

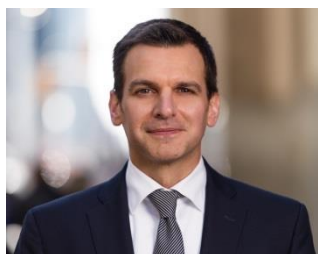
TURNER INVESTMENTS COMMENTARY



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THE HIGH COST OF HIGHER EDUCATION

How did I (Doug) pay my way through first year university? There were the usual tough jobs (spraying molten glue at a furniture factory—try that in August with no A/C), but mostly it was my Wayne Gretzky rookie cards. Like all good, hockey-loving Canadian kids, I had a shoebox full of hockey cards, which included about 10 Gretzky rookies. I cashed them in right as the sports card market was taking off in the late 80s—early 90s. Back then, a year of university was, amazingly, only a couple of grand and the Gretzkys funded it. In a recent [Conan interview](#) Gretzky himself noted that he has never actually owned his own rookie card, so I'm fortunate. Thank you Mr. Gretzky.

However, needless to say, a shoebox full of hockey cards is no way to plan for post-secondary education expenses. And these costs have risen dramatically since I went to university. According to the Government of Canada, full-time students paid, including tuition, books and possible residency costs, an average of \$16,600 for post-secondary schooling in 2014–2015 or more than \$66,000 for a four-year program. It's a safe bet that these costs will easily double over the next 10–15 years.

A recent CIBC survey also indicated that 51% of Canadian students will have to borrow money to fund their post-secondary education and the same survey suggested that parents were willing to pay for two-thirds of their child's total education costs. So, to prevent your child (and yourself) from racking up huge debt before they hurl themselves headfirst into the working world, let's review the advantages of registered education savings plans (RESPs).

RESP BASICS AND RESP ADVANTAGES

An RESP is a special type of registered account designed to assist in saving for your child's post-secondary education. In order to open an RESP, your child must have a social insurance number and a birth certificate. The maximum lifetime amount that can be contributed to an RESP is \$50,000 and the funds can be withdrawn when your child is ready to attend an approved post-

secondary institution (sorry Trump University attendees). If your child ultimately decides not to attend school then the plan must be collapsed with potentially significant tax implications—and all of the grant money (see below) must be returned. In other words, encourage your child to continue on with their education!

RESP Advantages:

- The Canada Education Savings Grant (CESG) is the primary advantage. With the CESG, for an eligible beneficiary until the end of the calendar year they turn 17, the government matches 20% on the first \$2,500 contributed annually to an RESP. The maximum total the government will grant, up to age 18, is \$7,200 per beneficiary. For families with lower net incomes there is also an additional grant added to the first \$500 saved. There are also various provincial incentives available. We won't discuss these here, but it's worth checking your provincial government website to see what's offered. These provincial incentives could add a few hundred dollars each year as well.
- RESPs offer tax deferral. This means that interest and dividend income and investment growth earned within an RESP are not taxed as long as the funds remain in the plan. Withdrawals from an RESP are ultimately taxed in the hands of the student, which, because they're likely living off of Kraft dinner and earning next to nothing, usually means they pay little or no tax. They are also likely entitled to various tuition tax-credits, which can lower their tax bill even further. When withdrawing funds from an RESP, the withdrawn funds must be classified as either a refund of contributions or an education assistance payment (EAP). Refund of Contributions equate to the original contributions and are withdrawn tax-free. Of note, unlike a normal RRSP, RESP contributions are not tax deductible for the contributor. EAP equates to the sum of the government grants, growth, interest and dividends, and is taxable as income. You can contact us at any time for more detailed tax information and withdrawal strategies for your RESPs, but, generally speaking, it's the most tax efficient to withdraw income as an EAP *first*, particularly in years when student income is low and then take contributions in years when it's higher.

RESP INVESTMENT STRATEGIES

Because your child's post-secondary start-date likely lies 10, 15 or more years into the future, the investment horizon for an RESP is long and concerns over short-term volatility should be minimal. As we've highlighted in previous newsletters, the odds of recording a negative annualized return with equities over a 10-year or longer period is extremely low. Historically, the odds of the S&P 500, for example, recording an annualized positive gain over 10 years are 90%. Further, equities are quite likely to outperform most other asset classes longer term. Therefore it makes sense to position an RESP aggressively with a primary focus on equities. As your child's school start-date approaches, we normally scale back some of the risk so that the growth is preserved. As with a TFSA, the majority of our clients have RESPs typically weighted at least 70% to equities, and sometimes as high as 100%.

The RESP Advantage



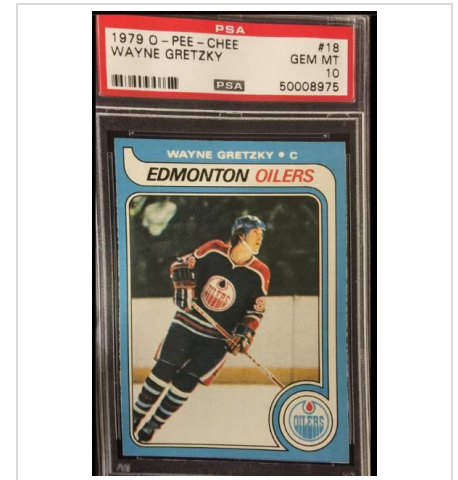
Source: Ativa, TD. Chart assumes \$2,500/year in contributions until age 18 and 6% annualized rate of return for each scenario

The above chart illustrates the outcome of an RESP if a minimum of \$2,500 is contributed each year (in monthly installments) as soon as your child is eligible, the CESG is received and invested each year and an annualized 6% rate of return is realized. Depending on the post-secondary institution your child selects, more contributions may be required, but the chart still indicates how an RESP can, at the very least, significantly assist with post-secondary education costs.

DOUG'S GRETZKY ROOKIES: A FOOTNOTE

While my Gretzky rookie cards were far from mint condition, there is now certainly reason to wish that I'd kept at least a few of them. This past summer a mint condition Gretzky rookie [sold for a record](#) US\$465,000 (the actual card is pictured). Such is life. But, in case you want to rush out and start investing in rookie cards, I caution you regarding the very high risk of forgeries. These cards are simply pieces of cardboard, not currency notes with multiple layers of high-tech counterfeit protection. In other words, they're easily reproduced. For nostalgia, a few months ago I picked up a near-perfect replica Gretzky rookie card from a vending machine at my local hockey arena. Cost: two bucks.

Worth US\$465,000?



Source: *The Hockey News*

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