the facts about post-secondary education

Spring 2012
Canadian Federation of Students
www.cfs-fcee.ca

Student Debt in Canada:
Education Shouldn't be a Debt Sentence

Introduction

As a result of cuts to federal funding for post-secondary education over the last twenty-five years, provincial governments and post-secondary educational institutions have downloaded the cost onto students and their families through massive increases to tuition fees. Average tuition fees increased four-fold between 1990 and 2010, rising from $1,271 to $5,139. Accompanying these fee increases were unprecedented levels of student debt.

Loans disbursed by the Canada Student Loans Program (CSLP) are increasing by nearly $1 million dollars a day, almost $350 million per year. By the end of September 2010 student debt had almost exceeded $15 billion—more than the debt of some provinces. This $15 billion figure does not include approximately $5 to $8 billion in provincial student debt and personal debts such as credit cards, lines of credit, and family loans.

Canada Maxes Out Student Debt

While reports of the Canada Student Loan Program place federal student debt at just over $13.5 billion dollars, the 2010-11 CSLP Actuarial Report, released by the Federal Government, shows that federal student loan debt in Canada will reach and surpass its legal limit in January 2013. This is especially important since federal programs with a loan component contain legislated ceilings of the amount they can loan out. In the case of student loans, the Canada Student Financial Assistance Act sets out a maximum of $15 billion that the CSLP can lend. Instead of addressing the fact that Canadians will become buried in $15 billion of student debt, HRSDC chose to redefine a portion of the outstanding loans, writing them out of the calculation. This change allows the CSLP to continue to lend, but fails to address the bigger problem of skyrocketing costs and insufficient financial aid.

CANADA STUDENT LOAN DEBT

$13,000,000,000

In September 2010 the amount of student loans owed to the Government of Canada surpassed $15 billion dollars—more than the debt of some provinces. Worse, the $15 billion figure does not include approximately $5–8 billion in provincial student debt or personal debts such as credit cards, lines of credit, and family loans.

Across Canada

For more than a decade, students studying in the Maritimes have had the highest average debt loads. According to the Maritime Provinces Higher Education Commission (MPHEC), average student debt at graduation skyrocketed between 1999 and 2004, from $21,177 to over $28,000—an increase of more than 33 percent in just five years.

In other jurisdictions, pressure from students and their families has prevented student debt from rising to the levels suffered by students in the Maritimes. A massive student mobilisation in Québec in 2005 forced Jean Charest's Liberal government to reverse $103 million in cuts to a bursary program directed at students most in need. Québec enjoyed both the lowest tuition fees and lowest levels of student debt of any province at just over $13,000. However, with Charest's recent bid to increse tuition fees, the province might not hold this distinction for much longer.

Students in Newfoundland and Labrador have been successful in lobbying successive governments to freeze and reduce tuition fees since 1999. More recently, in 2007 the provincial government implemented an up-front needs-based grant program. As a result, student debt in Newfoundland and Labrador has decreased significantly. For graduates of the one-year programs at the College of the North Atlantic, student debt fell by five percent in one year alone. Since introducing the grants program, the government has also eliminated the interest on student loans, giving a break to those that accrued debt before the new grants program started.

Impact of Tuition Fees and Student Debt

Among those who have never participated in post-secondary education, "financial issues" have been found by multiple researchers to be the most commonly cited barrier. As demonstrated below, financial struggles lead to a diverse array of consequences.

Debt Aversion

Debt aversion is the personal calculation that the sacrifice of debt accumulation and repayment are not worth the return one will get from post-secondary education. When examining the details of financial barriers to participation in Canada, research has found that debt aversion is strong among non-attendees, cited by one in four who said that financial issues were preventing their enrolment.[1]

More detailed studies on debt aversion have been conducted in the United Kingdom. It has been found that students from racialised communities and lower income backgrounds, as well as single parents are more likely to hold negative feelings about taking on student debt.[2] Two thirds of students who decide against enrolling in university say that the prospect of taking on significant student debt affected their decision.[3] Debt aversion has also been linked to decisions about where to study. In one UK survey, the vast majority of those who chose to live with their parents while studying cited a desire to minimise student debt.[4]

After decades of fully subsidised post-secondary education for low-income and middle-income families, tuition fees were introduced in the UK in 1997. Stark results for debt aversion after fees were introduced in Britain led one policy think tank to recommend that the government "reduce the price of [university] because it is a barrier to Higher Education entry".[5]

Persistence and Mental Health

Apprehension about accumulating debt can also have a profound impact on the likelihood of completion. As many students work part- or full-time to reduce their borrowing, academic commitments can become more difficult to fulfill. Other students simply leave before completion at the first offer of decent employment as a way to stop accumulating debt.

Canadian research suggests that debt levels have a direct impact on success in post-secondary education. One study found that as student debt rose from less than $1000 to $10,000 per year, program completion rates for those with only loans (and no grants) plummeted from 59 percent to 8 percent.[6] Similar conclusions can be drawn from Statistics Canada's Youth In Transition Survey (YITS), which found that of those who cease their studies early, 36 percent do so for financial reasons.

