STUDENT FINANCIAL ASSISTANCE IN CANADA:

Complicated, Inefficient, and Ineffective.

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EXECUTIVE SUMMARY

Over the last twenty years, the public—through the federal government—has spent an increasing amount of money on student financial aid and education-related financial incentives. Driven by rising tuition and ancillary fees (coupled with stagnant middle-income earnings), the cost of pursuing post-secondary education has led an increasing number of low- and middle-income Canadians to rely on these programs. Each developed separately and at different times, the Canada Student Loans Program (CSLP), Canada Student Grants Program (CSGP), Registered Education Savings Plan (RESP), and education-related tax credits (Education and Tuition Fee Tax Credits [TFTC] and Student Loan Interest Credits [SLIC]) now cost the public over $4.2 billion each year, with an additional $2.5 billion given out in loans.

This paper is the first comprehensive review of all federal financial aid and encouragement programs for post-secondary students, examining how much money is spent in each program, who benefits from it, and alternative measures to use this funding more effectively. The findings of this review include:

- Without spending an extra dollar, the federal government could eliminate all new federal student loans and forgive most of the interest on outstanding loans by redirecting all funding for the RESP, TFTC, and SLIC programs into the CSGP
- Overall, higher-income Canadians receive a greater subsidy for pursuing post-secondary education
- The richest 20% of Canadians claimed $563 million in TFTCs in 2011
- Over 30% of RESPs are held by the richest fifth of Canadians, and only 9% are held by the poorest fifth
- $716 million in non-recoverable student loans have been written off since 2012

The government's own assessments of these programs predict that their cost will continue to increase, despite projections of shrinking post-secondary enrolment over the next twenty years. As the number and value of loans increase, so will the number of people who are likely to default or have to rely on repayment assistance.

Program	2000-2001	2006-2007	2010-2011	2013-2014	2035-2036
Net CSLP	$964.5 million	$697.4 million	$1.074 billion	$864 million	$1.524 billion
CSGP	-	-	$623 million	$634 million	$926 million
TFTCs	$940 million	$1.40 billion	$1.55 billion	$1.77 billion	-
SLICs	$66 million	$66 million	$41 million	$45 million	-
RESP	$532 million	$702 million	$874 million	$1.03 billion	-

The piece-meal approach to funding post-secondary education by successive governments has created a complicated and inefficient system that, in many cases, provides the greatest benefits to those who need the least help. For high-need students, the impact of high tuition fees is only delayed until graduation, and then compounded by loan interest.

If there is one take-away from this, it is that we have the ability to wipe out all federal student loans, without a single spending increase. The question is not one of finding more money; it's one of finding better ways to spend the money we already have. These changes would have an enormous impact on the affordability and accessibility of post-secondary education across Canada, would reduce the debt burden of students, and would help kick-start an entire generation's ability to participate in the broader economy.

Current Program Structure

Program	2010-2011	2011-2012	2012-2013	2013-2014
CSLP Loans	$2.23 million	$2.42 million	$2.46 billion	$2.49 billion
Tax Credits	$1.59 million	$1.71 billion	$1.78 billion	$1.81 billion
RESP	$874 million	$945 million	$976 million	$1.03 billion
CSGP	$623 million	$642 million	$638 million	$634 million

Recommended Changes
(eliminate RESP and tax credits, redistribute through the CSGP)

Program	2010-2011	2011-2012	2012-2013	2013-2014
CSLP Loans	$0	$0	$0	$0
Tax Credits	$0	$0	$0	$0
RESP	$0	$0	$0	$0
CSGP	$3.09 billion	$3.30 billion	$3.39 billion	$3.47 billion
New Spending	-$234 million	-$235 million	-$296 million	-$350 million
Student Loan Interest	$277.5 million	$355.4 million	$386.2 million	$390.6 million

SECTION ONE

Introduction

Over the last 20 years, having some amount post-secondary education has become required for over 70 percent of new jobs in Canada. As an increasing number of people have sought out a college or university education and as institutions have allowed enrolment to increase accordingly, rising tuition fees and stagnating middle-class earnings have pushed more Canadians to rely on student loans than ever before.

Each year, the federal government spends billions of dollars on student financial assistance and on financial incentives related to post-secondary education. Spread across five main programs—the Canada Student Loans Program (CSLP), the Canada Student Grants program (CSGP), the Education and Tuition Fee Tax Credits (TFTCs), the Student Loan Interest Credits (SLICs) and the Registered Education Savings Plan (RESPs)—this funding has increased steadily since the early 2000s. In spite of the size of these programs, there has been limited review or evaluation of their effectiveness or of the downstream impacts on users of the programs.

This paper will examine the cost of maintaining this federal debt regime, as well as other federally subsidized post-secondary education programs. It will propose alternatives for financing student financial assistance to ensure that it is affordable and accessible, while limiting inefficient program spending and reducing student debt levels.

Background

Employer demand for employees with post-secondary education increases every year. While Canadians are meeting these increased requirements to enter the workforce, public funding for the post-secondary education system has failed to recover from massive cuts in the 1990s and has failed to keep pace with enrolment and inflation in most provinces.

