Investing

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, earnings of university graduates are 61% higher than the earnings of high-school graduates.[1] According to Human Resources and Skills Development Canada (HRSDC), workers with a post-secondary education can expect to see their wages grow much faster than workers with only a high-school diploma. They are also much more likely to find a job more quickly after they graduate and much less likely to be unemployed.[2]

Considering that 70% of jobs today require a post-secondary education,[3] we can only anticipate the value of education to be just as important — if not more important — in the future.

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

But 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 almost doubling over the past 15 years[4] and other expenses spiralling upward, HRSDC predicts that in the next 15 to 20 years, a four-year undergraduate program away from home could cost anywhere from $75,000 to $100,000.[5]

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

› 93%
Percentage of parents with children aged 18 and under who want their children to achieve a post-secondary education.[6]

› $66,300
Estimated cost of a four-year university education away from home for the 2008 school year.[7]

› 50%
Percentage of parents who have a savings plan devoted specifically to paying for college or university expenses.[8]

› 4.4% per year
Average annual increase in university tuition costs since 1998-1999.[9]

› $12,232
Average amount borrowers owed the Canada Student Loans Program in the 2006-2007 school year.[10]

› $32 billion
Total amount Canadian parents have saved for their children's post-secondary education costs.[11]

› 60%
Proportion of Canadians in the highest income bracket who possess a post-secondary degree.[12]

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. 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 a child, grandchild or sibling of you, the subscriber (either by blood or adoption). 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 — your 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 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 on 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 in the name of the beneficiary, by all subscribers, to all plans. As a result, if you contribute to a plan for your child, and his or her 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® (see page 11), you choose the amount and payment schedule that's right for you.

You can contribute to an RESP for up to 32 years, and the plan can remain open for up to 36 years. Special rules apply where the beneficiary of the RESP is disabled. In that case, contributions can be made for a maximum of 36 years and the plan can remain open for up to 41 years.

A 20% return on investment

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

With the basic CESG, for an eligible beneficiary under the age of 18, the government will add 20% of the first $2,500 contributed annually to an RESP. That adds up to $500 per year. 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 can be carried forward to the next year. The maximum CESG payable in any one year, however, is $1,000 based on a contribution of $5,000.

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 have totalled 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 lower- and middle-income

Canadian families to help them save for education:

- If your net family income was $38,832 or less (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 below $77,664 (again, adjusted annually), the additional CESG is 10% on the first $500 contributed annually to an RESP.
- A $500 Canada Learning Bond (CLB) is provided for children of families who are entitled to the National Child Benefit Supplement and who are born after December 31, 2003. These children also qualify for CLB instalments of $100 per year until age 15, as long as they continue to receive the National Child Benefit Supplement. 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 Alberta Centennial Education Savings (ACES) Plan will contribute $500 to the RESP of any child born after December 31, 2004, to an Alberta resident. An additional grant of $100 will be paid when the child reaches 8, 11 and 14 years old, provided he or she is still in school. The total ACES grant is $800, and can be shared among siblings.

- The Quebec Education Saving Incentive (QESI) is a tax credit introduced 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 tax credit of 10%. Lower-income families are eligible for an increased tax credit (5% or 10%) on the first $500 of annual RESP contributions.

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 HRSDC site has information on saving for education, including publications about the CESG and the CLB: www.hrsdc.gc.ca.
- To download a form to apply for a SIN for your child, go to Service Canada: www.servicecanada.gc.ca.
- For more information about RESPs, download the Canada Revenue Agency (CRA) guide on RESPs: www.cra-arc.gc.ca/tx/ndvdls/tpcs/resp-reee/menu-eng.html

Going to school

Once the student is enrolled in a qualifying post-secondary education or training program, the accumulated income, grants and bonds within the RESP can be paid out to the student at the discretion of the subscriber. These payments are called Educational Assistance Payments (EAPs).

EAPs may be used for any education-related expenses, such as books, housing and tuition, at a qualifying school. Part-time students can access up to $2,500 in EAPs for each 13-week semester of study, provided they spend at least 12 hours a month on courses and the courses last at least three consecutive weeks. 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.

Most Canadian universities, colleges and post-secondary educational institutions qualify for EAPs. In fact, many institutions outside of 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 more than one beneficiary. This way, you can direct more to a beneficiary whose educational expenses are higher. If you decide to do this, remember that the maximum CESG that you can allocate to any one beneficiary is $7,200.

