Cashing In

How to get the most out of RESP savings

By Andrea Thompson

MANY OF THE families I see in my financial planning practice use Registered Education Savings Plans, or RESPs, to help save for post-secondary education.

By the time their kids are choosing which school to go to, they figure the financial planning part is over. But in some ways, it's just begun.

To get the most out of their savings, it's important for families to think about how they'll manage the money that has accumulated in the plan once it's time to start paying for tuition, housing and other school-related costs. There are several rules and guidelines to keep in mind.

Timeliness matters

The administrative process at different financial institutions varies, and it can take anywhere from days to weeks for RESP money to be available once families request their first withdrawal. As soon as the student is officially registered at a post-secondary institution, families should submit the paperwork to get the process started. This can often be done online. Families will need to show proof of enrolment, which can be requested through the school's student portal. They will also need to fill out a withdrawal form from the financial institution.

Different types of payments

When making the withdrawal, the family needs to specify on the form which type of withdrawal they are making: a post-secondary education payment (PSE) or an education assistance payment (EAP). (The form may include other types of withdrawals related to closing out the plan or withdrawing money when the beneficiary isn't a student, but these two are the relevant withdrawals when a student starts school.)

A PSE withdrawal comes from the contributions the family has paid into the RESP over the years. This money was taxed before it went in, so it's withdrawn tax-free. Once a student is enrolled in post-secondary education it can be withdrawn at any point, without penalty or restriction, and is paid to the parent (or others, like a grandparent) who set up the plan, referred to as the subscriber.

An EAP withdrawal comes from a bucket of funds made up of government benefits, like the Canadian Education Savings Grant (CESG), the Canada Learning Bond (CLB), and any provincial benefits, as well as the interest that was earned on the funds in the account. This money is paid to the student, who is referred to as the beneficiary. It is considered income for the student and will be taxed at the student's rate when it is withdrawn.

There are restrictions on how much of this money can be withdrawn at a time. In the first 13 weeks of the school year (up until about the end of November) a full-time student can make an EAP withdrawal

Illustration by Jacqui Oakley

of up to $8,000 and a part-time student can make an EAP withdrawal of up to $4,000. After the 13 weeks, withdrawals are subject to an annual limit, which is set at $28,881 for 2025. (A family can request more if needed, which is reviewed by the financial institution on a case-by-case basis.)

Withdrawal planning

The advice I give my clients on how to maximize their education savings depends on their circumstances, but there are some general strategies for withdrawing money from the two buckets of funds.

First, it often makes sense to make EAP withdrawals before PSE withdrawals since those are taxed at the student's rate, which is often lower earlier in their education when they haven't started earning significant income from co-ops or other part-time jobs. It also makes it more likely that a family gets the full benefit of this money. If the EAP portion of the fund isn't used before the student leaves school (or if the student doesn't participate in post-secondary education), the investment income that was earned becomes subject to a 20 per cent penalty and will be taxable to the subscriber, rather than the beneficiary.

Those who have set up family RESP plans should keep in mind, though, that the EAPs can be shared by any beneficiary in the plan, which is helpful if one child doesn't end up enrolling in post-secondary. It's important to work with the financial institution, however, to make sure that one student doesn't withdraw more than their share of the CESG, which could lead to the government clawing back some of the funds.

Spending the money

Money withdrawn from an RESP can be spent on any costs related to a student's education, including tuition, housing, food, transportation and learning tools. There's no requirement to track how it's spent. In fact, a parent could make a PSE withdrawal for the full amount of their contributions as soon as the child is enrolled in school, and use it for any purpose.

However, if we assume the money will be used to fund the student's education, then it can be wise to withdraw what's needed for the year and keep it in a high-interest savings account. To help the student budget, parents can give an allowance to the student from that account rather than giving them access to it all at once.

RESPs are just one piece of financing a student's education: grants, loans and money from co-ops and other part-time jobs are other sources of funds. Families should look at the amount they have available in an RESP, how long their child intends to be in school and, in the case of a family plan, what the intentions of the other children, however preliminary, are in order to determine how much of the RESP fund should be withdrawn each year. This advance planning will help maximize this very important investment. ■

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