

FINANCING UNIVERSITY EDUCATION IN CANADA

**Rose Pelletier
Terrence J. Thomas
Economics Division**

May 1998



Library of
Parliament
Bibliothèque
du Parlement

**Parliamentary
Research
Branch**

The Parliamentary Research Branch of the Library of Parliament works exclusively for Parliament, conducting research and providing information for Committees and Members of the Senate and the House of Commons. This service is extended without partisan bias in such forms as Reports, Background Papers and Issue Reviews. Research Officers in the Branch are also available for personal consultation in their respective fields of expertise.

**CE DOCUMENT EST AUSSI
PUBLIÉ EN FRANÇAIS**

TABLE OF CONTENTS

INTRODUCTION.....	1
THE RISING COST OF UNIVERSITY EDUCATION	1
STUDENT LOANS	5
A. Canada Student Loans Programs (CSLP)	5
B. Ontario Student Assistant Program (OSAP)	9
C. Programme de prêts et bourses du Québec.....	9
THE ROLE OF FINANCIAL INSTITUTIONS.....	9
STUDENT INDEBTEDNESS.....	10
A. Magnitude of Student Indebtedness	10
B. Effects of Student Indebtedness	14
C. Government Solutions to Canadian Student Indebtedness.....	16
1. Canada Student Loans Program (CSLP).....	16
2. Ontario Student Assistant Program (OSAP).....	17
3. Programme de prêts et bourses du Québec	19
RELATED ISSUES	19
A. Reports of Committees	20
B. The 1998 Budget	21
C. Income Contingent Repayment Loans Schemes	21
CONCLUSIONS.....	22
BIBLIOGRAPHY	23



CANADA

LIBRARY OF PARLIAMENT
BIBLIOTHÈQUE DU PARLEMENT

FINANCING UNIVERSITY EDUCATION IN CANADA

INTRODUCTION

In recent months, the phrase “crisis in education” has appeared often in newspapers and magazines and on radio and television. The phrase has been used in the context of government funding to education, rising tuition at most Canadian universities, and increased debt loads for students and recent graduates. It is useful to go beyond the phrase to quantify recent developments and to speculate about their short-run and long-run effects.

Although funding cuts affect all levels of education, this paper will concentrate on their impact on postsecondary education in Canada. Since the recent surge in tuition fees has given student loans more prominence, this paper examines the federal program and two representative provincial student loan programs and notes the increasing role of financial institutions in these. The central section of the paper gives the available data on the extent and nature of student indebtedness and discusses some of its apparent effects. Related issues discussed in this paper include the reports of two parliamentary committees, a recent federal education initiative and a possible alternative to the current system of student loans.

THE RISING COST OF UNIVERSITY EDUCATION

At the end of August 1997, Statistics Canada released the article “University Tuition Fees, 1997/98” in *The Daily*, showing that the cost of university tuition was increasing much faster than the rate of inflation. Fees for undergraduate arts students (a long-standing proxy for the general level of university tuition) had increased by almost 9% in Canada from the 1996-97 academic year. This percentage is the average across Canada; as the following table shows, changes in tuition costs varied widely among provinces, from no change in Quebec to a change of 18% in Newfoundland.

Table 1 - Average Undergraduate Arts Tuition

	Year 1997/98	Year 1996/97	Per Cent Change
Newfoundland	3,117	2,867	18.0
P.E.I.	3,150	2,920	7.9
Nova Scotia	3,737	3,499	6.8
New Brunswick	2,992	2,769	8.1
Quebec	1,726	1,725	0.0
Ontario	3,234	2,936	10.1
Manitoba	2,593	2,505	3.5
Saskatchewan	2,380	2,239	6.3
Alberta	3,211	2,965	8.3
British Columbia	2,705	2,661	1.7
Canada	3,117	2,867	8.7

Source: Statistics Canada, "University Tuition Fees, 1997/98," *The Daily*, 25 August 1997. Fees shown are in dollars and are an average of the universities in each province with the fees weighted by the number of students.

Tuition, of course, is only part of the cost of higher education. Additional fees can add up to several hundred dollars. At the University of Toronto, for example, such fees for an undergraduate arts student would run from \$133 to \$467 (or 4.1 to 14.6% of the University of Toronto's \$3,196 tuition -- all figures based on Statistic Canada's recent release). The costs of room and board for those who cannot attend a local university (or choose not to) are higher than tuition fees. Total expenses for attending the University of Toronto for the 1997-98 academic year range from \$8,328 to \$10,940; the U of T is admittedly in one of Canada's most expensive cities, but average total expenses across Canada are probably in the \$7,000 to \$8,000 range.

With respect to tuition fees, as shown in the table above, Quebec stands out, both for its low level of tuition costs and for having had no increase in such costs since the 1996-97 academic year. The tuition figure shown is for provincial residents; those from outside Quebec pay higher course fees, bringing the cost of their education in Quebec into line with tuition charges at universities in other provinces. With the exception of Quebec and British Columbia, which had a relatively modest increase in tuition, universities in Canada had tuition increases far in excess of the current inflation rate of under 2%.

The Statistics Canada study noted that tuition fees have outpaced the rate of inflation in all provinces since the mid-1980s. Tuition fees have more than doubled while the consumer price index (CPI) has increased by 37% (because of limited data, the comparison was

for the period 1985-86 to 1995-96). Some commentators have wondered, however, whether the real cost of tuition is so far different from what it was in (say) the mid- or late-1960s. The phrase “crisis in education” could prove to be an overstatement if it could be shown that earlier students and their families managed to pay tuition costs that were higher in real terms than they are now.

