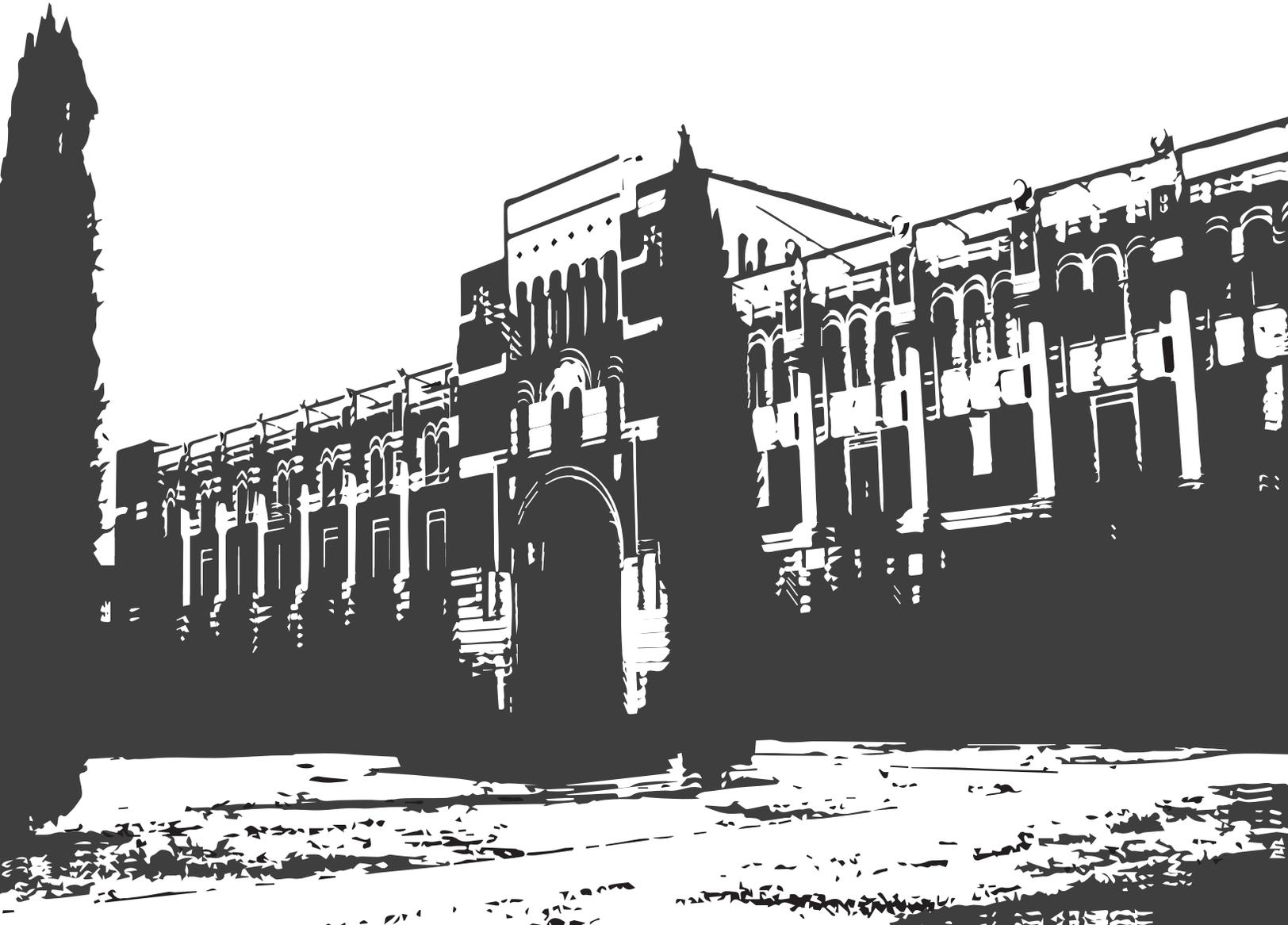




# CASA | ACAE

Canadian Alliance of Student Associations  
Alliance canadienne des associations étudiantes

## PATHWAYS TO UNIVERSAL ACCESS TOWARDS A MORE EQUITABLE POST-SECONDARY FINANCIAL AID SYSTEM IN CANADA



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Through its member-driven structure and grassroots approach, CASA's mission is to advocate for students through policy development and research, awareness campaigns, government relations, and partnerships with other stakeholders.

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## OUR MEMBERS



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# CASA

## INTRODUCTION



The federal government is the single largest source of funding for public financial aid for post-secondary students in Canada. Financial aid policy has a major impact on the areas of accessibility and affordability of post-secondary education (PSE) in Canada. This paper aims to examine the impacts of those programs, such as student loans, student grants, tax credits and scholarships on the areas of access and affordability.

While other dimensions of accessibility do have an important impact, such as provincial policies and non-financial motivations like family education, they are outside the scope of federal financial aid advocacy and are variables that the federal government cannot directly affect. This paper does not examine the other federal areas of responsibility in PSE either, such as support for First Nations students which depends on agreements between the federal government and Canada's First Nations communities, nor military colleges which are dependant on Canada's national defense priorities. This paper offers a set of recommendations to be directed at the federal government for ways in which financial aid can be improved.

The Canadian Alliance of Student Associations (CASA) supports a system of financial aid that uses the most progressive and effective policies to support equal access to higher education for all students regardless of background, without burdening any student with debt that they have difficulty repaying.

## ADVOCATING FOR AN ACCESSIBLE AND AFFORDABLE PSE IN CANADA



*CASA believes that any academically qualified student with the desire to pursue PSE should not face a barrier – financial, social, political, physical, cultural, or otherwise.*

*CASA believes that students should not accumulate an unreasonable or insupportable amount of debt in the pursuit of a post-secondary education or in continuing such an education*

CASA believes in the importance of an accessible and affordable education. As such, it is important to define what precisely is meant by both “accessibility” and “affordability” in terms of the goals of this paper.

When we think of accessibility, we are thinking of those who can attend PSE. The key principle of accessibility is measured by a lack of barriers to education and a broad representation of the Canadian population in post-secondary institutions.

Because of the high number of students, it should be expected that members of every social group and economic class be represented in higher education, in numbers that are reflective of their total size. Furthermore, there should be as little bias as possible in terms of the choice of programs, and the level of education achieved by these groups.

Affordability, on the other hand, measures the real financial burden of education, both during and after attending a post-secondary institution. The most frequently discussed metric relating to this principle is student debt, that is, the total amount of money owing at the end of one’s studies. This metric alone, however, does not always reveal the full extent of affordability.

Another important measure of affordability is the burden of repayment, often measured by the debt-to-income ratio. High levels of debt are a problem, but they are less of a problem for students earning higher incomes after graduation than for students earning lower incomes. The burden depends on repayment options available, interest rates, and loan forgiveness. Government debt that can be reduced and forgiven is less onerous than private debts that can force students into bankruptcy.

## RETURN ON INVESTMENT

Improving the accessibility and affordability of PSE requires a major public expenditure. This social priority is a profitable investment, however. The return on investment for individuals and society<sup>1</sup> in education is significant, both in financial and social terms. As a financial investment, public spending on education returns profits at a rate between 9-12%, both for individuals and society. In an era when economic growth rates are ranging between 2-3%<sup>2</sup>, education is not just a positive social program, rather, it is a good investment toward Canada’s economic future.



# ARGUMENTATION

Ultimately, this paper seeks to recommend public policy changes at the federal level that will increase the accessibility and affordability of PSE in Canada. This will be examined in terms of the ideal changes to the financial aid system, to ensure that those financial aid programs with the greatest impact have sufficient resources to meet their goals.

We will first tackle the issue by examining the value of pursuing a post-secondary education, thus providing clear justification for public spending in PSE. We will then look at the gaps and shortcomings of PSE funding policy. Finally, in light of the costs and challenges related to attending higher education, we will provide a detailed analysis as to the policy changes required in the areas of repayable and non-repayable aid, in order to make for a more affordable and accessible PSE system in Canada.

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## CHAPTER 1

### SUMMARY OF FINDINGS

Currently, Canada is a world leader in educational attainment, with 53% of those aged 25-64 holding tertiary qualifications, compared to 33% in the Organisation for Economic Co-operation and Development (OECD) as a whole. However, a number of metrics show signs of success beginning to erode. While Canada's college system continues to be a major success (where we have a higher percentage of graduates than any country) our university attainment rates are falling behind several peer comparator countries, even more so when looking at attainment by the youngest cohort of graduates aged 25-34<sup>3</sup>.

PSE spending in Canada is higher than the OECD average. Despite this higher level of spending, a majority of non-repayable federal student support is directed at programs that proportionately reward students from higher-income backgrounds at a rate greater than students from lower-income backgrounds. This includes \$1.7 billion in tax credit spending, as well as \$1 billion in Registered Education Savings Plans (RESP) spending through payments and tax expenditures. Comparatively, high-impact programs for non-repayable aid, like the Canada Student Grants Program (CSGP), receive only \$680 million in support. In order to increase accessibility and affordability, spending must be reviewed to redirect funds to those students for whom they will have the greatest impact.

For repayable aid, there is likewise a shortage of funds available compared to the impact generated. The Canada Student Loans Program (CSLP) provided in 2012-2013 nearly \$2.6 billion in funds to students, at a present cost of \$569 million in present expenditures, which includes the costs of defaulted loans and repayment assistance<sup>4</sup>. With increased levels of support, the negative impact of interest rates and risk to low-income graduates with debt can be mitigated, and the total amount of funds distributed to students could be likewise increased.

By redirecting ineffective aid towards a mix of loans and grants, total financial support for students could be significantly increased. Simultaneously, we would support improvements to policies that would ensure that no student is unfairly burdened by excessive debt. While the current system provides a substantial amount of aid to students, much of that is allocated to programs that favour high-income individuals rather than those with demonstrated need.

A system of grants alone would not be sufficient to accomplish the desired goals. While a system purely consisting of grants would solve the issue of students owing debt to the federal portion of the program, and a needs-based system would be more progressive, the total disbursement for students to attend university would be significantly reduced. Loans allow one dollar of public spending to, on average, translate into approximately three dollars of financial support, because it is funded by borrowing and repayment rather than direct expenditures. This figure varies depending on the terms of the loans; those with lower interest rates or more generous debt relief would equal fewer dollars of financial support.

Under the current mix of RESP, CSLP, CSGP and tax credits, the expenditures total \$4.042 billion, but the actual disbursements add up to approximately \$5.9 billion per year, due to expenditures on loans. While a system of needs-based grants would be a more progressive use of funds than some of the current areas of funding allocation, it would be a major reduction on the actual amount of funding. With 41% of students projected to have unmet need as of 2015 according to CSLP actuarial reports, this could negatively impact their ability to attend a post-secondary institution<sup>5</sup>.

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The following table depicts the current state of federal spending in PSE, as well as our proposed allocation of spending, based on the analysis of this paper and putting funds towards the most progressive expenditure possible:

TABLE 1: CURRENT ALLOCATION AND PROPOSED ALLOCATION OF SPENDING IN PSE

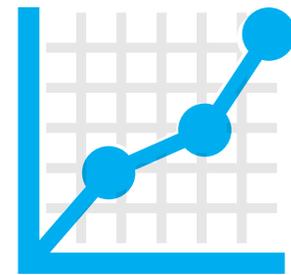
## CURRENT ALLOCATION OF SPENDING

PROGRAM	COST ( \$ MILLIONS )	DISBURSMENT
CSGP	\$680	\$680
CSLP ( INCLUDING RAP , MINUS CSGP )	\$569.2	\$2,600
RESP PROGRAM ( TAX EXPENDITURE, CESG, CLB )	\$1,028	\$1,028
TAX CREDITS ( ALL OTHERS ) <sup>6</sup>	\$1,765	\$1,765
<b>TOTAL:</b>	<b>\$4,042</b>	<b>\$5,973</b>

## PROPOSED ALLOCATION OF SPENDING

PROGRAM	COST ( \$ MILLIONS )	DISBURSMENT
CSGP	\$1,827	\$1,827
CSLP ( INCLUDING RAP , MINUS CSGP )	\$1,716	\$5,149
RESP PROGRAM ( CLB AND TAX EXPENDITURE )	\$499	\$499
TAX CREDITS ( ALL OTHERS )	\$0	\$0
<b>TOTAL:</b>	<b>\$4,042</b>	<b>\$7,475</b>

By reallocating the funding of non-progressive policies towards a mix of loans and grants, the annual disbursements could be increased from **\$5.9 billion** to approximately **\$7.4 billion**



This would be accomplished by dividing the funds from tax credits and RESP Canada Education Savings Grants (CESG) into the loan and grant systems, increasing the disbursements of those programs as well as adding funds to make repayment less burdensome by expanding the Repayment Assistance Program (RAP) and reducing interest rates. This could also be used to increase enrolment in the Canada Learning Bond (CLB) program from the current 30%<sup>7</sup> to 100% for low-income youth.

