Parents of Canada: Use the RESP to Set Your Child Up for Success

Description

Parents want the best for their children, with education goals as the top priority. Fortunately, Canadian parents can set up a Registered Education Savings Plan (RESP) for a child's future success. You need only a birth certificate and a child's social insurance number to [start the ball rolling].

If you're looking after your children's future welfare, you can open an RESP in most financial institutions. They could be banks, mutual fund companies, and credit unions, among others. You can hold investments such as bonds, mutual funds, GICs, ETFs, and stocks in your RESP. Do it yourself or seek assistance from a financial advisor.

RESP in brief

Parents typically open an RESP and name a child or grandchild as the beneficiary, although guardians can set up an account for a ward. Other beneficiaries could include nephews, nieces, and family friends. Those who open the account are called subscribers.

Your RESP combines flexibility and tax-deferred investment growth. The Canadian Education Savings Grant (CESG) or direct government assistance is available for good measure. Subscribers have three RESP plan options: non-family (single beneficiary), family (multiple beneficiaries), and group (group scholarship trusts).

Contribution limit

Subscribers can contribute a lifetime maximum of $50,000 per RESP beneficiary. For the CESG, the eligible annual contribution room is $2,500. However, you can contribute more, although the government matches the 20% grant not exceeding $2,500 per year. A subscriber must contribute $2,500 a year to get the maximum $500 grant (20%). All RESP contributions are tax-free.

RESP value

The RESP's value depends on the contributions, the CESG match, and the investment returns. Assuming your contribution in 15 years is $15,000 ($1,000 per year), the CESG match is $3,000 ($200 per year). Factor in the average rate of return and add it to the $18,000 to get the amount the child would end up after 15 years.

If the child decides not to pursue post-secondary education, a subscriber can name someone else as the beneficiary. Also, you can transfer RESP contributions plus generated investment income up to $50,000 to a Registered Retirement Savings Plan (RRSP).

No-brainer choice

Eligible investments in an RESP are no different from an RRSP or Tax-Free Savings Account (TFSA). Your best bets are dependable dividend payers. **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), a behemoth in Canada's robust banking sector, is a no-brainer choice.

The $152.29 billion bank pays a 3.79% dividend. Over the last 20 years, the total return is 765.46% (11.38% CAGR). Thus far, in 2021, TD investors are winning by 17.61% year to date. More importantly, the stock has been paying dividends since 1857. Furthermore, it was the only company that posted revenue and net income growth during the 2008 financial crisis.

TD's consumer and commercial banking segments are strong not only in Canada but more so in the United States. With its aggressive expansion through the years, this blue-chip company is now the fifth-largest bank in North America by asset size. This Dividend Aristocrat is the ideal anchor stock in a TFSA, RRSP, and RESP.

Start early

As with most investment accounts, the earlier you start, the better. If parents can set up a RESP for their children early, there'll be more money for post-secondary education when the time comes.

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