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# Funding a Grandchild's Education

Those looking to get a university degree these days will pay, on average, more than 4.5 times for tuition than 30 years ago. Today, the average Canadian undergraduate tuition is around \$6,500; back in 1990, it was only around \$1,450.<sup>1</sup> As such, it's not surprising that one-third of students are graduating with student debt of at least \$10,000.<sup>2</sup> But this pales in comparison to the U.S., where the average student debt amounts to over \$50,000 (US \$38,390). In fact, an estimated \$1.5 trillion of U.S. student loan debt remains outstanding – more than the total U.S. credit card debt outstanding!<sup>3</sup> Of course, this is because tuition in the U.S. is much higher: if you're lucky enough to get into Harvard, annual undergraduate tuition costs a whopping \$67,000 (US \$49,653).<sup>4</sup>

## SHOULD I OPEN AN RESP FOR A GRANDCHILD?

With the rising cost of education, we are often asked about ways to help fund a grandchild's education. As a grandparent, you are able to open a Registered Education Savings Plan (RESP) and name a grandchild as the beneficiary. An RESP is a great way to support a student's education by growing funds on a tax-deferred basis. The potential to obtain the Canada Education Savings Grant (CESG) can contribute up to an additional \$7,200 in funds over a beneficiary's lifetime.

However, it's important to exercise caution for two reasons. First, if multiple RESPs exist for the same beneficiary, total contributions need to be monitored so they don't exceed

the maximum of \$50,000 per beneficiary, as penalties will apply. CESGs are based on total contributions to all RESPs for a beneficiary in a given year. Second, if the beneficiary doesn't pursue post-secondary education, under certain circumstances RESP income and growth may be transferred to the RESP contributor's Registered Retirement Savings Plan (RRSP). However, grandparents beyond the age of 71 cannot transfer funds to an RRSP. Taxes and penalty taxes would generally apply to earnings paid to the subscriber. So, a better alternative may be to gift funds to parents to make an RESP contribution.



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### ARE THERE OTHER ALTERNATIVES TO PROVIDE SUPPORT?

Setting up a formal trust may be one alternative solution.\* There are no contribution limits, but unlike an RESP there are no tax deferral or CESG benefits. If a trust is set up and administered correctly, it may be possible to have earnings on trust assets taxed in the hands of a beneficiary of the trust, which may be beneficial if (s)he has a lower tax rate. However, keep in mind that once funds have been paid to the beneficiary, these funds can be used for any purpose – not just education.

To discuss more about these or other options, please feel free to get in touch.

**\*Note:** Setting up a trust may be a complicated legal arrangement and a tax expert should be consulted to ensure it is carried out in the way intended.

**Sources:** 1. Statistics Canada, <https://www150.statcan.gc.ca/t1/tb1/en/tv.action?pid=3710000301>; <https://www150.statcan.gc.ca/n1/daily-quotidien/040902/dq040902a-eng.htm>; 2. [financialplanningforcanadians.ca/financial-planning/student-debt-survey](https://www.financialplanningforcanadians.ca/financial-planning/student-debt-survey); 3. [forbes.com/sites/zackfriedman/2019/02/25/student-loan-debt-statistics-2019/#1a1b637b133f](https://www.forbes.com/sites/zackfriedman/2019/02/25/student-loan-debt-statistics-2019/#1a1b637b133f); 4. Harvard University, <https://www.harvard.edu/about-harvard/harvard-glance>



**\$26,000**  
Estimated average student debt amount<sup>1</sup>



**\$19,499**  
Average annual cost of post-secondary education (including tuition, books and other costs)<sup>2</sup>



**348%**  
Increase in average tuition over 30 years<sup>3</sup>



**48%**  
Parents with children under age 18 who expect to postpone retirement due to post-secondary education costs<sup>4</sup>



**#3**  
Canada's rank for most educated nation globally<sup>5</sup>

**Sources:** [https://www.cbc.ca/news/canada/ottawa/university-student-debt-photo-essay-1.4305589#:~:text=According%20to%20Statistics%20Canada%2C%20the,how%20it's%20affecting%20their%20lives.](https://www.cbc.ca/news/canada/ottawa/university-student-debt-photo-essay-1.4305589#:~:text=According%20to%20Statistics%20Canada%2C%20the,how%20it's%20affecting%20their%20lives.;); 2. [macleans.ca/education/the-cost-of-a-canadian-university-education-in-six-charts/](https://www.macleans.ca/education/the-cost-of-a-canadian-university-education-in-six-charts/); 3. Statistics Canada Table 37-10-0003-01; 4. FP Canada, Student Debt Study, May 2019; 5. <https://data.oecd.org/eduatt/population-with-tertiary-education.htm>; based on population with tertiary education, defined as those having completed the highest level of education, by age group.

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