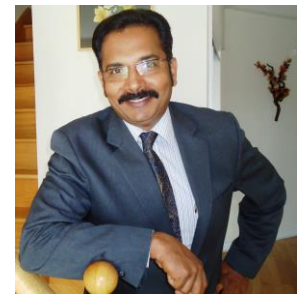




WHY RESP?

(REGISTERED EDUCATION SAVINGS PLAN)

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s we have seen many Canadians especially the New Immigrants, do not understand what is an RESP and how it works & how many companies do provide this product and related services in Canada; and what are the advantages and disadvantages of one v/s the other. Let us examine the issue and have a clear view about it.

What is an RESP?

Like Registered Retirement Saving Plan (RRSP), the Registered Education Savings Plan (RESP) also was introduced by the Government in 1958. It was not popular among Canadians, as it offered very little incentives (investments tax sheltered) and it did not motivate parents to save for their kids' education until 1998. And in the 40-year period there was just about \$2 Billion invested in this program. But in January 1998 the Government introduced the Canada Education Saving Grant (CESG) of 20% to a maximum of \$400.00 per child per year based on the parents' contribution to the plan and a life-time maximum of \$7,200.00 in grant. That rang the bell in the ears of Canadian Parents and between 1998 - 2004 the industry grew to a whopping \$13 billion in six (6) years from \$2 billion.

Changes introduced to the Plan:

In 2004, the Government of Canada reviewed the CESG program and they realized that justice is not being done, as the

rich and poor were treated alike and the low income family was not able to fund their kids' education as much as the rich could and the low income family was at a disadvantage as they could not afford to contribute more money to the plan. The bill passed in 2004 Budget made the distinction based on the income and additional grant was introduced with effect from January 1, 2004 as follows:
Income Brackets

The Net Family Income under \$35,000.00 will qualify to get 40% Grant on their first \$500 contribution and the additional dollars 20%, thus can get up-to \$500 per child per year when \$2000 is contributed. The families who had their net family income between 35K to 70K on the first \$500 contribution 30% Grant and on the balance 20% thus they could get \$450 per child per year while contributing \$2,000.00 in a given year. The family which has income over \$70,000 can get the basic Grant of 20% which will be \$400 on \$2000 contribution. However it may be noted that the maximum grant one could get is \$7,200.00 which was not changed. The income brackets are being indexed every year to reflect the income tax bracket.

What is CLB?

Also the Federal Government introduced the Canada Learning Bond (CLB) in the same Budget with effect from January 1, 2004. The requirement is that a Child born after December 31, 2003 and the

family is eligible to receive the National Child Benefit (NCB), then the moment they start an RESP they will get \$500.00 bond into the plan and as long as the Subscribers(Parents) are in receipt of NCB you are eligible to get \$100 Bond every year for 15 years of eligibility to a maximum \$2,000.00. These benefits are common to all companies which provide an RESP but has to enroll for it; if not then you may not get it as it is based on the contribution made before December 31st of every year.

Government Benefits impact on Investment (RESP)

For the Grant & the Additional Grant & CLB the investing company must apply for it, so the parents are missing out of these benefit which can be huge lose, especially to those in the low income bracket and contributing less amount in the range of \$500 a year. For example, if a family is contributing \$10 per month for their new born child and they did contribute for 17 years, they saved about \$2,038.00; and if they get only the basic grant they will have the grant and growth all together about \$7,090.00 but if they were getting the Additional Grant and CLB it would be \$11,964.00.

(To be continued in next issue)

Therefore, it is very important before you buy into any plan to have due diligence and an

unbiased comparison about various plans in the market and then make your choice after having seen all options and advantages and disadvantages.

Unlike any other product, as a prudent buyer one should compare various plans available in the market before you making the decision. When we look into the RESP market, we can see that there are over 53 companies which are offering RESP in Canada. These include Banks, Mutual Funds Companies, Scholarship plan companies etc. One can find the listing in the Security Commission Website and Revenue Canada/HRDC website.

But in general there are two type of RESP, the individual plan and group plans. Each has its own advantages and disadvantages; what is more important is to understand which type of plan is more suited for your need and which of those types will yield more benefits at the end of the day.

One thing that must be clear and kept foremost is your objective. When I look at the objective, it is a fact that every parent, especially South Asian parents, want to send their kids to a good university and get them the best education, and if that is the objective, one should know that it will cost you a reasonable amount for tuition fee.

Now the question is how am I going to fund that big expense. **Choice #1.** Plan well in time and start the saving plan after having due diligence and comparison of various plan that are available in the market. **Choice #2** Don't do planning, wait until your child is 18 and when they are adults ask them to

go and get OSAP and accumulate a huge debt to carry on their shoulders and pay it off over 10 or 15 years time; **Choice #3.** The easiest one – don't send them for higher studies.

When we look at the options, most parents want the best education for their kids and want them to be Doctor or Engineer but most often we see lack of planning, so they end up having a bad plan or inappropriate plan. Some would have started a savings plan with the minimum amount – which will get them nowhere and that is being non-realistic. If your child is born in 2010 – by 2028 they will require a minimum of \$150,000 to \$200,000, as if you look up recent news Paper columns in Globe and Mail, the events that took world attention in London, England, what that all says is that the cost of education is going to go up every year, as Canadian Statistics points out that a national average of 6% increase annually in cost of education and your saving will be only \$30,000 or \$40,000. So you are unknowingly slipping to the #2 category.

But if you plan properly and consider all options and situation will be very different. For instance, this year all the scholarship plan companies has declared their payout for 2010, the lowest paying company is \$1,610.00 and highest paying company is \$2,615.00, interestingly both the plan the parents contribution is the same amount approximately. When you have taken a plan like this with good payout and you have contributed \$50,000 over 18 years period, you do not have to worry for your child's education and what it does cost you or your

family is \$50,000 and that will fetch you approx \$150,000, which means that you have tripled your money in a very safe way. But if you do not plan ahead, when the child is 18 and has to go to university, he/she will need \$150K or \$200,000 and take it from the OSAP and by the time he/she pays off the loan it will cost approximately \$250K or \$300K. So your child's education cost which should have been 50K ends up with you or your child paying 300K which is a huge waste of money. Look at the chart that is provided by HRDC about career opportunities available for Canadians who are degree holders v/s non-degree holders.

My Advice:

Last, but not least, my advice to you all is be informed and make an informed decision in all your financial matters and ensure that your money is working for you and not for the big institutions or the intermediary. Look at your personal financial situation and choose a plan that is right for you, also remember that every year you have a contribution room of \$2,500 to get the maximum grant, take advantage of it before Dec.31st. Always get a second opinion.

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