Tuesday’s budget contained two major policy announcements related to access to education. These two proposals – a new Learning Bonds initiative and improvements to the Canada Student Loans Program – amount to the largest reform of Canada’s system of student support since the multi-billion dollar Canadian Opportunities Strategy of 1998. In this issue of Epicentre, the Educational Policy Institute takes a look at these important new initiatives and evaluates their likely impacts.

Learning Bonds

The showpiece budget announcement is the creation of a system of “Canada Learning Bonds” (CLBs). Modeled on a similar program recently announced by the Blair government in the United Kingdom called the Child Trust Fund, this program will provide every child born into a low-income family (defined as per National Child Benefit guidelines as families with incomes under $35,000) with a $500 “bond”, cashable for post-secondary education once the child turns 18. Subsequently, these children will qualify for $100 CLB instalments until age 15, in each year their family is entitled to the NCB supplement. Children born after 2003 who are not eligible for the CLB at birth but become entitled to the NCB supplement in a subsequent year will qualify at that time for a $500 CLB and thereafter become eligible for the annual $100 CLB instalments. A child in a low-income family could therefore receive CLB payments totalling up to $2,000. It is estimated that in 2004 the CLB will benefit over 120,000 newborns, at a cost of $85 million.
Budget (continued from Page 1)

The central idea behind the program – that a $500 endowment at birth plus annual $100 top-ups will change low-income parents' long-term views about post-secondary education - may have a ring of flakiness to it, but the idea is rooted in some very sensible and innovative policy thinking. The notion of using assets in addition to income as a long-term move to reduce poverty was first introduced by Professor Michael Sherraden in his 1991 book Assets and the Poor: A New American Welfare Policy. The basic thinking behind providing the poor with assets rather than income is that it helps them to overcome the “short-termism” that often accompanies poverty. Providing assets lengthens the planning horizon and promotes stability, investment in human capital, and reduces the risk-aversion of poor families. The OECD recently reviewed a number of asset-based poverty-reduction projects and gave them a favourable – albeit tentative – review (report available at: http://www1.oecd.org/publications/e-book/8403051E.PDF). An alternative, less favourable treatment of asset-based programs issue can be found at: http://www.ifs.org.uk/pensions/abw.pdf.

The budget announcement does not contain enough details concerning the operation of the Learning Bonds program to permit a thorough analysis at this point. Many of the details remain to be worked out over the coming months. However, for this program to be deemed effective, the Government of Canada will need to find solutions to two key problems:

1) Currently, many provinces’ welfare systems prohibit asset-building. Once savings reach a certain level, welfare recipients are required to cash them in – effectively liquidating their assets or face penalties on their welfare cheques, their current income stream. If this situation is not changed, many of the people who could potentially benefit the most from this program will find themselves penalized instead. Will the Government of Canada be able to persuade provincial governments to change these policies prior to the introduction of the program?

2) Depending on how the management of these bonds is structured, one major effect of the program might be to create a very large windfall gain for the country’s financial institutions. The worst eventuality would be that they end up being managed in the same manner as the existing Canada Education Savings Grants, which may be held and managed by any provider of Registered Educational Savings Plans. These plans are not managed gratis; annual management fees are deducted from the principal of the account. Assuming that these bonds will earn an average of 5% per annum, and assuming that the financial institutions charge a modest management fee of 1.5%, it follows that financial institutions will be making roughly $250 off each of these $500 endowments over the 18-year life of the bond. By creaming off what amounts to 40% of the accumulated interest over 18 years, financial institutions (FIs) will effectively be the recipients of a $40 million subsidy for every cohort of children receiving the bond.

The prospect of FIs making off with $40 million per annual cohort on a program designed to help low income children is admittedly a worst-case scenario. The Government of Canada could avoid this unpalatable problem by restricting the program to a few FIs, selected on the basis of competitive bids, who could offer the government the best fund management terms. Alternatively, it could manage the money itself and simply provide regular updates on the status of the “account”, in much the same manner as it does...
Budget (continued from Page 2)

with the Canada Pension Plan. In the end, the Government needs to answer the following question: will it be able to create a program that promotes long-term savings for low-income kids without creating a windfall for FIs?

Obviously the answers to these two questions will not be known for several years. Nevertheless proponents of this potentially innovative and successful initiative will need to minimize the drawbacks at an early stage.