This lack of public investment has created a funding gap for colleges and universities; a gap institutions have filled with private funding—primarily tuition fees. Students are turning to public and private loans because of the promise that future income will offset their education-related debt.

Currently, students who receive funding through the CSLP are graduating with an average of $28,495 in loan debt (a conservative estimate based on 2010 graduate data adjusted to today's dollars).[1] As of May 2014, the federal government had an estimated $16.1 billion in outstanding student loans.[2] This does not include any financial assistance obtained privately, such as a provincial student loan, bank loan, student line of credit, credit card, or family loan. In order to contain the amount of money loaned out through the CSLP, the federal government legislated a debt ceiling of $15 billion in 2000. The ceiling was established in order to trigger a national conversation about student debt and to determine how the federal government would proceed. In December 2011, in anticipation of this ceiling being breached, the government increased it to $19 billion. Another intervention will be required when the new $19 billion ceiling is reached, likely by 2020-2021.[3]

System Funding

Canadian post-secondary institutions receive almost all of their funding through government grants and individual user fees. Over the past three decades, there has been a drastic shift in the ratio between these two streams of funding.

In the 1960s and 1970s, provincial and federal funding covered more than 90 percent of post-secondary institutions' operating budgets.[4] Since that time, public funding has accounted for less and less of institutions' operating budgets, reaching a low point of 55.2 percent in 2011.[5] When examined as a share of GDP, post-secondary funding peaked in 1984 at 0.5 percent of GDP. Cuts in direct investment led funding to account for only 0.15 percent of GDP by 2005, increasing marginally to 0.21 percent of GDP by 2012.[6]

With governments at all levels contributing less to post-secondary education, the user has filled the subsequent funding gap. In 1979, tuition and other user fees accounted for an average of 12 percent of operating budgets.[7] By 2012, that figure had increased to 37.5 percent.[8] Over the last two decades, tuition fees have increased at levels well above inflation. From 1990-2013, Canadian tuition fees have increased an average of 6.2 percent per year,[9] compared to an average inflation of 2.1 percent over that same period.[10]

Similar to Canada's healthcare system, post-secondary education constitutionally falls under provincial jurisdiction, though the federal government remains the largest source of funding. It provides funding for both the operating budgets of institutions and the individual student. However, since the 1980s, successive federal governments have reduced their role in funding post-secondary education, including removing all stipulations on transfer payments to the provinces. This lack of central oversight has allowed for disparities in terms of cost, quality, and accessibility from province to province, resulting in someone's province of birth to be a factor in their ability to access post-secondary education.

Current Federal Costs

During the 2010-11 academic year, 34 percent of the estimated 1.248 million full-time equivalent students (excluding Quebec, Nunavut, and the Northwest Territories) received a CSLP loan. In total, 429,000 new loans were issued, worth $2.23 billion.[11] When compared to 2000-01, there were 83,000 more loans (346,000 issued in 2000),[12] and the total value of loans issued increased by $770 million ($1.56 billion in 2000). The large increase in the value of loans issued is due primarily to increasing tuition fees. Average tuition fees in Canada rose from $4,100 to $6,500 over the decade, helping to drive student need from $8,800 in 2000-2001 to $11,666 in 2010-2011.[13 14]

Program[15]	2000-2001	2006-2007	2010-2011[16 17]
In-study Interest Subsidy	$186.9 million	$200.2 million	$173.5 million
Repayment Assistance Program (RAP) – Interest	N/A	N/A	$87.5 million
RAP – Principal	N/A	N/A	$337.8 million[18]
Interest Relief (IR)	$148.1 million	$85.3 million	N/A
Debt Relief in Repayment (DRR)	$13.5 million	$27.5 million	N/A
CSGP	$81.1 million[19]	$146.4 million[20]	$623 million
Administrative Costs	$146.5 million	$162.5 million	$133.2 million
'Other' Expenses[21]	$433.2 million	$430.8 million	$619.3 million
Total Gross Cost	$1.01 billion	$1.05 billion	$1.97 billion
Total Revenue	$44.8 million[22]	$355.3 million	$277.5 million
Total Net Cost of CSLP	$964.5 million	$697.4 million	$1.697 billion
CMSF	$285 million	$285 million	N/A
TFTCs[23 24]	$940 million	$1.40 billion	$1.55 billion
SLICs[25]	$66 million	$66 million	$41 million
RESPs[26 27 28]	$532 million	$702 million	$874 million

Canada Student Loans Program

The CSLP is administered by the federal department of Employment and Social Development and works alongside provincial loan programs to provide financial assistance to post-secondary students.[29]

The value of each loan is determined by the CSLP based on a calculation of 'student need',[30] taking into account other sources of funding, such as grants/ scholarships, personal income, and level of household income.[31]

While in school, loan payments are not required and all interest accrued is subsidized by the government. Once the borrower ceases to be enrolled full-time in university or college, the loan enters the consolidation and repayment phase where each individual annual loan is consolidated and a payment plan is developed. Students are given a six-month period where no payment is due, but the interest subsidy ceases.[32]

