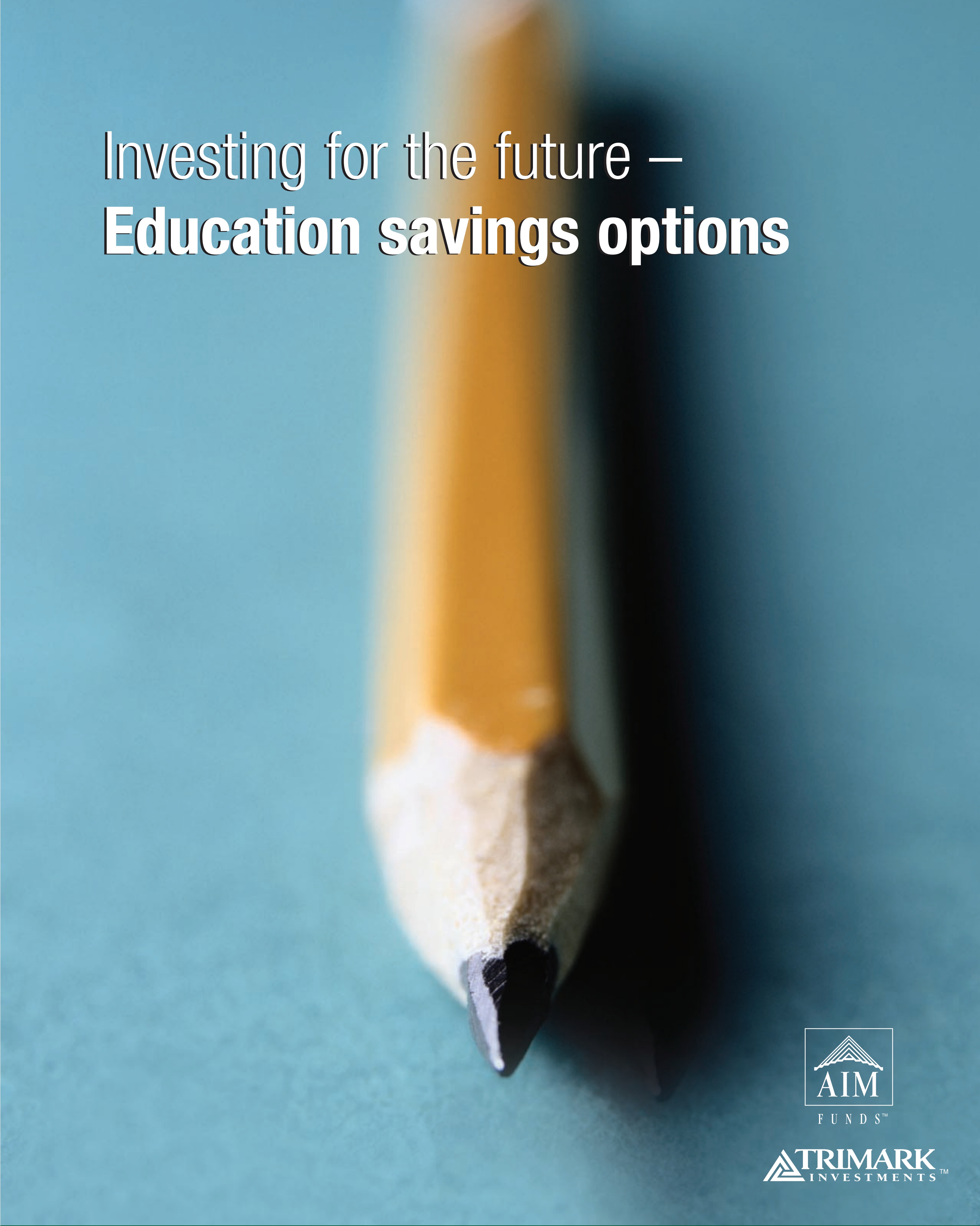
Investing for the future – **Education savings options**



AIM FUNDS™

TRIMARK INVESTMENTS™

Helping a child obtain a good education is one of the best investments you can make for them. Today, a post-secondary education is almost essential in helping to ensure a child's future well-being. We know how quickly "today" becomes "tomorrow." That's why it's so important to begin planning for his or her education early. For most students, the desire for a promising future is there, but post-secondary education funding can pose a real challenge. This brochure is intended to show you, with the help of your financial advisor, how to gradually work towards realizing this worthwhile goal.

"The direction in which education starts an individual will determine his future life."

