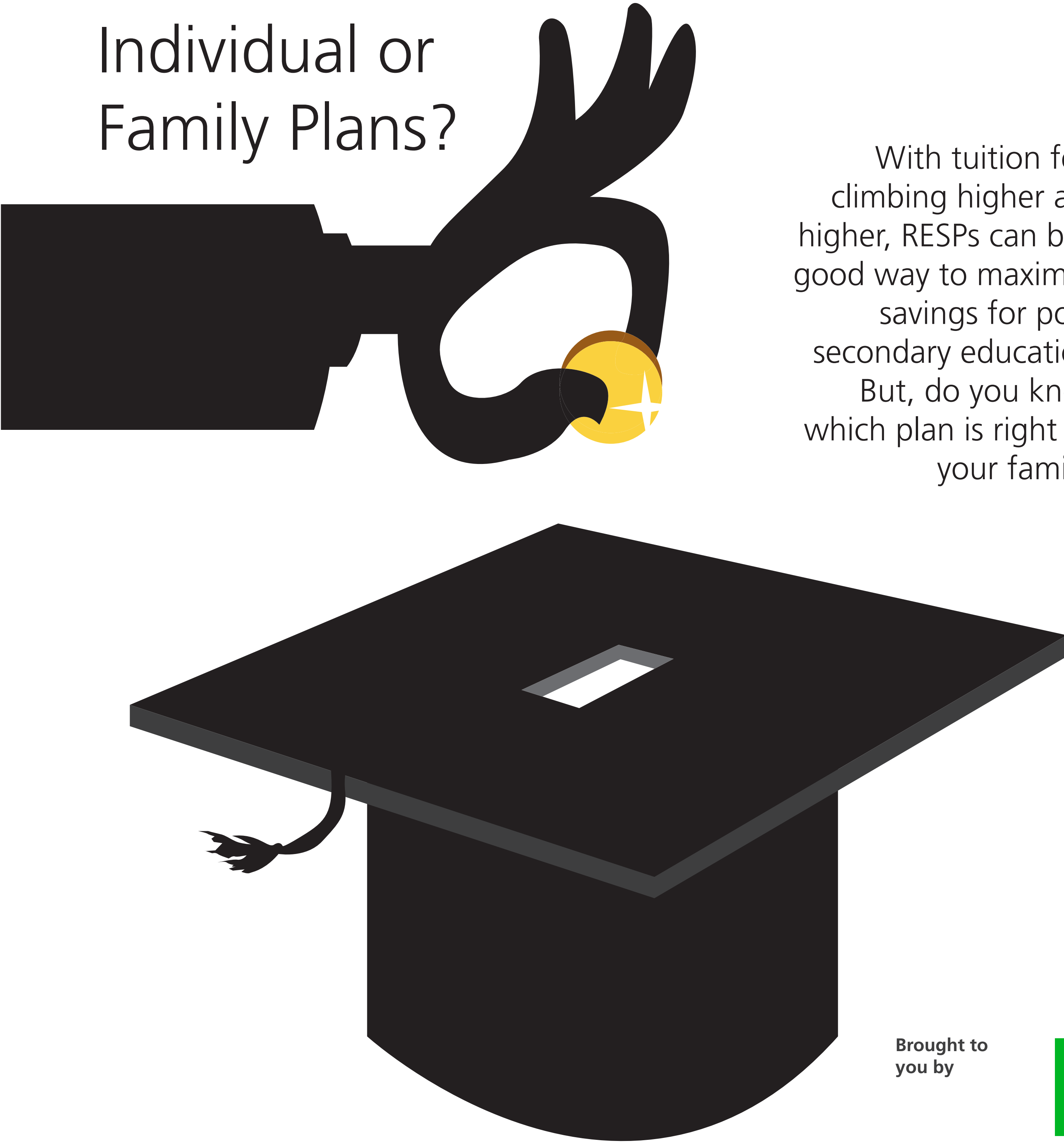
Getting Schooled in RESPs

Individual or Family Plans?