The repayment of a CSLP loan is amortized over nine and a half years. Borrowers encountering financial difficulties can apply for the Repayment Assistance Plan (RAP). The first phase of the RAP allows new payments to be recalculated based on determining an affordable payment, which can be as low as $0 and will not exceed 20 percent of household income. The amortization period is adjusted to 120 months (10 years), the payment goes directly onto the principal of the loan, and the government subsidizes the interest portion. This stage of the RAP is re-evaluated every six months, which allows payments to reflect income changes. A graduate can apply to the first stage of the RAP for up to five-years in cumulative six-month periods. Graduates with continuing financial difficulties or who enter financial hardship after 10 years of repayment of a CSLP loan, can apply for a second stage of the RAP. In the second stage, the loan is re-amortized over 15 years, and the government subsidizes both the interest and the principal not covered by the borrower's affordable payment.[33]

As part of a funding package, a student may also qualify for funding from the Canada Student Grants Program, which provides needs-based, non-repayable grants.[34]

While the CSLP serves primarily as a loan program, it does not generate profit like a standard loan program would for a financial institution. The subsidies built into the CSLP offset any revenue raised through interest accrued on loans in repayment. As a result, the CSLP is a net expense for the public. While these subsidies are available, an individual student with a high amount of debt will still pay a significant amount in interest. In section three, below, these expenses and future expense projections will be examined.

Education Savings Schemes

In addition to the loan system, the federal government also provides funding through a savings program and a tax credit scheme.

A family can begin saving for future education needs with the Registered Education Savings Plan (RESP), which includes two government funded savings subsidies. The Canada Educational Savings Grant (CESG) is a savings top-up of up to $500 per year; and the Learning Bond is a one-time $500 grant with an annual $100 top-up for qualifying low-income families.[35]

In 2011, the government provided $660 million to RESP contributors through the CESG, and an additional $76 million through the Learning Bond, for a total RESP expenditure of $947 million (including administrative costs, tax expenditures, and other costs).[36] This was $324 million more than was spent on need-based grants through the CSGP. Had this funding been spent on grants instead, it would be equivalent to converting roughly one-third of all federal CSLP loans distributed in 2011 into non-repayable grants.

Despite the RESP program being intended for all Canadians to use, regional differences in the delivery of post-secondary education have led to uneven participation in the program. RESP participation rates in Quebec and Newfoundland are significantly lower than the rest of the country, due, in part, to considerably lower tuition fees in these provinces.

In addition to regional differences, RESP participation rates vary significantly based on socio-economic status. RESPs provide the most funding to those who are most able to afford making the investment. The level of participation, both in terms of number of people using RESPs and the total amounts deposited, are highest among higher income families. To wit: the lowest 20 percent of earners (income under $25,000) accounted for 9.7 percent of RESP holders, compared to 31 percent of RESPs being held by those in the top 20 percent of income earners (income over $85,000). This disparity is also highlighted by the total amounts saved, as low-income families have roughly one-third the RESP savings of a high-income family.[37] In a 2002 report from the C.D. Howe Institute, University of British Columbia economist Kevin Milligan described the RESP as adding "needless complexity to Canada's tax system", further arguing that the CESG funding disproportionately benefits high-income households, doing nothing to improve access to post-secondary education for Canadians in need of assistance. Following an attempt to change the tax status for RESP contributions in 2008, Milligan reiterated his findings that higher-income households are almost 3.5 times more likely to participate in the RESP when compared to low-income households.[38]

Even with the RESP program's relatively low and uneven participation rates over the last ten years, the government has spent over $4.8 billion on the CESG alone. If the program were actually used to its full potential and every eligible Canadian were able to fully benefit from the CESG, the annual cost of the program would be nearly $3 billion.[39]

Education Tax Credits

The federal government also provides non-refundable education-related tax credits to students pursuing post-secondary education. These are not a refund, but instead are credits that can be applied to reduce any income taxes a student might owe and include the Tuition Fee Tax Credit. These credits can be carried-forward in the event the student can't use them while in school, or can be transferred to a parent or spouse.[40]

In 2011, the federal government spent $1.59 billion on the TFTC program. This year, that figure is expected to rise to $1.81 billion. Like RESPs, this tax credit primarily benefits higher income Canadians. Because this credit is non-refundable, a person can only benefit from it if and when they earn enough to pay income taxes. Those with higher income are able to immediately reduce their tax contribution, while lower income people (who have often also taken on loans to finance their education) must wait to receive the full benefit of the credits.

The TFTC program also inherently privileges those who have the capacity to pay tuition fees without the need for loans: the value of each tax credit is independent of student need. As long as an individual can pay the up-front fees, they receive the credits. This does little to help those struggling to afford the high up-front costs of post-secondary education.

