

Your Time of **LIFE**



Registered Education Savings Plans

Invest in your child's future

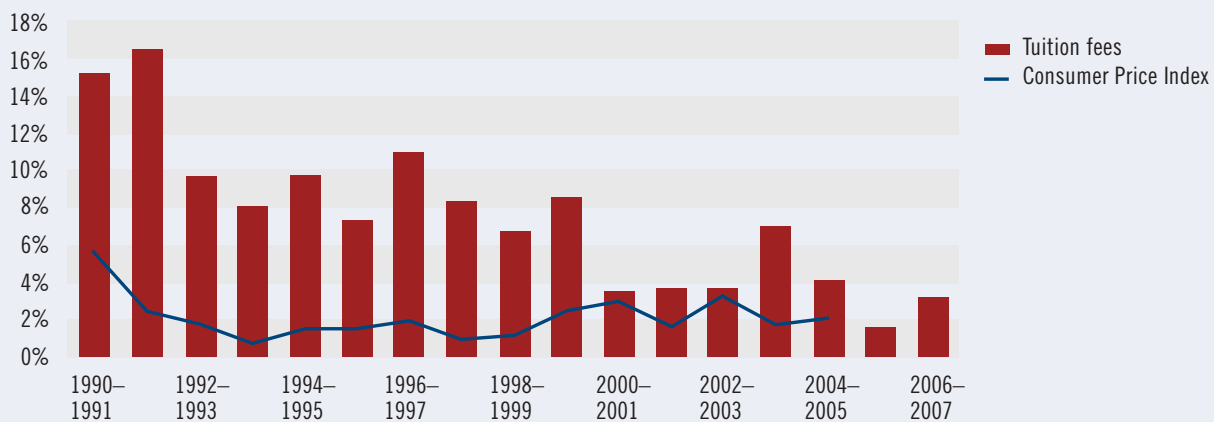
College and university are more important than ever before. Two out of every three new jobs require some form of post-secondary education.

That's why the government is trying to make higher education more accessible by offering tax-advantaged savings plans, grants, bursaries and loans.

Yet the cost of a post-secondary education keeps growing, and in 2007/2008 the average annual undergraduate university tuition for a full-time student was \$4,524, compared to \$1,164 in 1990/1991. Additional compulsory fees add another \$663 to the load, but tuition and related fees are not the whole story – they represent just one-third of the expenses that students face each year.¹

So, by setting aside education funds for your children now, you will be helping them earn a university or college degree and helping them avoid amassing a crippling debt. And remember, post-secondary education isn't just about getting a better job. It also contributes to personal growth and broadens their horizons.

Annual increase in undergraduate tuition fees vs. inflation



Note: Consumer Price Index annualized by taking averages from September to August.

Source: Statistics Canada, *The Daily*, September 1, 2006.

¹Source: *Canadian Post-secondary Student Financial Survey 2003-04*. Tuition 31%, Accommodation and food 28%, Transportation 7%, Books/computer 12%, Debt payment 8%, Other (personal/leisure) 14%.

The best way to save

The best way to save for your children's education is to open a Registered Education Savings Plan (RESP). Your contributions are not tax-deductible, but money inside the plan will grow tax-free until it's withdrawn.

Contribution limits

As of 2007, there is no longer an annual limit, so you can contribute any amount up to a lifetime maximum of \$50,000 to each beneficiary's RESP. If you contribute over this amount, you will be subject to a penalty of 1% per month on the over-contribution until the excess amount is withdrawn.

A little history...

Here's how annual contribution limits have increased over the years to reflect increasing education costs.

Years	Annual limit	Lifetime limit
1990 to 1995	\$1,500	\$31,500
1996	\$2,000	\$42,000
1997 to 2006	\$4,000	\$42,000
2007 and later	none	\$50,000



Government grants

As a further incentive to help you save for your children’s education, the government offers the **Canada Education Savings Grant (CESG)** – a grant of 20% on the first \$2,500 contributed to an RESP each year for a total of \$500. The lifetime maximum is \$7,200, which means you would get the maximum grant over 15 years.

Studies show that children from families earning more than \$100,000 are more than twice as likely to pursue university studies than those from families earning less than \$25,000.

However, beginning in January 2005, the government enhanced the CESG to encourage lower-income families to save more. To accomplish this, the CESG provides an additional 20% on the first \$500 for families with net incomes of less than \$37,884 (2008 amount). For families with net incomes between \$37,884 and \$75,769, the additional grant is 10% on the first \$500 of contributions.

If you contribute \$2,500, the amount of CESG you will get is set out below:

Net family income	Additional CESG	Basic CESG	Total
below \$37,884	First \$500 x 20% = \$100	\$2,500 x 20% = \$500	\$600
\$37,884 to \$75,769	First \$500 x 10% = \$50	\$2,500 x 20% = \$500	\$550
over \$75,769	First \$500 x 0% = \$0	\$2,500 x 20% = \$500	\$500

In addition, the **Canada Learning Bond (CLB)** helps families of modest income save for children born after December 31, 2003. In 2008, families with net annual incomes of less than \$37,885 would qualify for the initial CLB grant of \$500, and \$100 for each year of eligibility until the child is 15 years old.

