NATIONAL POST
FINANCIAL POST

SEPTEMBER 13, 2013

Kim Inglis, BCom, CIM, PFP, FCSI, AIFP

Reduce the pain of saving for kids' education

Plan early and make sure of all registered vehicles

According to a poll conducted by Leger Marketing for CIBC, 33 per cent of Canadian parents with children under the age of 25 have assumed additional debt to help fund their children's education. As a result, 60 per cent of those polled have saved less for their retirement than they had planned, and now face a greater likelihood of having to work longer. Given the rising cost of postgraduate education, this is not surprising.

A Canadian Centre for Policy Alternatives report found that tuition and other compulsory fees for Canadian undergraduate students are projected to rise to $6,842 by 2016-17. That will be a tripling of the cost from 1990. Ontario, the most expensive province, will rise to $9,517. Factoring in other expenditures such as books, living expenses and transportation costs, a four-year undergraduate degree is estimated to cost $80,000.

The pain associated with saving for a child's postgraduate education can be reduced with early planning and, of course, the first step is to create a comprehensive financial plan. It adds perspective, helps in the visualization of goals, and creates the foundation for a savings plan and debt management.

It's wise to develop strategies that combine the benefits of various registered savings plans. By integrating plans for Registered Retirement Savings Plans (RRSPs), Tax-Free Savings Accounts (TFSAs), and Registered Education Savings Plans (RESPs), parents can greatly enhance funding for future education.

Consider an Ontario parent earning $75,000 per year who contributes $1,000 every month to their RRSP. The annual tax savings resulting from the $12,000 in contributions would amount to $3,853. The parent could choose to invest the tax return in a TFSA, up to their allowable limits, and benefit from tax-free growth.

At the end of each year, the parent could withdraw some funds from the TFSA to make an RESP contribution, leaving the balance to continue growing tax-free. Once inside the RESP the contributions will also be growing and, although the contributions are not tax-deductible, the investment income is tax-sheltered as long as it remains in the RESP. In addition, the funds may be eligible for government contributions.

Under the Canada Education Savings Grant (CESG) program, the RESP receives a federal government grant of 20% on every dollar of the first $2,500 saved in the RESP each year, up to a maximum lifetime grant of $7,200 per child. The lifetime RESP contribution maximum is $50,000. Maximizing the CESG grant and RESP contribution maximum essentially translates into an easy 14% return without factoring in any investment growth.

Reduce the pain of saving for kids' education

Continued from Page 1

Students and their parents can only be sure of one thing - the cost of postgraduate education will continue to rise. Planning early is the best way to address the increases. Canadians are lucky in having many different investment vehicles at their disposal which, when used in combination, can generate a significant advantage.

Kim Inglis, CIM, PFP, FCSI, AIFP is an Investment Advisor & Portfolio Manager. The views in this column are solely those of the author. www.kiminglis.ca