

Investor Guide



Registered Education Savings Plans

Invest in your child's future



College and university are more important than ever before. Two out of every three new jobs require some form of post-secondary education.

According to the 2006 Census, Canadians with a university degree earned an average annual salary of \$56,048 compared to \$37,403 for Canadians with a high school diploma.

Yet the cost of a post-secondary education keeps growing. In 2008/2009, the average annual undergraduate university tuition for a full-time student was \$4,724, compared to \$3,064 in 1998/1999 and \$1,185 in 1988/1989.

But tuition and related fees are not the whole story. They represent just one-third of the expenses that students face each year. Add in accommodation, food, transportation, books and computers, and leisure, and the cost increases substantially.

By setting aside education funds for your children now, you will be helping them earn a university or college degree and helping them avoid amassing a crippling debt.

Remember, a post-secondary education is not just about improving your children's earning potential and standard of living. It also contributes to personal growth and broadens their horizons.

The best way to save for your children’s education is to open a Registered Education Savings Plan (RESP).

An RESP is a special account that can help you save money for your child’s post-secondary education. As a “registered” account (registered with the Canada Revenue Agency), money that you contribute to the plan gets to grow tax-free. However, you do not get a tax deduction from the contribution in the same way that you would from an RRSP.

Opening an RESP account is easy

1. Get a Social Insurance Number (SIN) for your child.
2. Decide what type of RESP account you want to open: a family plan or an individual plan.
3. Get an application from Mackenzie and fill it out. Your financial advisor can help you with this.

There are two basic RESP plans to choose from

Individual plan
Single beneficiary
Anyone can contribute
Make contributions up to 31 years after plan is opened
Family plan
One or more beneficiaries
Beneficiaries must be related by blood or adoption to contributor
Make contributions until beneficiary is 31 years old

How much you can contribute?

As of 2007, there is no longer an annual contribution limit, so you can contribute any amount up to a lifetime maximum of \$50,000 to each beneficiary’s RESP. If you contribute more than this amount, you will be subject to a penalty of 1% per month on the over-contribution until the excess is withdrawn.

A little history...

Here’s how annual contribution limits have increased over the years to reflect increasing education costs.

Years	Annual limit	Lifetime limit
1990 to 1995	\$1,500	\$31,500
1996	\$2,000	\$42,000
1997 to 2006	\$4,000	\$42,000
2007 and later	none	\$50,000

Now for the best part...

As an incentive to help you save for your children's education, the government offers the **Canada Education Savings Grant (CESG)** – a grant of 20% on the first \$2,500 contributed to an RESP each year for a total of \$500. If you invest a minimum of \$2,500 per year, you would get the lifetime maximum grant of \$7,200 over 15 years.

Studies show that children from families earning more than \$100,000 are more than twice as likely to pursue university studies than those from families earning less than \$25,000.

However, beginning in January 2005, the government enhanced the CESG to encourage lower-income families to save more. To accomplish this, the CESG provides an additional 20% on the first \$500 for families with net incomes of less than \$37,884 (2008 amount). For families with net incomes between \$37,884 and \$75,769, the additional grant is 10% on the first \$500 of contributions.

If you contribute \$2,500, the amount of CESG you will get is set out below:

Net family income	Additional CESG	Basic CESG	Total
Below \$37,884	First \$500 x 20% = \$100	\$2,500 x 20% = \$500	\$600
\$37,884 to \$75,769	First \$500 x 10% = \$50	\$2,500 x 20% = \$500	\$550
Over \$75,769	First \$500 x 0% = \$0	\$2,500 x 20% = \$500	\$500

In addition, the **Canada Learning Bond (CLB)** helps families of modest income save for children born after December 31, 2003. In 2008, families with net annual incomes of less than \$37,855 would qualify for the initial CLB grant of \$500, and \$100 for each year of eligibility until the child is 15 years old.

Alberta Centennial Education Savings (ACES) Grant. Any child born or adopted in Alberta on or after January 1, 2005 will get an initial ACES Grant of \$500 when an RESP is set up, and \$100 again at ages 8, 11 and 14. If the beneficiary does not pursue post-secondary education, the ACES grant must be returned to the Government of Alberta.

5 quick questions about the CESG

1. Who qualifies for the CESG?

A beneficiary must be under age 18, have a Social Insurance Number (SIN) and be a Canadian at the time of the RESP contribution.

If a child is 16 or 17, the grant will be paid, provided at least \$2,000 has been contributed to and not withdrawn from the RESP for the beneficiary before the year in which the beneficiary turned 16. Or annual contributions of at least \$100 must have been made in any four years prior to the year in which the beneficiary turned 16.

2. How do I apply for the grant?

All you need to do is complete the CESG section of the RESP application form and include the beneficiary's SIN. Mackenzie submits the completed grant application form to Human Resources and Social Development Canada (HRSDC) on your behalf. Remember, the government will not pay the CESG unless you request it, so make sure you complete the application form when you establish the RESP.

3. How is the CESG paid?

Mackenzie submits the contribution information directly to the government. The grant is then paid directly to your Mackenzie RESP.

4. How is the CESG invested?

Any CESG contribution to your Mackenzie RESP is invested according to the investment instructions you provide when the RESP is set up. There are no additional investment restrictions on CESG money.

5. What happens if I don't maximize my CESG entitlement?

There is no longer an annual contribution limit so you can contribute as much as you want in any given year up to a lifetime limit of \$50,000. However, only the first \$2,500 will attract the \$500 maximum annual CESG. If you contribute less than that, you will have unused CESG contribution room, which can be carried forward.

