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Invest in your child's future

Your guide to the Mackenzie Registered Education Savings Plan

Let's begin

Introduction

For many, higher education can be a path to a fulfilling life, imparting skills, broadening horizons and providing valuable life experience. It's a journey most parents aspire to for their children.

But education's value is reflected in its cost. Ever-rising tuition, expensive textbooks and student housing can be obstacles for many families. For many Canadians, student loans might play a substantial role in achieving their education goals.

There is an alternative to borrowing in the future: you can start investing for your child's education, today.

Mackenzie is on a mission to create a more invested world. In partnership with financial advisors, we provide the support Canadians need to achieve their goals. We've become experts in education savings, offering guidance, knowledge and a simplified approach to investing in your child's future.

This brochure aims to shed some light on the RESP and explain its main advantages. You'll learn how to make the most of government grants, the tax treatment of withdrawals and what you need to know when your child is ready for post-secondary school.

> **"An investment in knowledge pays the best interest."**
>
> – Benjamin Franklin

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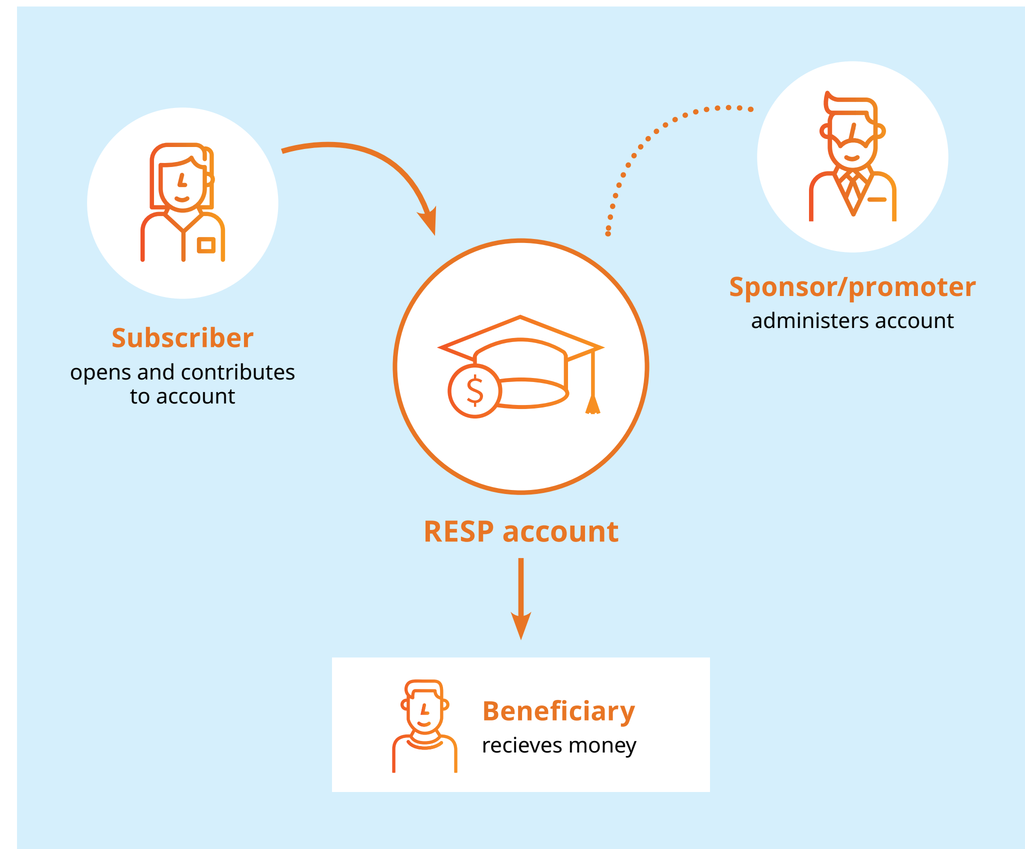
What is an RESP?

