

# The Canada Education SAVINGS GRANT

---



Human Resources  
Development Canada

Développement des  
ressources humaines Canada

Canada

CESG-002-07-99E

© Her Majesty the Queen in Right of Canada 1999  
Cat. No.: MP79-4/1-1999E  
ISBN: 0-662-27454-7

Minister  
of Human Resources  
Development



Ministre  
du Développement  
des ressources humaines

*“Young Canadians today face many challenges, including getting enough education to help them get good jobs. Years ago most work didn’t require a lot of education... but times have changed...”*

*We at Human Resources Development Canada have launched a new Grant program that can help offset the increasing costs of post-secondary education by supplementing educational savings. Its purpose is to make post-secondary education more accessible to more young Canadians. We call it the Canada Education Savings Grant program.”*

*Jane Stewart, P.C., M.P.  
Minister*

**Canada**



## CONTENTS

|   |    |
|---|----|
| Introduction . . . . .  | 1  |
| Post-Secondary Education: Investing in<br>Tomorrow's Job Market . . . . . | 2  |
| Importance of Long-Term Savings . . . . .                                 | 4  |
| The Canada Education Savings Grant (CESG) . . . . .                       | 5  |
| The Registered Education Savings Plan (RESP) . . . . .                    | 9  |
| Questions and Answers . . . . .   | 13 |
| Glossary of Terms . . . . .   | 15 |
| [Insert: Social Insurance Number application form]                        |    |



## INTRODUCTION

One of the best ways to ensure a child's future is to save for their education. The Government of Canada can help meet the costs of post-secondary education.

In 1998, the Government of Canada announced an important new program – The Canada Education Savings Grant (CESG). This Grant helps parents, grandparents, relatives and friends who select Registered Education Savings Plans as a means of building a nestegg for a child's post-secondary education.

Through the Canada Education Savings Grant, the Government of Canada pays 20 per cent on the first \$2,000 (or less) you save each year\*. This can add up to \$400 per year (and a lifetime limit of \$7,200) per child.

Detailed information follows on both the CESG and RESP programs, including the latest RESP improvements. But first, a brief look at the importance of post-secondary education in today's highly competitive workplace...and at the importance of long-term saving.

---

\*Certain age restrictions apply for children aged 16 and 17 (see page 5).

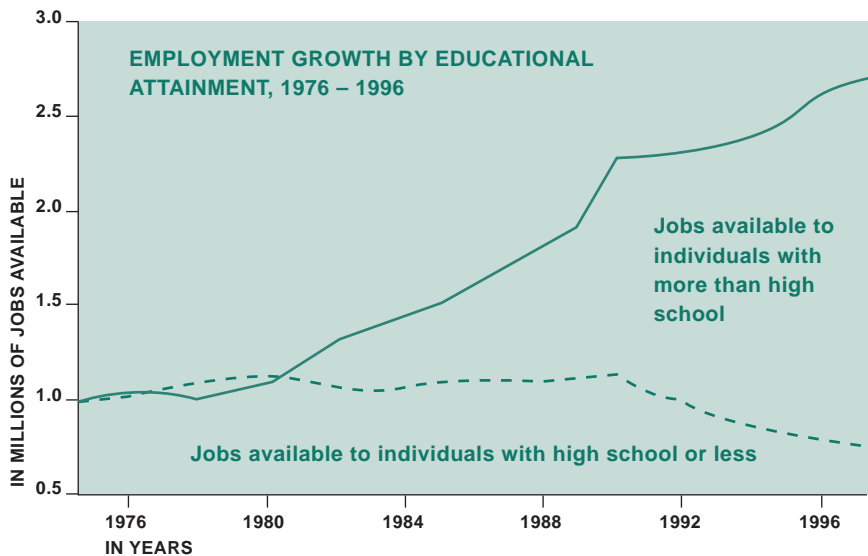


## POST-SECONDARY EDUCATION: INVESTING IN TOMORROW'S JOB MARKET

Students and parents face three major realities:

- most new jobs require some form of post-secondary education
- post-secondary education can be expensive
- it is important to start saving early for a child's future post-secondary education.

Today, business and industry look for people who can keep learning throughout their careers. To remain competitive, Canadians need to continually acquire and develop new skills. This benefits both the employer and employee: higher skills usually pay off.





Simply put, more jobs are available to people with post-secondary education.

An increasing number of Canadians understand this fact: there are now almost a million full-time students in universities, colleges, vocational and technical institutes and CEGEPs. Another 430,000 are part-time students.

These students know that many costs of post-secondary education have increased. On top of tuition fees are numerous other expenses such as books, lab fees, supplies and living expenses.

Today, depending on the province or territory, community college tuition could be free, or cost as much as \$3,000 per year. Tuition costs for an undergraduate university program can range from \$2,000 to \$9,000 per year.



