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Registered Education Saving Plans: Participants, Take-up and Trends

Technical Report Prepared for the Canada Education Savings Program Summative Evaluation

By: Edouard Imbeau

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Registered Education Saving Plans: Participants, Take-up and Trends

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TABLE OF CONTENTS

The views expressed in the Evaluation directorate technical reports are the authors' and do not necessarily reflect the opinion of Employment and Social Development Canada or of the federal government. Technical reports consist of secondary research in the form of background studies that support the research efforts of the Evaluation directorate.

1. Introduction

The Canada Education Savings Program (CESP) was introduced in 1998 in order to encourage Canadians to save for the post-secondary education (PSE) of their children. At the time, the Canada Education Savings Grant (CESG) provided a grant of 20% on the first $2,000 of contributions to a Registered Education Savings Plan (RESP) for children up to the age of 17.[1] Since 1998, there have been many enhancements to the program, most notably the introduction of the Additional CESG (A-CESG) and the Canada Learning Bond (CLB) in 2005.

This study is a part of the overall work being conducted for the Summative Evaluation of the CESP to quantify if the CESP is achieving its objective, which is "…*ensuring that families can better save for their children's future education by providing stronger incentives through the CESP*."[2]

The study examines the use of RESPs and the profile of RESP participants. The study uses CESP administrative data, described in Section 3.

1.1 Study Objectives

This report is part of a series of quantitative reports that aims to assess the impacts and effects of the CESP on the savings of families. The following summative evaluation questions are examined by this study:

1) Are more people saving for PSE using RESPs since 1998?
    - Is there evidence to suggest that this has changed due to the introduction of the CESG in 1998?[3]
2) What are RESP, CLB and A-CESG take-up rates and what is the trend?
3) What is the socio-economic and financial literacy profile of RESP, CLB and A-CESG participants and what is the trend?
4) At what age of the beneficiary are RESP accounts opened and what is the trend?

1.2 Report Outline

Section 2 of the report provides a summary of the CESP (eligibility criteria, maximum allowable contributions, etc.) as well as a summary of RESP rules and how the different components of the CESP were implemented over the years. Section 3 examines the data used in the report, while Section 4 presents the analysis.

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[1] As of 2007, the Government of Canada provides a grant on the first $2,500 saved each year.
[2] 1998 Federal Budget, page 68.
[3] The evaluation question pertaining to changes in savings patterns since the A-CESG and CLB were implemented will be examined in a separate technical report for the summative evaluation.

1.3 Limitations of Study

The main limitation of this study is that only data since 1998 are available in the CESP administrative database. Therefore, it is not possible to examine trends in RESP participation before the introduction of the CESG in 1998.

Another limitation is that there is no family income information in the database. Therefore, it is not possible to examine A-CESG take-up and RESP participation of different income groups.

A third limitation is that in the sample used for this study, province of residence, the relationship between RESP contributors and beneficiaries, and RESP plan type are the latest records in the database. In other words, they are not time-varying. This precludes an analysis of trends among these groups.

2. RESP and CESP Rules

This section presents the general rules of RESPs and the CESP. Prior to the introduction of the CESG in 1998, families could also save for the PSE of their children using an RESP.

2.1 Registered Education Savings Plans (RESPs)

An RESP allows contributions to grow tax-free until beneficiaries (children) attend a PSE institution. Once a beneficiary begins attending a PSE institution, monies out of the RESP are paid out as contribution withdrawals and Education Assistance Payments (EAPs) to the beneficiary. Before the introduction of the CESG, the EAP included the accumulated earnings in the RESP. Since the CESG was introduced, the EAP also includes the CESG, the A-CESG, the CLB, provincial grants (Alberta and Quebec), and the accumulated return on those amounts. The EAP is taxable to the beneficiary attending PSE. Since many PSE students have little or no income, the EAP is often withdrawn tax-free or at a low tax rate.

There are three types of RESPs – an Individual Plan, a Family Plan and a Group Plan. An Individual Plan is opened for a specific child. A Family Plan is for one or more children, where the subscriber is a parent, grandparent or sibling. Unused amounts can be redirected to other beneficiaries within the plan.[4] A Group Plan is offered mainly by scholarship trust companies or foundations, where beneficiaries are grouped into cohorts.

If a beneficiary does not attend a PSE institution, there are a number of different options available to the subscriber to get their contributions back. Firstly, the subscriber may wait a few years in case the beneficiary decides to attend PSE. Secondly, the subscriber can name a sibling under the age of 21 as a new beneficiary. Thirdly, contributions can be withdrawn at any time without tax consequences. Once all of the RESP beneficiaries turn 21 years of age and are not attending PSE, and the plan has been in existence for at least ten years, the subscriber may be able to withdraw the income earned in the RESP as an Accumulated Income Payment. In that case, the subscriber could transfer up to $50,000 into a Registered Retirement Savings Plan (RRSP) or receive the RESP earnings withdrawn directly as income subject to income taxes and to an additional charge[5].

Over the years, the RESP annual contribution limit per beneficiary has increased from $1,500 in 1990 to $4,000 in 1997, and then to no maximum limit since 2007 (as Table 1 shows). Although there is no longer an annual contribution limit, there is a lifetime contribution limit per beneficiary, which has been $50,000 since 2007 (it was $31,500 in

[4] The CLB is non-transferable.

[5] The additional charge is 20 percent in addition to regular income taxes. This additional charge is put in place to ensure that the RESP fiscal measure is not used for tax-deferral purposes unrelated to either education or retirement savings.

1990). These increases in the contribution limit were announced in order to recognize the rising costs of PSE.

Table 1 – RESP Contribution Limits – 1990 to 2012

Period	Annual Contribution Limit per Beneficiary	Lifetime Contribution Limit per Beneficiary
1990 to 1995	$1,500	$31,500
1996	$2,000	$42,000
1997 to 2006	$4,000	$42,000
2007 to present	No limit	$50,000

Source: 1996, 1997, 1998 and 2007 Federal Budgets.

Although the maximum contribution limits increased in the 1990s, there were only a small percentage of taxpayers using RESPs before 1997. According to the 1997 report of the National Roundtable on Student Assistance, only 1.6% of all PSE students were making use of RESP funds to finance their PSE. As a result of these findings, some rules were relaxed in the 1997 Federal Budget.

First, the government announced changes regarding the rules for redirecting RESPs among siblings. The modifications provided greater flexibility to Group Plans to allow reallocation of RESPs among siblings under 21 years old in case one child does not attend PSE (as already possible with Family Plans).

Second, the government recognized that it was not always possible to redirect RESPs to other siblings. Before the 1997 Federal Budget, this situation could be seen as problematic, since RESPs were designated for PSE only. Consequently, subscribers lost all investment returns if their children did not pursue PSE. Since this was discouraging parents from starting an RESP, the federal government allowed subscribers to use RESP returns for other purposes, such as the transfer of up to $40,000 into an RRSP or receiving the RESP investment directly.

A few other rules were implemented in the 1998 Federal Budget. Prior to 1998, once a beneficiary started attending PSE full-time, there was no limit on EAP withdrawals. EAPs could be withdrawn entirely during the first 13 weeks of PSE enrolment. Since then, a maximum EAP withdrawal amount has been set at $5,000 during the first 13 weeks of PSE enrolment. After the beneficiary has completed 13 consecutive weeks in a PSE program, there is no limit on EAP withdrawals up until $20,000, at which time proof of expenses must be provided.[6]

In the 2007 Federal Budget, the federal government relaxed some rules regarding EAP use by part-time students – part-time students became eligible to access up to $2,500 from their RESP for every 13 weeks of enrolment. Prior to then, part-time students were

[6] Nevertheless, if there is a 12-month period in which the beneficiary is not enrolled in PSE for 13 consecutive weeks, the $5,000 maximum applies again.

only allowed to access their RESP if they were spending at least 10 hours per week in a PSE program for 13 weeks, which is the definition of a full-time student.

All of these changes over the years have contributed to increasing the RESP take-up rate and total RESP contributions. Along with these changes, the federal government has announced grants to help families saving for their children's PSE.

