

## Article Reprint

# Gradual plan wins out for RESPs; Yearly payments usually beat one-time infusion

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It's been nearly six months since the federal budget relaxed the Registered Education Savings Plan contribution rules, eliminating the annual contribution limit and increasing the lifetime contribution maximum to \$50,000 per child.

To date, much of the discussion in the financial press has been focused on whether it makes sense to contribute a large lump sum of up to \$50,000 all at once to an RESP.

The problem in doing so is that it may preclude your

child from receiving future Canada Education Savings Grants (CESGs).

CESGs, which are equal to 20% of the amount contributed up to an annual limit of \$500 per year, are paid by the federal government directly into the RESP. The CESGs are cumulatively retroactive to 1998, or the year the beneficiary was born, if later, so it is possible to catch up missed CESGs from prior years, but only to a maximum of \$1,000 per year.

In most cases, the benefits of the tax-deferred compounding of an initial lump-sum contribution inside an RESP for up to 25 years do not outweigh the loss of future CESGs. The ideal strategy for those just starting a new RESP and who wish not only to maximize the CESGs but to maximize the tax-deferred growth potential is to calculate how much you need to contribute in future

years to maximize the CESGs remaining for your child (both for future years and past years) and then contribute the difference in a lump-sum amount upfront for 2007, as demonstrated in the chart below.

The chart is based on the following rules and assumptions: - The CESG program began in 1998 and was equal to \$400/year per child from 1998 to 2006 and is now \$500/year per child going forward. - The maximum CESG payable in one calendar year is \$1,000. - The maximum lifetime CESGs per child remains at \$7,200. - Children born prior to 1997 will never attain the \$7,200 maximum CESGs. - No CESGs are payable beyond the year a child turns 17. - If a new RESP is started in the year a child turns 16 or 17, no CESGs are available. - No contributions to an RESP have been made in any previous year.

**Contributions to Maximize Growth + CESGs**

| <b>Age of Child at Dec. 31, 2007</b> | <b>Year of Child's Birth</b> | <b>2007 Lump Sum Contribution</b> | <b>Potential* Total CESGs (Maximum)</b> |
|--------------------------------------|------------------------------|-----------------------------------|-----------------------------------------|
| 0                                    | 2007                         | \$ 16,500                         | \$ 7,200                                |
| 1                                    | 2006                         | \$ 18,500                         | \$ 7,200                                |
| 2                                    | 2005                         | \$ 19,000                         | \$ 7,200                                |
| 3                                    | 2004                         | \$ 19,000                         | \$ 7,200                                |
| 4                                    | 2003                         | \$ 19,000                         | \$ 7,200                                |
| 5                                    | 2002                         | \$ 19,000                         | \$ 7,200                                |
| 6                                    | 2001                         | \$ 19,000                         | \$ 7,200                                |
| 7                                    | 2000                         | \$ 19,000                         | \$ 7,200                                |
| 8                                    | 1999                         | \$ 19,000                         | \$ 7,200                                |
| 9                                    | 1998                         | \$ 19,000                         | \$ 7,200                                |
| 10                                   | 1997                         | \$ 19,000                         | \$ 7,200                                |
| 11                                   | 1996                         | \$ 20,000                         | \$ 7,000                                |
| 12                                   | 1995                         | \$ 25,000                         | \$ 6,000                                |
| 13                                   | 1994                         | \$ 30,000                         | \$ 5,000                                |
| 14                                   | 1993                         | \$ 35,000                         | \$ 4,000                                |
| 15                                   | 1992                         | \$ 40,000                         | \$ 3,000                                |
| 16                                   | 1991                         | \$ 50,000                         | \$ -                                    |
| 17                                   | 1990                         | \$ 50,000                         | \$ -                                    |

\*Assumes subsequent annual contributions are made to maximize total CESGs

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