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Max out education savings

Using different investment vehicles to maximize RESPs

Canadians have many different investment vehicles at their disposal, ranging from Retirement Savings Plans (RSPs) to Registered Education Savings Plans (RESPs), and the more recent Tax-Free Savings Accounts (TFSAs). Used individually the tools in this lineup provide excellent options but, when used in combination, they can do much more.

Parents who are planning for children's education should take particular note. By developing strategies that link the benefits of RRSPs and TFSAs with RESPs, parents can greatly enhance funding for future education.

Consider an Ontario investor making $100,000 a year who contributes $14,000 to an RRSP. Assuming the RRSP contribution is fully deductible, the investor would get a tax savings of approximately $6,077.

The investor could use that tax refund to further increase the positive impact of the original RRSP contribution by taking the $6,077 and placing it in a TFSA, up to their allowable limits. They would now be able to invest the funds and have their tax deduction grow tax-free.

Money that has been growing tax-free in the TFSA can be contributed to the child's RESP where it can earn interest tax-free and be eligible for cash donations from the government. Under the Canada Education Savings Grant (CESG) program, the RESP would receive a grant from the federal government of 20%; up to $500 per year for each year the RESP beneficiary is under 18, to a maximum lifetime benefit of $7,200.

Parents should also begin as early as possible to file tax returns for children, even if it's just a few hundred dollars earned from baby-sitting or a paper route. There are two benefits. The most immediate is that the child starts accumulating RRSP contribution room, which can be used later in life when they need the tax deduction.

Secondly, when the child reaches 19, because they have filed, they will be eligible to apply for the GST/HST Credit which generates quarterly payments from the government. The credit payments can be added to education savings.

If the child has been fortunate through high school to have sufficient earnings from summer jobs or working in a family business that made contributions to an RRSP logical, it can help them with their educational funding. RRSP contributions can be withdrawn without penalty through the Lifelong Learning Plan should an RESP not provide enough education funding.

In the end, the investor has benefited significantly by adding to their retirement nest egg through their RRSP; receiving a tax refund and having it grow tax-free in their TFSA; and ultimately

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funding an RESP that generated free money through the federal government's CESG program.

The child benefited from learning very valuable lessons on investing, saving, and looking for every opportunity to get free money from various sources.

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