

Registered Education Savings Plans –
Invest in your child's future

Your Time of Life



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Post-secondary education will make a big difference to your children's earning potential and standard of living.

According to the 2001 Census, Canadians with a University degree have the potential to earn an average annual salary of \$48,648 compared to only \$25,477 for Canadians with a high school diploma.

Yet government funding to universities is dropping.

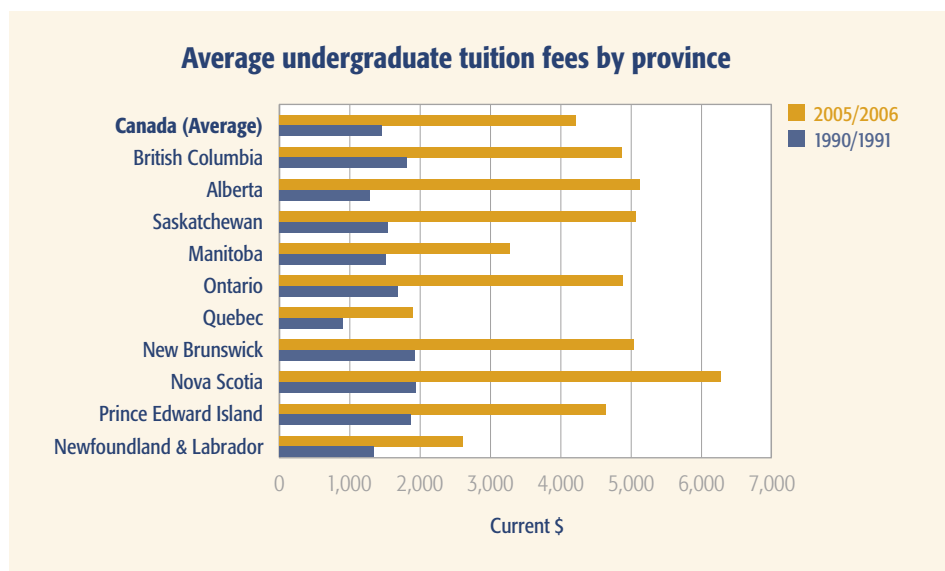
Canadian universities are now receiving \$2,700 less operating support from the government per student than was provided at the beginning of the 1990's. And post-secondary institutions are making up the shortfall by raising student fees. Since 1990, average tuition costs have almost tripled, from about \$1,500 to \$4,214 in 2005/2006. Tuition for professional programs at Canadian Universities is even higher. The 2005/2006 average tuition for Law is \$6,772, for Medicine \$10,349 and for Dentistry \$12,942 per year. Unless you start setting aside education funds for them now, your children face crippling debt upon graduation.

An effective way to maximize the money available

to your children when they enroll in a full-time post-secondary program is to open a Registered Education Savings Plan (RESP). Your contributions are not tax-deductible. However, money inside the plan will grow tax-free until it's withdrawn.

As a student starts taking money out of the RESP

to pay for post-secondary education, withdrawals – called Educational Assistance Payments – are taxed in his or her hands, not yours. Since most students have much lower incomes than their parents, this "income splitting"



