

RESPs:



A Special Savings Plan for Education



Government
of Canada

Gouvernement
du Canada

Canada
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Learning is the key to success at every stage of life. Education is among the best investments you can make for the future. Close to 70% of all new jobs now depend on some form of education after high school.

Because the Government of Canada believes so strongly in the value of education, it will help you save by adding to the amount you put aside for a child's education.

This handbook tells you how to access programs that will help your savings grow faster. It also gives you useful information about **Registered Education Savings Plans (RESPs)** and other Government of Canada programs that can help you save for a child's education after high school, including:

- a **Canada Education Savings Grant (CESG)** that is added to the money you put into an RESP; and
- a **Canada Learning Bond (CLB)**, that is an additional grant worth up to \$2,000 that may be available to you, depending on your family income.

Want to know more?

As you read this guide, you may have other questions about these programs. For more information about RESPs and investment options, call the Financial Consumer Agency of Canada (FCAC) at : **1-866-461-3222**.

For information about Government of Canada education savings plans, call **1 800 O-Canada (1 800 622-6232)**.

If you have a speech or hearing impairment, you can use the TTY number, **1 800 926-9105**. You can also visit www.canlearn.ca.

WHAT IS A REGISTERED EDUCATION SAVINGS PLAN (RESP)?

A Registered Education Savings Plan is a special savings plan that can help you, your family or your friends save for education after high school.

RESPs are registered with the Government of Canada so that savings for education can grow tax-free until the person named in the RESP enrolls in studies after high school.

OPENING AN RESP

Why should I open an RESP?

When you open an RESP for a child, the Government of Canada will help you save by adding money to your RESP through special savings incentives. These incentives are the Canada Education Savings Grant and the Canada Learning Bond. They are only available if you open an RESP. *

* Residents of Alberta who have an RESP may also be able to get additional grant money under the Alberta Centennial Education Savings Plan. For more information call **1-866-515-2237**, or look on the Internet at <http://www.advancededucation.gov.ab.ca/aces/>.



Who can open an RESP?

Anyone — parent, grandparent, other relative or friend — can open an RESP for a child. You can even open a plan for yourself.

Where can I open an RESP?

You can open an RESP at most financial institutions such as banks and credit unions, or with group plan dealers or financial service providers. Institutions and organizations that offer RESPs are known as RESP providers.

For a list of RESP providers, call the Financial Consumer Agency of Canada at **1-866-461-3222** or go to www.fcac.gc.ca.

What do I need to open an RESP?

You need to get a birth certificate for your child from the provincial or territorial government where your child was born. You will also need your own Social Insurance Number (SIN) from the Government of Canada and a SIN for the child you are saving for. There is **no cost** or age limit to get a SIN. Even a baby can get one.

How do I apply for a Social Insurance Number?

- Visit your local Service Canada Centre or Human Resource Centre of Canada (HRCC).
- Call **1 800 O-Canada (1 800 622-6232)** for more information.
- Look on the Internet at www.hrsdc.gc.ca (keyword search 'SIN').

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SAVING WITH AN RESP

Is there a minimum amount of money I need to put in an RESP?

The amount of money you put into an RESP depends on the type of RESP you choose and the amount of money you choose to invest. Some RESPs have no minimum deposit requirements, while others do. Before you decide on the type of RESP to open, be sure to shop around and find the plan that best fits your budget and the RESP provider that best meets your needs.

Note: The Government of Canada will still add to your savings, no matter how little you put into your child's RESP.

Do I need a bank account to open an RESP?

No. You can open an RESP without having a bank account.

