Review of the Government of Canada's Student Financial Assistance Programs

Loan Year 1997-1998

Further Information on Student Financial Assistance

The CanLearn Interactive Website provides extensive information of value to students and parents planning for post-secondary education. An entire section of the site is devoted to financial issues. This provides access to the Student Need Assessment Software, a program which enables individuals to assess the student aid
available in specific circumstances. CanLearn also provides links to provincial and territorial student aid programs. It can be accessed at:

http://www.canlearn.ca

Information about federal student aid programs is available on the Internet at the Canada Student Loans Program Website:

http://www.hrdc-drhc.gc.ca/student_loans/engraph/index.html

Alternatively, please contact the Canada Student Loans Program at

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Learning and Literacy Directorate
Human Resources Development Canada
P.O. Box 2090, Station D
Ottawa, Ontario K1P 6C6
Telephone: 1-819-994-1844
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FOREWORD

I am pleased to present to all Canadians this report on *Review of the Government of Canada's Student Financial Assistance Programs 1997-98*.

The Government of Canada remains firmly committed to ensuring that post-secondary education is affordable and available to all Canadians. For individual Canadians, and for the Canadian economy, knowledge and skills are the key to success in a world that is increasingly based on the fullest development of human resources.

The Canada Student Loans Program was created in 1964 to provide financial assistance for students at the post-secondary level. The program, and other forms of student aid that have subsequently been introduced by the Government of Canada, is managed as a shared responsibility with provincial and territorial governments. Each year, over 300,000 Canadian students benefit from the Canada Student Loans Program, while the Government of Canada indirectly assists more than 175,000 other students through payments to Quebec, Nunavut and the Northwest Territories for their comparable programs.

Since its introduction, the Canada Student Loans Program has been periodically improved and additional components have been added to meet the evolving needs of post-secondary students. Among the measures introduced in recent years are Canada Study Grants, Debt Reduction in Repayment and enhanced Interest Relief. The Government of Canada also created the Canada Millennium Scholarship Foundation, a $2.5 billion fund designed to provide, over a period of ten years, more than $300 million per year in scholarships to students.

We are continuing to work with provincial and territorial governments, college and university administrators, student groups, and other stakeholders to improve the Government of Canada's Student Financial Assistance Programs. In so doing, we will help to ensure that Canadians have access to the knowledge and skills they need to contribute fully to their own future and that of Canada.

Jane Stewart, P.C., M.P.
Minister of Human Resources Development Canada

INTRODUCTION

This report is intended to provide Parliament, and Canadians generally, with information on the administration of the programs authorized by the Canada Student Financial Assistance Act.

The report begins by outlining the context for federal student aid, including the reasons why such financial assistance is needed and the historical evolution of the federal role in providing it. It then reviews the performance of the Canada Student Loans Program for the 1997-98 Loan Year, that is from July 1, 1997 to June 30, 1998. Finally, the report explains the major reforms to Canada Student Financial Assistance that were introduced in 1997 and 1998.

The Annex provides typical examples of students in various circumstances and the financial assistance they can expect to receive from the Canada Student Loans Program and from provincial or territorial aid programs.

FEDERAL STUDENT ASSISTANCE

The Importance of Post-Secondary Education

In the knowledge-based economy, a basic requirement for economic growth and international competitiveness is the availability of a highly educated and well trained workforce. Access to post-secondary education is therefore an essential component of a nation's economic strategy.

Likewise, the quality of essential services such as public education, health care, law enforcement and social assistance is dependent upon the skills acquired by professionals and support workers through post-secondary education. In large measure, the cultural vitality of a nation and the functioning of its system of governance are also linked to its post-secondary education opportunities.

For the individual, economic success tends to be closely linked to educational attainment. Compared to people with high school education or less, graduates of university and college programs generally have higher incomes and lower unemployment rates throughout their adult lives. Career choice and satisfaction are also enhanced through participation in post-secondary education. Readily accessible post-secondary education also functions as one of the most important routes to achieving equality of opportunity in society.

Thus, for a wide variety of fundamental reasons, post-secondary education has, in the second half of the 20th century, become one of the most important public investments and a key determinant of a society's success. Through the efforts of governments, education institutions and a population convinced of the value of learning, Canada has come to have a rate of participation in college and university education that is among the highest in the world.

For post-secondary education to be widely accessible, two basic requirements must be met. First, there must be sufficient numbers of places in high quality programs of all kinds available throughout Canada. Second, potential students must not be unduly deterred from participation in these programs as a result of financial considerations.

Providing education opportunities for Canadians is primarily a responsibility of provincial and territorial governments and their institutions, with private sector institutions playing an important role in some areas, such as skill training. The federal government assists in a variety of ways, including fiscal transfers to provincial and territorial governments[1] and support for university research through the research granting agencies.[2]

The student assistance programs of federal, provincial and territorial governments, supplemented by institutional aid and privately funded scholarships, play a crucial role in making this education accessible to Canadians from all backgrounds despite differences in their financial situations.

The Need for Student Aid

The benefits of post-secondary education are substantial, but so too are the costs. Students or their families must not only pay the cost of tuition and books, which alone can range from a few hundred dollars to several thousand per academic year, but they must also meet basic expenses for housing, food, clothing and transportation. In some cases, students can minimize their living costs by staying at home with parents other family members while attending a local institution. But many need or want to study away from home, and others have dependants of their own to support. Thus the annual cost of participation in post-secondary education can vary greatly. As one indicator, the total cost of a year of full-time studies at university, college or private career

1 Through the Canada Health and Social Transfer (CHST).

2 The Natural Sciences and Engineering Research Council (NSERC), Social Sciences and Humanities Research Council (SSHRC) and the new Canadian Institutes for health Research (CIHR).

college can easily add up to $10,000 or more. Moreover, the duration of studies can vary from a few months for skill training to six or more years for a professional or advanced degree.

Such costs are more than many students and their families can afford. Moreover, without government guarantees, financial institutions would not lend to many young Canadians for their educational needs. Such institutions usually require collateral for loans and despite its ultimate value as an investment, a student's knowledge is impossible to repossess. Thus government student loan programs are a key to educational access, as federal, provincial and territorial governments have recognized for many years.

