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EXECUTIVE SUMMARY

Over the past decade, major shifts have taken place in the funding of Canadian post-secondary education, with implications for the financing of student participation. More of the costs of post-secondary education (PSE) are now being borne by students, while governments have reduced their direct post-secondary funding on a per-student basis. The evidence suggests that many families may be unprepared for the costs they will face in helping their children pursue a post-secondary education.

The big gap in our knowledge concerns the strategies families are using to manage the costs of PSE. The issue of the impact of PSE costs on families is a broad one. It concerns students and their choices, parents and their strategies, and the interactions between the two. How are young people being affected? Are they choosing programs based on affordability rather than preference? Are they attending college rather than university, living at home rather than moving out, or postponing PSE? What are the trends in, and levels of, total family debt related to PSE? How do rising family costs affect patterns of post-secondary participation?

The issue of family impacts is also a dynamic one, with student and parent decisions likely to change as a student progresses through PSE. For example, parents may draw down their financial resources as their child progresses through the system, forcing them to adopt new strategies in the later years of PSE. Students may be affected as well, finding that they must work part-time, attend school part-time or seek out alternative sources of funding, including personal loans.

Canadian Policy Research Networks has undertaken this study for the Canada Millennium Scholarship Foundation to assess current knowledge about post-secondary costs, how they are affecting family debt, what gaps remain in our knowledge of these issues and what further research could be useful. This analysis focuses on three questions:

- What strategies do families use to finance post-secondary education?
- What are the trends in levels of family debt related to post-secondary education?
- Have rising costs changed post-secondary participation patterns?

We reviewed literature from Canada and the United States to ascertain what is currently known and identify research and data gaps. This paper recommends possible future research directions and suggests how the knowledge gaps can be addressed in the medium- and long-term.

Key Findings

Financing strategies

The most important sources of funding for Canadian students are family support, student loans and part-time jobs. There is evidence that the average net worth of families with post-secondary-age children has declined and that family savings are in most cases inadequate to meet PSE expenses. A significant percentage of Canadian students may now be working while in school or borrowing from private sources to meet unfunded PSE costs or to supplement or replace parental contributions.

It is essential that those responsible for student aid programs be aware of the full range of strategies employed by students and their families, how choices of strategies change over time and how the costs of PSE affect families. Current information on how PSE costs are managed must be developed and maintained. To help meet this objective, additional research should address the following questions:

- What strategies do students and families currently use to finance PSE?
- What are the characteristics of full-time PSE students who are working part-time while in school?
- To what degree are students working or borrowing from private sources to cover unfunded need resulting from high costs, to supplement or replace parental support or simply to enhance their lifestyles?
- Are parents contributing what they are expected to contribute, based on their income?

Debt trends

We found limited information on the debt assumed by Canadian two-year college graduates. The average debt of Canadian university graduates who borrow is between \$20,000 and \$21,000. It appears that 10 to 20 per cent of college and university students are now borrowing funds from private sources, such as banks.

Average debt levels may not be excessive, considering the increased earnings that graduates can expect over their working lifetimes. However, students with the greatest need may have considerably more debt than average. These levels are not documented, and could be troublesome. It is also important to understand the extent to which debt aversion may affect access to PSE and whether graduates can service high levels of debt without undue hardship.

We therefore propose that further research be undertaken involving students in their final year of study. The following questions should be asked:

- How much debt do graduating students have?
- What are the characteristics of students in the top quartile of debt on graduation?
- Did the need to work and extend time to graduation contribute to the indebtedness of those in the top debt quartile?
- What are the public and private components of total debt of those in the top debt quartile?
- Is the debt-to-earnings ratio of those in the top debt quartile manageable?

We could not find any information to document trends in Canadian parents' debt. Evidence from the U.S. suggests that many parents borrow to help finance PSE. In the U.S., many parents borrow from government-sponsored PSE loan programs. Such programs do not exist in Canada, so some Canadian parents might be expected to take out private bank loans, borrow against lines of credit or take out second mortgages on their homes. While such measures may or may not cause hardship, they almost certainly have an impact on other aspects of parents' lives, including their spending and perhaps their retirement savings as well. Parents with more than one child enrolled in PSE will face greater financial demands. The question of parental debt is closely related to the question of parental PSE financing strategies, and should represent an important component of this research.

