



## *The Power of* **STARTING EARLY**

Exploring investment and insurance strategies for minors and young adults.

**By: Kate Pal, Rachel Davies & Meghan Moore**

It's never too early to start investing or to think about financial priorities. That was the resounding message at a workshop co-hosted by [Kate Pal](#), President of life insurance and estate planning advisory firm Pal Insurance, [Rachel Davies](#), Vice President and Investment Counsellor at Burgundy's Vancouver office, and Burgundy Investment Counsellor [Meghan Moore](#). Below, they outline practical strategies that families can implement for their children—such as maximizing savings plans and informal trusts—and that young adults should prioritize as they enter the next stage of life.

**I**N an inheritance economy where asset prices have far outpaced wage growth, intergenerational wealth transfer and early financial planning are more critical than ever. Fortunately, younger generations possess one of the most powerful advantages in investing: time. But the benefits of starting early extend beyond

building capital. Early strategies also provide opportunities to engage the next generation in financial education and establish healthy values around money.

### **STRATEGIES FOR MINORS**

**(Under Age 18 or 19)**

**Registered Education Savings Plans:  
Beyond the Government Match**

Most families are familiar with Registered Education Savings Plans (RESPs), the government-supported program designed specifically to help people save for post-secondary education. These tax-sheltered accounts allow up to \$50,000 in lifetime contributions per child. However, by focusing solely on maximizing the government match, many families miss



Meghan Moore (left) and Kate Pal (right) presenting at the Minerva Summit

**BENEFITS OF EARLY PLANNING**

Most people withdraw their entire planning in five years. If you don't have a program of at least 15 years (about \$25K per year for 15 years, there are no plans you can reach at age 55).

Starting Age	Total Contributions	Age 55		
		Cash	Insurance	Insurance to Deposits Ratio
15	\$105K	\$1.5K	\$1.5K	1:1

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the opportunity to fully utilize the available contribution room.

The Canada Education Savings Grant (CESG) matches 20 percent of contributions to an RESP, up to \$500 annually, with a lifetime maximum of \$7,200 per child. To capture the full grant, most families contribute \$2,500 per year for 14 years (receiving a grant of \$500 annually), then contribute \$1,000 in the final year (receiving a grant of \$200), for a total of \$36,000 in contributions and \$7,200 in grants. This is often where families stop, leaving \$14,000 in tax-sheltered contribution room unused.

Assuming a 6 percent annual return over 18 years, this strategy would grow to approximately \$86,000, providing a solid foundation for post-secondary education. However, families with additional resources to contribute can do better. Table 1 compares this base case (Scenario 1) with two alternative approaches:

- Scenario 2: Contribute \$36,000 for full CESG, plus an additional \$14,000 in year one.
- Scenario 3: Contribute all \$50,000 in year one, receiving only one \$500 CESG.

The differences are significant. Scenario 2 demonstrates that the extra \$14,000 contributed early generates nearly \$40,000 in additional growth. Scenario 3 shows that, for families with available capital, early contributions outweigh foregone government grants at any return above 2.6 percent annually, a modest hurdle for long-term investing.

Withdrawals for education expenses can also be optimized to minimize tax. Families should prioritize the withdrawal of grants and investment growth first (referred to as Educational Assistance Payments or EAP), which are taxed as student income. With tuition credits, students typically

pay minimal tax on the first \$30,000 of income, making this an ideal time to draw down taxable funds. EAP withdrawals are capped at \$8,000 during the first 13 weeks of full-time enrollment; after that, there are no limits. Original contributions can be withdrawn tax-free at any time.

**In-Trust-For Accounts: Flexible Alternatives for Continued Investing**

For families who have maximized their RESP contributions and wish to continue investing for their children, In-Trust-For (ITF) accounts offer a flexible alternative. Unlike the tax-sheltered RESP, these informal trusts are taxable accounts that allow parents to manage investments on behalf of minors (who cannot legally enter contracts). With no contribution limits or restrictions on how the funds are used, they're ideal for goals beyond education and help build children's financial literacy and investment

knowledge. ITF accounts are straightforward to establish, and the structure involves three roles: the contributor (who is making irrevocable gifts), the trustee (the manager of investments, typically a parent), and the beneficiary (the child who legally owns the assets).

ITF accounts offer a valuable tax benefit: Assets roll over to the child at the age of majority (18 or 19) on a tax-deferred basis, avoiding capital gains tax on the transfer. However, this automatic process means all assets must transfer at once. Distributions cannot be staged over time. Additionally, unlike formal trusts, ITF accounts lack detailed documentation of intent, which can lead to disputes if contributors and trustees disagree on management.

These limitations make ITF accounts best suited for moderate amounts where families are confident in their child's readiness to manage money. For larger sums (approaching \$1 million or more), formal trusts or insurance structures typically provide better control and flexibility through staged distributions and formal documentation.