A particular reason for the Government of Canada to be involved in student assistance is to preserve student mobility between provinces. Unlike some provincial student loan programs, Canada Student Loans are fully portable throughout Canada.

Many of the recent developments in federal student aid detailed in a later section of this report address the special needs of certain students by providing funding that is not repayable. For example, students with disabilities encounter many additional costs, while those with dependants, such as single parents, also require higher levels of assistance; in many cases, a substantial portion of the assistance for such students is in the form of a grant. Likewise, graduates who are unemployed or in low-paid jobs may encounter difficulty in repaying their student loans and require help in the form of temporary interest relief.

The Evolution of Federal Programs

The Government of Canada has been helping Canadians gain access to post-secondary education since the end of the First World War. In November 1918, the Government of Canada authorized the granting of loans to a maximum of $500 to disabled veterans who wished to resume a course of study interrupted by war service. These loans were repayable after five years.

In 1939, the Government of Canada introduced the Dominion-Provincial Student Aid Program (DPSAP), which provided matching grants to any province that established a program of student assistance based on academic merit and financial need. By 1944, all provinces had joined the scheme, but the form of its implementation differed among jurisdictions, from loans to non-repayable grants.

The Canada Student Loans Program (CSLP) replaced the DPSAP in 1964. Under the new program, banks and credit unions made loans to students in amounts determined according to a standardized assessment of student need. The Government of Canada guaranteed the loans in case of death or default. The delivery of the program was undertaken by provincial governments, which also provided a significant amount of student aid of their own.

From the beginning, Quebec chose not to participate in the program, and the Northwest Territories withdrew some years later.[3] In return, these jurisdictions received an alternative payment to assist them with the cost of operating their own similar programs.

Apart from a reform in 1983 that saw the introduction of the Interest-Relief Plan and part-time student loans, the basic elements of the program remained essentially unchanged through the 1970s and 80s. By the early 90s, however, the CSLP structure was seen to be in need of revision and loan limits required adjustment to compensate for substantial increases in costs of living and tuition.

Accordingly, in 1994, a new arrangement between the Government of Canada and participating jurisdictions was introduced. In addition, the weekly loan limit (which had remained frozen since 1984) was raised from $105 to $165. At the same time, the need assessment approach was revised to take account of the circumstances in different provinces.

Special Opportunities Grants were also introduced at this time. These were first designed for students with disabilities and later expanded to include high-need part-time students and women in certain doctoral disciplines.[4]

Another major change came in 1995, when a new arrangement with financial institutions was negotiated. Instead of guaranteeing Canada Student Loans, the Government of Canada paid each participating financial institution a “risk premium” of 5 per cent of the value of loans it consolidated that year.

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3 The new territory of Nunavut has also chosen not to participate in CSLP.

4 In 1998, students with dependants also became eligible for these grants, which were re-named Canada Study Grants.

There was by this time growing public concern regarding rising student debt. The increase was due primarily to three factors: rising tuition fees, which increased student financial need; higher federal and provincial loan limits, which allowed some students to obtain larger student loans each year; and the move by provinces generally to replace non-repayable grant programs with loan programs.

In response, the Government of Canada’s 1997 Budget introduced measures to extend the period of Interest Relief available to borrowers encountering difficulty due to unemployment. It also improved the system of tax credits for post-secondary education and strengthened Registered Education Savings Plan arrangements.

The 1998 Budget introduced the Canadian Opportunities Strategy, the largest-ever federal investment in access to post-secondary education. Among the important elements of this strategy was a new Debt Reduction in Repayment measure, which provided remission of student debt in cases where the borrower was unable to repay loans due to a combination of high debt and low income over a long period of time.

The changes introduced in 1997 and 1998 are discussed in more detail in a later part of this report.

THE CANADA STUDENT LOANS PROGRAM 1997-98

In delivering the Canada Student Loans Program (CSLP), the Government of Canada works closely with its partners. The provincial and territorial governments provide assistance by administering and delivering CSLP in participating jurisdictions across the country, thus enabling students to deal with only one government agency in obtaining federal and provincial or territorial financial assistance. The participating banks and other financial institutions are responsible for providing the loans to students and for ensuring their subsequent repayment.[5]

The Role of Provinces and Territories

The partnership with provinces and territories in the delivery of the Canada Student Loans Program has two main aspects: needs assessment and provision of financial assistance.

With respect to the process of assessing student need in relation to available resources, the Government of Canada and participating jurisdictions work together to develop common need assessment criteria to be applied to the assistance programs of both orders of government. This makes it possible for provincial and territorial authorities to process applications for both Canada Student Loans and provincial student aid at the same time. The federal government pays the provinces and territories a fee to compensate them for administering the federal program in their jurisdiction.

It should be noted that provinces and territories are not required to be a part of the CSLP. From the beginning, the legislation has allowed jurisdictions to receive an alternative payment from the Government of Canada if they provide student assistance measures which are substantially the same as the federal program. Quebec and the Northwest Territories have chosen such alternative payments over direct participation in the CSLP.[6]

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5 This description deals with the Canada Student Loans Program as it operated in 1997-98. There have been very significant changes since that time, some of which are explained in later portions of the report dealing with program renewal under the Canadian Opportunities Strategy (page 17), while others are continuing.

For up-to-date information on the program, please see the CSLP Website or one of the other information sources listed at the front of this report.

6 As has the new territory of Nunavut.

The second area of cooperation is in meeting student financial needs. Since 1994, the arrangement has been that the federal government would, through a Canada Student Loan, cover 60 per cent of a student's assessed needs, up to a maximum of $165 per week of study. In some cases, a Special Opportunity Grant would supplement this amount.

Each province has its own method of determining to what extent it will meet the student's remaining financial need; in most participating provinces students are able to receive up to a further $110 per week from the provincial assistance program, generally in the form of a student loan. Thus, the typical maximum total amount available to students in federal and provincial assistance is $275 per week. It should be noted that most students have lower needs and do not qualify for this amount. Some provinces may also provide additional support under certain circumstances.

