

Giving the gift of knowledge

Your guide to saving for a child's post-secondary education



RBC Royal Bank



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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 and college graduates are 39% higher than the earnings of high-school graduates.¹ According to Statistics Canada, workers with a post-secondary education can expect to see their wages grow much faster than workers with only a high-school diploma. Post-secondary education is also associated with more years of coverage in an employer-sponsored pension plan and fewer layoffs than a high school diploma.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.

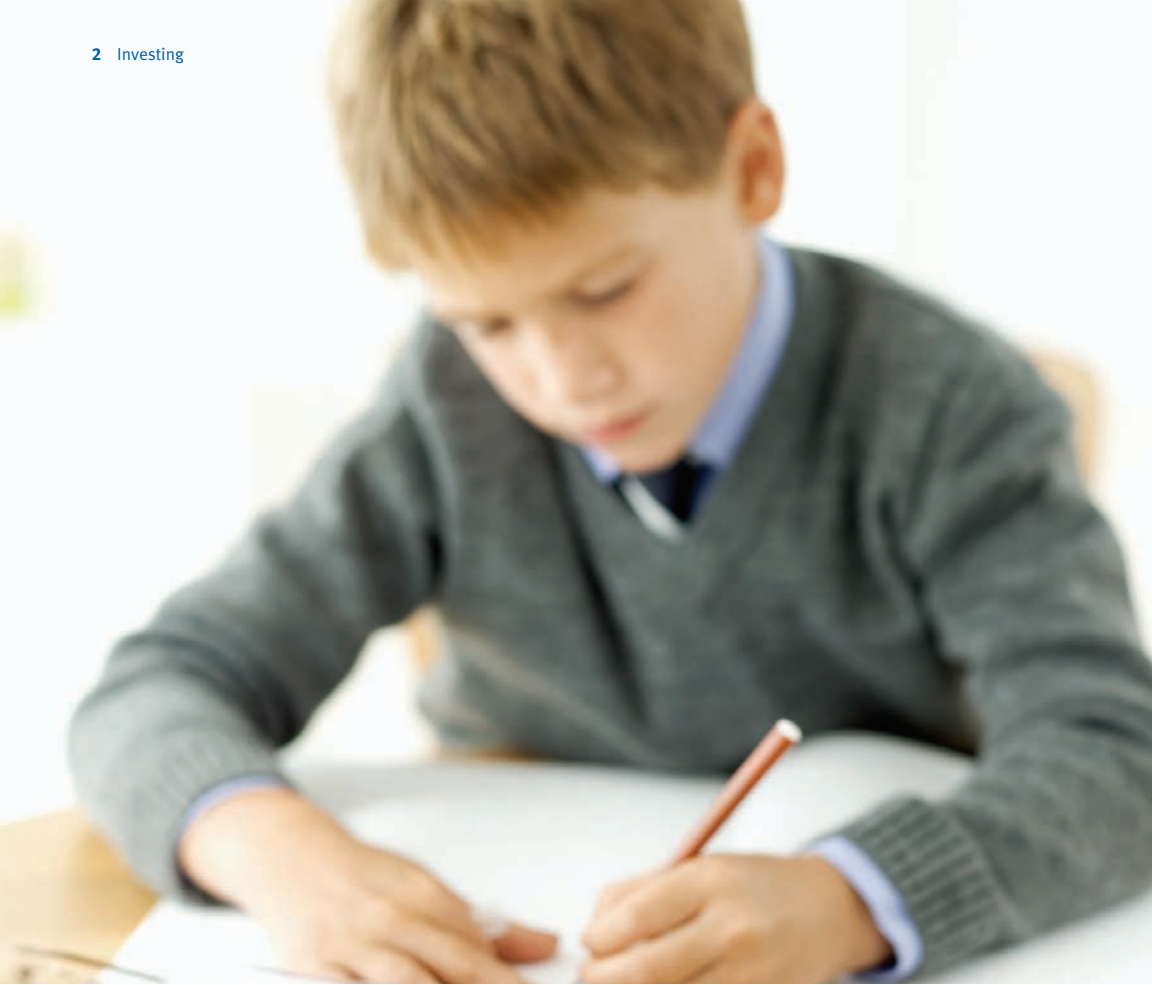
A challenge worth meeting

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 quadrupling over the past 20 years⁴ and other expenses spiralling upward, Employment and Social Development Canada (ESDC) predicts that in 2032 a student's annual average expenses including tuition fees, books, shelter, food and transportation will be \$32,800.⁵

