Fourth Edition, 2009

The Price of Knowledge
Access and Student Finance in Canada

7

Student Debt in Canada

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Chapter 7

I. Introduction

More than half of Canadian students graduate with debt. The latest figures suggest that six in ten university graduates and 45 percent of college graduates have amassed some student debt while in school. In 2009, university undergraduates who borrowed to pay for their studies graduated owing an average of $26,680; for college graduates, the figure was $13,600 (although as we will discuss below, debt levels vary significantly from one province to another). These students have decided that the long-term benefits of post-secondary education are worth the short-term financial sacrifices associated with having debt upon graduation.

Most students who borrow do so through government student aid programs: that is, governments lend students money to cover their educational and living costs. Government student loans are typically interest-free during the study period, and the first payment is not due until six months after studies end, although interest does accumulate during this six-month "grace period." Some students, out of either choice or necessity (e.g., if they are ineligible for publicly funded financial aid), opt for loans from banks, friends or family members.

This chapter chronicles student debt in Canada over the past decade. In it, we describe the impact of debt reduction measures introduced at the end of the 1990s on student debt, as well as assessing more recent trends. There are three main areas of focus:

- First, we examine the debt situation of university students. Using data from two sources, we demonstrate how debt has increased much more slowly in the current decade than it did in the 1990s. While student debt doubled in real terms during the 1990s, it only increased by nine percent between 2000 and 2009. This is partly because of the introduction of government-funded debt reduction programs such as the Canada Millennium Scholarship Foundation.
- Second, we examine the situation of college students. While the data are not as complete as those collected at the university level, it is apparent that college debt levels have followed a similar pattern. They declined during the early part of the decade and have been rising since then.
- Third, we examine debt repayment and management. We find that the $20 billion of outstanding student debt in Canada poses a serious challenge to many Canadian post-secondary graduates. Many graduates report difficulty repaying their debt, perhaps because their payments consume an unsustainable portion of their earnings. In recent years, governments have turned their attention toward improving programs that support borrowers during the repayment period, as we will describe.

The chapter will highlight both policy successes and new areas of concern. On the one hand, recent experience shows that improvements to student financial assistance programs can help control the accumulation of student debt. On the other hand, changes to student costs and resources can put pressure not only on student budgets, but on government program budgets as well: as tuition and other costs rise, or as student revenues from sources such as employment fall, controlling student debt becomes more expensive. Thus, while the 2000s have been very different from the 1990s in terms of the dynamics of student debt, there are no guarantees for what lies ahead in the 2010s.

The Government of Canada's decision to create the Canada Student Grants Program to take over from the Millennium Bursary Program after 2008–09 is a positive step, as it provides for a gradual increase in the amount of federally funded grants over a five-year period beginning in 2009–10. Any subsequent changes to provincial tuition or student aid policies or federal transfer payments to provinces, however, will either reinforce or reduce that program's effect. Only time will tell, therefore, which of the two most recent decades—the 1990s or the 2000s—represents the norm and which the exception in terms of changes in student debt levels.

Chapter 7

II. University Student Debt in Canada

During the 1990s, Canadian undergraduate student debt doubled (in real terms). The 45 percent of students who completed an undergraduate degree in 1990 with some level of student debt—including government debt, bank debt and debt from family and friends—reported just over $8,000 in student debt, or $12,271 in 2009 dollars. By 2000, a majority of graduates (53 percent) reported accumulating student debt. The average debt level among the class of 2000 was $20,500, or $24,706 in 2009 dollars. (Please note that unless indicated otherwise, all subsequent dollar amounts reported in this section are given in 2009 dollars.)

Since 2000, a different portrait of student debt has emerged. As discussed in the previous edition of *The Price of Knowledge*, average student debt levels did not change substantially during the first half of this decade. According to Statistics Canada's National Graduates Survey (NGS), the incidence of debt among undergraduates who finished their studies in 2005 was only one percentage point higher than that of graduates from the class of 2000 (54 percent). Furthermore, the amount of debt, after controlling for inflation, had actually declined slightly, from $24,706 in 2000 to $24,548 in 2005.

A more or less similar pattern emerges from the results of the Canadian University Survey Consortium's triennial survey of students in their last year of undergraduate studies. In the early part of the decade, debt levels fell. In 2000, CUSC respondents who borrowed reported having accumulated $24,448 in debt. By 2003, that amount had declined to $22,541 (the incidence of student debt, however, increased slightly from 56 percent in 2000 to 59 percent in 2003).

The CUSC surveys not only corroborate the Statistics Canada findings, but, because they are more frequent, allow us to continue our examination of student debt in this decade. According to the CUSC, by 2006—one year after the most recent Statistics Canada data, which showed a decline between 2000 and 2005—debt levels had started rising again, reaching a level three percent higher than in 2000 ($25,275). The results of the 2009 survey reveal that debt has increased a further five percent since 2006, to $26,680.

In short, average student debt for university undergraduates dipped slightly in the early part of this decade before beginning to rise again at a relatively moderate pace. The bottom line is that while student debt doubled between 1990 and 2000, it has increased by only nine percent in the nine years since 2000 (Table 7.II.1).

There are a number of possible explanations for the substantial change in the dynamics of student

Table 7.II.1 — Undergraduate Student Debt at Graduation in Canada in 2000, 2003, 2005, 2006 and 2009

	2000 (NGS)	2000 (CUSC)	2003 (CUSC)	2005 (NGS)	2006 (CUSC)	2009 (CUSC)
Incidence of debt	53%	56%	59%	54%	59%	58%
Average amount of debt	$20,500	$20,286	$20,074	$22,800	$24,047	$26,680
Average amount of debt in 2009 dollars	$24,706	$24,448	$22,541	$24,548	$25,275	$26,680

Source: CUSC, Graduating Students Survey, 2000, 2003, 2006 and 2009; Statistics Canada, NGS.

debt in Canada before and after the year 2000. One is simply that for most of the decade after 2000, the Canadian economy—and thus its labour market—was performing well, which positively affected the financial resources available to students and their families. Other developments stemmed directly from government policy decisions.

- The first is the moderation of tuition increases. As discussed by Junor and Usher (2004), average Canadian university tuition doubled between 1989–90 and 1997–98, partly in response to government budget cuts in the mid-1990s. This contributed to the doubling of average student debt. As we discussed in detail in Chapter 4 of this volume, tuition has continued to increase since, although not quite as rapidly. Between 1997–98 and 2008–09, university tuition increased by 37 percent. The fact that the growth in tuition fees in the current decade has not been followed by a proportional increase in student debt brings us to the second factor.
- The second development concerns changes in student financial aid policy. Since most student debt is composed of government-provided loans, student debt levels are shaped directly by trends in both the amount of student financial aid provided and in the proportion of that aid that is repayable. As discussed in Chapter 6 of this volume and in detail in the third edition of *The Price of Knowledge* and Berger and Parkin (2008), student financial assistance in Canada underwent substantial changes over the course of the past two decades. The same mid-90s cuts that led to tuition increases also reduced the budgets of student aid programs across the country. After 2000, however, both federal and provincial governments began to reinvest in both loans and grants.

What follows is an analysis of changes in student debt levels since 2000 within the context of tuition prices and student aid policies. As the next section makes clear, government policies with regard to the cost of education and the level and type of financial aid subsidies have an important impact on student debt in Canada.

Student Financial Aid Policy from 2000 to 2005: Controlling Student Debt

With the introduction of the Canada Millennium Scholarship Foundation in 1999–2000 (and related provincial investments in need-based student aid), student assistance in Canada became more generous.[1] The proportion of need-based aid that is repayable (i.e., the loan portion of a student's loan/grant package) decreased from 84 percent in 1996–97 to 70 percent in 2003–04. To put it another way, between the mid-1990s and the middle of the current decade, Canadian governments doubled the proportion of student aid that is non-repayable (i.e., grants and payments to reduce existing student debt—see Chapter 6 for more details). All else being equal, in the wake of this change, one would expect student debt to fall after 2000.

