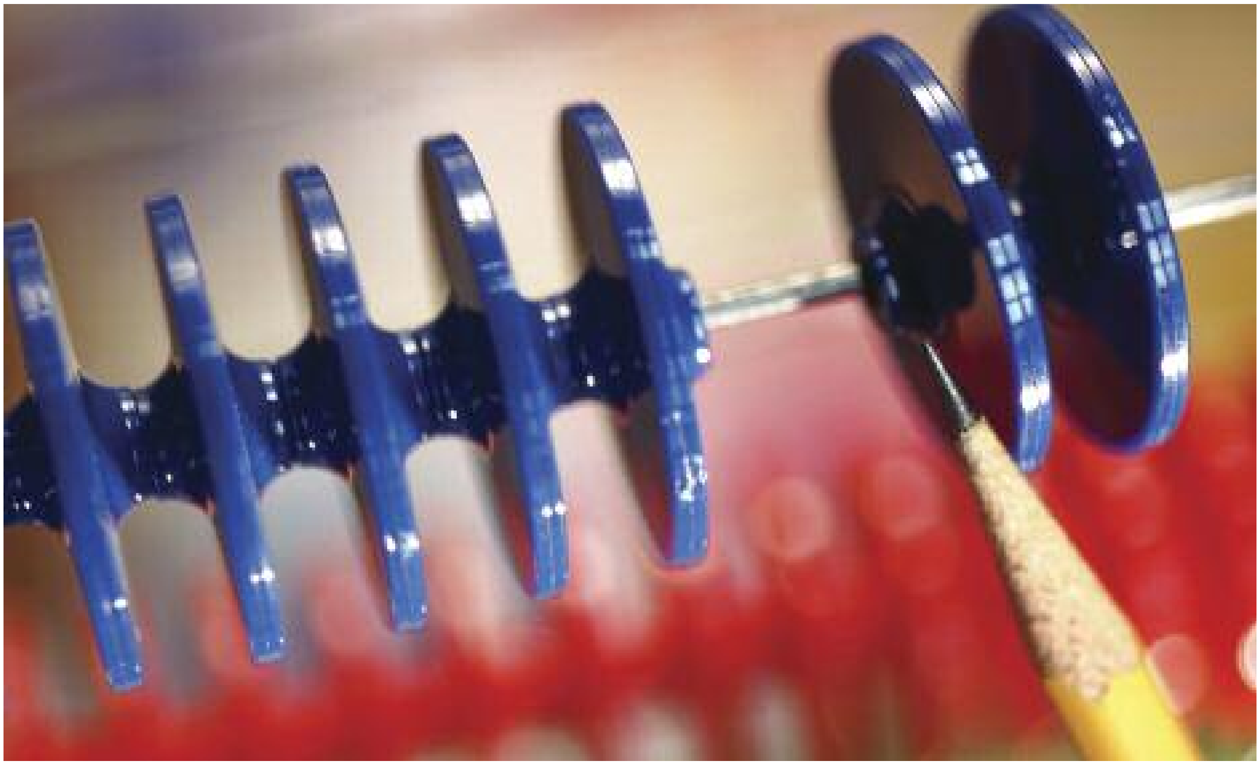
BMO NESBITT BURNS

The RESP Book

BMO Nesbitt Burns®

Contents



Registered Education Savings Plans

While a post-secondary education is an invaluable personal asset, it is expensive to acquire. Each year government funding cutbacks and inflation further undermine your ability to save enough money for your child's education. However, the good news is that Canada Revenue Agency (CRA) has significantly enhanced the (RESP) rules. In addition to the tax advantages, there are increased savings limits, additional termination options and the Canada Education Savings Grant – a program that deposits up to $500 per year directly into your child's RESP!

To obtain the maximum benefit from an RESP and the Canada Education Savings Grant, it makes sense to start your savings program early. At BMO Nesbitt Burns we can help you determine the best way to finance your child's education and work with you to develop a savings program that ensures you'll meet your education savings goals.

Tip:

In our ever-changing world, a post-secondary education is your child's best defense against an uncertain future. A Statistics Canada study stated that 65 per cent of newly created jobs require some post-secondary schooling. Other government statistics show that graduates from university, college and vocational institutes enjoy incomes 45 per cent higher than those who do not complete high school. In the first half of the 1990's, employment for students with less than a high school diploma dropped by 30 per cent, while employment requiring a university degree increased by 20 per cent. As we enter the 21st century, it's clear a post-secondary education will be required if your child wants to find a fulfilling and rewarding career.

Saving for your child's education

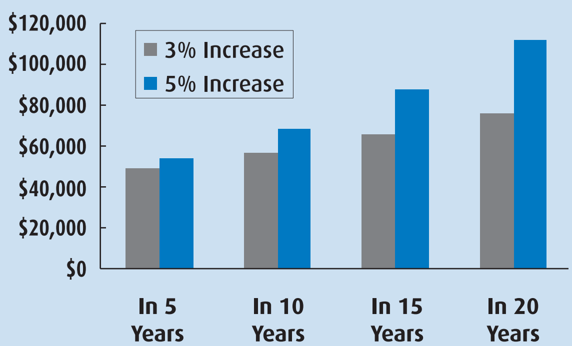
What will it cost to fund a post-secondary education?

