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CESTNICK

TAX MATTERS

Seven smart ways to save for an education

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How much would you pay for a course in the Science of Superheroes (a look at whether comic book powers, like Superman's flight, could survive the laws of gravity and thermodynamics) at the University of California? Maybe the more important question is how you would pay for this? I've got some ideas. Today, let me suggest seven ways to save for a postsecondary education.

1. RESP. For most families, a registered education savings plan should be the first strategy used because it provides free money from Ottawa. The Canada Education Savings Grant (CESG) is worth 20 per cent on the first $2,500 contributed each year, which is $500 annually, to a maximum of $7,200 over a beneficiary's lifetime. Lower-income families could also receive the Canada Learning Bond. Investments inside an RESP grow tax-deferred, and when money is paid out for school, the grants and accumulated income are generally taxable to the student, who will likely pay little or no tax. If you set aside $2,500 every year in an RESP, receive the CESGs and earn 5 per cent annually in the plan, you'll end up with about $93,500 when the child reaches age 18. That will go a long way to covering most, if not all, postsecondary education costs.

Opinion: Parents: Your RESP is a potential gold mine. Here's how to cash it in

2. In-trust-for account. An in-trust-for account, or ITFA, is a non-registered investment account opened by an adult for the benefit of a minor child. There's no maximum contribution, so it can be useful after available education grants have been maximized in an RESP. If a parent or grandparent contributes money, capital gains will generally be taxed to the child, while interest and dividends will be attributed back to the adult contributor. Just be aware that the money really belongs to the child, so once the he or she reaches the age of majority, they'll legally have control of it. It could be uncomfortable if your 18-year-old thinks a sports car offers a better education than university.

3. Life insurance. Permanent life insurance, such as whole life or universal life, can build cash value on a tax-sheltered basis. A parent or grandparent could buy a policy on a young child, allowing values to

accumulate for years. Those funds could later help with education, a first home purchase or starting a business, while the policy also provides insurance protection if it's kept in force. As an 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 dies.

4. Non-registered account. A simple solution is an ordinary non-registered investment account in a parent's name. This can be attractive where one parent has little income and might pay little or no tax on investment earnings over the years. Unlike an ITFA, the parent keeps complete control. If one child receives a scholarship, doesn't attend college or university, or needs less support than expected, the money can be used for other things.

Opinion: The right education savings strategy can pay for any degree

5. TFSA. A tax-free savings account offers flexibility. Contributions aren't deductible, but investments grow tax-free and withdrawals are tax-free. The 2026 TFSA contribution limit is $7,000, but your actual room could be higher if you have unused room from prior years. A TFSA can make an excellent postsecondary education fund after RESP grants have been maximized. The danger is the flexibility. The money can be withdrawn for a renovation, vacation or a new vehicle just as easily as for tuition. So, if education is the goal, you'll need discipline to leave the money alone.

6. RRSP. An RRSP generally isn't a vehicle for financing a child's education, but it can help pay for your own schooling or that of your spouse or common-law partner through the Lifelong Learning Plan (LLP). The LLP allows eligible withdrawals of up to $10,000 in a calendar year, to a total of $20,000 each time you participate in the LLP. Your withdrawals under the LLP aren't taxable if the rules are met but generally have to be repaid over 10 years to avoid tax on the withdrawals. You can double-up the amount available if both spouses make withdrawals from their RRSPs for the same education under the LLP.

7. Family trust. Families with more substantial assets might consider a family trust. One strategy is to lend money to the trust at the taxman's prescribed rate – currently 3 per cent – and have the trust invest the funds. If you set it up properly, the investment income earned in the trust above the required interest can be allocated to children as beneficiaries and taxed in their hands. The trust can later distribute funds for education. This idea involves legal, tax and accounting costs, so speak to a tax professional.

Perhaps the most important tip is to start early and save consistently.

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