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POST SECONDARY EDUCATION: Ontario's Economic Silver Bullet



Submission to the Standing Committee of
Finance and Economic Affairs

educated·solutions **OUS**A
ontario undergraduate student alliance

OUSA recognizes that the economic situation of the provinces, nation and globe is precarious at best. However, within every challenge is an opportunity, and when 70% of future jobs are predicted to require some post-secondary education, the time is now to become a true leader in the economy of tomorrow: the knowledge economy.

EXECUTIVE SUMMARY:

Ontario's system of post-secondary education and its students have benefited significantly from the McGuinty government's \$6.2 billion investment from the *Reaching Higher Plan*. This has been the single largest investment in higher education in four decades. It is important that this investment be recognized as a necessary and important step in making Ontario's education system amongst the best in the country, and indeed, the world.

In this submission to the Standing Committee on Finance and Economic Affairs, the Ontario Undergraduate Student Alliance (OUSA) recommends targeted investments in several priority areas for investment in Ontario's post-secondary education system. Many important improvements to higher education in our province can be accomplished by using resources more efficiently, getting support to the students who need it the most, or through regulatory changes to improve access and persistence.

Priority One:

Enhance access and persistence in post-secondary education for all willing and qualified students

To address access and persistence issues for post-secondary institutions, the Standing Committee of Finance and Economic Affairs should:

- Continue to support debt relief by maintaining the Ontario Student Opportunity Grant at its current level, \$7000 per two-term academic year;
- Use Budget 2009 to replace the tuition and education tax credit with up-front, non-repayable grants totaling approximately \$170 million annually;
- Provide students from low-income families with up-front access grants from entrance through to degree completion;
- Regulate all tuition fee levels and ensure that any increase in tuition fees does not exceed the current rate of the Consumer Price Index (CPI).

Priority Two:

Modernize the Ontario Student Assistance Program (OSAP)

The current OSAP system is in dire need of reorganization. . To address the system's inadequacies and to better serve students, the 2009 Budget should:

- Implement a 12 month, interest-free grace period before students begin repaying their OSAP loans;
- Lower the interest rate paid on student loans to prime.

Priority Three:

Build a long-term vision for a more accessible and competitive education system

Ontario is lagging far behind its provincial counterparts in funding for post-secondary education. If the government truly wants to be a leader in the knowledge economy, then the Standing Committee of Finance and Economic Affairs should:

- Provide universities with additional one-time funding to meet the costs of increased enrolment above government projections;
- Increase funding to university operating grants to ensure that student contribution to post-secondary education is at, or below, the national average;
- Begin consultations for a new tuition framework as the current one is slated to expire later this year.

INVESTMENT IN POST-SECONDARY EDUCATION AS PREDICTORS OF FUTURE ECONOMIC AND SOCIAL DEVELOPMENT

The world is embroiled in an unprecedented economic crisis and many are theorizing about remedies and solutions to these challenges. The danger is real, as expressed by the need for the Ontario government to run a deficit for the first time in years. Opportunity, however, is just as real. In previous eras of economic uncertainty, post-secondary education was used as a powerful tool in turning challenges into successes. As recession hits the province, Ontario students recognize the incredible opportunity to use the 2009 budget to shape our education system to help build a productive and innovative workforce that is prepared for the knowledge economy.

Premier McGuinty's *Reaching Higher* plan was an important step in the direction of fostering and supporting a fully accessible and affordable, high quality post-secondary education system. In many ways it has been a success. As this plan comes to an end, the Ontario Undergraduate Student Alliance (OUSA), representing over 140,000 undergraduate and professional students across the province, is advocating for an equally ambitious *Reaching Higher II* plan to be created in its wake. OUSA has always maintained that provincial investments in post-secondary education will produce dividends in the form of a more economically viable and socially engaged Ontario. OUSA prides itself on providing educated solutions for budget allocations that will produce the maximum possible benefit for Ontario's students and universities.