Education costs can vary considerably depending on whether your child will live at home, on campus or in another city; the university chosen; the degree sought and the program (i.e. medicine) selected and; if the university is outside of Canada, the exchange rate on the Canadian dollar.

A recent BMO Nesbitt Burns survey of over 50 Canadian colleges and universities revealed that the average cost of tuition, room and board for a full-time student is approximately $11,000 per year. Transportation and the cost of books increase the price even further. Since 1987, education costs have been rising by almost five per cent while our overall inflation rate has averaged only three per cent. If these trends continue, a newborn's four-year university degree could easily exceed $96,000 – and you can double that if you're considering a school south of the border. Thankfully, with a comprehensive education plan and an early start, a university education can still be a reality for your children. With the need to meet these future expenditures, it's easy to see why saving for a child's post-secondary schooling is a major financial objective for most parents.

Cost of a 4-year post-secondary education

Assumes annual education costs of $10,500 increasing at 3% and 5%.



What are my options when it comes to paying for my child's education?

There are several ways to manage your child's education expenses:

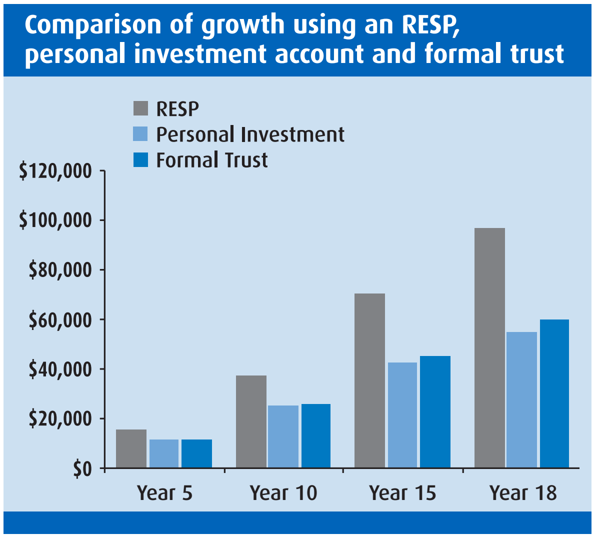
- He or she might qualify for a scholarship. Unfortunately, it will probably be many years before you can be sure that this is a viable option. Even then, most scholarships only cover a portion of your child's education costs.
- You can wait and see whether your child will actually pursue a post-secondary education. Then, as the bills arrive, you can pay for them out of your regular cash flow or take out a loan.
- You can encourage your child to apply for a student loan and supplement this amount with a part or full-time job.
- You can start a regular savings plan now.

What are my options if I start saving now?

Saving enough money to fund part or all of your child's post-secondary education will require planning. Once you find the room in your budget, your next decision will be to determine which type of account you should set up. The best choice will depend on your personal situation.

There are three types of accounts that you should investigate as a way of saving for your child's education: your own personal investment account, a formal trust and a (RESP). The RESP may qualify to receive the Canada Education Savings Grant (CESG) which will further enhance the value of the plan.

The following chart shows how much money you could accumulate using each type of account. RESP includes the CESG. The example assumes annual contributions of $2,000, for 18 years, earning an eight per cent rate of return. The parent/subscriber's marginal tax rate is 46 per cent and the child's marginal tax rate is zero per cent. With the formal trust, second generation income is taxed at the child's marginal rate.



What is an investment account?

The most straightforward way to fund a future education expense is to open an ordinary investment account in your own name. You could deposit either a lump-sum amount today, or make smaller, periodic contributions over time. The advantage of this approach is that the account is simple to manage since it is registered in your name. You also have complete control and maximum flexibility. You may use the accumulated savings for whatever purpose you want, whenever you want. The disadvantage is that each year you will have to pay the appropriate income tax, on all of the income and capital growth earned in the account, just as you do with any investment account.

What is a formal trust?

A trust is an arrangement whereby one or more persons, called the trustees, hold legal title to property for the benefit of another person or persons called the beneficiary(ies). The person who creates the trust and puts assets into the trust is called the settlor. Once the assets are contributed to the trust they become the property of the beneficiary. A formal trust is governed by a legal, written trust document.

Control of the property within the trust remains with the trustee until the trust document requires its distribution. Distribution of the trust assets would take place either after a specified event (i.e. the child begins university) or upon a specified date or dates (ie, 50 per cent of the assets are distributed on the beneficiary's 18th birthday and the balance at age 21). A trust may continue indefinitely. However, taxation of the capital growth can only be deferred for 21 years, at which time tax must be paid on previously untaxed capital growth, even if nothing has been sold.

There are two types of trusts: inter vivos and testamentary. An inter vivos trust is set up by an individual while they are alive to provide for a beneficiary(ies). When discussing education planning, inter vivos trusts are often referred to as formal trusts - this differentiates them from the informal "in trust for" accounts parents sometimes set up for their children. A testamentary trust is created upon the death of an individual and will not be discussed in The RESP Book.

Although the beneficiary of a trust may be of any age, since The RESP Book focuses on how to finance a child's or grandchild's education, we will discuss the use of formal trusts as they relate to a beneficiary who is a minor child.

How is income taxed in a formal trust?

