Investing in the Future

Submission to the

Commission on
Post-Secondary Education
in New Brunswick

Canadian Scholarship Trust Foundation

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Table of Contents

Introduction ____ 3
Education Savings Plans in Canada ____ 4
Education Savings Plans in New Brunswick ____ 5
The Value of RESPs ____ 6
RESPs and their Usage ____ 7
Government Responses ____ 8
Our Proposal ____ 9
Conclusion ____ 10
About Canadian Scholarship Trust Foundation ____ 11
Contact Information ____ 11
References ____ 12

Introduction

There is a clear need for an investment in education; the question is not if investment is needed – but who should be making that investment, how can we ensure that any investment delivers meaningful results, and how much should that investment be. We believe that the answer is a balanced approach, incorporating investment by government, by the private sector and by families themselves.

New Brunswick, along with much of Canada, faces the challenge of a declining population and the potential decline in enrolment at its post-secondary institutions. As noted in *The Price of Knowledge 2006-07* "…significant gains can only be made by improving participation among those from less advantaged backgrounds, who currently are much less likely to pursue studies past high school."[i] Simply put, if we want to increase post-secondary participation (thereby improving our long term prospects for prosperity) we must increase participation in the higher education system by those who are not there today.

The question of government investment is an important one. Government must continue to invest in a strong, well-funded public post-secondary education system. Government must continue to ensure that financial resources are available to today's post-secondary students to ensure equitable access to higher education for all, regardless of socio-economic factors.

However the traditional role of government needs to be expanded. Government must consider how they can encourage families to engage in the planning process for higher education from an early age. Government must consider how they can inspire young children from low income, single parent homes – homes where no family member has ever gone beyond high school - to break the cycle of poverty and to pursue their post-secondary education. Government must ensure that the funds it invests in education produce a meaningful return in making a high quality education accessible for all.

Canadian Scholarship Trust Foundation is recommending that the Government of New Brunswick create a financial incentive to encourage New Brunswick families to save for higher education. This is a long-term, visionary strategy designed to change the dialogue around the kitchen table, to engage families in the planning process for higher education from an early age, and to increase the ability of families to fund their children's higher education from their own resources. This in turn will decrease reliance on other forms of financial aid, resulting in a decrease in student debt loads.

While we propose one potential approach to creating this incentive - and cost it out based on an income-tested program design - there are many different strategies to encourage families to engage in planning for post-secondary education from the time their children are young. We firmly believe that our proposal should form a part of the government's long-term strategy to ensure that funding is there to keep high quality post-secondary education available – and accessible - for the next generation of New Brunswick students.

Education Savings Plans in Canada

The Canadian Scholarship Trust Foundation introduced the first education savings plans in Canada in 1961. The purpose of our plans is to encourage Canadians to save specifically for the higher education of their children. This, in turn, decreases the child's reliance on financial aid programs and other financing tools for higher education, and improves the probability of the child pursuing higher education.

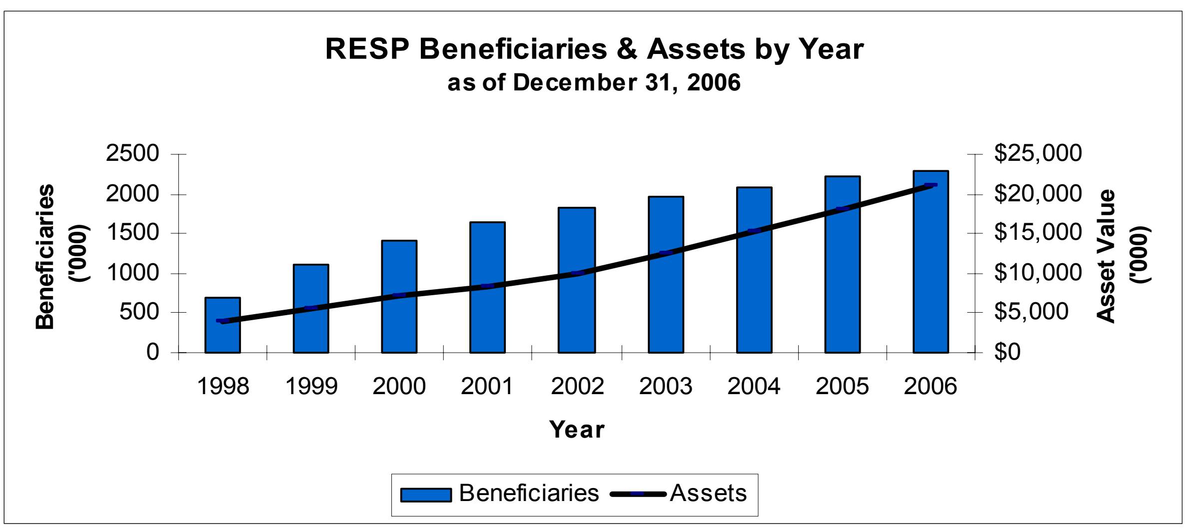
We believe there are three important financial pillars supporting post-secondary education:

1. Direct funding of post-secondary institutions.
2. Direct funding to students in the form of student financial aid.
3. Funding that comes from the student's own resources, either personal savings or family contributions.

The education savings plan is a component of the third pillar. In 1974, the government of Canada took a first important step in acknowledging the role of government in strengthening this third pillar when it created the ability for education savings plans to be registered – creating the Registered Education Savings Plan or RESP. This enabled the savings to compound within a tax shelter, with the compounded growth ultimately taxable to the student. From 1974 until 1997, the statutory requirements for RESPs were largely unchanged as governments largely ignored the importance of family savings in supporting post-secondary education.

There was modest growth of savings due to the tax preferred treatment of the plans. By the end of 1997, Canadian's savings in RESPs totaled roughly $2.5 billion.

In February, 1998, then finance minister Paul Martin made a significant announcement: the government of Canada was going to partner with parents in encouraging savings for higher education. They introduced the Canada Education Savings Grant (CESG), an incentive where the federal government provides a 20% match on contributions into an RESP for en eligible student. The RESP industry exploded: assets grew from $2.5 billion to over $21 billion in 2006 – an increase of over 700%. More importantly, the number of children with savings plans grew from roughly 700,000 in 1997 to over 2.9 million today – an increase of over 300%.[ii]



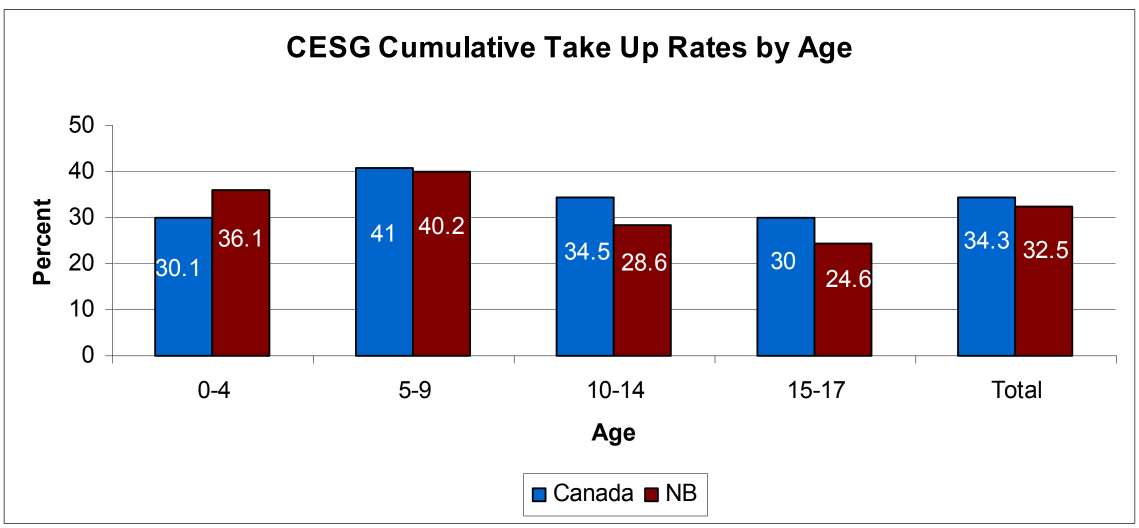
These changes were recognition of the important role that families play in supporting higher education, and were a direct effort to increase the availability of funds within the family for this purpose. 58% of full-time post-secondary students in 2002 were using non-repayable funding from family members to help cover their costs of education.[iii]

The Canada Education Savings Grant increased the number of children with RESPs by over 300%.

The success of the CESG program provides clear and compelling evidence that, with the right incentives, families will save for the higher education of their children.