The Role of Financial Institutions

The Canada Student Loans Program does not itself provide loans to students. Instead, financial institutions, which have chosen to participate in the program by entering into a financing arrangement with the Government of Canada, disburse loans to student borrowers. The institutions are then fully responsible for ensuring repayment of the loans.[7]

The process begins with a student obtaining an eligibility certificate from the provincial/territorial student aid authority. Participating financial institutions may not refuse a loan to any student with a valid certificate. Hence, government makes all decisions pertaining to eligibility for and amount of student loans, even though the financing and administration of the loans is undertaken by a bank, credit union or caisse populaire.

Starting August 1, 1995, participating financial institutions were paid a "risk premium" equal to 5 per cent of the total value of loans from the institution going into repayment that year. Recovery of loans in repayment became entirely the responsibility of the financial institution that issued them.

Loans that were made prior to August 1, 1995 and which are still outstanding continue to be administered under the old system and are guaranteed by the Government of Canada.

7 Note that there have been significant changes in the role of financial institutions since the 1997-98 Loan Year, with which this report deals. For up-to-date information on the program, please see the CSLP Website or one of the other information sources listed at the front of this report.

PROGRAM PERFORMANCE

This section provides information on the operation of the Canada Student Loans Program in the Loan Year 1997-98. Data are drawn from Main Estimates and from Statistics Canada surveys.

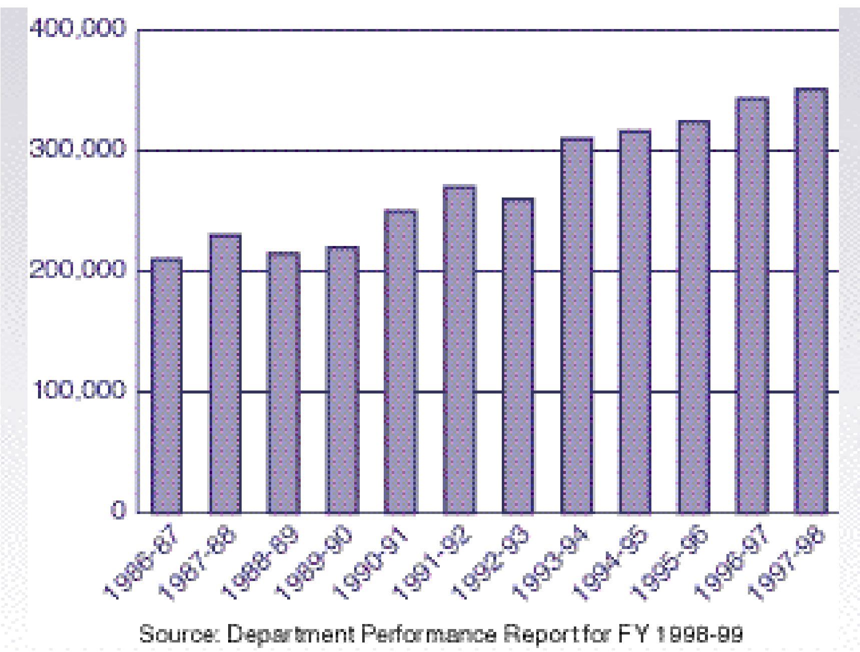
Borrowing

Total Borrowing

In 1997-98, 350,774 full-time students made use of the Canada Student Loans Program (CSLP). As shown in Chart 1, numbers of borrowers have increased some 67 per cent over the past ten years. Students using the CSLP in 1997-98 borrowed a total of $1.58 billion, for an average of $4470 per student. The total value of outstanding loans under the Program as of March 31, 1998 was $7.1 billion.

Chart 1

Full-Time Students Borrowing under CSLP



Most CSL borrowers receive a provincial loan as well as a federal loan. Arrangements vary significantly among provinces, but the average CSL loan of $4470 generally corresponds to a provincial loan of up to $2980, for combined federal-provincial borrowing in such a case of up to $7450.

Overall, 47 per cent of full-time students at the university and college levels borrowed in 1997-98. According to data from the 1995 Graduate Survey, over 54 per cent of college and university students borrow at some point in their post-secondary careers.[8]

Borrowing by Women and Men

By the 1990s, a majority of borrowers under CSLP were women; in 1997-98 the proportion was 54 per cent. The increase over previous decades mirrors the overall trend in enrollments, with women becoming the majority in post-secondary education, especially at the undergraduate level. Through the early 1990s, women on average borrowed less under CSLP than men did, in part because of the concentration of men in the high-cost career college sector. By 1997-98, however, the average level of women's borrowing was 3 per cent higher than that of men.[9]

Borrowing by Province and Territory

Table 1 shows the number of full-time undergraduate students receiving Canada Student Loans in each participating province and territory and the percentage change from 1994-95 to 1997-98. The average increase over this period was 11.1 per cent, but individual figures ranged from declines in Saskatchewan, Yukon and Manitoba to an increase of over 50 per cent in Newfoundland.

Chart 2 show changes in average CSL borrowing by jurisdiction. Overall, the annual amount borrowed increased 28 per cent over the three-year period from 1994-95 to 1997-98.

8 National Graduate Survey, Statistics Canada

9 Note that in most cases, this amount represents about 60 per cent of the student's borrowing in a given year, with a provincial loan making up the rest.

