CMEC–OECD–Canada Seminar 2004

Seminar Report

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Student Financial Assistance for Tertiary Education: Strategies in the Age of Universal Access

Council of Ministers of Education, Canada
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CMEC–OECD–Canada Seminar on Student Financial Assistance

Background

Student Financial Assistance for Tertiary Education: Strategies in the Age of Universal Access was an international seminar jointly coordinated by the Council of Ministers of Education, Canada (CMEC) and the Organisation for Economic Co-operation and Development (OECD). Support for the seminar was provided by the Department of Human Resources and Skills Development, Canada, the Canada Millennium Scholarship Foundation, the Educational Policy Institute (EPI) and the Quebec Ministry of Education.

Held in Quebec City, Canada, from May 2 to 4, 2004, the seminar brought together high-level policy makers and experts in student financial assistance from Canada and nine other OECD countries[1]. Invited speakers and country representatives shared effective practices and recent research, giving participants an opportunity to learn about and discuss a variety of approaches to the provision of student financial assistance.

As part of the preparations for the seminar, a foundation paper was commissioned from Alex Usher, of EPI. The paper, *Student Assistance: Eliminating Financial Barriers to Postsecondary Education*, divides financial barriers to participation in tertiary education into three types: price constraints, where an individual decides that the cost of education exceeds its value; cash constraints, where an individual cannot afford the cost of education; and debt aversion. The need to strike an appropriate and effective balance between alleviating cash constraints while taking account of debt aversion was stressed by both presenters and participants at the seminar.

The seminar sessions examined the most common tools used to provide student financial assistance (grants, loans, subsidies, and savings programs) in depth. The foundation paper provides an overview of each approach. In addition, four thematic reports were prepared, one to address each topic. These papers, along with the foundation paper and the PowerPoint presentations given at the event, are available at http://www.cmec.ca/stats/quebec2004/documents.en.stm.

The purpose of this report is to outline the main ideas and common themes raised at the seminar sessions, in the hopes that this may expose policy makers to new ways of thinking about issues relating to student financial assistance and highlight areas that continue to need attention. Two themes in particular will be examined: the commitment of countries to principles of social and educational equity, and the need for evidence to assist policy makers in making choices among the various options available to them. The report concludes with a discussion of the different approaches to student financial assistance taken by the countries represented at the seminar.

[1] Belgium, Denmark, Czech Republic, Mexico, Norway, Slovak Republic, Sweden, United Kingdom, and United States.

Improving accessibility – benefits to individuals and society

Ensuring that everyone has equitable access to educational opportunities is a priority for governments in Canada. Paul Cappon, Director General of CMEC, noted that accessibility was one of the six key areas discussed in the report *Public Expectations of Postsecondary Education in Canada*, released by CMEC in 1999. The report articulated the following expectation: "Financial need is not a barrier to access. There is a reasonable level of financial assistance available through loans, bursaries, and scholarships, as well as fair criteria for repayment." The seminar provided an opportunity for participants to explore how to achieve that goal in ways that are equitable and cost effective.

The Honourable Paul Bonwick, Parliamentary Secretary to the Minister of Human Resources and Skills Development, in his welcoming remarks, emphasized the rewards that lifelong learning brings to society as a whole. In his keynote address, Barry McGaw, Director of the Education Directorate at OECD, also stressed the value of education for both society and individuals. Drawing on results from the OECD Growth Study, which investigated changes in output per capita growth rates in the 1980s and 1990s, he noted that between 1990 and 1998, only changes to human capital (measured by educational attainment of the population) and trade exposure showed consistent positive effects across all OECD countries. He demonstrated that increased human capital has a positive effect on labour productivity, which is linked to economic growth. Of course, individuals also benefit from an investment in education. The data show that people with postsecondary education earn more than those with only high school education or below. Those who pursue postsecondary education later in life, once they finish their studies, reap rewards similar to those of students who continued on directly after high school, which makes lifelong learning worthwhile. Dr. McGaw noted as an example that in Canada, even allowing for the costs of tuition and for taxes, the private rate of return for postsecondary education is eight to ten per cent, highly acceptable for any investment.

Given the benefits of higher education for individuals and society, ensuring that those benefits are as widely accessible as possible becomes fundamental to the development of the society. Fairness and efficiency require that considerations of equity be addressed.

