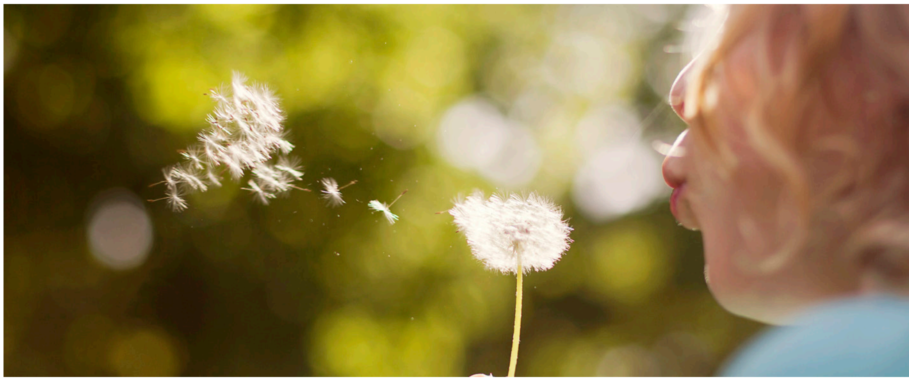

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Protecting what matters most

Four effective financial tools to help you save for a child or grandchild

Has a new family member entered your life? Congratulations! As you've likely already considered, now is a great time to help build and protect their financial future. Here are four different ways for you to help get your child or grandchild started on the right track.

The Registered Educations Savings Plan (RESP)

The RESP is a tax-deferred savings plan, and probably the most popular vehicle to use for saving for a child's education. When you contribute to the RESP, you receive a 20% matching grant from the government – called the Canadian Education Savings Grant or CESG – of up to $500 on a $2,500 a year contribution (or a lifetime limit of $7,200). Investment income or gains in this account grow on a tax-deferred basis, meaning you only pay tax upon withdrawal of the funds.

Using an assumed investment rate of return of 4%, the chart below shows how investing $25 per month for your grandchild, starting the month they are born, can grow over time right up to age 17.

$25 per month for 17 years at 4% per year growth	
Contributions	$5,100
CESG	$1,020
Earnings	$3,107
RESP total balance	**$9,227**

* This chart is for illustrative purposes only.

Once this grant money has been maximized, some investors are naturally curious if there are other vehicles to use for their child/grandchild.

A formal trust

In some cases, a formal trust may be arranged as an addition or alternative to an RESP. This could be ideal for grandparents who want to assist their grandchildren financially but want control over how the money is spent.

When you set up a formal trust arrangement, you (the "settlor") decide which assets to transfer into the trust. These assets can include cash, stocks, bonds, ETFs, mutual funds, real estate, bank accounts and/or ownership in other personally owned assets. Moreover, the terms of the formal trust can be drafted such that others ("contributors") may contribute other assets as well.

You can provide instructions to those managing the trust (the "trustees") as to how these assets will be used for the beneficiaries, whether they are your grandchildren or other family members.

Formal trusts can provide a number of advantages. These can include: control, the ability to specify how money is paid out and for what purposes (e.g., post-secondary education or simply a distribution schedule over a certain number of years), the flexibility to accommodate any changes in circumstances and the potential for tax benefits which may help to augment your savings.

If the beneficiary of a properly structured trust is a minor child and you gift or loan (at low- or no-interest) funds to the trust, interest and dividends paid or made payable to the beneficiary will attribute back to you. The capital gains realized, however, paid or made payable to the beneficiary, can be taxed in the minor child's hands at their lower marginal tax rate.

Note that there can be substantive administrative and legal costs associated with setting up a living trust. This is generally a more complex way to set up a savings strategy, compared to RESPs.

There is no limit to the amount you can contribute to a formal trust. The table below shows the growth of a formal trust using assumptions of $25 per month in contributions for 17 years growing at 4% per year.

$25 per month for 17 years at 4% per year growth (note that taxes are ignored in the calculation below)	
Contributions	$5,100
Earnings	$2,138.67
Total balance	**$7,238.67**

* This chart is for illustrative purposes only.

Life insurance

Tax-exempt life insurance is another way to put money away for your grandchild. This is a way to ensure the child has some life insurance while also growing the money tax-free.

In the example below, we are looking at a $25,000 whole life insurance policy on the life of a three-month-old girl. The initial premium is $318 per year (about $26.50 per month). The policy will be fully paid up in 20 years, which means no more deposits need to be made after that point. The cash value of the policy is the amount the policy owner would receive if they cashed in the policy. Note that as the cash value of the policy increases the death benefit grows in tandem. Since your grandchild will probably want to have some life insurance down the road when they get married, start a family, or buy a home, this is a nice way to get a foundation of life insurance in place.

