

## Registered Education Savings Plan (RESP) 101: A Smarter Way to Save for Education

Every parent hopes to provide their children with the best possible opportunities, particularly when it comes to education. As the cost of higher education in Canada continues to rise, many families find it challenging to determine how best to save and invest for these future expenses. One effective planning tool is the Registered Education Savings Plan (RESP), a tax-efficient vehicle designed to help families save for post-secondary education while offering access to valuable government incentives.

### **QUICK FACTS:**

- **Lifetime Contribution Limit:** \$50,000 lifetime contribution per beneficiary across all RESPs
- **Annual Contribution Limit:** None; account can be front-loaded, but will reduce available CESG
- **Lifetime CESG Limit:** \$7,200 per beneficiary
- **Maximum CLB:** \$2,000 per eligible beneficiary
- Contributions are not tax-deductible, but investments grow tax-deferred

### What is a RESP?

A RESP is a tax-deferred registered account that is intended to be used as a long-term savings tool to help Canadians save for higher education, either for themselves or their children.

### Setting Up a RESP

While opening a RESP is straightforward, there are a few key items you will want to consider:

#### 1. Key Roles

There are two key roles to understand when establishing a RESP: the subscriber and the beneficiary.

The subscriber is the individual who opens and manages the RESP, most commonly a parent or guardian, though a grandparent or other relative may also serve in this role. In some cases, a RESP may be established with joint subscribers, such as when both parents are named on the plan.

The beneficiary is the individual for whom the RESP is intended and who will use the funds for post-secondary education. Depending on the type of RESP, including individual, family, or group plans, there may be one or multiple beneficiaries associated with a single RESP account.

#### 2. Choosing the Right Type of RESP

RESPs generally come in three formats:

Type	Individual Plan
<b>Best Suited For</b>	One child
<b>Key Features to Consider</b>	Opened by anyone; flexible; no family relationship required

Type	Family Plan
<b>Best Suited For</b>	Multiple children
<b>Key Features to Consider</b>	Beneficiaries must be related by blood or adoption; funds can be shared

Type	Group Plan
<b>Best Suited For</b>	Hands-off approach
<b>Key Features to Consider</b>	Offered by scholarship dealers; pooled contributions; strict rules and fees

#### 3. Planning for the Unexpected

Depending on the specific terms of the RESP contract between the subscriber(s) and the financial institution, RESPs do not automatically continue in the event of a subscriber's death. To help protect your RESP planning, you may consider naming joint subscribers to the RESP and include specific RESP instructions in your estate

planning documents. Without appropriate planning, a RESP may be collapsed, subject to taxation, and/or be required to repay government grants upon the death of a subscriber.

## Canada Education Savings Grant

One of the most compelling benefits of using a RESP is the Canada Education Savings Grant (CESG). The CESG is a federal government program that can provide a grant equal to 20% of the first \$2,500 contributed to a RESP each year, per child, up to and including the year the beneficiary turns 17. This results in a maximum annual grant of \$500<sup>1</sup>, with a lifetime CESG limit of \$7,200 per beneficiary.

Additional CESG amounts may be available to families with lower “adjusted family net income”, providing enhanced government support to help make post-secondary education more accessible.

## Canada Learning Bond

In addition to the CESG, low-income families may also benefit from the Canada Learning Bond (CLB), which provides further encouragement to save for

post-secondary education. The CLB offers up to \$2,000 per eligible beneficiary, comprised of an initial \$500 payment in the first year the child qualifies, followed by annual payments of \$100 for each additional year of eligibility until the year the child turns 15. Unlike the CESG, there is no requirement to make contributions to the RESP to benefit from the CLB. Employment and Social Development Canada (ESDC) also provide a one-time \$25 deposit alongside the initial CLB payment to help offset the costs associated with opening a RESP.

## Withdrawing from Your RESP

When it comes time to withdraw funds from a RESP to help pay for education, many subscribers wonder whether there is a “best” approach to maximizing the RESP value while minimizing tax implications. Depending on the nature of the withdrawal, amounts received may be considered taxable or non-taxable. While a detailed discussion of RESP withdrawal strategies is beyond the scope of this introductory article, we explore timing and tax considerations in greater depth in our companion piece, “Maximizing Your RESP: Withdraw Wisely<sup>2</sup>.”

## Final Thoughts

RESPs are among the most effective and efficient tools available to help families save for post-secondary education in Canada. Whether you are planning for a first child or coordinating education savings for multiple children, understanding the rules and available government incentives can help you maximize the impact of every dollar.

**To learn more about how a RESP can fit into your broader financial plan, speak with your Wellington-Altus advisor about building a strategy to support your family’s educational goals.**

<sup>1</sup> Where a year of RESP contributions are missed, or the RESP is opened later in the child’s life, there may be an opportunity to make “catch up” contributions to recover some prior year CESG amounts within certain limits.

<sup>2</sup> Maximizing Your RESP: Withdraw Wisely - Wellington-Altus

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