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DISCOVERY ISLANDS FINANCIAL SERVICES LTD.

Planner

# GRANDPARENTS TO THE RESCUE?

Free money is being left on the table.

Though the federal government committed to provide up to \$400 each year to every child enrolled in a **Registered Education Savings Plan** before age 16, Canadian parents have generally responded no, no thank you.

The reasons for this are varied, and include family debt, suspicion of government, reluctance to plan for the future, lack of sales pressure, and a typically Canadian reticence around money.

**Debt.** Given low interest rates and misconceived doubts of other investment vehicles, Canadian parents have turned from savings and investment to debt redemption. This is a good thing -- except when it transfers debt from one generation to the next. By not funding an RESP, parents may be locking their children into a future of student loans. Even today, the average student loan upon graduation tops \$25,000, compelling much of Canadian youth into McJobs, too many into bankruptcy.

**Suspicion.** Prior to government changes in 1998, the only RESP out there was a tontine system -- in which one forfeited all growth if a child did not attend university within two years of graduation from secondary school. Some local parents had been victimised by these plans, and their stories are out there. But new legislation has loosened up all requirements and provided escape hatches. A plan beneficiary could take chef training in France, and has up to twenty-five years to use the funds.

*"A nickel ain't worth a dime anymore."*

*Yogi Berra*

**The Future.** Humans generally conceive the future through lenses of the past. More mature folk who



Drawing by Peter Pulford

## Dreams Cost!

grew up on the Wet Coast prospered through a boom economy, lots of fish, lots of trees, and a good union job for the asking; who needed school? Those who did attend post-secondary school may recall that it wasn't so difficult scraping up the fees. Blinkered to reality, they seem to think what worked for them will work for their kids.

It won't.

**Sales.** The major fund-floggers, always heavy advertisers for RRSP money, are shying away from **RESPs**. Given smaller contributions and less time managing the money, they don't see enough commission to justify their efforts.

**Talking money.** Canadians are notoriously uncomfortable discussing family money issues.

This reticence carries severe financial costs. A 1996 Angus Reid poll

reported that 65% of grandparents were willing to contribute toward a grandchild's university costs. And yet an Environics poll one year later revealed that 99% of parents *had not asked their parents* to assist.

Grandparents *may* be the ones to carry the battle. Though they have their own financial concerns, their mortgage is usually paid, their lifestyle expenses are less, and they may be bringing in better money than their children.

This financial silence barrier must be broken. And it may be easier for grandparents to offer than for parents to request. "Are you doing anything for Little Johnny's future? Can I help? Would it break your heart if I started an RESP for him?"



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#### RESP ADVERTISEMENT

For further information on RESPs — or for help in starting one — please ask.

## THE EDUCATIONAL DOUBLE-DIP:

### Strategy for consideration

Boris earns \$36,000 each year, Natasha \$10,000. Yvgeny was just born.

1: Boris contributes \$5,000 to Natasha's spousal RRSP. This provides a \$2,000 tax savings.

2: From his tax refund, Boris contributes the \$2,000 into an RESP for Yvgeny.

3: Based on the \$2,000,

government adds a \$400 Canadian Education Savings Grant. Boris now has \$7,400 growing tax-sheltered.

4: Yvgeny turns 18, graduates from Carihi. At 7.5%, **without any further contribution**, Boris has created \$27,200 from his \$5,000 investment.

If Boris had held this \$5,000 in a non-registered account at 7.5% over the same 18 years, it would have earned \$6,040.

\$ The Millenium Scholarships announced by the federal government in its 1998 budget are to be administered by the provinces. BC will use this additional funding to assist third- and fourth-year students, a shortfall in the previous provincial education assistance program. To be expended over a ten-year period, 95% of this additional money will be used for general awards -- based on financial need. The grant system is now in place, the first cheques to be issued January 2000.

\$ When applying for general awards, parents' income is taken into account. Until the student has been four years out of secondary school -- or two full years in the work force -- any potential general award is reduced by what the province feels parents should contribute.

\$ The BC NDP government has frozen tuition fees (but not all costs) for four years, providing the second lowest public tuition costs in the country. There are, of course, no guarantees. The "Common Sense Revolution" of Mike Harris reversed the previous Ontario governments tuition controls -- and moved that province's tuition fees to the second highest in the country. Changing government may make for changing policies.

\$ The *Lifelong Learning Plan* announced in the 1998 federal budget assists "mature" students seeking retraining. It allows full-time students to withdraw up to \$10,000 a year (to \$20,000 over four years) from their RRSPs without tax consequences. The borrowings must be returned to their RRSPs over a ten year period, starting two years after education.

*Hidden tip to parents of young children: Send this newsletter to your parents.*

## 2.5 Million Winners in \$11 Billion Payout

**Demutualization** is the conversion of a mutual life insurance company into a stock company, the purpose to raise further money. Canadian life insurers demutualizing this year are Mutual

Life, Manulife, Canada Life, Sun Life and Industrial Alliance. All participating policyholders receive hefty packages explaining the process, and what they're being offered. The simple choice —

cash or shares — is not as simple as it seems. Tax implications are radically different, and can imperil income-tested government programmes such as Old Age Security or the Canadian Child Tax Benefit. Undisclosed and unknown costs abound.

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