Table 1

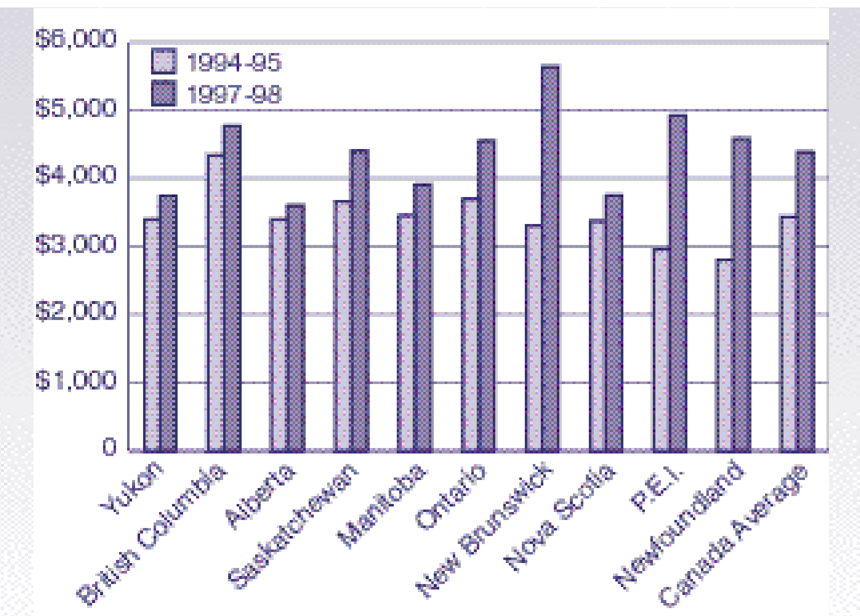
Number of Canada Student Loans Borrowers by Province

	1994 -95	1995 -96	1996 -97	1997 -98	Change 94-95 to 97-98
Newfoundland	12,478	15,236	18,717	18,796	50.6%
P.E.I.	2,065	2,107	2,169	2,312	12.0%
Nova Scotia	13,430	14,608	16,201	16,748	24.7%
New Brunswick	10,422	9,455	13,437	14,127	35.5%
Ontario	180,644	178,771	185,297	188,108	4.1%
Manitoba	9,629	9,199	9,208	9,488	-1.5%
Saskatchewan	14,663	13,705	12,951	13,051	-11.0%
Alberta	32,656	37,439	38,900	36,973	13.2%
British Columbia	39,397	43,361	46,103	50,904	29.2%
Yukon	286	284	241	267	-6.6%
Canada	315,670	324,165	343,224	350,774	11.1%

Source: Main Estimates 1998-99[10]

Chart 2

Average Canada Student Loan by Province 1994-95 and 1997-98



Source: Department Performance Report for FY 1998-99

10 Unless otherwise noted, all data in this report are from Main Estimates. In previous years, some data were provided from CSLP administrative sources; these may differ somewhat from numbers shown here.

Borrowing by Type of Educational Institution

The number of borrowers studying at the university level has remained roughly constant in recent years, as is shown in Chart 3, while the number studying in the community college sector has increased by 14 per cent over the period from 1994-95 to 1997-98. By contrast the number of borrowers studying in private vocational institutions has risen 45 per cent over the same period. The numbers are consistent with data showing that total full-time university enrollments have been relatively stable for most of this decade, while public and private college enrolments have increased.

Chart 3

Canada Student Loans by Type of Institution

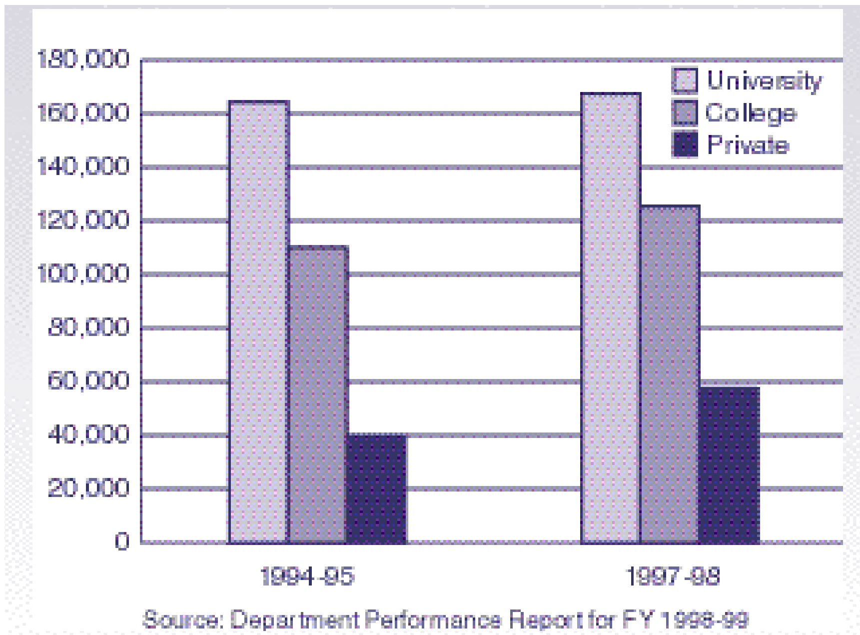
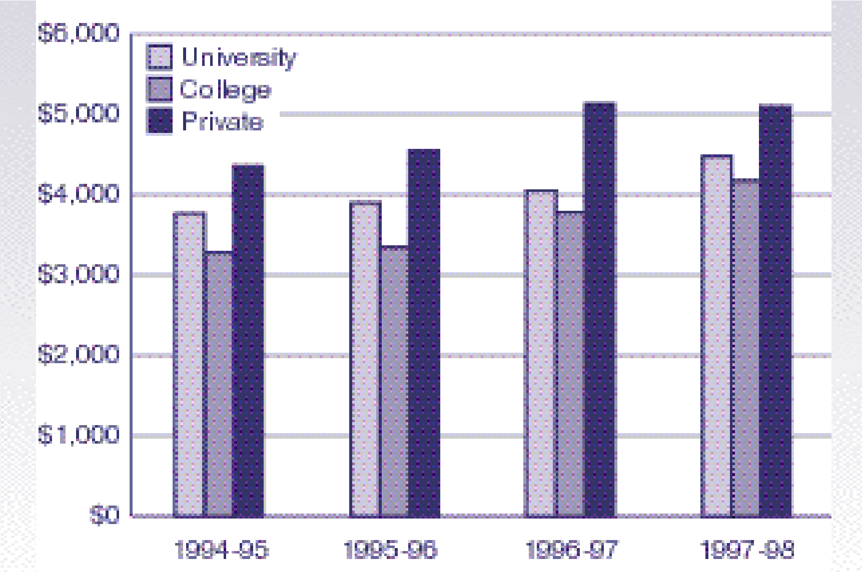


Chart 4 shows that the amount borrowed has increased for all types of educational institution, a result mainly of the steady rise in tuition fees in recent years. Annual borrowing among students in the private college sector is significantly higher than among students in universities and colleges, due to higher tuition costs; hence, the rapid increase in the number of borrowers attending private sector educational institutions has particularly important cost implications for the Program.

