Your Guide to Understanding the

RESP

REGISTERED EDUCATION SAVINGS PLAN

2023/2024

This booklet has been created by Central 1 Credit Union to provide general information regarding the Registered Education Savings Plan (RESP) as a courtesy of your financial institution and is based on legislation in effect as of April 2023. Information in this booklet may not reflect legislative changes after the publication date. Refer to the Government of Canada's website for current information.

All examples provided are hypothetical and for illustrative purposes only. Please contact your investment representative at your branch to obtain personalized advice on your financial plan.

Further information related to the RESP and other registered products may be obtained by phone at 1-800-959-8281. Information related to the Canada Education Savings Grant or Canada Learning Bond should be directed to Employment and Social Development Canada (ESDC) at 1-888-275-3624 or through their website: **https://www.canada.ca/en/services/benefits/education/education-savings.html**

Table of Contents

What is a RESP?

A Registered Education Savings Plan (RESP) is a government assisted education savings account used to help individuals and families save for post-secondary education. The owner of the account, known as the subscriber, makes contributions to the RESP and must have a valid Social Insurance Number (SIN) when the account is opened.

Who can be the subscriber?

A RESP can be owned solely by an individual or jointly with their spouse or common-law partner.

A public primary caregiver, such as a department, agency or public trustee, may also be the subscriber if they are responsible for the care of a beneficiary.

Replacing a subscriber

Once the RESP is opened, you, as the subscriber, may update the subscriber information by adding or removing a joint subscriber. In this scenario, the joint subscriber can be your spouse, common law partner, or a divorced or separated partner.

In the case of divorce, RESPs are not required to be divided. You can maintain a joint RESP with your ex-spouse and continue to make contributions. Divorced or separated parents are permitted to open joint RESPs for one or more of their children or to move an existing joint RESP to another promoter.

The subscriber can be replaced in the event of the death of the original holder.

Beneficiary Information

The beneficiary is a Canadian resident with a valid SIN that you designate to receive Educational Assistance Payments (EAP) from the RESP when they are enrolled, as a student, in a post-secondary education institution. The beneficiary can be any individual, including your children, grandchildren, nieces, nephews, family, friends or even yourself.

Information on applying for a SIN can be obtained from a Service Canada Centre or on the government site.

https://www.canada.ca/en/employment-social-development/services/sin/apply.html

Replacing a beneficiary

You can replace the beneficiary in the RESP after the account has been opened. Once a beneficiary has been replaced, the government will transfer the former beneficiary's entitlements to the new beneficiary. If the new beneficiary already has a RESP this could result in an over contribution and grant repayment. This rule does not apply if the replacement beneficiary is under the age of 21 and is the brother or sister of the original beneficiary.

For a family plan, the replacement beneficiary must be under the age of 21 and a sibling to the original beneficiary. **There are no age or relationship restrictions on a single plan.**

Residency restrictions

There are no residency restrictions for opening a RESP. **It is strongly advised that you seek independent international tax advice** from a qualified specialist to determine if a RESP is the appropriate savings vehicle for you, due to the tax implications that may arise if you are currently, or subsequently become, a non-resident of Canada. **The named beneficiary must be a resident of Canada with a valid SIN at the time the designation is made.**

Contributions and Taxable Earnings

RESP contributions are non-tax-deductible deposits that are subject to a lifetime limit of $50,000 per beneficiary.

All contributions you make to the RESP belong to you. Government incentives and income earned in the RESP are sheltered from tax until they become available to the beneficiary when an Educational Assistance Payment (EAP) is made on their behalf. Although the EAP withdrawal is taxable income to the student, the good news is that they are usually in a low tax-bracket resulting in little to no tax paid on the EAP withdrawal.

