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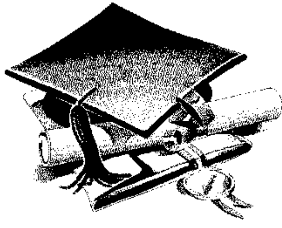

1. INTRODUCTION

Most parents consider providing a post-secondary education for their children as one of their most important financial objectives.

With the high costs, sophisticated investment vehicles and labyrinth of government services, you can add considerable value to your client's lives by providing your expertise in education planning.

Upon completing this chapter, you should be able to:

- collect the quantitative and qualitative information required to develop an education plan;
- identify opportunities and constraints, and assess information to formulate strategies;
- understand the advantages and disadvantages of the different investment vehicles that can be used for saving for education objectives, particularly inter vivos trusts and RESPs;
- understand the advantages and disadvantages of the different sources of funds for financing an education, particularly student loans and grants; and
- synthesize information to formulate and evaluate strategies to develop an education plan.

2. EDUCATION OBJECTIVES

Step 2 of the financial planning process is to gather client data and determine objectives.

During Step 2, you need to collect all relevant information from your client and work with your client to establish your client's objectives.

Rule 22 of the FPSC® Rules of Conduct requires that "A Certificant shall make only those recommendations that are both prudent and appropriate for the client".

The ***two principal education objectives for children*** are:

- to save and accumulate a specific amount of funds as of a specific date to finance a child's post-secondary education; and
- to obtain through grants and loans the specific amount of funds required as of specific dates to finance a child's post-secondary education.

Marion is a single mother with a son, Andrew, who is 12 years of age.

Marion's objectives are:

- to save what she can to finance Andrew's post-secondary education; and
- to obtain through grants and loans any additional funds required to finance his post-secondary education.

Marion has contributed to an RESP for the last 5 years and has accumulated $21,000 and plans to contribute $2,500 per year to the RESP until Andrew is 18 years of age,

Marion's strategy is to contribute what she can to an RESP, to obtain whatever assistance is available through loans and grants from her provincial government's student assistance plan and to borrow any additional funds required from her bank.

2.1 Quantitative information

To meet ***Competency 1 of the CFP® Professional Competency Profile***, you would have to be able to gather and prepare the client's quantitative information, which entails:

1. collecting information to establish the education needs of each of the client's financial dependents.

The most challenging quantitative problem in education planning is the determination of the amount that a parent must contribute to an RESP each year in order to accumulate a specific amount of funds as of a specific date to finance a child's post-secondary education.

Sheila expects her daughter, Meghan to attend four years of university at a cost of $8,000 at the start of each year in current dollars. Meghan will start university in 8 years at 18 years of age.

Sheila wants to accumulate the savings to pay the costs of Meghan's post-secondary education in an RESP by investing equal amounts at the start of each year until Meghan starts university.

Sheila has not yet established an RESP for Meghan. Sheila does not expect Meghan to be eligible for the Canada Learning Bonds and Enhanced Canada Education Savings Grants.

She expects an annual investment return of 6%, an effective tax rate of 40% and an annual increase in costs of 3%.

When Meghan starts university, the annual cost will be $10,134.16, calculated by:

- P/YR = payments per year = 1, ×P/YR = number of years until starting university = 8 or N = number of periods = 8, I/YR = annual increase in costs = 3%, PV = annual cost of education = $8,000, PMT = payment = $0; and
- solving for FV = annual cost of university in first year = $10,134.16.

When Meghan starts university, the amount that Sheila wants to have accumulated for four years of schooling is $38,847.98, calculated by:

- not clearing your calculator;
- entering ×P/YR = number of years of university = 4 years or N = 4 years, I/YR = real rate of return = ((annual investment return - annual increase in costs) ÷ (1 + annual increase in costs)) = ((6% - 3%) ÷ (1 + 3%)) = 2.91%, PMT = annual cost of education in first year = $10,134.16, FV = $0, MODE = payments at beginning of year = BEGIN; and
- solving for PV = amount to accumulate for education = $38,847.98.

Sheila's annual RESP contribution plus the CESG would be $3,702.87, calculated by:

- not clearing your calculator;
- entering ×P/YR = number of years of contributions = 8 or N = 8, I/YR = annual investment return = 6%, PV = current savings = $0, FV = amount to accumulate = $38,847.98, MODE = payments at beginning of period = BEGIN; and
- solving for PMT = RESP contribution plus the CESG each year = $3,702.87.

The above calculation assumes that the CESGs are paid annually when the contributions are made. In practice they are paid quarterly at some time after the contributions, but this complexity can be ignored without changing the results by much.

