

## **For students, smart decisions now save big debts later**

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Jack is a good friend of mine who is a teacher. He graduated from university, then teacher's college, and began teaching about 10 years ago. We were talking about money the other day, and he said something interesting: "Tim, I'm going to leave my kids something that money can't buy: my debt."

"It took me years to build up that deficit. I'm going to relish it, cherish it, then I'm going to pass it on. At 19 per cent it's a gift my kids are going to remember long after I'm gone."

"Well," I replied, "leaving kids with a lot of money has been known to tear families apart when it's not managed properly, so your idea might just pull them together, giving them a little project to work on."

"My thought exactly," Jack replied.

Jack accumulated his debt in university years ago – paying for his education. The problem? He accumulated more debt than he could handle. Which raises the question: How should students manage their debt so that it helps them, but doesn't hurt them? Time for a primer on borrowing for post-secondary education.

### **Paying for education**

There are five ways to pay for a child's education. I've shared these thoughts in the past, but here's a recap: Post-secondary education can be paid for by begging (finding free money in the form of scholarships, bursaries, grants and awards), borrowing (which I'll talk about today), stealing (liquidating other assets to pay for a child's education), sweating (the child earns money in the summer or part-time during school to help cover the costs), and saving (through registered education savings plans or other vehicles). Your child would be wise to look to various means of paying for his education – not simply borrowing money.

### **Cap the debt**

If a student is going to borrow to pay for an education, he should cap the amount he borrows based on his expected earnings when he graduates. Specifically, he should follow the "rule of tens": For every \$10,000 in student loans, your child should earn about \$10,000 annually over a base income of \$10,000 in order to repay the loan in 10 years. If, for example, your child graduates with \$30,000 in loans, he or she ought to earn \$30,000 a year, plus a base of \$10,000, for a total

of \$40,000 annually in order to pay off that loan in 10 years.

Every few years, Statistics Canada undertakes a National Graduates Survey which examines average levels of debt held by students who have completed their post-secondary education. The last survey interviewed the class of 2005 two years after graduation. The fact is, 54 per cent of those with a bachelor's degree had some form of debt at the time of graduation.

The average debt load at graduation was in excess of \$20,000, with a large debt load considered to be \$25,000 or more. About one quarter of graduates had paid off their debt two years after leaving school. The actual proportion of students that had paid off their debt after two years varied by level of study: Master's degree graduates had the highest proportion (32 per cent), followed by doctorate (30 per cent), bachelor's (28 per cent), and finally college graduates (24 per cent).

You should also be aware that students who graduate in certain fields of study often accumulate more debt and have more difficulty paying it off. Those studying recreation, fitness, education and humanities have generally had larger debt loads than those studying business, for example. You'll find this information on Statscan's website at [statcan.gc.ca](http://statcan.gc.ca). Just do a search on "student debt."

### **Claim tax relief**

If your child borrows money for post-secondary education, make sure he claims a tax credit for the interest costs if he can. To qualify, the loan must be made under the Canada Student Loans Act or similar provincial legislation. The loan interest must be paid in the calendar year to entitle your child to the credit. This tax credit can be claimed in the year the interest was paid, or in any of the five subsequent years.