RBC Financial Planning

Giving the gift of knowledge

Your guide to saving for a child's post-secondary education

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Why invest in a child's education?

Of all the factors that could influence your child's future employment, earning power and career satisfaction, a post-secondary education is probably the most significant.

The story's in the numbers

Today, in Canada, the earnings of university and college graduates are much higher than the earnings of high-school graduates.[1] There are variations across provinces and territories. According to Statistics Canada, workers with a post-secondary education can expect to see their wages grow much faster than workers with only a high-school diploma. Post-secondary education is also associated with more years of coverage under an employer-sponsored pension plan and fewer layoffs than a high school diploma.[2]

2.05 million: That's the approximate number of students who were enrolled in post-secondary education across Canada during the 2017/2018 school year.[3]

These striking statistics underline the many real-world advantages people with a post-secondary education have. Workers who have completed post-secondary education can enjoy greater self-esteem, a more challenging and rewarding career and the peace of mind that comes from having options in today's fast-moving economy.

A challenge worth meeting

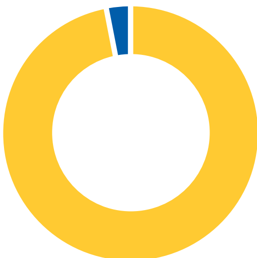
While the rapid increase in enrolment rates across Canada shows a growing demand for post-secondary education, costs continue to climb just as quickly.

With tuition fees going up 40% in the last decade[4] and other expenses spiralling upward, The Office of the Superintendent of Financial Institutions Canada (OSFI) predicts that in 2035 a student's annual average expenses including tuition fees, books, shelter, food and transportation will be $32,700.[5] Costs depend on the type and length of the program, as well as the cost of accommodation. Information on tuition, books and living expenses can be found on the Government of Canada website: https://www.canada.ca/en/services/finance/educationfunding.html.

So the challenge for parents and students is clear: the value of education is too great to ignore, yet for most, the costs are too difficult to manage without having a dedicated savings plan in place. This is one challenge though that can be met with planning and financial guidance.

This guidebook takes a look at some different saving strategies available to you and discusses the most effective ways to save and invest for your child's post-secondary education.

Some numbers to consider



97%

Percentage of parents in Canada with children in grade 4 who want their children to achieve a post-secondary education.[6]

$121,000

Estimated cost of a four-year university education away from home for students admitted in 2032.[7]

50%

About half of Canadian families are contributing to an RESP and receiving the Canada Education Savings Grant (CESG) for a child who's age 17 or under.[8]

40%

On average, undergraduates pay 40% more in tuition than they did 10 years ago.[4]

$13,306

Average amount borrowers owed the Canada Student Loans Program at completion of studies in the 2015-2016 school year.[9]

The Registered Education Savings Plan: The foundation of your strategy

Education saving strategies are often built around a Registered Education Savings Plan (RESP). An RESP combines flexibility, tax-deferred investment growth and direct government assistance to help you reach your education savings goals for your children. Here's how it works.

Opening an RESP

An RESP can be set up for any beneficiary, including your children, grandchildren, nieces, nephews or family friends. The subscriber to the plan is the person who opens the plan and makes contributions to it. The subscriber also designates the beneficiaries who are to use the funds for their post-secondary education. Post-secondary education includes an apprenticeship or a program at a CEGEP (Quebec), trade school, college or university. Each beneficiary must be a Canadian resident and have a social insurance number (SIN).

There are two types of RESPs:

- Family plans allow the subscriber to name one or more beneficiaries in the same plan. These plans require that each beneficiary be related to the subscriber by blood or adoption, and can include a child, grandchild, step child/grandchild or sibling. One of the main advantages of this type of plan is that the funds in the plan do not have to be shared equally among the beneficiaries, giving you more flexibility when it comes to making withdrawals.
- Individual plans have only one beneficiary. The beneficiary can be anyone — including your child, grandchild, step child/grandchild, niece, nephew, family friend, you or your spouse.

Contributing to an RESP

A subscriber can contribute any amount to an RESP, subject to a lifetime contribution limit of $50,000 per beneficiary. Although you cannot deduct the contributions made to an RESP from your taxable income, the subsequent investment earnings on RESP contributions are tax-deferred. Qualifying investments include, but are not limited to, savings deposits, guaranteed investment certificates (GICs) and mutual funds. If the plan earnings are withdrawn to cover qualifying post-secondary education expenses, they are taxable to the beneficiary, not to the subscriber.

There are no limits to the number of plans subscribers can establish, or the number of RESPs a beneficiary may have. However, the limit on lifetime contributions for any one beneficiary is $50,000. Over-contributions are subject to a penalty of 1% per month.

