Manulife Investments

For your future™

RESPs – no longer just for kids

TRS | TAX & RETIREMENT SERVICES

TAX MANAGED STRATEGY 9

When most people think of Registered Education Savings Plans (RESPs), they think of an educational savings plan for children. Did you know that RESPs are a great savings plan for adults too?

In fact, self-funded RESPs are a smart investment for individuals who are planning on going back to school (i.e. for a change in career or retirement studies), or can even be used as an income splitting tool.

It's a common misconception that RESPs are only useful for parents saving for their child's post-secondary education. With a little financial savvy, an RESP can provide an effective means of funding an adult's education and it can also provide an income splitting opportunity as well.

Generally, investments that qualify for a Registered Retirement Savings Plan (RRSP), qualify for an RESP. Unlike RRSPs however, contributions to an RESP are not tax deductible; which allows the contributor to withdraw their original contribution at any time on a tax-free basis.

In addition, you are not forced to withdraw the funds from the RESP at age 71 and incur an income inclusion, which provides some deferral against income related clawbacks like Old Age Security.

RESPS FOR ADULTS – HOW DO THEY WORK?

By opening an individual non-family RESP and naming yourself both the subscriber and the beneficiary, you can contribute up to $50,000 total over the life of the plan.

You can invest in a wide array of investments including mutual funds and segregated fund contracts, and the investment can compound tax free until withdrawn. You can withdraw your contributions at any time without penalty. However, the RESP has a limited life – it must be terminated within 36 years of its initiation.

WHAT ARE THE RULES FOR WITHDRAWING FUNDS?

You can withdraw your contributions at any time free from taxes. Once you have enrolled in a qualified post-secondary institution, you can begin receiving Educational Assistance Payments (EAP).

An EAP is a distribution to a beneficiary of the RESP's accumulated investment income (and Canada Education Savings Grant (CESG) and other government incentives where applicable) which are taxed in the beneficiary's hands in the year of receipt.

In order for a beneficiary to qualify for an EAP they must be enrolled in a post-secondary level program at a qualifying educational institution in Canada for at least three consecutive weeks. A full-time program requires at least 10 hours a week of work or instruction; a part-time program requires at least 12 hours a month of work or instruction.

For an educational institution outside of Canada, the course must last at least 13 consecutive weeks.

The amount of EAP is limited to the lesser of $5,000 ($2,500 for a part-time program) and the amount of the actual expenses for the first 13 consecutive weeks, with no limit on the amount of the EAP afterwards.

The attraction lies in the fact that you are eligible for the EAP regardless of whether you attend or pass the class, and that correspondence classes qualify. In addition, you would be eligible for the education tax credit ($400 per month of full-time enrollment and $120 per month of part-time enrollment), textbook tax credit ($65 per month of full-time enrollment and $20 per month of part-time enrollment) as well as the tuition tax credit.

Individual non-family RESPs allow adults to be both the subscriber (contributor) and beneficiary.

Although RESPs for adults are not eligible for the Canada Educations Savings Grant, (a qualified 20 per cent top-up paid by the Federal government), they still represent one of the few investments that allow assets to grow on a tax-deferred basis, which is particularly valuable if you don't have any RRSP or Tax-Free Savings Account (TFSA) contribution room.

WHAT IF I DON'T GO BACK TO SCHOOL?

If you don't enroll at a qualifying post-secondary institution, and the plan has been open for more than 10 years, you can qualify for an Accumulated Income Payment (AIP). An AIP represents the investment earnings in the RESP, and not your original contributions (or CESG amounts where applicable).

Unlike the EAP, which are withdrawals of the investment earnings after you have enrolled at a qualifying post-secondary institution, an AIP withdrawal is subject to a tax of 20 per cent (12 per cent federal plus 8 per cent provincial for residents of Quebec) in addition to the taxes payable when taken into income.

It is important to note that the RESP must be terminated prior to March 1st of the year after the first AIP payment is made. If you have contribution room left, you can transfer up to $50,000 into your RRSP or to a spousal RRSP. This will allow you to avoid the 20 per cent additional tax, while generating a tax deduction from the contributions made to the RRSP. If you are going to contribute an AIP payment to an RRSP or spousal RRSP, the contribution must be made in the same tax year, or within the first 60 days of the following year, in which the AIP payment is received. If the RRSP deduction is not claimed within the same tax year, the 20 per cent additional tax will apply.

