

## Smart Money: Why your kid needs an RESP

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*Brad Brain: "It is estimated that by 2030 a four-year post secondary degree will cost more than \$110,000 when you include student housing costs. It's harder to pin down an estimation for trade school expenses, but it is prudent to assume that there will be a respectable financial commitment." | Getty Images*

Recently I saw the results of a study done by Canada Life, and the results surprised me. The study found that 92% of Canadian parents know that Registered Education Savings Plans exist, but only 49% are taking advantage of them.

The surprise was not that so few people get in on the action. I already knew that not enough people are planning for future education costs. Rather, what surprised me is that so many people already know about RESPs and yet they still are not doing anything about it.

Now, if post-secondary education was not important to people then this would make sense. But it is important. Very important. Saving for education costs was rated as a top priority by parents with kids under age 18, second only to retirement planning.

The key to this disconnect, where some people know that RESPs exist but still aren't utilizing them, is this: Only 17% know the benefits of an RESP. In other words, people know RESPs are out there, they just don't know why they should care. So, let's do something about that right now.

The first thing to know is that some kind of career preparation beyond high school is going to be more and more important. In the 21st Century it is extremely likely that young people will need further education to get the career they want, rather than the job they can tolerate.

The second thing to know is that this career preparation is probably not going to be cheap. It is estimated that by 2030 a four-year post secondary degree will cost more than \$110,000 when you include student housing costs. It's harder to pin down an estimation for trade school expenses, but it is prudent to assume that there will be a respectable financial commitment.

The Registered Education Savings Plan can go a long way to covering some, or maybe even all, of these costs. And here is one of those things that not enough people know about. You can benefit from a RESP without even needing to put in your own money.

Depending on your income you may be eligible for the Canada Learning Bond, which can provide up to \$2000 for future education costs. And in British Columbia we have the Training and Education Savings Grant, a \$1200 grant to eligible children once they turn 6. You don't need to contribute any money to receive the CLB and the BCTESG; all you have to do is open an RESP.

But, even though you don't have to invest money in an RESP, you probably should. Why? Because you will get an instant 20% return on your money, that's why.

The Canada Education Savings Grant will match your contributions by 20% up to \$2500 per year. In other words, if you put in \$2500, the government puts in \$500, for a total of \$3000. And, depending on your income, the matching might even be higher than 20%.

But what if my kid doesn't graduate from university? No problem. The RESP is not based on grades. And it doesn't have to be a university. All they have to do is enrol in a qualifying program.

RESPs are flexible, and not just with regards to qualifying. If one child doesn't go to school you can transfer the funds to a sibling. If nobody uses it for school you can transfer it to your own RRSP.

A word of warning though... Whenever I talk about RESPs, I always distinguish between a pooled RESP, where your funds are lumped in with everyone else, and your own RESP. Long story short, I hate pooled RESPs and I am happy to share an abundance of resources why maybe you should too.

I was a financial planner before I was a parent. Knowing the math that goes into RESP accumulation, I had my daughters RESP open just a few weeks after she was born, that's how good the benefits are. You don't even need to contribute to benefit, and education costs aren't going to get cheaper.

So, what are you waiting for?

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