

Budget 1998



*Building Canada
for the 21st Century*

The Canadian Opportunities Strategy

February 1998



Department of Finance
Canada

Ministère des Finances
Canada

© Her Majesty the Queen in Right of Canada (1998)
All rights reserved

All requests for permission to reproduce these documents
or any part thereof shall be addressed to Public Works
and Government Services Canada.

Available from the
Finance Canada Distribution Centre
300 Laurier Avenue West, Ottawa K1A 0G5
Tel: (613) 995-2855
Fax: (613) 996-0518

and from participating bookstores.

Also on the Internet at:
<http://www.fin.gc.ca/>

Cette publication est également disponible en français.

Cat No.: F1-23/1998-5E
ISBN 0-662-26570-X



There can be no greater millennium project for Canada and no better role for government than to help young Canadians prepare for the knowledge-based society of the next century.

Prime Minister Jean Chrétien
September 24, 1997

Table of Contents

| | |
|---|----|
| Introduction | 7 |
| Creating Opportunity by Expanding Access to Knowledge and Skills | 9 |
| The Strategy | 17 |
| Providing Financial Assistance for Students | 20 |
| Canada Millennium Scholarships | 20 |
| Canada Study Grants | 22 |
| Support for Advanced Research and Graduate Students | 23 |
| Increased Funding for Granting Councils | 23 |
| Helping Manage Student Debt | 25 |
| Tax Relief for Interest on Student Loans | 26 |
| Improvements to the Canada Student Loans Program | 26 |
| Helping Canadians Upgrade Their Skills | 30 |
| Tax-Free RRSP Withdrawals for Lifelong Learning | 30 |
| Education Credit for Part-Time Study | 31 |
| Child Care Expense Deduction for Part-Time Study | 32 |
| Encouraging Families to Save for Education | 34 |
| Canada Education Savings Grant | 34 |

| | |
|--|-----------|
| Supporting Youth Employment | 38 |
| Employment Insurance Premium Holiday for Youth Employment | 38 |
| Youth at Risk | 39 |
| Connecting Canadians to Information and Knowledge | 40 |
| Expanding SchoolNet and the Community Access Program | 40 |
| What the Strategy Means to Canadians | 43 |
| Acting on Shared Goals | 44 |

Introduction

Canada's economic prospects will depend more and more on the skills and strengths of our people. Canadians must have the knowledge and skills to participate in the changing economy. A productive and innovative workforce can give Canada the vital edge in competing in world markets. Preparing Canadians for the 21st century is our goal.

For individual Canadians, knowledge and skills offer hope and opportunity: the prospect of better jobs and a higher standard of living. The acquisition of knowledge and skills is the greatest equalizer of all.

The *Canadian Opportunities Strategy* will help ensure that all Canadians – especially those with low and middle incomes – have an equal opportunity to participate in the changing economy. It will do so by reducing financial barriers and other obstacles that stand in the way of acquiring skills and knowledge. By expanding access to opportunity, the government is building a stronger economy and a more secure society.

Creating Opportunity by Expanding Access to Knowledge and Skills

Expanding Canadians' access to knowledge and skills is one of the most significant challenges facing us as we prepare for the 21st century. Our quality of life as Canadians and our economic prospects as a country depend on our abilities to think, innovate and create in a world transformed by information and technology. The changes that are taking place in the economy are altering the way Canadians work and the skills they need to find a job, to keep a job, or to move on to a better job.

In a rapidly changing labour market, the knowledge and skills that Canadians need for employment will evolve through their working lives.

Some think learning takes place solely in a classroom and that it is aimed only at the young. In fact, learning is important for Canadians of all ages. It takes place both through full- and part-time study, and in a variety of settings – in universities, community colleges, vocational and technical institutes, and CEGEPs. Gaining work experience and on-the-job skills are vital ways of learning too.

The doors to knowledge and skills should be open to all because they are the doors to equal opportunity.

The link between knowledge, skills, and jobs

The FEUQ ... consider(s) education to be the cornerstone of a society's long term development. It is even the driving force of our social, cultural, democratic and economic development.

*Dan Gravel
Fédération
étudiante
universitaire
du Québec*

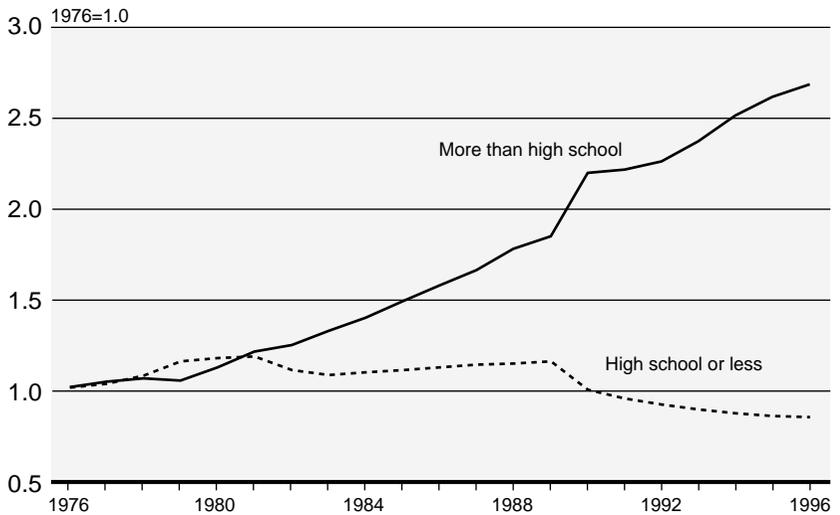
The premium that the economy places on knowledge and skills is reflected in Canada's employment statistics. Over the past two decades, job growth has been much faster for those with higher skills.

Since 1981, employment among those with high school diplomas or less has fallen by two million, but for people with higher qualifications, it has risen by almost five million jobs.

The chart below shows the growth in employment for those with more than high school education compared to those with high school or less, using 1976 as the benchmark year.

Chart 1

Employment growth by educational attainment, 1976-1996



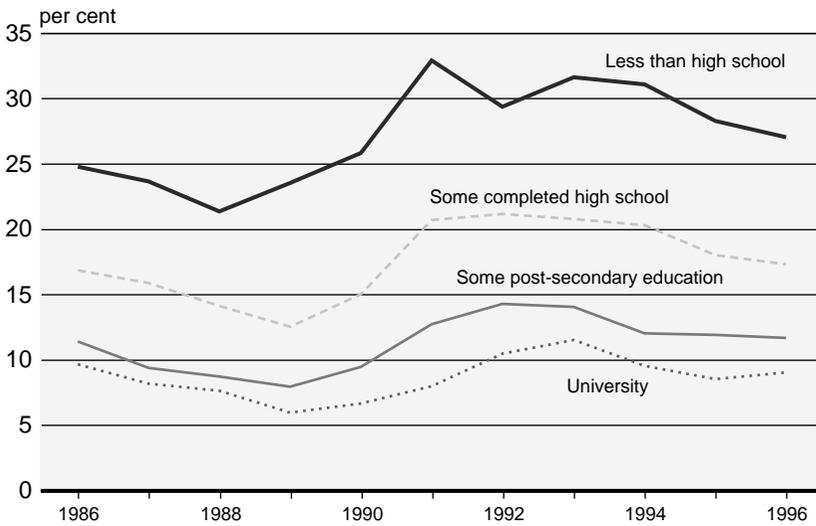
Source: Statistics Canada.

