Understanding the RESP

Registered Education Savings Plan

FISGARD
CAPITAL CORPORATION

FISGARD.COM

Table of Contents

What is an RESP?

An RESP is a Registered Education Savings Plan which is a savings plan for post-secondary education.

A subscriber and/or joint subscriber (must be the spouse or common law partner of the subscriber) make deposits into the plan on behalf of a beneficiary for the use by the beneficiary for post-secondary education.

A subscriber may also be an agency, institution or department that is responsible for the care of a beneficiary.

In 1998, the Government of Canada introduced the Canada Education Savings Grant (CESG) which is a grant paid into an RESP equal to 20% of the first $2,000 in annual contributions, up to a maximum of $400 per year per beneficiary.

Effective 2007, the Government of Canada increased the payment of the CESG to 20% on the first $2,500 in annual contributions up to a maximum of $500 per year per beneficiary.

In Budget 2004, the Government of Canada introduced two new additions to RESPs. These are the enhanced CESG (eCESG) and the Canada Learning Bond (CLB). These enhancements are effective January 1, 2005.

Children in the care of agencies are eligible for the Canada Learning Bond (CLB) and for the maximum enhanced CESG.

In 2005, the Alberta Government introduced the Alberta Centennial Education Savings (ACES) program which is a benefit to children who are residents of Alberta.

The contributions made to an RESP by the subscriber belong to the subscriber. The grant, CLB, ACES, income earned on contributions and income earned on government benefits become available for the beneficiary as an educational assistance payment (EAP) when he/she attends post-secondary schooling.

While contributions are not tax deductible to the subscriber like an RRSP, the savings accumulate tax-free in the plan until the beneficiary is ready to attend post-secondary education.

An RESP can receive contributions for 31 years after the plan is entered into, but must be terminated by the end of the year that includes the 35th anniversary of the plan.

For disabled tax credit students, an RESP can receive contributions for 35 years after the plan is entered into, but must be terminated by the end of the year that includes the 40th anniversary of the plan.

Types of RESP Plans

There are two main types of RESP plans: Family Plans and Single Plans.

There is a third type called a Grandfathered Plan, however, this only pertains to plans that were opened before 1998 and were governed by legislation at that time.

There are also Group RESP plans. These plans are usually offered by non-taxable entities like foundations. These plans are administered on an age group concept i.e., all contracts for beneficiaries who are 9 years old are administered together. The Foundation's actuary calculates contributions to a Group Plan. The amount and frequency of these contributions stay the same as long as the beneficiary has not attained 18 years of age. **Group Plans are not offered by the credit union.**

Family Plans

A Family Plan can have multiple beneficiaries. All beneficiaries must be related to the subscriber by blood or adoption. This means the beneficiaries must be the children, grandchildren, brother or sister of the subscriber.

With the introduction of the CLB and the eCESG, all new family plans, as well as any that will attract the CLB or eCESG, must consist of siblings only. Since the added benefits are based on family income, there cannot be multiple families in one RESP.

All beneficiaries must be 21 years old or younger (or already a beneficiary under another RESP) when named as a beneficiary. Contributions must end when beneficiary turns 31 years old.

If any beneficiary in a family plan does not pursue post-secondary education, the remaining beneficiaries may use those funds for their educational purposes, except the CLB which is to be used by the specific beneficiary only.

Therefore, the income and grant for a beneficiary not attending post-secondary schooling will not be lost in a family plan (the CLB for the beneficiary not attending school will be returned to the government). This is the major advantage of the family plan.

Note: a beneficiary can only withdraw a maximum of $7,200 in grant as an Educational Assistance Payment (EAP). Any amount above this must be returned to HRSDC.

Example: If the total amount of CESG paid into a family plan with two beneficiaries was $10,000 and only one beneficiary pursues post-secondary education, only $7,200 of the CESG may be paid to that beneficiary. The remaining $2,800 would have to be returned to HRSDC.

Beneficiaries can be added, deleted or changed at any time. However, if adding a beneficiary, the new beneficiary must be related by blood or adoption to the original subscriber. The beneficiaries must be siblings for all family plans.

Single Plans (Non-family Plans)

A Single Plan can only have one beneficiary. Anyone can open a single plan for any beneficiary. The subscriber can even name him/herself as a beneficiary. The beneficiary can be any age when the single plan is opened.

