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Renewing Student Assistance in Canada

The Student Assistance Reform Initiative
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- Association of Canadian Community Colleges
- Association of Universities and Colleges of Canada
- Canadian Alliance of Student Associations
- Canadian Association of Student Financial Aid Administrators
- Canadian Association of University Teachers
- Canadian Federation of Students
- Canadian Graduate Council

Introduction

In an economic and social environment where some form of postsecondary learning is increasingly pre-requisite for employment, the value and importance of a national student financial assistance plan cannot be overstated. It is the new cornerstone upon which Canadian notions of fairness and equality of opportunity will be constructed. Measures that enhance access to postsecondary education produce benefits for individual Canadians and for Canadian Society as a whole. Conversely, inadequate student assistance will result in a loss of opportunity and hope for individuals living in a world where education and learning have become the keys to opportunity and prosperity.

By maintaining and, over time, enhancing its investment in student aid, the federal government can play a major role in ensuring fairness, equity and opportunity for Canadians regardless of their economic backgrounds. The Canada Student Loans Plan is the only student loans program which guarantees Canadians the opportunity to undertake studies in the province of their choice and as such can make a vital contribution to national unity and nation-building. The organizations who have developed the proposals in this document share a belief that the federal government must continue to invest in student assistance, and wish to work with the federal and provincial governments to build on the legacy of successful cooperation in this area over the last thirty years.

There exists a wide range of policy options available to the government in its pursuit of an equitable student aid system. It is very important that student assistance policy take into account the fact that different individuals may face varying education financing challenges at different points in time. Prior to the commencement of studies, some individuals and families require incentives and assistance related to educational savings. Others are not in a position to save and need both access to loans as well as grants to help them avoid excessive debt and to help them overcome debt aversion.

During their studies, individuals may require subsidized loans, and in some cases, grants and work-study opportunities to help see them through to successful completion of their studies. Finally, in the crucial period of transition to the labour market after completion of studies, some individuals need a "leg-up" in the form of assistance to help them meet their repayment obligations while they establish themselves in a volatile job market. There is a strong public interest in finding the right mix of policies to meet all of these needs in a sustainable way.

This document outlines a package of proposals which, taken together, would provide a firm basis for a comprehensive system of student assistance benefiting middle and low income families alike, and provide aid as required for students before, during and after their studies, in an efficient and equitable manner. The proposals build upon and strengthen the existing Canada Student Loans Programs which has, over three decades, helped hundreds of thousands of Canadians secure access to postsecondary education.

Student debt in the mid-90s: an overview

Rising student debt is becoming a serious political issue in Canada. The increased costs facing students, the trimming or abandonment of grant programs by all provinces participating in the Canada Student Loans Program (CSLP), and the rise of the CSLP weekly loan limit to $165/week in 1994 have all contributed to a dramatic increase in student borrowing. The average debt level upon graduation of the 60 per cent of full-time students outside Quebec who borrow from CSLP at some point in their education - a mere $8,700 in 1990 - is expected to triple to $25,000 in 1998[1].

The impact of this change is easy to see if one examines debt-to-income ratios of recent graduates. The incomes of university graduates within two years of graduation have remained stable in real dollars throughout the eighties and early nineties, with Bachelor's degree holders continuing to earn on average $32,000 per year two years after graduation[2]. However, indebtedness for Bachelor's graduates is threatening to nearly triple in nominal terms for the period 1990-98. This means that students who borrow will, as of 1998, graduate with average debt equaling 66 per cent of their income two years after graduation. It should be underlined that is simply a median; significant numbers of students will have debts which substantially exceed even this high ratio.

This level of student debt appears to be without parallel anywhere in the world. Australia, where the average annual HECS/AUSTUDY debt is about $4,300 (Cdn), comes closest, but these debts do not accrue interest - they are paid back in real dollars. Estimates based on data from the United States show that those undergraduates in non-professional programs at 4-year public institutions who borrowed, ended up with a consolidated debt of $12,600 (Cdn) in 1996. The equivalent figure for 4-year private institutions such as Harvard is only $16,500 (Cdn)[3]. Even at Yale University, one of the most expensive and prestigious universities in the U.S. the average undergraduate debt upon completion of studies is only $18,225 Canadian[4]. The U.S. has higher average indebtedness (in excess of $40,000) for professional degrees, but, Canada's undergraduate students now owe more than students of any American or European country.

