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## Class is in Session

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### RESPs and keeping pace with rising education costs

#### HOW HIGH CAN THEY GO?

As a parent, you want the best for your children, which usually includes the hope that they will pursue higher education. Whether your child is continuing a family legacy at university or is the first in the family to attend a post-secondary institution, earning a university degree is a big deal. And it comes with a big price tag.

The average cost of tuition in Canada is just under \$6,000 per year – a number that has nearly tripled over the past 20 years. And this cost continues to rise. A report from the Canadian Centre for Policy Alternatives projects a 13% rise in tuition costs over the next four years at Canadian universities.<sup>1</sup> This study doesn't take into account different province-specific grants, assistance programs or tax credits – but the fact remains that a post-secondary education is a significant investment.

If you're looking for a really big number, the government of Canada has projected that a child born in 2006 could expect to pay \$105,000<sup>2</sup> over the four years required to complete an undergraduate degree.

Also, don't be surprised if your child's tuition is higher than average. Programs such as dentistry (\$18,187), law (\$10,508) and medicine (\$12,959), have much higher annual tuitions.<sup>2</sup> When you factor in additional costs for living expenses, books and fees, the numbers can start to feel overwhelming for the average parent. Happily there are ways to make saving for your child's education easier.

#### THE BENEFITS OF A REGISTERED EDUCATION SAVINGS PLAN

##### **A great way to save for higher education**

Registered Education Savings Plans (RESPs) are specifically designed to help you save money for your child's post-secondary education. Your RESP is registered with the Canadian Revenue Agency (CRA), and the money inside your account will grow tax-deferred until it's taken out. Unlike your Registered Retirement Savings Plan (RRSP), you can't deduct your RESP contributions from your income.

In addition to the government offering the RESP as a tax-deferred account, the Canadian government also contributes money to your child's RESP. The Canada Education Savings Grant (CESG) provides \$0.20 on each dollar you contribute to an RESP, up to \$500 per year and a lifetime maximum of \$7,200. There are also province-specific grants available, and additional grants for lower-income families.<sup>3</sup>

## SAVE EARLY. SAVE OFTEN.

### Pre-authorized contributions have several benefits

You can open an RESP as soon as your child has a Social Insurance Number. And the sooner you start contributing, the more time your investment has to grow.

To make sure you are contributing to your RESP regularly, think about making monthly pre-authorized contributions. These work well for parents who can't make a large, annual lump sum investment. You can budget for pre-authorized contributions like any other monthly expense – except this monthly expense will help you pay for your child's post-secondary education.

Pre-authorized contributions also benefit from dollar-cost averaging, which means you buy fewer units when the price of your chosen investment goes up and more units when the price goes down. Consider a \$500 per month investment in a mutual fund (see example below).

Monthly contributions	Unit price of mutual fund	Number of units purchased
\$500	\$7.28	68.7
\$500	\$6.16	81.2
\$500	\$6.48	77.2
<b>Contribution total</b>	<b>Average cost per unit</b>	<b>Total units purchased</b>
<b>\$1,500</b>	<b>\$6.61</b>	<b>227.1</b>

In this example, in two of three months your average unit cost is lower than the price in the month you made the initial contribution. Compared to the number of units you would have purchased with a lump sum, you now own more units, which may grow higher as you approach the date when you need to access your savings to help fund your child's education.

Lump sum contribution	Unit price of mutual fund	Number of units purchased
<b>\$1500</b>	<b>\$7.28</b>	<b>206</b>

Dollar-cost averaging through pre-authorized contributions can help you make the most of your contributions by removing the emotion from investment decisions. The only emotion you should worry about is the excitement of seeing your child pursue his or her higher education goals.

**For more information about how to open an RESP or for advice on how to invest within an RESP, please contact your advisor.**



<sup>1</sup>*CanLearn.ca*

<sup>2</sup>*Canadian Centre for Policy Alternatives (\$5,959 for the 2014/2015 academic year)*

<sup>3</sup>*For more information about the CESG or your eligibility to receive other grants, call your advisor or visit [canlearn.ca](http://canlearn.ca)*

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