

Registered Education Savings Plans

Canadian Federation of Students

cfs fcée

Spring 2015

Federal funding cuts to post-secondary education during the 1990's resulted in massive tuition fee increases in every province except Québec. The government has made some efforts to restore funding in recent years, however tuition fees have continued to increase far faster than inflation. While the federal government has failed to allocate sufficient funding to ensure that post-secondary education is affordable for all Canadians, it continues to devote significant amounts of money to education-related tax-credits and savings schemes, including the Registered Education Savings Plan (RESP).

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, RESP contributions are not tax deductible. However, the savings grow tax-free until the beneficiary is attending college or university full-time. Under the current rules, one can contribute up to a limit of \$50,000. Contributions can be made for 31 years and the plan must be closed after 35 years. The RESP allows the beneficiary to invest income without paying taxes, making the program act as a form student financial assistance, accessible only to those who can afford to save.

The Canada Education Savings Grant

The federal government also offers a direct grant to anyone who is investing in an RESP. Each year, the government tops up the first \$2,000 in RESP contributions for each eligible beneficiary with a grant called the Canada Education Savings Grant (CESG).

The grant can be as much as \$500 a year for each beneficiary, to a lifetime maximum of \$7,200. Parents wealthy enough to save the full \$2,000 per year from the time their child is born until they enrol in university or college will have received a tax-free grant of \$7,200. By contrast, those parents who cannot afford to save receive no benefit from the program.

Problems with the Programs

The federal government responded to widespread criticism of the regressive nature of the RESP and CESG by introducing changes in the 2004 federal budget to make the programs more appealing to low-income Canadians. The CESG was put on a sliding scale to, at least in theory, be more generous to low-income recipients. Children born into a low-income family became eligible for \$500 the first year they opened an RESP account (the "Learning Bond") plus \$100 for every subsequent year the child's family qualified as low-income. Despite the program now offering some benefit to

low-income families, it is still massively disproportionate. While middle-income and high-income families received an estimated \$780 million from the CESG in 2014, low-income families are estimated to have only received \$113 million through the Canada Learning Bond program.¹

Rather than acknowledging that rapidly increasing costs are the primary factor

putting higher education out of reach for low-income families, the Learning Bond's proponents cling to the naïve vision that: "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!"²

The amount of money that low-income Canadians were able to accumulate through the Learning Bond is wholly inadequate to cope with the rapidly increasing costs of post-secondary education.

"When people 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."

Dennis Howlett,
Canadians for Tax Fairness

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, and Newfoundland and Labrador, parents need to save less to afford to send their children to college or university. The federal government has openly acknowledged this point: "The lower RESP take-up rate in Québec is likely attributable to the province's publicly funded college system and relatively low university tuition fees for Québec residents".³ Thus families residing in provinces with lower tuition fees and/or more generous financial aid programs receive less of a benefit from this multi-billion dollar federal program. This provides a motivation for provincial governments to increase fees, because they know that their residents will see an increased benefit from this federal program as costs rise.

\$5,483

AVERAGE GAP IN
POST-SECONDARY
EDUCATION SAVINGS
BETWEEN LOW- AND
HIGH-INCOME FAMILIES

\$1.05 billion

AMOUNT EXPECTED TO
BE SPENT BY THE FEDERAL
GOVERNMENT FOR THE
2014-15 YEAR ON THE RESP
AND CESG

\$736 million

STUDENT GRANTS
OFFERED BY THE FEDERAL
GOVERNMENT IN THE
2014-15 YEAR

The biggest winners of the emphasis on savings schemes are undoubtedly the banks that offer RESP accounts. The federal government has created a profitable scheme for the banks at the expense of low-income families. The education savings industry has repeatedly been the subject of criticism from both provincial Securities Commissions for its deceptive sales tactics. As Jonathon Chevreau noted in a 2004 issue of the *Financial Post*, "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".

Four Billion Dollars and Counting

Since the CESG is a "statutory" expenditure, there is no predetermined budget for the program. If every eligible Canadian could afford an RESP account, the federal government would have to pay out the corresponding CESG. In the past ten years alone the Government of Canada spent over \$5 billion 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 RESPs has found that high-income families benefit far more from this program than do low-income households. In 2007, children from households in the lowest quintile (incomes under \$20,000) made up only 4.7 percent of families who were saving for post-secondary education. Households in the highest income quintile (incomes exceeding \$80,000) accounted for 34.6 percent of those who benefited.⁴ In 2013, just over 40 percent of households earning less than \$30,000 had post-secondary education savings for their children, compared to over 80 percent of households earning over \$100,000. As of 2013, the average accumulated RESP savings held by high-income families was nearly \$13,000, whereas that accumulated RESP savings of low-income households was just over \$7,000. Taken together, the RESPs and CESGs represent a multi-billion dollar system of financial aid geared primarily to those families that need it the least.

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

Kevin Milligan
UBC Economist

Conclusion: Towards an Effective and Fair Grants Program

The federal government's misguided priorities have failed to improve access to post-secondary education for those who need it. Even if the program succeeds at encouraging families to save, it will not accomplish its goal of making education affordable. These programs reframe access to education as a question of a family's ability to save rather than Canada's collective ability to make education affordable for all. This failed proposition will never produce a truly affordable system.

Students with financial need would be better served if the money currently spent on the RESP and CESG programs were reallocated into needs-based grants. The federal government will spend an estimated \$1.05 billion on the CESG and RESP in 2014. This is almost double the amount that the federal government gives in direct student grants and approximately what it would cost to convert one-third of the loans given by the Canada Student Loan Program into non-repayable grants.

Sources:

1. Treasury Board of Canada, Supplementary Estimates (C) 2014-2015
2. Peter Nares, Executive Director of Social and Enterprise Development Innovations.
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. 2009.