

# Closing the gap :: Strengthening the economy

*CSA Submission to the Standing Committee of Finance  
2008 Pre-Budget*



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# Closing the gap :: Strengthening the economy

## College Student Alliance Submission to Federal Ministry of Finance

### Executive Summary

With the federal government indicating a strong economic outlook for the country, we must focus our efforts on ensuring that under represented portions of our Canadian population are not left further behind because of a lack of postsecondary education and skills development. A strong economic future will be greatly undermined if we have an ever increasing portion of our population that rely solely on the success and prosperity of others. Having the maximum amount of our population as contributors will help to ensure a solid foundation for continued growth and prosperity as a country. It is now time that we focus our efforts and energy on closing the gap for those Canadians that are currently under-represented in our postsecondary educational institutions and labour force. Our future economic prosperity is reliant upon our willingness to not leave anyone behind and to ensure all resources are effectively used to promote this country's economic and social interests.

The College Student Alliance (CSA) is urging the federal government to keep postsecondary education as a priority. The CSA understands that the provinces and territories are primarily responsible for postsecondary education, but in today's knowledge based economy we simply cannot just sit back and say that the provinces will handle it. The federal government must show leadership and direction that will provide a consistent and quality postsecondary education system across our country. The fact is knowledge has become a most valuable resource and a prime determinant of wealth, prosperity and stability of nations. It is extremely important for the Government of Canada to make a serious investment in the future prosperity of this country and its citizens. Without a dedicated and sustainable commitment to postsecondary education, our economic wellbeing will be put at risk resulting in a declining ability to meet the ongoing needs of Canadians in areas such as health care, national security/defense, social services, just to name a few.

This submission is framed into two main themes: Pan-Canadian Accord and Accessibility and Affordability.

## Pan-Canadian Accord on Higher Learning

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**The Government of Canada must develop and sign a Pan-Canadian Accord on Higher Learning with all provinces and territories, outlining a vision for postsecondary education and training in Canada.**

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In recent years, both the federal and provincial governments have responded to the needs of Canadians by introducing new financial and legislative initiatives aimed at improving our postsecondary education system. Unfortunately, many of these initiatives have often proven to be stop gap measures at best. While under-funding in many areas of postsecondary education continue to be an issue, there are other factors lacking that continue to be barriers to forging a dynamic and progressive education system able to meet the needs of Canadians. A lack of vision and cohesion are of prime concern along with under-funding. Various federal and provincial programs are not integrated towards a common purpose. As Canadians we waste an enormous amount of time worrying about jurisdiction and how to get around it.

It has become quite clear to all Canadians, especially postsecondary students, that a Pan-Canadian dialogue on postsecondary education is desperately needed. Back in 2006, the Council of the Federation held a summit on postsecondary education and training, which started the dialogue with stakeholders, but unfortunately, those dialogues were not continued by the federal government.

The CSA believes that such an accord should lay out a Canadian vision for higher learning and training, the objectives of such a vision, and an action plan for improving our postsecondary education and training systems.

**A Pan-Canadian Accord must include recognition of prior learning and mobility across the country with a focus on postsecondary education and at all levels of learning from primary onwards.**

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Economies of scale suggest that we can do better and we must. Canadian students and future workers should not be restricted to choosing an education that offers only practical, theoretical, or technological skills, but rather a combination of all three.

By addressing the issues of transferability within the Pan-Canadian Accord on Higher Learning, the government would be putting students and the economy first. In doing so, we are ensuring that all levels of postsecondary education are legitimate and relevant for each and every student and that we truly create an integrated system of learning across Canada. Students need to be able to freely move between the tiers and borders of provinces and territories without redundant learning, additional costs and without the negative effects of institutional competition. Likewise, graduates with full skills development are better prepared for the challenges that their career will provide them with. This in turn will increase the attractiveness of our workforce to potential investors.

College and college/university students want to know that they can gain the skills they need to be successful in life and work, and that those credentials and skills will be recognized across the country. Canada needs to maximize its human capital by encouraging students to pursue further education by making it easier for them to access what colleges, universities and institutes have to offer.