2.2 Canada Education Savings Grant (CESG)

The 1998 Federal Budget announced the implementation of the CESG to encourage families to increase savings for the PSE of their children. At that time, the CESG provided a grant of 20% on the first $2,000 of annual RESP contributions for children up to the age of 17. The maximum CESG was $400 per year and the maximum lifetime CESG amount was $7,200 ($400 times 18 years) per beneficiary. Since 2007, the CESG provides a grant of 20% on the first $2,500 of annual RESP contributions, equivalent to a maximum annual CESG amount of $500. Unused contribution room for one year can be carried forward.[7]

To be eligible for the CESG, a beneficiary must be a Canadian resident at the time of the RESP contribution and possess a valid Social Insurance Number (SIN). Contributions must be made prior to the end of the calendar year in which the beneficiary turns 17 years of age. To be eligible to receive the CESG when the beneficiary reaches the age of 16 and 17, certain minimum contributions had to have already been made before the end of the calendar year in which the beneficiary turned 15.[8]

2.3 Additional CESG (A-CESG) and Canada Learning Bond (CLB)

The government announced two key enhancements to the CESP in the 2004 Federal Budget – the A-CESG and the CLB.[9] The A-CESG and CLB came into effect on January 1, 2005, although the CLB was retroactive to January 1, 2004.

The A-CESG amount contributed by the government depends on the net family income of the beneficiary's primary caregiver(s):

- If net family income[10] was below $41,545 in 2011 (below the Canada Child Tax Benefit threshold), the A-CESG was 20 cents for every dollar on the first $500 of annual contributions into an RESP (i.e. a maximum of $100); and

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[7] The CESG amount could reach up to $800 in a single year before 2007 and $1,000 since then.
[8] This required either a minimum of $100 in annual RESP contributions made and not withdrawn in any four years or a total of $2,000 in RESP contributions made and not withdrawn.
[9] A subscriber must apply for the A-CESG and the CLB in order to receive it.
[10] Net family income is based on the calculated income of parents for the Canada Child Tax Benefit.

- If net family income was between $41,545 and $83,088 in 2011, the A-CESG was 10 cents for every dollar on the first $500 of annual contributions into an RESP (i.e. a maximum of $50).

These net family income thresholds have been indexed every year since 2004, following the Canada Child Tax Benefit indexation.[11] It should be noted that the unused A-CESG cannot be carried forward (as is the case with unused CESG contribution room).

The CLB was introduced to help lower-income families to start saving early in RESPs for their children's future PSE. To be eligible for the CLB, the beneficiary's primary caregiver(s) must be receiving the National Child Benefit Supplement and the child must be born on or after January 1, 2004. To receive the CLB, an individual must open an RESP, but contributions are not required. As well, an additional $25 is initially paid to cover the cost of opening an RESP.

The amount of the CLB is equal to the sum of the following amounts, and can add up to a lifetime maximum of $2,000 per child:

- $500 for the year in which a child is born or their family becomes eligible for the National Child Benefit Supplement, provided that the beneficiary is less than 15 years of age (note that all beneficiaries who are currently eligible for the CLB are those who are less than 9 years old in 2012); and
- $100 in each subsequent year, until the beneficiary reaches 15 years of age.

Entitlements for the CLB accumulate and are held until the child turns 21 years of age, so even if parents do not open an RESP for a child right away, they receive their full entitlement in a lump sum when they do open one and apply and qualify for the CLB.

[11] The net family income amounts are updated each year based on the rate of inflation.

3. Data

The CESP has maintained administrative data for the program since its introduction in 1998. Data on RESPs before 1998 are not part of the administrative database and are therefore not included in the analysis of this paper. Moreover, the CESP administrative data is a transactions database, i.e. it only records transactions and changes to accounts. Therefore, only RESP accounts with at least one transaction since 1998 can be accounted for in the analysis. Also, the database does not systematically track the closing of accounts[12], for simplicity, they continue to be active in the sample used for this paper.

The paper uses a 10% random sample of beneficiaries from the CESP administrative data and examines the period from 1998 to 2011. A 10% random sample of subscribers was used when analysing subscribers.[13] In total, there are 452,837 beneficiaries and 288,461 subscribers in the respective samples.

4. Analysis

This paper examines the number of RESP participants, RESP take-up and trends from 1998 to 2011. The analysis starts by examining the historical evolution of the number of RESP participants since 1998. It then examines RESP take-up rates, provides a profile of RESP participants and looks at the age at which RESP accounts are opened.

4.1 RESP Beneficiaries and Contributors

Evaluation question #1: Are more people saving for PSE using RESPs since 1998?

Since the beginning of the 1990s, average undergraduate tuition fees in Canada have increased much faster than the cost of living, going from $1,464 in 1990 to $5,366 in 2011, an increase of 267%.[14] This has created an environment where it has become more important for families to save for PSE and plan ahead. With the introduction of the CESG in 1998, the Government of Canada introduced a program to encourage families to save for PSE using RESPs, by providing matching grants to RESP contributions.

Also in 1998, new rules allowing families to withdraw RESP earnings if children did not attend PSE (or transfer earnings to an RRSP) came into effect. Before this change,

[12] The database includes information on account closures when there is a grant repayment to the government. In other situations, it is not straightforward to assess with certainty when accounts are emptied and closed after being used by beneficiaries.
[13] The October 2012 version of the CESP administrative data was used for this technical report.
[14] Inflation was 53% over this period (July 1990 to July 2011), with the Consumer Price Index (CPI) rising from 78.5 to 120. All data are from Statistics Canada.

families would lose their investment income if it was not used for education purposes (only contributions were returned to them). This was seen as a deterrent to opening an RESP.[15]

Previous research has shown that the number of RESP accounts almost doubled between 1997 and 1999. In addition, the number of promoters[16] offering RESPs more than doubled following these legislative changes, providing more visibility to RESPs and enhancing their accessibility by offering RESPs in a greater number of financial institutions.[17]

The number of people saving in RESPs has increased steadily since 1998. Both the number of beneficiaries under 18 and the number of subscribers have increased steadily every year. This reflects the increasing popularity of this saving vehicle and the change in the environment, notably the increase in PSE tuition costs.

Figure 1 shows the increase in the number of RESP beneficiaries less than 18 years of age since 1998. Only beneficiaries under 18 are examined here, as it is the age where saving for PSE is predominant and when RESP contributions are eligible for the CESG.[18]

The number of children with RESP accounts increased from 800,000 in 1998 to 3.1 million in 2011. The number of children receiving RESP contributions in a given year increased from 700,000 in 1998 to 2.4 million in 2011. These increases were persistent every year throughout the period.

Note that the total population of children (under 18) is very stable through time.[19] Therefore, the increases seen in Figure 1 are not due to a population increase, but reflect greater participation in RESPs.

