

Saving for your child's education in Canada: How RBC Royal Bank® can help

With the rising costs for university and college, saving for your children's post-secondary education is more important than ever. An RBC Royal Bank Registered Education Savings Plan (RESP) can help give them the opportunities they deserve.

As a newcomer to Canada, you may already know about the tremendous educational opportunities available for your children in this country. What you may not be aware of is the cost of education once your children leave high school.

While the government pays for children to go to school from kindergarten through high school, education is not fully funded beyond that. Should a student decide to go on to post-secondary education, or to a vocational or technical institute or trade school, the costs must be paid by the student or his or her family. Tuition fees for any type of further education can be very high, for example, college and university costs are now almost three times what they were just 16 years ago¹. Your children will likely have to pay for annual tuition fees (approximately \$4,000 or more), textbook purchases, personal

computers plus living expenses if they live independently while going to school.

One government agency, Human Resources and Social Development Canada, predicts that a four-year undergraduate program away from home could cost more than \$100,000 by the year 2019².

Despite these potential costs, further education is still one of the best ways of securing a positive future for your child. More companies are demanding higher education levels than ever before. If you plan to help your children with some of these costs, the best strategy is to start saving as early in their life as possible.

That's where we're able to help you. RBC Royal Bank has worked with thousands of newcomers to Canada to help them save for their children's education — and there's no better place to begin the savings process than with a Registered Education Savings Plan (RESP).



RESP basics

An RESP is an education savings plan registered with the government that allows you to set aside money specifically for your children's, grandchildren's or another special child's education. Similar to a Registered Retirement Savings Plan (RRSP), income earned in the plan grows on a tax-deferred basis until withdrawn. Therefore, income earned within the plan is not taxed as long as the funds remain in the plan. The longer the funds stay in the plan, the more quickly they are likely to grow, thanks to "compounding" or earning income on previously earned investment income. However, unlike an RRSP, your contributions to an RESP cannot be deducted from your income for tax purposes.

When your child is ready for post-secondary education at a university, college, community college, vocational or technical institute, full time or part time, the investment earnings in the plan can be withdrawn and used to cover tuition fees and other expenses. As long as the money is used for educational purposes, these withdrawals are taxable to your child, not you. In most cases, there may be little or no tax owing because your child will likely be earning only a small amount of money, if any, and will therefore be taxed at a low rate.

There are no annual limits to RESP contributions, so you can contribute any amount at any time, to a lifetime maximum contribution of \$50,000 per child, although you will need to spread out your contributions over a number of years if you want to fully benefit from the government assistance. The plan can remain open for a maximum of 25 years, and contributions can be made to the plan for up to 21 years

(or 25 years, if the child has a disability).

Canadian government contributions

In addition to the benefit of tax-deferred investment earnings — and perhaps little or no tax to pay on these earnings when they are withdrawn from the plan — the other significant benefit of an RESP is that the Canadian government also makes contributions to the plan.

Under the Canada Education Savings Grant (CESG) program, when you make an RESP contribution, the federal government matches 20% on the first

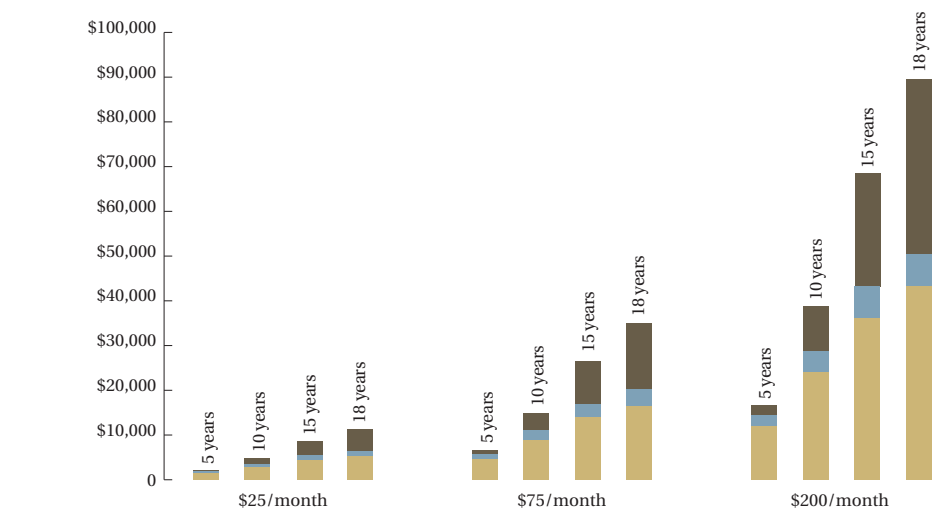
\$2,500 contributed annually for a child under the age of 18. So if you contribute \$500, the government will add another \$100. Or, if you contribute \$2,500, you'll get \$500. The maximum lifetime CESG is \$7,200 per child.