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**The Government of Canada must establish a dedicated postsecondary education transfer payment to the provinces and territories to ensure quality, adequate and stable funding to meet Canadian's needs for higher learning, research and innovation.**

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To develop a more prosperous society, Canada requires a postsecondary education system of the highest quality. This is especially important as we strive to compete with other countries that are investing heavily in higher education and training. To ensure our postsecondary education system is the best in the world, governments must cooperate on the development of a *Pan-Canadian Accord on Higher Learning*, which will also lay out a plan for reinvestment.

The first step towards a solution to the funding crisis facing Canada's colleges, universities, and institutes is clear. Canada's students, teachers, researchers, and administrators have been calling for the federal government to create a dedicated transfer payment for postsecondary education. After such a transfer is instituted, it would be the responsibility of each provincial and territorial government to construct agreements with the postsecondary education institutions within their jurisdiction. Canadians wish to see significant and sustainable funding to the provinces and territories to advance higher learning. While this funding should not be hampered by excessive constraints, the funds should be targeted at meeting the objectives of a Pan-Canadian Accord and address the unique needs of students in each province and territory. We also believe that in order to ensure that the provinces and territories are actually investing in postsecondary education within their respective province there should be some measures of accountability, which should be included within the Accord. We are calling on the federal government to make postsecondary education an ongoing and visible commitment.

Over the past twenty years, Canada has cut real public funding per student by 30 per cent, while the U.S. has increased its funding by 20 per cent.<sup>1</sup> These cuts are quite astonishing when you see the government and taxpayers' rate of return of 15.9 per cent for every dollar spent on colleges. According to a report released by the Association of Canadian Community Colleges (ACCC), colleges, institutes and polytechnics contribute nearly \$123.3 billion a year to income in Canada's economy, roughly eight per cent of a typical year's economic growth.<sup>2</sup>

In the 2006 election, the federal government committed to the creation of a Canada Education and Training Transfer, but in the 2007 budget simply increased funds in the Canada Social Transfer (CST) for postsecondary education. We are urging the government to move forward with their commitment to provide stable and predictable funding for a high quality postsecondary education and training system that is affordable and accessible to all Canadians no matter their socio-economic status. Funding for postsecondary education and training need to be separated from the CST.

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<sup>1</sup> Time To Wise up on Postsecondary Education in Canada, TD Bank Financial Group, March 15, 2004

<sup>2</sup> The Economic Contribution of Canada's Colleges and Institutes, Association of Canadian Community Colleges (ACCC), May 20, 2008.

## Accessibility & Affordability

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**The Government of Canada must immediately embark on a comprehensive review of the entire Canada Student Loans program (CSLP) to ensure our postsecondary education system is accessible and affordable.**

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College and college/university students require assistance to cover the costs of obtaining an education without giving them an unfair debt load. Currently, the entire student financial assistance regime in Canada is a bewildering hodgepodge of federal and provincial programs, featuring primarily loans, and just recently grants, and tax incentives.

An improved student financial assistance and funding to postsecondary education will allow provinces and territories to stop the upward trend of increasing tuition fees and would ensure that all programs remain affordable to all students from all socio-economic backgrounds.

Ontario is witness to unprecedented levels of debt acquisition amongst college graduates. This decade has seen 44% of graduates with over \$10,000 in student debt.<sup>3</sup> In Canada, 29% of college students who have incurred debt have borrowed more than \$15,000. Salaries for full-time work in related employment have only increased from \$31,046 to \$34,600 from 2003 to 2007, a modest increase of 11%.<sup>4</sup>

The sudden incline of college student debt growth in contrast with minimal increases in average earnings provides early warning to policy makers that the federal-provincial student loan program requires maintenance.

The federal-provincial student loan program is an important component to access for many Canadians and ultimately opens the doors to postsecondary education for them. Yet actual loan limits do not accurately compensate students for the cost of PSE.

The federal government reviewed the Canada Student Loan Programs (CSLP) last fall, but the focus of the review was too specific in nature and only focused on administration and cost savings. The CSA believes that the student financial assistance regime must be reviewed in its entirety. This will require the cooperation of the federal government, provincial and territorial governments, the Canada Millennium Scholarship Foundation, and stakeholders. A review such as this has been long overdue for Canada's student financial assistance system.

As a country we need to determine if our current model of student financial assistance is meeting the needs of the people for whom it was initially intended. We need to ask ourselves, "Do we have the right mix of non-repayable grants verses loans; should we be providing universal access verses more targeted aid for under-represented students such as those from low-income families and aboriginal communities. There are so many questions that need to be asked and answered if Canada wants to move forward and foster its potential for human capital growth.

