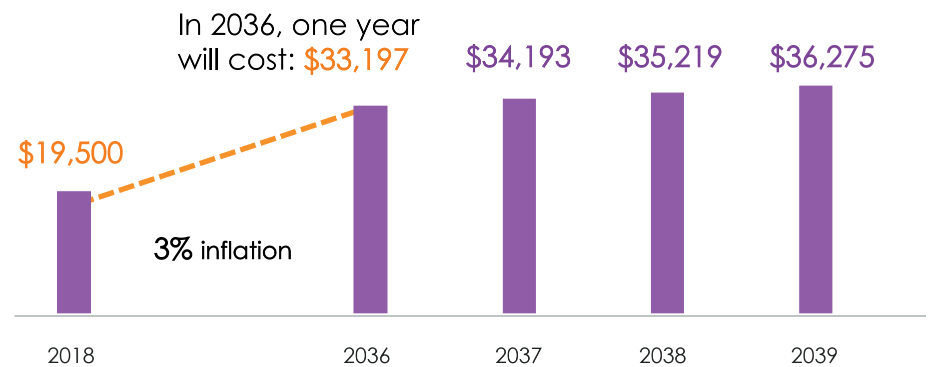
Pay Now or Pay Later?

AGF SOUND CHOICES

How will you deal with rising education costs?

A 2018 report estimated that one year of post-secondary education in Canada costs approximately $19,500[1] – including tuition, accommodation, transportation, food and other expenses.

Assuming a 3% rate of inflation, that equates to $33,197[2] in 2036 (18 years later) and $138,884[3] for four years of education.



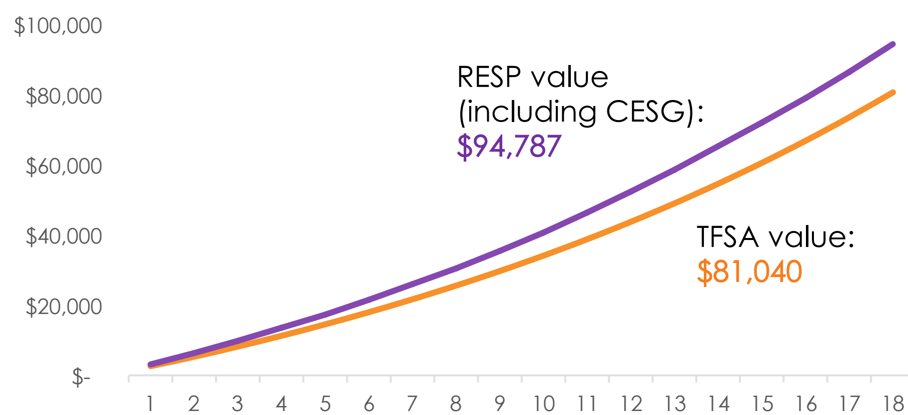
And four years will cost: $138,884[3]

Starting early offers the benefit of power of compounding[4]

Investors A & B both save $2,500 each year for 18 years in the same investment earning 6% annually (compounded monthly).

- Investor A opens a Registered Education Savings Plan (RESP) and takes advantage of the Canada Education Savings Grant (CESG) – receiving $500/year up to the lifetime limit of $7,200.
  (The Government of Canada will match 20% of the RESP contribution each year to a maximum of $500 – reflecting $2,500 of the subscriber's contributions.)
- Investor B opens a Tax-Free Savings Account (TFSA).
- Both account types are tax-exempt.

Both have benefitted from compounding returns. However, Investor A accumulated almost $14,000 more than Investor B, by taking advantage of the CESG.



[1] Weighted average of all major expenses for a typical undergrad student living off-campus at a Canadian university. Source: "The cost of a Canadian university education in six charts," Macleans, April 1, 2018.
[2] $19,500 with 3% inflation for 18 years = $33,197.
[3] $19,500 with 3% inflation for 18 years = $33,197. $19,500 with 3% inflation for 19 years = $34,193. $19,500 with 3% inflation for 20 years = $35,219. $19,500 with 3% inflation for 21 years = $36,275.
[4] Source: AGF Investment Operations. This example is hypothetical and intended for illustrative purposes only. It is not meant to provide investment advice.

How Much Would You Pay?

$48,655
Pay now

Invest a lump sum of $48,655[5] today, growing at an average annual rate of return of 6% = $138,877 in 18 years.

$70,200
Pay monthly + government grants

Invest $325/month – $210 in an RESP and $115 in a TFSA.

- Contributions to an RESP grow tax free until the funds are withdrawn.
- RESP qualifies for a $500/year CESG
- TFSA withdrawals are tax-free

Total invested:[6]

- $45,000 lifetime RESP contribution
- $7,200 lifetime CESG maximum
- $25,200 in additional savings, such as a TFSA

Education savings = $139,637 in 18 years

$138,884
Pay as you go

Pay at the beginning of each school year

Year 1: $33,197

Year 2: $34,193

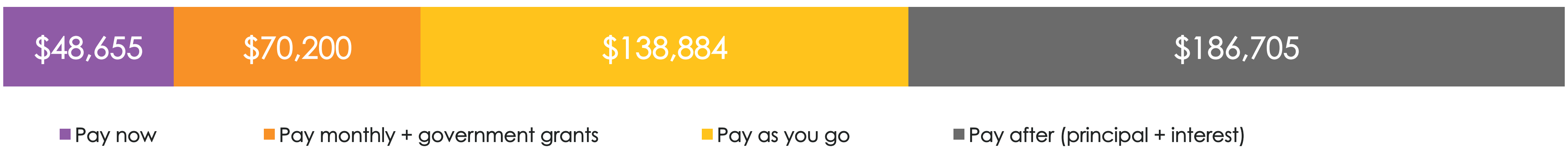
Year 3: $35,219

Year 4: $36,275

$186,705
Pay after (principal + interest)

Post-secondary education financed through student loans that are interest-free while in school. After graduating, however, those loans must be repaid. Here's one scenario:[7]

- Loan: $138,884
- Interest rate: 6.2% (prime of 3.7% +2.5%)
- Monthly payments: $1,555.88
- Total interest paid: $47,821.60
- Total amount paid: $186,705.60



Contact a financial advisor who can help you determine which option (or combination of options) best suits your situation. And for more information on RESPs, visit AGF.com/RESP.

Note – These calculations assume that: (a) Lump-sum investments are held for 18 years; (b) Monthly investments are made at the beginning of each month for 18 full years; (c) All investments earn an annual compounding rate of return of 6%; and (d) All distributions are reinvested. They do not include any fees or taxes payable. The rate of return is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values or returns on investments

[5] A lump-sum investment of $48,655 invested now in a managed portfolio growing at an average annual compounding rate of return of 6% = grows to $138,877 in 18 years.

[6] $210/month plus $500/year CESG Grant (to a maximum of $7,200) starting now earning a hypothetical annual rate of return of 6% (compounded monthly), plus an additional $115/month in a TFSA grows to $139,637 in 18 years. Note that, in this hypothetical example, the RESP lifetime contribution limit of $45,000 is reached after 17 years, 9 months so for the last 3 months, the $325 monthly contribution is invested in the TFSA.

[7] Loan of $138,884 at 6.2% (prime of 3.7% +2.5%), 120 monthly payments of $1,555.88. Total interest paid $47,821.60. Total amount paid $186,705.60. Assumes first payment is six months after graduation.