With tuition fees climbing higher and higher, RESPs can be a good way to maximize savings for post-secondary education. But, do you know which plan is right for your family?

Even though Riley, 5, and Megan, 8, are in elementary school, they already have big dreams for their future.
"I want to be Superman when I grow up," says Riley with a sincere smile, "because he can fly."

Megan is a little more of a realist, but no less adorable. "I want to be a chemist," she relays, "so that I can make all sorts of cool potions and stuff."

Darcy, their dad, knows that any post-secondary course on the history of Krypton or Magic Potions 101 will be expensive. In fact, Riley has already priced it out. When asked how much it will cost to become Superman, he answers expertly, "Forty-hundred and a million dollars." That's considerably higher than the projected $102,000 it will cost to get an undergraduate degree in 2027[i].

Darcy and his wife Corinne opened up RESPs for both children after they were born, through a popular RESP provider. But now, they understand that RESPs aren't necessarily a one-size-fits-all approach. "Right now, Megan and Riley have individual RESPs," Darcy says from his east Toronto home, "but I've been wondering if a family RESP is a better way of doing it."

Some Canadians already know that RESPs can be a good way to maximize saving for post-secondary education, namely because the government rewards you for saving by kicking in some money of its own to help. Last year alone, Canadians held $44-billion worth of assets in RESPs[ii], and more than half of parents have opened an RESP to save[iii]. But within the "umbrella" of RESPs are individual plans and family plans, and parents may not know which to choose and why.

Zeljka Turek, Financial Advisor at TD Wealth simplifies it. "An individual RESP is meant for one child. A family RESP is for multiple children to share the savings."

Individual Plans

While both plans will allow you to save and invest money for post-secondary education, and government grants will apply to both, knowing which plan works best for your family can give you some added flexibility. With an individual plan, anyone can sponsor a beneficiary, and the sponsor doesn't have to be a relative; grandparents, aunts, uncles, or friends of the family can set up a plan for a beneficiary. You can even set up an individual plan for yourself, although there are restrictions on who can receive the government grant. This type of plan has no age restrictions. "An individual plan is great for the one-child family which won't have to worry about sharing those assets," says Turek. "It's also a good option if you would like to open an account for someone who isn't related to you, and if you want to save for your own future education needs."

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>
> **Zeljka Turek,** Financial Advisor at TD Wealth

Family Plans

If you have more than one child, a family plan may be the right option as the savings can be shared amongst all your children. In a family plan, all beneficaries must be related, by blood or adoption to their sponsor, such as grandchildren, great-grandchildren, brothers or sisters. Beneficiaries can also be added or changed over its lifetime. When allocating the money, each beneficiary must use a portion—although not necessarily equally. "This means that if you have a child who will be going to medical school," says Turek, "he or she will be able to utilize more of the assets than another child who will do a college diploma in media studies.

"One fundamental question is who will go to school first and whose program will be more expensive," discloses Turek. She advises parents to take a look at how far away school is, how much will it cost when the kids are ready to go, and who is likely to go to a post-secondary institution and who isn't.

In both plans, the government will grant up to a maximum of $7200 per beneficiary until they turn 18 years of age. In a family plan, grant money can be shared, but the lifetime maximum of $7200 per beneficiary must be respected. Any portion of the grant not used by beneficiaries will be returned to the government upon closing the RESP. And in both cases, RESPs must be terminated after 35 years of existence.

Bottom Line

If you can't decide which type of RESP to subscribe to, talk to an advisor. Saving for education may be difficult to fit into an already tight budget, but an advisor can also guide you on ways to save for post-secondary costs. The government grant portion of RESPs is "free" money, so making regular contributions may be well worth your time. -*Written by Denise O'Connell, MoneyTalk Life*

[i] TD Economics. Future Cost of a University Degree. October 15, 2009
[ii] Employment and Social Development Canada. 2014 Annual CESP Annual Statistical Review.
[iii] CPA Canada. CPA Canada 2014 Canadian Finance Study Report.