Easing the Middle-Class Burden

An Examination of the Implications of Reducing Parental Contributions to Post-Secondary Study

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The Canada Millennium Scholarship Foundation
1000 Sherbrooke Street West, Suite 800, Montreal, QC, Canada H3A 3R2
Toll Free: 1-877-786-3999
Fax: (514) 985-5987
Web: www.millenniumscholarships.ca
E-mail: millennium.foundation@bm-ms.org

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Fred Hemingway Consulting
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Written by:
Fred Hemingway Consulting

The Canada Millennium Scholarship Foundation

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Executive Summary

There is substantial agreement in Canada that higher education is becoming increasingly important, yet many Canadians are kept out of post-secondary education because they lack the resources to pay for it. Publicly funded student financial assistance therefore plays a crucial role in encouraging access to post-secondary education by providing students with money to pay for tuition, books and the cost of living while studying.

In theory, the process of distributing student financial aid is straightforward. Students submit an application for financial aid that details their financial situation for the coming academic year. The financial aid program assesses their financial need by subtracting their allowed costs from their expected resources. This paper examines recent policy changes concerning the calculation of students' expected resources, specifically, the treatment of parental income.[1]

Generally speaking, financial aid programs consider students who are within four years of completing high school to be dependent on their parents' financial support. Dependent students, as they are known, are expected to receive a financial contribution from their parents to pay for a portion of their educational and living costs. The remainder of their assessed need is provided in the form of a loan or grant.

Using figures from a survey of Canadian students' finances, the author describes how middle-income parents typically do not make the financial contributions that student aid programs expect of them. Moreover, he explores how public assistance for post-secondary students has not kept up with the costs of going to school.

In response to these two trends, governments have recently taken steps to expand student financial aid. These measures can be described broadly in two ways.

First, student aid programs' expected parental contribution amounts have been significantly reduced, once in 2005 and then again in 2007. As mentioned, the data on student income show that there is a substantial gap between the levels of parental support reported by students and the expectations built into the financial aid system. Changes to expected parental contributions have caused dependent students already eligible for financial aid to be entitled to greater levels of support while many students previously ineligible for assistance because of their parents' income now qualify for student aid. It is now possible, for example, that a dependent student in Ontario with a family income of $70,000 will see his or her annual expected parental contribution drop from $4,996 in 2004 to $0 in 2007. Federal officials expect that up to 50,000 new students will be eligible for student financial assistance as a result of these policy changes.

Second, governments have increased student assistance limits, which represent the maximum amount students may receive in publicly funded financial aid. This responds directly to the issue of "unmet need," the amount of a student's need that is not met by the financial aid program.

Both cases appear to be designed to ease the burden of middle-class families as their children encounter limited access to loans or insufficient loan amounts. In the author's opinion, the new parental contribution levels should no longer represent an undue burden on families. That said, it is unlikely that the new assistance limits will completely eliminate the "unmet need"—the amount of financial need financial aid programs recognize but do not fund—that exists within the student aid system.

The author examines what implications these policy decisions will have for student loan amounts and student debt figures. Provincial student aid programs can establish maximum debt limits, either by providing non-repayable grants to students who borrow above a certain amount or by reducing students' outstanding loan debts at the end of a year of study or upon completion of a program. Regardless of its form, non-repayable assistance is typically provided to the students with the highest loan

1. The analysis is restricted to provinces participating in the Canada Student Loans Program. Therefore, it excludes Quebec.

amounts in a province. Though it is not clear how each province will adjust debt ceilings, the author discusses how students with different levels of financial need might be affected.

He expects students with relatively low levels of need to wind up with higher loans, as the reduced parental contribution amounts will allow them to qualify for more financial aid, but not enough to benefit from grants or loan remission. Students with relatively moderate levels of need are likely to receive more financial aid, though whether they will incur more debt is up to their province, which may increase student debt ceilings to control costs. Students with the highest levels of need will only receive more financial aid if the financial aid maximum amounts increase. Similarly, their debt will increase if debt ceilings go up as well.

From a broader perspective, these changes will impact average student debt levels in two ways. On the one hand, the addition of thousands of new student aid recipients with below-average debt levels will lead to a greater incidence of debt among students, though the average amount of debt is likely to decline. On the other hand, the students with the highest existing debt loads are likely to wind up with even greater levels of debt.

In the interest of contextualizing parental contribution policy changes, the author chronicles additional changes to need-based student financial aid in recent years. Of the $192 million spent by the federal government and the Canada Millennium Scholarship Foundation on adjusting student aid, approximately $30 million has been earmarked for lowering expected parental contribution levels. Approximately $80 million has gone to grants for low-income students, $74 million has been allocated to reducing unmet need by raising maximum aid levels, and $8 million has been devoted to debt relief measures.

According to the author, in this context, the $30 million spent on adjusting parental contribution levels appears to be money well spent. He cautions, however, that governments are not directing enough student support resources to individuals who have demonstrated substantial levels of financial need, choosing instead to invest large sums of money into tax system measures. For example, he argues that the $185 million the federal government is spending on a new textbook tax credit and the exemption of scholarship and bursary income from taxation could have been more wisely spent on reducing, or possibly eliminating, excessive debt among low-income students with high levels of financial need.

The author concludes that the student aid policy changes made in recent years were necessary—but not necessarily sufficient. There is a strong case for more need-based student assistance, to ensure that as many Canadians as possible have the financial means to pay for their education without saddling them with excessive debt. The author offers a pair of policy recommendations: that governments further adjust student assistance limits to reflect the full costs of post-secondary education, and that they limit debt levels to a reasonable maximum, perhaps $6,000 or $7,000 per year of study.

Introduction

Background

Family assistance to students enrolled in post-secondary study is part of a social contract in Canada, based on the belief that parents have a responsibility for the welfare of their children. It has been a cornerstone of the Canada Student Loans Program (CSLP) since its inception in 1964. The program's requirement that parents contribute to the costs of attending post-secondary education for four years is no accident—it signals the belief that the financing of an undergraduate education is primarily a family responsibility, if the family can afford it.

In Canada, secondary education is fully supported by public funding, whereas post-secondary education is not. It is thus fair to say that Canadians believe that post-secondary education is both a right and a privilege. Because of this, the financing of post-secondary study is seen as a shared responsibility between governments, students and their families. Governments contribute by providing grants to educational institutions. Students and their families contribute by paying tuition and living costs for the period of time they are in attendance. For those families who cannot afford to pay tuition and living costs, governments provide supplemental support through student aid programs.

