

AFFORDING OUR FUTURE

*Leveraging Ontario's investment
in post-secondary education*

OUSA

Ontario Undergraduate Student Alliance

ONTARIO UNDERGRADUATE STUDENT ALLIANCE

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PREAMBLE & OVERVIEW

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It is no secret that Ontario faces a considerable economic challenge. At a time when Ontario is tackling a \$16 billion dollar deficit, all Ontarians are being asked to do more with less. Higher education is not immune to the economic realities of this situation. Currently, Ontario's tuition is the highest in the country, and Ontario families have dug deeply to continue to enable their children to pursue higher education.¹ At the same time, Ontario's per-student funding from government is the lowest. Although tuition and funding are long-term challenges, with real economic consequences for the province, students understand that in the short-term there is a need to look to cost neutral strategies that improve the accessibility and efficiency of our higher education system without greatly increasing per-student cost to the government or families.

Students are pleased that Ontario Budget 2012 maintains important investments in student financial assistance. Higher education is not just an expense; it's an investment. The lifetime income potential of a university graduate is up to a million dollars higher than a high school graduate.² Despite only comprising a quarter of the population, university graduates pay over half of the income tax collected by the province.³ In 2011, those with post-secondary education had only a 4.7 per cent unemployment rate, less than half the rate of those without any education.⁴ This gap will only widen as Ontario moves towards an economic model where 70 to 85 per cent of all jobs require post-secondary education.⁵ In fact, investment in higher education is crucial to the future economic and social well-being of Ontario.

Not only does OUSA recommend that the recent investments the Ontario government has made in post-secondary education remain in the budget, but we also strongly believe that they should be improved upon in order to ensure an effective use of funding and truly meet the needs of students. This submission is structured around three major priorities relating to recent investments in higher education:

Priority I: Continue and improve upon the Ontario Tuition Grant.

- *Ensure that independent students who are Aboriginal or have a child under the age of 12 are adequately supported by the Ontario Tuition Grant.*
- *Extend eligibility for the Ontario Tuition Grant by one year for first-entry students in five-year programs.*

Priority II: Maintain the Ontario Student Opportunities Grant debt cap at \$7,300 per annum.

- *Maintain the cap on student debt provided by the Ontario Student Opportunity Grant at \$7,300. In the long term, the government should develop a strategy to lower the cap.*

Priority III: Gradually phase out Ontario's tuition and education-tax credits and divert incremental savings to up-front grant programs.

- *Gradually phase out Ontario's tuition and education tax credits and divert incremental savings to up-front grants.*
- *Cease issuing new tuition and education tax credits and allocate year-to-year savings to currently existing student grant programs or reductions in tuition.*

Additionally, a note towards the end of this document concerns the future post-secondary costs and the need for reform in the Ontario university sector. Though this is not the focus of this committee, students would like to point out several long-term trends that pose significant difficulties for the future of higher education in Ontario. First, that university costs are rising at a rate faster than government funding has kept up. This has meant that students have picked up the bill through tuition increases. Students do not believe that this is sustainable or fair, and believe that a conversation should be had between government, universities and sector stakeholders on the future of post-secondary funding.

PRIORITY I: CONTINUE AND IMPROVE THE ONTARIO TUITION GRANT

In January 2012, the Ontario government announced the Ontario Tuition Grant program, which has changed the financial assistance landscape in the province significantly. The new grant is available to approximately 300,000 Ontario students, and has been received by approximately 200,000 students in the winter 2012 interim launch. Eligible students must meet the following criteria:

- A Canadian Citizen, Permanent Resident or Protected Person;
- As of the start of your current study period, Ontario is the last province in which the student, spouse or parent resided for 12 consecutive months without being a full-time post-secondary student;
- A full-time student (minimum 60 per cent of a full course load as defined by the student's institution);
- Students with disabilities will be eligible if they are enrolled in minimum 40 per cent of a full course load.
- Been out of high school for four years or less;
- Students with disabilities will be eligible if they are out of high school for six years or less.
- In satisfactory academic standing;
- Studying toward a first-entry college or undergraduate credential at an Ontario public university or college;
- From a family with a combined parental income before taxes of less than \$160,000;
- Not currently restricted from receiving OSAP due to default, misrepresentation, fraud or second overpayment.