Over time, unemployment rates for young people with better education have been consistently much lower than for those with less education.

In 1996, the unemployment rate for university graduates was only 5 per cent, while for those with less than a high school diploma it was 15 per cent. This gap exists for all age groups.

Chart 2

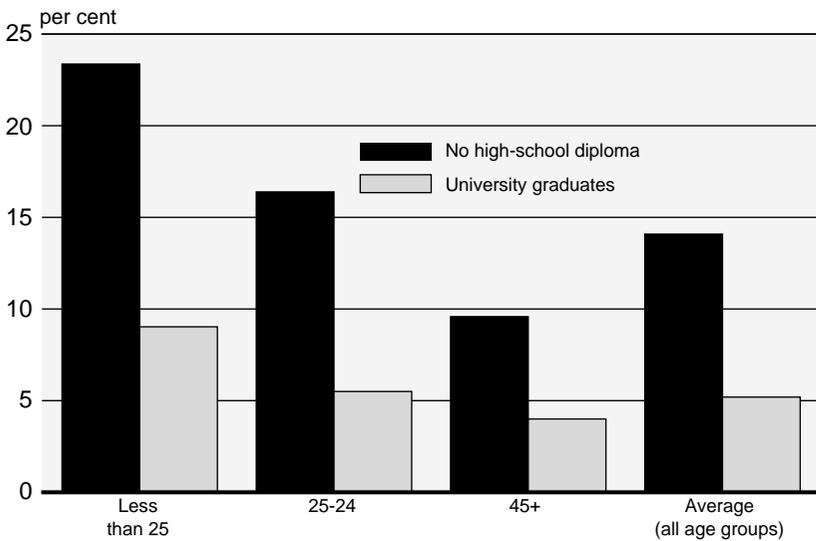
Unemployment rates for youth age 20-24 by education level, 1986-1996



Source: Statistics Canada, Labour Force Survey, Annual Averages.

Chart 3

Unemployment rates by education levels and age groups 1996



Source: Statistics Canada, Labour Force Survey.

The payoff

For the individual, investing in learning pays off in better and more secure employment and higher earnings. Even with rising education costs and the earnings forgone while at university, college, or vocational and technical institutes, the average graduate can expect to receive a rate of return for his or her studies ranging from 8 per cent to 20 per cent in future earnings. The rate of return to society as a whole is significant as well.

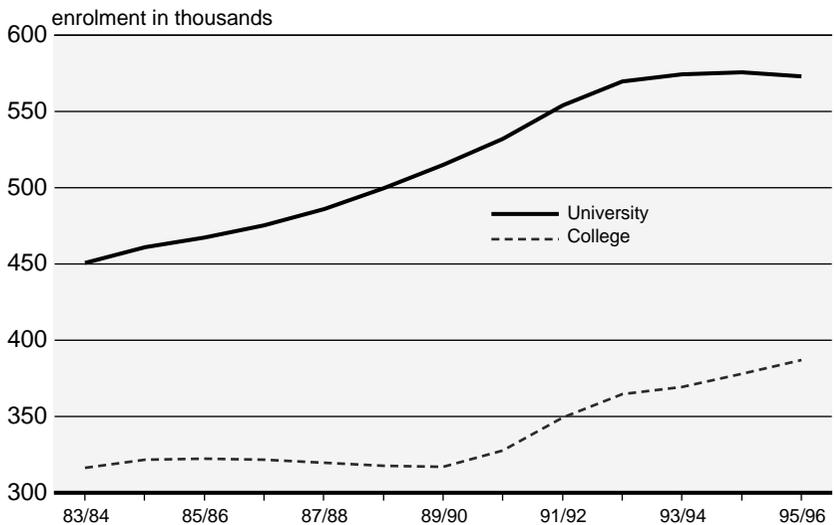
Over the 1984-1994 period, a graduate of a university, college or vocational and technical institute earned an average of 45 per cent more than someone who did not complete high school.

Enrolment in post-secondary education is rising

Increasingly, Canadians recognize the value of post-secondary education. Enrolments in universities, colleges, vocational and technical institutes, and CEGEPs are at an all-time high. Full-time enrolment is close to one million, with another 430,000 Canadians enrolled in part-time study.

Chart 4

Full-time enrolment in colleges and universities at an all-time high



Source: Statistics Canada, Education in Canada.

Currently, one in every three young people is enrolled in full-time post-secondary education, compared to slightly less than one in every five 25 years ago. Today, Canada ranks first among industrialized countries for the proportion of young people age 18 to 21 pursuing post-secondary education.

And more adults are enrolling in universities and colleges – often in part-time study.

Costs are rising

Most of the costs of post-secondary education in Canada are funded by governments. Tuition fees only covered about 14 per cent of the \$16 billion that Canada spent on higher education in 1995-96.

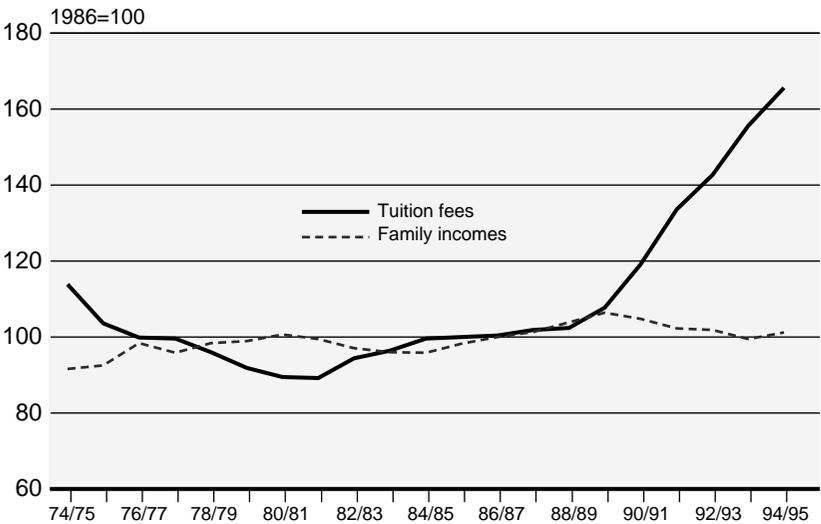
However, tuition fees and other student costs have more than doubled over the past decade and have been rising faster than family income.

