



CESTNICK

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TAX MATTERS

## The right education savings strategy can pay for any degree

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I was chatting this week with the son of a good friend who just graduated from university. “Zach, how do you feel now that you’ve graduated?” I asked. “Well, I don’t really feel equipped to face the world yet,” he said. “How am I supposed to make decisions about my future when I still have to sing the alphabet song in my head to get the right letter?”

I have complete confidence that Zach will succeed. And he graduated with no student debt thanks to his parents saving for his education. Today, I want to talk about contribution strategies when it comes to registered education savings plans (RESPs).

**Grant-maximization strategy:** This idea involves contributing to an RESP every year to access the maximum Canada Education Savings Grants (CESGs) available. If you contribute \$2,500 at the start of each year for 18 years – starting in the child’s year of birth – you’ll get the maximum annual CESGs (\$500) and can expect to have \$98,700 in the plan if your child goes to school at age 18, assuming a 6-per-cent annual return. In this case, the amount is made up of your total contributions of

\$45,000 plus growth of \$39,400 on those contributions, plus \$7,200 in CESGs and \$7,100 of growth on those grants. As an aside, the average cost of a university education in Canada today is about \$15,000 a year if the student lives at home, or about \$25,000 if they live at school. So, savings of \$98,700 will go a long way toward covering the cost.

**Monthly contribution strategy:** This plan is much the same as the grant-maximizing strategy but involves contributing \$209 a month, which is the \$2,500 per year I was talking about. The overall balance in the RESP after 18 years will be only slightly less than under the grant-maximizing strategy since the first scenario assumes the \$2,500 is contributed at the start of each year.

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education. You can get caught up and still get the maximum CESGs by contributing more each year. Suppose, for example, that you wait until the child is five years old then contribute \$5,000 annually for 10 years (you can only contribute a lifetime maximum of \$50,000 to an RESP for each child). Assuming the same 6-per-cent return, you'll end up with \$96,100 in the RESP in the 18th year – virtually as much as the grant-maximizing strategy. The maximum CESG that can be paid in any year is reached at a contribution of \$5,000 (\$2,500 for each of the current year and a previous missed year); contributions above that amount won't attract CESGs.

**Grandparent contribution strategy:** Many grandparents want to help save for the education of their grandchildren. Just make sure you coordinate contributions so that you don't exceed the \$50,000 lifetime maximum per child. Grandparents can contribute to an RESP you've set up for your kids – a separate RESP doesn't need to be established. This type of help can also be a great estate-planning tactic since assets contributed to an RESP will no longer create a tax liability or probate fees on death.

**Stop worrying about having too much money in your kids' RESPs**

**Top-up contribution strategy:** If you've been contributing to an RESP but haven't yet contributed the full \$50,000, consider topping up your contributions if you receive a bonus at work or a tax refund when filing your return. Make sure you track your total contributions over time, and the CESGs paid into the RESP, to avoid overcontributing beyond the \$50,000 lifetime limit and ensure you're getting the most CESGs possible.

The maximum lifetime CESG payout is \$7,200 per child.

**Lump-sum contribution strategy:** If you have the means, you can always contribute as much to the RESP as soon as possible. You may forego some CESGs, but the amount in the RESP later could be more. Suppose, for example, that you contribute \$50,000 to the RESP in the child's first year. In this case, you'd have \$144,100 at the child's age 18 assuming the same 6 per cent annual return. You will have received only \$500 in CESGs and will have given up about \$13,300 in CESGs and growth on those grants over the years, but you'll have a significant amount in the plan to cover the child's postsecondary costs (which can be higher than average if the child attends school in the United States or goes on to a master's or doctorate degree).

**Other strategies:** If the student in your life is heading to postsecondary school in September, it's not too late to consider government assistance (loans or grants) to help pay for school. A single application in your province or territory might take only a few weeks to process and can access both federal and provincial financial aid. Also, there may still be scholarships and bursaries offered by local community organizations and foundations, or the school itself – so be sure to ask.

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