Equity considerations

Two aspects of equity were discussed at the seminar. First, and most central to the discussions, was the importance of equity of access to postsecondary education and the role that financial barriers might play in impeding access. The other issue was the need to strike the right balance in distributing the costs and benefits of postsecondary education between the individual student and society.

Lowering financial barriers to postsecondary education

Student financial assistance in Canada is generally used as a means to allow students who otherwise could not afford it to attend postsecondary education. Setting aside academically based scholarships awarded on merit rather than need, Canadian students must meet financial or circumstantial criteria in order to access the funding available to them in the form of loans and grants. The aim is to ensure, as much as possible, that no student who is academically capable of going on to postsecondary education is prevented from doing so by a lack of money[2]. While not all countries use the same approach to delivering student financial assistance as Canadian jurisdictions do, the commitment to lowering or eliminating financial barriers to postsecondary education is common across all OECD countries.

Participants at the seminar acknowledged that there are other barriers to postsecondary education beyond the financial ones. In fact, grant programs are sometimes designed to address these other barriers by making education cheaper and potentially more attractive to groups that do not traditionally pursue higher education, such as Canada's Aboriginal population. For many students, however, the costs of education are a major factor in decisions about whether to apply, where to apply, and what program to apply to.

Public and private spending

The evidence presented by Petr Mateju in the first session of the seminar suggested that state-sponsored financial assistance may play a significant role in improving inequalities. He examined the relationships between spending on tertiary education, enrolment, and participation. "Inequality in access to tertiary education is in fact higher in systems where low expenditure from public sources is coupled with restrictions put on the use of private sources" (Mateju PowerPoint). The systems Mateju is referring to are those, for example, in central and southern Europe, which he characterized as having, "supply-driven systems with restrictive entry, low fees and weak financial aid." (Mateju PowerPoint). He contrasted these systems with two other models, both of which, on his analysis, achieved similar results in terms of access and equity, despite very different approaches. The first model was that of the Scandinavian countries, which provide generous public funding in the form of universally available grants, with relatively little private contribution required; the second was that of the United States, Australia, and Canada, which tend to use loans rather than grants to provide student aid, and which combine public funding with substantial contributions from students in the form of tuition fees. His data showed that the major differences in spending among OECD countries relate to the extent of the private contribution to education. He argued that, while public funding is an essential component of an equitable student financial aid system, private funding does not necessarily lead to either decreased public spending or increased inequality.

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[2] For more information on the student financial aid system in Canada, see *Supporting Students: Financing Higher Education in Canada*, Sean Junor, Canada Millennium Scholarship Foundation [PowerPoint].

The case for grants

The case for grants depends in large measure on the effectiveness of grants in comparison to loans, the other most commonly used vehicle for delivering student financial assistance. According to Bruce Johnstone, who was the presenter in the session on grants, two levels of effectiveness need to be considered: cost effectiveness and effectiveness in reducing financial barriers to postsecondary education. Johnstone noted that the two issues are intertwined. If grants reduce financial barriers and improve access more than loans do, then any potential savings from a loans program may be outweighed by the cost to society of diminished access to education.

Johnstone challenged policy makers to address a fundamental question: "How much reduction of these ubiquitous and probably inevitable disparities in post-secondary educational participation and attainment do we believe to be realistically attainable?" (Johnstone, p. 4) He stressed the link between low socioeconomic family status and low interest and participation in postsecondary education, suggesting that the true cost of eliminating financial barriers should include the cost of redressing socioeconomic inequalities long before a student is considering higher education.

Johnstone also argued that an assessment of student financial assistance should go beyond overall participation rates to examine disparities in access to different institutions and programs of study. Focusing only on data for the system as a whole can obscure underlying inequities. He pointed out that this question raises the issue of whether grants should cover the costs for potentially more expensive but academically excellent institutions. Along the same lines, he suggested that policy makers should consider the needs of students who live away from home and whether they should receive larger grants to reflect their increased living costs.

Although no consensus was reached in the debate between the case for grants and the case for loans, participants agreed on certain characteristics of grants. Not surprisingly, students prefer grants to loans, or prefer to receive at least some portion of student financial aid in the form of grants. Some groups, in particular, may have a resistance to the idea of student debt, and grant programs may be the only effective method of encouraging participation among these groups. At the same time, grant schemes can be more costly than loan programs, and governments may not be able to provide sufficient grant funding to meet students' needs.

