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Cards and Canucks

How to kick-start your baby's financial future

by Carmen Chai | Sep 16, 2015

When you have a baby, you may start dreaming right away of putting her in years of skating lessons, sending him to an enlightening summer camp each June or dropping her off at a prestigious university. But all of these high hopes come with even higher price tags. Luckily, there are financial tools you can use to help your child achieve all these milestones and more — without stretching your wallet too thin.

"For young families, savings are a tough thing but I encourage young parents to do as much as they can," says Mike Gomes, a certified financial planner at Toronto's Ironshield. He offers these tips for parents:

1. Make use of government subsidies.
Under the federal government's Universal Child Care Tax Benefit (UCCB), families with kids six and younger are entitled to $160 per month, Gomes says.

"Other benefits are dependent on income, but this one is universal and across the board," he says. "What I encourage clients to do is to straight away make sue of this — it's $1,920 a year for every child under six."

Another perk, the Canada Child Tax Benefit, offers a tax-free monthly payment to families with kids younger than 18. The payment amount varies by province.

The onus is on you to set up these payments. Pull together your kids' birth certificates and social insurance numbers, and register online as soon as possible.

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2. Take advantage of RESPs.

Increase your child's savings by opening a registered education savings plan (RESP). The government will match the first $2,500 in an RESP by 20 per cent, Gomes says.

Additionally, after you open an RESP, you're eligible for the Canada Education Savings Grant (CESG). The CESG provides 20 cents for every dollar you contribute, up to $500 per year (meaning you'd need to contribute $2,500 per year to get the maximum CESG contribution). And if you can't make a contribution in any given year, you can catch up in future years.

Gomes suggests putting your annual UCCB cash into the RESP account, leaving you on the hook for only $600 for the rest of the year, or $50 a month.

"$50 a month is a lot easier and parents are making use of the [RESP] match," Gomes says. "If you don't need the [UCCB] to fund things for your child, the money … should be put straight away into the RESP. There's no where else you'll get a 20 per cent rate of return off the back."

3. Open an investment account.

Gomes says some child savings accounts may have low interest rates. Crunch the numbers to see if you're better off investing your children's savings in a tax-free savings account (TFSA) or in a guaranteed investment certificate (GIC).

"Look at creating another pool of money, whether your purpose may be for [your child's] first home or wedding," he says. With either a TFSA or a GIC, time is on your side to add to the account and let interest compound.

Cash gifted to your kids from relatives at birthdays, graduation and other holidays could be tucked away into the account, and by the time your child is off to university, getting married or purchasing a home, the cash will have grown significantly.

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