Education Savings Plans in New Brunswick

In New Brunswick to date, 58,644 children have received $50.4 million of CESG[iv]. Today in the province there are approximately 146,600 children between the ages of 0 and 17 who are eligible to have an RESP and to receive the CESG[v]. Of these young people, over 46,000 have an education savings plan - a participation rate of 32.5% of eligible children. In other words, over 67% of children under the age of 18 in New Brunswick – over 100,000 children - have not taken advantage of this Federal program. Participation in the province is slightly below the national average of 34.3%.



The simple reality is that too many families in New Brunswick are not saving for higher education. Research indicates that over 48% of New Brunswick families are not saving at all for higher education today. At this level, New Brunswick has the fourth lowest percentage of savers in the country, ahead of Prince Edward Island, Quebec, and British Columbia. Of even greater concern, on a national basis only 26% of families with incomes under $25,000 are saving versus 68% of families with incomes over $85,000.[vi]

The clear danger that this scenario presents in an environment of escalating costs of higher education is that the current 2:1 ratio of children from higher income families in post-secondary education versus those from lower income families will continue into the future. If we wish to increase participation, we need to shift this trend and focus on getting more children from lower income families into higher education.

The Value of RESPs

Our organization has provided education savings to Canadian families for over 45 years. We have a long experience with these plans, and know, based on our experience, that they do, indeed, work.

Research provides an indication of the importance of education savings. Roughly 74% of children with education savings pursue higher education versus 50% of those without savings[vii].

The question is whether it is the existence of a savings program that encourages participation, or if families which encourage post-secondary education in the home are more likely to be savers. We believe it is the latter - that families who are pre-disposed to encourage higher education are also pre-disposed to save for higher education. **However we also believe that if you can encourage a family to save for higher education, you will increase their pre-disposition to promote higher education in the home.**

The benefit of an RESP extends beyond the obvious financial benefit. RESPs are important for families for four distinct reasons:

1. RESPs are an important tool for parents to effectively communicate their expectation that their child will go to post-secondary school. Research indicates that 93% of parents who expect their child to complete high school also expect their children to go on to higher education[viii]. Marc Frenette of Statistics Canada recently stated “students whose parents expect them to complete a university degree enjoy a 12- to 16-percentage advantage in university participation over other students.”[ix] While parental expectations are a key factor in determining if a child will go on to higher education or not, high parental expectations are not consistently being translated into increased participation in post-secondary programs. RESPs are a tool in the family toolbox to enable them to powerfully communicate their expectation that their child will, indeed, one day pursue higher studies.

2. RESPs align a child’s vision towards higher education early. Too many strategies for financing post-secondary education are focused on the point in time when a student is ready to leave secondary school. In many cases, this is too late. We need to ensure that children believe that higher education is attainable from an early age.

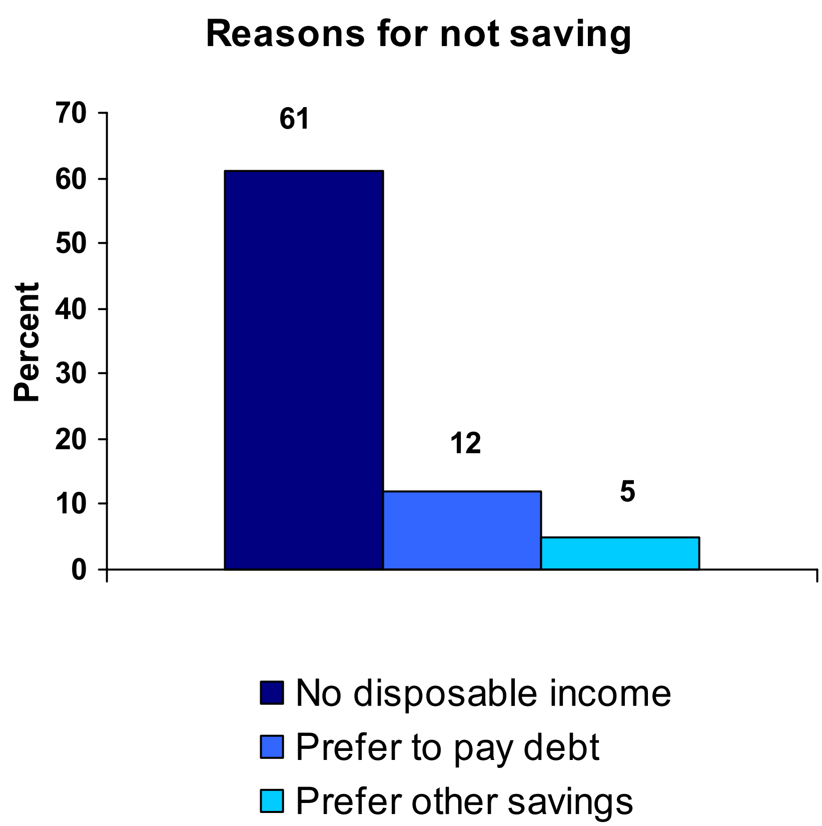
3. RESPs underscore the value of higher education. If children see their family putting aside money to support their higher education, they will have a greater perception of the value their family places on higher education.