Contributions to single plans may be made up to 31 years after the year the plan was opened.

For disabled tax credit eligible students, contributions to a single plan may be made up to 35 years after the year the plan was opened.

The subscriber of a single plan is allowed to replace a beneficiary without returning the grant if one of the following is true:

- The new beneficiary is under 21 years of age and a sibling of the original beneficiary, or
- Both beneficiaries are under 21 and related by blood or adoption to an original subscriber of the RESP.

Unless one of the above conditions is met, any CESG in the RESP account at the time of the beneficiary replacement will be returned to the government.

Types of Investments for RESPs

Money contributed to an RESP can be invested in a variety of ways. The funds can be kept in a variable savings account, GICs can be purchased or (for credit unions with mutual fund licensed staff) mutual funds can be purchased within an RESP.

The subscriber determines how the money is invested.

How much can be contributed to an RESP?

The annual limit for RESP contributions prior to 2007 was $4,000 per beneficiary. A beneficiary may have had multiple plans opened for them by different subscribers, but the total contribution for all plans per beneficiary was $4,000 per year.

Effective January 2007, the annual contribution limit has been eliminated by the Federal Government.

The lifetime limit for contributions has now been increased to $50,000 (from $42,000) per beneficiary effective January 2007.

It is very important to ensure the annual and lifetime contribution limits are never exceeded as CRA charges a penalty of 1% per month on overcontributions.

What is the CESG?

The Canada Education Savings Grant (CESG) is a grant paid by the Government of Canada directly into an RESP plan. Contributions made to an RESP beginning January 1, 1998 are eligible to obtain the grant subject to special age requirements.

The base CESG is 20% of the contributions made to the plan up to a maximum of $500 CESG each year (prior to January 2007, this limit was $400 CESG). This is not per plan, but per beneficiary. The maximum lifetime CESG paid to a beneficiary from all plans combined is $7,200.

In 1998, all children under the age of 18 and resident of Canada began accumulating grant room of $400 per year (20% of the first $2,000 per year) whether they were a beneficiary of an RESP or not.

Beginning in 2007, the level of grant accumulated increased to $500 per year (20% of the first $2,500 per year) for all children under the age of 18 and resident of Canada.

Effective January 1, 2005, enhanced grant (eCESG) provides additional grant on the first $500 contribution each year based on the Primary Caregiver's family income.

In order for beneficiaries to receive the eCESG, the Primary Caregiver needs to have made a formal application to CRA for the Canada Child Tax Benefit (CCTB). The Primary Caregiver must also file an income tax return each year.

The amount of eCESG a beneficiary will earn is dependent on the net family income of the Primary Caregiver. The income level brackets are modified each year. The net family income amount used when determining the rate of the eCESG is dependent on when the Primary Caregiver becomes eligible to receive CCTB.

If a Primary Caregiver becomes eligible for the CCTB between January 1, 2009 and June 30, 2009, the 2007 net family income will be used.

If a Primary Caregiver becomes eligible for the CCTB between July 1, 2009 and December 31, 2009, the 2008 net family income will be used.

The income levels for 2006 to 2008 are:

Tax Year	The eCESG rate is 20% when net family income is…	The eCESG rate is 10% when net family income is…
2008	$37,885 or less	$37,885 - $75,769
2007	$37,178 or less	$37,178 - $74,357
2006	$36,378 or less	$36,378 – $72,756

All deposits would be eligible for the 20% basic CESG grant.

For example, for a PCG who became eligible for the CCTB in August 2008 with net family income under $37,178, a contribution of $2,500 would receive a CESG deposit of 20% of the $2,500 and an additional 20% on the first $500 of the contribution for eCESG totaling $600 in grant.

A PCG who became eligible for the CCTB in August 2008 and whose net family income is between $37,178 and $74,357, would earn 20% on their deposit of $2,500 and an additional 10% on the first $500 of the contribution for a total of $550 in grant.

Carry-forward grant room

If an RESP contribution of $2,500 (or $2,000 prior to 2007) is not made annually for a beneficiary, grant room can be carried forward for future years.

HRSDC will only pay a maximum of $1,000 of basic grant per year. So, while there is no limit to the amount you can contribute to an RESP, $5000 is the maximum annual contribution that would receive grant in a given year if carry-forward room exists.