Investing through a Registered Education Savings Plan (RESP) can help accelerate your child's education savings. Your contributions grow tax-free, and the government may provide generous matching grants.

An RESP can provide peace of mind that you are helping your child get off to a good start, reducing or even eliminating the need for student debt.



RESP at a glance

- Allows families to grow education savings tax-free until withdrawal
- Generous government grants accelerate savings
- When the child enrols in a post-secondary institution, withdrawals may begin
- Investment growth is taxed in the hands of the student, who could pay little or no tax
- Unlike RRSP contributions, there is no tax deduction for contributions
- The money can be used towards more than just tuition costs – including living expenses, books, other course materials and more

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The first step: Opening an RESP

You may open an RESP for your child as soon as they have received their Social Insurance Number. It's a good idea to obtain this important piece of government identification at your earliest opportunity, as this will allow you to start saving for their future.

There are two types of RESP. Both allow tax-free investment growth and facilitate government grants. The difference lies in the number of beneficiaries and who may open the plan.

	Family RESP	Individual RESP
Number of beneficiaries	• One or more; must be siblings of each other (either by blood or adoption)	• Single beneficiary only
Subscriber	• Subscriber be must parents or grandparents • Joint subscribers must be spouses • Must be related by blood or adoption to beneficiary	• Can be opened by anyone for anyone • No blood relation required between the beneficiary and subscriber
Age of beneficiaries	• Must be under the age 21 at the time of inclusion in the plan	• Can be of any age
Government grants	• Shared by all beneficiaries (excluding Canada Learning Bond)	• Sharing not applicable
Recommended for	• Single-child families considering more children • Families with more than one child	• Single-child families • Families with large age differences between children • Subscribers who want to open an RESP for themselves or someone they're not related to • Families with more than one child
Time limits	• Contributions can be made if at least one beneficiary is under age 31 (although grants are only paid until December 31 of the year they turn 17)	• Up to the 32nd anniversary of the RESP opening

How to open an RESP

1. Obtain a Social Insurance Number (SIN) for your child
2. Choose the type of RESP that's best for you: a family plan or an individual plan
3. Speak to your financial advisor to get Mackenzie applications and open your RESP

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Case study 1

Dinesh and Amita

Dinesh and Amita had their **first child** a year ago, **Priti**. They have **no plans** on having **more children** but know that they **may change their minds** in the future. **They have two options for Priti's RESP.**

1. Open an individual plan. No future beneficiaries can be added, **if Priti doesn't go to school, all grants must be returned.**

2. Open a family plan. They will be **able to add any future children as beneficiaries who can share the grants** if one child does not pursue post-secondary education.

Case study 2

Melinda

Melinda would like **help fund** to her **nephew Craig's education** for the future.

Because Melinda is **not** Craig's parent or grandparent, **she may not open a family plan**.

She **may open an individual plan**, and **Craig will benefit** from both **contributions** and **government grants**

Case study 3

Thérèse and Denis

Thérèse and Denis want to **open an RESP** for their **grandchildren**. Their son has **twins, Fabrice and Simone**, and their daughter has **two children Anthony and Michel**. Thérèse and Denis have **two options**:

1. Open four individual plans, one for each beneficiary. This requires **four separate** account **opening documents**. Grants are **not shared** and will be **lost if the beneficiary does not go to school**. If there are more grandchildren, they **cannot be added** to any of the individual plans.

2. Open two separate family plans, one for the twins and one for the siblings. Grants **can now be shared** within the separate family plans in case a grandchild does not go to school. If more grandchildren are born, **they can be added to the existing plan with their siblings to share grants.**

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The sooner you start, the more you can save

Once the RESP is open, you may start contributing. The sooner you begin, the longer the plan has to grow. Each contribution to an RESP will trigger government grants, up to a prescribed limit.