## IMPORTANCE OF LONG-TERM SAVINGS

If you are wondering how much you need to save and how soon you should start, the answers are simple:

### **Save as much as you can afford Start today**

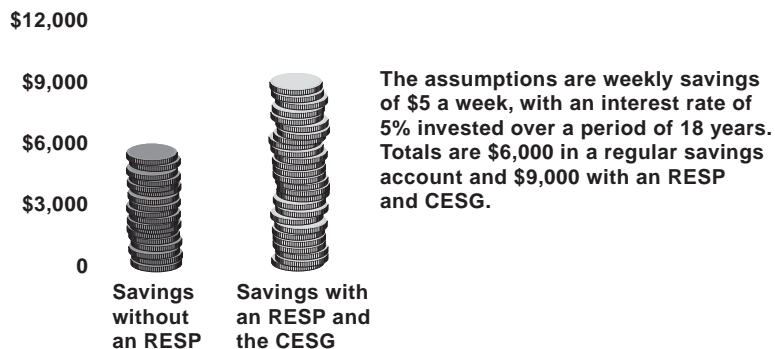
By starting early, tax-sheltered earnings on your savings can grow surprisingly quickly. You would also attract the biggest amount from the Canada Education Savings Grant program. Here is an example:

Rick and Diane have a newborn named Hayley. They put \$5 every week into Hayley's RESP, which adds up to \$260 a year. The Government of Canada adds \$52 of Canada Education Savings Grant.

Rick and Diane keep contributing the same amount on an ongoing basis over a period of 18 years. They keep receiving the CESG on top of their own savings. If all this money grows at 5 per cent per year, Hayley will have almost \$9,000 to help pay for her education.

(Of course, the amount will be even higher if Hayley's grandparents, relatives or friends also contribute).

### TOTAL SAVINGS





## THE CANADA EDUCATION SAVINGS GRANT (CESG)

You need to have a Registered Education Savings Plan (RESP) to obtain the Canada Education Savings Grant (CESG).

- The amount of CESG is 20 per cent of the first \$2,000 (or less) saved in an RESP on behalf of a beneficiary each year. (Any savings on behalf of a beneficiary in excess of \$2,000 per year do not qualify for a grant).
- An annual \$2,000 contribution brings a yearly CESG of \$400, with a lifetime limit of \$7,200 per beneficiary.

### CESG Eligibility Requirements

The following conditions must be met to obtain the CESG:

- the subscriber has to provide the beneficiary's Social Insurance Number
- the subscriber has to provide his or her own Social Insurance Number
- the beneficiary is a Canadian resident at the time of the contribution
- contributions are made prior to the end of the calendar year in which the beneficiary turns 17
- beneficiaries aged 16 and 17 are eligible if at least one of the following conditions is met:
  - \$2,000 or more was contributed to RESPs (and not withdrawn) for the beneficiary by the end of the year the beneficiary turned 15, or:
  - \$100 or more was contributed to RESPs (and not withdrawn) in each of any four years in respect of the beneficiary before the end of the year the beneficiary turned 15.



- In addition, as a transitional measure, beneficiaries who turn 17 in 1999 are eligible if they were a beneficiary of an RESP during any four years before 1998.

## Canada Education Savings Grant Room

- Starting January 1, 1998, all children residing in Canada began to accumulate “grant room” at a rate of \$400/yr until they reach 17 (includes the year the child turns 17). Grant room accumulates whether or not a child is an RESP beneficiary.

## Carry-Forward

- If all contributions made on behalf of a beneficiary in one year do not attract the full \$400 of CESG, the unused portion of the CESG will be added to a beneficiary’s CESG room and will be available for use in another year. This means future contributions may attract up to \$800 in a given year.

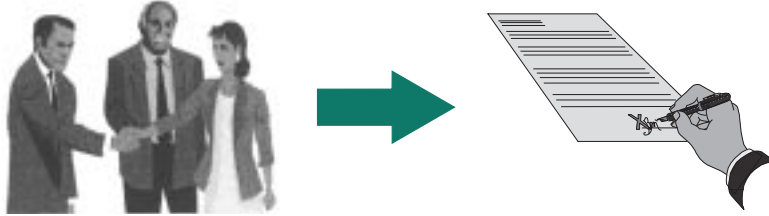
## Repayment of the CESG

If the beneficiary does not pursue post-secondary education, and a replacement beneficiary cannot be found, the CESG must be repaid to the Government of Canada.

Under certain conditions, CESG rules permit: reallocation of the grant between beneficiaries; replacing a beneficiary; and transferring RESPs between promoters. Please call the CESG program for details (see p. 17).