Note that the lifetime limit applies to the total contributions made by all subscribers to all plans in the name of the beneficiary. As a result, if you contribute to a plan for your child, and their grandparents also contribute to a plan for the child, you will need to coordinate your contributions so you don't exceed the $50,000 maximum.

You can make lump-sum contributions at any time, or set up regular, automatic contributions on a weekly, biweekly, semi-monthly, monthly, quarterly, semi-annual or annual basis. With an automatic regular contribution plan, such as RBC® RESP-Matic®, you choose the amount and payment schedule that's right for you.

You can contribute to an RESP until the end of the year that includes the 31st anniversary of the plan, and the RESP can remain open until the end of the year that includes the 35th anniversary of the plan. Special rules apply where the beneficiary of the RESP is disabled. In that case, contributions can be made for a maximum of 35 years and the plan can remain open for up to 40 years.

Saving tip

Your child may be eligible for a scholarship. Check out some of the programs available at Student Awards (www.studentawards.com) and Government of Canada International Scholarship Programs (www.scholarships.gc.ca).

A 20% return on investment

Perhaps the biggest advantage of contributing to an RESP is the Canada Education Savings Grant (CESG) — a powerful incentive from the federal government.

In terms of the basic CESG, for an eligible beneficiary under the age of 18, the government will give 20% of the first $2,500 contributed annually to an RESP. That adds up to a potential additional $500 per year invested in the RESP. The maximum total CESG the government will give, up to age 18, is $7,200 per beneficiary. The grant proceeds are invested along with your contributions, further enhancing the benefits of tax-deferred, compound investment growth within your plan.

If you don't contribute enough to warrant the maximum grant in a given year, the unused entitlement to the CESG can be carried forward to future years within the allowable limit (i.e. maximum CESG of $1,000 per year).

Special rules apply when the beneficiary is 16 or 17 years old. In order to receive the CESG, contributions to all RESPs for the child must total at least $2,000 before the year in which the child turns 16, or there must have been contributions of at least $100 a year in any four years before the year in which the child turns 16.

Additional government incentives

Besides the basic CESG, there are additional government incentives available for Canadian families to help them save for education:

- If your net family income is $47,630 or less in 2019 (the threshold is adjusted every year), the first $500 of annual RESP contributions will receive an additional CESG of 20%. For families with income above that level but not more than $95,259 (2019 threshold, again, adjusted annually), the additional CESG is 10% of the first $500 contributed annually to an RESP.
- A $500 Canada Learning Bond (CLB) is provided for children of low income families who are born after December 31, 2003. Families with up to three children could be eligible for the CLB if their adjusted net family income is less than or equal to the lowest federal income tax threshold ($47,630 in 2019, adjusted annually). The threshold increases if the family has four or more children. These children also qualify for CLB instalments of $100 per year until age 15, as long as they continue to qualify based on income. The total maximum CLB payable per child is $2,000. CLBs are allocated to a specific child; unlike CESGs, they cannot be shared with other beneficiaries.
- The Quebec Education Saving Incentive (QESI) is an amount paid directly to the RESP by the Quebec government to support the education savings of its residents. Annual RESP contributions of up to $2,500 are eligible for a basic amount of 10%. Lower-income families are eligible for an increased amount (5% or 10%) on the first $500 of annual RESP contributions. The total cumulative QESI amount that can be granted per child is $3,600.
- The B.C. Training and Education Savings (BCTES) Grant provides a one-time $1,200 grant to a beneficiary who is resident in B.C. and has a custodial parent or legal guardian who is also a resident. The grant is available for children born after December 31, 2005 and must be applied for before the child's ninth birthday. If a child was born in 2006, the grant application deadline has been extended until August 14, 2019.

These programs are all designed to give parents an incentive to start planning and saving for their children's post-secondary education as early as possible.

Government resources online

- The Government of Canada site has information on saving for education, including publications about the CESG, CLB and provincial education savings incentives: https://www.canada.ca/en/employment-social-development/services/student-financial-aid/education-savings.html.
- To download a form to apply for a SIN for your child, go to the Government of Canada site: https://www.canada.ca/en/employment-social-development/services/sin/apply.html.

- For more information about RESPs, download the Canada Revenue Agency (CRA) guide on RESPs at: https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/rc4092.html.

Going to school

Once the student is enrolled in a qualified post-secondary education or training program, the contributions, accumulated income, grants, bonds and additional government incentives within the RESP can be paid out to the student. Withdrawals while enrolled in a qualified educational program can either be a return of contributions or an educational assistance payment (EAP). As the subscriber, you can have the contributions returned to you or you can redirect them to the plan beneficiary. This type of withdrawal is not taxable.