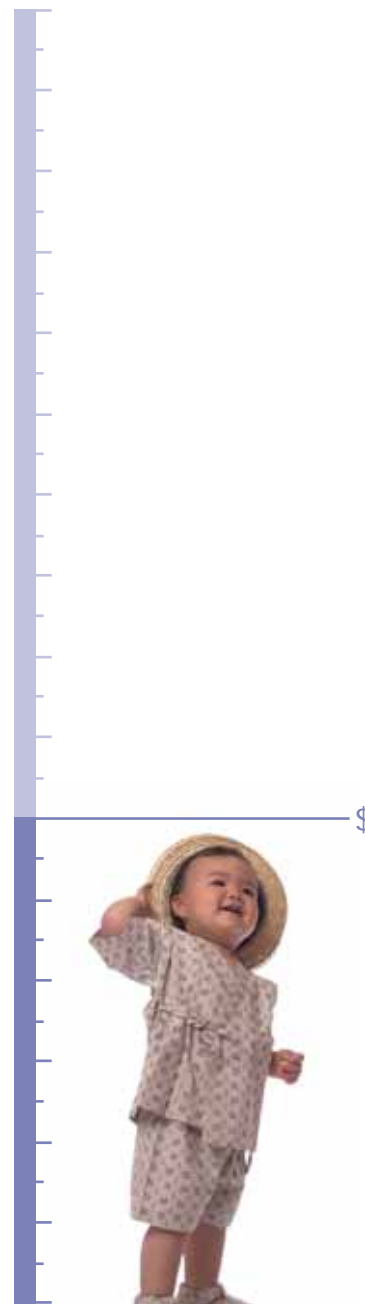
How much money can I put into an RESP?

You can put up to \$4,000 into an RESP each year. Over your lifetime, you can invest up to \$42,000 for each person named in an RESP.

How often do I have to put money into an RESP?

Some types of RESPs require specific monthly contributions. Others let you put money into your RESP whenever you want. Every RESP is different.

The sooner you start to save, the more your savings will grow. This is because you'll begin to earn interest sooner. Even \$5 a week can add up quickly, especially when government grants are added to your savings.



Can I open an RESP for myself?

Yes. There are no age limits for opening an RESP. You can open a plan for a child, or you can name yourself or another adult as the beneficiary of your plan. An RESP allows adults to earn interest on their education savings tax-free.

Note: Adults cannot get the Canada Education Savings Grant or the Canada Learning Bond.

CHOOSING THE RIGHT RESP FOR YOU

You can choose from three types of RESPs: family, individual or group plan. Before you choose an RESP ask the RESP provider to explain the different types of plans so that you can decide on a plan that best suits your needs.

Family Plan

In a family plan, you can name one or more children as beneficiaries of the RESP, but they must be related to you. They may be your children — including adopted children — grandchildren, brothers or sisters.

Individual Plan

An individual plan is for one person. The person does not have to be related to you. Since there are no age limits, you can even set up an RESP for yourself or another adult.



Group Plans

Group plans are offered and administered by group plan dealers. Each plan has its own rules. Be sure to read these rules carefully and shop around to get the plan that best suits your needs. Usually, group plan dealers must put the money in low-risk investments such as bonds, Treasury Bills and Guaranteed Income Certificates (GICs). Usually, you have to sign a contract agreeing to make regular payments into the plan over a certain period of time.

In a group plan, your savings are “pooled” with those of other people. The amount of money your child gets is based on how much money is in the pool and on the total number of students of the same age who are in school that year. Make sure you ask your group plan dealer what happens to the money if the child does not continue with education right after high school. In order to collect the RESP, the beneficiary has up to the age of 26 to attend a post-secondary educational institution.

SERVICE FEES

Some RESP providers charge service fees, others do not. Some may also limit the amount of money you can put into your plan and tell you how often you can contribute.

Note: Before you open an RESP, ask the RESP provider to explain any fees, limits, penalties or promises to make regular payments. Shop around for the cost and type of RESP that best suits your needs.



MAKING YOUR MONEY GROW

How do I decide what to do with the money I put in an RESP?

Once you have decided whether to open a family, individual or group plan, ask your RESP provider about your investment choices. You can leave your money in a savings account or choose from a variety of options such as bonds, guaranteed investment certificates (GICs), mutual funds or stocks.

It is important to take your time. Ask your RESP provider questions about your investment choices, including the pros and cons of each.

Note: Some of your investment choices may have more risk, service fees or penalties. Make sure you ask for a list of the fees or penalties that may apply.

Do I pay tax when I take money out of an RESP?