Alberta Centennial Education Savings (ACES) Grant. Any child born or adopted in Alberta on or after January 1, 2005 will get an initial ACES Grant of \$500 when an RESP is set up, and \$100 again at ages 8, 11 and 14. If the beneficiary does not pursue post-secondary education, the ACES grant must be returned to the Government of Alberta.

Five quick questions about the CESG

1. Who qualifies for the CESG?

A beneficiary must be under age 18, have a Social Insurance Number and be a Canadian resident at the time of the RESP contribution.

If a child is 16 or 17, the grant will be paid, provided at least \$2,000 has been contributed to and not withdrawn from the RESP 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.

2. How do I apply for the grant?

All you need to do is 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 and Social Development Canada (HRSDC) 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 establish the RESP.

3. How is the CESG paid?

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

4. How is the CESG invested?

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

5. What happens if I don't maximize my CESG entitlement?

There is no longer an annual contribution so you can contribute as much as you want in any given year up to a lifetime limit of \$50,000. However, only the first \$2,500 will attract the \$500 maximum annual CESG. If you contribute less than that, you will have unused CESG contribution room, which can be carried forward.

For example, if you contribute \$1,000 to your child's RESP this year, it will attract a \$200 grant, leaving \$1,500 of unused CESG. If you contribute \$4,000 the following year, you will use up this carried-forward contribution room plus the current year's contribution room, resulting in a CESG payment of \$1,000. The maximum annual CESG payment is \$1,000 if you have unused CESG room from previous years. Remember, if you under-contribute in too many years, you'll lose some of your grant entitlement.

Two basic RESP plans

Individual plan
Single beneficiary
Anyone can contribute
Make contributions up to 22 years after plan is opened
Family plan
One or more beneficiaries
Beneficiaries must be related by blood or adoption to contributor
Make contributions until beneficiary is 21 years old

As students take money from an RESP to pay for post-secondary education, the withdrawals – called Educational Assistance Payments – are taxed in their hands. Since most students have much lower incomes than their parents, this “income splitting” 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.

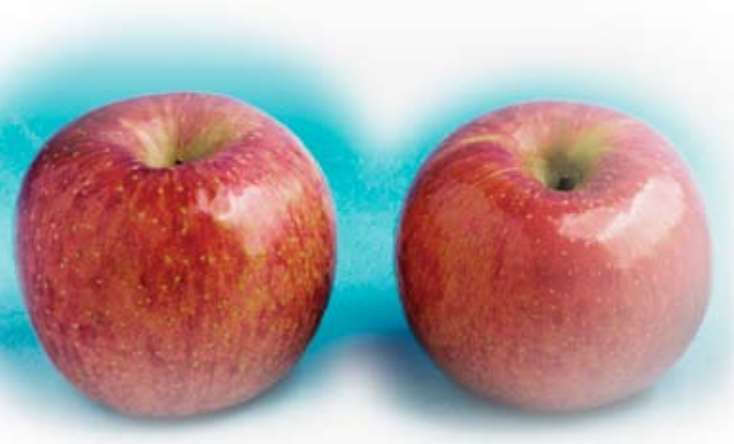
What if the beneficiary doesn’t pursue post-secondary education?

More than a decade ago, parents had to weigh their options before investing in RESPs. Back then, if the child did not pursue post-secondary education, you could get your original contribution money back, but all the earnings in the RESPs were forfeited.

In 1998, the government introduced the following options to encourage parents and grandparents to begin education savings programs without fear of losing the funds altogether if the child did not go to university or college.

Here are your options if the beneficiary does not choose a post-secondary education.

- 1. Choose a new beneficiary.** You can name an alternate beneficiary to receive the RESP income. In an individual plan, the new beneficiary can be anyone. But if the new beneficiary is not a sibling and under 21, the CESG must be repaid. In a family plan, the new beneficiary must be related by blood or adoption to the contributor. In this case, the basic CESG can be shared but any unused excess CESG must be repaid to the government.
- 2. Withdraw contributions.** You can redeem contributions tax-free and pay back any CESGs.
- 3. Withdraw growth.** 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. This is known as an Accumulated Income Payment (AIP). The CESG grants themselves must be returned to the government. The AIP will be taxed at your marginal rate plus a penalty tax of 20%. However, your original contributions are refunded tax-free.
- 4. Roll over to RRSP.** You can defer the tax payable on the income withdrawal by rolling it directly into your RRSP or spousal RRSP, provided you have 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 roll over up to \$50,000 to their RRSPs. Note: 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).



Top 5 RESP tips:

- 1. Start early and make it automatic.** Through pre-authorized chequing programs, small amounts of money are automatically withdrawn from your bank account and invested on a regular basis. The money set aside in an RESP has the potential to grow and compound regularly.
- 2. Talk to your financial advisor about the best plan for you.** You can choose between an individual or family RESP. Any one child can be the beneficiary of an individual plan but a family plan can provide greater flexibility when it's time for education withdrawals.
- 3. Maximize your CESG amount.** Try to contribute at least \$2,500 a year to get the full \$500 federal grant. Also, take advantage of carry-forward CESGs if you contribute less in any one year. The carry-forward amount is up to \$1,000 a year.
- 4. 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.
- 5. Have a back-up plan in case your child doesn't attend university or college.** If none of an RESP's beneficiaries go on 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 own 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 penalty 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.

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