Lastly, tax treatment of ITFs involves some nuance, with trustees generally reporting income on their returns while capital gains may be taxable to the minor beneficiary. Consult your accountant for guidance on proper reporting.

**INSURANCE STRATEGIES FOR CHILDREN**

Life insurance has evolved. Originally created as risk protection for widows and orphans to replace income and cover liabilities like mortgages, life insurance is now a flexible financial planning tool. Modern life insurance functions as a distinct asset class with unique characteristics: tax-sheltered growth, low volatility, high guarantees, and tax-free payouts upon death.

For affluent families, permanent life insurance serves four primary purposes. First, it provides an efficient way to fund capital gains taxes due upon death. Second,

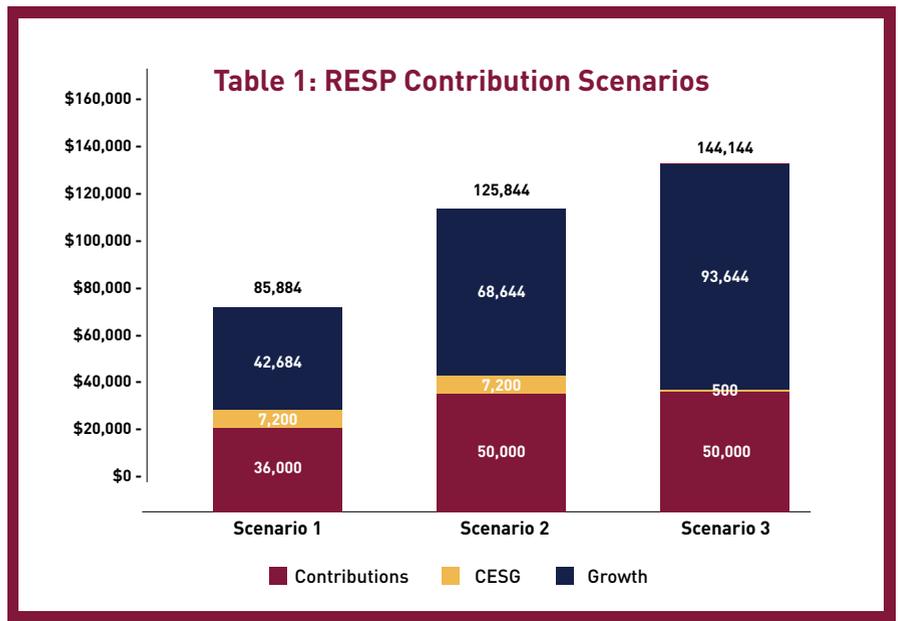
it enables estate equalization when one child inherits a family business while others receive insurance proceeds. Third, it serves as a unique tax-efficient asset class to optimize a family's overall portfolio. Fourth, it provides liquidity when estates hold illiquid assets, ensuring executors have cash available to fund obligations.

*Why Insure a Child or Grandchild?*

While insuring a newborn may seem unusual at first, there are compelling reasons why many families implement policies for chil-

ums are calculated based on mortality risk, which increases with age. Policies implemented for young children carry significantly lower premiums than identical coverage purchased decades later.

**Power of Time:** Establishing programs early creates substantial value by taking advantage of time and compound growth over decades. Consider a family contributing \$50,000 annually for 10 years (\$500,000 total). For a healthy 55-year-old, this might grow to approximately \$1.5 million by age 90, a ratio of roughly 1:3. The same contri-



dren early in life:

**Guaranteed Insurability:** Life insurance is unique amongst financial products as it requires health qualification at the time of purchase. Establishing coverage while children are young and healthy locks in insurability regardless of future health developments. This becomes particularly important as preventative health screenings and diagnostic tests become more common, creating medical records that must be disclosed during insurance applications.

**Favourable Premiums:** Insurance premi-

um contributions for a five-year-old could grow to \$19 million by age 90, a ratio of 1:38. Even after accounting for inflation, the difference is remarkable.

**Flexible Financial Tool:** A policy started for a child becomes a flexible financial asset throughout their life. When they're first getting married, they can be grateful they don't need to purchase expensive insurance or worry if they've developed a health condition. Later in life, the policy might provide liquidity for estate planning, or they might borrow against the cash value to invest in a

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business or other opportunities.

For families with the means to do so, establishing life insurance for children is another way to build a solid financial base and help the next generation thrive. Alongside education funding, home down payments, and investment accounts, a permanent policy provides long-term security and flexibility.

### STRATEGIES FOR YOUNG ADULTS Strategic Use of Registered Accounts for Young Adults

At 18, young adults inherit the financial foundation established in childhood and gain direct access to all available investment accounts. This transition from beneficiary to active investor is critical. We've observed

saving for a home, additional education, or other goals, tax-free withdrawals and re-contribution provide optionality other registered accounts do not.