Last year, university tuition fees rose an average of 9 per cent across the country. University fees now average \$3,120 a year, while community college fees average \$1,360.

... fear of accumulating an unmanageable debt in order to obtain a post-secondary education is frightening off some students and preying on the minds of a large percentage of those with loans.

Special Senate Committee on Post-Secondary Education, December 1997

Chart 5
Tuition hikes outpace family income



Source: Statistics Canada, Education Quarterly Review, and Family Incomes.

Access is not equal

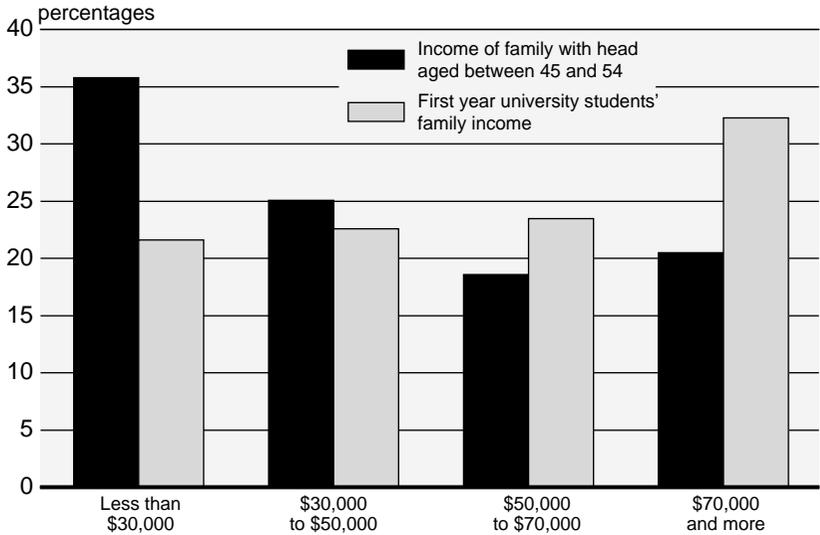
In 1995, only 22 per cent of first-year university students came from families with incomes under \$30,000, while 36 per cent of the population reported family income under \$30,000.

And 32 per cent of first-year students came from families earning more than \$70,000, while only about 20 per cent of comparable Canadian families earned that much.

Students from lower-income families rely more on student loans. A recent study suggests that an understandable reluctance to take on large debt deters many from pursuing higher education.

Chart 6

Income levels of Canadian families and students, 1995



Sources: Association of Universities and Colleges of Canada (AUCC) and Statistics Canada.

Student debt is rising

In 1997-98, more than 380,000 students (or about 30 per cent of students enrolled in universities, community colleges, and vocational and technical institutes) are being supported by the Canada Student Loans Program.

For a typical graduate with student loans, debt loads following a four-year program averaged \$13,000 in 1990-91. This is projected to increase to over \$25,000 next year. About \$15,000 of this debt will be under the Canada Student Loans Program and \$10,000 under provincial loan programs.

In 1990, fewer than 8 per cent of graduates had debt over \$15,000. Today, over 40 per cent of graduates have student debt exceeding \$15,000.

Over 80 per cent of graduates have paid their loans in full. Nevertheless, student debt loads are a serious problem for those who are unemployed or in financial difficulty for other reasons.

People should not have to mortgage their futures in order to pursue an education.

*Catherine Kowalchuk,
Canadian Alliance
of Student
Associations*

The Strategy

The 1998 budget proposes a comprehensive *Canadian Opportunities Strategy* to expand access to the knowledge and skills Canadians need for better job opportunities and a higher standard of living in the 21st century.

The *Canadian Opportunities Strategy* acts on seven fronts to:

- promote access to post-secondary education by helping students in financial need cope with rising costs;
- increase assistance for advanced research and for graduate students;
- help individuals repaying student loans – especially those in financial hardship;
- help Canadians upgrade their skills throughout their working lives;
- help families save for their children's education;
- encourage employers to hire young Canadians and help young people make the transition to work; and
- help bring the benefits of information technology into more classrooms and communities across Canada.

Actions Taken in the 1996 and 1997 Budgets

- Education tax credit amount increased from \$80 to \$200 a month.
- Tuition tax credit extended to include mandatory fees.
- Students allowed to carry forward the unused portions of the tuition and education tax credits.
- Interest relief extended for borrowers experiencing hardship in repaying student loans.
- Registered education savings plans enriched and made more flexible.
- Funding for the National Literacy Secretariat increased.
- Canada Foundation for Innovation created.
- Networks of Centres of Excellence renewed.
- Funding for SchoolNet increased.
- Community Access Program expanded.
- Youth Employment Strategy strengthened.

The strategy builds on actions taken in previous budgets to provide Canadians with enhanced access to knowledge and skills.

The following table outlines the government's expenditures on the *Canadian Opportunities Strategy* from 1997-98 to 2000-01.

Table 1
The Canadian Opportunities Strategy

| | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|--|-----------------------|---------|---------|---------|
| | (millions of dollars) | | | |
| Financial assistance to students | | | | |
| Canada Millennium Scholarship Foundation | 2500 | | | |
| Canada Study Grants | | 100 | 100 | 100 |
| Total | 2500 | 100 | 100 | 100 |
| Support for advanced research and graduate students | | | | |
| Granting councils | | 120 | 135 | 150 |
| Helping students manage debt loads | | | | |
| Tax relief for interest on student loans | | 80 | 130 | 145 |
| Improvements to the Canada Student Loans Program | | 50 | 145 | 150 |
| Total | | 130 | 275 | 295 |
| Helping Canadians upgrade their skills | | | | |
| Tax-free RRSP withdrawals for lifelong learning | | 15 | 40 | 45 |
| Tax relief for part-time students | | 25 | 90 | 90 |
| Total | | 40 | 130 | 135 |
| Encouraging families to save for education | | | | |
| Canada Education Savings Grant | | 150 | 200 | 275 |
| Supporting youth employment | | | | |
| EI premium holiday for youth employment | | | 100 | 100 |
| Youth at risk | | 50 | 75 | 100 |
| Total | | 50 | 175 | 200 |
| Connecting Canadians to information and knowledge | | | | |
| SchoolNet/Community Access Program/CANARIE | 55 | 60 | 70 | 75 |
| Total measures announced in the budget | 2555 | 650 | 1085 | 1230 |

 THE STRATEGY

 PROVIDING FINANCIAL
 ASSISTANCE TO STUDENTS

We should have a great millennium project for Canadians. What would be better than a permanent legacy of support for our young people? It's the best investment any country could make.