If all of her contributions were assisted, Sheila's total contributions over the 8 years would be $24,685.50, calculated as:

- ((annual RESP contribution plus the CESG × number of contributions) ÷ (1 + CESG contribution rate)); or
- (($3,702.87 × 8) ÷ 120%).

The maximum amount of assisted contributions is $36,000. The maximum amount of annual assisted contributions is $5,000. Meghan is almost 10 years of age and has adequate contribution room. So, all of Sheila's contributions will be assisted.

So, Sheila's annual RESP contribution to the RESP would be $3,085.73, calculated as:

- ((RESP contribution plus CESG) ÷ (1 + CESG rate of 20%)); or
- ($3,702.87 ÷ (1 + 20%)).

2.2 Qualitative information

To meet ***Competency 1 of the CFP® Professional Competency Profile***, you would have to be able to gather and prepare the client's qualitative information, which entails:

2. determining client's educational experience, attitudes, biases, and objectives; and
3. determining client's knowledge.

The elements of this competency that have the greatest significance for education planning include determining:

- your client's propensity to save;
- how your client makes spending decisions;
- your client's attitudes towards debt;
- your client's tolerance for investment risk; and
- your client's attitude toward taxation.

John and Margo are college professors who have three children ages 1 to 5. They have high expectations for their children's educations and expect them to attend excellent universities.

You have determined that:

- they save about 20% of their after-tax income;
- they place a very high value on education in making their spending decisions;
- they have an aversion to debt;
- they have some tolerance for investment risk; and
- they are proactive in managing their income taxes.

2.3 Workable objectives

You can expect that your clients will have a sense of their objectives, but will often need assistance to formulate a statement of a workable objective for financial planning.

When you started talking to Marion about her education objectives for Andrew, she simply said that she wanted to see that he got a good education.

It required a second discussion to focus on what this meant.

You can expect to spend effort to refine a wish list into finely tuned objectives. Until you have well defined objectives, you are wasting your time if you try to proceed any further in the financial planning process.

3. OPPORTUNITIES AND CONSTRAINTS

Step 3 of the financial planning process is to analyze and evaluate the strengths and weaknesses of the client's current financial situation, and consider them relative to the client's goals, needs and priorities.

To meet ***Competency 2.1 of the CFP® Professional Competency Profile***, you would have to be able to assess the client's situation to identify potential opportunities and constraints.

The principal investment vehicles that are used to accumulate savings for education are:

- registered education savings plans;
- inter vivos trusts;
- tax-free savings accounts;
- non-registered brokerage accounts; and
- testamentary trusts.

The opportunity to accumulate savings could, of course, be limited by a lack of funds.

The principal sources of grants and loans to finance a post-secondary education include:

- loans and grants from your provincial government's student assistance plan;
- grants, bursaries, fellowships, scholarships and positions as a teaching assistant that might be available through the post-secondary institution;
- private-sector loans; and
- the Lifelong Learning Plan.

The opportunity to receive grants or loans from the government could be limited by family income.

The opportunity to receive grants, bursaries, fellowships, scholarships and positions as a teaching assistant would be dependent upon family income, scholarship and academic achievement.

4. STRATEGIES

Step 4 of the financial planning process includes identifying and evaluating financial planning strategies.

To meet ***Competency 2.1 of the CFP® Professional Competency Profile***, you would have to be able to consider and evaluate strategies.

To meet ***Competency 3 of the CFP® Professional Competency Profile***, you would have to be able to develop strategies to help optimize the client's situation.

You should evaluate the appropriateness and effectiveness of each financial planning strategy. This evaluation may lead to the presentation of more than one alternative.

Your recommendation may be a single, tactical action or a combination of strategies.

The strategies include saving strategies and financing strategies.

4.1 Saving Strategies

The principal investment vehicles that are used to accumulate savings for education are:

- registered education savings plans;
- inter vivos trusts;
- tax-free savings accounts;
- non-registered brokerage accounts; and
- testamentary trusts.

4.1.1 Registered education savings plans

The facts about RESPs that have the most significant impact upon strategic planning are:

- there are serious restrictions on the use of funds that are accumulated in an RESP and the only advantage to an RESP that is not available with other investment vehicles is the receipt of Canada Education Savings

Grants, so you should not make unassisted contributions to an RESP.

