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Ask an expert: Planning for new parents

BY **Susan Daley** March 15, 2016

Q. How does RESP planning work?

A. Let's consider a few hypothetical situations. Each assumes the parents/child are able to receive the $500 per year education grant, and that their income is too high to receive additional income-tested grants.

Scenario 1: Starting when the child is born, put away enough each year to maximize the grant of $7,200 (i.e., $2,500 each year until age 13, and $1,000 at age 14). At a 4% annual return, parents could end up with $70,895.29 when the child is 18. At a 3% annual return, this is $62,597.02 and at 5% this would be $80,323.66.

Total contribution: $36,000.

Total grant: $7,200.

Scenario 2: Parents wait until the latest year possible to start contributing while still receiving the maximum total grants (age 10), but don't contribute any more once the grant has been maxed. At age 18, the RESP could be worth $52,964.75 with a 4% return, $50,340.36 at a 3% return, and $55,720.98 at a 5% return.

Total contribution: $36,000

Total grant: $7,200

Scenario 3: The maximum a parent can contribute per child is $50,000. If they contributed the additional $14,000 when the child is born ($36,000 will max out the grants, but an extra $14,000 can be added to the RESP), along with yearly contributions of $2,500 to maximize the grant, the portfolio will be worth $100,391.20 at age 18 with a 4% annual return, $87,146.11 at a 3% annual return, and $115,700.96 at a 5% return.

Total contribution: $50,000

Total grant: $7,200.

Read more about RESP planning here.

We see many clients who come in and have RESPs but have not maxed out the Canada Education Savings Grants. Most people don't know that if you've not yet maxed out your accumulated contributions, you can contribute double the normal contribution ($5,000) and receive a $1,000 grant, rather than simply contributing $2,500 per year and never receiving the full $7,200 grant from the government. It's important for parents to gather their grant and contribution information and create a contribution schedule to make sure they aren't leaving free money on the table.

Finally, plan out RESP withdrawals, especially if students are working in well-paying summer or co-op jobs. Since a portion of the withdrawals are taxable in the student's name and a portion is not taxable, it's important to balance these withdrawals so students aren't paying more taxes than they need to.

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