HOUSEHOLD FINANCES

# Most parents confused about RESP investment options

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Registered education savings plans have been around in their current form for 14 years but a new survey shows the vast majority of parents are still confused about what types of investments they can hold within the educational nest eggs.

A survey released Tuesday by Bank of Montreal found that 93 per cent said they were not aware that cash, mutual funds, guaranteed investment certificates (GICs), stocks, exchange-traded funds (ETFs) and bonds are all eligible for an RESP.

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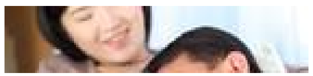

Mike Holman, the author of *The RESP Book* and the Money Smarts blog, says it's important for parents to know that they can purchase investment products inside an RESP account. "Any investment product that is eligible for an RRSP is also eligible for an RESP account," he said, including GICs, mutual funds, ETFs, and individual stocks.

"It's also common for parents to think that only super-safe fixed income investments such as GICs, are eligible for purchase in an RESP. I suspect this stems from the fact that the original RESP plans were all group plans and they only invest in bonds and other fixed income products."

The BMO online survey of 800 Canadian parents, conducted in mid-August by Pollara, also found that 52 per cent of respondents had opened an RESP for their child, 22 per cent considered it and plan to do so, 12 per cent considered it but don't plan to do so



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and 15 per cent are not planning to open one.

Not surprisingly, a lack of funds and confusion about RESPs are major reasons why many parents do not have RESPs, which many financial experts see as one of the best ways to save money for rocketing post-secondary education costs.

When those polled who do not have an RESP were asked why, 60 per cent said they can't afford to contribute, 21 per cent were not familiar with them or their benefits, while 6 per cent said they did not have time to set up or manage an RESP and another 6 per cent felt their child's education was still too far off into the future.

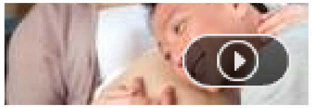
Scott Plaskett, a certified financial planner with Ironshield Financial Planning, says the name of the plan can be confusing. "RESP is a formal-sounding name and it sounds like a government-sponsored plan so people tend to think they can only buy it through a bank."

Most people, he says, go into a bank and open an RESP, then buy what the bank tellers offers them, which is generally a GIC. What they should do, he added, is talk to someone who puts together an investing plan.

"There is no rule of thumb about what to put into an RESP, but the options are vast," Mr. Plaskett says. "People need to make an educated decision based on what their objective is."

Despite the uncertainty surrounding RESPs, he believes all parents who want to help their kids pay for their schooling should be using them. "It is one of the richest education savings plans on the planet, so to not take advantage of this is to give away free money."

RESPs, which have been around in their current form since 1998, are often misunderstood. The basic concept is simple: You can make as much as $2,500 in RESP contributions a year per child and receive a matching 20-per-cent grant from the federal government.

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Parents can hire an investment professional to manage the RESP or do it themselves. As the child gets older and closer to the age when they will attend college or university, the RESP account should be managed more conservatively.

Financial experts agree that for parents who have their financial house in order and want to help pay for their child's post-secondary education, RESPs are an excellent way to save. Many student will finish college or university with a heavy debt load – an average of almost $27,000, according to the Canadian Federation of Students. The BMO release projected that a four-year university degree that today carries a price tag of more than $60,000 could rise to more than $140,000 for a child born in 2012.

BMO had these four tips for those interested in opening an RESP:

1.) **Start early and make regular contributions:** Start making regular contributions as early as you can. Government grants and compounded return can add significantly to an RESP's total savings.

2.) **Mix it up:** Cash and mutual funds are not the only way to build up an RESP. Include a variety of investments such as GICs, stocks, bonds and ETFs.

3.) **Speak with a financial professional:** A financial professional can help you develop a financial plan that incorporates all of your short- and long-term goals, including saving for a child's education.

4.) **Inspire alternative gift-giving:** RESP contributions make great gifts for special occasions so let friends and relatives (including grandparents) know that you are receptive to receiving them for your child's future education.

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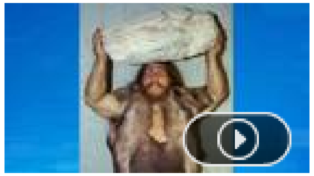

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