

STUDENT FINANCIAL AID

Background

While students receive financial aid through the Ontario government, the loan portion of that aid is actually composed of two loans: approximately 60% from the federal government (Canada Student Loan, or CSL) and approximately 40% from the provincial government (Ontario Student Loan, or OSL). Since 2001, the two separate loan programs have been integrated and offered as the Canada-Ontario Integrated Student Loan, known as the Ontario Student Assistance Program (OSAP).

The general approach of the needs-based OSAP system is as follows: The assistance is intended to cover the difference between a student's need, calculated as the costs of attending a postsecondary education institution (i.e., tuition, textbooks, living expenses), and what financial resources they have available from their savings, their earnings, and from their families. The funding calculation can be summarized by the following equation:

$$\text{Need} = \text{Educational Costs} - \text{Financial Resources}$$

The current maximum OSAP loan for single students is set at \$12,240 and at \$19,040 for married students or those with children. If a student's need exceeds the loan maximum, the student's institution is expected to provide their "tuition/book shortfall" (i.e., the lesser of their unmet need or the gap between OSAP maximums and actual costs) through scholarships, bursaries, or work-study to fulfill the Province's Student Access Guarantee.

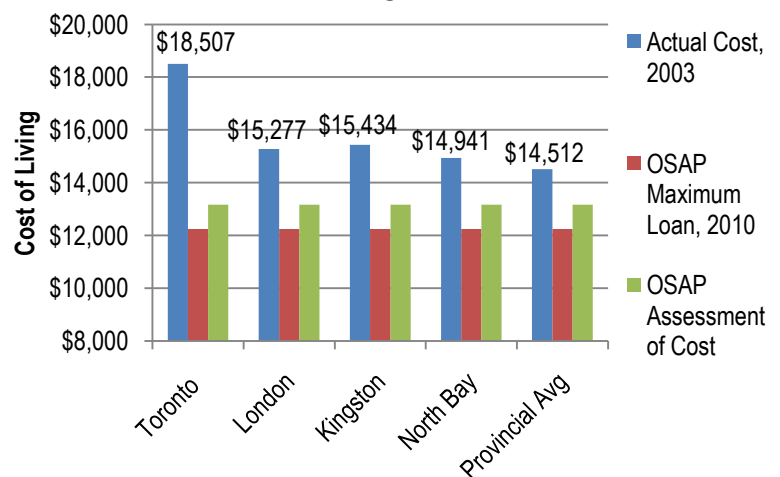
In addition to student loans, a significant amount of student financial assistance is provided through bursaries and scholarships. At the federal level, much of the grant money distributed to students is from the Canada Student Grants Program (CSGP), which replaced funding from the Canada Millennium Scholarship Foundation (CMSF) beginning in 2009-10. The majority of the grants provided will be for students from low and middle-income families, who will receive \$250 and \$100 respectively per month. At the provincial level, grants are provided through a variety of mechanisms including the Ontario Access grant, which provides grants up to \$3000 for low-income first and second-year students, the Ontario Distance Grant, which covers some of the costs of travel for students attending school far from home, and the Ontario Student Opportunity Grant (OSOG), which caps repayable debt at \$7300 per two term academic year.

The Problem

A. UNMET STUDENT NEED

The financial aid system often underestimates and underfunds students' costs through the assessment formula. OSAP uses a standard province-wide figure when assessing living expenses, even though these costs are far from equal across Ontario. The result is that students in major metropolitan areas are at a greater disadvantage compared to those in small towns with lower living expenses. Further troubling is that the current living allotment requires students to live

Gap between OSAP Provision and Real Costs for Single Students



substantially below the poverty line. Based off of the current OSAP living allotment for a student away from home, students in an urban area the size of London, Kingston or Hamilton are expected to live on an amount \$3,000 below the low-income cut off measure. For a city such as Toronto or Ottawa, the OSAP allotment is more than \$5,000 below the cut-off.¹ The graph above illustrates the difference between real and assessed costs and the importance of the regional variable. It utilizes cost of living estimates derived from the 2003 Runzheimer report and the OSAP maximum loan to its most recent 2010 re-adjustment to \$12,240 (up from \$11,900 in 2005). Even despite this adjustment, there is still a significant gap between students' real costs and provincial student assistance.