The case for loans

Ross Finnie, the presenter in the session on loans, began his analysis by considering grants and loans in their purest state. He concluded that grants accomplish two tasks: they help students overcome immediate credit/cash constraints and they reduce the overall cost of education for a student because grants do not have to be repaid. Loan programs, by contrast, only affect the credit/cash constraint. The potential advantage of loans is that they can reach more students, because the public funds are only lent, not spent, and so can be recycled for future groups of students. Having set out these distinctions, Finnie pointed out that almost all loan programs contain some elements of subsidy, making them part-loan, part-grant. Examples of these subsidies include interest relief while the student is in school, debt remission, and other default provisions.

Finnie argued that through loans,

> "Post-secondary education is made accessible to all those who have the talent and desire to make the investment…rather than just those who have the money to do so, and this in turn guarantees that it is precisely those for whom postsecondary education is most worthwhile — most "productive" — as an investment who will undertake the schooling." (Finnie, p. 4)

Finnie would target grant programs to students from disadvantaged groups, and allow other students to be funded through loans. "Grants should then be used to provide the extra incentives required to encourage certain types of individuals to undertake schooling where justified on equity or efficiency grounds." (Finnie, p.13) If grants make education too cheap, after all, those for whom the benefit from education would not otherwise be great enough will choose to attend. Another concern is that grants represent a transfer from society to an individual who, though financially needy at the time the grant is received, will, through the investment in education, most likely become relatively well off.

Finnie suggested that loans may be more equitable, from a lifetime equity perspective, than grants because the graduate who is now equipped to find a good job with a good income repays a portion of the benefit received[3]. Finnie advocated the use of "back-end subsidies," that is, subsidies that are designed to help graduates who are having difficulty paying back their loan. Not only is this type of support fair to graduates whose income levels are below average or whose debt levels are particularly high, it also provides a sense of security to those students taking out loans who might be worried about their ability to repay them. He suggested that "front-end subsidies," such as interest relief while students are in school, should be used only to the extent necessary to make the overall system work, by helping to overcome reluctance to borrow.

Unsubsidized loans could also form a part of a comprehensive student financial assistance program, Finnie suggested. Such loans could be made available to students or parents who are unable to make their expected contribution to the cost of education, thereby allowing the students to attend school, but imposing a cost on the lack of contribution. The lack of interest subsidy, for example, would help to deter unnecessary borrowing, and the full repayment requirements would minimize the public cost of this aspect of the loans program.

At the end of his paper, Finnie sets out an interesting model for a Canadian student financial assistance system, with initial aid for each student delivered through loans, and additional amounts provided in grant money. The delegate from Sweden commented that Finnie's model was virtually a description of the Swedish system. As a result of the

[3] For an example of this approach, going beyond the loans context, see the discussion of the Scottish Graduate Endowment, on page 11.

discussions at the seminar, Finnie indicated that he might now modify the model to provide up-front grants for disadvantaged students.

Subsidies — to students, families, or graduates

The issue of subsidies and their effect, touched on by Ross Finnie, was addressed in detail by Hans Vossensteyn, the presenter in the second session of the seminar. Governments can subsidize postsecondary education in a number of ways, through grants to students, tax relief to students or families, or loan programs that incorporate elements such as interest subsidies, income-contingent repayment mechanisms, or debt remission. To some extent, any loan program is, in itself, a public subsidy, because public funds are being used to either provide or guarantee the loans.

From the perspective of equity for the student at the time of enrolment, where the goal is to remove or reduce barriers to access, grants (a complete subsidy) are the most obvious form of assistance. Governments, however, cannot always afford to provide grants to all students who would benefit from financial aid, which leads to the introduction of loan programs, which can reach more students. These loan systems are likely to be based on means or income-testing of students and/or their families, and to include interest remission (a subsidy) while the student is in school. There may also be subsidies to parents, such as tax benefits or savings plans, on the assumption that parents will pass along any benefits they have received to their children.

Another way of looking at subsidies is to focus on the graduate, rather than the student about to enter the system. The graduate is likely to obtain significant benefits from his or her education, and may be in an advantageous position after graduation, even if from a disadvantaged background originally. From this lifetime-equity perspective, loans are the most effective approach to producing a fair balance between the individual and society. Equity concerns for those graduates whose earnings are less than expected can be addressed through mechanisms (subsidies) such as income-contingent repayment, debt remission, grace periods, or interest subsidies.