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

The beneficiary must claim all EAPs as income on his or her tax return in the year that they are received. Usually, this results in little or no tax since students tend to be in the lowest tax bracket and can claim tax credits for the personal amount and education-related expenses.

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:

a) If you have a family plan, you can designate another beneficiary to receive the government grants (to a maximum of $7,200 per beneficiary) and earnings.

b) If you have an individual plan, you may be able to name an alternate beneficiary.

c) 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 transferred to an RSP. The amounts withdrawn will be considered taxable income.

Any CESG paid into the plan that cannot be transferred to an alternate beneficiary must be returned to the government. However, interest or investment growth earned on grant money does not have to be paid to the government.

It may be possible to transfer up to $50,000 of the plan's growth (or earnings) tax-free to your retirement savings plan (RSP) or a spousal RSP. This avoids the 20% penalty mentioned above. You must have available RSP contribution room to do this.

The initial contribution can be withdrawn by the subscriber with no tax consequences since it was made with after-tax dollars, but if it is not used for educational purposes, then any CESG remaining in the plan must be repaid, to a maximum amount equal to 20% of the withdrawal.

An extremely thoughtful gift

RBC RESP Gift Cheques are an effective way for you, for relatives or for 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.

RESP choices at RBC Royal Bank

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

Low to no risk. 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-risk 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.

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.

For more information on how to effectively manage the investments within your RESP account, please see "Investment Solutions" on page 12.

Why not just set money aside in a separate account?

Parents sometimes choose to set up a separate savings or investment account of their own and earmark it for education. While this is easy and allows you maximum control and flexibility, you should keep the following in mind:

- If you decide to invest the money, 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.
- You will not receive the CESG or any other form of government assistance and may forfeit thousands of dollars in grants over the years.
- A regular savings or investment account is not designated solely for education savings as an RESP is. Having an RESP that names your child as the beneficiary means that the money you put into it is earmarked for that purpose and that beneficiary. This can provide added reassurance (but no guarantees) that the money will be there when your child goes to school. It is also important to note that any investments intended for a child's education should be indicated as such in the account holder's Will. This will ensure that the funds are distributed for their intended purpose upon the death of the account holder.

In the end, your decision should rest on your saving priorities. If having flexibility and control over your money is most important to you, you may decide that a savings or investment account is your best option. However, if you're someone who benefits more from structure and an organized plan, and/or you want to take advantage of the CESG and tax-deferred growth, consider setting up an RESP.