Taken together, these changes would substantially change financing for students attending a post-secondary institution; grants and loans would be more generous and more widely available, significantly reducing the proportion of students who either fail to attend or require risky private loans. The risk of loans would be reduced or eliminated in the case of any student who graduates and does not earn a sufficient income to repay them, and youth growing up in low-income environments would be guaranteed a base level of savings that can be put towards attending higher education.

The goal of the recommendations provided throughout the paper is to provide guidance to reallocate public spending in PSE in order to improve the accessibility and affordability of PSE in Canada. While other issues may have an impact on attendance, by making financial aid as effective as possible those differences in educational outcomes across different populations can be reduced as much as possible.



## CHAPTER 2

### MAKING THE CASE FOR PSE SPENDING

What is the justification for public money supporting PSE spending in the first place? The following chapter explains the value of pursuing a post-secondary education, and explains why public spending in this field is a necessity, as we cost out the price of obtaining an education today. In the end, we will show where the gaps and shortcomings lie, thus laying the groundwork to propose the necessary changes in PSE funding policy.

## 2.1 VALUE OF EDUCATION AND SPENDING

Education has many benefits beyond finances alone, such as better health, better civic participation, and better life satisfaction<sup>8</sup>. However, the financial benefits are substantial, directly measurable, and allow comparisons to the initial cost of providing education and the support levels allocated through federal budgets.

Financial benefits go in two directions: to the individuals who receive an education and who enjoy higher wages on average; and to the public, whereby educated citizens pay more taxes and use fewer social services on average.

These financial benefits are not evenly distributed for individuals. Some enjoy benefits greatly in excess of the average, while others do not enjoy any benefits at all, depending on personal circumstances, employment opportunities, among other factors. Because of the variations in return-on-investment, loan forgiveness is an important method of avoiding charging those students who do not receive a financial benefit from their degrees.

For an individual, attaining a university degree is a financial investment toward his or her own economic future. For an average Canadian, male or female, that investment has an average rate of return of a 10.2% for females or 11.4% for males, which is greater than almost any other financial investment that can be made<sup>9</sup>. This is slightly lower than the OECD average rate of return, which is 13.9% for males and 13.2% for females, but the lower percentages can be explained by the higher overall attainment rate increasing the supply of educated workers.

For public benefits, the effects are similarly distributed<sup>10</sup>. While private benefits include higher levels of income over a lifetime and lower levels of unemployment, public benefits include elements such as higher levels of tax paid and lower use of public services. Some benefits counteract one another; the higher the amount of tax a university graduate pays, the higher their public benefits, but the lower their private benefits will be.

As an investment, money put into PSE in Canada offers approximately a 10-11% rate of return for individuals, and a 9% rate of return for the government. By comparison, overall gross domestic product (GDP) growth rates in Canada have varied between 2-3% since the 2008 recession.



## 2.2 THE NEED FOR SPENDING: COSTS OF PSE

The cost of higher education to individual students comes in several forms. Firstly, there is the direct cost of tuition paid to institutions in exchange for attendance, as well as the textbooks and other compulsory fees required to attend classes. Secondly there are the indirect costs related to school: food, housing, travel to and from campus, and other costs over the time in attendance. Lastly there is the foregone income, which students lose by attending school rather than seeking paid employment.

These costs vary depending on the living situation and background of students. Tuition is currently the lowest of these costs in impact on individuals who face that expense, but unavoidable if attending higher education. Indirect costs can be significantly higher, but vary considerably depending on living situations, e.g. students at home versus independent adults living alone or with families of their own. Foregone income is the largest potential cost for those who face it, as measured by average income, but fluctuates considerably in amount and prevalence depending on local economic conditions, age, individual experience, and opportunities, as shown through the disparate outcomes in Statistics Canada average wage<sup>11</sup> and employment<sup>12</sup> figures across Canada.

It is crucial to understand the full range of costs when addressing student aid, to understand that there are diverse issues being faced by students who desire to complete higher education. This also shows the limited impact of certain policy choices; free tuition, for example, could fully cover one aspect of the direct costs of education, but it would have no impact on indirect costs or foregone income. Meanwhile, grants and loans would likely need to be available in excess of the total cost of tuition to fully support all students from diverse backgrounds.

Accessing education means being able to afford all the associated costs of delaying entry to (or leaving) the workforce and spending time on classes, in addition to being able to afford the actual tuition and other costs of attending post-secondary institutions. Tuition, textbooks, and fees are the most visible of the costs associated with studying, and are consistently rising faster than inflation, but they are not always the largest expenses for students.

Tuition fees increased greatly since the 1990s, and since that time have continued to increase at a slower pace, but still higher than inflation. Comparing increases in costs at 10, 20, and 30 year intervals shows us that the price more than doubled between 1983 and 1993, and doubled again between 1993 and 2003, followed by a roughly 1.5x increase from 2003 to 2013. In 1982, tuition represented 13.8% of university operating funding; as of 2012, it represents 37.5%, though the precise balance depends on the province.<sup>13</sup>

Textbooks and additional fees have increased in cost at nearly the same rate as tuition, outpacing inflation and other living expenses. In addition to these increases in direct costs for domestic students, international students face significantly higher fees, which are often unregulated in the same way as domestic fees.

TABLE 2 – INCREASE IN COST FOR TUITION AND TEXTBOOKS, FROM 1983-2013, VS CONSUMER PRICE INDEX (CPI), MEASURED AS AN INDEX (2001 = 100)<sup>14</sup>

MEASURE	1983	1993	2003	2013	10-YEAR	20-YEAR	30-YEAR
TUITION FEES	23.7	52.9	106	154	45%	191%	550%
TEXT BOOKS AND SUPPLIES	N/A	82.1**	102.4	131.3	28%	60%**	N/A
ALL-ITEMS CPI*	57.4	86.8	102.5	117.2	14%	35%	104%

\*Excluding Food and Energy

\*\*1995 figure, due to unavailability of 1993 figure

According to “The College Board” in the United States (where textbook prices are similar to Canada), textbook prices average roughly \$1,200 per year per student<sup>15</sup>. Canadian universities recommend that students budget roughly that amount for textbooks and supplies as well. While these additional expenses vary depending on programs, they are a significant component of PSE costs – and students who cannot afford these materials risk negative impacts on their studies.

Tuition increases that exceed the rate of increase in inflation are also an area of concern. The following table describes the increase in undergraduate and graduate tuition since 2008, compared to the CPI for all items excluding food and energy.



TABLE 3 – AVERAGE UNDERGRADUATE AND GRADUATE TUITION FEES FOR FULL-TIME CANADIAN STUDENTS <sup>16, 17</sup>

YEAR	UNDERGRAD	%RISE	GRAD	%RISE	CPI* <sup>18</sup>	%RISE
2008-2009	\$4,724	3.6%	\$5,777	3.3%	110.3	1%
2009-2010	\$4,942	3.6%	\$6,008	4.7%	111.5	1%
2010-2011	\$5,146	4%	\$5,182	6.6%	112.9	1%
2011-2012	\$5,313	4.3%	\$5,599	3.7%	114.7	2%
2012-2013	\$5,586	5%	\$5,695	4.5%	116.2	1%
2013-2014	\$5,772	3.3%	\$6,053	2.3%	117.2	1%
2014-2015	\$5,959	3.3%	\$6,210	2.8%	N/A	N/A

\*All items CPI excluding food and energy

Tuition has continued to outpace CPI inflation, and is expected to do so for the foreseeable future. As a consequence, this indicates an increasing financial burden of attending PSE measured in tuition alone relative to the cost of other expenses.

TABLE 4 – ADDITIONAL ANCILLARY FEES AND INTERNATIONAL STUDENT FEES <sup>19</sup>

YEAR	COMPULSORY FEES	INCREASE	INTERNATIONAL	INCREASE
2009-2010	\$749 (up from \$701)	6.8%	\$15,674	N/A
2010-2011	\$702 (up from \$656)	7%	\$16,768	7%
2011-2012	\$820 (up from \$777)	5.5%	\$17,571	5%
2012-2013	\$750 (up from \$726)	3.3%	\$18,641	6%

2013-2014	\$817 (up from \$776)	5.3%	\$19,514	5%
2014-2015	\$821 (up from \$799)	2.8%	\$20,447	5.3%

NOTE: Compulsory fees are recalculated on an annual basis depending on changing numbers of students at different institutions and inflation rates. International student fees are not inflation adjusted.

Tuition alone has risen to an average of \$5,772 in recent years. Adding that figure with the cost of additional ancillary fees, estimated at \$817, and textbooks, estimated at \$1,200, the average total direct costs of a year of education stands at over \$7,700, before living expenses are taken into account<sup>20</sup>. The increase in tuition alone is a hurdle for students; compounded by rising textbook and compulsory fees, this increases the impact tremendously.

Tuition has increased faster and higher in particular fields than others. Professional programs in law, dentistry and medicine are noted for having particularly high fees.

### TABLE 5- UNDERGRADUATE TUITION FEES BY PROGRAM

UNDERGRADUATE: FIELD OF STUDY GROUPING	2007-2008	2009-2010	2011-2012	2013-2014	08-14 INCREASE
LAW, LEGAL PROFESSIONS	\$7,382	\$8,229	\$9,335	\$10,030	36%
DENTISTRY	\$12,516	\$13,917	\$16,037	\$17,324	38%
MEDICINE	\$10,029	\$9,815	\$11,313	\$12,438	24%
PHARMACY	\$4,215	\$8,783	\$9,719	\$10,942	160%



In graduate fields, Masters in Business Administration (MBA) programs are noted for having particularly high tuition fees, and the same pattern of increase seen for undergraduate dental programs is seen at the graduate level, with rapidly rising fees.

TABLE 6 – GRADUATE TUITION FEES FOR MBA PROGRAMS AND DENTISTRY

GRADUATE: FIELD OF STUDY GROUPING	2007-2008	2009-2010	2011-2012	2013-2014	08-14 INCREASE
EXECUTIVE MBA	\$22,412	\$27,963	\$36,971	\$35,889	62%
REGULAR MBA	\$14,545	\$19,727	\$22,823	\$24,168	66%
DENTISTRY	\$7,187	\$3,218	\$4,365	\$11,142	55%

The impacts of these changes, which began in the 1990s, have been increased attendance rates by students from higher income backgrounds, higher levels of access by low-income students who are able to access student aid, but lower levels of access by students from families with middle-income and education<sup>21</sup>. Many of these programs have tuition and costs that far exceed the maximum assistance levels of current financial aid programs, reducing the ability of lower and middle class students to access them.

While those observations resulted from short-term trends, in the long term the effect of increases in tuition that exceed growth in the ability of students to pay would have similar effects on access. This is especially true in fields seeing the highest levels of tuition in recent years. These trends run contrary to the principle of accessibility in education, resulting in a higher risk of biased attendance along economic lines. As long as increasing tuition continues to outpace increases in financial aid, accessibility will continue to diminish.