Participation patterns

The gap in PSE participation rates between low-income and middle-income students widened in the mid-1990s. We know that low-income students are sensitive to the price of post-secondary education and that unmet need is an issue for some. A number of students reduce class loads to allow for part-time employment, and rural students may be opting for shorter college programs, which are available locally. While they represent a minority, some students now indicate that they do not pursue further study due to financial considerations.

For equity reasons, it is important that policy development be informed by current information on access to PSE. We propose that additional research be conducted to address the following questions:

- What are the characteristics of qualified students who choose not to proceed on to PSE? What are their reasons for not attending?
- What are the characteristics of students entering PSE? What are their reasons for choosing college or university?
- What reasons do students give for leaving PSE? How long do students take to graduate?
- What is the frequency and amount of unmet need under student assistance programs?

Recommended Research

Given the urgent need for knowledge of how Canadian families are coping with the rising costs of PSE, the Foundation should act now to develop a survey instrument that would generate linked information on students' and parents' financing strategies. In addition, a number of new databases could yield partial information on financing strategies, debt levels and participation patterns.

In addition, for each of the three policy areas in question, annual survey instruments should be developed to support program evaluation and policy reviews. Ideally, this work should be done in consultation with all student aid stakeholders.

Future Directions

We lack nationally comparable research data in the area of student assistance. Much of the data we do have is dated. Aid providers, Statistics Canada and other interested parties periodically conduct research on student assistance, but they do not normally collaborate or co-ordinate the design of their research. They use different methods to collect data and different formats to report data sets. It is clear that Canadian student aid agencies and other interested parties need to improve their research collaboration and partnerships to enhance their data collection and analysis efforts.

This paper proposes a model for increased collaboration in research on PSE-related issues. Under this model, partners could share their research proposals before implementing them, in order to get input on issues such as survey design and content. Researchers could also work to integrate their current datasets. This would improve the research capability of all jurisdictions and lead to more informed decisions with respect to student aid program design.

Significant resources are directed towards the study of student assistance and its impact in Canada each year. While this report recommends that a number of additional studies or surveys be undertaken, such action should not necessarily require additional resources from the system in total. If the various parties put more effort into coordinating research activity and design, this could reduce overlap and duplication and thereby more than compensate for the cost of implementing the recommendations put forward in this report.

CHAPTER 1 — INTRODUCTION

Over the past decade, major shifts have taken place in the funding of Canadian post-secondary education, with implications for the financing of student participation. In most provinces, more of the costs of post-secondary education are being borne by students in the form of rising tuition fees. Governments have reduced their direct funding of PSE on a per-student basis. Between 1986/87 and 2000/01, for example, government support for universities decreased by 4.5 per cent, while revenue from private sources, primarily student fees, rose 167 per cent; from 1991/92 to 2001/02, revenues from student fees slightly more than doubled (Robertson 2003). Students also face significant costs for housing and living expenses, especially if the college or university they choose requires them to live away from home.

Demographic, social and economic trends point to a continued high demand for PSE. The size of the feeder population is growing. This partly reflects the demographic impact of the baby-boom echo. Furthermore, many young people today have parents who took part in the last wave of post-secondary expansion in the late 1960s and the 1970s — and are therefore likely to encourage their offspring to pursue a post-secondary education. Finally, economic trends emphasize the need for a post-secondary education in order to have the skills needed to succeed in the knowledge-based economy.

