Snapshots™

PARENTHOOD:
COLLEGE AND UNIVERSITY FUNDING

AS YOU PLAN FOR THE BIRTH OF YOUR CHILD, YOU MAY FIND YOURSELF WONDERING WHAT LIFE WILL BE LIKE FOR THEM WHEN THEY GET OLDER.

While it might seem early to be thinking about college or university, ensuring a child has access to a good education will give them the best possible start in life. Consider these quick facts about the benefits of post-secondary education from Statistics Canada:

- Canada's future labour market will have a preference for skilled workers in a global, technologically advanced economy
- College and university graduates are already more likely to have a full-time job, and more likely to keep it during an economic downturn
- They also tend to earn more than Canadians without post-secondary education
- Post-secondary education has become almost essential. According to Statistics Canada, 68.4% of Canadians between the ages of 25 and 44, and 58.1% of those aged 45 to 64 had obtained some form of post-secondary certification in 2011.

Tax Sheltered Savings

The cost of education is expensive and tuition fees, books, accommodation and living costs have been increasing faster than the rate of inflation. For example, between 1993–94 and 2003–04, the cost of studying dentistry quadrupled, while medical tuition costs more than tripled and studying law more than doubled.

One of the best ways to save for your child's future education is through a Registered Education Savings Plan (RESP). While you save, the government will kick in up to $7,200 through the Canada Education Savings Grant (CESG). Taking advantage of this free money can go a long way to finance your child's education down the road. Putting aside even small amounts each month will translate into substantial savings later on. When your child does attend a post-secondary institute, all your contributions are passed on to them tax-free and taxes are only paid on the investment growth and grants (usually at a much lower tax rate).

Quebec

Children of Quebec residents may be eligible for the Quebec Education Savings Initiative (QESI) which will add to federal grants already available. The QESI will provide a grant of 10% of annual contributions to a maximum of $250 ($2,500 contribution). There is a lifetime maximum grant of $3,600 and a carryforward of up to $250. Lower income families may be eligible for an enhanced grant. I can provide you with additional information about the QESI and how to apply.

Time Is On Your Side

By boosting your contributions in the early years, you can take advantage of the power of compounding from more aggressive investment strategies. RESPs are quick to set up and combined contributions of up to $50,000 can be made by parents, grandparents, other relatives and family friends.

A summary of the most recent rules and details about RESPs is available here. There are also some rather specific rules that may come into play. Please contact me when you are ready to establish your RESP. There are a number of decisions that need to be made such as the best type of investment(s) to put in the RESP as well as how you would like to make your contributions, which could be a lump sum or ongoing payments.

Additional Savings

As discussed above, RESPs are an excellent savings vehicle for your child's post-secondary education. However, the amount you can contribute and the amount eligible for the CESGs are limited. Given the steady increases in post-secondary educational costs, you may want to contribute more, which will require non-registered savings. You could certainly set up an account dedicated to education savings and I can explain the sort of alternatives that may be right for you.

I can provide you with additional information and explain your educational funding possibilities.

The Tax-Free Savings Account (TFSA)

As of January 1, 2009, the federal government is providing a new tax-efficient savings vehicle for Canadians called the Tax-Free Savings Account (TFSA). The TFSA allows taxpayers 18 and over to contribute up to $5,500 per year (in 2016) into the account where any income earned will grow tax-free and funds may be withdrawn with no tax implications. The range of investments available is essentially the same as provided with an RRSP. The major difference between the TFSA and an RRSP is that there is no deduction allowed for a TFSA.

Although an RESP is preferable due to the government grants provided, if you would like to save funds above and beyond the RESP grant limits, the TFSA should be an attractive option.

I will be pleased to provide you with more information about the TFSA as well as assist you in establishing an account.

'In Trust For' Accounts (ITFs)

These are investment accounts set up for a minor child, typically by a parent, in anticipation of the child taking control of the assets when they reach the age of majority, ordinarily age 18. Even though these are usually structured as 'informal' trusts without the same amount of documentation as a formal trust, the courts have held that they are in fact trusts and that the assets belong to the beneficiary (your child). Any income earned on the account (dividends and interest) will be attributed back to you as the contributor, whereas any capital gains will usually be attributed to the child. Prior to the introduction of the Canada Education Savings Grants (CESGs), in trust accounts were a fairly popular alternative to RESPs due to their flexibility. However, now that the CESGs are available it is usually more beneficial to establish and make contributions to an RESP. In cases where contributions hit the $50,000 maximum for RESPs, in trust accounts would certainly be an option worth considering. I can provide you with additional information about these accounts.