Objectives

The objectives of this paper are threefold: (1) to examine recent changes to parental contribution expectations under student aid programs that were implemented in 2005 and 2007 and comment on the necessity of the changes; (2) to assess the impact of the changes on provinces and debt levels and consider whether the funds used to effect the changes could have been better spent in other areas; and (3) to look at the need for further investment in need-based student assistance and consider whether funds for such additional investment could be drawn from those currently allocated to non-need-based support for students and their families.

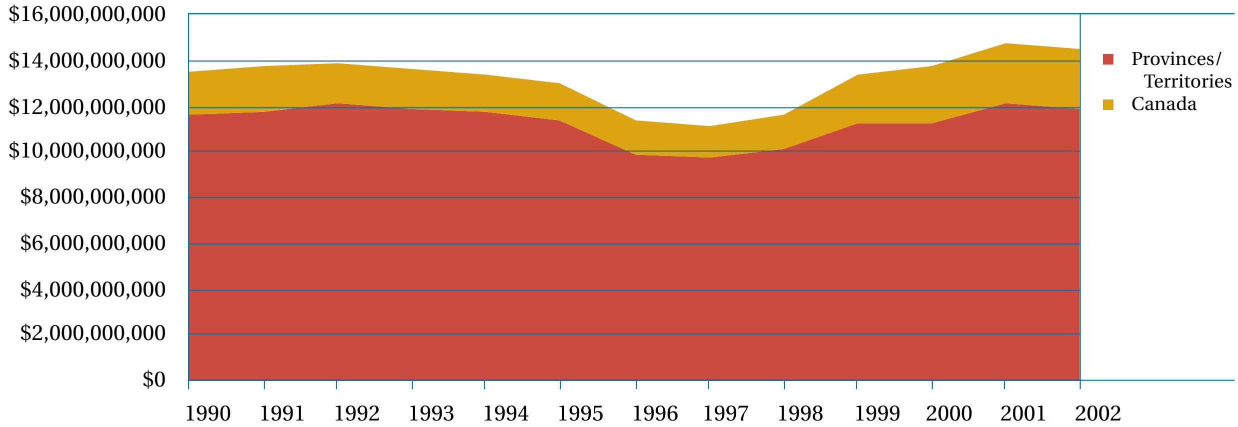
Before looking at the three aforementioned issues, the remainder of this section will present data on trends in the financing of post-secondary study in Canada.

The 1990s: A Decade of Restraint

The relative share of post-secondary costs that students and their families were expected to pay increased during the 1990s. Governments entered a period of fiscal restraint after years of deficit financing. Their main focus was deficit reduction and health-care, with post-secondary education a lesser priority. While enrolments increased, government grants to educational institutions remained flat in real terms, as indicated in Figure 1. As a consequence, support per student declined by $2,800, as shown in Figure 2 (AUCC), and university tuition costs increased significantly to compensate for the loss of government revenue (Statistics Canada, 2004).

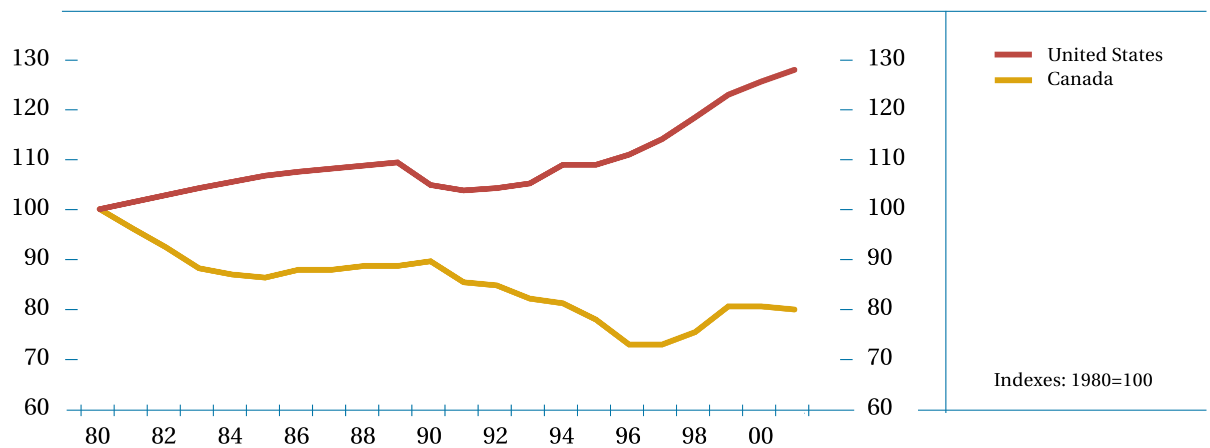
While the costs of attendance continued to rise, student aid benefits after 1996–97 became less generous (see Figure 3). Under CSLP, the implied aid ceiling of $9,650 remained frozen, while needs assessment criteria did not recognize all legitimate costs (e.g., computers) and expectations of parental contribution levels became unrealistically high. As families struggled to meet the increasing costs of attendance, concerns over the affordability of post-secondary education—including access and equity issues, student debt and unmet need for both low-income and middle-class students—became more pronounced.

Figure 1 — Total Government Expenditures on Post-Secondary Institutions (in 2003 Real Dollars)



