

The Price of Knowledge

Access and Student Finance in Canada

# 6

## Student Financial Assistance in Canada: Past, Present and Future

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# I. Introduction

Governments spend a significant amount of money on post-secondary students. In 2007–08, Canadian governments provided more than \$4.4 billion worth of student loans, grants and loan reduction payments to students with financial need. In addition, governments provided more than \$3 billion in education tax credits, merit scholarships and education savings grants (paid to families saving for their children’s education). As explained in Chapter 4, governments use student aid programs as the principal method of enabling Canadians with limited resources to keep up with the rising cost of post-secondary education.

As described in previous volumes of *The Price of Knowledge* and in Berger and Parkin (2008), government expenditures on public student support in Canada are not only substantial but complex. Student financial aid is delivered through an intricate web of both federal and provincial/territorial programs; increasingly, colleges and universities are also involved as sources of funds and administrators of aid programs. In this chapter, as in previous volumes, we again enumerate what governments provide to students in the form of need-based aid (loans, grants and loan remission programs) and non-need-based aid (tax credits, education savings grant payments and merit scholarships). We also describe how changes in government policies have affected the amounts and types of student aid distributed.<sup>1</sup> As was the case the last time we reviewed these data (Berger and Parkin, 2008), the news is mostly good, at least as far as

need-based aid is concerned. Not only are students receiving more aid, the aid they are receiving is increasingly non-repayable. Need-based student aid has improved since 2000 in two distinct waves. Were it not for the fact that governments continue to devote billions of dollars to education tax measures that do little to help those most in need pay for their studies, the news would be entirely positive.

Following the review of how much financial support students have been receiving, we shift the focus to the question of what comes next. We discuss several different approaches to the modernization and simplification of student financial aid—approaches that, taken together, could be part of a comprehensive strategy to improve access and student success. In the context of a severe recession and anticipated government budget constraints in the years to come, we offer suggestions for governments seeking to get the most out of their aid program dollars. This can be done by moving toward a system that: reaches students early enough to influence their educational aspirations and planning; is easy to access and navigate; delivers the best types of aid to the students who need it most; adequately covers costs; keeps debt levels in check; and complements initiatives designed to alleviate non-financial barriers to access. Student financial aid programs in Canada have improved since the 1990s, but, as our discussion will show, we can still do much better.

1. In the next chapter, we examine how these policies affect student debt levels at graduation.



## II. Need-Based Student Aid in Canada<sup>2</sup>

Need-based aid in Canada is composed of student loans, grants and loan remission payments (to avoid double-counting, we henceforth refer to “net loans” as the value of a loan once remission payments have been taken into account). Governments provide need-based aid to students who lack their own funds to pay for tuition, books and educational and living costs while in school. All need-based aid is subsidized in Canada: student loans are offered interest-free while the student is in school, and grants and loan remission payments do not need to be paid back (loan remission is paid to reduce the student’s loan balance retroactively, while grants either act as “upfront” remission by reducing the loan amount a student receives or provide non-repayable funds in addition to the loan amount).

In 2007–08, Canada’s federal and provincial governments provided students with \$4.4 billion in need-based aid, including \$2.9 billion in net loans, \$960 million in grants and \$541 million in loan remission payments. After falling in the late 1990s, the value of need-based aid has been steadily increasing since 2001–02. The average over the last three years is 13 percent higher than it was in the first few years of this decade. Between 2004–05 and 2007–08, loan remission increased by \$211 million, or 64 percent, while grant expenditures increased by \$285 million, or 42 percent. Net loans, meanwhile, declined by \$32 million, or one percent. Thus, the entire increase in government spending on students has occurred in the form of non-repayable assistance.

Non-repayable assistance grew after 2004–05 for three reasons.

- First, in 2005–06, the federal government, the Canada Millennium Scholarship Foundation and the Government of Ontario introduced approximately \$125 million in new grant programs for students from low-income families, students with permanent disabilities, rural students, Aboriginal students and certain adult learners. As Berger (2007) explains, a substantial proportion of these grant funds were designed specifically to support students previously unlikely to qualify for existing grants or loan remission programs.
- Second, also in 2005–06, the federal and provincial governments increased the maximum amount of financial aid provided to students. Typically, this meant that students had access to \$11,900 in loans, grants and remission, up from \$9,350 in previous years (student aid limits are not indexed to inflation or increases in tuition; they are therefore adjusted periodically). Because of the nature of the grant and remission programs in certain provinces, the lion’s share of these new funds was provided in the form of non-repayable assistance. In Ontario, for example, the province left its Ontario Student Opportunity Grant in place, meaning that it would continue to remit any student loan in excess of \$7,000 per year on the condition that the student successfully completed the academic year (the OSOG “floor” increases to \$10,500 for students who study during three terms during one academic year). This meant that the *additional* aid that flowed to students as a result of the increase in aid maximums was in most cases converted from a loan to a grant through the OSOG program.

2. All figures in this chapter, unless otherwise noted, have been adjusted to account for inflation and are expressed in September 2007 dollars.

- In Quebec, the cut in grants that took effect in 2004–05 was reversed. In two stages beginning in 2005–06, the province restored its annual debt cap to the level it had been before it was increased in 2004–05. This meant that by 2007–08, Quebec students once again received a grant to cover any aid amount greater than \$1,760 (CEGEP students), \$2,440 (undergraduate students) and \$3,240 (graduate students).<sup>3</sup> Between 2006–07 and 2007–08, net loan expenditures in Quebec dropped by \$48 million, or nine percent, while

grant expenditures increased by \$190 million, or 63 percent.

Because aggregate amounts of loans, grants and remission can fluctuate based on demand—that is, they can rise or fall depending on whether more or fewer students apply for financial aid in any given year—it is important to examine year-over-year trends on a per-recipient basis. In 2007–08, Canadian student aid recipients were provided with an average of \$10,494 each in need-based aid, 20 percent more

### How Much Does a Student Loan Cost?

While Canadian governments provided students with \$2.9 billion in net student loans in 2007–08, this figure masks what was actually spent on these loans. Because most student loans are repaid, their net cost is considerably cheaper than their value. For example, in 2006–07, the Canada Student Loans Program issued \$1.99 billion in student loans. However, according to its public financial statements, its expenses (which include interest subsidies, administration, provision for bad debt and defaults but exclude its grant programs and the alternative payment to non-participating provinces) were only \$840 million. Additionally, its revenue, stemming principally from loan repayment, totalled \$523 million. Thus, the net operating costs for the loan program were only \$316 million (Canada, 2009). The net cost to the federal government of

running its student loan program represents only 38 percent of the total costs incurred that year.

The actual cost of a loan is determined by calculating the expenditure not recovered in repayment, typically including the interest subsidy and costs associated with default. The net cost is generally estimated to be between 30 and 40 percent of the loan's value, meaning governments can, for the same cost, provide a grant of, say, \$1 or a loan of between \$2.50 and \$3. When thinking about government expenditures on student support, including loans, remission, grants and tax expenditures, it is worth keeping in mind that loans are substantially cheaper than their face value. While the *value* of all need-based aid far exceeds the value of non-need-based aid currently provided in Canada, the *cost* of the former is probably not substantially greater.

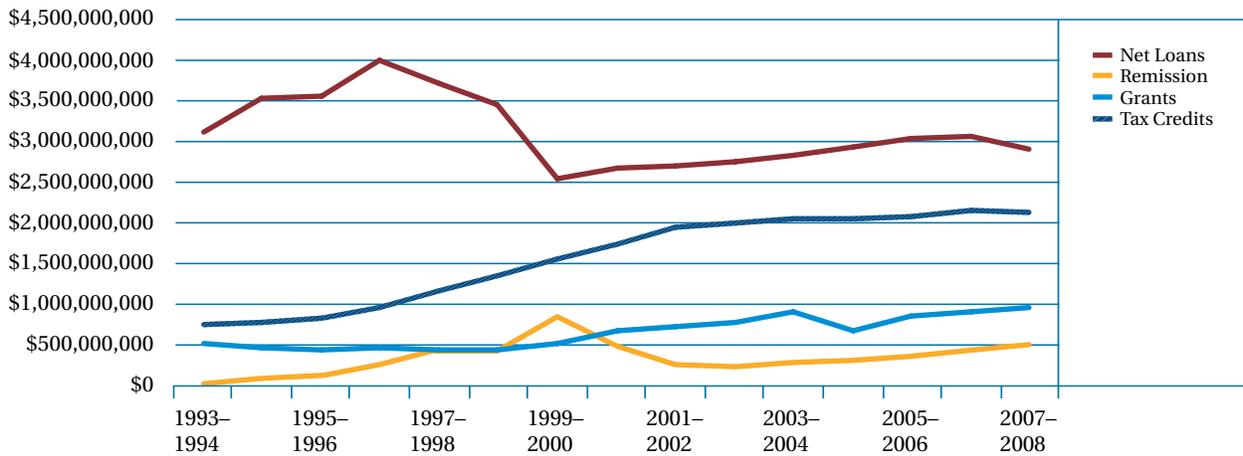
3. It should be noted that not all students are eligible for the debt cap. However, the eligibility requirements did not change during the period when the level of the debt cap was first raised and then restored to its previous level.

than in 2004–05. In 2004–05, the average financial aid recipient received a net loan of \$6,511, a grant of \$1,501 and a loan remission payment of \$732. By 2007–08, these amounts had increased to \$6,913, \$2,290 and \$1,291, respectively (net loans increased by six percent, grants by 53 percent and loan remission by 76 percent). In all three cases, the increase

per recipient exceeded the increase in the aggregate amount. This is because the number of provincial student aid recipients has been declining steadily since 2004–05.

