Invest in your child's future

Your guide to the Mackenzie Registered Education Savings Plan (RESP)

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Introduction

For many, higher education can be a path to a fulfilling life, imparting skills, broadening horizons and providing valuable life experience. But, the value of a higher education is often reflected in its cost. For many Canadians, student loans might play a substantial role in achieving their education goals.

However, there is an option that can reduce the need to borrow in the future: you can start investing in your child's education today.

In partnership with financial advisors, Mackenzie provides the support Canadians need to achieve their goals.

This brochure will explain the main advantages of an RESP. You'll learn how to make the most of government grants, the tax treatment of withdrawals and what you need to know when your child is ready for post-secondary school.

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What is an RESP?

Investing through an RESP can help accelerate your child's education savings. Your contributions grow tax-free and the government may provide generous matching grants. An RESP can provide peace of mind that you are helping your child get off to a good start, reducing or even eliminating the need for student debt.

Benefits of an RESP

- Allows families to grow education savings tax-free until withdrawal.
- Generous government grants accelerate savings.
- Withdrawals may begin when your child enrols in a post-secondary institution.
- Withdrawn money can be used toward tuition, living expenses, books, other course materials and more.
- Tax efficient, with investment growth attributed to the student, who typically pays little or no tax.
- Unlike RRSP contributions, there is no tax deduction for contributions.

Subscriber
opens and contributes to RESP account.

Beneficiary
recieves money from RESP account.

Sponsor
administers RESP account.

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Steps to start your RESP plan with Mackenzie

1 **Obtain a Social Insurance Number (SIN) for your child or children:**

- This is a crucial first step as the SIN is required to open an RESP account.

2 **Consult with your financial advisor to:**

- Complete the Mackenzie application forms: Your advisor will guide you through the paperwork needed to open your RESP.
- Explore various investment options: Discuss the best investment strategies to grow your savings.
- Maximize your contributions: Learn how to make the most of government grants and incentives to boost your RESP.
- Plan for withdrawals: Understand the process for withdrawing funds when your child is ready for post-secondary education.
- Receive ongoing support: Your advisor will be there to assist you with any questions or adjustments needed over time.

3 **Monitor and manage your RESP:**

- Regularly review your investment performance and make adjustments through your advisor as needed.

An opportunity not to be missed

An RESP can be an incredibly powerful way to build an education fund. The combination of tax-deferred growth, government grants and investment funds can make it one of the most fulfilling investment decisions a family member can make.

Ready to invest? Speak with your financial advisor about opening an RESP today.

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Types of RESP

You may open an RESP for your child as soon as they have received their Social Insurance Number (SIN). The earlier you obtain this, the earlier you can start saving for their future.

There are two types of RESP. Both allow tax-free investment growth and benefit from government grants. The differences lie in the number of beneficiaries and who may open the plan.

	Family RESP	Individual RESP
Number of beneficiaries	• One or more; must be siblings, either by blood or adoption	• Single beneficiary only
Subscriber	• Subscriber be must parents or grandparents • Joint subscribers must be spouses, or former spouses and both legal parents of the beneficiary • Must be related by blood or adoption to beneficiary	• Can be opened by anyone for anyone • No blood relationship required between the beneficiary and subscriber • Joint subscribers must be spouses, or former spouses and both legal parents of the beneficiary
Age of beneficiaries	• Must be under the age 21 at the time of inclusion in the plan	• Can be of any age
Government grants	• Shared by all beneficiaries (excluding Canada Learning Bond)	• Sharing not applicable
Recommended for	• Single-child families • Families with more than one child	• Single-child families • Families with large age differences between children • Subscribers who want to open an RESP for themselves or someone they're not related to • Families with more than one child
Contributions	• Contributions can be made if at least one beneficiary is under age 31 (although grants are only paid until December 31 of the year they turn 17	• Contributions can be made up to the 32nd anniversary of the RESP opening.

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Case study 1: Dinesh and Amita

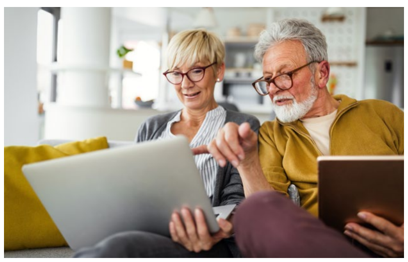
Dinesh and Amita had their first child a year ago, Priti. They have no plans on having more children but know that they may change their minds in the future. They have two options for Priti's RESP.

