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TECHNICAL PAPER

Eliminating Tuition and Compulsory Fees for Post-Secondary Education

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Students today face a number of challenges as they attempt to get the education they will need to succeed in a rapidly changing economy. These challenges include, but are not limited to, record-high levels of student debt, stubbornly high youth unemployment, an estimated 40% underemployment rate among post-secondary graduates aged 25–34, and increasing employer demands to take unpaid internships.[1] The attainment of post-secondary education, which has become an important prerequisite for participating in the labour force, is much less affordable now than 25 years ago. Accounting for inflation, tuition fees alone are 160% higher today than they were in 1990.[2,3]

By shifting the focus of, and slightly increasing, current federal funding for post-secondary education, the Alternative Federal Budget will reduce tuition and other compulsory fees to zero as a means of easing the financial burden on new graduates, with clear spinoff benefits for the wider economy.

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Public Funding of Higher Education in Canada

Like most social programs, post-secondary education constitutionally falls within provincial jurisdiction. However, like Canada's health care system, the post-secondary education system receives considerable federal funding. Through the Canada Health Act, the federal government has the ability to set standards of care and funding as a means to ensure universal access across all provinces. Despite the government's similar role in post-secondary education, Canada remains the only major industrialized country without national oversight of higher education.

Federal transfer payments to the provinces for post-secondary education have changed a great deal in the last 50 years. Starting in 1967, funding was provided on a cost-sharing model. The provinces administered the system and made decisions on policy, programs, and spending, while the federal government matched provincial spending dollar for dollar. In 1977, for budgetary reasons, this cost-sharing model was abandoned by the federal government and replaced with the Established Program Financing Framework (EPF) that allotted funding through tax points and cash transfers. The EPF was replaced in 1996 with the Canada Health and Social Transfer (CHST), which was then split into two separate transfers — the Canada Health Transfer (CHT) and Canada Social Transfer (CST) — in 2004.

With each change, both overall funding transfers and the level of accountability for provincial spending were reduced. Under the CST there is no guarantee that federal funding intended for post-secondary education reaches students and their families. As a result, while funding for post-secondary education reached a peak of 0.56% of GDP in 1981, it has since declined significantly, reaching a low of 0.15% in 2005. Currently, the federal transfer for post-secondary education stands at 0.20% of GDP.[4]

The Canadian Federation of Students estimates that current federal funding for post-secondary education is $2.4 billion less than what it was in 1992–93 when inflation and enrolment growth are factored in. Lagging federal funding for higher education has resulted in higher tuition fees, as costs are passed on to students.

As a share of operating revenues, government funding dropped from over 77% in 1992 to less than 55% in 2012. Tuition fees increased during this time to make up for the shortfall, accounting for 37% of operating costs in 2012 compared to 20% in 1992.[5] For individual students, this has meant an increase in national average tuition from $1,872 ($2,826 in today's dollars) in 1992 to $6,191 in 2015. Institutions also charge additional compulsory fees in order to circumvent provincial tuition fee regulations, as these fees are not regulated in all provinces. For 2015–16, average compulsory fees were $838 per student, raising total average undergraduate fees to $7,029.[6]

Without a national vision for post-secondary education, access, affordability, and priorities shift considerably from province to province to territory, creating different challenges for students depending on where they are studying. Undergraduate tuition rates range from $7,868 in Ontario to $2,660 in Newfoundland and Labrador.[7] In specialized programs such as medicine, law, and dentistry, tuition fees are often unregulated. Students can pay three or more times the national average for these programs, driving student debt for many future health professionals into the six-figure range.[8]

Student Financial Aid: Complicated, Inefficient, Ineffective

In May 2015, the federal government was forced to increase the legislative ceiling for outstanding federal student loans from $19 billion to $24 billion.[9] This was a full five years sooner than expected in the most recent actuarial report on the Canada Student Loans Program (CSLP) from 2011. During the 2013–14 academic year, the federal government issued $2.72 billion in loans. This represents only a portion of total student debt, as it does not include provincial and personal student loans, lines of credit, or education-related credit card debt. As of 2012, total student loan debt was estimated at over $28 billion.[10]

The federal government also spends billions per year on expensive, inefficient programs that deliver the greatest benefits to those who need the least help financing their education. Federal non-refundable tuition and education-related tax credits for students pursuing post-secondary education provide back-end assistance, but they fail to increase accessibility. Most students do not earn enough while in school to take advantage of the credits, meaning the majority are carried forward until after graduation or transferred to parents. The tax credits inherently privilege those who have the capacity to pay tuition fees without the need for loans, as the value of each credit is independent of student need. As long as an individual can pay the up-front fees, they receive the credits. For the growing number of young people struggling through unemployment and underemployment after graduation, it can take years to benefit from these credits.

