# The Just Word Podcast

**Transcript of Episode 25 – Let’s Talk RESPs**

**Guest: Andrew Kirkland**

**Pat Bolland** 00:00
For those who are just joining us, Andrew Kirkland is the President of Justwealth. And we're talking RESPs, because he's an expert because he has three kids. But before we get to chatting, Andrew, I want to go through some of the stats, which I found staggering. There's $70 billion in RESPs in this country. Last year alone, there was more than $5 billion that was added. And on average, the contribution is $1,657. So it's a substantial amount of money. And we'll talk about that later on how much you should be contributing. But here's the flip side of that, because these things were set up a long time ago, my kids were eligible for RESPs. They're way more flexible than they used to be. But money comes out of those as well, listen to these numbers. In 2020, there was $3.9 billion dollars in withdrawals, there was 420,000 beneficiaries, 420,000 kids out there going to university or wherever they're going for their education, are taking advantage of this. And their average withdrawal was $9,375. The numbers on the withdrawal are staggering. So let's start with the real basics. And folks, we invite you to send in questions. But let's start with the real basics. What is an RESP? And how much can you put in?

**Andrew Kirkland** 01:24
Yeah, so those numbers are quite large. And it makes a lot of sense, if you dig into, you know, what an RESP can do for a child's education or beneficiary education. So really, in the simplest terms, an RESP stands for Registered Education Savings Plan. And it's a tool that can be used to invest, or an account that can be invested in, and tax sheltered, for the use of post secondary education funding. Okay. Along the way, within an RESP, and we'll always say RESP, that's just kind of the acronym that that is used for that account type. But before an RESP, you get incentives by putting money into that RESP. So the government wants to promote, you know, I guess, further education of our children in Canada. So you know, giving some grants, giving some additional money to incentivize parents or grandparents or friends and families or aunts and uncles, to open up an RESP for a beneficiary, they're willing to put in some money and have that money grow, tax sheltered, until the child ultimately goes to post secondary education. But that, in the simplest terms ...

**Pat Bolland** 02:43
To be clear though, to be clear, it's not a tax deduction, you put the money in, you don't get a tax deduction as a result, you just put the money in, and the amount that grows is not taxable. Right,

**Andrew Kirkland** 02:54
Right. Unlike an RRSP, Registered Retirement Savings Plans, which any money you put in, could be reduced from your income in that particular year. An RESP, Educational Savings Plan, is not like that. It just grows tax free while it's invested in the RESP. And then when you withdraw the money, in a lot of cases, depending on how you withdraw it, but if you withdraw for post secondary education purposes, which most people, hopefully do, it's actually taxed in the hands of the beneficiary, or the student at that

time. So from from a tax perspective, it's most likely that that child or student doesn't really have a high tax bracket because they're going to school. So the actually less, there'll be less taxes paid in the hands when you actually do take it out of the account as well.

**Pat Bolland** 03:42
Yeah, there's something else too called the Canadian Education Savings Grant that wasn't around when my kids were young. And I couldn't take advantage of it. So I'm not as well versed in what they are. What is CESG?

**Andrew Kirkland** 03:56
Yeah, so again, another acronym, but it's a Canadian Education Savings Grant, and there's three main grants, if you will, that the federal government provide for RESP accounts. The first one, the first two actually that I'll talk about, are kind of tied to actual contributions. So you have to make a contribution into an RESP in order to get the grant from the government. Now, the first one is the basic one, so everyone is eligible for it. And it's a 20% grant, based on your contribution that you put in. Okay? Up to $500 a year. So the government will say, you know, if you put in x number of dollars, they'll give you $500 a year into the RESP.

**Pat Bolland** 04:43
Okay, let's be specific, if you put in $2,500 You'll get 500. But if you only put in $2,000, then it's $400...

