); but those with student loans had lower assets and correspondingly lower net worth[13].

11 Canadian University Survey Consortium (CUSC) "2008 Undergraduates Survey"

12 This is the mean average from survey respondents of the CUSC survey. Human Resources and Skills Development Canada indicates a mean average of $6,600 for all RESP holders that withdrew in 2008.

13 Statistics Canada Perspectives 2010 "The financial Impact on Student Loans" pg. 12

International Comparison

According to an Organization for Economic Co-operation and Development (OECD) study[14], Canadian RESPs are ranked as one of the most generous savings plans across all OECD countries. Higher education has become a priority in the international community. Associated with higher PSE enrolments are its costs; with various countries making an effort to assist with similar types of savings plans and support. As various nations support PSE in different ways, it's interesting to examine how Canada fares in mitigating PSE costs with other counterpart nations.

Figure 5: Comparison of Student Loans & Fees

	Average Annual Student Loan		Averge Annual Tuition Fee		Loan per $1 of Tuition	
	2002	2008	2002	2008	2002	2008
Canada ($CAD)	4,695	5,706	3,749	4,747	$1.25	$1.20
US ($USD)	17,528	23,231	12,014	17,143	$1.46	$1.36
UK (GBP£)	3,150	6,362	1,175	3,225	$2.68	$1.97

* Full-time student loans only

The chart above indicates that for every tuition dollar, students in Canada on average borrowed $1.20 in student loans in 2008, where US students borrowed $1.36 and UK students borrowed $1.97 per tuition dollar[15]. Canadian students are still using student loans to a similar extent of their counterparts in the US & UK, showing only marginal improvement, and despite the availability and recent provisions of the RESP.

It appears RESPs are not having as strong an impact as one would hope on the international scale. The future is optimistic though, as indicated earlier, RESPs withdrawals are significantly on the rise (up 42% from 2003 to 2008). As more Canadians continue to participate in this unique savings plan, one can assume that Canada will outperform its counterparts in the goal of making education affordable.

Brief Background of Educational Savings Plans From the US and UK

The US offers various education savings plans that provide tax incentives to families; the 529 Prepaid Tuition Plan, the 529 College Savings Plan and the Coverdell Education Savings Account.

14 OECD Tax Policy Studies "Encouraging Savings through Tax-Preferred Accounts" 2007, page 45 & 47.
15 Since the student loan debt is accumulated over a period and tuition is a single payment, the comparison in itself is not completely represented.

The 529 Prepaid Tuition Plan allows family and/or friends to purchase for a beneficiary a specified number of course credits or academic periods up front at current costs; typically at public colleges and universities located in the state that sponsors the program. These credits are then redeemable once the beneficiary becomes eligible for PSE.

The plan most similar to RESPs is *The 529 College Savings Plans,* where participants can specifically save money in a special college savings account for qualified PSE. This plan allows for an annual maximum contribution of $11,000 before being subject to federal gift tax. Alternatively, individuals can contribute as much as $55,000 at once without incurring gift taxes, in so long as no further gifts to the beneficiary are made during the following five years. The account cannot exceed a total of $200,000 during its lifetime. Investment income is tax free; however contributions are not tax deductable.

Coverdell Education Savings Accounts are trusts that are maintained exclusively for the purpose of paying for education expenses. This account can only be established by those whose adjusted gross income does not exceed Internal Revenue Service (IRS) limits of $110,000 for single tax filers or $220,000 for joint filers. Other restrictions include a maximum of $2,000 annual contribution limit and a beneficiary age limit of 18 years and younger.

The savings option offered in The United Kingdom is the *Individual Savings Account* (ISA). UK residents can save their funds in a tax-free account. Further details of the UK ISA have been discussed in the earlier Issue in Focus paper.[16]

The UK does, however, support its post secondary education system through regulation and financial aid. Tuition is regulated in the UK and from 1999 to 2006, was capped at 1175£ per year. In 2006, an amendment to the Education (Fees and Awards) Act of 1983 raised tuition fees to 3225£ per year (raised to 3290£ to adjust for inflation for the 2010/2011 academic year).[17] To alleviate the increase, all students are eligible for tuition loans regardless of family income. Fees are no longer required prior to the commencement of the academic session and students initiate repayment of loans after graduation; upon beginning to earn more than 15,000£ in salary.