Investment in post-secondary education is a viable and valuable way to increase Ontario's economic strength. In fact, the provincial government's own Task Force on Competitiveness, Productivity and Economic Progress has continually argued that Ontario must increase its investments in post-secondary education in order to increase the province's productivity, and with it, our collective wealth and competitiveness. Since the Task Force's establishment by the Ontario government in 2001 to measure and monitor the province's economic performance, it has recommended in *every annual report* that the provincial government must provide greater investments to post-secondary education in order to increase the province's productivity and prosperity.¹

Enrolment in post-secondary education is growing at astonishing rates, which have caught both institutions and governments by surprise. While this has put pressure on the new monies recently put into the system from *Reaching Higher*, it is also a promising trend as the vast majority of new jobs created in Ontario will require some level of post-secondary education. Therefore, now is the time to ensure that our future workforce is prepared to take on the challenges of a shifting economy. Preparation of Ontarians for the future will mean enhancing the ability of each person to access and persist within a post-secondary institution.

As the provincial government moves forward with its impressive commitment to reduce poverty, it is imperative that education be used as one of many tools to end the cycle of poverty for those most marginalized. Research consistently reveals that rising education levels are positively correlated with lowered poverty levels. Individuals with higher levels of education earn more throughout their lifetimes, contributing to the overall wealth of a community and province. In fact, TD Economics reports that a university-educated worker's weekly earnings are on average 61 per cent higher than their counterparts with just a high school education.²

¹ See the Task Force on Competitiveness, Productivity and Economic Progress' annual reports at http://competeproper.ca/task/task_report.html.

² TD Economics, "Investing in a post-secondary education delivers a stellar rate of return", TD Economic Topic Paper, January 22, 2004, p.1-2; accessed online at http://www.td.com/economics/special/ca0104_education.pdf.



The Chinese use two brush strokes to write the word 'crisis'. One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger-but recognize the opportunity.



John F. Kennedy

As the evidence indicates, investment in post-secondary education has wide range of benefits, from both an economic and social prosperity perspective. Post-secondary graduates drive Ontario's economy

As a result, OUSA advocates that increased investment in all levels of education by the provincial government, particularly aimed at reducing barriers to education, is the most strategic way to combat poverty in Ontario.

As the evidence indicates, investment in post-secondary education has wide range of benefits, from both an economic and social prosperity perspective. More than infrastructure investments, business subsidies, or tax cuts, a highly-educated population is the primary vehicle for combating poverty and driving economic growth and prosperity. Post-secondary education also has a broader economic effect of raising graduates' wages, lowering unemployment rates, and increasing the tax base. In fact, Statistics Canada's Survey of Labor and Income Dynamics examined 15,000 families in 2002, and found that university graduates made up slightly more than 15 per cent of the total population, but paid almost 35 per cent of total income taxes, and received only 8 per cent of government transfers.³

In addition, research has indicated that educated individuals are healthier, less likely to access expensive social services, more likely to contribute to their community through volunteering and monetary support, and more likely to vote. According to studies undertaken in the United Kingdom, graduates with post-secondary education are "...less depressed, healthier, more likely to vote in elections and help with their children's education..."⁴ All are attributes that contribute to a healthier, more productive, society that is less likely to rely on social services.

Post-secondary graduates drive Ontario's economy. Unfortunately, it is estimated that the ongoing under-funding of education in Ontario, particularly post-secondary education, accounts for roughly 25 per cent of the province's prosperity gap when compared to other peer jurisdictions. Research has revealed an approximate \$6,000 per capita prosperity gap in Ontario.⁵ Estimates by the Task Force on Competitiveness, Productivity and Economic Progress maintains that current trends in productivity and intensity could account for a prosperity gap of more than \$12,000 in constant dollars by 2020.

³ Sean Junor and Alex Usher, *The Price of Knowledge 2004: Access and Student Finance in Canada* (Montreal: Canada Millennium Scholarship Foundation, 2004), 321-322.

⁴ Higher Education Funding Council for England, "Benefits of higher education reach far beyond the job market," (England: HEFCE, 2003); available online at <http://www.hefce.ac.uk/news/hefce/2003/benefit.htm>.