There is a lifetime contribution limit of $50,000 per beneficiary. Be careful not to exceed this limit, as over contributions are subject to a penalty tax of 1% per month. If you do over contribute to a family plan, you may re-allocate the money to other beneficiaries.

However, there is no annual contribution limit; if you choose, you may contribute the lifetime limit of $50,000 as soon as your plan is open. However, the 20% CESG is limited to $500 per year, so an annual $2,500 contribution assures the maximum grant is received, assuming no carryforward room.

Unlike contributions to an RRSP, your RESP contributions are not tax-deductible. As such, principal may be withdrawn tax-free at any time. However, withdrawing contributions before the beneficiary starts post-secondary school will require repayment of the grants triggered by the contribution (learn more under "Accessing your RESP").

How to make the most of your RESP

Since there is no annual RESP contribution limit and the lifetime maximum limit is $50,000, you may ask whether it is better to:

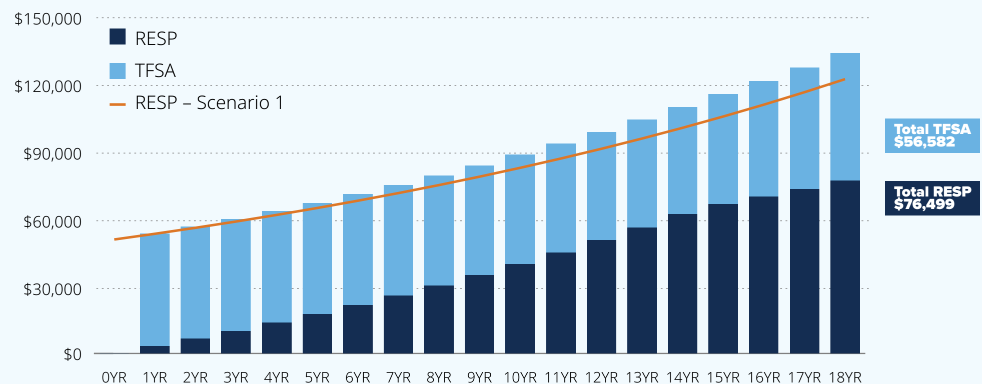
1. Make an initial lump sum $50,000 RESP contribution; or
2. Spread contributions across 15 years to maximize the lifetime federal grant of $7,200. (It will take 14+ years to obtain the maximum CESG of $7,200 when annual contributions of $2,500 are made).

Case study

Lee, 38, is beginning her peak earning years and wants to open a RESP for her 9-month-old daughter Sara. She reviews her options with her financial advisor:

1. Lee could make an initial contribution of **$50,000** and attract the **$500** CESG for the current year, which will be paid into Sara's RESP. Assuming a **5%** annual rate of return, the value of **Sara's RESP at age 18 is equal to $121,534**.
2. Alternatively, Lee could spread the **$50,000** over 18 years and maximize the CESG. She could invest the **$50,000** in her TFSA. Each year, she transfers **$2,500** from her TFSA to the RESP (where Sara is named as a subscriber and beneficiary). **This ensures she receives the maximum annual CESG until the $7,200 limit is reached**.

After 18 years the value of the RESP is **$76,498**. Additionally, the value of Lee's TFSA will be about **$56,582**. **The combined value of the RESP and Lee's TFSA is $133, 080**.



Hypothetical example, for illustrative purposes only. Assuming a 5% annual rate of return

The best part, free money! Government grants

As an incentive to help you save for your children's education, the federal government and some provinces offer grants based on contributions made. To qualify, the beneficiary must be a resident of Canada and the relevant province.

Federal grants

Basic Canada Education Savings Grant (CESG)

- Matching grant of 20% on contributions, to an annual maximum of $500 per beneficiary.
- In a family plan, all beneficiaries can share this grant.
- Grant room begins to accumulate for a child the year they are born, even if they are not yet a beneficiary of an RESP
- If a subscriber does not contribute in any given year, unused Basic CESG grant room can be carried forward for use in another year, to a maximum of $1,000 per year.
- The maximum lifetime grant per beneficiary is $7,200, across all RESP accounts in their name.

