



Maytree Policy in Focus

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RESPs: Untapped education supports for low-income students

- Parents from low-income families want their children to pursue post-secondary education.
- Lack of resources is a significant barrier to post-secondary education for many Canadian families.
- Education savings make post-secondary education seem more possible to low-income children, and encourage good grades.
- There are three tools to help families save for post-secondary education: the Registered Education Savings Plan (RESP), the Canada Education Savings Grant and the Canada Learning Bond.
- The Canada Education Savings Grant matches contributions made by low-income families by up to 40%.
- The Canada Learning Bond is a contribution by the federal government into the RESP of a low-income child. It can provide up to a maximum of \$2,000, without parental contributions.
- Almost 900,000 eligible children across Canada are not receiving the Canada Learning Bond.

Featured Research

SUMMARY

More than Money

*By May
Wong
and Sheila
Murray*

Education savings are an important first step in making a post-secondary education more attainable for a low-income student. The Canada Learning Bond, a federal grant that can only be received into a Registered Education Savings Plan (RESP), enables low-income parents to begin saving for their children's education even when they are unable to make any contributions. This report makes eight recommendations to encourage the use of RESP savings tools. The first four identify strategies that organizations serving low-income families can use to assist families to learn about and access RESPs. The final four recommendations identify specific actions that government can take to make it easier for low-income families to start an RESP that suits their needs.

The Canada Learning Bond provides up to \$2,000 to low-income children without family contributions

Canada's ability to compete in the global economy depends on the capabilities of its workers. As our population ages, and the number of school-aged youth declines, all children must be encouraged to increase their skills to sustain and strengthen the productivity of our workforce. This is an objective that benefits all Canadians. For society, the gain is not only greater economic growth and tax revenues, but also avoided social and health costs attributed to low educational attainment.¹ For the individual, higher education means better jobs, employment security and substantial net financial returns.²

Children from low-income families are less likely than their more affluent counterparts to attend post-secondary education, even when their parents put a high value on education and even when their grades are equally high. While over 50% of students from the highest income quartile go to university, only 30% from the lowest quartile go.³ Even among those students with an A+ average, students from low-income families are 10% less likely to attend post-secondary education than those in the highest income quartile.⁴

Why does saving for post-secondary education matter?

Education savings can encourage children to pursue post-secondary education by helping them overcome the high costs of tuition and by encouraging them to perceive that post-secondary education is within their reach. Studies show that youth who have modest savings earmarked for their education are 50% more likely to participate in post-secondary education than those who have none.⁵

"I told my son, 'I started an account only for your studies. So you better study.'"

- a parent

1. Olena Hankivsky, "Cost Estimates of Dropping Out of High School in Canada." Canadian Council on Learning, 2008: 7
<http://www.ccl-cca.ca/pdfs/OtherReports/>

2. