2018 Federal Budget Submission

Thompson Rivers University Students' Union

House Standing Committee on Finance

Executive Summary

What federal measures can help Canadians be more productive?

In the 2018 Federal Budget we request that the public investment in the federal Registered Education Savings Plan (RESP) and Tuition Tax Credit programs be phased out and that these dollars be re-invested into expanding the existing need-based grants programs for post-secondary students.

Executive Summary

On behalf of the members of the Thompson Rivers University Students Union, this submission presents measures to increase Canadians productivity through federal student financial aid policy. Our members strongly believe that increased access to post-secondary education is an unparalleled means to achieve a prosperous and productive future for our country.

To ensure that public dollars are utilized effectively, investment in federal student financial aid must be measured against its effect on participation, completion, and transition rates.

The Registered Education Savings Plan (RESP) program primarily benefits wealthier families who would save for their children's education without a matching grant from the federal government. This means that the program is a poor incentive for improving outcomes because it isn't targeted at students who are facing financial barriers to post-secondary.

The Tuition Tax Credit is problematic because it is often transferred to a family member or used in a future year. As stated in the 2016 federal budget in relation to post-secondary related tax credits, "These credits are not targeted based on income and often provide little direct support to students at the time they need it most."[1]

The federal need-based grants program is targeted to income, ensuring that each dollar invested in the program is utilized effectively and helps students facing financial barriers. Need-based grants are effective because they are fiscally transparent and provided at the time when expenses are due, encouraging students to engage in effective financial planning.

Based on these outcomes our recommendation to phase out the current investment in RESP matching grants and Tuition tax credits and reinvest this amount into expanding the value of the federal low and middle income need-based grants program.

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Productivity

Productivity

Post-secondary education (PSE) is vital to the productivity of Canadians as individuals as well as Canadian society as a whole. Individuals with a post-secondary education can expect to earn $635,000 more over 20 working years compared to those with a high school education.[2] They are also much more likely to find and keep meaningful employment, with unemployment rates for PSE graduates being significantly lower than for those without a degree.[3] This translates into PSE graduates paying more in taxes and having less reliance on social services, resulting in an increase of 6% in output for every additional year of PSE that is completed.[4]

Therefore a key aspect of increasing productivity in Canada must include a post-secondary strategy that is outcome based. The most direct tool that the federal government has to change PSE outcomes is student financial aid.

Outcomes

We propose that to achieve the full social, economic, and fiscal benefits of post-secondary education, federal policies and resources must be directed to achieve and be measured against the following outcomes:

Participation

- Participation rates should meet or exceed projected labour market demands
- Participation rates should be approximately equal across incomes

Completion

- Average time to completion should be brought as close to that for full-time, continuous study in a given program as possible
- Persistence and completion rates should be above 90%
- Finances as a primary reason for discontinuing studies should be eliminated

Transition From Studies

- The rate of transition to employment should be 100%
- Graduates' employment, career, and entrepreneurial decisions should not be influenced by debt obligations

This submission will examine the effectiveness and efficiency of the federal RESP program and the Tuition Tax Credit in meeting these outcomes, in contrast to need-based grants.

RESPs

RESP's *Help where it's needed least*

The federal RESP program's main component is the Canada Education Savings Grant (CESG). This program will match 20% of annual contributions that individuals make each year up to a lifetime maximum of $7200 in federal RESP grants.[5] The RESP program also has two components that target lower income families, the Additional Canada Education Savings Grant (A-CESG) and the Canada Learning Bond (CLB).[6,7]

RESP saving programs are problematic for increasing participation rates because those who can afford to save for a child's post-secondary education generally already have the means and intent to pay the upfront costs. Conversely, lower income families often need greater financial support but are much less likely to be able to afford an RESP account. A 2015 report on federal RESP savings programs indicates that 50% of all federal RESP grants go to households earning over $90,000 per year, representing over $400 million in expenditures.[8] This is a poor public investment to encourage participation, and therefore has marginal positive impact on productivity.

RESP programs also have limited benefit for increasing completion rates as students who need the most financial support to complete their education are less likely to have an RESP savings account. Further, even among lower income households that have an RESP account, on average they have over $26,000 less saved compared to the highest income bracket.[9,10] This means that lower income students will likely use up their RESP savings part way through their degree, reducing their chances of completion.

Ensuring that students effectively transition into the workforce after their studies is primarily about ensuring that debt levels are manageable. RESP's miss the mark on maximizing transition rates because they are primarily used by students from higher income households who tend to have less debt.

Tax Credits *Overly complex and often unused*

Education tax credits are unlikely to be a factor in increasing participation rates in the post-secondary system because they are generally transferred to a future year or to a relative, resulting in no immediate financial relief or security for students.[11]

Tax credits are one of the least efficient types of student financial aid for increasing completion rates. Financial benefits from tax credits are greatest in a year when a student has earned a larger amount of money. Conversely, when a student has the lowest income, and therefore needs the greatest assistance, tax credits provide the least benefit. This sets up a financial aid system in which students already in a strong financial position are further rewarded, while those struggling are left behind.

Looking to transition, tax credits help reduce debt after a student has completed or dropped out. But the number of graduates helped by tax credits is a function of the number of students participating in and completing their education. As tax credits are ineffective at improving participation or completion rates,

Need-Based Grants

their effectiveness in helping student's transition in the workforce is also limited.

The 2016 federal budget recognized these flaws with post-secondary tax credits and as a result is phasing out the Education and Textbook tax credits in 2017 in favour of increasing the value of the federal need-based grants program. As stated in the 2016 federal budget, "These credits are not targeted based on income and often provide little direct support to students at the time they need it most."[12] While the phasing out of Education and Textbook tax credits was a step in the right direction, it failed to address the largest post-secondary related tax credit - Tuition. The 2017 Federal Tax Expenditures Report indicated an increase of $330 million dollars of projected expenditure to the existing system of tuition tax credits from 2016 to 2018, bringing the total cost to $1.545 billion dollars.[13] This is a significant public investment that could help Canadians be more productive if re-invested in need-based grants.

Need-Based Grants *Targeted, timely, and effective*

The value of the federal need-based grants program for low and middle income students increased by 50% in 2016, providing a grant of $3000 for low-income and $1200 for middle-income students.[14]

A need-based grants program is effective at increasing participation rates because it is transparent and provides students with financial assistance up-front, before costs are incurred. A student can be sure of the amount they are eligible for and the criteria for receiving a grant before starting their education. This helps low income and debt-averse students be sure of their financial resources, increasing participation rates.

Need-based grants are also effective at maximizing completion rates. A student can be sure of the grant that they will receive each year before incurring the costs for that year of study. This helps reassure debt averse students throughout their education. The size of the grant is also proportional to financial need, ensuring that each dollar of financial aid given is maximizing completion.

Need-based grants have an advantage for transition rates over other forms of financial aid because need-based grants help significantly more students participate in and complete their education. This means that more students from all socioeconomic backgrounds would transition into the labour market with a stronger need-based grants system.

Conclusion

Based on this analysis we recommend that the complete value of Federal investment in RESP's and education tax credits can be transferred into the Federal need-based grants program. This increase in the value of the grants program represents no additional costs, but would improve participation, completion, and transition rates. Each dollar invested in need-based grants over other forms of student financial aid is a more effective tool at getting new students into the post-secondary education system, helping them complete their education, and ensuring that they successfully transition into the labour market.

Endnotes

Endnotes

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