



RESP

WITHDRAWALS:

The Right Way

You've been diligent in saving for your child's education. But when the time finally comes to use that money, do you know how to get at it?

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It's an exciting time for the Lee family. Cindy, 18, Zhang and Karen's daughter, is going to be their first child off to university and is moving out of her family home over the weekend. She's got her courses lined up and she thinks she's going to love her new roommate. Her parents helped her buy a laptop computer but are putting off buying a printer until she gets settled into residence. Her mom is really torn that she's moving away, but Dad says it'll be a great experience...

...that is until Cindy tells Dad her tuition was due yesterday and residence fees are due now! Dad tries to access the RESP fund — he's been conscientiously adding to it since Cindy was born — but learned he has to fill out a form and submit it to the bank. Plus, he forgot that some of the funds are invested in GICs and he can't cash those until they become due in the spring. And the bank needs to see some official proof of enrolment but Cindy can't request that until after the long weekend when the admission office is open. It looks like her parents have to fork out a huge sum for her university now and they figure they can use the RESP to pay themselves back.*

Sending children off to university or college is a heady time for families, and carefully contributing to an RESP every year should make it easier to meet costs. But, because an RESP, or Registered Education Savings Plan, is a registered tax-deferred plan, people simply can't pull the money out on a moment's notice. While you as a parent may be diligent in contributing to an RESP every year and ensuring you get the government grants you are entitled to, you shouldn't overlook the actual mechanics of accessing the money when the happy moment comes when your child packs up the van. Here are five tips you need to be aware of when the time comes to crack open that RESP:

Beneficiary

A beneficiary under an RESP is an individual, named by the subscriber, who will receive Educational Assistance Payments if the individual qualifies for these payments under the terms of the plan.



1. Plan Ahead

Don't let any surprises happen to you like they did to Cindy's family. Make a schedule and find out the dates when university payments are due (tuition, residence or miscellaneous). Familiarize yourself with your financial institution's RESP withdrawal form and seek advice well before you need to withdraw money. Like Cindy's family, you'll have to make plans for accessing the RESP funds you've invested since converting investments to cash can take time and planning (see below). Remember, for the purpose of withdrawals, the money in your RESP account is a combination of three distinct types of funds: your contributions, any grants provided by the federal government as the Canada Education Savings Grant or by provincial governments where applicable, and the income earned on those contributions and any grants.



Subscriber

A person who enters into an RESP contract with the promotor of the RESP, the financial institution. The subscriber agrees to contribute to the plan for the benefit of an individual named in the plan as the beneficiary. Note: If the plan permits, spouses or common-law partners can be joint subscribers. The subscriber must be an individual. Therefore, a corporation, church, or charity cannot be a subscriber.



Educational Savings Grant (CESG)

The name of the federal government grant to an RESP.

Also, don't be alarmed that, in one area of the form, it states that, for the first withdrawal, you can only take out \$5,000 of the grant and income earned for the first 13 weeks: if the educational

costs exceed \$5,000, you may then withdraw your contributions from the RESP, using another area of the form. If you can wait the 13 weeks, it makes sense instead to first exhaust the grant and income portion of the plan especially since your child is likely at a low marginal tax rate. And don't forget the obvious: if your child doesn't have a bank account, make sure he or she has one. If you opened a bank account for your child when

they were, say, five years old and have forgotten the account number, fix that problem before you start withdrawing funds.

2. Ensure The Funds Are In Cash

Ask your financial planner to walk you through how to get cash out of the RESP the first time. If you have invested the funds, you will need to sell stocks or bonds or cash in GICs. Be aware that you may have to work around maturity dates for GICs or work around the dates that dividends are due. In this way, you'll have cash sitting in the RESP ready to pay for university or college fees.

3. Get the Withdrawal Form

As mentioned, the RESP is a registered plan so it may take some time to access the funds from your financial institution; make sure you budget

Educational Assistance Payment (EAP)

A payment out of an RESP for education-related expenses that is derived from the income earned and government grants in the RESP.



this time into your schedule. You should also have your child's Social Insurance Number handy. In addition to the withdrawal form, proof of enrolment from the school is required, which may entail an official document from

the school. You will also need information on the RESP beneficiary and the school they are attending, such as program type, year, start date and duration of the program.

The form gives you options as to what part of the funds you may access (contributions, income or grant) and where you wish the money to go (your child's account or your account). The Income and grant portion of the funds can be provided to the beneficiary only as an Educational Assistance Payment (EAP) and a tax receipt is generated in the name of your child. With proof of

Post-Secondary Educational Capital Withdrawal (PSE)

A payment out of an RESP of contributions held within the RESP.



the beneficiary's enrolment at a university or college, the RESP subscriber can withdraw the contribution portion of the funds without tax implications.

Don't let any errors on the form delay the withdrawal. Significant time may be lost if the form requires multiple corrections. Again, your advisor may help you to walk through the process and see what options are best for you.

4. Withdraw the Grants, Income Or Your Contributions First?

The withdrawal form gives you an option of withdrawing the grant and income portion of the funds and/or the portion you have contributed. It's a no-brainer: withdraw the grant and income portion until it is exhausted since, if your child doesn't finish a post-secondary education, these funds may not be available, whereas your contributions will be.



Assisted Contributions

Contributions made to an RESP in respect of which a CESG has been or will be paid.

5. Get The Official Confirmation Of School Attendance

As mentioned, your financial institution will also need a document that confirms the enrollment of your child at the school: this may be an official



Non-Educational Capital Withdrawal (NCW)

This is a withdrawal of contributions held within the RESP. This type of withdrawal triggers a grant repayment on any assisted contributions.

document but not the email or letter that said your child was accepted at the school. You may need to apply at the school's office of the registrar for an official document confirming enrollment or you may be able to access it on the school's website. In any

case, find out well beforehand how to access this enrollment confirmation document and what the turnaround time is if you are dealing with a school outside your local area. Also, there may be a fee involved.

6. What Can You Pay For?

There are no restrictions on how the funds can be spent. Naturally, the funds should be earmarked to pay for education expenses (tuition, books, residence fees or rent, living expenses and gear like a computer or lab equipment). The government doesn't publish a list of eligible (or ineligible)



Election of Payments

Where you want the funds to go. When an EAP is paid, the grant and income portion must go to the beneficiary for tax purposes. The contribution portion can as well but it could go to the parent if it is easier for them to pay school bills.

expenses, so it's up to you to determine how RESP money will be used to pay for education-related expenses.

Ian Lebane, Tax and Estate Planner, TD Wealth, adds that RESPs are a great method to save for your child's education needs,

and to preserve that good planning, you should ensure your will names a successor subscriber to ensure that the RESP can continue in case of death. If you need help sorting out how you should manage your RESP and the expenses, check in with your financial planner or investment advisor.

— **Don Sutton, MoneyTalk Life**

* Cindy and family are fictitious

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