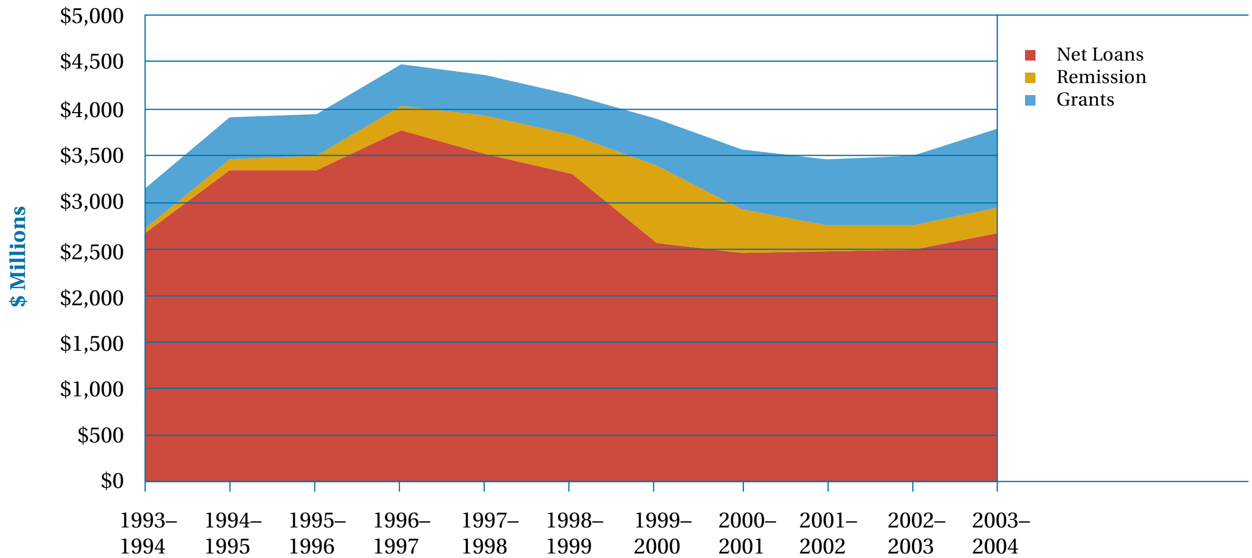
Source: Junor and Usher, 2004.

Figure 2 — Government Spending per Student on Higher Education (in Constant Dollars)



Source: *AUCC Trends 2002*, as cited in TD Bank Financial Group, 2004.

Figure 3 — Aggregate Need-Based Assistance in Canada by Type—1993–94 to 2003–04 (in 2005 Dollars)



Source: Junor and Usher, 2004.

Increase in Non-Need-Based (Universal) Assistance

In response to the increasing pressure concerning the affordability of post-secondary study for the middle class, the federal government began expanding benefits under universal programs designed to assist with meeting the costs of post-secondary study. Tuition and education tax credits were enhanced, as were registered education savings plans. In addition, exemptions for scholarship income have recently been increased.

Reinvestment in Need-Based Student Aid

The 2004 and 2006 federal budgets contained a number of measures designed to improve student aid benefits. Loan limits were increased, grants to students from low-income families were introduced and measures to assist students with loan repayment were enhanced. Last and by no means least, the parental contributions expected from middle-income families were reduced, commencing in 2005, with further reductions in 2007. An estimated $30-plus million was invested for this purpose.

The Case for Reducing Parental Contributions

Were Changes Necessary in 2005?

There was no lack of evidence that the recent reductions in parental contribution expectations were needed. The *Survey of Approaches to Educational Planning* (1999) found that parents were not prepared to contribute significant amounts to their children's educational costs, while Hemingway (2004) found significant discrepancies between the expected contributions under CSLP criteria and the actual contributions made by parents. This situation was resulting in hidden unmet need in the system.

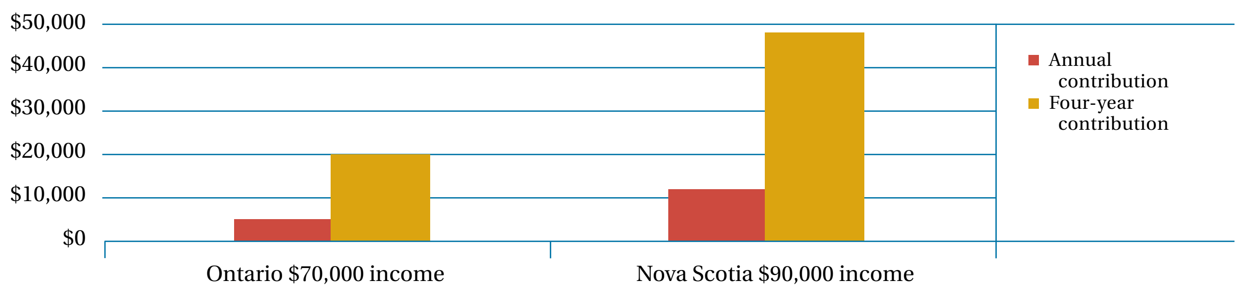
Other studies referencing the problematic nature of parental contribution levels included the *University of Guelph Presidential Task Force on Accessibility* (2004) and "Meeting the Need: A New Architecture for Canada's Student Financial Aid System" (Finnie, Usher and Vossensteyn, 2004). During cross-Canada consultations conducted by the Canada Millennium Scholarship Foundation in 2004, there was widespread concern expressed about the "middle-income crunch" experienced by families unable to qualify for student aid and unable to make the contributions expected of them.

Examples of the expected contributions in effect in two provinces in 2004 are shown in Figure 4.

Figure 4 shows that an Ontario family earning $70,000 was expected to contribute $19,984 over four years; a Nova Scotia family earning $90,000 was expected to contribute $47,928 over four years. The reasons for such high expectations of parental support are not clear. While it is safe to say that maintaining high contribution expectations was an effective means of cost control, there may have been other reasons as well, such as unrealistic assumptions used in the calculation of parental contributions.

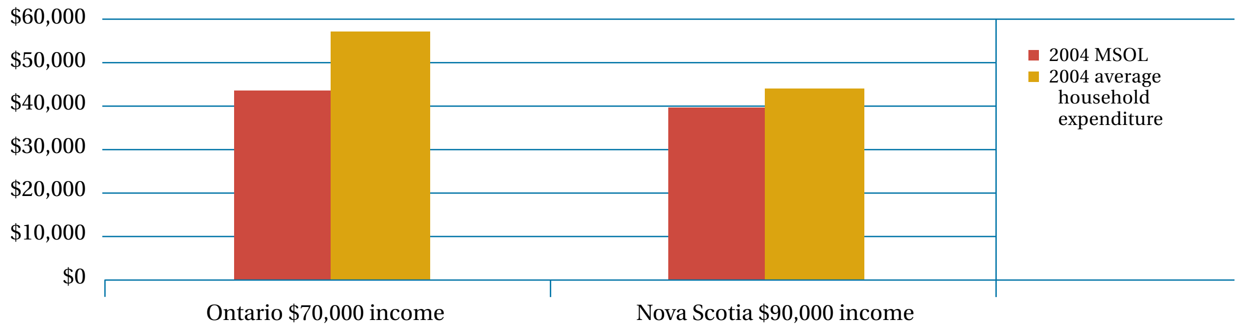
In calculating the parental contribution ability of families, the formula used in the CSLP assessment methodology assumed that parents would live on what is termed a Moderate Standard of Living (MSOL)

Figure 4 — 2003–2004 Parental Contribution Levels—Ontario and Nova Scotia



Source: Government of Canada, 2004.

