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Everything you need to know about RESPs

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A question that often comes up when starting a family is "how can I best help save for my child's future?" One of the biggest expenses young adults experience is having to pay for post-secondary education. Costs of education are increasing and lots of employers are seeking candidates that have the right education. Helping pay for your child's post-secondary education is a great way to prepare your child for the future and one of the best ways to do this is through a Registered Education Savings Plan (RESP).

RESPs are dedicated savings plans created by the Canadian Government, geared for post-secondary education and will be available when your child begins their post-secondary journey. Much like other Registered Plans, such as an RRSP or TFSA, an RESP allows investments inside the plan to grow tax free. This means you don't pay tax on any investment earnings so your RESP can grow much faster.

But how do RESPs work? The individual who opens the RESP plan is called a subscriber. The child who will be receiving the money in the future is called the beneficiary. Aside from being tax sheltered, another benefit of RESPs are the government grants that come along with contributions. When the subscriber makes a contribution to the plan, the government will also pay 20% of that amount up to a maximum grant amount of $500 per year. This is known as the Canadian Education Savings Grant (CESG). Lower income families may be entitled to other grants and bonds. The maximum lifetime contributions you can make to a plan are $50,000 and the maximum lifetime CESG you can receive is $7,200. Both your contributions and the government grants can be invested to help grow the account.

There are different types of RESP plans so be sure to decide which type of plan is right for your family. The two plans most often used are a Family Plan or a Single Plan.

A **Family Plan** is perfect if you're a parent looking to save for your children. Family plans allow for you to have multiple beneficiaries. To be eligible to open a Family Plan, the beneficiaries must be related to the subscriber by blood or adoption.

A **Single Plan** is a great choice if you're looking to save for a child's education that isn't directly related to you. Single Plans can be opened by anyone who wants to support the education of a child that is close to them, however in a single plan there can only be one beneficiary.

A common concern that often comes up is "what happens if my child doesn't end up going to post-secondary school?" In a Family Plan, if one of the beneficiaries decides not to pursue post-secondary school, the remaining beneficiaries may use those funds for their education with some exceptions. In a Single Plan, the subscriber can replace a beneficiary if they are under 21 and a sibling of the original beneficiary.

If a beneficiary decides not to go to post-secondary school right away but may want to go back to school down the road, you can still keep the RESP open. RESPs can stay open for 36 years.

If you know the beneficiary will not be going to post-secondary school there are options for the money in the plan. Subscribers can close the plan and take back the contributions they made to the plan. They can also transfer the money to an RRSP, however there are certain rules you have to consider. All grants will be paid back to the government if they are not used for educational purposes.

If you are interested in setting up an RESP, the best approach is to speak with a G&F expert who can guide you through the process.

Learn more:

Podcast: Save for a Brighter Future with an RESP

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