In addition to the learning bonds, enhancements to the Canada Education Savings Grant were announced. Responding to criticism that the plan was effectively just a subsidy for high income earners (see Kevin Milligan’s CD Howe commentary, Tax Preferences for Education Saving: Are RESPs Effective? at: www.cdhowe.org/pdf/commentary_174.pdf), the government suggests variable matching rates according to family income in order to make the program more progressive. Budget 2004 proposes that, beginning in 2005, this 20-per-cent matching savings rate be doubled to 40 per cent for families with incomes up to $35,000. It also proposes increasing the rate to 30 per cent for families with incomes between $35,000 and $70,000. These enhanced CESG rates will apply only to the first $500 contributed in a year to a child’s RESP. This is expected to cost $80 million annually.

Canada Student Loans Program

The Government of Canada also announced several major changes to the Canada Student Loans program. Details on these improvements are still sketchy, as none of them are intended to be introduced until the 2005-06 loan year. The major changes are:

- Changes to expected parental contribution levels in the Canada Student Loans Program in order to ease the burden on middle-income families. These are expected primarily to benefit approximately 40,000 families in the $60-100,000 income bracket whose children currently have great difficulty receiving assistance because the contribution formula assumes that their parents are providing a much larger share of costs than is actually the case. Details remain sketchy on the scope of the changes, although the estimated cost of this measure - $10 million/year – suggests that the adjustments will for the most part be modest.

- Changes to need assessment procedures to permit more realistic cost assessments. At the moment, this change seems restricted to allow students to claim the purchase of a computer as a legitimate cost, which is eminently reasonable given the ubiquity of computers in education and in students’ homes. No separate cost estimate has been given for this item.

- An increase of $45 in the weekly loan limit for full-time student borrowers. This key measure will see the first major increase in money available to students since 1994. After ten years of inflation and tuition hikes eating away at the purchasing power of student loans, this will be welcome news to many students. It will also, however, create friction with several provinces and may become a flashpoint in federal-provincial relations over the next year (see below). The new combined federal/provincial assistance limit for single students without dependents will in most instances rise from $9,350/year to $10,880/year. Should provinces also increase their loan limit to follow the nominal 60/40 split in assistance (something that is by no means assured in many provinces), assistance limits could move as high as $11,900. The total cost of this measure is estimated to be $74 million/year.

- The introduction of a grant for first-year low-income students. Another welcome measure specifically targeted at students accessing post-secondary education for the first time, this grant will cover up to one-half of the cost of tuition up to a maximum of $3,000. It is estimated that 20,000 dependent students will receive the new grant each year, at a cost of $30 million.

- Improvements in Interest Relief. Another welcome measure which increases the income-sensitivity of debt repayments will see funds allocated to increase the thresholds for interest relief eligibility by five per cent.

- Debt Remission in Repayment Improvements and Grants to Students With Disabilities. Budget 2004 has re-announced two measures from previous budgets: to help ease debt remission, and provide up to a $2,000 increase in an up-front grant for students with disabilities.

The major changes to the Canada Student Loans Program are effectively a Made-in-Montreal package; most of them stem from research papers published by the Canada Millennium Scholarship Foundation over the past two years. Changes to parental contributions and loan limits, in particular, stem from work done by current Acting Research Director Fred
Hemingway in a paper published just over a year ago. Realistic cost assessments and the need to target income, rather than “need”, were both identified as priorities at annual policy research meetings held jointly by the Foundation and the Canadian Association of Student Financial Aid Administrators, over the past two years.

Effects of CSLP on students

Undoubtedly, one of the most common refrains that will be heard on budget night will be student groups opposing higher loan limits on the grounds that they would result in higher student debt which in turn would deter lower income students from attending PSE. Indeed, the Canadian Federation of Students has already gone on record to say that an increase in loan limits (and hence in increase in student debt) is tantamount to a rise in tuition fees.

This worry about higher debt is justified, but only to a point. First, it is by no means certain that an increase in loan limits actually means an increase in borrowing. Provincial grant and loan remission programs function in such a way as to limit total borrowing. If provinces leave their existing programs unchanged - a big “if” - considering the financial implications for cash-strapped provinces (see below, effects of CSLP changes on provincial governments for details) - the main effect of higher federal loan limits will be to increase the size of the provincial grant programs, not higher debt.

Second, while increased student debt loads are demonstrably a bad thing for recent graduates who often struggle with difficult loan payments, they are not a major deterrent to access. Recent data from Statistics Canada shows that only about 6% of young Canadians who choose not to go to PSE cite debt as the reason for their decision.

Third, while there are risks in increasing loan limits, there are also risks in not increasing loan limits. Since 1994, the after-tuition purchasing-power of the maximum student loan for single students has decreased from about $7,500 to under $5,000. The first duty of any student assistance program should be to make sure that students have enough money to keep body and soul together, and present loan limits make that extremely difficult.

