THE GLOBE AND MAIL

March 27, 2013

# Five ways to save for your child's education – other than RESPs

By Roma Luciw

*If you've maxed out your RESP contributions - and most parents have not - consider a trust, TFSA or life insurance*

Most Canadian parents know about RESPs (which doesn't necessarily mean they have them) but few are aware of alternative ways of saving for their child's post-secondary education, says a new report.

The report, released Wednesday by the Bank of Montreal, says a study conducted last year found that 83 per cent of parents expect to pay for their child's college or university costs, while 44 per cent expect their child will also chip in.

It's no surprise that parents want to help. With tuition costs soaring and the job market looking bleak, today's young adults [http://www.theglobeandmail.com/globe-investor/personal-finance/household-finances/young-adults-really-do-have-it-tougher/article10327284] are more likely than ever to finish post-secondary school burdened with significant amounts of debt. Spending years repaying that student debt will in turn hurt their ability to save for things like getting married, buying their first home, and starting a family.

According to one estimate [http://www.cfs-fcee.ca/html/english/home/index.php], Canadians leave school with an average student debt of $27,000. "Currently, a four-year university degree can be expected to cost upwards of $60,000," the BMO report said. "That sum could rise to more than $140,000 for a child born this year."

RESPs (registered education savings plans [http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/resp-reee/menu-eng.html]), which have been around in their current form since 1998, are the most popular way for parents to save for their kid's higher education. Money placed into these investment accounts can grow tax-free. Through the Canada Education Savings Grant [http://www.canlearn.ca/eng/saving/cesg/index.shtml], the federal government provides a 20-per-cent grant on RESP contributions of up to $2,500 a year.

However, the BMO report says that while half of Canadian parents use RESPs, only 34 per cent are taking full advantage of this government grant. It also found that parents wait too long to start saving, do not save consistently enough, and are not familiar enough with the legal and tax implications of using these accounts.

Rona Birenbaum, an independent financial planner at Caring for Clients in Toronto, says the parents she talks to are "most definitely" concerned about saving for their children's higher education. She encourages parents to maximize their RESPs and get the 20 per cent government grant. "This is free money the government is giving parents to help fund their kids' school."

However, most of the parents she meets are too financially strapped with repaying debt, paying off their mortgages, saving for retirement and covering everyday expenses to be able to do much else. "I don't see that many that have the capacity to save beyond that annual RESP maximum, which is $2,500 per child per year," Ms. Birenbaum says. "The five alternatives offered below are for people who have spare money lying around and are looking for tax-efficient ways to save for this."

Even parents who contribute the maximum amount to an RESP for the required 17 years are going to find that they need extra money to cover the costs of a higher education, especially if the child goes away to school, Ms. Birenbaum says. She encourages parents to get kids involved in saving for their own education through summer and part-time jobs.

For parents who are maximizing their RESP contributions and looking for other ways to save, the BMO report offered these five options:

**1) Open a non-registered account**
The benefits of opening a non-registered account specifically for the purpose of saving for your kid's schooling is that it is easy to set up, simple to understand and offers flexibility, the BMO report says. You can withdraw the funds for whatever reason at any time, and retain control of them after your child reaches the age of majority. The downsides are the temptation to use these funds for something other than your child's education, as well as that the parents will be taxed on all the income and any capital gains.

**2) Use a Tax-Free Savings Account (TFSA)**
By putting money into a TFSA [http://www.tfsa.gc.ca], parents' savings will grow tax-free and the money can be easily withdrawn in the future to help finance a child's education, without having to pay taxes, the BMO report says.

**3) Set up a trust**
A trust, a legal agreement where money is transferred from one person to another according to specific terms, is a good way to "manage, control and protect funds" because it gives a parent – or grandparent – the peace of mind of knowing that the money will be used for its intended purpose, the BMO report says. It is important to set up the trust properly with a written agreement that outlines terms and conditions, it added, noting that there are also tax consequences to consider, depending on how the trust is funded.

**4) Pay out corporate dividends**
If you are incorporated or have an incorporated family business, you could build up savings in your corporate account and pay them out in the form of a corporate dividend at a later date to pay for your child's education, the BMO report says. Your child would need to own shares of your company. The benefit of this is that the dividends will be taxed in the hands of your child, who will presumably have a low income, it added.

**5) Get life insurance**
Parents or grandparents can use life insurance to fund their child's or grandchild's post-secondary education by building up and then tapping into the excess cash value within an insurance policy, the BMO report says. The benefit of this strategy is that the growth would be tax-deferred inside the policy, it says, while it is building while the downside is that the parents or grandparents will lose control over the money put into the policy and the coverage offered by the contract.

Mike Holman, the author of The RESP Book [http://www.moneysmartsblog.com/resp-book-education-savings-plans-canadians] and the Money Smarts blog [http://www.moneysmartsblog.com], dismissed the idea of saving for a child's education through life insurance. "That's a really expensive way to save for anything," he says, pointing to the high fees and commissions associated with this method.

He was also critical of the trust option, noting that the child could choose to use their education money for other purposes. "At age 18, one might be tempted to buy a new corvette rather than go to school. I know I would have," he joked.