Chart 4
Canada Student Loans: Average Annual Amount by Type of Educational Institution

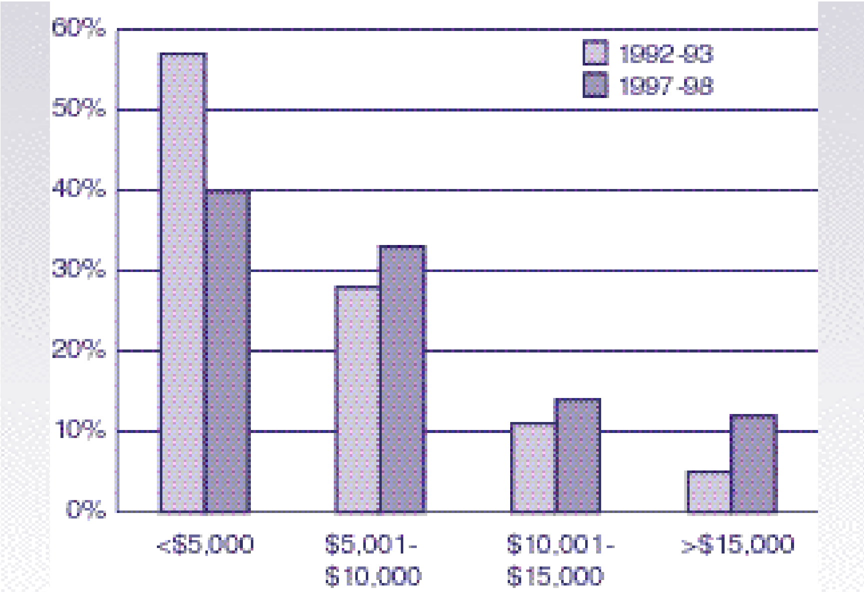


Source: CSLP Research Database

Student Indebtedness

One of the areas of concern in recent years has been the level of indebtedness resulting from student loans. Chart 5 shows borrowers still in school in participating provinces and the amount they owed under CSLP in 1997-98 as compared with

Chart 5
Percentage of Full-Time Students with Various Levels of Debt 1992-93 and 1997-98



Sources: Main Estimates 1992-93 and Department Performance Report for FY 1998-99

1992-93. Over this five-year period, among students who borrowed under CSLP, the proportion owing $10,000 or less declined from 85 percent to 73 per cent. In the same period, the proportion owing over $15,000 more than doubled, from 5 percent to 12 percent.[11]

Borrower Defaults

Within the context of the Canada Student Loan, the term "default" describes the status of loans issued prior to August 1, 1995 that have not been paid in full.[12] These loans are guaranteed by the Government of Canada and can be claimed by the financial institution involved. A defaulted Canada Student loan is not simply written off. Once a such a loan has been submitted by a bank, credit union or caisse populaire to the Government of Canada under the loan guarantee provisions, the loan belongs to the Government of Canada, which may take steps to recover the loan itself. This recovery is undertaken by a collection agency or by the government using the income tax system to withhold any refunds available to individuals with outstanding loans. In 1997-98, recoveries on defaulted student loans (minus collection agency costs) were $146.5 million.

Whether they are dealt with by the program or by the lending institution, defaults are, in part, a sign of economic distress among borrowers. In particular, high debt-to-income ratios make steady repayment difficult. An econometric analysis of CSL defaulters has shown that, conversely, every increase of $1000 in average post-school annual earnings decreases the average default rate by 1.5 percentage points.[13]

However, there seem to be other factors in default whose influence is less clear. For instance, for a given income level, default rates among graduates of community colleges are 15 percentage points higher than among university graduates, while the figure for private colleges is 25 percentage points higher.

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11 Note that these amounts refer only to CSL borrowing. Most of these students would also be in receipt of a provincial loan.

12 For loans issued since August 1, 1995, the lending institution can no longer claim from the federal government in cases of default.

13 Technical Reports. Evaluation of the Canada Student Loans Program, Evaluation and Data Development, Strategic Policy, Human Resources Development Canada, 1997.

14 Ibid.

In many cases defaulting borrowers appear to be unaware of their financial situation. A 1997 survey[14] of CSL defaulters showed that 52 per cent of those responding reported that they only discovered they were in default when they were contacted by a collection agency. Nearly a third said they were completely surprised when they learned of their status.

Defaults on the guaranteed student loan portfolio declined from $379.4 million in 1996-97 to $350.9 million in 1997-98. While this may reflect improved economic conditions, it also results in part from the decline in total number of outstanding “old-type” loans. Nevertheless, despite the change in the CSL system, data on defaults remains a useful indicator of the difficulties encountered by a minority of borrowers in repaying their student loans.

Accountability

Table 2 provides fundamental data on the operation of the Canada Student Loans Program in 1997-98 and over the previous five years.

Claims paid refers to money paid by the Government of Canada to financial institutions on Canada Student Loans that had gone into default under the pre-1995 guaranteed loan system. It also covers the costs of guaranteeing loans to minors, and of defaults that occur due to the borrowers’ death or disability. The cost of claims is expected to continue its decline in future, as the number of guaranteed loans in repayment declines.

It should be noted that the extraordinary level of claims in 1995-96 is not a sign of great student distress in that year but reflects rather the government’s clearing of a backlog of claims when the new risk-premium agreements were signed with participating financial institutions.

Interest subsidy is an expenditure whose size is determined by a combination of the participation rate and interest rates. The general downward trend in interest rates over the course of the decade has offset the large increase in program participation, thus keeping overall expenditures on interest subsidy roughly stable over time.

The sharp increase in *interest relief* expenditures beginning in 1996-97 reflects mainly the expansion of eligibility criteria starting in 1995.