You will not pay taxes on the money you have invested in the RESP. The interest your investment earns while it is in your RESP will be taxed, but only when the RESP is closed or money is taken out to pay for the education of a person named in the plan as a beneficiary. Since many students have little or no other income, they can usually withdraw the money tax free.

HELP FROM THE GOVERNMENT OF CANADA

Canada Education Savings Grant

When you open an RESP for a child, the Government of Canada will add the Canada Education Savings Grant (CESG) to your savings. Since 1998, more than two million children have benefited from these grants.



Who can get the Canada Education Savings Grant?

Most children under 18 years of age can receive the grant, as long as they are Canadian residents are named as beneficiaries of the RESP and have a valid Social Insurance Number (SIN), and at least \$1 has been put into the RESP.

Note: There are special rules that apply for children in the years they turn age 16 or 17.

How do I get the Canada Education Savings Grant?

All you need to do to get a CESG is:

- Get a birth certificate from your provincial or territorial government and then get a SIN for your child from the Government of Canada. There is no cost for a SIN. Anyone, even a baby, can get one.
- Choose an RESP provider. (RESP providers include most financial institutions such as banks, credit unions, group plan dealers or financial service providers).
- Open an RESP for your child.
- Put some money in your RESP.
- Ask your RESP provider to apply for the CESG on behalf of your child.

The grant money will be deposited directly into your child's RESP.

How much is the grant?

The amount of the grant is based on your family income. The amount can change over time as your family income changes.

Depending on your family income, your child could receive an additional grant on RESP savings that you make after December 31, 2004 on behalf of a child:





- If your net family income is below \$36,378*, the Canada Education Savings Grant will give you **40 cents** for every dollar on the first \$500 you save in your child's RESP each year. If you save more than \$500, you will get **20 cents** for every extra dollar, up to a maximum of \$2,000.
- If your net family income is below \$72,756*, the Canada Education Savings Grant will give you **30 cents** for every dollar on the first \$500 you save in your child's RESP each year. If you save more than \$500, you will get **20 cents** for every extra dollar, up to a maximum of \$2,000.

No matter what your net family income is, the grant provides at least **20 cents** for every dollar of the first \$2,000 of annual RESP savings made on behalf of a child. If you make \$2,000 in RESP contributions in one year, you will receive between \$400 and \$500 in CESG (depending on your family income).

*2006 amounts — These amounts are updated each year based on the rate of inflation.

Your net family income is reported on your Canada Child Tax Benefit statement (commonly known as "baby bonus", or "family allowance") that you receive from the Canada Revenue Agency each July. It is important to apply to the Canada Revenue Agency for the Canada Child Tax Benefit as it may affect the amount of CESG you will receive.

Canada Learning Bond

The Canada Learning Bond (CLB) is a Government of Canada grant to help families start saving early for their child's education after high school.

Who can get the Canada Learning Bond?

You can get the Canada Learning Bond if:

- Your child was born after December 31st, 2003; and
- Your monthly Canada Child Tax Benefit payment (commonly known as “baby bonus” or “family allowance”) includes the National Child Benefit Supplement.

For families who qualify, the Government of Canada will add to a child’s RESP by making a first payment of \$500, plus extra payments of \$100 a year for children up to the age of 15, as long as you receive the National Child Benefit Supplement annually. The total CLB available for a child could amount to \$2,000.

An additional \$25 will be paid into the RESP with the first \$500 bond to help cover the cost of opening the plan.

How do I get the Canada Learning Bond for my child?

All you need to do to get a CLB is:

- Apply for a birth certificate and then a SIN for your child.
- Apply to the Canada Revenue Agency for the Canada Child Tax Benefit Supplement.
- Choose an RESP provider who offers the Canada Learning Bond. (RESP providers include most financial institutions such as banks and credit unions as well as group plan dealers or other financial service providers).
- Open an RESP for your child.
- Ask your RESP provider to apply for the CLB on behalf of your child.

The bond money will be deposited directly into your child’s RESP.





Do I have to put money into an RESP to get the Canada Learning Bond?

No. Even if you don't put money into your RESP, the Government of Canada will deposit the Canada Learning Bond into the RESP you opened for your child.