Figure 5 — 2004 Moderate Standard of Living Allowances (Family of Four) and 2004 Average Household Expenditures—Ontario and Nova Scotia



Source: CSLP assessment criteria and Statistics Canada, *The Daily*, December 12, 2005.

and would contribute a significant portion of their discretionary income (up to 75 per cent) to post-secondary education support. The 2004 MSOL was lower than the average 2004 household expenditure in Canada, as illustrated by the examples in Figure 5.

The student aid program therefore expected the middle-income parents of dependent students to live at a level below the average household expenditure in Canada and contribute a significant majority of the remaining funds to post-secondary support. This was an unrealistic scenario, as the assumed level of family discretionary resources was in most cases not available for offsetting post-secondary costs.

Were the Changes in 2007 Necessary?

Table 1 compares the revised 2006 parental contribution levels with the amounts actually contributed in 2003–04. The information on actual parental contribution levels was obtained from data collected by EKOS Research Associates in a survey which examined student income and expenditures in 2003–04. EKOS surveyed 9,400 students and 2,800 parents on issues relating to parental contributions.

Table 1 — 2006 Expected Parental Contributions[2] in Ontario and Nova Scotia and 2003–04 Actual Parental Contributions to Full-Time Dependent Students with Loans

Family Income	Expected Annual Contribution Ontario	Expected Annual Contribution Nova Scotia	EKOS Actual Annual Contribution Mean[3]	Annual Shortfall Ontario	Annual Shortfall Nova Scotia	Expected 4-Year Contribution Ontario	Expected 4-Year Contribution Nova Scotia
<$50,000	$0	$557	$1,807	($1,807)	($1,250)	$0	$2,228
$60,000	$510	$1,487	$1,620	($1,110)	($133)	$2,040	$5,948
$70,000	$2,339	$4,144	$1,620	$719	$2,524	$9,356	$16,576
$80,000	$4,918	$7,573	$1,691	$3,227	$5,882	$19,672	$30,292
$90,000	$8,300	$10,601	$1,691	$6,609	$8,910	$33,200	$42,404
$100,000+	$11,682	$14,031	$5,385[4]	$6,297	$8,646	$46,728	$56,124

Source: CSLP student loan estimator and EKOS Research Associates, Inc., 2006.

2. The figures in this table are for a three-person family.
3. The figures in this column do not include room and board.
4. N=16.

While not directly comparable, the figures in Table 1 do provide useful information on the degree to which parents were meeting expected contribution levels.

It is interesting to note that parents earning less than $70,000 generally contributed more than the amount expected of them. Parents whose earnings were above the $70,000 income level, however, contributed substantially less than expected.

To judge whether further decreases in contributions were needed in 2007, one must ask whether the four-year expected contributions in 2006 were fair and attainable. In 2006, a three-person family in Nova Scotia earning $90,000 was expected to contribute $42,404 over four years, while a family in Ontario earning $90,000 was expected to contribute $33,200 over four years. The actual contributions made in 2004 by families in Canada earning $90,000 were about $6,700, an amount substantially below the 2006 expectation levels. This significant gap between actual and expected contributions would seem to justify the additional reductions in parental contributions in 2007.

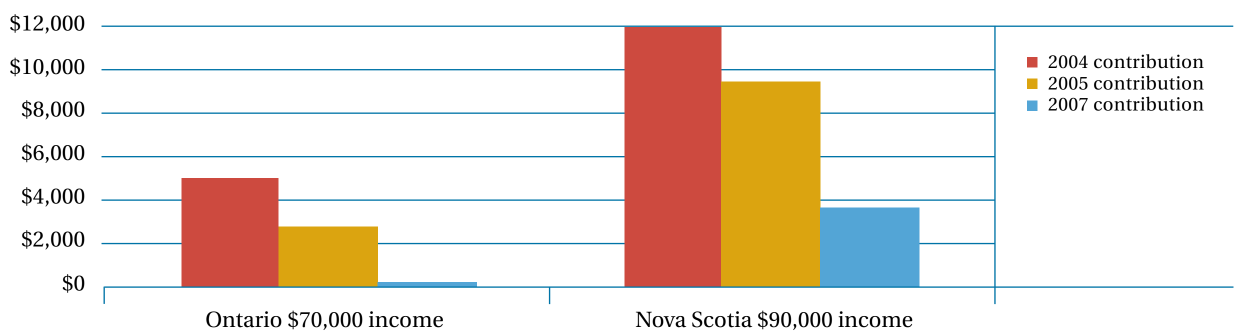
Were the Changes Significant?

Between 2004 and 2007, the percentage of a family's discretionary income expected to be used as parental contributions to post-secondary study was reduced from 75 percent to 40 percent at higher income levels, expanding access to student aid to families earning $140,000 or more in some provinces.

Figure 6 illustrates the amount of the reduction to parental contributions between 2004 and 2007. A family earning $70,000 in Ontario had their annual contribution level reduced from $4,996 to $0, and a family earning $90,000 in Nova Scotia saw the expected annual contribution decline from $11,982 to $3,646, or from $47,928 to $14,584 on a four-year basis. This represents a reduction of about 70 percent from 2004 levels.

As a result of the reductions in 2005, an estimated 20,000 new students were eligible for support, an increase of about six percent in the number of students assisted under CSLP. A further 20,000 students were estimated to benefit through increases to existing awards.[5] The changes in 2007 were estimated to add

Figure 6 — Reductions in Expected Annual Parental Contributions—2004–07



Source: Government of Canada, 2004, and Canada Student Loan Program weekly parental contribution tables for 2007–08.

5. Government of Canada, 2004.

an additional 30,000 new students to the client base, and an additional 25,000 students were estimated to obtain increases to existing awards.[6]

The changes in 2005 and 2007 were expected to add 50,000 new students or 15.1 percent to the 2005 client base of CSLP. This number represents about 15.4 percent of the 325,000 dependent students[7] in CSLP-participating provinces who were not eligible for support before 2005. The total federal cost of these changes was estimated at $30-plus million, or about one percent of an estimated $3.2 billion[8] in attendance costs of dependent students who are not or were not previously in receipt of student aid under CSLP. Provincial costs have also increased as a consequence of the parental contribution reductions.

It would seem that contribution expectations in 2007 remain slightly above the actual levels reported prior to 2005 but, in the writer's opinion, they should no longer represent an undue burden on families. Parents should be able to meet the expected levels of contributions while also saving for retirement, paying the mortgage and assisting other children in the family who may not be attending post-secondary study.

6. Government of Canada.
7. Author's estimate.
8. Author's estimate.

Implications of Reducing Parental Contributions on Provincial Aid Programs and Student Debt

Background

Under the unofficial federal/provincial partnership arrangement in student aid, CSLP is intended to cover 60 percent of need. The provinces cover the balance of need in the form of grants, loans and loan remissions. Because provinces cover the "balance of need," they exercise substantial influence over assistance and debt limits.

It has often been difficult for the federal and provincial governments to work together with respect to amendments to student aid programs in Canada. Each jurisdiction has its own priorities at different times and has a differing ability to allocate resources to student aid. As a consequence, there are significant differences among aid programs from province to province. When attempting to measure the impact of federal changes to eligibility criteria on provincial programs, it must be kept in mind that the impact will be different in each jurisdiction, as each is starting from a different base level of support in terms of aid ceilings, loan-grant combinations, maximum debt policies, etc.

Aid Ceilings

The CSLP loan limit of $165 per week was established in 1994 and remained in effect until 2005. This limit implied a total aid ceiling of $9,350 per academic year for dependent students. The increase in the CSLP loan limit to $210 per week in 2005 implied a revised recognized need level of $11,900 per year.

The federal changes to loan ceilings in 2005 did not result in major increases to aid ceilings in all jurisdictions. While three provinces maintained the $9,350 ceiling between 1994 and 2005, other CSLP-participating provinces increased aid limits beyond this level in recognition of the increased costs of attendance. By 2004–05, two provinces had already surpassed the revised 2005 need level of $11,900, and three other provinces were close to the 2005 limit (Junor and Usher, 2004). In these provinces, the 2005 revised federal criteria concerning aid limits were thus catching up to the existing level of provincial support. Accordingly, increased need resulting from decreased parental contributions would not necessarily have resulted in an increased amount of financial aid if students were already at provincial assistance maximums approaching $11,900 or higher. Conversely, provinces whose aid ceilings were still at $9,350 in 2004–05 faced larger increases in aid limits as a result of the 2005 program amendments. At present, seven of nine provinces participating in CSLP have assistance limits of $11,900[9] or higher.

The 2005 increase in CSLP loan limits to $210 per week implied a total federal and provincial increase to aid ceilings of $2,550 per year. While this amount was equal to the 2005 reductions in parental contributions, it could not be attributed directly to parental

9. Certain categories of students (e.g., students from low-income families, students with dependants) may have higher aid ceilings due to targeted programs of assistance.

contribution reductions, as aid ceilings were increased to offset increasing costs for all students, not just those experiencing problems with parental support. For those jurisdictions that increased aid ceilings at the time federal parental contributions were adjusted, the costs of implementing reduced contributions for dependent students may have appeared higher than in those jurisdictions that had previously raised aid ceilings to offset increasing tuition costs.

Debt Ceilings

The issue of the amount of debt that students will repay after graduation is separate from consideration of the amount of aid provided each year. Provincial aid programs play a substantial role in limiting debt through the use of grant or remission programs. Under these programs, limits are placed on debt either by the issuance of grants during the school term to limit the amount of loan incurred or by the payment of loan remissions, which reduce the net loans[10] of students either at the end of a school term or after graduation. It is therefore possible to recognize increased need due to reductions in parental contributions while at the same time offsetting this increased need either through increasing the value of grants issued or the value of remission paid.

Maximum debt ceilings vary considerably from province to province (see Table 2) and are an indication of provincial policy differences with respect to what level of debt is considered manageable, what level of debt subsidy is affordable provincially, or both. As a consequence, the impact of parental contribution reductions on debt levels will vary considerably from province to province.

Implications for Provincial Loan, Grant and Remission Programs

Increases of up to $2,550 in calculated need for dependent middle-class students have resulted from increases to loan limits in 2005 and parental contribution adjustments in 2005 and 2007. Provincial award increases to dependent students of up to $1,020 (i.e., 40 percent of the implied award increase) associated with reductions to parental contributions have put upward pressure on loan, grant and remission costs. Whenever CSLP eligibility increases, provinces face a number of questions about their aid program, including:

- Will aid ceilings be raised to ensure all students receive increased awards?
- Will student debt levels be maintained by increasing grants or remissions to offset award increases?
- Will provincial expenditures be minimized by providing loans to offset larger awards and letting student debt increase?

The least costly option for provinces in the short term would be to meet the costs of increased awards using loans, as only the interest cost of the loan would be immediately incurred. The primary cost of the award increase would thus be passed on to the student in the form of debt. The problem, of course, is that debt is already an issue for many students, and additional debt could cause an increase in the number of loan defaults.

How the amendment to parental contributions will affect students depends on their need level and provincial policy decisions:

- For *students with low need*, the most likely scenario is that loans will increase, as the awards will be below the established debt ceilings in each jurisdiction. Additional grant or remission expenditures will not be incurred.
- For *students with moderate need* (i.e., at or above debt ceilings but below aid ceilings), net loans after remission will not increase if the province keeps the debt ceiling unchanged. In this case, the primary cost of additional awards will be borne by grant or remission programs. The reverse will be true if the province increases debt ceilings for all students in order to control costs.
- For *students with high need* (i.e., at or above aid ceilings), net loans will not increase if the province does not raise assistance limits in concert with parental contribution reductions, or if assistance limits are raised using grants or loan remission. Net loans will increase if loans are issued to meet increased aid limits and debt ceilings are similarly increased.