16 CGA-Canada Issue in Focus: Tax-Free Savings Accounts – Shifting Opportunity. October 2009.
17 There are restrictions for non-Scottish nationals studying at universities in Scotland as well as for non-EU member international students

RESP Awareness

The Canadian public's awareness and understanding of RESPs has become a growing concern. A study conducted by EKOS Research Associates Inc.[18] in March 2008 looked at the exposure of RESPs to low income families. Among the many results, the study indicated that although 83% of respondents had heard of an RESP, only 54% were able to actually define it. Parents with children under the age of four were more likely to have heard of RESPs compared to parents with children over the age of eleven. This is contrary to the earlier mentioned finding in that it is the children ages 5 – 12 cohort which is seen to actually participate in RESPs more than any other age group. Furthermore, a more revealing result showed that among all respondents, only one third had heard of CESGs. Among those, only a quarter had a correct understanding of CESGs.

Awareness decreased even further for the Canada Learning Bond. Only 1 in 10 (approximately 10%) of respondents had heard of the Canada Learning Bond, where the majority (59%) of those respondents could not provide details of it (21% could define it but did not have a full understanding). Again, families with children under the age of 4 were more likely to have heard about the CLB than families with children over the age of 11. Throughout the study, a consistent correlation was evident between parent's education level and RESP awareness. The higher the level of education of the parent, the more likely they were to possess RESP knowledge.

The study concluded that clear RESP explanation is not robust among low income families and seeing as this income bracket could benefit the most, communication improvements are needed.

Another study from Informetrica Limited[19] in August 2008, focused on RESPs and financial institutions among other aspects. Their research concluded that although financial institutions and group scholarship providers have been influential in communicating the prospect of RESPs, there are still lost opportunities in reaching Canadians.

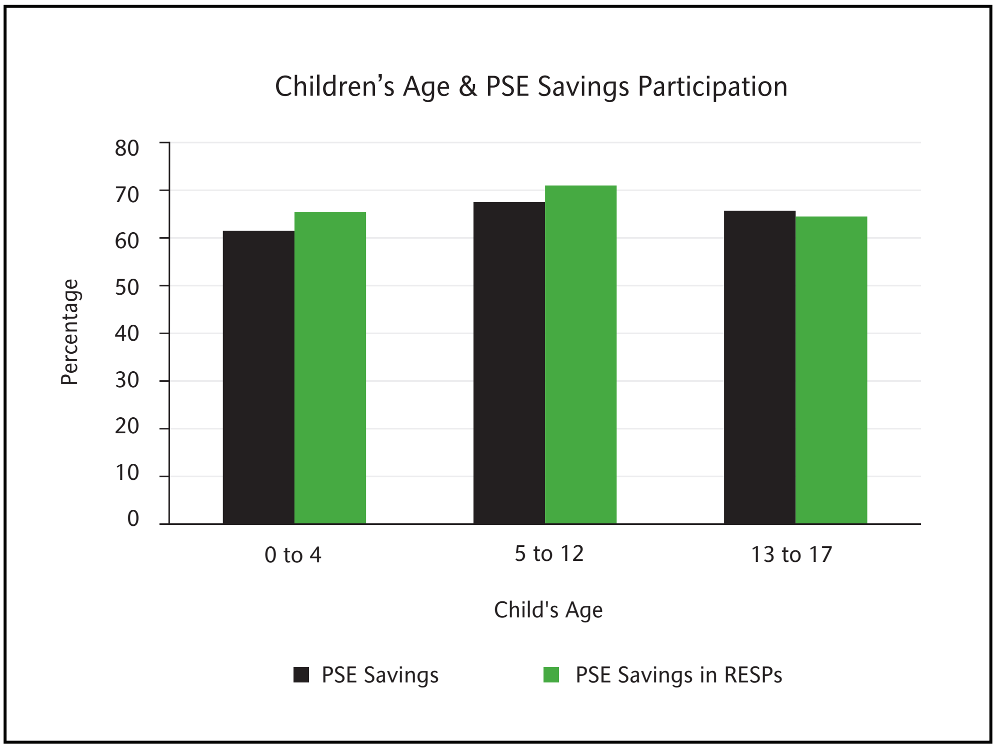
Lack of communication on the RESP processes, operations and definitions between the industry and the government was the main complaint. Further assistance in revising rules and regulations as well as advertising RESPs to the public to stimulate participation were mentioned in particular. In response, the government has released various User Guide updates addressing concerns to an extent (July 2009 & August 2009 user guide amendments).