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<sup>3</sup> The Price of Knowledge 2007, Canada Millennium Scholarship Foundation

<sup>4</sup> 2001-2002 Employment Profile – Government of Ontario, 2003

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**As part of a new modernized CSLP, the government must limit the growth of students' debt burden.**

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The size of debt loads is a significant concern. There is clear empirical evidence that qualified students can be driven to abandon their postsecondary studies due to high debt loads. It is reported that students with annual loans in the range of \$3,000 to \$9,999 have a 51% probability of degree completion. Comparatively, students with annual loans greater than \$10,000 have just 34% probability of graduating.<sup>5</sup> Furthermore, when students end their education with huge debt loads, the debt not only affects their disposable income post-graduation but it also affects their ability to choose their future professions.

In Canada, college studies tend to require a smaller investment by the student. However, college graduate debt levels are growing faster than university debt amounts, which have stabilized in recent years. Today, 33% of college students will graduate with debt levels more often associated with university graduates. 57% of college students reported borrowing some funds during their college studies in 2006. Also as previously mentioned, 29% had borrowed more than \$15,000. Forty-four per cent had accumulated \$10, 000 or more in debt, compared to 32% three years ago.

Therefore, the government must make more efforts to limit the growth of students' debt burden.

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**The loan repayment term and allotted amount for any loan program should be flexible and based on the financial realities of the graduate.**

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The CSA has been greatly concerned with the lack of consideration for graduates post-study income and their ability to repay their student loans on a strict repayment plan that doesn't take their income into account. Thus, the CSA supports an income contingent loan repayment plan to increase loan repayment flexibility and efficiency. The province of Nova Scotia has implemented the Repayment Assistance Program (RAP), which is a form of income contingent loan repayment.

The CSA firmly believes that the loan repayment term and allotted amount for any loan program should be flexible and based on the financial realities of the graduate. The current loan system has a repayment period of 10 years and certain income thresholds to calculate the period and amount students need to repay their loan. With the realities of employment availability in some regions of the country and provinces, entry level income and increasing debt loads, the 10-year period is unrealistic. Moreover, for graduates who are trying to begin a family, the added burden will make them face even more financial difficulty. Therefore, the repayment period needs to be flexible and based on individual graduate's debt load and the actual income of a graduate after they enter the workforce.

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<sup>5</sup> The impact of bursaries: debt and student persistence in post-secondary education. 2006. Canada Millennium Scholarship Foundation. Research News. 2(2). pp.1-3.

It should also be noted that the effect of inequities in workplace, wage, different types of employment, and gender causes problems for graduates whose repayments are calculated against a fixed term regardless of their post-graduation income. For graduates, when their income is low or uncertain, their monthly payments may exceed their ability to pay.

The loan repayment policies play an important role in shaping students ability to manage their loan burdens and repayment processes. The federal government must consider enhancing loan repayment assistance and make it more manageable for students. Additionally, harmonization of CSLP and provincial financial assistance programs has been recommended by many researchers and educational stakeholders. To improve access and allow more students to seek postsecondary education, the federal government should initiate talks with all provinces and territories toward harmonized student loans and loan repayment policies on the shared responsibility for postsecondary education.

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**To assist in alleviating the increasing burden of debt that students are assuming, changes to the Canada Student Loans Program in terms of the loan repayment policy, the interest relief, and debt reduction components should be considered.**

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***Reducing unfavorable interest rates for federal portion of the loan, and, at least, lowering the interest rate to prime***

The Government of Canada provides the Canada portion of student loan (Canada Student Loan) to help students gain access to postsecondary education. However, the Canada Student Loan provides higher unfavorable interest rates for students. For example, in Ontario, compared to prime plus 1% interest rate for the Ontario portion of the student loan (Ontario Student Loan), prime plus 2.5% interest rate for the federal portion is unfavorable for the students. As the federal government funds 60% of a student's loan and the government of Ontario funds the remaining 40%, this results in higher interest paid by the student for the federal portion of the loan. Assuming students completed their studies with about \$24,000 in student debt and the prime rate is 6%, based on a 10-year repayment term and a floating rate, the graduate will pay \$10,215 interest including \$7,025 for the federal portion of the loan and \$3,190 for the provincial portion.<sup>6</sup>

The financial aid system is a public system for the public good, not for a profit business. High interest rates result in more costly loans for students who have more loan load and take them longer time to repay. It is unfair for graduates to pay a higher interest rate, especially for students who have lower post-graduation income and larger debts. The CSA believes that no graduate should pay higher interest rate than prime on their entire loan. The Government of Canada must, at least, lower the interest rate to prime in order to make loan burdens reasonable and manageable.