Most countries use a mix of subsidies to students, parents, and graduates. Vossensteyn noted that this has the advantage of producing a flexible system that can adapt to social and economic changes. A mixed approach makes it more likely that differences in individual needs can be accommodated — rather than a "one size fits all" approach. Unfortunately, with this flexibility often comes complexity and confusion. Students and parents may have multiple options available to them, but not know where to look or how to compare the options in order to find the best fit. The importance of effective communication with students and parents will be discussed in more detail below.

The role of savings programs

Savings programs as a tool to assist families in accumulating funds to help defray the costs of postsecondary education are perhaps the least commonly used of the various financial assistance options discussed at the seminar. Governments can structure savings programs in a variety of ways. They can guarantee a set amount or benefit at the end of the savings plan, provide matching donations to family contributions, or introduce favourable tax treatment either for the funds or for the returns on the investment. Alex Usher, in his thematic report on this topic and his presentation in the savings programs session, suggested that tax benefits alone have little impact on savings rates, but that matching donations from the government can be effective. “In the three years following the introduction of [the Canada Education Savings Grant (CESG)], both the incidence and the amount of educational savings rose substantially.” (Usher, p. 4) The CESG adds 20 per cent to the first $2,000 in contributions made into a Registered Education Savings Plan on behalf of an eligible beneficiary each year, for a potential matching grant of $7,200 by the time the child is 18.

Usher acknowledged that savings plans tend to have more impact among rich and middle-class families than among low-income families. Higher-income earners have more disposable income, and therefore more opportunity to save. They also tend to have higher levels of financial awareness and to have postsecondary education themselves. Usher noted, however, that savings plans can have an impact on poorer families by changing their views of postsecondary education, and therefore may help to affect access patterns in the long term:

> “It is important to recognize at the outset that savings programs for the poor are only incidentally about increasing the affordability of tertiary education…. [T]hey are primarily meant to encourage [the poor] to think of education as a long-term investment rather than a short-term cost and hence change families’ overall perceptions and aspirations about tertiary education…. Sending families money at birth and then annually thereafter is a way for governments to continually encourage low-income families to strive for tertiary education.” (Usher, p. 6)

In order for such programs to have an impact on access, Usher argued, citing an American study, they should be easy to understand and use, and need to be accompanied by financial education measures and programs to encourage youth and family development.

In discussions on this topic at the seminar, participants agreed that savings programs are a long-term measure and suggested that their impact may be more political than financial. Relatively few countries have such programs at the moment. Canada and the United Kingdom have recently introduced savings programs, but it is too early to measure their effects. It will take at least twenty years before there is enough evidence about the outcomes of these programs to properly assess the role they can play in a country’s overall student financial assistance plan.

The balance between individual and societal returns to education

As was mentioned at the beginning of this section, another issue of equity or fairness was raised by the presenters, namely the balance between the individual and society. Although students may have a low income when entering postsecondary education and need financial assistance, the qualifications they gain from completing that education will equip them for better and higher-paying jobs than their less-educated peers. The individual reaps a substantial benefit from the public funding he or she has received.

Perhaps, from a lifetime equity perspective, student financial assistance programs should require recipients to repay the benefits they receive, based on their earnings once they leave school. This would mean that their greater earning power would be incorporated into the aid scheme and the money could be redistributed to those in need.

Another perspective, however, looks at student financial assistance as an investment by society that will increase human capital and stimulate economic growth. In the latter view, as the delegate from Sweden suggested, there is a benefit to society in providing aid mainly in the form of up-front subsidies, perhaps linked in some way to on-time completion, in order to encourage maximum participation. He noted that inadequate funding means that students have to work part-time, which may make it more difficult for them to complete their program on time, placing a burden on institutions, students, and families. In addition, money that is being used by graduates to finance debt is not available for consumer spending, an important economic force.

No consensus was reached between the two positions, though most countries acknowledge that both points of view have some validity.

The role of evidence and the identification of research gaps

> "While there is a considerable amount of theory and policy literature on student assistance and its effects, there is a lack of evidence-based research that clearly links particular interventions with specific outcomes." (Foundation Paper, p. 4).

