FINANCIAL PLANNING FOR POST-SECONDARY EDUCATION

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The cost of a college and university education is rising swiftly. Human Resources Development Canada predicts that tuition costs will increase about 3.7% every year for the next two decades. That's twice the expected general inflation rate. Currently, one year of university away from home–including tuition, books, student fees, and room and board–costs about $12,500, or $50,000 for a four year degree. Eighteen years from now, costs are expected to have doubled, to more than $100,000.

Some parents borrow what they need as their children go to school and pay back the loan later. (It's tough to swallow taking on a hundred thousand dollars' debt right around the time the mortgage is paid off.) Other parents pay expenses out of their regular paycheck, and simply tighten their belts while their kids are in school, or ask their children to pay some of the costs, or take on student loans.

Many other parents and grandparents start investing while their kids are young. They set up an education plan, pre-authorized transfers every week or month into the education fund, and fifteen or twenty years later, when their child is finished with high school, the money they need is ready and waiting. Here's an overview of plans.

RESPs

For example, if you haven't already, you might want to look into setting up a Registered Education Savings Plan (RESP). RESPs were created by the federal government to encourage Canadians to save for a child's education by offering tax benefits of doing so. You can contribute up to $4,000 each year for each of your children to a lifetime maximum of $42,000. Both single beneficiary and family beneficiary plans are available.

In a single beneficiary plan, a plan subscriber names one beneficiary, or one child. With a single beneficiary plan, a contributor doesn't have to be related to the beneficiary. In other words, anyone can start a plan for a child and make contributions.

With a family beneficiary plan, subscribers can name more than one beneficiary, but all beneficiaries have to be related to the subscriber by blood or by adoption. One advantage of a family plan is that assets can be shared. If four children are named as beneficiaries and only two pursue college or university, more RESP funds can be transferred to the two children who do go to school. There's no penalty for transferring in this case.

Benefits of contributing to RESPs

Although RESP contributions aren't tax-deductible, there's no tax payable on income earned in the RESP until money is withdrawn. At that point, the beneficiary is taxed on withdrawals. There are no restrictions on foreign content restrictions in an RESP, meaning that the portfolio can be globally diversified.

Also, the person who contributes to an RESP is eligible to receive a Canadian Education Savings Grant (CESG) from the federal government. A CESG provides RESP account holders with a grant of up to 20% of the first $2,000 contributed to the plan each year when the beneficiary is under 18. (Some restrictions apply when a beneficiary is 16 or 17.) That amounts to as much as $400 in grant money per beneficiary, with a potential lifetime grant of $7,200. In the case of a family beneficiary plan, if one child doesn't attend post-secondary school, the other beneficiaries may in some cases need to repay some of the CESG.

Other considerations

Include the RESP in your will. If you die, the RESP can be continued on your behalf by an heir or executor, or by your legal

representative, if you say so in your will. If your will doesn't specify a successor, another person making contributions to the plan may become the new subscriber after you die. In the worst case, they could claim a refund on the capital contribution, leaving only the accumulated interest and CESG in the fund.

You can contribute to an RESP for 21 years from the date it is opened, and the RESP has to be collapsed by December 31st of the 25th year. This time limit usually doesn't create problems. However, if a child delays entering post-secondary education for a long time after high school, you may be forced to wind up the plan before maximizing its full benefits. That is, you'll be assessed penalties to get funds remaining in the RESP at the end of the 25-year limit. Also, if your children are very different ages, a family plan may need to be collapsed before the youngest child has finished school. In this case, it might make most sense to have separate RESP's for the children instead of a family plan.

Non-registered education savings options

In addition to RESP's, there are non-registered ways of saving to pay for your child's college or university career. These include family trusts, which are formal agreements set up through a lawyer. Scholarship trusts, available from independent associations, are also an option. These work like insurance funds, by pooling the income from many contributors and paying out funds to eligible children as they go through college or university.

In Trust Accounts are simply investment accounts held in trust for your child to use for school. Whereas with RESPs, there is a limit on the amount you can contribute, there is no limit in a regular investment account. Also, if the child doesn't pursue post-secondary education, the funds can be used for another purpose. There may also be tax advantages here in terms of income splitting. Once the child reaches the age of majority, the account

is reregistered into his or her name, so that income and capital gains are taxed in his or her name. A lawyer or tax accountant usually helps to set up an account like this.

Speak with a qualified financial planner, or your lawyer or tax advisor. ❒