Eligible Investments

A RESP can hold the same investments that you purchase in a RRSP or TFSA. This includes cash, credit union shares, guaranteed investment certificates and mutual funds. Mutual funds are only available through a licensed dealer. You will need to speak with your credit union to determine if they offer this type of investment. **Effective March 22, 2017, the government will impose a penalty tax on you, the subscriber, if your RESP holds a non-qualifying investment.** The penalty tax is equal to 50% of the value of the non-qualified investment when it was purchased. Additionally, there is an advantage tax equal to 100% of the income and gain earned on a prohibited investment if not immediately withdrawn. **Your credit union restricts RESPs to hold qualified investments only.**

Over contributions

If you exceed the $50,000 lifetime contribution limit for the named beneficiary, you will be subject to a monthly penalty in the amount of 1% of the overcontributed amount until it is withdrawn from the RESP. It is very important to keep track of contributions made on behalf of a specific beneficiary to avoid any penalties. This includes contributions made to any other RESP by a subscriber on behalf of the specific beneficiary.

How long can you contribute to a RESP?

You can make contributions to a RESP for up to 31 years after it is opened, while the plan must be closed 35 years after it was opened. An exception to these time limits is available for students who qualify for the disability tax credit. In this case, contributions can be made for up to 35 years and the account must be closed 40 years following the year the plan was opened.

Sally opened a RESP on January 2, 2023. She can make contributions (up to the lifetime limit) until December 31, 2055, which is 31 years after the plan was opened. And, the plan must be closed on or before December 31, 2059, which is 35 years after the plan was opened.

Types of RESPs

There are two main types of RESPs available at your credit union: Family and Individual Plans.

A grandfathered plan may exist for accounts opened prior to the existence of the Canada Education Savings Grant (CESG) in 1998. This type of RESP is subject to different rules.

A Group RESP is a pooled type of savings plan also known as a scholarship trust offered by scholarship or group plan dealers. These types of plans have various restrictions and fees. It is important to review the contract prior to selecting this type of plan. Group Plans are not offered by financial institutions.

Family plans

In a family plan you can name multiple beneficiaries to receive Educational Assistance Payments (EAP). If you select this type of plan, all the beneficiaries must be connected to you by blood or adoption. This means the beneficiary must be your child, grandchild, brother or sister. Also, where the family plan has multiple beneficiaries, the beneficiaries must be siblings.

Individual plans

An individual, or non-family plan, can only have one beneficiary. There are no restrictions on who you can name as the beneficiary. You can open an individual plan for anyone, including your friend, niece, nephew, godchild or yourself.

John and Mary wish to open a RESP to save for their godson Sam, who is the child of a close family friend. They will need to open an individual plan in this case, since Sam is not connected to them by blood or adoption.

The following table highlights the differences between the two plans.

Rules	Family Plan	Individual Plan
Number of beneficiaries	One or more beneficiaries	One beneficiary only
Beneficiary restrictions	All beneficiaries must be related to you by blood or adoption (such as your children, grand-children or siblings)	Anyone can be the beneficiary
Age restrictions	The beneficiary must be under the age of 21 when named	The beneficiary can be any age when named

Rules	Family Plan	Individual Plan
Contributions	• Contributions belong to you, the subscriber • Must be allocated to a specific beneficiary(ies) • Not subject to annual contribution limits • Lifetime contribution limit is $50,000 per beneficiary • Can be made until the beneficiary turns 31	• Contributions belong to you, the subscriber • Not subject to annual contribution limits • Lifetime contribution limit is $50,000 • Can be made for up to 31 years after the plan was opened
Recommended For	• Families with more than one child, or • Families with one child who are planning to have more children	• Families with one child only, or • Families with a large age difference between children • Individuals who want to save for themselves or for someone not related by blood or adoption

Government Incentives

The government of Canada provides free money on contributions to RESP beneficiaries in the form of incentives to assist parents, families and friends save for post-secondary education. Incentives are paid to the RESP based on the amount of your contribution and limits imposed by the government.

Basic and additional CESG

The Canada Education Savings Grant (CESG) provides a 20% matching payment on the first $2,500 of annual contributions to a maximum amount of $500. The additional CESG is a supplement to the basic CESG that is available to qualifying beneficiaries and pays an additional 10% to 20% grant on the first $500 of annual contributions. The additional CESG is based on the net family income of the beneficiary's Primary Caregiver (PCG); i.e. the person who receives the Canada Child Benefit (CCB) on behalf of the child. **The lifetime maximum CESG is currently set at $7,200 per beneficiary.**

Did you know?
The Government of Canada paid out over $1 billion in CESG payments to 3 million beneficiaries in 2020.

