Given inflation and soaring housing costs, will an RESP cover your kids' higher education?

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Robert Ford and his 20-year-old daughter, Carolin Ford, a fourth-year student at UBC, in Vancouver on Oct. 15.MARISSA TIEL/GLOBE AND MAIL

By the time his daughter finished high school, Robert Ford had roughly $50,000 saved in a registered education savings plan (RESP). It was enough to cover most of her postsecondary education expenses – but accommodations in ultrapricey Vancouver ate into those savings.

Living in residence at the University of British Columbia cost Mr. Ford's daughter $6,529 for the school year, $932.71 a month, before factoring in her meal plan. With the meal plan, the eight-month total topped $13,000. Now in her fourth year, she is sharing a four-bedroom basement apartment, which costs her $750 a month, or $9,000 for the full year – students don't get a break on rent in the summer months – on top of her food, utilities and other expenses.

“The problem is accommodations. That’s a pretty heavy price to pay,” said Mr. Ford, who is still saving for his son’s education. Although he could have almost swung the full cost of his daughter’s degree, she got a part-time job to be more independent and to help pay the rent.

It’s a common story for Canadian parents who are diligently stashing away money for their kids’ education. Although tuition has not risen much, the RESP’s purchasing power is declining sharply in the face of soaring rents in markets large and small across the country – not to mention 7-per-cent inflation, which has made everything from groceries to gas more expensive. Students are among the hardest hit.

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“I think we can all agree that education costs are significantly higher today than 20 years ago, not just because of inflation,” said Dan Bortolotti, an associate portfolio manager at PWL Capital.

Mr. Bortolotti said that when he works with parents, he models a rough cost of $15,000 to $20,000 a year for their children’s education costs, but that’s “really just tuition. Can you save for tuition and room and board in an RESP? The answer is clearly no, but it’s a good start.”

Created in 1998, RESPs are investment accounts that shelter parents from taxes while they save for a child’s college or university education. Parents can contribute a lifetime maximum of $50,000.

The best thing about RESPs is the free money: Each year the federal government will add 20 cents to every dollar contributed to an RESP through its Canada Education Savings Grant (CESG), which is subject to both an annual maximum of $500 and a lifetime maximum of $7,200. Lower-income students may also qualify for a government contribution of as much as $2,000 through the Canada Learning Bond program.

Ottawa hasn’t updated the CESG annual maximum since 2007, when it increased it to $500 from $400. And there’s been no talk of raising either the lifetime contribution limit or the grant.

But the world has changed since 2007. Tuition fees for Canadian undergraduate students rose 2.6 per cent year-over-year to an average $6,834 for the 2022-23 school year, according to September data from Statistics Canada.

The big jump in costs for students stems from exorbitant housing prices, particularly in big cities. A September report from rentals.ca shows the average monthly rent for all property types across Canada in August was $1,959, an increase of 1.3 per cent over the previous month and 11 per cent year-over-year. While students in cities such as Regina may get off relatively easy, in the ultrahot rental markets of Vancouver and Toronto the average one-bedroom apartment costs $2,574 and $2,329, respectively, for a total of $30,888 and $27,948 in rent a year.

Student housing may be cheaper, but often not by much. At UBC, on-campus housing with a meal plan can cost between $10,300 and $15,000 a school year, and at the University of Toronto residence fees range between $14,000 and $17,300.

In addition, grocery prices, which climbed 10.8 per cent year-over-year as of August, are rising at the fastest pace in 40 years.

Mr. Bortolotti said the RESP rules need updating. "They need to be a little more generous, if not with the grant then at least allowing you to put more in there. … It's time to bring the RESP into modern times."

Morgan Ulmer, a Calgary financial adviser with Caring for Clients, said parents who contribute $2,500 a year, at a 4-per-cent rate of return, can expect to have roughly $75,000 in the RESP by the time their child is 18.

When she models education costs for clients, she pegs the cost for students living away from home at $25,000 a year and $10,000 to $15,000 for those who live at home. She isn't factoring higher inflation into projections for parents whose education expenses are further out, as she's working under the expectation that it will return to normal by 2024 or 2025.

Basing long-term cost projections on ultrahigh inflation "could be unnecessarily conservative and potentially demotivating," she said, but "if inflation persists beyond that, then it may require a change to our base modelling."

But Ms. Ulmer advises parents to prioritize their own retirement savings and pay down their mortgage if they're already contributing the maximum to an RESP.

Janet Gray, an advice-only financial planner with Money Coaches Canada in Ottawa, says parents whose kids are fast approaching university age and who feel their savings will fall short may need to talk with their children about taking a gap year or spending a couple of years at a local college or university before going out of town to finish their degree.

Even though the time horizon for an RESP is much shorter than other long-term investing vehicles, Ms. Ulmer encourages an equity-heavy strategy in a child's early years, as long as that fits with the parents' risk profile. She suggests downshifting into more conservative assets about five years before the child is expected to use the funds, though she cautions against going too conservative.

Mr. Bortolotti points out that parents only need to save $36,000 to receive the government's maximum contribution. He suggests parents who have the means to do so, or grandparents who want to help out, put the remaining $14,000 of the lifetime cap into the RESP account as early as possible to collect compound interest for longer.

If parents want to save outside an RESP as well, a tax-free savings account is a good vehicle for a time horizon of five or more years, followed by a non-registered account, Ms. Gray said. If their child is planning to access their education funds in the next two years, a high-interest savings account will protect the funds and keep them readily accessible.

Elke Rubach, principal at Rubach Wealth in Toronto, says reaching the contribution limit isn't a common problem. "Would $70,000 or $75,000 be more realistic? Yeah," Ms. Rubach said. But "the reality is few people can get" to $50,000.