– *Dialogues*, Phaedrus sec. 279

THE COST OF HIGHER LEARNING

University tuition in Canada has risen dramatically over the last 10 years, and college fees have also increased substantially. Then there's rent, books and food costs to consider. It is estimated that by 2019, the total cost of a four-year university education will be $74,000 and a three-year college education will total $45,000[1]. However, careful financial planning can make it easier to obtain the money necessary for your child's post-secondary education than you might think.

You have three choices

Let's assume your child will begin a four-year undergraduate degree program 18 years from now. You can pay for this after your child graduates, while he or she is still in university or college or start saving today and let that amount grow.

1 Paying after your child graduates

Let's assume your child's post-secondary education is financed through student loans that are interest-free while he or she is in school. However, upon graduation, those loans must be repaid. If your child can afford to repay an amount of $7,500 per year, at an interest rate of eight per cent, it could take 21 years to repay $74,000 for a four-year university degree, or nine years to repay $45,000 for a three-year college diploma. And in both cases, the amount repaid will be much higher than the original amount of the loan.

2 Paying while your child is still in university or college

Say you decide to pay for your child's education during his or her time at school from 2019 to 2023. For a university education, you'll spend over $74,000 in just four years. A college education will cost almost $45,000 for three years. And that's just for one child. At the same time, you'll also be paying for your own living expenses.

3 Paying before your child begins university or college

You could decide to start saving for your child's education when he or she is born. Here's what may happen:[2]

University option – to reach the goal of $74,000, you could:

- Invest a lump-sum amount today of $11,600, or
- Invest $110 per month for 18 years for a total of $23,760

College option – to reach the goal of $45,000, you could:

- Invest a lump-sum amount today of $7,400 or:
- Invest $70 per month for 18 years for a total contribution of $15,120

While your children are growing up, your money will also be growing. By the time they're ready for a post-secondary education, the money will be there for them.

[1] The projected 2019 costs of $74,000 for a university degree and $45,000 for a college diploma are based on 2001/2002 average costs of $10,400 per year for four years of university and $8,500 per year for three years of college. Figures are inflation-adjusted at 3 per cent per year through 2019 and include tuition, rent, food, books and additional fees. This data does not apply to Quebec. (Source: Statistics Canada and the Association of Universities and Colleges of Canada, 2001.)

[2] These calculations assume that:

- Lump-sum investments are held for 18 full years
- Monthly investments are made at the beginning of each month for 18 full years
- All investments earn an annual compounding rate of return of 10 per cent, and
- All distributions are reinvested

The calculations also include the growth that will continue to be earned on the remaining account balance during the four years that the child is in university (three years in the college example) as partial withdrawals are made each year to fund education expenses.

The calculations do not take into account the implications of any interest, dividend or capital gains taxes that could be payable and that might affect returns. In some instances, amounts have been rounded slightly for purposes of clarity, but this does not affect financial calculations to any meaningful extent.

RESPs can be a tax-effective way to save for a child's post-secondary education. CESGs make these plans even more attractive as savings and investment vehicles.

TWO SOLUTIONS FOR SAVING

Several types of plans are available to help you save money for your child's education. Two that you might consider are registered education savings plans (RESPs) and in-trust accounts.

1 Registered Education Savings Plans (RESPs)

RESPs are tax-deferred savings vehicles through which the federal government allows a parent to save money for a child's post-secondary education.

RESPs – highlights

- You (the "subscriber") can contribute up to $4,000 per year per child (the "beneficiary") for 21 years to a maximum of $42,000
- The Canada Education Savings Grant (CESG) can add 20 per cent to the first $2,000 of annual RESP contributions, to a maximum of $400 per year, per child
- RESP contributions are not tax-deductible; growth earned on contributions is not taxable until it is withdrawn from the plan
- Once the child starts a post-secondary education program, education assistance payments (EAPs) may be withdrawn from the RESP to pay for tuition, books, accommodation – in fact, anything that will assist the child during his or her studies
- The growth and CESG portion of the RESP can only be paid to the child if he or she is actually enrolled full-time in a qualifying education program, or part-time in the case of student with a disability. It will be taxable to the child as "other income." If he or she does not pursue a post-secondary education, you may withdraw the accumulated income under certain circumstances
- If your child completes his or her education and there's money remaining in the plan, you can name another beneficiary
- Depending on your needs, you may choose either an individual or a family RESP