— Government of Canada/CESP 2020 Annual Statistics Review

The following table is an example of how the CESG provides an additional match for children from middle to low-income families.

2023 Income Thresholds

Contributions	$53,359 or less	More than $53,359 but less than $106,717	More than $106,717
First $500 – Additional CESG	20% ($100)	10% ($50)	N/A
First $2,500 – Basic CESG	20% ($500)	20% ($500)	20% ($500)
Maximum annual CESG	**$600**	**$550**	**$500**
Lifetime maximum CESG	**$7,200**	**$7,200**	**$7,200**

Carry-forward grant room

If you are unable to contribute $2,500 towards a specific beneficiary in any year, the unused grant room is not lost and can be carried forward for future years if the beneficiary remains eligible. In this scenario, the maximum basic CESG for a given year is $1,000. That is the maximum grant of $500 on the first $2,500 in contributions and a maximum of $500 on carry-forward room.

While there is no annual contribution limit for a RESP, the government only pays grants on contributions made up to $2,500 or up to $5,000 if the beneficiary is entitled to carry forward room.

The additional CESG does not attract carry-forward room.

Contributions from previous year carry-forward $2,500 @ 20%	$500
Contributions from this year $2,500 @ 20%	$500
Additional grant on first $500 for this year @ 20%	$100
Total Grant Paid	**$1,100**

How does a beneficiary qualify for the CESG?

The basic and additional CESG is available for qualifying RESP beneficiaries until the end of the year they celebrate their 17th birthday. Special rules exist for beneficiaries that are 16 or 17 years old.

To qualify for the CESG, the beneficiary must:

- Be a resident of Canada
- Have a valid Social Insurance Number (SIN)
- Be 17 years old or younger

You must contribute to the RESP for the beneficiary to receive the grant.

To qualify for the additional CESG, the primary caregiver's SIN is required, as eligibility for the additional grant is based on the adjusted income of the beneficiary's primary caregiver. That is the person who receives the Canada Child Benefit (CCB) on behalf of the child.

You do not have to be the primary caregiver for the beneficiary to receive the grant. If the child is in care, the agency name and business number will be required.

This information is required in the account opening package.

Special rules for beneficiaries aged 16 or 17

The government of Canada imposes CESG eligibility restrictions where the beneficiary is 16 or 17 years old. To qualify for the grant in this case, one of the following conditions must be met by December 31st of the year the beneficiary turns 15:

- At least $2,000 is contributed to the RESP for the beneficiary (and not withdrawn) prior to the year the beneficiary turns 16
- A minimum $100 annual contribution is made to the RESP for the beneficiary (and not withdrawn) in any four-year period prior to the year the beneficiary turns 16

If the beneficiary is 17 years old, the contribution must be made in the calendar year they celebrated their 17th birthday. A beneficiary loses eligibility in the year they turn 18.

Your grandson, Jake, turned 17 in February 2023. If he qualifies for the grant under the special rules, you will need to make a deposit on or before December 31, 2023 to receive the grant.

The grant is not available in the year he turns 18 even if carry-forward room is available.

Repayment of CESG

The CESG must be returned if you withdraw your contributions before the beneficiary is enrolled in post-secondary education. However, since the RESP can remain open for 35 years, you can wait to see if the beneficiary changes their mind or transfer the money to another beneficiary before making the decision to withdraw your contributions.

The CESG must be returned to the government of Canada in any of the following additional circumstances:

- When the RESP is closed or the registration is revoked

- When an Accumulated Income Payment (AIP) is made to you
- When an income payment is made to a designated educational institution
- When none of the RESP beneficiaries pursue post-secondary education
- When the original beneficiary is replaced, and the replacement beneficiary is not under the age of 21 **and** is not a sibling of the original beneficiary

The Canada Learning Bond

The Canada Learning Bond (CLB) is a government incentive that provides up to $2,000 in free money to qualified beneficiaries born on or after January 1, 2004. **You do not have to make any contributions to the RESP for the beneficiary to receive the bond.**

Did you know?

