The best school supply? RESPs

August 2025

Jamie Golombek
Managing Director, Tax and Estate Planning, CIBC Private Wealth

In my opinion, the best school supply is a well-funded education savings plan, ideally, in the form of a Registered Education Savings Plan (RESP). RESPs have been around for many years and really took off in 1998 with the introduction of the matching 20% Canada Education Savings Grants (CESGs) provided by the government of Canada. But my experience is that parents are not using them in the most strategic manner possible.

Here's a quick overview of the basic rules and then we'll run through a couple of strategies. The RESP is a tax-deferred savings plan that helps an individual, typically a parent, save for a child's postsecondary education. Similar to other registered plans, the RESP is in essence a wrapper in which you can hold various eligible investment products, such as GICs, mutual funds and even individual stocks and bonds. Unlike RRSPs, contributions to an RESP are not tax-deductible, nor are they taxable when withdrawn.

The main benefit of the RESP is the ability to have all earnings (capital gains, dividends and interest) on the investments inside the RESP accumulate tax-free until withdrawn. Another benefit is the CESG, equal to 20% of annual contributions, to a maximum of $500 (or $1,000 if there is unused grant room from previous years). The maximum CESG entitlement is capped at $7,200 per child.

When the earnings and government grants are paid out for postsecondary education purposes, they are included in the student's income. It is assumed that the child will be in a low-or zero-tax bracket. Due to various tax credits available to the students (including, most commonly, the basic personal amount and tuition amount), tax payable on the earnings and grants when withdrawn will often be very little if any.

When funding an RESP, the first missed opportunity is that parents often only start thinking about contributing to their kids' RESPs several years after their children are born. But contributing to an RESP as soon as possible can reap significant financial rewards down the road.

For example, take Alan, who starts saving for his daughter Amy's education the year she is born. If he contributes the $2,500 maximum amount needed each year to maximize the CESGs with a total of $36,000 of contributions by the year Amy turns 14, he will have accumulated nearly $61,000 in the RESP for Amy by the time she is 18, assuming a 3% rate of return.

Contrast this with Zoe, who only starts saving for her son Zack's education when he turns 10 by contributing $1,000 in that year and then $5,000 each year from age 11 to 17 to catch up on all prior years' CESGs. By the time Zack is 18, assuming the same 3% rate of return, the RESP for Zack would only be worth about $49,000, despite Zoe having contributed the same $36,000 that Alan contributed.

Finally, for those parents who can afford to do so, consider maximizing the tax-deferred (or, most probably, tax-free) compounding by contributing beyond the annual amounts needed to maximize the CESGs. This can be done by making an additional lump sum contribution of $14,000, bringing the total amount contributed up to the lifetime maximum of $50,000 per child.

Jamie Golombek, FCPA, FCA, CPA (IL), CFP, CLU, TEP is the Managing Director, Tax and Estate Planning with CIBC Private Wealth, Toronto.

jamie.golombek@cibc.com