Paying for Post-Secondary Education

The Argument:

This review of costs and resources will show that costs have been rising and that, in many cases, they have been rising faster than inflation. As important as this general rise in costs, however, is the fact that certain costs often undergo sudden, significant increases, making financial planning more difficult for students and their families. Such unpredictable cost increases are not limited to changes in tuition.

In addition, for some types of student—particularly those from lower-income backgrounds or those who rely on need-based student financial aid—the availability of resources has not increased to the same extent as costs. One important resource, income from student employment, has increased; however, this is not a result of rising wages but rather of the fact that students are working more hours. While this helps students make ends meet, it may adversely affect their academic success.

Taken together, the evidence suggests that the financial pressures on those students most likely to be concerned about their ability to pay for post-secondary education have continued to increase in recent years. Put simply, while recent cost increases are not as significant as those witnessed in the 1990s, there are good reasons to suggest that post-secondary education is still becoming less affordable. What is most worrying is that the developments reported on in this chapter took place prior to the economic downturn at the end of 2008. It would thus seem reasonable to expect that the financial challenges faced by many students will appear even more serious once the data for 2008 and 2009 become available.

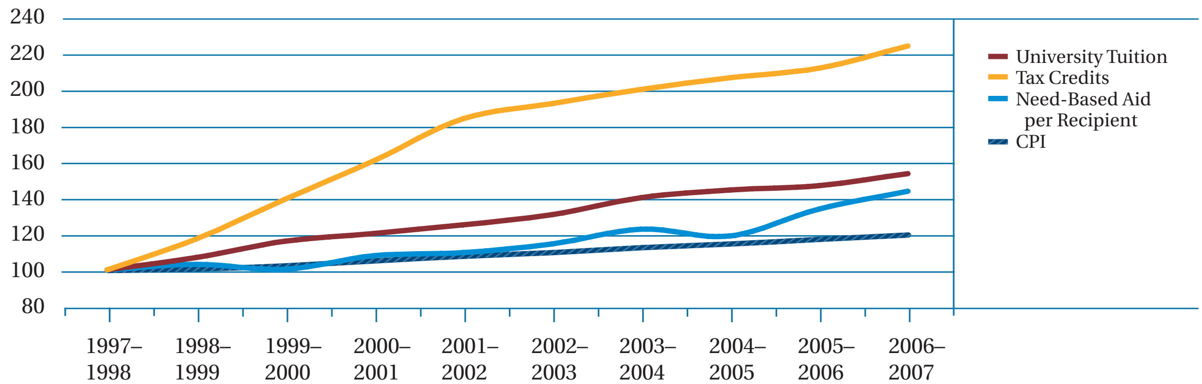
Key Facts:

- In 2008–09, university students in Canada paid an average of $4,724 in tuition for an undergraduate program. In 2006–07, the most recent year for which college data are available, the average college tuition in Canada was $1,481, compared to $4,400 for university. Excluding Quebec, where 40 percent of Canada's college students study but where there is no college tuition due to the CEGEP system, the average tuition totalled $2,354.
- Students also rely on work during the summer to cover their education costs. Since 2000, Labour Force Survey data show that between 67 and 70 percent of full-time students aged 20 to 24 have worked during the summer months.
- During the 1990s, undergraduate tuition increased significantly. As a share of a family's after-tax income, it doubled. For those in the lowest income quintile, average university tuition grew from about eight percent of average after-tax income to about 18 percent between 1980 and 2007; for those in the highest income group, the figure grew from just under two percent to just over three percent.

What's New:

This chapter presents new data on textbook costs and presents data on tuition, rent and transportation costs. It also compiles data on student resources, including employment, and contextualizes post-secondary education spending within the portrait of Canadian family finances.

Figure 1 — Change in University Tuition, Education Tax Credits, Need-Based Student Financial Aid per Recipient and Consumer Price Index in Canada, 1997–98 to 2006–07 (1997–98 = 100)



Note: "Need-based student financial aid" includes only loans, grants and loan remission.

Source: Statistics Canada, Tuition and Living Accommodation Costs Survey; Statistics Canada, PSIS; Statistics Canada, Consumer Price Index; Berger and Parkin, 2008.

Myth: Private Borrowing Costs Less

Financial institutions specifically target students by offering a full-range of student-tailored products: "student" banking accounts, "student" credit cards and "student" lines of credit. A quick scan of major financial institutions' websites highlights the relatively aggressive marketing strategies they put forth. Promotional statements such as "lower borrowing costs than a student loan—pay interest only on the amount you actually use" to describe the advantages of a student line of credit are misleading: students do not pay any interest on government student loans as long as they are in school, nor does any interest accumulate. This is not the case for a line of credit: interest is owed immediately on the amount that has been borrowed. Moreover, at the end of their studies, students with government loans will only pay interest on the portion of the loan they owe, i.e., the amount they "actually" use, which is no different from the advertised advantage of a private line of credit. A few institutions offer a slightly more nuanced pitch by pointing out that lines of credits are a good instrument for students who are not eligible for government financial aid.

Students often emphasize the relative ease with which they can obtain credit cards, lines of credit or bank loans. During focus groups conducted for the MESA project,[1] some recipients of non-repayable millennium access bursaries suggested that the government was making money on their student loans and that they preferred borrowing from their bank (despite the fact that financial institutions will of course only issue loans under terms that are profitable to them). While it may not be a widespread view, such statements suggest that student financial aid has an image problem. Moreover, it suggests that improving the financial literacy of youth is essential.

That work should start at an early stage: before students begin post-secondary education. As noted in *Closing the Access Gap: Does Information Matter?*, high school seniors surveyed in 2005 were more likely to cite credit cards as a way of paying for their post-secondary education than scholarships, loans and bursaries (Canada Millennium Scholarship Foundation, 2006b).

1. The Measuring the Effectiveness of Student Aid (MESA) project is a four-year research effort being conducted by the Educational Policy Institute and the School of Policy Studies at Queen's University on behalf of the Canada Millennium Scholarship Foundation.