Attention Parents: Here's How to Get a Guaranteed 20% Return in Your Kid's RESP

Description

Canadian parents are getting a windfall this week and many are putting it straight into registered education savings plans (RESPs) for their kids.

Last year the Canadian government announced a plan to increase the universal child care benefit (UCCB) from $100 to $160 per month for every child under the age of six. The program was also extended to provide $60 per month for children aged 6-17.

This week the payments go out and families are receiving the extra $60 per month retroactive to January 1, so parents are going to receive $420 per kid.

Every family has a different financial situation, and paying off high-interest debt is the first place extra money should probably go. But many parents have their credit cards under control and want to use the UCCB to directly benefit the child. The best way to invest that money is to put it into an RESP.

The government wants parents to save for education. As an incentive, Ottawa will match 20% of all annual RESP contributions up to $2,500, giving families a $500 bonus per child.

If the full $160 goes into the RESP, parents only have to come up with an extra $48.33 per month to put away $3,000 per year.

How should parents invest the money?

RESP accounts allow the money to be held in cash, GICs, bonds, or stocks.

Many people will simply put the RESP funds into a GIC. That ensures the money is 100% safe and parents know exactly how much the kid will have when it comes time to head off to college or university.

For parents who can afford to take on a bit of risk and are interested in boosting returns on the money, they can start the funds out in dividend-growth stocks when the child is very young, and then begin to shift the investments at the age of nine or 10 into fixed income investments, so the entire amount is risk-free when the child turns 18.

It’s important to de-risk the fund in the later years because stock markets go through periods of volatility and all the gains should be protected when it comes time to make the withdrawals.

Which stocks should you buy?

The best option is to go with companies that are market leaders, that operate in industries with wide barriers to entry, and have long track records of both dividend growth and capital appreciation.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) and **Fortis Inc.** (TSX:FTS) are two good examples.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
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