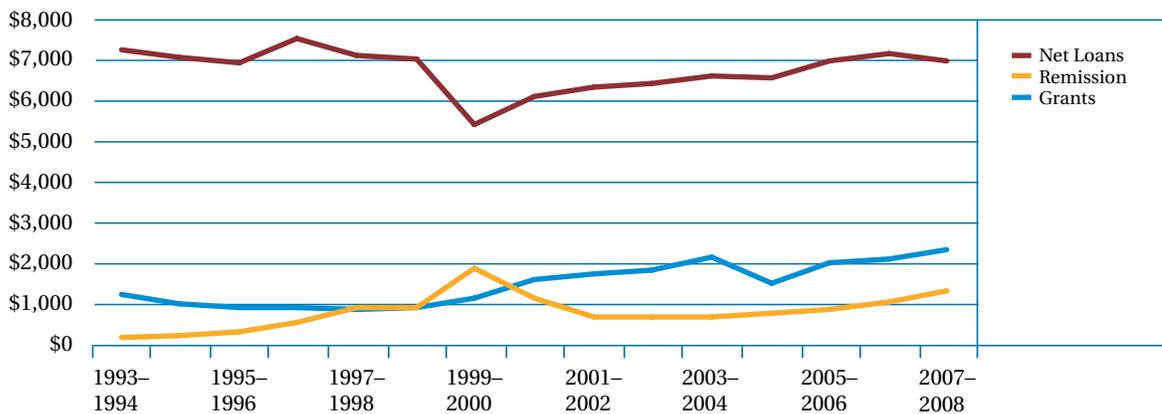
Figures 6.II.1, 6.II.2 and 6.II.3 demonstrate the expansion of grant and loan remission aid in recent years.

**Figure 6.II.1 — Total Student Financial Aid in Canada by Type of Aid, 1993–94 to 2007–08**



Source: State of Student Aid Survey, 2009.<sup>4</sup>

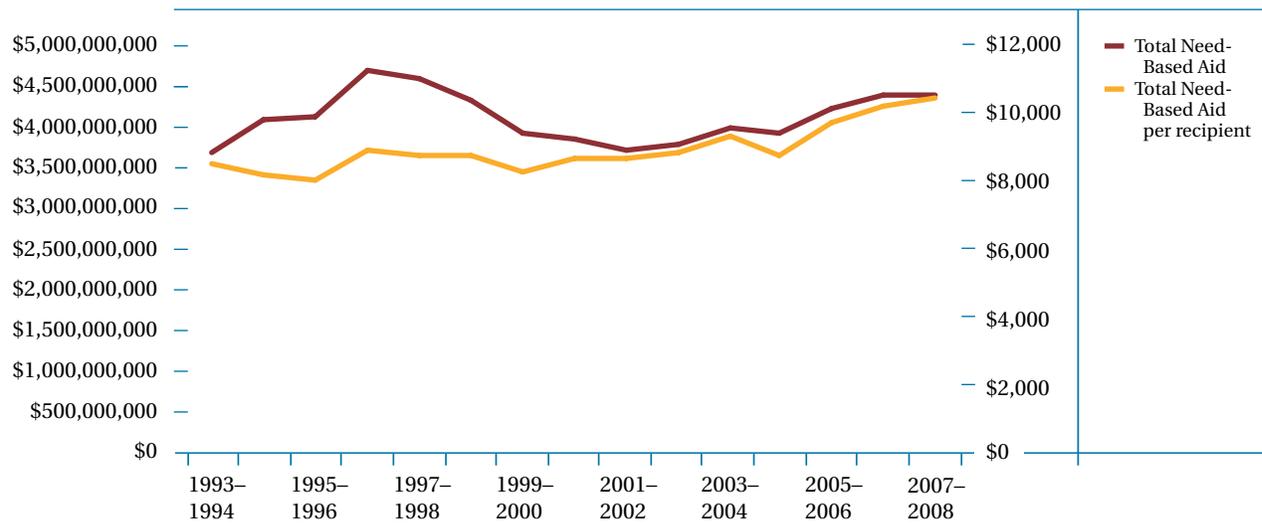
**Figure 6.II.2 — Total Need-Based Student Financial Aid per Recipient in Canada by Type of Aid, 1993–94 to 2007–08**



Source: State of Student Aid Survey, 2009.

4. The State of Student Aid Survey is conducted annually by the Educational Policy Institute on behalf of the Canada Millennium Scholarship Foundation. It consists of questions about the value of loans, grants loan remission, tax credits and other forms of financial aid. It is administered to officials in all 14 Canadian governments.

**Figure 6.II.3 — Aggregate and Per-Recipient Need-Based Student Financial Aid in Canada by Type of Aid, 1993–94 to 2007–08**

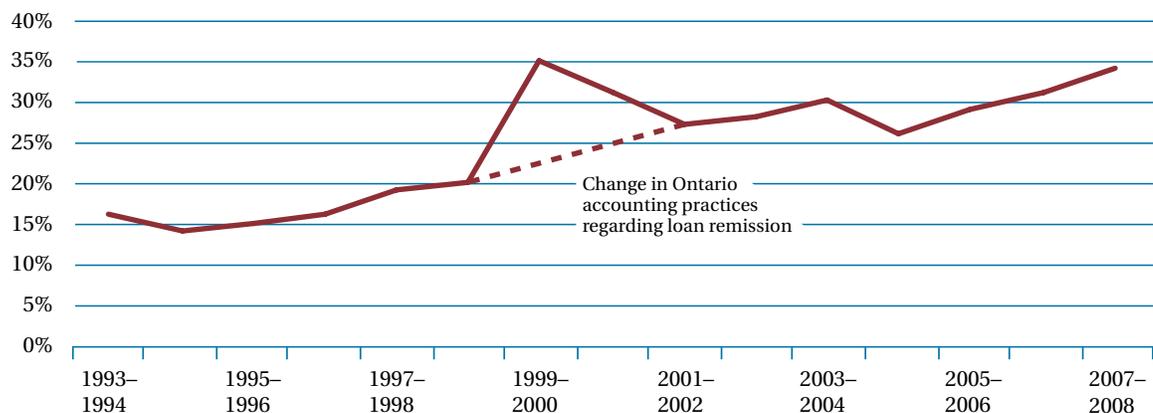


Source: State of Student Aid Survey, 2009.

Another way of measuring the trend in student aid in recent years is to examine the share of financial aid provided in the form of non-repayable assistance. The proportion of all need-based aid received as a grant or loan remission payment reached 34 percent in 2007–08, the highest ever, compared to 26 percent in 2004–05.<sup>5</sup> Of course, the proportion is not the same in every province. In Manitoba, the share of

non-repayable aid has grown by 20 percentage points, from 31 percent in 2004–05 to 51 percent in 2007–08. In Quebec, the proportion follows closely behind, at 50 percent. The share of non-repayable aid is lowest in New Brunswick and Nova Scotia, at 15 and 18 percent, respectively. After reaching a low of 17 percent in 2004–05 in B.C., the figure has been increasing, reaching 22 percent in 2007–08.

**Figure 6.II.4 — Proportion of Need-Based Aid That Is Non-Repayable in Canada, 1993–94 to 2007–08<sup>6</sup>**



Source: State of Student Aid Survey, 2009.

- This excludes the exceptional 1999–2000 academic year, during which the Ontario government adjusted the way it accounted for loan remission payments.
- The spike observed in 1999–2000 was caused by a change in the way the Government of Ontario accounted for its loan remission program. That year, it shifted from paying remission at the end of a student's program of study to the end of each academic year. While the effect for students remained the same, the change meant that the province's expenditure on remission for the year spiked abnormally.