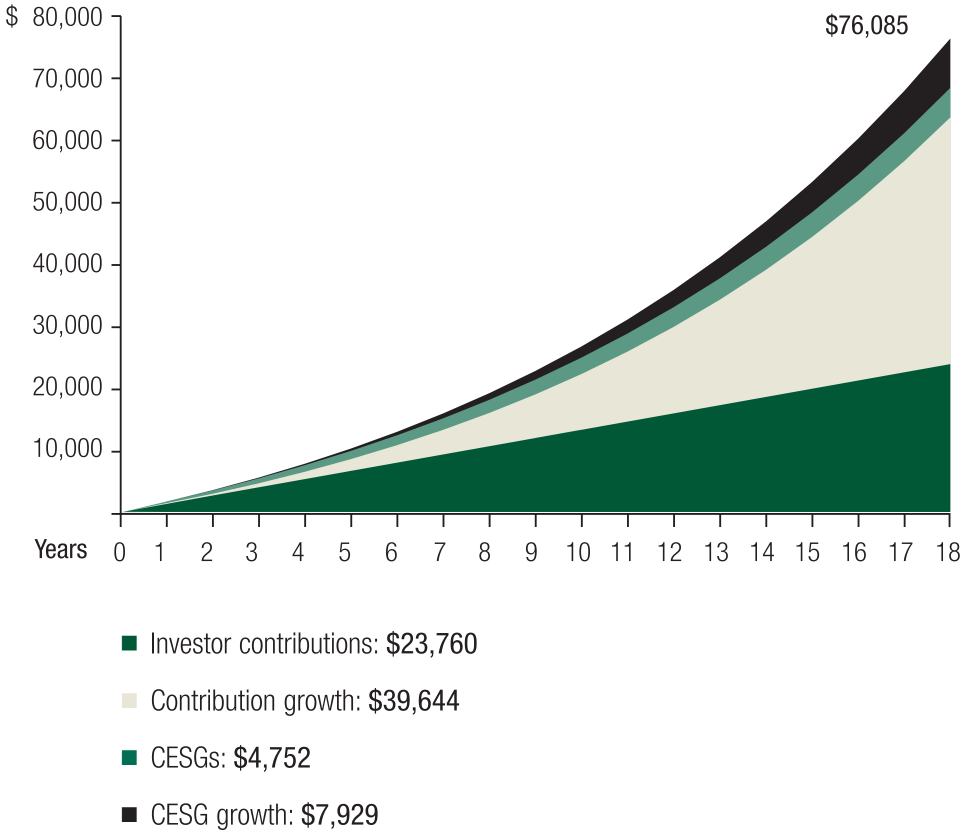
The Canada Education Savings Grant (CESG)

The CESG is a government grant that pays 20 per cent of the first $2,000 of annual RESP contributions made, to a maximum of $400 per year per child for children 17 and under. The lifetime maximum is $7,200 (20 per cent x $2,000 x 18 years). To receive the CESG, you must submit the child's social insurance number (SIN) when applying for an RESP. You cannot carry forward unused RESP contribution room; however, you can carry forward unused CESG room until the end of the year in which the child turns 17.

How CESGs can help

Let's say you plan to send your child to university for a four-year degree. You invest $110 per month from birth until your child turns 18, and the government tops that up with an additional $22 per month ($110 x 20 per cent). Over 18 years, you will contribute $23,760. The CESGs will provide another $4,752 for a total of $28,512. Assuming a 10 per cent annual compounding rate of return, the investment will grow to $76,085, which will more than cover your child's projected education costs.

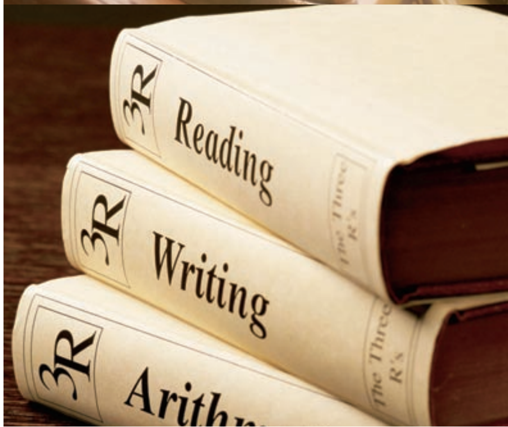
CESGs help your RESP grow faster



This example assumes that the full CESG benefit is received – that is, that monthly RESP contributions and corresponding CESGs start in January of the first year of saving. If monthly contributions start later in the first year, the amounts will be reduced correspondingly.