All income earned by the trust is taxed in the trust on a separate tax return. Income earned in a formal trust is taxed at the highest personal tax rate, not at the graduated rates applicable to an individual. Rather than tax the income in the trust, the income may be paid or payable to one or all of the beneficiaries who would then include this income in their own personal tax returns.

What are the attribution rules?

The income tax rules, referred to as the attribution rules, are always important whenever there is a discussion of income taxes and minor children. The attribution rules prevent the shifting of investment income from an adult, usually a parent who is in a higher tax bracket, to a minor child who is in a low tax bracket in order to reduce total family income taxes. The attribution rules apply even if the funds are placed in a formal trust where a related minor child is the beneficiary.

The attribution rules cause the interest and dividends earned in the trust to be taxed in the hands of the settlor, not the child, thereby eliminating the intended tax savings strategy. Once the child reaches

18 years of age, all income generated by the trust is taxed in the beneficiary's hands. However, the rules allow for capital gains and second generation income to be taxed in the hands of the minor child.

Second generation income is income earned on the interest and dividends that have already been taxed in the settlor's hands. This type of income should not be commingled with other trust assets otherwise it may be difficult to prove to CRA that income earned on these funds is not subject to attribution. One solution is to transfer all of the first generation interest and dividend income, as well as all capital gains received, into a separate trust account. All income earned in this second account will be taxed in the child's hands and not the settlor's.

What are the advantages of a formal trust?

While there are significant legal and accounting costs associated with a formal trust, the main advantages of having a formal trust are:

- Trust assets can be used by the beneficiary for any purpose, unless otherwise specified in the trust document.
- The trust document can provide the trustee with discretion over the allocation of the income and the timing of the distribution of trust assets.
- A single trust can be established for several beneficiaries allowing for uneven distributions based on need.
- The trust document can set rules regarding a change of trustee in the event of the trustee's death or incapacity. The document can also provide for future events such as the birth of a child after the trust is established or for a replacement beneficiary on the death of an existing beneficiary.
- A properly structured trust is valid proof to CRA that a legitimate transfer of assets has occurred and therefore capital gains should not attribute back to the settlor.

A formal trust may be appropriate if you want to contribute a large amount of money, in a tax effective manner, for the future benefit of a child.

Registered Education Savings Plans

What is a Registered Education Savings Plan (RESP)?

An RESP is a tax deferral plan designed to help save for a student's post-secondary education. The contributor to the RESP is called the subscriber, and the future student is the beneficiary. Although contributions to an RESP are not tax deductible, all of the income in the plan compounds on a tax deferred basis. In addition, there is also the Canada Education Savings Grant – a program the federal government introduced in 1998 – that now deposits up to $500 per year directly into the RESP ($400 prior to 2007). Finally, when the accumulated income and CESG is withdrawn from the RESP to pay for education expenses – the student pays the taxes, not the subscriber. The full amount of the withdrawal is taxed in the student's hands as ordinary income (i.e. there are no dividend tax credits or reduced capital gain tax rates). In all likelihood, this income would attract little or no tax if withdrawn over a few years due to the student's basic personal exemption and tuition and education tax credits.

Can I take money out of a formal trust in which my child is the beneficiary and contribute it to an RESP for my child?

A trust cannot be a subscriber of an RESP – only individuals can contribute. While formal trusts are governed by a trust document and can vary widely, it would probably not be possible to take money out of the formal trust to make an RESP contribution. With a formal trust (this also applies to the less formal "in trust for" accounts), once you have contributed the assets to the trust they belong to the beneficiary (your child) and cannot revert back to you at any time. Since the trust assets belong to the beneficiary, the trust can only make a distribution to the beneficiary. In turn, the beneficiary would have to contribute the funds to his or her own individual RESP plan.

In addition to a possible tax liability created by the withdrawal from the trust, another challenge will arise if the beneficiary is a minor. It is unlikely that anyone under the age of majority will be able to enter into a contract with an RESP promoter.

What types of investments may I hold in my RESP?

With the exception of certain annuity contracts, the list of qualified RESP investments is the same as for RRSPs. Investments include mutual funds, government and corporate bonds, GICs and stocks. Like RRSPs, RESP investments must be "qualified investments" as outlined in the Income Tax Act. If the RESP acquires property that is not a qualified investment there is a one per cent per month penalty tax on the fair market value of that property. Your BMO Nesbitt Burns Investment Advisor will assist you in determining whether an investment is considered a qualified investment for your RESP.

Since the type of RESP you select may restrict your investment choices, if you would like to have maximum investment flexibility in one plan, consider a Self-Directed RESP.

Are my RESP contributions tax deductible?

No. Your RESP contributions are not tax deductible nor are they considered taxable when withdrawn. The main reason for contributing to an RESP is that all of the investment income generated compounds on a tax-deferred basis. Since RESPs may be in existence for up to 35 years, the tax-deferred compounding of income can result in substantial growth in the plan. When the income and CESG are paid out for education expenses – called education assistance payments (EAPs) – the funds are taxed in the student's hands and not the subscriber's.

Who can set up an RESP?

While most RESPs are set up by a parent for the benefit of a child, anyone who wants to help fund someone's education may set up an RESP, including grandparents, aunts, uncles, godparents and friends. You may even set up a plan for yourself.