18 EKOS Research Associates Inc. is a full-service consulting practice specializing in Market, Public Opinion, Program Evaluation, and Human Resource & Organizational Research.

19 Informetrica Limited is a privately owned Canadian company specializing in economic research.

Results from the Culture, Tourism and Centre for Education Statistics Division Canada study came in contrast to the previous studies mentioned above. Over two thirds (68%) of respondents said that they had set aside savings for future post secondary education and of those with PSE savings, 69% held them in RESPs. Positive correlation was evident among savings and the age of parents; PSE savings increased with age.

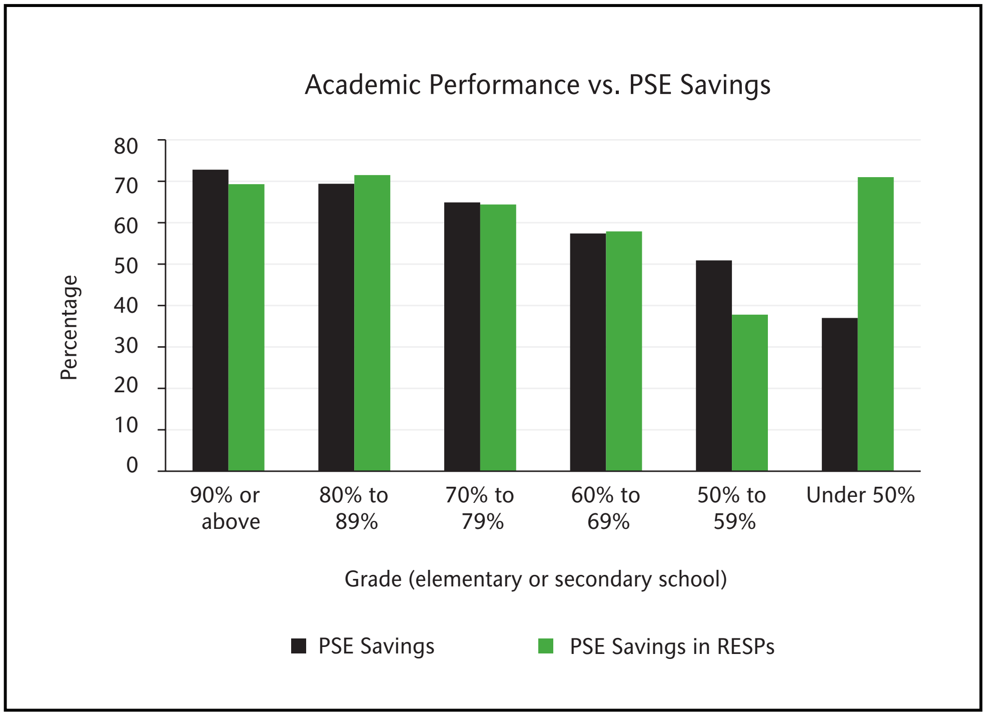
Figure 6 – Comparing PSE Savings with Age Groups



**PSE Savings:* savings set aside for PSE.
***PSE Savings in RESPs:* among savings set aside for PSE, these were specifically put in RESPs
Source: Access and Support to Education and Training Survey (ASETS), 2008.