## RECOMMENDATION

- ✓ **Ensure that all students have automatic access to a minimum amount of loans sufficient to fully cover costs in tuition, books and ancillary fees, and index support to match increases in tuition, books and ancillary fees.**

## INDIRECT COSTS: LIVING EXPENSES

For students who must support themselves independently away from their families, the cost of living is the largest expense they face during a year of education. The exact cost of this varies greatly depending on the living situation of the student, the region in which they are attending school, and whether they live with a partner or have any dependants.

This is a key issue for financial aid, since it constitutes a major expense that would prevent many students from being able to attend university, but at the same time there would be insufficient funding in any financial aid system to pay for all of these costs for every student equally. This means there is the necessity of both directing the aid towards those students who have the most need, as well as providing funding in the most cost-effective manner possible, so that as many students as possible can access secure, publicly funded financial support.

Based on the low-income cut off, the cost of any student living on their own is more than the base cost of an education in tuition and ancillary costs. If the student has dependants, the cost of living increases significantly as well.

For example, according to the low-income cutoff over an 8-month course of study, the absolute minimum cost of living for an individual student without dependants would vary between \$8,419 (rural areas) and \$12,871 (larger urban areas)<sup>22</sup>. This changes rapidly with any household of a larger size; in a household of 4 people, in a larger urban area, the same 8-month course of study would imply nearly \$24,336 in living expenses, even with the household living at the low-income cut off.

Furthermore, PSE-related living costs will tend towards the higher figures listed above, due to the larger number of institutions in larger urban areas. Regardless of the figure chosen, even the lowest possible amounts exceed the average tuition and ancillary fees estimated earlier at \$7,700.

How these expenses are paid differs greatly depending on the student: by living at home, students are able to share this cost with their families, while students who live on their own must fully cover this expense separately. Students who are responsible for dependants, such as children, would likewise face substantially higher costs and see fewer options for mitigating them.

Living arrangements are an area of significant change over time. The share of young adults living at home has increased significantly over 30 years. This correlates with the increased number of students staying home to attend higher education. For students whose families do not live within commuting distance to higher education however, the cost of leaving home can represent a significant barrier.



TABLE 7 – PERCENTAGE OF YOUNG ADULTS AGED 20-24 AND 25-29 LIVING IN THE PARENTAL HOME, 1981-2011 <sup>23</sup>

YEAR	20 TO 24 YEARS	25 TO 29 YEARS
1981	41.5%	11.3%
1986	49.1%	15.2%
1991	50.5%	16.9%
1996	55.8%	21%
2001	57.2%	22.5%
2006	59.5%	24.7%
2011	59.3%	25.2%

Living costs change significantly by age, considering the increasing responsibilities and commitments that Canadians take on over time. Canada Millennium Scholarship Foundation surveys on student finances determined that living costs rise from \$650-685 among students 18-19 years old to almost \$2,000 a month for students over 25.<sup>24</sup> Over the course of an 8-month period of study, this would add up to a range of \$5,200 to \$16,000 in costs.

While students should not be forced into remaining at home during education, it is clear that those who do, enjoy significant savings compared to those who live independently. In many cases, living at home is simply not an option; this is especially true of students in rural areas without a post-secondary institution near their home. This can also apply to students from low-income backgrounds whose parents cannot continue to support them, study specialized programs far from home, or coming from unstable homes where their safety may be at risk.

Combining direct and indirect costs, using the \$7,700 figure for direct costs related to tuition, books and ancillary fees, and the roughly \$12,800 figure for living expenses, gives a total costs of over \$20,000 per student per year at minimum – and for families, potentially.

# RECOMMENDATIONS

- ✓ **Ensure supplementary loans are available to assist in covering living expenses for those students who qualify due to studying away from home and having demonstrated need.**
- ✓ **Create grants for students with low resources available, who live at a long distance from educational institutions, with amounts based on available funds made available through reallocation of funding.**
- ✓ **Increase loan and grant amounts for students with families and dependants, who may face significantly higher expenses when returning to school, based on additional funds made available through reallocation.**

## FOREGONE INCOME

The other significant cost of higher education is the loss of income that could have been earned by entering the workforce directly from secondary school, as opposed to taking time to attend classes. OECD estimates assume the average cost over the student population as a whole to be roughly \$36,000 for an average student over a 4-year course of study<sup>25</sup>. However this does not fully capture the variance between different ages, genders and other categories of students. The amount of income lost depends significantly on age, region, and gender.

Higher levels of foregone income increase the effective cost of a university degree, especially for mature students. Experienced workers returning to school full-time abandon higher average annual salaries.

TABLE 8 – MEDIAN INCOME BY AGE GROUP (2007-2011 STATISTICS)<sup>26</sup>

AGE GROUP	2007	2009	2011
ALL AGE GROUPS	\$29,600	\$29,700	\$30,100
UNDER 20 YEARS	\$5,800	\$5,700	\$6,000
20 TO 24 YEARS	\$14,600	\$14,100	\$14,700
25 TO 34 YEARS	\$33,800	\$34,200	\$34,700

35 TO 44 YEARS	\$40,600	\$41,000	\$43,300
45 TO 54 YEARS	\$41,000	\$40,700	\$41,300
55 TO 64 YEARS	\$32,900	\$33,600	\$33,400
65 YEARS +	\$23,500	\$24,000	\$23,700

Income by education level varies by gender as well. Women require at minimum, a post-secondary certificate to surpass the average income of men with less than a grade 9 education. This partly explains the discrepancies in attendance of PSE between male and female students – while men may ultimately earn higher wages after completing higher education, the initial cost of foregone income is significantly higher.

TABLE 9 – MEN AND WOMEN'S EARNINGS BY EDUCATION LEVEL (2008)<sup>27</sup>

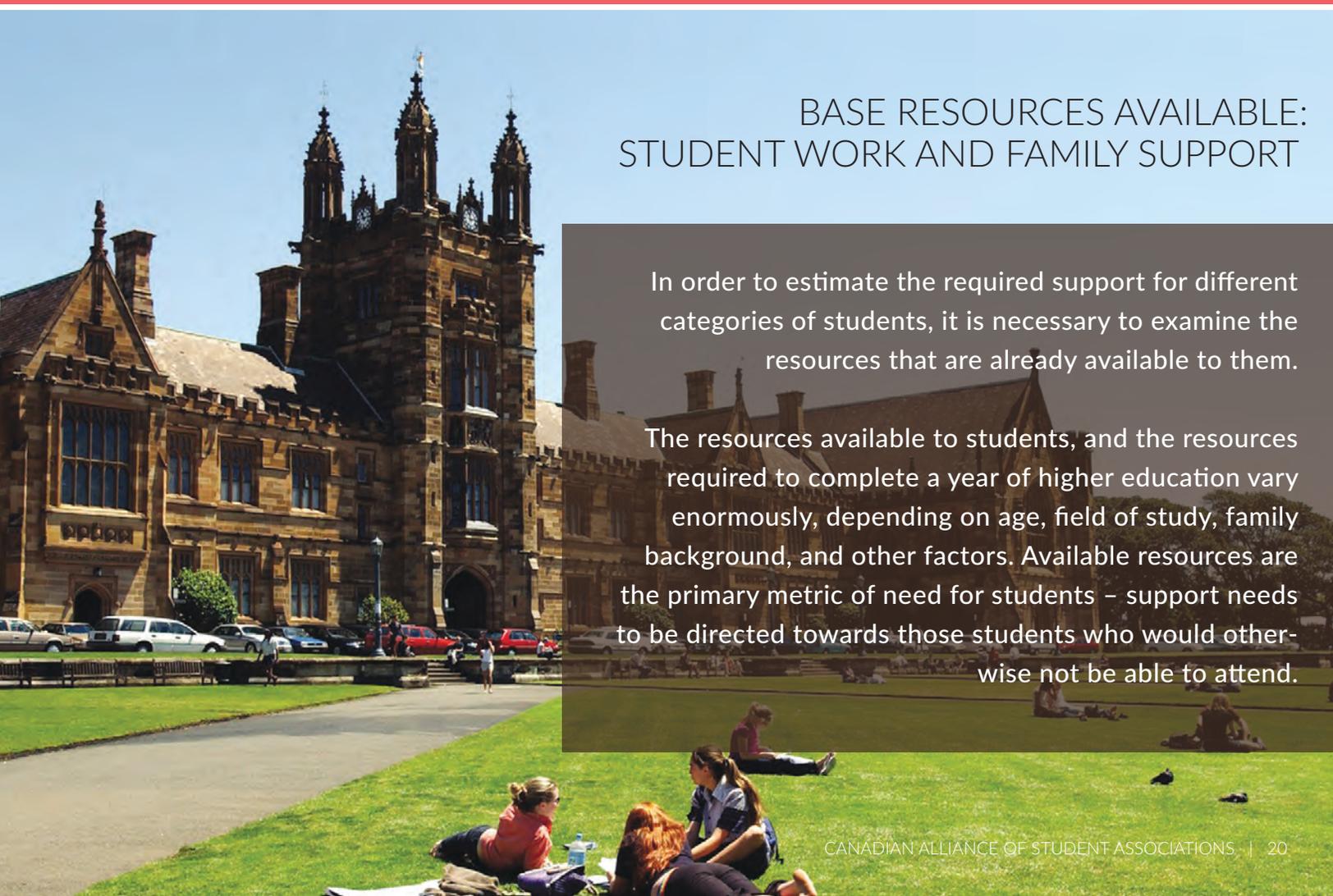
LEVEL OF EDUCATION	WOMEN	MEN
LESS THAN GRADE 9	\$20,800	\$40,400
SOME SECONDARY SCHOOL	\$28,600	\$43,600
GRADUATED HIGH SCHOOL	\$35,400	\$50,300
SOME POSTSECONDARY	\$36,400	\$50,100
POSTSECONDARY CERTIFICATE OR DIPLOMA	\$41,100	\$57,700
UNIVERSITY DEGREE	\$62,800	\$91,800

Loss of income due to attending education depends on a combination of factors. On the one hand, education is sufficiently time consuming that it often prevents the ability to hold a regular job – this effect can be even more pronounced in more intensive and competitive educational programs. At the same time, financial aid is generally dependant on a lack of income as well. Combining work and study with means-tested financial aid limits the flexibility of students to determine the mix of work, loans and study to support themselves.

In order to fully realize the productive potential of the Canadian workforce, the barrier of lost income needs to be minimized, and allowances need to be made in financial aid systems for those students who wish to find their own balance of work and study.

## RECOMMENDATIONS

- ✓ **Ensure that both full-time and part-time students are eligible for grants at low-income and middle-income levels.**
- ✓ **Ensure that loans are available for all students regardless of work status, either in-study or pre-study.**
- ✓ **Eliminate means testing for student loans as much as possible; no testing for tuition loans, and minimal needs testing for living expense, dependant, and distance expenses, and maintaining specific needs testing for student grants.**
- ✓ **Incentivize institutions to offer increased numbers of programs that allow students to complete degree programs while remaining employed.**



### BASE RESOURCES AVAILABLE: STUDENT WORK AND FAMILY SUPPORT

In order to estimate the required support for different categories of students, it is necessary to examine the resources that are already available to them.

The resources available to students, and the resources required to complete a year of higher education vary enormously, depending on age, field of study, family background, and other factors. Available resources are the primary metric of need for students – support needs to be directed towards those students who would otherwise not be able to attend.

There is a wide range of forms of support outside government financial aid or private aid that students might be able to access, either resources they have saved themselves, or available through their families. These are not necessarily equal for all students, even when they are available; some families may provide money freely, while others provide support as a personal loan, in which case the effect may differ. Some families may not allow their children to remain at home, while others may permit it but live too far from an institution for students to commute.

According to Canadian University Survey Consortium (CUSC) surveys of mid-year students,<sup>28</sup> the average financial resources required averaged \$16,059. Furthermore, as age increases, the average amount students require for financing their current year of education increases, from \$14,143 for those 20 and younger to \$26,677 for those 30 and older.