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

■ **97%**

Percentage of parents in Canada with children in grade 4 who want their children to achieve a post-secondary education.⁶

■ **\$90,000**

Estimated cost of a four-year university education away from home for students admitted in 2020.⁷

■ **70%**

Percentage of parents who have a savings plan devoted specifically to paying for college or university expenses.⁸

■ **6.3% per year**

Average annual increase in university tuition costs and other compulsory fees since 1990-1991.⁴

■ **\$12,972**

Average amount borrowers owed the Canada Student Loans Program at completion of studies in the 2011-2012 school year.⁹

The Registered Education Savings Plan: The foundation of your strategy

Education saving strategies are often built around a Registered Education Savings Plan (RESP) because the government adds to your savings with Canada Education Savings Grant (CESG) money. 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. Post-secondary education includes an apprenticeship or a program at a CEGEP, trade school, college or university. 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 related to the subscriber by blood or adoption, and can include a child, grandchild or sibling. 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 — including 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 9), you choose the amount and payment schedule that's right for you.

You can contribute to an RESP for 31 years, and the plan can remain open for 36 years. Special rules apply where the beneficiary of the RESP is disabled. In that case, contributions can be made for a maximum of 35 years and the plan can remain open for up to 40 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.

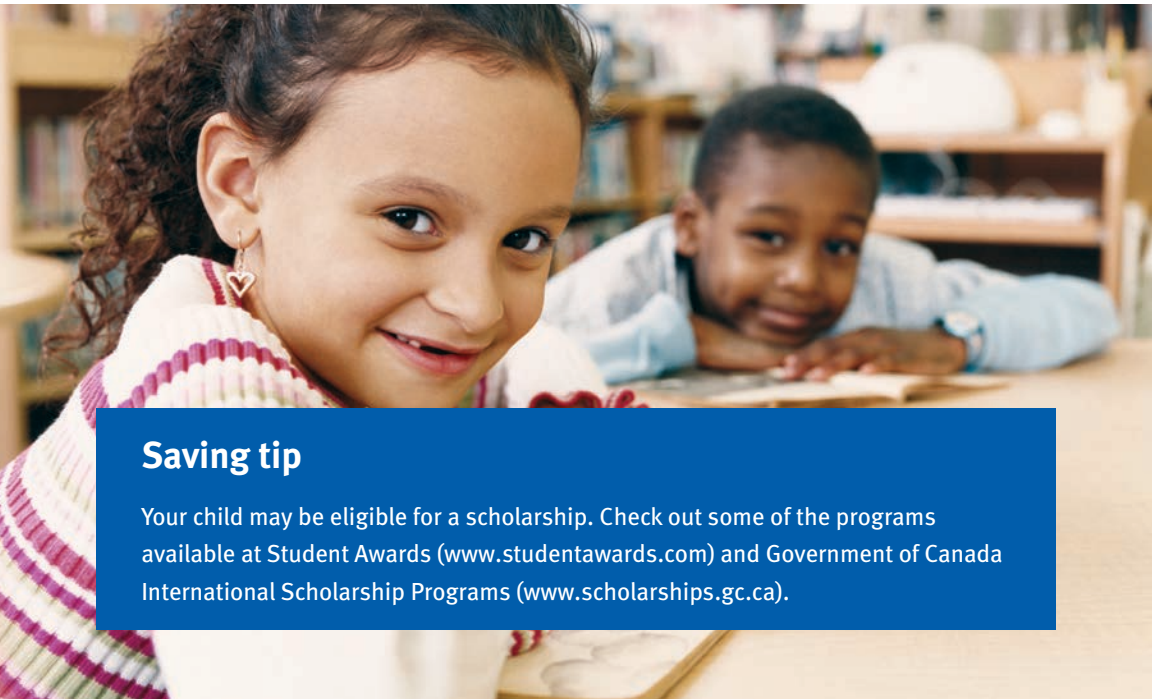
Additional government incentives

Besides the basic CESG, there are additional government incentives available for Canadian families to help them save for education:

