Manulife Investments

WealthStyles®

Plan ahead for your children's education and get the CESG working for you

It's never too early to start thinking about your children's education, even if they aren't in kindergarten yet. The earlier you start making any investment, the sooner you take advantage of the benefits of compounding, which can add up significantly over the years.

To put money aside for future education costs, you could simply open a non-registered investment account or a trust fund, and make regular contributions. But there are substantial benefits to starting a Registered Education Savings Plan (RESP) instead, and chief among them is the Canadian Education Savings Grant (CESG).

The CESG is a plan offered by the Canadian government whereby the government will kick in an extra 20 per cent on the first $2,500 you contribute every year, to an annual maximum of $500. So if you contribute $1,000 a year, the government will give you an extra $200. If you contribute $2,500, you'll get the whole $500. There is a lifetime maximum of $7,200.

The CESG gets even better for lower income families, with those earning less than the first federal tax bracket a year getting a 40 per cent grant on the first $500, bringing the maximum grant to $600. Families earning between the first and second federal tax brackets get a a 30 per cent top up on the first $500, bringing their maximum grant to $550 per year.

A key benefit of RESPs is tax-free compounding. That is, the money you contribute to an RESP grows tax-free until withdrawn. If the child is enrolled in a qualifying educational program, the withdrawals will be taxed in their hands, which usually means very little tax will be payable.

Even if, hypothetically, your investments produced no return at all over the years, you'd still be ahead by $7,200, the lifetime maximum CESG. Since a no-return scenario is extremely unlikely, consider the benefits of the CESG when compounding is factored in. As the chart below illustrates, that extra $500 a year could turn into more than $35,000 over 17 years, assuming an annual return of 7 per cent.

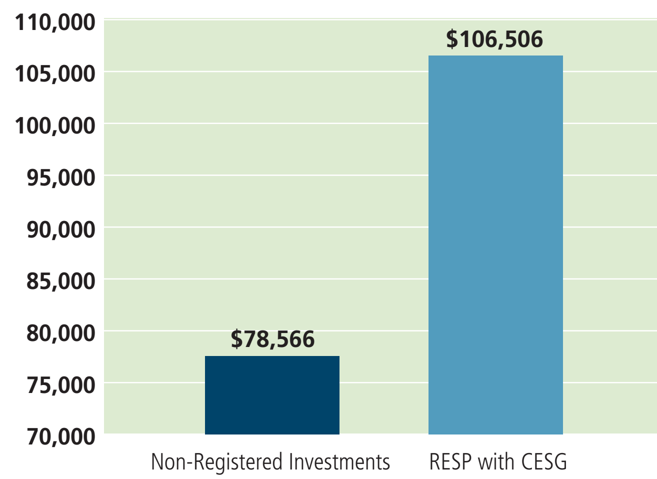
OTHER RESP FACTS

- To apply for an RESP, you'll need to obtain a social insurance number for the child, so do this as soon as possible.
- The lifetime contribution limit is $50,000 per child
- The CESG is only available for contributions made up until the end of the year in which the child turns 17

PAINTING A PICTURE

The chart shows how much you would end up with if you contributed $2,500 to a non-RESP savings vehicle for 18 years compared to how much you would accumulate if you opted for an RESP and received the maximum allowable CESG every year. The difference of $33,100 is significant.

THE VALUE OF CESG ($)



For illustrative purposes only.
Assumptions: Based on annual contributions of $2,500 at the beginning of each year, 7 per cent rate of return (50 per cent of the return on the non-registered investment is taxable each year) and a marginal tax rate of 40 per cent.
Rate of returns are for illustration purposes only and are not guaranteed.

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