The Ontario Tuition Grant is a major step forward for the affordability and accessibility of post-secondary education in Ontario. The grant is being paid for in part by the elimination of three existing student aid programs, namely the \$39 million Textbook and Technology Grant program, the \$25 million Ontario Trust for Student Support and the \$35 million Queen Elizabeth II Aiming for the Top Scholarships. While the loss of these grants is regrettable and disappointing, the new grant still represents an investment in new non-repayable

assistance for students. However, such an expensive and important commitment should be designed and executed to have the maximum impact for ensuring equitable access to post-secondary education in Ontario.

Students are concerned that the current eligibility requirements unduly exclude some very high-need groups of students. In particular, students believe that mature students and part-time students need to be better supported by the Ontario Student Assistance Program. With the elimination of the Textbook and Technology Grant, which was available to all OSAP recipients studying in Ontario, these students will actually receive less financial assistance in 2012-13 than they did this year.

Recommendation: Ensure that independent students who are Aboriginal or have a child under the age of 12 are adequately supported by the new tuition grant.

Estimated cost to government: \$5-10 million

Students are very concerned that the eligibility requirement excluding students who have been out of high school for more than four years is shutting out sub-populations that are already financially vulnerable. OUSA was very pleased to see that students with disabilities were accommodated in the grant program through the extension of the eligibility period and a reduction in the definition of a full course load to 40 per cent for these students. Expanding eligibility to more Aboriginal students and students with dependents continue to remain priorities for students.

Aboriginal students are already severely underrepresented in post-secondary education – only 9 per cent of the Ontario Aboriginal population aged 25-64 has a university degree, compared to 26 per cent of the non-Aboriginal population - a gap that has widened in recent years.⁶ There are a number of reasons for this underrepresentation but financial barriers are chief among them. Aboriginal students are more likely to come from low-income families, and federal Post-Secondary Student

Support Program (PSSSP) funding has been capped while the university aged Aboriginal population continues to grow, leaving many students unable to access these funds. Most concerning for the purposes of the Ontario Tuition Grant is that more than half of Aboriginal students are mature and are thus ineligible.⁷ The median length of time between graduating high school and entering post-secondary education is 15 months for Aboriginal students, compared to just 4 months for non-Aboriginal students.⁸ There are a number of reasons for this, including wait times for PSSSP funding, the need to work and save money for education, the increased likelihood of attending college prior to transferring to university, and the nearly one in three Aboriginal students who care for a dependent child.⁹

Like Aboriginal students, students with dependents are already under-represented in higher education and are more likely to be mature. For example, individuals who have a child before age 26 are less than half as likely to attend university as those with no children. The presence of a dependent disproportionately impacts women: a woman under 25 with a dependent child is only 20 per cent as likely to attend university as her peers. Individuals with children are more likely to be mature students because they often take longer to complete a credential or come back to school after an absence. The median number of months between high school graduation and entering post-secondary education is 16 months for those caring for children.¹⁰ Students with children also tend to have significant unmet need, as the OSAP assessment dramatically underestimates real costs for housing and childcare. When individuals with dependents are unable to access higher education, this also has broader economic and social repercussions for the province.

Both of these relatively small “high need” groups are largely excluded from the tuition grant since it is distributed only to students who have been out of high school for four years or less. Moreover,

“Only 9 per cent of the Ontario Aboriginal population aged 26-64 has a university degree...”

these mature students have now lost the \$150 Textbook and Technology Grant. We propose that students out of students who indicate that they are Aboriginal or have a child under the age of 12 on their application receive the Ontario tuition grant regardless of how long they have been out of high school. Based on preliminary calculations, we anticipate the approximate cost of such an extension would be \$4 million for Aboriginal students and \$2 to \$5 million for students with children. It should also be extended to the very small number of students in Ontario in five-year undergraduate degree programs.