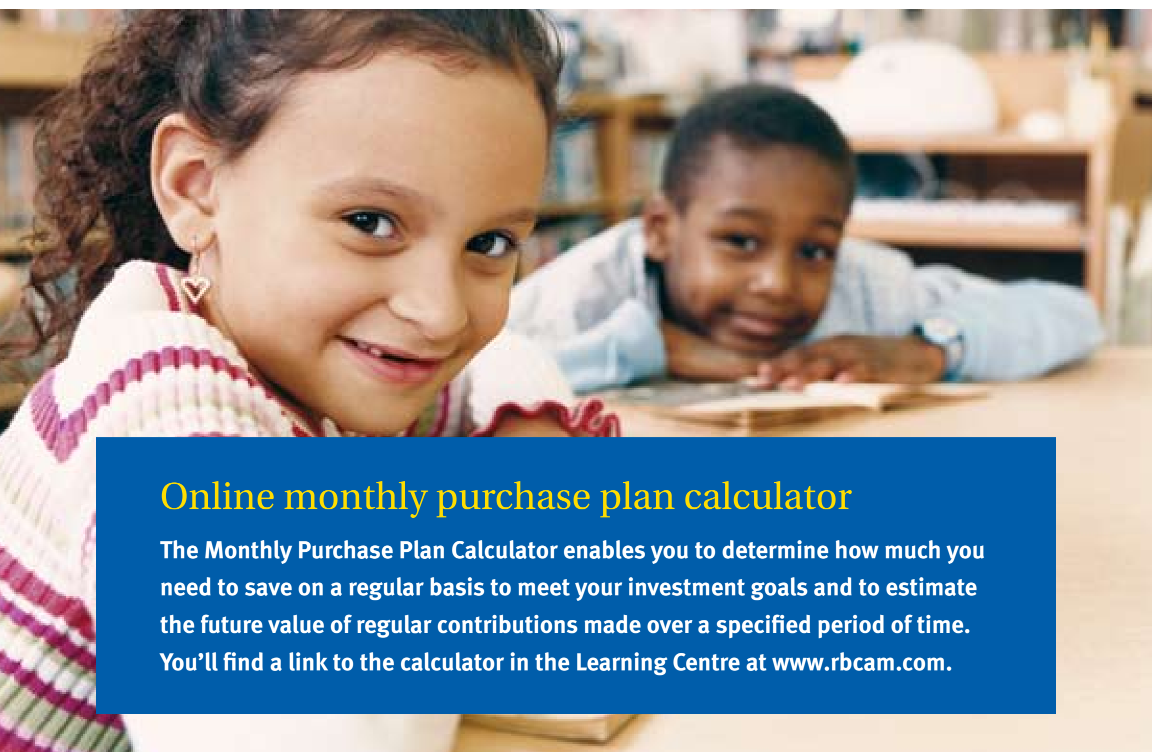
Saving tip

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).

Committing to your child's future

With mortgage payments, household bills, RSP 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 commit to a regular investment plan through RBC RESP-Matic. An RBC RESP-Matic offers several advantages:

- 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 budget.
- Your money starts working for you right away, maximizing your opportunity for returns.
- With dollar-cost averaging, you don't need to think about the "right time" to contribute because you're always investing.



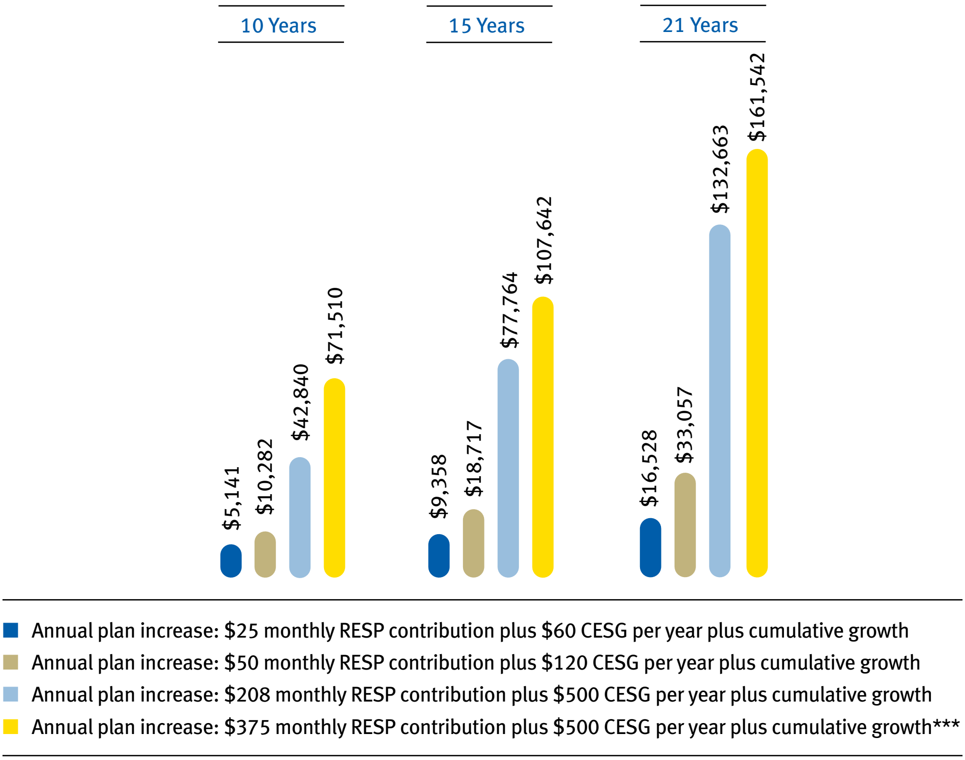
Online monthly purchase plan calculator

The Monthly Purchase Plan Calculator enables you to determine how much you need to save on a regular basis to meet your investment goals and to estimate the future value of regular contributions made over a specified period of time. You'll find a link to the calculator in the Learning Centre at www.rbcam.com.

Of course your contributions will continue to benefit from all the advantages of an RESP, including eligibility for the CESG and other government incentives, tax deferral and a wide range of investment choices.

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**.



* 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 compound return, 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% of the first $2,500 contributed annually to an RESP for a beneficiary under the age of 18. 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. The maximum cumulative grant over the life of the RESP is $7,200 per beneficiary.

