Press release

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GIVING CHILDREN THE MEANS TO PURSUE THEIR STUDIES IS ALSO PART OF FINANCIAL PLANNING

Montreal, September 3, 2010 – Just like retirement, post-secondary studies require sound planning. This is why the Laurentian Bank strongly recommends families to save money in a registered education savings plan (RESP).

Created by the federal government, the RESP is a savings plan designed to help families finance the post-secondary education of their children, grandchildren, other family members or friends. Adults can also contribute to an RESP to pay for their own studies. An RESP contributor (subscriber) can invest up to a maximum of $50,000 per beneficiary, which will generate earnings. In addition, a federal government grant tops up contributions to the RESP. The plan is registered so that all earnings generated from it grow tax-free until funds are withdrawn from it. Upon beginning post-secondary studies, the beneficiary will receive a substantial amount to cover various educational expenses.

Tuition fees of the future: an expense not easy to predict

In a context where the possibility of a progressive tuition “thaw” is now the subject of public debate, it is difficult to estimate how much these fees will represent in the medium term, let alone the long term. According to Human Resources and Social Development Canada, in 15 years, tuition fees for four years of higher education (CEGEP or university) will cost $55,000 and could even exceed $83,600 if the student lives away from home.

Although such a view seems to suggest that a post-secondary education would be restricted to only affluent families, the advantage of the RESP is that it attracts a grant called the Canada Education Savings Grant (CESG), paid by the federal government. Regardless of family income, the grant corresponds to 20% of the contributions made to the RESP up to a maximum of $500 per year. Moreover, for moderate income families, the CESG can provide up to 40% of the annual allowable contribution, or $2,500. Other forms of government subsidies exist, including the federal CLB (Canada Learning Bond) and the provincially funded QESI (Quebec Education Savings Incentive). Thus, with an RESP investment, a considerable amount is added to the plan before it has even generated a single cent of earnings, thanks to the variety of government grant programs.

What to invest in first? An RESP, RRSP or TFSA?

“Many of our clients at the Laurentian Bank ask us if it’s better to invest in their RRSP or their RESP,” notes Guylaine Dufresne, Manager, Financial Planning at the Laurentian Bank, Northwest Québec Market. “First of all the two plans have completely different objectives: the first is for retirement, whereas the second is for children’s education. All types of saving are good, as long as they follow the established goal. However, my recommendation would be to start by contributing to an RRSP, because your contributions are tax-deductible, and the amount of tax saved can then be put toward an RESP.”

As for the TFSA, can it take the place of an RESP? “In my opinion, no,” answers Ms. Dufresne, “Because the TFSA has the same feature as the RESP, in that the earnings are tax-exempt, but by contributing to a TFSA rather than an RESP, you miss out on all the various government grants available.”

Laurentian Bank financial planners often suggest to grandparents that they too contribute to the RESP of their grandchildren. Grandparents want to help out financially, but they also want some say in how the money is used. By contributing to their RESPs, they can rest assured that they're investing in their grandchildren's futures.

About Laurentian Bank
Laurentian Bank of Canada is a banking institution operating across Canada and offering its clients diversified financial services. Distinguishing itself through excellence in service, as well as through its simplicity and proximity, the Bank serves individual consumers and small and medium-sized businesses. The Bank also offers its products to a wide network of independent financial intermediaries through B2B Trust, as well as full-service brokerage solutions through Laurentian Bank Securities.

Laurentian Bank is well established in the Province of Quebec, operating the third-largest retail branch network. Elsewhere throughout Canada, it operates in specific market segments where it holds an enviable position. Laurentian Bank of Canada has more than $23 billion in balance sheet assets and more than $14 billion in assets under administration. Founded in 1846, the Bank employs more than 3,600 people.

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