Recommendation: Extend the eligible time period of the Ontario Tuition Grant for first-entry students in five-year programs.
Estimated Cost to Government:
\$2-4 million

Another group of students left out in the current design of the new tuition grant is co-op students registered in five-year programs. These students only pay four years of tuition fees, but they are spread out over five years due to alternating academic and work terms. It would be a minor cost to extend eligibility for these students to the full standard length of their program, particularly given that they will receive the grant for the same number of academic terms as a non-co-op student. While co-op students do earn money while working, these students also face significantly higher costs due to five years of living costs, frequent moving expenses, and co-op fees that add between \$2,000 and \$3,500 to tuition costs, depending on the institution. It only seems reasonable that these students should be treated as other first-entry students and be eligible for the tuition grant for the normal duration of their program.

PRIORITY II: MAINTAIN THE ONTARIO STUDENT OPPORTUNITIES GRANT DEBT CAP

The Ontario Student Opportunity Grant (OSOG) is a long-standing grant program allocated to the heaviest borrowers in the OSAP system. These grants are allocated through debt reduction (also called loan remission), so that borrowers will see their level of debt held to \$7,300 for a two-term academic year or \$10,950 for a three-term academic year. Students borrowing over these amounts are automatically provided the grant without a separate application after completing the academic year and all income reported to OSAP is verified by the Canada Revenue Agency.¹¹ Under the current OSAP loan limits, the annual grant can be up to \$4,940 for single students and \$11,740 for students with spouses and/or children. In 2010-11, there were over 93,000 OSOG recipients, meaning 34 per cent of all OSAP recipients had borrowed above the OSOG threshold.¹²

The Ontario Student Opportunity Grant is amongst the most effective tools that the provincial government has to improve the financial assistance available to students. The grant benefits those students with the greatest financial need, from the lowest-income backgrounds, the most by acting as a cap on student debt. Research on student financial assistance has noted that OSOG has played a key role in keeping student debt in Ontario from growing considerably over the last decade, making Ontario one of only three provinces to avoid substantial growth in student debt levels.¹³

Given that use of student loans has increased over the last several years, OSOG is more vital than ever in preventing students from graduating with unreasonable debt levels. Students with more debt are less likely to invest, buy homes and cars and participate in the economic growth so vital to Ontario's future.¹⁴ High levels of student debt have also been shown to increase likelihood of student dropouts.¹⁵ OSOG is not only a safeguard of Ontario's student debt level, but also an important

piece of our economic future. After the 4% increase to the OSOG threshold in 2010, the importance to students of the Liberal platform commitment to keep the debt cap frozen cannot be understated.

Recommendation: Maintain the cap on student debt provided by the Ontario Student Opportunity Grant at \$7,300. In the long term, the cap should be lowered.

No new funding required.

“In 2010-11, there were over 93,000 OSOG recipients, or 34 per cent of all OSAP recipients.”

PRIORITY III: PHASE OUT TUITION & EDUCATION TAX CREDITS

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In the 2007 general election, the Ontario Liberal Party promised to move provincial funding spent on tuition and education tax credits to a grant program aimed at the beginning of the school year. Since this time, Ontario has spent well over a billion dollars on tax credits. In 2011 alone, Ontario spent \$310 million dollars on tuition and education tax credits, making them the second largest student financial assistance program offered in the province.¹⁶ This will remain the case in 2012, even when the new tuition grant is taken into account.

The commitment to reallocate the funds spent on tuition and education tax credits was made in recognition of the fact that they are not a particularly effective vehicle for distributing student financial assistance. The most recent estimates of tuition and education tax credit claims show high-income families receiving an average benefit of \$2,000 and low-income families receiving an average benefit of \$520. This is particularly concerning given the fact that the participation gap between high and low-income students has continued to widen.

Furthermore, tax credits are not disbursed at a useful time to students of any income background.

As they are claimed and disbursed in the spring, students who face difficulty paying their September and August tuition are not helped at all by the \$310 million spent annually on tax credits. Finally, their status as an income tax credit implies that the student must have paid sufficient income tax in order to claim the full credit. Currently, only one in three students makes sufficient income in order to make use of tax credits.¹⁸ The rest must transfer their credits to family members or defer for use in future years.