**Andrew Kirkland** 04:53
20% of whatever I put in to a maximum of $500. I always like to describe it as this, so... And you know, every year a beneficiary has what I call grant eligible contribution room. So a child born in 2021, this year, doesn't matter when in the one of the year could be in January or December, they have, that child, that beneficiary has $2,500 of grant eligible contribution room. So you put in $2,500, what the government will send - all the RESP providers will send that information off to the government say this particular account, had $2,500, go into it, send us the grant proceeds. And they do and it's usually a month in arrears. So any contributions made in November would come at the end of December to the to the RESP. But in the, you know, and I know this firsthand, but like, if you have a child, you know, there's a lot of things that you're dealing with, when your kids are growing; there's diapers, there's formula, there's a whole bunch of items that it doesn't really potentially allow a lot of young families to put in the money into their RESP and get the full maximizing grant from year one. Right. So what the government does allow you to do is they allow you to carry forward that grant or grant eligible contribution room to future years if you have not, if you do not use it in any particular year. So as an example ...

**Pat Bolland** 06:29
Does it have to be registered, though. Like it does it have to be in force? Or can you say, the kids three years old, and you say, Hey, listen, I haven't made any contributions yet. So you've got that contribution room ...

**Andrew Kirkland** 06:38

You've got that contribution room. So it's a, it's it allows him flexibility for people that can't make contributions in the first year to still get that grant that they may have gotten if they made those contributions. But it's, you can get it in future years. The only caveat to that is you can only catch up one year. So at a time, it really it's an additional $2,500, you can contribute and get grants. So I'll paint the picture like this, say, for example, you had a child born in January of 2021. Okay, for 2021, you have $2,500 of grant eligible contribution room. Okay, if you did not do any type of contribution in 2021, come 2022. That means that you have $2,500 for 2022, along with the $2,500 from 2021, that you did not contribute. So you got a total of $5,000 that you could put into an RESP and get grant on it. And again, it's 20% of that. So it's $1,000 on a $5,000 contribution that that you could get, you can get grants on. Now that's any year, that's the maximum.

**Pat Bolland** 08:02
But you said that there were two different kinds of free money from the federal government, right?

**Andrew Kirkland** 08:07
Yeah, there was, there is. So there's that basic one that we're describing. There's also an additional Canadian Education Savings Grant. What's called a Canadian Learning Bond. Those two, the additional and the Canadian Learning Bond, are tied to the family income. Okay, so the additional Canadian Education Savings Grant is either 10 or 20%, on the first $500 of contribution in any year, depending on the income level of the family. But again, you've got to put the money in, and then it's 10 to 20%, based on the income that you can get additional. With a Canadian Learning Bond, it is it is actually, you don't have to make a contribution of that one. It's just tied literally to the income of the family. So if a family had an income level that was potentially a little bit lower on the scale of the Canadian Learning Bond, kind of metrics, you don't even have to make a contribution, you can literally open up an RESP and then the government will give you $500 towards that RESP. And if you continue to qualify from an income level, for 15 years, you get an additional $100 every single year. So you know, those are some of the ways that they've incentivize people to make contributions, but also if you can't, you can't afford contributions. Just because the income level of the family doesn't necessarily enable you to do that. You still potentially have options to get money started in an RESP.

**Pat Bolland** 09:40
We're getting questions from the audience. At what age can you no longer contribute to an RESP?

**Andrew Kirkland** 09:47
Yeah, so you can no longer contribute and get grants for RESPs in the 18th year. So you can get grants every single year that we just talked about, all those continue to happen. Age 16 and age 17, there's certain restrictions as to making contributions into an RESP and getting grant on it. But then come after 18, you no longer can make contributions that would receive grant, you can still can make contributions into an RESP. If you want to have it still grow tax sheltered, and then still have it taxed in the hands of the beneficiary. But from the grant purposes that we've we've talked about earlier, those no longer would apply after the 17th year.

**Pat Bolland** 10:44

Okay. But to be clear, the beneficiary is 16, or 17, or 18 years old, as opposed to the contributor, you could be 100 years old and drop 50 grand into your grandkids if they were under 18 years of age. And you're good, right? Is it, or am I right?