1. **An individual plan.** No future beneficiaries can be added, if Priti doesn't go to school, RESP (CESG included) can be transferred to an eligible sibling's RESP account if there are any siblings.
2. **A family plan.** They will be able to add any future children as beneficiaries who can share the grants if one child does not pursue post-secondary education.

Case study 2: Melinda

Melinda would like to help fund her nephew Craig's education for the future. Because she is not his parent or grandparent, she may only open an **individual plan.**

Case study 3: Thérèse and Denis



Thérèse and Denis want to open an RESP for their grandchildren. Their son has twins, Fabrice and Simone, and their daughter has two children Anthony and Michel. Thérèse and Denis have two options:

1. **An individual plan for each beneficiary.** This requires four separate account opening documents. If there are more grandchildren, they cannot be added to any of the individual plans.
2. **Two separate family plans, one for the twins and one for the siblings.** Grants can now be shared within the separate family plans in case a grandchild does not go to school. If more grandchildren are born, they can be added to the existing plan with their siblings to share grants.

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The sooner you start, the more you can save

Once the RESP is open, you may start contributing. The sooner you begin, the more time for growth. Each contribution will trigger government grants, up to a prescribed limit.

There is a lifetime contribution limit of $50,000 per beneficiary. Overcontributions are subject to a penalty tax of 1% per month.

There is no annual contribution limit: if you choose, you may contribute the lifetime limit of $50,000 as soon as the plan is open. However, the 20% CESG is limited to $500 per year, so an annual $2,500 contribution assures the maximum grant is received, assuming no carry-forward room.

Your RESP contributions are not tax-deductible, so principal may be withdrawn tax-free at any time. However, doing so before the beneficiary starts post-secondary school will require repayment of the grants triggered by the contribution.

Making the most of your RESP

Since there is no annual RESP contribution limit and the lifetime maximum limit is $50,000, you may ask whether it is better to:

1. Make an initial lump sum $50,000 RESP contribution;

   or

2. Spread contributions across 15 years to maximize the lifetime federal grant of $7,200. (It will take 14+ years to obtain the maximum CESG of $7,200 when annual contributions of $2,500 are made).

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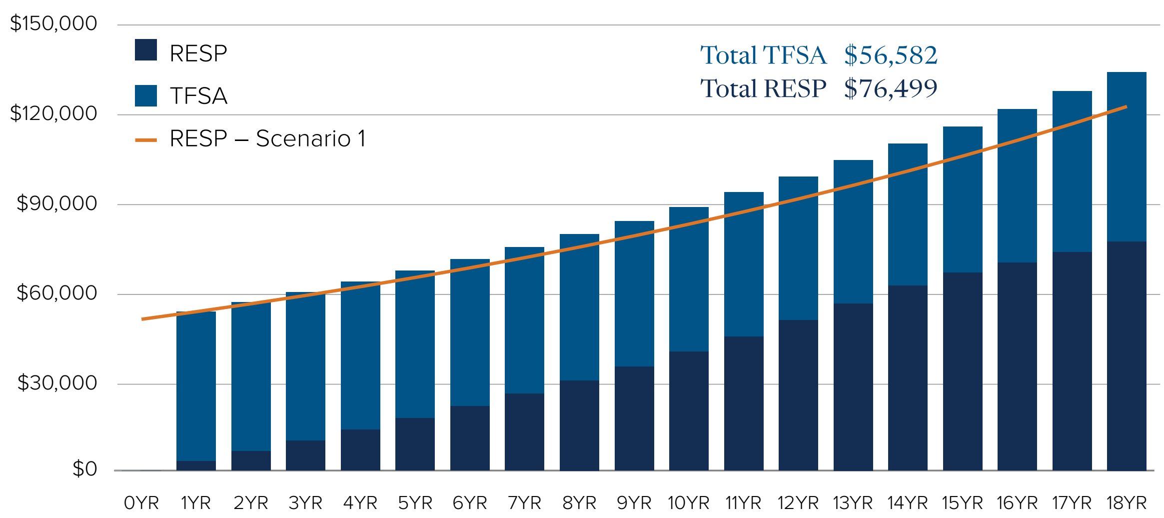
Case study 4: Lee

Lee, is in her peak earning years and wants to open a RESP for her nine-month-old daughter Sara. She reviews her options with her advisor:

1. Lee could make an initial contribution of $50,000 and Sara's RESP would receive the $500 CESG for the current year. Assuming a 5% annual rate of return, the value of Sara's RESP at age 18 is $121,534.
2. Alternatively, Lee could spread the $50,000 over 18 years and maximize the CESG. She could invest the $50,000 in her TFSA and transfer $2,500 to the RESP each year. This ensures she receives the maximum annual CESG until the $7,200 limit is reached.