The 2000 and 2003 CUSC surveys of graduating students and the 2000 and 2005 Statistics Canada surveys of graduates allow us to compare undergraduate cohorts immediately before and after the introduction of the Millennium Bursary Program and the expansion of non-repayable student financial aid.[2] Despite a five percent overall increase in university tuition (over and above inflation)—including sharp increases of 14 percent or more in B.C., Saskatchewan, New Brunswick and Nova Scotia—student debt did in fact decrease between 2000 and 2003 by $1,907, from $24,448 to $22,541. Similarly, between 2000 and 2005, the NGS reported that the incidence of student debt grew by one percentage point, while the average amount declined by $157. This suggests that the debt reduction measures put in place in each jurisdiction by the Canada Millennium Scholarship Foundation did their job, as did similar provincial grant programs such as the

1. The Canada Millennium Scholarship Foundation was created with an endowment of $2.5 billion from the federal treasury and a ten-year mandate. In its early years, it dispensed about $285 million per year to more than 90,000 students across Canada. In its later years, its expenditures on need- and income-based bursaries increased to about $340 million per year.

2. The comparison is imperfect for a number of reasons. Most importantly, students graduating in 2000 would have had access to more generous financial aid in their last year of studies than in their first years of university.

Table 7.II.2 — Undergraduate Student Debt at Graduation in Canada in 2000, 2003 and 2005

	2000 (CUSC)	2003 (CUSC)	2000 (NGS)	2005 (NGS)	Difference (2000 to 2005)
Incidence of debt	56%	59%	53%	54%	+1 percentage point
Average amount of debt	$20,286	$20,074	$20,500	$22,800	- $2,300
Average amount of debt in 2009 dollars	$24,448	$22,541	$24,706	$24,548	- $158

Source: CUSC, Graduating Students Survey, 2000 and 2003; Statistics Canada, NGS.

Table 7.II.3 — Undergraduate Student Debt at Graduation in Canada in 2000, 2003, 2005 and 2006

	2000 (NGS)	2005 (NGS)	2000	2003	2006	Difference (2003 to 2006)
Incidence of debt	53%	54%	56%	59%	59%	0
Average amount of debt	$20,500	$22,800	$20,286	$20,074	$24,047	+ $3,973
Average amount of debt in 2009 dollars	$24,706	$24,548	$24,448	$22,541	$25,275	+ $2,734

Source: CUSC, Graduating Students Survey, 2000, 2003 and 2006; Statistics Canada, NGS.

Ontario Student Opportunities Grant (OSOG) and the grant portion of Quebec's student aid system (see below for more on the student debt situation in these two provinces).

Other factors, however, cannot be ignored. Some of these have already been mentioned—namely, a more moderate tuition increase rate and a more favourable job market. Also important was the fact that in the first part of this decade, the maximum amount of student aid that governments were willing to provide remained unchanged. This means that students with high levels of need could not have borrowed more from governments in successive years of their programs even if they had wanted to. While some of these students borrowed privately to make up their funding shortfall, others ended up coping with "unmet need" (i.e., the difference between their recognized costs and the aid they received). When aid maximums are frozen, rising costs lead to increases in unmet need more than debt.

Student Financial Aid Policy from 2005 to 2009: Expanding Need-Based Aid

As mentioned earlier, the next era of student financial assistance began in 2005–06, with a number of significant policy changes. As described by Berger and Parkin (2008), these include:

- increased student aid limits through the Canada Student Loans Program and many provincial student aid programs;
- reduced expected parental contribution amounts, providing expanded access to student aid for students from middle-income families considered dependent on parental support;

- the expansion of grant programs through the introduction of the Canada Access Grant, the millennium access bursaries and the Ontario Access Grant, all of which provided targeted support to students from low-income families and other under-represented groups (Aboriginal students, rural students, adult learners and students with disabilities).

Given these policy changes and trends in student borrowing, we might expect the following with respect to student financial assistance:

- Increased loan limits and lower expected parental contribution amounts might lead to higher debt levels, since more students would have access to more repayable public funds to keep up with rising educational and living costs.
- The expansion of grant programs might have the opposite effect of reducing overall indebtedness.

The policy changes, in other words, could be expected to produce counteracting effects on debt.

In addition, there are two other counteracting factors to take into account. The first is the effect of the provincial loan reduction programs already in place, such as OSOG. When aid limits rise, grant programs in provinces such as Ontario serve to replace the higher loans with more grants, nullifying any impact on debt levels. At the same time, in two of the country's biggest provinces, Quebec and B.C., provincial grant programs were actually cut in 2004–05; in Quebec the grant money that had been cut was fully reinstated by 2006–07, but in B.C. the cut was permanent. When

Unmet Need in Canada

An analysis of eight provincial student aid databases (all but Ontario and Quebec) conducted by Lori McElroy (2009) for the Council of Ministers of Education, Canada offers insight into the evolution of student financial need during the first part of this decade. McElroy examines changes in the level of assessed need (the costs-minus-resources calculus employed by provincial student aid programs), total award (the loan and grant combination that comprises a student's aid package) and unmet need (the amount of assessed need not funded through the total award). Between 2001–02 and 2004–05, after accounting for inflation, the average level of assessed need increased by no more than eight percent in all of the eight participating provinces. The actual amount of student aid distributed to students decreased in three provinces (B.C., Saskatchewan and Newfoundland and Labrador) between 2001–02 and 2004–05 and increased only slightly in the remaining five (only New Brunswick, at six percent, experienced an increase of more than two percent during the years in question).

With the exception of Alberta, the total amount of aid increased considerably between 2004–05 and 2005–06, likely due to the increase in student aid limits. In Manitoba, Nova Scotia and Newfoundland and Labrador, the total award increased by more than ten percent from one year to the next (increases of 15 percent, 12 percent and 14 percent, respectively). In P.E.I., the average total award increased by nine percent; in B.C., Saskatchewan and New Brunswick, the average total award increased by eight percent.

The policy of expanding the size of student aid packages to keep up with rising levels of student need appears to have worked as intended. Between 2004–05 and 2005–06, unmet need decreased in six provinces (by 15 to 63 percent).

looking at national averages, these cuts could be expected to result in higher levels of debt.

What actually happened to debt levels in the aftermath of all these changes? The 2006 CUSC survey provides a baseline for analysis of student debt in the most recent period. That year, 59 percent of those graduating from an undergraduate program had $25,275 in debt, somewhat higher than 2000 levels. As mentioned above, higher student aid limits did not always mean higher student loans for all borrowers, since certain provinces, like Ontario, covered high aid limits by expanding loan reduction programs. That said, across the country as a whole, the average loan (net of loan reduction) per recipient increased between 2004–05 and 2005–06 by $351, or six percent, contributing to the slight increase in debt.[3]

At the same time, the average grant per recipient increased by nearly 19 percent between 2004–05 and 2005–06 and then by another 15 percent by 2006–07. Thus, the expansion of grant programs mitigated the increase in loans. Of course, not all borrowers were affected in the same way. On the one hand, much of the additional grant funding stemming from the introduction of access grant programs flowed to students who had relatively low levels of financial need, even though they had low family incomes.[4] For these student aid recipients, the quality of their financial aid (i.e., the grant-to-loan ratio) improved. On the other hand, high-need students (at least in provinces without loan reduction programs with fixed loan maximums) who were receiving the maximum amount of student aid prior to 2004–05 were likely to receive larger student loans beginning in 2005–06, as the typical student aid limit increased from $9,650 to $11,900 per year (the amount varies from province to province).

