

Five common RESP mistakes parents make – and how to avoid them

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Parents open registered education savings plans for their kids with the best intentions. But do things always work out as planned when their kids go to university or college?

Financial advisors and financial planners identified the following five common mistakes RESP subscribers make along the way.

1. Not having a meltdown strategy

Accumulating education savings is the focus for most parents. But neglecting withdrawal strategies is shortsighted, says Markus Muhs, senior portfolio manager with Muhs Wealth Partners at Canaccord Genuity Wealth Management in Edmonton.

He notes that RESP funds consist of three buckets: subscriber contributions, money from the Canada Education Savings Grant and gains earned on the investments. Withdrawing from those buckets can be confusing for clients - and even for some advisors.

The grants and investment gains (known as educational assistance payments) are taxable to the student, who should have a lower income tax rate than the parents. (Any income below the basic personal amount of \$16,452 would be tax-free.)

Mr. Muhs prioritizes withdrawing the grant and growth money first. He says clients have “one golden window” to receive that money; if the student drops out after a year or two, that window closes.

Travis Koivula, senior wealth advisor at Island Savings Wealth Management in Victoria, says some clients amass large RESPs and have funds left in the account after their children graduate.

The contributions can be withdrawn tax-free, but the investment growth portion is not only taxed to the subscriber when withdrawn – there’s an additional 20-per-cent penalty. That’s why he encourages clients to start melting down the RESP as soon as the child starts post-secondary education.

His philosophy: withdraw more early – not to spend but to move to other long-term accounts for the child. He recommends taking all the principal out in the first year and then drawing as much grant money and growth each semester as possible. He notes that

if the grant is not withdrawn for school, it goes back to the government when the RESP is closed.

“Get it invested in other accounts, like a tax-free savings account (TFSA), first home savings account or non-registered account so you would not suffer that 20-per-cent penalty on the earnings if it doesn’t get used,” Mr. Koivula says.

After inheriting clients from a former advisor, Mr. Muhs has seen situations in which parents withdrew “little bits and pieces here and there” from an RESP. Now, the kids are in their 30s, the RESP still has \$100,000 left and it’s close to the point at which it has to be closed.

“If they could go back in time, they should have made much larger withdrawals, even if it’s just to move the money to another account,” he says.

Cory G. Litzenger, chartered professional accountant at CGL Tax in Red Deer, Alta., says subscribers should gift some of the principal RESP contributions each year to the student to set up their own TFSA.

“It’s just a matter of shifting and moving it from a taxable to a non-taxable account,” he says.

2. Justifying every single expense

Some subscribers withdraw from their RESPs to cover specific expenses, such as tuition, a computer or lodging.

Mr. Muhs grew puzzled with the multiple withdrawal requests. As long as the beneficiary is enrolled in an approved post-secondary institution, they don’t have to justify specific expenses, Mr. Muhs says.

For 2026, after the first semester, he notes that subscribers can withdraw up to \$29,459 without extra documentation. They just have to proof enrollment, Mr. Muhs says.

3. Leaving investments on autopilot

A subscriber with a child starting post-secondary this year who put all their RESP contributions into equities for the past 18 years will have seen exceptional investment performance, Mr. Muhs says.

But he remembers clients who started contributions in the 1990s and whose kids entered university in 2008, when markets were down 40 per cent.

“Along the way, you need to review and adjust that asset mix to fit with the time horizon,” he says. “Things can go the other way, so you can’t just leave things on autopilot.”

4. Not investing aggressively enough – or at all

Lin Sok, financial security advisor at Lin Sok Services Financiers Inc. in Montreal, acknowledges a period of time when she wasn't able to contribute as much as she would have liked to her child's RESP.

A single mother, she was able to compensate by investing more aggressively, and her daughter had enough funds to complete her post-secondary education.

She's heard from prospects who were told that since the money's for education, they should avoid taking big risks. These subscribers often kept their contributions in money market funds and considered the grant money their investment return.

Others shied away from RESPs entirely, listening to those who said the plans are a waste of money since the child may not actually go to university or college. They ignored the "free money" aspect of 20 per cent in government matching.

"The worst-case scenario is you get your capital back and pay the government back its portion," Ms. Sok says.

5. Ineligible withdrawals

If a subscriber withdraws RESP earnings to be used at an ineligible school, there's a 20-per-cent penalty. Subscribers can search a government list for eligible institutions.

Mr. Koivula says well-known post-secondary institutions will be listed, but it's good practice to confirm smaller and niche schools and programs.