



Investments: Saving For Education

How Do I Save For Education?

By: Joe the Investor

The cost of education has risen steadily over the past 20 years. (5)(6)(7) This would include post-secondary education, but also private school and alternative schools. (11)(12) Since the workforce has become so competitive, more education has constantly been touted as the solution to assuring a good paying job. It is a moving target because the world of work is changing rapidly, and a degree of 5 years ago may be obsolete today. Since the cost of education has risen so quickly, the payoff from getting a good education is getting smaller and more risky. (5)(6)(7) Interest on student loans is also getting more expensive simply because it takes longer to pay them off. (5)(6)(7)

What Do You Need?

Given this backdrop, how do you save for an education? This could be for your child or for yourself, since many adults have to go back to school due to job market instability or career change. There are some key points to keep in mind. What kind of education is needed? If you have done your homework, you may find that education may not cost as much as you thought, or you don't need as much schooling as you thought. Education is a very individual thing, so you need to know yourself or your child before you commit a lot of money. Narrow down what you would like to do and then research the alternative ways of obtaining the credentials you would need to get there. There is the option of a university degree, but there are also college courses, trades, designations offered by an association, or volunteer and apprenticeship opportunities for obtaining the credentials. More jobs are requiring a license or certification, so part of the research would be to find out what licenses are available and what is involved in obtaining and maintaining the license. Some occupations have multiple licenses so it would be wise to target the one that works best for your situation.

When Do You Need it?

Timing is very important with education as with most things in life. The longer you can wait, the more options you have with respect to choosing what you want to do and saving for it. The trade off is that the more time you have, the more uncertainty exists because things can change over time. To get the most from education, it has to be easily upgraded and versatile enough to change with the times. It may be a good idea to start with a general course of study and then zero in on something more specific after you have worked in the field and know exactly what you would need to specialize further. If something changes along the way, the general degree is still useful, but the specialty can be changed to suit whatever is needed at the time.

What About the Saving Part?

When it comes to a large purchase, there are some general concepts that are helpful. The larger the purchase, the earlier you should save for it and the more useful it will be to plan what you want to do. The planning will be easier if you know what you want, or you have the flexibility to make changes to the plan and continue to reach your target. There are many vehicles out there to help you save for education. Some of these are discussed below. For trades and apprenticeships, specific research should be done to determine if there are specific programs out there to encourage people to study in these areas.

Scholarships and Student Loans

There are many scholarships, grants and pockets of money available for people who want to go to school. Since the education costs are rising so quickly, these funds are presented as a way to ease the financial burden. There are also possibilities of obtaining student loans. (1)(4) The interest is tax deductible, but debt in general can be expensive and it will accumulate if it is not paid off early. Research is required into scholarships and bursaries as many of them are specific to certain fields and have specific requirements. (2)(3)

RESP

The RESP is typically designed to save for children's education, but it can also be used for adult education. Government grants can be used to add more money than would be available with an RRSP or TFSA. If the money is not used by one of your children, it can be transferred without penalty to another child. It can also be transferred to an RRSP if education is not pursued, but the contribution room has to be available. The accounts can stay open for 36 years, so the good news is that this transfer can take place over time. (8)(9)(10)(13) The money contributed is not taxed, but the income is when withdrawn.

TFSA

The whole idea behind the RESP is to provide savings to pay for your education. So why not use the TFSA for the same thing? The RESP may have an advantage in that there are government grants offered, and you can contribute more money in general. The TFSA has the advantage of being simpler and having fewer restrictions. If you don't go to school, there are no penalties to leaving the money in the account, and no time restrictions as to how long the account can stay open. In terms of investment, you can produce the same returns in an RESP as a TFSA. Returning money back into the TFSA is also less restrictive than an RESP. TFSA money that is withdrawn is also not taxed.

RRSP

What about the RRSP? The RRSP is designed for retirement, so using it for something prior to retirement is generally not considered. The tax implications are different for RRSP withdrawals

versus the RESP or TFSA, but given the right situation, it may be more advantageous than going into debt. If you have years with low income because you are in school, this may be a perfect opportunity to withdraw money with a low tax burden. Combining that with tuition and education credits generated from going to school could mean withdrawing money with very low tax rates. If your retirement is taken care of or can be replenished at a later date, this strategy may be worth considering. If you have a spouse with a high income, you may want to consider a spousal RRSP for the spouse to replenish your RRSP and create a tax refund for them. There are tax implications when it is time to withdraw from the spousal RRSP, and this should be considered as well as part of the tax plan.

Tax Credits

If you go to school full time or part time at an institution, you will be able to claim tuition credits and education amounts against federal and provincial taxes. These credits will be paid during study and after graduation, which would be useful if you have generated income once your study is over. These credits can be helpful to reduce the taxes you pay and get back some of the money you have paid for the education. If you borrowed money for schooling, you can also claim interest on the student loans in most cases. These credits can be carried forward indefinitely, which means you can benefit from them whenever you earn income and you will not need to worry about the benefit expiring. Should you get a tax refund as a result of the education expenses, this can be put toward paying part of the student loans generated during your time studying.

What Additional Options Are There for Adults?

If the reason for getting education is for upgrading a career or making a career change, there are other possibilities. You may obtain a basic degree that covers your field of expertise and then negotiate with the employer to study something more specific. This means that the employer may pay for some or all of the education expenses. The advantages of this are that you get to keep your job, and some of the expenses will be covered for you. This method can also be used for designations since a designation adds credibility for the employer. If you are considering asking your employer to do this, remember that they will do it as far as it benefits the company and its image. If you are being recruited for a new position and you are a prize candidate, you may want to add education as a benefit for taking on a new position. Employers may tell you that there is not enough money in the budget for your education, but this can always change if the value can be demonstrated to them with numbers.

If you are currently working, choose to study designations that can be done while you work to minimize time off work, financial stress and career disruption. This also enhances your profile as an employee and may lead to some help in terms of money or more study time. The downside is that studying while you work is time consuming and may take away from other aspects of your life.

Networking is always touted as a way to get to unadvertised jobs. Networking is also useful in obtaining information in all other career areas. If you are thinking of obtaining a designation or studying a course, find someone in your company or in a similar company who has done it recently and find out what their experience was. This would include time spent, resources allocated to them, or promotional opportunities. If they negotiated funds to help pay for their education, ask them how they did it and what issues came up. If you don't know which degree or course would be most beneficial, this can also be researched. People who you network with can also provide help with studying or obtaining resources.

In some cases, it may not be worthwhile to study further because the costs outweigh the benefits. It can also be true that some avenues of study have a good chance of being worthwhile, and some other avenues have a high probability of not being worthwhile. Also, a decision that was wise 10 years ago may not be useful today due to employment paying much less in a particular field, or competition becoming much more intense as to not make it worthwhile to work there. Coming back to the first paragraphs, knowing your goals and what you want to achieve will be key in determining what decisions should be made.

Contact me, Joe Barbieri by email at joetheinvestor.today@gmail.com, or by telephone at 647-286-8020 for an independent consultation on what these options are. **Note: This article is intended for people who want to learn about the world of investments and how to research for themselves. If you would like to buy or sell investment products, or specific advice on investment products, tax or legal issues, please consult your investment advisor, accountant or legal counsel.**

Sources:

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