**Andrew Kirkland** 10:59
Yep. So yeah, you're right. It doesn't have to be, there's no limitations on the people, or the person contributing into the RESP. And in fact, you know, I think a lot of cases, grandparents want to open up RESPs for their grandchildren, they feel that this is a good gift, or maybe even this time of year, it's a good opportunity to make a contribution into an RESP account and, and open up an RESP account, and having them as the subscriber, them as the contributor, but then having the beneficiary as the grandchild. And I think that that goes to one of the other questions I see coming through here, it's coming through directly to me, it's talking about how important is... how important is an RSP successor subscriber. So we talked about, you know, potentially a grandparent or a parent being the actual subscriber or contributor to the account. But this one question was talking, was mentioning, but what's called a successor subscriber. And that is basically, if something was to happen to the subscriber, either the parent or the grandparent, who would take ownership, or who would take authorization over that RESP. Because... and the reason why it's important to do something like that is if, as a grandparent, you have an RESP set up for a grandchild. And something happened to you. And the grandchild is not yet in post secondary education. What happens to the plan at that time? And I think, you know, that can be, can really be a sticky situation, because you either have to stipulate in your will, as to what you want this RESP, what do you want to have happen to it, or work with the provider that you're working with to name a successor subscriber, and hopefully they can allow that. Because if not, when the estates get settled, it will literally just work through the estate and go through the will and may not necessarily be used towards post secondary education for that beneficiary.

**Pat Bolland** 13:14
Oh, now there's a twist. So I may be 80 years old, I contribute to my grandkids, and I'm putting in, you know, the maximum grant eligible amount of $2,500 a year, that could be a substantial amount of money, but it's not the kids money,

**Andrew Kirkland** 13:31
Right ... It's not so the money actually is the subscribers money. So whoever is the contributor, whoever is named on the account, it's their money, they've put it in, but it's, it's being used for the purposes of funding post secondary education. So when the money comes out, you have to provide proof of enrollment for the child, and then the grants and all that can go out to fund the post secondary education. But, but yeah, it's really important to look at this from an overall estate planning perspective. And sometimes people just neglect or they're never really think about from an RESP. It's like, okay, that, you know, they just assume that that RESP will go towards, you know, the beneficiary and everything will be fine on their passing. But that may not necessarily be the case. And it's also important to make sure you name these things. You can also name like joint subscribers, so a husband and wife or a mother and father can be a joint subscriber so it can roll over to the other person if something was to happen. So that's a good one. But also, when you're naming say, for example, a successor subscriber or, you know, information in your will as to what you would like to have happen with this RESP. Just make sure whoever you're naming as that new subscriber has an interest in the

beneficiaries keeping that grant and having the proceeds go to their education. Because in that case, it will become their money and if they were, they wanted to take the money out they could and then potentially the grant goes back to the government. And then there's nothing left for the post secondary education purposes.

**Pat Bolland** 15:08
Okay, I'm going to paint a scenario for you, and walk me through how this works because I'm a parent, and I want to contribute to my kids. Education. And I'm a grandparent, and I want to contribute to the same child's education. So the parent puts in $1,000 we'll say, and the grandparent puts in $1,500, or they both put into the same plan. Because, you know, the grandparent, eventually die, and that becomes part of their estate. But what part is there is and what part is the parents? So

**Andrew Kirkland** 15:40
So, in this scenario you've talked about here, you can have two RESPs. And the grandparent's is the subscribers one, the parents, the subscriber of the other one, right?