Canada is one of only two industrialized countries which has no large-scale, means-tested grants program (the other is Japan). American student debt loads, for instance, can remain low because its students receive just under $19 billion annually in grant aid, over half of which comes from public sources[5]. The comparable figure for Canadian grants would be generously pegged at about $700 million.

It is worrisome to think that it is now "normal" that young Canadians of 22 or 23 years of age, with little or no job experience and uncertain prospects in the labour market, should be carrying debt loads of $25,000 - possibly more than their annual income in their first year or two of work. There is no hard evidence that this has led to drops in enrollments among young Canadians, but there is growing concern it may soon. If debt loads begin to have an impact on enrollments, we risk wasting the talent and potential of young Canadians.

This paper offers real solutions to the problems of debt and accessibility. It is based on a "four-pillared" approach to accessibility. The first pillar is an extension of the existing Special Opportunity Grants (SOGs); targeted grants to student sub-populations who may be in need of special financial assistance at the time of enrolment. The second pillar is deferred grants; grants given some time after the completion of studies to help borrowers keep their debt payments at manageable levels. The third pillar is work-study -- the opportunity to give students non-repayable aid while at the same time providing them job experience that will ease their transition to the labour force after their studies are completed. The fourth pillar is tax measures; a refinement of the tax system to encourage both savings for education and speedier payback of loans. Taken together, these measures provide a comprehensive basis to lower student debt, increase savings for education, and keep Canadian postsecondary education accessible.

Special opportunity grants: initiatives for increased access and retention

Up-Front Grants
Up-front grants are non-repayable forms of student aid which are delivered at the beginning of a period of study. Canada has three such grants, known as Special Opportunity Grants (SOGs), all of which went into operation in 1994 or 1995. Each of these SOGs is targeted at particular student sub-populations deemed to need some grants in addition to loans.

While all higher education groups welcomed the arrival of the Special Opportunity Grants, it was also clear that they were insufficient. With the disappearance or drastic curtailment of provincial grants over the past few years, Canada is the only country in the OECD without a comprehensive system of grants for low-income students. The federal and provincial governments' decisions to rely almost exclusively on loans has meant that low-income students have been obliged to borrow far more for their education than students in most other countries.

The argument has been made that up-front grants are less equitable than grants which are paid to students after the completion of their studies. After all, some students from lower-income backgrounds may be very successful after their studies and would be able to pay back very large loans - why use scarce public funds to help them when other students, who might be less successful in the job market, need the same types of subsidies after their studies because of their high debt-service ratios?

There is certainly some merit to this argument, and there is no doubt that some students require aid in the post-study period. However, this is not necessarily an either/or situation. It is clear that some students with low-income backgrounds or with higher-than-average costs (such as single-parent students) need more non-repayable aid than the "average" student if they are to pursue postsecondary education. We therefore recommend the creation of two new special opportunity grants: one for low-income first-year students and one for single-parent students.

New Special Opportunity Grants
A Special Opportunity Grant for Single Parents. Single parents make up almost 20 per cent of CSLP recipients, and many of them have assessed need well in excess of the combined CSLP and provincial maximums of $9,350 for 34 weeks of school. Single-parent families are also the families most likely to be living in poverty. Single-parent students have rightly determined that higher education is their best route out of poverty, and it is both socially just and good economic sense that governments should give them as much support as possible to finish their studies.

However, there is a difference between the situation of single parents and that of high-need first-year students and the three other groups currently covered by SOGs. These other groups seem best served by a partial substitution of grants for loans - hence the current SOG design which gives grants in partial replacement of loans, but only within the $165/week federal loan limit. Single-parents, on the other hand, are more in need of additional resources rather than a substitution of grants for loans. We therefore recommend a SOG for single parents, which would be slightly different from existing SOGs in that it would give to single parents a grant for up to $3,000 but could be granted in excess of the present loan limits.