If you contribute less than \$2,500 in any one year (\$2,000 before 2007), the unused grant entitlement can be carried forward to a future year. The maximum CESG that the government will pay in any one year is \$1,000 per child if you contribute \$5,000 or more.

Families with modest incomes may qualify for an additional CESG for each child of 10% or 20% on the first \$500

RESP growth: \$25, \$75 or \$200 per month

Tax-deferred growth and the Canada Education Savings Grant make RESPs one of the most effective ways to save for a child's post-secondary education. If you contributed just \$25 a month, earning 6% annually, to an RESP for your newborn child, you'd have more than \$11,000 by the time he or she was 18. Contributing \$75 a month brings the total to \$34,150. Contribute \$200 a month, and you'll get the maximum CESG and have almost \$90,000 by the time your child is 18.



- Contributions
- CESG
- Interest

Assumptions: 20% CESG paid at the end of every year (although the CESG may be 30% or 40%, depending on family income); annual compound rate of return of 6%; marginal tax rate (outside of RESP) of 31%. Chart is for illustration only. Actual returns and tax rates will vary.

annual contribution. In addition, they may be entitled to receive the Canada Learning Bond grant by opening an RESP for children born after 2003. Some provinces also offer incentives to encourage parents to save for their children's post-secondary education. Ask an RBC representative whether you might qualify for any of these programs.

What type of plan should I open?

RBC offers two types of RESPs — individual plans and family plans.

- › Family plans can include more than one child. The person who establishes and contributes to the plan (the subscriber) must be related by blood or adoption to each child who is named as a beneficiary of the plan. In other words, you can set up a family plan only for your children, grandchildren, great-grandchildren, and brothers or sisters. You can contribute to a family plan only for children who are under 21 years of age.
- › Individual plans have just one beneficiary, who does not have to be related to the subscriber. You can set up a plan for anyone you want, such as a niece or nephew or the child of a close friend.

What if a child doesn't pursue a post-secondary education?

In the case of a family plan, the RESP can be transferred to a sibling who is planning on continuing their education. If none of the children will be continuing their education, or if you're dealing with an individual plan, you can withdraw the plan's earnings, so long as the beneficiary is over 21 years old and the plan has been open for 10 years. Keep in mind, however, taxes might have to be paid on these funds.

Just like with any other investment, you will have to pay tax on the investment earnings that were earned in the plan. To reduce some or all of the tax applied, including the extra 20% withdrawal penalties when withdrawing for non-education purposes, you are allowed to transfer up to \$50,000 of the RESP earnings into your own or a spousal RRSP, if you have available RRSP contribution room. Any CESG grants received must be repaid to the government. You can take back your original contributions to the plan with no income tax implications.

To learn more about how RBC Royal Bank can help you save for your child's education, speak to an RBC representative

How to open an RESP

You can open an RESP account with just one visit to any RBC branch. Here is what you will need to provide:

- › A Social Insurance Number (SIN) for the child for whom you are opening the RESP. You can apply for a SIN at any Service Canada office. For detailed information on how to get a SIN, go to the Service Canada Website, at www.servicecanada.gc.ca
- › Name and address for the child's primary caregiver (usually the person who receives the Universal Child Care Benefit).
- › SIN of primary caregiver, and your SIN and documentation concerning you, the subscriber, such as your birth certificate, proof of Canadian citizenship or proof of residency.
- › All documents need to be signed by you and the primary caregiver, if that is not you.

at any branch. We can help you figure out how much you need to save and suggest the best way to get started.