The previous section has focused mainly on the theoretical basis for making decisions about the use of loans and grants and savings programs. Once policy decisions are made, however, issues of accountability come into play. Policy makers and the public want evidence that a policy is effective in a particular situation or for a particular group of students.

Evidence on access

Evidence on patterns of access and participation is most likely to be found in large-scale national or regional surveys of all students or of a particular subset of students, but may also be derived from case studies or interviews. While quantitative data, such as observed changes in participation over time, provide an objective measure of participation, qualitative data help to interpret the numbers, by giving researchers and policy makers insight into the motivations that affect decisions on participation and the role that financial assistance plays.

In Canada, a new survey, the Postsecondary Education Participation Survey (PEPS), was administered by Statistics Canada in 2002. This survey was mentioned by a number of seminar participants. PEPS was designed to collect information on three important themes in postsecondary education: access to, persistence in, and financing of postsecondary education. The questionnaire was administered by telephone to young people between the ages of 18 and 24 (17 to 24 in Quebec) who were not enrolled in full-time education. The responses showed that students were more likely to pursue postsecondary education if their parents' income and education levels were high, if savings had been put aside for their education, and if their high school academic performance was strong. Among students who had not entered postsecondary education, 39 per cent cited financial barriers as a concern. Interestingly, just over half of those who had taken some postsecondary education had financed their education through means other than government student loans, though this figure varied from province to province. Among students who had left without graduating, the main reasons given related to issues of fit between the student and the program of study. Financial concerns were mentioned by 29 per cent of these respondents. The report on PEPS results also contains information about costs of attending university and college, differentiating between students living at home and those living away from home[4].

Evidence on debt and debt aversion

François Nault presented information on student debt levels in the session on Debt, Debt Aversion, and Loan Repayment[5]. His presentation combined recently released data from Canada's National Graduate Study (NGS) with information from PEPS and other economic data to present an overall picture of student financial circumstances in Canada between 2000 and 2002. The NGS data showed that about half of all students who graduated from university or college in 2000 owed money at the time of graduation, mostly to government student loans programs. Close to one-quarter of graduates from university level first-degree programs reported difficulties in repaying their debt two years later, but one-fifth had repaid their loans completely.

There was considerable debate about the issue of debt aversion. Some participants, particularly the student representatives, argued that debt aversion is a serious problem for many students and may constitute a barrier to access for some. The prospect of emerging from a program with thousands of dollars of debt is daunting. Other participants were less convinced that debt aversion is a barrier to access. They agreed that debt levels are a concern, but suggested that students are aware of the financial benefits of postsecondary education and are generally prepared to accept the debt burden in order to achieve those benefits.

The role of information for students and parents

Good communication with students and parents about the costs of education and the options available for financial assistance is essential to administering a successful program, especially from the equity perspective. Ross Finnie presented a simple model for decision-making, based on a student's analysis of the costs and benefits of pursuing further education. However, not all prospective students are well-equipped to make that decision. Their ideas about the costs may be based on incorrect assumptions or media stories. And their awareness of the benefits may be limited by family or cultural attitudes.

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[4] The report *Access, persistence and financing: First results from the Postsecondary Education Participation Survey* (81-595-MIE2003007) is available free on Statistics Canada's Web site (www.statcan.ca).
[5] The report *Class of 2000: Profile of Postsecondary Graduates and Student Debt* (81-595-MIE2004016, free) is available free on Statistics Canada's Web site (www.statcan.ca)..

Even students who are well-prepared may be unaware of all the resources available to them, including loans and grants.

Questions were raised about the extent to which student aid affects decisions about participation for particular groups in society, such as immigrants in some European countries or Aboriginal students in Canada. In the discussion of this point, it was agreed that money alone is not the solution. Changes in attitude toward postsecondary education are needed on the part of students, parents, and elementary-secondary education systems. However, if students know that money is available, there may be more incentive to at least consider participation in order to take advantage of the benefit. Communication with students and parents from disadvantaged groups is, therefore, extremely important.

Evidence, such as that supplied in Canada by the NGS results, plays an important role by providing reliable data on debt loads and repayment rates. Data on tuition costs, by program and by area or type of institution are also important. The difficulty lies in getting this information into the hands of students when they need it. It is possible that some of the student concerns about debt are fuelled more by media reports of skyrocketing debt loads and by investment counselling to parents about the future costs of postsecondary education than by any real figures.