The average student need (based on the CSLP need assessment process, which determines loan amounts) was projected to be \$13,200<sup>29</sup>, closer to the amount required by those in the younger age categories than the older age categories.

In addition to these direct financial resources, many students receive additional support from families by remaining at home during their studies. In their last undergraduate year, about 6 students in 10 are living independently (49% in rented housing, 7% in a home they own, and 3% in on-campus housing), and the remaining 4 live with parents, guardians or relatives.<sup>30</sup>

Most students work to fund their education, either during the school year, during the summer, or through some combination of the two. According to CUSC figures, income from summer and in-study work has only increased slightly since 2003, in amount (summer: from \$4,155 to \$4,469, in-study: from \$3,575 to \$4,060) and percentage of students accessing work (summer work: 39% to 41%, in study: 35% to 37%).<sup>31</sup>

According to CUSC figures in table 10 below, parents and family are the most common source of funding for higher education, and the number of students relying on family has been rising, from 49% to 59% over 9 years, with student receiving an additional \$600 in support over that time.

Family support through RESPs is shown to be increasing as well, from 1% of students reporting RESP income, to 10% in 2012. Government loans is one of the only other categories which has increased steadily across all years, from 31% of students to 38%, although amounts have not changed for nearly 10 years.

TABLE 10 – CUSC DATA (2003, 2006, 2009, 2012 – GRADUATING STUDENT SURVEYS)  
 AVERAGE AMOUNT OF FUNDING (FOR STUDENTS WHO ACCESS THAT SOURCE OF  
 FUNDING), AND PERCENTAGE OF STUDENTS REPORTING FUNDING FROM EACH SOURCE <sup>32</sup>

FUNDING SOURCE	2003		2006		2009		2012	
	\$	%	\$	%	\$	%	\$	%
PARENTS/FAMILY	\$5,653	49%	\$6,390	56%	\$7,086	50%	\$6,273	59%
SAVINGS	\$3,238	34%	\$2,580	44%	\$3,502	30%	\$2,695	50%
SUMMER WORK	\$4,155	39%	\$3,764	41%	\$5,318	41%	\$4,469	41%
GOVERNMENT LOAN	\$8,084	31%	\$8,898	33%	\$8,660	36%	\$8,039	38%
CURRENT WORK	\$3,575	35%	\$3,232	39%	\$3,775	35%	\$4,060	37%
SCHOLARSHIP	\$1,848	35%	\$2,542	29%	\$2,815	37%	\$2,636	28%
PRIVATE LOAN	\$6,362	11%	\$6,856	14%	\$8,157	12%	\$7,497	13%
RESP	\$3,642	1%	\$4,264	5%	\$5,946	7%	\$4,294	10%
CO-OP / INTERNSHIP	\$7,108	5%	\$6,502	6%	\$9,232	5%	\$8,356	9%

According to these trends, while we see increasing numbers of families taking advantage of RESPs, this does not show that these funds are reaching students in need. Other sources of funding, for example paid co-ops and internships, can have a very high impact on finances, but they represent a resource for only a small number of students. Many students participate in some kind of experiential learning, but these figures show that only 5-9% each year are paid.

The largest amounts of funding outside of personal resources come from government loans – private loans are almost equally large, but apply to fewer students. Expanding the current government loan eligibility to those students who otherwise need to turn to private loans would save them money and reduce their risk in attending higher education.

## 2.3 GAPS, RESOURCES, AND SHORTCOMINGS

There are numerous gaps and shortcomings that have been identified in the current allocation of public spending in PSE, based on the uneven distribution of resources among different groups and other socio-economic barriers to attending higher education.

One of the major issues lies in the fact that different groups have different amounts of resources available to them. Despite the positive returns on education, attendance varies depending on a range of factors, both social and economic. Gaps can be seen depending on income level, parental education, community, family type, immigrant status, and aboriginal status. Many of these factors correlate with one another as well. Parents lacking PSE have lower income levels on average, as will families with one parent or those living in rural areas.

The largest gaps are seen in university, rather than college participation rates; in many cases, belonging to an at-risk group correlates with higher levels of college participation. These gaps in achievement have persisted over time, although overall university participation is increasing.

The table below describes the gap in university and college attainment depending on a number of risk factors. All of these factors are associated with a lower chance of attending a post-secondary institution except for immigrant status, which is positively correlated with PSE attendance.

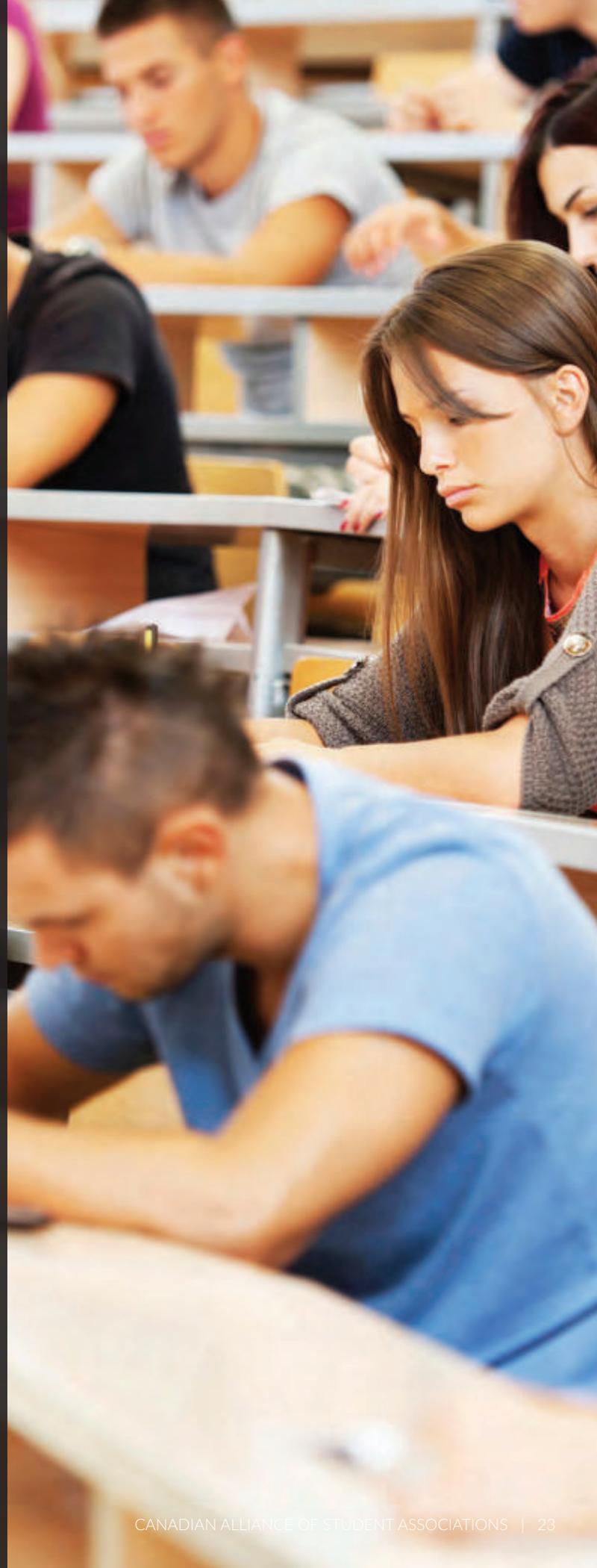


TABLE 11 – OVERALL PSE ATTENDANCE BY AGE 21 (2010), BY VARIOUS CHARACTERISTICS <sup>33</sup>

ALL PROVINCES	COLLEGE	UNIVERSITY	ANY
ALL	33%	41.7%	74.7%
<b>FAMILY INCOME</b>			
INCOME BELOW \$50,000	34.8%	31.4%	66.2%
INCOME GREATER THAN \$50,000	32.1%	46.9%	79%
<b>PARENTAL EDUCATION</b>			
NO POSTSECONDARY	36.6%	24.3%	60.9%
AT LEAST SOME POST SECONDARY	31.5%	49.2%	80.7%
<b>COMMUNITY TYPE</b>			
RURAL	35.5%	31.5%	67%
POPULATION CENTRE	32.3%	44.7%	77%
<b>FAMILY TYPE</b>			
SINGLE PARENT	35.5%	33%	68.5%
TWO-PARENT FAMILY	32.5%	43.5%	76%
<b>IMMIGRATION STATUS</b>			
FIRST-GENERATION IMMIGRANT	29.6%	57%	86.6%
SECOND-GENERATION IMMIGRANT	30%	53%	83%
NON-IMMIGRANT	34.2%	37%	71.2%
<b>ABORIGINAL STATUS</b>			
ABORIGINAL	28%	23.1%	51.1%
NON-ABORIGINAL	33.2%	42.2%	75.4%

Risk factors that reduce the chance of PSE attendance need to be taken into consideration for the provision of any additional support. This is crucial as a measure to reach out to groups that would not otherwise attain PSE. Currently, grant support takes into account economic factors, and these do have a strong correlation with other risk factors, so they can cover the largest part of assisting with attendance. However, they may not fully account for every issue; additional help may be necessary to help in cases of students whose circumstances create greater barriers than financial issues alone, such as distance to higher education, local economic factors, and backgrounds that may face discrimination.



# CHAPTER 3

## MAKING CHANGES TO THE FINANCIAL AID SYSTEM

Considering the challenges to attendance in higher education related to income, there are a number of areas where improvements in financial aid can be made. While Canada currently enjoys a relatively high attendance rate in higher education, we have seen a number of gaps that exist in attendance, linked to issues such as income, parental education, family status, region, and local economic factors. Considerable changes can be made to the current financial aid system in Canada; in both repayable and non-repayable aid.

### 3.1 NON-REPAYABLE AID

Non-repayable aid is understood as any form of financial support directed at students that does not create debt. This comes in public and private forms, whether they are universal needs-based grants, institutional scholarships, private scholarships, or other support originating outside of a student's own resources and family.

#### SPENDING AND IMPACT:

Funds to support students take on a number of forms, from grants to loans, to tax credits. The impact of these will be analyzed later in the paper, to determine which options have the greatest impact on attendance and on completion. In terms of the cost of this category of aid, because each dollar of support is non-repayable, there is no multiplying factor that comes from students repaying the support they receive. Each dollar of support represents one dollar of costs, plus whatever administrative costs are associated with distributing the funds.

#### PROGRESSIVE SPENDING:

Limited available funds mean that money must be allocated carefully. The maximum effectiveness depends on a policy being as progressive as possible, which in turn depends on putting the highest funding into those measures that flow to those that are most in need.

Fully compensating all PSE-related costs for all students would be prohibitively expensive – according to the OECD, there is an average cost of \$56,000-\$58,000 in direct and indirect private costs over the course of a degree, including foregone earnings<sup>34</sup>. Multiplied by all students, this would be an unaffordably high level of spending. This highlights the necessity of focusing payments on those groups where funding would have the greatest impact, and where there is the highest demonstrated level of need.

The following is an overview of all the types of non-repayable aid available in the current system. We show where the gaps exist and how each category of non-repayable aid could be improved.

# 1. CSGP

## OVERVIEW

The CSGP provides income-tested non-repayable grants for students based on their family household income, or other factors affecting attendance in higher education, such as disability or dependants. Currently, there are seven categories:

- ✓ Grant for students from low-income families;
- ✓ Grant for students from middle-income families;
- ✓ Grant for full-time students with dependants;
- ✓ Grant for part-time studies;
- ✓ Grant for part-time students with dependants;
- ✓ Grant for students with permanent disabilities; and
- ✓ Grant for services and equipment for students with permanent disabilities<sup>35</sup>

These grants provide different amounts of aid depending on the category; for example, the grant for low-income families provides \$250/month, while the grant for middle-income families provides \$100/month. While budget 2015 expands eligibility for support to students studying in shorter-duration programs, the amounts have not been adjusted since their inception. These grants replaced the “Canada Access Grants”, “Canada Study Grants” and “Millennium Scholarship Program” systems as of 2009, providing financial support to a larger number of people.