Any eligible enhanced grant does not carry forward. Therefore, a deposit attracting grant using carry-forward room will only be entitled to 20% CESG. Enhanced grant is only applied to the first $500 in contributions for the current year.

For example, a $5,000 deposit made for a beneficiary of a family with income less than

$37,178 with grant carry-forward room would attract a maximum total grant of $1,100. This would be 20% CESG for $2,500 using grant carry forward, 20% CESG for $2,500 for the current year and 20% enhanced CESG on the first $500 of the current year's contribution.

The following table which illustrates this example:

Contributions from previous year carry-forward $2,500 @ 20%	=	$500
Contributions from this year $2,500 @ 20%	=	$500
Enhanced grant on first $500 for this year @ 20%	=	$100
Total grant	=	$1,100

How does a beneficiary qualify for the CESG?

To qualify for the CESG, the beneficiary must:

- have a social insurance number
- be a Canadian resident
- be 17 years old or younger** *(see next section for special rules)*

Also required to receive enhanced Grant is the Primary Caregiver's SIN to assess net family income to attract the appropriate grant level. The Primary Caregiver receives the Canada Child Tax Benefit cheque for the child and is usually the mother. The PCG does not have to be the subscriber of the RESP.

If the beneficiary is a child of care under an Agency, the business number of the agency, institution or department is required instead of the Primary Caregiver's SIN.

Special Requirements for Beneficiaries Aged 16/17

There are special eligibility requirements to qualify for the CESG when the beneficiary is 16 or 17.

The beneficiary will only be eligible for grant if one of the following conditions is met:

- a minimum of $2,000 in contributions were made (and not withdrawn) for the beneficiary before the year in which the beneficiary turns 16 (i.e., the deposit must be in the calendar year they are 15 or prior)
- a minimum of $100 in annual RESP contributions were made (and not withdrawn) for the beneficiary in any four years before the year in which the beneficiary turns 16 (i.e., the last deposit must be no later than the calendar year they turn 15)

For eligible beneficiaries who are 17, the deposit must be made in the calendar year that the beneficiary turns 17. Therefore, if a beneficiary turns 17 in February 2009, the latest date for a deposit to earn grant would be December 2009.

A beneficiary is no longer eligible for grant in the calendar year he or she turns 18, even if carry-forward room exists. If a beneficiary is 17 in February 2009 but turns 18 in March 2009, deposits made during 2009 will not be eligible for grant.

CESG Repayments

The CESG must be returned to the Government of Canada if the subscriber withdraws contributions before the child is attending post-secondary education.

The CESG must also be returned under the following circumstances:

- when the plan is terminated or the registration of the RESP is revoked
- when an Accumulated Income Payment (AIP) is made to the subscriber
- when an income payment is made to a designated educational institution
- when none of the beneficiaries in the plan pursues post-secondary education
- when a beneficiary is replaced and the replacement beneficiary is not under 21 years of age or the brother or sister of the former beneficiary

Canada Learning Bond (CLB)

The new Canada Learning Bond will be paid into RESPs opened for National Child Benefit Supplement (NCBS) eligible children born on or after January 1, 2004.

The Primary Caregiver must give consent to deposit the CLB into the RESP even if they are not the subscriber of the RESP.

The CLB entitles eligible children to $500 for the first year and $100 for each eligible following year, up to the calendar year that the child turns 15.

Beneficiaries themselves will be able to open an RESP in the three years between ages 18 and 21 and apply and receive up to $2,000 of CLB if they had qualified for the NCBS and a plan was never opened on their behalf.

Repayment of Canada Learning Bond

Unlike the CESG, if the subscriber withdraws contributions before the child is attending post-secondary education, the CLB is not returned to the Government.

However, if all contributions are returned to the subscriber and the RESP is closed before the child attends post-secondary education; the CLB must be repaid to the Government. The CLB will remain available if a new RESP is opened for the beneficiary in the future or if the beneficiary opens his or her own RESP at the age of 18.

Alberta Centennial Education Savings (ACES) Grant

This is a program offered to children who are residents of Alberta and who have a parent or legal guardian who is a resident of Alberta. However, the parent or guardian does not have to be the subscriber of the plan.

The initial provincial grant is $500 paid to an RESP for eligible children born or adopted on or after January 1, 2005. The initial $500 grant will not require any matching deposit; however, minimum deposits for opening an RESP may exist.