As discussed in Chapter 4, the costs students face—including tuition, accommodation, transportation, food, etc.—tend to increase from year to year, often well above the rate of inflation. Tuition has not increased substantially since 2005–06; university students who studied between 2005–06 and 2008–09 (the most likely group of respondents to the CUSC's 2009 survey of graduating students) would have paid an average of $4,652 in tuition, or four percent more than those studying between 2002–03 and 2005–06. Given that student borrowers had greater access to higher government-funded student loans between 2006 and 2009, it follows that student debt would increase, which it did. As Table 7.II.4 demonstrates, among the 59 percent of students completing an undergraduate program in 2006 who had accumulated some education-related debt, the average was $25,275. In 2009, 58 percent of graduates reported an average debt of $26,680—5.56 percent more than in 2006. Given that, as mentioned, annual maximum student aid amounts had increased in most of the country by more than $2,000 in 2005–06, this increase in average debt upon graduation appears fairly moderate. This is likely the result of the factors already mentioned: the combination of the expansion of debt reduction programs in Ontario and Quebec and the introduction of income-based bursaries. Again, in the absence of these measures, it

Table 7.II.4 — Undergraduate Student Debt at Graduation in Canada in 2000, 2003, 2005, 2006 and 2009

	2000 (NGS)	2005 (NGS)	2000	2003	2006	2009	Difference (2006 to 2009)
Incidence of debt	53%	54%	56%	59%	59%	58%	- 1 percentage point
Average amount of debt	$20,500	$22,800	$20,286	$20,074	$24,047	$26,680	+ $2,633
Average amount of debt in 2009 dollars	$24,706	$24,548	$24,448	$22,541	$25,275	$26,680	+ $1,405

Source: CUSC, Graduating Students Survey, 2000, 2003, 2006 and 2009; Statistics Canada, NGS.

3. It should be noted, however, that the average loan fell by $240 in 2006–07.
4. See Berger (2008) for a more detailed discussion of why low-income students, the recipients of most of these new grants, would not have had high levels of financial need.

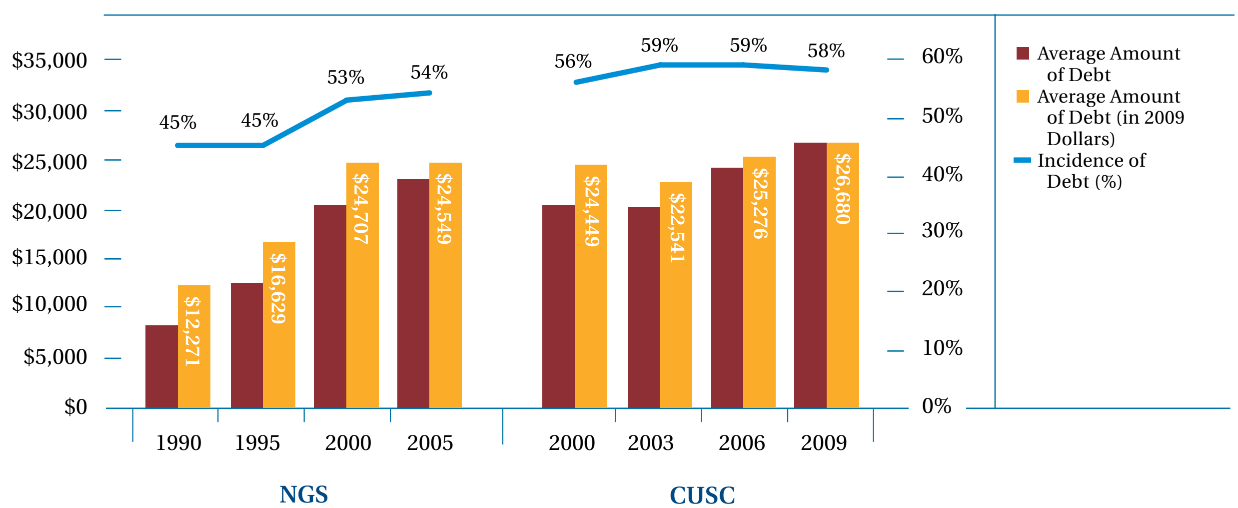
is likely that student debt levels in 2009 would have been considerably higher than in 2006.

In short, university student debt in Canada was somewhat more common at the end of the current decade than it was at the beginning. Students who completed an undergraduate program in 2009 owed an average of $26,680—which is $2,231, or nine percent, more than those who completed their studies in 2000. During a decade in which the average tuition increased by 14 percent, student debt grew at a slower pace. This contrasts with students' experience in the 1990s, when a doubling of university tuition fees led to a doubling of their debt. Although tuition and other costs may have continued to rise after 2000, and although aid limits increased after 2005, the public policies that were designed to keep student debt stable appear to have succeeded.

This portrait of university student debt in Canada offers insight into the sometimes conflicting priorities of student aid policy-makers. On the one hand, it is crucial that student aid levels be adjusted regularly to accommodate increasing costs, be they educational (tuition, books, supplies) or other (housing, transportation, etc.). On the other hand, if aid levels rise and grant levels do not, the result is not only more aid but also more debt. The experience of the 1990s is telling: when students' costs increase rapidly and the policy response is to allow student borrowing to rise correspondingly, student debt levels grow quickly (in this case, they doubled in less than eight years). The expansion of non-repayable student financial aid, beginning in 1999–2000 with the introduction of the Canada Millennium Scholarship Foundation's millennium bursaries, allowed students to keep up with rising costs without accumulating larger levels of debt.

Not all students experienced the current decade in the same way, however. The national averages reviewed above disguise significant regional differences. As discussed in more detail in the next section, student debt levels follow a geographical pattern: they are highest in the East, lowest in Quebec, Ontario and Manitoba, and in between these two extremes in the West.

Figure 7.II.1 — University Student Debt in Canada from 1990 to 2009 in Nominal and Real 2009 Dollars



Note: The NGS measures undergraduate student debt at graduation every five years; the CUSC's graduating students survey measures undergraduate student debt every three years.

Source: Allen and Vaillancourt, 2004; Bayard and Greenlee, 2009; CUSC, Graduating Students Survey, 2000, 2003, 2006 and 2009.

III. University Student Debt by Region

As discussed in Chapter 4, the costs students face and the resources available to them vary considerably from one region of the country to another.[5] The federal government provides direct support to students through the Canada Student Loans Program and indirect support through transfers to provincial governments for post-secondary education. Yet Canada's post-secondary system differs considerably from province to province. Provincial governments establish their own frameworks for tuition and fees and offer their own student aid programs. Employment opportunities, wages and family savings also differ from one jurisdiction to the next. As a result, the financial situation of students at graduation is hardly uniform across the country. As we described in Chapter 1, the wage premium associated with higher education is higher in certain parts of Canada than in others. In Chapter 2, we explored how participation in post-secondary education varies from region to region. It should come as no surprise, then, that student debt levels follow a similar course.

Atlantic Canada

According to the CUSC survey of undergraduates in their final year of study, the proportion of university students who graduate with debt is greater in Atlantic Canada than in other parts of the country, and the average debt among those who borrow is also the highest nationwide. In 2009, 62 percent of undergraduates completing their studies in New Brunswick and 64 percent doing so in Nova Scotia reported accumulating student debt. These individuals owed an average of $28,904 (New Brunswick) and $30,128 (Nova Scotia).[6]

Even after adjusting for inflation, the average amount of student debt in the Maritimes has increased faster than the national average since 2000. While undergraduate student debt in Canada grew by nine percent between 2000 and 2009, it grew by 12 percent in New Brunswick and 13 percent in Nova Scotia.

The increase in debt is likely a function of three factors. First, student employment (during the school year and the summer) was lower in Atlantic Canada than in the rest of the country during the early part of this decade. Second, tuition increased in the three Maritime provinces during this decade (particularly in New Brunswick). Third, as Berger and Parkin (2008) note and as discussed in Chapter 6, the share of financial aid composed of non-repayable grants and loan reduction remained below 20 percent in the four Atlantic provinces throughout this period, whereas the Canadian average in 2004–05 was 25 percent. In short, costs tend to be higher and students tend to have fewer resources at their disposal in the Atlantic region—a formula that naturally adds up to more debt.