*** 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). Once this limit is reached, contributions and CESG payments will stop, with the annual increase in plan assets driven by 7% annual compound return assumption.

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. These fundamentals can help guide your decisions and, ultimately, enhance your savings growth.

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 risk and your investment objectives. If, for example, you are contributing to an RESP for a newborn child, you may wish to place a significant portion of your savings in equity-oriented investments. This is because you can take advantage of their long-term growth potential, without having to worry too much about year-to-year fluctuations in value.

On the other hand, if you are saving for a child who is expected to need the funds in seven years or less, it may be more prudent to keep fixed-income investments or other guaranteed investments, such as GICs, in your portfolio. This approach will reduce the risk of an unexpected loss in market value close to the time the funds will be required.

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 ways to invest for a child's education and ensure proper diversification is to consider professionally managed mutual funds. And if the responsibility of investing for your child's future education seems daunting, mutual funds can also provide an easy and cost-effective solution.

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.
- **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.

Professionally managed mutual funds can help you build a diversified portfolio with confidence. And with the added boost of a tax-deferred RESP account, they can also help you meet the challenge of rising education costs.

Simplify education savings with the RBC Target Education Funds

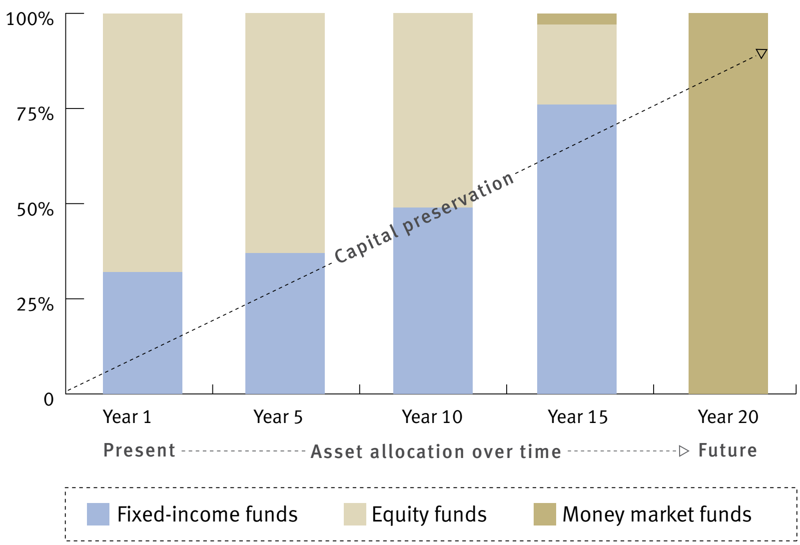
The RBC Target Education Funds offer an innovative approach to education savings. They are designed for those who are uncertain of the best way to invest for a child's education or do not have the time to do it themselves. To start saving, simply select the Fund that is closest to your child's target education date.

Date of your child's birth	Appropriate solution for most children
1990 1991 1992 1993 1994	Target 2010 Education Fund
1995 1996 1997 1998 1999	Target 2015 Education Fund
2000 2001 2002 2003 2004	Target 2020 Education Fund
2005 2006 2007 2008 2009 2010	Target 2025 Education Fund

*Initial minimum investment applies.

A portfolio designed to grow and then preserve capital

The asset mixes of the RBC Target Education Funds evolve over time, focusing on growth in the early years and becoming more conservative as your child's target education date approaches. The advantage? You get investments that provide the potential for growth up-front to help cover the rising cost of education and, as the target date approaches, each fund becomes more conservative, with less volatility and less potential for negative returns.



The RBC Target Education Funds make saving for your child's education easy.

One fund. One date. One goal.

Boost education savings with the Tax-Free Savings Account (TFSA)

In addition to contributing to an RESP for a child, you may want to use Tax-Free Savings Accounts. Unlike RESP contributions, amounts contributed to a TFSA are not eligible for the CESG. However, both earnings within the plan and withdrawals are tax-free, making TFSAs a potentially valuable complement to an RESP.

There are two ways you may want to incorporate Tax-Free Savings Accounts into an education fund for a child.

1. Maximize your own TFSA

You can contribute up to $5,000 a year into a TFSA. Both earnings within the plan and withdrawals from it are tax-free. You could make withdrawals and either pay the child's school fees directly or give the money to the child. There's no tax on the withdrawal and you can recontribute the amount withdrawn in the following year or a later year.