Table 2

CSLP Expenditures by Fiscal Year (in $ millions)

	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
Claims Paid	175.8	151.2	201.7	437.2	379.4	350.9
Interest Subsidy	195.1	230.1	193.5	193.3	160.8	163.7
Alternative Payments	86.7	72.8	93.8	164.4	95.9	74.9
Collection Costs	23.4	22.3	20.8	18.9	28.6	24.9
Interest Relief	13.5	18.5	15.1	17.5	24.4	37.9
Loans Forgiven	4.0	4.2	4.3	5.1	3.1	8.1
Risk Premium	0.0	0.0	0.0	0.2	29.4	58.5
Special Opportunity Grants	0.0	0.0	0.0	7.8	12.4	14.8
Administration Fees	0.0	0.0	0.0	0.0	9.1	9.7
Total Expenditures	498.5	499.1	529.2	844.4	743.1	743.4
Recoveries	99.8	107.7	103.5	111.0	173.9	150.6
Set-offs from Income Tax	23.0	18.7	16.9	17.1	20.0	20.9
Total Recoveries	122.8	126.4	120.4	128.1	193.9	171.5
Guarantee Fees	25.5	3.2	0.0	0.0	0.0	0.0
Total Revenues	148.3	129.6	120.4	128.1	193.9	171.5
NET EXPENDITURES	350.2	369.5	408.8	716.3	549.2	571.9

Source: Main Estimates 1998-99

Collection costs: For loans issued prior to August 1, 1995, once the Government of Canada has paid a claim, it takes responsibility for collecting from the borrower. This usually involves sending the loan to a collection agency.

Risk Premium: Under the provisions of the 1995 agreement with lending institutions, the government pays to the lenders a risk premium based on the value of loans consolidated for repayment in that year.

Special Opportunity Grants: Introduced in 1995, these non-repayable grants assist growing numbers of students with particular financial requirements. The cost has grown as the provisions for this form of assistance have been broadened.

Administrative Fees: Pursuant to the Canada Student Financial Assistance Act, the Government of Canada has in recent years entered into arrangements with participating provinces to facilitate the administration of the CSL program. Fees to provinces are calculated using a basic operating cost and a per-certificate component. In addition, funds are available to fund joint federal-provincial initiatives.

Alternative payments to Quebec and the Northwest Territories, the other major CSLP expenditure, is calculated as a fraction of other program expenditures. Thus, as claims, participation and interest rates rise and fall, so do the alternative payments. The fraction itself varies somewhat, since it is also related to the size of each jurisdiction's youth population.

Loans forgiven represent those loans for which the government has paid the full amount to a participating financial institution and is not seeking repayment from the borrower. This applies in cases where the borrower has died or has become permanently disabled to the extent that loans cannot be repaid without undue hardship. Recoveries represent government revenue from the collection of loans on which claims had previously been paid. The government may also garnish income tax refunds from borrowers who have previously defaulted on their loan and have not yet made alternative repayment arrangements. This revenue is reported separately as *Set-offs from Income Tax*.

THE CANADIAN OPPORTUNITIES STRATEGY

In the past few years, there has been heightened public awareness of the importance of student assistance, and growing concern about the total amounts of debt that students were incurring in order to complete their studies. Consultations with key stakeholder groups, including students, led the Government of Canada to introduce a wide range of important amendments and new initiatives during 1997 and 1998.

In particular, the 1998 Budget introduced the Canadian Opportunities Strategy, a massive package of reforms to address the concerns of Canadians about the affordability of post-secondary education and to improve the functioning of the measures under the *Canada Student Financial Assistance Act*.

Canada Study Grants

A new Canada Study Grant[15] was created in 1997 for students with dependants. It provides additional grant aid for students with dependants with assessed need of over $275 per week. Students with one or two dependants are eligible for up to $40 per week in grant aid (covering need between $276 and $315 per week). Students with three or more dependants are eligible for up to $60 per week in grant aid (covering need between $276 and $335 per week).

Assistance with Student Loan Repayment

The Canada Student Loans Program was enhanced in 1997 by extending borrowers' period of eligibility for Interest Relief from 18 to 30 months. This significantly improved the protection available to borrowers paying loans while making their way into the labour market.

The Interest Relief plan was further enhanced in 1998. The income thresholds used to qualify for interest relief were raised by 9 per cent. Moreover, the 30 months of eligibility was made available throughout the life of the loan, and not just for the first five years, as was previously the case.

The Interest Relief plan was also extended in duration. Students who exhaust 30 months of interest relief will be required to extend the repayment period of their loans from 10 to 15 years, thus reducing the monthly payment. If this reduction is still not

15 Previously known as Special Opportunity Grants.

sufficient to allow them to maintain their loans in good order, Interest Relief will be extended to 54 months during the five years after their leaving school.

A new Debt Reduction in Repayment (DRR) measure was introduced, effective August 1, 1998 for students who remain in financial difficulty after interest relief has been exhausted. The new DRR grant will pay down the debt of those borrowers who have exhausted interest relief and have very high debt-to-income ratios. The maximum amount of assistance will be the lesser of 50 per cent of the loan amount or $10,000.

Improved Program Administration

In order to improve the integrity of the Canada Student Loans Program, the Government of Canada announced that it would tighten eligibility on student assistance to deny assistance to students with a history of credit abuse. Under new regulations, students over the age of 22 with three instances of credit abuse (defined as being in arrears in payments for 90 days or more on debts of $1000 or more each) in the past three years will be ineligible for CSL assistance. Students will not be denied assistance if it can be shown that circumstances beyond their control led to their poor credit history.

Changes to bankruptcy legislation were also made to ensure that student loans survive bankruptcy for 10 years following the completion of studies. This reflects the new measures that have been put in place to help graduates in financial hardship and which should make bankruptcy unnecessary.

A commitment was also made to improve communications with student borrowers.

Harmonization with Provinces and Territories

The Government of Canada reiterated its commitment to working with participating jurisdictions to improve harmonization between the Canada Student Loans Program and provincial or territorial financial assistance programs. A principal aim of these efforts is to combine federal and provincial components of student aid into a single loan product, thereby streamlining administration for both borrowers and lenders.