The federal government also administers the Registered Education Savings Plan (RESP). Despite its price tag of over $1 billion in 2014, the RESP remains an under-utilized savings vehicle: less than half of all eligible children receive any funding and those that do are primarily from higher-income households. Over 50% of grants within the RESP were directed to families earning over $72,000 in 2013.[11] The total cost of the tax credits and RESP was an estimated $2.97 billion in 2014.[12]

Non-Repayable Financial Assistance: The Canada Student Grants Program and Post-Secondary Student Support Program

The Canada Student Grants Program (CSGP), established by the federal government in 2009, greatly increases support for students, delivering $715 million in need-based, non-repayable grants in 2013–14. The Liberal Party's 2015 federal election platform included a significant policy plank from the Alternative Federal Budget — a promise to eliminate some tuition- and education-related tax credits, and to reallocate this funding to the CSGP. If the new Liberal government follows through with this promise, the CSGP would be able to allocate approximately $1.4 billion in the 2016–17 academic year.[13] It would be a welcome move, but clearly more needs to be done.

The Post-Secondary Student Support Program (PSSSP) is the primary mechanism by which First Nations students receive financial support from the federal government. However, this funding is only available to status First Nations and Inuit students. Since 1996, annual growth in funding for the PSSSP has been capped at 2%, although actual increases have been closer to 1%. This money is independent of eligibility or enrolment levels.

As growth in inflation, population, and tuition fees in most jurisdictions has been far higher than 2% per year since 1996, there has been an effective annual decrease in per-capita funding over the past two decades. In fact, the number of First Nations students receiving funding from the PSSSP declined from 22,938 in 1997 to 18,729 in 2009, despite rising demand. It is estimated that between 2001 and 2006 over 10,500 students were denied funding, and that this number will grow by roughly 3,200 per year as a result of the funding cap.[14]

The newly elected Liberal government has promised to increase funding to the PSSSP by $50 million per year above the 2% funding cap. This investment in Aboriginal access to education is a good first step, but a larger investment is required to address the backlog of eligible students that have been denied funding due to the cap.

Increasing Student Debt

As the cost of post-secondary education continues to shift from government to individuals and families, students are taking on more debt than ever before. National average total student debt for the class of 2010 was $26,300 — a high burden that is not as easily paid off as sometimes claimed.

Research shows that student debt holders have a lower net worth, fewer assets, and are less likely to have savings or investments than non–student debt holders of the same age.[15] Even if the debt is manageable, high levels of student debt and poor job prospects force many young people to delay or miss important life milestones like starting a family, forego economy-stimulating purchases including a home or car, or put off saving for retirement. For the 40% of young people in situations of under-employment, forced into unpaid internships, or struggling to find work, the burden of student debt is even harder to handle.

Former students running into difficulties paying off government loans can access the Repayment Assistance Program (RAP). The RAP uses means testing to determine an affordable payment, while subsidizing accruing interest. From 2009, when the program was introduced, to 2013, RAP enrolment increased from 160,572 to 233,684 borrowers — a 45% jump in five years. For close to 90% of annual RAP users the affordable payment is $0. In comparison, over that same period, the total number of student loan borrowers increased by 24%.

Alternative Federal Budget Action

The 2016 Alternative Federal Budget calls for immediate action to reverse these troubling trends. The AFB will introduce a Federal Post-Secondary Education Act based on principles similar to the ones behind the Canada Health Act, such as accessibility, comprehensiveness, collegial governance, public administration, and academic freedom.

The AFB education act includes a new, dedicated post-secondary education cash transfer that is conditional on the provinces meeting these principles and working

TABLE 1 AFB Funding ($2011)
(50% of the cost of eliminating fees + 3% enrolment escalator + 2% inflation escalator)

	CAN	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC
Total Federal Cost (Millions)											
2016–17	3286	48	12	116	59	610	1580	131	104	361	266
2017–18	3357	47	12	116	58	628	1612	134	107	372	271
2018–19	3429	47	12	116	58	647	1644	136	110	383	277
Total Provincial Cost (Millions)											
2016–17	3286	48	12	116	59	610	1580	131	104	361	266
2017–18	3357	47	12	116	58	628	1612	134	107	372	271
2018–19	3429	47	12	116	58	647	1644	136	110	383	277

with the federal government to eliminate all undergraduate tuition and ancillary fees. The federal government will provide funding equal to 50% of the amount needed to eliminate tuition and other fees — an amount that would grow annually based on enrolment and inflation escalators.