The study measured the significance of children's performance in school as well as parents' vocational levels and saving for post secondary education. Children performing well in school, whose parents attained a higher education level and had higher education aspirations, were more likely to have education savings. Almost three quarters of children whose last grade in school was ninety percent and above had education savings. In contrast, only one third of children whose grade was below fifty percent had savings.

Figure 7 – Children's Academic Performance & PSE Savings



**PSE Savings:* savings set aside for PSE.
***PSE Savings in RESPs:* among savings set aside for PSE, these were specifically put in RESPs
Source: Access and Support to Education and Training Survey (ASETS), 2008.

The data sets analysed can account for the contrast in the conclusions among the reports. The Culture, Tourism and Centre for Education Stats survey had a larger data pool with over half (52.1%) of respondents having a net family income of more than $75,000. The EKOS study targeted low income families, surveying over 900 families that had net family incomes of less than $38,000. The OECD reported in a 2008 study that the poverty and income inequality gap in Canada has been growing over the last several years.[20] The disparity in the learning, understanding and participating aspects of RESPs seen here is an indicator that the income disparity in Canada is affecting the take up of RESPs.

20 OECD "Growing Unequal? : Income Distribution and Poverty in OECD Countries" pg. 1

Closing Comments

The ideas presented in this paper intend to highlight the RESP as one of the most advantageous savings vehicle for post secondary education available anywhere. The introduction of CESGs within the RESP regime has given Canada a leading edge in terms of mitigating education costs. Government contributions provide Canadian families with the opportunity to attract an additional $7,200 to put toward PSE. This combined with annual family contributions all accrue interest tax free. This plan is ideal for families with young children where early investment can accumulate to large returns at PSE enrolment time.

Canadians have available to them various savings instruments that promote savings for the future. Among them are the Registered Retirement Savings Plan (RRSP) and the newly created Tax-free Savings Account (TFSA). Both of these plans do have competitive features but are in fact not comparable to the RESP. The purposes of these accounts differ greatly from the RESP. The rules and regulations alone put these savings options in different categories. Nevertheless, RESPs provide families with a relatively secure savings option dedicated specifically to education. The allure of supplementary government contributions is not matched by any other plan.

A growing concern in RESP development is how the Canadian public perceives these plans. Studies indicate that a communication gap does exist which can be tied to family income. RESPs need to be understood as a practical savings option with substantial benefits to participating. Reports have shown that financial bodies are approaching new parents to set up RESPs with a commercial sales attitude, which is having a negative effect. Certainly, starting an RESP at a young age will provide a greater advantage, but a more educational approach would reap greater interest from new parents. As more data becomes available, it can become evident that students who have RESPs (and are able to expend them effectively) or any type of PSE savings will graduate with no or significantly lower manageable debt.

The EKOS study on low income families reports that a number of low income family respondents cited alternative sources as their outlet for receiving information about RESPs. If alternative sources are combined into one category, they represent 31% of the market. The motive behind educating consumers on RESPs is questionable. Financial bodies may have a “market driven” bias which can conflict with the government’s RESP education objective.

Tuition costs need to be addressed directly. With gradual federal funding cuts occurring to PSE programs over the last 25 years, institutions have been raising tuition to recover the loss. The idea of controlling tuition costs with caps or further subsidies also needs to be considered. The current UK system serves as a prime example. Although, they have recently raised tuition fees, they are still making higher education accessible to all students regardless of income status through capped tuition amounts and lenient borrowing conditions. Government essentially relieves the financial pressure off of students allowing them an opportunity to fully concentrate on their educations. Without addressing this issue, RESPs will not be as effective or desirable and rising tuition costs will end up negating any savings. RESPs will become more of a necessity than an advantage; not to mention those without RESPs will be at an even further disadvantage.

