NATIONAL BANK FINANCIAL

GOOD EDUCATION:
A GREAT INVESTMENT

WHETHER IT'S UNIVERSITY, COLLEGE OR A TRADES PROGRAM, HELPING A DESERVING CHILD OBTAIN A QUALITY EDUCATION IS ONE OF THE BEST LONG-TERM INVESTMENTS YOU CAN MAKE. THE CHILD MIGHT BE YOUR OWN, A GRANDCHILD, NIECE, NEPHEW OR EVEN THE CHILD OF A CLOSE FRIEND.

Post-secondary education can cost a lot of money. The federal and provincial governments sponsor special student loans, but that means the new graduate must start his or her career in debt.

Fortunately, tax breaks and a federal subsidy make it possible for you and other caring adults to pre-fund a child's education through one or more lump sum deposits or gradual periodic savings.

The RESP

The RESP is a very popular education savings vehicle, and for a good reason. When it was designed, the federal government included generous incentives to encourage families to start saving for post-secondary education while their children are still young. The program offers tax breaks, a government subsidy called the Canada Education Savings Grant (CESG) and, for RESPs opened by lower-income families a special grant called the Canada Learning Bond (CLB). Certain provinces, notably Alberta and Quebec also offer subsidies to encourage saving for the cost of post-secondary education.

The RESP offers four main advantages:

> It's a special account established as a trust for the benefit of one or more children. This means the education money is kept separate from other family assets. Research has found that children who know that money is available are more motivated to pursue post-secondary education.

> Money in the plan compounds tax-free. That can substantially increase the accumulation over 18-20 years.

> The plan's earnings are taxed only on withdrawal – and then it's the student, not the contributor(s), who gets taxed. Students typically pay little or no tax because they generally have low incomes and also benefit from education tax credits. As noted in the section on taxation, the basic personal credit enables every Canadian to earn about $9,600 tax-free.

The contributions that funded the plan can be withdrawn tax-free because those payments were made in after-tax dollars. The subscriber(s) who funded the plan can reclaim that money, or let the student use it.

> The federal government adds money to the account through the Canada Education Savings Grant and, if applicable, the Canada Learning Bond. The governments of Alberta and Quebec also pay grants to RESPs for children in those provinces.

Canada Education Savings Grant

How would you like an immediate 20% return on money you invest? That's essentially what the federal government offers to RESP subscribers.

The government will match 20% of your contribution with the Canada Education Savings Grant (CESG). This grant is capped at $500 a year, so the full amount is paid if you and/or other subscribers contribute $2,500 to an RESP during the course of the year for a beneficiary. Technically, you could contribute as much as $50,000 for each beneficiary – the lifetime maximum – but doing that in just one year would entitle the plan to only one $500 CESG.

The CESG is paid directly to the RESP, increasing the amount invested. Entitlement begins in the year a child is born and runs until age 18. In all, these grants can total $7,200 per beneficiary.

There is also a special incentive aimed at helping low- and middle-income families to set up RESPs. The CESG matching for the first $500 is raised to 30% or 40%, depending on family income. The income thresholds are updated yearly. Here is the impact, based on the levels set for 2007.

CESG and family income

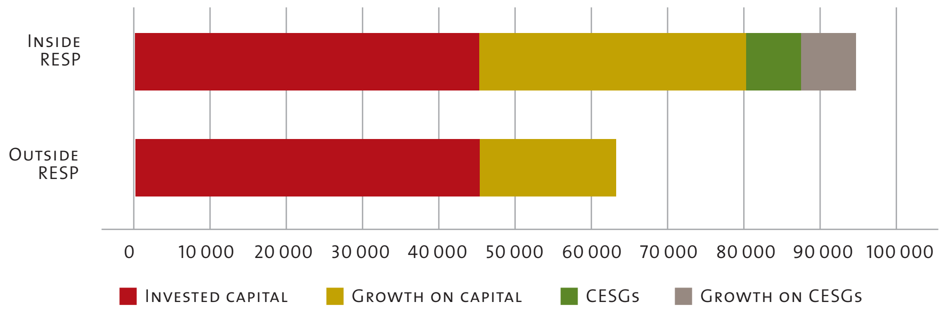
Family income	Grant paid on first $500 contributed
Below $36,378	40%, boosting the subsidy by $200. In addition, these families can apply for a Canada Learning Bond – a $500 government payment to the plan that is not tied to subscriber contributions. Those receiving the National Child Benefit Supplement can also receive an extra $100 a year for up to 15 years.
$36,738 – $72,756	30%, boosting the subsidy by $150.
Above $72,756	The normal 20% grant is paid, so the CESG on your first $500 contributed would be $100.

If you live in Alberta and your child was born in 2005 or later, the provincial government offers a special grant as an inducement to open an RESP. The Alberta Centennial Education Savings grant will pay $500 to the RESP right after it's set up. That's for every family, not just those in the low- and middle-income brackets. Additional grants of $100 are then paid to the RESP when the child is 8, 11 and 14. Details can be found at www.advancededucation.gov.ab.ca/aces/.

For Quebec residents, this province launched its own incentive program for post-secondary education savings in 2007. The incentive, which takes the form of a refundable tax credit, is equal to 50% of the CESG per year, up to a cumulative lifetime limit of $3,600.

This chart shows how much more a tax-sheltered RESP can accumulate than a regular savings account whose income is fully taxed. We included only the basic CESG, not the initial bonus for low- and middle-income families or the Canada Learning Bond. In each case, we assumed a monthly deposit of $208.33 ($2,500 per year) over a period of 18 years. This money grew at 6% a year before tax. Interest for the regular savings account was taxed at 40% while the RESP earnings compounded tax-free.

Comparison of RESP and Regular Savings



	Inside RESP	Outside RESP
Total contributions over 18 years	$45,000	$45,000
Growth on capital	34,753	17,775
CESG	7,200	0
Growth on CESGs	6,608	0
TOTAL	**$93,561**	**$62,775**

WE SUGGEST…

If your available cash flow is limited, consider the "double dip." Contribute to your RRSP and then use the tax refund as an RESP contribution. Suppose you're in the 40% tax bracket. A $5,000 RRSP contribution would generate as much as $2,000 in tax savings. A $2,000 RESP contribution would qualify for a $400 Canada Education Savings Grant. Putting it all together, you and your child would have $7,400 compounding on a tax-sheltered basis.

Family RESP or individual plans?

The RESP rules provide for two types of plans – family and individual. A family plan covers several children while an individual plan covers just one. You could, for example, set up one individual RESP for each of your two children.

The family plan is run as one pool, making it easy to direct money to the children most in need. For example, a child who requires little money because he attends a local community college could subsidize his sister's more costly university education.

The individual plans – ideally funded and invested exactly the same – are easier to understand, provide a more direct tie between each child and the adult contributing the money, and more easily accommodate situations where an age gap or different planning means the children will need money at different times. If one child does not pursue post-secondary education or does not need the full amount in the account, the money can be transferred to the sibling's RESP.

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