According to data on tax credit claims from 2009 to 2011, roughly 64 percent of TFTCs were claimed by students themselves, while close to 36 percent were transferred to relatives (this excludes credits that are carried-forward). Although there are slightly more claims from those in the lowest two quintiles, nearly 23 percent of all credits were claimed by households earning more than $71,000 annually, and over 7 percent were claimed by households earning over $108,000 annually. The total tax credits claimed by households earning over $71,000 was roughly $1.77 billion. Of the credits that were transferred to relatives, households in the highest two income quintiles claimed a total of 45.2 percent. Of the $1.77 billion claimed in tax credits by households earning over $71,000, $1.27 billion was transferred to relatives. The very highest earning households in the country (over $108,000) claimed an estimated $563 million in total tax credits, with 83 percent ($470 million) being transferred to relatives.[41] It is counter-intuitive and inequitable that the wealthiest Canadians are receiving a subsidy for tuition fees while there is still substantial need among those from the lowest income households. When considered alongside the data from RESP contributions, it becomes clear that neither program increases accessibility or affordability of post-secondary education for those most in need.

Student Loan Interest Credits

For Canadians who have taken on public student loans, the SLIC program is available to offset the impact of the interest accrued during loan repayment. In order to benefit from the program, the individual must have earned enough money to pay income tax in that year. SLICs are non-refundable, non-transferrable, cannot be carried forward, and can only be claimed for the preceding five years. If student loan interest is claimed in a year when the individual does not owe any income tax, they cannot benefit from that SLIC in future years. The Canada Revenue Agency even encourages people to refrain from filing for the SLIC in years when they are not likely to owe income tax and to save it for years when they do.

Since 2010, SLICs have cost the public over $40 million in foregone tax revenue each year, increasing by roughly $2 million per year. If this growth continues at the same rate, this annual expense will reach $85 million in 20 years.

In 2010-11, the government spent a total of $4.16 billion on direct education-related financial aid, including CSLP loans, CSGP grants, RESP savings subsidies, SLICs, and TFTCs. By 2013-14, that figure had increased to $4.50 billion, an increase of over $300 million. Student need is projected to increase annually as a result of the rising costs associated with pursuing and completing post-secondary education. This rise in need will not only lead to a larger number of students requiring a CSLP loan, but larger loans for those who need assistance. Expansion of the size and number of the loans being issued will drive up the overall cost to administer and maintain the CSLP—the cost of the in-study interest subsidy will increase, more people will rely on the RAP and its subsidies, and more loans will be at risk of default and being written off entirely.

Non-Recoverable Debt

In addition to the $1.697 billion spent on the CSLP, the federal government also approved the first significant non-recoverable loan write-off in December 2011. In January 2012, $106 million in bad loans were written-off, followed by another $115 million just two months later. Furthermore, the government was forced to write-off $38 million in interest in January 2012, and another $44 million in April.[42] To date, $716 million in non-recoverable debt has been erased from the balance sheet,[43] and this figure is expected to increase every year moving forward.

SECTION THREE

Future Projections

The most recent actuarial report on the CSLP projects costs out to 2035-2036. To make these projections, the government relies on three major assumptions:[44]

1. Canadian demographic changes occur as predicted, leading to reduced enrolment numbers

2. The outstanding loan limit will be increased prior to, or upon reaching, the current $19 billon ceiling, with no significant restructuring of the CSLP occurring as a result (expected to be reached in 2020-21)

3. The average size of a student loan will not drastically increase due to the loan limit of $210/week.

Despite the CSLP's lower future enrollment projections, it is predicted that increased student need, driven by rising tuition fees and other costs will put pressure on the system and make it more expensive to maintain. Currently, 34 percent of students receive a CSLP loan, which is set to increase to 54 percent of students by 2035-36.[45] In addition, it is estimated that student need will increase from $11,700 to $26,324 in 2035-36, which will lead to an additional 200,000 loans issued, reaching $4.37 billion in total value.[46]

As the number of loans is set to increase to 662,000 in 2035-2036,[47] the costs associated with maintaining these loans each year will increase significantly.

Program[48]	2012-2013	2013-2014	2035-2036
In-Study Interest Subsidy	$170.8 million	$232.4 million	$488.6 million
RAP – Interest	$103.5 million	$119.5 million	$234 million
RAP – Principal	$71.5 million	$71 million	$114.9 million
CSGP	$638 million	$634 million	$926 million
Administrative Costs	$144.7 million	$148.7 million	$318.1 million
'Other' Expenses[49]	$649.4 million	$674 million	$1.08 billion
Total Gross Cost	$1.78 billion	$1.88 billion	$3.16 billion
Total Revenue	$386.2 million	$390.6 million	$710.1 million
Total Net CSLP Cost	$1.39 billion	$1.49 billion	$2.45 billion
Interest Write-off	$82 million	$40 million	$100 million
Principal Write-off	$111 million	$133 million	$310 million
TFTCs[50]	$1.74 billion	$1.77 billion	N/A
SLICs[51]	$43 million	$45 million	N/A
RESP[52]	$976 million	$1.03 billion	N/A

If the government continues with the current system, neglecting to make significant changes even after the $19 billion student loan ceiling is breached, not only will individual students have larger debts to repay, but also the CSLP will require more public funding to maintain that debt. Comparing the interest subsidy to the CSGP, we can see the most striking example of the structural deficiencies in the CSLP. From 2012-13 to 2035-36 the in-study interest subsidy will increase by $318 million, while the CSGP will only provide $288 million more in grants.[53]

Moving Forward: What's next?