Full-time study is associated with many different pressures and responsibilities. The pressure of mounting student debt and juggling studying and employment are added burdens. Research from the United Kingdom on student debt and mental health found that students with a high degree of financial worry showed greater levels of tension, anxiety, and difficulty sleeping.[7] Even students with low levels of debt reported lower perceived levels of achievement. Researchers have concluded that debt, even at low levels, "can have a detrimental impact on students' experience of university."[8]

Career Choice

In Canada, student loan repayment begins almost immediately after graduation, forcing graduates to make employment decisions based on what can best contribute to loan repayment. Student loan obligations reduce the ability of new graduates to start a family, work in public service careers, invest in houses, cars and other assets, build career-related volunteer experience, or take lower paying work in their desired field to get a "foot in the door".

Surveys of students in programs with deregulated tuition fees have demonstrated that student debt changes the career path of young graduates. Studies of medical students and law students found that students expect to seek higher paying jobs in fields or regions that are not necessarily their first choice.[9,10] Student debt appears to be driving committed young doctors away from family practice and young lawyers away from the public service and pro bono work—adversely affecting access to health care and legal services for all Canadians.

Financial Ruin and Bankruptcy

Bankruptcy is supposed to be the last chance for the honest, but unfortunate, debtor. Yet, since 1998, students who were forced to borrow to finance post-secondary education have been subjected to a law prohibiting bankruptcy on student loans for many years after graduation. In effect, students with debt have been criminalized and are faced with the same type of penalty as those convicted of fraud.

The student loan bankruptcy prohibition targets an already vulnerable population. Those declaring bankruptcy on their student loans before the prohibition was introduced in 1998 were more likely than other bankruptcy filers to be women, have low incomes ($14,000/year), work in low-skill jobs and have received income assistance.[11]

A recent study on Canadians and sub-prime lending found student loans to be a major source of concern for indebted Canadians: "Most troubling, it would appear that the debt incurred into for student loans, incurred mainly to secure a brighter financial future through advanced education, seems to be contributing significantly to financial problems experienced by young adults".[12] The authors suggest that high student debt payments and stagnant wages in Canada force many households to rely on high-interest and sub-prime loans later in life.

Conclusion

Tuition fees and other financial considerations foster an aversion to debt that prevents many students and parents from making post-secondary education a priority. Debt is responsible for lower levels of university and college completion, not to mention financial stress that is disproportionately borne by those from low-income backgrounds. After graduation, student debt distorts career choices which impacts access to health care and legal aid.

Although the Canada Student Loans Program has been in place since 1964 and tens of thousands of students borrow to finance public post-secondary education each year, student debt is neither inevitable nor necessary. Federal and provincial government's divestment from public post-secondary education has led to significant tuition fee increases. Students and their families have shouldered these cuts causing a massive increase in student debt.

Reducing both tuition fees and student debt is well within the Government of Canada's grasp. For example, the over $2 billion that the government spends each year on education-related tax credits and saving schemes, if converted into up-front student grants, could turn every dollar currently loaned through the Canada Student Loans Program into a non-repayable grant.

Sources

1. Malatest, R.A. and Associates Ltd. "The Class of 2003: High school follow-up survey." Millennium Scholarship Foundation, 2007.
2. Callender, Claire. "Attitudes to Debt: School leavers' and further education students' attitudes to debt and their impact on participation in higher education." Universities UK, 2003. ; Callender, Claire & Jon Jackson. "Fear of Debt and Higher Education Participation." London South Bank University, November 2004.
3. Davies, Peter et al. "Knowing Where to Study? Fees, bursaries, and fair access." Institute for Educational Policy Research and Institute for Access Studies, Staffordshire University, UK, February 2008.
4. *Ibid.*
5. Callender, Claire. "Attitudes to Debt: School leavers' and further education students' attitudes to debt and their impact on participation in higher education." Universities UK, 2003.
6. McElroy, Lori. "Student Aid and University Persistence: Does debt matter?" Millennium Scholarship Foundation, 2005.
7. Cooke, Richard et al. "Student Debt and its Relation to Student Mental Health." Journal of Further and Higher Education Vol. 28, No. 1, February 2004.
8. *Ibid.*
9. Kwong, Jeff C. et al. "Early Effects of Rising Tuition Fees on the Medical Student Population." Canadian Medical Association Journal Vol. 166, No. 8, April 2002.
10. Ontario Bar Association. "Money, Jobs, and Fear: Tuition report from the OBA student division." Young Lawyers' Division Newsletter, Vol. 10, No. 2, January 2003.
11. Schwartz, Saul. "The Dark Side of Student Loans: Debt Burden, Default, and Bankruptcy." Osgoode Hall Law Journal, Vol. 37, Nos. 1&2, 1999.
12. Uribe, Esteban. "Not Ready for Prime Time: Canadians in the sub-prime and high-interest lending." Public Interest Advocacy Centre, June 2008.