RESPs may only be set up by individuals: trusts and corporations are not permitted to be subscribers. A public primary caregiver of a beneficiary, under a RESP, who receives a special allowance under the Children's Special Allowances Act, may also be an original subscriber. The public primary caregiver is the department, agency or institution that maintains the beneficiary or the public trustee or public curator

of the province in which the beneficiary resides. Only one subscriber is allowed per plan, unless the subscribers are spouses. While spouses can continue to be joint subscribers even after a divorce, individuals who are already divorced cannot open an RESP jointly for their children.

An individual's estate cannot set up an RESP but, after the death of an RESP subscriber, the subscriber's estate or other individuals may continue to make contributions to an existing plan.

What are the two types of RESPs?

There are two types of RESPs: group plans and individual plans.

Group Plans

Group plans (also called pooled plans) are the oldest type of RESP, existing since the 1960's. In this type of plan the RESP contributions of a large number of subscribers are "pooled". These pools are professionally managed and generally invested in fixed income investments. With most of these plans, the RESP contributions are repaid to the subscriber when a beneficiary reaches a certain age (usually 17 or 18) and starts their post-secondary education.

Once the beneficiary begins post-secondary education, a pro rata share of the pool's accumulated income is distributed annually, as a scholarship, to help cover education expenses.

Individual Plans

An individual plan is an RESP that is set up for the benefit of one person (called a "single beneficiary plan") or more than one person within the same family (called a "family plan"). Unlike group plans, individual plans allow the subscriber to withdraw the capital contributions at anytime. The subscriber has full discretion over how the plan's assets are invested, as well as the timing and amount of education assistance payments.

The remainder of this publication will focus solely on individual plans since these are the RESPs offered by banks, trust companies, mutual funds companies and investment firms, such as BMO Nesbitt Burns.

How does a single beneficiary plan work?

As the name implies, in a single beneficiary plan there is only one beneficiary. You may name anyone as the beneficiary – any related or non-related child or adult, even yourself or your spouse.

How does a family plan work?

A family plan is one RESP that is set up for the benefit of more than one child within a family. Each beneficiary of a family plan must be related to the subscriber by blood relationship or adoption. For example, parents could open one RESP and make contributions for all their children directly into the one plan.

A blood relationship is defined in the Income Tax Act as being that of a parent and child, or other descendants including grandchildren and great-grandchildren. A brother or a sister would also be considered a blood relationship. Nieces, nephews, aunts, uncles, cousins and spouses are not considered a blood relationship. However, grandparents can open a family plan for all of their grandchildren (who would be cousins). Also, the subscriber cannot be a beneficiary in a family plan.

The main benefit of a family plan is that the RESP income does not have to be paid out proportionately between the beneficiaries. If one child does not pursue post-secondary studies, the other beneficiaries may use the income and CESG (up to $7,200) for their education. A beneficiary can be added provided the new beneficiary is under 31 years of age and related to the subscriber by blood or adoption. There is one final benefit – a consolidated plan makes your record keeping much simpler.

How much and how long may I contribute to an RESP?

From 1998 to 2006, annual and lifetime RESP contribution limits per beneficiary were $4,000 and $42,000 respectively. However in 2007, the lifetime contribution limit was raised to $50,000 in addition to the elimination of the annual contribution limit. The number of years that contributions can be made is 31 years. For family plans, no RESP contributions can be made for a beneficiary who is 31 years of age or older. There is no minimum annual contribution limit that you must make.

Can RESP contribution room be carried forward?

In 1997 the annual RESP contribution limits were increased from $2,000 to $4,000 annually to help parents who had been unable to save for their child's education in previous years. Subsequently in 2007, the rules changed removing the annual contribution limit. So even if you did not open an RESP when your child was born, you still have the opportunity to contribute the $50,000 lifetime maximum.

Is the interest for an RESP loan tax deductible?

No. If you borrow money to contribute to an RESP, the interest on the loan will not be tax deductible.

Can a child be the beneficiary of more than one RESP?

Yes. A child may be the beneficiary of more than one RESP however, all of the contributions made to these separate plans for that child cannot exceed the $50,000 lifetime contribution limits or the lifetime CESG limit of $7,200.

What happens if there is an over contribution to an RESP?

If the $50,000 lifetime contribution limit is exceeded, a one per cent per month penalty tax is charged until the overcontributed amount is withdrawn from the plan. If there is more than one subscriber, each person is liable to pay the one per cent per month tax on his or her share of the overcontributions. The penalty tax must be paid within 90 days of the end of the year.

If you are contributing to an RESP for a beneficiary who is not your child, you should coordinate with the child's parents to ensure the lifetime limit is not exceeded.

Canada Education Savings Grant

What is the Canada Education Savings Grant (CESG)?

The CESG was introduced in the 1998 federal budget to help ensure that students will have enough money to fund a higher education. Under the program the Government of Canada pays a grant of 20 per cent of the first $2,500 of annual contributions, directly into the beneficiary's RESP.

How is the CESG calculated?

Beginning in 1998 to 2006, the later of the year the child is born or Canadian resident children, will have accumulated $2,000 of CESG contribution room each year. The maximum grant that could have been earned annually was $400 (20 per cent of $2,000). From 2007, the CESG is paid on the first $2,500 of annual contributions for a total of $500 (20 per cent of $2,500).