- the advantages of an RESP are the Canada Education Savings Grants (CESGs), the deferral of income tax on the investment income and the splitting of income with the child;
- the maximum amount of CESGs is $7,200 per child, which requires assisted contributions of $36,000;
- the CESGs would be received as early as possible if assisted contributions of $2,500 were made each year from the year of birth;
- a premature withdrawal of contributions would require repayment of CESGs;
- with a family plan, the subscriber can choose to pay the investment income and CESGs to the beneficiaries in different amounts than the contributions were attributed;
- the RESP contributions remain the property of the subscriber, there is no provision in provincial legislation for naming a beneficiary for RESP contributions and the contributions must pass through the subscriber's estate; and
- for children whose parents receive the National Child Benefit Supplement, there are Canada Learning Bonds and Enhanced Canada Education Savings Grants.

Grant and his wife, Alice, have just given birth to their first child, Arial. They do not expect to be eligible for the Canada Learning Bonds and Enhanced Canada Education Savings Grants.

They are considering the strategy of contributing the maximum amount at the start of each year that would be an assisted contribution to an RESP for Arial.

The rationale for this strategy is:

- the primary advantage of an RESP is the Canada Education Savings Grants;
- however, there are significant restrictions on the use of funds that are accumulated in an RESP.

4.1.2 Inter vivos trusts

The facts about inter vivos trusts that have the most significant impact upon strategic planning are:

- any restrictions on the use of funds that are accumulated in an inter vivos trust are at the discretion of the settlor;
- the advantages of an inter vivos trust are the deferral of income tax on any capital appreciation and the splitting of the property income with the child;
- unless certain conditions were met, if you were to transfer property to a related minor, either directly or through a trust in which a related minor is beneficially interested, any first-generation income or loss from the transferred or loaned property or any property substituted for it, would be attributed to you until the year in which the child attains 18 years of age (ITA 74.1(2));
- however, if you were to make a loan for value, which would usually be cash lent to a trust in which a related minor is beneficially interested, there would be no attribution of property income (ITA 74.5(12)(b));
- a ***loan for value*** is indebtedness on which interest is charged at a rate that is not less than (the lesser of (the prescribed rate and the rate between arm's length parties)) and all such interest is paid no later than 30 days after each calendar year.
- as of January 1, 2020, the ***prescribed rate as set by ITR 4301*** was 2%. So, you would only have to report 2% annually of the amount of the loan as taxable income, which would likely be much less than the property income of the trust;
- so, it would usually be better to lend cash to an inter vivos trust than to gift property;
- there are no limits on the amounts that can be lent to an inter vivos trust;
- the funds remain under the control of the trustee; and
- with a discretionary family trust, the trustees can choose to pay the capital and investment income to the beneficiaries in whatever amounts are considered appropriate.

Grant and his wife, Alice, have just given birth to their first child, Arial. Alice's father has just passed away and left her $50,000. Alice would like to save this amount for Arial and any of her siblings' education.

They are considering the strategy of lending, as a loan for value, the $50,000 to a discretionary, inter vivos trust for Arial.

The rationale for this strategy is:

> - any restrictions on the use of funds that are accumulated in an inter vivos trust would be at the discretion of the settler;
> - an inter vivos trust would allow for deferral of income tax on any capital appreciation and the splitting of the property income with the child; and
> - Alice would only have to report taxable interest income of $1,000 per year, calculated as (prescribed rate of 2% annually × the amount of the loan of $50,000).

4.1.3 Tax-free savings accounts

The facts about a tax-free savings account (TFSA) that have the most significant impact upon strategic planning are:

- there are no restrictions on the use of funds;
- the principal advantage of a TFSA is the avoidance of income tax on any investment income; and
- the amount of contribution room to a TFSA is very limited.

> Grant and his wife, Alice, have just given birth to their first child, Arial. Alice's father has just passed away and left her $50,000. She would like to save this amount for Arial and any of her siblings' education.
>
> They considered as one of their strategies to transfer $50,000 to Alice's tax-free savings account.
>
> However, the amount of her contribution room to a TFSA is very limited and there are opportunities for income splitting available with an inter vivos trust for Arial.

4.1.4 Non-registered brokerage accounts

The facts about a non-registered brokerage account owned by a parent that have the most significant impact upon strategic planning are:

- there are no restrictions on the use of funds;
- the only advantage of a non-registered brokerage account is the deferral of income tax on any capital appreciation; and
- however, there is no opportunity for income splitting with a child.

> Grant and his wife, Alice, have just given birth to their first child, Arial. Alice's father has just passed away and left her $50,000. She would like to save this amount for Arial and any of her siblings' education.
>
> They considered as one of their strategies to transfer $50,000 to Alice's non-registered brokerage account.
>
> However, there are opportunities for income splitting available with an inter vivos trust for Arial.