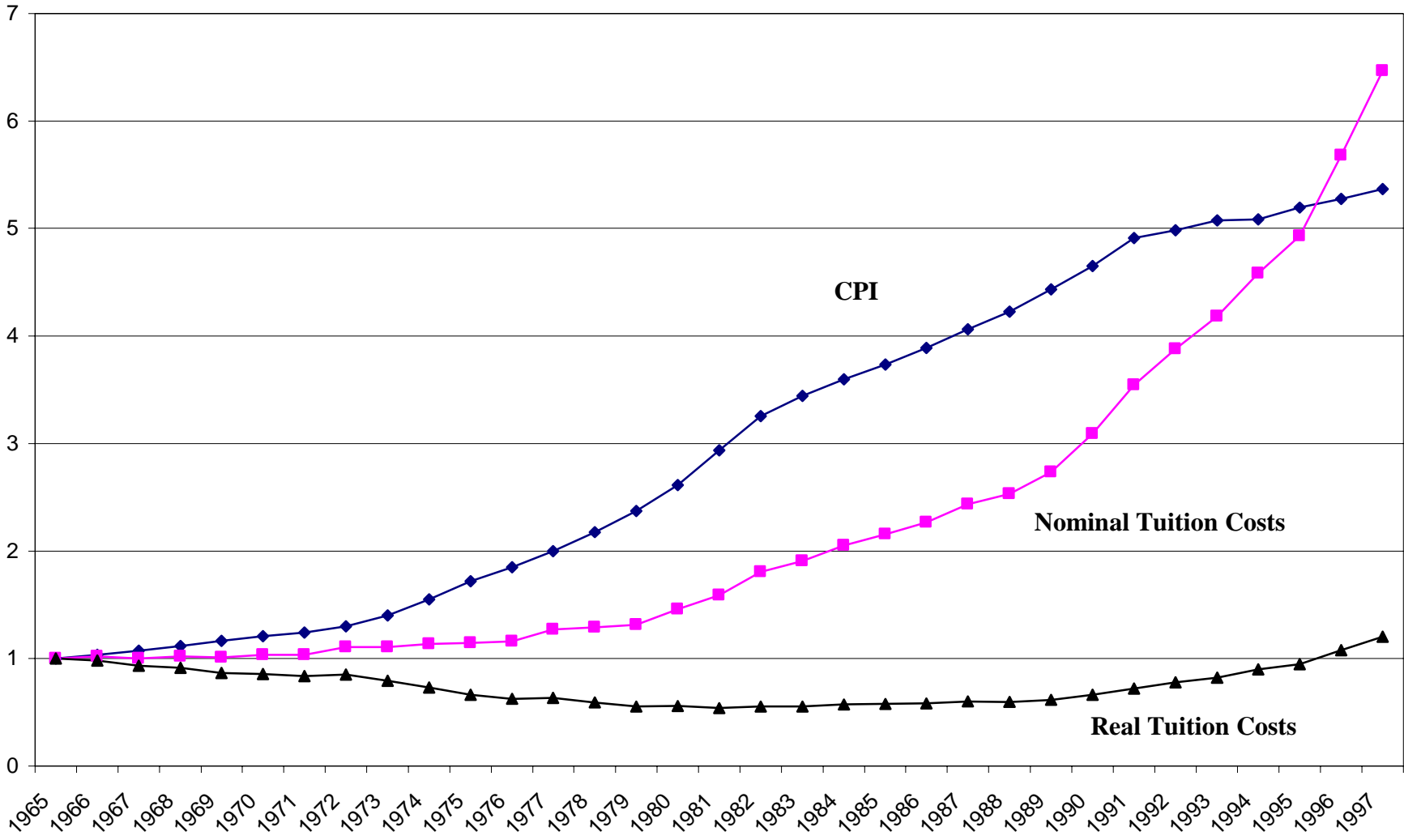
Chart 1 provides a historical perspective on tuition movements since the mid-1960s. Three series are shown in the chart: average tuition for full-time Canadian undergraduates in the Arts and Sciences in nominal terms, the consumer price index (CPI) and real tuition costs (the nominal series divided by the CPI). Each of the three is shown as an index with 1965=1.0.

Most noticeable in the chart, perhaps, is the surge in tuition costs over the past few years. Other facts are worth mentioning, however. Inflation was relatively flat during the earliest and latest years covered; the high inflation during the 1970s and 1980s also stands out. It is possible to discern three sub-periods of movement in tuition relative to inflation. From the mid-1960s to the late 1970s, tuition stayed relatively flat, almost immune to changes in prices. Throughout the 1980s, tuition changes were somewhat in line with price changes, as if universities (or whoever set tuition fees) were trying to maintain the real revenue from tuition. From the late 1980s, the price of tuition has moved up faster than prices. Of most interest in the chart is the movement of real tuition costs. It is only in the mid-1990s that real tuition costs -- one measure of the burden of tuition on students and their families -- reached the level of the mid-1960s.

The saucer-shaped curve for real tuition may, however, give a misleading impression of the burden of recent tuition increases, since real incomes are higher now than they were in the mid-sixties. According to Statistics Canada’s surveys on income, real family income was 62% higher in 1995, the year when real tuition reached its mid-sixties level, than it was in 1965. That is, the real burden of tuition, relative to family income, is lower today than it was in the 1960s. Comparing 1995 to a year in the mid-1970s would give a different picture, as real family income has been relatively flat since then. The distribution of family income is also important. If most students in the mid-1960s came from families with “high” incomes (high relative to the family incomes of today’s students), a comparison using average family income would understate the real overall burden of tuition today.

Another way of looking at tuition changes is to explore how revenue from tuition has changed as a source of funds for universities. Chart 2 uses the available data for the period 1971-72 to 1995-96 to show the ratio of tuition fees to operating revenues. This ratio

Chart 1
Average Tuition Fees and Inflation



declined from its early 1970s value of around 18% and did not regain this level until the early 1990s. By the 1995-96 academic year, the ratio had reached 25.6%. Note that the series used in this chart is the aggregate dollar amount for tuition fees at Canadian universities. The tuition series here reflects both changes in tuition fees and changes in enrolment. Despite the different definitions, both charts illustrate universities' increased reliance on tuition.