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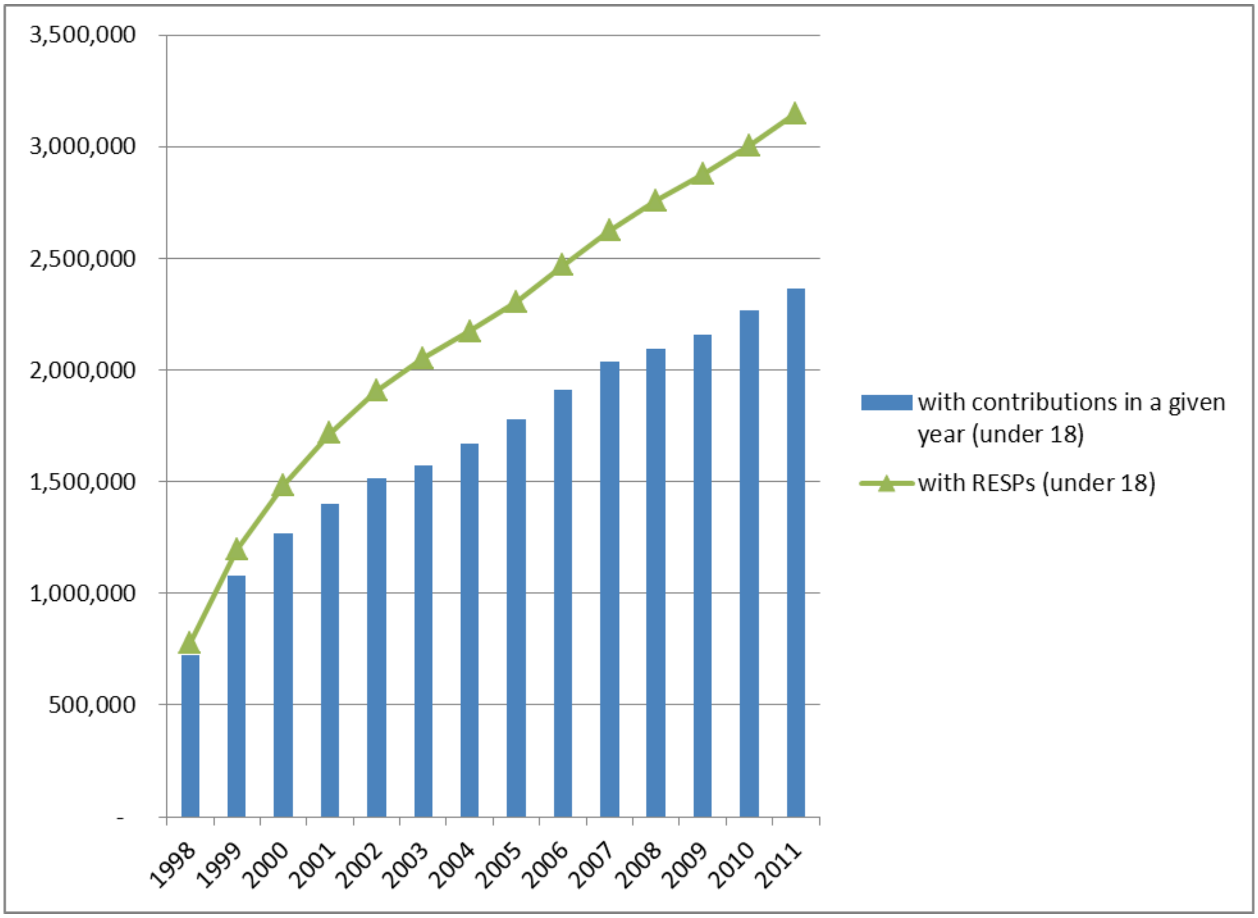
[15] Referring to the situation before 1998, Budget 1997 states that: "because the purpose of an RESP is to help post-secondary students, if a contributor's named beneficiary does not pursue higher education, the income from the RESP must go either to another eligible student or to an educational institution. In particular, the RESP income is not available to the contributor […]. Parents and others who consider setting up an RESP for a child are sometimes dissuaded by the risk that their investment income will be forfeited if their child does not go on to PSE. To reduce the risk that RESP income will be directed beyond the wishes of the contributor, the budget proposes to allow contributors to receive RESP income under certain circumstances." (Budget 1997, p.181)
This legislative change has only a limited effect on group plans, as group plans pool contributions into cohorts of children and promoters' rules usually imply that investment income cannot be withdrawn if a child does not attend PSE. "Investment income of a group plan becomes available for distribution to beneficiaries of other plans in the same cohort in three situations. First, the subscriber may close a plan and withdraw contributions made to date […]. Second, the provider closes a plan when the subscriber fails to make contributions on schedule and fails to make catch-up payments or exercise other options available. Third, when all contributions have been made according to schedule, the beneficiary may fail to qualify for a full scholarship under the rules of the plan." (Knight et al. 2008, p.12-13)
[16] RESP promoters are firms offering RESPs to the general public.
[17] See HRSDC (2002). These results were based on RESP Promoter Summary Reports requested by HRSDC. Note that beneficiaries can have more than one RESP account.
[18] Beneficiaries under 18 represented over 96% of beneficiaries with RESP contributions in 2011.

Figure 1 – Annual Number of Beneficiaries Under 18 Years of Age with RESP Accounts and Contributions



Proportion of RESP Beneficiaries under 18 who have Contributions in a Given Year: All Beneficiaries and Beneficiaries who ever Received CLB (%)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
All	92.5	90.3	85.3	81.7	79.4	76.7	76.9	77.2	77.5	77.6	75.9	74.9	75.4	75.1
CLB	-	-	-	-	-	-	-	74.6	93.6	91.8	88.1	85.0	82.7	80.6

Source: 10% random sample of CESP administrative data (452,837 beneficiaries).

About three quarters of beneficiaries less than 18 years of age receive RESP contributions in a given year. This proportion has remained stable since 2003. The proportion with RESP contributions among those who have ever received the CLB is higher but diminishing, reaching 81% in 2011. It has been shown that the likelihood of contributing to an RESP account diminishes with the age of the account and the age of the beneficiary (see Appendix Table A1). As CLB recipients are younger and have newer RESP accounts, it could explain the higher contribution rate.

The progressively decreasing share of new RESP beneficiaries (among all RESP beneficiaries) following the introduction of the CESG can explain (at least partly) the

[19] The number of children in Canada remained relatively constant throughout this period, with a slight downward trend. There were 7.2 million children under 18 years of age in 1998 and 6.9 million in 2011. Data are from the CANSIM series 051-0001, Statistics Canada.

decrease in the contribution rate from 1998 to 2003. Since new accounts are more likely to have RESP contributions in a given year, as the share of new accounts decreases, so does the overall share of RESP accounts having RESP contributions in a given year.[20]

Table 2 presents the number of new RESP beneficiaries each year. It shows that the flow of new beneficiaries was over 420,000 in 1998 and 1999 following the introduction of the CESG, and diminished gradually to reach roughly 215,000 in 2004. As can be seen in the last two columns of Table 2, this is not due to demographics but rather reflects the increased popularity of RESPs in the early years of the CESG.

Table 2 – Number of New RESP Beneficiaries under 18 Years Old from 1998 to 2011

Year	Number of new RESP beneficiaries under 18 (1)	Number of births and new immigrant children (2)	Population of children under 18 (3)
1998	424,120*	401,047	7,189,688
1999	436,000	385,928	7,157,153
2000	319,790	392,535	7,137,692
2001	280,200	396,424	7,121,079
2002	261,370	396,603	7,095,985
2003	228,230	382,512	7,053,939
2004	215,190	399,025	7,023,932
2005	237,520	405,535	7,005,983
2006	278,880	411,777	6,996,462
2007	284,760	420,373	6,970,481
2008	276,710	435,854	6,944,382
2009	268,090	441,154	6,927,904
2010	287,100	450,734	6,921,562
2011	306,620	453,808	6,923,899

* The number of new RESP beneficiaries in 1998 is likely overestimated.[21] When the CESP administrative data system was put in place, 1998 was often used as a default value by some RESP promoters and therefore includes beneficiaries who had accounts opened before 1998. RESP contracts of some existing beneficiaries were converted to new contracts to accommodate new program rules and were captured as new beneficiaries in some cases. The number of new beneficiaries in 1999 and 2000 could also be affected by this data issue.

Source: 10% random sample of CESP administrative data (452,837 beneficiaries). CANSIM Series 051-0001, 051-0011, 051-0013 for children estimates.

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[20] The following provides an example of the dynamic of an influx of new beneficiaries on the RESP contribution rate. Imagine there are 100 new beneficiaries every year starting in 1998, that all beneficiaries receive contributions in the first year their account is opened, and that afterwards each year they have a probability of 80% of receiving a contribution. Therefore, 100 RESP accounts are opened in 1998 and all 100 beneficiaries receive a contribution. In 1999, 100 new accounts are opened and 180 beneficiaries receive a contribution. In 2000, 100 more accounts are opened and 260 receive contributions. Thus, the contribution rate falls from 100% in 1998 to 90% in 1999, to 87% in 2000 and to 85% in 2001, etc.

[21] Previous research has shown that the number of RESP accounts increased by 325,000 in 1998, 365,000 in 1999 and 320,000 in 2000. See HRSDC (2002) for more details.

During the subsequent period, the flow of new RESP beneficiaries increased again, before stabilizing at around 280,000 per year between 2006 and 2010. This could be an indication of the effect of the enhancements to the CESP during this period (i.e. the introduction of the A-CESG and CLB) and/or the effect of demographics and other external factors. To show the potential effects of demographics, Column 2 presents the increase in the annual number of new children in Canada since 2003 (births and new immigrant children in Canada), which increased from 382,512 in 2003 to 453,808 in 2011.[22] This shows that during this later period, demographics can explain at least part of the increase in the number of new RESP beneficiaries.

Table 3 – Frequency of RESP Contributions for Beneficiaries under 18 Years of Age: How Many Have Contributions Every Year?

Year RESP was Opened	Contribution every year (A)	Contribution in 75% to 99% of years (B)	Contribution in 50% to 74% of years (C)	Contribution in 25% to 49% of years (D)	Contribution in less than a quarter of years (E)	Total (All beneficiaries) (A+B+C+D+E)	
	%	%	%	%	%	# in sample	%
1998	51.0	17.7	15.1	9.6	6.6	42,412	100
1999	41.4	17.5	16.1	13.8	11.2	43,600	100
2000	42.8	16.5	15.0	14.5	11.2	31,979	100
2001	47.3	13.3	15.0	14.2	10.2	28,020	100
2002	51.7	14.1	14.7	10.2	9.3	26,137	100
2003	49.9	19.7	11.2	10.3	8.9	22,823	100
2004	51.9	19.3	12.6	10.4	5.8	21,519	100
2005	55.4	13.3	13.9	11.4	5.9	23,752	100
2006	57.7	12.0	14.8	7.5	8.0	27,888	100
2007	59.3	12.7	9.1	8.6	10.2	28,476	100
Total	50.2	15.7	14.0	11.2	8.9	296,606	100

All columns examine RESP contributions for beneficiaries less than 18 years of age.
Source: 10% random sample of CESP administrative data. Beneficiaries with accounts opened before 18 years of age, between 1998 and 2007 (all had an RESP open for five years or more). Beneficiaries with accounts opened after 2007 were excluded, as there is not enough data to establish a comparable annual frequency of contributions.

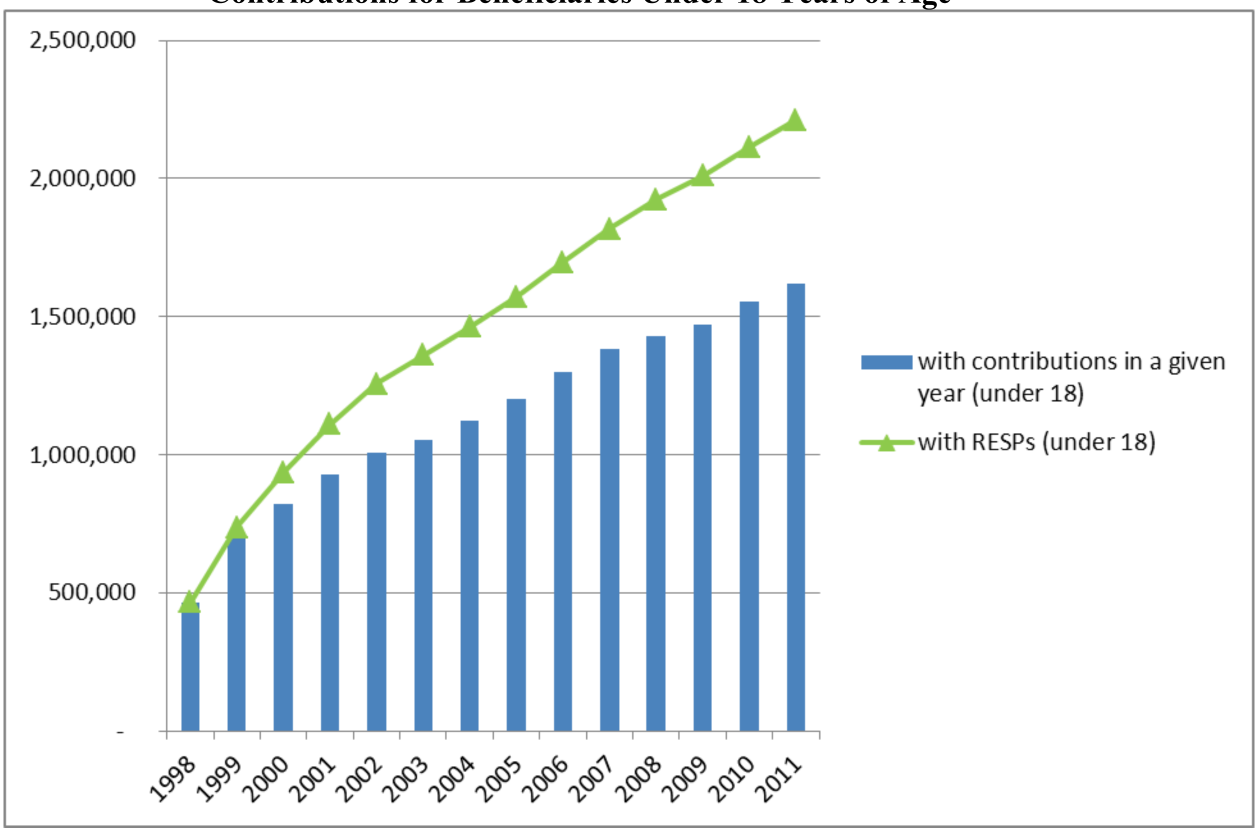
Table 3 presents information on the frequency of RESP contributions for beneficiaries under 18. Over half of all beneficiaries receive contributions in their RESP every year. Another 30% receive contributions in at least half the years they have an RESP (but not every year) and 20% receive contributions less often than that. These proportions have varied over time. However, it is not clear how much of the variation is due to RESP accounts and beneficiaries getting older through time and how much (if any) is due to cohort differences. It has been shown that contribution rates diminish with the age of the RESP account and beneficiary. To compare RESP accounts of the same age, Appendix Table A2 examines the frequency of contributions during the first five years of an RESP

[22] The effect of the introduction of the A-CESG and CLB on the number of beneficiaries will be examined in another study for the summative evaluation.

account and shows that the proportion of beneficiaries with contributions every year does not vary significantly, except for the 1999 and 2000 cohorts. It is not clear why these cohorts are different.

Moving from RESP beneficiaries to subscribers, Figure 2 shows an increase in the number of RESP subscribers.[23] The number of subscribers with RESP accounts (for children under 18) increased from 500,000 in 1998 to 2.2 million in 2011. The annual number of subscribers making RESP contributions for children increased from 500,000 in 1998 to 1.6 million in 2011. These increases were steady every year throughout the period.[24]

Figure 2 – Annual Number of Subscribers with RESP Accounts and Contributions for Beneficiaries Under 18 Years of Age



Proportion of RESP Subscribers of Beneficiaries under 18 Years of Age with Contributions in a Given Year (%)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
100.0	94.6	87.9	83.8	80.2	77.5	76.6	76.5	76.4	76.1	74.4	73.2	73.5	73.2

Source: 10% random sample of CESP administrative data (288,461 subscribers).

About three quarters of subscribers make contributions in a given year. This proportion has not varied much since 2003. The fact that accounts and beneficiaries are getting

[23] Subscribers are the contributors and owners of RESP accounts.
[24] Note that the average income of economic families of two persons or more increased from $76,100 in 1998 to $88,600 in 2009 (in $2009). Data are from CANSIM series 202-0401.

older (on average) could explain the diminishing proportion observed at the bottom of Figure 2 (older accounts and beneficiaries are less likely to receive contributions, as shown in Appendix Table A1).

This section showed a clear increase in the number of RESP beneficiaries and contributors since 1998 in an attempt to provide evidence on the contribution of the CESG to this increase. Since 1998, each year more people are saving for PSE using RESPs. However, pinpointing the exact cause of this increase is difficult. There have been many significant enhancements to RESPs over the years, including the introduction of the CESG, A-CESG, CLB and new rules allowing families to withdraw RESP earnings if children do not attend PSE. In addition, there have been changes in the environment, notably a substantial increase in tuition costs, which reinforces the need for families to save for PSE and plan ahead. Thus, it is difficult to get a clear picture of the contribution of the CESG to the increasing use of RESPs.[25] Further work for the evaluation will be needed to isolate the impact of the entire CESP on RESP use.

4.2 RESP, CLB and A-CESG Take-Up

<u>Evaluation question #2: What are RESP, CLB and A-CESG take-up rates and what is the trend?</u>

Take-up rates provide an indication of the use of a given program among the eligible population. Figure 3 presents data on RESP and CLB take-up rates. In 2011, 45% of children (under 18) had an RESP account and 34% received contributions into their accounts.[26] These figures have increased every year since 1998 and have almost doubled since 2000.

These numbers are significant given that most children wish to go onto PSE. For example, King et al. (2009) estimate that 85% of senior high school students in Ontario plan to go onto PSE. Shaienks and Gluszynski (2009) estimate that by the time youth are 26 to 28 years old, 81% had undertaken some form of PSE (42% had attended a university). Among those who had undertaken PSE, 81% graduated from a program, 14% dropped out without graduating and 5% were still enrolled in PSE and continuing towards their first diploma.