For example, if you contribute \$1,000 to your child's RESP this year, it will attract a \$200 grant, leaving \$1,500 of unused CESG. If you contribute \$4,000 the following year, you will use up this carried-forward contribution room plus the current year's contribution room, resulting in a CESG payment of \$1,000. The maximum annual CESG payment is \$1,000 if you have unused CESG room from previous years. Remember, if you under-contribute in too many years, you'll lose some of your grant entitlement.

When it's time to take money out

When your child is ready to attend post-secondary school, it's time to start withdrawing from the RESP. Your child will need to provide proof of enrolment and complete a redemption form from the financial institution that holds the RESP.

There are two types of withdrawals that you can make. One is the Educational Assistance Payment (EAP) and the other is the Post-Secondary Education Capital Redemption (PSE).

	EAP	PSE
What is it?	Withdraw growth on the principal; growth on the government grants; government grants	Withdraw from principal amount
Taxable?	Taxed as student's income	No taxes on withdrawal
Limit on withdrawal?	Yes, see chart below	No limit
Other restrictions	Proceeds must be used for educational purposes only	Proceeds must be used for educational purposes only

Educational Assistance Payment (EAP) – Withdrawal restrictions

Full-time	Program is at least 3 weeks long; 10 hours/week	First 13 consecutive weeks	\$5,000 maximum
		After first 13 consecutive weeks	No limit
Part-time	Program is at least 3 weeks long; 12 hours/month	Each 13-week semester	\$2,500 maximum



What if the beneficiary doesn't pursue post-secondary education?

More than a decade ago, parents had to weigh their options before investing in RESPs. Back then, if the child did not pursue post-secondary education, you could get your original contribution back, but all the earnings in the RESPs were forfeited.

In 1998, the government introduced the following options to encourage parents and grandparents to begin education savings programs without fear of losing the funds altogether if the child did not go to university or college.

Here are your options if the beneficiary does not pursue a post-secondary education.

1. Wait a while. Your child may change his or her mind about going to school. RESP accounts can remain open for 36 years.
2. Choose a new beneficiary. You can name an alternate beneficiary to receive the RESP income. In an individual plan, the new beneficiary can be anyone. But if the new beneficiary is not a sibling and under 21, the CESG must be repaid. In a family plan, the new beneficiary must be related by blood or adoption to the contributor. In this case, the CESG can be shared but any unused excess CESG must be repaid to the government.
3. Withdraw contributions. You can redeem contributions tax-free and pay back any CESGs.
4. Roll over to RRSP. You can defer the tax payable on the income withdrawal by rolling it directly into your RRSP or spousal RRSP, provided you have contribution room. The maximum rollover is \$50,000 per contributor, so a husband and wife who are joint contributors to a family plan can each roll over up to \$50,000 to their RRSPs.
5. Withdraw growth. If all current and previously named beneficiaries have reached the age of 21 and are not attending a post-secondary institution, you're entitled to withdraw the accumulated income (including income on the CESG), provided the plan has been in existence for at least 10 years. This is known as an Accumulated Income Payment (AIP). The CESG grants themselves must be returned to the government. The AIP will be taxed at your marginal rate plus a penalty tax of 20%. However, your original contributions are refunded tax-free.

Top 5 RESP tips

- 1.** Start early and make it automatic. Through Pre-Authorized Chequing programs (PACs), small amounts of money are automatically withdrawn from your bank account and invested on a regular basis. The money set aside in an RESP has the potential to grow and compound regularly.
- 2.** Talk to your financial advisor about the best plan for you. You can choose between an individual or family RESP. Any one child can be the beneficiary of an individual plan but a family plan can provide greater flexibility when it's time for education withdrawals.
- 3.** Maximize your CESG amount. Try to contribute at least \$2,500 a year to get the full \$500 federal grant. Also, take advantage of carry-forward CESGs if you contribute less in any one year. The carry-forward amount is up to \$1,000 a year.
- 4.** Don't withdraw your contributions from an RESP. If you take back your contributions before your child starts attending post-secondary school, a proportional amount of the CESG must be paid back and CESG contributions can be suspended for two years. Try to leave money in the RESP where it will grow to pay for your child's education.
- 5.** Have a back-up plan in case your child doesn't attend university or college. Review the section on "What if your child doesn't pursue post-secondary education?" Some options are better than others depending on your circumstances.

Resources

CanLearn

www.canlearn.ca

This site is an excellent resource to learn about saving for a child's education. It is full of information about planning for post-secondary education, budgeting for school, applying for grants and scholarships and much more.

Association of Universities and Colleges of Canada (AUCC)

www.aucc.ca

The AUCC represents 92 Canadian public and private not-for-profit universities and university-degree level colleges. The site provides information on university affairs and advocacy, details on scholarships, including applications, plus research, news and success stories related to Canadian universities.

Your Money. Save it. Spend it. Protect it.

www.yourmoney.cba.ca

This site helps to educate students and young Canadians about budgeting, saving & investing, credit & borrowing and keeping money safe.

Youth Canada

www.youth.gc.ca

Go to this site and click on the link to Education. Here you'll find a wide range of great tools on life at university and after university. Find out about student housing, and get survival tips for eating well, spending less and getting good grades. Learn about student loans, co-op education programs, apprenticeships and more.

Statistics Canada Learning Resources

www.statcan.ca/english/edu/index.htm

Excellent learning resources from Canada's National Statistics Agency. A resource for school projects at every grade and through university.



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