Lending a hand financially to your grandchildren may be a great idea, but what's the best way to do it?

BY MONICA TOWNSON

Minding the grandchildren

Morris Jesion doesn't merely pay lip service to the notion of helping his grandchildren get a start in life. He has been managing a registered education savings plan (RESP) for his four grandchildren since the first one, Dov, age 10, was born.

In fact, Jesion started the self-directed RESP for his two daughters when they were about five years old. When they completed their post-secondary education, there was money left over, and he discovered he could add his grandchildren to the existing plan. He's now waiting for the two youngest, babes in arms Yaacov and Shragge, to get their social insurance numbers so they can be added to the plan, as well.

Jesion, who has been the executive director of the Toronto-based Ontario Coalition of Senior Citizens' Organizations for the past 17 years, has also set up a family trust that can help his children and grandchildren.

"It's no easy task in many families,"

Morris Jesion keeps a close eye on the future for his grandchildren, 10-year-old Dov, four-year-old Chaim and three-month-old twins Yaacov and Shragge

says Jesion. "With two people working to pay the mortgage costs, the current generation probably has a lot of challenges. Just take a look at housing costs. How can they put away extra if they're barely able to buy a house?"

Lending a hand financially appeals strongly to many grandparents, but what is the best way to help? How can they do it without seeming to interfere in their children's lives? And how do they reconcile their desire to help with their own resources?

Grandparents should approach the issue like any other kind of financial planning, says financial planner Cynthia Kett, a principal with Stewart & Kett Financial Advisors Inc. in Toronto. They should step back and ask themselves about their true objectives: is it to help the children or the grandchildren?

Next, grandparents need to figure out what they can afford to do. "What are their own cash-flow or retirement needs?" Kett asks. "How much can they realistically afford to commit?"

Then, they should consider how their financial assistance should be used.

Suppose grandparents could afford to commit $50,000 to their grandchildren, she says. To what would they want that amount directed? Would their priority be post-secondary education, or do they feel travel is a form of education, for example, and they would like to finance travel for their grandchildren? Would they prefer to see it used as a down payment on a home sometime in the future, or perhaps to help

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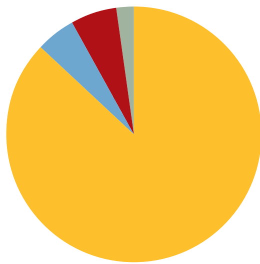
WHO CONTRIBUTES

Parents make the biggest contributions to RESPs



Parents	87%
Unrelated	6
Grandparents	5
Other	2

SOURCE: HUMAN RESOURCES AND SOCIAL DEVELOPMENT CANADA

their grandchildren start a business?

In this process, says David Christianson, a fee-only financial planner with Wellington West Total Wealth Management Inc. in Winnipeg, grandparents should make sure they talk to their children before moving ahead. They should tell the children that they'd like to assist (perhaps, by helping to finance the grandchildren's post-secondary education) and ask if that would be acceptable and if it would fit with their children's plans and priorities.

Once these issues are settled, grandparents can decide how complex their financial strategies will be, Kett says.

As for specific things grandparents can do, most experts agree, in fact, that offering to pay for future post-secondary education is a good place to start. And RESPs are the vehicle of choice.

"It's not meddling too much," Christianson says. "The concern these days is that too much help breeds dependency and complacency."

Contributions to RESPs can be invested to generate income and growth. Ultimately, the accumulated savings will be used to finance the post-secondary education costs of the plan's beneficiaries. Family plans can have multiple beneficiaries, but there must be a blood relationship between the subscriber and the beneficiaries. Non-family plans have no blood-relationship requirement, but they can each have only one beneficiary.

Although contributions to an RESP are not deductible from the income of the contributor, the income generated by the contributions is sheltered from taxes until paid out to the beneficiaries, who then are taxed on the withdrawals. Because the beneficiaries are students, they will probably be taxed at a lower rate than their parents or grandparents.

Another attraction of RESPs: the federal government has a matching grant — the Canada education savings grant (CESG). It is now worth 20% of the first $2,500 contributed each year for each beneficiary up to and including age 17.

In fact, Ottawa moved to make RESPs even more attractive with changes introduced in the 2007 federal budget. Among other things, it is eliminating the $4,000 limit on annual contributions and increasing the lifetime limit on RESP contributions to $50,000 from $42,000.

This lifetime amount can actually be contributed to the RESP as a lump sum when the RESP is set up. In fact, Kett says, some tax practitioners calculate that making a substantial lump sum contribution at the beginning, instead of annual contributions with a matching grant, may actually generate a larger fund by the time the children are ready to start their post-secondary education because of the annual compounding of investment returns.

It's worth noting that while contributions to the RESP may be withdrawn by the subscriber at any time without penalty, if none of the beneficiaries ends up going on to post-secondary education, up to $50,000 of the income earned in the RESP can be transferred to the subscriber's regular or spousal RRSP, provided certain conditions are met and there's enough contribution room. But grants received through the CESG program must be repaid. The administrator of the RESP will be required to deduct taxes at source if the subscriber wants the investment earnings returned by way of cash payment.

RESP investment earnings can be returned to the subscriber only if the plan has been in existence for at least 10 years; if all current and former beneficiaries are at least 21 years of age and not pursuing higher education; and if the subscriber resides in Canada. If these conditions are met, the subscriber may be allowed to receive an accumulated income payment. Again, if the payment is received in cash, the RESP administrator will be required to deduct taxes at source.

