Family RESPs: Education savings for multiple kids

Using a registered education savings plan (RESP) is a great way to save for a child's university. But what if you have more than one kid? Consider the family RESP.

It's one thing to try to save for one child's post-secondary education, let alone for two or three. Fortunately, streamlining this parenting task is easier than you think.

Typically, people use Registered Education Savings Plans (RESPs) to save for university—it's an investment account where capital gains are not taxed until they're withdrawn at the time your child goes to university—with many people opening one account per child. Not surprisingly, managing multiple accounts can be difficult, which is why there's a family RESP option that lets you save for all of your kids in one place.

If you want to learn more about the family RESP, then check out this primer that explains the ins and outs of the account.

How does a family RESP work?

Family RESPs operate in much the same way individual ones do. You're only allowed to save a lifetime maximum of $50,000 per child, and each child is eligible for Canadian Education Savings Grants (CESGs)—essentially free money from the government—of up 20% of your contribution amount to an annual maximum of $500 and a lifetime maximum of $7,200 per child. To receive that $500 grant you need to contribute $2,500 a year. (Though if you've missed a year you can receive past grant money by contributing more than that amount in a year.)

With a family RESP, contributions are tied to each child's social insurance number, so while you may be investing in a single account, your financial institution is still keeping track of which child gets the contribution. If you don't have enough savings to contribute $2,500 for each child, consider prioritizing by age since eligibility for the CESG ends after age 17. By contributing to the oldest first, you extend the number of years your family can receive grant money.

You can keep contributing to a family RESP—and receive CESG money—even while withdrawing funds for an eligible student. An added benefit of an RESP is that the withdrawals are taxed in the hands of the recipient student who is likely to be in a low or zero tax bracket as they earn minimal income in their student years.

Who can open a family RESP?

One of the attractions of an RESP is that a parent and a grandparent can open one. You can't exceed the lifetime maximum of $50,000 per child, even if you have more than one RESP open, but this means multiple family members can help you save for school.

The one stipulation is that any children or grandchildren have to be related to you by blood or adoption and be under age 21. Other beneficiaries, including stepchildren, step grandchildren, nieces or nephews, can only be named to an individual RESP, as opposed to a family plan.

You can also open a family RESP even if you only have one child. If you don't have any more children, then it's essentially an individual RESP. If you have another then you can easily add them to the account. Therefore, it typically makes sense to open a family account over an individual RESP to give you more flexibility in the future.

Can funds in a family RESP be shared among the beneficiaries?

Family RESPs are attractive because you can share the money inside of it among your children. If one goes off to an expensive university and one stays closer to home and attends a cheaper one, you can use the money you've saved for the latter to pay for the former's schooling.

There are some things to keep in mind, though. First, withdrawals from RESPs are divided into three categories: your contributions, the CESG grants from the government, and any investment earnings. All of your contributions can be used by any of your children if and when they attend post-secondary school or an eligible apprenticeship program. Grants and investment gains can also be shared, but only within the limits of the $7,200 CESG per child.

Say, for example, you have three daughters named as beneficiaries in a family RESP, and by the time the oldest goes to university, you've contributed $60,000 to the account and received a total of $12,000 in CESG money among the three girls.

That first child would be eligible to receive only $7,200 of the $12,000 CESG amount—plus any investment earnings on that $7,200, plus any growth that has been earned on the investments—over the entire period she is enrolled as a full-time student. But you are free to give her as much or as little as she needs from your $60,000 worth of contributions. If all of this sounds complicated, don't worry, your financial institution will track all of these amounts on your behalf.

The ability to share RESP funds can be helpful, especially if one child takes a shorter or less expensive program compared to the others, or if one child doesn't pursue post-secondary education or training at all. (In that case, and using our three-child example, you can still use the contributions and gains in the account to cover the costs for two of your children, though you would have to give back any CESG grants that the non-university-going child received.)

What if there's money left over in a family RESP?

Just like with an individual RESP, you can withdraw all your contributions tax free. Any remaining CESG amounts will have to be repaid to the government. As for the investment earnings, you can transfer those to your RRSP if you have available contribution room and if the RESP has been open for at least 10 years and all the beneficiaries are aged 21 or older. You can also withdraw the investment income, but you'll pay income tax on it plus a 20% penalty tax.

As you can see, depending on your situation, a family RESP can be more effective than opening an RESP for every child. It's a good idea to talk to your investment counsellor to find out more about how these plans work, but if you have more than one child, or think you might have multiple children, then consider opening one up.