- If your net family income was \$43,953 or less in 2014 (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 \$87,907 in 2014 (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 an amount paid directly into the RESP 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 amount of 10%. Lower-income families are eligible for an increased amount (5% or 10%) on the first \$500 of annual 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).

contributions. The total cumulative QESI amount that can be granted per child is \$3,600.

- The Saskatchewan Advantage Grant for Education Savings (SAGES) provides a grant of 10% on contributions made since January 1, 2013, into a RESP for a child residing in Saskatchewan. The maximum grant is \$250 per child per year. The maximum lifetime SAGES grant is \$4,500 per child.
- The B.C. Training and Education Savings (BCTES) Grant provides a one-time \$1,200 grant to a BC resident child's RESP. The grant is available for children born after 2006 and must be applied for before the child's seventh birthday. The program will begin paying the BCTES Grant money in August 2015.

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 ESDC site has information on saving for education, including publications about the CESG and the CLB: www.esdc.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/ndvdl/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. These payments are called Educational Assistance Payments (EAPs). The EAP is taxable income to the student and is reported on their tax return.

EAPs may be used for any education-related expenses, such as books, housing and tuition, while enrolled in a qualifying program. 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. A student can access EAPs for up to six months after ceasing enrollment, provided that the payments would have qualified as EAPs while the student was still enrolled.

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 ESDC 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 Registered Retirement Savings Plan (RRSP). The amounts withdrawn will be considered taxable income.

d) Under certain conditions, accumulated income in an RESP can be transferred to a Registered Disability Savings Plan (RDSP) if the RESP beneficiary is the same as the RDSP beneficiary.

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 RRSP or a spousal RRSP. This avoids the 20% penalty mentioned above. You must have available RRSP 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.

Beyond the RESP — other ways to save for education

If you're a parent who is currently maximizing your RESP contributions, or looking for alternatives, you may wish to consider the following options:

Open a separate savings or investment account. While earmarking this account for education is easy and allows you maximum control and flexibility, keep in mind 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.

Use your Tax-Free Savings Account (TFSA). Unlike RESP contributions, amounts you contribute to a TFSA are not eligible for the CESG. However, both earnings and withdrawals are tax-free. You could make withdrawals and either pay your child's school fees directly or give the money to your child, if you prefer.

Set up a trust. In general, a trust is a relationship in which one person, the trustee, holds title to property, subject to an obligation to keep or use the property for the benefit of another person or persons, known as the beneficiary(ies). It is important to set up the trust properly, using a written legal agreement that clearly provides the terms and

conditions. A trust can be structured to be a tax-efficient supplement to an RESP and still allow you to have access to the monies you used to fund the trust. Although contributions to the trust will not be eligible for the CESG, a trust is more flexible than a RESP in terms of funding limits and the type and timing of expenses for which the funds in the trust may be used.

Use corporate funds. If you are an owner-manager of a corporation, consider loaning corporate funds to your adult children to finance their education costs. The loan is considered taxable income to the adult child, however the tax payable on this income may be very low or even nil due to the child's basic personal, tuition and education tax credits. When your child repays the loan to the corporation in a future year when they are working and earning income, they will receive a personal tax deduction. Alternatively, if your adult child is a shareholder, consider paying them corporate dividends.

Committing to your child's future

With mortgage payments, household bills, RRSP 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:

- Automatic, regular 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 growing 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.