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<sup>6</sup> Canadian Millennium Scholarship Foundation, 2006. National Student Loan Service Centre, Loan Repayment Calculator.

### ***Extending the interest-free period up to twelve months on students' loans and allowing more borrowers to become eligible for interest relief***

In light of the absence of an interest free period for students after they graduate, high debt loads and interest lead to long-term financial difficulties for the borrower. After graduation, student earning differs due to the varied types of employment and wage differentials within many occupational fields. As students have to pay higher interest costs, especially on their Canada Student Loan, borrowers might take a longer time to repay their loans and in more difficult financial situations.

According to research, students with debt loads of \$27,000 or higher faced a 3% increased probability of default for every extra \$1,000 in debt.<sup>7</sup> Loan repayment policies should not lead graduates to struggle to make ends meet or into loan default. The CSLP must respond to individual circumstances and provide additional protections and relief to individuals who face difficulties in loan repayment.

While interest relief programs allow graduates with low or no incomes to delay repayment without accruing additional interest, for graduates who are on part-time, casual or temporary employment, who might not qualify for interest relief but are still having difficulty meeting their loan obligations, there are no measures in place to help them make loan payments manageable.

Although Budget 2004 increased the income thresholds used for determining eligibility for interest relief by 5%, policies still need to be reviewed to allow more borrowers to become eligible for interest relief and debt reduction.

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### **The Government of Canada should review its tax credit policy and re-direct the funds towards up-front non-repayable financial aid measures.**

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While the tax credit policy as a means of public subsidy for students plays a large role in student financial assistance in Canada, it is also controversial. This is because what contribution credits make to affordable postsecondary education counteracts the advocacy for a need-based student financial support. And there is some skepticism in the student financial aid community that tax credits have the same effectiveness as grants because they are not always given directly to the student.<sup>8</sup>

In Budget 2007, the federal government committed \$1.7 billion to help students and families save for their education and deal with tuition and other costs via the tax system, including the tuition, education, and textbook tax credits and carry-forward of unused credits. Provincially, Nova Scotia, Quebec, Manitoba, and Ontario, also rely heavily on tax credits as their largest source of financial assistance.

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<sup>7</sup> Canada Student loans Program Annual Report 2003-2004. (2006). Human Resources and Social Development Canada. P.33-35.  
[http://www.hrsdc.gc.ca/en/hip/cslp/publications/07\\_pu\\_AnnualReport20032004.pdf](http://www.hrsdc.gc.ca/en/hip/cslp/publications/07_pu_AnnualReport20032004.pdf).

<sup>8</sup> Neill, C. (2007). Canada's Tuition and Education Tax Credits. The Canada Millennium Scholarship Foundation. [http://www.millenniumscholarships.ca/en/newsletter/31/070529\\_Tax\\_Credit\\_En.pdf](http://www.millenniumscholarships.ca/en/newsletter/31/070529_Tax_Credit_En.pdf)

However, many researchers suggest that the policy implication of tax credits is not the most effective way to meet students' financial need because tax credits do not equally benefit individuals across income brackets. On average, high income earners claim more through tax credits than do people from low- or middle-income families, due to the fact that lower-income students lack tax obligations.