Tax Measures to Support Learning

While not part of the Canada Student Loans Program, tax measures play an important part in helping individuals and families finance post-secondary education. They thus complement the student aid measures of both federal and provincial governments.[16]

The **tuition tax credit** was expanded in 1997 to include university or college ancillary fees. Previously, only student fees that were specifically labelled as "tuition" were eligible. The proliferation of ancillary fees – in some cases exceeding $500 per year – means that this change significantly increased the tax credit for many students.

The **education tax credit**, previously set at $100 per month of full-time study, was increased to $150 per month for 1997 and further increased to $200 per month starting in 1998.

Provision was also made for students to carry forward indefinitely the value of education tax credits. Previously, the credits were lost when students' income was too low to require the full value of the credits to reduce the tax payable to zero, and when they did not or could not transfer the value of these credits to a parent, guardian or spouse. With the new provision, students can carry forward unused credits until their taxable income is high enough for them to be used.

The 1998 Budget provided **tax relief for students repaying their student loans**. From 1998 onwards, individuals in repayment may claim a tax credit of 17 per cent on interest paid on government student loans.

Tax relief was also provided for **part-time students**. Students became eligible for a $60 month credit for every month they spend in part-time studies. Also, the child care expense deduction introduced for full-time students in 1996 was extended to include part-time students.

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16 Since in most jurisdictions provincial income tax is a percentage of federal income tax, federal tax measures affect provincial tax revenues. Hence provinces are also contributing to this form of assistance to students.

Changes in **Registered Retirement Savings Plan** legislation were introduced allowing Canadians to withdraw money tax-free from their RRSPs for the purpose of lifelong learning. Such withdrawals from RRSPs for education are now treated like RRSP withdrawals for first-time homebuyers. Up to $10,000 may be withdrawn from an RRSP per year of fulltime study, to a total of $20,000 over a maximum of four years. The full amount must be repaid to the RRSP within ten years.

Registered Education Savings Plans (RESPs) were improved in a number of ways. First, annual contribution maximums were increased to $4000 annually. Second, the old provision requiring forfeiture of any interest or capital gains if the designated beneficiary chose not to pursue post-secondary education was repealed. Under the new arrangements, if the beneficiary does not pursue post-secondary education, the contributor may roll over the interest and/or capital gains into any unused RRSP contribution he or she might have. Alternatively, the contributor may claim the interest and/or capital gains as income in the year the RESP expires, subject to a 20 per cent penalty on top of regular income tax.

The attractiveness of RESPs as a vehicle for investing in learning was further enhanced through the introduction of the **Canada Education Savings Grant** (CESG). The Government of Canada now provides a matching grant of 20 per cent on the first $2000 of contributions made each year to an RESP for a beneficiary up to the age of 18. The value of this grant is therefore up to $400 per year. Furthermore, the contribution room may be carried forward, thus allowing a family that has been unable to make contributions for one or more years to catch up in later years.

Canada Millennium Scholarships

The most striking part of the Canadian Opportunities Strategy announced in the 1998 Budget was the creation of the Canada Millennium Scholarship Foundation with an endowment of $2.5 billion. This arms-length foundation will draw down the endowment over a ten-year period in order to provide scholarships worth $300 million annually to students who demonstrate both financial need and merit. This is the single largest investment ever made by the Government of Canada to support access to knowledge and skills.[17]

Canada Millennium Scholarships will supplement the resources available to students under the Canada Student Loans Program and the various provincial and territorial student assistance programs.

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17 The first scholarships were made available in January 2000.

ANNEX: EXAMPLES OF STUDENT AID

The following examples are fictitious but realistic cases, selected to show how the Canada Student Loans Program (CSLP) applies to students in various situations. They also show how provincial or territorial student aid can work with the federal program.

In addition to details of the student's own financial situation, many other kinds of data may be required to determine eligibility for student aid. For example, students who are not yet independent must provide information on their parents' income and assets, while married students must provide information about both their own and their spouse's circumstances. Note that the province or territory of residence, and that in which the study will take place, must be specified, as living costs and provincial aid programs vary. Moreover, Quebec, Northwest Territories and Nunavut do not participate in CSLP but operate their own aid programs with federal assistance.

The calculations in these examples were done using the CSLP Student Needs Assessment Software (SNAS), which is available to the public on the CanLearn Interactive Website.[18] This program enables the user to obtain an estimate of the student aid available in any given set of circumstances. Also available on the same site are the CSLP Policy and Procedures Manual, various other information on student financial aid and links to provincial and territorial websites. Readers who wish to explore the details of specific cases are encouraged to use these facilities.

Only the main factors used in the calculations are shown in the examples; in many cases additional assumptions have been made to allow the calculations to be completed. Also, both the data and the calculated numbers are rounded, as the aim is only to show broad principles and typical results. The numbers and rules used in calculating these examples pertain to 1999-2000 and are subject to change. Nevertheless, the examples should serve to give a concrete sense of how the program works and how the needs assessment process applies in different circumstances.

18 At www.canlearn.ca.

Anne:
Dependent Student Living at Home

Anne is 19 and an undergraduate in a three-year degree program at the University of Prince Edward Island. Her tuition fees are $4000 per year and in addition she pays $1000 for various books and supplies.

She is an only child and lives at home in Charlottetown with her parents, who have a combined income of $45,000 per year. She worked during the summer, averaging $300 per week.

Her costs for the study period, including a basic student living allowance of $2933, are assessed at a total of approximately $7800.

Anne's contribution from employment over the past 16 weeks is assessed at $2400, while the contribution of her parents, based on their income of $45,000 and the fact that they have no other dependent children attending post-secondary education, is assessed at $1850.[19] In total, Anne's resources are assessed at approximately $4250.

Anne thus has an assessed need of approximately $3550 (costs of $7800 less resources of $4250) and she can expect to obtain this amount in student aid. This would take the form of a Canada Student Loan of approximately $2130 (60 per cent) and a provincially authorized student loan of approximately $1420 (40 per cent).

Brian:
Single Independent Student

Brian is 25 and lives in Ontario. After working for several years he is returning to college for a two-year diploma program. His tuition fees are approximately $2000 per year and he has a further cost of $1500 per year for books and supplies.