In-trust accounts are increasingly popular because of their investment potential. Creating a savings plan for a child can either offset future education costs or provide a nest egg for him or her upon reaching the age of majority.

TWO SOLUTIONS FOR SAVING

2 In-trust accounts

An in-trust account is an informal trust set up with a financial institution to invest funds for a minor. With an in-trust account, someone (the "trustee") manages money (or other assets) for a child (the "beneficiary") until the child reaches the age of majority. At that point, the trustee can make the necessary arrangements to transfer control to the beneficiary. There may be tax advantages, too. If the in-trust account is properly structured, your child may pay the taxes on any capital gains. And because your child will probably have a lower taxable income than you, he or she will pay little, if any, tax.

In-trust accounts – highlights

- You can contribute as much money as you want
- You, as the donor, are taxed on all income including interest, dividends, foreign and other income (except second-generation income) if earned during a year in which you are a resident of Canada
- If funds for an in-trust account come solely from Child Tax Benefit payments or an inheritance, income is taxed in the hands of the child (often at a lower rate if the child is in a lower income tax bracket)
- Capital gains may be taxed in the hands of the child
- Money stays in the hands of the child to use as he or she wishes if he or she decides not to pursue a post-secondary education

RESPS AND IN-TRUST ACCOUNTS AT A GLANCE

	RESP	In-trust account
Contribution limits	Annual: $4,000 per beneficiary Lifetime: $42,000 per beneficiary	Unlimited
Purpose	Assets may be used by the beneficiary for qualifying post-secondary education only.	Assets may be used by the beneficiary for any purpose.
Canada Education Savings Grant	20 per cent on the first $2,000 of annual contributions, to a maximum of $400 per year per beneficiary for children aged 17 and under.	N/A
Control of assets	The subscriber decides when and how much should be paid out of the plan to the beneficiary.	The trustee controls assets until the beneficiary reaches the age of majority, when control is transferred to the beneficiary.
Withdrawals	Withdrawals by the beneficiary during his or her time at school are determined by the subscriber and consist of growth on the RESP, plus CESGs. The subscriber may also choose to gift contributions to the beneficiary. The subscriber may withdraw contributions from the plan tax-free at any time, paying back any CESGs. If the subscriber is a Canadian resident, if the RESP has been in existence for at least 10 years and if none of the intended beneficiaries is pursuing a post-secondary education by age 21, the subscriber may withdraw the investment income (growth) that has accumulated in the RESP in the form of accumulated income payments (AIPs). Up to $50,000 of this money may be transferred to a personal or spousal RRSP provided unused RRSP contribution room is available. Any income the subscriber receives that is not transferred to an RRSP will be fully taxed in his or her hands at his or her top marginal tax rate In addition, the subscriber will pay a penalty of 20 per cent of the withdrawn accumulated income.	Money must be used for the child's benefit.
Taxation	Contributions are not tax-deductible; income received from the growth portion of the plan and from CESGs is reported to the beneficiary as "other income" on a T4A Supplementary slip when withdrawn.	Contributions are not tax-deductible; income earned on contributions to the in-trust account is generally attributed back to the donor. Capital gains may be taxed in the hands of the child.
Plan limitations	The life of the plan cannot exceed 25 years. The contribution period is limited to 21 years. CESGs are only available until the calendar year of the beneficiary's 17th birthday.	Unlimited

Start planning for your child's post-secondary education today

As a parent, it's one of the most important investments you'll ever make. When you consider the advantages of compounding over time, it becomes clear that funding a post-secondary education can be easier than you first thought. Even if your child is older, it's never too late to begin planning.

Your financial advisor can provide you with further information and advice to help you plan for your child's post-secondary education. AIM also has useful tax & estate info pages on RESPs and in-trust accounts. These are available from your financial advisor or by calling AIM at **1.800.874.6275**.

AIM Funds Management Inc. (AIM) is one of Canada's largest mutual fund companies with over $30 billion* in assets under management. A subsidiary of U.K.-based AMVESCAP PLC, one of the world's largest independent investment managers, AIM employs more than 900 people in its Calgary, Montreal, Toronto and Vancouver offices.

AMVESCAP is dedicated to helping people worldwide build their financial security, offering a broad array of investment solutions and services to individuals and institutional investors in 150 countries. Its securities trade on the London, Frankfurt, New York, Paris and Toronto stock exchanges. AIM and its associated companies under the AMVESCAP umbrella draw on the talents and expertise of more than 550 investment professionals in more than 25 countries to manage over $570 billion* in assets worldwide.

*As at September 30, 2001

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