4. RESPs help offset the costs of higher education. Savings programs may not cover all the costs, however they narrow the gap and reduce the student's reliance on other forms of financial support.

The importance of engaging families in a meaningful planning exercise for higher education is underscored when the results of the Survey of Approaches to Education Planning (representing a snapshot of the current planning process) is cross-referenced to the results from the Post-Secondary Education Participation Survey (representing the actual experience of students in the system). This comparison shows that families typically over-estimate the ability of the child to obtain merit-based scholarships or needs-based grants and bursaries, and underestimate the loans they will need to take from private sources. Families often underestimate the future costs and overestimate external resources available to meet those costs. By encouraging early planning, it is possible to decrease reliance on external financial aid and enhance a family's ability to finance some or all of their child's higher education from their own resources.

RESPs and their Usage

There is a concern that RESPs are most heavily used by families who arguably least need the savings vehicle: by families in higher income brackets.



Research suggests that there are several key factors preventing families from starting an education savings program. The primary reason (61%) is a lack of disposable income to enable them to engage in a savings program. Over 17% cited other priorities – either they preferred to pay off debt or preferred to engage in other forms of saving.[x]

Kevin Milligan, a professor Economics at the University of British Columbia, has also suggested the following additional reasons why lower income households have less tendency to use RESPs[xi]:

1. Children from low income households are less likely to attend. If you do not expect your child to go on to higher education, you are less likely to start an education savings plan. Thus it is a self-fulfilling prophecy: parents don't expect them to attend, thus they don't start a savings program, and thus the student is less likely to attend.

2. Low income households face information barriers. Individuals from low income families may never have learned about the importance to save. When you look at awareness, only 32.7% of families with an income of below $30,000 were aware of the CESG versus 61.9% of those families with incomes in excess of $80,000.[xii] This suggests that there is a knowledge gap among lower income families about the CESG program.

It is clear that RESP usage by lower income families is too low. The answer is not, as some have suggested, to simply eliminate the RESP and the CESG. Rather it is to view the RESP as an important tool to engage families in the planning process for higher education, and to create powerful incentives to encourage lower income families to participate in this program. This will create a partnership between the federal government, provincial government and families in funding post-secondary education. It will also attract the interest of community-based groups who advocate for low-income families who will more actively disseminate information on the savings programs, thereby increasing the awareness of the importance of planning today for tomorrow's costs.

Government Responses

Federal Government

The Federal Government responded to the above concerns with respect to RESP participation with the introduction of two new initiatives.

A. *Canada Learning Bonds Program*
All children born after 2003 who qualify for the National Child Benefit Supplement are eligible for the Canada Learning Bond. This program is a starter grant of $500, with additional annual grants of $100 to a lifetime maximum of $2,000. In order to take advantage of the Learning Bonds, parents must transfer the funds received into an RESP.

B. *Enhanced CESG program*
For all RESP contributions made January 1, 2005 and later, there is the potential to receive a higher CESG. For families with an income of under approximately $35,000, the CESG is increased to 40% on the first $500 contributed annually. For families with incomes between roughly $36,000 and $71,000 the CESG is increased to 30% on the first $500 contributed annually.

Alberta Government

The government of Alberta introduced the Alberta Centennial Education Savings (ACES) Plan in 2004. This program provides a one-time grant of $500 for all children born to residents of Alberta January 1, 2005 or later. The grant must be transferred into an RESP within 2 years from the date the child is born.

For children who are resident in Alberta, additional grants of $100 will be paid into the child's RESP in the years they turn 8, 11 and 14 provided a contribution of at least $100 has been made into the RESP in the previous year.

For more information on the ACES plan, please see http://www.advancededucation.gov.ab.ca/aces/.