**Pat Bolland** 15:52
Oh, okay

**Andrew Kirkland** 15:53
That can definitely happen. And, you know, I think it's depending on the institution, some institutions may allow the grandparent to put money directly into the parent's RESP for the beneficiary, whereas others, you can't do that. So they have to, if the grandparents want to make a contribution towards an RESP, for the grandchild, they either have to open it themselves, or send the money to the parent through some form of check, or whatever the case, and then then parents send the money into the RESP that's been established now. So there are options, but a lot of cases, people do it separately and have the grandparent RESP or a parent RESP and then they're all kind of, you know, they're on their own devices have started making contributions. Now, I will say that though, there's not a doubling up of the grant proceeds. So the government keeps track of the grant proceeds that they're paying out. So the grant, you know, the grandparent RESP will get their grants, and the parent will get their grant up to that, again, up to that maximum of $2,500 for that beneficiary. Alright, so you can't double up on that stuff. But they do. They are keeping track of all that.

**Pat Bolland** 17:10
Okay, so now the money's in ... we've walked through some of the tax scenarios ... And folks, if you have questions about the tax scenarios, please send them in. And I'm certain Andrew, you take emails or something like that wouldn't you?

**Andrew Kirkland** 17:21
Sure 100%

**Pat Bolland** 17:22
Okay. How should you invest? You know, in an RESP, what style of investments? Should you shoot for the stars? Or should you look for regular income? Or what?

**Andrew Kirkland** 17:36
Yeah, it's a great question. And, you know, a lot of it can be dependent on the risk appetite of that subscriber and maybe what they're willing to take on from a risk perspective. But, you know, our approach at Justwealth is, you know, a very process driven, you know, keeping your fees low, keeping the costs low investing in exchange traded funds, but we have a pretty unique product when it comes to RESPs. And it's a, we call it the Education Target Date portfolios. So as an example, someone born in 2021 what we do is we look ... okay, when are they expected? What is their estimated post secondary enrollment year, right? And eight, so that would be 18 years from now. So we have a portfolio that would get more conservative as you get closer to that post secondary education enrollment date. So 18 years from now,  2039. And right now, because you have 18 years on your side, we believe that you have the ability to take on more risk within your portfolio. So you'll have more of a an equity tilt, you'll have more exposure to the stock market. But as you get closer to that particular year, you'll get more focused on fixed income and more focused on conserving the assets. So if something like COVID happens, or if there's a pullback in the markets, you're insulated from that, as you get closer to that time frame, and you know, you don't want to necessarily be all risk when you're taking the money out maybe in a year or two, right. That's the exact opposite of what you want to do so. So yeah, that's kind of how we focus on that. But we have one for every single year of a birth year. So you know, we have 2020. We have a 2022 portfolio ... 2023, 2024. And each one of those are tied to that birth year, 18 years prior.

**Pat Bolland** 19:42
There was question that flashed up from the audience as well about education. What qualifies as education? Is it always University? Is it College? Is it trade school? Could it even be a private school? You know, at the high school level?

**Andrew Kirkland** 19:56
Yeah. So and the education savings, the ESDC from Canada, they they publish a list of qualifying post secondary education. And but yes, it could be University, College, trade school. I know in Quebec, they have Cegep, which starts for grade 11 and 12. Those Those can, can qualify as well. But they keep a list of all those education institutions. And I think they're, you know, they're potentially adding and, you know, adding new schools that may be qualified, but you know, trade schools would be one of them, but you'd want to, you'd want to check that for sure. You know, when you're when you're looking to take the money out, if that would qualify.

**Pat Bolland** 20:43
Okay, so then the corollary is, what if the child, the beneficiary ... you keep using that technical term, the beneficiary doesn't go to school? It just says, I give up? I'm not going to do that. Oh, what can happen to the money?

**Andrew Kirkland** 20:58
Yeah, So that's a good question. And we get that one, quite often, it's a very popular question, because you don't really know it's, you know, you open up an RESP, with the best intentions of, you know, 18 years from now, they're going to be going off to a post secondary education, but you really don't know.