Source: Statistics Canada

Keeping track is easy with Mackenzie web tools

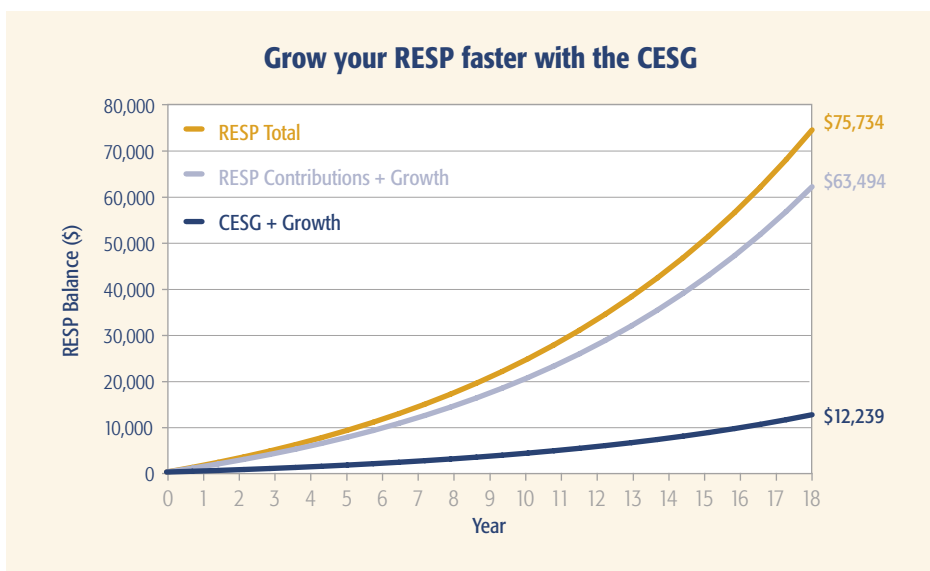
Investors can find fourteen easy-to-use financial planning calculators at www.mackenziefinancial.com/calculators. These comprehensive web tools cover a wide range of investment topics including RESPs, retirement planning, mortgage & lending and more. Each one is customizable to your personal situation. These tools are designed to help answer specific questions on a variety of investment topics and to show you the quantitative benefits of one course of action versus another.

technique should result in significant tax savings. It is important to point out that only the investment growth and grant portions of the Educational Assistance Payments are considered income in the child's hands. As the contributor, you can choose to give the original capital to your child tax-free, or take the original capital back.

As a further incentive to help you save for your children's education, the Government of Canada offers the Canada Education Savings Grant (CESG). The government provides a grant of 20% on the first \$2,000 an individual contributes into an RESP each year for a total of \$400. However, effective January 2005, enhancements were made to the program, basing the grant on family income and potentially increasing the maximum grant amount to \$500.00. If you can't take advantage of the full grant in one year, a series of catch-up RESP contributions may be eligible for the Grant, up to a maximum of \$800 annually and a lifetime maximum of \$7,200.

In addition, the Government of Canada offers the Canada Learning Bond (CLB) to help modest-income families start saving early for the post secondary education of children born after December 31st, 2003. For families who qualify, the total grant available for a child could amount to \$2,000.

The following illustration shows how investing \$150 per month (\$1,800 per year) for 18 years, combined with the \$360 annual CESG grant can add up to a larger RESP rather quickly.



The graph on the left assumes an annual compound growth rate of 7% and that the CESG is paid as a lump sum to the account at the end of each contribution year. This illustration is not intended to reflect future values of any mutual fund or asset allocation service or returns on investment in any mutual fund or asset allocation service.

Flexibility to meet your needs

Your Financial Advisor will help you determine whether an individual plan that covers one beneficiary, or a family plan that covers two or more beneficiaries makes the most sense for you.

Whichever plan you chose, you can change the beneficiaries at any time. With the family plan, if one beneficiary decides not to pursue a post-secondary education, you can either name an alternate beneficiary, or simply divide the assets among any remaining beneficiaries. In order to retain the CESG payments received on behalf of the former beneficiary, the new beneficiary must be under 21 and connected by blood or adoption to the subscriber and have room for the additional CESG.

If a beneficiary in a family RESP is removed and not replaced by a beneficiary who qualified as above, CESG payments made on behalf of that beneficiary will be returned to the government.

What if the beneficiary decides against education?

WHILE THE PRIMARY INTENTION FOR AN RESP IS TO PROVIDE FOR POST-SECONDARY EDUCATION, YOU HAVE A COUPLE OF OPTIONS IF THE BENEFICIARY DOES NOT FOLLOW THIS COURSE:

- You can name an alternate beneficiary to receive the RESP income.
- If all current and previously named beneficiaries have reached the age of 21 and are not attending a post-secondary institution, you're entitled to withdraw the accumulated income (including income on the CESG), provided that the plan has been in existence for at least 10 years. The CESG grants themselves must be returned to the government. You will be taxed on the accumulated income, however, your original contributions are refunded to you tax-free.

