RICHARDSON Wealth | ALEXANDRA HORWOOD & PARTNERS

What to expect financially when you’re expecting

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Financial and family planning are one and the same. Starting a family can be one of the most important and expensive decisions of someone’s life. To ensure that they’re best equipped from a financial perspective, starting a conversation with an advisor early can ensure they’re coached along the way.

With an expensive housing market, rising interest rates, inflation, and a potential economic recession looming, daily living expenses and childcare are becoming increasingly out of reach.

As parents work to ensure their child’s health, safety, and education in a more unpredictable environment, planning for a child’s financial security is an important way to safeguard their future.

An experienced advisor can work to ensure a client’s financial house is in order starting with setting up a registered education savings plan (RESP), educating clients on the childcare deductions available, recommending a life insurance plan, and updating wills to reflect their wishes.

Setting up RESPs

Education is the best financial gift clients can give to their children and arguably the best investment they can make. As soon as a child has a social insurance number, clients should consider opening an RESP on their behalf.

The RESP, which compounds as the child grows, can cover everything from tuition to transportation, rent and books. What does that look like? If clients save $200 a month starting when their child is born to age 18, with a conservative 5 per cent rate of return and including government grants, their child should have $75,067 saved toward their post-secondary education by the time they're enrolled.

The government will match clients' RESP contributions through the Canada Education Savings Grant by 20 per cent on contributions of up to $2,500 every year. If clients have missed prior years, they can contribute up to two years at a time (e.g., $5,000) and still receive the 20 per cent matching grant. Furthermore, most people don't know, but there is an additional $14,000 in lifetime contributions that can be made, albeit unmatched, that will benefit from tax deferral.

When clients withdraw from an RESP to fund post-secondary education, the capital they contributed is withdrawn tax-free. Meanwhile, the government grant and investment growth are taxable to the RESP's beneficiary (the child) as income, usually at the lowest marginal tax rate while the child is still in school. The sooner clients start contributing to an RESP, the greater the impact of compounding returns, and the more money they will have set aside to invest in their child's education.

Childcare deductions

Finding ways to save money is important when planning a family. After having a first child, clients can start receiving childcare deductions from their taxes.

From ages zero to six, the spouse with a lower income can deduct $8,000 per child from their income taxes each year. From ages seven to fifteen, childcare tax-deductible expenses drop slightly to $5,000 per child per year. These benefits can add up, especially if clients have multiple children.

What life insurance can do

Before or shortly after starting a family, clients can consider income protection for their spouse and/or children (or any other family dependents) through term life insurance, permanent life insurance, and/or long-term disability.

As their children grow up, critical illness insurance can also be used to protect both their income and assets in the event they get sick and cannot work.

There are several types of life insurance available with each plan having its own benefits and drawbacks. Life insurance is important to ensure that clients and their families are provided for in the event of an emergency.

The importance of wills

Surprisingly, it is reported that more than 60 per cent of Canadian adults don't have a will. While an unexpected death can be uncomfortable to think about, especially when planning for parenthood, investing the time to do so can protect a family from the legal and financial stresses that it can cause.

For young families, the most challenging part is usually deciding on guardianship. Determining who will be the legal guardian of clients' children can be an emotional and sometimes paralyzing decision.

Selecting the proper guardian, and location of that guardian, so as not to uproot children unnecessarily, is important. Clients should also choose a suitable alternative and have a personal conversation with potential guardians to ensure they're comfortable with the choice.

Taking the time to sit with an advisor to discuss the benefits of end-of-life planning as it pertains to the client's family's situation and assets is a crucial step in safeguarding their children's financial welfare.