And, in some cases, they just don't, right, they've got another passion, they do something else, and they just don't go to school. So in that case, what happens is, you can get your your money back. You can get the money out of the RESP out. Any contributions that go into it, you can take out, and you don't really have any penalties on that there's no tax on your contributions, however, any withdraws that occur that are not for post secondary education purposes, any grant tied to that will be sent back to the government. So that that goes back to the government, it's really incentivizing people to, you know, provide incentives and provide additional funding for attending post secondary education. So that's the contributions, the grants go back. And there's also the growth proceeds, because assuming you invested in his vessel for a long time, hopefully you make money, the growth in the account can be, there's certain restrictions that have to be met, but that can be transferred, either taken in cash, as withdrawal, there'll tax on it. Or if you have contribution room in your RSP, that growth portion can be moved over can be transferred to your RSP if you have the room, and that can continue to grow tax free at that point. Really ... there's a question that got kind of cut off. And it has to do with the Canada Student Financial Assistance Act? Do we know what that is? I don't know what the question was, to be honest, Designated under the Canada Student Systems Act. What mentioned counts?

**Pat Bolland** 22:55
Oh, maybe that's in reference to schools you're talking about? Yeah,

**Andrew Kirkland** 22:58
Yeah, there's reference to the school.

**Pat Bolland** 23:00
Okay.

**Andrew Kirkland** 23:00
There was a question about like, what if they delay post secondary education, say 30 years old, any penalty, so no, an RESP can stay in existence for 35 years. So if your child say, for example, doesn't go to school at the age of 18, or 21, you don't have to do anything with it, you can still keep it in intact. And maybe they'll go to post secondary education at some time in the future. And at that time, they can use all the proceeds, the grants and the growth and all that, and you don't have to worry about it. So there's there's no penalties, but after a certain time, you know, you'll have to, you know, 35 years, you'll have to do something with it. So the penalties at that time would be payments of the grant back, because you didn't use it for post secondary education. But again, you get your contributions, and the growth proceeds could be either taken out or transferred to an RSP.

**Pat Bolland** 23:56
Okay, we've been talking about this for almost half an hour, not quite. And it seems to me it's a lot of acronyms. RESP,  CESG, CLB, where can people go to kind of figure it out?

**Andrew Kirkland** 24:12
Knowing that there is a lot and, and honestly, like, as a parent, and you know, three young kids, it ... Sometimes the financial industry makes these things harder than it has to be. To understand and, you know, I think, you know, if you're in the industry, or you're very knowledgeable on this, and you follow

this stuff, you're going to get it, but it a lot of people are, they're just not going to pay attention, especially these times of the year. So they just put it off. Right. And I think, you know, there's a lot of opportunity for people to just make contributions into an RESP. It doesn't even have to be much it could start out with, you know, $50 a month and you get grant on that and it can add up significantly over a period of time. So what we're trying to do is literally make it so easy for people that they don't have to worry about any of this. They can ... all these forms, there's a lot of forms. We automate it, we digitize it, it makes it extremely simple for somebody to set up an account. But when it comes to the actual, if you want to learn about how an RESP works, we have a very informative guide. It's called the Justwealth Guide to Education Savings Plan. That gives some frequently asked questions about some of the things that we've talked about tonight, and along with more information about our target date portfolios, and how they work. But you know, those are, that's a great resource. The Canadian government does have a very long list of resources on RESPs. But, you know, so you can obviously tap into that, that resource, and we're obviously here for people to help out and answer any questions. And some of the longest conversations, the most in depth conversations we have people are people who are setting up RESPs for their children. And I find that a lot of times people when they set up these accounts, they care more about the RESP than they do their own RSP or Tax Free Savings Account, they really do

**Pat Bolland** 26:16
It's their grandkids ... they're involved, right?

**Andrew Kirkland** 26:18
Exactly! So it's, you know, I totally get it. It's a busy time for people. But it's just what we're trying to do right now is making it as easy as possible and help people get access to this government money as much as they can. So going to justwealth.com/resp there's our guide, theres more information that can be found there. And you can literally set up your RESP account and sign all the paperwork. Right within our portal.

