

Background

Ontario's student financial assistance system is composed of approximately 60% aid from the federal government (Canada Student Loan, or CSL) and approximately 40% aid from the provincial government (Ontario Student Loan, or OSL). The two separate loan programs are integrated and offered as the Canada-Ontario Integrated Student Loan, known as the Ontario Student Assistance Program (OSAP).

OSAP's evaluation of need is simple in theory. The program calculates a student's financial need by assessing their educational expenses – tuition, textbooks, living expenses, transportation and childcare – and subtracting what financial resources they have available from their savings, income, and family. The funding calculation can be summarized by the following equation:

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

Regardless of your calculated need, the maximum OSAP assistance is set at \$12,240 for single students and at \$19,040 for married students or those with children. If a student's need exceeds the assistance provided, 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 for tuition and books) through scholarships, bursaries, work-study programs or private loans 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). The majority of grants are for students from low- and middle- income families, who respectively receive \$250 and \$100 per month. At the provincial level, grants are provided through a variety of mechanisms including the Ontario Access Grant, which provides grants up to \$3,000 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 \$7,300 per two-term academic year.

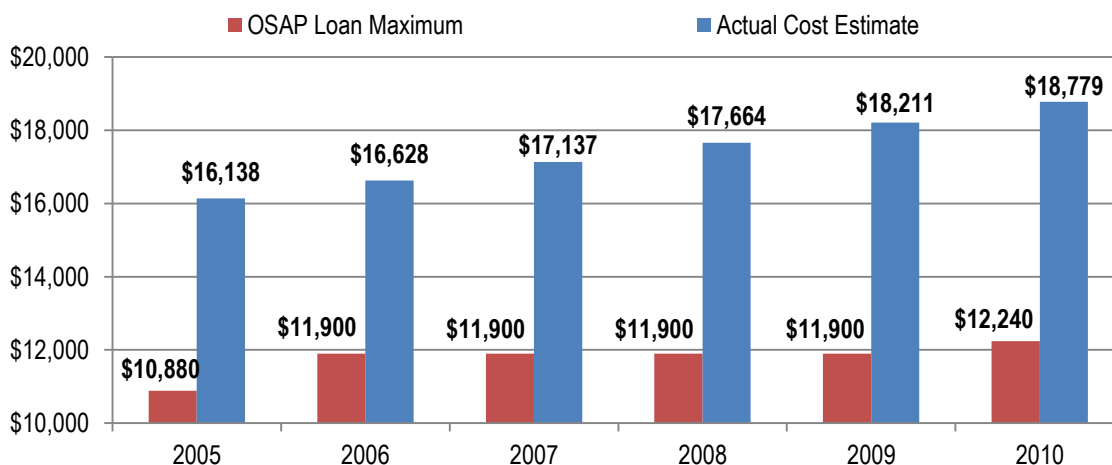
The Problem

Inadequate Assessment of Cost

The financial aid system is currently structurally unable to meet the needs of Ontario students. The federal loan maximum has remained static at \$210/week since 2005, and provincial loan maximum has increased from \$140/week in 2005 to \$150/week in 2010. Neither loan maximum changes to reflect the real cost increases students are facing, including a yearly increase in tuition of at least 5%, resulting in students having less and less each year to commit to non-tuition expenses. For instance, a single student living off-campus who is assessed at the loan maximum will receive \$12,240 from OSAP while experiencing a real cost of \$18,779 – leaving them more than \$6,000 short. The chart below demonstrates the stark contrast between the OSAP need assessment and the real cost of an education over the last five years¹:

¹ Cost of living estimates based averages from on Runzheimer Canada, *Student Cost of Living Study* (Toronto: University of Toronto, 2003), subject to the Ontario Consumer Price Index inflation to 2010 and average tuition increases of 5%.