When all available federally-subsidized programs to assist funding post-secondary education are tallied, it becomes clear that there is a more efficient and effective way to deliver student financial assistance.

In addition to the $1.49 billion the federal government spends on the CSLP, it also spent $1.03 billion on RESPs, $1.77 billion on TFTCs, and $45 million on SLICs for a grand total of $4.34 billion, of which only $634 million (14.6 percent) was spent on non-repayable grants through the CSGP. These figures will continue to rise on a yearly basis at rates above inflation.[54] The government also anticipates that loan write-offs will continue to occur and increase every year moving forward.

Invest in the Canada Student Grants Program

A re-examination of the current structure of student aid provision is required. The current system provides access to education mainly through delaying the impact of paying. Beyond loans, the RESPs provide aid only to those who can afford to set aside significant amounts of money for education, and the TFTCs and SLICs can only be fully taken advantage of through obtaining higher incomes after the completion of studies and are given to anyone (in the case of TFTCs) regardless of whether or not they required assistance to finance their education. With the exception of the CSGP, the federal programs that are available may aim to mitigate the effects of high fees, but fail to actually address the problem.

Current spending on the RESP program sees a significant amount of tax dollars being spent subsidizing savings of those with the highest incomes. To fully benefit from the non-refundable education and tuition fee tax credits, an individual (or their family) must already be able to pay for post-secondary education. The SLIC program only benefits those who have paid interest on their loans and earned enough money to pay income tax in the preceding five years. None of these programs increase accessibility to education for those experiencing financial difficulties before or during their studies.

A more effective and equitable way to increase accessibility and limit student debt upon graduation would be to take the current money being spent on the RESPs ($927 million), the TFTCs ($1.54 billion), and the SLICs ($45 million) and use these funds to provide more need-based grants through the CSGP. If this had been done in 2011, it would have completely covered the $2.2 billion in federal loans issued, and over $280 million would have been saved.

The phasing out of these inefficient programs can be done in a straightforward manner. Roughly two-thirds of the funding for the TFTCs could be immediately redirected into the CSGP, significantly increasing non-repayable, up-front student financial assistance, and eliminating future spending on the education related tax credits. The remaining funds are held in tax credit carry-forwards and, with no new credits being issued, these would all eventually be used. In practical function (see appendix for details), the RESP payouts to students could be treated similarly to savings and earnings from a Tax-Free Savings Account (TFSA). The RESP could be eliminated, along with its government subsidies, and existing RESPs could be transferred into TFSAs under the name of the registered beneficiary. This would allow previously allocated government funding of the RESP program to be better spent through the CSGP, while still providing a suitable savings vehicle for families to use for post-secondary education.

Not only would this immediately alleviate the federal portion of loans issued for that year, thereby reducing the debt burden for students, but it would also have other far-reaching impacts. Fewer loans and less money allocated to loans would result in lower expenditures on the in-study interest subsidy. Furthermore, a lower overall debt burden decreases the likelihood that a borrower will need to use the RAP, thereby limiting the money spent on debt relief for borrowers. This would also help to reduce the number and value of loans that enter non-recoverable status and eventually require being written off.

Current Program Structure

Program	2010-2011	2011-2012	2012-2013	2013-2014
CSLP Loans	$2.23 million	$2.42 million	$2.46 billion	$2.49 billion
Tax Credits	$1.59 million	$1.71 billion	$1.78 billion	$1.81 billion
RESP	$874 million	$945 million	$976 million	$1.03 million
CSGP	$623 million	$642 million	$638 million	$634 million

Recommended Changes
(eliminate RESP and tax credits, redistribute through the CSGP)

Program	2010-2011	2011-2012	2012-2013	2013-2014
CSLP Loans	$0	$0	$0	$0
Tax Credits	$0	$0	$0	$0
RESP	$0	$0	$0	$0
CSGP	$3.09 billion	$3.30 billion	$3.39 billion	$3.47 billion
New Spending:	-$234 million	-$235 million	-$296 million	-$350 million

The new figures for CSLP loans under the alternative system proposed are calculated by subtracting the expenses of the RESPs, the TFTCs, and the SLICs from the amount issued in CSLP loans. This funding is instead issued to students based on need through the CSGP. For example, had this system been implemented in 2010-2011, redirecting the funding used for the RESP and tax credits through the CSGP ($3.09 billion) would have eliminated the federal portion of all student loans issued that year, as well producing a savings of $234 million when compared to the status-quo. This savings would have been enough to nearly eliminate all interest collected on outstanding student loans that year ($277.5 million). In 2011-2012, savings of $235 million would be produced. In 2012-2013, federal loans would be eliminated and a savings of $296 million would be realized, and it is estimated to produce overall savings of $350 million for the 2013-2014 academic year. Alongside minimal investment, these changes could eliminate all federal student loans in the future and eliminate all interest charged on outstanding student loans until they are all repaid.