You can defer the tax payable on an income withdrawal by rolling it directly into your RRSP or spousal RRSP, provided you have the contribution room. The maximum rollover is \$50,000 per contributor, so a husband and wife who are joint contributors to a family plan can each rollover up to \$50,000 to their RRSPs.

Any funds that are not rolled over into an RRSP will be taxed at your marginal tax rate plus a penalty tax of 20% (12% in Quebec). These options were introduced by the Canada Revenue agency to encourage parents and grandparents to begin education savings programs without fear of losing the funds altogether if the child does not go to university or college.

Top five RESP tips

1 Talk to your financial advisor about whether an individual or family RESP is more appropriate for you.

Any one child can be the beneficiary of an individual plan. A family plan may have more than one beneficiary, but all must be directly related to the subscriber by blood or adoption .

2 Take advantage of carry-forward CESGs.

CESG grant room starts accumulating for your child at birth. Even if you haven't yet set up an RESP, that money is available to match 20% of your contributions – up to \$800 a year.

3 Don't withdraw your contributions from an RESP.

If you take back your contributions before your child starts attending post-secondary school, a proportional amount of the CESG must be paid back and CESG contributions can be suspended for two years. Try to leave money in the RESP where it will grow to pay for your child's education.

4 Consolidate your RESPs.

If you have more than one RESP open for a particular child, you'll have to keep track of contributions very carefully to make sure you don't go over \$4,000 a year. Over-contributions are subject to a penalty of 1% per month.

5 Have a back-up plan in case your child doesn't attend university.

If none of an RESP's beneficiaries go on to post-secondary education by age 21, and the plan has been in existence for 10 years or more, you can withdraw the growth portion of the plan (that is, the income earned from the contributions) and transfer up to \$50,000 to your RRSP or a spousal RRSP. If you or your spouse don't have enough contribution room, or if the growth portion exceeds the allowable \$50,000, a tax of 20%, in addition to regular taxes, will be applied to the excess withdrawal. In either case, you will have to repay the CESG.

Quick questions about RESPs and the CESG

Who can contribute to an RESP?

Parents, grandparents, relatives or friends can contribute a combined total of \$4,000 a year per beneficiary, to a cumulative maximum of \$42,000 per beneficiary.

When can I withdraw money from an RESP?

You can withdraw your contributions tax-free at any time; RESP growth can only be withdrawn to pay for full-time post-secondary education expenses of the student(s) named as beneficiaries or as Accumulated Income Payments (AIPs); eligible expenses include tuition, housing, transportation, books, supplies and other costs associated with full-time post-secondary education. All funds in the RESP must be withdrawn before the end of the plan's 25th year.

The Federal Budget added special provisions for disabled beneficiaries, to allow increased savings. For those beneficiaries who qualify for the disability tax credit in the 21st year following the year the RESP was established, (1) all funds in the RESP must be withdrawn before the end of the plan's 30th year and; (2) contributions to the plan can be made up to the end of the plan's 25th year.

Who qualifies for the Canada Education Savings Grant (CESG)?

RESP BENEFICIARIES MUST BE UNDER AGE 18, HAVE A SOCIAL INSURANCE NUMBER AND BE CANADIAN RESIDENTS TO QUALIFY FOR THE CESG. IF A CHILD IS 16 OR 17, THE GRANT WILL BE PAID, PROVIDED ONE OF THE FOLLOWING CRITERIA HAS BEEN MET:

- At least \$2,000 has been contributed and not withdrawn to the RESPs for the beneficiary before the year in which the beneficiary turned 16, or



- Annual contributions of at least \$100 must have been made in any four years prior to the year in which the beneficiary turned 16.

If I contribute less than \$2,000, can the grant entitlement be carried forward?