The amount of grants disbursed to Canadian students has increased significantly since 2006, with a total value increasing by over 4-fold – the average at the time was \$1,622 given to 87,368 recipients, increasing to the present level of \$1,947.37 given to 356,892 recipients as of 2012-2013.

\$250 | MONTH

LOW-INCOME  
FAMILIES



\$100 | MONTH

MIDDLE-INCOME  
FAMILIES



TABLE 12 – CANADA ACCESS GRANTS AND CANADA STUDY GRANTS, 2006-2009

	2006-2007	2007-2008	2008-2009
RECIPIENTS	87,368	80,681	84,246
TOTAL ( \$1000S )	\$141,793.30	\$141,759.10	\$147,623.40
AVERAGE GRANT	\$1,622.94	\$1,757.03	\$1,752.29

TABLE 13 – CANADA STUDENT GRANT DISBURSEMENT, 2009-2013<sup>36</sup>

	2009-2010	2010-2011	2011-2012	2012-2013
RECIPIENTS	295,153	320,154	336,173	356,892
TOTAL ( \$MILLION )	\$593.4	\$630	\$646.7	\$695
AVERAGE GRANT	\$2,010.48	\$1,967.80	\$1,923.71	\$1,947.37

## PROBLEMS

Research by the Millennium Scholarship Foundation has found that up-front grants have the greatest impact on student choice, in terms of access as well as completion of study programs<sup>37</sup>. Furthermore, Higher Education Quality Council of Ontario research shows that many students have “greater price sensitivity ... from low-income backgrounds, those with high school-educated parents, Aboriginal students, and boys”, who would be most strongly affected by up-front payments.

The amounts offered by grants are significant, but do not approach the need of most students receiving them, especially after accounting for indirect costs and foregone income – the grant support levels for low income students are \$2,000 per 8-month course of study, or \$8,000 over 4 years. By comparison, students studying away from home face costs from \$14,000 and up per year, significantly higher for mature students, according to CUSC spending surveys.<sup>39</sup>

The remaining balance has to be made up by loans and other financial instruments, as well as income and savings. While the grant amounts do have an impact, it is insufficient to address the divergent attendance rates in higher education from students from different income backgrounds.

In addition, grants for part-time students based on income are limited only to those who meet the qualifications for low-income loans, and the amounts are likewise limited to \$1,200 per year, or roughly \$100/month. Others are available for students with dependants, or disabilities studying part time, but not related to income. Middle-income part-time students are eligible to receive loans, but not grants. This creates a hurdle for students who wish to continue working while attending school part-time.

## ANALYSIS

The CSGP is the most progressive and highest-impact area of direct spending on post-secondary student finance. Funding levels do not reflect the potential impact of the program. No increase has been applied to support levels since 2009, despite increasing costs in PSE each year.

Support levels for the CSGP need to be substantially increased; focusing funds on lower-income and middle-income students would more effectively address the needs of those students with the highest barriers to education, and have a significant impact on attendance among income levels that are under-represented in higher education.

In addition to existing needs-based grants, grants addressing other aspects of financial need can be added, such as those for students from regions with economic difficulties, students who live further from learning institutions, and students from vulnerable populations



## RECOMMENDATIONS

- ✓ **Expand grants in terms of amount and range of qualifying incomes, based on total funds available from reallocations from less progressive funding mechanisms, and ensure that grant amounts are disbursed to all students with need.**
- ✓ **Add additional streams to the CSGP for students who may face additional barriers to education, such as rural students, first generation students, and students from economically depressed regions.**
- ✓ **Expand income-based part-time grants to middle-income students, instead of being restricted to low-income students alone**

## 2. UNIVERSAL GRANTS – TUITION REDUCTIONS AND INCREASES

### OVERVIEW

Tuition in a sense represents a “negative grant”, and like all grants, it has a similar, though opposite effect; it occurs up-front, and reduces the ability of many low-income students to attend, while having less impact on students who are more well-off and who have stronger connections to education. According to research from Wilfred Laurier University, a \$1000 change in tuition costs is associated with a change in enrolment of 2-5 percentage points, with greater effects on lower income students, and less effect on higher income students<sup>40</sup>. Any financial measure that applies equally to all students, whether it comes in the form of an expense or a grant, would be expected to have similar effects.

### PROBLEMS

Increasing or decreasing tuition across the board represents a positive or negative change in costs to all students. A similar effect would be seen in providing a grant that applies equally to all students. The distribution of attendance in higher education based on family background<sup>41</sup> shows college attendance at 34% for families with income below \$50,000 and 32% for those above 50,000, while university attendance is 31% for families with lower income, and 47% for those with higher income. A reduction in tuition for colleges would go equally to students from different backgrounds, while changes in universities would go primarily to students from higher-income backgrounds.

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DISTRIBUTION OF ATTENDANCE IN HIGHER EDUCATION BASED ON FAMILY BACKGROUND SHOWS COLLEGE ATTENDANCE AT:



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Universal grants, whether in the form of upfront money or tuition reductions given to all students, regardless of need, would represent a less-progressive measure in terms of spending impact, but would enjoy the advantage of avoiding issues of requiring means testing. These kinds of universal grants/tuition reductions for colleges would be more progressive in impact than for universities, due to the more representative attendance at those institutions, shown in the Statistics Canada data.

Universal grants do have certain advantages; by applying equally to all students, there is no requirement for establishing qualifications that might be an issue for students from different backgrounds. We see the negative effects of increasing tuition significantly, for example, reducing attendance among middle-income students who have neither the direct financial resources available nor access to more generous forms of student aid.<sup>42</sup>

# ANALYSIS

Focusing financial aid on low-income students would have a greater impact than non-targeted changes in two senses – first, more high-income students would be positively affected by universal changes than low-income students, and secondly, high-income students are less likely to have their choices affected by changes to up-front financial factors.

Tuition within the realm of affordability for middle class families does not by itself create a barrier for students. Increases to tuition need to be kept limited to that level of affordability, however. Otherwise aid should be targeted; increasing untargeted aid can be justified in cases of institutions where attendance is mainly lower-income.

## 3. TAX CREDITS

### OVERVIEW

The Tuition Tax Credit is a measure which allows money spent on tuition to be claimed on taxes as a non-refundable credit, in addition to several other credits related to a basic “education amount”, and “textbook amount”. The credit equals tuition fees, plus \$400/month for full-time, or \$120/month for part time in education amounts, and \$65/month for full-time and \$20/month for part time in textbook credits. These credits are applied against income at the lowest tax bracket for federal income tax<sup>43</sup>. There are a number of other tax measures that apply to education as well, such as RESP tax expenditures, apprentice mechanic’s tools credits, and student loan interest credits. This analysis focuses mainly on the Tuition Tax Credit, the largest component of tax spending on education.

Tax credits are a major component of educational funding in Canada. In total, these amount to nearly \$2 billion in spending. Of this amount, over \$1.7 billion is in the form of Tuition Tax Credits<sup>44</sup>. These expenditures are not based on need, but apply based on a percentage of tuition – 15% since 2006<sup>45</sup>. All students have access, but only students or parents earning a sufficient level of income are able to collect on the tax credits themselves, due to their non-refundable status.

The detailed breakdown in spending is seen on the table below, which demonstrates the high level of spending on certain measures such as the Tuition Tax Credit, as well as the significant percentage of that credit which is either transferred or carried forward, rather than being cashed in by the students who earned it:

TABLE 14 – COST PER YEAR OF TAX CREDITS ASSOCIATED WITH HIGHER EDUCATION

EDUCATION TAX CREDITS (\$ MILLIONS)	2008	2009	2010	2011	2012	2013
ADULT BASIC EDUCATION—DEDUCTION FOR TUITION ASSISTANCE	\$5	\$5	\$5	\$5	\$5	\$5
APPRENTICE VEHICLE MECHANICS' TOOLS DEDUCTION	\$4	\$5	\$4	\$4	\$4	\$4
EDUCATION TAX CREDIT	\$220	\$200	\$200	\$200	\$200	\$205
TEXTBOOK TAX CREDIT	\$36	\$33	\$32	\$32	\$32	\$33
TUITION TAX CREDIT	\$255	\$255	\$270	\$285	\$305	\$320
TRANSFER OF EDUCATION, TEXTBOOK AND TUITION TAX CREDITS	\$485	\$520	\$535	\$565	\$570	\$570
CARRY-FORWARD OF EDUCATION, TEXTBOOK AND TUITION TAX CREDITS <sup>46</sup>	\$540	\$480	\$545	\$615	\$155	\$145
EXEMPTION OF SCHOLARSHIP, FELLOWSHIP AND BURSARY INCOME	\$41	\$39	\$40	\$43	\$44	\$44
REGISTERED EDUCATION SAVINGS PLANS	\$155	\$165	\$160	\$165	\$155	\$145
STUDENT LOAN INTEREST CREDIT	\$63	\$44	\$41	\$42	\$43	\$45
<b>TOTAL</b>	<b>\$1,804</b>	<b>\$1,746</b>	<b>\$1,832</b>	<b>\$1,956</b>	<b>\$2,018</b>	<b>\$2,041</b>
TUITION TOTAL (DIRECT, TRANSFER, CARRY-FORWARD)	\$1,500	\$1,455	\$1,550	\$1,665	\$1,735	\$1,765

In total, all tax credits for education collectively represent \$2 billion in annual spending, of which \$1.7 billion is for the tuition tax credit alone as of 2013.

## PROBLEMS

Tax credits in their current form represent a “universal grant”, though with several limitations. They increase based on the program cost rather than being equal for all students, so those attending the most expensive programs get the most benefit. They occur after the school year rather than before, meaning students are still required to look elsewhere for the up-front money to be spent education. They also depend on the student or parents having a sufficiently high income to use the credits.

Any tax credit recipient who cannot use the credits in the year they are earned carries them forward instead of being able to benefit, thus receiving no benefit at all in the year they are earned.

According to research from the Canada Millennium Scholarship Foundation, “there is no evidence that tax credits increase enrolments in post-secondary education” They also state that “because university students are disproportionately likely to come from well-off families and to have relatively high incomes themselves after graduation, spending on the tax credits goes disproportionately to relatively wealthy families and individuals.”

Tax credits have all of the problems identified previously with any universal grant; they apply equally to all students regardless of income, which means that most students benefitting are from higher income levels. Of \$1.7 billion in spending on tax credits earned each year, nearly \$670 million is carried forward, giving no benefit at all to the students requiring financial support in the present.

## ANALYSIS

Tax credits are one of the largest expenditures on student aid, while at the same time being one of the least effective expenditures in terms of actually supporting access to higher education among students who would not otherwise attend. The beneficiaries are not the students who need support to attend, and those that do lack income cannot take full advantage. The amount spent on this ineffective program is greater than the funding for the entire loan and grant systems put together, yet with negligible impact on the ability of students to attend university or their financial outcomes afterwards.

The \$1.7 billion in tuition tax credits could be reallocated towards more effective measures. Dividing it 50/50 between loans and grants would represent an additional \$850 million in grants, thus more than doubling the support from that system. It would also represent an additional \$2.5 billion in loans, or a lower amount of loans coupled with lower interest rates and improvements to repayment assistance.

## RECOMMENDATION

- ✓ **Eliminate the current system of tax credits, and reallocate the \$1.7 billion in funding towards an expansion of the current grants and loans programs.**

## 4. RESPs

### OVERVIEW

The RESP system is designed to encourage parents to set aside income now to later fund their children's education. There are three major spending areas in this program: the tax expenditure on savings, an education savings grant, and the CLB.

RESPs have existed since the 1970s as a mechanism for encouraging Canadian families to save for education. RESPs provide a savings account for money towards future education.

