Group education plans come under fire

Pools say they account for more than half of all RESPs — despite complaints over marketing, fees

By Wendy Cuthbert

With a history of 40-plus years for pooled scholarship RESPs, it's no surprise that financial advisors hear a lot about them. In fact, statistics provided by the Canadian Scholarship Trust Foundation to the RESP Dealers Association of Canada show group plans account for slightly more than half of all RESPs in Canada.

In a group plan, investors agree to buy a certain number of units in a pool according to a contribution schedule. The pool's income is divided among the registered children who qualify for post-secondary education when those children turn 18.

But complaints of aggressive marketing tactics, confusing fee structures and an inherent lack of flexibility still mar these plans in the eyes of many advisors.

"Scholarship funds have always been much more restrictive than self-directed RESPs," says Katherine Bain, a certified financial planner and registered financial planner with **Beacon II** in Brampton, Ont. "As a financial advisor, it doesn't matter how many questions you ask your clients about what they want to see unfold in the future, what you find out is that there's a good chance it's going to change next year."

That's why she shies away from these plans, preferring the less restrictive self-directed RESPs.

"Pools are definitely not a good option for clients," says Majid Behravesh, a CFP and chartered life underwriter for **IFS Integrated Financial Solutions Inc.** in North Vancouver, B.C.

Flexibility is a big issue — a student who attends only one or two years of university forfeits at least some earnings, for example. Even more troubling for Behravesh are the many fees associated with pooled plans; for the first two years, the client pays only fees, he says.

Add the in-your-face marketing tactics of some reps, and group plans leave a sour taste in the mouth of many advisors.

In 2002, after a rash of complaints about group plans by consumers, the **Ontario Securities Commission** published a brochure to address the differences between the types of RESPs available.

A year later, the OSC participated in a national compliance review to assess whether scholarship plan dealers were complying with provincial securities legislation. The review identified many deficiencies in Ontario, published in an OSC report in 2004. These included issues with compliance and supervision, a lack of maintenance for "know your client" information, inadequate disclosure of fees, disingenuous sales practices — including sales reps who indicated they worked for a not-for-profit organization — and misleading marketing materials.

Each of the five companies that participated in the review had its own issues. Peter Lewis, vice president of operations for the Canadian Scholarship Trust Foundation, which offers scholarship funds through its wholly owned distributor, **C.S.T. Consultants Inc.** , says CSTC was quick to react to the review's recommendations: staff were given additional training and a new standard was set for the quality and calibre of recruits. The company also implemented a new structure to oversee its sales reps. As a result, Lewis says, the terms and conditions the OSC imposed were removed in March 2005.

Pooled RESPs are more flexible now than 10 years ago. When CSTC first launched in 1961, a child had to go to university to qualify; community colleges and vocational training didn't quality. That has changed, as has the ability to switch the plan to younger children should the older child not use the plan.

Lewis often hears advisors lament the confusing fee structure of pooled RESPs, but says they are straightforward at CSTC. The fees on its products fall into two categories.

The first is an enrolment fee, a $200-a-unit sales fee that comes out at the front end. The number of units

depends on the age of the child when the plan starts and the deposit frequency selected.

To hit $2,000 a year in contributions — the maximum eligible for a Canada education savings grant — a family would need to contribute $166.67 a month for a newborn; the family would end up with 17.5 units. The average plan size, however, is about six units, Lewis says.

If a family elects to withdraw from the plan, the initial fee is lost. So switching out of a plan can be costly, he says: "What they're doing is causing that family to leave on the table a lot of money that they've already paid in fees."

The second fee category is for ongoing administration, including an annual fee of $3-$10, and 0.5% charged to the income earned each year. There are other fees, such as trustee fees and investment management fees, which are spelled out in the prospectus.

These layers of fees are the sticking point for many advisors. "I have never recommended pooled scholarship RESPs, mainly because of the lack of transparency in their fees," says Marc Lamontagne, a fee-for-service CFP and RFP for **Ryan Lamontagne Inc.** in Ottawa. Even more significant in his mind is that pooled plans — which mainly stick to fixed-income investments — don't offer any real growth opportunities. **IE**