MoneySmart

EDUCATION SAVINGS PLAN OPTIONS

Registered Education Savings Plan (RESP)

What it is:	▪ A plan designed to accumulate money to finance post-secondary education. ▪ Investment earnings accrue on a tax-deferred basis.
Who can use it:	▪ Parents, grandparents, other relatives and family friends.
Main Advantages:	▪ Money invested grows tax-deferred. ▪ Money withdrawn to pay for education costs is taxed as income to the student. ▪ Contributions to an RESP can earn Canada education Savings Grant (CESG) money. The grant can be 20%, 30% or 40% of the first $500.00 contributed (the amount is dependent on family income) and 20% on the remaining $1,500.00 contributed per child per year. ▪ Lifetime contribution limit of $50,000.00. ▪ There is a wide variety of investment options. ▪ Family plans allow accumulated earnings to be shared among more than one beneficiary.
Potential Limitations:	▪ The growth on the contributions must be used for post-secondary education. If the client does not pursue post-secondary education, all the CESG money must be returned to the government. However, contributors can withdraw contributions tax-free and investment earnings can be rolled into the contributor's RRSP (if contribution room is available) or withdrawn in cash. When withdrawn in cash there is a 20% penalty in addition to regular income taxes. ▪ There are restrictions on CESG eligibility for beneficiaries 15 years and older.
Special Considerations:	▪ To qualify for CESG money, plan beneficiaries must have a valid Social Insurance Number and be a Canadian Resident. ▪ Registered with Canada Revenue Agency.

Non-Registered Investment Account

What it is:	▪ A taxable investment account that can be used for education savings.
Who can use it:	▪ Parents, grandparents, other relatives and family friends.
Main Advantages:	▪ Money accumulated may be used for any purpose, including education. ▪ You retain control of the money. ▪ There is no contribution limit. ▪ There is no deadline as to when the funds must be used.
Potential Limitations:	▪ Investment earnings are fully taxable, restricting the growth of your money.
Special Considerations	▪ By choosing to invest mainly in equity investments, you can minimize taxes by earning dividend income and capital gains.

Informal "In Trust For" Account

What it is:	▪ An account set up "in trust for" a minor that can be used for post-secondary education.
Who can use it:	▪ Parents, grandparents, other relatives and family friends.
Main Advantages:	▪ Money accumulated may be used for education or other purposes in favour of the account beneficiary. ▪ Interest and dividend earnings are taxed in the contributor's hands, but capital gains will be taxed in the beneficiary's hands. Once the beneficiary reaches age of majority, the funds are taxed in the hands of the beneficiary. ▪ After age 18, all income is attributed to the beneficiary. ▪ No formal trust agreement is required. ▪ There is no contribution limit. ▪ There is no deadline as to when the funds must be used.
Potential Limitations:	▪ An informal "in trust for" account is irrevocable. ▪ The account beneficiary must assume control of the account at age 18 and may withdraw any or all of the money in the plan. ▪ Income is taxed annually.
Special Considerations	▪ Anyone can be named as a beneficiary and there can be more than one beneficiary.

	- By choosing to invest mainly in equity investments, you can minimize interest and dividend income. - Social Insurance Numbers will be required for beneficiaries to report capital gains. - In some provinces, mutual funds are not eligible investments.

Formal Trust Account

What it is:	- A trust account set up for a beneficiary using a formal trust document that specifies how and when funds in the account can be used.
Who can use it:	- Parents, grandparents, other relatives, family friends and spouses.
Main Advantages:	- Trust document specifies how assets held in the trust must be used. There is no requirement that money be used for education unless dictated by the trust document. - Investment income that remains in the trust is taxed within the trust each year. - Withdrawal of income from the trust by a beneficiary age 18 or older is taxed in the beneficiary's hands. - There is no contribution limit. - Many different types of assets can be held in the trust, such as cash, stocks (including shares of a family business), bonds, mutual funds and real estate. - These assets are subject to the trust instrument and/or the applicable provincial trustee act.
Potential Limitations:	- A lawyer will be required to draft the trust document. - Trustee fees may be required to manage the account. - The trust must file a tax return each year. - Interest income and dividends may be taxed to you.
Special Considerations	- Anyone can be named as a beneficiary and there can be more than one beneficiary. - Professional advice is necessary to ensure the benefits of the trust outweigh the associated costs.

Source: "Getting Good Advice: Working With Your Advisor to Save for Education." Fidelity Investments.

Contact us for your free copy of the entire booklet today!