In recognition of the ineffectiveness of tuition and education tax credits, the Drummond Commission recently recommended that their elimination should be explored, and funds be re-invested in up-front grants.¹⁹

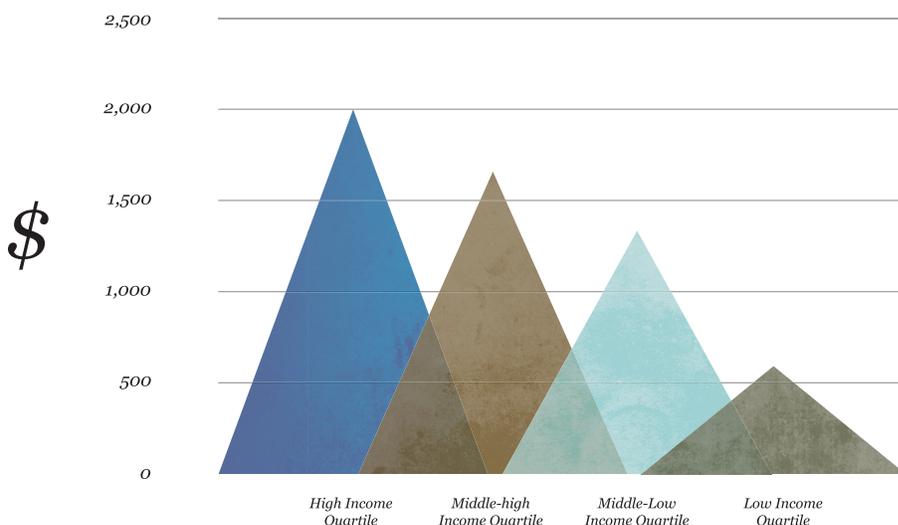
Implementing Tax Credit Conversion in a Cost Neutral Fashion

Since the 2007 Ontario Liberal promise to move tuition and education tax credits into an up-front grant program, students have eagerly awaited its implementation. However, the implementation of this promise has been characterized as complex, difficult, and not necessarily cost neutral, which

has hindered progress in eliminating the program. These concerns, and strategies on how they can be mitigated, are outlined below.

One longstanding concern over the elimination of tax credits has been related to the need to pay out existing credits to eligible students. The government would not be able to move the \$310 million directly into an up-front grant program while paying out tax credits that have been carried forward for future use without drastically expanding costs in the short term. To remedy

AVERAGE POST-SECONDARY TAX CREDITS CLAIMED BY INCOME GROUPS¹⁷



this concern, students suggest that tax credits be gradually phased out with incremental savings used to fund improvements to student financial assistance as funds become available. If tax credit savings were to be allocated directly to improving Ontario Student Assistance Plan (OSAP) or tuition reductions, the intention to move tax credit funds to up-front grants could be accomplished with no up-front costs to government.

The administrative barrier seems to be that if tax credit funding were to be moved into a new grant system, hidden administrative costs would be added to the system. Students suggest that if either the funds were not provided universally, but instead targeted to those with the highest need through the government's new Ontario Tuition Grant, OSAP, or be used to fund a tuition reduction, funds could be used to enhance student affordability with no administrative burden. In particular, the Ontario Tuition Grant program has already created a grant distribution program separate from OSAP that would allow the tax credit funds to be distributed independently from a student loan, a method research has suggested would improve financial assistance for debt-averse students.

Some have argued that tax credits should continue to be offered because they are the only financial assistance available to middle-income families whose children do not qualify for OSAP. Putting aside the fact that the top income quartile – not middle-income families – receives the most benefit from these credits, there is a solution to this concern: use part of the funds spent on tax credits to expand OSAP eligibility to middle-class families. Students have long pointed to the inadequacies of the OSAP need assessment formula, especially the unreasonable parental contribution expectations that disqualify many middle-income students. Just a small portion of the savings from tax credits could extend OSAP eligibility to all middle-income families across the province. Finally, current post-

secondary tax credits from the federal government would still be available to all families.

Recommendation: Cease issuing new tuition and education tax credits and allocate year-to-year savings to currently existing financial assistance programs or reductions to tuition.

“Only one in three students makes enough income in order to make use of tax credits.”