If a child is born or adopted outside of Alberta and his or her parent or guardian later becomes a resident of Alberta, they are eligible for the grant. Applications must be completed within 6 years of the child's date of birth.

Starting in 2007, $100 ACE grants are available to a child who turns 8,11, or 14 on or after January 1, 2005.

To be eligible to receive the $100 grant in the year that a beneficiary turns 8, 11, or 14, in addition to the RESP requirements, the subscriber must provide proof of residency, sign an attestation that the child is attending a school deemed satisfactory to the Alberta Ministry of Advanced Education, and proof that the subscriber has contributed at least $100 to the RESP in the year previous to applying for the Grant.

Withdrawals from an RESP

The grant paid on contributions, the Canada Learning Bond and any provincial grant plus income earned on the money in an RESP is to be used by the beneficiary for the funding of post-secondary education. The subscriber may decide to allow the beneficiary to use the contributions as well. There are also cases where the beneficiary does not pursue a post-secondary education and income withdrawals can be made from the plan with certain restrictions.

Withdrawals for Education Purposes

A beneficiary must be enrolled full-time or part-time in a qualifying educational program at a qualified post-secondary institution to qualify for Educational Assistance Payment (EAP) from an RESP. EAP is composed of federal and provincial grant money, Canada Learning Bond funds, Alberta Centennial Education Savings Grant (ACES) and income earned on contributions, grant, CLB and ACES.

New legislation in 2008 allows for EAP RESP withdrawals to be taken within a six-month grace period after enrollment in a qualified educational program ceases.

For RESPs opened after January 1, 1998, during the first 13 weeks of school, a beneficiary is entitled to a maximum of $5,000 in EAP.

Effective August 2008, after the student has completed the 13 consecutive weeks, there is a limit of $20,000 in EAP on each withdrawal.

If there is a 12-month period in which the student is not enrolled in a qualifying educational program for 13 consecutive weeks, the $5,000 maximum applies again.

Beginning in 2007, a payment may also qualify as an EAP if the individual is at least 16 and is enrolled as a student in a specified educational program. A specified educational program means a program at a post-secondary school level that is not less than three consecutive weeks in duration and that requires each student taking the program to spend not less than 12 hours per month on courses in the program. The total amount of EAPs made to the individual under the RESP in the preceding 13-week period cannot exceed $2,500.

An EAP is taxable income to the beneficiary. However, most students have little or no income, so the tax paid will be very minimal, if any.

The contributions in the plan belong to the subscriber. However, the subscriber may opt to give the contributions to the beneficiary to use for post-secondary schooling as well. This type of payment is called a Post-Secondary Education withdrawal (PSE), and the only limit to this type of payment is the amount of contributions made.

A PSE is not taxable income since the contributions are made with after-tax dollars.

If the subscriber wishes to keep the contributions, the beneficiary could be paid the EAP, the contributions would then be returned to the subscriber, and the plan would be closed.

What qualifies as Post-Secondary Education?

A post-secondary institution can be any of the following:

a) A university, college, or other educational institution in Canada that has been designated for purposes of the Canada Student Loans Act or the Canada Student Financial Assistance Act, or is recognized for purposes of the Quebec Student Loans and Scholarships Act.

b) An educational institution in Canada certified by the Minister of Human Resources Development to be providing courses, other than courses designed for university credit, that give a person occupational skills or improve a person's occupational skills.

c) A university, college or other educational institution outside Canada that provides courses at a post-secondary school level provided the beneficiary is enrolled in a course of at least 13 consecutive weeks.

A qualifying educational program is an education program that requires students to spend 10 hours or more per week on courses or work in the program and that lasts three consecutive weeks or more.

Withdrawals If the Beneficiary does not pursue Post-Secondary Education

If the beneficiary chooses not to pursue post-secondary schooling, and there are no other beneficiaries (for a family plan), or a replacement beneficiary is not named (for a single plan), the money within the RESP is handled as follows:

The contributions are returned to the subscriber, the federal grant is repaid to the Government of Canada, the provincial grant is repaid to the respective provincial government and the CLB is repaid to the Government of Canada. There are two options for the income earned within the plan.

An Accumulated Interest Payment (AIP) may be paid to the subscriber or joint subscriber providing all the following conditions are met:

- the plan has been in existence for at least 10 years
- all beneficiaries have reached age 21
- no beneficiary is attending school
- the subscriber is a resident of Canada

An AIP may be taken as cash. It is taxable income for the subscriber (or joint subscriber) and is subject to 20% tax. The subscriber may also be subject to additional tax as they must report this as income on their tax return.