Critics might suggest that it would be better to solve this problem through need-based grants rather than through loans, which, it is argued, would be better for the poor. A fine theory, except for the fact that a disturbingly low proportion of need-based grants actually go to low-income students. A

Upcoming Publications from EPI

From time to time, the Educational Policy Institute produces free research and policy papers. The first such paper in its Canadian series was The More Things Change…Undergraduate Student Living Standards After 40 Years of the Canada Student Loans Program, which was released to the public on 15 March, 2004. Future publications in the Canadian Higher Education Report series include:

I Love You, Brad, But You Ruin My Student Loan Eligibility: The Perils of Marriage in Canadian Student Assistance Programs.

Savings and Loans: The Effects of Canada Education Savings Grants on Student Loan Eligibility.


Also, watch out for our Election Special, which will include an analysis of the major parties’ platforms on higher education for the federal election expected later in 2004.

This spring, EPI will also be launching a new International Higher Education Report Series. Titles include:

Eliminating Barriers to Post-Secondary Education: The Role of Student Financial Assistance in International Perspective.


Taxing Thoughts: The Tax Treatment of Education in OECD Countries.

EPI also publishes work outside the EPI research series. Coming up in the next three months:

Who Gets What? and Are the Poor Needy? These two papers by Alex Usher look at the distribution of student financial assistance by income quartile and conclude that need-based assistance often rewards the rich and that more than half of all subsidies for post-secondary education go to children from families with above-median incomes. Both papers are due for publication by the Canada Millennium Scholarship Foundation in June 2004.

A New Architecture for Student Assistance. Appearing soon from the Institute for Research and Public Policy is a new policy paper from Alex Usher with Ross Finnie of Queen’s University and Hans Vossensteyn of the Centre for Higher Education Policy Studies (CHEPS) in Twente, Netherlands.

Tuition Policies and Access Trends in Five Nations, and Access and affordability in 50 US states and 10 Canadian Provinces provide an international perspective on tuition policies and enrollment trends around the world. EPI has completed work on these two reports, expected to be published late this spring by the Canada Millennium Scholarship Foundation.
significant portion of grants in fact go to kids from upper income families who become high “need” by moving away from home and/or enroll in expensive programs.

This strange policy quirk accounts for the government’s decision to create a grant targeted specifically at low-income students. By targeting low-income students instead of high-need students the Government of Canada is recognizing that existing grant programs are probably poorly-targeted. At present, the Government of Canada is limiting the program to first-year students in order to avoid overlap with the Millennium Scholarship Foundation’s programs, which exclude first-year students.

Finally, a large number of students are likely to become eligible for student loans for the first time. The Government of Canada’s decision to open the program to families in the $80-100 000 family income range, as well as the decision to ease expected contributions from middle-income families, will expand the reach of the program considerably. While this measure is unlikely to do very much in terms of access to education.

The effect of CSLP changes on provincial governments

The effect of the loan limit increase on provincial government finances is perhaps as significant as its impact on students. In effect, the outcome is the reverse of that seen with the creation of the Canada Millennium Scholarship Foundation; in the Foundation’s case, the federal government’s attempt to give out grants interacted with fixed provincial loan remission programs in such a way as to create savings for provinces (students with Foundation bursaries borrowed less and were thus less eligible for provincial programs). For precisely the same reasons, an increase in loan limits will, ceteris paribus, create new costs for provinces (students will borrow more and hence be more eligible for provincial programs). The loan limit increase will have serious cost implications for remission and grant programs in Alberta, Saskatchewan, Ontario, Newfoundland and, to a lesser extent, Manitoba. In total, these implications could range between one- and two-hundred million dollars per year. Cutbacks in provincial grant and remission programs may become a real possibility if governments cannot meet these increased program costs.

Conclusion

The 2004 federal budget is an impressive step forward for the Government of Canada. The Learning Bonds represent a new and interesting – if untested – approach to lifelong learning. The Canada Student Loans Program changes, assuming that difficulties with provincial governments can be overcome, represent a major improvement on the present system. The poorest students will get a new set of grants, a large group of middle-income students will be admitted to the program for the first time, and all will benefit from higher assistance limits which will reduce the amount of “unmet need” in the system. While there are still challenges to be met in terms of implementation, March 23, 2004 deserves to be remembered as a good day for students.