STUDENT LOANS

Postsecondary students have various sources of funds for their education: family income (parents, spouse, grandparents), wages from work or any other personal income source, scholarships, loans from the bank and grants and loans from the government. It is the loans from government that have attracted the most attention, as these loans can reflect government policy on education.

In Canada, the federal and provincial governments provide financial assistance (loans and/or non-repayable grants) to eligible students based on their demonstrated financial need. The needy students of all the provinces except Quebec and the Northwest Territories may apply for both federal and provincial assistance, using one form to do so. Quebec and the Northwest Territories have opted out of the Canada Student Loans Program (CSLP) and receive compensation from the federal government based on the costs of their own student assistance programs.

The loan programs take into consideration any contribution from family and income from work during the four months before the beginning of the studies; that is, all the resources available to the student and the cost of his or her studies are calculated. The next section describes the Canada Student Loans Program (CSLP) and the Ontario Student Assistance Program (OSAP), which was chosen to represent provincial programs in all those provinces with CSLP. A description of the Programme des prêts et bourses du Québec is also given.

A. Canada Student Loans Program (CSLP)

In 1994, there were a number of modifications to the CSLP program, which was renamed the "New CSLP." Table 2 compares the two versions of CSLP.

The New CSLP provides for up to 60% of the assessed needs of the student up to a weekly loan limit of \$165. During full-time studies, the student does not make payments on the loans and the interest is paid by the government. Six months after the end of their studies, the students are required to begin to repay the loan. Participating provinces determine how much assistance they themselves will provide in loans and/or grants.

Chart 2
Ratio of Tuition Fees to General Operating Revenue

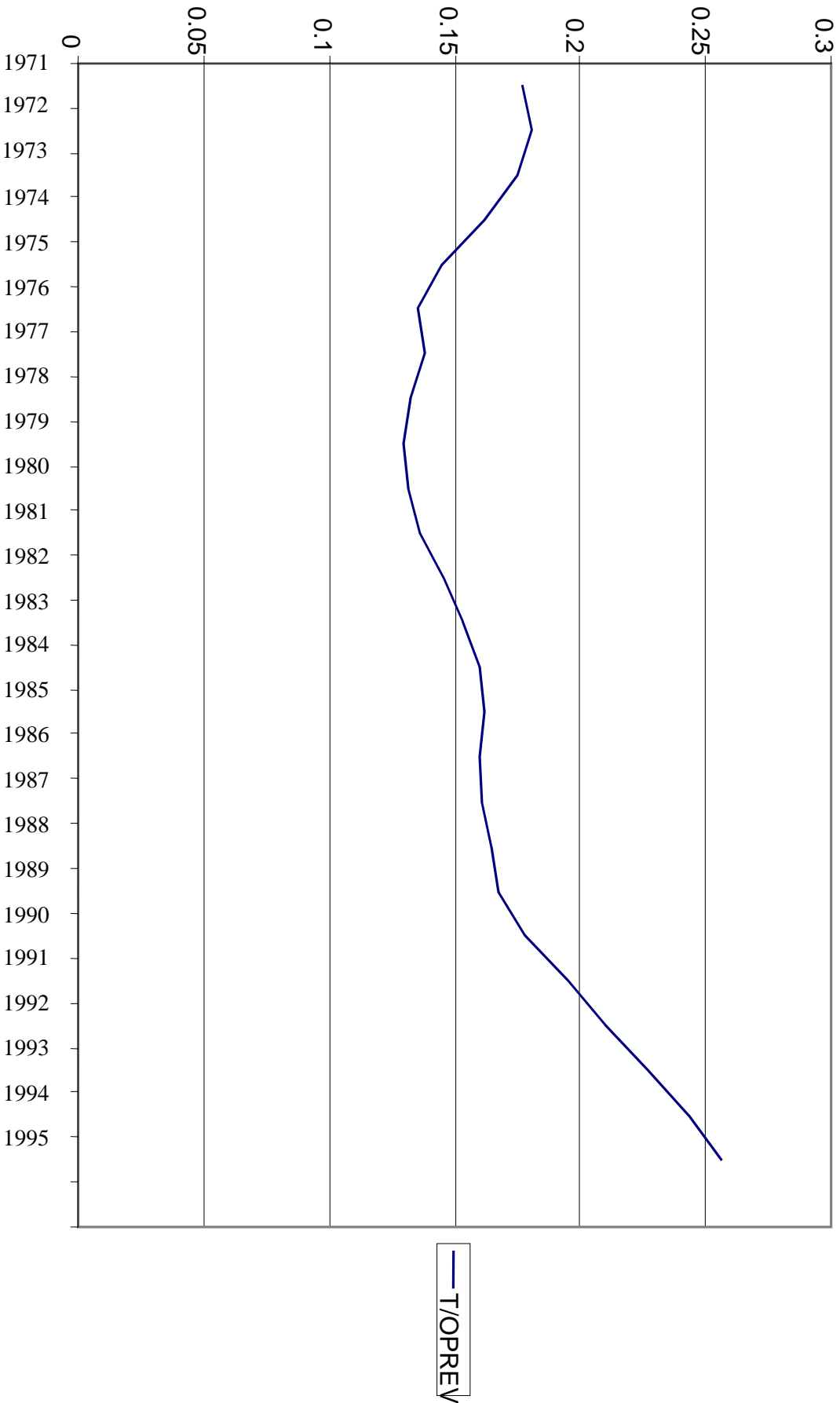


Table 2 – Comparison of the Old CSLP and the New CSLP

	Old CSLP	New CSLP
Eligibility determined by :	Government	Government
Need assessment	Varied across provinces	More consistent across provinces
Maximum weekly limit	\$105	\$165
Credit risk taken by :	Government	Financial institution
Government compensation of financial institutions?	Full guarantee of principal	No guarantee but upfront fee of 5% of principal as risk premium
Pricing of class A loans ^(a)	1-5-year Government of Canada bond + 1%	Prime
Pricing of class B loans ^(a)	5-10-year Government of Canada bond + 1%	Variable rate : capped at prime + 2.5%; fixed rate : capped at prime + 5.0%
Interest relief available for :	Up to 18 months	Up to 18 months
Repayment schedule	Fixed	Negotiable with financial institution
Default reported to credit bureau?	No	Yes
Revenue Canada used to recover debt?	Yes ^(b)	No ^(c)