Our Proposal

"A post-secondary education is the best investment a person can make. The goal of this plan is to provide an incentive for parents in Alberta to begin planning and saving for that education from day one. It is important that parents continue contributing to these RESPs and encouraging their children to pursue post-secondary education."
~ Dr. Lyle Oberg ~
Alberta Minister of Finance

Clearly the government needs to take steps today to deal with today's challenges in the post-secondary system. However it also needs to take a longer view to address the ongoing challenge of funding post-secondary education in the province. Even more importantly, it needs to engage families in the process of thinking about, and preparing for, post-secondary education. If the government is able to change the dialogue around the kitchen tables of the province so that families are starting to think about, discuss and plan for post-secondary education from the time children are young, it will increase the participation of students in the post-secondary education system. If this is achieved among low and moderate income families, it will increase the proportion of this under-represented group in the post-secondary system.

We recommend that the province of New Brunswick implement a program to encourage families to start thinking about and preparing for post-secondary education from the time their children are young. Specifically, we believe the province should implement a financial incentive to encourage low-income families to set up RESPs for their children. This will provide the following key benefits:

- It will encourage families, particularly low-income families, to engage in discussing, and planning for, higher education from the time their children are young.
- It will build up a pool of assets to be made available for the purposes of funding higher education in the province.
- As savings in RESPs increase, it will result in a greater share of federal grant funds earmarked for post-secondary education flowing into savings plans for New Brunswick families.
- It will allow better tracking of information with respect to the availability of funds in the family setting for post-secondary education. This in turn will allow better planning by the provincial government with respect to policy related to funding the post-secondary education system.

New Brunswick Learning Bond

There are various ways to create incentives for families to save. We propose modeling the program based on the Federal Canada Learning Bond model. Under this proposal, a $500 starter grant would be paid into the RESP for all families with children born in the province who qualify for the National Child Benefit Supplement (NCBS). Each year, for the next 15 years, an additional $100 grant will be paid into their RESP provided they remain eligible for the NCBS, to a cumulative maximum of $2,000.

This approach would be of greatest benefit in encouraging families with no disposable income to start a savings program by assisting them in getting a plan set up. It would then permit RESP promoters to actively encourage an ongoing savings pattern to ensure that the savings grow, and that the family is actively engaged in the process of planning for higher education.

With this approach, the grant alone would grow to approximately $3,300 over the 18 year period, assuming a 4% rate of return in the RESP. Assuming 3,200 NCBS-eligible births per year, the maximum year one costs would be $1.6 million. Assuming no attrition and stable birth rates, this would grow to an annual cost of 6.4 million by year 16.

If a New Brunswick Learning Bond (NBLB) were instituted in combination with the Canada Learning Bond (CLB), an eligible child will get:

- $1,000 in year one ($500 NBLB, $500 CLB)
- $200 per year from years two to sixteen ($100 NBLB per year, $100 CLB per year)
- 40% CESG on the first $500 the family contributes each year, and 20% on any additional contributions annually.

Therefore, with no family contributions and a 4% investment return, NBLB children would have close to $7,000 towards their higher education at age 18. More importantly, however, they will have grown up in an environment where they understood they were expected to go on to post-secondary education – and where they believed that post-secondary education was possible.

The program would encourage low and moderate income families to set up savings programs, to make their own contributions, and increase flow of federal grant dollars into New Brunswick family's hands.

The Federal Government has expressed a willingness to work in partnership with provinces in the delivery of such a program, lowering the costs of delivering the program to New Brunswick families.

Conclusion

It is clear that there is a need to address the needs of today's students in New Brunswick. However there is also a compelling need to ensure access to higher education for future generations. Part of the solution is creating incentives to engage families in thinking about – and planning for – higher education from the time their children are young. This will have the greatest impact on those families who today are less likely to encourage post-secondary education in the home.

We believe that this type of incentive will increase both the number of families saving, and the amount they are saving. This, in turn, will have a long-term, positive impact on the ability of New Brunswick youth to achieve their full potential through higher education.

About Canadian Scholarship Trust Foundation

Canadian Scholarship Trust Foundation (CSTF) was established in 1960 as a non-profit foundation with a mission to improve access to higher education. Its founders were a group of concerned citizens who believed that, without appropriate planning, higher education would increasingly become out of reach for average Canadians. To that end, CSTF is Canada's pioneer in providing Registered Education Savings Plans.

Today CSTF is the largest RESP provider in the country, administering over $2.3 billion in education savings for 250,000 Canadian families, including savings programs for thousands of families in New Brunswick.

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