4.1.5 Testamentary trusts

The facts about testamentary trusts that have the most significant impact upon strategic planning are:

- any restrictions on the use of funds are at the discretion of the testator;
- a discretionary, testamentary family trust allows considerable flexibility in allocating funds from an estate to the family members;
- any income that is left as taxable to a testamentary trust is taxed at the top federal and provincial income tax rates, so the trustee would allocate all of the taxable income to the beneficiaries; and
- however, someone has to die to establish a testamentary trust.

> Grant and his wife, Alice, have just given birth to their first child, Arial. Alice's father has just passed away and left her $50,000. She would like to save this amount for the education of Arial and any of her siblings.
>
> Alice's father could have left the funds to a discretionary, testamentary family trust. However, any income that is left as taxable to a testamentary trust is taxed at the top federal and provincial income tax rates. So, there is no advantage to a testamentary trust over an inter vivos trust.
>
> Alice could establish a discretionary, inter vivos family trust.

However, Grant and Alice have changed the named beneficiaries of their life insurance policies to a discretionary, family trust.

4.2 Financing Strategies

The strategies that are used to finance education include:

- grants and government loans;
- grants, bursaries, fellowships, scholarships and positions as a teaching assistant that might be available through the post-secondary institution; and
- private-sector loans; and
- the Lifelong Learning Plan.

4.2.1 Grants and government loans

The facts about the grants and government loans that have the most significant impact upon strategic planning are:

- the funds from grants do not have to be repaid;
- the funds from government loans generally have to be repaid, but the charging and payment of interest may be deferred until the education is complete and the interest expense may be eligible for an income tax credit;
- however, the opportunity to receive grants or loans from the government would be dependent upon family income.

Arnold and Angelina have three children ages 14 to 18. The eldest, Murphy, will start college next year. They expect all of their children to pursue post-secondary educations. They have a family income of $42,000. They have not accumulated any savings for education.

One of their strategies is to apply for grants and government loans for Murphy.

The rationale for this strategy is:

- any funds from grants would not have to be repaid;
- any funds from government loans would have to be repaid, but the charging and payment of interest may be deferred until Murphy's education is complete and the interest expense may be eligible for an income tax credit; and
- the opportunity to receive grants or loans from the government should not be limited by their family income.

4.2.2 Grants, bursaries, fellowships

The facts about any grants, bursaries, fellowships, scholarships and positions as a teaching assistant that might be available through the post-secondary institution that you will be attending that have the most significant impact upon strategic planning are:

- the funds do not have to be repaid; and
- however, the opportunity to receive grants, bursaries, fellowships, scholarships and positions as a teaching assistant would be dependent upon family income, scholarship and academic achievement.

Arnold and Angelina have three children ages 14 to 18. The eldest, Murphy, will start college next year. They expect all of their children to pursue post-secondary educations. They have a family income of $42,000. They have not accumulated any savings for education.

One of their strategies is to apply for any grants, bursaries, fellowships, scholarships and positions as a teaching assistant that might be available through the post-secondary institution that Murphy will be attending.

The rationale for this strategy is:

- any funds would not have to be repaid; and
- however, the opportunity to receive grants, bursaries, fellowships, scholarships and positions as a teaching assistant would be dependent upon family income, scholarship and academic achievement.

4.2.3 Private-sector loans

The facts about the private-sector loans that have the most significant impact upon strategic planning are:

- the funds from private-sector loans generally have to be repaid;
- payment of the interest may be deferred until the education is complete;
- the interest expense is not eligible for an income tax credit; and
- however, the opportunity to receive private-sector loans may not be affected family income.

> Arnold and Angelina have three children ages 14 to 18. The eldest, Murphy, will start college next year. They have a family income of $42,000.
>
> If they cannot obtain adequate financing from grants and government loans, one of their strategies is to apply for a loan from their bank.
>
> The rationale for this strategy is they may not have access to any other source of financing.

4.2.4 Lifelong learning plan

The ***Lifelong Learning Plan*** (***LLP***) is a plan that would allows you as an eligible individual to borrow funds from your RRSP to help finance education for you or your spouse/common-law partner (ITA 146.02(1)).

However, you cannot make an LLP withdrawal to finance the education of your children.

The facts about the Lifelong Learning Plan that have the most significant impact upon strategic planning are:

- spouses/common-law partners can both participate in the LLP for one of them or they can participate in the LLP for each other;
- the funds can be used to pay for any of the costs incurred for you or your spouse/common-law partner to pursue a post-secondary education;
- the funds are a loan from your or your spouse/common-law partner's registered retirement savings plan (RRSP);
- you must repay the funds by certain times or report the amounts as taxable income;
- you do not have to pay interest on the loan;
- however, you are consuming some of the investment earnings from your retirement savings.