Quebec

Quebec has the lowest incidence of student debt and the lowest average debt amount in the country. In 2009, 45 percent of respondents to the CUSC Graduating Students Survey reported owing an average of $15,102 in student debt. The incidence of debt actually declined from 48 percent in 2006 (it was at 47 percent in 2000 and 2003), although the average amount of debt grew by one percent between 2000 and 2009.

5. See Chapter 4 for a discussion of student costs by province and Chapter 6 for a discussion of trends in student aid by province.

6. Data are not available for students in P.E.I. and Newfoundland and Labrador in 2009.

There are three reasons why student debt in Quebec has been consistently lower than in other provinces during the past decade. First, undergraduate university programs are typically shorter in Quebec than elsewhere (i.e., three years instead of four): Quebec students finish high school in Grade 11 and must complete a two-year pre-university CEGEP program (the province's public CEGEPs do not charge tuition) before they can enrol in their first year of university, which corresponds to second year of university outside of Quebec.[7] Second, Quebec's university tuition was frozen at about $1,800 between 1994 and 2007, at which point regular increases of approximately $50 per semester (planned until 2011–12) were introduced. Even in 2008–09, after the freeze was lifted, Quebec's tuition fees were the lowest in the country. Third, Quebec's student aid program has typically offered the most generous financial aid in the country, with students receiving between one-third and one-half of their financial aid in the form of non-repayable assistance since 2000. A Quebec university student borrowing the maximum amount during each of the past three years would have accumulated $7,320 in publicly funded student debt upon graduation. Of course, Quebec students can borrow from non-government sources too, and they do not necessarily complete their studies in three years.

It should be noted that the average student debt dropped after 2000, as shown in Figure 7.III.1. With the introduction of the Millennium Bursary Program, the maximum annual loan in Quebec was reduced by about one-quarter in 1999–2000, from $3,200 to $2,440, where it has remained ever since, aside from 2004–05 and 2005–06.[8]

Ontario

Undergraduate student debt in Ontario declined by $2,515 between 2000 and 2003, before increasing by $781 in 2006 and finally surpassing 2000 levels in 2009. Students graduating with debt in 2009 owed an average of $25,778, only four percent higher than the 2000 average of $24,869. The initial decline and subsequent slow increase in Ontario university student debt mirrors the national portrait. In both cases, the reasons underlying the trend are largely the same: tuition fees rose above the level of inflation (although a tuition freeze was in place for undergraduate programs for part of the decade) and financial aid became increasingly non-repayable, as grants and remission grew from about one-fifth to one-third of all student aid. It is also important to acknowledge the effect of the OSOG program, as discussed previously: OSOG grants reduce borrowing to $7,000 per year. As long as this cap on annual debt is maintained, increases in total debt upon graduation in Ontario will be moderated, even if costs rise.

While the average amount of student debt did not increase dramatically, debt became a more common occurrence in the province during this decade. In 2000, 56 percent of respondents in the CUSC Graduating Students Survey reported having accumulated debt. The rate grew to 57 percent in 2003, 58 percent in 2006 and 64 percent in 2009.

The Prairies

Undergraduate student debt in the Prairie provinces of Alberta, Saskatchewan and Manitoba grew faster than the national average between 2000 and 2009, although debt levels in these jurisdictions still remain below the Canadian mean. In 2000, 56 percent of Prairie graduates reported an average debt of $21,666. That amount increased to $24,116 in 2009. The increase in debt can be explained in part by rising tuition in Alberta and Saskatchewan. In Alberta, tuition increased steadily by 16 percent (after inflation) between 1999–2000 and 2008–09. In Saskatchewan, tuition increased faster, rising by 33 percent between 1999–2000 and 2004–05; it was then reduced by ten percent by 2008–09. In Manitoba, the province reduced and then froze tuition in 2000–01. In 2008–09, tuition in Manitoba was 24 percent cheaper than in 1999–2000.

7. It should be noted that students who move to study at CEGEP and university must undertake at least five years of study, which may be funded through student financial aid.

8. Prior to the 2004–05 academic year, the Quebec government cut its bursary program by $103 million by significantly increasing the maximum amount a student could borrow (which saved the government money because students qualify for a bursary only after the amount they borrow has surpassed the maximum loan threshold). Following considerable public pressure, chiefly demonstrated through a large-scale student strike, the government reinstated the $103 million on a gradual basis. The province restored $70 million of the funding in 2005–06 and the full $103 million in 2006–07 and beyond.

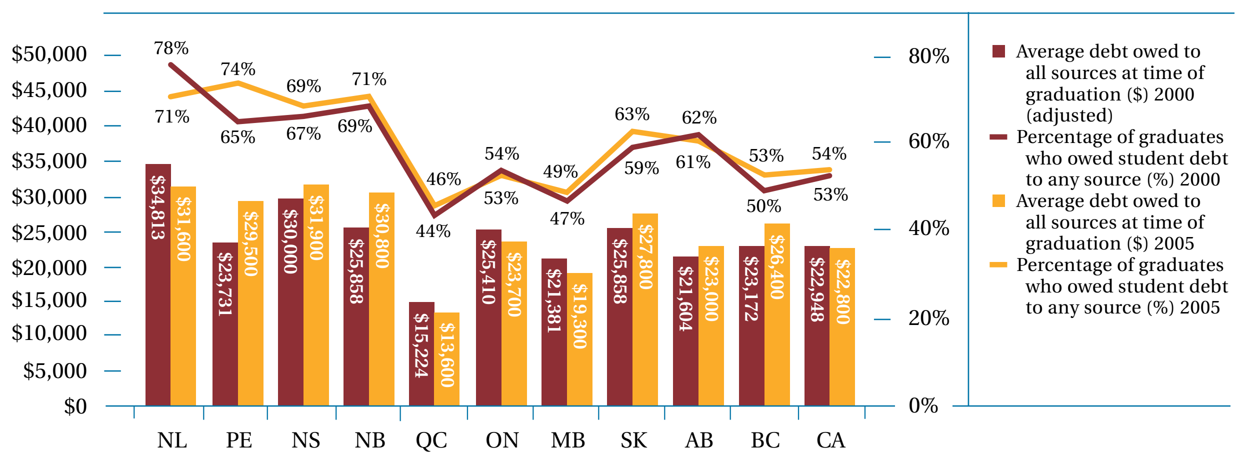
Student financial aid became more generous in most of the Prairies during this decade. In Alberta, tuition increases were offset by a moderate increase in non-repayable assistance, with the share of need-based aid made up of grants and loan remission increasing from 28 percent in 1999–2000 to 32 percent in 2006–07. In Saskatchewan, the share of non-repayable aid fluctuated around 29 percent throughout most of the decade, while it doubled in Manitoba, from 24 percent in 2000–01 to 48 percent in 2006–07.[9]

British Columbia

In 2000 and 2003, university graduates in B.C. had debt levels that were slightly below the national average. According to the CUSC Graduating Students Survey, 43 percent of B.C. graduates in 2000 had an average debt of $23,522. While the incidence of debt increased to 57 percent in 2003, the average amount declined by $1,156. In 2006, the incidence of debt increased to 58 percent, while the average debt load jumped by $3,986, to $26,351. By 2009, it had increased by just under $400, with 54 percent of graduates reporting an average debt of $26,738. Between 2000 and 2009, undergraduate student debt in B.C. grew by 14 percent, more than anywhere else in Canada.

The considerable decline and then spike in debt (student debt dropped five percent between 2000 and 2003 before increasing by 18 percent in 2006) can be explained by significant changes to university tuition in B.C. and to the province's student financial aid policy. At the start of the decade, B.C. students paid the second-lowest tuition in the country, trailing only Quebec and nearly $1,000 less expensive than in the next cheapest province, New Brunswick. B.C. had the second most generous financial aid program in the country that year as well, again following only Quebec in the share of non-repayable financial aid provided to students. By 2006–07, following a jump of 69 percent over five years, tuition in B.C. was $350 higher than the national average. At the same time, B.C. significantly reduced the scale of its grant program in 2004. As a result of these two changes, B.C. financial aid recipients have the country's biggest student loans—almost $1,200 more per year than in the runner-up province, New Brunswick.