Current EPI Projects

The Price of Knowledge 2004. EPI Vice-President Alex Usher is again teaming up with co-author Sean Junor to produce the second edition of this landmark educational factbook published in 2002. The 2004 version has major revisions and improvements to reflect the vast new amount of access-related data generated in the last two years by Statistics Canada and the Canada Millennium Scholarship Foundation.

CMEC-OECD Seminar on Student Financial Assistance. To be held in Quebec on May 3-4, EPI has been producing the agenda as well as collecting data and performing research for the meeting. Watch out for new research from EPI concerning parental savings programs and access to education.

The Bill and Melinda Gates Foundation

EPI was recently awarded a contract to conduct an in-depth analysis of the economic, civic, and social justice rationales for postsecondary participation and attainment. The report will look at the arguments for and against increasing the number and percentage of students prepared for and accessing a postsecondary institution from the perspective of the greater impact on society as a whole.

National Council on Disability

EPI, with partner American Youth Policy Forum, just completed a working draft for the National Council on Disability, a congressionally-mandated unit, on the impact of the U.S. No Child Left Behind (NCLB) Act on students with disabilities in secondary school. The draft is due to be published in May 2004.

The Pew Hispanic Center

EPI recently completed Latino pathways to and through postsecondary education in the US, due to be published this spring.

Early Intervention Program Evaluation

EPI is currently conducting an evaluation of three early intervention programs in New Jersey—ASPIRA of New Jersey, the Boys and Girls Club of Newark, and the Princeton-Blairstown Project.
THE MORE THINGS CHANGE

Forty years ago, a milestone in Canadian social policy was created: the Canada Student Loans Program (CLSP). This bit of Canadian legislation is approaching its birthday – and in this spirit the Educational Policy Institute (EPI) conducted a study examining the program’s impact on university access and student finances since its inception.

The report, The More Things Change…Undergraduate Student Living Standards After 40 years of the Canada Student Loan Program, does not rely on time-series data to look at changes to the population. Until the late 1990s, Canada was shamefully negligent in collecting data on students and access to education and as a result there is very little worthwhile data about student living standards from late 1960s to the late-1990s. Instead, the study relies on comparisons of snapshots of data from 1965 and from 2002. The paper looks at changes to the undergraduate student body and student living standards since the introduction of the CLSP in 1964. The main findings are:

- 38% of today’s students come from families with below-median incomes vs. 28% in 1965.
- 64% of today’s students seek part-time work to fund their education vs. 25% in 1965.
- Parents today are contributing significantly less towards their children’s education than their counterparts 40 years ago, both in relative and absolute terms. Money from parents made up 35% of a student’s budget in 1965 vs. 17% today.
- Students are borrowing a greater share of their income today than 40 years ago, but they are also receiving more grant money as well.
- The most notable changes to the student body since 1965 are that females, once very much in the minority, have come to represent the majority of undergraduate students on Canadian campuses. Second, the smaller proportion of the student body coming from the top income quartile – and a greater proportion coming from each of the other three – suggests that despite higher tuition, educational opportunity has increased over the past four decades.

Because the report examined available data on student incomes and expenditures, it was able to highlight major changes to student finances since 1964. Some of the more striking changes in student income, include a sharp drop in the proportion of income obtained through summer employment savings, as well as parental contributions. However, the proportion of student income that comes in the form of a loan increased, as did student assistance. The proportion of income obtained through part-time work during the school year also increased – likely driven by the now-common experience of in-school employment which was not the norm in 1965.

Yet many things have remained remarkably constant. For instance, relative to the Canadian population as a whole, undergraduates’ standard of living hovers around 40% of the average wage-earner’s pretax income. Moreover, the parental education of students over-represents families with some higher education today as in the past. In 1965 and 2002, the overall contribution of labour income to total income, the ratio of grants to government loans, and the general division of student expenditure between tuition, housing, personal items and so forth, remained virtually unchanged.

Overall, the significant widening of educational opportunity observed in the student body composition since the Canada Student Loans Program was launched 40 years ago, suggests that the CLSP has been a central and successful policy tool.

Download “The More Things Change” from the EPI website: www.educationalpolicy.org

Download In-School Employment Status of Undergraduate Students
Retaining Minority Students in Higher Education

The demand for post-secondary education has increased greatly over the past several decades in the United States. Yet educational attainment levels continue to be substantially lower for African Americans, Hispanics, and American Indians than for Whites and Asians. A recent publication, written by EPI president Watson Scott Swail with Kenneth Redd and Laura Perna, Retaining Minority Students in Higher Education, is a key reference for stakeholders regarding the realities and strategies of student retention.