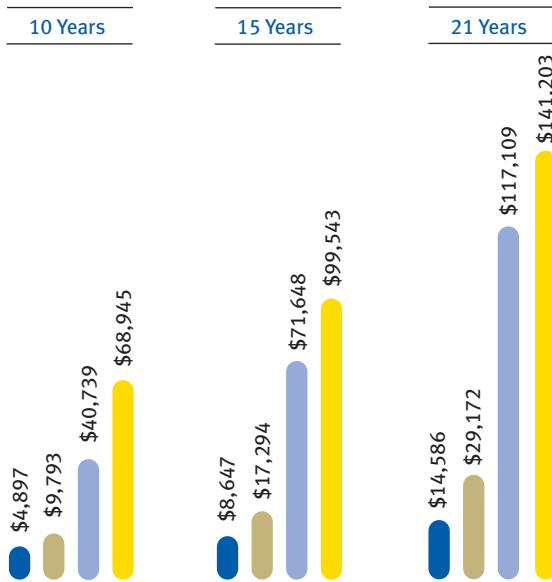
Encourage your kids to help

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.

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**.



- Annual plan increase: \$25 monthly RESP contribution plus \$60 CESG per year plus cumulative growth
- Annual plan increase: \$50 monthly RESP contribution plus \$120 CESG per year plus cumulative growth
- Annual plan increase: \$208 monthly RESP contribution plus \$500 CESG per year plus cumulative growth
- Annual plan increase: \$375 monthly RESP contribution plus \$500 CESG per year plus cumulative growth***

* 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 6% 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 6% annual compound return assumption.

RESP choices at RBC Royal Bank

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

Low to no volatility. 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-volatility 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. Market-Linked GICs (Canadian and Global) are also available and provide great potential for growth with a guaranteed principal.

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.



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.

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 volatility and your investment objectives. 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 and cost-effective ways to invest for a child's education and ensure

proper diversification is to consider professionally managed mutual funds.

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, among different asset classes and geographical regions for example.
- **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.

*Initial minimum investment applies.

Simplify education savings with the RBC Target Education Funds

The RBC Target Education Funds offer an innovative approach to education savings. They feature an asset mix that evolves over time, with a greater weighting in equities in the early years and a more conservative asset mix favouring fixed income investments as your child's education date approaches.

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.

Date of your child's birth	Appropriate solution for most children
1995 1996 1997 1998 1999	RBC Target 2015 Education Fund
2000 2001 2002 2003 2004	RBC Target 2020 Education Fund
2005 2006 2007 2008 2009	RBC Target 2025 Education Fund
2010 2011 2012 2013 2014	RBC Target 2030 Education Fund

¹ *Education at a Glance 2013: Highlights for Canada*, Council of Ministers of Education, Canada, June 25, 2013.

² Marc Frenette, *An Investment of a Lifetime? The Long-term Labour Market Premiums Associated with a Postsecondary Education*, Social Analysis Division, Statistics Canada, 2014.

³ Canadian Occupational Projection System 2011 Projections, *Imbalances Between Labour Demand and Supply (2011-2020)*, Employment and Social Development Canada, www23.hrsdc.gc.ca/w.2lc.4me@-eng.jsp (accessed May 21, 2014).

⁴ Erika Shaker and David Macdonald with Neil Wodrich, *Degrees of Uncertainty, Navigating the Changing Terrain of University Finance*, Canadian Centre for Policy Alternatives, September 2013.

⁵ *Actuarial Report on the Canada Student Loans Program as at 31 July 2011*, Office of the Chief Actuary, Office of the Superintendent of Financial Institutions Canada, 2012.

⁶ *Assessment Matters!*, Council of Ministers of Education, Canada, N° 4, 2013.

⁷ Tuition and Living Accommodation Costs for Full-Time Students at Canadian Degree-Granting Institutions Survey, Statistics Canada, 2009/2010. Projected costs are based on 2009/2010 Canadian average with an annual increase of 4.4% for tuition and 2% inflation on all other education related costs.

⁸ Stephen Arrowsmith and Jean Pignal, *Initial Findings from the 2009 Canadian Financial Capability Survey*, Statistics Canada, 2010.

⁹ *Canada Student Loans Program Statistical Review 2011-2012*, Employment and Social Development Canada, 2013.

Take the first step

Whatever your child wants to be when they grow up, post-secondary education can help them achieve their personal best. Speak with an RBC advisor to design a strategy that works for your family. Visit any branch or call 1-800-463-3863 today.



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