The funding problem is further compounded by the OSAP system's lack of responsiveness to cost increases brought about through tuition increases and inflation. While tuition in Ontario has increased roughly 5% annually since 2006 and textbook costs rise annually far above inflation, the OSAP maximum is increased on only an ad hoc basis by less than inflation. As a result, from year to year, students see their costs rise, but the needs assessment and maximum levels of OSAP assistance fail to reflect these shifts. This stands in contrast to other government services such as the Canada Pension Plan which are fully indexed to the Consumer Price Index to ensure similar purchasing power from year to year.

B. INCOME-BASED GRANTS vs. NEEDS BASED GRANTS

The introduction of the Canada Student Grant Program (CSGP) as the replacement for the Canada Millennium Scholarship Foundation (CMSF) will result in some differences in the way funds are distributed to students in Canada. One major shift is in funding criteria, from criteria based on demonstrated financial need to a formula based solely on income. By using the low-income cut-off as a hard line between the lower level of funding (\$800 per two term academic year) and the upper level of funding (\$2000 per two term academic year), the CSGP will mean that a difference of \$1 in reported income could result in a serious drop in non-repayable support.

Another serious concern is that those under-represented groups who already have the greatest difficulty accessing PSE will now receive less support than under the CMSF. While the CSGP will likely reach more students overall than the CMSF, individual students will receive less funding, affecting those with the highest need most acutely. A best case scenario for someone in the low-income category is \$2000 for a two term school year, down from \$3000 on average from the CMSF program, which will undoubtedly lead to a greater reliance on student loans and a growth in the level of student debt within Ontario.

C. UP-FRONT GRANTS vs. TAX CREDITS

Currently, the provincial and federal governments utilize universal tax credits as incentives for students to attend post-secondary education. This approach has several significant limitations. First, tax measures do not target those with the greatest financial need. In fact, tax credits tend to disproportionately benefit affluent families because tax supports cannot be used unless the student (or a family member) owes income taxes.² Second, while those who cannot use the tax credits can carry them forward to future years, this does not help students pay for their immediate costs of tuition, books or housing – the most pressing need for low-income families. The result is that tax credits are ineffective in encouraging enrolment in higher education within the low-income population.³

-
1. Runzheimer Canada. 2003. *Student Cost of Living Study*. Toronto: University of Toronto. Chart has been updated to reflect the 2010 increase in the OSAP maximum to \$12,240.
 2. Ross Finnie, Alex Usher, and Hans Vossensteyn. 2004. *Meeting the Need: A New Architecture for Canada's Student Financial Aid System*. Montreal: Policy Matters 5.7:14, p16.
 3. Christine Neill. 2007. *Canada's Tuition and Education Tax Credits*. Montreal: Canada Millennium Scholarship Foundation.

D. PARENTAL CONTRIBUTION

The federal and provincial governments both incorporate differing amounts that students are expected to receive from their parents in the needs assessment formula. The Canadian government expects parents to contribute 15% of the first \$7000 in discretionary income, while Ontario expects 25% of this income. For the next \$7,000, the difference grows even further at 20% and 50%, respectively, meaning that the parental contribution is more than double in Ontario for the first \$14,000 in discretionary income. This parental contribution is a significant cost that is incorporated, regardless of if parents are willing to or are capable of contribution to their child's education.

The Solution

1. OUSA maintains the amount of financial assistance allocated to students must be large enough to completely **cover actual tuition and reasonable cost of living expenses and should automatically adjust to changes in tuition and inflation.**
2. OUSA believes the Canadian government should add a **needs-based component to the other criteria for the Canada Student Grant Program**, thereby insuring that financial aid primarily reaches those who can least afford postsecondary education.
3. OUSA asks that the government **abolish all tuition and education tax credits** and instead channel that money into reducing the Ontario Student Opportunity Grant cap and improving the Canada Student Grant Program **to lower long-term student debt.**
4. OUSA advocates for the Ontario government to **lower the parental contribution** or use the federal contribution criteria.