Education Savings: Start Early

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A new baby in the family brings many hopes, dreams and expectations. This can often include thoughts about how their lives can be better than that of their parents. And that often includes hopes about careers and the education that goes with them. It is also the time to start planning how to finance the education needed to fulfill those hopes and dreams.

Statistics Canada[1] estimates the total Canadian average tuition cost today - of a four-year Canadian undergraduate degree - is about **$30,000 for students living at home**. Parents of newborns can expect those costs to increase to over $50,000 by the time they go to university in 18 years. The costs can be much higher for professional degrees.

There was a time when Boomers went to university and could pay the entire cost of their schooling with summer jobs, part-time jobs and maybe some modest student loans. Parents may have needed to contribute some money to support their children's ambitions. That is no longer the case today. Smart parents start early when it comes planning for their child's future educational needs.

A Registered Education Savings Plan (RESP) is one of the best ways to save for these education costs. For example, any interest, capital gains or CESG money is treated as taxable income to the student and not to the higher earning parent. This is an attractive income-splitting strategy for many families. There are many types of plans and investment options available to meet each family's goals and financial means. The easiest way to get started is with a monthly contribution plan.

Under the Canada Education Savings Grant (CESG) program, the RESP receives a federal government grant of 20% annually for every dollar contributed up to $2,500. Depending on net family income, an additional CESG grant of 10% or 20% can apply to the first $500 saved in the RESP each year. The maximum lifetime grant through the CESG is $7,200 per child.

An RESP can be set up by a parent, grandparent, aunt or uncle amongst others, as long as the total amount contributed does not exceed the maximum lifetime total of $50,000 for each child. The CESG is not payable if the entire lifetime contribution amount is paid in a lump sum. Thus, it is best to contribute annually until the full CESG is received.

A recent UBC student survey[2] found that 79% of students feel stress about paying for their education. Various media reports indicate that most university students graduate with large student loan burdens. Starting to plan early is essential.

Children can be included in the process by having them contribute money to their own RESP through part-time earnings. They can also be taught about budgeting and making spending choices with their money. This will help prepare them for handling the larger amounts of money they may control while pursuing their post-secondary education. Part-time earnings also create future RRSP contribution room. And filing a tax return makes them eligible for the GST/HST Credit and for quarterly payments from the federal government when they turn nineteen.

Finally, while almost any government approved educational program anywhere in the world is eligible for RESP funding purposes it best to confirm this before committing to a program of study.

Call us today to discuss your many options [1] for funding your children's post-secondary education!

1. Stats Canada

2. UBC AMS

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