> After twenty years of working in a bank, Jeremy has been laid off. He now wants to realize his lifelong ambition of becoming a video photographer.
>
> Jeremy wants to a take a one-year, full-time course at the local community college. His severance package will barely cover the cost of supporting his family until he finds a new job, and certainly is not sufficient to cover the cost of attending college full-time. His wife, Amelia, is fully supportive.
>
> One of the Jeremy and Amelia's strategies is to borrow the maximum amount of funds from their RRSPs using the Lifelong Learning Plan.
>
> The rationale for this strategy is:
>
> - the funds can be used to pay for any of the costs incurred while Jeremy pursues a post-secondary education;
> - Jeremy and Amelia can repay the funds over time and avoid having to report the amounts as taxable income; and
> - Jeremy and Amelia would not have to pay interest on the loans.

4.3 Evaluating Strategies

You should evaluate the appropriateness and effectiveness of each financial planning strategy.

In developing your strategy for your children or grandchildren's education, if you are able to save for their education, you should:

- first establish an RESP and make only assisted contributions for any child who is eligible for assisted contributions;
- establish an RESP as a family plan if you have children or grandchildren who are eligible for assisted contributions; and
- establish an inter vivos trust for your children or grandchildren if you can save an amount greater than the amount of assisted contributions.

In developing your strategy for your children or grandchildren's education, if you are considering leaving part of your estate for their education, you should:

- establish a discretionary, testamentary family trust for your children or grandchildren.

In developing your education strategy for your or your spouse/common-law partner's education, you should:

- consider using the Lifelong Learning Plan.

In developing your education strategy for your, your children, your grandchildren or your spouse/common-law partner's education, you should:

- apply for any grants and government loans that might be available through your provincial government; and
- apply for any grants, bursaries, fellowships, scholarships and positions as a teaching assistant that might be available through the post-secondary institution that you will be attending.

5. PRESENTING THE PLAN

Step 4 of the financial planning process includes presenting the financial plan.

You should prepare a written report and review it with your client. You should present the recommendations in a way that will allow your client to make informed decisions.

You should ensure that your client understands the recommendations.

Grant and his wife, Alice, have just given birth to their first child, Arial. They do not expect to be eligible for the Canada Learning Bonds and Enhanced Canada Education Savings Grants.

They are considering the strategy of contributing the maximum amount at the start of each year that would be an assisted contribution to an RESP for Arial.

The rationale for this strategy is:

- the primary advantage of an RESP is the Canada Education Savings Grants;
- however, there are significant restrictions on the use of funds that are accumulated in an RESP.

Do Grant and Alice understand this strategy?

Alice's father has just passed away and left her $50,000. She would like to save this amount for Arial and any of her siblings' education.

They are considering the strategy of lending, as a loan for value, the $50,000 to a discretionary, inter vivos trust for Arial.

The rationale for this strategy is:

- any restrictions on the use of funds that are accumulated in an inter vivos trust would be at the discretion of the settler;
- an inter vivos trust would allow for deferral of income tax on any capital appreciation and the splitting of the property income with the child; and
- Alice would only have to report taxable interest income of $1,000 per year, calculated as (prescribed rate of 2% annually × the amount of the loan of $50,000).

Do Grant and Alice understand this strategy?

They considered as one of their strategies to transfer $50,000 to Alice's tax-free savings account or Alice's non-registered brokerage account.

However, there are opportunities for income splitting available with an inter vivos trust for Arial.

Do Grant and Alice understand the limitations of these two strategies?

You should also ensure that your client understands:

- the assumptions in the plan;
- the possible impact of changes in the assumptions;
- the costs of implementation;
- the projected results;
- any inherent risks and time sensitivities; and
- the consequences of inaction.

Grant and Alice engaged your services to develop an education plan.

Your responsibilities include ensuring that they understand:

- the assumptions in the plan;
- the possible impact of changes in the assumptions;
- the costs of implementation;
- the projected results;
- any inherent risks and time sensitivities; and
- the consequences of inaction.

6. IMPLEMENTING THE PLAN

Step 5 of the financial planning process is implementing the financial plan.

Once your client has decided which strategies to adopt, you need to identify the tactics to implement the strategies.

6.1 Saving Strategies

The principal investment vehicles that are used to accumulate savings for education are:

- registered education savings plans;
- inter vivos trusts;
- tax-free savings accounts;
- non-registered brokerage accounts; and
- testamentary trusts.