The fact that a child does not have an RESP does not mean that money is not being saved for their future PSE. The use of RESPs contributes to the overall incidence of PSE saving. The 1999 Survey of Approaches to Educational Planning showed that 16% of

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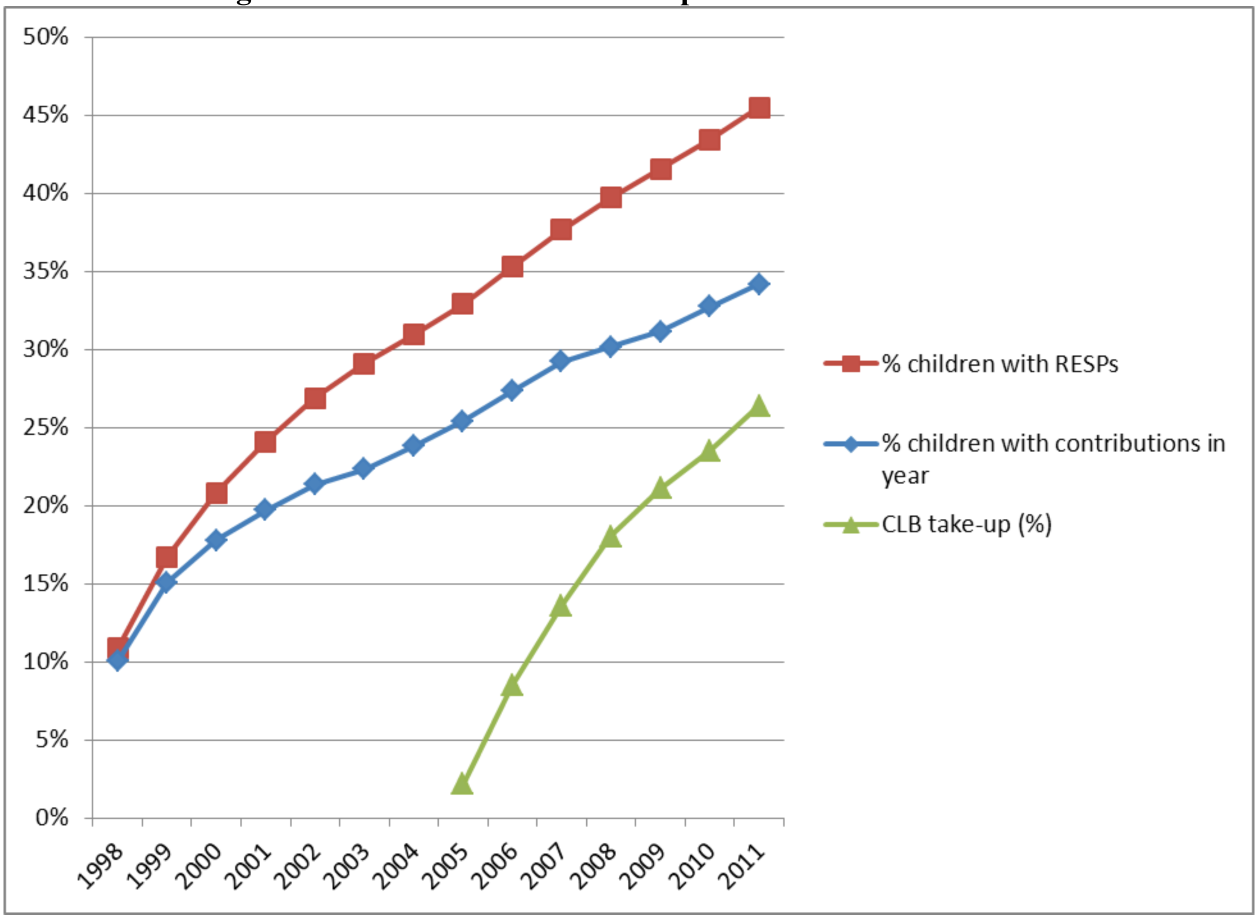
[25] One of the goals of this evaluation question is to examine if there is evidence to suggest that saving patterns for PSE have changed due to the introduction of the CESG in 1998. Other aspects of this question will be examined in another technical report, notably changes in amounts saved.

[26] Children estimates used for this report are Census estimates of the number of children who are residents of Canada (CANSIM series 051-0001). These include all children living in Canada as well as Canadian children who are abroad, either on a military base, attached to a diplomatic mission, at sea or in port aboard Canadian-registered merchant vessels.

children had RESPs and that 41% had PSE savings. The 2002 Survey of Approaches to Educational Planning showed that 27% of children had RESPs and that 50% had PSE savings.[27] Seven years later, the 2009 Canadian Financial Capacity Survey showed RESP take-up among families of 46% and 70% of families saving for PSE.[28] These findings strongly suggest that an increasing RESP take-up rate contributes to an increase in the overall incidence of PSE saving.

Figure 3 – RESP and CLB Take-Up from 1998 to 2011



Source: 10% random sample of CESP administrative data (452,837 beneficiaries), CANSIM series 051-0001 for RESP-eligible children estimates and CESP administrative data for CLB-eligible children estimates.

Figure 3 shows that the CLB take-up rate has continually increased since its introduction in 2005 and has tripled since 2006, pointing to the increasing popularity of RESPs and the CLB among low-income families. In 2011, 26% of all children eligible for the CLB had received it.[29] This is significantly lower than the overall RESP take-up rate. Even

[27] See Lefebvre (2004).
[28] See HRSDC (2012).
[29] All figures in this report are based on the transaction date by the client (not on the processed date by the government), as this is more intuitive when discussing opening an RESP account and making contributions. Due to processing time, some beneficiaries might have received payment for the CLB in the next calendar year. More precisely, CLB take-up is based on the date people made their application for the CLB, as only

when comparing similar age groups, the RESP take-up rate of children born since 2004 was 44% in 2011, still much higher than the CLB take-up rate. This shows that age is not an important factor in explaining the difference between the CLB and RESP take-up rates.

It is important to note that the administrative data do not include the information required to calculate the A-CESG take-up rate.[30] However, the data include information on the use of this incentive. For subscribers, A-CESG receipt is a two-step process. In the first step, RESP account holders must sign an application form including an information-sharing agreement to allow HRSDC to be able to verify their eligibility for CESP income-tested incentives with the Canada Revenue Agency (CRA).[31] The data show for whom the program has this authorization. For simplicity, in this report these accounts are referred to as "RESP accounts with lifetime registration for the A-CESG".[32] In the second step, RESP subscribers make contributions, with processing and eligibility verification completed by HRSDC in conjunction with CRA and the financial institution responsible for the RESP account.

Figure 4 shows that in 2011, 1.4 million beneficiaries under 18 (45% of beneficiaries under 18) had an RESP account with lifetime registration for the A-CESG, allowing them to receive this incentive in the years they are entitled to it. This number has increased significantly every year throughout the period, more than tripling since 2006.
To show how registration contributed to the increase in the number of recipients of these incentives, Figure 4 also presents the annual number of A-CESG and CLB recipients.

In 2011, there were 3.1 million RESP beneficiaries under 18, of which 700,000 received the A-CESG and 300,000 received the CLB. The annual number of A-CESG and CLB recipients has increased significantly since the inception of these incentives in 2005. The number of A-CESG recipients has more than tripled since 2006, while the number of CLB recipients has increased seven-fold. However, these two groups still represented a relatively small portion of all RESP beneficiaries in 2011 (23% and 9% of all beneficiaries under 18, respectively).[33]

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one application is necessary to unlock entitlements. Following the initial application, subsequent annual CLB payments are automatically made by HRSDC if eligible, with eligibility from one year to the next dependent on family income. Eligibility for the CLB is based on entitlement for the National Child Benefit Supplement (data on all eligible children born since 2004 is available in the CESP administrative data).

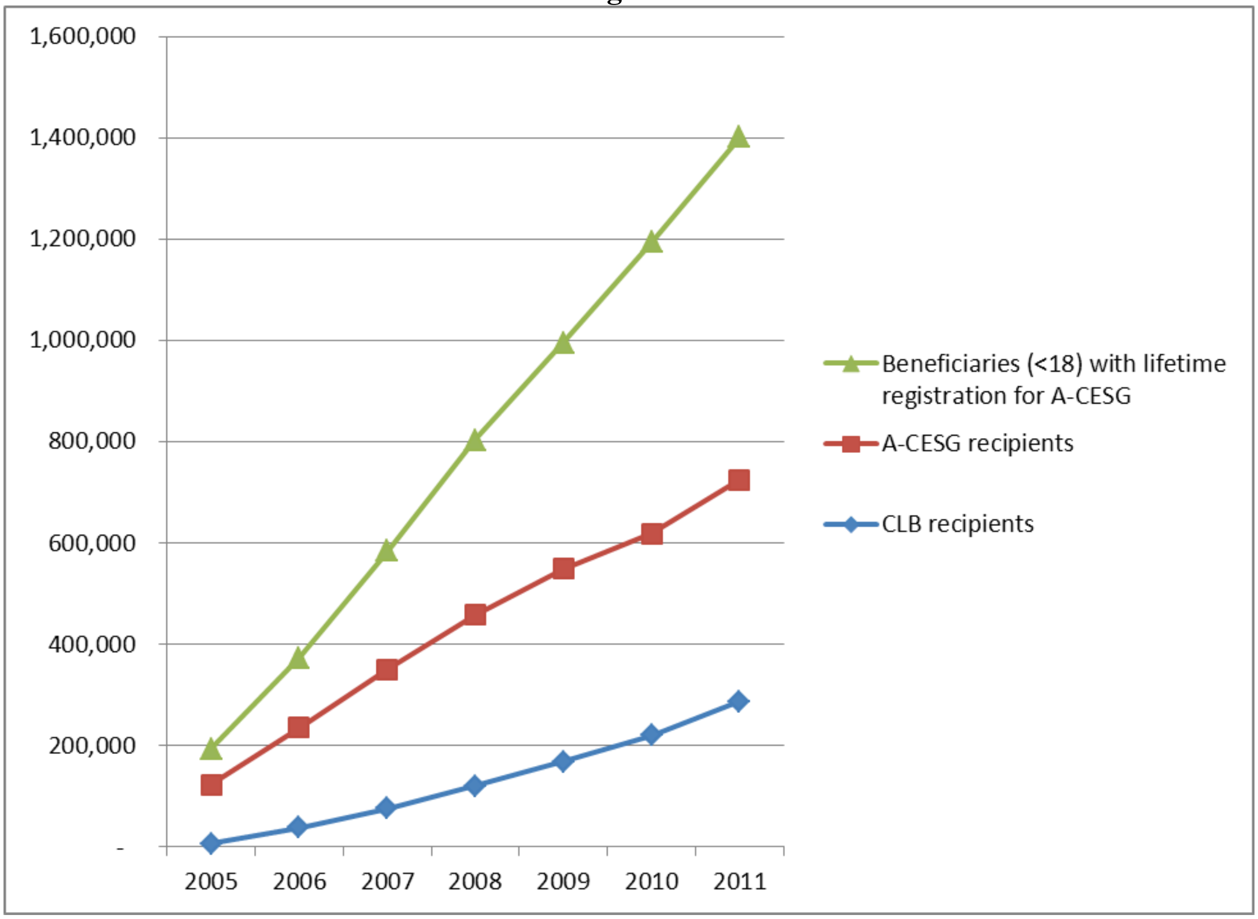
[30] This will be done in another technical report using Canada Revenue Agency income tax data.