^(a) While the student is in school and the government is paying the interest, a loan is classified as class A. Once the borrower leaves school and must assume responsibility for payment of interest, the loan is classified as class B.

^(b) The practice of using Revenue Canada to recover debts from refunds due is a recent change; it was not in place for most of CSLP history.

^(c) But this practice may continue in a limited way under the new CSLP.

Source: Harry Hassanwalia, "Improvements to the Canada Student Loans Program: Do Recent Changes Fit the Bill?" in Ross Finnie and Saul Schwartz, "Student Loans in Canada. Past, Present and Future." C.D. Howe Institute, Toronto, 1996, and Library of Parliament.

For part-time students, there is also the possibility of a loan of up to \$4,000, on which interest must be paid by the student during his or her studies. Canada Student Loans are issued by and repaid to participating lenders. There is a program of interest relief for students who experience financial difficulties after their studies. Some provinces provide additional assistance, in the form of loan remission or loan forgiveness, to borrowers repaying provincial student loans.

Federal assistance also includes Special Opportunity Grants for students with permanent disabilities (up to \$3,000 per year), high-need part-time students (up to \$1,200 per year) and female doctoral students in certain fields of study (up to \$3,000 per year for up to three years).

Until 1990-91, almost all the provinces gave needy students some form of grant or bursary. By 1994-95, most of these aid packages had been eliminated, leaving only loans. Some provinces were more affected than others. In Ontario before 1993-94, needy students were first given a provincial grant and then a federal loan; a provincial loan was then offered if still more was needed to match the assessed need. In 1993-94, the grant program was abolished, however, making the CSLP loan the first type of aid offered to the student. The main exception to this situation is British Columbia; here the grants programs were maintained, with the result that the amount borrowed by students rose only moderately.

Government financial assistance to students is thus a combination of federal and provincial packages. Table 3 shows the federal and provincial student assistance for the years 1990-91 and 1994-95.

**Table 3 – Federal and Provincial Student Financial Assistance,^(a)
Fiscal Years 1990-91 and 1994-95 (current \$ millions)**

	Canada Student Loans		Provincial Aid			
	1990-91	1994-95	Loans 1990-91	Loans 1994-95	Grants 1990-91	Grants 1994-95
Newfoundland	36.36	51.70	0	32.87	16.23	0
Nova Scotia	43.55	50.37	0	45.00	14.05	0
Prince Edward Island	6.13	5.78	0	3.91	2.44	0
New Brunswick	39.24	32.71	0	23.85	14.86	4.17
Ontario	238.07	707.77	52.63	556.69	181.14	0
Manitoba	38.83	34.75	0	20.41	7.99	0
Saskatchewan	48.59	57.22	43.06	40.96	0	0
Alberta	114.10	114.65	61.81	112.22	39.52	22.25
British Columbia	100.13	174.35	51.29	65.68	27.88	24.61
Yukon	0.83	0.62	0	0	1.03	1.50
Total	665.83	1,229.92	208.79	901.59	305.14	48.36

^(a) Omitting Quebec and the Northwest Territories

Source: Ross Finnie and Saul Schwartz, "Student Loans in Canada. Past, Present and Future," C.D. Howe Institute, Toronto, 1996.

B. Ontario Student Assistance Program (OSAP)

OSAP includes both federally and provincially funded loan programs that provide financial assistance to eligible postsecondary students. The Government of Ontario funds the Student Loans Plan and the Ontario Special Bursary Plan (OSBP). The latter is a student assistance program that offers non-repayable bursary assistance to help cover the educational expenses of part-time and full-time postsecondary students with a low family income. In addition, there are the Ontario Work Study Plan, which is a special program giving students a chance to get part-time jobs on campus; the Child-Care Bursary Plan, which offers help for students with three or more children; and the Bursary for Students with Disabilities. Finally, there is the Loan Forgiveness Program (for students receiving loans through OSAP); and the Interest Relief Program, which is for Ontario Student Loans only.

C. Programme de prêts et bourses du Québec

The Programme de prêts et bourses du Québec provides financial aid to postsecondary students and those receiving secondary school job training. The calculation of allowed expenses includes tuition fees, subsistence, and transportation costs as well as expenses for children, some medical expenses and the interest on computers bought under the Loan Program for the Purchase of a Computer. The revenues of the student are also taken into account, as is the contribution of his or her parents and/or spouse if applicable. The difference between income and costs is provided in loans up to a certain amount and the rest is provided through grants.

THE ROLE OF FINANCIAL INSTITUTIONS

In all governmental programs offering funding to needy students, financial institutions play an important role. This role has grown in recent years, especially with respect to the CSLP.

In June 1994, the federal government adopted Bill C-28, which gave financial institutions broader responsibilities in the area of student financial assistance. Since then, the government has ceased to guarantee student loans; instead, it pays a 5% risk premium to

participating lenders, who agree to provide student loans. There are now nine lenders, which are required to disburse loans promptly within a specified period of time, provide service in both official languages, have toll-free telephone enquiry lines, give written notice and annual statements to borrowers who are repaying the loan, and offer financial counselling.

