When your child's path changes: Options for unused RESP savings

Plans change. A child may take a gap year, choose an apprenticeship, start working, or decide post-secondary isn't the right next step – at least not yet. If you've been saving through a Registered Education Savings Plan (RESP), the good news is you still have choices. The right approach depends on what you're withdrawing (contributions vs. grants vs. growth), whether the beneficiary is enrolled in qualifying post-secondary institution, and your broader family plan.

The RESP is made up of three components

Think of RESP savings as three distinct 'buckets,' each with different rules:

- Your contributions – the money you put in.
- Government grants and incentives – such as the Canada Education Savings Grant (CESG) and Canada Learning Bond (CLB) and, in some cases, provincial incentives.
- Investment earnings – the growth earned inside the plan.

Understanding which bucket a withdrawal comes from matters, because tax treatment and repayment rules differ.

1 Option 1: Keep the RESP open

If your child isn't going to school right now, you may not need to act immediately. Many families keep the RESP open while a child explores work, travel, or other pathways.

Apprenticeships and many trade or skills programs can qualify as eligible education programs if they meet federal requirements.

2 Option 2: Use the RESP once post-secondary education begins

Once the beneficiary is enrolled in an eligible program, RESP withdrawals typically fall into two categories:

- Educational Assistance Payments (EAPs): funded from grants and investment earnings. These amounts are taxable to the student and reported on a T4A slip.
- Refund of contributions: your original contributions can generally be withdrawn tax-free.

During the first 13 consecutive weeks of enrolment, EAPs are capped at $8,000 for full-time studies and $4,000 for part-time studies.

3 Option 3: Change the beneficiary

If another child in the family plans to pursue post-secondary education, you may be able to change or add a beneficiary and keep the RESP working toward education goals.

Rules vary depending on whether the plan is an individual or family RESP, so careful planning is important before making changes.

4 Option 4: Withdraw contributions for non-education use

You can withdraw your original contributions for non-education purposes, but government grants associated with those contributions may need to be repaid if no beneficiary is eligible for an education payment at the time.

Some provincial incentives may also be subject to repayment.

5 Option 5: Withdraw investment earnings when education will not occur

If the RESP will not be used for post-secondary education, investment earnings may be withdrawn as an Accumulated Income Payment (AIP), once certain conditions are met – generally after the plan has been in place for at least 10 years and the beneficiary is 21 or older and not pursuing further education.

AIPs are taxed as income and are subject to an additional 20% tax (12% in Quebec). In some cases, eligible amounts may be transferred to an RRSP or similar plan to reduce tax.

Once an AIP is paid, the RESP generally must be closed by the end of February of the following year.

6 Option 6: Consider disability planning

In certain circumstances, RESP savings may be transferred to a Registered Disability Savings Plan (RDSP) on a tax-deferred basis, when eligibility conditions are met.

This option should be reviewed as part of an integrated family and long-term planning conversation.

A practical next step

Start by asking your RESP provider for a breakdown of contributions, grants, and investment earnings.

A Wealth Planning professional can help you align RESP decisions with your broader goals – cash flow, tax efficiency, retirement planning, and family priorities.

BMO | Private Wealth

26-0999