THE NEED FOR A REFORM STRATEGY

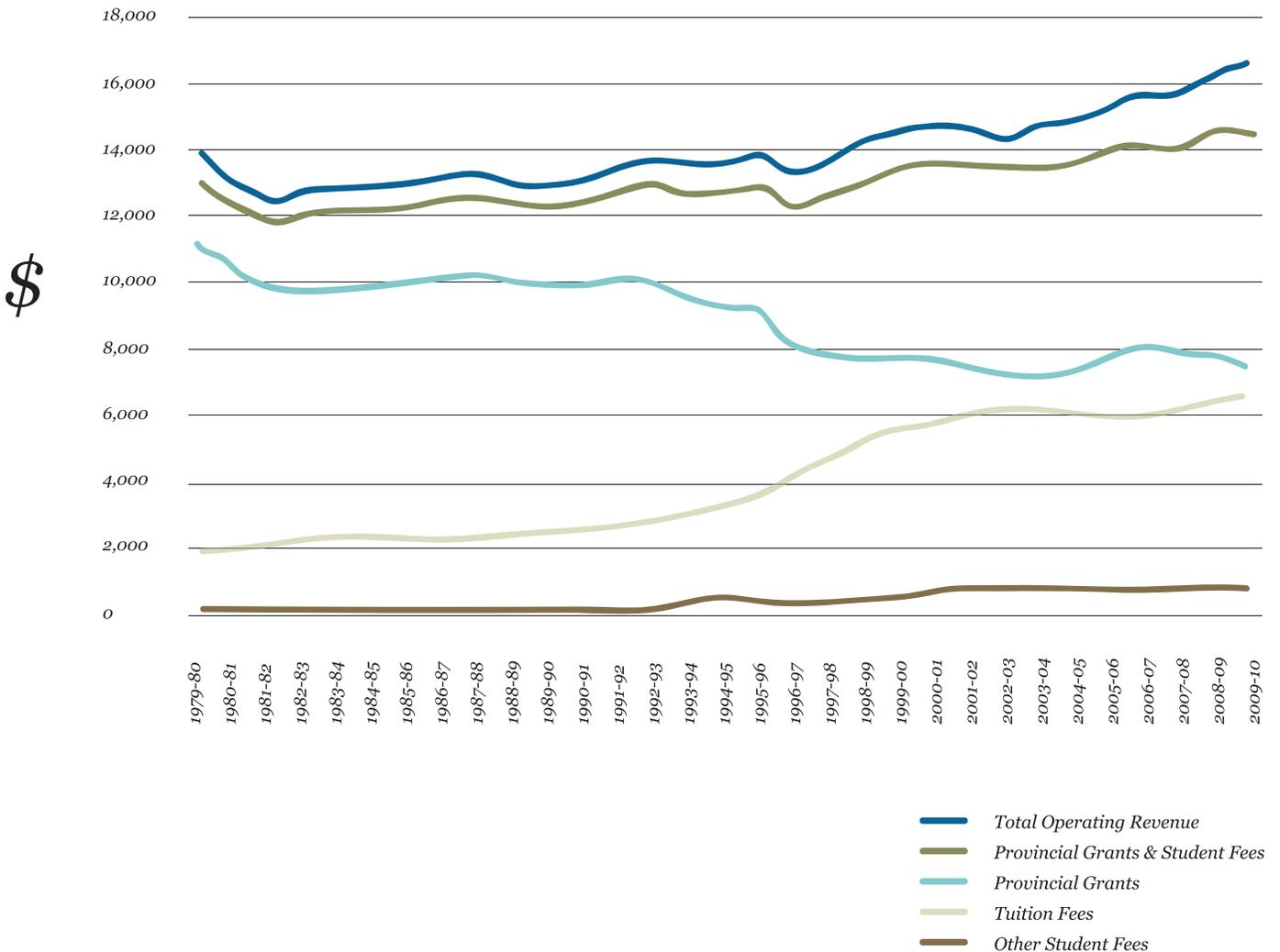
One issue that future budgets will need to address is the long-term fiscal sustainability of post-secondary education in Ontario. Current trends paint a deeply troubling future for post-secondary education, from an affordability and service quality perspective. This statement applies to government, students and families alike.

While total per-student revenue increased by nearly 20 per cent in constant dollars between 1980 and 2010, this increase has come almost exclusively from increases in tuition, as per-student

government funding has fallen considerably in real terms.²⁰ Many institutions have argued that universities face severe constraints in delivering high-quality post-secondary education. The crux of these arguments hinges on two issues: the need for increased resources to accommodate rising enrolment; and the argument that costs in the university sector increase at a faster pace than the broader economy. At the same time, current deficits at both the federal and provincial levels have resulted in reluctance to substantially increase per-student funding for higher education.