Comparison of Cost Estimate and OSAP Loan Maximum for Single Student Living Off-Campus



One area in which OSAP grossly underestimates students' costs is in the living assessment. 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 areas with lower living expenses. Furthermore, the current living allotment requires students to live 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.²

Additionally, OSAP expects far too much of dependent students' parents. Parents of students out of high school for less than four years are expected to contribute a percentage of their income. The federal and provincial components of OSAP, however, differ significantly in their assessment. The federal government considers much less of net income to be discretionary than does the Province. Moreover, the provincial government expects parents to contribute a much higher percentage of their discretionary income than does the federal government, as detailed in the chart below. Ontarian families are expected to contribute far more than they are generally able to their child's education, and as a result their children are often unable to get the funding they need through OSAP.

Parental Contribution Formulas for Canada and Ontario, 2010-11³

Annual Discretionary Income	Canada	Ontario
\$0 - \$7,000	15%	25%
\$7,001 - \$14,000	20%	50%
\$14,001 and over	40%	75%

Loan Repayment and Debt

The heavy reliance on loans in Ontario's student financial aid system has left students in the province with significant debt loads. In 2009, the average amount of student debt in Ontario was \$25,778. Furthermore, the incidence of Ontario graduates with debt has consistently risen between 2000 and 2009; Ontario is the only province that has not seen a decrease in the incidence of debt over this period.⁴ This is particularly problematic given the inverse relation between debt load and likelihood of continuing studies. Students with annual loans in the range of \$3,000 to \$9,999

² 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.

³ Ministry of Training, Colleges and Universities, *2010-2011 Student Eligibility and Financial Need Assessment Manual*.

⁴ Canadian Millennium Scholarship Foundation, 2009. "Price of Knowledge."

had a 51 percent probability of degree completion, and student with annual loans greater than \$10,000 had just a 34 percent probability of graduating.⁵ These students will not be able to access the full economic benefits of receiving a post-secondary degree through increased income levels, and will take years to pay back the cost of their education.

Up-front Grants vs. Tax Credits

Currently, the provincial and federal governments use universal tax credits as incentives for students to attend post-secondary education. The Ontario government spends approximately \$330 million per year on tax credits; Ontario students can claim approximately \$2,000 in tax savings annually.⁶ However, 63% of students are in fact ineligible for these credits because the amount they owe in taxes does not exceed the amount of the credit.⁷ They must either carry them forward or transfer them to a family member, and are thus unable to use them during their study.

Moreover, tax credits do little to enhance access for low-income students and their families, instead primarily benefiting those who already have more wealth. In 2004, families in the top income quartile – with an average income of \$200,100 – claimed an average tuition and education tax credit of \$2,000. Families in the lowest income quartile, with an average income of \$28,800, claimed an average of \$520 on their education tax credits.⁸ 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, unlike grants and bursaries. The result is that tax credits are ineffective in encouraging enrolment in higher education within the low-income population, and do little to increase access.⁹

The Solution

1. 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. The Ontario Student Loan assessment must **reduce its expected parental contribution** by harmonizing it with the federal contribution criteria.
3. The province should **set a long-term goal of reducing the \$7,300 threshold** for the Ontario Student Opportunity Grant to contain student debt and increase the non-repayable aid available to students.
4. The provincial government should **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.**

⁵ Ibid.

⁶ Christine Neill. 2007. *Canada's Tuition and Education Tax Credits*. Montreal: Canada Millennium Scholarship Foundation.

⁷ Canada Revenue Agency, "Students and Income Tax", January 31, 2006; accessed online at <http://www.cra-arc.gc.ca/E/pub/tg/p105/p105-e.html>.

⁸ Christine Neill, "Tuition and education tax credits" (presentation to the CASFAA/Millennium Conference on Enhancing Access to Post-Secondary Education, Ottawa, Canada, September 16, 2006).

⁹ Christine Neill. 2007. *Canada's Tuition and Education Tax Credits*. Montreal: Canada Millennium Scholarship Foundation.