6.1.1 Registered education savings plans

The tactics for establishment of the RESP are:

- determine who should be the subscriber(s) considering that only spouses/common-law partners can be joint subscribers;
- make only assisted contributions to the RESP in such amounts as required to meet the education objectives; and
- make provisions in the subscribers' wills for a bequest of the contributions to the surviving parent and the establishment of a trust to own the contributions upon the second death.

The rationale for these tactics is:

- as joint subscribers to the RESP, the parents would have more flexibility if something should happen to prevent one of them from participating as a contributor;
- the only advantage of an RRSP over an inter vivos trust is the CESGs;
- the maximum amount of CESGs is $7,200 per child, which requires assisted contributions of $36,000;
- the CESGs would be received as early as possible if assisted contributions of $2,500 were made each year from the year of birth;
- upon a contributor's death, the RESP contributions must pass through the subscriber's estate, so the parents' wills need to provide for disposition of the RESP contributions; and
- the simplest disposition of the RESP contributions is to the surviving parent, but upon the second death, the disposition

should be to a testamentary trust that will own and manage the RESP funds.

Grant and Alice are considering the strategy of contributing the maximum amount at the start of each year that would be an assisted contribution to an RESP for Arial.

The tactics for establishment of the RESP are:

- as the subscribers, Arial's parents would establish an RESP for Arial;
- each year until they have made total assisted contributions to the RESP of $36,000; they would each to make an assisted contribution of $1,250; and
- they would make a provision in their wills of a bequest of the contributions to the surviving parent and the establishment of a trust to own the contributions upon the second death.

The rationale for these tactics is:

- as joint subscribers to the RESP, they would have more flexibility if something should happen to prevent one of them from participating as a contributor;
- the maximum amount of CESGs is $7,200 per child, which requires assisted contributions of $36,000;
- the CESGs would be received as early as possible if assisted contributions of $2,500 were made each year from the year of birth;
- upon a contributor's death, the RESP contributions must pass through the subscriber's estate, so the parents' wills need to provide for disposition of the RESP contributions; and
- the simplest disposition of the RESP contributions is to the surviving parent, but upon the second death, the disposition should be to a testamentary trust that will own and manage the RESP funds.

6.1.2 Inter vivos trusts

The tactics for establishment of the inter vivos trust with a loan for value are:

- prepare a trust agreement specifying the child as the beneficiary and a parent as the trustee and empowering the trustee to manage the funds;
- open an investment account appropriate to the type of investment that will be purchased and lend, as a loan for value, the amount of capital to the inter vivos trust;
- the trustee would invest the funds in assets that would be appropriate for the risk/return associated with their education funding objectives; and
- the trustee would pay the interest to the parent(s) lending the funds no later than 30 days after each calendar year and the parent(s) would report the interest as taxable.

The rationale for these tactics is:

- a formal trust agreement will provide proof of the existence of a trust and its terms;
- the trustee could allocate any taxable capital gains, allowable capital losses, property income and property losses to the child who would not have to pay any income tax unless the taxable amount exceeded the amounts for the child's tax credits and the amount of the interest expense;
- payment of the interest no later than 30 days after each calendar year and the parent(s) reporting of the interest, suspends the income attribution rules for a related minor.

Grant and his wife, Alice, have just given birth to their first child, Arial. Alice's father has just passed away and left her $50,000. Alice would like to save this amount for Arial and any of her siblings' education.

They are considering the strategy of lending, as a loan for value, the $50,000 to a discretionary, inter vivos trust for Arial.

The tactics for establishment of the inter vivos trust are:

- Alice would prepare a trust agreement specifying Arial as the beneficiary and Alice as the trustee;
- Alice would open an self-directed brokerage account lend the $50,000 to the inter vivos trust;
- Alice would invest the funds in assets that would be appropriate for the risk/return associated with their education funding objectives; and
- Alice would pay the interest to herself at the end of each calendar year and would report the interest as taxable.

The rationale for these tactics is:

- a formal trust agreement will provide proof of the existence of a trust and its terms;
- as the trustee, Alice could allocate any taxable income to Arial who would pay little or no income tax; and
- payment of the interest at the end of each calendar year and reporting of the interest, would suspend the income attribution rules for a related minor.

6.1.3 Tax-free savings accounts

The tactics for establishment of a tax-free savings account are:

- transfer the amount of capital to a tax-free savings account; and
- invest the funds according to an appropriate asset allocation for the purpose of the funds.

The rationale for these tactics is:

- the funds are being invested in order to meet specific education objectives and the asset allocation should be appropriate for those objectives.