[31] More precisely, the consent must be given by the primary caregiver (PCG) of the child, as eligibility for the A-CESG and CLB is based on the family income of the PCG.

[32] Even though registration for both incentives is done in one step with the same form, some beneficiaries could choose to register for only one of the two incentives. It is possible, although unlikely, that some chose only to register for the CLB. The measure of lifetime registration for the A-CESG would include these, so it could therefore be slightly overestimated.

[33] As only beneficiaries born since 2004 can become eligible for the CLB, the full effect of the CLB on the population of children is yet to come. To provide an order of magnitude of the potential CLB take-up, there were 2,800,000 children receiving the National Child Benefit Supplement (NCBS) in 2007, or 40% of the children population. As CLB eligibility is based on NCBS eligibility, 40% of children could eventually be eligible for the CLB when the program matures.

Figure 4 – Annual Number of A-CESG Recipients, CLB Recipients and RESP Beneficiaries with Lifetime Registration for the A-CESG



Annual Share of A-CESG Recipients, CLB Recipients and RESP Beneficiaries with Lifetime Registration for the A-CESG (as a % of all RESP Beneficiaries under 18 Years of Age)

	2005	2006	2007	2008	2009	2010	2011
Registered for A-CESG	8.4	15.1	22.3	29.1	34.6	39.7	44.5
A-CESG recipients	5.3	9.5	13.3	16.6	19.0	20.6	23.0
CLB recipients	0.2	1.5	2.9	4.3	5.8	7.3	9.1

Source: 10% random sample of CESP administrative data (452,837 beneficiaries).

4.3 Socio-Economic Profile of RESP Beneficiaries

Evaluation question #3: What is the socio-economic and financial literacy profile of RESP, CLB and A-CESG participants and what is the trend?

The administrative database provides only limited socio-economic information on RESP participants (gender and age of beneficiary, subscriber relationship to the beneficiary (e.g. parent, grand-parent) and province). There is no financial literacy information.[34] Table 4 shows the profile of RESP beneficiaries in 2011 (by socio-economic characteristic) by comparing the population of Canadian children to five groups of beneficiaries under 18: 1) all RESP beneficiaries; 2) beneficiaries without RESP contributions in 2011; 3) beneficiaries receiving the basic CESG only; 4) A-CESG recipients; and 5) CLB recipients.

In 2011, a quarter of all RESP beneficiaries under 18 did not receive RESP contributions, half received the basic CESG only, nearly a quarter received the A-CESG (with about half receiving the 30% grant and half receiving the 40% grant), and less than 10% received the CLB.

The age distribution of RESP beneficiaries under 18 is fairly similar to that of the children population. However, the distribution among those without any RESP contributions in 2011 is skewed towards older children, reflecting the fact that older beneficiaries are less likely to receive RESP contributions.[35] A-CESG recipients are more likely to be younger than all RESP beneficiaries under 18, likely due to the recent introduction of this measure and those opening an RESP more recently being more likely to register for the A-CESG. Not surprisingly, CLB beneficiaries are also far younger, given that only children born on or after January 1, 2004 are eligible.

Further findings illustrate that the distribution of RESP beneficiaries by gender is fairly representative of the overall population of Canadian children less than 18 years of age.

Three provinces have a higher share of RESP beneficiaries than their respective children populations (BC, Alberta and Ontario), reflecting a higher use of RESPs in these provinces. These provinces also stand out for their higher share of RESP beneficiaries without any contributions in 2011 and beneficiaries only receiving the basic CESG. The distribution of A-CESG and CLB recipients also varies by province. Three provinces (BC, Ontario and Quebec) have a higher share of A-CESG and CLB recipients than their respective children populations. This reflects the greater use of RESPs by lower income families in those provinces and the greater use of these incentives.

[34] Audet and Bele (2011) and HRSDC (2012a) examined the financial literacy profile of RESP subscribers.
[35] Note that even if older beneficiaries are less likely to receive a contribution in their RESP in a given year, older beneficiaries who do receive contributions receive higher ones, on average. See HRSDC (2013) for more details.

Table 4 – Distribution of RESP Beneficiaries in 2011 (%)

	Canadian population of children under 18	RESP Beneficiaries under 18				
		All	Without any RESP contributions in 2011	Basic CESG only	A-CESG recipients	CLB recipients
Age:						
-0-5	33.1	30.0	19.7	26.4	48.3	75.3
-6-11	31.7	35.0	34.3	36.6	33.0	24.7
-12-17	35.2	35.0	46.0	37.1	18.7	N/A
Gender:						
-male	51.3	51.2	51.8	51.1	50.9	51.6
-female	48.7	48.8	48.2	48.9	49.1	48.4
Prov:						
-BC	12.2	13.1	14.2	12.4	13.7	13.0
-AB	12.1	12.3	12.9	13.4	9.1	9.4
-SK	3.5	2.7	2.7	2.8	2.6	2.4
-MB	4.2	3.0	3.3	2.7	3.4	3.4
-ON	39.3	43.5	41.8	45.9	40.1	41.5
-QC	22.0	19.2	18.5	16.3	26.3	25.8
-NB	2.0	2.0	2.1	2.0	1.7	1.6
-NS	2.5	2.1	2.3	2.2	1.8	1.8
-PE	0.4	0.4	0.4	0.3	0.3	0.3
-NL	1.3	1.3	1.0	1.6	1.0	0.7
-Terr. & abroad	N/A	0.4	0.9	0.4	0.1	0.1
Relationship of contributors :						
-parents only		81.3	77.9	79.1	89.1	90.2
-grand-parents only		3.9	5.6	3.6	3.0	3.7
-uncle/aunt only		0.3	0.5	0.3	0.3	0.3
-siblings or unrelated people only	N/A	0.5	0.8	0.5	0.2	0.2
-other only		6.2	8.7	6.9	2.4	2.1
-agency only		0.2	0.4	0.1	0.2	0.4
-2+ types of relationships		7.6	6.0	9.6	4.8	3.2
Type of plan:						
-individual		26.4	27.5	26.4	24.9	24.8
-family	N/A	51.8	60.6	54.9	35.2	39.5
-group		35.8	24.5	33.9	52.7	45.3
-2+ types of plans		13.5	12.3	14.6	12.1	9.3
% of beneficiaries under 18	N/A	100	24.9	50.9	23.0	9.1
Sample size (#)	N/A	314,909	78,275	160,213	72,468	28,603

Source: 10% random sample of CESP administrative data. CANSIM series 051-0001 for population estimates. Note: A-CESG and CLB recipients are defined as RESP beneficiaries who received these incentives in 2011. N/A indicates not applicable.

Parents are the only contributors for 81.3% of all RESP beneficiaries under 18, while 3.9% have only grand-parents as contributors.[36] Other types of contributors are less common. There are a few agencies that are contributors but their number is very low.[37] Note that 7.6% of beneficiaries had more than one type of contributor reported, which included parents and another type of subscriber in over 93% of cases. Adding these, 88.4% of beneficiaries under 18 have their parents as contributors and 6.9% have their grand-parents as contributors (results not shown).