HOW CAN I USE AN RESP TO SPLIT INCOME?

The opportunity for using an RESP to split income arises if you decide not to attend a post-secondary institution.

If you name your spouse[1] as a joint subscriber to the RESP, and your spouse has contribution room left in their RRSP, the AIP can be transferred to your spouse's RRSP regardless of who made the contributions to the RESP. This option is particularly attractive if your spouse is in a lower tax bracket since the taxes paid on the eventual withdrawal will be reduced.

[1] Spouse includes a common-law partner as these terms are defined in the *Income Tax Act* (Canada).

If you don't have a joint RESP, you may still be in luck if the RESP allows for joint subscribers by simply adding your spouse as a subscriber and then transferring the AIP to your spouse's RRSP (assuming of course that your spouse has sufficient RRSP contribution room).

ARE THERE OTHER WAYS TO AVOID THE 20 PER CENT ADDITIONAL TAX?

If neither you nor your spouse has contribution room left within your RRSPs and you still want to avoid the 20 per cent additional tax, you will have to go back to school.

If you find yourself in this situation, try finding a qualifying post-secondary program with minimal costs and that lasts for more than 13 consecutive weeks. This will allow you to withdraw more than the initial $5,000 limit described earlier.

Once the 13 weeks have passed, you can withdraw the money for anything you want and for whatever reason (i.e. to purchase a car). And remember that there is no requirement for you to attend or pass the requirements of the program. That said, you will still have to claim EAP payments as income during the year they were withdrawn.

IDEAL CANDIDATES

- Individuals seeking to return to post-secondary education
- Individuals seeking additional tax deferred investment opportunities
- Individuals who have a spouse in a lower marginal tax bracket and are interested in income splitting

TAKE ACTION

To take advantage of income splitting:

- Complete an Education Savings Plan Application (Individual Plan) with Manulife Mutual Funds (NN1526) or a Manulife Segregated Fund Education Savings Plan (ESP) Application Form (NN1619)
- Ensure your spouse is named a joint subscriber to preserve the ability to split income

Investment options with Manulife Investments

Manulife and its subsidiaries provide a range of investments and services including:

MANULIFE MUTUAL FUNDS

Manulife Mutual Funds is a fund company that utilizes the talents of four principal asset management firms with proven track records of successfully managing money through different market cycles. Portfolio management teams are located across the world applying their local market knowledge to uncover promising investment opportunities for Canadians. Whether you are just starting out, accumulating wealth or nearing/in retirement, Manulife Mutual Funds has a comprehensive suite of investment solutions to help you meet your financial objectives.

MANULIFE SEGREGATED FUND RESP CONTRACTS

For conservative investors looking to grow their wealth but who are also concerned about minimizing risk potential, segregated fund contracts from Manulife Investments may provide an ideal solution. The appeal of these contracts is the combination of the growth potential offered by investment funds, and the unique wealth protection features of an insurance contract.

Through Manulife's segregated fund contracts, investors can limit their exposure to risk through death and maturity guarantees, as well as the estate planning benefits – all from a single investment. These contracts may be ideally suited for investors concerned about the effects of market volatility.

Why Manulife

FINANCIAL STRENGTH AND STABILITY

Strong – Funds under management by Manulife Financial and its subsidiaries are Cdn$532 billion.[2]

Reliable – More than one in five Canadians are served by Manulife's leading businesses that provide individual life and health insurance, wealth management, banking, group benefits, group savings plans, plus services to alumni and professional associations across the country.

Trustworthy – Manulife has stood solidly behind our promises for over 125 years.

Forward-thinking – Manulife Financial is a market leader in both financial protection and wealth management businesses. We provide a full suite of products and services to meet the current and future needs of individual and group customers.

[2] As of December 31, 2012.

HIGHLY REGARDED

- Track record of growth, leading corporate governance practices and strong management teams
- Manulife has strong claims paying ability and financial strength ratings from all of its credit rating agencies
- Is the largest insurance company in Canada and one of the top five in the world
- Manulife was first incorporated in 1887 with Sir John A. Macdonald, Canada's first Prime Minister, as President

FOR MORE INFORMATION, PLEASE CONTACT YOUR ADVISOR OR VISIT MANULIFE.CA/INVESTMENTS

Manulife Investments

For your future™

MK1688E 05/13 TMK734E