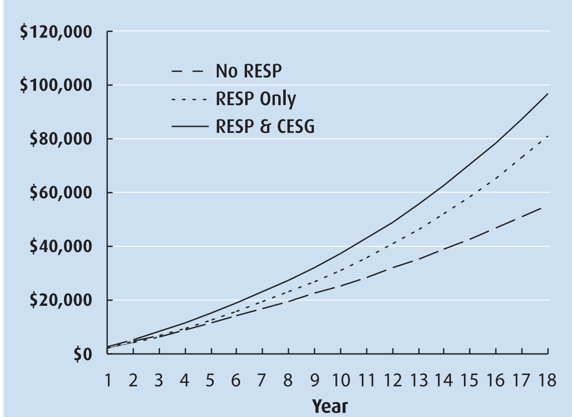
When an RESP contribution is made, the government will pay a grant based on the child's available CESG contribution room. The grant is calculated as the lesser of:

- Twenty per cent of the RESP contribution amount;
- Twenty per cent of available CESG contribution room; or
- $1,000 (20 per cent of $5,000 if there is unused grant room from a previous year).

Children born after 1997 will be eligible for CESGs totaling $7,200.

The following chart shows the benefit of using an RESP to save for your child's education and the additional benefit provided by the CESG. If you are in a 46 per cent tax bracket and invested $2,000 per year at eight per cent for 18 years inside an RESP, you would accumulate $80,893 versus only $55,106 if the $2,000 was invested outside an RESP. And if the RESP received the CESG each year, the RESP would be worth a total of $97,071 after 18 years. By combining the benefits of an RESP and the CESG you could accumulate over 76 per cent more money than saving for your child's education outside an RESP.

Comparison of growth using an RESP, personal investment account and formal trust



Enhanced Benefits for RESPs

Rules introduced this year have made using RESPs for education planning even more appealing by providing for additional government assistance in the following ways:

Canada Learning Bond

Government of Canada has introduced a “Canada Learning Bond” for children born after December 31, 2003 who are in families (CLB) with less than approximately $36,000 of annual income (annual income amounts are adjusted yearly based on the rate of inflation). The CLB is a grant that is paid into the child's RESP. It consists of an initial sum of $500 and for subsequent years, annual payments of $100 for up to 15 fifteen years or as long as the family remains in the low income category.

Enhanced CESG

The 20 percent CESG may be increased to 30 percent on the first $500 contribution for families with less than approximately $72,000 of annual income and to 40 percent for families with less than approximately $36,000 of annual income (the annual income amounts are adjusted yearly based on the rate of inflation).

Alberta Centennial Education Savings Plan

The province of Alberta has introduced the Alberta Centennial Education Savings Plan that provides for a grant to all children born in Alberta on or after January 1, 2005, to be used to open an RESP. The grant provides for $500 in the year of birth with additional grants available to those children at ages eight, eleven, and fourteen.

Are there special CESG contribution rules for 16 and 17 year olds?

RESP contributions made in the year a child turns age 16 or 17 will only receive a CESG if a minimum of $2,000 in RESP contributions were made before the year the child turned 16, or if a minimum of $100 in annual RESP contributions were made in any four years before the year the child turned 16. Therefore, if you have not met either of these requirements by the end of the year your child turns 15, no further grant will be paid to the RESP.

Does the CESG affect the RESP contribution limits?

No, the CESG is in addition to the $50,000 lifetime RESP contribution limit.

Is there a limit to the amount of CESG money a beneficiary may receive?

Yes, there is a lifetime limit of $7,200 on the amount of CESG money that any one student can receive from an RESP.

This rule has a positive impact on family plans. For example, assume a total of $8,000 of CESGs were paid into a family plan with two beneficiaries ($4,000 of CESG received for each beneficiary).

If only one beneficiary pursues post-secondary education, $7,200 of grant money can be paid to that beneficiary even if the beneficiary only earned $4,000 in grants. The remaining $800 would have to be repaid to the government. However, only the CESGs would have to be repaid, not the income earned on the CESG.

Must a child have an RESP to accumulate CESG contribution room?

Beginning in 1998, regardless of whether or not they have an RESP, every child under age 18 who is a Canadian resident will accumulate $400 (between 1998 to 2006) and $500 (from 2007 going forward) of CESG contribution room. Unused CESG contribution room is carried forward and used when RESP contributions are made in future years.

Year	RESP Contribution	Actual CESG Paid to the RESP	CESG Room Available at Year End
2007	$5,000	$1,000	$1,900
2008	$5,000	$1,000	$1,400
2009	$5,000	$1,000	$900
2010	$5,000	$1,000	$400
2011	$5,000	$900	$0
2012	$5,000	$500	$0

For example, a father has a daughter who was born in 2001 and he does not open an RESP for her until the year 2007 when she is six. The child will have $2,900 ($400 for each year from 2001-2006 and $500 for 2007) of CESG contribution room available. If the father contributes $5,000 to an RESP for his daughter in 2007, a CESG of $1,000 (20 per cent x $5,000) will be paid into the plan. The child will still have $1,900 ($2,900 minus $1,000) of CESG contribution room available that can be carried forward for use in a future year. If the father then contributes $5,000 to the RESP in 2008, 2009, 2010 and 2011, additional CESGs of $1,000 will be paid into the plan each year until 2011 when only $900 will be paid. Since there would be no more CESG contribution room carried forward into 2011, even if the father contributes $5,000 in 2012, the CESG payment would be only $500.