The proportion of aid that is non-repayable increased significantly in several provinces besides Manitoba: from 27 to 43 percent in Saskatchewan and from 14 to 38 percent in Newfoundland and Labrador. Ontario’s share increased at the same rate as the national average, eight percentage points, from 22 to

30 percent. B.C., Nova Scotia and P.E.I. grew at rates below the national average. In Quebec, New Brunswick and Alberta, the share of non-repayable aid was lower in 2007–08 than in 2004–05, although the amounts for Quebec and Alberta were at all-time highs in 2004–05, well above the national average.<sup>7</sup>

### Myth: Most Low-Income Students Rely on Student Financial Aid

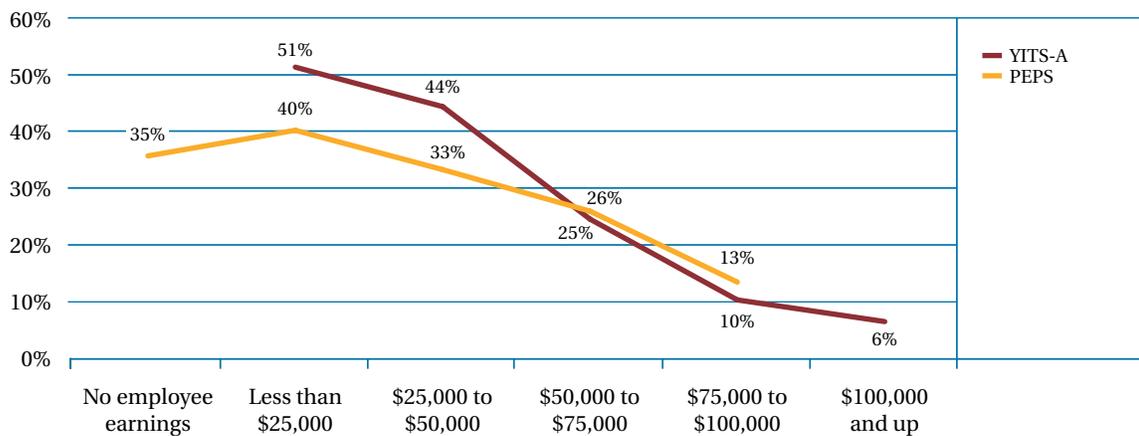
While we might assume that students from low-income households benefit from student financial aid programs, this is not the case for the following two reasons.

First, as outlined in Berger (2007), the nature of the student aid need assessment process means that many low-income students are only eligible to receive relatively small amounts of financial aid. Low-income students who work a significant number of hours per week, live at home or attend relatively low-cost programs are effectively prevented from receiving the largest amounts of financial aid,

although the introduction of income-based grants in 2005–06 has moderated this somewhat.

Second, only a minority of students from low-income families actually participate in student aid programs. Data from Statistics Canada’s Youth in Transition Survey (YITS) and Post-Secondary Education Participation Survey (PEPS) reveal that fewer than half of all students from families earning less than \$50,000 per year receive student financial aid. As Figure 6.II.5 makes clear, while student aid is rare among high-income households, a majority of low-income students do not

**Figure 6.II.5 — Student Loan Take-Up among College and University Students by Parental Income**



Note: The YITS-A data refer to student aid take-up at age 19. The income of students’ parents was reported when the students were 15. The PEPS data were collected among students and families in 2002.

Source: Educational Policy Institute, MESA Annual Report 2008 (forthcoming).

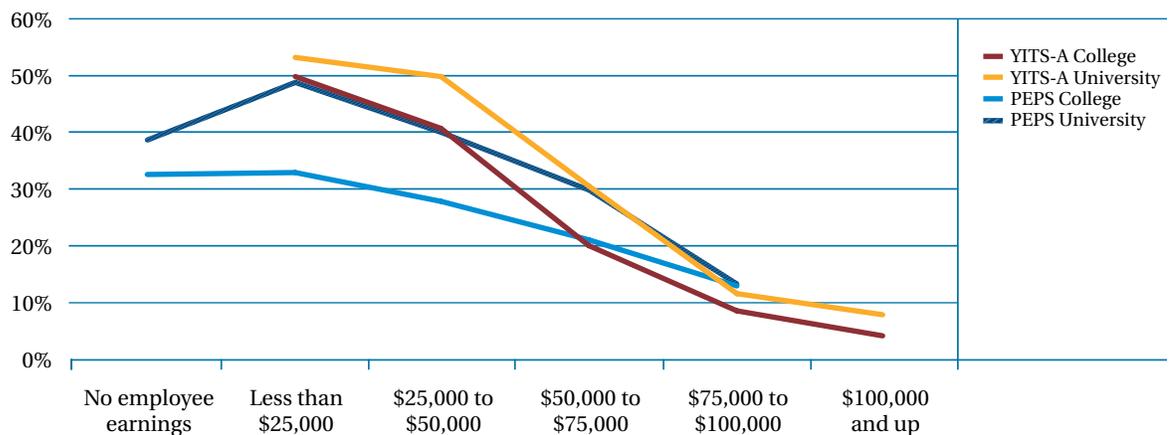
7. For this exercise, Quebec’s 2007–08 figure is compared to its figure for 2003–04, since the 2004–05 figure is an outlier. That year, the provincial government cut its bursary program by \$103 million. As mentioned above, this amount was restored beginning in 2005–06.

### Myth: Most Low-Income Students Rely on Student Financial Aid *(continued)*

borrow from government student aid programs. Meanwhile, as shown in Figure 6.II.6, a majority of university students from families earning below \$25,000 per year receive student aid, but less than one-third of college students with similar parental income reported accessing student aid. This may be in part due to the fact that need is largely determined by educational cost, which tends to be lower for college students.

These data should be kept in mind by policy-makers seeking to improve access for students from low-income families. To the extent that the main policy “tool” being relied on is loan and grant programs, efforts are destined to miss at least half of the group being targeted—at least until the relationship between these programs and potential clients is changed.

**Figure 6.II.6 — Student Loan Take-Up among College and University Students by Parental Income**



Note: The YITS-A data refer to student aid take-up at age 19. The income of students' parents was reported when the students were 15. The PEPS data were collected among students and families in 2002.

Source: Educational Policy Institute, MESA Annual Report 2008 (forthcoming).

## Institutional Financial Aid in Canada

While financial aid generally falls under the purview of Canada's federal, provincial and territorial governments, post-secondary institutions also provide considerable assistance to their students. As described by Berger and Parkin (2008), the most recent survey of institutional aid, conducted among 31 universities and 11 colleges representing 73 percent of Canadian undergraduates, revealed that institutions spent at least \$114 million on need-based financial aid and \$144 million on merit scholarships for undergraduate students in 2006–07.

- At “G-13” universities (Canada’s major research institutions), 19 percent of students received an average of \$2,000 in need-based aid from their institution. Outside the G-13, only 11 percent of students received an average of \$1,200 in need-based aid.
- Merit scholarships are more common on campus, with 23 percent of G-13 and 20 percent of non-G-13 universities providing their students with this kind of aid, worth an average of \$1,750 and \$1,375, respectively.
- Only eight percent of college students received need-based aid, worth an average of \$800. Six percent received merit aid, worth an average of \$911.
- Ontario universities are required to spend a portion of funds collected through increased tuition fees on need-based aid. Ontario G-13 universities provided more need-based aid to their students than their non-Ontario counterparts, although their tuition fees were higher.

## Provincial Trends

Nationally, on a per-recipient basis the average amount of need-based aid for the years 2005–06 to 2007–08 was 14 percent higher than for the period 2001–02 to 2004–05.<sup>8</sup> Outside of Ontario and Saskatchewan, every province has seen a double-digit increase in need-based aid provided to students in recent years.

As discussed earlier, the growth in student aid during this period was primarily driven by non-repayable grants and loan remission. This was the case in all provinces except Alberta, B.C. and New Brunswick. In Alberta, non-repayable aid did increase by a significant amount (12 percent), but this change was not solely responsible for the increase in total aid, since net loans also increased by 13 percent. In B.C., non-repayable aid per recipient actually declined by five percent, while in

New Brunswick it grew by one percent (net loans increased by 12 percent).

In a few provinces, non-repayable aid per recipient increased dramatically. In Newfoundland and Labrador, non-repayable aid per recipient increased by 154 percent between the two periods, while in Manitoba it increased by 91 percent and in Nova Scotia by 87 percent. In Manitoba, Saskatchewan, Newfoundland and Labrador and Ontario, the average amount of net loans per recipient declined.

The highest net loans in Canada are in the Maritimes, where the average student aid recipient borrows \$8,603 and receives non-repayable aid in the amount of \$1,815. Given that costs in the Maritimes are higher than in most of the country (total need-based aid is only higher in Alberta) and that only 17 percent of financial aid is non-repayable, it is likely that Maritime students will remain the most indebted in Canada (see Chapter 7 for a discussion of student

8. Average amounts for these two periods have been used for two reasons. First, multi-year averages are less likely than single-year data points to present one-time, skewed figures. Second, the years in question allow for a broader examination of the trend in student aid leading up to and following the significant policy changes introduced in 2005–06.

debt). Net loans are lowest in Quebec (\$3,542) and Manitoba (\$4,759)—the two provinces where non-repayable aid per recipient is highest both in dollar figures (\$3,581 and \$4,981, respectively) and as a proportion of total aid (50 percent and 51 percent,

respectively)—as well as Saskatchewan, where non-repayable aid per recipient was \$4,382 in 2007–08. Net loans are lower than the national average in Ontario (\$6,314) and Saskatchewan (\$5,737).