2. Give the child the money for a TFSA

Many family members cease contributing to a child's RESP after the year they turn 17, the last year of eligibility for the CESG. Coincidentally, the first year teens accumulate contribution room for their own TFSA is age 18 (in provinces where the age of majority is not 18, the child cannot open a TFSA until age 19; contribution room however, accumulates from age 18). Gifting money annually to a child starting at age 18 will allow him or her to contribute the maximum to a TFSA and withdraw the funds as needed, tax-free, for education expenses.

Saving for a child's education

Consider using a TFSA to accumulate funds in addition to a child's RESP. For more information on TFSAs, visit our website at www.rbcroyalbank.com/products/taxfreesavings

Options at a glance

Finding the best education saving strategy depends on your personal and family circumstances. Here is a review of some of the options we've discussed in this guide:

	RESP	NON-REGISTERED SAVINGS OR INVESTMENT ACCOUNT	TFSA
Contribution limits	$50,000 per beneficiary	No restrictions	$5,000 annually
Eligible investments	Registered Savings Deposits, RBC GICs, RBC Funds	Savings Account, RBC GICs, mutual funds including RBC Funds	Registered Savings Deposits, RBC GICs, RBC Funds
CESG eligibility	Yes	No	No
Age restrictions	Family plans require the beneficiary to be under age 21 when becoming a beneficiary under the plan; no additional contributions for beneficiaries who have reached age 31	No restrictions	Contribution room accumulates from age 18; must be age of majority (19 in some provinces) in order to open an account
Eligible contributor	Subscriber	Account holder, although attribution of tax may apply	Account holder, although funds for contribution can be gifted to an adult with no attribution of tax
Tax treatment	Investment growth tax-deferred; earnings taxable to student upon withdrawal for educational purposes; original contributions can be withdrawn by the contributor without tax consequences but may trigger CESG repayment if earnings and grants have not yet been paid out as EAPs (see page 7)	Interest, dividends and capital gains taxable to account holder (subject to possible attribution); dividends and capital gains subject to preferential tax treatment	During lifetime, income (interest, dividends, capital gains) earned in plan and all withdrawals tax-free
Use of funds	Plan earnings and CESG must be withdrawn to pay educational expenses as permitted by law, or CESG repayment and tax penalties may apply	No restrictions	No restrictions
Termination	The end of the 35th year following the year the plan was opened*	No restrictions	No restrictions

This chart is for illustrative/comparative purposes only and may not contain all the information necessary for you to make your education investment decision. Please consult your own legal or financial advisor.

* 40th year where the RESP beneficiary is disabled.

Encourage your kids to help

Encourage your children to save their earnings and cash gifts from relatives by teaching them about investing. Not only will they help accelerate their savings, but they will also learn a valuable lesson about the power of long-term investment growth.

[1] *Education at a Glance OECD Indicators: Country Profile for Canada*, Council of Ministers of Education, Canada, 2005.
[2] Jorgen Hansen, *Education and Early Labour Market Outcomes in Canada*, Learning Policy Directorate, Strategic Policy and Research, Human Resources and Social Development Canada, December 2007.
[3] *RESPs: A Special Savings Plan for Education*, special report of Human Resources and Social Development Canada, www.canlearn.ca/eng/documents/RESP/resp.pdf (accessed June 11, 2008).
[4] “Back-to-school factbook,” Statistics Canada, September 28, 2006, and “University Tuition Fees,” *The Daily*, Statistics Canada, October 9, 2008.
[5] *The Cost of Post-Secondary Education*, CanLearn, www.canlearn.ca/en/parent/save/costs/index.shtml (accessed March 13, 2008).
[6] *Survey of Approaches to Educational Planning*, Statistics Canada, Nov. 20, 2003.
[7] “Future University Cost Projections — National Average,” *The Guide to University Costs in Canada — Fall 2007*, USC Education Savings Plans Inc., www.usc.ca/resp-eng/why_resp_costs.html (accessed March 13, 2008).
[8] *Survey of Approaches to Educational Planning,* op. cit.
[9] *University Tuition Fees,* op. cit.
[10] *Canada Student Loans Program: Annual Report 2006-2007*, Her Majesty the Queen in Right of Canada, 2008.
[11] *Survey of Approaches to Educational Planning*, op. cit.
[12] *2001 Census*, Statistics Canada.

Take the first step

Whether you're investing inside or outside of an RESP, RBC has a wide range of education saving options to choose from. To help you design a successful strategy — for you and your children — speak with an RBC advisor today.

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