Good communication is not only important in order to ensure that the equity objectives of student financial assistance are met, it is also a key element in the implementation of changes to student financial assistance programs. When students or parents misunderstand the impact a particular policy will have, they can in some cases exert enough pressure to reverse the policy, even though it might have been to their benefit. The delegate from Scotland, for example, mentioned that this had occurred there recently in relation to proposed policy changes.

Potential issues for future research

- Impact of grants and loans in countries with tuition and countries without, in terms of factors such as access and participation, as well as number of students working while in school and number of hours worked.
- Impact on access of the introduction/abolition of tuition, especially among students from families with lower socioeconomic status.
- Long-term effects of student debt loads on graduates.
- Links between student debt and "brain drain" — are graduates emigrating to avoid paying?
- Role of debt-aversion:
    - Is there evidence of any relationship between rising debt levels and changes to access patterns?
    - Is there evidence that debt aversion is a problem?
    - Is there any evidence about what levels of debt do or do not trigger debt aversion?
    - How much debt aversion is based on the perceived costs of postsecondary education rather than the actual costs?

- Possibilities for containing or reducing the costs of pursuing postsecondary education.
- International comparative research on government costs and subsidies to students and parents, and on student income and expenses while in postsecondary education.
- Investigation of effective/ineffective mechanisms for communicating with parents and students.
- Impact of shifting from a system based mainly on grants to a predominantly loan-based system, especially in terms of any changes in access for students from disadvantaged groups.

International approaches to student financial assistance

One of the aims of the seminar was to provide opportunities for delegates to learn about approaches used in other countries, in order to consider new ideas and perhaps see existing policies in a new light. At each session, a panel of country representatives provided their individual perspectives on the issues under consideration. These brief presentations gave participants not only an overview of current policies but also a sense of the background to the development of those policies and of some of the challenges facing each system.

One major difference among countries is in the use of tuition fees. In Canada and the United States, tuition fees for postsecondary education are standard, and generally represent a significant portion of the overall costs of postsecondary education. For example, average undergraduate tuition fees in Canada in 2003–2004 were $4,025 CAD per year of study. In the United Kingdom and some other countries, tuition fees are being introduced in the context of a growing debate on cost-sharing and the need for students to contribute to the costs of their education. In both cases, student financial assistance, through some combination of loans and grants, attempts to ensure that the private contribution does not impede access. In the Scandinavian countries and some other parts of Europe, students do not pay tuition fees, and financial assistance is seen as part of the overall social assistance program of the country. In these countries, grant schemes tend to predominate over loans.

In the provision of grants, some countries such as Sweden make their grants program available to all students including those from wealthy families on the grounds that since all families pay for the system, all students should have equal access to the grants. The Swedish delegate pointed out that this helps to ensure that wealthy taxpayers continue to support the system, which requires relatively high taxation rates in order to function. In other countries such as England and Canada, grants are aimed at lower-income families, to reduce income inequalities. In Mexico, there is no federal government loan program, only grants to help pay for living costs and books; however, there is a movement toward loans: one state has introduced a loan program and other states have expressed interest in following suit.

Most countries provide a mix of grants and loans, with varying approaches to delivery. In England, all students have access to loans (for living costs, not tuition); in contrast, in Canada, access to loans is means-tested. The delegate from England noted that the reason for moving to universally available loans was that some evidence exists that approximately 30 per cent of parents do not meet their expected contribution. The attitude toward parental contributions varies from country to country. For example, in Scotland, parents' income is taken into account in assessing a student's eligibility for assistance until the student reaches age 25. In Norway, parents' income is not relevant once a student leaves secondary school (and parents do not receive tax subsidies).

Loans involve interest costs, which can be an extra financial burden for students. One approach to dealing with this burden is to provide an interest subsidy for students while they are in school. As Ross Finnie points out, this type of assistance means that the loans program begins to perform some of the functions of a grants program, where the state assumes some of the costs of the schooling. In Canada, students do not have to make payments on their loans while they are in school or during a six-month grace period after graduation. By contrast, the Slovak Republic provides no interest relief, on the grounds that the student assistance program should not place an extra burden on the state resources.

