RESPs vs. non-registered investing

The advantage of saving for education outside of an RESP is the increased flexibility of being able to do whatever you want. And there are no penalties or consequences if the child decides not to go on to higher education. Also there is no limit on the amount you can save and there are no restrictions on how you use the money.

The drawback of saving in a non-registered plan is that income earned is not allowed to grow on a tax-deferred basis. And income earned or realized capital gains will be taxable in the year they are earned. Nor can you take advantage of the CESG, which, over the life of the plan, can amount to a sizeable $7,200 for each beneficiary.

A living trust may be the best way to save
You can hold the ownership of the investments yourself or you can hold them in trust for the child in which case there may be opportunities for income splitting and other favourable tax consequences.

If you have substantial wealth, setting up a living trust is probably the best way to save and provide for a child's education. But it is complicated and you should definitely seek the advice of an expert.

Insurance is another option
Most insurance companies offer cash value life insurance plans that can be used as a savings vehicle for education. Although these plans cannot be registered as an RESP they do offer their own tax deferral benefits. Generally, there are more effective ways to accumulate funds than insurance. And if insurance coverage for the child is one of your goals, it is usually more effective to cover your child with an inexpensive term rider on your own policy.

If you have children, grandchildren or others for whom you would like to assist with educational expenses, click here to find the CPA financial planning professional closest to you.