CONCLUSION

By shifting funding away from tax credits and savings schemes and into up-front, need-based grants, the federal government could eliminate the need to issue student loans and could save money on program operation costs. Those savings could be re-invested into the grants program or used to eliminate the interest charged on outstanding loans.

It is worth noting that this recommendation is made based on the assumption that there is no political will to increase the amount of money spent on grants without also reducing spending in another area of the budget. If that political will does exist, then there would be no problem maintaining the RESP, TFTC, and SLIC programs as well as replacing all federal loans with grants. Barring that reality, these changes would have an enormous impact on the affordability and accessibility of post-secondary education across Canada, would reduce the debt burden of current and past students, and would kick-start an entire generation's ability to participate in the economy.

If there is one take-away from this, it is that we have the ability to wipe out all federal student loans in the next 10 to 15 years without spending an extra dime. As we can see, the question is not one of finding more money—it's one of finding better ways to spend what we already have. In an age of increased scrutiny of government spending, the only thing that remains is having a government that makes the wise decision to make these changes.

Canada Student Loans Program (CSLP)

The Canada Student Loans Program (CSLP) is the financial support program run by the federal government. It provides the bulk of student loans to Canadian post-secondary students requiring financial assistance to fund their studies.

The CSLP is a joint federal-provincial program delivered through Employment and Social Development Canada (ESDC). A typical CSLP loan has 60 percent coming from the federal government, and the remaining 40 percent coming from the home province of the student. In August 2000, the CSLP was restructured and loans are now directly financed and delivered through the federal government. Prior to this funding arrangement, the government financed and guaranteed the loans while chartered banks operated the loan system and profited from any interest repaid.

The aim of the CSLP is to provide need-based student loans. The value of the loan is determined based on a student's need, which is the estimated total cost of tuition, accommodation, books, food, and transportation. Once need is determined, the student's available resources are examined—including personal earnings, assets and an assumed level of familial support based on household income. If student need is greater than the available resources, a CSLP loan is issued to cover the difference.

Loans are given on a year-to-year basis, with the funding amount subject to change every year based on need and resource changes. At the end of the student's study period, the individual loans are consolidated and, after a six-month grace period where no payment is required, the loan enters the repayment stage. The typical loan is amortized over nine and a half years, and is set at an interest rate of prime +2.5 percent.

While in study, interest accrues on the loans but the federal government pays for this through the in-study interest subsidy. During the six-month grace period, while no payments are required, interest accrues and is no longer subsidized by the government.

The governments of Quebec, Nunavut, and the Northwest Territories do not participate in the CSLP and instead deliver provincial/territorial specific aid programs to students. As a result, any information in CSLP reports excludes students from these provinces/territories.[55]

Canada Student Grants Program (CSGP)

The Canada Student Grants Program (CSGP) is the main source of non-repayable grants available to post-secondary students administered by the federal government. The current program is the third incarnation of the original federal student grants program and was implemented in 2009.

From 1995-2005 the non-repayable grant program available was the Canada Study Grants (CSG). These grants were targeted to students with permanent disabilities, high-need part-time students, women pursuing certain doctoral degrees, and students with dependents. In 2005-2006 the program was altered to provide grants to low-income families and students with permanent disabilities and was renamed the Canada Access Grants (CAG).

In August 2009, the CSGP was established, replacing the CAG. The CSGP provides seven different grants targeted to students from low- and middle-income families, students with permanent disabilities, and students with children under twelve. The CSGP also currently provides a temporary transition grant for former Canada Millennium Scholarship Foundation (CMSF) bursary recipients.[56]

Repayment Assistance Plan (RAP)

For borrowers that encounter financial hardship during the repayment period for their CLSP loan, the government offers the Repayment Assistance Plan (RAP). The RAP was implemented in 2009-2010 and replaced the Interest Relief (IR) and the Debt Reduction in Repayment (DRR) aid programs. The RAP provides two separate relief programs denoted as Stage 1 and Stage 2.

In Stage 1, new payments are recalculated and an affordable payment is determined. This affordable payment is based on the borrower's income, can be as low as $0, and will not exceed 20 percent of household income. This new payment causes the loan to be re-amortized over 120 months (10 years). All of the loan payment will be put directly into the principal owing, and the government provides a subsidization of the interest. Stage 1 is re-evaluated every six-months, which allows payments to change based on income changes. A borrower can use Stage 1 of the RAP for up to five years in cumulative six-month periods.

Stage 2 of the RAP can be accessed by exhausting the 1st stage or by entering financial hardship after the loan has been in repayment for over 10 years. In Stage 2, payments are recalculated using the same method as Stage 1, and the amortization period is extended to 15 years. In Stage 2 of the RAP, both the interest portion and principal portion that is not covered by the affordable payment is subsidized by the government to ensure the loan is fully paid after 15 years. [57]

Registered Education Savings Plan (RESP)

The Registered Education Savings Plan (RESP) is a savings account that is subsidized by the federal government for families to save for their children's post-secondary education. Unlike the Registered Retirement Savings Plan (RRSP), RESP savings are not tax deductible. Instead, savings grow tax-free until the beneficiary is attending a post-secondary institution on a full-time basis.

