



CESTNICK

TAX MATTERS

The top 10 mistakes when paying for a postsecondary education

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I was chatting with a young man in our neighbourhood this week. He just graduated from university. “You know, after four years of postsecondary education I don’t think I learned a single thing,” he said. “Maybe I shouldn’t have done my major in psychology and a minor in reverse psychology.”

As it turns out, this young man graduated with more student debt than he should have. It got me thinking about the biggest mistakes that parents and students make when it comes to paying for postsecondary education. Here’s a top-10 list to consider.

1. **Not using a registered education savings plan.** An RESP is a must for every parent saving for a child’s education. The federal government adds 20 per cent of your contributions to the plan in the form of Canada Education Savings Grants (up to \$500 for each year and \$7,200 in a lifetime per child). Low-income families may qualify for extra support. RESP assets grow tax-free, and education assistance

payments from the RESP (which are income and grants earned in the plan) are taxed in the student’s hands, often with little or no tax owing.

2. **Ignoring scholarships, bursaries and grants.** Why not look for free money to help pay for an education? Don’t assume these awards are only for top academic students; many are for community service, athletics, and for students with specific backgrounds. Sometimes employers offer scholarships to the children of employees, and most schools offer awards. You can also search online at sites such as: www.scholarshipscanada.com, www.scholartree.ca, www.grantme.ca, and www.canada.ca (search “education scholarships”).
3. **Disregarding costs when choosing a school.** Schools will have differing tuition rates for similar programs – so shop around and don’t put more importance on a school’s prestige

or reputation than you should (most postsecondary schools in Canada are high quality). In addition, living away from home during school can cost an extra \$10,000 to \$15,000 annually in housing, food, and travel costs.

4. **Borrowing more than what's appropriate.** The level of debt a student takes on should align with their potential to earn income after graduation. Consider the Rule of Tens: For every \$10,000 of student debt, you should be able to earn \$10,000 above a base of \$10,000 to pay off the debt in 10 years. For example, if you graduate with \$50,000 of debt you should be able to earn \$50,000 above a base of \$10,000, for a total of \$60,000, to pay off that debt in 10 years – which is manageable.
5. **Failing to take advantage of credits.** Students are entitled to a tuition tax credit and can carry forward that credit or transfer up to \$5,000 of that tuition to a spouse, parent, or grandparent if they can't use it to reduce their taxes to zero. Also, a credit can be claimed for student loan interest provided the loan was made under a federal or provincial student loan program.
6. **Not balancing financial priorities.** Parents should not forget about the importance of saving for retirement and setting aside funds for emergencies. Failing to look after these priorities can cause financial hardship later. Given the other options for covering the costs of an education, don't make the mistake of draining other resources to pay for your child's schooling.

7. **Overlooking co-op work opportunities.** My kids all went through university programs that offer co-op work placement opportunities. I can't say enough good things about this. My kids were able to earn meaningful income about every four months during their years in postsecondary education, which helped them contribute to the cost of that education, save for the future, and gain valuable work experience.
8. **Failing to consider alternative education paths.** Some of the best career opportunities may be in skilled trades or other similar industries. Don't dismiss college diplomas, apprenticeships, or starting at a community college before transferring to a university to finish a degree. These options can reduce the cost of education and can even lead to being paid to learn on the job.
9. **Making plans at the last minute.** If you wait until a student is in Grade 12 to start thinking about how to pay for a postsecondary education it could be tough to cover the costs. Saving should start as early in a child's life as possible. Further, if your child is going to explore scholarships, bursaries or grants, the application process needs to start as much as 12 months before that postsecondary education begins.
10. **Not teaching budgeting skills.** Students need to learn how much life costs, otherwise they can easily overspend on food, entertainment and lifestyle expenses. Help your child prepare a budget well in advance of their first year of

postsecondary education,
including identifying what
sources of funding will be
available to cover their costs.

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