*Robert Prichard
 President
 University
 of Toronto*

Canada Millennium Scholarships are the centrepiece of the *Canadian Opportunities Strategy*. They are the single largest investment ever made by a federal government to support access to post-secondary education for all Canadians.

This investment is made possible by Canada's successful battle against the deficit – and it is an investment that will pay for itself over and over again in the years ahead. As a result, Canadians from across the country will be better prepared to succeed in the knowledge-based economy of the 21st century. And their success in the economy will translate into our success as a country.

Canada Millennium Scholarships

The Challenge

- To increase access to post-secondary education for more low- and middle-income Canadians.

The Action

- Canada Millennium Scholarships will be awarded to over 100,000 full- and part-time students each year over 10 years, through an initial endowment of \$2.5 billion from the federal government.
- The Canada Millennium Scholarship Foundation will be created as an arm's-length body to manage the endowment and to award scholarships.
- Canada Millennium Scholarships will be awarded to individuals who need help financing their studies and who demonstrate merit.
- For full-time students, scholarships will average \$3,000 a year; part-time students will also be eligible.

- Individuals can receive up to \$15,000 over a maximum of four academic years of study towards undergraduate degrees, diplomas or certificates. This could reduce the debt load that many recipients would otherwise incur by over half.
- The Foundation will have the discretion to adjust the amounts of the scholarships over time, as well as the total a person can receive.
- Awards will help recipients of scholarships to study away from home, particularly outside their province, and support limited terms of study in other countries.
- Canadians of all ages studying full- or part-time in publicly funded universities, community colleges, vocational and technical institutes, and CEGEPs will be eligible.
- The Foundation will begin awarding scholarships in the year 2000. The initial endowment will be drawn down over a 10-year period and provide about \$325 million annually for scholarships.
- The Foundation will be managed by a board of directors made up of private citizens. The government will ensure that a student is among them. The Council of Ministers of Education, Canada, representing provincial governments as well as the post-secondary education community, will have a role in identifying directors.
- Once established, the Foundation will consult closely with provinces and the post-secondary education community. The goal will be: to award scholarships by the Foundation to individuals in a manner that avoids duplication in any province, to build on existing provincial needs assessment processes, to complement existing provincial programs, and most importantly, to significantly increase access to post-secondary education everywhere in Canada for low- and middle-income students. The legislation creating the Foundation will provide it with the administrative flexibility required to meet these objectives.
- The Foundation will have the authority, subject to mutually agreed needs, merit and mobility criteria, to contract with appropriate provincial authorities for the selection of those recipients in a province to whom the Foundation will award Canada Millennium Scholarships.

Who Benefits?

- Individuals who need help financing their studies and demonstrate merit can receive up to \$15,000 over the course of their studies. This would cut the debt load which many recipients would otherwise incur by over half.
- More than 100,000 full- or part-time students a year will receive scholarships.
- Recipients will include Canadians of all ages who are studying in publicly funded universities, colleges, vocational and technical institutes, and CEGEPs. Studies at private educational institutions may be included at the discretion of the Foundation, provided the institution has an established record of good performance in the course of studies in which the student is enrolled.

Canada Study Grants***The Challenge***

- To provide support to students in financial need who have children or other dependants, and whose needs are not fully met by scholarships and student loans.

The Action

- Canada Study Grants of up to \$3,000 a year will be made available to full- or part-time students in financial need who have children or other dependants.
- The new grants, which will be provided through the Canada Student Loans Program, will cost \$100 million annually.
- This amount includes alternative payments of about \$30 million to Quebec and the Northwest Territories, which do not participate in the Canada Student Loans Program but are entitled to a payment under legislation if they have a measure which has substantially the same effect.

Who Benefits?

- Over 25,000 full- and part-time students in financial need with children or other dependants will be eligible for Canada Study Grants, beginning in 1998-99.

THE STRATEGY

SUPPORT FOR ADVANCED RESEARCH AND GRADUATE STUDENTS

Nothing is more critical to determining Canada's economic success in the next century than a vigorous, broad-based research and development (R&D) effort. Private sector innovation is the cornerstone of job creation – and the more R&D that is done in Canada, the more jobs that will be created for Canadians.

Last year, the government created the Canada Foundation for Innovation to provide support for facilities at hospitals, universities and colleges that will do world-class research. This year, support for researchers will be increased so that the best and brightest can develop their careers in Canada.

Increased Funding for Granting Councils

The Challenge

■ To support advanced research and graduate students as they develop the leading-edge skills needed for a knowledge-based economy.

The Action

■ The government will increase financial support to three granting councils of Canada – the Natural Sciences and Engineering Research Council, the Medical Research Council, and the Social Sciences and Humanities Research Council – to provide research grants, scholarships and fellowships for graduate and post-graduate students.

■ In 1998-99, the granting councils' budgets will be restored to their 1994-95 levels. In the years ahead, these resources will grow further. By 2000-01, they will have received more than \$400 million in additional resources and their budgets will be at their highest level ever.

■ In addition to these increases, the total funding provided through the granting councils will increase further, over the next three years, as a result of the decision of the 1997 budget to renew the Networks of Centres of Excellence.

University researchers need additional resources if they are to meet Canada's research personnel needs as well as to produce, transfer and disseminate new knowledge.

Canadian Graduate Council

Who Benefits?

- The Natural Sciences and Engineering Research Council of Canada (NSERC) supports the advanced training of young people through research. This support is essential for developing researchers and creative innovators who will be active in all parts of Canada's economy.
- The Medical Research Council of Canada (MRC) contributes to improving the health of Canadians by providing grants for research in the health sciences and the training of researchers. The MRC also promotes co-operation between university researchers and industry, turning the results of research into marketable products.
- The Social Sciences and Humanities Research Council of Canada (SSHRC) provides grants for basic and applied research in universities and graduate training in the social sciences and humanities. SSHRC promotes the transfer of knowledge in Canada among researchers, research partners, and policy makers to put the benefits of research to work.