USING YOUR RESP

How soon can the person(s) named in the plan start using the money?

The student can start receiving money from the RESP as soon as he or she is enrolled in a qualified post-secondary educational program.

What is a qualified educational program?

Qualified educational programs include apprenticeships and programs offered by a trade school, CEGEP, college or university.

Usually, a qualified educational program is a course of study that lasts at least three weeks in a row, with at least 10 hours of instruction or work each week. A program at a foreign educational institution must last at least 13 weeks.

Note: To find out more about qualified educational programs ask your RESP provider or call the Financial Consumer Agency of Canada at: **1-866-461-3222**.

Can RESP funds be used for students going to school part-time?

Yes. RESP funds can be used for either full- or part-time study in a qualified program.

What happens to the RESP if the person named does not continue education after high school?

If a person named in the RESP decides not to continue education after high school, you may be able to:

- Wait for a period of time. They may decide to continue studying later. RESP accounts can remain open for up to 26 years. In special cases, some plans could remain open for as long as 31 years.
- Transfer the money to a brother or sister's RESP if he or she decides to continue his or her education after high school.
- Transfer the money into a Registered Retirement Savings Plan (RRSP) to help you save for your retirement.
- Withdraw the money. Ask your RESP provider for details.

Note: Make sure you check with your RESP provider to find out about any conditions that may apply to the plan if your child does not continue education after high school.

If you withdraw the money, how much tax will you have to pay?

You will not be taxed on the amount you contributed to the RESP, but you will have to pay taxes on the money you earned in your plan as interest. This money is called accumulated income. It will be taxed at your regular income tax level, plus an additional 20 percent.

You may withdraw the income earned in the RESP if:

- all the persons named in the plan are at least 21 years old;
- you are a Canadian resident; and
- you opened the RESP at least 10 years ago.



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What happens to the Government of Canada grants if the person named in the RESP decides not to continue education after high school?

The Canada Education Savings Grant may be used for another child's education. The Canada Learning Bond cannot be transferred to another child and must be returned to the Government of Canada. The amount that you saved and the interest it earned goes back to you.

Is there a time limit?

- An RESP can stay open for a maximum of 26 years. In special cases, some plans could remain open for as long as 31 years.

BEFORE YOU OPEN AN RESP...

- Look for an RESP provider (bank, credit union, group plan dealer or financial service provider) that best meets your needs.
- Make sure you have a Social Insurance Number (SIN) for yourself and the person named in the RESP.
- Decide if you want to manage your savings yourself or obtain the services of a financial advisor.
- Decide if you want to open an individual, family or group plan.

Then ask your RESP provider these questions:

- Does it cost anything to open an RESP?
- Once I have opened an RESP, will I have to pay any fees? If so, what are they for and how much will I have to pay?
- Do I have to put in a minimum amount of money to open an RESP?
- Do I have to make a regular payment?
- What happens if I cannot make a regular payment? Do I lose my investment?
- What are my investment choices? What are the pros and cons of each choice? Can the value of my investment go down?
- Can I withdraw money if I need it? Are there penalties for withdrawing money early?
- Can I transfer the RESP to another person or to another RESP provider? What is the cost to transfer?
- What will happen to my savings in the RESP if the recipient of the RESP does not continue his or her education after high school?
- Does the RESP provider limit the types of qualified educational programs that I can use my savings for?
- What happens if I close my RESP early?



WHERE CAN YOU GET MORE HELP?

For more information about RESPs and banking, contact the Financial Consumer Agency of Canada (FCAC):

Toll-free: **1-866-461-3222**

E-mail: **info@fcac.gc.ca**

Web site: **www.fcac.gc.ca**

The Financial Consumer Agency of Canada is an agency of the Government of Canada. FCAC makes sure that banks respect the laws that protect you.

For more information about the Canada Education Savings Grant or the Canada Learning Bond, or to order a copy of this brochure, call **1 800 O-CANADA (1 800 622-6232)**. If you have a speech or hearing impairment, use the TTY number, **1 800 926-9105**.

Website: **www.canlearn.ca**

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