The evidence indicates that many families may be unprepared for the costs they will face in helping their children pursue a post-secondary education. For example, evidence from Statistics Canada (*The Daily*, April 10, 2001) shows that most families are not saving for their children's PSE, and that most of those who are saving have not saved enough to cover all PSE costs. Young students are unlikely to have saved much for college or university on their own. Further, capacity constraints mean that some families who had planned for their child to live at home during PSE now face the prospect of significantly increased costs if their child must leave home to attend a college or university elsewhere. Deregulation of tuition fees for professional programs has resulted in very substantial increases in tuition and related costs and, as a result, growing concerns about the “representativeness” of students in those programs. Finally, access to government student loans is regulated through need assessment, with income cut-offs that effectively screen out most middle-income families.

A fairly substantial body of literature has arisen on the topic of student debt, especially debt associated with government student loan programs. Data are also beginning to emerge regarding family savings for PSE. A bigger gap in our knowledge concerns the strategies that families use to cope with post-secondary costs. Are families saving enough to enable them to cover all the costs associated with PSE? What other strategies are families using to put their children through school — for example, paying off their mortgages before their children reach the PSE stage to free up income for PSE (a pay-as-you-go strategy); taking out personal loans or second mortgages; delaying retirement or reducing retirement savings; postponing other major expenditures? How are young people being affected? Are they choosing programs based on affordability rather than interest? Are they attending college rather than university, living at home rather than attending school out of town, or postponing PSE? What are the trends in, and levels of, total family debt related to PSE? And how are rising family costs affecting patterns of post-secondary participation?

1.1 THIS REPORT

The Canada Millennium Scholarship Foundation has commissioned this study to assess the state of our knowledge about how post-secondary costs are affecting family behaviours, borrowing and debt, and how further research on this issue could be undertaken. Its objective is to determine what further research would be practical and desirable and to formulate recommendations on how such research might be carried out.

We conducted a review of Canadian and American literature to determine what is currently known about these issues and how such information was collected. Our review included Statistics Canada surveys, studies conducted by provinces and the federal government, American studies and other relevant literature.

Our literature review and analysis focused on three main issues:

- What strategies do families use to finance post-secondary education?
- What are the trends in levels of family debt related to post-secondary education?
- Have rising costs changed post-secondary participation patterns?

We analyzed the data to determine whether it could answer these questions, and if not, what kinds of gaps existed in the information available. The literature reviews and gap analyses relating to each of these questions are reported separately in Chapters 2, 3 and 4. Chapter 5 recommends research that could be undertaken in the medium- and long-term.

This report only analyzes information pertaining to full-time students and their families. Due to the significant changes to the student aid environment over the last decade, literature based on data that was more than ten years old was excluded from the review. This study does not synthesize all that is known about the questions listed above. Instead, its purpose is to determine whether the information needed to produce such a synthesis exists. Its main conclusion is that there are significant gaps in our knowledge and in the data needed to answer these questions, especially with respect to parental PSE financing strategies and impacts. It makes a number of recommendations as to how these research and data gaps can be addressed.

CHAPTER 2 — WHAT STRATEGIES DO FAMILIES USE TO FINANCE POST-SECONDARY EDUCATION?

To understand how families cope with post-secondary education financing, one would need to know the combination of funding sources or strategies used:

By the student:

- from past income (savings)
- from current income (e.g., cash gifts from parents, part-time work, bursaries, scholarships or spousal contributions)
- from future income (e.g., government loans, private bank loans, loans from parents or credit cards).

This student information should be categorized:

- by socio-economic status (SES)
- by student aid category (dependent at home, dependent away from home, single independent, married or student with dependants).

By the parents:

- from past income (e.g., savings, RESPs or paying off mortgage)
- from current income (e.g., in-kind contributions, employment, second job or use of tax credits)
- from future income (e.g., bank loan, second mortgage, delaying retirement or borrowing from retirement funds).

This parental information should be categorized by SES.

Factors which would influence the amount of parental contribution required include:

- the student's total educational and living costs
- the parents' combined income
- the size of the student's family.

It is also important to know whether the total amount of parental support and student assistance is enough to cover the total cost of PSE attendance or whether students use certain strategies, like part-time employment, to offset the shortfall from other funding sources.

Access to longitudinal data is important for monitoring trends.