If the RESP contribution is larger than the CESG contribution room available, can part of the RESP contribution be claimed in a future year?

While unused CESG contribution room may be carried forward for use in future years, RESP contributions made in one year that exceed the available CESG contribution room cannot be carried forward and applied to a future year.

For example, if the subscriber makes a $3,000 RESP contribution this year and the child has $2,000 of available CESG contribution room, a $400 ($2,000 x 20 percent) CESG payment will be paid into the plan. Next year, if a $1,500 RESP contribution is made, a CESG of $300 ($1,500 x 20 per cent) will be paid into the plan. The extra $1,000 contributed to the RESP in the prior year cannot be carried forward to help qualify for the full CESG payment in a future year.

Can the beneficiary of an RESP be changed?

With a single beneficiary RESP, you may change the beneficiary at any time. If the new beneficiary is not a sibling of the original beneficiary, the original beneficiary's contribution history will be applied to the new beneficiary. This could put the new beneficiary in an overcontribution position if the existing RESP contributions plus any other RESP contributions that have already been made on behalf of the new beneficiary are more than the $50,000 lifetime contribution limit. The amount of contributions over the $50,000, lifetime maximum would attract a penalty tax of one per cent per month. The penalty tax can be avoided by making a withdrawal of contributions equal to the amount that the combined histories would be over the $50,000 lifetime limit before you name the new beneficiary.

With family plans, you may change a beneficiary if the new beneficiary is under age 31 and a sibling of the former beneficiary or is related to the subscriber by blood relationship or adoption. The CESG will not have to be repaid and the contribution history will not count towards the new beneficiary's RESP limit.

Must RESP beneficiaries live in Canada?

RESP beneficiaries may reside outside of Canada, however, only beneficiaries who are Canadian residents will accumulate CESG grant room. As well, the beneficiary must be a Canadian resident when the RESP contribution is made to be eligible for a CESG.

Beneficiaries who are not Canadian residents when they begin their post-secondary schooling are eligible to receive education assistance payments from an RESP. However, they will not be eligible to receive any CESG funds as part of the education assistance payment.

Do I need the beneficiary's social insurance number (SIN) to open an RESP and to receive the CESG?

A SIN number is required in order to register the plan with CRA and receive tax-deferred treatment on income earned in the plan. In addition, the CESG will not be paid until the beneficiary's SIN number is provided. SIN application forms can be obtained from your local Human Resources and Skills Development Canada Centre or they may be downloaded from the Human Resources and Skills Development Canada website (www.hrsdc.gc.ca).

Taking money out of an RESP

What is an Educational Assistance Payment (EAP)?

An educational assistance payment is the payment made to an RESP beneficiary to cover post-secondary education expenses. Educational assistance payments are comprised of the CESG and the income generated by the CESG and RESP contributions.

What happens if the RESP beneficiary does not pursue post-secondary studies?

If the beneficiary does not pursue post-secondary studies and another replacement beneficiary is not named, the contributions are returned to the subscriber with no tax consequences and the CESGs are returned to the government.

The subscriber may withdraw the income that has accumulated in the plan if the following conditions are met:

a) The subscriber is a Canadian resident;

b) The RESP has existed for at least 10 years; and

c) All beneficiaries under the plan are age 31 or older and not pursuing post-secondary education.

The accumulated income may be withdrawn by the subscriber without meeting (b) or (c) above if all of the beneficiaries are deceased and were related to the subscriber by blood or adoption or were the niece, nephew, great-niece or great-nephew of the subscriber. Canada Revenue Agency may also allow an accumulated income payment to the subscriber without meeting (b) or (c) if the beneficiary will be unable to pursue post-secondary studies due to a severe and prolonged mental impairment.

When the accumulated income is returned to the subscriber it is taxed in the subscriber's hands as ordinary income at normal tax rates plus a further 20 per cent tax is levied. The income tax can be deferred and the 20 per cent tax avoided if the subscriber (excluding someone who became a subscriber as a result of the death of the original subscriber) has sufficient Registered Retirement Savings Plan (RRSP) contribution room available. Up to $50,000 of the income may be used to make a regular or spousal RRSP contribution. For example, if $50,000 of RRSP room is available, only the growth in excess of $50,000 would be taxed as income and assessed the 20 per cent penalty. If the residency, years of plan existence and age requirements cannot be met, the accumulated income is given to a Canadian educational institution of the subscriber's choice.

What happens if not all of the RESP is used to fund post-secondary education?

The following chart is an example of a situation where the beneficiary pursues post-secondary education for only two years and does not use all of the funds that have accumulated in the RESP. In this example, only $362 of CESG must be repaid to the government. The original contributions of $20,000 are returned to the subscriber without any tax consequences and the growth of $5,454 may be transferred on a tax deferral basis to the subscriber's RRSP depending on available RRSP room or taken in cash.