**Table 6.II.1 — Change in Student Aid per Recipient Between the Periods 2001–02 to 2004–05 and 2005–06 to 2007–08 by Type of Aid and Province**

|    | Net Loans | Remission | Grants | Total Non-Repayable Aid | Total Need-Based Aid | % of Aid That Is Non-Repayable |
|----|-----------|-----------|--------|-------------------------|----------------------|--------------------------------|
| BC | 16%       | 389%      | -63%   | -5%                     | 11%                  | -13%                           |
| AB | 13%       | -6%       | 21%    | 12%                     | 12%                  | 0%                             |
| SK | -7%       | 24%       | 32%    | 26%                     | 2%                   | 23%                            |
| MB | -13%      | 69%       | 173%   | 91%                     | 18%                  | 62%                            |
| ON | -3%       | 32%       | 23%    | 27%                     | 4%                   | 22%                            |
| QC | 18%       | -39%      | 25%    | 24%                     | 21%                  | 3%                             |
| NB | 12%       | -11%      | 7%     | 1%                      | 10%                  | -8%                            |
| NS | 2%        | 42%       | 239%   | 87%                     | 11%                  | 68%                            |
| PE | 8%        | 9%        | 86%    | 35%                     | 12%                  | 20%                            |
| NL | -7%       | 51%       | 398%   | 163%                    | 14%                  | 130%                           |
| CA | 9%        | 58%       | 19%    | 29%                     | 14%                  | 13%                            |

Source: State of Student Aid Survey, 2009.

**Table 6.II.2 — Average Student Aid per Recipient in 2007–08 by Type of Aid and Province**

|    | Net Loans  | Remission  | Grants     | Total Non-Repayable Aid | Total Need-Based Aid | % of Aid That Is Non-Repayable |
|----|------------|------------|------------|-------------------------|----------------------|--------------------------------|
| BC | \$7,437.32 | \$1,444.26 | \$677.76   | \$2,122.01              | \$9,559.33           | 22%                            |
| AB | \$7,976.18 | \$822.71   | \$2,594.94 | \$3,417.65              | \$11,393.83          | 30%                            |
| SK | \$5,737.68 | \$3,484.69 | \$897.66   | \$4,382.35              | \$10,120.04          | 43%                            |
| MB | \$4,759.47 | \$3,312.10 | \$1,668.30 | \$4,980.41              | \$9,739.88           | 51%                            |
| ON | \$6,314.35 | \$1,429.74 | \$1,300.39 | \$2,730.13              | \$9,044.48           | 30%                            |
| QC | \$3,542.79 | \$11.63    | \$3,569.79 | \$3,581.42              | \$7,124.21           | 50%                            |
| NB | \$8,996.66 | \$440.72   | \$1,089.68 | \$1,530.40              | \$10,527.06          | 15%                            |
| NS | \$8,098.96 | \$1,064.78 | \$693.23   | \$1,758.00              | \$9,856.96           | 18%                            |
| PE | \$8,714.64 | \$918.43   | \$1,238.96 | \$2,157.39              | \$10,872.03          | 20%                            |
| NL | \$6,042.46 | \$1,126.33 | \$2,549.74 | \$3,676.07              | \$9,718.53           | 38%                            |
| CA | \$6,930.50 | \$1,273.96 | \$2,289.68 | \$3,563.65              | \$10,494.15          | 34%                            |

Source: State of Student Aid Survey, 2009.

## How Many Student Aid Recipients Are There?

According to the 2009 State of Student Aid Survey, the number of Canada Student Loan recipients has been growing in recent years, although the number of provincial student aid recipients has been declining; this trend holds even when excluding Quebec, which does not participate in the CSLP. Between 2004–05 and 2007–08, the number of CSL recipients increased by 15,000, or five percent. The number of provincial student aid recipients dropped by 30,000, or seven percent. The number of recipients of provincial aid has been increasing in Ontario, Quebec and New Brunswick, and declining elsewhere, particularly in B.C. (35 percent).

Using recent university and college enrolment data, we can estimate the proportion of post-secondary students receiving student financial aid. In 2005–06, the most recent year for which both

college and university data are available, 26 percent of students were receiving a provincial student loan, while 21 percent were receiving a Canada Student Loan.

It is reasonable to conclude that a booming economy, particularly in Western Canada, during the early part of the current decade meant two things: that a larger share of students could pay for their studies without borrowing and that many prospective students were lured away from higher education by a flourishing labour market. In the context of a global recession, however, news stories about rising numbers of financial aid applications are unsurprising. A cool labour market likely means fewer students can fund their education via employment income and more young Canadians will turn away from work and toward school.



# III. Non-Need-Based Student Aid in Canada

Since the late 1990s, Canadian governments have provided students with billions of dollars in educational tax credits. As Neill (2007) describes, students receive tax credits in relation to the amount of tuition they pay and the number of months in which they are registered at a post-secondary institution. The federal government also provides assistance to prospective students through the Canada Education Savings Program, through which it offers the Canada Education Savings Grant (CESG) and Canada Learning Bond (CLB). The CESG is a matching contribution paid into a Registered Education Savings Plan (RESP); the federal government typically matches contributions at a rate of 20 percent, up to \$400 per year. Low- and middle-income families can receive the one-time CLB of \$500, as well as an additional annual contribution of \$150 to \$200 through the CESG.

Spending on education-related tax credits has remained fairly constant since the beginning of this decade. Between 2004–05 and 2007–08, when non-repayable aid grew by 49 percent, tax credits only grew by four percent, or \$74 million. In 2007–08, governments spent \$2.1 billion on tax credits, \$615 million more than they did on loan remission and grants. Tax expenditures surely surpassed net expenditures on loans as well, which were likely in the neighbourhood of \$1 billion—see the box in Section 6.II.

Although tax credits comprise the largest single source of spending on student support in Canada, it is unlikely that they have a significant impact on access to or success in post-secondary education. Because they are untargeted, tax credits disproportionately

benefit the individuals least likely to need them, since all students receive them and students from low-income families are under-represented in post-secondary education. Because they cannot be claimed until the spring following the calendar year when they were earned, rather than when tuition bills are due, they are unlikely to provide recipients with the funds they need in a timely fashion. Because they are not refundable, they cannot benefit those without taxable income. And because their value is determined by the student's term of study and tuition costs, they are akin to an entitlement program, meaning they grow substantially if enrolment booms and can easily crowd out other, more effective forms of student support.

Education savings grants are meant to encourage families to save for their children's post-secondary education. Like tax credits, CESGs disproportionately support higher-income families that have the means to set money aside for future education. The introduction of the CLB was meant to better target education savings incentive funds to low-income families, since it does not require low-income families to invest any of their own money.<sup>9</sup> However, while the take-up rate in the program has been growing, it remains extremely low. The CLB was introduced in 2005, but as of December 2008, only 16 percent of eligible families had taken up the program. By comparison, 39 percent of eligible families were participating in the CESG program in December 2008 (Canada, 2008).

9. The CLB is available to families receiving the National Child Benefit Supplement whose child was born after January 1, 2004. They must open an RESP, although they do not have to make a contribution to it.



# IV. The Future: Modernizing Student Financial Assistance in Canada

As the preceding discussion of government student financial aid has shown, students have benefited from more generous financial aid during the past decade. Prior to 2000, need-based aid levels were falling, with the share of financial aid that was non-repayable between 15 and 20 percent. Following the introduction of the Canada Millennium Scholarship Foundation and the sub-sequent investment in loan remission and grant aid in 1999–2000, the amount of non-repayable aid increased, to approximately 30 percent. The expansion of need-based aid following the policy changes of 2005–06 occurred primarily in the form of additional non-repayable assistance, and the proportion of need-based aid provided as a grant or loan remission payment reached an all-time high of 34 percent in 2007–08. The student aid system itself, however, has not changed dramatically, despite fluctuations in spending on different types of aid. The question of whether there are ways of improving the Canadian student aid system remains. In this section, we turn our attention to this issue.

Over the past few years, numerous conversations have taken place about the future of financial aid in Canada. Often these have been stimulated by issues such as rising student debt levels or low participation rates among students from low-income families. On other occasions, they have coincided with the introduction of a new program or policy, such as the creation of access grants in 2005 or the announcement in 2008 of the winding down of the Canada Millennium Scholarship Foundation and its replacement by the new federal Canada Student Grants Program. Sometimes, perhaps less productively, they have been provoked by editorials or lobbying

campaigns. Even less frequently, unfortunately, these conversations have been stimulated by new insights into how financial aid works.

The various chapters in this volume summarize the state of knowledge in Canada about the factors that affect access to and success in post-secondary education and about trends in government spending on financial support for students and their families. In our view, this research offers the best starting point for a conversation about the future direction that student financial assistance programs should take. Reflecting on the evidence gathered and knowledge gained in recent years allows us to think more productively about what might be possible in the future.

The purpose of this section is not to summarize again the numerous research conclusions related to access and student finance. It suffices here to recognize that over the past decade we have learned a great deal about the nature of the obstacles that different students face in making the transition into post-secondary education, about the information (or misinformation) that high school students receive on the benefits and costs of higher education, about who is and is not likely to access student financial aid, about which types of students tend to receive which types of aid and about the way in which student aid policies can negatively impact persistence and completion (by resulting in the accumulation of excessive debt from year to year, by providing aid that is not sufficient to cover costs, etc.). We are even starting to learn more about the impact of different student aid policies and financial

## Principles for Reforming Student Aid

### Canada Millennium Scholarship Foundation (Baldwin and Parkin, 2007)

Four principles for modernization:

1. Provide early access to SFA information and SFA system to increase understanding and predictability
2. Target aid to the right people and provide the right mix of loans, grants and other aid
3. Take a comprehensive approach that acknowledges and addresses all barriers: financial and non-financial
4. Ensure flexibility, transparency and accountability

### Reforming Student Aid study group (College Board, 2008)

Federal student aid should be:

- Targeted to those in need
- Adequately funded
- Clear, transparent and well communicated
- Predictable
- Student-focused
- Supportive of both access and success
- Efficient in using taxpayer funds

incentives through various experimental projects (see, for instance, Malatest, 2009a, b and c and SRDC, 2009).

