

School costs trend higher – plan for big numbers

By Stephen Chow, Special To The News

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Another school year brings new challenges. My daughter plans on joining the high school rowing team and her biggest challenge will likely be getting out of bed in time for the predawn workouts. This fall, many students and families face a different kind of challenge – finding ways to keep up with the rising costs of postsecondary education. More students are resorting to student loans and carrying greater debt loads to finance their postsecondary education. A Statistics Canada report reveals that 27 per cent of graduates from the class of 2005 that borrowed were carrying debt loads of at least \$25,000.

Early planning can help families avoid heavy debt loads and a good first step is to determine how much savings will be enough. According to McMaster University, an out of town student that started a four-year honours degree in 2008 will spend roughly \$63,000. Most of that bill is accounted for by living expenses. Food, accommodation and personal expenses will eat up \$34,000 and the remaining \$29,000 covers tuition fees, books, and supplies. Hamilton and Burlington students can save about \$5,500 a year by living at home and using the HSR to get to campus, but they can still expect to spend \$41,000.

For a child born today, the same degree in 18 years may cost as much as \$110,000 for students living away from home and \$75,000 for those living at home. These numbers assume that tuition fees will increase 4 per cent annually or double the CPI inflation target of 2 per cent. These are daunting numbers for parents juggling other priorities such as mortgages and retirement planning. But parents need not carry the entire burden. Students can contribute with earnings from summer jobs, part-time jobs during the school year, scholarships, and by taking on some debt if necessary.

A Registered Education Savings Plan or RESP provides strong incentive for families to save. Although contributions to a plan are not tax deductible they do qualify for grants known as Canada Education Savings Grants or CESGs. The CESG adds up to 20 per cent (\$500 maximum) to your annual contribution to an RESP per child annually, to a lifetime maximum of \$7,200. Depending on your family income, your child could receive additional funds in the form of additional CESG. Another key RESP benefit is that investment earnings grow tax deferred until withdrawn by the child when he or she is pursuing postsecondary education. Visit the following website www.canlearn.ca for valuable resources and tools.

Let's look at some numbers and assume that you have 15 years to save and can set aside \$200 at the end of each month. At the end of 15 years your total contributions would add up to \$36,000. The CESGs could add another \$7,200 and if you assume an average annual growth rate of 6 per cent, your RESP plan will net a total balance of \$68,878.

If education savings are a priority for your family, an RESP is a very good option to consider. Even if you are only able to set aside a small amount each month, you gain a tremendous advantage by starting early and letting dollars compound on a tax deferred basis.

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