Written Submission for the Pre-Budget Consultations in Advance of the 2020 Budget

By: Thompson Rivers University Students' Union

- **Recommendation:** That the federal government expands the Canada Student Grant program by reinvesting the Tuition Tax Credit and Registered Education Savings Plan expenditures.

Executive Summary

On behalf of the 10,000 members of the Thompson Rivers University Students Union, this submission presents our recommendations to help Canada transition to a low carbon economy through increased access to post-secondary education. Our members strongly believe that education is an unparalleled means to achieve a sustainable and productive economic future for our country and its citizens as we move to adapt to a low carbon economy.

In the 2020 Federal Budget we request that the value of, and eligibility for, the Canada Student Grant program be expanded. We propose that this change could be accomplished at no additional cost by reinvesting current expenditures in the Registered Education Savings Plan (RESP) and the Tuition Tax Credit program.

The RESP program primarily benefits wealthier families who already save for their children's education without a matching grant from the federal government.[1] This means that the program is a poor measure for improving outcomes because it isn't targeted at students who are facing financial barriers to PSE.

The Tuition Tax Credit is problematic because it is often transferred to a family member or used in a future year.[2] As stated in the 2016 federal budget regarding 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."[3]

The Canada Student Grant 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 the criteria for receiving a grant is transparent and they are provided at the time when expenses are due, encouraging students to engage in effective financial planning.

As a result, our recommendation is to phase out the current investment in RESP matching grants and Tuition Tax Credits and to reinvest this amount into expanding the value of the federal Canada Student Grant program.

Climate Emergency: The Required Transition to a Low Carbon Economy

The Thompson Rivers University Students' Union and our members are excited to see the Finance Committee seeking recommendations to address the climate emergency. Successfully preparing and adapting our country to meaningfully address climate change will require a significant transformation of our society and economy. This includes providing opportunities for retraining to adapt to new jobs and skillsets, the development and adoption of new technologies at an increasing rate, and more broadly helping to build new culture and ways of thinking about this issue. Post-secondary education plays a key role in facilitating this transition in all of these areas. In order to provide Canadians with the opportunity to participate in this transition, post-secondary education will need to be increasingly accessible to all people, regardless of their financial backgrounds.

The most direct tool that the federal government has to increase access to post-secondary education is through student financial aid policy. In order to measure the effectiveness of student financial aid we propose it should be measured using the following outcomes.

Outcomes
We propose that to achieve the full social, economic, and fiscal benefits of PSE, 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 of 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 *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.[4] 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). [5, 6]

RESP saving programs are problematic for increasing participation rates because those who can afford to save for a child's PSE 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 saving programs indicates that 50% of all federal RESP grants go to households earning over $90,000 per year, representing over $400 million in expenditures.[7] This is a poor public investment to encourage participation, and therefore has marginal positive impact on economic growth.

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.[8, 9] 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. RESPs 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*

As of January 1, 2017 the Education and Textbook Tax Credits can no longer be claimed, but the Tuition Tax Credit is still available in an amount equivalent to tuition dollars paid during each tax year. Unused credits may be rolled over to a future year or transferred to a relative.[10]

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, 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 phased out the Education and Textbook tax credits in 2017 in favour of increasing the value of the Canada Student Grant 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 - the Tuition Tax Credit. The 2019 Federal Tax Expenditures Report indicated an increase of $495 million dollars of projected expenditure to the existing system of tuition tax credits from 2016 to 2020, bringing the total cost to $1.810 billion dollars.[13]

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

The value of the Canada Student Grant program for post-secondary students increased by 50% in 2016, providing a grant of up to $3000 per eight-month school year.[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. [15]

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 maximizes completion rates. [16]

Need-based grants have an advantage for transition rates over other forms of financial aid because they 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 RESPs and education tax credits be transferred into the Canada Student Grant program. This increase in the value of the grants program represents no additional costs, but would improve participation, completion, and transition rates. Investing in need-based grants over other forms of student financial aid is a more effective means for getting new students into the post-secondary education system, helping them complete their education, and ensuring that they successfully transition into the labour market. This will be an integral part of transitioning Canada into a low carbon economy as we move further into the 21st century.

[1] Employment and Social Development Canada. [2015] Strategic Policy and Research Branch. *Canada Education Savings Program (CESP): Summative Evaluation Report*.
[2] Parliamentary Budget Office. [2016] *Federal Spending on Post-Secondary Education*. By Elizabeth Cahill and Nigel Wodrich.
[3] Department of Finance. [2016]. *Growing the middle class*.
[4] Employment and Social Development Canada. *Canada Education Savings Grant (CESG).*
[5] Ibid.
[6] Employment and Social Development Canada. *Canada Learning Bond.*
[7] Employment and Social Development Canada. *Canada Education Savings Program (CESP)*
[8] Ibid.
[9] Parliamentary Budget Office. *Federal Spending on Postsecondary Education*. Cahill and Wodrich.
[10] Canada Revenue Agency. *Line 323 – Your tuition, education, and textbook amounts.*
[11] Parliamentary Budget Office. *Federal Spending on Postsecondary Education*. Cahill and Wodrich.
[12] Department of Finance. *Growing the Middle Class*.
[13] Employment and Social Development Canada. *Canada Education Saving Program (CESP).*
[14] Department of Finance. *Growing the Middle Class*.
[15] Benjamin L. Castleman and Bridget Terry Long. [2016] *Looking beyond Enrollment: The Causal Effect of Need-Based Grants on College Access, Persistence, and Graduation*. Journal of Labor Economics 34, no. 4
[16] Ibid.