We continue to add to this stock of knowledge through new studies that have only just been completed. For instance, we are learning that the complexity of the student aid system in Canada is not limited to the difficulties students have in discovering what programs are available and anticipating how much they will receive; it is also evident that advanced literacy and numeracy skills are required to successfully complete the task of applying for a loan or grant (Baldwin, forthcoming). We have also learned that the way in which the student aid system interacts with other government programs, such as social assistance, is important (Torjman, 2009). Beyond the question of the actual level of support provided, other programs can put tremendous strain on student aid clients by asking them to complete additional forms, produce additional material and regularly justify continued support. There is a case for better coordinating programs and reducing the overall administrative burden.

These and other conclusions from research should inform our thinking about future developments in student aid. Research findings provide a basis upon which to evaluate and prioritize policy options. Those options that can be validated by evidence should be favoured; those that do not find support in research should be viewed with more skepticism. This is hardly a controversial approach, yet experience

shows it is still all too often discarded at the moment policy decisions are made.

Based on just the kind of research findings mentioned above, we previously proposed four principles to guide the developing conversation about the “modernization” of student aid in Canada (Baldwin and Parkin, 2007):

- Provide early and easy access to the student aid system, especially for under-represented students who need to know there will be predictable funding available to support their studies;
- Target assistance to those with the greatest need first;
- Be sure to acknowledge and address non-financial barriers to access and success; and
- Ensure flexibility, transparency and accountability in the delivery of aid.

These principles still seem relevant. They have been echoed in work conducted in other jurisdictions, most notably in the work of the U.S. College Board’s Rethinking Student Aid study group, whose report *Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid* grounds its recommendations in a very similar set of principles (College Board, 2008). The College Board, however, included an additional principle at the heart of its work that was notably, and regrettably, omitted from Baldwin and Parkin’s list—namely, the interests of students

must be at the centre of reform. This principle is a welcome addition to the Canadian conversation about modernizing student aid.

We will use these principles to shape the suggestions we offer below about how to change the way in which student aid is delivered in Canada. These suggestions are neither especially radical nor especially expensive. This is not because we lack imagination; it is rather because we recognize that bold, expensive proposals are not likely to be welcomed at a time when the effects of the 2008–09 recession are still being played out. These effects will certainly shape policy-making for some time to come. Already, it appears that some institutions are reducing their own student aid offerings in the wake of the reductions to the size of their endowment that resulted from the tumbling stock market.<sup>10</sup> In addition, as Usher and Dunn (2009) have argued, if past experience is anything to go by, we can anticipate a period of constraints on public spending even once the economic recovery takes hold. After the recession of the early 1990s, for example, when “zero deficits” came into vogue, student grant programs were scaled back or eliminated and tougher eligibility restrictions were imposed to limit access to loans. The coming post-recovery period in Canada could turn out to be an equally precarious one for student aid funding.

That being said, it is important not to ignore the improvements that have been made in recent years. Since the introduction of the Millennium and Canada Access Grants in 2005, both Ontario and Nova Scotia have invested in similar programs, significantly increasing available grant aid for students from low- and moderate-income families in those provinces. These programs, along with other provincial loan and grant programs, will need to accommodate the new federal Canada Student Grants Program, but setting aside the need for inter-jurisdictional coordination, the CSGP is another positive development. First, the \$350 million in non-repayable aid to be delivered annually through the CSGP (scheduled to rise to \$430 million by 2012–13) will be directed to students from low- and moderate-income families and other under-represented

populations for whom low-income is a proxy. This targeting of aid is important (although it raises questions about whether some high-need students will end up with higher debt levels, as we will discuss in the next chapter). Second, the CSGP will guarantee four years of funding to eligible students as long as they continue to have at least one dollar of assessed need.<sup>11</sup> This nod toward predictability is welcome, as it will provide some additional peace of mind to students with few financial resources of their own. This predictability should be considered the “new norm” in student aid programs—at the very least in those directed to low-income and under-represented students—and should feed into future initiatives to streamline the process. As we will discuss below, there are other ways to provide transparent and predictable financial support for students from low-income families that should be explored.

Also announced in the 2008 Federal Budget was the Repayment Assistance Program (RAP), which replaces the old Interest Relief (IR) and Debt Relief in Repayment (DRR) programs at the federal level and has been adopted by Nova Scotia (which pioneered the idea), New Brunswick and Saskatchewan. As will be discussed in Chapter 7, the RAP offers clients repaying their student loans relief during periods of low income due to unemployment or under-employment when making their loan payments is impossible or a major hardship (student debt can also be completely wiped out after 15 years of persistent eligibility for the RAP). Eligibility for the RAP is determined based on income and family size, and payments are made on a sliding scale such that no borrowers who enter the program would have to make a payment of more than 20 percent of their income. The program has some flaws, however. Clients in financial distress must opt in to the RAP, and anyone who has already defaulted, presumably because of the very burdens that the RAP seeks to ease, is excluded from the program. Nevertheless, it represents an improvement in the way we treat students who have borrowed to pay for their studies and subsequently found that, for whatever reason, their post-graduation earnings are lower than expected.

10. For example, a news story on the impact of universities' receding investment income stated: “At many... universities, especially smaller ones, endowments aren't used to cover operating costs, but fund primarily scholarships and student financial aid—a purpose for which they are crucial... Some universities, such as Bishop's, Queen's and the University of Regina, said they won't be cutting scholarships or financial aid this year, but student aid could suffer in the long run if the market doesn't rebound” (CBC.ca, 2009).

11. We hope that eligibility for Canada Student Grants will not be tied to assessed need for very long. As discussed in the next section, providing grants to students from low-income families serves useful purposes regardless of their eligibility for a loan.

These recent developments, the research findings and the principles stated above all lay the foundation for our thinking about future directions for the way student aid is organized, delivered and funded. There are many positive attributes of the current system, and for many students it has worked reasonably well and efficiently for nearly half a century. However, as has been argued throughout this volume (as well as in its previous edition), participation in higher

education needs to be expanded by bringing in more students from traditionally under-represented groups. In thinking about student aid, we thus need to anticipate the needs of tomorrow's clients as well as today's. We need to develop policies and programs that facilitate the pathways into post-secondary education for those that the current system has not generally served best. With these objectives in mind, we turn now to a series of suggestions.

### The Limits of What We Know

Many of the findings in this chapter echo those of reports discussing earlier waves of the annual State of Student Aid Survey. While we have become accustomed to annual reporting on aggregate student aid amounts in recent years, we continue to lack individual-level data that could reveal much more about the impact of the \$4.4 billion provided to students in the form of need-based aid in Canada. In the absence of a research project that examines data at a deeper level, many of the questions Canadian policy observers have about student aid stubbornly persist:

- Who gets what? While we have a fairly accurate idea of what governments spend in total, we lack reliable data on the characteristics of the recipients of each different type of aid. We cannot compare, for instance, the amounts that lower-income students typically receive from loan and grant programs with the amounts that higher-income students typically receive from merit scholarships, tax credits and savings grants.
- What is the right mix of financial aid? Governments chiefly offer loans, grants and tax credits to students. The share of aid that is repayable or non-repayable, or that is based on financial need or provided to all students regardless of their financial situation, varies from province to

province. We are only just beginning to develop a solid understanding of how each of these measures (or combinations of them) impacts access and persistence.

- Is Canadian student aid too complicated? From the legalistic wording of student aid application forms to the federal-provincial split in the funding of loans and grants to the various terms of loan repayment in effect, student aid in Canada is certainly complex. We do not know, however, whether its complexity is merely inconvenient or poses a significant barrier to access and success in post-secondary education.
- What contribution do post-secondary institutions make to student aid? Institutions provide both need-based bursaries and merit scholarships, but, despite some recent research efforts (Berger and Parkin, 2008), there are few data available on either the relative amounts or the profile of the recipients. The lack of data makes it difficult to explore the question of whether or not this funding complements government student aid funding (as is expected, at least, in Ontario through its "access guarantee" policy), thereby contributing to the coherence of the overall system.

## Reform the Form

For years, policy-makers in the U.S. have debated the complexity of the Free Application for Federal Student Aid (FAFSA) process. The current U.S. Secretary of Education, Arne Duncan, even declared that an applicant needs a Ph.D. simply to complete the form.<sup>12</sup> This concern has led both to research and to innovative policy proposals about how to simplify the FAFSA.

One of the most well-known of these is a paper by Harvard economists Susan Dynarski and Judith Scott-Clayton entitled “College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid” (2007). The authors evaluate the impact on the distribution of aid that would result from dropping some of the required data elements of the FAFSA. Their analysis suggests that even if as many as 82 percent of the required questions were eliminated, 77 percent of Pell Grant recipients (the signature student aid program in the U.S.) would remain eligible for a grant whose value was within \$100 of their actual grant and 88 percent would be eligible for a grant whose value was within \$500 of their actual grant. Based on this, they conclude that the U.S. government has all the information it needs to determine eligibility for Pell Grants, as well as Hope and Lifetime Learning tax credits, through the data it collects on tax forms. The information required to determine eligibility “could fit on a postcard,” which in turn could be used as part of a campaign to provide early information about student aid eligibility.