For A-CESG and CLB recipients, the proportion of beneficiaries with only parents as contributors is higher, reaching close to 90%. These beneficiaries are also less likely to have more than one type of contributor reported. Overall, over 93% of A-CESG and CLB recipients have parents as contributors (results not shown), slightly higher than for all beneficiaries under 18.

In 2011, more than half of all RESP beneficiaries under 18 had a family plan, over a quarter had an individual plan and over a third had a group plan. About 14% of beneficiaries had two or more types of RESP plans. Among A-CESG and CLB recipients, group plans were far more frequent and family plans were less frequent. Close to half of these beneficiaries had group plans, over a third had family plans and a quarter had individual plans.

It is important to note that in the sample used for this paper, province, the relationship of the RESP contributors and the type of RESP plan are the latest records in the database. In other words, they are not time-varying. This precludes the use of any trend analysis.

4.4 Beneficiary's Age at RESP Account Opening

Evaluation question #4: At what age of the beneficiary are RESP accounts opened and what is the trend?

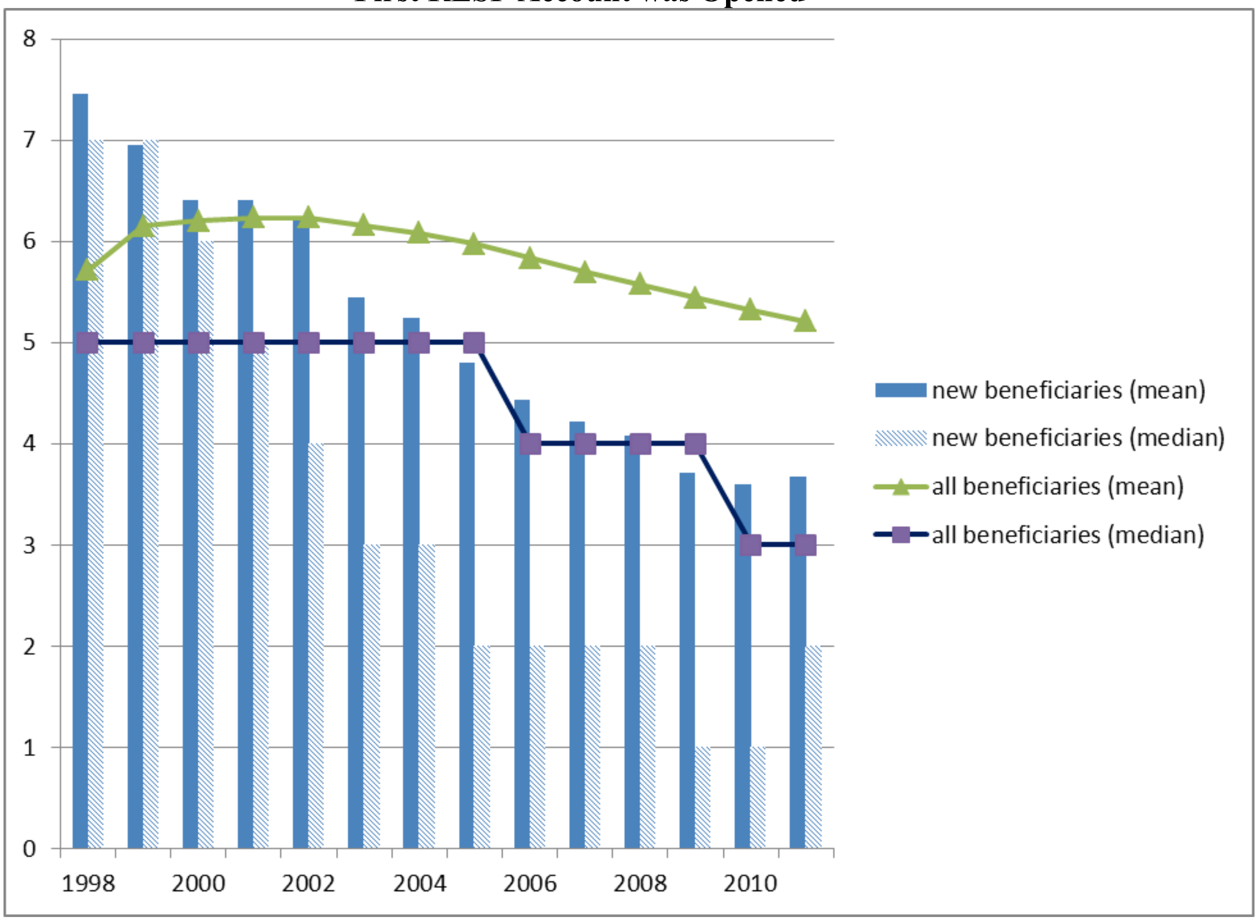
An RESP account can be opened any time after a child is born and is registered to receive a SIN. When RESP accounts are opened early in a child's life, there is more time to make contributions before PSE and more time for investment returns to accumulate and compound.

[36] The administrative data indicate the relationship between the RESP beneficiary and the contributor who owns the RESP account. Other family members and friends could give money for contributions to an RESP as gifts. However, the administrative data does not keep track of the exact source of the money – it only keeps track of the contributor who owns the account and the beneficiary.

[37] There is an "other" category which accounts for 10.7% of beneficiaries under 18 (6.2% with other only). This seems odd at first glance and could be a data issue. In addition, there were 5% of beneficiaries under 18 with no information on relationship (missing values), which were excluded from the proportion calculations.

Figure 5 presents the average and median age at which a beneficiary's first RESP account was opened.[38] The bars represent the age of new beneficiaries in a given year. The lines in the graph indicate the age at which first RESP accounts were opened for all RESP beneficiaries in a given year, showing the cumulative effect. They are both decreasing with time, as new beneficiaries have their accounts opened at younger and younger ages. This trend for new beneficiaries seems to have stabilized since 2010, with a slight increase in 2011.[39] In 2011, new beneficiaries were less than 4 years old on average, with a median age of 2.

Figure 5 – Average and Median Age of Beneficiaries when First RESP Account was Opened



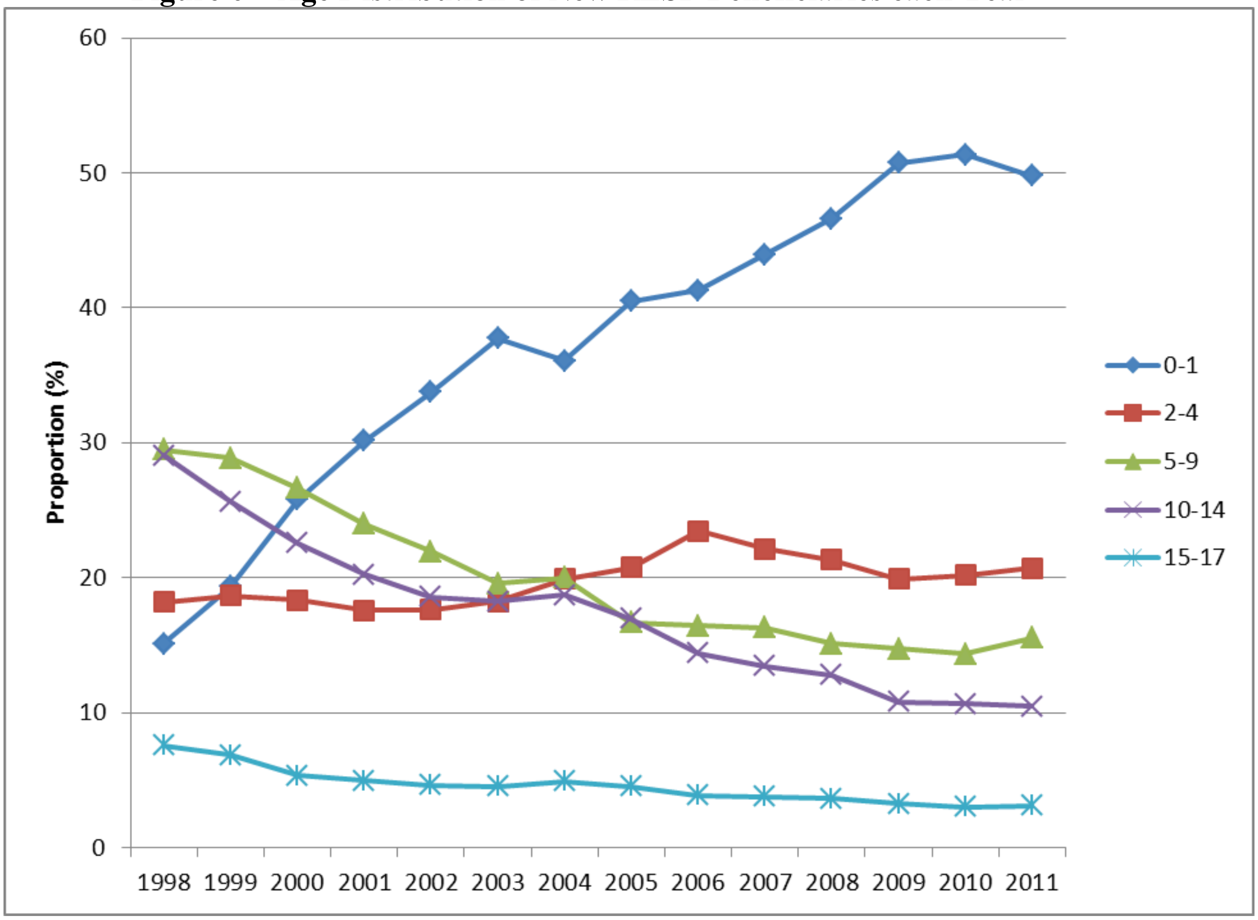
Source: 10% random sample of CESP administrative data (452,837 beneficiaries).