An EAP made from the RESP, consists of the CESG and the growth in the plan. To determine how much of the CESG is paid out in year one, the CESG balance is divided by the growth in the plan. This ratio is multiplied by the amount of EAP made. For example, in year one, the ratio is 29.5 per cent (i.e. $4,000/ $13,549). If the EAP in year one is $8,000, 29.5 per cent (or $2,362) represents the amount of the payment attributed to the CESG; the balance of the EAP ($5,638) is a payment of the growth.

Educational assistance payments

	RESP	Contributions	CESG	Growth
	$37,549	= $20,000	+ $4,000	+ $13,549
EAP in Year 1	$8,000	n/a	$2,362	$5,638
Balance After EAP	$29,549	$20,000	$1,638	$7,911
Income at 8%	+ $2,364	+ 0	+ 0	+ $2,364
Balance	$31,913	= $20,000	+ $1,638	+ $10,275
EAP in Year 2	- $8,000	n/a	- $1,276	- $6,724
Balance After EAP	$23,913	$20,000	$362	$3,551
Income at 8 percent	+ $1,913	+ 0	+ 0	+ $1,913
Balance	$25,826	= $20,000	+ $362	+ $5,464

May I withdraw my RESP contributions at any time?

Yes, you may withdraw your RESP contributions at any time for any purpose, with no tax consequences. If contributions are withdrawn from an RESP that has received a CESG and before the beneficiary begins his or her post-secondary studies, the RESP must make a CESG repayment equal to 20 per cent of the amount withdrawn. Once the beneficiary begins post-secondary studies, you may withdraw part or all of your contributions without having to repay the CESG. If a plan includes unassisted contributions (contributions made before 1998 or contributions made after 1997 that were not CESG eligible), withdrawals will be considered to be made first from assisted contributions and then from unassisted contributions.

In what other circumstances must the CESG be repaid to the government?

CESG repayments must also be made in these circumstances:

- When a plan that contains CESGs is terminated before all the CESGs have been paid out for post-secondary education;
- If the RESP funds are transferred to another plan except where there is no change in beneficiaries; or
- When a beneficiary under the plan is replaced, except if the new beneficiary is under age 31 and is either a sibling of the former beneficiary, or both beneficiaries are related to the contributor of the plan by blood or adoption.

In all of these cases, it is only the CESG that must be repaid and not any income earned on the grant.

May I withdraw my pre-1998 RESP contributions and use them to make new RESP contributions?

Rules are in place to discourage subscribers from recycling their unassisted contributions (contributions that have not received the CESG) into new RESP contributions in order to attract the CESG.

Subscribers who withdraw unassisted RESP contributions for non-educational purposes will have restrictions placed on future CESG payments for beneficiaries under the plan. Any RESP contribution made to any RESP for the beneficiary during the remainder of the year of the withdrawal, or in the following two years, will not be eligible for the CESG. As well, the beneficiary will not earn new CESG contribution room for the two years.

These restrictions do not apply if the total withdrawal of unassisted contributions in the year is $200 or less.

Which post-secondary educational institutions and programs qualify for EAP?

Qualifying post-secondary educational institutions include most universities, community colleges, CEGEPs (Quebec only), junior colleges and specialized training schools, both in Canada and abroad.

A qualifying education program must:

- Run at least three consecutive weeks (13 consecutive weeks if the education institution is outside of Canada) and the student must spend 10 or more hours per week on courses or work in the program.
- Be at the post-secondary school level, including a program offered by an institution certified by the Minister of Human Resources and Skills Development to provide or improve a person's skills in an occupation. Correspondence courses also qualify providing the beneficiary has full-time student status.
- Be taken when the student is not earning employment income (excluding part-time or temporary employment to finance studies).
- Not be taken in connection with, or as part of, the student's employment.

If you would like to confirm whether a particular education institution or program qualifies, contact your local Tax Service Office.

When may a beneficiary begin receiving EAP?

Once the beneficiary is enrolled full-time (or part-time if the student is disabled) in a qualifying program at a qualified educational institution and up to 6 months after ceasing to be enrolled, the CESG and all of the investment income earned in the RESP may be used to pay for education-related expenses. For RESPs opened after 1998, educational assistance payments made during the first 13 weeks of a beneficiary's education are limited to a maximum of $5,000. Upon request, the Minister of Human Resources and Skills Development may approve an amount above $5,000 in certain situations (i.e. in circumstances where the tuition cost for a particular program is much higher than the average).

To request an educational assistance payment, the subscriber would provide the RESP plan administrator with written instructions requesting that an educational assistance payment be made to the beneficiary along with proof of the beneficiary's enrollment at a qualifying educational institution.

What types of expenses can EAP be used for?

Educational assistance payments may be used to cover education costs the beneficiary will incur while furthering his or her post-secondary education including: tuition, lab fees, books, supplies, dental equipment, computers, travel, room and board.

What happens to the RESP if the subscriber dies?

If the parents are joint subscribers of the RESP, the surviving spouse would continue managing the plan. Otherwise, the responsibility for managing the RESP falls upon the executor of the subscriber's estate. The capital belongs to the subscriber's heirs who may elect to leave it in the RESP or withdraw it with no income tax consequences. A withdrawal of capital may require the repayment of the Canada Education Savings Grant.

What happens to the RESP if the beneficiary dies?

If the beneficiary was a member of a family plan, the RESP would continue with the remaining beneficiary(ies).

