1 Stock Is All You Need for a $139,000 RESP

Description

The cost of education in Canada continues to increase. A 2018 survey in Canada revealed that the expenses of a student living at home were $9,300 per year on average. That number rises to $20,000 per year if the student is living away from home.

By the time your child reaches university age, these numbers could easily have doubled, which begs the question: will you be ready to send your child to university without saddling them with a huge debt load?

You can get free money

It isn't often that the government gives you free money for doing nothing. Luckily, your child's education is one of those rare occasions.

The best way to save for your child's education is via the Retirement Education Savings Plan (RESP). You can contribute up to $50,000 per child, with the government adding $500 per year using the Canadian Education Savings Grant (CESG), up to a total of $7,200 received. If invested wisely, this $7,200 can go a very long way.

One caveat is that grants from the CESG and CLB will be taxable income once you withdraw it. But the beauty of it is the money will be taxable under your child's income. Because they are students, they likely won't have a lot of income, so they'll have little to no tax to pay.

Grow your investment tax-free

One thing that isn't great about programs such as the Tax-Free Savings Account (TFSA) is that it isn't available for children under 18. Thankfully, the RESP can be a good substitute for this.

Let's use the **TD Bank** (TSX:TD)(NYSE:TD) as an example. TD Bank is the second-largest bank by market capitalization in Canada and boasts a significant U.S. presence. TD also is the fastest-growing bank of the Big Six, mainly due to this U.S. advantage.

Over the past 20 years, including stock appreciation and dividends reinvested, TD has averaged a 12.01% total return per year.

In this example, the assumption is that you will contribute $2,500 per year, receive the maximum amount of grants recommended at $7,200, and start when the baby is zero years of age.

Assuming this same growth rate as TD of 12.01%, by the time your child is 18, the RESP would be worth over $139,000. If you held the investment, not within the RESP, it would be worth a lot less without the grants and the tax-free growth.

In conclusion

At least we don't have it as bad as the U.S. For our neighbours to the south, with American tuition, top-tier university expenses can run as high as $80,000 per year.

You've now seen an example of what a good dividend stock like TD held within your RESP can achieve. Investing in just one stock isn't recommended.

Instead, you should spread your risk and invest in a portfolio of several stocks. Invest early in the RESP and your child should be well on his or her way to pay comfortably for the school of their choice.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Investing

Date
2025/08/19
Date Created
2019/09/07

Author
cliew