PERSONAL FINANCE
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Personal Investor: A hard lesson on student debt is spelled RESP

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The start of the school year should be a time for optimism, but for many students and parents it’s a hard lesson on the growing cost of a post-secondary school education.

Tuition alone for the average university student has topped $6,500 a year. According to the Government of Canada, the average cost of a four-year program has risen to $66,000. That includes tuition, books, supplies, student fees, transportation, food and housing and other expenses.

Graduates fortunate enough to get an entry-level job are still saddled with more than $26,000 in student debt on average, according to Statistics Canada. As interest rates rise that debt will mount.

It might seem like a glimpse into a grim future for some parents, but there is a federal government program that can help relieve the financial burden of post-secondary school for those who start saving while their kids are still young.

The registered education savings plan, or RESP, matches the annual contributions of a parent by 20 per cent up to $500, to a lifetime maximum of $7,200.

To maximize the full government grant, parents needs to cough up an average of $2,500 each year.

Unlike registered retirement savings plans (RRSPs), which have decades to grow, RESPs only have an 18-year time horizon (or less). That means the money in the plan needs to be invested for a shorter period of time, to be withdrawn over a short period of time. There are investment products that suit RESPs, so it might be best to speak with a qualified advisor.

The contributions and grants grow tax-free while in an RESP, but unlike an RRSP they can’t be deducted against a parent’s income. Instead, it is taxed when withdrawn in the hands of the low-income student.

If a child decides not to continue after high school or if too much money is accumulated, you will have to pay tax on the money earned in the plan as interest. This money is called "accumulated income." It will be taxed at the parent’s regular income tax level, plus an additional 20 per cent.

The money that the parent puts into the RESP is returned.

The Canada Education Savings Grant can be shared with a brother or sister if they have grant room available – otherwise, the grant must be returned to the Government of Canada.

There is a lifetime limit of $50,000 for each child. It may not cover the total cost of a decent education, but it’s a good start.