EAPs may be used for any education-related expenses, such as books, housing and tuition, while the beneficiary is enrolled in a qualified program. Full-time students can generally access up to $5,000 in EAPs during the first 13 weeks of enrolment, and thereafter there is no limit on the EAP amount. Full-time requires a student to spend no fewer than 10 hours per week on courses or work in the program and the course must last at least three consecutive weeks. If the beneficiary is enrolled in part-time studies, the maximum amount of EAPs that they can receive during the first 13 weeks of enrolment is the lesser of $2,500 and the total of all allowable expenses. A part-time student must spend at least 12 hours a month on courses and the courses must last at least three consecutive weeks.

A student can access EAPs for up to six months after ceasing enrolment, provided the payments would have qualified as EAPs while the student was still enrolled.

Most Canadian universities, colleges and post-secondary educational institutions qualify for EAPs. In fact, many institutions outside Canada also qualify. You can consult your local CRA office to find out if a specific institution qualifies.

If you have a family plan, you can decide how to allocate the RESP funds among the beneficiaries. This way, you can direct more to a beneficiary whose educational expenses are higher. If you decide to do this, the maximum CESG that you can allocate to any one beneficiary is $7,200.

To elect to withdraw an EAP, the subscriber must sign a withdrawal form, and the beneficiary must provide proof of enrolment in a qualified program. The funds must be used to cover the beneficiary's education expenses, and ESDC may request supporting information for EAPs of unusually large amounts.

The beneficiary must claim all EAPs as income on their tax return in the year they receive them. Usually, this results in little or no tax since students tend to have little income and can claim tuition tax credits in addition to their basic personal exemption.

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

If the child who is named beneficiary of the RESP decides not to pursue post-secondary education, you have a few options:

- If you have a family plan, you may be able to designate another beneficiary to receive the government grants, bonds, provincial incentives and earnings.
- If you have an individual plan, you may be able to name an alternate beneficiary.
- If the beneficiary has reached 21 and the plan is at least 10 years old, the earnings can be withdrawn by the subscriber, subject to withholding tax and a 20% penalty tax, unless the funds are transferred to a Registered Retirement Savings Plan (RRSP). The amounts withdrawn will be considered taxable income. It may be possible to transfer up to $50,000 of the plan's growth (or earnings) tax-free to your RRSP or a spousal RRSP. This avoids the 20% penalty mentioned above. You must have available RRSP contribution room to do this.
- Under certain conditions, accumulated income in an RESP can be transferred to a Registered Disability Savings Plan (RDSP) if the RESP beneficiary is the same as the RDSP beneficiary.
- The initial contribution can be withdrawn by the subscriber with no tax consequences since it was made with after-tax dollars.
- If the beneficiary is not pursuing post-secondary education, any grants, bonds and other government incentives paid to the plan that cannot be transferred to an alternate beneficiary may need to be returned to the government.
- Interest or investment growth earned on government money does not have to be repaid to the government.

Beyond the RESP: Other ways to save for education

If you're a parent who is currently maximizing your RESP contributions, or looking for alternatives, you may wish to consider the following options:

Open a separate savings or investment account. While earmarking this account for education is easy and allows you maximum control and flexibility, keep in mind any investment income you earn will be taxable in your hands in the year you earn it. This means you could miss out on the benefit of tax-deferred growth.

Use your Tax-Free Savings Account (TFSA). Unlike RESP contributions, amounts you contribute to a TFSA are not eligible for the CESG or other government incentives. However, both earnings and withdrawals are tax-free. You could make withdrawals and either pay your child's school fees directly or give the money to your child, if you prefer.

Set up a trust. In general, a trust is a relationship in which a person(s), the trustee(s), holds title to property, subject to an obligation to keep or use the property for the benefit of another person(s), known as the beneficiary(ies). It is important to set up the trust properly, using a written legal agreement that clearly provides the terms and conditions. A trust can be structured to be a tax-efficient supplement to an RESP and still allow you to have access to the monies you used to fund the trust. Although contributions to the trust will not be eligible for the CESG or other government incentives, a trust is more flexible than an RESP in terms of funding limits and the type and timing of expenses you can use the funds for.