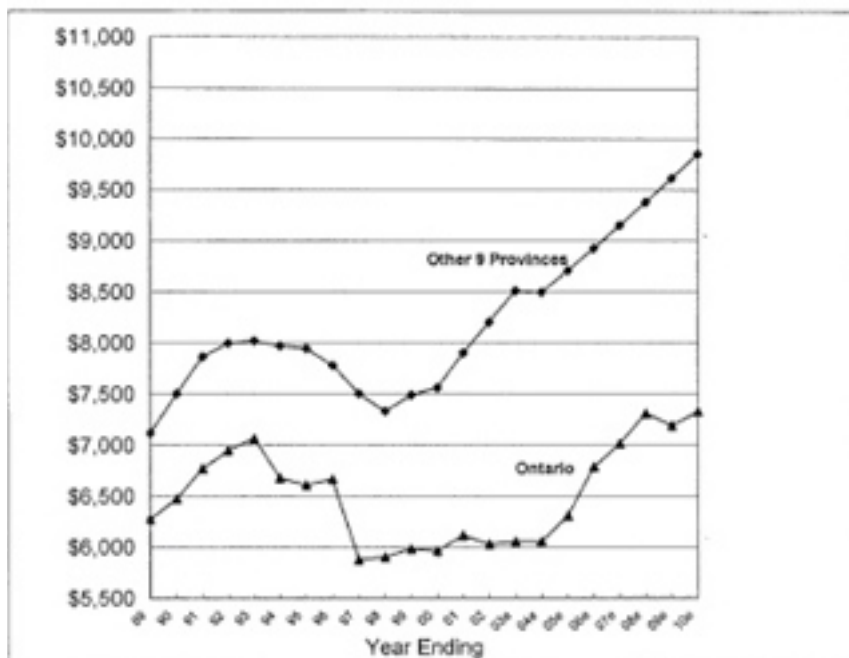
⁵ Task Force on Competitiveness, Productivity and Economic Progress, *2020 Prosperity Agenda, 6th Annual Report* (2007): 14; available online at <http://www.competeprosper.ca/>. Prosperity gap is "calculated as the difference in Gross Domestic Product (GDP) per capita achieved between what we in Ontario achieve and what we could reasonably Accomplish." Found in Institute for Competitiveness and Prosperity, *Prosperity, inequality, and poverty* (September 2007) :7; available online at http://www.competeprosper.ca/index.php/events/archive/#prosperity_inequality_and_poverty_in_ontario.

SETTING THE CONTEXT: THE STATE OF POST SECONDARY EDUCATION AND GOVERNMENT INVESTMENT

In recent years, Ontario has made serious investments in post-secondary education, the likes of which have not been seen in four decades. The significant investment of \$6.2 billion by the Reaching Higher initiative was a much welcomed improvement in, and recognition of, the post-secondary education sector. Unfortunately, data reflects that this investment was only sufficient to skim the surface of an ill-faring post-secondary education system, crippled by years of chronic under-funding prior to the McGuinty government. In fact, the Council of Ontario Universities (COU) notes that when inflation and projected enrolment growth are taken into account, Ontario will remain near last place among provinces in per-student funding for universities, in spite of the significant new provincial funding.⁶

This is illustrated in the following chart by the COU, which demonstrates that despite the increased funding through the Reaching Higher plan, Ontario still lags behind:⁷

Funding per Student in Ontario vs. Nine Other Provinces



The Ontario government and institutions misjudged the impact of *Reaching Higher* by inadequately accounting for enrolment increases. While Reaching Higher estimated an approximate increase of 46,000 students by 2009/10, actual enrolment trends predict the increase will be approximately 92,000, almost double the original prediction.⁸ Ultimately, *Reaching Higher* has had to address both years of insufficient funding levels and enrolment increases. The COU has noted that the unanticipated enrolment increase has resulted in a total shortfall of approximately \$800 million in the Reaching Higher plan. Not only will this result in fewer students accessing post-secondary education, but also a depreciated quality of post-secondary education for students already enrolled.⁹