Table 2
Granting Council Funding

| | 1994-95 | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|--|-----------------------|------------|------------|------------|------------|
| | (millions of dollars) | | | | |
| Natural Sciences and Engineering Council (NSERC) | | | | | |
| Increase announced in 1998 budget | | | 71 | 78 | 85 |
| NSERC funding level | 493 | 434 | 494 | 495 | 501 |
| Medical Research Council (MRC) | | | | | |
| Increase announced in 1998 budget | | | 40 | 44 | 50 |
| MRC funding level | 265 | 238 | 267 | 270 | 276 |
| Social Sciences and Humanities Research Council (SSHRC) | | | | | |
| Increase announced in 1998 budget | | | 9 | 13 | 15 |
| SSHRC funding level | 101 | 94 | 101 | 101 | 103 |
| Total granting councils | | | | | |
| Increase announced in 1998 budget | | | 120 | 135 | 150 |
| Unallocated Networks of Centres of Excellence funding | | | 11 | 21 | 23 |
| Total funding level | 859 | 766 | 873 | 887 | 903 |

THE STRATEGY

HELPING MANAGE STUDENT DEBT

The Canada Student Loans Program provides financial assistance to students to supplement their own and their families' savings and earnings. Since 1964, the program has provided over \$15 billion in loans to needy students for post-secondary education.

This year, more than 380,000 students – about 30 per cent of students enrolled in universities, community colleges and vocational and technical institutes – are supported by the Canada Student Loans Program at a cost of \$530 million. An additional \$120 million is paid to Quebec and the Northwest Territories to finance their comparable programs.

Under the program, the government pays interest on the loan while a student is in school.

For six months after graduation, interest accrues but the borrower is not required to make payments. After this grace period, the borrower is responsible for paying off the loan, usually over the next 9½ years.

For those facing financial hardship, the federal government pays all interest costs for up to 30 months in the first five years after students have left school. This interest relief period was extended from 18 months in the 1997 budget.

The 1998 budget proposes the following measures to help individuals repay student loans (the first assists all borrowers to repay their loans; the rest help borrowers in financial difficulties cope with their debt):

- tax relief for interest on student loans;
- interest relief extended to more graduates;
- an extended repayment period for those who need it;
- an extended interest relief period for individuals who remain in financial difficulty; and
- a reduction in the loan principal for individuals who still face financial difficulties.

The First Ministers agree on the importance of lessening students' financial burden ...

*First Ministers' Communiqué
December 1997*

Tax Relief for Interest on Student Loans

The Challenge

- To help individuals repay their student loans.

The Action

- For the first time, all Canadians will get tax relief for interest payments on their student loans. Effective this year, they will be allowed to claim a 17-per-cent federal tax credit on the interest portion of the amount paid in the current year. The credit will apply to interest payments on loans under federal and provincial student loan programs.

Example

Ted is repaying his student loan of \$25,000. Total repayments this year are \$3,800, of which \$2,125 is interest. The combined federal and provincial value of the tax credit for payment of interest will be about \$530 in the first year and up to \$3,200 over the 10 years during which the loan is paid off.

Who Benefits?

- The measure will provide tax savings for everyone repaying their student loans – about one million Canadians.

Improvements to the Canada Student Loans Program

The Challenge

- To help Canada Student Loans Program borrowers who are having difficulty repaying their student loans because of their financial circumstances.

The Action

■ **Interest relief**

Effective April 1998, changes will be made so that a person can earn more and still be eligible for interest relief. This will be done by raising the income thresholds used to qualify for interest relief by 9 per cent.

Then, beginning in 1999, partial interest relief will be available further up the income scale for graduates facing financial difficulty.

- Below the basic income thresholds, the government will continue to cover 100 per cent of interest.
- Above the basic thresholds, the government will pay 75 per cent, 50 per cent or 25 per cent of interest, depending on the individual's income, up to a limit where the individual remains solely responsible for loan payments.
- Income thresholds for interest relief vary with the size of the loan and the number of dependants.

Example

Marie has total student loans of \$25,000, including loans under the Canada Student Loans Program of \$15,000.

Currently, if Marie's annual income is \$22,000, she is not entitled to interest relief because her income is above the \$20,460 threshold.

Starting in April 1998, with expanded interest relief, Marie is entitled to full interest relief because her income is below the new \$22,300 threshold.

With graduated income relief beginning in 1999, Marie will receive partial interest relief on income up to \$28,300. For example:

- if her income is \$24,000, the government will pay 75 per cent of the interest on her loan;
- if her income is \$26,000, the government will pay 50 per cent of the interest; or
- if her income is \$28,000, the government will pay 25 per cent of the interest.

■ Repayment period extension

For individuals who have exhausted 30 months of interest relief, the lending institution will be asked to extend the loan repayment period to 15 years. This will lower monthly payments by nearly 25 per cent at current interest rates.

■ Extension of interest relief

If, after extending the repayment period to 15 years, an individual remains in financial hardship, interest relief will be extended from 30 months to up to 54 months during the five years after leaving school.

■ Debt reduction

For the minority of individuals who still remain in financial difficulty after these relief measures, effective this year, the government will reduce the loan principal if annual payments exceed, on average, 15 per cent of the individual's income. The maximum amount of assistance will be \$10,000 or 50 per cent of the loan, whichever is less. To qualify, five years must have passed since the completion of studies and the individual must have exhausted interest relief.

Example

Elizabeth has exhausted interest relief and the repayment period has been extended to 15 years. Five years have passed since graduation, but she is still in financial difficulty with income of \$17,000 and total student debt of \$25,000 (i.e. \$15,000 Canada Student Loan, \$10,000 provincial student loan).

The principal on Elizabeth's Canada Student Loan will be reduced from \$15,000 to \$7,500. If her income was \$22,000, the reduction would be \$3,820. If her income was greater than \$25,970, she would not receive a reduction in the principal on her loan.

Who Benefits?

- Together, the new interest relief measures will assist up to 100,000 more individuals.
- Over 12,000 individuals a year will benefit from debt reduction when fully phased in.

Performance and Accountability

To ensure that Canada Student Loans continue to provide as much assistance as they can to those who need it, the government is taking steps to ensure that both educational institutions and students use the program as it is intended. These steps include:

- dealing with students with a history of severe credit abuse;
- proposing changes to provisions in the bankruptcy legislation so that student loans will survive bankruptcy for 10 years after the completion of studies;
- working with provinces to strengthen the criteria for eligibility of educational institutions; and
- improving communications with student borrowers.

The federal government will work with the provinces that participate in the Canada Student Loans Program to better coordinate federal and provincial student financial assistance and move toward a single loan product.

 THE STRATEGY

 HELPING CANADIANS
 UPGRADE THEIR SKILLS

Throughout their working lives, Canadians increasingly need to upgrade their skills to keep their jobs, or to obtain new ones. While they recognize the need to keep pace with the changing workplace, they often have limited access to adequate resources when the need or opportunity occurs to upgrade their skills.

For many, the most readily accessible source of funds may be their registered retirement savings plan (RRSP) – a resource that, until now, they could not use without permanently reducing the amount of their retirement savings. There are few things more critical to ensuring an adequate income in retirement than ensuring a good income when working. Providing opportunity to take periods away from work to improve skills is an important way to make sure that happens.

