Manulife Securities

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FINANCIAL STRATEGIES FROM
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The 2008 RESP Deadline Approaches

How are you saving for your children?

Registered educational savings plans or RESPs are government sponsored savings plans that allow a plan owner to accumulate money for a child's post secondary education costs after highschool.

RESPs are designed to save money for school – university, college, trade school, out of country school and beauty school – the range of qualifying programs is broad. As well, the money can be used to pay for tuition, residence, computers, books, supplies – even moving costs of getting the kids to the school. Almost any cost related to the education can be reimbursed.

RESPs are Better Than They Used To Be
When RESPs first came out, many parents were scared off by their limited use. But in recent years the rules have been loosened and now RESPS are hard to resist as the savings tool of choice – even if the a child doesn't attend a qualifying school in the end, there are now back up options: first, the money can be directed to other children in the plan, if any; second, the money can be used by the parents interested in returning to school (e.g. for an MBA); third the plan owner can move the money to their own RRSP if available or fourth and lastly, the plan earnings can be taxed in the plan owner's hands and kept in the end.

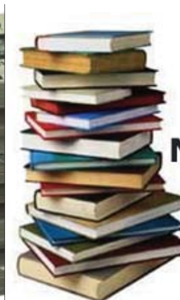
In Trust Accounts
In the past, many parents and grand parents have opted to use a basic "in trust" savings account for children instead. Viewed as more flexible since the money can be used for any purpose by the child, we would view this as more dangerous. In trust accounts have several flaws:

i) they are legal trusts in substance and unless properly structured they can lead to legal and tax headaches if the parents divorce or die;
ii) the child can withdraw the money as soon as they turn age 18 and then can use it for what ever they want – even if you don't agree;
iii) any dividends or interest earnings on the investments may be taxed in the contributor's hands each year, not the child's;
iv) there is no free grant money for deposits to an in trust account.

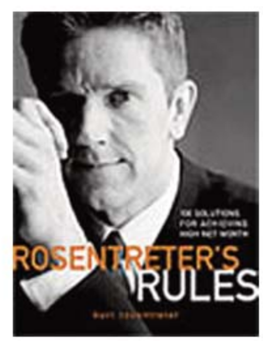
Contribution Strategies

While you are allowed to contribute up to $50,000 to an RESP all at once, most contributors strive to contribute up to $2,500 per year per child. At this amount you maximize the Canada Education Savings Grant (CESG) of $500 free money per child per year. The deadline is December 31st each year for current year contributions.

If you opened an RESP several years after the child or children were born, or if you missed some contribution years, take note that the contribution room carries forward and you can double annual contributions now and catch up one missed year per year. If you do this, the government will pay you the missed CESG as well! Contact us at the office to learn more about how to find the missed contribution room from past years!



Kurt's National Best Selling Books



Contributions can be made by anyone – a parent, grand parent or a gift from a friend. However, we would recommend that the RESP plan be owned jointly by the parents only. Plans owned by one parent or a grand parent can lead to legal issues down the road if a plan owner dies. Keep in mind that a grandparent aged 70 today opening a plan for a newborn will be in charge of the withdrawals when the child is 20 and the grandparent is aged 90!

Plan Types

There are four types of RESPs: individual or family plans and self directed or scholarship trust plans. A family plan is for more than one child per family and offers the ability for several kids to use the money in the plan (this is an advantage). We cannot think of a reason why individual plans would be used for a family of children given the new RESP rules.

A self directed RESP is a basic brokerage account or bank account RESP where there can be minimal fees, broad investment choice and simplicity in understanding. A pooled scholarship trust is a complex maze of fees, unit-talk, restrictions, controlled investing and potentially difficulty getting your money out when the child is older. We would not encourage use of the scholarship plans and to steer clear of their often commission motivated aggressive sales people that flaunt the plans to vulnerable often unaware young parents.

Investing in an RESP

Depending on the type of RESP, you can hold any type of investment within the plan: GICs, mutual funds, stocks, ETFs and more. Generally we recommend an increasingly conservative investment mix inside of an RESP. As the child approaches age 18 and the date of need for the money we would recommend most of the funds be held in a low risk bond product. At the start of the RESP when the child still has fifteen years to go, we would be more accepting of some equity investments that have time to grow and average out volatile stock markets. But generally since RESPs will have a shorter time horizon that your own retirement we believe they should be more conservatively invested.

Tax Planning and RESPs

RESPs aren't quite as lucrative as RRSPs for tax breaks, but they are better than a basic savings account for the child. There are no tax deductions for contributions to an RESP. The money inside the RESP grows tax deferred. When the money is withdrawn by the child to pay for school, the earnings are taxed in the child's hands for some effective income splitting.

Next Steps

For new contributions into the RESP you may already hold with us, we can deposit as little as $100 at a time. We can also set up a monthly savings plan for you to contribute easily from a pay cheque for even smaller amounts. We can also transfer savings from investment accounts you hold elsewhere into your RESP. Or we can help you to arrange a line of credit to provide capital to boost the RESP. Finally, if you regularly get a tax refund each April, get into the habit of putting that money into the RESP each year.

Give us a call or send an email if you have any questions about RESPs before the deadline in a few weeks.

Contact us to answer your questions, schedule a meeting, get a second opinion, refer a friend, order a book, receive a brochure on services and fees, create a financial plan and more. *MEMBER CIPF.

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