

Investing Your RESP Savings

Did you know? One of the reasons families are encouraged to open an RESP, and save early, is the benefit of **compound interest**. Your RESP savings can be invested in a variety of financial instruments, allowing for your RESP to grow rapidly overtime.

What are my investment options?

Some of your investment choices include Guaranteed Investment Certificates (GIC's), mutual funds, stocks or bonds. It is important to talk to an RESP provider as each investment choice differs in risk level. Your investment choice should fit with the amount of risk you are willing to take given your income and savings goals.

Guaranteed Investment Certificates (GICs)

– GICs offer the least amount of risk compared to other investment products. Just like the name says, your principal investment is safe and fully **'guaranteed'**, unlike investing in the stock market. Overall, a GIC is a sound investment choice.

Mutual Funds (MF's) – Mutual Funds are attractive because of the balance in risk and choices of investment objectives they offer. Choosing to invest in a Mutual Fund portfolio is a safe way to manage your risk and earn healthy gains in the long run.

Bonds– a bond is loan (debt security) in which the issuer (usually a company or government) is obliged to repay the holder of debt (you) the principal plus interest once the bond reaches maturity. A bond is a good investment with medium to high risk.

Talk to an RESP provider about your Investment choices.

Stocks – A stock is a financial instrument that has a value that is dependent on a underlying companies performance in the stock market. Payments are made in the form of dividends. Stocks have potential for large gains, but carry a high amount of risk. Overall, the stock market is not the most secure place to invest your child's RESP savings.

Saving Today vs. Borrowing Tomorrow

Investment Scenario: You open an RESP for your child when he/she is **5 years old**. Your child enrolls in post-secondary education (4 year program) 15 years later when he/she is **20 years old**. Tuition continues to increase at its current average rate of 4.3 percent a year costing approximately **\$10,000 a year** when your child enrolls. And finally, you invest your RESP savings at an interest rate of **6 percent**.

1) Borrowing Tomorrow: Assuming the child in this scenario does not have any savings when they enroll in post-secondary education, he/she will have to pay approximately **\$60,000** (\$40,000 loan + 6 percent compound interest, 8 years to pay back) to finance 4 years of undergrad tuition if he/she decides to borrow to pay for their post-secondary education. **Borrowing is expensive!**

2) Saving Today: By opening an RESP, making monthly payments and investing your savings just see how much you could help your child offset his/her tuition costs:

\$20/month = **\$11,960** (pays for first year tuition)
 \$100/month = **\$39,035** (pays tuition all 4 years)
 \$200/month = **\$72,203** (pays for all 4 years plus money left over for other expenses).

SOLUTIONS

✓ **Investing is worth it!** For more information contact ILRC Thunder Bay at 1 800 461-3153 ext 6 or visit www.canlearn.ca