Christianson points out a further advantage of RESPs: contributing to an RESP, as opposed to simply gifting the funds or purchasing investments for your children or grandchildren, ensures the income generated by the investments is not attributed back to you, the contributor. Setting up a family plan, he says, allows you to add beneficiaries in the future while paying only one administration fee. But you'll need to decide who will be in control of the RESP. "Hopefully, it's the parent," he adds, "and not the grandparent."

Unlike many grandparents, Jesion is no longer making RESP contributions. The investments in the plan, which he manages himself, have done so well he stopped making annual contributions a couple of years ago, even though that meant forgoing the CESG. With $100,000 invested, Jesion says, the fund is large enough that there's no need to contribute regularly.

Financial planner Warren Baldwin, regional vice president with T.E. Wealth

Some tax practitioners calculate that contributing a substantial lump sum to an RESP at the beginning may generate a larger fund because of annual compounding

in Toronto, agrees RESPs are a "great way to help grandchildren." But, he adds, for those grandparents who can manage it, there are other ways to offer financial help to new parents, although arrangements must be made carefully.

For example, you may want to help your married son or daughter with his or her home mortgage. But, in the event that the marriage breaks down, Baldwin warns, under division of property rules in family law, if the home you helped finance is the matrimonial home, your financial contribution could end up benefiting your child's spouse.

Another approach, he suggests, may be to make a loan to both partners or even buy the house outright, keeping it in your name. That way, it would also be creditorproof — if, for example, your adult child is involved in a business that goes bankrupt.

Setting up a family trust to benefit children and grandchildren, as Jesion did, is another avenue. But it can be costly — it is probably not worthwhile unless you have between $100,000 and $200,000 to invest — and it needs to be carefully documented, Baldwin says.

Simple in-trust accounts, offered by various mutual fund companies, are also a possibility. But they, too, should be properly documented, says Baldwin, and the income reported for tax purposes. In the absence of a written agreement, adds Christianson, the money in these accounts belongs to the child at age 18.

Jesion has set up an "inter vivos" trust — that is, a trust set up by a person during his or her lifetime as part of an estate and tax planning strategy. Jesion's trust was set up for his family in the 1980s, with himself and his wife as trustees. He has added the grandchildren to the trust, which pays out benefits to family members as needed.

Jesion also invests the trust assets himself. He spends at least five hours a week managing his various investments. "It's one of my hobbies," he says. "I like investments and I follow them very closely. I find it fun to do."

Although establishing trusts may not be suitable for everyone, making gifts of money or securities to grandchildren is fairly easy to do, says Baldwin. Unlike in the U.S., Canada imposes no gift taxes — unless, of course, you are a U.S. citizen living in Canada. Gifts or loans to minor children may trigger attribution back to you if the child invests the money and earns interest, although capital gains are not attributed back. Gifts to adult children do not trigger attribution rules, although loans may be subject to these rules.

Says Jesion: "A lot of people don't have the means to provide for grandchildren. They say, 'Whatever is left over of the assets when I die, that's what the kids will get.'

"But if you have the means to put away money and you invest it over 20 years on a compounding basis," he adds, "you're way ahead." •

IF YOUR GRANDCHILD IS DISABLED

Whatever form grandparents' assistance takes, warns Cynthia Kett, a financial planner with Stewart & Kett Financial Advisors Inc. in Toronto, treating one grandchild differently from the others can cause family discord. But there can be valid reasons for taking this approach — especially in the case of a grandchild with disabilities.

The 2007 federal budget proposed a registered disability savings program (RDSP) that can be used to help disabled children. These plans, to be available in 2008, will be based generally on the existing RESP design. Individuals eligible for the disability tax credit (DTC), their parents or other legal representative will be able to establish an RDSP for the DTC-eligible individual as the beneficiary. Contributions to RDSPs will be limited to a lifetime maximum of $200,000 and will be permitted up to the end of the year in which the beneficiary turns 59.

The government will match contributions with a Canada disability savings grant (CDSG) at rates of 100%, 200% or 300%, depending on family income and the amount contributed, up to a maximum lifetime CDSG limit of $70,000. An RDSP will be eligible to receive the matching grant up to the end of the year in which the beneficiary of the plan turns 49.

Canada Disability Savings Bonds (CDSB) of up to $1,000 a year will be provided to RDSPs established by low- and modest-income families, up to a maximum lifetime CDSB limit of $20,000 and will not be contingent on contributions. Only families with income less than $20,883 (in 2007) will be entitled to the full $1,000. The benefit will be phased out gradually for families with income above this amount, so that those with family net income of more than $37,178 (in 2007) will not be entitled to the CDSB. These thresholds will be indexed to inflation for 2008 and subsequent years.

But, Kett cautions, setting up funding through an RDSP can mean the child is disqualified from receiving provincial disability benefits. "There has to be additional planning when grandparents are providing for disabled grandchildren," she says.

Kett also urges grandparents to think carefully about how they can help such children, whom, she suggests, "may be more common than we'd like to think." And if the grandparents choose to give more to a disabled grandchild, they should discuss this with the rest of the family — "So that everybody understands why this decision has been made," she says.