⁶ Council of Ontario Universities, "Fact Sheet: Financial Implications of the Reaching Higher Plan" (Toronto: COU, 2006); accessed online at <http://cou.on.ca/content/objects/Fact%20Sheet%20Reaching%20Higher.pdf>

⁷ Council of Ontario Universities, Briefing Notes 2006-2007 *Toronto: COU, December 2006), 35; available online at <http://www.cou.on.ca/content/objects/Briefing%20Notes%202006-07.pdf>

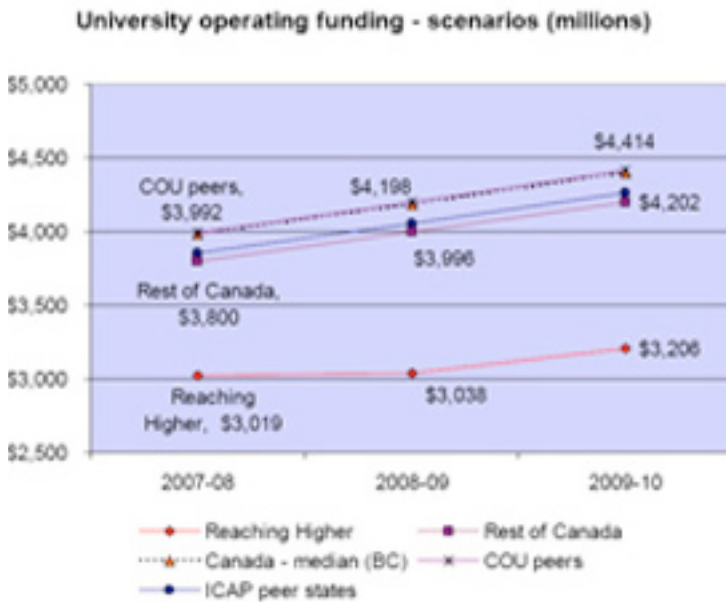
⁸ OCUFA, *Leading Higher: Funding for Ontario Universities* (Toronto: OCUFA, 2007), 4.

⁹ Council of Ontario Universities, *Progress Report: University Access, Accountability and Quality in the Reaching Higher Plan* (Toronto: COU, November 2006), 1-2 available online at <http://www.cou.on.ca/content/objects/ProgressReport-Final-%20Dec406.pdf>

The significant investment of \$6.2 billion by the Reaching Higher initiative was a much welcomed improvement in, and recognition of, the post-secondary education sector.

Analysts continually note that Ontario is engaged in intense competition with peer jurisdictions to emerge as a leader in the “knowledge economy”.

A study by the Ontario Confederation of University Faculty Associations (OCUFA) reveals that the initiative will increase per-student funding by only one per cent at the end of the plan’s five-year implementation period.¹⁰ As displayed, the projections reflect the lag of Ontario funding in comparison to other jurisdictions:¹¹



Analysts continually note that Ontario is engaged in intense competition with peer jurisdictions to emerge as a leader in the “knowledge economy”.¹² For this reason, among others, increased investment in post-secondary education remains imperative.

¹⁰ Ibid.; i.

¹¹ Ibid.; 6.

¹² Read, for example, Dr. David Naylor, “Unfinished Business: An Address to the Canadian Club of Toronto”, November 20, 2006; available online at <http://www.canadianclub.org/static/speeches/2990.pdf>

PRIORITIES: A ROAD MAP TOWARDS “REACHING HIGHER TWO”

OUSA and others believe that investment in post-secondary education is one of the most strategic ways to address the current economic crisis being faced by Ontario. In fact, OUSA argues that post-secondary education can be the silver bullet in restoring Ontario to its position as one of the best and most prosperous places to live. Therefore, OUSA has compiled a list of immediate and long-term investments and improvements that will assist the Ontario government in the allocation of its resources for the 2009 budget. Many of the initiatives outlined below are geared towards better allocating funds and greater economic efficiency, rather than requirements for new funds into the system.

