

# Registered Education Savings Plans

## A National System of Grants for the Wealthy

### Introduction

Federal funding cuts to post-secondary education during the 1990s resulted in massive tuition fee increases in every jurisdiction except Québec. Even with the recent collapse of the world's economy (due in no small part to ballooning personal debt and stagnant wages), the federal government has chosen to ignore its responsibility to restore funding to universities and colleges, and reduce up-front costs. Instead, the government continues to advance an approach whereby the individual is forced to pay an increasing portion of the cost of education:

Period	Individualised Cost-Bearing Mechanism
Pre-enrolment	Registered Education Savings Plans
Study	Access to debt (student loans)
Post-graduation	Interest on student loan debt

From this perspective, RESPs are a core program in a user-pay funding model that reduces the role of the federal and provincial government in funding post-secondary education.

### The Registered Education Savings Plan

The Registered Education Savings Plan is an investment vehicle that allows a contributor to save for a child's post-secondary education. Unlike Registered Retirement Savings Plans (RRSPs), the RESP contributions are not tax deductible. However, the savings grow tax-free until the beneficiary is ready to go full-time to college, university, or any other eligible post-secondary educational institution. Under the current rules, one can contribute up to a lifetime limit of \$50,000. Contributions can be made for 31 years and the plan must be collapsed after 35 years.

The RESP is, in fact, a national system of indirect grants to those who can afford to save, as the income generated by the RESP accumulates tax-free. The foregone tax revenue is tantamount to a grant payable only to RESP investors. Since 2000, the federal government has spent over \$1 billion on the RESP program.

### The Canada Education Savings Grant

For those who can afford to save, the federal government's system of wealth-based grants does not stop with RESPs. In addition to the indirect grant described above, the federal government also offers a direct grant to any parent with an RESP account. The Government of Canada tops up the first \$2,000 in RESP contributions made on behalf of an eligible beneficiary each year with a grant called the Canada Education Savings Grant (CESG).

The grant can be as much as \$500 each year per beneficiary up to a lifetime maximum grant of \$7,200 per child. In other words, those wealthy enough to put aside \$2000 per year from the time their child is born until the end of the year in which the child enrolls in post-secondary education will have received a tax-free government grant of \$7,200.

In response to widespread criticism about the regressive nature of the RESP and CESG programs, the federal government attempted to make the programs more appealing for low-income Canadians by introducing changes to the CESG in the 2004 federal budget. The CESG payout was adjusted on a sliding scale to, at least in theory, be more

generous to low-income recipients. Beginning in 2005, children born into a low-income family can receive \$500 towards an RESP account (the "Learning Bond") plus \$100 for every subsequent year the child's family qualifies as low-income.

Rather than acknowledge the real factors putting higher education out of reach for low-income families, the Learning Bond's proponents cling to a naïve vision for solving social ills: "Through savings incentives and supports such as financial literacy, low-income earners are encouraged to save

for their future goals. With the right incentives the poor can and do save!"<sup>1</sup>

Nevertheless, speaking in purely financial terms the amount of money that low-income Canadians may accumulate under a Learning Bond will be wholly inadequate to cope with the rapidly increasing costs of universities and college. Dennis Howlett, former Executive Director of the National Anti-Poverty Organisation has noted that "When people

"These plans came under heavy criticism in mid-July from the Ontario Securities Commission for their sometimes dodgy sales practices, early redemption penalties, and loose portrayal of investment returns".

Jonathan Chevreau, *Financial Post*,  
August 28, 2004

# \$4.75 billion

Amount spent by the federal government since 1999 on the CESG program

# \$4,530

Average gap in post-secondary education savings between low- and high-income families

# \$770 million

Amount expected to be spent by the federal government for the 2009-10 year on the RESP and CESG

# \$345 million

Up-front grants offered by the federal government through the CSGP in the 2009-10 year

are struggling to feed their children and keep a roof over their heads, they have no extra money available to 'invest' in university education, even if they were better informed about the costs and benefits...starting salaries, even for those with a university education, have been falling for some time, at the same time as the costs of education have been rising, making it less and less of a good investment".<sup>2</sup>

Government-sponsored education savings vehicles also promote uneven spending across the country. In provinces where forward-looking governments have kept tuition fees low, such as Québec, parents will have less need to save. The federal government has openly conceded this point: "The lower RESP take-up rate in Québec is likely attributable to the province's publicly funded college system (CEGEP) and relatively low university tuition fees for Québec residents".<sup>3</sup> Thus, Quebecers and families in other lower tuition fee provinces have a diminished benefit from a multi-billion dollar federal grants program.

The biggest winners of the increased emphasis on savings schemes are undoubtedly the RESP providers. The federal government has created a profitable scheme for the banks at the expense of access to college and university. Further, the education savings industry has repeatedly been the subject of criticism from both the Alberta and Ontario Securities Commissions for its sales tactics.

## Four Billion Dollars and Counting

Since the CESG is a "statutory" expenditure, there is no predetermined budget for the program: if every single eligible Canadian could afford an RESP, the federal government would have to pay out the corresponding CESG.

In the past ten years the Government of Canada spent \$4.75 billion on Canada Education Savings Grants. In terms of what the Government of Canada is prepared to spend annually on CESGs, if every eligible parent invested the maximum \$2,000 in CESG-eligible RESP contributions this year, the CESG program would cost approximately \$3 billion *each year*.

## Benefiting Those Who Need it the Least

Research on RESP's shows that high income Canadians benefit far more from this program than do low income households. In 2001, children from

households in the lowest quintile (incomes under \$25,000) made up only 9.7% of families who were saving for post-secondary education. Households with incomes exceeding \$85,000 (the highest quintile) accounted for 31% of savers.<sup>4</sup> The average savings by high-income families was nearly \$7,000 in 2001, whereas low-income households only

saved one third that amount on average.

Taken together, the RESP's and CESG's represent a multi-billion dollar system of indirect and direct grants to primarily high-income families.

"[Canada Education Savings Grants]'s give scarce public funds to the wrong households... the CESG program should be discontinued".

UBC Economist Kevin Milligan

## Conclusion: Towards an Effective and Fair Grants Program

The federal government has failed at improving access to post-secondary education through equipping under-represented families with adequate education savings. That said, even if the program succeeds at improving savings levels, it is still problematic as savings-based access to education re-frames the question about affording high tuition fees as a question about the individual and their savings history, rather than about Canada's collective resources and the collective responsibility to make education affordable to all.

Students with financial need would be better served if the RESP and CESG programs were converted into up-front needs-based grants. The federal government expects to spend \$770 million on the CESG and RESP in 2009, more than double the amount being distributed by the Canada Student Grants Program and what it would cost to convert almost one-third of the money lent out by the Canada Student Loan Program into up-front grants.

## Endnotes:

1. Peter Nares, Executive Director of Social and Enterprise Development Innovations.
2. National Anti-Poverty Organisation news release "Anti-poverty Organization Critical of New Education Report", July 7, 2005.
3. Planning and preparation: First results from the Survey of Approaches to Educational Planning (SAEP) 2002. Statistics Canada.
4. Formative Evaluation of the Canada Education Savings Grant Program: Final Report.