## HOW TO OBTAIN A GRANT



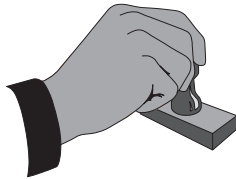
1. Select an RESP on behalf of a beneficiary, make your contribution to the RESP and fill out the promoter's application form to apply for the CESG.



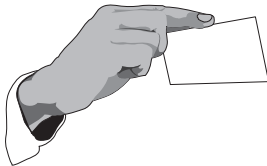
2. The promoter applies for the grant on your behalf.



3. Your application is processed and your eligible grant calculated.



4. The appropriate grant is issued to the trustee for the promoter.



5. The trustee deposits the grant payment to your RESP account for investment as agreed with your promoter.



6. Grants are paid on a monthly basis. For example, if an RESP contribution is made to the promoter, and submitted to the CESG program before March 31, the CESG program will pay the grant to your RESP promoter by the end of April.



## THE REGISTERED EDUCATION SAVINGS PLAN (RESP)

An RESP provides a way for people to save for a child's post-secondary education. Each RESP is a contract between a "promoter" and a "subscriber". The promoter is the organization that sells and administers the plan. The subscriber is the person who contributes funds on behalf of a named beneficiary (or beneficiaries). Once the beneficiary begins eligible post-secondary studies, the earnings in the plan, and the CESG, are used to help pay for tuition and other education costs.

With recent improvements, RESPs are now the choice of Canadians who are saving for a child's post-secondary education. These improvements include:

- Increased annual and lifetime contribution limits. Parents, grandparents, other relatives and even friends can now contribute, on behalf of a beneficiary, a combined total of \$4,000 a year up to a lifetime limit of \$42,000.
- When the beneficiary begins full-time post-secondary studies, Educational Assistance Payments (EAPs) commence; EAPs include the CESG and investment earnings.

If the beneficiary does not pursue post-secondary education, your RESP may permit:

- replacing the existing beneficiary with a new beneficiary, if certain conditions are met. (Please contact your promoter or your Revenue Canada Tax Services Office);
- paying the plan's investment earnings, including earnings on the grant, to the subscriber. These payments are referred to as Accumulated Income Payments (AIPs) and are taxable. [Note: an AIP requires that certain conditions be met – please refer to the definition of AIP in the glossary on page 15].



- the ability to roll over as much as \$50,000 of AIPs to a subscriber's Registered Retirement Savings Plan (RRSP), assuming sufficient RRSP room exists.

## RESP Tax Matters

- Contributions are not tax-deductible and are not taxed when returned to the subscriber.
- Investment earnings inside an RESP grow tax-sheltered.
- Once the beneficiary is enrolled full-time\* in an eligible post-secondary institution, Educational Assistance Payments may start.
- These payments are taxable income for the beneficiary.
- However, because a student typically has a modest income while studying, little or no tax will likely be paid on the Educational Assistance Payment.
- Accumulated Income Payments, if not rolled over to a subscriber's RRSP, are taxed at the subscriber's normal tax rate plus 20 per cent.\*\*

## Selecting a Registered Education Savings Plan

As with any major purchase, it is important to investigate before you buy. Issues to consider when selecting an RESP include: fees, security of investment; level of risk of investment; rate of return on investment; amount of foreign content; and flexibility of the terms of the plan (e.g., what happens if the child does not go on to post-secondary school).

---

\* part-time for students with disabilities.

\*\* rate may vary by province; check with your Revenue Canada Tax Services Office.



RESPs can be purchased through a number of organizations such as banks, brokerage houses, credit unions, scholarship foundations, insurance companies, mutual fund companies and trust companies. An RESP promoter list can be obtained free from the CESG program (see p. 17).

### **Types of RESPs**

There are two main types of RESPs – Individual and Group. Within the Individual category are Non-family and Family plans.

Both types require that:

- contributions stop no later than 21 years after the plan was opened; and
- each plan be terminated by the end of the 25th year.

### **Individual RESPs**

Features common to both Individual Non-Family and Individual Family plans:

- the subscriber may determine when, and how much, to contribute to the plan;
- the subscriber decides when to direct the promoter to make Educational Assistance Payments; and
- as much as 100% foreign investment content may be permitted, depending on the type of plan selected.

Features specific to Individual Non-Family plans:

- the subscriber may have only one beneficiary at any time; and
- the beneficiary need not be related to the subscriber, and may be over 21 when named.



Features specific to Individual Family plans:

- the subscriber may choose to have more than one beneficiary, but all beneficiaries (even if only one is named) must be related to the subscriber by blood or adoption, and be under 21 when named;
- contributions can only be made until a beneficiary turns 21; and
- Educational Assistance Payments may be shared among beneficiaries.

### **Group Plans**

Group plans operate on a pooling principle, whereby the beneficiary named under a contract by a subscriber will receive educational assistance payments when enrolled in a qualifying post-secondary program. When the beneficiary qualifies for an EAP, he or she will also assume a portion of the earnings of other beneficiaries of the same age who do not qualify.