A SOG for High-Need 1st year students. A study published by the General Accounting Office of the United States in 1995 examined the difference in drop-out rates between one group of low-income, full-time students who were given a $1,000 grant and those given $1,000 in loans at a variety of institutions[6]. The results showed that there was no difference in drop-out rates among third and fourth-year students, but a 7 per cent drop among second-year students and a 21 per cent drop among first-year students. The longer one remained in school, the less important a $1,000 grant became in making the decision to stay in school because the student had already invested so much time and energy. But in the first year especially, when many students question whether or not they have the ability to make it through university and whether it is all "worth it", the

U.S. study suggests that the substitution of grants for loans can have a significant impact on individuals' educational futures.

We recommend the creation of a "First-year" opportunity grant worth up to $1,000 - $2,000 for academically qualified students with high assessed need. A smaller grant might also be extended to high-need second year students, if they successfully complete their first year. Such a SOG could produce a definite return on investment through lower dropout rates, and by extension, lower default rates, which would reduce upwards pressure on risk premiums to lending institutions.

Deferred grants: providing economic security to young Canadians

In order to provide Canadians with opportunities through education, much more attention will have to be paid in future to the question of overall cumulative student borrowing and debt, including assistance to help students to manage their debts. The challenge is how to do this in a manner which is both fair and cost-efficient.

The method of controlling debt with which Canada has some experience is the use of "deferred grants" or "loan forgiveness". These are grants which are given to students at the end of a period of study, rather than at the beginning, as in the case of SOGs. Most provinces forgive a portion of loans above a certain dollar level for each year of study; British Columbia and Newfoundland, for example, refund debt over a certain dollar figure for an entire degree and Saskatchewan has a hybrid of the two. The federal government's commitment to deferred grants has, as of 1994, been towards the BC/ Newfoundland variant of loan forgiveness. The federal government and nine provinces also offer interest relief (New Brunswick is the exception) as a means of helping low-income borrowers with high debt loads.

In an era of rising debt loads, it is vitally important to build on this experience and to link more closely individuals' repayment obligations with their ability to re-pay. We propose two alternative program mechanisms which could provide effective, equitable and targeted aid to students with high debt-loads and low or unstable income after graduation:
Income-Based Remissions. One debt-management solution would see the implementation of a system of "Income-Based Remissions" (IBRs). This would give grants to students after graduation based on their demonstrated inability to repay the loans which they had taken out as students. The grants would be of such a size that they would reduce the outstanding principal on the student's debt to a level where he or she could pay off that debt on his or her own with no further assistance. In effect, these grants are a way to target aid to students with high debt-service ratios and avoid the inequities involved in existing loan remission programs.

The key to effective compensation is to find those borrowers who are chronically in need of repayment assistance. Such a mechanism already exists in the current CSLP regulations for interest relief, which were part of the package of reforms pursuant to Bill C-28, The Canada Student Financial Assistance Act. Presently, borrowers may apply for interest relief during repayment based on their monthly family income, family size and the size of their required monthly payments. The relief may only be used for up to 18 months during the first five years after the loan is consolidated.

A student who exhausted his or her 18 months worth of interest relief could certainly be described as over-indebted, at least relative to income. One could therefore design a program of debt relief where exhaustion of aid under the existing interest relief plan would become the "trigger" for the IBR deferred grant. This plan has the distinct advantage of ensuring that no money goes to borrowers who are able to repay on their own while ensuring that generous amounts of aid would be available to those borrowers who are not fortunate enough to pay back their loans unaided.

Extended and Expanded Interest-Relief. This option would involve extending interest relief to all individuals with high debt-service ratios, many of whom do not currently qualify for such relief. The interest relief program would be modified so that all people receiving this assistance would make at least some payment on their own every month (the exact amount to be determined by their debt-service ratio). Currently, the interest relief period is structured in an "all-or-nothing" manner; if one qualifies, 100 per cent of the interest is paid for by the government, but if one does not qualify, one receives no assistance whatsoever. By changing the parameters so that everybody makes at least partial payment, the number of people who could be accommodated through such a program would expand considerably.

Another element in the plan would see its expansion to cover not just interest payments, but principal payments as well. Thus, provided the amortization period of the loan was at least ten years, the government would help all borrowers with high debt-service ratios make their interest and principal payments during the period in which the borrower is eligible for assistance. Given student's concerns over labour market volatility for recent graduates, we recommend extending the period during which borrowers are eligible for aid to four years from the time of loan consolidation.

