Higher tuition costs demand tough strategies

Help clients calculate when to open an RESP, where to find funds to contribute and how to get government grants

By Wendy Cuthbert

With tuition fees on the rise at most post-secondary institutions across Canada, some parents are looking for advice on saving for their children's educations — before their children are even born.

In fact, says Marc Lamontagne, a fee-for-service certified financial planner and registered financial planner at **Ryan Lamontagne Inc.** in Ottawa, it's not unusual for expectant parents to seek education-savings advice: "The number of clients who walk in asking to open up an RESP before the child is even born always surprises me."

For the record, RESPs can only be opened after a child is born. But these enthusiastic parents-to-be can't be blamed for their eagerness to start saving for their child's future. First, they're all too aware of the importance of a post-secondary education, Lamontagne says: "It's one of the best investments you can make. You know they're going to be that much better off financially."

Second, these clients want to make sure they tap into the Canada education savings grant — through which the federal government contributes 20%, to a maximum of $400, of the amount saved in an RESP each year — before it runs dry. "They love free money," he says.

Most important, however, clients know that a post-secondary education is getting costlier. Over the past decade, tuition fees have skyrocketed across Canada, with the exception of Quebec, where tuition fees were frozen several years ago for students resident in Quebec and attending post-secondary school in the province.

According to Ian Boyko, government relations co-ordinator for the Canadian Federation of Students in Ottawa, tuition fees in most provinces have been growing five times faster than inflation. While that has slowed a bit in recent years, with several provinces freezing tuition increases, Ontario recently allowed tuition hikes of up to 4.5%-8% a year.

The threat of even higher tuition is another reminder that university costs can no longer be covered by working hard throughout the summer.

Although enrolment figures continue to increase at a steady pace, the suspicion is that high tuitions mean many Canadians are shut out of post-secondary education altogether, Boyko says. A report released by Statistics Canada in April shows students from low-income families are half as likely to participate in post-secondary education as their wealthier peers.

While the CESG program may be a boon to middle- and upper-income Canadian families, there are many who can't take advantage of the grant. "The unfortunate thing is that the only way you can be prepared is if Mom and Dad have the money to throw into RESPs," says Blaine Conrad, a CFP with **Ramey Investments Inc.** in Dartmouth, N.S. "There's a big disparity problem because of this."

The inequality is even more obvious in Eastern Canada, where tuition is particularly high — especially in relation to per capita income, Conrad says. In fact, Nova Scotia has the highest tuition rates in the country, averaging more than $6,000 a year for an undergraduate degree, vs the national average of slightly more than $4,000, according to the CFS. The province announced in May that it plans to bring down tuition fees, which will ease some of the imbalance.

Conrad says his clients with children are uniformly concerned about the cost of post-secondary education. While a few of his clients have looked outside the province for education, mostly because of the promise of scholarships, there are no real savings with that route. "The cost of transportation — getting the child home for Christmas — is an issue," he says, "and obviously they have to have money for room and board."

Conrad, too, often has clients interested in opening an RESP immediately after the birth of their first child, but he recommends they wait a few years. "The plan has to be used up no later than 25 years after it has been opened. [In the event the first child doesn't use the plan], we like to have a little space so the money can be transferred to the next in line by blood," he says.

Majid Behravesh, a CFP and chartered life underwriter for **IFS Integrated Financial Solutions Inc.** in North Vancouver, B.C., says education savings is an issue for about 15% of his clients — the group with school-age children.

His education-savings clients can be divided into two groups: those maxing out their contributions every year with the intent of covering tuition, room, board and other costs; and those who throw in a modest amount each month — $100 or so — hoping this will be enough to cover at least the student's first year. The latter group tends to play catch-up after high-school graduation, he says.

Some parents apparently plan to use the new government child-care allowance as the impetus to start saving for education. The much-touted $100/month (before taxes) that the federal government has promised families of children aged six and under might be suitable for those families that have, until now, been unwilling or unable to save for education, says Katherine Bain, an RFP and certified financial planner with **Beacon II** in Brampton, Ont. But she prefers to look at a financial plan more holistically, in terms of goals and available resources. "It really doesn't matter which $100 it is," she says.

Here are some other strategies to keep in mind when helping families prepare for post-secondary education costs:

> **Start with a reasonable projection.** While the cost of education has been rising at an average rate of about 7% a year, that might to be too high an estimate over a typical 18-year savings period, Lamontagne says. "I just find it very hard to believe that it's going to cost us $20,000 for one year of undergrad," he says. Instead, he uses a 5% inflation model and adjusts each year.

> **Get creative.** Lamontagne doesn't recommend going over the $2,000-a-year grant-applicable amount, unless the client wants to take advantage of the carry-back provision for the CESG. (A maximum of $4,000 a year can be put into an RESP; the difference can be applied to earlier years, going back as far as 1998, when the grant was introduced.) "Anything above that, I suggest they put into an 'in trust' account," he says, adding that the benefit of a trust fund is that the accumulated savings are not tied specifically to education.

> **Age is everything.** Conrad recommends different investing styles within the RESP, depending on the age of the child. A more aggressive approach, such as global equities, is appropriate when a child is less than 10 years old, he says. When the student is about a year away from attending post-secondary school, he says, money market funds make the most sense.

> **Dip wisely.** While the capital can be used tax-free, the growth and grant money is taxable. So, the best thing to do, in most cases, is to use that money in the first year, according to Conrad. "I usually try to maximize the amount of taxation in the first year because the student typically doesn't work as long in the summer so their personal tax level would be lower," he says. The tuition tax credit can then offset any income taxes the student might otherwise have to pay.

> **Encourage RRSP savings first.** Conrad says his first recommendation is to max out RRSP levels before contributing to an RESP. "Why not get 38¢ back on the dollar, vs only a 20% grant?" he asks. He suggests putting as much money as possible into RRSPs, and then rolling any income tax rebates into an RESP.

> **Talk to the grandparents.** Conrad encourages clients to let the grandparents know that the family is keen to save for post-secondary education and that they'd appreciate any help. "Ask them to send money rather than waste it on gifts the kids are going to break in six months," he says. **IE**