## QUESTIONS AND ANSWERS

1. How do I apply for the Canada Education Savings Grant?

*See “How to obtain a grant” (pages 7-8).*

2. Where do I get a Social Insurance Number (SIN) for the beneficiary?

*You may use the enclosed SIN application form. For further information contact your local Human Resources Centre of Canada (HRCC). Look in the blue pages of your phone directory under Government of Canada.*

3. What happens if the beneficiary does not pursue post-secondary education?

*Some alternatives (and if your plan permits):*

*a. you may wish to leave the money in the plan for a few years in case the beneficiary reconsiders*

*b. a new beneficiary may be named to the plan*

*\*c. earnings from your RESP investments may be rolled-over to your RRSP or spousal RRSP, or*

*\*d. they may be paid to you as an Accumulated Income Payment*

4. How soon should I start my Registered Education Savings Plan?

*Start today. By starting early, tax sheltered earnings on your savings can grow surprisingly quickly. These savings will also attract the largest possible amount from the Canada Education Savings Grant.*

---

\* Please refer to the definition of AIP in the glossary on page 15.



## ESTIMATED ACCUMULATED EDUCATION SAVINGS

with the Canada Education Savings Grant

|                | 2 years | 6 years  | 10 years | 14 years | 18 years |
|----------------|---------|----------|----------|----------|----------|
| Weekly savings |         |          |          |          |          |
| <b>\$5</b>     | \$700   | \$2,200  | \$4,000  | \$6,300  | \$9,000  |
| <b>\$10</b>    | \$1,300 | \$4,300  | \$8,000  | \$12,500 | \$18,000 |
| <b>\$15</b>    | \$2,000 | \$6,500  | \$12,100 | \$18,800 | \$27,000 |
| <b>\$20</b>    | \$2,600 | \$8,700  | \$16,100 | \$25,100 | \$36,000 |
| <b>\$25</b>    | \$3,300 | \$10,900 | \$20,100 | \$31,300 | \$45,000 |
| <b>\$30</b>    | \$3,900 | \$13,000 | \$24,100 | \$37,600 | \$54,000 |
| <b>\$35</b>    | \$4,600 | \$15,200 | \$28,100 | \$43,900 | \$63,000 |

Assumed average annual effective long-term rate of return of 5%.



## GLOSSARY OF TERMS

*(Please refer to the Income Tax Act for formal definitions of these terms)*

**Accumulated Income Payment (AIP)** – a payment to the subscriber out of the plan’s investment earnings, including earnings on the grant. An AIP can only be made if the plan has been in existence for 10 years; the beneficiary has reached 21; the beneficiary is not qualified to receive Educational Assistance Payments (i.e., not attending school); and the subscriber is a resident of Canada. These conditions may be waived under certain circumstances (e.g., deceased or mentally-impaired beneficiary). An AIP is taxable income for the subscriber, and is subject to an additional 20 per cent tax.

**Beneficiary** – under an RESP, the individual who, named by the subscriber, will receive Educational Assistance Payments, under the terms of the plan.

**Educational Assistance Payment (EAP)** – any amount paid or payable under an RESP to or for the beneficiary to assist with this individual’s education needs at the post-secondary level. An EAP consists of investment income and the grant. These amounts do not include refunds of contributions made to the subscriber of the plan. At the time of the EAP the beneficiary must be enrolled in a qualifying educational program at a post-secondary institution as a full-time student. (Physically impaired beneficiaries do not have to be enrolled full-time).

**Promoter** – any person/organization offering an RESP to the public.



***Subscriber (contributor)*** – a person who enters into an RESP contract with a promoter. The subscriber agrees to contribute to the contract on behalf of an individual named under the plan as the beneficiary. If the plan permits, spouses can be joint subscribers. Note: the subscriber has to be a person. A corporation, trust, church or charity cannot be a subscriber.

***Trustee*** – RESP funds must be held by a corporation licensed to be a trustee. The trustee is engaged by the promoter, and can be the promoter.



**For more information on the Canada Education Savings Grant**

call toll-free:

1-888-276-3624 (English)  
1-888-276-3632 (French)

visit our website:

<http://www.hrdc-drhc.gc.ca/cesg> (English)  
<http://www.hrdc-drhc.gc.ca/scee> (French)

**For more information on other HRDC programs**

call toll-free:

Youth Employment Strategy (YES)  
1-800-935-5555

Canada Student Loans Program (CSLP)  
Canada Study Grants  
1-888-432-7377 (English)  
1-800-733-3765 (French)

**Obtain further information by visiting your local Human Resource Centre of Canada (HRCC).**

Human Resources Development Canada  
<http://www.hrdc-drhc.gc.ca>  
TTY line: (819) 994-1218