They are also linked to the CESG, which provides "a minimum 20% grant on the first \$2,500 of annual contributions made for a child in an RESP. Higher CESG rates (30-40%) apply to the first \$500 of savings made for children from low- and middle-income families."<sup>47</sup>

According to Employment and Social Development Canada (ESDC), 2.52 million beneficiaries received the CESG in 2013. Of these beneficiaries, 1.66 million children received the Basic CESG while 860,000 children received both the Basic and Additional CESG.

For low-income families, the government also provides the CLB – unlike the CESG, this is specifically targeted at low-income families, those who are eligible for the National Child Benefit Supplement. This measure provides:

- ✓ \$25 to help cover the cost of opening the RESP;
- ✓ \$500 to add to the RESP now, to help families start saving early; and
- ✓ An extra \$100 each year until the calendar year the child turns 15.<sup>48</sup>

While the CLB does not require matching savings and does target low income families, the other measures increase based on the amount of money a family is able to set aside, which increases the impact to higher income families.

The total cost of the RESP programs as currently structured are detailed below; the total spending amounts to \$1 billion per year, with \$782 million allocated to the CESG, \$101 million to the CLB, and \$145 million from tax expenditures.



## TABLE 15: ANNUAL COSTS OF THE RESP AND OTHER SAVINGS PROGRAMS

Tax Expenditures \$145 million in 2013 (projected)<sup>49</sup>

ITEM COST ( \$MILLIONS )	2011	2012	2013
RESP TAX EXPENDITURE <sup>50</sup>	\$165	\$155	\$145
CANADA EDUCATION SAVINGS GRANT <sup>51</sup>	\$716	\$753	\$782
CANADA LEARNING BOND	\$79	\$99	\$101
<b>TOTAL</b>	<b>\$960</b>	<b>\$1,007</b>	<b>\$1,028</b>

## PROBLEMS

According to ESDC figures, of 2.52 million beneficiaries receiving the CESG, only 860,000 came from low and middle-income families, and the remaining 1.66 million originated from high-income families (income over \$87,123 per year).

Overall, the CESG reported a 47.1% participation rate, while the CLB for low-income children reported a participation rate of 29.4%<sup>52</sup>. If the CLB reached 100% of eligible recipients, the total spending on that measure would have equalled \$343 million rather than the actual \$101 million.

According to an analysis by the C. D. Howe institute<sup>53</sup>, the primary economic effect of RESPs is to add needless complexity to Canada's tax system. Further, CESG payments end up disproportionately in high-income households. These payments do nothing to improve access to PSE for Canadians from disadvantaged backgrounds.

## ANALYSIS

The money spent on CESG measures does not appear to create additional benefits for students who do not have sufficient resources, and could be productively spent elsewhere to directly benefit students in need. CESG expenditures represent over \$700 million in spending; for a similar amount, grant programs could be significantly increased in terms of disbursements, or broaden the eligibility requirements. Loans could be increased or additional repayment aid measures could be supported, or some combination of both.

The CLB payments, however, only reach less than 1 in 3 youth who qualify. Steps should be taken to ensure this measure reaches 100% coverage of eligible youth, through streamlining applications or

creating a system of automatic enrolment – this measure would increase spending on this program to \$343 million from \$101 million, but would create an early intervention that would support PSE attendance for 1.3 million youth.<sup>54</sup>

RESP tax measures can be preserved, due to the relatively low cost of those programs; while they would still favour higher income families, it is a smaller expenditure in exchange for the funds set aside for higher education than the expenditure on other measures.

## RECOMMENDATIONS

- ✓ **Create a system of automatic enrolment into the CLB based on family income and number of dependants, using the tax filing system, with credits that carry forward and can be cashed into RESP funds for low income Canadians at any later date.**
- ✓ **Eliminate payments to the CESG, and reallocate the funds towards the CLB and other upfront grant and loan systems.**

## 5. SCHOLARSHIPS AND BURSARIES

### OVERVIEW

Scholarships are used by many groups, and represent an important upfront source of funding for many students. They serve a dual purpose, both to support access to higher education and to meet the strategic recruitment goals of universities and attract high-achieving students. These are distinguished from needs-based funds or bursaries, given to students who lack the means to pay for school on their own.

Institutional scholarships differ from federal programs in that they are funded through the operating budgets of institutions themselves. As a consequence, money dispersed through institutional scholarships is money that is gathered through student fees already, among other sources.

Scholarships are a common feature of university education. According to the Canadian Association of University Business Officers, universities and colleges spend approximately \$1.7 billion on scholarships and bursaries for students<sup>55</sup>. This amount is similar to spending on tuition tax credits, one of the other largest expenditures on post-secondary student funding in Canada.

Some scholarships are “merit based” – that is, they are given to students based on particular qualifications, such as extraordinary ability in a particular subject, or high grades in secondary school. Other awards are “needs-based”, depending on the financial situation of the student receiving them.

The proportion of merit-based scholarships versus needs-based bursaries is difficult to determine. As of 2001, universities reported approximately \$100 million in merit scholarship funding<sup>56</sup>, while universities disbursed roughly \$348 million in total scholarships that year<sup>57</sup>, giving an estimate of approximately 1/3 of spending directed towards merit-based scholarships. A study in 2008, according to the Higher Education Quality Council of Ontario, shows that nearly half of all scholarships were merit-based rather than needs-based.<sup>58</sup>

According to data from 2004, the main categories for merit-based scholarships are “Academic”, “Automatic Academic”, and “Extra curricular”, and the smallest were “Talent” and “Athletic.”<sup>59</sup>

## PROBLEMS

These scholarships have a positive impact for institutions in terms of attracting desirable students – students receiving merit-based aid anticipate greater likelihood of degree completion, higher grants for honours students, and more affluent alumni.<sup>60</sup> Their impact on equity and access, however, is questionable. University spending on scholarships are frequently merit-based, using high school grades. However, precise numbers on the breakdown of criteria for merit is difficult to acquire.

According to research, there is “a basic body of evidence documenting that students from disadvantaged households on average perform less well in [secondary] school than those from more advantaged families.”<sup>61</sup> In Canada, students in the 5th percentile of economic, social and cultural status (based on combined parental education, income and occupation) on average scored less than 400 on the OECD “Programme for International Student Assessment” (PISA) index, while students in the 95th percentile on average scored over 600, a difference of nearly 2 standard deviations from the OECD average of 500.<sup>62</sup>

This is supported by data from the government of Ontario during the period of 1994-2005, tracking participation rates in higher education<sup>63</sup>. Entry awards do appear to influence the distribution of students across Ontario universities, in that higher costs increase the ratio of students from high-income neighbourhoods to students from low-income neighbourhoods. In terms of promoting student success once in school, there is little evidence to support the idea that awards conditional on grades assist students, according to research from HEQCO:<sup>64</sup>



*Further, neither set of regression estimates offer much support for the proposition that entrance scholarships and bursaries have sizable impacts on any of our university outcomes. The principal benefit to universities of these forms of financial aid seems to be that they attract stronger students to the university.*

*From the data, we can see that at a systematic level, increasing amounts of merit-based scholarships may risk discouraging students from lower income levels with average grades from applying to university at all, even if they do tend to assist students from lower income families who have strong academic performance.*

## ANALYSIS

Precise numbers on the breakdown of merit criteria are not available. Estimates on the proportion of merit-based scholarships, as a proportion of all awards, range from 1/3 to 1/2, with little aggregated detail on the net effects of that spending, despite the significant amounts of funding involved.

Information on specific statistics pertaining to spending on scholarships is sparse, and increased levels of disclosure should be encouraged to better measure impact and effectiveness. More detailed studies on the amounts and effects would be required to determine whether the current level of spending is justified.

If public funds taken from university operating budgets or student tuition are going to be used to fund scholarships, the benefits need to flow to the public, not to the institutions own competition with one another. Increasing funding for scholarships based on merit has benefits to institutions, but little benefit to society as a whole.

## RECOMMENDATIONS

- ✓ **Create a review of scholarship spending in Canada, to examine the impact of scholarship spending on accessibility, and examine to what degree merit-based scholarships versus needs-based bursaries increase enrolment for under-represented groups.**
- ✓ **Mandate the regular publication of data on scholarship spending, including breakdown by qualification factor, income levels, and retention rates of scholar-**

Overall, the current system of non-repayable aid requires substantial revisions, so that we can better align spending with the actual effectiveness of different programs. These changes could direct substantial amounts of funding towards those students who demonstrate genuine need, and improve their chances of completing PSE and contributing to the Canadian economy.

In addition to non-repayable aid however, changes to repayable aid need to be considered as well; that category of funding applies to a higher fraction of the total funds available to students, especially for those in the middle-income categories.

## 3.2 REPAYABLE AID

Repayable aid makes up the next portion of the overall financial assistance provided by the government of Canada. This part touches more on the affordability component of PSE. The affordability of debt depends on several factors. These include the repayment options, interest rates, as well as the income of the debtor after graduation. For students with high incomes after graduation, even substantial debts may not pose a major hurdle; for students with low incomes, even modest debts may inflict hardship. A deeper look at the issue of debt is warranted at this point.

### OVERVIEW OF PUBLIC/PRIVATE DEBT

#### CSLP

This is the main system of providing students with credit offered by the government of Canada, and is run in conjunction with the CSGP. There are numerous advantages to this program, namely the fact that aid is interest-free while in-study, it offers longer repayment periods as well as RAP options, and it is cost effective in terms of public funding. In terms of weaknesses of this program, there are limited funding levels that do not meet the full needs of students, debt aversion among low income students, and restrictions on funding for students who are from higher income backgrounds but who are not receiving the assumed levels of support from their families.

#### PRIVATE LOANS

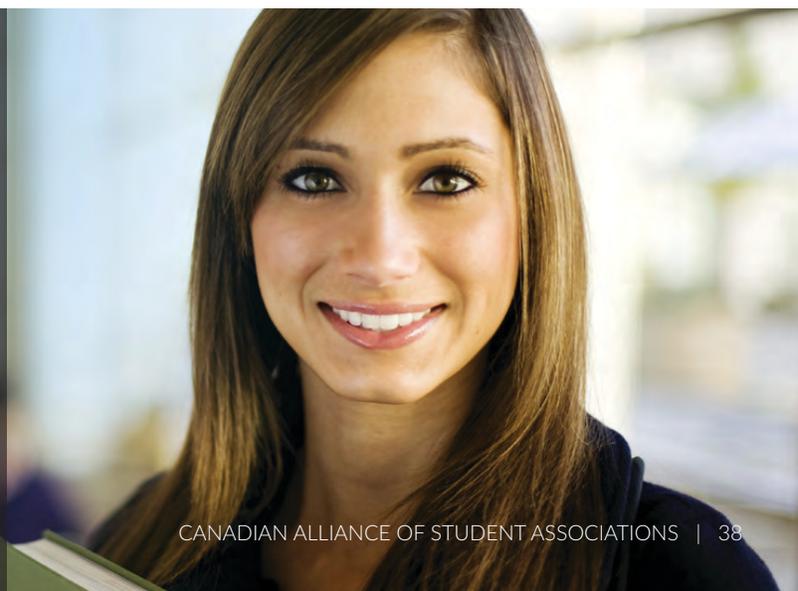
These are provided through banks, and while they often have comparable interest rates, they lack the interest-free period of federal students loans.<sup>65</sup> This means students can owe 4 or more years of interest before they begin repayment. These lack income-contingent repayment options and have a higher chance of forcing students into bankruptcy. They often supplement government loans, and allow students to access more money than they otherwise would.

#### CREDIT CARD DEBT

Credit cards are aggressively marketed on college campuses, and have little-to-no application process required. They provide an easily accessible source of funds for students without regard to need. These represent a very expensive form of debt, with interest rates that can overwhelm student finances, but in some cases they are the only options available to students.

### OVERVIEW OF DEBT LEVELS

Estimates for the average student debt levels, for those students who have borrowed money, are around \$24,000-\$26,000.<sup>66</sup> There are significant variations between minimum and maximum levels depending on student background and program. Government debt levels have been approximately stable for the last 10 years, due in large part to government support levels remaining capped for that time period.