Until recently, there has been no parallel debate in Canada, perhaps in part because there are 13 different application forms for government student aid rather than one. In 2009, however, a project similar to Dynarski and Scott-Clayton’s was conducted in this country. Unfortunately, the results were much less promising in terms of streamlining student aid applications.

Prairie Research Associates, Inc. (PRA) concluded an analysis of need-assessment data from four provinces by saying that “there appears to be little scope for needs assessment simplification while maintaining the accuracy of the assessment process.” (Baldwin, forthcoming)

The reason it is difficult to eliminate variables from the need assessment process, and the attendant questions on student loan application forms, is largely that need assessment is currently serving two distinct functions. First, it is used to allocate loans (as well as loan-reducing grants for students with large loans) by determining a student’s total financial need. Since government loan programs strive to allocate precisely the amount of aid a student needs for a year of study, reducing the precision of the calculation of need by simplifying the application form is not necessarily desirable. Second, the calculation is also used to determine eligibility for access grants (prior to 2009–10) and the new Canada Student Grants Program (from 2009–10 onward). This is done by establishing that the students’ family income falls under the eligibility threshold and that they have at least one dollar of need. The latter calculation is much simpler than the calculation of total need and requires less information from the applicant.<sup>13</sup> As long as the same application form is used for both functions, however, the options are limited in terms of substantial simplification for income-based grants.

The limitations on eliminating questions on student loan application forms as they currently stand, however, do not limit our ability to make them better. Also in 2009, Clear Language and Design (CLAD) conducted literacy skill assessments of paper and online student loan application forms used in Alberta, Saskatchewan, Manitoba and Nova Scotia. It found that the literacy skills demanded of the programs’ clients are not appropriate given that most student applicants have yet to begin post-secondary studies. In the four provinces, the average grade reading level of the paper forms was 15.4 (assessments of the online forms are forthcoming). In fact, it was rare to find even a single section of the forms that was written at an appropriate reading level, which was pegged at Grade 11 for this purpose. The forms not only demand a daunting amount of information from multiple sources, including students, parents and spouses, but are also written in such a way as to make it very difficult to understand what is being asked. In particular, in all three provinces the declaration of

12. See [www.insidehighered.com/news/2009/01/14/duncan](http://www.insidehighered.com/news/2009/01/14/duncan).

13. That said, the actual amount of a student’s access grant has, in the past, been determined in part on the basis of his or her assessed need.

informed consent that both students and their parents or spouse (if necessary) are asked to sign requires such a high level of reading comprehension that it is unrealistic to consider that the “consent” given by most applicants is truly “informed.”

All governments that are in the business of administering student loan programs would benefit from submitting their forms to a “plain language” assessment and working to improve their comprehensibility. This would reduce errors, which might save governments money in the long run. It could also result in more applications being successfully completed, which would redirect that saved money to its primary purpose. It would also likely improve students’ experience of applying for and receiving aid, which should be the object of any reform.

## Start Early

One of the greatest challenges in efforts to improve access for those who might not otherwise plan to participate in post-secondary education is the need to reach them early enough to shift both their aspirations and their preparations. As Saul Schwartz (2008) has explained, in terms of financial aid programs, there are two main reasons for thinking that reaching students earlier would help: “First, the knowledge that college was affordable might give some students the incentive to work harder in elementary and secondary school than they would if they thought college was financially out of reach. Second, and regardless of the possible effect of early commitment on academic achievement, students and their families would be better able to plan the financing of college” (p. 177). The question is whether there is a feasible way to provide information about financial aid to low-income families, information that could help their planning and dispel myths about the costs and benefits of post-secondary education. The answer is yes.

The Canada Child Tax Benefit (CCTB) and National Child Benefit Supplement (NCBS) are fairly simple programs: Canadians who have children and are below an income eligibility threshold receive a cheque from the federal government every month until their children reach 18 years of age. In fact,

the income eligibility thresholds for many of the Millennium Access Grants and Canada Access Grants available prior to 2009–10, as well as the new Canada Student Grants Program, are based on income eligibility thresholds for the NCBS. The CCTB and NCBS are remarkably efficient in their ability to reach their intended recipients.<sup>14</sup>

As discussed above, take-up rates for the Canada Learning Bond remain low (at the end of 2008, only 16 percent of eligible families had taken the steps necessary to receive the benefit). It would be better if it were transformed from an opt-in program to an automatic entitlement for low-income families, along the lines of the NCBS, beginning from the year in which they report a dependent child on their tax return. An auto-enrol CLB could then be treated as a virtual individual development account in which the government contribution accumulates and is held for children until they pursue a post-secondary education. If they never do so, the government would not be required to pay benefits from the account (or the account could have certain other approved uses, such as on-the-job training, even if these are not considered forms of post-secondary education). A program along these lines was recently created in B.C.: for each child born in the province after January 1, 2007, the government is investing a fund of \$1,000, which is expected to grow to roughly \$2,200 by the time the child is 17 and can be used to pay for post-secondary education. It should be noted, however, that this program is universal, rather than targeted to low-income families.

The periodic deposits into the account could be accompanied by clear and useful information about the costs and benefits of post-secondary education, financial assistance programs and other support programs that might be available locally for their children. These communications could change over time as the child ages, from initial messages about the idea of post-secondary education as an attainable goal to specific information directing parents and children to local initiatives that could support their efforts to navigate through the system. Starting this process early, essentially from birth, might relieve some of the anxiety that parents feel if they believe

14. They cannot, however, reach those people who do not file income tax forms.

they cannot afford the post-secondary education that they want for their children (or that their children want for themselves).

The opportunity to communicate directly with parents who, because of their financial situation, may see post-secondary education as something that is not attainable for their children is one that should not be missed. Parents play a key role in shaping the educational pathways of their children. As previous research has shown, however, while children turn to their parents for information about their futures, parents are not always able to provide them with accurate information about how college or university studies can be financed (Canada Millennium Scholarship Foundation, 2006). Moreover, one of the greatest challenges in delivering programs to more marginalized populations is to find a way to make a connection with them. Piggy-backing on top of the tax system, which has already identified who is eligible for the program and already delivers benefits to them, would be not only simple and efficient but also potentially quite effective.

Such a program would not be a substitute for conventional student aid. It also would not prevent anyone from participating in other savings-based programs as well (e.g., RESPs). It would, however, provide initial “seed funding,” allowing low-income parents to put aside some money toward their children’s post-secondary education. Given that the eligibility threshold we propose for this early investment program is the same as that used for the Canada Student Grants Program, it would be relatively easy to build a bridge between the two, encouraging students from low-income families to take advantage of the available student aid and adding to the coherence of the system.

Finally, such a program would also need to fit well into the mix of other government programs aimed at low-income Canadians, such as social assistance. A new national survey of the interface between student aid and social assistance (Torjman, 2009) and a report on the same topic in Ontario (Stapleton, 2007) both argue convincingly that for low-income Canadians who are forced into the social assistance system, getting out, especially to pursue education,

is very challenging. This is in part because of the way the assets that those living in poverty might wish to improve their skills through further education are often taxed back at incredibly high rates as long as they remain in the social assistance system. As always, changes to programs and their rules have to be well thought out and coordinated to limit unintended consequences.

## Decouple Loans and Grants

In Canada, a post-secondary student who wishes to obtain a government need-based grant can only do so by first applying and qualifying for a student loan. This makes sense if the policy objective of grants is to limit the accumulation of debt; the most important form of student aid is a loan, which must be accessed first, but those who qualify for the largest loans also then receive a grant. It makes less sense if, as was the case with the access bursaries available until 2008–09 and will be case with the Canada Student Grants available from 2009–10 onward, the goal is to help low-income students overcome financial barriers to participation regardless of whether they have a large loan or not. Since, for these students, the most important form of student aid might be a grant, it is not clear why a loan must be accessed first (as opposed to subsequently, if desired).

It is possible in theory to separate the processes of applying for loans and grants, as is the case, for example, in the U.S. with Pell Grants and Stafford Loans. This could be done either by having two separate application forms or by dividing the application form into a short “part one” used to determine grant eligibility and a longer, optional “part two” for those who also wish to be considered for a loan.

The decoupling of student loans and grants would accomplish two things. First, it would serve to simplify the process of applying for and receiving grants. As mentioned above, the number of questions needed to determine eligibility for the new federal grants that are replacing the millennium bursaries—grants that are targeted to low- or moderate-income students—is relatively limited. The main items of information that need to be collected (apart from

name and address) are family income, family size<sup>15</sup> and institution attended. To borrow from Dynarsky and Scott-Clayton (2007), an application form designed to collect this information could fit on a postcard.