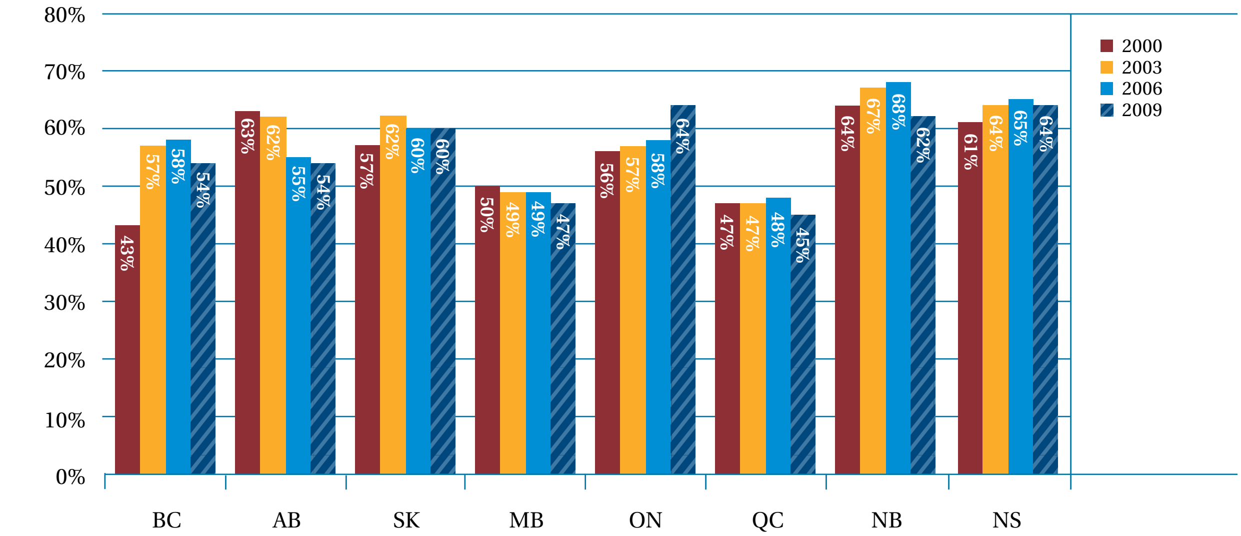
Figure 7.III.1 — Incidence and Amount of Student Debt in Canada among Bachelor's Degree Graduates with Debt from 2000 to 2005 in Real 2005 Dollars, by Province



Source: Allen and Vaillancourt, 2004; Bayard and Greenlee, 2009; Statistics Canada, NGS (custom tabulations).

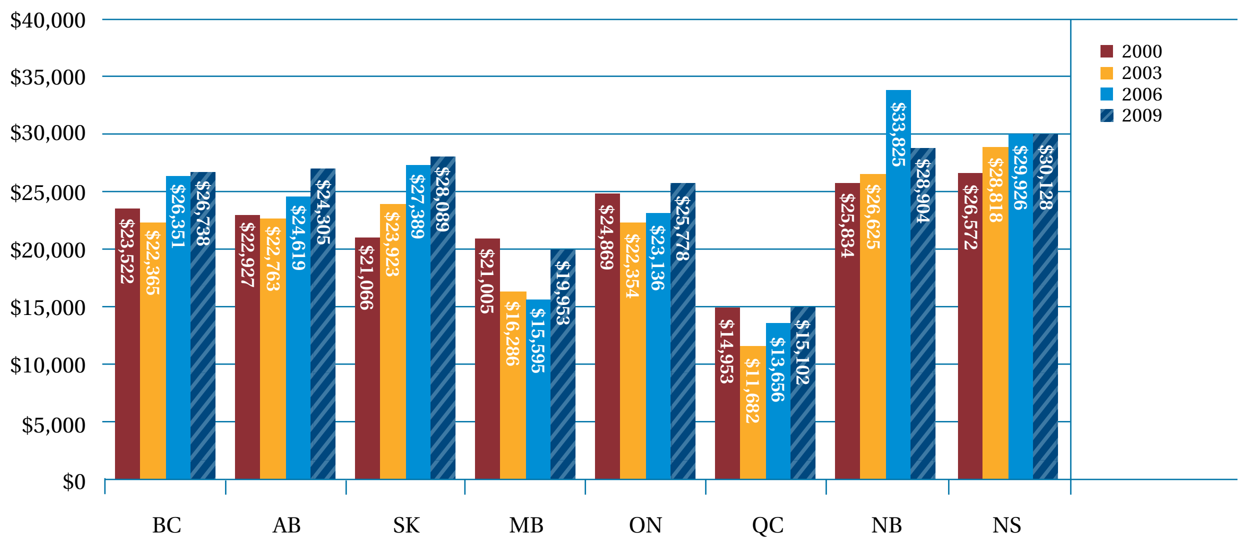
9. It is worth noting that the share of non-repayable aid in the 2000s was considerably higher than in the 1990s in these three provinces; it doubled in Alberta, increased by 50 percent in Saskatchewan and tripled in Manitoba.

Figure 7.III.2 — Incidence of Student Debt in Canada among Bachelor's Degree Graduates from 2000 to 2009, by Province



Source: CUSC, Graduating Students Survey, 2000, 2003, 2006, 2009.

Figure 7.III.3 — Average Amount of Student Debt in Canada among Bachelor's Degree Graduates with Debt from 2000 to 2009, by Province



Source: CUSC, Graduating Students Survey, 2000, 2003, 2006, 2009.

Chapter 7

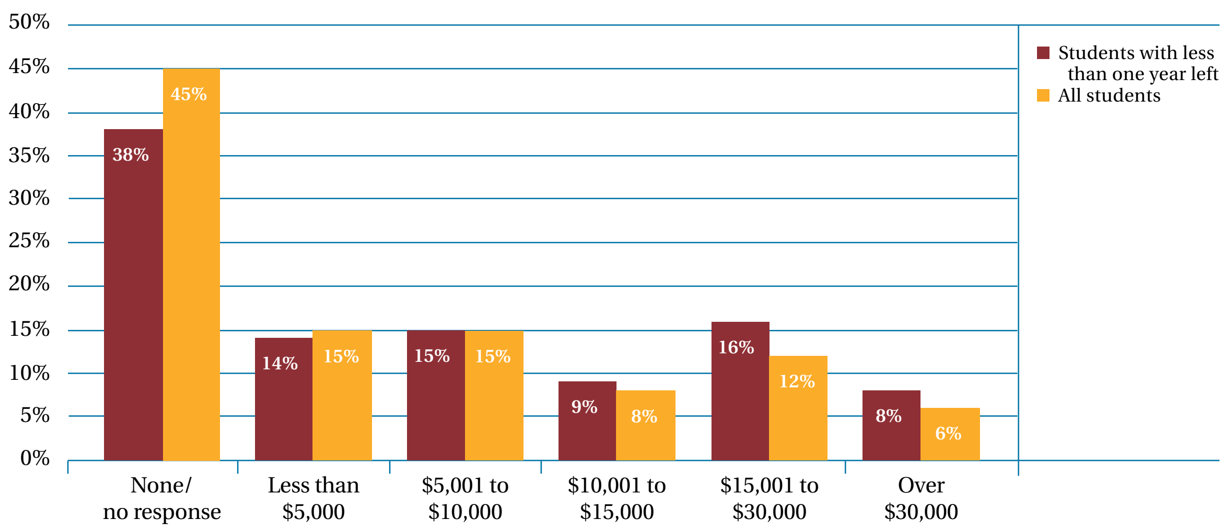
IV. College Student Debt in Canada

In 2005, 45 percent of college graduates reported owing an average of $14,510 in student debt. Both the incidence and the amount of debt were lower than in 2000, when 49 percent of graduates reported owing an average of $15,168.

