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September 15, 2006

Dear private career colleges,

Now that proclamation of the *Private Career Colleges Act, 2005* (PCCA) is set for September 18<sup>th</sup>, I'd like to take this opportunity to provide you with more information about the Training Completion Assurance Fund (TCAF).

Over the past year, the private career college sector has been involved in the development of TCAF through the TCAF Working Group. The feedback provided has been very helpful in developing TCAF. As a result, TCAF has adopted an innovative, risk-based approach that will significantly improve protection for students while minimizing costs to you. This approach is based on recommendations provided by the actuarial firm Mercer Oliver Wyman.

Once fully phased in, TCAF will replace the old financial security requirements with a combination of an insurance fund and new, reduced financial security. We have taken a number of steps to limit costs to you by making sure the Fund is based on sound actuarial advice. As a result, you can expect to see the following benefits of membership in TCAF:

- **Reduced securities required:** After the 2-year build-up period, 71% of private career colleges will post the minimum security of \$10,000 and over 85% are projected to have a financial security of \$25,000 or less;
- **Better options for posting security:** Private career colleges can now use letters of credit to meet the financial security requirement. Since letters of credit can be retroactive, your surety company can release any collateral it is holding if you switch from a surety bond to a letter of credit;
- **Segregated risk:** Large private career colleges (in excess of \$25M in annual revenues) will post a higher financial security, with all student claims being funded out of the security and none out of TCAF. This allows the fund target to be lower, resulting in significant savings to you;
- **Significantly lower premiums than other provinces:** To begin, premiums will be .875% of gross revenue, instead of 1% premiums found in other Canadian provinces. Premiums will automatically be decreased by about 85% once the fund has reached its target amount;
- **Greater control over costs:** By decreasing the amount of unearned tuition you collect or by improving credit information, you can significantly reduce your costs.

Below is a summary of the key phases of TCAF's implementation, including key milestones and how they will affect you:

**Build-up Period: September 18, 2006 – December 31, 2008**

During this period, you will continue to be required to maintain a financial security under Regulation 939. There will not be a change in how your security is calculated. This will also be a claims-free period; TCAF will not be responsible for student claims. During this time, private career colleges will pay premiums, but claims will be paid out of financial securities, not out of TCAF. This allows TCAF to build over a period of time and have adequate resources on hand to respond to student claims once the fund is operational. This is also why you must maintain your current financial security until January 2009 – to provide student protection while TCAF builds reserves.

*Financial Securities*

You may now provide a letter of credit as an instrument of security, in addition to a surety bond or collateral security. Private career colleges posting a letter of credit will be able to inform their surety company (if applicable) that the letter of credit covers any risk associated with your old bond: there should be no need for the surety to retain your collateral. At proclamation, the 2-year discovery period for claims is shortened to 6 months. Students will also no longer be required to get a court judgment in order to make a claim.

*'Founding' TCAF Premiums*

After proclamation, you will receive a notice informing you of what your TCAF premium is and when it is due. From January 2007 to December 2008, you will pay a premium of .875% of revenues collected from vocational programs in the previous fiscal year. The first premium will be for the period between January 2007 and your institution's first registration under the new Act. For example, if your first registration under the new Act is in September 2007, the first premium covers January – August 2007. The first TCAF premiums will be due in early 2007.

*Establishment of TCAF Advisory Board*

The Advisory Board will be established in the first quarter of 2007. Its job is to provide advice to the Superintendent on the administration of the Fund, how to respond to specific closures, how to market TCAF to the public and other issues. The Minister will appoint members to the Board. More information will be available shortly on how private career college owners, staff, students or former students can express interest in serving on the Board.

*Training Completion Plan*

You will be required to provide a training completion plan at the time of your first registration under the new Act. The plan will address how a training completion could be provided, in the event that your institution closes with students still in-class.

### *Audit/Financial Viability*

All financial statements provided by private career colleges must now be prepared by a Chartered Accountant. Some private career colleges will be required to provide audited statements. To decrease the likelihood of claims against TCAF, a financial viability assessment will now be a condition of registration. The details around how the assessment will work and what audit criteria will be in place have not yet been determined; the TCAF Working Group will be involved in developing these policies.

### **TCAF Goes Live: January 2009 and on**

At January 2009, TCAF 'goes live' and becomes responsible for student claims. Students will be eligible to make claims for refunds, training completions and for costs associated with attending a training completion. At this time, the risk-adjusted aspects of TCAF also come into effect. These risk adjusted elements are key elements that allow private career colleges to reduce the costs related to their premiums and financial security requirements.

### *Building to Fund Target*

TCAF's fund target is 3% of total private career college sector revenues (currently about \$4M). TCAF will aim to reach its target over 4 years (by January 2011). If TCAF encounters significant early costs, it may take longer to reach this target. When the fund is below its target, a premium surcharge will be in place. If the fund does not have adequate resources on hand to pay student claims, private career colleges may be required to pay an extraordinary levy to replenish the fund.

### *Old Financial Security Requirements Released*

As of January 2009, you will no longer be required to provide a financial security under Regulation 939. These securities will be cancelled and, in order to prevent 'double bonding', TCAF will assume all liability in connection with the period covered by these securities. This should allow your surety company to release any collateral they hold in respect of the old security.

### *Risk-adjusted Premiums and Financial Securities*

As of January 2009, you will be required to meet the new risk-adjusted financial security and premium requirements. This will ensure that institutions with higher risk pay higher premiums and post a higher security. This provides an incentive to change risky behaviours. A private career college that poses an average risk to TCAF will pay about .875% of total revenues, the same as it pays before the risk adjusted premium takes place. TCAF's premiums are, for most institutions, lower than in other jurisdictions with a training completion fund. If a private career college is paying more than this, it is because of the institution's high risk behaviour.

### *TCAF Reporting Requirements*

There will be accountability measures in place for TCAF. The Superintendent and the Advisory Board will prepare a joint annual report on TCAF for the Minister. In addition, there will be auditing of TCAF to ensure proper financial administration.

If you would like more information on how the risk-adjusted premium and financial security requirements are calculated, how levies and surcharge work, or other aspects of TCAF, please consult the TCAF fact sheet and other resources currently under development. I also encourage you to participate in the training sessions currently being organized. Once final arrangements have been made, you will receive more information about these sessions.

I would like to express my appreciation for the hard work and excellent input the private career college sector has provided. We will continue to make sure that you have a say in how TCAF is managed. The TCAF Working Group and, when established, the TCAF Advisory Board will be involved with the development of key TCAF operational policies. Proclamation of the new Act will provide a number of opportunities for you to take a leadership role in strengthening the sector. I look forward to continuing to work with you as we move forward with implementation of TCAF and the other elements of the *Private Career Colleges Act, 2005*.

Sincerely,

**Signed Copy on File**

Susan Hoyle-Howieson  
Superintendent of Private Career Colleges