



Canadian Parents: The RESP Guarantees \$7,200 “Free” Money for Your Children

Description

Canadian parents, are you worried about what the cost of tuition will be once your child graduates high school? With costs spiraling out of control for post-secondary education, you might be stressed out about how much the cost of tuition will be in 18 years.

I have four words that will bring some relief to you: the Registered Education Savings Plan (RESP).

Grab the free money on the table

Here's how the RESP works. You can contribute up to a maximum of \$50,000 per child in the RESP throughout their lifetime.

The government adds \$500 per year with a grant called the Canadian Education Savings Grant (CESG). The total grant money up for grabs is \$7,200, which can be considered “free” money.

Similar to other tax-advantaged accounts, the money held within the RESP will be tax-deferred until your child starts to withdraw it.

One thing to be wary of is that the money from the CESG will be taxable income once you withdraw it. However, as your child will be attending school and probably not making much money, they will probably not be taxed much, if at all.

Your child's RESP is the most efficient way of saving for their education. It's superior to the Tax-Free Savings Account (TFSA) and the Registered Retirement Savings Plan (RRSP) because of the “free” grant money given by the government.

Contribute \$2,500/year to the RESP

[If you contribute \\$2,500 per year](#) to max out the grants for your RESP, this will give you a yearly grant of \$500.

You have plenty of choice about to invest in. Your RESP can hold many different types of investments. Stocks are an excellent option for your RESP given the long time horizon, and all the capital gains and dividend income will grow tax-free.

If I'm looking at the long term, I would say that **Toronto Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) is a top choice for your RESP.

Apart from its absurd 162 years dividend streak, TD bank is well entrenched in the Canadian and U.S. markets. This provides much-needed diversification from the Canadian markets that the other big banks can sometimes be lacking. The stock boasts a solid 4% dividend yield.

For example, consider a scenario in which you contribute \$2,500 into your RESP, giving you a \$500 CESG for a total of \$3,000, 18 years ago, into TD.

During that period, TD Bank averaged 11.17% returns with dividends reinvested. By the time your child attends college at age 18, your \$2,500 investment would be worth a staggering \$20,202.

As you can see, the power of the grants is evident here and boosts your gains significantly.

If you consider that only \$2,500 of your own money was contributed to the RESP, you can see the fantastic benefits of this program.

Bottom line

It's incredible what a great dividend stock like TD [held within your RESP](#) can achieve. Investing in just one stock isn't recommended, and you should spread your risk and invest in a portfolio of several stocks, but this example shows how much potential a strategy like this holds.

The most important part is to start early and contribute what you can, even if it isn't the full \$2,500 per year. Your child will thank you when they're older.

CATEGORY

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