

## Pattie Lovett-Reid: How to avoid the perils of post-secondary education costs



**Pattie Lovett-Reid**  
Chief Financial Commentator, CTV

There are more than 2 million full and part-time students at Canadian universities and colleges heading back to school come September. And post-secondary educations don't come cheap. It is estimated the average four-year university education could cost close to \$90,000 (tuition alone over four years is over \$40,000).

Early adulthood is an important stage in a young person's life. This is also a period of time that can lay solid financial habits for the rest of their lives. As parents preparing for this next stage of their child's life, is critical. For many, it might be the first time they have had to look after their own finances.

I sat down with Darren Farwell, senior wealth advisor & director of Wealth Management at ScotiaMcLeod, and here is what he suggested on ways parents and children should try to work together:

### **What parents should do:**

- Strike a balance between financially supporting your kids and giving them enough room to develop their own financial independence.
- Before they head off to university, make sure you have a chat about finances so they understand basic principles (how to write a cheque, email money transfer, line of credit, interest rates, etc.).
- Start early to teach your kids about financial literacy. Open a bank account when they're young. The sooner they start the better, so when they had off on their own they're prepared.
- Establish a family trust. It's a great way for parents or grandparents to give money to their beneficiaries in stages. Trusts don't always have to be six or seven figure amounts, you can create more modest trusts. You can also add conditions and terms to the trust such as staying enrolled in school.

- Invest in RESPs to help finance their education. The government will give up to \$7,200 in grants (20 per cent of your total contribution). Only 34 per cent of Canadians take advantage of the full government grants.

#### **What parents shouldn't do:**

- Don't give them all the money they'll need for the semester or school year at once. There's a risk they'll blow it all on pizzas for the entire dorm.
- Consider bi-weekly or monthly deposits into their bank account so they can learn to budget.
- Don't always bail your kids out. Part of financial learning is making mistakes. If they spend too much one week and have to eat just Kraft dinner the following week, that's a hard financial lesson that they'll remember. Eventually, kids have to wean themselves off "The Bank of Mom and Dad."

#### **What kids should do:**

- Create a budget for weekly/monthly spending. Stick to it.
- Don't be tempted to call mom or dad every time you have a financial problem.
- Even with a small income, put aside a certain amount for savings and investing. It lays the foundation for good habits.
- Good savings vehicles: An 18-year-old who files tax returns and opens up a Tax Free Savings Account (TFSA) - even if there is no money to deposit - begins accumulating contribution room every year afterwards. By the time they reach 25, they can put aside as much as \$35,000 to compound tax free.
- Good investment vehicles. If you're just starting out, consider conservative investments like GICs or mutual funds. Some universities have investment clubs where you can learn about the market.
- Consider a part-time job or co-op placements: learn the value of working, making extra money. Helps with time-management skills.
- Take advantage of all scholarships and bursaries.

#### **What kids shouldn't do:**

- Be wary of enticing credit cards. You can amass huge debt quickly with high interest payments.
- Consider one low-interest student credit card with a low spending limit and pay the balance off monthly.

- Having the money talk might help your child get through a post-secondary education without a mountain of debt. Given the average debt level of a graduate is \$27,000 it will take approximately 10 years to pay it off if the interest rate is three per cent. This could be the most important lesson they learn.