



The Canadian Scholarship Trust Plan and the RBC RESP

What are the differences?

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You may have been approached by an advisor outside of RBC® promoting the Canadian Scholarship Trust (CST) plan. This article gives an overview of the CST plan and discusses some of the differences between this plan and the RBC RESP that you should be aware of.

How does the CST plan compare to the RBC RESP?

Both the CST and RBC RESP are registered education savings plans (RESPs). As such, both types of plans are subject to a number of restrictions such as a maximum lifetime contribution limit of \$50,000 per beneficiary. Beneficiaries of both plans may be entitled to the Canada Education Savings Grant (CESG) of up to \$500 on the first \$2,500 of contributions per year (subject to certain restrictions).

However, unlike the RBC RESP, there are two types of CST plans — the Group Savings Plan and the Individual/Family Savings Plan — depending on the age of the beneficiary at the time the plan is established.

GROUP SAVINGS PLAN

If you are the subscriber and your beneficiary is less than 13 years old, then you may select the Group Savings Plan. Under this plan, you are required to purchase a minimum number of units and make regular contributions. The amount of each contribution depends on the number of units you purchase, the contribution frequency and the age of your beneficiary at the time you first set up the plan.

Income earned on your contributions is pooled with income earned from all other subscribers' contributions in a scholarship fund. At the time your beneficiary enrolls in a qualifying educational program, they become eligible to receive the scholarship.

A beneficiary may receive up to four scholarships (instalments) of similar amounts over four years. The amount of each scholarship depends in part on the number of units you purchase on behalf of your beneficiary. In addition to the scholarships, a segregated account is also established for each of your beneficiaries to accumulate CESG grants and income.

As the subscriber, you are entitled to a refund of your contributions once your beneficiary has enrolled in a qualifying educational program. In the event that your Group Savings Plan beneficiary does not pursue post-secondary education or you terminate the plan, then the income earned on your contributions and on your beneficiary's CESGs will be forfeited to the scholarship fund. To avoid this result, you can transfer the plan to an Individual/Family Savings Plan (described later on). And from there, you can transfer the accumulated income to your RSP up to a maximum of \$50,000 as long as certain criteria are met.

Some of the differences between the CST Group Savings Plan and the RBC RESP include:

- **Investment choices** — Authorized investments in the CST are limited to fixed income investments, primarily GICs, T-bills, bonds and mortgages; whereas, in the RBC RESP, investment choices can include equities, income trusts and mutual funds.
- **Investment control** — As a subscriber of the RBC RESP, you can decide what to invest your contributions in. As a subscriber of the CST plan, you do not have any control over how your contributions are invested.
- **Subscriber contributions** — Your principal is protected with the CST plan by their investment policy. Your principal is not guaranteed with the RBC RESP.
- **Subscriber contributions** — As a CST Group Savings Plan subscriber, you may be required to contribute at regular intervals or risk termination of the plan; whereas, with the RBC RESP, you can control the timing of your contributions.
- **Fees** — The RBC RESP has an annual trustee fee of \$50. The CST plan imposes a number of different fees including an enrolment fee of \$50 for the Individual/Family Savings Plan and \$200 per unit for the Group Savings Plan. There is also an annual administration fee of \$3.50 to \$10 per plan on subscriber deposits.

The chief benefit of the Group Savings Plan is that the total amount of scholarship payments received by your beneficiary can exceed that of the income earned from your contributions. This is because a portion of the payments received can include amounts forfeited by other subscribers who terminated their participation in the plan as well as donations made to the scholarship fund.

You can also purchase insurance to ensure your required contributions to the Group Savings Plan are made in the event of death or disability.

INDIVIDUAL/FAMILY SAVINGS PLAN

The second type of CST plan, called the Individual/Family Savings Plan, is commonly used for beneficiaries who are 13 years old or older at the time the plan is established.

This plan is similar to the Group Savings Plan with one major exception — the income earned on your contributions and on your beneficiary's CESGs is not automatically forfeited if the plan is terminated or if your beneficiary does not pursue post-secondary education. Rather, this amount can be transferred to your RSP up to a maximum of \$50,000 if certain conditions are met.

In addition, you are not required to buy units or make regular contributions to an Individual/Family Savings Plan.

For more information on CST plans, go to www.cst.org.

If you have any questions or require clarification of any of the issues discussed in this document, do not hesitate to discuss these with your advisor.

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