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RESP: The tax-free account Canadian parents forgot about



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Canadians can save more money tax-free than ever before but a new survey suggests only a small majority of parents are taking advantage of Ottawa's primary vehicle for educational savings.

Will the tax-free savings account's expansion only help the rich? That seems to be the popular belief, but the middle class may in fact be the biggest beneficiaries of all.

It might not be that noticeable for a few years, but crunch the numbers and there is strong evidence it will make retirement immensely better, especially for those under 50.

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A survey from the Chartered Professional Accountants of Canada released Tuesday found 47 per cent of parents have not opened a registered education saving plan, which shelters money tax-free but also provides a government grant equal to 20 per cent of contributions up to a maximum of \$500 annually and \$7,200 lifetime per child.

"I think potentially there is a lack of awareness, or simply other budgeting priorities. A lot of

people these days are maxed out," said Cairine Wilson, vice-president, corporate citizenship with CPA Canada. "Some people might think they'll get to it later on."

Peter Lewis, vice-president of regulatory, risk and corporate affairs with CST Consultants Inc. which distributes the Canadian Scholarship Trust, said there is a strain of thought among some parents that post-secondary education is not their responsibility. "They expect their kids to do it on their own," he said.

The fact that almost half of Canadian parents are not taking advantage of the ability to maximize their RESP grant comes as the government announced plans this month to increase annual contribution limits to tax-free savings accounts from \$5,500 to \$10,000. Unlike TFSA's, some withdrawals in an RESP are taxable in the hands of the beneficiary but usually that person is a child with little income because he or she is enrolled in a post-secondary institution.

This is the third time the CPA has done the survey and the results have been about the same, with previous surveys indicating 55 per cent of parents had opened up an RESP for a child. The new CPA survey was conducted from Oct. 14 to Oct. 30, 2014 and is considered accurate to within 5.7 percentage points, 19 times out of 20.

While the survey could indicate some Canadians are simply tapped out when it comes to saving more money, it also found 75 per cent of Canadian parents feel they are on the right path for funding education costs. Another 86 per cent said they were confident in their financial knowledge.

Wilson says the gap between people saving for education but not utilizing the RESP and its generous grant allocation likely points to a lack of awareness among parents. "It's free money, and parents are leaving it on the table," she said.

CST's Lewis said the federal government does its own annual statistical review and the numbers are similar to the current CPA numbers, with a 2013 study showing only 47.1 per cent of children in a position to take advantage of the program.

More damning: Only about 27.5 per cent of Canadians eligible for the Canada Learning Bond have bothered to apply, as of 2013. The Canada Learning Bond program, aimed at low-income Canadians, provides a \$500 initial grant and \$2,000 lifetime just for opening an RESP account without even making a contribution. (The CLB has been around since January 1, 2004.)

"The benefits are huge," said Lewis about the 20 per cent government return on all money

invested in an RESP. "The Canada Learning Bond, you don't even need any money. I think a lot of this is awareness. There is a disposable income challenge for some people ."

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Toronto certified financial planner Mark Halpern, of wealthinsurance.com, says that while \$2,500 annually will get you the full \$500 grant, even making an annual contribution for half that amount will make a difference in the long run. He endorses the idea of taking any money you get from your tax refund and investing it into your RESP to make it go further.

"There are not a lot of things where they are free stuff. If you are not taking advantage of free stuff, you are missing the boat," said Halpern, adding the RESP should be the primary spot for education savings because of the grant and the fact money grows tax-free.

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