How to maximize your RESP

The following strategies can help you make the most of the tax-deferred growth potential of an RESP.

- › **Commit to regular savings.** Regular contributions ensure that your savings are growing and that funding your child's education remains a top priority. Keep in mind that the maximum CESG can be received only if contributions are spread over a number of years. A plan like RESP-Matic® makes it easy. With RESP-Matic, a set amount of money is withdrawn automatically from your bank account. Just decide how much you want to contribute and how often, and your savings will build automatically. If you can afford to contribute just over \$200 a month, you'll qualify for the maximum CESG at the end of the year. An average contribution of \$167 per month beginning at birth will also result in the maximum CESG after 18 years. If you can't contribute that amount, don't worry. Small contributions add up over time, even if you start with just \$25 per month. Later on, you might be able to make catch-up contributions if you can afford to contribute up to \$5,000 per year.
- › **Put your money to work.** An RESP can hold a wide range of investments that may offer higher returns than savings accounts, including GICs and mutual funds. If you are not sure of the best way to invest, you may want to consider the RBC Target Education Funds. These mutual funds are specifically designed to help pay for a child's post-secondary education that starts around 2010, 2015 or 2020. All you need to do is select the fund with a "target date" closest to the date your child will begin post-secondary education.

Important education savings terms

Here is an explanation of some important terms you may encounter when you are exploring education savings options.

Beneficiary. The child or children you name to receive the RESP funds when they attend a post-secondary school.

Canada Education Savings Grant (CESG).

A federal government grant deposited automatically into your RESP, equal to 20% on the first \$2,500 of your annual RESP contribution to a maximum grant of \$500 per year and a lifetime grant of \$7,200 per child. Additional grants of 10% and 20% on the first \$500 of annual contributions are available for qualifying families (based on family income).

Canada Learning Bond. A federal government grant, paid directly into an RESP, available to families with modest income to help them pay for post-secondary education for their children born after 2003.

Compounding. Income that is earned on previously earned investment income. This “income on income” builds over time.

Investment earnings. Wealth generated by mutual funds, GICs and other assets.

Mutual fund. A portfolio of investments managed by professionals on behalf of a

number of investors, who own “units” in the fund.

Post-secondary education. Schooling provided after high school, typically provided by universities, colleges, community colleges, trade schools, vocational and technical institutes.

RESP-Matic. Automatic RESP contributions through RBC Royal Bank, whereby amounts are deducted from your bank account at regular intervals and contributed directly to an RESP.

Social Insurance Number. A number issued by the Canadian government that is required in order to work in Canada, receive government benefits, hold investments and pay taxes.

Subscriber. The person, usually the parent or grandparent of a child, who owns the plan and provides all direction for it.

Tax-deferred. An investment holding within a registered plan that is not subject to tax until funds are withdrawn.

Tuition. The annual fee charged by the post-secondary institution for an education.

How RBC Royal Bank can help

For more information about how we can help newcomers to Canada, please visit our Website:

www.rbc.com/canada.

We have created publications specifically for newcomers to Canada on the following topics.

- › Bank accounts
- › Credit
- › Buying a car
- › Buying a home
- › General insurance
- › Creditor insurance
- › Registered Retirement Savings Accounts
- › Registered Education Savings Accounts
- › Investing

These publications also exist in the following languages:

English	Tamil
French	Tagalog
Chinese (traditional and simplified)	Farsi
Punjabi	Korean
Hindi	Romanian
Urdu	Spanish
	Russian

Please feel free to ask for the publications of your choice.

¹ Statistics Canada, *University Tuition Fees*

² Calculation is based on the Human Resources and Social Development Canada (HRSDC) 2008/2009 estimated cost of \$74,139 for a four-year university education away from home adjusted by HRSDC estimates of a 3% increase per year. (*HRSDC/Can Learn 2007*)



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