FIGURE 1: Scenario 1 vs. Scenario 2 (over 18 years)



Hypothetical example, for illustrative purposes only.

After 18 years the value of the RESP is $76,498 and the value of the TFSA is $56,582, for a total of $133,080.

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Government grants

To help you save for your children's education, the federal government and some provinces offer grants based on your contributions. To qualify, the beneficiary must be a resident of Canada and the relevant province.

Federal grants

Basic Canada Education Savings Grant (CESG)

There is a matching grant of 20% on contributions with an annual maximum of $500 per beneficiary. In a family plan, all beneficiaries can share this grant.

Grant room begins to accumulate for a child the year they are born, even if you have not opened an RESP. The maximum lifetime grant per beneficiary is $7,200, across all RESP accounts in their name.

If you do not contribute in any given year, unused Basic CESG room can be carried forward for use in another year, to a maximum of $1,000 per year.

Additional CESG

To encourage lower income families to save, the government provides Additional CESG based on the primary caregiver's net family income.

Special CESG rules for students aged 16 or 17

RESPs for beneficiaries 16 and 17 years of age can only receive CESG if at least one of the following two conditions is met:

- A minimum of $2,000 was contributed to (and not withdrawn from) their RESP before the end of the year they turned 15;

  or

- A minimum annual contribution of $100 was made to (and not withdrawn from) the RESP in at least any four of the years before the end of the year they turned 15.

Net family income*	Additional CESG	Basic CESG	Total
Below $55,867	First $500 x 20% = $100	$2,500 x 20% = $500	$600
$55,867 to $111,733	First $500 x 10% = $50	$2,500 x 20% = $500	$500
Over $111,392	First $500 x 0% = $0	$2,500 x 20% - $500	$500

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Canada Learning Bond (CLB)

For low-income families, the CLB provides an initial grant of $500 and $100 for each year of eligibility until the child is 15 years old, up to a maximum of $2,000 per child.

Provincial grants

Provincial grants may also be available to you, depending on where you live. Ask you advisor for details.

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Accessing your RESP

The first step is for your child to provide proof of enrolment and submit a redemption form to the financial institution that holds the RESP.

Two types of withdrawals:

Educational Assistance Payments (EAPs) are paid to a beneficiary once they are enroled at a designated educational institution. The EAP consists of the investment growth on the contributions and grants, as well as the grants themselves (the principal contributions always belong to the subscriber). The EAP is taxed in the hands of the beneficiary who, as a student, is likely in a low tax bracket.

For full-time studies, EAPs made during the first 13 weeks of school will be limited to $8,000. After the beneficiary has completed 13 consecutive weeks of their program, they may receive more EAPs. For part-time studies, EAPs are limited to $4,000 for each 13-week period.

Post-Secondary Education (PSE) capital withdrawals are made from the contributed principal. If the money is used for post-secondary educational purposes, the CESG does not need to be repaid. Because these contributions were made with after-tax dollars, there is no income tax payable on withdrawal.

Your child has finished secondary school and is ready to start their higher education. Now your diligent saving will pay off – it's time to talk to your advisor about withdrawals from the RESP.

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What if my child doesn't enrol in post-secondary school?

1 Wait a while

Your child may change their mind, and RESP accounts can remain open.

2 Choose a new beneficiary

In an individual plan, the new beneficiary can be anyone. But if the new beneficiary is not a sibling under 21 years of age, the CESG must be repaid.

In a family plan, the new beneficiary must be related by blood or adoption to the contributor. In this case, the CESG can be allocated to another beneficiary if the total CESG does not exceed $7,200. Otherwise, any excess grants must be repaid.

3 Roll over to RRSP

You can defer the tax payable on the income withdrawal by rolling it directly into your RRSP or spousal RRSP, provided you have contribution room. The maximum rollover is $50,000 per contributor, so spouses who are joint contributors to a family plan can each roll over up to $50,000 to their RRSPs. There are strict conditions that must be met to consider this option, please speak to your financial advisor for more information.

4 Withdraw your contributions

Contributions made to the plan can be withdrawn at anytime on a tax-free basis. However, any grants paid on these contributions must be repaid to the government.