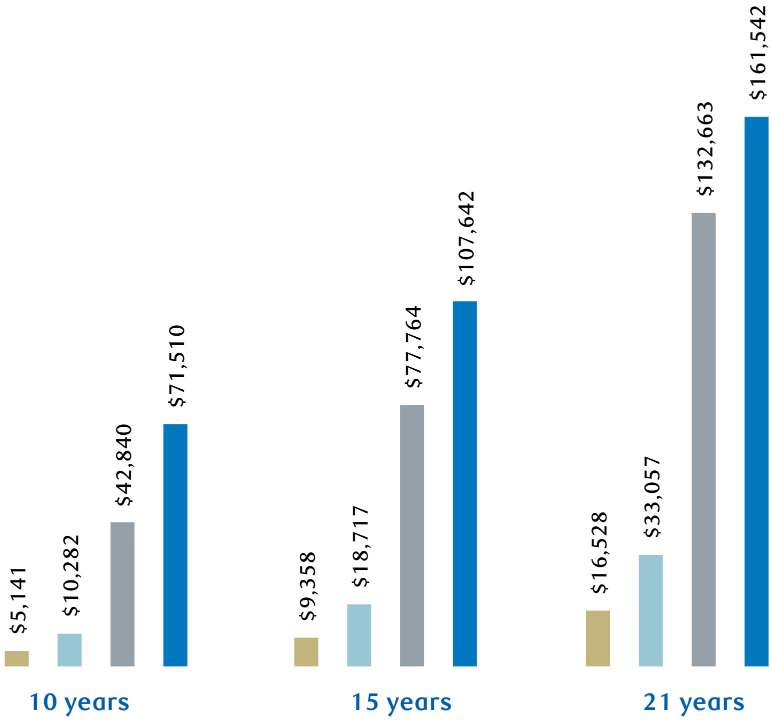
Committing to your child's future

With mortgage payments, household bills, RRSP contributions and other financial obligations, it may seem difficult to come up with the savings you need for your child's education. One of the most effective ways to reach your goals — and ensure your child's education receives the priority it deserves — is to set up a regular investment plan through RBC RESP-Matic. RBC RESP-Matic offers several advantages:

- Automatic, regular contributions go into a plan that's specifically set up for a child's education, making it easier for you to put money aside for this purpose only.
- You can invest small amounts of money on an ongoing basis, which is typically easier on your cash flow.
- Your money starts working for you right away, with a wide range of investment choices and the opportunity for growth.
- With dollar-cost averaging, you don't need to think about the "right time" to contribute because you're always investing.
- Of course your contributions will continue to benefit from all the advantages of an RESP, including eligibility for the CESG and other government incentives, and the potential for tax-deferred growth.

Even small contributions add up quickly with RESP-Matic

The RBC RESP-Matic is one way to make sure that your RESP savings never take a back seat. As this chart* illustrates, even small monthly RESP-Matic contributions add up quickly over periods of 10, 15 and 21 years when they are supplemented by the CESG**.



- Annual plan increase: $25 monthly RESP contribution plus $60 CESG per year plus cumulative growth
- Annual plan increase: $50 monthly RESP contribution plus $120 CESG per year plus cumulative growth
- Annual plan increase: $208 monthly RESP contribution plus $500 CESG per year plus cumulative growth
- Annual plan increase: $375 monthly RESP contribution plus $500 CESG per year plus cumulative growth***

* Calculations are for illustrative purposes only, and are not intended to reflect future values or returns on investment from any mutual fund investment. Based on 7% annual return for contributions made at the beginning of each month. These calculations also assume that the contributions are made at the beginning of every month, up to a lifetime maximum of $50,000 per child.

** CESG stands for the Canada Education Savings Grant. Under the CESG program, the federal government will match 20% on the first $2,500 contributed annually to an RESP for an eligible beneficiary age 17 and under. If you don't contribute enough to get the maximum $500 grant in a given year, the unused entitlement can be carried forward to the next year. The maximum CESG payment in any year is $1,000 per eligible beneficiary, based on contributions of $5,000 or more.

*** In this scenario, the calculations assume a lifetime contribution maximum of $50,000 will be reached early in the 11th year ($375/month x 12 months x 11.1 years = $50,000 and the contributions begin in the year that the beneficiary is born). Once this limit is reached, contributions and CESG payments will stop, with the annual increase in plan assets driven by 7% annual return assumption.

RESP choices at RBC Royal Bank

RBC Royal Bank® has a full range of investment options for individual and family RESPs. Choose from low-volatility to growth-oriented investments — whatever fits your investment profile and comfort level.

Low to no volatility. You can put your RESP savings into a standard savings account, providing the same convenience and flexibility you get with your regular banking account. This is an extremely low-volatility option, but will provide little return on your investment.