The RESP has a maximum contribution limit of $50,000 and can be contributed to for up to 31 years; the plan must be collapsed (used) after 35 years. Within the RESP, there are two federally funded savings subsidy programs that families can access.[58]

The Canada Education Savings Grant (CESG) is a government top-up grant used to increase savings. The federal government provides a top-up of 20 percent of a subscriber's annual contribution, up to $500 per year. To qualify for the full $500 CESG top-up, one would need to save $2000 over the course of the year. The CESG also has a lifetime maximum payout of $7,200. Using the same contribution requirements, a family can also qualify for additional CESG amounts based on income. For families earning $42,706 annually or less, an additional $100 is available and families earning between $42,707 and $85,414 can qualify for an additional $50.[59]

The second savings subsidy provided by the government is the Learning Bond. The Learning Bond is targeted to low-income families. If an RESP subscriber qualifies as low-income, a $500 grant will be awarded upon opening the RESP. Furthermore, every subsequent year the subscriber qualifies as low-income, a savings top-up of $100 will be applied.[60]

The RESP is an investment savings account. Returns on the investments remain in the account until it is collapsed. When the beneficiary (student) accesses the funds for school, only the investment earnings and the government grant contributions are considered taxable income for the student and must be claimed on the student's income taxes as such—similar to how a retiree would claim RRSP withdrawals as income. However, the underlying assumption is that, as a student, the beneficiary's income would be so low that the RESP 'income' would be taxed very little, if at all. This means that, in practice, its function is more like that of a Tax Free Savings Account, with tax-free investment earnings.

Non-Refundable Education and Tuition Fee Tax Credits (TFTC), Student Loan Tax Credits (SLIC)

The federal government provides a tax credit to current and former students based on tuition fees paid and claimed over the course of their studies. These tax credits are not rebates, but are credits that can be used to reduce income taxes owed. The TFTCs can be used for the tax year in which the post-secondary education fees were paid, transferred to a parent or a spouse, or 'carried-forward' to be used to offset future income taxes.[61]

The amount a student can claim is based on the fees paid during that calendar year and are broken down into categories of eligible tuition fees and education amount. The amount that a student can claim under the tuition fee tax credits is based on the tax certificate provided to the student by their school, and will vary from student to student based on the fees they paid.

The SLICs cannot be used beyond the year in which they were claimed or transferred to a parent or spouse. However, SLICs can be claimed for the most recent five years of interest payments. Only the payments made on interest on public student loans can be claimed. Private loans and public loans that have been renegotiated or combined with private loans are not eligible. Also, a claim cannot be made on interest paid for a judgment obtained after an individual failed to pay back their student loan.

NOTES

1 Canada, Statistics Canada, *2013 National Graduates Survey*, [Ottawa], 2014.

2 Canada, Office of the Superintendent of Financial Institutions Canada, Office of the Chief Actuary. *Actuarial Report: on the Canada Student Loans Program*, [Ottawa], 2011: 37.

3 *ibid., 37*

4 "Funding For Post-Secondary Education", *Canadian Federation of Students*, 2012.

5 "CAUT Almanac of Post-Secondary Education in Canada", *Canadian Association of University Teachers*, 2013.

6 "Alternative Federal Budget 2013," *Canadian Centre for Policy Alternatives*, 2013: 117.

7 *ibid., 116.*

8 "CAUT Almanac of Post-Secondary Education in Canada", *Canadian Association of University Teachers*, 2014.

9 MacDonald, David and Shaker, Erika, "Eduflation and the High Cost of Learning," *Canadian Centre for Policy Alternatives*, 2012: 6.

10 "Historic inflation Canada – CPI inflation", *Triami Media BV*, 2013.

11 Office of the Chief Actuary, *Actuarial Report: on the Canada Student Loans Program*, 2011: 9.

12 Canada, Office of the Superintendent of Financial Institutions Canada, Office of the Chief Actuary, *Actuarial Report: on the Canada Student Loans Program*, [Ottawa], 2001: 10.

13 *ibid., 21.*

14 Office of the Chief Actuary, *Actuarial Report: on the Canada Student Loans Program*, 2011: 20.

15 Office of the Chief Actuary, *Actuarial Report: on the Canada Student Loans Program*, [Ottawa], 2001, 2007, 2011.

16 To examine the current costs of the CSLP, data from the 2010-2011 academic year were examined because the RAP and CGSP had, by this time, been fully implemented, the CMSF was almost entirely phased out and it was the last academic year in which no loans were written-off. The 2012-2013 CSLP costs will be used below to compare to CSLP future projections. Major program expenses are compared to 2000-2001 in the table below, as this marked the first year CSLP loans were administered as direct loans from the government, instead of through private financial institutions.