Figure 6 shows the distribution of new beneficiaries by age group. During the first few years of the CESG, new beneficiaries were more evenly distributed across age groups, as all parents could benefit from the CESG for the first time. Following this initial period, the weight of the youngest age group has continued to increase each year to reach over

[38] Age is defined here as the age the beneficiary attained in the calendar year during which the account was opened. This is the way age is defined for features of the CESP, for example, eligibility for the CESG before the year a beneficiary turns 18 years old.
[39] Due to the way age is defined (explained above), the median age of new beneficiaries uses only rounded integer values and therefore jumps from 1 to 2 years old in 2011.

50% of new beneficiaries in 2009. This reflects a change in behavior of many subscribers, opening RESP accounts earlier in the child's life. Since 2009, half of all new RESP beneficiaries are younger than 2 years old and 70% are younger than 5. This shows that most decisions to open an RESP are taken when the child is very young, perhaps indicative of parents embracing the importance of opening RESPs for their children at a young age. However, there remains a significant proportion of the children population having an account opened at a later age.

Figure 6 – Age Distribution of New RESP Beneficiaries each Year



Source: 10% random sample of CESP administrative data (452,837 beneficiaries).

In 2011, first RESP accounts were opened before the child entered pre-school on average (before 4 years old), with half of all new beneficiaries having their accounts opened before reaching the age of two. Figure 6 indicates that this is a significant increase from 1998, when only about 15% of new RESP beneficiaries were under 2 years of age.

6. Conclusions

This paper used CESP administrative data to provide a profile of RESP participants, take-up rates and trends. This study will contribute to the Summative Evaluation of the CESP. In particular, the paper will be one of many lines of evidence used to answer the following evaluation questions.[40]

Are more people saving for PSE using RESPs since 1998? Is there evidence to suggest that this has changed due to the introduction of the CESG in 1998?

Starting in 1998, there were two significant changes to RESPs: 1) families could now withdraw their investment income if their child did not attend PSE; and 2) families could now receive the CESG on RESP contributions. Previous research has shown that the number of RESP accounts almost doubled between 1997 and 1999. Since then, the increase has continued, as more and more people are saving for PSE using RESPs. The increasing popularity of RESPs is most likely due to these program changes and to changes in the environment, notably the increase in tuition costs reinforcing the need for families to save for PSE and plan ahead. Additional studies completed for the evaluation will be better able to address this question.

What are RESP, CLB and A-CESG take-up rates and what is the trend?

In 2011, 45% of all children (under 18) had an RESP account and 34% received contributions into their account. Among children eligible for the CLB, 26% have received it. All these figures have increased noticeably every year during the period. However, the CLB take-up rate remains significantly lower than the overall RESP take-up rate. A-CESG take-up could not be calculated using the available data due to a lack of income information.

<u>Frequency of RESP contributions</u>

Since 2003, about three quarters of RESP beneficiaries less than 18 years of age receive contributions in a given year. This figure is higher for CLB recipients (81% in 2011). Over half of all beneficiaries under 18 receive contributions in their RESP every year. Another 30% receive contributions in at least half the years they have an RESP (but not every year) and 20% receive contributions less often.

What is the socio-economic and financial literacy profile of RESP, CLB and A-CESG participants and what is the trend?

In 2011, nearly a quarter of all RESP beneficiaries under 18 received the A-CESG and close to 10% received the CLB. The age distribution of RESP beneficiaries under 18 is

[40] Note that there are many other evaluation questions not addressed by this report that will be covered in other technical reports.

fairly similar to that of the population of children under 18. However, A-CESG and CLB beneficiaries are far younger, likely due to the recent introduction of these incentives and the eligibility rules for the CLB.

Close to 90% of beneficiaries have their parents as contributors, 7% have grand-parents as contributors and almost 8% have more than one type of contributor. Among A-CESG and CLB recipients, the proportion having parents as a contributor reaches 93%, but these beneficiaries are also less likely to have more than one type of contributor reported. Overall, the distribution of RESP beneficiaries under 18 by province reflects their respective populations, with BC, Alberta and Ontario having slightly higher shares of beneficiaries. Three provinces (BC, Ontario and Quebec) have a higher share of A-CESG and CLB recipients than their respective children populations.

The data does not permit any analysis by financial literacy. However, this issue is addressed in other technical reports prepared for the summative evaluation.

At what age of the beneficiary are RESP accounts opened and what is the trend?

In 2011, first RESP accounts were opened before the child entered pre-school on average (before 4 years old), with half of all new beneficiaries having their accounts opened before their second birthday. Overall, accounts are opened earlier today than they were in the past. This gives contributors more time to make contributions before PSE and more time for investment returns to accumulate and compound.

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8. Appendix

Table A1 – Proportion of RESP Beneficiaries under 18 who have Contributions in a Given Year: by Age of Account and by Age of Beneficiary

	Likelihood by Age of Account	Likelihood by Age of Beneficiary
0	92%	87%
1	82%	92%
2	79%	89%
3	76%	86%
4	74%	84%
5	73%	82%
6	72%	80%
7	71%	79%
8	70%	77%
9	69%	76%
10	68%	74%
11	68%	74%
12	68%	73%
13	70%	72%
14	N/A	71%
15	N/A	71%
16	N/A	66%
17	N/A	61%
Total	**78%**	**78%**

Source: 10% random sample of CESP administrative data up to 2011. Accounts opened in 1998-2011 period (410,458 beneficiaries). N/A indicates not applicable (accounts opened in 1998 were 13 years old in 2011).

Table A2 – Frequency of RESP Contributions for Beneficiaries under 18 Years of Age: How Many Have Contributions Every Year during the First Five Years?

Year RESP was Opened	Contributed in year of opening and in following 4 years		Contributed in 4 of first 5 years	Contributed in 3 of first 5 years	Contributed in 2 of first 5 years	Contributed in 1 of first 5 years	Did not contribute in first 5 years	Total (All beneficiaries)	
	# in sample	%	%	%	%	%	%	# in sample	%
1998	23,813	56.1	15.1	12.6	9.0	6.3	0.9	42,412	100
1999	21,080	48.3	14.8	13.1	12.0	10.9	1.0	43,600	100
2000	16,232	50.8	13.1	11.4	11.3	12.3	1.2	31,979	100
2001	15,349	54.8	12.5	10.6	10.4	10.3	1.3	28,020	100
2002	15,374	58.8	12.3	9.9	9.3	8.2	1.4	26,137	100
2003	12,459	54.6	18.6	9.5	8.2	7.8	1.3	22,823	100
2004	11,873	55.2	17.3	9.8	8.7	7.5	1.5	21,519	100
2005	13,405	56.4	16.5	9.8	8.6	7.3	1.4	23,752	100
2006	15,965	57.2	14.1	9.4	8.9	7.9	2.4	27,888	100
2007	16,016	56.2	13.6	9.4	8.9	9.2	2.7	28,476	100
Total	161,566	54.5	14.6	10.8	9.7	8.9	1.5	296,606	100

All columns examine RESP contributions for beneficiaries less than 18 years of age. Note that some beneficiaries had less than 5 years between account opening and the year they turned 18 years old. Therefore, these beneficiaries could not reach 5 years of contributions before turning 18.
Source: 10% random sample of CESP administrative data. Beneficiaries with accounts opened before 18 years of age, between 1998 and 2007. Beneficiaries with accounts opened after 2007 were excluded, as there is not enough data to establish a comparable annual frequency of contributions.