In fact, it would be possible to go even further. Given the use of National Child Benefit Supplement cut-offs for determining eligibility for Canada Student Grants, the government could in principle identify potential recipients before they even apply for financial aid. This ability to identify eligible youth in advance through the income tax system has a number of potential advantages: it would allow promotional material about both post-secondary education and financial assistance to be distributed in a targeted way well in advance of the point of application; it would make aid much more predictable (the grant program could become in part an early promise of aid, made to students identified through the tax system even before they complete high school); and, by connecting it to parents' tax returns, it could lead to the generation of an application form that is already complete except for the applicant's signature and choice of post-secondary institution. Linking student aid forms with tax data in order to pre-populate certain fields of data is an approach that has been advocated in the U.S. by The Institute for College Access and Success (Asher, 2007) and is being explored by the U.S. Department of Education (2009). All of this would significantly alleviate the burden of applying for grants, as well as reducing concerns about error rates in the information submitted.

Secondly, beyond the issue of simplification, decoupling could also serve to send an important signal to low-income students about the types of aid that are available for them. Clearly, grants are more attractive to students than loans.<sup>16</sup> In the absence of a decoupled system, however, the first question students must ask themselves before applying for student financial assistance is whether or not they desire a loan, not a grant. In fact, it would be fair to say that in the current system, grants are buried under or hidden within a student loan program. It is thus very difficult to signal to low-income students that grants are available for them when such information

is drowned out by the competing signal that student financial aid in Canada means taking out a student loan. (The Canada Millennium Scholarship Foundation has observed in focus groups that some students from low-income or under-represented backgrounds are even skeptical that they will receive a grant if they apply for student aid, while some doubt that the grants would really be grants and suspect they would ultimately have to be paid back). Relieving low-income students of the requirement to borrow in order to receive non-repayable funding for their post-secondary education is a viable way out of this signalling problem. Decoupling loans and grants would make it clearer to the student what types of aid are available and how much funding of each type they could expect to receive.

The decoupling of loans and grants would change little on the loan side. The current mechanism remains a relatively efficient one for allocating significant amounts of public funds to those facing high post-secondary education costs and low personal resources. Loan remission for high borrowers, which remains an important feature of many provincial programs (and, as we will argue below, should not be ignored), would also continue to be allocated through a traditional process for assessing need. While some low-income students who receive a grant may choose to try to work in order to pay for their remaining education and living expenses, others will choose to proceed to the second step in the financial aid application process and request a loan.

In short, then, the argument for splitting loans and grants into two separate systems is based on the premise that in so doing we can affect the perceptions of young people from under-represented backgrounds whom we wish to pursue post-secondary education in greater numbers. The changes that have occurred in Canadian financial assistance since 2005 have set the stage for this move by delinking eligibility for loans from the new federal and provincial access grants. A great deal of the mystery about what a student is applying for and what they can expect to receive could be resolved by using a one-page form for grants and a separate one for loans.

15. The income eligibility threshold is adjusted for family size.

16. This is not merely an assumption. The economic experiments conducted for the Foundation, discussed earlier in Chapter 5, show that grants are indeed more effective than loans of the same face value in encouraging youth to opt for post-secondary education, for the simple reason that loans, because they have to be paid back, are more costly to students than grants.

## Fully Fund Assessed Need

On the CanLearn.ca website, the main online information portal for the Canada Student Loans Program and other federal student aid, the following statement is posted:

Student loans are a great help if you need some financial assistance to get through school. But they're meant to give you a helping hand, not to pay for your entire post-secondary education. You are still expected to contribute some money (CanLearn, 2009).

As this suggests, expected personal and family contributions toward the cost of a higher education are an important part of the student financial aid system in Canada. That said, to a surprising extent, many students who have agreed to make these contributions nevertheless find that they have unmet financial need. Unmet need is the difference between the finances the student aid system recognizes that students need for a year of study and the maximum amount of aid they are actually provided.<sup>17</sup> To offer an analogy, it is as if a bank agreed to provide a mortgage to a home buyer but, after taking into consideration the buyer's down payment and income, issued several thousand dollars less than required to complete the transaction. Most people would consider this a bizarre form of "bait and switch," yet it is common in student aid.

A recent study of eight provincial aid systems shows that the proportion of student aid recipients with unmet need rose steadily until 2005. In 2005–06, maximum student aid limits were increased and the incidence of unmet need dropped sharply but temporarily. By the 2006–07 academic year, the percentage of students across Canada (excluding Quebec) experiencing "high" unmet need (greater than \$1,360 per year) had reached 21 percent; in six of these provinces, more than 20 percent of students experienced high levels of unmet need. In B.C., more than half of student aid recipients were considered to have high unmet need (McElroy, 2009; State of Student Aid, 2009).

Unmet need can have negative effects on persistence and completion (see, for instance, McElroy,

2004). Other effects include increasing the amounts that students must borrow from private sources (such as banks) and the amount of hours worked while in school. An ongoing study in Manitoba, involving students who initially had unmet need in the 2008–09 academic year and who were provided with a Millennium Student Success Grant part way through the year to cover most or all of the funding gap, sheds some light on the problem. In focus groups, most recipients of the grant said they had used a loan calculator available on a student aid website prior to applying for aid but were still not expecting to have unmet need. In a survey of these students, more than a quarter (27 percent) said they would be borrowing from a private financial institution to deal with their unmet need and more than half (54 percent) said they would be relying on employment income; these answers were not mutually exclusive. The amount the students estimated they would obtain from each source varied quite substantially: \$13,335 from private financial institutions and a little more than \$4,500 from employment income, including both earnings during the summer and during the school year.

The study also asked about the effect of receiving the grant to cover unmet need. Sixty percent of recipients agreed that having their unmet need covered by the Student Success Grant meant that they were able to meet their basic needs for the year and did not have to turn to others for loans of food, additional money or a place to stay. The fact that these students with unmet need would otherwise have considered these options is particularly troubling given that they were predominantly older (average age of 28 years) and female (64 percent), with half having dependants of their own.

About 30 percent of Student Success Grant recipients were working in the academic year in which they received their grant. They worked part-time for an average of 16 hours per week. While these students did not necessarily attribute it to receiving the grant, in the survey, 36 percent reduced their work hours in the winter semester (when the grant was delivered) compared to the fall semester, and 18 percent of those who worked in the fall semester did not work at all in the winter semester.

17. It should be noted that there is a difference between unmet need and unrecognized need. Unmet need does not take into account those costs that the student financial aid system simply does not recognize. Unrecognized need is thus even greater than unmet need.

**Table 6.IV.1 — Incidence and Average Amount of Unmet Need in Select Provinces in 2006–07**

|                           | No unmet need | % low unmet need | % high unmet need | \$ unmet need low | \$ unmet need high | avg \$ unmet need |
|---------------------------|---------------|------------------|-------------------|-------------------|--------------------|-------------------|
| BC                        | 37%           | 12%              | 5%                | \$783             | \$6,345            | \$2,490           |
| AB                        | 65%           | 14%              | 22%               | \$636             | \$5,504            | \$3,612           |
| SK                        | 55%           | 12%              | 33%               | \$629             | \$4,379            | \$3,394           |
| MB                        | 63%           | 15%              | 23%               | \$561             | \$4,938            | \$3,216           |
| NB                        | 81%           | 4%               | 14%               | \$646             | \$6,619            | \$5,214           |
| NS                        | 49%           | 16%              | 35%               | \$743             | \$5,387            | \$3,942           |
| PE                        | 87%           | 6%               | 7%                | \$568             | \$4,752            | \$2,868           |
| NL                        | 55%           | 19%              | 26%               | \$529             | \$4,377            | \$2,762           |
| <b>Unweighted average</b> | 61%           | 12%              | 21%               | \$637             | \$5,288            | \$3,437           |
| <b>Ontario</b>            | 58%           | –                | –                 | –                 | –                  | \$1,191           |

Source: McElroy (2009); source for Ontario is the 2009 State of Student Aid survey.

Of course, there are many different reasons why students face high costs and therefore potentially have unmet need: some students have dependent children, while others are enrolled in programs that have higher costs, usually university professional programs. In the case of those who are raising children while in school, it is clear that they simply are not eligible for enough funding to support their costs. In most provinces, the maximum aid available to students with children is less than \$20,000, which, once full-time education costs are deducted, poses a clear challenge to their ability to support children. While we need to reduce, if not eliminate, the prevalence and burden of unmet need in the student aid system, we also need an approach that recognizes that not every student is in the same situation.

First, governments across the country should once again adjust aid limits upward. Each province needs to look carefully at the incidence of unmet need among its students and work with the federal government to adjust aid limits accordingly. In addition, aid limits should then be indexed to meet tuition and other cost increases. Unmet need should be continuously monitored and further adjustments to aid levels made as required.

Second, students who experience very large amounts of unmet need because they are enrolled in competitive, expensive programs, such as medicine, law and dentistry, which are also likely to yield high incomes fairly soon after graduation, could be offered a second type of government loan that covers their unmet need but more closely resembles a private loan. For example, the in-study interest subsidy could be eliminated. While concerns may arise about these students owing even more money to governments, the alternative for many is to end up no less indebted to private lending institutions, which do not tend to have creative repayment options like the new Repayment Assistance Program.<sup>18</sup>

Third, students with dependent children of their own should not find themselves thousands of dollars short of their assessed need for their year of study while also supporting a family. (The situation is perhaps easier for those who can count on spousal income, but this spousal income is already taken into account in the assessment of the student's need.) These students tend to be older, and many are returning to education in order to improve their employment prospects, keep the job they have or, in the case of many immigrants, have an existing

18. Another option for governments is to collect these unsubsidized loans through the income tax system once a young doctor, lawyer or dentist has established a successful practice.

credential recognized in Canada. In the context of the economic difficulties of 2008–09, it is unwise to add to the challenges of those attempting to return to or improve their standing in the labour market. Therefore governments should also review their aid limits for students with dependent children to ensure that those limits reflect the reality of the costs associated with raising children while studying, including, but certainly not limited to, the cost of child care where it is not provided.