If the RESP was an individual plan, the subscriber may name a new beneficiary. If a new beneficiary is not named, the subscriber could withdraw his or her original contributions and the CESG would be repaid to the government. Access to the accumulated income in the plan would depend on the relationship between subscriber and beneficiary.

If the subscriber is directly related to the beneficiary or the beneficiary was the subscriber's niece, nephew, great-niece or great-nephew, the subscriber would be eligible to withdraw the accumulated income right away.

If the subscriber is not related to the beneficiary, the plan would have to be in existence for 10 years before the accumulated income could be accessed by the subscriber.

When does an RESP mature?

An RESP matures (or terminates) when all the funds have been withdrawn, or by the end of the year that is the 35th year after the plan is opened, whichever comes first.

A BMO Nesbitt Burns Self-Directed RESP

What is a Self-Directed RESP?

Within a Self-Directed RESP, you make the ongoing investment choices for your plan and select from the wide variety of qualified investments to enhance your investment returns.

When you set up a Self-Directed RESP with BMO Nesbitt Burns, your Investment Advisor will assist you with your investment decisions and explain the different types of investments which are most appropriate for your situation.

A Self-Directed RESP provides maximum investment flexibility because all types of investments may be held within one plan. To accommodate this wide range of investments, Self-Directed RESPs usually charge an annual administration fee.

I already have an RESP at another financial institution, may I transfer it to a BMO Nesbitt Burns Self-Directed plan?

Provided your existing plan allows transfers, you may transfer your RESP to BMO Nesbitt Burns quite easily. Your Investment Advisor can outline the proper procedure.

Why should I choose BMO Nesbitt Burns to help me with my child's education planning?

There are many reasons for choosing BMO Nesbitt Burns:

Professional Advice and Service – BMO Nesbitt Burns Investment Advisors are highly trained investment professionals. They can design a savings program that will help you meet your education objectives and suit your personal circumstances.

Highest Quality Research – BMO Nesbitt Burns has the finest Research and Economic Departments in the industry, with Research Analysts and Economists who have long enjoyed a reputation for excellence. The professionals in our Mutual Fund Research Group provide high quality, proprietary research on mutual funds.

Superior Service – BMO Nesbitt Burns enjoys a reputation for superior client service and support. Backing your Investment Advisor are the considerable resources of BMO Nesbitt Burns, the expertise of the RESP product management team and the services of our specialized RESP administration department.

BMO Nesbitt Burns Gateway® – BMO Nesbitt Burns Gateway provides you with convenient Internet access to your BMO Nesbitt Burns RESP, in a completely secure and private environment, 24 hours a day. Through BMO Nesbitt Burns Gateway you can view your RESP holdings in detail; check past transactions; establish virtual portfolios; access prices on stocks and mutual funds; and communicate with your Investment Advisor.

BMO Nesbitt Burns Pathfinder® – BMO Nesbitt Burns Pathfinder is a sophisticated software program which, when used in conjunction with your Investment Advisor's expertise, can provide an in-depth assessment of your personal situation. Your personal Education Analysis can help you determine how much you will need to save for your children's education and the most effective way to meet your goal.

How can an Education Analysis help me plan for my child's education?

A BMO Nesbitt Burns Education Analysis will help you estimate the future costs of your child's post-secondary education by assessing a number of factors including the number of children under consideration and their ages, the number of years of post-secondary education you anticipate for each, your existing savings and ability to save, and a possible rate of return for the level of risk you can comfortably accept. Once all the factors are considered, an Education Analysis will show what you need to do today to meet your education goals. It allows you to compare the various types of vehicles that can be used to save for education, including RESPs, personal investment accounts and formal trusts. Through the program's database, you are able to incorporate into your projection the costs for more than 50 Canadian and American universities.

Conclusion

An investment in your child's post-secondary education is a gift that will benefit your child for the rest of their life. In recent years RESPs have become much more attractive. Contribution limits have increased and the options available to you if your child does not pursue post-secondary studies have expanded. Now that the CESG has been added, RESPs are an unbeatable way to save for your child's post-secondary education. If you would like more information about saving for your child's education, please contact your BMO Nesbitt Burns Investment Advisor.

BMO Nesbitt Burns – a profile

As one of Canada's leading investment firms, BMO Nesbitt Burns has an established reputation within financial services. Since its origins in 1912, the firm has been committed to helping clients meet their investment objectives and goals with the highest of standards.

Today, the Private Client Division of BMO Nesbitt Burns is focused on meeting the needs of individual investors through a customized approach to investing. Investment Advisors provide clients with personal advice and services, drawing upon some of the best knowledge and expertise in the industry including BMO Nesbitt Burns' top-ranked research.*

As a member of BMO Financial Group and part of the organization's Private Client Group, BMO Nesbitt Burns also provides clients with access to one of the broadest selections of investment solutions and products available today.

The Private Client Group brings together all of the bank's wealth management services, both in Canada and the United States.

If you would like information on products and services available from BMO Nesbitt Burns, or more information about our educational publications, simply contact your Investment Advisor or the BMO Nesbitt Burns office nearest you. Visit us online **www.bmonesbittburns.com.**

* Brendan Wood International Survey. Institutional Equity Sales, Research and Trading Performance in Canada, 2007.

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