Priority One:

Enhance access and persistence in post-secondary education for all willing and qualified students

The Ontario government has expressed a firm belief that every willing and qualified student should be provided the opportunity to attend a post-secondary institution, as evidenced by initiatives such as the student access guarantee. While growing university enrolment clearly indicates that an increasing number of students are accessing post-secondary education, it is imperative that the government continue to build a system which allows more students to access and complete post-secondary education.

Recommendation #1:

The Ontario government must continue to support debt relief by maintaining the Ontario Student Opportunity Grant at its current level.

The average grant size given to students with the greatest need in Ontario is set to decrease by at least \$1000 in the coming academic year. This reduction is the difference between the Canada Millennium Scholarship Foundation's (CMSF) grant of \$3000, which will be phased out in 2009/10, versus the Canada Student Grant Program's (CSGP) maximum \$2000 grant, which will stand in its stead. This could lead to a potential \$1000 increase in student debt and put pressure on debt relief measures such as the Ontario Student Opportunity Grant (OSOG), which caps the amount of repayable debt in the province at \$7000 for a two-term academic year.

Currently, the average OSAP loan size per academic year is \$7,800 which means that OSOG affects a significant proportion of student borrowers in the province, as most students with loans over \$7,000 automatically receive the grant. While up front grants are important methods of ensuring access to the system, debt relief is an equally important tool to enhance persistence and create more manageable student debt levels upon graduation. With a maximum loan limit of \$11,900 the OSOG cap provides students with an important reprieve from even more crushing debt levels. If a student receives OSOG each year of a four year degree, then their repayable debt will be \$28,000. Without OSOG, this same student might be responsible for a loan repayment totaling up to \$47,600, which effectively cripples them as they enter a non-academic world.

OSOG affects a large proportion of students, and thus comes with a price tag of \$323 million. This number may seem daunting during an economic slow-down, however, there is currently money in the system which could be better utilized if redirected toward maintaining this critical form of financial assistance. Some of these options are outlined below.

The Ontario Undergraduate Student Alliance (OUSA) believes that investment in post-secondary education is one of the most strategic ways to address the current economic crisis being faced by Ontario.

In the Reaching Higher plan, the Ontario government committed itself to replacing the tuition and education tax credit with a grant at the beginning of a student's academic year. It is important that this commitment be acted upon.

Recommendation #2:

The Ontario government should immediately commit to its campaign promise and use Budget 2009 to replace the tuition and education tax credit with up-front, non-repayable grants totaling approximately \$170 million annually.

In the *Reaching Higher* plan, the Ontario government committed itself to replacing the tuition and education tax credit with a grant at the beginning of a student's academic year. It is important that this commitment be acted upon by taking the approximately \$170 million from the education and tuition tax credit and channeling it instead into up-front grants.

Canadian governments collectively spend more than twice the funds allocated to student financial aid untargeted tax-credits as on targeted education grants. Unfortunately, tax credits do not equally benefit individuals across income brackets. On average, high income earners claim more through tax credits than people from low or middle income families, putting more money into the pockets of those that can already afford post-secondary education without this tax benefit. In fact, 60 per cent of all education and tuition tax credits go to families with incomes above the national median.¹³ This is an unfortunate reality that is pulling valuable and scarce funding away from assistance for lower-income and other underrepresented groups.

Christine Neill, from the CMSF, has argued that although tax credits were theoretically created to make post-secondary education more accessible, they often fail to address the issue of accessibility and rarely benefit those who require the benefits, oftentimes low-income students.¹⁴ Students in school are often unable to claim the tax credit and can only receive the benefits at the end of their education. This situation poses a problem for students who are not able to complete their education due to financial constraints and require the benefit of the tax credit while in school. Neill has stated that "the evidence suggests that the tax credits are ineffective in encouraging enrolment in higher education among those from backgrounds where income is modest."¹⁵

As the education tax credit is not available to students when they need it most: at the beginning of their education, it fails as an enabling tool to get students into and through post-secondary education.

Recommendation #3:

Students from low-income families must be provided with up-front access grants (totaling \$140 million) through to degree completion.