10. Net loans are equal to loans issued less remissions paid.

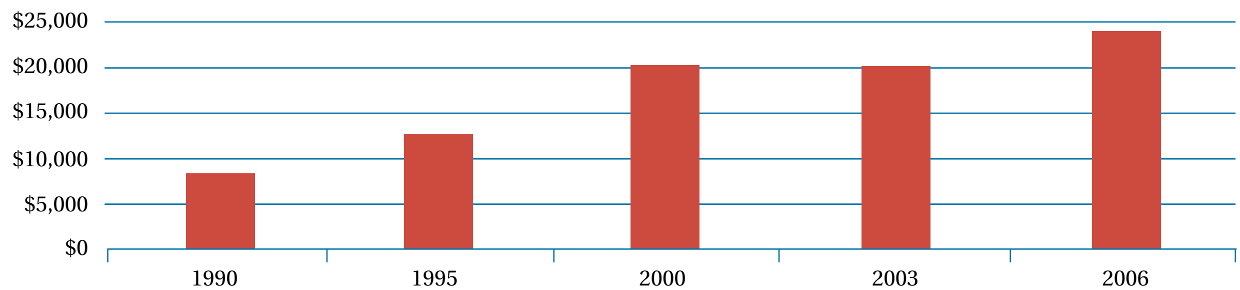
Whether the provincial share of award increases to dependent students is accomplished using grants, loans or loan remissions, provincial costs will have increased as a result of the changes to parental contributions. The aggregate provincial cost increase is likely about equal to the increase in federal spending, as the federal 60 percent share is primarily met with lower cost loans, whereas the provincial 40 percent share is met in some cases with grants or remissions which cost 100 cents on the dollar. Provinces face the challenge of finding a balance between loan, grant and remission increases that will minimize costs without impacting access or aggravating student debt concerns.

Implications for Student Debt

Debt levels are problematic for some students in Canada. There is evidence to indicate that debt aversion causes some students to choose college[11] over university, to study part-time instead of full-time or to abandon their program before graduation. There is also evidence that many students are now supplementing their government loan awards with private loans in order to meet the costs of attendance.

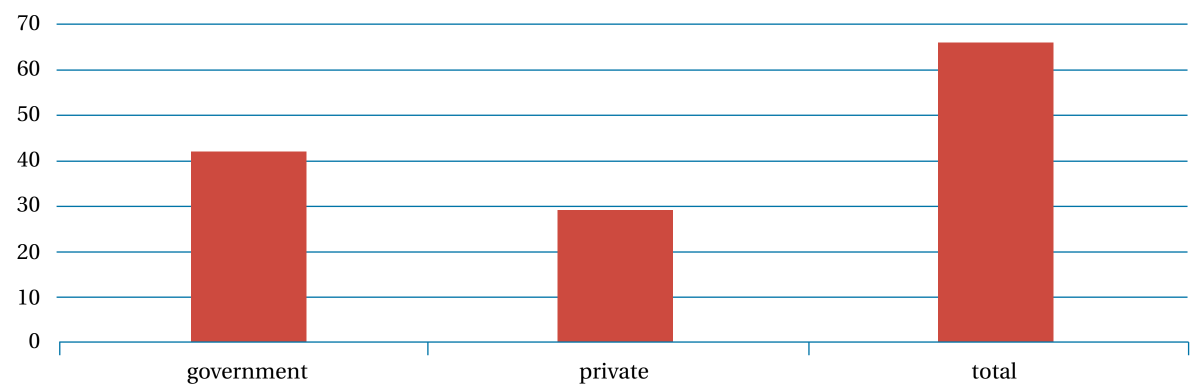
The average debt of university undergraduate students (at graduation) is increasing and currently stands at $24,000, as shown in Figure 7.

Figure 7 — Average Debt at Graduation for University Undergraduate Students Having Debt—1990–2006 (in Current Dollars)



Source: Berger, Motte and Parkin, 2007.

Figure 8 — Percentage of Students Having Debt—by Source



Source: EKOS Research Associates Inc., 2006.

11. College debt is less problematic, due to the shorter duration and lower cost of college programs.

Recent data on student debt come from *Investing in Their Future: A Survey of Student and Parental Support for Learning*, conducted by EKOS Research Associates. According to the EKOS survey, 66 percent of all students hold some form of debt from either government sources, private sources or both (see Figure 8). Those who borrow government loans are more likely to borrow private loans as well. The EKOS data show that 16 percent of all students in 2003–04 expected to borrow from $20,000 to $40,000 to finance their study.

Information on average debt levels is useful, but it is equally important to know the debt of the highest need students (such as those who must move away from home to study), as it is these students who are impacted the most by upward pressure on debt limits. For students who need to borrow the maximum loan for four years of study, their potential debt at graduation in CSLP-participating provinces is shown in Table 2.

Impact of Changes to Parental Contributions on Student Debt

It is clear that reduced parental contribution requirements have resulted in increased assessed need for those students who had an assessed contribution. How this increased need will effect award levels and debt levels for the students affected is less straightforward.

As a result of adjustments to parental contributions, 95,000 students will see an increase in their assessed need, according to Department of Finance budget estimates. Debt may be impacted in a number of ways, depending on the level of need:

- Some 50,000 dependent students not previously eligible for support will receive loans. In 2005, 20,000 students not previously eligible for support would have received loans and debt of up to $2,550 per year and could see this amount further increase in 2007 if still in school. An additional 30,000 students will receive aid for the first time in 2007, with maximum annual amounts likely in the $2,500 to $4,000[12] range. Debt is not a substantial problem at this level.
- Some 45,000 dependent students eligible for support prior to parental contribution adjustments will have debt impacted in various ways:
  - Those at need levels below established provincial debt ceilings will have increased loans and increased debt, with maximum annual debt increases of $2,550 in 2005 and a further amount in 2007, depending on the need level.
  - Those at need levels equal to or greater than established provincial debt ceilings but below aid ceilings will receive increased aid but no increase in debt. The additional awards will be absorbed by grant or remission programs.
  - Those previously at need levels equal to or greater than established provincial aid ceilings will receive no increase in either aid received or debt incurred if aid and debt limits are not adjusted.

In and of themselves, parental contribution reductions increase program costs and put upward pressure on debt. That is, the number of students with debt will increase and the debt of the highest need students will likely increase in a number of cases.

One way provinces are controlling increased program costs is by increasing maximum debt ceilings, which increases the debt of all students (not just dependent students) with need levels at or above the previous debt limit increases. Such increases are attributable not just to the cost associated with decreases in parental contributions but also to the cost of increases to other program benefits. To this point, increases in debt levels have been modest in some provinces and more pronounced in others. Current and former maximum debt levels for students in CSLP-participating provinces are shown in Table 2.

It is not possible to predict the final impact on debt of the 2005 and 2007 parental contribution changes with accuracy, as it is not known at this point if provinces will make further changes to debt policies to offset the costs of program amendments. Such changes could be made at any time. The impact on debt will vary from province to province and will depend on each jurisdiction's ability to direct additional funding to its student aid program.

