

RESPs:

When to *get started?*



Live your dream.

The cost of a post-secondary education continues to climb – and it's never too early to open a Registered Education Savings Plan, or RESP. From a newborn to a teenager, the benefits kick in almost immediately and the sooner you get started, the faster your savings will grow.

Why invest in an RESP?

RESPs offer a compelling set of tax advantages and incentives. The most unique benefit is the Canada Education Savings Grant (CESG). The first \$2,500 you make in annual contributions to a plan for a child under age 18*, attracts a 20% federal grant. That's up to a \$500 bonus each year. In addition, families with net family income of less than about \$87,000 may be eligible for additional CESG** and other financial support.

A second benefit is tax deferral. Earnings on contributions and grant held in a RESP – whether interest, dividends or realized capital gains – are not taxed right away. With time, the value of the RESP really takes off (see *black line in graph on following page*).

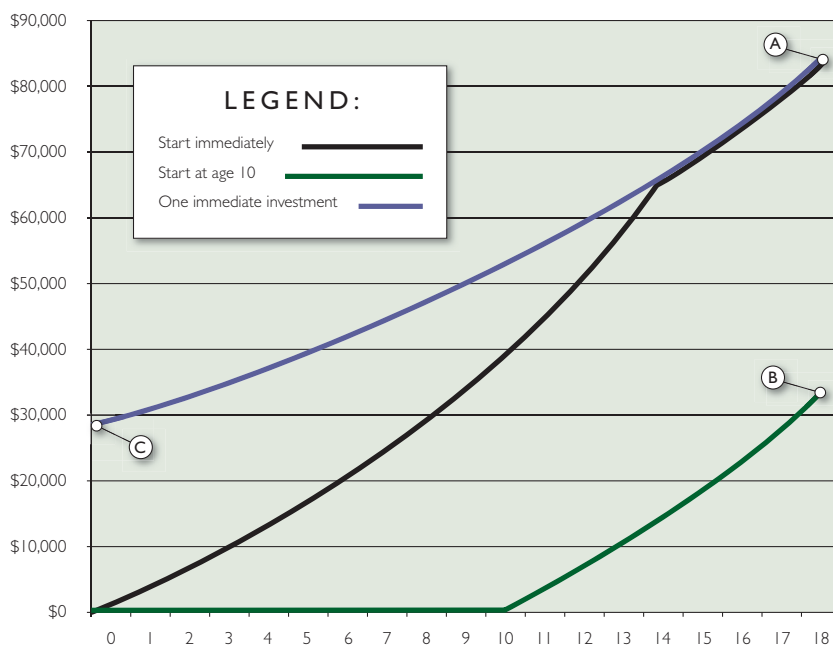
The third main benefit is that when payments are made to the student for school purposes, only the growth and grant are taxed and it's taxed in the student's hands at what is likely a low tax rate.

When and how to get started

While the question of when to get started on an RESP is straight forward, deciding how to save requires more thought, a lot will depend your family financial situation. Let's look at a few scenarios.

If you have a newborn child and additional financial demands like a mortgage, maximizing contributions to capitalize on the grant may still be the best use of your cash flow. A child can earn up to \$500 a year in grant until age 17* to a lifetime maximum of \$7,200.

You can see in the graph on the following page that starting early in life and earning 6% in average annual returns, your \$35,000 in contributions (\$2,500 x 14 years) and related grant would grow to more than \$84,369 (A) by the time the child turns age 18 (see *black line on graph*). If you start when the child is 10, you'll earn \$4,000 in grant money, achieve less tax deferral and end up with \$31,474 (B) at age 18 (see *green line on graph*).



* For illustrative purposes only.

deposits. This is the power of tax-sheltered compounding (see purple line):

Purple line: Shows original lump sum of \$29,050 (C) in year 1 growing to \$84,369 (A) over 18 years at same return as above.

Realistically, your family may not have such a big lump sum to invest at this time in life, but it's easy to imagine how even a smaller lump sum deposit early in your child's life could grow your savings.

The rules around RESPs can be complex and every family situation is different. **The most important aspect is starting early.**

For more information on RESPs, contact your IPC Advisor.



*Special rules apply for children between the ages of 15-17, visit www.canlearn.ca to learn more.

**Additional grants and other financial support may be available, visit www.canlearn.ca to learn more.

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