Lifelong learning ... is the key link between our educational and economic strategies as the 21st century approaches.

*Lifelong Learning and the New Economy
 Ontario Premier's Council on Economic Renewal*

Tax-Free RRSP Withdrawals for Lifelong Learning

The Challenge

- To give Canadians greater access to funds to upgrade their skills.

The Action

- Effective January 1, 1999, Canadians will be allowed to make tax-free withdrawals from their registered retirement savings plans for lifelong learning.
- Individuals with RRSPs may withdraw up to \$10,000 per year from their plans, provided they are enrolled in full-time training or higher education for at least three months during the year. Students with disabilities may qualify even while studying on a part-time basis.
- More than one withdrawal can be made in a year as long as the annual limit is not exceeded. Further withdrawals can be made for a period of up to four years, provided that the total amount does not exceed \$20,000.

- Withdrawals must be repaid in instalments over a 10-year period. However, individuals may choose to repay more than the scheduled amount in any year. All repayments are without interest and cannot be deducted for income tax purposes.
- Contributions must remain in an RRSP for 90 days before they are eligible to be withdrawn under the plan.

Example of RRSP Withdrawal

John loses his job in 1999 and decides to take a one-year, full-time course in computer programming. To finance his studies, he withdraws \$5,000 from his RRSP, tax-free. He obtains a new job in the year 2000. He must repay \$500 into his RRSP for each of the 10 years starting in 2001, although he can repay more rapidly at any time.

Who Benefits?

- At least six million Canadians have RRSPs with total assets of \$200 billion. Individuals with RRSPs may borrow from their plans for their own full-time educational purposes.

Tax Relief for Part-Time Students

Canadians know that the realities of the new job market require them to continually upgrade their knowledge and skills. A growing number are doing this through part-time study while also balancing work and family responsibilities. The *Canadian Opportunities Strategy* contains measures to provide further support in meeting these challenges.

Education Credit for Part-Time Study

The Challenge

- The education tax credit supports only full-time study, yet many Canadians pursue lifelong learning on a part-time basis.

The Action

- Beginning in 1998, part-time students in eligible programs will be allowed to claim an education amount of \$60 for each month during which they were enrolled in a course lasting at least three weeks and involving a minimum of 12 hours of course work each month. An eligible student may claim either one part-time or one full-time credit in respect of a particular month, but not both. Part-time students may already claim a tuition credit to cover tuition and ancillary fees.

Example

Lynne, a part-time student enrolled in two eligible courses for eight months during a year could be eligible for an education amount of \$480 (i.e. eight months at \$60 per month). This would result in an average combined federal-provincial tax saving of about \$120. If Lynne's tuition is \$1,200, the tuition and education credits together would be worth about \$420 in tax relief.

Who Benefits?

- This measure gives part-time students comparable benefits to full-time students (who may claim an education credit of \$200 a month). About 250,000 part-time students will benefit.

**Child Care Expense Deduction
for Part-Time Study*****The Challenge***

- Changes are needed to encourage and assist lifelong learning among Canadians, many of whom are parents with the added costs of caring for their children.

The Action

- This budget proposes to provide further assistance to part-time students by allowing single parents to claim a child care expense deduction for periods during which they are enrolled in part-time course work. In a two-parent family, the higher-income spouse will be allowed to claim expenses arising out of part-time education of the other spouse.
- For two-parent families, the deduction would be equal to one of the following amounts, whichever is the least:
 - actual expenses; or
 - two-thirds of earned income for the year; or
 - for each month for which a part-time education credit is claimed, \$175 per child under age 7, and \$100 per child age 7 to 16.

Example

As in the previous example, Lynne, a single parent with two children age 8 and 6, is a part-time student for eight months of the year. She claims an education amount of \$480, for a tax saving of \$120. In addition, she will now be eligible to also claim all her child care expenses up to \$2,200, for an additional tax saving of \$550. Together, these new measures provide tax savings of \$670.

If Lynne's tuition is \$1,200, she currently gets a tax reduction of \$300. Under the current system, that is the total tax relief she receives for her education expenses. With the budget's two new measures for part-time students, the tax assistance for her education will then triple to \$970.

Who Benefits?

- About 50,000 part-time students with children will now be able to deduct child care expenses incurred while they are enrolled in part-time studies.

THE STRATEGY

ENCOURAGING FAMILIES TO SAVE FOR EDUCATION

The best way to help ensure a child's future is to save for their education today. As part of the *Canadian Opportunities Strategy*, the government is introducing the Canada Education Savings Grant to make registered education savings plans (RESPs) even more attractive. The government will invest alongside parents who save for their children's education.

RESPs are education savings plans that grow tax free until the child is ready to go on to college or university full time. When the student begins to use the RESP for education, the income becomes taxable. However, because the student typically has little other income, he or she effectively pays little or no tax on RESP income.

The previous two budgets included measures to make RESPs more attractive by raising the annual contribution limit from \$1,500 to \$4,000 per child and the lifetime limit from \$31,500 to \$42,000. RESPs were also made more flexible by allowing contributors to transfer RESP income into their RRSPs if they have contribution room.

Virtually all full-time post-secondary education is eligible for assistance through RESPs.

This budget proposes significant additional assistance to encourage families to save for their children's education.

Canada Education Savings Grant

The introduction of the Canada Education Savings Grant will make RESPs among the most attractive savings vehicles available for a child's education. The government believes RESPs will soon come to be considered as essential in saving for education as RRSPs are in saving for retirement.

With the new Canada Education Savings Grant, RESPs represent one of the best things parents can do for their children, uncles and aunts can do for their nephews and nieces, and grandparents can do for their grandchildren.

The Challenge

- To encourage families to save early for their children's education.

The Action

- Beginning January 1, 1998 the government will provide a Canada Education Savings Grant of 20 per cent on the first \$2,000 of annual contributions made to RESPs for children up to age 18. The maximum grant will be \$400 per child per year.
- A family that has been unable to make contributions for one or more years may catch up in later years on missed contributions. In this case, the Canada Education Savings Grant will be paid on contributions up to \$4,000 per year.
- The government will provide the Canada Education Savings Grant directly to the plan trustee chosen by the contributor, to be invested in the contributor's same plan. The grant itself is not included in calculating the annual and lifetime RESP contribution limits.
- The Canada Education Savings Grant and the investment income it generates will be paid to the student while he or she is enrolled in eligible full-time post-secondary education or training programs.
- If the child does not pursue education or training, the grant returns to the government. As is currently the case, investment income can be transferred to the contributor's RRSP under certain conditions.
- Contributions for children age 16 and 17 will receive a grant only if there have been regular contributions for those children for at least four years in the past, or if total previous contributions for the children have reached \$4,000.