12. Author's estimate.

Table 2 — Maximum Debt Levels[13] for Single Students after Four Years of Study[14]

Province	Debt level: 2004–05 aid program	Debt level: 2007–08 aid program
BC	$27,395	$33,054 [15]
AB	$20,000	$28,560
SK	$27,200	$28,560
MB	$22,440	$24,000
ON	$28,000	$28,000
NS	$36,720	$35,518 [16]
NB	$25,400	$35,600
PEI	$25,350	$32,170
NL	$22,016 [17]	$26,880 [18]

Source: Provincial program information, provincial web sites, and Berger, Motte and Parkin, 2007.

There will be more students in total with government debt as a result of the parental contribution reductions, but the average debt load of students with debt may in fact decline, specifically as a result of the parental contribution factor. This is because the number of new loan recipients with small debts is projected to be greater than the number of existing student loan recipients who will receive increased awards, increased debt, or both.

While the average debt of students may decline, the potential for increases to the debt of the highest need students remains a serious concern. Reductions in parental contributions in 2005 had the capacity to add up to $10,200 in debt for a dependent student in a four-year program, if a province passes the full loan increase and resulting debt on to the student. Adjustments in 2007 could increase this amount further. It remains to be seen whether this will occur.

Summary of Impacts of Changes to Parental Contribution Policy on Provincial Aid Programs and Student Debt

In simplified terms, the impacts are as follows:

Will net provincial loans to dependent students increase...

- ...for those with need below debt ceilings?
  - Yes—by 40 per cent of the award increase
- ...for those with need above debt ceilings but below aid ceilings?
  - No—if debt ceilings remain unchanged
  - Yes—if debt ceilings are increased
- ...for those with need above aid ceilings?
  - No—if aid ceilings are unchanged
  - No—if aid ceilings are raised via grants or remissions
  - Yes—if aid ceilings are raised via net loans.

Will provincial grants or loan remissions to dependent students increase...

- ...for those with need below debt ceilings?
  - No
- ...for those with need above debt ceilings but below aid ceilings?
  - Yes—if debt ceilings remain unchanged
  - No—if debt ceilings are increased

13. The figures in this table are for those who must borrow maximum federal and provincial loans each year. First-year students from low-income families may have the loan amount reduced by up to $3,000 under the Canada Access Grant program.
14. One year of study is 34 weeks in duration.
15. 2006–07 level.
16. This total assumes full employment and repayment bonuses.
17. 2003–04 level for a 32-week program.
18. 2006–07 level for a 32-week program.

- ...for those with need above aid ceilings?
  - No—if aid ceilings and debt ceilings are unchanged
  - No—if aid ceilings are raised but covered by net loans
  - Yes—if aid ceilings are raised and covered by grants or remission.

Will dependent students' debt increase...

- ...for those with need below debt ceilings?
  - Yes
- ...for those with need above debt ceilings?
  - No—if debt ceilings are maintained
  - Yes—if debt ceilings are increased.

Assessment of Parental Contribution Adjustments

Generally speaking, using loans to replace unaffordable parental contributions under the CSLP is an acceptable response to the issue, since the majority of students affected would not previously have been in receipt of large loans or large debt. Grants were another option available, but using grants to solve a problem affecting middle-class students and their parents could have reduced the resources available for grants to low-income students or other areas of need.

The downside of loans is the risk of increased student debt loads. As mentioned previously, dependent students with moderate to high need will experience an increase in debt in those provinces that choose to increase debt limits to compensate for cost increases arising not just from increased awards to dependent students but increased aid limits for all students as well. In that case, the existing problem of excessive graduate debt could be made worse. In provinces that choose to increase grants or remission to maintain maximum debt ceilings, however, increasing loans will have no adverse effect.

Investment in Other Student Aid Areas

Prior to the changes to student aid in 2005, there were three prime areas of concern relating to student aid and access to post-secondary education:

- unmet need (including the hidden unmet need caused by unrealistic parental contributions)
- equity issues concerning the continuing gap between the participation rate of students from low-income families and those of high-income families
- excessive debt.

While significant resources were directed to the parental contribution issue, they were also directed to the other areas of concern, as discussed below.

Unmet Need

In 2004-05, the assistance limits in provinces did not cover the costs of high-need students. Table 3 illustrates this point.

At least 25 percent of all loan recipients had need levels which exceeded existing aid limits, causing access problems for many, especially low-income students and students who had to move to pursue post-secondary study. To address this issue, federal loan limits and some provincial assistance limits were increased in 2005.

Equity

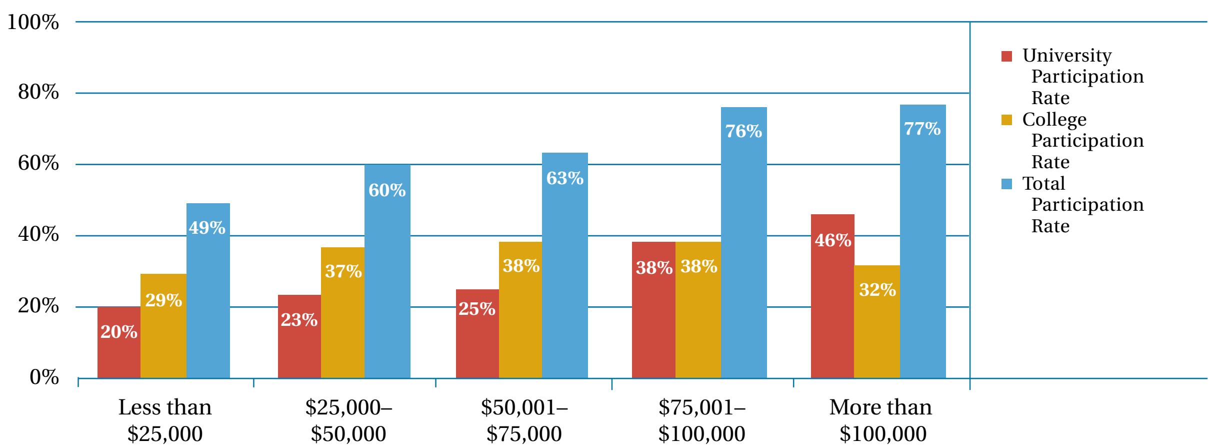
Young people from high-income families have a rate of university attendance about twice that of students from low-income families. When college participation is added to the equation, the differences are less pronounced but still substantial, as shown in Figure 9.