The Government of Canada paid out $152 million in CLB payments to 1.6 million beneficiaries in 2020.

— Government of Canada/CESP 2020 Annual Statistics Review

CLB eligibility requirements

CLB entitlements are based on the adjusted income of the primary caregiver and the number of qualified children in their family. The CLB is only available in the years the family's adjusted income falls within the prescribed threshold.

The adjusted income level is set from July 1 to June 30 of the following year and increases when the primary caregiver has more than three children.

The CLB is currently available for families with an adjusted net family income in 2022 of $50,197 or less if they have 1 to 3 children.

Please refer to your credit union advisor for rates after June 30, 2023.

How much money could the beneficiary receive?

The amount available for each qualified beneficiary is:

- $500 in the first year of eligibility
- $100 for each qualifying year (up to and including the year the beneficiary turns 15)

The government of Canada keeps track of the CLB entitlement for each eligible child. Unlike the CESG, you cannot share the bond with other beneficiaries.

What if the child does not have a RESP?

If an eligible child was never named as a beneficiary on a RESP, they can open an individual RESP for themselves when they reach the age of 18 (up to the age of 21) and apply for CLB. The maximum entitlement remains $2,000.

Repayment of CLB

Unlike with the CESG repayment rules, you do not have to repay the CLB if you make a withdrawal from the RESP before the beneficiary pursues post-secondary education unless you close the RESP, or the registration is revoked. The CLB repayment does not usually result in the loss of the CLB entitlement for the beneficiary. Since the government tracks CLB entitlements for each beneficiary, the payment may be returned if the beneficiary is named on another RESP.

There are additional circumstances that will result in a CLB repayment that will be monitored by your RESP administrator.

Provincial Incentives

Saskatchewan Advantage Grant for Education Savings (SAGES)

As of 2023, the SAGES program is a cancelled government incentive. August 31, 2023 is the last date a promoter can process any SAGES transactions. Starting on October 1, 2023, the CESP processing system will reject any submitted SAGES transactions.

British Columbia Training and Education Savings Grant (BCTESG)

The BCTESG is a one-time incentive in the amount of $1,200 provided by the B.C. government in the 2013 budget for eligible residents born on or after January 1, 2006. The grant is paid into the RESP (upon application) between the beneficiary's 6th and 9th birthday, and can be shared among siblings.

BCTESG beneficiary qualifications

- Beneficiary must be born after December 31, 2005
- Beneficiary and their custodial parent/guardian must be a B.C. resident at the time of the BCTESG application
- The beneficiary must have an active RESP at the time of application

The first day you can apply for the BCTESG is on the child's 6th birthday. The application period expires on the day the child turns 9.

RESP Withdrawals

Once the beneficiary has enrolled in full or part-time studies at a qualifying post-secondary educational institution, you may submit a request

Sara has opened a family RESP for her children, Jake and Sam, born in 2016 and 2018 respectively. They are all residents of B.C.

Based on the above information, the earliest dates that Sara can apply for the BCTESG for her children are on Jake's 6th birthday in 2022 and on Sam's 6th birthday in 2024. She cannot apply for the grant once the children turn 9.

to withdraw money from the RESP to help pay for their studies. This type of withdrawal is called an Educational Assistance Payment (EAP). The EAP consists of the interest income portion of the RESP and the government incentives that have been credited to the beneficiary. **The EAP is fully taxable to the beneficiary in the year of withdrawal.**

If the beneficiary qualifies for the EAP, you may choose to take some, or all, of your contributions out of the RESP for yourself or gift the proceeds to the beneficiary. This type of withdrawal is called a Post-Secondary Education (PSE) withdrawal and is not taxable to you or the beneficiary, since contributions were made with your after-tax dollars. **There is no limit to the amount of PSE that can be withdrawn from the RESP once the beneficiary goes to a qualifying post-secondary institution.**

Since the contributions always belong to you, the subscriber, you can withdraw your contributions at any time. However, if the beneficiary is not in school, this type of request will trigger repayment of the government grants and bonds, and possible taxable income.

Please consult with your advisor prior to making this type of withdrawal request.