As we reported in the last edition of *The Price of Knowledge*, despite the fact that average debt among graduates fell between 2000 and 2005, the proportion of current students with very large debt loads has been edging upwards since 2003. According to the Canadian College Student Survey Consortium (CCSSC), the proportion of students (not graduates, but students at all levels of study) reporting already having more than $15,000 of debt increased from six percent in 2003 to eight percent in 2004 and 13 percent in 2005.

The 2009 College Student Survey reveals that this trend is continuing: 55 percent of college students have debt, and 18 percent of them owe more than $15,000.[10] Among those who had less than one year of study left in 2009, 62 percent reported expecting to accumulate some debt, with 24 percent expecting to owe more than $15,000 (Figure 7.IV.1). Since 2003, therefore, the proportion of students with more than $15,000 of debt has tripled, rising from six percent to 18 percent.

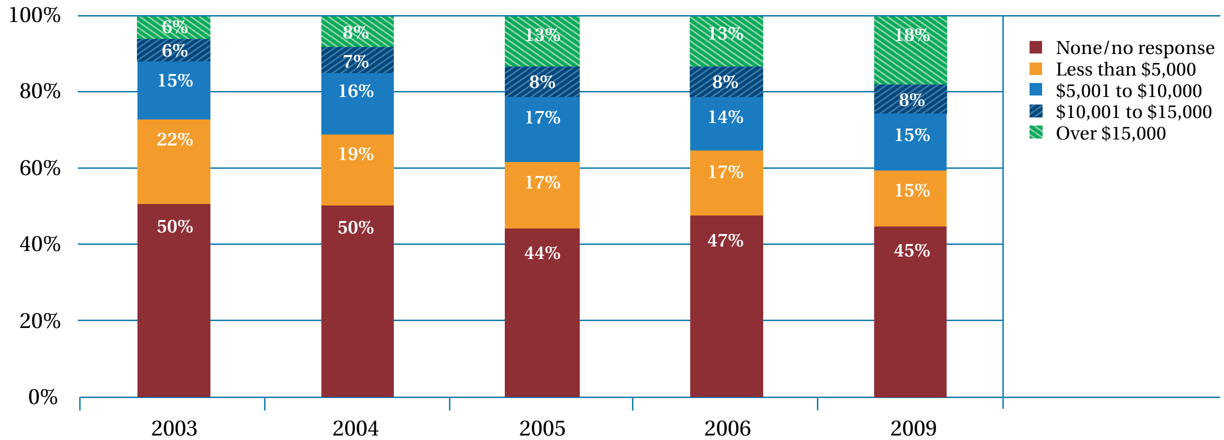
Figure 7.IV.1 — College Student Debt in Canada in 2009



Source: CCSSC, College Student Survey, 2009.

10. The 2009 survey is restricted to a sample of students from ten colleges, six of which participated in previous waves of the survey. The sample of institutions is down from 19 in 2006; it was highest in 2003, at 27. In analyzing the survey responses, efforts have been made to compare the 2009 results to both the entire samples from previous years and samples from previous years composed only of colleges participating in 2009. While the survey is not comprehensive enough to describe the entire college sector or offer a regional analysis, in the absence of a large-scale representative survey of college students, it provides useful insight into their financial situation.

Figure 7.IV.2 — College Student Debt in Canada in 2003–2006 and 2009



Source: CCSSC, College Student Survey.

Provincial Variation

Outside of Quebec, where college (CEGEP) education is offered for free, student debt among college graduates is fairly uniform. While college tuition varies considerably from province to province (in 2006–07, college tuition outside Quebec ranged from an average of $1,362 in Newfoundland and Labrador to $3,425 in P.E.I.), debt levels do not. Some trends in college debt levels, however, appear to have a regional angle.

According to the National Graduates Survey, college student debt in the Maritimes, Quebec and Ontario declined between 2000 and 2005. In the Atlantic region, debt declined from $15,194 among graduates in 2000 to $14,198 among those who completed their studies in 2005. In Quebec, debt declined by 12 percent, from $9,554 to $8,429, during the same time period. In Ontario, it dropped by nine percent, from $17,676 to $16,004.

Meanwhile, in the Prairies, debt increased by 13 percent, from $13,041 to $14,770, and in B.C. it increased by 38 percent, from $13,018 to $17,925, during the same years. These increases are likely due to significant college tuition hikes in B.C. (nearly $1,300 between 1999–2000 and 2004–05) and Alberta (nearly $750).

Public and Private Debt in Canada

The main source of student debt in Canada is government-funded student loans. This is the case because, generally speaking, government-funded student loans are more accessible and more affordable than those offered by private banks. First, public student financial aid does not require borrowers to offer collateral. Since most students have little in the way of assets, they face considerable obstacles to securing a private loan or line of credit, often requiring a parent or guardian to co-sign. Second, public student financial aid is heavily subsidized, as interest does not accumulate while the student is in school. Furthermore, student loans are increasingly subject to repayment assistance measures like interest relief and debt reduction in repayment schemes.

Of course, not all students are eligible for government loans, especially if they are considered dependent on parental income whose level exceeds government aid cut-offs. Other students might find that banks offer more flexible loan options. Thus, whether they are crowded out of the student aid market by choice or eligibility criteria, many students finance their education in part through non-government loans.

The 2009 CUSC Graduating Students Survey provides information about the incidence of private borrowing among university students. In 2006 and 2009, approximately 20 percent of students in their last year of undergraduate studies reported accumulating debt from financial institutions.[11] The average debt load among those who reported debt from financial institutions was $13,227 in 2006; by 2009, it had increased to $14,862.

The incidence of debt from family members has remained stable in recent years. In 2006, 17 percent of graduates reported borrowing an average of $15,126 from family members. In 2009, the proportion had increased to 18 percent, but the average decreased to $14,435. Only seven percent of students reported debt from other sources in both years. The average amount increased from $6,992 in 2006 to $8,500 in 2009.

Private borrowing also occurs at the college level. Among students surveyed in 2009, 26 percent reported having borrowed an average of $11,870 from financial institutions, up from 19 percent in 2006 (an average amount for 2006 is not available). Twenty-seven percent of students in 2009 reported an average of $5,384 in debt from family, while 19 percent reported owing an average of $5,644 to other sources.

As noted earlier, changes to government student financial aid programs in 2005-06 were in part designed to make more students from middle-income families eligible for student loans. One might expect that university students graduating in 2009 would, therefore, be less likely than those who graduated in 2006 to rely on non-public student loans. It appears, however, that the market for loans provided by banks or family members remained stable, suggesting that certain students might simply prefer to borrow from non-government sources, despite the implicitly higher costs.

11. The figure for 2003 was 26 percent, although in that year the proportion of students not responding to the question or reporting not knowing the answer was several times higher than in 2006 and 2009, raising concerns about the validity of comparisons; the question was not included in the 2000 survey.