Brian lives on his own and is independent of his parents. He has been earning $225 per week prior to going back to school and will be earning $100 per week from a part-time job while going to school. He has a car valued at $4000.

19 Note that in these circumstances Anne would not qualify for student assistance if her parents' combined income exceeded about $56,000.

Brian’s costs are assessed at approximately $6500, including living allowance. His resources are assessed at approximately $2300, of which $300 comes from his pre-study earnings and the rest from his part-time work while studying. His car does not count in the calculations, as only the value above $5000 is considered in assessing vehicles as assets.

Brian’s net assessed need is approximately $6500 less $2300, or $4200. The Canada Student Loans Program will provide 60 per cent of this amount ($2520) and a provincial student loan of $1680 will cover the rest.

Claudette:
Married Student with Employed Spouse

Claudette, who is 28, lives with her husband in British Columbia and has been enrolled for several months in a masters degree program. Her tuition fees for the coming academic year are $6000, while books and supplies will cost $1000.

Claudette’s husband is working full-time and earns $26,000 a year. They have no children. In addition to a car worth $7000, they have financial assets consisting of $9000 invested within RRSPs and $1000 in savings bonds not in an RRSP. Claudette has not been earning since she started her studies but expects to receive $3000 as a research assistant this year.

Their costs for Claudette’s 34-week study period are assessed at approximately $21,000, including some $14,000 in combined living expenses for herself and her spouse (allowing for an apartment, food and personal costs).

Their resources are assessed at some $16,000. This includes approximately $13,000 as a contribution from earnings before and during the study period, plus $2000 for their car as an asset (its value less $5000). In addition, their $1000 in savings bonds counts as an asset. Their RRSP savings, however, are not counted, as Claudette and her husband are each allowed $2000 per year in RRSP savings for every year they have been out of high school.

Under these circumstances, Claudette has approximately $5000 in assessed need. She could expect to be eligible for a Canada Student Loan of some $3000 (60 per cent) and a loan of approximately $2000 from the provincial program.

Dagmar:
Single Parent

Dagmar lives in Alberta and is a single father who has custody of his four-year-old child. He is currently unemployed and not eligible for Employment Insurance. To develop his job skills, Dagmar is planning to attend a provincially designated private college in a course that will last 6 months and cost $6000 in tuition plus $2000 in books and supplies.

Dagmar has used up his savings and drives a ten-year-old car valued at $1000. His child attends subsidized daycare at a cost of $20 per week.

Dagmar's costs are assessed at approximately $18,000 for the study period. Since he has no resources that need to be taken into account, this is also his assessed need. He would therefore be eligible for the maximum Canada Student Loan of $165 per week, or $4290 over the 26 weeks of his study period. The provincial program would provide a loan of $110 per week, or $2860 over the 26 weeks. Thus Dagmar would have a total of $7150 in basic repayable student aid.

As a single parent, Dagmar might also be eligible for a Canada Study Grant. With one child, he could qualify for $40 per week, or $1040 over the 26 week study period.[20]

The Government of Alberta also provides assistance in some cases to persons in skills development programs. For a single parent with one dependent child, this can provide up to $1140 per month plus child-care costs. In Dagmar's case, this could total nearly $7350 for the six month period of training.

Dagmar's situation is a complex one and it would be essential for him to discuss all the details with a student financial aid officer. In addition, he might seek advice from provincial authorities on issues such as child care and housing. It would also be important for him to assess carefully the prospects of employment resulting from the proposed skill training.

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20 If he had three children he might qualify for the maximum Canada Study Grant of $3000 per year.

Elaine:
Studying in Another Province

Elaine is 21 and lives with her parents in Saskatoon. She has just completed a four-year degree at the University of Saskatchewan. She now wants to take a further year's study in New Brunswick to acquire professional qualifications. Her tuition will cost $8000 and books and supplies will add a further $1500.

Elaine is currently working and is earning $400 per week.

Her assessed costs are approximately $17,000. In addition to living costs of about $5500 for the 34-week period of study, this includes the maximum of $600 for relocation and another $600 for one trip home.

Her resources are assessed at $3662, the contribution corresponding to her summer earnings. (Since she has been out of high school for four years, she is no longer considered dependent on her parents.)

Hence, her assessed need is approximately $13,000. She would be eligible for $9350 in student aid, consisting of $5610 in the form of a Canada Student Loan and $3740 as a loan under the aid program of the Province of Saskatchewan.

Frederick:
Student with Disabilities

Frederick, who uses a wheelchair, is a resident of Manitoba. He is about to enrol in the first year of a four-year degree program. His tuition fees will be $4000 per year, while books and supplies will cost $1500 per year.

Frederick has been living at home with his parents up to now, but will live in residence at the university. Because he has been working for two years since he left high school he is now considered financially independent of his parents.

Because of his disability, he will incur various special costs which are estimated to total $2000 per year during the study period. He may be eligible for a Canada Study Grant to assist in meeting these costs.

Frederick's assessed costs for the first year of university are approximately $12,600. Allowing for $2000 in the form of a Canada Study Grant for special costs related to disability[21] and $1700 from his earnings, his remaining assessed need is approximately $8900.

To meet this need, a Canada Student Loan provides him with $5340 or 60 per cent of assessed need, while the remaining $3560 is available in the form of a provincial student loan.

Ginette:
Quebec Student

Ginette lives in Trois Rivières and plans to attend the local campus of the University of Québec. She is hoping to receive student financial assistance.

As a resident of Quebec, Ginette would not normally be eligible for aid under the Canada Student Loans Program. Rather, she would apply to Quebec authorities for assistance under provincial student aid programs.

In lieu of CSLP, the federal government makes annual payments to Quebec to support the provision of provincial student aid. Thus Ginette may benefit indirectly from federal student assistance. Note that in this respect, Ginette's situation would be broadly similar if she lived in the Northwest Territories or Nunavut, where the governments have also chosen to accept an alternative payment from the Government of Canada rather than using the Canada Student Loans Program.

21 Qualifying for the Canada Study Grant requires a separate application and is not part of the basic needs assessment process.