The Millennial Minute

Leftover RESP Funds: What Can You Do With Them?

BMO | Private Wealth Article Written by Ashley Nichols – Client Service Associate for the Biddle Wealth Management Team

With school back in full swing our team has been busy helping with RESP withdrawals and inquiries. A Registered Education Savings Plan (RESP) is a great investment vehicle to help families save for post-secondary education with the help of government grants to boost the savings. It feels good to know we are saving for our children's future and it's even better when we can watch the fruits of our labour as our kids hopefully get a little jump on adult life.

Just as with all things in life, however, our circumstances are ever-changing, and eventually RESPs must be closed. Whether due to all of the RESP's beneficiaries completing their post-secondary, beneficiaries not pursuing post-secondary, or simply due to age, an RESP cannot remain open forever.

Which begs the question: What happens to RESP funds when they're no longer needed for the intended purpose?

We'll go through three scenarios below and see what can be done:

Scenario 1: All Beneficiaries Have Completed Their Education

Sometimes there is still money left in the RESP, even when all the kiddos have grown up, finished school and moved away. There are a few options subscribers can look at to withdraw funds:

1. **Withdraw Remaining Contributions**
   Original contributions made by the subscriber(s) can be withdrawn tax-free at any time because contributions are made with after-tax dollars.
2. **Receive an Accumulated Income Payment**
   If the RESP has been open for at least ten years and all beneficiaries are at least twenty-one and no longer pursuing post-secondary education, the investment earnings may be paid to the subscriber as an accumulated income payment. These earnings are taxable as income – so watch your tax brackets! – and are also subject to an additional 20% tax.
3. **Transfer Investment Earning to an RRSP**
   If there are investment earnings left (interest, dividends, capital gains) after all beneficiaries have completed their education, a subscriber may be able to transfer up to $50,000 of accumulated income to their RRSP or Spousal RRSP, so long as they have sufficient contribution space and all CRA requirements are met. This can help to avoid additional taxation on accumulated income payments.

4. **Return All Remaining Government Grants**
   Any unused Canada Education Savings Grant (CESG), Canada Learning Bond (CLB), and any applicable provincial grants remaining cannot be kept by the subscriber. When the RESP is closed, and outstanding grants must be repaid to the government.

Scenario 2: All But One (or more) Beneficiaries Have Completed School

Sometimes the plans we have for our children don't pan out… well, the way we planned them. We all want our kids to be successful and educated, but that can look differently to everyone.

In the even that you may have a beneficiary who still isn't sure about going to post-secondary, here are some options:

1️⃣ **Maximize Educational Withdrawal for Eligible Beneficiaries**
Before considering any other option, you should first ensure that any beneficiaries who have completed school or are nearly completed school are ineligible for any further money from the RESP. Withdrawals for education may generally be requested for up to six months after the student ceases enrolment.

2️⃣ **Leave RESP Open Temporarily**
Minds can change, and so can the decision to attend or not attend post-secondary. A beneficiary who initially didn't want to go further in their education may have had a change of heart and could enroll in a qualifying program. Since RESPs can be open for many years (thirty-five years since inception), there is no need for any immediate decisions.

3️⃣ **Change/Add Beneficiary**
If there in another eligible family member who might pursue post-secondary education, a subscriber may be able to change the beneficiary or add a beneficiary, depending on the RESP type and eligibility rules. This can allow remaining grants and earning to continue supporting educational goals.

5. **Withdraw Remaining Contributions** (see Scenario 1)
6. **Receive an Accumulated Income Payment** (see Scenario 1)
7. **Transfer Investment Earning to a RRSP** (see Scenario 1)

Scenario 3: The RESP is 35 Years Old and Must Be Closed

RESPs can only be open for a total of thirty-five years from the date the plan was established. Once the final termination date arrives, the accounts must be closed, and all funds need to be withdrawn or transferred appropriately.

1️⃣ **Consider an RDSP Transfer**
If a beneficiary qualifies for the Disability Tax Credit and other legislative requirements are met, some RESP investment earning may be eligible for transfer to Registered Disability Savings Plan (RDSP) on a tax-deferred basis.

2. **Withdraw Remaining Contributions** (see Scenario 1)
3. **Receive an Accumulated Income Payment** (see Scenario 1)
4. **Transfer Investment Earning to a RRSP** (see Scenario 1)
5. **Return All Remaining Government Grants** (see Scenario 1)

When an RESP is approaching a mandatory closure date, the focus should be on minimizing tax and maximizing flexibility. This cannot be done at the last minute, so, be sure to connect with your financial advisor to review your options.