Yes, it can. For example, if you contribute \$1,000 to your child's RESP this year, it will attract a \$200 grant, leaving \$1,000 of unused CESG contribution room, which can be carried forward. If you contribute \$4,000 the following year, you will use up this carried-forward contribution room, plus the maximum contribution room for that year, resulting in a CESG payment of \$600. Remember though, the most you can contribute to an RESP in any year is \$4,000, and grants are paid only until the year the beneficiary turns 17. If you undercontribute in too many years, you'll lose some of your grant entitlement.

How do I apply for the grant?

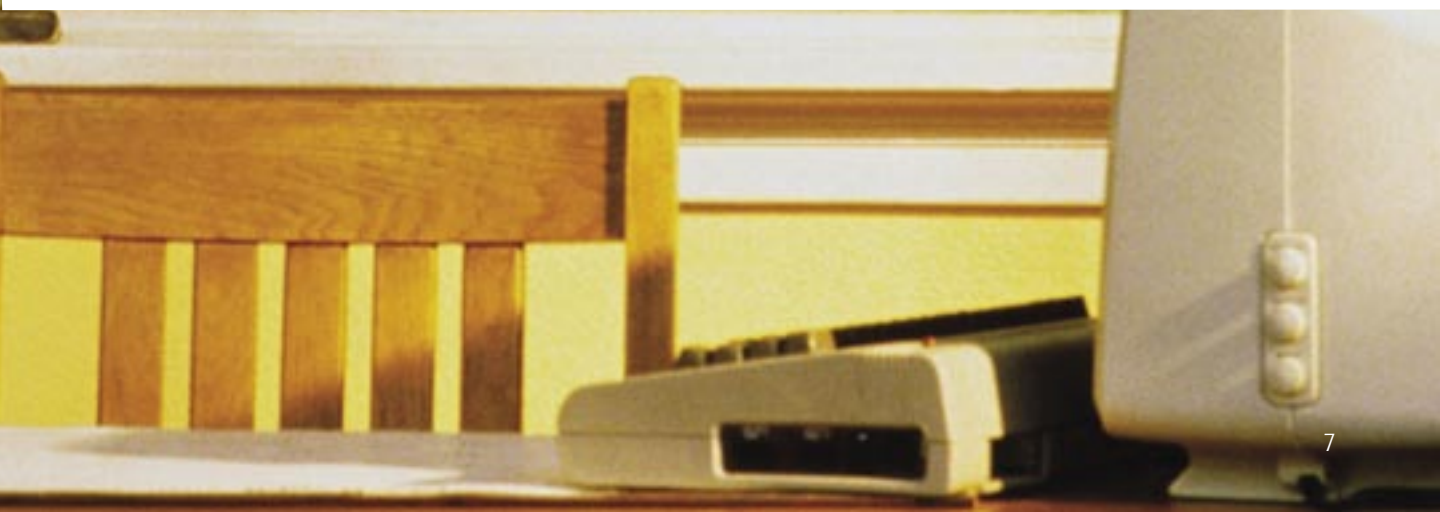
Applying for the CESG is easy. You'll need to complete the CESG section of the RESP application form and include the beneficiary's social insurance number. Mackenzie submits the completed grant application form to Human Resources Development Canada (HRDC) on your behalf. Remember – the government will not pay the CESG unless you request it, so make sure you complete the application form when you first establish the RESP.

How is the CESG paid?

Mackenzie submits contribution information directly to the government. The grant is then paid directly to your Mackenzie RESP.

How is the CESG money invested?

Any CESG received into your Mackenzie RESP is invested according to the investment instructions you provide at the time the RESP is set up. There are no additional investment restrictions on CESG money.



The information provided is general in nature and given with the understanding that it may not be relied upon as, nor considered to be, the rendering of tax, legal, accounting or professional advice. Readers should consult with their own legal, accounting and/or tax advisor for advice on their specific circumstances before taking any action.

Choose wisely: Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their value changes frequently and past performance may not be repeated.

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