The government still decides on the amount of the loan for each applicant; the financial institutions do not take part in the decision process. The interest on the loans is paid by the government while the student is in school and, after six months following the period of studies, the student must begin to pay the interest and repay the outstanding capital. This reimbursement is negotiated between the student and the financial institution. Borrowers who were full-time students have the option of fixed interest rates of prime plus up to 5% or floating rates of prime plus up to 2.5%.

STUDENT INDEBTEDNESS

With the recent increases in tuition fees at most Canadian universities and the shift of some government assistance from grants to loans, student indebtedness has risen. This section looks at various aspects of student indebtedness. Some of the tables, unfortunately, rely on data from the late 1980s or early 1990s, and may thus understate the increasing burden of student debt in recent years.

A. Magnitude of Student Indebtedness

Table 4 shows the distribution of full-time student loans by indebtedness for the period 1992-93 to 1995-96. Note that there is a general upward trend over the years for each category of indebtedness and thus in the total.

**Table 4 – Distribution of Full-Time Student Loans by Indebtedness,
1992-93 to 1995-96**

Indebtedness	Actual 1991-92	Actual 1992-93	Actual 1993-94	Actual 1994-95	Preliminary Estimates 1995-96
Less than 5,000\$	149,192	159,987	158,446	137,217	149,183
\$5,000 - \$10,000	63,660	78,439	94,348	111,438	107,300
\$10,000 - \$15,000	25,123	30,084	37,694	46,251	49,969
Over \$15,000	11,529	12,802	15,112	23,957	32,416
Total	249,504	281,312	305,600	318,863	338,867

Note: Year from 1 August to 31 July

Source: Human Resources Development Canada, 1994-95 and 1997-98 Estimates Part III

Table 5 shows the number and the percentage of student loans in default by loan amount for the period 1989-90 to 1992-93. Note that, in total, the number of loans in default was lower in 1992-93 than in 1989-90. Also, the average value of claims paid went up over that period.

Table 5 – Canada Student Loans in Default*

Loan Amount	1992-93		1991-92		1990-91		1989-90	
	No.	%	No.	%	No.	%	No.	%
Less than \$2,500	8,180	28.1	10,938	32.9	10,295	33.4	10,782	33.9
\$2,500 to \$4,999	10,642	36.6	11,654	35.1	10,865	35.3	11,135	35.0
\$5,000 to \$10,000	6,250	21.5	6,670	20.1	6,180	20.1	6,368	20.0
More than \$10,000	4,007	13.8	3,967	11.9	3,456	11.2	3,538	11.1
Total	29,079	100.0	33,229	100.0	30,796	100.0	31,823	100.0
Average value of claims paid	5,402		5,043		4,538		4,731	

*from 1 August 1991 to 31 July 1992

Source: Bernard Bourgoïn, "Financial Assistance to Postsecondary Students," In Statistics Canada, "Education Quarterly Review," Publication No. 81-003 Quarterly, Spring 1995, Vol. 2, No. 1.

Table 6 shows the number of bankruptcies declared by CSLP recipients; this number in 1995-96 was more than twice that in 1990-91. The number of bankruptcies is growing very fast and this growth has become an important concern for lenders and government policymakers.

Table 6 – Canada Student Loan Program Bankruptcy Claims

Year (fiscal)	Number of CSLP recipients declaring bankruptcy
1990-91	3,300
1991-92	4,500
1992-93	4,500
1993-94	7,800
1994-95	7,000
1995-96	7,850

Source: Government of Canada, Human Resources Development Canada, Learning and Literacy Directorate
Source: Canadian Federation of Students, "A Blueprint for Access, A Strategy for Change," Canada, 4th ed. 1997.

The following tables are based on data from the National Graduates Surveys. Table 7 shows the incidence of student borrowing and the mean amounts owed at graduation by gender. The data in Tables 7 and 8 are unfortunately not recent; information from the 1998 Budget suggests that average student debt next year will be about \$25,000. The fact that the numbers are quite similar for men and women is interesting, because men usually earn more than women. The incidence of borrowing for college/CEGEP and BA students has grown over time, while it has remained stable for MA students and decreased for PhD students. However, the mean amount borrowed has increased for all types of students.

Table 7 – Incidence of Student Borrowing and Mean Amounts Owed at Graduation, 1982, 1986, and 1990

Gender	1982		1986		1990	
	Incidence (%)	Mean (\$) ^a	Incidence (%)	Mean (\$) ^a	Incidence (%)	Mean (\$) ^a
College/CEGEP Male	34	3,480	41	5,380	41	5,520
Female	36	3,400	43	5,190	42	5,890
Bachelor's Male	46	5,410	42	8,240	43	8,660
Female	41	5,120	39	8,110	44	8,710
Master's Male	32	5,900	34	7,700	32	8,440
Female	31	5,830	31	6,890	32	8,640
PhD Male	42	6,010	30	6,140	27	7,570
Female	33	7,110	28	5,330	28	8,970

(a) Constant 1990 dollars

Source: Ross Finnie and Saul Schwartz. "Student Loans in Canada. Past, Present and Future," C.D. Howe Institute, Toronto, 1996.

The debt-to-earnings ratios, shown in Table 8, are increasing for all types of students, with the biggest increase (roughly double) for those graduating with a bachelor's degree. Also, except for PhD graduates, the burden is heavier for women than for men; this might have been expected since, as explained above, men usually earn more than women. Note, however, that the burden decreases as the level of the degree rises.

**Table 8 – Debt-to-Earnings Ratios^(a) (Median),
1982, 1986, and 1990 (percent)**

	Gender	1982	1986	1990
College/CEGEP	Male	12	19	20
	Female	15	23	26
Bachelor's	Male	14	25	28
	Female	17	29	32
Master's	Male	13	18	19
	Female	15	17	24
PhD	Male	9	12	15
	Female	10	9	15

^(a) Defined as the amount owed to student loans programs at graduation divided by annual earnings in the job held at the first interview.