Although loans make graduates responsible for some of the costs of their education, which may be appropriate in light of the benefits the individual receives, repayment can be difficult. England introduced a loan system in 1990, when the level of grants available could not keep pace with what students needed. In 1998, tuition fees were introduced, along with an income-contingent repayment scheme for loans[6]. Fee-remission grants are available for students from poorer families who cannot afford tuition. A reform package currently before Parliament will re-introduce grants for living costs for poorer students, in response to studies showing that this may help those students decide to attend postsecondary education and to stay in school once they get there. The fee-remission grant will no longer be available, but in its place will be a universally available fee deferral program. The set-up will, in many ways, be similar to the model proposed by Ross Finnie. England has decided to put as much choice as possible in the hands of students, so that if the issue for some students is liquidity they can maximize their loans, while if others are most concerned about debt they can limit their loan exposure.

In Scotland, which abolished tuition fees in 2000, most graduates are required to pay approximately £2000 to The Graduate Endowment (Scotland). Money from the Endowment is used for the purposes of the financial support of students. The aim was to create a scheme that provides a contribution toward the support of future students from those who have benefited from a degree. Repayment of any loan and payment of the Endowment begins several months after the student graduates, and is linked to the graduate's income. Loans to assist students with costs of living while attending school are available, subject to an expected parental contribution amount tied to the parents' income. Students from poorer families can receive half their loan entitlement in the form of a grant.

[6] Graduates pay 9% of their income over £15,000, and interest is subsidized so that the "interest" students pay is simply the cost of inflation.

Norway has introduced a program that allows students to convert 40 per cent of their loans to grants, on completion of their program of study (students graduating from a master's-level degree typically have around $50,000 CAD of debt). The initiative is intended to encourage students to complete their degrees. It is too early yet to judge the success of this program.

Several participants spoke about new developments in the provision of student financial assistance in their country or province. These discussions demonstrated again how many factors influence policy decisions in this area. Changing economic circumstances will obviously have an impact on the funding available, but changing political or social situations can also play a major role. This was underlined by the delegate from the Slovak Republic who spoke about the transitions his country had experienced following the end of Soviet domination, noting the tremendous adjustments that had been required. For example, the government has faced resistance from the population to the idea of paying for education, and it is not clear how plans to introduce tuition fees will be received.

Claude Provencher, from the Quebec Ministry of Education, spoke about recently introduced changes to the Quebec student financial aid system.[7] The changes are the result of extensive consultations with students, educational institutions, and banks, which was the first major review of the system for 20 years. With a decision to move toward the pan-Canadian proportion of grants and loans, the proportion of loans in Quebec will go up. Payments to students will be made on a monthly basis (unlike payments under the Canada Student Loans system, which are made per semester). In order to manage this, a comprehensive electronic system has been developed. Students or their parents will be expected to make a contribution toward the cost of their education.

The previous history of a student financial assistance program can play a role in subsequent policy development, as the Danish example shows. During the 1970s, many students took advantage of the state-guaranteed loan system to take on high debt loads, only to find themselves facing difficulties in making payments when interest rates skyrocketed in the 1980s. The result has been a continuing reluctance to take on student debt, even though interest rates are now much lower. The political system itself has become debt averse. The delegate from Denmark pointed out that, no matter what economists advise, at the end of the day it is politicians who have to make their decisions based on what they see among their constituents. In Denmark, which has high tax rates in order to support social programs including the generous student financial assistance scheme, graduates face difficulties in repaying loans from their after-tax incomes.

[7] In Canada, nine provinces and one territory participate in the Canada Student Loans program. Quebec, Northwest Territories, and Nunavut do not participate in the Canada Student Loans program, but offer their own student assistance programs, and receive alternative payments from the Government of Canada to assist in the operation of those programs.

Final thoughts

In all countries, state resources are limited and education must compete for funding with other government priorities such as health care. In many OECD countries, there is a trend toward increased private contributions from students and their families to the costs of postsecondary education. This can be seen through the introduction of, or increase in, tuition fees; through the move to a loan-based scheme of student financial assistance rather than a grants-based one; in expectations that parents will assist students; and in the growth of private postsecondary institutions. Those who support private contributions argue that students gain personal benefit from higher education and should therefore bear some of the costs, and that students may make more careful decisions when some of their own money (or that of their family) is involved.

