

# C.E. VANDENBERG & ASSOCIATES INC.

FINANCIAL PLANNING— INSURANCE— WEALTH MANAGEMENT

## **RESP or RRSP: “What Should I Do”?**

Do you have kids? I'm assuming you do if you are reading this. Eventually they (or you?) will probably need to pay for education after high school. As well, at some point, you will eventually want or need to stop working and will have to have saved enough to pay for that.

Most of us have a limited amount of funds to stash away. If you have kids, that limit is probably more restricted. So, what should you do, contribute to a RESP for your kids or a RRSP for you?

As with virtually all financial decisions, there may be a mathematically correct thing to do but that might not necessarily be the best decision for you personally. There are so many different factors and assumptions that you could write down. Some of those work against each other. Despite that, there are a short list of things to consider that I believe will give you the correct answer to this big question.

The money you get from making the contributions - for RRSP's it's the tax deduction which can mean, depending on your income, anywhere from zero up to 43.7% (in B.C.) in tax savings. That is money in your pocket. With the RESP you get 20% added by the government to your plan with a "grant". With the RRSP you will eventually have to pay some or all of those tax savings back. For most people it is only some. The RESP on the other hand doesn't require the 20% grant to be repaid, unless of course your child doesn't go on to higher education. Because of this, initially, you will have more money in your pocket AND your net worth will have increased more so with RRSP contributions than with RESP contributions.

Since both plans can't continue on indefinitely at some point you will need to make withdrawals from the plans. You will almost definitely pay more tax on the withdrawal of an RRSP than with an RESP.

The money in your RRSP can compound for a much longer period of time than it can in an RESP. Advantage here goes to the RRSP.

The last fundamental question you have to ask yourself is this and frankly, this is what it all comes down to. Is it worse for my child not to have their post-secondary education fully saved for when they finish high school OR is it worse if I haven't saved enough for my retirement when I've finally just can't take working anymore?

In the end, I agree with Jamie Golombek, Managing Director Taxation & Estates at CIBC when he said, "All things considered, perhaps the best plan is both plans."



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