Source: Ross Finnie and Saul Schwartz. "Student Loans in Canada. Past, Present and Future," C.D. Howe Institute, Toronto, 1996.

Table 9 presents the reasons for difficulties in repaying loans, as reported by students in interviews. The interesting fact here is that high debt load was not said to be the most important factor; rather, this was said to be unemployment or insufficient earnings.

**Table 9 – Reasons for Difficulties in Repaying Loans,
1986 Graduates (%)**

	Gender	Unemployed	Insufficient Earnings	High Debt Load	Other Reasons
College/CEGEP	Male	37	53	15	10
	Female	32	50	15	13
Bachelor's	Male	32	54	21	13
	Female	34	50	13	15
Master's	Male	36	47	17	11
	Female	34	46	21	11
PhD	Male	25	28	38	13
	Female	a	a	a	a

(a) Too few observations to be reported

Note: Data for those with student debt (government or otherwise) still outstanding at the first interview, two years after graduation. The rows add up to more than 100% because individuals may have indicated multiple causes.

Source: Ross Finnie and Saul Schwartz. "Student Loans in Canada. Past, Present and Future," C.D. Howe Institute, Toronto, 1996.

Part of the default problem under the Old CSLP seemed to stem from certain features of the program (Finnie and Schwartz (1996)). First, defaulting on a student loan could not affect a borrower's credit rating, since CSLP regulations forbade the release of this information to a credit bureau. Second, the relatively small size of student loans and their below-market interest rates gave the banks less incentive to pursue repayment. Finally, the repayment terms were quite rigid. Most students faced a standard repayment period and payments set only by the extent of their borrowing.

B. Effects of Student Indebtedness

Table 10 presents the education decisions taken by students after obtaining their first and second degrees. The numbers show that those who had obtained a master's degree by 1988 had had a much lower incidence of borrowing at the bachelor's level.⁽¹⁾ The relationship is similar for those who obtained a master's degree by 1991. The same pattern holds for the master's graduates who went on to obtain a PhD by 1988. (The situation is not so clear for those who received their PhD by 1991, but as Finnie and Scharzt (1996) have pointed out, since there

(1) It does not matter that the initial average loan levels at the bachelor's level were higher for those who went on to a master's degree. The much lower proportion of master's graduates with loans means that a large number of the master's graduates started their loan balances at zero when they entered graduate school.; that is, those who went on to a master's degree had assumed less debt at the bachelor's level.

were fewer of these individuals, the situation of those who received their PhD by 1988 is more significant.)

Finnie and Schwartz mentioned three reasons for the fact that those who went on to higher studies borrowed less than others at the earlier stages. First, continuing students are generally the better students and they were therefore more likely to receive bursaries or scholarships, thereby reducing their demand and eligibility for loans. Second, individuals from families with high incomes have less need for loans, should not be eligible for loans and are more likely to go on to higher levels of studies. Third, the fear of high levels of accumulated debt may have deterred some individuals from continuing their studies.

**Table 10 – Borrowing and Continued Education,
1986 Graduates**

Extent of Education	Gender	Incidence (%)	Mean (\$)^(a)
<i>Bachelor's graduates</i>			
Stopped at bachelor's ^(b)	Male	44	7,970
	Female	39	7,920
Received master's by 1988	Male	15	8,370
	Female	4	6,720
Received master's by 1991	Male	24	6,610
	Female	25	7,330
<i>Master's graduates</i>			
Stopped at master's ^(b)	Male	33	7,320
	Female	31	6,850
Received PhD by 1988	Male	3	9,380
	Female	3	6,790
Received PhD by 1991	Male	42	6,370
	Female	39	7,790

^(a) Constant 1990 dollars

^(b) Individuals may have been enrolled in, but did not receive, a higher degree after graduation in 1986.

Source: Ross Finnie and Saul Schwartz. "Student Loans in Canada. Past, Present and Future," C.D. Howe Institute, Toronto, 1996.

C. Government Solutions to Canadian Student Indebtedness

There has long been pressure on governments to do something about the burden of student debt. As policies differ according to the program and level of government, the discussion below is under the following headings: Canada Student Loans Program (CSLP), Ontario Student Assistance Program (OSAP) and Programme de prêts et bourses du Québec.

1. Canada Student Loans Program (CSLP)

Under this program, as mentioned earlier, borrowers experiencing financial difficulties will have relief on interest and repayment of capital for three-month periods, for a maximum lifetime benefit on full-time loans of up to 30 months within the first five years of repayment.

To help Canada Student Loans Program borrowers whose financial circumstances make it difficult for them to repay their student loans, the 1998 Budget introduced modifications to the program. These modifications consisted of interest relief, extension of the repayment period, extension of interest relief, debt reduction, and other measures. Interest relief came into effect in April 1998; a person can earn more and still be eligible for interest relief since the qualifying income thresholds have been raised by 9%. Beginning in 1999, partial interest relief will be available for graduates further up the income scale who are facing financial difficulty.

The repayment period will be extended to 15 years for individuals who have exhausted 30 months of interest relief. This will lower monthly payments by nearly 25% at current interest rates. Interest relief will also be extended, from 30 months to up to 54 months during the five years after leaving school, if, even after the repayment period has been extended to 15 years, an individual remains in financial hardship.

Debt will be reduced for the minority of individuals who remain in financial difficulty after all these relief measures have been implemented. Effective this year, the government will reduce the loan principal if annual repayments exceed, on average, 15% of the individual's income. The maximum amount of assistance will be \$10,000 or 50% 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.

To ensure that Canada Student Loans continue to provide as much assistance as possible to those who need them, 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 the 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.