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TOTAL UNIVERSITY OPERATING REVENUE BY SOURCE, CONSTANT 2010 DOLLARS



To even an observer unacquainted with the Ontario university system, this trend would appear to be deeply troubling. A public university system with sharply rising costs, combined with an ongoing government deficit, would appear to necessarily precipitate difficult times: downsizing, cuts, tuition increases or controversial attempts to control cost inflation. Indeed, much of the conversation on the finances of higher education centres around the tuition vs. government funding debate; the idea being that if the government isn't willing to increase per-student funding to meet institutional demands, then tuition fees should be allowed to increase at a rate that will compensate. Student groups, including OUSA, have significant concerns with such proposals, due largely to the impact that tuition increases have on the affordability and accessibility of higher education for low- and middle-income students and their families, in addition to the fundamental concerns about continued downloading of costs from the public to students. Attention has necessarily begun to shift to how to do more with existing resources.

While many institutions face serious capacity issues with regard to classroom space, residence accommodation and student support service capability as a result of substantial enrolment increase, universities are not operating with less revenue per-student than was previously the case. Institutional costs rising faster than the general rate of inflation is the primary reason why many universities are in dire financial straits. Indeed, over the past five years, university expenditures have outpaced the general rate of inflation by 2.4 per cent.

By far, the largest increases in institutional expenditure are associated with salary and benefits for faculty and administrators, merit-based student financial assistance, and capital projects. Many of these inflationary pressures have been necessary and unavoidable. For instance, high-quality university education relies on instruction from

fairly compensated professors. Capital projects are necessary to ensure that campuses have the facilities to house and educate a growing student population. Finally, while students have real concerns that merit-based entrance scholarships do little to increase the accessibility of higher education, institutional financial assistance is an important tool for helping students afford rising costs.

If none of the major components of cost inflation are easily controllable and government resources do not increase, then the coming budget crunch could have a significant impact of the quality of the educational experience. In many ways, quality is already being squeezed by rising costs.

With few realistic alternatives to maintain quality in an environment of shrinking discretionary resources, the only option left for universities is to reform how existing funding is used. In the coming years, students hope that the higher education sector will demonstrate an ability to contain costs in a fair and progressive manner that improves the quality of the learning experience. More per-student funding is required from the Ontario government in order to meet the demands of the future economy. However, Ontario universities and government will need to find efficiencies in the delivery of higher education if we are to preserve quality and affordability.

Recommendation: Initiate a conversation on quality and cost in post-secondary education in Ontario, involving all official parties, student groups, government, universities and colleges.

“Together, universities and government will need to find efficiencies in the delivery of higher education...”

CONCLUSION

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Students applaud recent investments that Ontario Budget 2012 makes in post-secondary education. We believe that grant programs such as the tuition grant and the Ontario Student Opportunity Grant help ensure that students from all socio-economic backgrounds can access a post-secondary education, and the associated social and economic benefits. From a broader perspective, students believe that a well-educated population able to meet the skill-needs of Ontario's future economy is absolutely critical for the continued economic success of the province. In a context where 75 to 80 per cent of new jobs require a post-secondary credential, Ontario needs to continue to invest in the post-secondary sector.

We believe the suggestions made in this report will help improve the efficiency of existing grant programs, allowing more to be done with less. It is important to note that while some new spending is proposed in this submission, it is overshadowed completely by savings that could be accrued through phasing out the tuition and education tax credits. The Drummond Commission's recommendation that tuition and education tax credits be eliminated supports the view that these funds could be used more effectively. Students believe that moving funding spent on tax-credits towards improving student financial assistance would better improve the accessibility and affordability of higher education for Ontario families.

The principles of efficiency and preservation of progress should be at the heart of future Ontario budgets as well. To this end, students believe that a robust conversation on the costs of post-secondary education should be had amongst all relevant parties. Many in Ontario's post-secondary sector have developed innovative ways to improve quality in a cost-efficient manner, but these ideas have not yet received the sort of wide-ranging discussion they deserve. As Ontario moves towards Budget 2013, students hope that this ceases to be the case.

ENDNOTES

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