Individual students are not the only beneficiaries from their education, however. Vossensteyn, in his thematic report, cites a study showing a social rate of return for higher education of between 6 per cent and 15 per cent in developed countries. (The costs and benefits to individuals and society are well illustrated by Table 1 in his report.) Vossensteyn argues that a strong case for cost-sharing between government and individuals exists and, indeed, most governments do provide substantial support for postsecondary education.

As the above examples of student financial assistance programs show, there are many ways to deliver publicly funded assistance. The social values of the country, the history of its education system and its funding, and the structure of the secondary school system all affect the choices made in developing student financial assistance policies. It may be, however, that an increased awareness of the variety of models available will help countries to determine which elements will be most effective in promoting equity in their national context.

As Paul Cappon noted in his opening remarks at the Seminar, “Whatever our individual opinions may be on the future of student financial assistance, it is clear that as an issue, it goes to the heart of current developments in postsecondary education.... The strength of a country’s economy is linked to the productivity of its workforce, which is directly related to issues of human capital.” It is in every country’s interest to encourage people to pursue postsecondary education and lifelong learning and to continue to explore policy options that will support that goal in an effective and efficient manner.

Sources

Note: all documents are available at
http://www.cmec.ca/stats/quebec2004/documents.en.stm

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Vossensteyn, H. (2004). Subsidizing students, families or graduates? [PowerPoint]

Appendix I

Useful Internet Resources

Canada Millennium Scholarship Foundation
http://www.millenniumscholarships.ca/en/main.html

Canada Education Savings Grant
http://www.hrsdc.gc.ca/en/gateways/topics/cgs-gxr.shtml

Canada Student Loans Program
http://www.hrsdc.gc.ca/en/gateways/nav/top_nav/program/cslp.shtml

Council of Ministers of Education, Canada (CMEC)
http://www.cmec.ca

Educational Policy Institute
http://www.educationalpolicy.org

Human Resources and Skills Development, Canada
http://www.hrsdc.gc.ca/

International Comparative Higher Education Finance and Accessibility Project
http://www.gse.buffalo.edu/org/IntHigherEdFinance/

National Graduate Survey 2002 (Class of 2000)
http://www.statcan.ca:8096/bsolc/english/bsolc?catno=81-595-M2004016

Northwest Territories Student Financial Assistance Program
http://www.nwtsfa.gov.nt.ca/

Nunavut Student Financial Assistance Program
http://www.nac.nu.ca/costs/index.html

OECD Education Directorate
http://www.oecd.org/department/0,2688,en_2649_33723_1_1_1_1_1,00.html

Organisation for Economic Co-operation and Development (OECD)
http://www.oecd.org

Postsecondary Education Participation Study
http://www.statcan.ca:8096/bsolc/english/bsolc?catno=81-595-M2003007

Quebec Student Financial Assistance Program
http://www.afe.gouv.qc.ca/english/indexAng.asp

Seminar Web site
http://www.cmec.ca/stats/quebec2004/indexe.stm

Statistics Canada
http://www.statcan.ca

Comparative data on student financial assistance and access to tertiary education[8]

	Canada	Denmark	Norway	Scotland	Slovak Republic	Sweden
Grants (% of students receiving)	Yes (N/A)	Yes (80%)	Yes (96%)	Yes (N/A)	Yes (12%)	Yes (100%)
Grant eligibility	Needs-based, targeted	Universal	Universal	Needs-based	Needs-based	Universal
Loans (% of students receiving)	Yes (~50%)	Yes (40%)	Yes (78%)	Yes (N/A)	Yes (5%)	Yes (~82%)
Loan eligibility	Needs-based	Universal	Universal	Needs-based	Needs-based, targeted	Universal
Ratio of grant to loan	1:2	1:1	1:2	N/A	3:4	3:4
Other subsidies (e.g. transportation)	No	Yes	Yes	Yes	Yes	Yes
Tuition fees	Yes	No (public institutions)	No (public institutions)	No	No (may change)	No
Full-time students	521,930 (2000-01)	202,000 (2001)	192,000	155,000	99,259 (2003-04)	225,559
Part-time students	213,410 (2000-01)	N/A	N/A	95,000	46,135 (2003-04)	96, 984

N/A = information not available

[8] Data are drawn from surveys completed by country representatives attending the 2004 CMEC-OECD-Canada seminar on student financial assistance.