2. Ontario Student Assistance Program (OSAP)

In February 1998, the Ministry announced changes to Student Assistance. These follow the business plan objective of reducing the overall default rate to less than 10% within the next five years. The changes include:

- replacing the loan forgiveness program by the Ontario Student Opportunity Grant which, after the student completes his or her academic year, will provide a grant for the amount assessed above the \$7,000 already accorded to the student as a loan;
- taking a more flexible approach to student support programs that will allow students to repay their student loans at a rate determined by how much they earn after they leave school (income-contingent repayment system). The Ministry is asking lenders to give students the following repayment options:
 - repayment over a longer period of time (15 years as opposed to the current limit of 9½ years);
 - lower payments during the first few years, when borrowers generally have lower incomes;
 - allowing borrowers to make interest-only payments for up to 12 months; and
 - enabling students with very low incomes to receive assistance from the government to meet their interest payments for up to 18 months;
- requiring the institutions to share the costs of their high-default programs if their 1997 loan default rate was 15% or more above the provincial average of 23.5%,

starting with loans issued in 1998-99. In the following year, this policy will apply to institutions whose loan default rate is ten percentage points or more above the 1997 provincial average;

- cutting access to loans: new applicants will not be eligible for a student loan if they have been 90 days in arrears on three or more personal loans, each with a value of \$1,000 or more, within the past three years. Students may appeal if they can demonstrate exceptional circumstances and a strong likelihood of being able to repay their student loans. It is expected that this measure will affect about 1% of loan applicants;
- requiring institutions to provide students with information about graduation rates, placement rates, and loan default rates for their programs. Institutions that do not currently collect information on graduation and placements must begin to do so by September 1999;
- opening the possibility for Ontario to withhold income tax refunds from individuals who have defaulted on their student loans and applying the proceeds to the amount owing. This action will take effect subject to passage of amendments to the federal *Financial Administration Act* and the *Income Tax Act* now being considered by Parliament;
- requiring colleges and universities to continue to set aside a portion of their operating grants for student assistance at their institutions;
- establishing trust funds valued at nearly \$600 million to aid students in need at colleges and universities under the Ontario Student Opportunity Trust Fund program. These trust funds are expected to assist 180,000 students over the next 10 years. The government will continue to match donations to trust funds at colleges through 31 March 1998;
- taking into account parents' income for all single students who have been out of secondary school for five years or less;
- expecting parents to contribute more to the cost of their children's postsecondary education before the children are eligible for a student loan; and
- introducing an application fee of \$10 for students filing a paper application for financial assistance. There will be no charge for applications filed through the OSAP website. The difference reflects the higher cost of processing paper applications.

3. Programme de prêts et bourses du Québec

Amendments were made to the law on 19 December 1997. They were designed to help the government recover a bigger part of the lost revenue than was previously possible and to help students manage their debt. As a result of the amendments, the government will:

- no longer cover interest payments for a six-month period from the end of full-time studies and will make sure that interest costs are “capitalized” (added to the amount of the loan);
- allow private institutions to reimburse financial institutions for any excess amounts received for students who have left school during the year;
- abolish postponement of repayment of student debt for certain groups; namely, those who, at the end of their studies, have to complete a course of professional training in Quebec, or participate in certain sports training as recognized by the Ministry of Municipal Affairs, and those doing post-doctoral studies who have sufficient financial resources to pay back their loan;
- introduce in 1999-2000 a new program for the repayment of debt;
- revise the conditions of repayment of any excess money received by a student as a result of a false declaration;
- allow the minister to apply to excess money to be returned by a student an interest rate different from the rate for legislated student loans;
- simplify and accelerate the repayment of any excess grants.

RELATED ISSUES

With recent increases in tuition and the accompanying rise of student indebtedness, the financing of university education has become a prominent concern. Parliamentary committees have been devoted to issues in postsecondary education; there have been announcements of government initiatives in the area and attempts to find alternatives to the current system of financing university education.

A. Reports of Committees

In December 1997, two committees presented their reports. The first report, from the Committee on Human Resources Development and the Status of Persons with Disabilities, chaired by Reg Alcock, M.P., was entitled “Ensuring Access: Assistance for PostSecondary Students.” The main recommendations were:

- to set up a more flexible interest relief program during the critical three-to-five year transition period after a student leaves a postsecondary institution (The program should take into account the borrower’s debt load and ability to pay.);
- to work with the provincial participants in the Canada Student Loans Program to come up with a debt reduction program for borrowers who are unable to meet their loan obligations;
- to offer grants that would support postsecondary students in their first year of education at recognized institutions; and
- to study the cost of making the interest on student loans tax-deductible (*Toronto Star*, 13 December 1997).

The other report was presented by the Special Senate Committee on Postsecondary Education, chaired by Senator Bonnell. It recommended that the federal government:

- introduce a simpler “one student, one loan” model of delivery jointly financed by the federal and provincial governments to improve access by those in need and encourage student mobility between provinces and between Canada and other countries;
- stop talking about the importance of the postsecondary education while making deep spending cuts;
- work through the Council of Ministers of Education, an intergovernmental body for the provinces and territories;
- give students more counselling and information about their responsibility to pay off their debts to both levels of government;
- allow borrowers more flexibility in the repayment of loans, based on their ability to pay;

- give a grant, payable to the bank holding the loan, to assist low-income borrowers who are in chronic financial difficulty;
- allow students to perform community service as one way of paying off their loan; and
- allow borrowers to deduct interest paid on student loans from their income tax, thus treating human capital investment in the same way as physical capital assets (*Globe and Mail* (Toronto), 18 December 1997).

B. The 1998 Budget

Experts agree that the 1998 Budget was dedicated to education. The Canada Millennium Scholarship Endowment is the biggest investment, at \$2.5 billion. Intended to reward academic excellence, it will provide an announced 100,000 scholarships, beginning in the year 2000, to help low- and moderate-income Canadians attend universities and colleges. The scholarships will be given to full- and part-time students each year over 10 years.