Secure with growth potential. If you're looking for a better return, you can invest in GICs that pay a predetermined rate of interest. The rate of return on this type of investment is fully guaranteed and much higher than the interest earned in a savings account. Market-Linked GICs (Canadian and Global) are also available and provide great potential for growth with a guaranteed principal.

High growth potential. Mutual funds can accommodate a wide variety of investment objectives and styles, depending on your needs. In most cases, the best strategy for investors is to diversify among a variety of investment types and asset classes. By investing in mutual funds, you have the potential to earn a higher rate of return than most guaranteed investments over the long term.

Investment solutions

Investing in a child's future is a wonderful gift and a sound investment. Whether you're investing inside or outside of a registered plan, working with an RBC advisor can help you find the right solution to meet your needs, optimize investment performance and ensure your child has sufficient funds to pay for post-secondary education. An understanding of investment fundamentals is a good place to begin.

Benefits of diversification

Diversification means spreading your investment dollars among a variety of investment types and asset classes — cash, fixed income and equity. Since each of these asset classes will perform differently at different times, broad diversification tends to smooth out the bumps in the market.

The way you diversify your investments depends on your tolerance for volatility and your investment objectives. Ideally, the asset mix of your portfolio should change as your child grows, focusing on growth in the early years, and shifting toward capital preservation as the goal date nears. In general, the more time you have to save, the more growth-oriented your portfolio can be.

Consider mutual funds

One of the most convenient and cost-effective ways to invest for a child's education and ensure proper diversification is to consider professionally managed mutual funds.

You can build a portfolio using a variety of individual mutual funds or you can select a single fund that holds the appropriate mix of assets that corresponds to your risk tolerance and investment objectives.

The benefits of investing in mutual funds include:

- **Diversification** — Your money is spread across many different investments, among different asset classes and geographical regions for example.
- **Professional management** — Your money is managed by experts.
- **Affordability** — You can start saving with as little as $25 per month.*
- **Flexibility** — You can buy or sell units of the mutual fund on any business day.

* Initial minimum investment applies.

Simplify education savings with the RBC Target Education Funds

RBC Target Education Funds offer an innovative approach to education savings. They feature an asset mix that evolves over time, with a greater weighting in equities in the early years and a more conservative asset mix favouring fixed income investments as your child's target education date approaches.

Date of your child's birth	Appropriate solution for most children
2005 2006 2007 2008 2009	RBC Target 2025 Education Fund
2010 2011 2012 2013 2014	RBC Target 2030 Education Fund
2015 2016 2017 2018 2019	RBC Target 2035 Education Fund

An extremely thoughtful gift

RBC RESP Gift Cheques are an effective way for you, relatives or family friends to recognize a special occasion, such as a birthday, by contributing to a child's post-secondary education. Ask your RBC advisor how easy it is to give a gift of education that could last a lifetime.

[1] *Statistics Canada, Census in Canada Brief: Does education pay? A comparison of earnings by level of education in Canada and its provinces and territories,* catalogue no. 98-200-X. Release date: November 29, 2017.

[2] Marc Frenette, A*n Investment of a Lifetime? The Long-term Labour Market Premiums Associated with a Postsecondary Education*, Social Analysis Division, Statistics Canada, 2014.

[3] "Number of students enrolled in post-secondary institutions in Canada from 2000 to 2017," *Statista* (https://www.statista.com/statistics/447739/enrollment-of-postsecondary-students-in-canada/).

[4] Patrick Cain, "University tuition fees in Canada rise 40 per cent in a decade," *Global News*, September 7, 2016 (https://globalnews.ca/news/2924898/university-tuition-fees-rise-40-per-cent-in-a-decade/Statistics Canada).

[5] *Actuarial Report on the Canada Student Loans Program 2017*, Office of the Chief Actuary, Office of the Superintendent of Financial Institutions Canada, 2017.

[6] *Assessment Matters!, Council of Ministers of Education*, Canada, No 4, 2013.

[7] Tuition and Living Accommodation Costs survey for full-time students at Canadian degree-granting institutions, Statistics Canada, 2015/2016. Projected costs are based on 2015/2016 Canadian average with an annual increase of 4.4% for tuition and 2% inflation on all other education-related costs.

[8] Canada, Employment and Social Development Canada, *Canada Education Savings Grant (CESG) Take-up Rate by Province/Territory* (Ottawa: Employment and Social Development Canada, July, 2017).

[9] *Canada Student Loans Program Statistical Review 2015-2016*, Employment and Social Development Canada, 2016.

Take the first step

Whatever your child wants to be when they grow up, post-secondary education can help them achieve their personal best. Speak with an RBC advisor to design a strategy that works for your family. Visit any branch or call 1-800-463-3863 today.

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