**Pat Bolland** 26:49
You know, you mentioned something we haven't touched on, all this has to be done by the end of the year doesn't in order to qualify for the grants, isn't there a deadline?

**Andrew Kirkland** 26:58
Yeah. So there is a deadline. Like it's an it's an A calendar year type of grant, you know, so you want to put the money in to get your 2021 grants by the end of the year. Now, having said that, if you don't, again, there's that carry forward feature that, if you don't make it in 2021, you can always, you know, kind of put that into 2022. But the more years you push it back, you know, the less money is going to be in the account, because you can only get grants on potentially because you can only put in that maximum a year. It's the $5,000 that you can put in to get grant on it, you could put in 6000, or 7000, or 8000, you can put in 50, those are the lifetime contribution limit. And that, you could put $50,000. And you could put it in the day that the child's born were born, you need a SIN to open up an RESP. But you could do it the first year and only get you only get grant on 2500 of it and get 500 bucks, but that may be better. But if you're not putting the money in right now, and you're main goal, main objective is to maximize the grants. Each year you push it out. You know, you're kind of limiting how much you can actually put in. But look, I see another question...

**Pat Bolland** 28:16
Okay, so tell me your personal experience. You've got three kids? Yeah. Do you have three RESPs? Or do you just have one? And then we'll dole it out as the kids go to school?

**Andrew Kirkland** 28:27
Yeah, so yeah, I've got it. I got a little bit different situation. But yeah, I have, a couple RESPs. A lot of cases, what happens is people set up what's called a family RESP. And there was a question here that talked about it ... Can any child in the family use the money? And the answer to that is yes. And it's all about, you know, when you set up an RESP there's really two main things, two main decisions you have to look on you need to 1) be like, Okay, how many, who's going to be the subscriber ... so parent, Mom, Dad, or just mom or just dad? So you have to, you have to decide on that. And the second aspect is, what type of RESP is it? Is it a family plan? Or is it an individual plan? A family plan is when multiple beneficiaries in the same bloodline, brothers and sisters, can be named to the family plan. If it's just individually, one beneficiary. That's pretty simple. But most times what happens, and we recommend this to ever to all our clients, is to open up a family RESP even if you have one child, open up a family RESP maybe there's gonna be additional children that could be named to the account in the future. But say for example, we talked about this a little bit earlier talking about if one child doesn't go to school, if a child doesn't go to school, in a family RESP the other beneficiaries can use the proceeds that have been built up in the RESP ,right, so you know, there's there's there's two main things the subscribers ... joint or individual and then a family or individual plan. So anyways, it's, there's a lot of a lot of ways you can set it up. But again, it makes it complicated, but it doesn't need to be complicated. And we help a lot of clients out. And I think a lot of the times, it's a great incentive to get people saving and for saving, putting in that $50 a month or if you want to maximize $2,500 a year, you put in $208 every single month, and you get the maximum grant. But it's, it doesn't have to be complicated. It can be an easy account, and and it can be very beneficial as you grow tax sheltered over over a, you know, 18 year timeframe.

**Pat Bolland** 30:46
We've ran out, we had a lot of great, great questions. So thank you so much for the questions to the audience. And Andrew, thank you for your time today and explaining

**Andrew Kirkland** 30:54
Oh yeah, no, it was it was a pleasure and I there is a lot of information here. So now that we've we've done this one spot I think we got it down. So maybe we come back in the future and dig a little bit deeper about RESPs ...

**Pat Bolland** 31:06
And again ... apologizes to people that tuned in yesterday. We were having technical difficulties. Weren't we Andrew? Just a little bit

**Andrew Kirkland** 31:12
We're good now.

**Pat Bolland** 31:14
Have a great night.

**Andrew Kirkland** 31:15
Thanks, Pat. Thanks, everyone for joining. It was a pleasure.

**Pat Bolland** 31:18
Andrew Kirkland, President, Justwealth Financial