Educational withdrawal amounts

The maximum EAP amount that is available for the beneficiary depends on if they are enrolled in full or part-time studies. The EAP is available for use from the time the beneficiary enrolls in the qualified program up to six months after the program ends.

EAP Withdrawal Limits - 2023

Post-Secondary Program Type	Enrollment Requirements	Withdrawal Limit
Full-time studies in Canada	At least 3 weeks long with 10 hours of course work per week	First 13 consecutive weeks: $8,000 maximum After first 13 consecutive weeks: $26,860 maximum*
Part-time studies in Canada	At least 3 weeks long with 12 hours of course work per month and must be at least 16 years old	Each 13-week semester: $4,000 maximum
Full-time studies outside of Canada	At least 3 weeks long at a university, or 13 weeks long at a college or other type of educational institution	First 13 consecutive weeks: $8,000 maximum After first 13 consecutive weeks: $26,860 maximum*

**The annual threshold is indexed annually*

What is a qualified post-secondary institution or program?

The following post-secondary institutions qualify for the purposes of requesting an Educational Assistance Payment (EAP).

- A university, college or other educational institution in Canada that has been designated under the *Canada Student Financial Assistance Act, Student Loans Act, or designated by the province of Quebec.*
- An education institution in Canada certified by the Minister of Employment and Social Development as an institution that provides

non-university credited courses or programs to give or improve the student's occupational skills.

- A university, college or other educational institution **outside of Canada** that provides courses at the post-secondary level. Provided that the beneficiary is enrolled in the course with a duration of at least 13 consecutive weeks (3 weeks for a university program).
- A qualifying education program that requires the student to spend 10 hours or more per week on work in the program and that lasts three weeks or more.
- A specified education program that requires the student to spend 12 hours or more per month on work in the program and that lasts three weeks or more.

A list of designated Canadian education institutions is available on the Government of Canada's website:

https://www.canada.ca/en/employment-social-development/programs/designated-schools.html

Or, you can contact Employment and Social Development Canada (ESDC) at 1-866-517-5650 to determine the eligibility of the educational institution.

What happens if the beneficiary does not pursue post-secondary education?

The beneficiary may decide not to pursue post-secondary education for a variety of reasons. If this is the case, you may be able to allocate their available portion of the Educational Assistance Payment (EAP) credits to the remaining beneficiaries (for a family plan) or designate a replacement beneficiary (for a single plan). Or you can wait to see if the beneficiary changes their mind and keep the RESP open if it is within the prescribed period (36 years after the date it was opened).

If you choose to close the RESP, your contributions will be returned to you tax-free. However, in this case, the grants and bonds will need to be returned to the government.

Accumulated Income Payments (AIP) Options

An Accumulated Income Payment (AIP) represents the tax-sheltered growth generated within the RESP. This type of payment has taxable implications and is available to you provided you are a resident of Canada and any one of the following conditions have been met:

- The RESP has been in existence for at least 10 years and each beneficiary has reached the age of 21 and is not currently eligible to receive an EAP
- The AIP is made in the year of the RESP's 35th anniversary (40 years for a specified plan)
- All beneficiaries are deceased when the payment is made

In all cases, the RESP must be closed by the end of February following the year of the payment. For a joint RESP, the AIP payment must be made separately to each subscriber. Joint payments are not allowed.

There are three options available when requesting an AIP withdrawal from your RESP:

1. You may request to receive the **payment in cash**. In this case, a withholding tax of 20% will be taken at source and you will receive a T4A slip for the year of withdrawal to report the income on your personal tax return.

2. You can request a **tax-free transfer** of up to $50,000, to your individual or spousal RRSP provided you have enough contribution room available.

3. You can jointly elect a **tax-free transfer** to the beneficiary's Registered Disability Savings Plan (RDSP). *This is a complex request that requires consultation with your credit union advisor.*

If you do not meet any of the conditions above to receive the payment, then the income must be paid to a designated post-secondary education institution as elected on the RESP application form or as otherwise indicated.

There are special circumstances where the CRA may waive the AIP conditions where the beneficiary is deceased or suffers from a severe and prolonged mental impairment. Consult with your credit union advisor if this is the case.