In line with the poverty agenda, students from low-income families must be provided the opportunity to access post-secondary education. Research consistently reflects that low-income students are averse to incurring high levels of debt to access post-secondary education. By providing these students with up-front, non-repayable grants the Ontario government can increase the numbers of low-income students accessing post-secondary education and, hopefully, decrease poverty levels.

These students from low-income families must be provided with up-front access grants that will be provided through to degree completion. This would constitute an annual investment of \$140 million. Although low-income students are often provided grants for their first year of post-secondary education, these grants frequently do not span to diploma or degree completion.

¹³ Ross Finnie, Alex Usher and Hans Vossensteyn, "Meeting the Need: A New Architecture for Canada's Student Financial Aid System", *Policy Matters* 5.7 (2004):14, 16.

¹⁴ Christine Neill, *Canada's Tuition and Education Tax Credits* (Montreal: Canada Millennium Scholarship Foundation, 2007).

¹⁵ *Ibid.*; ii. For more information, please read Christine Neill, *Tuition and Education Tax Credits*, Presentation, available online at: http://www.millenniumscholarships.ca/uploadfiles/documents/casfaa/casfaa06_docs/Neill_CAS-FAA06.pdf

Subsequently, these students often fail to complete post-secondary education because grants are no longer available to them. As a result, OUSA argues targeted grants must include up-front access grants for students from low-income families, administered annually through to degree and diploma completion.

Recommendation #4:

The Ontario government must regulate all tuition rates and ensure that any increase in tuition fees does not exceed the current rate of the Consumer Price Index (CPI).

The Ontario government has dedicated itself to providing more students the opportunity to access post-secondary education. As a result, tuition fees must not increase beyond the rate of inflation as measured by the Consumer Price Index (CPI). Furthermore, this tuition must remain regulated by the provincial government. Deregulation of tuition fees cause costs to sky-rocket and far exceed inflation rates. In fact, the current university rate of inflation far exceeds CPI. For example, CPI for 2007/08 was approximately 2.8 per cent.¹⁶ In contrast, the university rate of inflation averages an annual increase of approximately 4.3 per cent.¹⁷ Clearly, tuition fee increases are disproportionate to the rest of the economy. Therefore, in order for tuition to remain affordable for students, tuition fees must remain regulated and any increase must not increase beyond CPI. If tuition fees are increased beyond CPI, the Ontario government must subsidize this cost increase.

Priority Two:

Modernize the Ontario Student Assistance Program (OSAP)

Recommendation #1:

The Ontario government must immediately implement a 12-month, interest-free grace period before students begin repaying their OSAP loans.

The Ontario government has committed itself to changing the current 6-month non-repayment period (called a “grace period”, however, interest continues to accrue), to a 12-month grace period before students must begin repaying their loans. This initiative is commendable and must be implemented immediately. However, the provincial and federal government must instate a 12-month grace period that is also interest-free in order for students to prepare for loan repayment. Interest accrued during the grace period drastically affects a student’s ability to repay his or her loan. Furthermore, defaults on student loans often occur during the first three years of repayment. Increasing the length of time before repayment would, presumably, reduce repayment default and allow students adequate time to prepare for loan repayment.

The provincial government must work with the federal government to instate a genuine 12-month grace period after graduation during which a student’s loan amount is not subject to interest. While to enhance Ontario’s negotiating position, the current government could create this interest-free 12-month grace period to show leadership in supporting higher education in Canada.

The Ontario government has dedicated itself to providing more students the opportunity to access post-secondary education. As a result, tuition fees must not increase beyond the rate of inflation as measured by the Consumer Price Index (CPI).

¹⁶ Statistics Canada, The Daily, “Consumer Price Index,” 19 December, 2008 (Ottawa: Statistics Canada, 2009); available online from <http://www.statcan.gc.ca/subjects-sujets/cpi-ipc/cpi-ipc-eng.htm>.

¹⁷ Statistics Canada, “University Tuition Fees,” The Daily, 18 October 2007 (Ottawa: Statistics Canada, 2007); available online at <http://www.statcan.ca/Daily/English/071018/d071018b.htm>.