There has been a significant expansion in private debt levels during that period, ranging from parental contributions to credit card debt. From 2010 to the present, general private debt levels have risen by over \$4,000 for university graduates, and \$1,700 for college graduates. Between 2002 and 2011, credit card debt levels for students carrying a balance more than tripled, from \$1,000 to \$3,700.

For “family debt”, only a minority of support from families tends to come in the form of loans – according to CASA/Abacus Survey data, only about 37% of parents gave support to their children in the form of a loan, while 77% directly paid for tuition and 79% paid for living expenses.<sup>67</sup>

### TABLE 16 – CUSC DATA (2012 – GRADUATING STUDENTS)<sup>68</sup>

## PERCENTAGE OF STUDENTS REPORTING EACH CATEGORY OF DEBT

59% OF STUDENTS REPORT DEBT

43% REPORT GOVERNMENT STUDENT LOANS

17% REPORT PRIVATE FINANCIAL INSTITUTIONS

18% REPORT FAMILY LOANS

## PERCENTAGE OF STUDENTS HOLDING DEBT, BY AGE CATEGORY

49% OF STUDENTS UNDER 20

71% OF STUDENTS 25-29

65% OF STUDENTS 30+

## AVERAGE DEBT BY AGE AND DEBT STATUS

AVERAGE DEBT OF ALL STUDENTS: \$14,453

AVG. DEBT OF STUDENTS OWING MONEY: \$24,579

\$19,546 FOR STUDENTS 20 AND UNDER

\$32,499 FOR STUDENTS 30 AND OVER

## SOURCES OF DEBT

GOVERNMENT STUDENT LOANS: 62% OF ALL DEBT

FINANCIAL INSTITUTIONS: 17% OF ALL DEBT

FAMILY LOANS: 18% OF ALL DEBT

OTHER SOURCES: 3% OF ALL DEBT

TABLE 17 – AVERAGE DEBT LEVELS BY SOURCE 2003-2012 (CUSC DATA)<sup>69</sup>

SOURCE	2003	2006	2009	2012
GOVERNMENT	\$8,210	\$8,327	\$9,200	\$9,138
PRIVATE	\$2,677	\$2,528	\$2,980	\$2,521
FAMILY	\$2,298	\$2,475	\$2,646	\$2,376
OTHER	\$572	\$428	\$615	\$419
TOTAL	\$13,757	\$13,758	\$15,441	\$14,454

Statistics Canada findings are broadly in agreement with CUSC figures, both in terms of the patterns and levels of debt among students. Both show that levels of debt have been rising at a slow pace, but there is an increase in incidence and levels of private debt among students. This is consistent with the observed trend by ESDC of increasing numbers of students with unmet need, estimated to reach 41% of Canada Student Loan Borrowers by 2015<sup>70</sup>

As more students reach the limit of funds available through public sources, increasing numbers are seen to be turning to other private sources, namely banks and credit cards.

The following tables describe the current levels of use between students turning to government debt, non-government debt, and both sources. Those who owe the most turn to multiple sources of debt, owing more than double the amount of those who depend on government aid alone.

TABLE 18 – STATISTICS CANADA FIGURES ON STUDENT DEBT (2014 NATIONAL GRADUATE SURVEY) <sup>71</sup>

SOURCE	COLLEGE	BACHELOR	MASTER	DOCTORATE
ALL DEBT	\$14,900	\$26,300	\$26,600	\$41,100
GOVERNMENT ONLY	\$13,300	\$21,700	\$19,300	\$21,200
NON-GOVERNMENT ONLY	\$9,400	\$14,300	\$22,800	\$22,100
BOTH	\$26,700	\$44,200	\$43,900	\$77,500

TABLE 19 – INCIDENCE OF STUDENT DEBT (2014 NATIONAL GRADUATE SURVEY) <sup>72</sup>

SOURCE	COLLEGE	BACHELOR	MASTER	DOCTORATE
ALL DEBT	42%	50%	44%	41%
GOVERNMENT ONLY	20%	25%	19%	18%
NON-GOVERNMENT ONLY	13%	12%	14%	9%
BOTH	9%	14%	11%	14%

One area of significant increase is dependence on credit cards; while the incidence rate of using credit cards has varied, the amount owing for students carrying a balance has grown considerably. Due to the high interest rates and lack of repayment options, this is the riskiest form of debt for students to take on.

TABLE 20 – CUSC DATA (2011 – CURRENT UNDERGRADUATE STUDENTS)<sup>73</sup>

Students with credit cards, number carrying a balance, and average balance

YEAR	% W/ CC	% W/BALANCE	AVG. BALANCE
2002	66%	30%	\$1,000
2005	70%	27%	\$2,500
2008	65%	22%	\$3,000
2011	75%	20%	\$3,700

CSLP data shows that an increasing number of students receiving CSLP are already at the maximum assistance levels. As of 2013, the figure is roughly 1/3, or 33.6% of CSLP applicants. This figure is expected to increase each year that CSLP maximums remain the same. The following table shows the predictions as to how many students will be reaching maximum assistance levels in the years to come, as well as the estimated unmet student need for the same time period.

TABLE 21 – 2011 CANADA STUDENT LOANS ACTUARIAL REPORT ON MAXIMUM ASSISTANCE LEVELS REACHED AND ESTIMATED STUDENT NEED<sup>74</sup>

ACADEMIC YEAR	PERCENTAGE OF STUDENTS AT MAXIMUM ASSISTANCE LEVELS
2010-2011	29%
2011-2012 ( ESTIMATED )	31.2%
2012-2013 ( ESTIMATED )	33.6%
2020-2021 ( ESTIMATED )	53.7%
2030-2031 ( ESTIMATED )	75%

In order to deal with the increasing number of students reaching the limit of loan amounts, the limits will have to be increased to compensate.

# OVERVIEW OF REPAYMENT

## REPAYMENT PROFILES

The ability to repay debt is a key measurement of the success of an education in financial terms, creating the capacity to find employment and repay debt. Depending on the debt level, interest rates, and employment income students experience different levels of difficulty in either repaying successfully or not.

## DEBT SERVICING COSTS

Measuring the relationship between debt and income shows the burden of repayment for different students. According to Statistics Canada, debt servicing costs are defined as “debt payments as a percentage of income, a measure commonly used in determining the extent to which student debt payments represent a burden on an individual”<sup>75</sup>

Statistics Canada defines “high” debt service ratios as representing 8% of income or higher; this is an approximation however, and does not account for the more severe impact of debt payments on lower-income Canadians, who have less income available after paying for necessities.

The following table illustrates the different patterns of debt burden observed in graduates of different types of programs. Increasing levels of debt are not the only relevant factor when it comes to the burden of repayment; the income of a debtor is a significant factor as well.

TABLE 22: AVERAGE DEBT ON GRADUATION AND DEBT BURDEN BY TYPE OF DEGREE

SOURCE	DEBT AT GRADUATION	DEBT IN 2012	INCOME IN 2012	RATIO OF PAYMENT TO INCOME
COLLEGE	\$16,000	\$1,200	\$36,800	6%
BACHELORS	\$24,900	\$16,300	\$46,500	6%
MASTERS	\$23,700	\$16,000	\$55,600	5%
DOCTORATE	\$25,400	\$17,700	\$81,700	4%

Despite having the highest average debt levels, doctorate students wind up with the lowest debt servicing ratios on average – likewise, college and bachelors students have the highest debt servicing ratios. Between both college students face higher practical levels of debt burden, owing to the fact that they owe 6% of a smaller total income compared to university students.

Within these categories, there is significant variation between the high and low end of debt levels, as well as variation in incomes. Not all graduates earn the same income, nor do all graduates owe the same amounts.

The following table describes the debt servicing ratio of graduates in the top 75th percentile of debt servicing ratios for different debt levels.<sup>76</sup>

**TABLE 23: DEBT SERVICING RATIOS FOR GRADUATES WITH MEDIUM AND HIGH DEBT LEVELS, BY LEVEL OF QUALIFICATION ACHIEVED**<sup>77</sup>

SOURCE	% OF DEBTORS FROM \$10,000 TO \$25,000	DEBT SERVICING RATIO	% OF DEBTORS OVER \$25,000	DEBT SERVICING RATIO
COLLEGE	46%	10%	14%	9%
BACHELORS	36%	7%	39%	13%
MASTERS	44%	5%	34%	10%
DOCTORATE	45%	5%	35%	10%

While the highest debt levels are found amongst masters and doctorate students, the highest debt servicing ratios among high-debt graduates are found among bachelors and graduates. In the middle debt range, the highest debt servicing ratios are among college students.

The proportion of debtors who have repaid after three years varies depending on the amount of debt and the degree earned; the highest rates of repayment are found among graduates with masters level education, and the lowest levels of debt. The lowest percentages are found among college students with medium debt levels and any university graduates with high debt levels.



TABLE 24: PERCENTAGE OF GRADUATES WHO REPAID THEIR DEBT AFTER THREE YEARS <sup>78</sup>

SOURCE	SMALL DEBT (LESS THAN \$10,000)	MEDIUM DEBT (\$10,000 TO \$24,999)	LARGE DEBT (\$25,000 OR MORE)
COLLEGE	48%	19%	N/A
BACHELORS	53%	29%	25%
MASTERS	67%	39%	29%
DOCTORATE	54%	31%	26%

Based on these findings, it is clear that overall debt levels for college students currently exceed the financial benefits of the qualifications they are given on average, and an overall reduction in their debt levels would help those qualifications to equal the value of other degrees. Meanwhile, university undergraduate and graduates with the highest debt levels likewise face repayment difficulties.

### PUBLIC LOAN DEFAULT AND PRIVATE LOAN BANKRUPTCY PENALTIES

Students with unsustainable debt levels face different challenges depending on whether their debts are public or private.

Students facing bankruptcy on private debts face a long list of penalties – including loss of credit rating, losing control over assets, and other issues<sup>79</sup>. Public loans in default face action from the Canada Revenue Agency and potential garnishment of tax refunds and wages, in addition to stress and contact from credit collection agencies.<sup>80</sup>

The promise of education is that it should lead to increased income and employment stability; minimizing or eliminating these penalties supports fairness in the system for those who have not enjoyed the benefits promised through schooling. It also leads to less pressure on those living in regions with depressed economic conditions that may displace them into other regions, and deprive economically depressed regions of much needed talent.

### CSLP DEFAULT RATES BY INSTITUTION AND DEGREE TYPE

The repayment rates for loans vary greatly based on the type of degree, though the amount of debt owed had an effect on the chance of default as well. University undergraduate and graduate students had the lowest overall chance of default, while students attending private institutions for non-degree programs had by far the highest default rates in nearly every category.