Work-study: helping students earn while they learn

The idea of work-study is not a new one. The United States created a national work-study program in 1965. Work-study programs have been established by provincial governments in Ontario and British Columbia, and at an institutional level at other universities across Canada. In outline, the program encourages institutions to create academically or career-oriented jobs on campus (or with non-profit private sector partners) for students already receiving financial aid by providing matching dollar-value wage subsidies. Students benefit financially through the acquisition of non-repayable aid and professionally through the acquisition of work skills, while governments benefit by giving grant aid and reducing students' total debt at a substantially reduced cost. We would also note that the program fits well with the recommendations of the Federal Ministerial Task Force on Youth, which reported in July 1996.

We recommend that the federal government begin work with the provinces and institutions with a view to speedy implementation of a national work-study scheme. Jobs created under the program should be open to all students who are eligible for financial aid, although there should also be flexibility to direct the jobs primarily towards those students with very high assessed need. We also advocate that any program should include several key elements, including:

1) A maximum on the number of hours worked per week and the total amount earned per school year. Evidence gathered by Paul Grayson at York University shows that student's academic performance deteriorates sharply if they work more than ten hours per week so it seems sensible to place a ten-hour per week maximum on jobs in a program which, after all, is designed to help students successfully complete their studies. The maximum annual earnings should be about $3,000.

2) The program parameters should be defined to make it clear that no existing jobs will be displaced as a result of the introduction of the program. The intention of the program is to provide students with new jobs and not to allow institutions to replace existing jobs with cheaper student labour.

3) Institutions should be given some flexibility to set wage levels. This is because the significant regional differences in unemployment rates and minimum wage levels make a single national wage for such a program unhelpful. Having said that, we believe that the band within which such flexibility is given should be set fairly high so that students will find the career-oriented campus jobs more financially appealing than "dead-end" service sector jobs in the surrounding community.

Tax measures for education: towards a knowledge-friendly fiscal system

Canada's tax policy on education is somewhat anomalous within the OECD. Very few countries have chosen to provide substantial student aid through the tax system rather than through grants. While this approach has the advantage of administrative simplicity, it has the disadvantage of being an inefficient means of targeting those most in need. In addition, while providing assistance prior to and during studies, tax measures have not assisted indebted students after graduation.

Our proposals for assistance through the income tax system would give additional aid to students before, during and after their studies. We recommend the following three initiatives:

1) Increase the utility of Registered Educational Savings Plans (RESPs). Helping families save for their children's education should be a priority of all governments. The more money families are able to save for education, the less borrowing will be required by students. However, savings rates for education through the Registered Education Savings Plan are low, with one recent study showing that only 1.6 per cent of all students used funds from RESPs to finance their education. At present, RESPs function as interest shelters for parents

of children expected to go on to postsecondary studies, but they do not even function in this manner if the children decide not to continue their studies past the secondary level within 21 years of the first contributions to the plan. To increase savings for education, the government should move quickly to make RESPs a more attractive savings vehicle by making RESP contributions deductible in the same manner as they are for contributions to RRSPs. This would make contributions to such plans far more attractive to parents than is currently the case.

2) Make the Tuition Tax Credit more reflective of students' real costs. Students can currently convert the value of their tuition fees to non-refundable tax credits at 17 per cent, but they cannot do the same with their other compulsory fees. Yet these ancillary fees can often be quite high nearly $700 at some universities. Since students must pay all compulsory fees, and not just tuition fees, in order to attend courses, we recommend that the existing tuition tax credit be extended to cover all compulsory fees.

3) Make interest paid on student loans tax-deductible. The most frequently-cited reason among students for attending postsecondary institutions is the expectation that attendance will bring monetary gains in the future through higher wages and lower chances of unemployment.

As the Government of Canada noted in A New Framework for Economic Policy (1994), for higher education is an important investment for individuals as well as for society. In this light, there is clearly an argument to be made to allow graduates to treat their education loans in the same manner as businesses treat their investment loans, and make interest paid on their loans tax-deductible. There is also another advantage to such a proposal - it would be of great assistance in helping students pay off their loans, thus making it less likely that they will have repayment problems and default on their loans. We recommend that the government make interest paid on student loans tax deductible.