Additional CESG

To encourage lower income families to save, the government provides Additional CESG based on the primary caregiver's net family income. Canada Revenue Agency considers the primary caregiver to be the person who receives the Canada Child Tax Benefit.

Net family income*	Additional CESG	Basic CESG	Total
Below $50,197	First $500 x 20% = $100	$2,500 x 20% = $500	$600
$50,197 to $100,392	First $500 x 10% = $50	$2,500 x 20% = $500	$550
Over $100,392	First $500 x 0% = $0	$2,500 x 20% - $500	$500

*As of 2022

Special CESG rules for students aged 16 or 17

RESPs for beneficiaries 16 and 17 years of age can only receive CESG if at least one of the following two conditions is met:

- a minimum of $2,000 was contributed to (and not withdrawn from) their RESP before the end of the calendar year they turned 15; or
- a minimum annual contribution of $100 was made to (and not withdrawn from) the RESP in at least any four of the years before the end of the calendar year the child turned 15.

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Canada Learning Bond (CLB)

This program helps low-income families save for their children's education, with an initial grant of $500 and $100 for each year of eligibility until the child is 15 years old. To be eligible, the family must be receiving the National Child Benefit Supplement.

Provincial grants

British Columbia Training and Education Savings Grant (BCTESG)

- Provides one-time grant of $1,200 to eligible RESP beneficiaries
- Parents/guardians and the beneficiary must be residents of BC
- Children must be born in 2006 or later
- Available to eligible children on their sixth birthday, up to the day before their ninth birthday

Saskatchewan Advantage Grant for Education Savings (SAGES)

- Provides 10% matching grant on eligible RESP contributions, up to $250 per year, or $4,500 lifetime
- Beneficiary must be a resident of Saskatchewan
- Contributions must be made by December 31 of the year the beneficiary turns 17

Quebec Education Savings Incentive (QESI)

- Refundable tax credit, paid annually, into RESP based on contributions and family net income
- Tax credit is 10% of the first $2,500 of annual RESP contributions
- Annual tax credit increases to 20% on first $500 of contributions for low-income families and to 15% on the first $500 of contributions for middle-income families
- Lifetime maximum tax credit is $3,600 per beneficiary
- Beneficiary must be Québec resident under the age of 18

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The Big Day! Off to school, now what?

Your child has finished secondary school and is ready to start their higher education. Now your diligent saving will pay off – it's time to start withdrawing from the RESP.

The first step is for your child to provide proof of enrolment and submit a redemption form to the financial institution that holds the RESP.

There are two types of withdrawals:

Educational Assistance Payments (EAP) are paid out to a beneficiary once they are enrolled full-time or part-time at a designated educational institution. The EAP consists of the investment growth on the contributions and grants, as well as the grants themselves. They do not include principal contributions, which always belong to the subscriber.

EAPs made during the first 13 weeks of a beneficiary's education will be limited to a total of $5,000. After the beneficiary has completed 13 consecutive weeks of their program, they may receive any amount of EAPs.

The EAP amount is taxed in the hands of the beneficiary who, as a student, is likely in a low tax bracket.

How much of it is grant money? A specific portion of each EAP will be considered attributable to grants paid into the plan, based on the ratio of grants paid into the plan to total investment earnings in the plan.

Post-Secondary Education (PSE) capital withdrawals are made from the contributed principal.

If the money is used for educational purposes, the CESG does not need to be repaid. The beneficiary must use the money for post-secondary studies.

Because these contributions were made with after-tax dollars, there is no income tax payable on withdrawal.

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What if my child doesn't enrol in post-secondary school?

1. Wait a while

Your child may change their mind, and RESP accounts can remain open for 36 years.