Grant and his wife, Alice, have just given birth to their first child, Arial. Alice's father has just passed away and left her $50,000. She would like to save this amount for Arial and any of her siblings' education.

They considered as one of their strategies to transfer $50,000 to Alice's tax-free savings account.

However, the amount of her contribution room to a TFSA is very limited and there are opportunities for income splitting available with an inter vivos trust for Arial.

6.1.4 Non-registered brokerage accounts

The tactics for establishment of the non-registered brokerage account are:

- transfer the amount of capital and periodic savings to a non-registered brokerage account; and
- invest the funds according to an appropriate asset allocation for the purpose of the funds.

The rationale for these tactics is:

- the funds are being invested in order to meet specific education objectives and the asset allocation should be appropriate for those objectives.

Grant and his wife, Alice, have just given birth to their first child, Arial. Alice's father has just passed away and left her $50,000. She would like to save this amount for Arial and any of her siblings' education.

They considered as one of their strategies to transfer $50,000 to Alice's non-registered brokerage account.

However, there are opportunities for income splitting available with an inter vivos trust for Arial.

6.1.5 Testamentary trusts

The tactic for establishment of a testamentary trust is:

- the testator would revise his Will and include a clause leaving all or part of his estate to a discretionary family trust for the child and one of the parents with the parent as the trustee.

The rationale for this tactic is:

- the trustee could manage the trust in the best interest of the family.

Grant and his wife, Alice, have just given birth to their first child, Arial. Alice's father has just passed away and left her $50,000. She would like to save this amount for the education of Arial and any of her siblings.

However, Grant and Alice have changed the named beneficiaries of their life insurance policies to a discretionary, family trust.

6.2 Financing Strategies

The strategies that are used to finance education include:

- grants and government loans;
- grants, bursaries, fellowships, scholarships and positions as a teaching assistant that might be available through the post-secondary institution;
- private-sector loans; and
- the Lifelong Learning Plan.

6.2.1 Grants and government loans

The tactic to obtain such funding is:

- to apply for any grants and government loans that might be available through your provincial government.

The rationale for this tactic is:

- there may be funding for the child's education available at low or zero cost.

> Arnold and Angelina have three children ages 14 to 18. The eldest, Murphy, will start college next year. They expect all of their children to pursue post-secondary educations. They have a family income of $42,000. They have not accumulated any savings for education.
>
> One of their strategies is to apply for grants and government loans for Murphy.
>
> The tactic for obtaining grants and government loans is:
>
> - to apply for any grants and government loans that might be available through their provincial government.
>
> The rationale for this tactic is:
>
> - there may be funding for Murphy's education available at low or zero cost.

6.2.2 Grants, bursaries, fellowships

The tactic to obtain such funding is:

- apply for any grants, bursaries, fellowships, scholarships and positions as a teaching assistant that might be available through the post-secondary institution that you will be attending.

The rationale for this tactic is:

- there may be funding for the student's education available at low or zero cost.

> Arnold and Angelina have three children ages 14 to 18. The eldest, Murphy, will start college next year.
>
> One of their strategies is to apply for any grants, bursaries, fellowships, scholarships and positions as a teaching assistant that might be available through the post-secondary institution that Murphy will be attending.
>
> The tactic is:
>
> - apply for any grants, bursaries, fellowships, scholarships and positions as a teaching assistant that might be available through the post-secondary institution that Murphy will be attending.
>
> The rationale for this tactic is:
>
> - there may be funding for Murphy's education available at low or zero cost.

6.2.3 Private-sector loans

The tactic to obtain such funding is:

- to establish a line of credit and use the funds for child's education.

The rationale for this tactic is:

- they could draw down the funds as the child needs them and they could repay them as they have the money.

> Arnold and Angelina have three children ages 14 to 18. The eldest, Murphy, will start college next year.
>
> If they cannot obtain adequate financing from grants and government loans, one of their strategies is to apply for a loan from their bank.

Their tactic is for Arnold and Angelina to establish a line of credit and use the funds for Murphy's education.

The rationale for this tactic is that they could draw down the funds as Murphy needed them and they could repay them as they have the money.

6.2.4 Lifelong learning plan

The tactics for use of the Lifelong Learning Plan (LLP) are:

- to borrow an amount from the RRSPs of the student and the student's spouse/common-law partner using the Lifelong Learning Plan;
- the amount of the loan should be the amount calculated as (the lesser of (the amount required for living expenses and the maximum withdrawals permitted under the LLP)); and
- to repay the minimum amount to each RRSP over the 10 years commencing with the year following the last year in which the student is enrolled on a full-time basis.