Transfers between RESPs

Tax-free transfers can be made between RESPs provided the receiving plan has the same beneficiary. If the receiving plan is a family plan, then the beneficiary must be the same or a sibling of the beneficiary on the transferring plan. However, **it is important to note that penalties and repayments may occur if the receiving sibling beneficiary is under the age of 21**, as the transfer could result in an excess contribution and the receiving beneficiary exceeding maximum grant entitlements.

For single plans, the receiving beneficiary can be a sibling of the transferring plan if they were under the age of 21 at the time the receiving RESP was opened.

RESP Transfers

Receiving Beneficiary	Individual Plan	Family Plan
Beneficiary is the same	✓	✓
Beneficiary is not the same and not related	✓	✗
Beneficiary is a sibling (**over** age 21)	✗	✓
Beneficiary is a sibling (**under** age 21)	✓	⚠

Treatment of a RESP upon Death

Death of a subscriber

It is important to plan for the management of your RESP in the case of death to ensure the proceeds are available to the intended RESP beneficiary. And, to avoid any delays due to probate requirements.

The following options should be considered as part of your estate plan:

- Register the plan jointly with your spouse or common-law partner. The surviving spouse will become the sole subscriber upon your death
- Designate a successor subscriber in your will

If you do not name a successor subscriber in your will, your executor may name the estate or designate another individual as the successor. In any event, the successor subscriber will have the same right that you have as the original subscriber. This includes ownership of the value of the RESP contributions.

It is important to note that the value of the RESP may become part of your estate if there is no successor named.

Please consult with an estate specialist to discuss your estate planning needs.

Death of a beneficiary

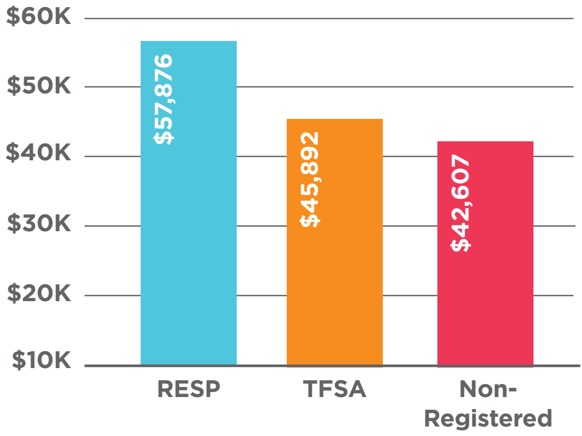
In the unfortunate event that the beneficiary dies before the RESP is depleted, you may designate a replacement beneficiary. If the RESP is a family plan, then the assets can be shared with the surviving beneficiaries. Note, the lifetime maximum $7,200 CESG still applies to the receiving beneficiaries. Any excess CESG will be returned to the government. Consult with your credit union advisor for further details.

RESP Investment Benefits

In conclusion, there are many benefits for you to save for your beneficiary's education through a RESP, such as your contributions attract free money for the beneficiary in the form of government incentives, and the growth within the RESP is sheltered from tax until it is withdrawn. As the RESP owner, you control when the withdrawals are made and how much (within limits) to give to the beneficiary for their educational expenses.

Although you can save for education in your Tax-Free Savings Account (TFSA) without attracting tax on the growth, the TFSA does not attract the government grants and bonds that are available to the beneficiary. This makes the RESP a more valuable savings solution. For example, if you invest $2,000 per year for 18 years. You will have invested $36,000 in total. However, due to the value of compounding and tax-free growth, and the addition of the maximum $7,200 CESG per beneficiary, your RESP will have $57,876 in 18 years to use when the beneficiary is ready to pursue post-secondary education as shown in the graph below.

$2,000 Annual Investment for 18 years



This graph is used for illustration purposes only using the following assumptions:

- 2.5% rate of return, compounded annually
- $7,200 maximum CESG contributed to the RESP
- Marginal tax rate on annual interest income earned in the non-registered account

How Do You Get Started?

Please visit your local credit union branch to discuss how a RESP can help you reach your financial goals. Before making any investment decisions, it is advised that you ask your credit union advisor about deposit insurance protection.