The elimination of undergraduate tuition fees will dramatically lower the financial burden on students during their studies, reducing expenditures on the CSGP and PSSSP. The bulk of the federal funding required to achieve this goal ($3.3 billion for the 2016–17 academic year) will be found by eliminating loan-based financial assistance, education-related tax credits, and the RESP.

A Smart Investment for the Future

Education is public good, and while all levels of government currently spend a considerable amount of their budgets on the higher education system there is still a shortfall. One of the biggest problems is that the money is not being spent efficiently. We can measure the effectiveness of current government programs by the time it takes for the average student to pay back the investment through income taxes, which ranges from 10.3 years in Ontario to 17.5 years in Saskatchewan. While the elimination of tuition fees would require a larger up-front investment from the federal government, the increase in payback time is minor: from 0.6 years in Quebec to 2.6 years in P.E.I. and B.C.[16]

There are added benefits to government and society from a better-educated citizenry. Typically, individuals who have completed higher education contribute more in income taxes, require fewer social services, are less likely to be involved in the criminal justice system, have better health outcomes, and are more engaged in their communities, among other benefits. When governments make investments in education they receive significant fiscal and social benefits in the long term.

One of the most common arguments against increased investment in public higher education is that it ends up subsidizing wealthy families. This argument breaks down when you consider the progressive nature of Canada's income tax system. Since income tax contributions increase based on how much you earn, the use of public funds to bring down the cost of public education for everyone actually re-distributes wealth from higher-income households toward lower-income households.

In today's rapidly changing economy, a truly affordable and accessible post-secondary education system needs to be a top priority. The current system, with its high up-front costs and resulting unsustainable levels of student debt, acts as a barrier for many people to full participation in the economy, which impacts everyone. Making it easier for young people to achieve financial security, reach life milestones, and obtain additional training or retraining in emerging fields will drive the Canadian economy forward. Public education is a public good, and it should be funded that way.

Notes

1 Office of the Parliamentary Budget Officer (2015). Labour Market Assessment 2015.

2 Statistics Canada (2013). Tuition and Living Accommodation Costs for Full-time Students at Canadian Degree Granting Institutions for Academic Years 1972–1973 to 2012–2013.

3 Statistics Canada (2015). University Tuition Fees 2014/2015.

4 Canadian Association of University Teachers (2014). CAUT Almanac of Post-Secondary Education in Canada

5 Ibid.

6 Statistics Canada (2015). University Tuition Fees 2014/2015.

7 Ibid.

8 Buske, Lynda (2013). *Off to work I owe!* Canadian Collaborative Centre for Physician Resources.

9 Canada Gazette (June 2015). Regulations Amending the Canada Student Financial Assistance Regulations.

10 Statistics Canada. CANSIM Table 205-0002: Survey of Financial Security (SFS), composition of assets (including Employer Pension Plans valued on a termination basis) and debts held by all family units, by age group, Canada and provinces.

11 Employment and Social Development Canada (2014). Canada Education Savings Program: Annual Statistical Review 2013.

12 Canadian Federation of Students (2015). Post-secondary Education Tax Credits.

13 Liberal Party of Canada (2015). "A New Plan for a Strong Middle Class." Party platform. Link: https://www.liberal.ca/files/2015/10/New-plan-for-a-strong-middle-class.pdf

14 Sharpe, Arsenault, Lapointe, Cowan (2009). *The Effect of Increasing Aboriginal Educational Attainment on the Labour Force, Output and the Fiscal Balance*. Centre for the Study of Living Standards. Link: http://www.csls.ca/reports/csls2009-3.pdf

15 Luong, May (2010). "The financial impact of student loans." *Perspectives on Labour and Income*. Vol. 22 No. 1.

16 Mackenzie, Hugh. (2013). *Learning and Earning: The Impact of Taxation in the Higher Education Debates*. Canadian Centre for Policy Alternatives. Link: https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2013/06/Learning_and_Earning.pdf

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