The following chart illustrates an example of a typical whole life insurance policy, and we can see the cash and death benefit values increase over time. This is assuming the dividend rate stays the same throughout the life of the policy.

Policy year	Age	Total cash value ($)	Total death benefit ($)
10	11	736	29,269
20	21	5,338	42,289
30	31	10,663	58,513
40	41	19,059	75,125
50	51	32,156	92,118

* This chart is for illustrative purposes only. It is based on Canada Life illustration software and its Canada Life Estate Achiever Participating Life Insurance Max 20 product.

A critical illness policy

A critical illness policy would pay out a benefit in the event that your grandchild was diagnosed with a qualifying illness (such as cancer, a heart attack or stroke). It helps your family navigate a difficult time with a focus on the child's health, rather than family finances. With the proceeds of the benefit, you can seek the best treatment you like and help offset the cost of taking time off work in order to attend medical appointments.

The following chart shows an example of a typical critical illness policy structure that pays out $25,000 in the event of a critical illness, and how the return on premiums rider make it such an attractive financial planning tool. As is typical in many critical illness policies, at the 40-year mark the policy can be cancelled and all the premiums would be returned to the policy holder.

Policy year/age	Total premium ($)	Return of premiums on death value ($)	Return of premiums on cancellation/ expiration value ($)	Critical illness insurance benefit ($)
1	24.64	295	-	25,000
2	24.64	591	-	25,000
3	24.64	887	-	25,000
4	24.64	1,182	-	25,000
5	24.64	1,478	-	25,000
6	24.64	1,774	-	25,000
7	24.64	2,069	-	25,000
8	24.64	2,365	-	25,000
9	24.64	2,661	-	25,000
10	24.64	2,956	-	25,000
11	24.64	3,252	-	25,000
12	24.64	3,548	-	25,000
13	24.64	3,843	-	25,000
14	24.64	4,139	-	25,000
15	24.64	4,435	-	25,000
16	24.64	4,730	-	25,000
17	24.64	5,026	-	25,000
18	24.64	5,322	-	25,000
19	24.64	5,617	-	25,000
20	24.64	5,913	-	25,000
21	24.64	6,209	-	25,000
22	24.64	6,504	-	25,000
23	24.64	6,800	-	25,000
24	24.64	7,096	-	25,000
25	24.64	7,392	5,544	25,000
26	24.64	2,143	-	25,000
27	24.64	2,439	-	25,000
28	24.64	2,735	-	25,000
29	24.64	3,030	-	25,000
30	24.64	3,326	-	25,000
31	24.64	3,622	-	25,000
32	24.64	3,917	-	25,000
33	24.64	4,213	-	25,000
34	24.64	4,509	-	25,000
35	24.64	4,804	-	25,000
36	24.64	5,100	-	25,000
37	24.64	5,396	-	25,000
38	24.64	5,691	-	25,000
39	24.64	5,987	-	25,000
40	24.64	6,283	6,283	25,000
41	24.64	6,578	6,578	25,000

Policy year/age	Total premium ($)	Return of premiums on death value ($)	Return of premiums on cancellation/ expiration value ($)	Critical illness insurance benefit ($)
42	24.64	6,874	6,874	25,000
43	24.64	7,170	7,170	25,000
44	24.64	7,465	7,465	25,000
45	24.64	7,761	7,761	25,000
46	24.64	8,057	8,057	25,000
47	24.64	8,352	8,352	25,000
48	24.64	8,648	8,648	25,000
49	24.64	8,944	8,944	25,000
50	24.64	9,240	9,240	25,000
51	24.64	9,535	9,535	25,000
52	24.64	9,831	9,831	25,000
53	24.64	10,127	10,127	25,000
54	24.64	10,422	10,422	25,000
55	24.64	10,718	10,718	25,000
56	24.64	11,014	11,014	25,000
57	24.64	11,309	11,309	25,000
58	24.64	11,605	11,605	25,000
59	24.64	11,901	11,901	25,000
60	24.64	12,196	12,196	25,000
61	24.64	12,492	12,492	25,000
62	24.64	12,788	12,788	25,000
63	24.64	13,083	13,083	25,000
64	24.64	13,379	13,379	25,000
65	24.64	13,675	13,675	25,000
66	24.64	13,970	13,970	25,000
67	24.64	14,266	14,266	25,000
68	24.64	14,562	14,562	25,000
69	24.64	14,857	14,857	25,000
70	24.64	15,153	15,153	25,000
71	24.64	15,449	15,449	25,000
72	24.64	15,744	15,744	25,000
73	24.64	16,040	16,040	25,000
74	24.64	16,336	16,336	25,000
75	24.64	16,632	16,632	25,000

* This chart is for illustrative purposes only. It is based on Sun Life illustration software and its Sun CII Term 75 insurance product.