2. Choose a new beneficiary

In an individual plan, the new beneficiary can be anyone. But if the new beneficiary is not a sibling under 21 years of age, the CESG must be repaid.

In a family plan, the new beneficiary must be related by blood or adoption to the contributor. In this case, the CESG can be allocated to another beneficiary if the total CESG does not exceed $7,200. Otherwise, any excess grants must be repaid.

3. Roll over to RRSP

You can defer the tax payable on the income withdrawal by rolling it directly into your RRSP or spousal RRSP, provided you have contribution room. The maximum rollover is $50,000 per contributor, so spouses who are joint contributors to a family plan can each roll over up to $50,000 to their RRSPs. There are strict conditions that must be met to consider this option, please speak to your financial advisor for more information.

4. Withdraw your contributions

Contributions made to the plan can be withdrawn at anytime on a tax-free basis. However, any grants paid on these contributions must be repaid to the government

5. Withdraw earnings and growth

In addition to the tax-free contributions that can be withdrawn from the RESP (option 4), you may also be entitled to withdraw the growth on the contributions, plus the growth on the grants (which are themselves are repaid to the government) if you meet certain conditions. This is known as an Accumulated Income Payment (AIP).

You will qualify for an AIP if all current and previously named beneficiaries have reached the age of 21, are not attending a post-secondary institution and the RESP has been in existence for at least 10 years. An AIP is taxable at your marginal tax rate plus a 20% penalty tax.

6. Roll over to Registered Disability Savings Plan (RDSP)

If the beneficiary becomes disabled, you may transfer the accumulated income to a qualified RDSP for the beneficiary. This can be done on a tax-deferred basis with no penalty. To be eligible to roll over the investment income from an RESP to an RDSP, the beneficiary must:

- Be eligible for the disability tax credit (DTC) at the time of the rollover
- Be less than 60 years of age in the year that the rollover is made
- Be a resident in Canada.

What you need to know about taxation of withdrawals

EAP:

Consists of only growth and grants. This amount will be taxed in the hands of the beneficiary, who's generally in a lower tax bracket due to post-secondary studies.

PSE:

Made from contributed money, so there is no tax upon withdrawal.

Accumulated Income Payment (AIP):

A payment to a subscriber from growth. It does not include contributions or grants. If a beneficiary doesn't go to school, and no replacement beneficiary has been named, the subscriber may receive the investment income under certain conditions.

When can I take an AIP?

- The plan must be in existence for 10 years
- All beneficiaries must be at least 21 years old and not pursuing post-secondary school
- The subscriber must be a resident of Canada
- When withdrawn, the AIP is fully taxable at the subscriber's marginal tax rate

Can the subscriber avoid the tax consequences?

The subscriber may choose to transfer this AIP to his/her RRSP or to a spousal RRSP, providing there is enough contribution room in their RRSP. There is a limit of $50,000 per subscriber.

If the subscriber does not have contribution room in their RRSP, they can take the AIP in cash, subject to the following rules:

- The AIP received will be included in the income of the subscriber for that year, and income tax will be payable by the subscriber at their marginal tax rate
- The AIP will be levied a penalty tax of 20%
- The grant money must be returned to the government

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Proof of enrollment guidelines

The following information is required for all acceptable proof of enrollment, which indicates the beneficiary has enrolled in a specific program:

- Beneficiary's full name
- Name of educational institution
- Program of study
- Program type – university, college, trade college or other
- Qualified education program (full-time) or specified educational program (part-time)
- Program length in years, which may be implied by the program of study
- Course length in weeks, which you may have to calculate by the session. Fall session is usually 13 weeks, but could be as little as three weeks.

