ETF insight

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Financial advice for new parents

How young is too young?

There are many things expectant parents plan for, such as buying necessities for the newborn, baby-proofing the home, and preparing for the big day. They may wish to delay planning for the distant cost of the child's post-graduate education, but it requires early attention.

TD Economics estimates the total average cost of a four-year Canadian undergraduate degree today at $55,000 for students remaining at home and $84,000 for those living away. And the cost is growing. Parents having a baby now can expect that when the child goes to university in 18 years those figures will have increased to $102,286 and $139,380.

It is already unreasonable to think that young people can fully pay their way through university with part-time jobs, and that is unlikely to change. Parents of a baby born today should expect that their child will finish post-graduate studies owing money, although they can reduce the debt with early planning.

A Registered Education Savings Plan (RESP), which allows tax-free earnings, is one way to lessen the impact of future education costs but selection of the plan provider requires thinking. RESP providers offer variations in services, investment options, and fees. Careful parents will choose an RESP provider who best suits their goals for family education and finances.

Under the Canada Education Savings Grant (CESG) program, the RESP receives a federal government grant of 20% on every dollar of the first $2,500 saved in the RESP each year. Depending on net family income, an additional CESG grant of 10% or 20% can apply to the first $500 saved in the RESP each year. The maximum lifetime grant through the CESG is $7,200 per child.

The 2012 BMO Student Survey found that paying for school is the primary cause of student stress. Reducing that stress begins by equipping the child with the skills needed to understand and address financial challenges. The teaching begins with allowances where the basics of managing money can be taught and other important lessons can happen naturally.

If part of the allowance is earned by doing chores, the child learns about reward for effort. When the allowance is reduced for chores not done, the child understands the importance of meeting obligations. Some of the allowance can go to a savings program to teach the fundamentals of compounding, while the act of saving teaches that getting a large sum begins with consistently setting aside a smaller amount. And, of course, parents should instruct their children in developing a budget and sticking to it.

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Children should be taught to take advantage of financial opportunities. For example, when they are old enough to earn a few hundred dollars from baby-sitting or a paper route, they should file tax returns. The earnings are not enough to be taxable but the child will start to accumulate RRSP contribution room and, having filed returns, they will be eligible to apply for the GST/HST Credit and receive quarterly payments from the government when they turn nineteen.

According to Investors Group research, 72% of parents think it's best to start talking about good money habits with their children between the ages of four and nine. That's an excellent start but action should accompany the chats.

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