We have attempted to shed some light on the RESP, its traits, and its importance to higher learning. There is no doubt that in these difficult economic times, savings can be used for more pressing and immediate expenditures with hopes that the future is more savings receptive. Conventional wisdom acknowledges however that the earning of a post secondary degree is a necessary investment and worth the risk.

Appendix – Further Details of the RESP

Types of RESPs

There are four types of RESPs available. Depending on one's circumstances and goals, each plan can be beneficial:

The individual RESP: Only one beneficiary is allowed. There are no restrictions on who can be the beneficiary although age restrictions apply to receiving the Canada Education Savings Grant (CESG). Only beneficiaries that qualify are eligible for the enhanced CESG which responds to net family income. CESG contributions are capped at $7,200 for the lifetime of the plan. The number of contribution years allowed once the plan is established is up to the 31st year of the plan and the deadline for the plan to be paid out and/or terminated is its year that includes its 35th anniversary.

Family RESP: Multiple beneficiaries are allowed however each beneficiary must be related by blood or through adoption to the subscriber (living or deceased) under the plan. According to the Income Tax Act, a blood relationship is that of a parent and child, brother or sister, or descendant such as grandchild. All beneficiaries must be under 21 years of age when named to the plan. The plan timeline is equivalent to the individual plan except that no contributions can be made if any beneficiary under the plan is 31 years of age or older. The lifetime CESG contribution of $7,200 applies to each individual under the plan. All CESGs and investment earnings gained from the RESP are available to all beneficiaries under the plan, however, the Canada Learning Bond CLB contribution is entitled only to the beneficiary it was granted to. The benefit of the family plan is that it provides households an opportunity to save for all children in their family.

Group RESP: These are individual RESPs grouped together to gain the highest possible investment income by a single year cohort in a trust organized by the promoter. The investment income is dispersed to beneficiaries according to the set of rules established by the trust agreement. All CESGs and CLBs are issued to each individual beneficiary within a trust and cannot be combined. In most cases, group plans are managed on an age group concept. Beneficiaries are grouped by their PSE eligibility age, where they all are expected to be attending PSE during the same years. Earnings made on the summed contributions are made available to those who become qualifying students (earnings distribution may differ depending on the details of the trust). However, there have been earlier cases of consumers who at the time of withdrawal have found that they received less than they contributed due to high upfront fees associated with the group trust. Rules and regulations of the trust need to be thoroughly explained to avoid hidden fees or unexpected outcomes.

Specified RESP: This is an individual RESP where the beneficiary is entitled to the disability tax credit. This RESP cannot be combined with the family plan option. The plan must be completed by the end of the year which includes the 40th anniversary of the plan. In addition, no contributions can be made to the plan as of the beginning in the 35th year.

Defining Full-time and Part-time studies at a qualifying Post Secondary Education Institute[21]

A full-time student is defined as one who is enrolled in a program that is at least 3 weeks in length and must have at least 10 hours of instruction per week for the duration of the program. The program must also be at a post-secondary level. The same rules apply to the definition of a part-time student with the exception that there has to be 12 hours of instruction per month for the duration of the program. Part-time students must also be at least 16 years of age. EAPs have a maximum payout limit of $5,000 for full-time students and $2,500 for part-time students for the first 13 consecutive weeks of study. After the completion of these 13 weeks, the limit is lifted and payments can continue as long as the student qualifies.

A qualifying post-secondary educational institution is defined as[22]:

1. A university, college, or other educational institution that is designated as a specified educational institution for student loan purposes;
2. An educational institution that provides courses, other than courses designed for university credit that provides skills for, or enhances a person's skills in an occupation; or,
3. An university, college, or other educational institution outside of Canada that provide courses at a post-secondary level, and at which beneficiary is enrolled in a course of not less than 13 consecutive weeks.

21 Human Resources and Skills Development Canada – Canada Education Savings Program – RESP Provider User Guide "Post-Secondary Education and Educational Assistance Payments (EAPs) – section 1.0"

22 Ibid. - section 1.3

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