17 All Canada Student Loans Program information prior to, and including, 2011 figures are not adjusted for inflation. Figures provided beyond 2011 for the CSLP are projections based on two assumptions of the Chief Actuary: the Bank of Canada and Government commitments to hold inflation rates between one and three percent until 2016 will be met, and beyond that, inflation will uniformly increase from 2017-2020, ultimately reaching and holding a rate of 2.3 percent until the end of the projection (2035-36).

Figures for programs not part of the CSLP are not adjusted for inflation, and obtained through government financial documents.

18 RAP- Principal is significantly higher than in other years as a result of loan forgiveness criteria changing from having a "permanent disability" to having a "severe permanent disability". Those not qualifying for forgiveness were able to enter the RAP – permanent disability program (RAP –PD), inflating the cost. This number also includes the total RAP cost of Risk-Shared and Guaranteed loans remaining ($9 million).

19 In 2000-2001 it was known as the Canada Study Grants.

20 In 2006-2007 it was known as the Canada Study and Access Grants, and had fewer grants available.

21 'Other' expenses include alternative payments to provinces/territories not participating in the CSLP, and Risk provisions for bad debt, defaults, loans forgiven, loans written-off etc.

22 Under the Risk-Shared and Guaranteed loan regimes, the federal government only collected interest revenues from loans bought back from banks following a default.

23 Canada, Department of Finance, *Government of Canada Tax Expenditures and Evaluations – 2003, 2009, 2013*, [Ottawa].

24 "Alternative Federal Budget 2013," *Canadian Centre for Policy Alternatives*, 2013: 118.

25 Canada, Department of Finance, *Government of Canada Tax Expenditures and Evaluations – 2003, 2009, 2013*, [Ottawa].

26 Canada, Treasury Board of Canada Secretariat, *Supplementary Estimates (A), 2000-2001, 2006-2007,* [Ottawa], 2001: 90.

27 Registered Education Savings Plans," *Canadian Federation of Students*, 2012.

28 Canada, Department of Finance Canada, *Tax Expenditures and Evaluations,* [Ottawa], 2000, 2010.[29] Office of the Chief Actuary, *Actuarial Report: on the Canada Student Loans Program*, 2011: 47.

30 Student need is the term used by the CSLP during loan assessment to determine if a student qualifies for a CSLP loan. Student need is determined by adding tuition fees and other expenses (food, books, accommodation, transportation) for the year and subtracting resources already available (earnings, assets, parental contribution, grants).

31 *ibid.*, 58.

32 *Ibid., 13.*

33 *ibid., 49.*

34 *ibid., 50.*

35 "Registered Education Savings Plans", *Canadian Federation of Students*, 2012.

36 *ibid.*

37 *ibid.*

38 Milligan, Kevin, "The RESP bill is bad tax policy and even worse education policy", *Globe and Mail*, March 11, 2008.

39 "Registered Education Savings Plans", *Canadian Federation of Students*, 2012.

40 Canada, Canada Revenue Agency, Line 323 – *Your tuition, education, and textbook amounts,* [Ottawa], 2013.

41 Canada, Canada Revenue Agency, *Interim Table 2: All returns by total income class, all Canada,* [Ottawa], 2011.

42 Office of the Chief Actuary, *Actuarial Report: on the Canada Student Loans Program*, 2011: 30,32.

43 Woods, Michael, "Taxpayers on the hook for more than $700 million as Ottawa plans to write off more unpaid student loans", *National Post*, March 14, 2014.

44 Office of the Chief Actuary, Actuarial Report: on the Canada Student Loans Program, 2011: 17, 24, 37.

45 *ibid., 24.*

46 *ibid., 25, 43.*

47 *ibid., 25.*

48 *ibid.*, 29,32,38,42.

49 'Other' expenses include alternative payments to provinces/territories not participating in the CSLP, and Risk provisions for bad debt, defaults, loans forgiven, loans written-off etc.

50 Canada, Department of Finance Canada, *Tax Expenditures and Evaluations*, [Ottawa], 2013:14.

51 *ibid.*

52 Canada, Treasury Board of Canada, *Supplementary Estimates (A), 20013-2014*, [Ottawa], 2014.

53 Office of the Chief Actuary, *Actuarial Report: on the Canada Student Loans Program*, 2011: 38.

54 Approved in 2011, the first $106 million in loan principal write-offs didn't officially occur until January 2012.

55 Canada, Office of the Superintendent of Financial Institutions Canada, Office of the Chief Actuary, *Actuarial Report: on the Canada Student Loans Program*, [Ottawa], 2011: 47-49.

56 *ibid., 50.*

57 *ibid., 49,50,*

58 "Registered Education Savings Plans," *Canadian Federation of Students*. 2012.

59 Canada, Canada Revenue Agency, *Canada Education Savings Grant (CESG)*,[Ottawa], 2013.

60 Canada, Canada Revenue Agency, *Canada Learning Bond*, [Ottawa], 2013.

61 Canada, Canada Revenue Agency, *Transferring and carrying forward amounts*, [Ottawa], 2013.

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