If the subscriber has contribution room in their RRSP, they may elect to make a tax-free transfer of the AIP to their own RRSP or their spousal RRSP. The transfer is limited to $50,000.

If the above conditions are not met, the subscriber may not withdraw the income from the RESP for their own use and the income must be paid to a Designated Educational Institution, which is elected on the RESP application form or otherwise indicated by the subscriber.

The conditions for an AIP may be waived by CRA if it is reasonable to expect the beneficiary will not pursue post-secondary education due to a severe and prolonged mental impairment or if the beneficiaries of an RESP are deceased.

Changes to RESPs

It is possible to make changes to an RESP once it is in existence. These changes may be to either the subscriber or the beneficiary.

Changes to Subscriber of an RESP

Once an RESP has been established, changes to the subscriber can be made. A joint subscriber may be added or removed, or the primary subscriber may be changed due to death.

If a primary subscriber wishes to add a joint subscriber, he/she can elect to do so as long as the joint subscriber is the spouse or common law partner of the primary subscriber.

A joint subscriber may be removed from an RESP as well, but special requirements are needed if the removal is due to a marriage breakdown.

RESP Estates

If the subscriber of an RESP dies, there are several options for the RESP:

- if the plan is held jointly with his/her spouse or common law partner, the plan will pass directly to the surviving spouse or common law partner.
- if there is no joint subscriber, the estate of the deceased subscriber, may become the new subscriber.
- if there are directions in the Will appointing a new subscriber, a new subscriber may take over the RESP by presenting the required documentation and making a deposit into the plan.
- if there is no direction in the Will, the Executor of the Estate may appoint a person to become the new subscriber if it is in the best interest of the beneficiary.
- the contributions of the plan may be paid to the estate if no other options exist.

Changes to Beneficiary of RESP

The beneficiary of an RESP may be altered after opening the plan.

For a single plan, the original beneficiary may be revoked and a new beneficiary may be named.

According to CRA regulations, the new beneficiary assumes all previous contributions. If the new beneficiary already has an RESP, an overcontribution circumstance may apply.

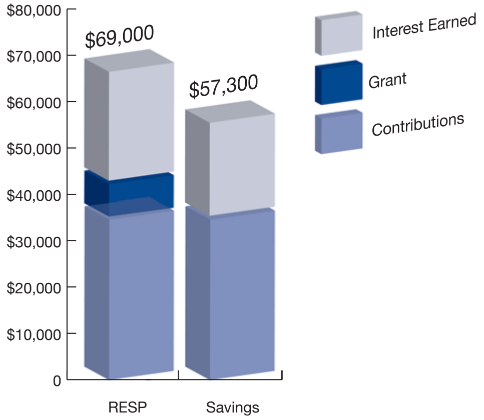
This rule is not enforced if the replacement beneficiary is a brother or sister of the former beneficiary and is related by blood or adoption to the original subscriber and is under age 21.

Note: If the plan exceeds $7,200 in grant due to a replacement beneficiary, once the current beneficiary withdraws $7,200 in CESG, the remainder of the grant in the RESP must be returned to HRSDC.

For a family plan, a beneficiary can be added or removed; however, only beneficiaries related by blood or adoption to the subscriber can be added into a family plan.

With the new RESP Family plan, only siblings may be added to family plans.

The difference in growth of savings in RESP vs. savings account



If you were to invest $2,000 per year for 18 years in an RESP, you would receive $7,200 in grant and your RESP would grow to approximately $69,000 (assuming 5% interest).

If you were to invest $2,000 per year for 18 years in a savings account, you would receive no grant and your RESP would grow to approximately $57,300 (assuming 5% interest).

By depositing the same amount of money into an RESP instead of a regular savings, your money would be worth $11,700 more!

Where Do You Go From Here?

Our employees are ready to discuss any aspects of an RESP which may not have been fully discussed in this brochure or which may need further clarification. Before investing in any RESP, ask about deposit insurance protection.

Fisgard Capital Corporation
3378 Douglas Street, Victoria BC V8Z 3L3

General Inquiries 250.382.9255
Toll Free Phone 866.382.9255
Toll Free Fax 866.384.1498
Email info@fisgard.com
Web www.fisgard.com