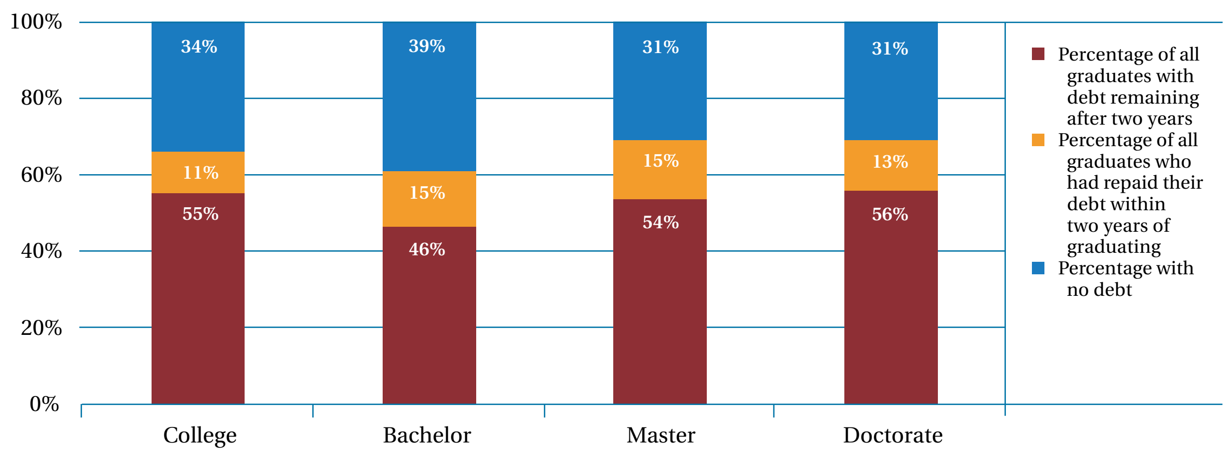
V. Life After School: Student Debt Beyond Post-Secondary Education

While it may be called "student" debt, those doing the repayment are usually not themselves students. Student debt is typically amortized over ten years, although many individuals repay their debt sooner, just as many borrowers extend the terms of their repayment by several years. For many individuals, then, student debt is present throughout major life-cycle events—such as marriage, buying a home and childbirth. It is thus worth examining how student debt in Canada fits within the context of the country's larger financial portrait.

Repayment

The NGS offers information on debt repayment among student borrowers. According to the first follow-up survey of graduates of the class of 2005, conducted in 2007, about one in seven graduates repaid their entire student debt within two years of graduating (Figure 7.V.1). A little less than half were still in repayment two years after graduation.

Figure 7.V.1 — Student Debt Repayment among the Class of 2005



Source: Statistics Canada, NGS.

Among college graduates who were still in repayment two years after graduation, the average balance on their loan was $11,800. For those who completed undergraduate studies in 2005, the average balance two years later was $20,400. Students who completed graduate programs were more likely to have paid off their loans within two years. Among those with a master's degree who had debt, 32 percent had repaid their entire loan within two years, while 30 percent of Ph.D.s who graduated with debt had done so as well.

Among college graduates, those in Quebec, B.C. and the Prairies were most likely to have entirely repaid their loans within two years of graduation; among bachelor's degree graduates, this was true for those in Quebec, Ontario, Alberta and Manitoba. For both college and university graduates, those in the Atlantic region were least likely to have repaid their loans within two years of graduation. Students in the four Atlantic provinces faced a double whammy of sorts: they tended to report above-average levels of debt and below-average earnings.

An analysis of both the 2006 and 2009 Graduating Students Surveys reveals a relationship between accumulated debt and plans to immediately pursue additional education. In 2009, students who reported planning on pursuing education immediately after completing their bachelor's degree program had an average debt of $15,036; those who were not planning on returning to school had an average debt of $16,457 (in 2006 these amounts were $11,530 and $14,707, respectively; these figures are unadjusted for inflation and include students without debt). There does not appear to be a statistically significant relationship between the amount of debt a student has incurred and either his or her employment plans or expected earnings, suggesting that post-secondary students do not appear to link their decisions about whether and how much to borrow with their immediate post-study plans. By the time they assess their labour market prospects, their debt has already been incurred.

Student Debt in Context

According to Statistics Canada (2006a), the aggregate amount of student debt among all Canadian families (and not just graduating students) increased by 15.8 percent between 1999 and 2005. By 2005, Canadian families collectively owed more than $20 billion in student debt, up from $17 billion in 1999. Among the 12 percent of families reporting student debt (the incidence did not change between 1999 and 2006), the average amount increased from $12,000 to $12,700. Twenty-eight percent of families whose main income earner was under 35 reported owing student debt; in comparison, less than ten percent of families whose main income earner was over 45 reported owing student debt. Among the various kinds of debt, aggregate student debt grew the least during the six years in question. Mortgage debt grew by 43 percent, line of credit debt by 133 percent, credit card debt by 59 percent, car loans by 41 percent and other debt by 32 percent. As a result, the student debt share of all debt declined from 3.3 percent to 2.6 percent. In total, the debt load of Canadian families grew by 48 percent in six years, from $515 billion to $760 billion.

Debt-to-Income Ratios and Repayment Assistance

As noted by Kapsalis (2006), the ability to repay student debt on time is more closely linked to post-study income than debt size. His ten-year overview of student loans consolidated in 1994–95 found that after controlling for debt size, the likelihood of a loan going into default within three years of consolidation fell by 1.2 percentage points for every $1,000 of an individual's income. As Schwartz and Baum (2006) discuss in detail, as graduates' income increases, so does their ability to repay student loans. As a result, they argue, policy-makers should consider restricting loan repayment amounts to manageable proportions of a graduate's income.[12] Evidence from the 2005 NGS

12. Schwartz and Baum suggest a payment-to-income ratio of no more than 18 to 20 percent of an individual's discretionary income; the amount would slide downward for those with relatively low levels of income.

suggests that a number of Canadian post-secondary graduates had debt servicing ratios (i.e., the ratio of debt payments to income) that ran the risk of placing them in financial jeopardy. Using the NGS data, Bayard and Greenlee (2009) ranked borrowers by the size of their government debt servicing ratios. Among college and bachelor's degree graduates with large student loans (i.e., debt of $25,000 or more), those at the 75th percentile had debt servicing ratios of 14 and 15 percent, respectively. In other words, after they had made their debt payments, these individuals had about 85 percent of their gross income left over.

The NGS also asks graduates whether they had difficulty repaying their student loans within the first two years after graduation (as Kapsalis notes, the majority of student loan defaults occur within the first three years after graduation). Twenty-nine percent of college graduates, 26 percent of bachelor's degree graduates, 23 percent of master's degree graduates and 25 percent of doctoral graduates who owed money on government student loans reported difficulty repaying their debt. As one would expect, graduates with larger loans were more likely to report difficulty making their payments. Statistics Canada divided borrowers into three categories: those with small (less than $10,000), medium ($10,000 to $24,999) and large ($25,000 or more) levels of debt. At the college level, 17 percent of graduates with small debt loads reported difficulty repaying their loans, compared to 34 percent of those with medium-sized debt loads and 59 percent of those with large debt loads. At the bachelor's level, graduates were less likely to report difficulty with repayment at all levels: 12 percent of those with small debt loads, 22 percent of those with medium-sized debt loads and 43 percent of those with large debt loads. Graduates in 2005 were slightly more likely than those in 2000 to report difficulty repaying their loans. Given that university graduates typically earn more than college graduates and that loan defaults tend to be associated more with income levels than size of debt, it follows that college graduates would be more likely than university graduates to report difficulty making their payments.[13]

A number of jurisdictions have recently introduced public policies to assist those having difficulty repaying their student loans. The federal Repayment Assistance Plan (RAP), introduced in August 2009 to replace the existing Interest Relief and Debt Reduction in Repayment programs, establishes a repayment framework similar to that promoted by Schwartz and Baum. First, it restricts the repayment period to 15 years (ten years for borrowers with permanent disabilities). Second, it establishes payments on the basis of a borrower's income and family size. And third, it limits payments to a maximum of 20 percent of a borrower's income. Individuals participating in the RAP will have the payments they are able to make directed to reduce their loan principal (the interest will be covered by the federal government) for a period of up to five years. Individuals who need assistance beyond five years or have been in repayment for more than ten years will make affordable payments based on income and family size; the federal government will cover interest charges as well as a portion of the principal amount, such that the loan is paid off within 15 years of the borrower leaving school.[14] In Nova Scotia, the Enhanced Repayment Assistance Plan (which applies only to provincial loans) offers borrowers up to 54 months of assistance, during which payments will not exceed seven percent of the borrower's gross family income. Versions of the RAP have also been implemented in New Brunswick and Saskatchewan.