Other important measures are the Canada Education Savings Grant, increased funding to the three granting councils, Canada Study Grants, and Tax Relief for Interest on Student Loans. The Canada Education Savings Grant will benefit families who save for their children's education through registered education savings plans. The increased funding to the granting councils is aimed at supporting advanced research and graduate students. The Canada Study Grants will help over 25,000 needy students with children or other dependants with a grant of up to \$3,000. Tax Relief for Interest on Student Loans will give all Canadians tax relief on interest payments on their student loans; effective this year, individuals will be allowed to claim a 17% federal tax credit on the interest portion of the amount of loan repaid in the current year. The credit will apply to interest payments on loans under both federal and provincial student loan programs. Since the bill related to this budget has only passed first reading, changes could still be made to these guidelines.

C. Income Contingent Repayment Loans Schemes

As student indebtedness rises, so does the risk of loan defaults. This is especially true for those who do not find well-paying jobs after their schooling ends. With traditional loans, the debtor must pay a proportion of the outstanding loan and accrued interest each month. This payment could be a very high proportion of the debtor's monthly income, and in some cases -- if

the debtor does not find a job after school or is laid off -- there may simply be no income from which to repay a loan.

One proposal is for loan repayment to be linked directly to a debtor's income -- the so-called Income Contingent Repayment (ICR) loan scheme. This proposal has been around for decades but seems to be taken more seriously today.

The proposed ICR can take many forms, but all have basic elements in common. A student borrows a certain amount and agrees to pay a certain proportion of future income toward the loan (say, 0.7% of income for every \$1,000 borrowed). The proportion depends on several factors, such as the life of the loan and the definition of income, which can be pre-tax or after-tax income or an amount above some arbitrarily specified level. The proportion of this income, however defined, is similar to an income tax rate; several ICR proposals have suggested using the income tax system to collect the loan repayments.

Although an ICR scheme might solve the problem of defaults, except, perhaps, for those who leave the country or leave the workforce, there are some specific concerns, the two most important of which are related: the opportunity for adverse selection by borrowers under the scheme and the ability of an ICR scheme to be self-financing.

Under adverse selection, those students expecting relatively low future income -- say, an English major who intended to become a poet -- would opt for an ICR scheme because they knew that the ICR would allow them to pay less than they would with a traditional loan.

Some suggest that the ICR schemes could be self-financing because those with above-average incomes would pay enough to compensate for those with below-average incomes. Unfortunately, such projections break down, as those who expect relatively high future incomes (doctors, for example) would be likely to find alternative ways of financing their schooling. Those left in the ICR scheme (poets and those expecting relatively low future income) would probably not pay enough to make the scheme self-financing, unless the proportion of income to be repaid was set very high.

It may be possible, however, to construct an ICR scheme that, while not completely self-financing, would be less costly to the government than the current student loan system.

CONCLUSIONS

The fiscal problems of governments have affected Canadian universities and their students. At the federal level, cutbacks in Established Programs Financing (EPF) and Canada Health and Social Transfer (CHST) have led to reductions in the revenues of provincial

governments. These reductions have been felt in the areas financed by the provinces, of which education is, of course, one. When the universities faced lower government support, they responded, in part, by raising tuition fees. Provincial governments also reduced direct spending on students by replacing student grants with loans.

The immediate result from the students' viewpoint has been a higher cost for university education. For those without the financial resources to bear this higher cost, the result has been higher student indebtedness. It is unlikely that these trends in university finances will be reversed in the near future.

Although it is still too early to pin down the effects of the changes in university finances and student indebtedness (some of the available data on student debt come from the late-1980s and early-1990s and thus do not capture the recent surge in tuition fees), policymakers are attuned to the concerns of current students. The two recent reports by parliamentary committees have focused attention on issues discussed in this paper and should help shape future government policy, as could already be seen in the 1998 Budget.

BIBLIOGRAPHY

Bourgouin, Bernard. "Financial Assistance to Postsecondary Students." In Statistics Canada, "Education Quarterly Review," Publication No. 81-003 Quarterly, Spring 1995, Vol. 2, No. 1.

Canadian Federation of Students. "A Blueprint for Access, A Strategy for Change." Canada, 4th ed. 1997.

Finnie, Ross and Saul Schwartz. "Student Loans in Canada. Past, Present and Future." C.D. Howe Institute, Toronto, 1996.

Hassanwalia, Harry. "Improvements to the Canada Student Loans Program: Do Recent Changes Fit the Bill?" in Ross Finnie and Saul Schwartz, "Student Loans in Canada. Past, Present and Future." C.D. Howe Institute, Toronto, 1996.

Human Resources Development Canada. "Canada Student Loans Program." Internet site: http://www.hrhc-drhc.gc.ca/prets_aux_etudiants/.

Human Resources Development Canada. "Lloyd Axworthy Announces Major Changes to Canada Student Loans Program." News Release, 1 August 1995.

Lewington, Jennifer. "Simplify Student Loans, Senate Panel Recommends." *Globe and Mail* (Toronto), 18 December 1997.

Ministère de l'Éducation du Québec. "Aide financière aux études." Internet site:
<http://www.gouv.qc.ca/educ/indexf.htm>.

Ontario Ministry of Education and Training. "OSAP." Internet site: <http://osap.gov.on.ca/>.

Talaga, Tanya and Vinay Menon. "MPs Urge Student Loans Aid for Jobless." *Toronto Star*,
13 December 1997.

Thomas, Terrence J. "Income-Contingent Student Loans." Background Paper-373, Library of
Parliament, Ottawa, January 1994.

Treff, Karin and Ted Cook. "Finances of the Nation." Canadian Tax Foundation, 1995.