Who Benefits?

- If a family contributes \$25 to an RESP every two weeks for their child's education – a total of \$650 a year – their RESP receives a Canada Education Savings Grant of \$130 (20 per cent of their total contributions).
- If the family contributes this amount every year over 15 years (assuming a 5-per-cent rate of return on their investment), their child would have \$4,700 for each of four years of higher education. Of that amount, almost \$800 a year would be the direct result of the Canada Education Savings Grant.
- In the same example, if a family saves outside an RESP – assuming the interest is taxable – their child would have only \$3,300 for each of four years of higher education.

Example 1: How the Canada Education Savings Grant Works

A family with a three-year-old child in 1998 saves \$25 every two weeks (about \$650 per year) in an RESP. As a result of the Canada Education Savings Grant (CESG), the child could have an additional \$783 available for each of four years of higher education (assuming a 5-per-cent rate of return on investment). If the family doubled the amount of contributions to the RESP, the value of the CESG would also double.

| | |
|---|----------|
| Total RESP contributions per year | \$650 |
| CESG rate | 20% |
| Number of years of contributions | 15 |
| Total contributions – principal | \$9,750 |
| Total CESG | \$1,950 |
| Total investment income | \$7,090 |
| Total value of RESP | \$18,790 |
| Total available to student for each of four years: | |
| From RESP contributions | \$3,914 |
| From CESG | \$783 |
| Total each year | \$4,697 |

Example 2: Illustration of carry-forward

Unused Canada Education Savings Grant room is carried forward for use in future years.

| | |
|--|---------|
| CESG room “earned” each year by a child under 18 | \$2,000 |
| Contributions for a child in 1998: | \$650 |
| CESG for 1998 | \$130 |
| Unused CESG room carried forward to 1999 | \$1,350 |
| Cumulative CESG room available in 1999 | \$3,350 |
| Value of potential CESG in 1999 | \$670 |

Example 3: Importance of starting to save early

While the carry-forward allows parents to receive the Canada Education Savings Grant as they “catch up”, the effects of compounding make it much more advantageous to begin saving early.

| | Family A | Family B |
|---------------------------------------|----------|----------|
| Ages of child when contributions made | 3 to 17 | 10 to 17 |
| Number of years of contributions | 15 | 7½ |
| Annual contributions to an RESP | \$650 | \$1,300 |
| Total contributions | \$9,750 | \$9,750 |
| Total CESG | \$1,950 | \$1,950 |
| Total investment income | \$7,090 | \$3,540 |
| Total value of RESP | \$18,790 | \$15,240 |

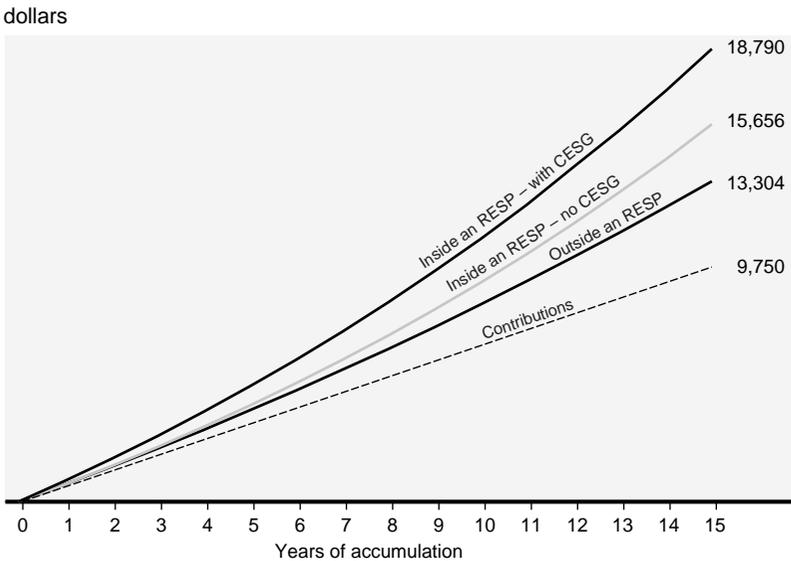
Benefits of investing in RESPs with the Canada Education Savings Grant

The chart below highlights the benefits of contributing to RESPs for children. A family saving \$25 every two weeks in an RESP over a 15-year period will accumulate an education fund worth \$18,790, assuming a market rate of return of 5 per cent.

Without the Canada Education Savings Grant, the fund would be worth about \$3,100 less. Saving this amount outside an RESP, if income is taxable, could generate a fund that is \$5,400 smaller (\$13,304). With the Canada Education Savings Grant, saving inside an RESP can yield an education fund worth 40 per cent more than saving outside an RESP.

Chart 7

Total RESP funds available to a student from \$25 invested every two weeks



 THE STRATEGY

SUPPORTING YOUTH EMPLOYMENT

Although the majority of Canada's youth are well equipped to participate in the economy, unemployment among young people remains significantly higher than for other Canadians. Those who lack a high school diploma are having the most difficulty in finding and keeping jobs. Without practical skills, they risk being left behind in today's economy.

In 1995, over 15 per cent of young Canadians between the ages of 22 and 24 had not finished high school.

To help address this problem, the government launched a Youth Employment Strategy last February. The federal government has increased its funding for youth employment programs to \$380 million in 1998-99 from \$353 million in 1997-98. As part of the strategy, over two years, more than 120,000 summer career placements and over 50,000 internships are being created.

Youth Service Canada helps over 5,000 unemployed youth through community-based projects that provide work experience. Youth Internship Canada helps youth get 'a foot in the door' with employers in growing industries.

Governments cannot solve the youth unemployment problem alone. The private sector must also give young people a chance. The government is introducing measures to support the private and voluntary sectors in what must become a nation-wide effort to deal head on with the problem of youth unemployment.

The crisis of youth under-employment and declining real incomes deserves constant attention.

*Brad Lavigne
Canadian
Federation
of Students*

Employment Insurance Premium Holiday for Youth Employment

The Challenge

- To provide an additional incentive for employers to hire young Canadians.

The Action

- The budget proposes to give employers an employment insurance (EI) premium holiday for additional young Canadians hired in 1999 and 2000.

- With this measure, employers will pay no EI premiums for new jobs created for youth between the ages of 18 and 24.
- All firms will be eligible.

Who Benefits?

- The measure will reduce payroll costs for employers by about \$100 million in 1999 and 2000.
- Youth between the ages of 18 and 24 will have more employment opportunities.

Youth at Risk

The Challenge

- The challenge of finding a job is toughest for those who have dropped out of school. For these young people, the need for skills is great, and on-the-job training is often the best way to develop them.

