



CESTNICK

TAX MATTERS

Reducing the financial stress of postsecondary education

SPECIAL TO THE GLOBE AND MAIL
PUBLISHED AUGUST 26, 2021

Students in South Korea face an incredibly stressful time when it comes to getting into university. The students spend so much time studying to prepare for university admissions tests (often more than 14 hours a day) that, a few years ago, the government began enforcing a 10 p.m. curfew on coaching activities offered to students. The government even put together a six-man team that would conduct nightly raids on classes offered in hidden locations. Makes one wonder about the mental health of students with this type of pressure.

What about students here in Canada? Has the pandemic had an impact on the mental health of students? A survey of 1,500 Canadians for Credit Counselling Canada, conducted by Angus Reid, reveals that more than one-third (36 per cent) of young adults have indicated that their mental health has been negatively affected by financial pressure with their postsecondary education (paying for tuition, books, lodging and student loans).

At the same time, almost three in 10 parents feel that their child's postsecondary education is at risk because of increased financial pressure resulting from lack of income and increased costs for higher education.

The same survey reveals that 42 per cent of parents say their children have taken on additional debt to fund their recent or upcoming school year, 46 per cent said their children are feeling added stress owing to the lack of employment opportunities coming into the 2021 school year, and 46 per cent are worried about their child's level of financial stress because they can't help the kids as much as they would like.

REDUCING STRESS

What are students and parents to do? I want to come back to some principles that I've shared before but are critical to consider this time of year. There are really five ways to pay for an education. Chances are that the right approach for you, or your student, will be to use more than one of these ideas. Planning ahead

for how postsecondary school costs will be covered will reduce the stress that parents and students are feeling today. Let's look at the options:

BEGGING

No, I'm not talking about your child standing hat in hand on a street corner raising funds for school. But there is free money available. You might try applying for a grant through the Canada Student Grant program (go to canada.ca and type "student grants" in the search field). Also, consider looking for scholarships, bursaries, awards, grants, fellowships and stipends. Ideally, your application for these should have been submitted a few months ago, but it may not be too late to apply for some. Go to scholarshipscanada.com for some opportunities.

BORROWING

Borrowing for an education can be "good debt" if your education expands your earning capacity and you keep your borrowing under control. I always suggest following the "Rule of Tens" here, which will cap your borrowing based on the level of income you expect to earn after graduation. Specifically, for every \$10,000 of student debt, you need to earn \$10,000 over a base income of \$10,000 to be able to pay off that debt in 10 years. For example, if you graduate with \$30,000 of debt, you ought to earn \$30,000 over a base of \$10,000, or a total of \$40,000, in order to pay off that debt in 10 years.

STEALING

I'm talking here about parents stealing from their other assets to help cover the cost of their child's education. Most commonly I see parents stealing from their registered retirement savings plans

and tax-free savings accounts. My best advice is that saving for your retirement should take priority over raising the cash for your child's education. Withdrawing from your RRSPs is particularly bad because these are taxable withdrawals, and you won't get back that contribution room to recontribute later. Stealing from retirement assets should be a last resort.

SWEATING

This involves having your child work to earn income for school. Your child can work full-time in the summer months, or part-time during the school year. I know that the pandemic made finding jobs more difficult last year, but opportunities are starting to open up – even if it's for minimum wage for a period of time. Check out job opportunities at jobbank.gc.ca. It's hard for a student to work more than about 15 hours a week if they have a full-time course load at school, but something is better than nothing.

SAVING

Saving is a great way to go, but it takes time. Time is your ally. A registered education savings plan (RESP) should be your first option since contributions give rise to the Canada Education Savings Grants (CESGs) worth 20 per cent of the first \$2,500 of RESP contributions each year, or \$500 (\$100 higher in some low-income situations), with a lifetime maximum of \$7,200 in CESGs per student.

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