Countries with comparable post-secondary education systems charge between 0 and 4 per cent interest on student loans, whereas Ontario charges prime interest rate (currently 3.5%) plus 1 on student loans.

Recommendation #2:

The 2009 Ontario Budget must lower the current interest rate paid on student loans to prime.

The 2009 Ontario Budget must also lower the current interest rate paid on student loans to prime. Ontario currently outpaces other G8 countries in interest charges on student loans.

Countries with comparable post-secondary education systems charge between 0 and 4 per cent interest on student loans, whereas Ontario charges prime interest rate (currently 3.5%) plus 1 on student loans. The Canada Student Loan Program charges interest rates of prime interest rate plus 2.5 per cent with a floating interest rate and prime interest rate plus 5 per cent for fixed rates. The combination of the Ontario student loan interest rate and the Canada student loan interest rate markedly increases the cost of post-secondary education for students, subsequently increasing their debt burdens after graduation. Studies show that it often takes three years before a student is able to begin paying the principle on his or her loan due to high interest rates.¹⁸

This already unfairly penalizes students who access loans, typically those in lower and middle-income families. Interest rates on loans should be lowered to prime to make post-secondary education accessible, increase repayment potential and lower default rates.

Priority Three:

Build a long-term vision for a more accessible and competitive education system

Recommendation #1:

Provide Ontario universities with additional one-time funding to meet the costs of increased enrolment above government projections.

The current *Reaching Higher* initiative plans to increase funding to universities by 6 per cent until the end of the plan in 2009/10. Unfortunately, as research has indicated with increased enrolment numbers, the Plan will only increase funding by 1 per cent at its completion. This percentage is markedly lower than the one initially intended by the *Reaching Higher Plan*. The Ontario government must meet its commitment to increase funding despite recent enrolment increases. As a result, the Ontario government must immediately commit \$1.6 billion more in annual operating and capital funding to universities for the next three years.

Recommendation #2:

The Ontario government must increase funding to university operating grants to ensure that student contribution to post-secondary education is at, or below, the national average.

Under the *Reaching Higher* initiative, the government plans to increase university operating grants by an average of 6 per cent per year until 2009/10.¹⁹ As research has indicated, this increase is not feasible with the increased enrolment numbers. In fact, the original 6 per cent increase still results in Ontario students contributing more to their education than students in peer jurisdictions.

¹⁸ According to one study, "up to 75 per cent of all borrowers who default do so in the first three years of repayment- when most of what they are repaying is interest." Julian Benedict, "New Organization Champions Loan Reform," Educated Solutions (Toronto: OUSA, 2007), 6.

¹⁹ Ontario Ministry of Finance, "Reaching Higher: the McGuinty government plan for postsecondary education" (Toronto: Ontario Ministry of Finance, 2005); accessed online at <http://www.fin.gov.on.ca/english/budget/bud05/bk1.html>. The final cost of the commitment may be higher than \$1.6 billion. The total cost by 2011 may be \$2.3 billion.

OUSA advocates for a system of responsible cost-sharing, in which a student does not bear a disproportionate share of the cost of his or her education. Through tuition, students contribute to university operating grants. As of 2004/05, students at Ontario universities contribute to approximately 45 per cent of university operating grants through tuition. In contrast, the university average amongst the other nine provinces is 29.6 per cent. OUSA recommends a system of responsible cost-sharing, in which students are only required to contribute 30 per cent of the cost of their education and the government contributes the remaining 70 per cent. In order to build a system of responsible cost-sharing, OUSA recommends that operating grants be sufficiently increased to allow the 30/70 target to be reached by 2011.

Recommendation #3:

The Ontario government must begin consultations for a new tuition framework as the current one is slated to expire later this year.

As Ontario closely approaches the beginning of the 2009-2010 academic year, which represents the last year of the current tuition framework, it is important that a consultation process that includes students is in place. Ontario needs a sustainable, student-centric tuition framework and OUSA is looking forward to sharing its vision for a responsible cost-sharing model with the provincial government.

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