RESP: Here's How to Create a $100,000 College Fund for Your Kids

Description

Access to $100,000 at the right time could be life-changing. An 18-year-old could buy a house, launch a business or start investing to become a millionaire with that upfront capital. However, the best investment is probably college. Here's how you can use the registered education savings plan (RESP) and Canada's thriving stock market to create this sizable college fund for your kids.

RESP

A registered education savings plan (RESP) is a registered investment account designed for parents who want to save money to fund their children's education. As a parent, you can contribute after-tax savings into the account and invest it on behalf of your child. Think of the RESP as a Tax-Free Savings Account (TFSA) for your child's benefit.

Like the TFSA, your contributions are not tax-deductible. However, unlike the TFSA, there is no annual limit on contributions. Rather, the RESP has a lifetime contribution limit of $50,000.

By itself, $50,000 isn't enough to pay for a reputable college or Ivy-league business school. In fact, the costs of college could be drastically higher by the time your child is old enough to attend. With that in mind, parents need to start using the RESP as early as possible and make the savviest investments they can.

Start early

To maximize the $50,000 contribution limit, you could deploy $2,700 a year or $52 a week into the RESP for 18 years or more.

Starting early is crucial. The longer you wait, the more you may have to contribute every year to maximize the plan's benefits. As with any investment plan, the sooner you start, the more pronounced the impact of compounding.

The best-case scenario is to start investing in an RESP the year your child is born. That gives you 18 to 20 years of runway to accumulate capital.

The next step is to pick the *right* investments.

Target returns

Investing in bonds or savings accounts simply isn't going to cut it. Interest rates on government bonds and bank savings accounts have been dropping for the past twenty years. There's no reason why they can't stay low for the next 20 years as well.

With that in mind, I believe robust and reliable dividend stocks are the best fit for your RESP. Stocks such as **Royal Bank** and **Fortis** have delivered 12% and 9% in compounded annual returns since 2009. If you include dividends, total returns over the past decade are even higher.

To turn your $2,700 annual RESP contribution into $100,000 within 17 years, you need to target a return of 8% or more every year. Some stocks such as **RioCan** and **Enbridge** provide that return in dividends alone.

Of course, you could pick growth or technology stocks if you have the appetite for more risk and a desire for better returns.

Bottom line

Setting your kids up for success is the greatest pleasure of being a parent. Fortunately, the government's RESP program and Canada's lucrative stock market could help you create a sizable nest egg for your children.

All you need to do is start early, stay consistent and find the right investments. A $100,000 gift on your child's 18th birthday isn't an unreasonable target.

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