Table 3 — Estimated Average University Undergraduate Costs for Single Students Away from Home Not Covered by Assistance Limits of CSLP-Participating Provinces—2004–05

Province	Tuition & Fees	Books & Supplies	Travel	Living Costs	Total Costs	Assistance Limits	Costs Not Covered
BC	$5,483	$1,000	$600	$7,896	$14,979	$9,350	**$5,629**
AB	$5,316	$1,000	$600	$6,768	$13,684	$11,600	**$2,084**
SK	$5,526	$1,000	$600	$6,304	$13,430	$9,350	**$4,080**
MB	$3,806	$1,000	$600	$6,680	$12,086	$10,710	**$1,376**
ON	$5,646	$1,000	$600	$7,616	$14,862	$9,350	**$5,512**
NS	$6,472	$1,000	$600	$6,576	$14,648	$10,710	**$3,938**
NB	$5,029	$1,000	$600	$6,320	$12,949	$12,410	**$539**
PEI	$4,893	$1,000	$600	$6,192	$12,685	$11,220	**$1,465**
NL	$3,056	$1,000	$600	$6,200	$10,856	$9,350	**$1,506**

Source: Statistics Canada, *The Daily*, Sept 2, 2004, and CSLP allowances and provincial program information.

Figure 9 — Proportion of Canadians Aged 18 to 24 Accessing Post-Secondary Education by Family Income (*SLID* 2001)



Source: Berger, Motte and Parkin, 2007.

Resources were dedicated to the equity issue in 2005. A grant to first-year students from low-income families of up to $3,000 was introduced at the federal level. In addition, the Canada Millennium Scholarship Foundation added approximately $50 million per year to the pool of available student aid funds for low-income students, with provinces also contributing resources to this client group (e.g., Ontario Access Grants).

Debt

Repaying student loan debt is problematic for some graduates. According to the Canada Student Loan Annual Report for 2003–04, the anticipated blended default rate[19] for direct, risk-shared and guaranteed federal loans was 25.5 percent. To ease the repayment burden, enhancements to federal debt relief measures were introduced in 2005. Eligibility for interest relief was increased, as were benefits under the Debt Reduction in Repayment Program.

Summary of New Investment in Student Aid

Federal funds were allocated annually to the areas of concern as follows:

To unmet need over aid limits	$74 million[20]
To hidden unmet need —parental contributions	$30-plus million
To equity concerns	
Federal grants to low-income students	$30 million
Foundation grants to low-income students	$50 million
To debt concerns	$8 million
Total	$192 million

On balance, the $30-plus million allocated to address the parental contribution problem (i.e., 16 percent of additional need-based funding provided) does not seem excessive, given the magnitude of the issue in relation to problems in other areas.

19. The rate is for payments in arrears for three months or more.

20. This is a five-year average estimate.

Need for More Investment in Need-Based Support

While the recent investment in need-based student aid programs was welcome, more needs to be done. The problems of lower income students in the areas of equity, unmet need and debt remain and would be eased if additional funding were forthcoming.

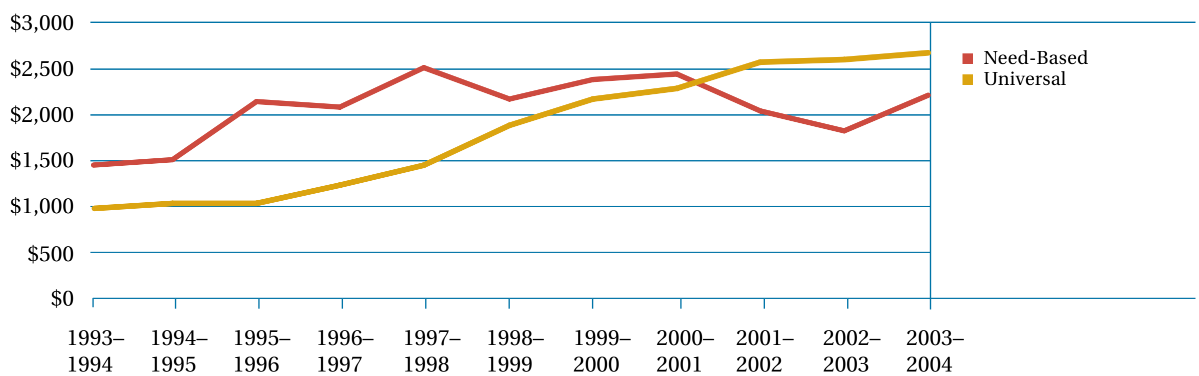
Is there enough money in the post-secondary funding system to make this additional investment? There could be, if we decided to alter our spending priorities and shift spending from universal to need-based aid. According to Junor and Usher (2006), the student aid system is "sleepwalking towards universality." That is, the growth in universal (or non-need-based) expenditures in the student aid area has outpaced the growth in need-based expenditures in the last several years, such that expenditures on universal programs now exceed those on need-based programs (see Figure 10).[21]

Whether this has occurred by accident or by design is a matter for some debate. Increases to tax expenditures (i.e., education and tuition credits) and savings plans may have occurred for political reasons or may have been an attempt to ease the pressure on need-based aid programs by encouraging saving for post-secondary education and thereby reducing the family financial burden of making tuition payments. Whichever the case may be, the trend is a matter for concern.

Recent resource allocation decisions could have had a more direct influence on access to post-secondary education for many low-income students. For example, the 2006 budget initiative outlined a 100 percent exemption on scholarship and bursary income and a $500 tax credit to help students with textbook costs. The tax cost of these measures was estimated at $185 million. With $185 million, the serious debt problem faced by high-need low-income students could have been substantially reduced, if not eliminated.

An investment strategy is needed in the policy area of access to post-secondary education. It may not be reasonable to direct the majority of funding intended to promote access to post-secondary study

Figure 10 — Need-Based vs. Non-Need-Based (Universal) Expenditures—1990–2004 (in millions of 2005 Dollars)



Source: Berger, Motte and Parkin, 2007.

21. Continued expenditure growth on tax credits and Canada Education Savings Grants has likely widened the expenditure gap between need-based and universal support since 2004.

to those programs that primarily benefit middle- and upper-middle-income families. It is likely that students from these families will attend regardless of available tax measures. A further expansion of tax measures in support of access to advanced education should not occur without a clear examination of alternative need-based options for action. Redirecting a portion of post-secondary tax measures funding to need-based access programs is an option that should be considered.

In the opinion of this writer, if post-secondary access is to be maximized the first priorities for resource allocation or reallocation should be:

- moving assistance limits in need-based programs to a level that recognizes the complete cost of post-secondary study
- limiting net debt of the highest need students to a manageable level, perhaps $6,000 to $7,000 per year of study.

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