



Cost of Tuition Got You Scared in 2020? The RESP Can Save the Day

Description

Why can't anything in life ever get any cheaper? Not only do we have to deal with high gas prices, food costs rising — and let's not forget about housing — but the costs of tuition are continuously on the rise.

If you're a parent and you have hopes and dreams of your child becoming something like an engineer, or a doctor, or a lawyer, you might also have nightmares about the cost of tuition once they graduate from high school.

Let me walk you through how the Registered Education Savings Plan (RESP) can cut down tuition costs significantly.

How the RESP works

If you open an RESP for your child and [contribute \\$2,500 per year](#), you will get a \$500 education grant courtesy of the Canadian government. You can get up to \$7,200 in "free" grants for your contribution.

The investments inside your RESP also grow tax-free, which over 18 years can add up to a significant amount. The \$7,200 in free grant money, combined with the investments growing tax-free, is where the power of the RESP lies.

Note that although the RESP is taxable when withdrawn, it is taxable under your child's income, which should be very little to none since they will be students.

What to invest in your RESP

Although you have a wide range of investments you can hold inside of your RESP, [buying stocks](#) is where you can see some significant growth. All the dividend, interest, and capital gains will grow tax-free within your RESP.

Take, for example, a company like **CIBC** ([TSX:CM](#))([NYSE:CM](#)). CIBC is a \$48 billion blue-chip

Canadian **TSX** bank stock. The company has the privilege of being one of the Big Five elite of the banking system in Canada.

Canadian banks are known throughout the world as high-quality resilient investments, having weathered the 2008 financial crisis admirably.

CIBC's dividend streak runs 151 years. The payouts held steady even during the financial crisis of 2000 and 2008. CIBC's yield today is a juicy 5.37%, the highest of the Big Five banks.

Any investor with the same investment thinking will also pick the bank that is forward-looking, innovative, and one of the most progressive among Canada's big banks.

RESP example with CIBC stock

Here's an example of what the power of RESP grants can give you. Imagine that you were a parent 18 years ago and you'd opened up an RESP and invested in CIBC.

\$2,500 invested in CIBC 18 years ago is worth \$10,508 today, with dividends reinvested. With the free grant of \$500, you would have a total of \$3,000 invested in CIBC 18 years ago, which is worth \$12,609 today.

Because of the free grant, you would have over \$2,000 extra by the time your child turns 18! \$2,000 is not a small amount and can be very significant if you decide to contribute every year of the child's life.

Conclusion

The RESP is a special account. It's not often that you get free money from the government, and this is one of those rare occasions. Take full advantage of it, invest early, and your child will thank you for it when they start their dream career.

CATEGORY

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