Rather than introduce a version of the RAP, the government of Newfoundland and Labrador announced in its 2009 budget the elimination of interest on provincial student loans. Beginning in August 2009, all provincial residents who have student loans no longer pay interest on the provincial portion of their loan. The interest-free status applies to all provincial student loans, regardless of the borrower's financial circumstances or current province of residence.

13. College graduates were also less likely to have medium or large debt loads. Forty-six percent of college graduates who borrowed reported less than $10,000 in debt, compared to 28 percent of bachelor's degree graduates.

14. During the second phase of the RAP, the federal government pays both the interest amount and the portion of the loan payment not covered by the borrower.

VI. Conclusion

The story of student debt in Canada between 2000 and 2009 is as much the story of government policies to fund post-secondary education and support students as it is the story of borrowing. Particularly at the university level, student debt is influenced substantially by two factors: tuition policy and student financial aid. For most students, tuition is the single largest expenditure they make during the academic year, representing roughly one-third of their costs. As we saw in the 1990s, dramatic increases in tuition can easily lead to significant increases in both the incidence and amount of student debt. During that decade, university tuition and average student debt both doubled.

Student debt, however, does not necessarily increase in step with tuition. Between 1999–2000 and 2008–09, undergraduate tuition in Canada increased by 14 percent over and above inflation. Students who graduated in 2009 had only nine percent more debt than did graduates from the class of 2000. In fact, between 1999–2000 and 2004–05, despite tuition increasing by ten percent, the debt load of graduates in those two years declined by one percent. This did not occur by accident. At the end of the 1990s, governments significantly increased the amount of non-repayable financial aid, establishing and expanding programs designed specifically to reduce student debt loads. The introduction of the Canada Millennium Scholarship Foundation in 1999–2000 and the corresponding increases in need-based grants and loan remission offered by provincial governments allowed students to meet their growing costs without increasing their loan burden. During the second half of the decade, university student debt began to rise again, although the presence of debt reduction programs like those of the Foundation have allowed for a more moderate increase than that which occurred during the 1990s. Clearly, governments have the tools at their disposal to control—or even reduce—student debt.

Analysis of debt among college graduates is hampered by a lack of comprehensive data, but the trend appears to be similar to that of university graduates. Debt declined during the early part of this decade, and appears to have been increasing since. College graduates are significantly more likely than university graduates to report difficulty repaying their loans in the initial years after graduation. Given that loan defaults appear to be tightly linked to income levels and that college graduates earn less than university graduates, this comes as little surprise.

Governments in recent years have increasingly oriented their student debt policy toward the issue of debt manageability. The introduction of programs like the federal Repayment Assistance Plan streamlines existing measures like interest relief and debt reduction in repayment. Graduates who earn less than they expected—or not enough to make their loan payments—can reduce their payments to a manageable level without extending their "debt sentence" beyond 15 years. Although debt levels did not increase dramatically during this decade, they are not insignificant. For graduates entering a tight labour market, programs like the RAP may become popular rather quickly.

After Millennium?

The introduction of the Canada Millennium Scholarship Foundation resulted in a significant increase in the portion of student aid that is non-repayable and, as we have seen, contributed to the moderation of student debt levels after 2000. How will the end of the Millennium Bursary Program in 2008–09 affect students and the debt loads they carry?

In the first instance, average student debt should be unaffected, because the federal government introduced the Canada Student Grants Program to take over from the Millennium Bursary Program in 2009–10. While the Foundation's annual $335 million in need-based bursaries will disappear, $350 million in federal grants will take their place. In fact, since the funds provided through the new federal grants program are scheduled to rise each year—reaching $430 million by 2012–13—the new program may serve to reduce average student debt levels rather than simply maintaining them at present levels. This is, of course, good news for Canadian students who have to borrow to pay for their post-secondary education.

Secondly, the change in program will affect which students receive grants. The Foundation paid the majority ($285 million annually) of its need-based grants to students with high levels of need. The purpose was to help reduce the loans of those students who faced the steepest borrowing requirements. Beginning in 2005–06, the Foundation provided a further $50 million per year to students from low-income, rural and Aboriginal families who faced financial barriers to pursuing their studies, even though they might not have the highest levels of need (see Berger, 2008b, for a discussion of the difference between the two programs and types of recipients). The new Canada Student Grants Program, by contrast, will direct all of its funds to students from low- and moderate-income families, regardless of the size of their loans. This means that students with low incomes will see their debt go down, while other students whose incomes may be above the grant eligibility cut-offs but who have large loans will see their debt go up.

Third, the new program is designed to reach a greater number of students, although it will do this by lowering the value of the grant provided. The Millennium Bursary Program provided grants averaging $3,000 to approximately 90,000 students per year, while its access bursary program provided grants averaging $2,000 to approximately 25,000 students. The Canada Student Grants Program hopes to serve 245,000 students per year, but will do so with grants of either $2,000 or $800, depending on whether they are from families with low or moderate incomes. In short, then, more students will benefit from federally funded debt reduction, but the average benefit per student will be less—which means that some types of students will end up with less debt than would previously have been the case, while others will end up with more.

The final point concerns the interaction of federal and provincial student aid programs. When both levels of government provide similar benefits to the same clients, there is always a danger that, in the absence of coordination, spending increases by one level will be met by spending reductions by the other, leaving the clients no better off. This danger existed when the Canada Millennium Scholarship Foundation was created by the federal government without prior consultation with provinces and territories. The Foundation dealt with this problem through its bilateral negotiations with each jurisdiction that preceded the delivery of the first millennium bursaries. These negotiations led to commitments from provinces and territories to ensure that students would benefit fully from the injection of the new funds. By the time the Foundation introduced its access bursary program in 2005–06, its practice had evolved further to the point of coordinating the

After Millennium? *(continued)*

design of the program in advance with individual jurisdictions, to the point where in some cases joint Foundation-provincial programs were developed that provided even greater certainty that there would be no “displacement” of millennium funds. This concern to avoid the displacement of new spending is far from typical in federal-provincial relations; in fact, a review of recent federal spending initiatives showed that the Millennium Bursary Program was one of only a few cases where the issue was addressed (Lazar, 2008).

While the new Canada Student Grants Program continues the non-repayable funding previously provided by the Foundation, it does not continue the Foundation’s model of coordinating the interaction of federal and provincial spending in advance with each jurisdiction. This will be of no consequence if provinces do not reduce the benefits they provide to students themselves in the period of adjustment that follows the introduction of the new federal program. If some provinces instead decide that they can no longer afford the reinvestments they had introduced in conjunction with the Millennium Bursary Program,[15] or more generally that the new federal spending gives them “room” to redirect their own spending away from non-repayable assistance, then the question of the displacement of funds will arise once again and, most importantly, student debt may increase. One of the biggest test cases will be Quebec, which has opted out of the Canada Student Loans Program. Quebec’s share of the funding for the new federal grants program will be delivered as an “alternative payment” to the government rather than directly to students in the context of an agreement addressing the issue of displacement, as was the case with the Foundation. If the Quebec government chooses not to pass the federal funds on to students in the form of grants, then the federal program will not have produced an incremental benefit to students and debt will rise.

Only time will tell, therefore, whether the way in which federal funding for non-repayable aid is delivered—and not simply the amount—matters in terms of the objective of controlling student debt.

15. Millennium bursaries replaced provincial student loans and, in some cases, grants, creating savings for provinces which the latter, in the context of their bilateral agreements with the Foundation, committed to reinvesting in student aid or related programs. The new federal grants program pays down federal loans and so does not produce comparable savings for provinces. In the period following the switch from one program to the other, provinces will have to decide whether they can continue to fund the programs that originated from the savings produced by the interaction of their programs with the Millennium Bursary Program once these savings are no longer realized.