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TAX MATTERS

# Seven strategies to save for education costs

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I asked my son, Michael, what he's learned at university in his first two weeks of classes. "Dad, we learned that cow-tipping (the act of tipping over a sleeping cow) is virtually impossible when you calculate the newtons of force required, the angles between left and right hooves, the point of push and the cow's resistance to downward pressure."

I then pondered the value of a postsecondary education. But I concluded that the benefits outweigh the costs, although the financial costs are significant. Last week I talked about the costs of an education along with five ways to pay for it. Today, let's dig deeper on one of these methods: Saving for an education.

1. **RESP.** A registered education savings plan is always a good idea when saving for an education. Why? The government will contribute free money: The Canada Education Savings Grant (CESG) and the Canada Learning Bond (the latter is for lower-income families). CESGs are worth 20 per cent of your RESP contributions, to a maximum of $500 a year and $7,200 in a student's lifetime. The money in an RESP grows tax-free, and the growth along with the CESGs are taxable in the hands of the student when withdrawn later – although the student may not pay any tax if they have a low income. If you start saving when a child is born and contribute $2,500 a year to an RESP, receive the CESGs and earn 5 per cent annually in the plan, you'll have $93,500 in the plan when the child reaches age 18. That's enough to cover most if not all of a postsecondary education.

2. **In-trust-for account.** An in-trust-for account (ITFA) is simply a bank or investment account that you open in your name, in-trust for a minor child. There are no limits to how much you can save in an ITFA, and any capital gains will be taxed in the hands of the child, although interest and dividends will be taxed in the hands of the adult contributor. One drawback: You'll eventually have to give control of the money in the account to your child at age of majority. Check out my article

from Aug. 20, 2020, for more details.

3. **Parent's account.** If one parent has a very low or no income, it could make sense to open an investment account in that parent's name to invest for an education. There may be little or no tax owing on the earnings in the account in this case; it will give that parent full control of the account at all times; and the funds can be used for a child's education, or any other purpose for that matter.

4. **RRSP.** Saving for your own or your spouse's education through your registered retirement savings plan could make sense since you can withdraw the funds on a tax-free basis through the Lifelong Learning Plan, up to $10,000 a year or $20,000 in your lifetime. You'll have to pay the funds back to your RRSP over 10 years to avoid tax on the withdrawals. Sorry, but you can't withdraw RRSP assets on a tax-free basis to pay for a child's education.

5. **TFSA.** You can use your tax-free savings account to save for any purpose – including a child's education. You won't get any CESGs and there's still a limit to how much can be contributed ($6,000 in 2022, increasing to $6,500 in 2023). Because the money in your TFSA can be withdrawn tax-free very easily, it may be tempting to use the funds for something other than a child's education, which might make a TFSA less than optimal for education savings.

6. **Life insurance policy.** It's possible to buy life insurance on the life of a child. If you buy a whole life, or universal life policy, you can accumulate investments on a tax-sheltered basis inside the policy, which can later be used to pay for an education, or any other purpose (starting a business, buying a home, etc.). For example, if you save $250 a month starting in the child's first year, you can accumulate about $82,000 in cash value inside the policy by age 21, and also have about $600,000 in death benefits that would pay out if the child were to die.

7. **Family trust.** You can establish a family trust and lend money to the trust to invest. As the trust earns income, it will have to pay you the prescribed rate of interest on the loan (currently 2 per cent, increasing to 3 per cent on Oct. 1, 2022), but the balance of the income can be taxed in the hands of your children as beneficiaries of the trust. The kids will likely pay little or no tax. The funds can then be distributed out of the trust to pay for education costs.

*Tim Cestnick, FCPA, FCA, CPA(IL), CFP, TEP, is an author, and co-founder and CEO of Our Family Office Inc.*
*He can be reached at tim@ourfamilyoffice.ca*