The student aid system in Canada helps provide many students with the financial resources they need to pursue their educational goals. It is also, however, structurally designed to fail to meet the need it identifies for a significant number of students, some of whom are in quite vulnerable circumstances. Given the detrimental effect unmet need can have on a student's ability to succeed in post-secondary education, this state of affairs should not be allowed to continue.

## Don't Ignore Student Debt

As discussed in the previous edition of this volume and elsewhere,<sup>19</sup> there are important reasons to be concerned about the accumulation of student debt (either annually or in total). High levels of annualized debt have been shown to affect persistence from one year of study to the next and completion of a student's program. There is some evidence that they can also dissuade those students who do complete their first program from continuing their studies (Prairie Research Associates, 2007b). Students with high levels of debt relative to their post-graduation incomes are also likely to have difficulty keeping up with repayment. All in all, the accumulation of debt can be an obstacle to students progressing through the post-secondary system and transitioning into the labour market.

In the 1990s, average student debt of undergraduates in Canada doubled in real terms. As we will discuss in the next chapter, student debt levels have

more or less stabilized since then. This is due in part to the introduction of the millennium bursaries in 2000, as well as to provincial investments in grants in the years that followed (as well as some increase in federal grants).<sup>20</sup> As we have noted above, millennium bursaries were allocated to students with the highest levels of financial need. They thus served to limit the amount of debt accumulated by those who needed to borrow the most. Their debt-limiting effect complemented those of provincial bursary programs in most jurisdictions that set *de jure or de facto* caps on annual or cumulative student debt.

The phasing out of the millennium bursaries means that the main federally funded bursary program will no longer be targeted at curbing the accumulation of debt by high borrowers. Of course, overall federal funding for non-repayable aid will remain in place through the Canada Student Grants Program. The point here is simply that the purpose of these new grants, which are directed to borrowers with the lowest family incomes, will no longer be to reduce debt for high-need students.<sup>21</sup> The effect of this change on some high-need students will be muted in the short term due to the federal government's commitment to "grandfather" the final (2008–09) cohort of millennium bursary recipients by providing them with Transition Grants that will ensure they receive an equivalent level of grant funding for up to three subsequent years (as long as they continue to have financial need). For those high-need students entering the system in 2009–10 (or those who otherwise have high levels of need but did not receive a millennium bursary in 2008–09), no federally funded debt reduction grants will be available. This will put pressure on those provincial grant programs that cap or limit the accumulation of debt. This pressure may be accentuated by the effect of the recent economic downturn. While it is too early to know for certain how the economic situation will affect the number of students who take advantage of student aid programs, early indications in many jurisdictions

19. See Berger, Motte and Parkin, 2007, Chapter 5, as well as Canada Millennium Scholarship Foundation, 2006a, for a discussion of studies of the impact of bursaries conducted by Lori McElroy.

20. A review of the impact of the introduction of millennium bursaries conducted for Human Resources and Social Development Canada found that there was an 86 percent increase in non-repayable student financial aid between the pre- and post-Foundation periods. Fifty-six percent of this change was due to the millennium bursaries themselves, 27 percent to increases in provincial spending on grants and 17 percent to increases in federal spending on grants (Human Resources and Social Development Canada, 2007).

21. The Canada Student Grants will still reduce debt, but they will be delivered to students whose loans are not necessarily the largest, and those with the largest loans will not necessarily be eligible.

show that applications for student aid are up substantially in 2009–10.<sup>22</sup> This will likely affect debt accumulation, putting it on the rise sooner rather than later.

The access bursary programs introduced in 2005 and the new Canada Student Grants Program prioritize students who face financial barriers but who are not typically accumulating the most debt. Making the provision of non-repayable aid to students from

low-income families a priority was an important and necessary improvement to the student financial assistance system in Canada. It should not, however, be made at the expense of other priorities, such as limiting the accumulation of debt by students with the highest levels of financial need. It is important to develop and maintain a comprehensive approach to student financial aid in Canada that is able to respond to the needs of different types of student.

22. See also the discussion of student summer employment income in Chapter 4.

# V. Conclusion

The suggestions above represent our current thinking about future directions in student aid. They are based as much as possible on the research conducted to date. As discussed above, they are designed to put the interests of students first. In the first place, the emphasis should be on those students less likely to make it to and through post-secondary education without some additional help—whether financial support or information and encouragement. Yet we should also not ignore the fact that post-secondary education is no less expensive for those students who already have a clear preference for it.

There are certain subjects that we have not covered here, the main one being education tax credits. We have discussed these at length above and in previous publications, and there is no need to add to the arguments we have made elsewhere. It is worth repeating, however, that despite the extensive spending on tax credits for post-secondary education in Canada and the new post-graduation tuition tax rebates introduced by several provinces, there remains no evidence that these measures have a positive impact on student behaviour. Moreover, as mentioned above and on other occasions, the benefits delivered through these measures are distributed inequitably and arrive too late to help students facing financial barriers make ends meet during the school year.

Additionally, as the country moves out of a recessionary period and governments inevitably begin to look for areas in which spending might be controlled, we should recall that expenditures on education-related tax measures exceed those on need-based aid. Expenditures on grants, which provide non-repayable

assistance in a timely fashion to students who have financial need, represent only two-thirds of the expenditures on tax credits. At the very least, then, if difficult choices need to be made, surely universal tax expenditures will no longer be favoured. Policymakers and politicians should avoid further investments in education tax credits that superficially address the question of affordability in favour of need-based student aid measures that will actually contribute to the goal of increasing participation and success in higher education.

If the opportunity to pursue a post-secondary education is to be open to all Canadians who are prepared, qualified and motivated to pursue that path, we need a student aid system that is up to the challenge. This means making sure that the system puts students first; that it starts sending an early message to students that there will be support for them in meeting their goals; that it appropriately targets those who need student aid the most with the right kinds and amounts of aid; that it acknowledges that financial aid alone will not be enough for some students to reach their goals; and that it is flexible, accountable and transparent. By making smart choices and investments, student aid programs and policy can be a positive influence on the aspirations and success of students. We believe that by following the suggestions presented here, Canada's student aid system can play a critical role in shaping the future of our post-secondary education system in the next decade and help realize the promise of higher education for Canadians from all backgrounds.

**Table 6.V.1 — Vision of Student Aid in Canada After Suggested Changes Have Been Adopted<sup>23</sup>**

| Type of Student/Period   | Low-Income Students   | All Students  |
|--------------------------|---|---|
| Pre-secondary school     | <ul style="list-style-type: none"> <li>• Auto-enrolment in CLB and virtual account balance statements</li> <li>• Information about PSE, local access initiatives and student aid</li> <li>• RESP account opened</li> </ul>  | <ul style="list-style-type: none"> <li>• Information about PSE and student aid</li> <li>• RESP account opened</li> </ul>  |
| Secondary school         | <ul style="list-style-type: none"> <li>• Auto-enrolled CLB virtual account balance statements</li> <li>• Early identification of eligibility for grants aimed at low-income students</li> <li>• Information about PSE, local access initiatives and student aid, including specific programs like CSGP</li> <li>• Application for federal and provincial student loans</li> <li>• Institutional outreach and targeted grants</li> </ul> | <ul style="list-style-type: none"> <li>• Information about PSE and student aid</li> <li>• Application for federal and provincial student loans</li> <li>• Institutional aid</li> </ul>  |
| Post-secondary studies   | <ul style="list-style-type: none"> <li>• Access to auto-enrolled CLB balance and RESP savings</li> <li>• Funding packages for full assessed need</li> <li>• Annual debt remission to a cap</li> <li>• Tailored institutional support and institutional aid</li> <li>• Unsubsidized public loans for extremely high borrowers</li> <li>• Tax credits</li> </ul>  | <ul style="list-style-type: none"> <li>• Access to RESP savings</li> <li>• Funding packages for full assessed need</li> <li>• Annual debt remission to a cap</li> <li>• Unsubsidized public loans for extremely high borrowers</li> <li>• Institutional aid</li> <li>• Tax credits</li> </ul> |
| Completed post-secondary | <ul style="list-style-type: none"> <li>• RAP during periods of low income</li> <li>• Post-grad tax credits (some jurisdictions)</li> <li>• Collection of unsubsidized loan debts through tax system</li> </ul>  | <ul style="list-style-type: none"> <li>• RAP during periods of low income</li> <li>• Post-grad tax credits (some jurisdictions)</li> <li>• Collection of unsubsidized loan debts through tax system</li> </ul>  |

23. This should not be taken as an endorsement of all available programs or funding mentioned.