Acceptable proof of enrollment

Document type	May be valid proof of enrollment if...
Letter from the registrar	• Signed or certified by the office of the registrar or department head • A student may be able to obtain a letter via the school's web site • The student may be charged for this letter
Email from the registrar	• An email confirming enrollment from the registrar • Additional requirements include: contact information related to the confirmation email and the delivering email address must be from the school's web domain (e.g. registrar@utoronto.ca)
Invoices or receipt of payment	• Must be from the registrar's office • Implies part- or full-time status (by course length, tuition cost or number of courses) • If the only requirement to enroll in an educational institution is to pay, an invoice may be acceptable
Printout of online confirmation of registration status	• Must contain the school's web site address identifying the source of the web site
Timetables or course schedules	• Includes name of student, program type, term and school name or logo or web site address
T2202 or T2202A receipt	• Submitted within the first six months following the end of the beneficiary's term of enrollment in a qualifying program

Unacceptable proof of enrollment

Document type	
Letters of acceptance/ offers of admission*	• These letters are only offers and do not clearly demonstrate or prove that the student has accepted and is enrolled in school
Student cards*	• Cards do not indicate the current year of enrollment
Past years' proof of enrollment	• Must have documents that clearly indicate the student is enrolled in the current academic year

* An acceptance or admission letter or a student card are not considered valid proof of enrollment by themselves; however, one of these along with another acceptable proof of enrollment document may be admissible.

An opportunity not to be missed

An RESP can be an incredibly powerful way to build an education fund. Unfortunately, it's often overlooked by those who could benefit the most: lower- and middle-income families. The combination of tax-deferred growth, government grants and mutual funds can make it one of the most fulfilling investment decisions a parent can make.

To find out how to make the most of an RESP, speak with your financial advisor.

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Frequently asked questions

1. Our child was born recently and we have not yet received a social insurance number (SIN). Can we still open a RESP account?

No. The SIN is a required piece of information of the beneficiary that is needed to open the account.

2. Are there limits on the amount of money that can be put into a RESP?

Yes, there is a lifetime limit of $50,000 for each beneficiary for all RESPs. Although there are no annual limits for contributions on RESPs, the CESG will only be paid on the first $2,500 of contributions (plus up to another $2,500 if the beneficiary has CESG room carry forward from previous years).

3. How long does it take to receive CESG?

Mackenzie files contributions with Employment and Social Development Canada (ESDC) on a monthly basis. The ESDC validation process may take up to six weeks; however, any applicable CESG is typically paid into the RESP within four weeks of filing.

4. Can one child be the beneficiary of more than one RESP?

Yes, within the limits described above in Question 2.

5. What documents are required to add a new beneficiary to an existing family RESP?

Mackenzie requires:

1. A letter of direction signed by the account subscriber(s) requesting the addition of the new beneficiary. The following details of the new beneficiary need to be given on the request:
- Name
- Date of birth
- Social Insurance Number
- Gender
- Relationship to subscriber

Please note the beneficiary must be under 21 years of age.

2. The ESDC grant application form for the new beneficiary

6. What does "blood" relationship mean?

A blood relationship is that of a parent and child (or other descendants, such as a grandchild or a great grandchild) or that of a brother and sister. Blood relationship excludes that of uncle, aunt, niece, nephew and cousin for CESG purposes.

7. Can an adoptive parent be a subscriber on an RESP account?

Yes, including legal adoption or adoption by fact (a child who is wholly dependent on and in the custody and control of the "adopting" parent).

8. What happens when you overcontribute into an RESP?

Overcontributions (exceeding maximum $50,000 lifetime contribution limit) to an RESP are subject to 1% per month tax on the excess amount until it is withdrawn. The excess amount still counts against the lifetime limit even if it has been withdrawn.

General Inquiries

For all of your general inquiries and account information please call:

English: 1-800-387-0614
Bilingual: 1-800-387-0615
Asian Investor Services: 1-888-465-1668
TTY: 1-855-325-7030
Fax: 1-866-766-6623
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Web: mackenzieinvestments.com

For more information about opening a Mackenzie RESP, talk to your advisor, or visit mackenzieinvestments.com/resp

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