A review of available data suggests that increasing the share of students of color who attain a bachelor’s degree requires attention to four critical junctures: 1) academic preparation for college; 2) graduation from high school; 3) enrollment in college, and; 4) persistence in college to degree completion. The literature regarding minority student dropout abounds; in particular, Tinto’s attrition model has become a foundation for research regarding student departure. But without a clear explanation of what the model represents, it is difficult for administrators and practitioners to fully comprehend the significance of the model and how it relates to campus policy.

Swail’s Geometric Model of Student Persistence and Achievement, presented in the publication, provides a user-friendly method for discussion and focus on (a) the cognitive and social attributes that the student brings to campus; and (b) the institutional role in the student experience. The geometric model is unique; it places the student at the center of the model, while allowing us to discuss the dynamics between cognitive, social, and institutional factors – all of which take place within the student experience (See Figure 1).

These three forces combine to provide a solid foundation for student growth, development, and persistence. But when stability among these factors is lost, students become at risk of dropping or stopping out. This model works to help describe the persistence process and the delicate balance between student resources (what the student brings to campus) and institutional resources (what the institution provides for the student). The strength in the model and the following conceptual framework is in their ability to help institutions work proactively to support student persistence and achievement.

A Conceptual Framework for Student Retention

This campus-wide retention model was designed to provide administrators with a strategy and framework to build a student retention plan that incorporates the individual needs of their students and institution. It should allow administrators and planners to devote more of their time to planning and management.

From an administrative perspective, the strategies introduced in the model are not prescriptive. They are alternatives and institutional practices that are consistent with both current thinking within the various communities and what we have been able to ascertain through the research literature. As well, this framework will be particularly significant in providing an understanding of the various roles that will be expected and required of administrators, faculty members, and staff members on campus if a program is to be successful.

The retention framework is classified into five components: financial aid, recruitment and admissions, academic services, student services, and curriculum and instruction. The framework components are further broken down into categories, and subsequently into specific objectives. Details of the

Figure 1. Swail's geometric model for student persistence and achievement
Implementation, Leadership, and Concluding Thoughts

Change is complex, and real change demands that an institution-wide, coordinated effort across all departments and levels takes place so that change agents can navigate difficult waters. Senior campus leadership, a key to implementing retention programs, must play two important roles: 1) monitor institutional progress toward clearly stated campus retention goals; and 2) coordinate and lead all stakeholders—students, parents, other campus administrators, faculty, and staff—toward stated goals. Unfortunately, faced with competing priorities, most presidents do not appear to be engaged in these issues at present.

Developing and implementation a comprehensive student retention program requires a commitment from leaders, faculty, and staff. The authors’ experience in dealing with these issues, as well as the many discussions with campus officials and faculty, resulted in the following short list of essential factors which suggests that a comprehensive student retention program must:

- Rely on proven research
- suit the particular needs of the campus
- be institutionalized and become a regular part of campus service that involves all campus departments and all campus personnel
- take into consideration the dynamics of the change process and provide extensive and appropriate retraining of staff
- be student centered
- operate in a cost effective way, and not tied to soft monies
- have the support of a comprehensive student monitoring system that will become the foundation of all institutional research on campus and support every department
- be sensitive to student needs and to diverse populations

The development of a campus-wide retention program requires: (a) supportive leadership; (b) the willingness to evoke change on campus; and (c) a careful planning effort. If either of these essential factors is missing, the chances for success are limited. Once institutions have ensured that the climate for change exists and the support and guidance of campus leadership is present, the following stages may provide guidance during the planning and development of the retention effort.

Student Retention a Problem?

Let EPI Conduct a Retention Audit for Your Institution

Our team of retention experts has worked for over a decade on the issue of student retention at colleges and universities. Over that time, EPI developed a framework for student retention to help campus leaders visualize, assess, and implement change strategies at the campus level that, in turn, can improve the retention and persistence rates of students.

Now EPI is offering its services to help institutions deal with the complex challenge of improving the retention and persistence rates of all students. From basic data collection and analysis, to site visits and strategic planning, EPI can provide the necessary support to make prudent decisions to improve institutional services to students. EPI provides tools to assess the cognitive and social competencies of students, while also looking at how the institutional services meet the particular needs of students. Services are flexible and scalable to meet the particular needs of each campus.

Services provided by EPI include baseline data collection and data management solutions, use of EPI’s retention audit system to assess campus resources and services, administration and analysis of a student perception inventory and the EQi inventory, and onsite visits to interview faculty and students.

If you would like to learn more about how EPI can help you, call us at (877) e-POLICY, or visit our website at www.educationalpolicy.org/retention.html.