**Registered Retirement Savings Plans (RRSPs):** Contributions generate tax deductions, making this type of account particularly valuable in higher income years. While RRSPs are traditionally associated with retirement, the Home Buyers' Plan (HBP) allows up to \$60,000 to be withdrawn tax-free and then repaid over 15 years. For young adults planning home purchases, the HBP transforms an RRSP into a vehicle that offers both tax deductions and tax-free access to capital.

**First Home Savings Accounts (FHSA):** This newer account combines TFSA and

restrictions on use or timing, which is ideal for 18-year-olds whose life plans remain fluid. An FHSA offers an immediate tax deduction (valuable at any income level) with the safety net of rolling unused funds to an RRSP. For many young adults, contributing to both in the early years makes sense, though an FHSA should be a priority if a tax refund and home ownership are more immediate goals.

- **Maximize RRSP deductions in high tax brackets:** Once an FHSA is maximized, high-earning young adults should prioritize RRSP contributions, which generate tax refunds that can fund TFSA contributions.
- **Consider the RRSP deduction**

“ Life insurance has evolved. Originally created as risk protection for widows and orphans to replace income and cover liabilities like mortgages, life insurance is now a flexible financial planning tool. ”

that young adults who grew up with exposure to budgeting tools and learning to allocate money across different goals are often better prepared. This mindset, combined with strategic account use, positions them to flourish in an economy where investment growth has become as essential as income for building wealth.

Three registered accounts available at the age of 18 offer unique tax advantages: TFSAs, RRSPs, and FHSAs. Here's how to prioritize them based on income and goals:

**Tax-Free Savings Accounts (TFSAs):** Contributions are made with after-tax dollars, but all growth and withdrawals are tax-free. Withdrawn amounts can be re-contributed in subsequent years. For young adults, TFSAs offer unmatched flexibility when future plans are uncertain. Whether

RRSP benefits: tax-deductible contributions (\$8,000 annually, \$40,000 lifetime) with tax-free withdrawals for a first home, and can remain open for up to 15 years. Even without firm home purchase plans, an FHSA makes sense for young adults because unused funds will roll into an RRSP tax-free without affecting contribution room, building tax-sheltered savings while preserving flexibility.

### Guidelines for Prioritizing Accounts

While every financial situation is unique, the following guidelines can help young adults prioritize accounts:

- **Start with either a TFSA or an FHSA:** Both accounts offer compelling advantages for different reasons. A TFSA provides maximum flexibility with no

**carry-forward:** Young adults expecting significant income growth can contribute to RRSPs now but defer claiming deductions until higher earning years, maximizing the tax benefit.

Keep in mind the most important guideline is simply to start. Building the habit of regular contributions and letting time work in your favour matters more than perfect account prioritization. Combined with the foundation established in childhood, these registered accounts position young adults to build meaningful wealth over decades.

## INSURANCE CONSIDERATIONS FOR YOUNG ADULTS

### Timing and Insurability

As already mentioned, securing coverage while young and healthy locks in favour-

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able rates and guaranteed insurability. For those without childhood policies, the young adult years offer a second critical window, before lifestyle factors, risky hobbies, and health history begin to impact underwriting outcomes. Once a policy is issued, future lifestyle changes have no impact on coverage or rates.

### *Ownership Options: Personal vs. Corporate*

Corporate ownership offers significant tax advantages. Policies are funded with lower-taxed corporate dollars, and, upon death (assuming life expectancy), the full death benefit flows out of the company tax-free to the personal estate. This structure works particularly well when a young adult is expected to eventually own investment or holding companies.

Personal ownership uses after-tax personal dollars but offers exceptional flexibility. The Income Tax Act allows policy owners to transfer ownership to the insured child or grandchild at any time, completely tax-free, even if the policy has significant gains. The owner controls the timing of this transfer, whenever deemed appropriate.

### *Accessing Value*

Like equity in real estate, permanent cash value life insurance is an asset that can be borrowed against. Young adults with established policies may leverage this cash value to fund business ventures, investment opportunities, or other financial goals. Banks will typically lend 90 to 100 cents on the dollar against these policies due to the built-in guarantees and low volatility of this asset class.

Optimal flexibility, however, requires policies structured with high early cash values, and not all policies are designed this way. Some are designed to maximize long-term death benefits with minimal accessible cash value. Families should clarify priorities when establishing coverage: immediate financial flexibility or maximum long-term estate value.

### **In Summary**

The power of starting early cannot be overstated. The strategies outlined above all leverage the same fundamental advantages: time, tax-efficient structures, and compound growth.

The benefits also extend beyond numbers. These strategies create opportunities for conversation, education, and engagement across generations. They provide financial springboards, giving young adults the confidence, resources, and foundation to pursue their goals. Most importantly, they teach the next generation how wealth is generally built: through early action, consistent contributions, and patient compounding. **M**



**Top to bottom:** Meghan Moore, Rachel Davies, Kate Pal at the Minerva Summit

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