Estimated costs of the student aid package

Targeted Up-Front Grants

Special Opportunity Grant for Single-Parent students. Costing on this proposal is somewhat difficult because of the inexact nature of the data, but assuming i) that 19 per cent of all students on CSLP are single parents, ii) 80 per cent of these have need in excess of CSLP maximums, iii) the take-up rate is 50 per cent, and iv) the average size of the grant is $2000, then the annual cost of the program would be approximately $50 million plus $15.5 million in alternative payments to Quebec ($65.5 M) should that province choose to implement a similar program.

Special Opportunity Grant for High-Need 1st Year students. Again, the data on which to base a cost-estimate is not perfectly reliable but assuming i) students in 1-year program are ineligible for such a grant, ii) that approximately one-third of all first year students would be eligible for the grant, iii) that the take-up rate will be 50 per cent, iv) that the average size of the grant will be about $1500, then the annual cost of such a program would be approximately $31 million, plus $9.61 million in alternative payments to Quebec ($40.61 M) should that province choose to implement a similar program.

Deferred Grants

The estimated costs of the Income-Based Remissions option run from $64 million in 1997-98 to $144 million in 2001-02 Estimated costs of the Extended and Expanded Interest relief proposal amount to $93 million in 97-98, rising to $166 million in 2001-02, including alternative payments to Quebec.

Work-Study

Based on $3000 per job, of which 50 per cent would be covered by the federal government, the creation of a 20,000-position work-study program would be $30 million.

TOTAL PROGRAM COSTS: $175 - 302 Million

Tax Measures

Make RESP contributions tax deductible in the manner of RRSPs. We have no real way of identifying the possible costs involved in such a measure, because it is impossible to predict with any certainty what the take-up rate would be on such a plan. It should be noted, however, that currently only 2.4 per cent of full-time university students make use of RESPs (University of Manitoba, 1995). But, even assuming i) that the use of RESPs is identical in the university and community college sectors but is non-existent in the vocational colleges, ii) a ten-fold increase in the take-up rate of RESPs, to 24 per cent of full-time students, (holding enrolment constant), iii) half of all contributors were in the 27 per cent tax bracket and half were in the 23 per cent tax bracket, iv) users were contributing an average of $1500 per year and v) all contributors made contributions for 8 years, then the annual revenue lost to the government would be approximately $175 million a year. If the increase were only 4-fold, to about 10 per cent of full-time students, the lost revenue would only be $65 million. These figures overstate the real amounts it would cost, because the money contributed to the plan would become taxable once it was withdrawn, albeit at a lower rate since it would be in the name of the student, who would not be in the same tax bracket as his/her parents.

Add all compulsory fees to the value of the tuition tax credit. The exact amount of foregone revenue from the existing tuition tax credit is difficult to ascertain on the basis of publicly-available sources, However, a rough estimate is possible on the basis of figures contained in the 1996 budget and a rough estimate of average ancillary fee levels across the country - approximately $30 - $40 million

Make interest paid on student loans tax deductible Assuming that $1.5 billion worth of student loans are repaid annually, that one-third of this amount is interest, and that all borrowers in repayment are in the 23 per cent tax bracket, this measure would cost in the region of $115 million annually.

TOTAL FOREGONE REVENUE THROUGH TAX MEASURES: $210 - 330 Million

Footnotes

1. Task Force on Youth, 1996. p. 39. The figures are in nominal dollars.
2. D. Little, "Earnings and Labour Force Status of 1990 Graduates", Education Quarterly Review, 2 (3) Fall 1995, p. 15
3. College Debt and the American Family, The Higher Education Research Institute, 1995, p. 26
4. US News and World Report, 16 Sept. 1996, p.110
5. Chronicle of Higher Education Almanac, 1996. $7.2 billion of this grant aid comes from the federal government, mainly in the form of Pell Grants, another $2.6 billion comes from the states, and $9 billion comes from institutions and foundations.
6. Restructuring Student Aid Could Reduce Low-Income Student Drop-Out Rate, General Accounting Office, GAO/HEHS-95-48