Can I Open an RESP for a Child That Isn't Mine?

You can open an RESP for any child, be it your own, a niece or nephew, grandchild or even a family friend. RESP contributions can be invested, plus, if certain conditions are met, they are eligible for a government grant so that, if you contribute regularly, it can be a great way to save for post-secondary education over the long term.

"We are seeing more grandparents choosing to open RESPs for their grandchildren," says Jody Beaupre, Regional Vice President of Financial Planning at TD Wealth. "Parents are often strapped for cash, especially in the early parenting years when there are so many expenses. Grandparents and others are choosing to help out."

However, opening a separate RESP account without coordinating with the child's parents could create confusion and possible financial penalties.

You will need the child's social insurance number — likely it's in the hands of the child's parents — to open the account and register it to the child. Each year, the Canada Education Savings Grant (CESG) matches 20 per cent of your contributions, to a maximum of $500 annually (and a lifetime maximum of $7,200). While there is no minimum contribution limit, subscribers would have to contribute $2,500 annually to trigger a $500 grant. The lifetime contribution limit on behalf of the student is $50,000 and, depending on which province the child lives in, and their family income, there could be additional government money available.

"There are financial penalties for over-contribution to the plan," says Beaupre, "so having numerous RESP accounts with various contributors can require detailed communication around who is contributing what."

"If the child doesn't go to college or university, the grant money can't be withdrawn" Beaupre says, "but the contributions can be rolled over into an RSP, if there is room."

If the child's parents are actively contributing to an RESP and receiving the maximum amount of grant money, you might consider putting your contributions into your own Tax-Free Savings Account. "Your contributions won't receive any grant money, but your investment can grow and be used tax-free," says Beaupre. She states that saving for any goal, whether it's education, a vacation or retirement, should be part of your bigger financial picture and an advisor can help you plan accordingly.

Retirees who are managing an RESP for a grandchild should also consider what might happen if they pass away before the RESP is accessed or depleted. An RESP may become part of their estate and be taxed accordingly if they die. Consider speaking to an advisor or a wills and estate specialist about estate planning for the RESP.

— Denise O'Connell, MoneyTalk Life