The Action

- Funding for youth at risk, especially through Youth Service Canada, will be more than doubled by investing a further \$50 million in 1998-99, \$75 million in 1999-2000, and \$100 million a year thereafter.
- Wage subsidies of up to \$10,000 will give young Canadians work experience in the private and voluntary sectors to prepare them for long-term employment and self-support.
- Young people will also receive career counselling, mentoring and, when required, literacy upgrading.

Who Benefits?

- The program will help unemployed young people prepare for today's labour market.
- Follow-up surveys have shown that one year after completing their Youth Service Canada work experience, about 85 per cent of participants either found employment – mostly permanent, full-time jobs – or returned to school.

 THE STRATEGY

 CONNECTING CANADIANS
 TO INFORMATION AND KNOWLEDGE

We will make the information and knowledge infrastructure accessible to all Canadians by the year 2000, thereby making Canada the most connected nation in the world.

*Speech from the Throne
September 1997*

Over the past five years, the government has actively encouraged Canadian schools, libraries and rural communities to join the information society. Access to networks, such as the Internet, provides new opportunities for Canadians to acquire knowledge and to participate in lifelong learning.

Industry Canada's SchoolNet program brings the Internet to students as a vital learning tool. As part of this, the Computers for Schools Program refurbishes surplus computers donated by governments and businesses for use in the classroom.

The Community Access Program is already establishing Internet access sites at 5,000 schools, libraries and community centres in rural and remote areas across Canada.

Expanding SchoolNet and the Community Access Program

The Challenge

- Canadians need to make the best use of the opportunities created by information technology and networks.

The Action

- The budget will provide an additional \$205 million over three years to expand and extend SchoolNet and the Community Access Program. Through these programs, the federal government will work with provinces and the private sector to put computers in more classrooms and to create 5,000 Internet access sites in urban neighbourhoods, in addition to the 5,000 sites already being put in place in rural Canada.
- These funds will also establish Voluntary Sector Network Supports – a program to enhance the capacity of voluntary organizations – by providing access to computer equipment, the Internet, new information technologies, network supports and training.

- The government will provide \$55 million this year to the Canadian Network for the Advancement of Research, Industry and Education (CANARIE) to support the development of high speed networks.

Who Benefits?

- Canadian children will have greater access to the learning opportunities provided by today's information technology.
- Through 10,000 network access sites, Canadians will have new opportunities for lifelong learning.

What the Strategy Means to Canadians

The *Canadian Opportunities Strategy* provides the tools that will help Canadians acquire the knowledge and skills that will prepare them for jobs and that will deliver a higher standard of living in the 21st century.

- For **children**, it means bringing them in touch with the information age through SchoolNet.
- For **post-secondary students**, particularly those from low- and middle-income families, it means access and opportunity through scholarships, study grants and tax relief.
- For **graduate students and researchers**, it means increased support through the granting councils.
- For **individuals coping with student loan debt**, it means tax relief on interest payments and additional loan relief for those in financial difficulty.
- For **youth facing difficulty in finding a job**, it means work experience, supported by wage subsidies and services, as well as an EI premium holiday to employers to hire more young Canadians.
- For **adults** seeking to renew their labour market skills – whether through university, community colleges or vocational and technical institutes – it means the opportunity to draw on their RRSPs through tax-free withdrawals, and to benefit from tax relief for part-time study.

- For **parents and grandparents**, it means a Canada Education Savings Grant that will make RESPs the best way to save for a child's future education.
- For **communities and schools across Canada**, it means connecting them to the knowledge society by expanding access to the Internet.

Acting on Shared Goals

The National Roundtable on Student Financial Assistance, whose members represent students, universities and colleges as well as faculty and student financial aid administrators, made a number of recommendations to the government in November, 1997.

The *Canadian Opportunities Strategy* addresses almost all these recommendations. The following chart compares the recommendations of the National Roundtable with the *Canadian Opportunities Strategy*.

National Roundtable on Student Financial Assistance

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

National Roundtable on Student Financial Assistance

Recommendation: Introduce a system of grants for high need students or focus the Millennium Fund on needs of low- and moderate-income students.

Recommendation: Implement special grants for needy students with dependants.

Recommendation: Allow people with student loans the option of suspending principal payments, provide some borrowers with reformed and graduated interest relief during a 3- to 5-year transition period.

Recommendation: Provide for borrowers who demonstrate significant difficulties in repaying their debt after the transition period with some form of debt reduction, taking into account both the individual's ability to pay and the level of debt.

Recommendation: Make student loan payments tax deductible or convert interest paid into a tax credit.

Recommendation: Allow individuals to withdraw RRSP funds without a tax penalty for their own education.

The Canadian Opportunities Strategy

Canada Millennium Scholarships for over 100,000 low- and middle-income Canadians averaging \$3,000 a year – see page 20.

Canada Study Grants of up to \$3,000 a year for needy students with children or other dependants – see page 22.

Improvements to the Canada Student Loans Program that raise the basic thresholds for interest relief and provide graduated interest relief further up the income scale, supporting 100,000 additional individuals – see page 26.

For graduates in serious financial difficulty, the loan amortization period is extended in order to lower monthly payments and, if required, debt is reduced based on the person's income and debt load – see page 28.

Tax relief for interest on student loans – see page 26.

Tax-free withdrawals from RRSPs for lifelong learning – see page 30.

| National Roundtable on Student Financial Assistance <i>(cont'd)</i> | The Canadian Opportunities Strategy <i>(cont'd)</i> |
|---|--|
| <p>Recommendation: Make contributions to RESPs tax deductible.</p> <p>Recommendation: Introduce a work-study program to allow students to earn while they learn.</p> | <p>A new Canada Education Savings Grant of 20 per cent on the first \$2,000 of annual contributions to an RESP – see page 34.</p> <p>Increases assistance for advanced research and graduate students through increased funding for the three granting councils – see page 23.</p> <p>Extends education tax credit and child care expense deduction to part-time students – see pages 31, 32.</p> <p>Supports youth employment by more than doubling funding for youth at risk and by providing employers with an EI premium holiday for additional young Canadians hired in 1999 and 2000 – see pages 39, 38.</p> <p>Increases funding for SchoolNet, Community Access Program and CANARIE to bring information technology into more schools and communities – see page 40.</p> |

Information is also available on the Internet at:
<http://www.fin.gc.ca/>

Copies of this booklet and other information regarding the *Canadian Opportunities Strategy* will be available at post-secondary institutions across Canada.

Copies of this brochure and other budget papers can also be obtained from:

Distribution Centre
Department of Finance
300 Laurier Ave. West
Ottawa, Ontario
K1A 0G5

Tel.: (613) 995-2855

Fax: (613) 996-0518

Cette publication est également disponible en français.