TABLE 25: CSLP DEFAULT RATES BY INSTITUTION AND DEGREE (2010-2011 DATA)

CSL BALANCE AT COMPLETION OF STUDIES	2010-2011
LESS THAN \$5,000	20%
\$5,000-\$9,999	22%
\$10,000-\$19,999	15%
\$20,000-\$29,999	10%
\$30,000 AND OVER	10%
TOTAL DEFAULT RATE	14%

2010-2011			
CANADA STUDENT LOAN BALANCE AT COMPLETION OF STUDIES	UNIVERSITY	COLLEGE	PRIVATE INSTITUTION
LESS THAN \$5,000	14%	22%	26%
\$5,000-\$9,999	12%	21%	32%
\$10,000-\$19,999	9%	16%	28%
\$20,000-\$29,999	8%	15%	19%
\$30,000 AND OVER	10%	12%	10%
TOTAL	10%	17%	26%

CANADA STUDENT LOAN BALANCE AT COMPLETION OF STUDIES	NON DEGREE	UNDERGRADUATE	GRADUATE
LESS THAN \$5,000	23%	14%	6%
\$5,000-\$9,999	27%	13%	2%
\$10,000-\$19,999	21%	10%	4%
\$20,000-\$29,999	17%	9%	5%
\$30,000 AND OVER	12%	11%	7%
TOTAL	21%	10%	6%

According to the report prepared by the Social Research and Demonstration Corporation for ESDC entitled "Predicting Student Loan Delinquency and Default: Final Report (March 2013)"<sup>82</sup>, a number of trends have been identified in terms of factors leading to higher default rates:

- 1) In Canada, Kapsalis (2006) found that CSLP borrowers with a student debt \$20,000 and over were about 20 per cent more likely to default than those with less debt, unless annual income was \$40,000 or over. Similarly, Schwartz, and Finnie (2002) found that an extra \$1,000 in loans increased the probability of reported difficulties in repayment by 5% for women and 7% for men in Canada.
- 2) Institutional characteristics, such as the field of study, type of institution, and level of study are related to repayment. Academic performance, age, gender, and socio-economic background are all predictors of delinquency and default. Default risk is also found to be increasing with debt burden. To the extent possible with recent, available Canadian data, this study confirms that these static factors are indeed related to both delinquency and default.
- 3) The CSG-LI and CSG-MI (\*Canada Student Grants) were associated with substantially lower default rates, even though their relations with delinquency were smaller and mixed.
- 4) First, loans with longer than the standard 114 month-term were less likely to be defaulted, likely because of the lower repayment amount per month. Extending repayment periods (to up to 15 years) is the first change suggested to borrowers who find it difficult to repay their loan. Second, RAP was effective in reducing loan default.



Considering the patterns in default, the key measure for reducing the burden of student loans turns out to go beyond simply reducing the loan amounts. No matter how low these amounts might be, employment is the key predictor of default – and no matter how high loan amounts might be, improved hiring outcomes generally more than compensate for students with advanced degrees.

## RECOMMENDATIONS

- ✓ **Limit the maximum debt levels for students based on the number of years of study in their program.**
- ✓ **Focus additional assistance through programs such as RAP on students with no employment or low-income employment.**

## REPAYMENT ASSISTANCE

RAP assists students with repayment of loans after graduation. This plan ensures that graduate repayment schedules do not exceed 20% of gross family income, through reduced payments<sup>83</sup>. This is one of the main mechanisms for reducing defaults; since the introduction of this plan, default rates have remained steady at approximately 14%.

Here are the basic repayment mechanisms under RAP

- ✓ At stage 1 the government covers interest that is not covered by the borrower's payment.
- ✓ At stage 2, the government covers all parts of the payment not covered by the borrower's income.
- ✓ RAP- permanent disability applies to borrowers with a permanent disability.
- ✓ Approximately 90% of RAP users are not required to pay anything at all, while 10% make an affordable payment<sup>84</sup>

The following table demonstrates the status of RAP applicants after one year. In approximately half of cases they have returned to regular payment, which indicates success in the program, and the financial difficulties generally being temporary for most applicants.

TABLE 26: APPLICANT STATUS 1 YEAR AFTER USING RAP

	TOTAL	UNIVERSITY	COLLEGE	PRIVATE
RETURN TO SCHOOL	5%	-	-	-
PAID OFF	4%	-	-	-
REGULAR PAYMENT	49%	51%	49%	43%
STILL ON RAP	30%	30%	28%	35%
DELINQUENT	8%	6%	9%	10%
DEFAULT	5%	3%	6%	7%

Uptake on this program varies by the study level. Compared to the number of loans issued, students at private institutions were between two and three times more likely to use RAP than university and college students. This table demonstrates the exact breakdown:

TABLE 27: REPAYMENT ASSISTANCE PLAN RECIPIENTS VERSUS TOTAL NUMBER OF LOANS DISBURSED BY TYPE OF INSTITUTION

2011-2012	RECIPIENT COUNT	PROPORTION OF RECIPIENTS (%)	# OF LOANS BY INSTITUTION	RAP VS. # OF LOANS
UNIVERSITY	83,125	45%	264,551	31%
COLLEGE	64,797	35%	137,105	47%
PRIVATE	36,891	20%	44,926	82%
<b>TOTAL</b>	<b>184,813</b>	<b>100%</b>	<b>446,582</b>	<b>41%</b>

It should be noted that the RAP usage is the total over several years, while the recipient count is for a single year; the percentages are not directly comparable, but give an indication about how frequently recipients from each category use the program. The usage rates show that while more RAP users come from university, the highest rates of RAP usage are found among private institutions, by a wide margin. This is consistent with the generally lower achievement outcomes found among those programs.

## ANALYSIS

Despite the high number of students assisted by this program, RAP costs are only approximately \$123 million per year<sup>85</sup>, which is less than half the amount of loans written off through defaults. This suggests that RAP could be more widely used if the program was streamlined, which would help more students to avoid default and assist the sustainability of the overall loan system.

Despite RAPs success, the repayment level of 20% of income is nevertheless 2.5x the amount of income considered “high” debt burden, by Statistics Canada studies, especially for those with low-incomes. This could be lowered to a more manageable 10%, and RAP could be expanded to more students by raising the limit on income that qualifies.

## RECOMMENDATIONS

- ✓ **Restrict public financial support for programs such as private for-profit institutions and others that have high default rates and low-incomes for graduates.**
- ✓ **Eliminate the need for borrowers in default to begin payments before being eligible for RAP, reducing the number of applications needed to remain in RAP per year to one.**
- ✓ **Increase RAP income qualification thresholds to assist students who have found employment, but for whom it is insufficient for repaying their loans.**
- ✓ **Reduce RAP repayment percentage from 20% to 10%.**

Overall, we see that repayable aid is already a significant contributor to the financial aid of students, and given the restraints on funding, it will continue to be a significant factor moving forward. These funding mechanisms allow increased focus on need to occur after graduation during the repayment stage. This ensures that those who receive the most benefit from their education in financial terms support the financial aid system, and those who do not receive financial benefits do not suffer unfairly. The changes suggested here would support that continued goal of fairness and progressive funding from those who can best afford it.

# CONCLUSION

*CASA believes in a PSE system that is accessible, affordable, innovative, and of high quality. The future of education in Canada depends on eliminating barriers facing any Canadian in accessing PSE, regardless of identity, financial or social background, or any other factor.*



*The current system of financial aid fails to maximize the impact of the dollars being spent, by putting an excessive level of support towards ineffective programs. A major reallocation of funding is necessary. There are a number of routes that could be taken towards this goal, but generally all of them would depend on significant reallocations from current spending patterns towards more progressive measures.*

## REALLOCATION OF FUNDING

The current system of financial support for post-secondary education covers a large number of students effectively, but there are significant gaps and inefficiencies. Many students receive financial aid despite not having any demonstrated financial need, and others with need do not receive sufficient support. Of nearly \$5.6 billion in support for students, including federal loans, grants, and institutional scholarships, only about \$1.2 billion is invested in high-impact areas of grants and loans. Of the remaining federal expenditures, \$2.7 billion is invested towards systems that have a limited impact on accessibility, and disproportionately favour students who are already from higher-income backgrounds.

Taking the current amount of funding available, and dividing non-progressive measures between the more targeted approaches, grant amounts could be increased to approximately \$1.8 billion, nearly tripling the current level of support. This would involve increasing the amount of grants, as well as broadening the qualifications for who can receive them, such as students in graduate studies. Meanwhile current loan disbursement amounts could be nearly doubled, from \$2.5 billion to over \$5 billion, with additional measures in repayment assistance and reduced interest rates, also reflecting both increased support levels and broader qualifications for students who could not previously receive loans.

For CESP programs, tax credits could be maintained for families who save, while eliminating the CESG and reallocating those funds between the CLB which does reach low-income families and the grant and loan systems.

## PROPOSED ALLOCATION OF SPENDING

PROGRAM	COST ( \$MILLIONS )	DISBURSEMENT
CSGP	\$1,827	\$1,827
CSLP (INCLUDING RAP, MINUS CSGP)	\$1,716	\$5,149
RESP PROGRAM (CLB AND TAX CREDIT)	\$499	\$499
TAX CREDITS (ALL OTHERS)	\$0	\$0
<b>TOTAL:</b>	<b>\$4,042</b>	<b>\$7,475</b>



In addition to these measures directly related to student aid, \$1.7 billion is being raised and spent on institutional scholarships, which increase costs to students attending those institutions while having an uncertain impact on attainment and affordability. This expenditure should be examined more closely; the spending levels need to be studied, so that policy makers can examine the qualifications for scholarships, whether they are needs-based or academic, and what impact that has on the profile of students who receive them, and whether those impacts are worth the burden on the students who pay for them through their tuition fees.

Canada already spends more on its tertiary education system compared to countries with a similar economy, but that higher level of expenditure is being directed towards ineffective mechanisms that favour students who already have more financial resources. In order to ensure that our education system remains effective, we need to take steps to ensure that funds are being used more effectively and efficiently, going to those who need them most.

# SUMMARY OF RECOMMENDATIONS

Beyond a reallocation of funding, there are also numerous specific changes to be made to the financial aid system in Canada. The following is a summary of CASA's recommendations toward a financial aid system that is more accessible and affordable for Canada's student population.

## COSTS OF EDUCATION

- ✓ Ensure that all students have automatic access to a minimum amount of loans sufficient to fully cover costs in tuition, books and ancillary fees, and index support to match increases in tuition, books and ancillary fees.
- ✓ Ensure supplementary loans are available to assist in covering living expenses for those students who qualify due to studying away from home and having demonstrated need.
- ✓ Create grants for students with low resources available, who live at a long distance from educational institutions, with amounts based on available funds made available through reallocation of funding.
- ✓ Increase loan and grant amounts for students with families and dependants, who may face significantly higher expenses when returning to school, based on additional funds made available through reallocation.
- ✓ Ensure that both full-time and part-time students are eligible for grants at low-income and middle-income levels.
- ✓ Ensure that loans are available for all students regardless of work status, either in-study or pre-study.
- ✓ Eliminate means testing for student loans as much as possible; no testing for tuition loans, and basic needs testing for living expense, dependant, and distance expenses, and maintaining specific needs testing for student grants.
- ✓ Incentivize institutions to offer increased numbers of programs that allow students to complete degree programs while remaining employed.

# NON-REPAYABLE AID

- ✓ Expand grants in terms of amount and range of qualifying incomes, based on total funds available from reallocations from less progressive funding mechanisms, and ensure that grant amounts are disbursed to all students with need.
- ✓ Add additional streams to the CSGP for students who may face additional barriers to education, such as rural students, first generation students, and students from economically depressed regions.
- ✓ Expand part-time grants to middle-income students, instead of being restricted to low-income students alone
- ✓ Eliminate the current system of tax credits, and reallocate the \$1.7 billion in funding towards an expansion of the current grants and loans programs.  
Create a system of automatic enrolment into the CLB based on family income and number of dependants, using the tax filing system, with credits that carry forward and can be cashed into RESP funds for low income Canadians at any later date.
- ✓ Eliminate payments to the CESG, and reallocate the funds towards the CLB and other upfront grant and loan systems.
- ✓ Create a review of scholarship spending in Canada, to examine the impact of scholarship spending on accessibility, and examine to what degree merit-based scholarships versus needs-based bursaries increase enrolment for under-represented groups.
- ✓ Mandate the regular publication of data on scholarship spending, including breakdown by qualification factor, income levels, and retention rates of scholarships by student recipients.

# REPAYABLE AID

- ✓ Limit the maximum debt levels for students based on the number of years of study in their program.
- ✓ Focus additional assistance through programs such as RAP on students with no employment or low-income employment.
- ✓ Restrict public financial support for programs such as private for-profit institutions and others that have high default rates and low-incomes for graduates.
- ✓ Eliminate the need for borrowers in default to begin payments before being eligible for RAP, reducing the number of applications needed to remain in RAP per year to one.
- ✓ Increase RAP income qualification thresholds to assist students who have found employment, but for whom it is insufficient for repaying their loans.
- ✓ Reduce RAP repayment percentage from 20% to 10%.

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