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## **Saving for your child's education**

Making full use of all the registered plans makes sense

Every year many Canadian families are faced with paying for a large portion of their child's post-graduate education. A study conducted by BMO Global Asset Management found that 70% of parents are worried their children will not be able to afford university or college. As a result, they are expecting to pay close to half (42%) of their kids' expenses including tuition, books, supplies, and living costs; with the balance funded through government student assistance, student savings, and scholarships.

Fortunately, Canadian parents have many investment vehicles at their disposal to help pay for their children's higher education, ranging from Retirement Savings Plans (RSPs) to Registered Education Savings Plans (RESPs) and Tax-Free Savings Accounts (TFSA). Used individually these tools provide excellent options but, when used in combination, they can do much more.

Consider a parent who contributes to an RRSP and receives a tax refund. This parent can make use of the tax refund by investing it in a TFSA, up to their allowable limits, and grow the funds tax-free. At the end of the year those funds, plus the gains, can be contributed to their child's RESP where they can grow tax-deferred. The RESP will also be eligible for cash donations from the government.

Under the Canada Education Savings Grant (CESG) program, the RESP would receive a basic

CESG of 20% of annual contributions that the parent makes to the RESP; up to \$500 per year until the end of the calendar year in which the child turns 17, to a maximum lifetime benefit of \$7,200.

Parents must then decide how to invest the RESP. If the RESP is set up when the child is a baby, parents generally know that they have approximately 18 years to grow the funds. With that in mind, they should aim to invest more aggressively early on and slowly move the portfolio into a more conservative asset allocation as the child nears post-graduate education. Capital preservation will become more important at this time because the child will need the funds and there will not be time to withstand any negative effects of market volatility.

One of the simplest ways for investors to manage RESPs is to use target-date funds, which are structured so they make the necessary shift in asset allocation automatically based on a set date in the future. For instance, parents with children entering post-graduate education in 2030 can purchase a 2030 target-date fund. The fund will start out heavier in equities and eventually shift to mostly fixed income and money market investments as 2030 nears.

There are a variety of target date funds and they do simplify asset allocation but, like any

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investment, there are risks associated with them. To find the best vehicle for their family's objectives, parents should take the time to check such things as underlying investments, fees, and fund manager styles.

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