Educational savings strategies

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Like everyone, you want the best for your children and grandchildren - including a good education. In today's competitive job market, a college or university degree is more important than ever before, and will likely become even more necessary in the future. That's why it's essential to start planning now for how you will meet the costs of that education.

Registered Education Savings Plans (RESPs)

Registered Education Savings Plans (RESPs) are one of the best ways to meet your educational savings goals.

With RESPs, you can make contributions now towards the future cost of a child's education. Unlike RRSPs, contributions made to an RESP are not tax deductible. However, the contributions grow tax- sheltered in the account, and the income earned on the contributions is not taxable until paid out to a beneficiary (who is typically taxed at a very low rate, if at all).

Withdrawals of income can be made to a beneficiary in full time attendance at a qualified postsecondary institution.

Currently, you can make contributions of up to $5,000 a year to attract grant (if accumulated grant available), per beneficiary, to a lifetime maximum of $50,000 over 31 years, per beneficiary. The plan must be terminated no later than 35 years after it is first opened.

If for any reason your chosen beneficiary does not pursue a higher education, you can either name another beneficiary to the plan or transfer any unused income to your (or your spouse's) RRSP, up to a $50,000 limit and provided you have the contribution room. You can also choose to have the income refunded to you with an additional 20% tax applied on top of the marginal tax rate.

RESPs and The Canada Education Savings Grant (CESG)

In the 1998 federal budget, the Canada Education Savings Grant was introduced to make RESPs a more attractive savings vehicle for Canadians and updates to the plan were added in 2007 and 2008.

Under the RESP program, every RESP beneficiary until the end of the year they turn 17 will be eligible to receive a grant of up to 20% of the first $2,000 contributed each year ($400 maximum per year) from 1998 to 2006 inclusive, then $2,500 contributed from 2007 onward. Contributions for beneficiaries aged 16 and 17 will only receive a CESG subject to certain stipulations.

While missed RESP contributions cannot be carried forward, the CESG room can be accumulated until the end of the year the beneficiary turns 17. There is a lifetime limit of $7,200 on the amount of CESG money that any one student can receive from an RESP.

Payments will be made directly into the RESP and can be invested along with the contributions.

The CESG can be included in the educational assistance payments paid out to the beneficiary once they are pursuing higher education, however, any unused CESG must be repaid to the government.

In trust accounts

Another education saving strategy is to open a regular investment account in your name "In Trust" for your child. With this type of informal trust account there are no restrictions on the amount you can put away for your child, and the money can be used for purposes other than post secondary education.

However, payments into In Trust accounts are not eligible for the CESG.

The taxation on a trust account is also very different from an RESP. Generally you are taxed for any interest and dividend income on original investments. Your child is taxed on any capital gains and any reinvested interest or dividend income. However, if the funds in the account are from Child Tax Benefit payments or an inheritance, then income will be taxed in the child's name.

Once your child turns 18, he or she has the right to assume control over the money. Parents who want more control over the funds may wish to set up a formal trust, which generally involves legal and accounting advice.

Planning ahead is important

Given the rising costs of a university education, saving for a child's education is becoming a priority for many Canadians. ScotiaMcLeod's RESP offers you the most flexibility when it comes to planning your education savings strategy, by offering the widest range of investments eligible for RESPs, a choice between family and individual plans, and much more.

The RESP is a great opportunity to save for your children's education. If you wish to contribute for the current year, ensure you have your child's Social Insurance Number and plan to contribute on or before the end of December for the current year.

If you would like to discuss educational savings strategies in more detail, please feel free to contact your Scotia Wealth Management relationship manager.