The rationale for these tactics is:

- as LLP participants, the student and the student's spouse/common-law partner can each borrow $10,000 in a calendar year from their RRSPs; and
- by repaying the funds in equal annual instalments over 10 years, the participants can avoid having to report any of the amounts as taxable income.

Jeremy wants to a take a one-year, full-time course at the local community college. His wife, Amelia, is fully supportive.

One of the Jeremy and Amelia's strategies is to borrow the maximum amount of funds from their RRSPs using the Lifelong Learning Plan.

Jeremy and Amelia's tactics for use of the LLP are:

- to borrow $10,000 from each of their RRSPs using the Lifelong Learning Plan; and
- to repay $1,000 per year to each RRSP over the 10 years commencing with the year following the last year in which Jeremy is enrolled on a full-time basis.

The rationale for these tactics is:

- as LLP participants, Jeremy and Amelia can each borrow $10,000 in a calendar year from their RRSPs; and
- by repaying the funds in equal annual instalments over 10 years, Jeremy and Amelia can avoid having to report any of the amounts as taxable income.

6.3 Responsibilities

If you are assisting clients in implementing an education planning, your responsibilities may include:

- detailing the actions, responsibility and time frames required to implement the plan;
- referring the client to, or consulting with, other qualified individuals who offer services or products that you are not qualified or licensed to provide;
- coordinating activities with other qualified individuals;
- sharing information with other qualified individuals as authorized by the client;
- investigating pertinent products and services; and
- selecting specific products and/or services.

You have prepared an education plan for Grant and Alice. They engaged your services to help them implement the plan.

With respect to opening an RESP, your responsibilities would include:

- detailing the responsibilities and time frames to implement the plan;
- identifying financial institutions that offer suitable RESPs;
- recommending which type of account to use for the RESP: whether self-directed or otherwise; and
- recommending which investments to include in the RESP.

7. MONITORING THE PLAN

Step 6 of the financial planning process is monitoring the financial plan.

You and your client should review the plan to assess its progress, to determine if it is still appropriate and to identify any necessary revisions.

Three years ago, you prepared an education plan for Meghan.

Sheila expected her daughter, Meghan to attend four years of university at a cost of $8,000 at the start of each year in current dollars. Meghan would start university in 8 1/2 years at 18 years of age.

Sheila wanted to accumulate the savings to pay the costs of Meghan's post-secondary education in an RESP by investing equal amounts at the start of each month until Meghan starts university.

Sheila had not yet established an RESP for Meghan. Sheila did not expect Meghan to be eligible for the Canada Learning Bonds and Enhanced Canada Education Savings Grants.

She expected an annual investment return of 6%, an effective tax rate of 40%, and a 3% annual increase in costs.

Sheila established the RESP and contributed as planned. However, the funds have earned 4.8% and education costs have increased by 2.5%.

When Meghan starts university, you calculated that the annual cost would be about $10,000. With education costs having increased by only 2.5% per year, this amount is too high.

When Meghan starts university, you have calculated that the amount that Sheila needs to have accumulated for four years of schooling would be about $39,000. With education costs having increased by only 2.5% per year, this amount is too high.

You calculated that Sheila's annual RESP contribution to the RESP would be about $3.700.

With the funds having earned only 4.8% compounded monthly and education costs having increased by only 2.5% per year, this amount needs to be recalculated taking into account the current balance in the RESP and more realistic assumptions.

If you are assisting clients in investment planning, the review process may include:

- confirming that all of the approved recommendations have been implemented;
- assessing the achievement to date of objectives;
- re-evaluating the assumptions for reasonableness;
- determining whether changes in your client's circumstances or objectives warrant adjustments to the plan; and
- agreeing on any necessary changes to the plan.

Three years ago, you prepared an education plan for Grant and Alice. They engaged your services to monitor the plan.

With respect to monitoring the RESP, your responsibilities would include:

- confirming that the planned assisted contributions have been made to the RESP and the CESGs received;
- determining the investment return of the RESP;
- determining whether there any changes in their circumstances or the governing legislation for RESPs, warrant adjustments to the plan; and
- recommending any changes to the investments include in the RESP.

8. CONCLUSION

Having completed this chapter, you should be able to:

- collect the quantitative and qualitative information required to develop an education plan;
- identify opportunities and constraints, and assess information to formulate strategies; and
- understand the advantages and disadvantages of the different investment vehicles that can be used for saving for education objectives, particularly inter vivos trusts and RESPs;
- understand the advantages and disadvantages of the different sources of funds for financing an education, particularly student loans and grants; and
- synthesize information to formulate and evaluate strategies to develop an education plan.