5 Withdraw earnings and growth

In addition to the tax-free contributions that can be withdrawn from the RESP (option 4), you may also be entitled to withdraw the growth on the contributions, plus the growth on the grants (which are repaid to the government) if you meet certain conditions. This is known as an Accumulated Income Payment (AIP).

You will qualify for an AIP if all current and previously named beneficiaries have reached the age of 21, are not attending a post-secondary institution and the RESP has been in existence for at least 10 years. An AIP is taxable at your marginal tax rate plus a 20% penalty tax.

6 Roll over to Registered Disability Savings Plan (RDSP)

If the beneficiary becomes disabled, you may transfer the accumulated income to a qualified RDSP for the beneficiary. This can be done on a tax-deferred basis with no penalty. To be eligible to roll over the investment income from an RESP to an RDSP, the beneficiary must:

- Be eligible for the disability tax credit (DTC) at the time of the rollover.
- Be less than 60 years of age in the year that the rollover is made.
- Be a resident in Canada.

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What you need to know about taxation of withdrawals

When can I take an Accumulated Income Payment (AIP)?

- The plan must be in existence for 10 years.
- All beneficiaries must be at least 21 years old and not pursuing post-secondary school.
- The subscriber must be a resident of Canada.
- When withdrawn, the AIP is fully taxable at the subscriber's marginal tax rate.

Can the subscriber avoid the tax consequences?

The subscriber may choose to roll this AIP over to his/her RRSP or to a spousal RRSP, providing there is enough contribution room in their RRSP. There is a limit of $50,000 per subscriber.

If the subscriber does not have contribution room in their RRSP, they can take the AIP in cash, subject to the following rules:

- The AIP received will be included in the income of the subscriber for that year, and income tax will be payable by the subscriber at their marginal tax rate.
- The AIP will be levied a penalty tax of 20%.
- The grant money must be returned to the government.

EAP:

Consists of only growth and grants. This amount will be taxed in the hands of the beneficiary, who's generally in a lower tax bracket due to post-secondary studies

PSE:

Made from contributed money, so there is no tax upon withdrawal.

Accumulated Income Payment (AIP):

A payment to a subscriber from growth. It does not include contributions or grants. If a beneficiary doesn't go to school, and no replacement beneficiary has been named, the subscriber may receive the investment income under certain conditions.

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Proof of enrolment guidelines

The following information is required for all acceptable proof of enrolment, which indicates the beneficiary has enroled in a specific program:

- Beneficiary's full name
- Name of educational institution
- Program of study
- Program type – university, college, trade college or other
- Qualified education program (full-time) or specified educational program (part-time)
- Program length in years, which may be implied by the program of study

Acceptable proof of enrolment

Document type	May be valid proof of enrollment if
Letter from the registrar	• Signed or certified by the office of the registrar or department head • A student may be able to obtain a letter via the school's website • The student may be charged for this letter
Email from the registrar	• An email confirming enrolment from the registrar • Additional requirements include: contact information related to the confirmation email and the delivering email address must be from the school's web domain
Invoices or receipt of payment	• Must be from the registrar's office • Implies part- or full-time status (by course length, tuition cost or number of courses) • If the only requirement to enroll in an educational institution is to pay, an invoice may be acceptable
Printout of online confirmation of registration status	• Must contain the school's website address identifying the source of the website
Timetables or course schedules	• Includes name of student, program type, term and school name or logo or website address
T2202 or T2202A receipt	• Submitted within the first six months following the end of the beneficiary's term of enrolment in a qualifying program

Unacceptable proof of enrolment

Document type	
Letters of acceptance/ offers of admission*	• These letters are only offers and do not clearly demonstrate or prove that the student has accepted and is enroled in school
Student cards*	• Cards do not indicate the current year of enrolment
Past years' proof of enrollment	• Must have documents that clearly indicate the student is enroled in the current academic year

*An acceptance or admission letter or a student card are not considered valid proof of enrolment by themselves; however, one of these along with another acceptable proof of enrolment document may be admissible.

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General inquiries

For all of your general inquiries and account information please call:

English: 1-800-387-0614
Bilingual: 1-800-387-0615
Asian Investor Services: 1-888-465-1668
TTY: 1-855-325-7030
Fax: 1-866-766-6623
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Find fund and account information on-line through Mackenzie Investments' secure InvestorAccess. Visit mackenzieinvestments.com/resp for more information.

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