In 2004, the average tuition and education amount claimed by families in the bottom income quartile, with an average income of \$28,800, was \$520. In contrast, parents in the highest income quartile, with average incomes of \$200,100 claimed an average tuition and education tax credit of \$2,000. Middle-income parents in the second and third quartiles claimed \$1,300 and \$1,600 respectively.<sup>9</sup> In fact, 60% of all education and tuition tax credits go to families with incomes above the national median.<sup>10</sup>

Tax credits do little to help students. Students need money to pay their tuition, living expenses, and related educational fees while they are studying. This form of financial assistance is not available when money is needed the most, but only becomes available several months later at income tax filing time. Additionally, tax credits are expensive. Both levels of government—federal and provincial—now spend over \$2.5 billion on student financial assistance programs through the tax system and saving instruments. Almost 40% of funds allocated to student financial assistance are spent through education-related tax credits.<sup>11</sup> The fact is that the Government of Canada spends more through the tax system than it does through the Canada Student Loans program for all loans and grants.<sup>12</sup>

While taxpayers expect and demand that spending is focused, transparent, and accountable, students also expect that those funds have the same effectiveness as grants while they are studying. The CSA therefore supports that the funds being spent on tax credits should be directed towards up-front financial assistance in the form of non-repayable aid; this would help to meet students' greatest need.

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<sup>9</sup> Neill, C. September 16, 2006. Tuition and education tax credits. Presentation to the CASFAA/Millennium Conference on Enhancing Access to Post-Secondary Education, Ottawa, Canada.

<sup>10</sup> Finnie, R., Usher, A., and Vossensteyn, H. August, 2004. *Meeting the Need: A New Architecture for Canada's Student Financial Aid System*. Vol. 5, no. 7. <http://www.irpp.org/pm/archive/pmvol5no7.pdf>

<sup>11</sup> Chan, J. (2006). Building the third pillar: Reforming Ontario's student financial aid system. Ontario Undergraduate Student Alliance.

<sup>12</sup> Junor, S. , & Usher, A. (2006). Student Aid Time-Bomb: The Coming Crisis in Canada's Financial Aid System. Educational Policy Institute. P.18.

## **In Conclusion**

Postsecondary education and training is vitally important to the future prosperity of this country. The benefits to the individual pursuing higher learning and the taxpayer are worth investing in now and continually into the future. Just as we have plans and strategies for assisting other countries in economic and structural needs as well as stepping up to do our part in assisting in those parts of the world in the midst of war or internal strife, we must also put forth the necessary plans for our future at home in Canada that will benefit all Canadians; these plans must involve the education and training of our people, must be inclusive to all Canadians across all provincial borders and must be sustainable into the future. A country as vast and rich as Canada must be a leader in today's knowledge based economy. We must be at the forefront of innovation, commercialization, and integration. Other countries should be looking to Canada rather than us looking to them.

In order to provide Canada with a clear and concise vision for postsecondary education and training, a Pan-Canadian Accord on Higher Learning is a must. This Accord must address the issues of accessibility, affordability, quality and mobility for students within our country's colleges, universities and institutes. The Accord and dedicated transfer will work to thrust Canada's higher learning institutions to international acclaim allowing Canadians the necessary knowledge and skills to remain competitive in a growing global economy.

## **About the College Student Alliance**

The College Student Alliance (CSA)'s mission is, 'Strong Students; Strong Leadership; Strong Colleges'. Through the combined influence of 16 colleges and 23 member councils, and the more than 109,000 full-time students they represent, the CSA acts as the Provincial voice for issues like: financial assistance, admissions, education standards, system accountability, student rights, campus life, and services for students.

## Overview of Recommendations

### Pan-Canadian Accord on Higher Learning

1. The Government of Canada must develop and sign a Pan-Canadian Accord on Higher Learning with all provinces and territories, outlining a vision for postsecondary education and training in Canada.
2. A Pan-Canadian Accord must include recognition of prior learning and mobility across the country with a focus on postsecondary education and at all levels of learning from primary onwards.

### Accessibility & Affordability

3. The Government of Canada must establish a dedicated postsecondary education transfer payment to the provinces and territories to ensure quality, adequate and stable funding to meet Canadian's needs for higher learning, research and innovation.
4. The Government of Canada must immediately embark on a comprehensive review of the entire Canada Student Loans program (CSLP) to ensure our postsecondary education system is accessible and affordable.
5. To assist in alleviating the increasing burden of debt that students are assuming, changes to the Canada Student Loans Program in terms of the loan repayment policy, the interest relief, and debt reduction components should be considered.
  - a. *Reducing unfavorable interest rates for federal portion of the loan, and, at least, lowering the interest rate to prime*
  - b. *Extending the interest-free period up to twelve month on students' loans and allowing more borrowers to become eligible for interest relief*
6. The Government of Canada should review its tax credit policy and re-direct the funds towards up-front non-repayable financial aid measures.

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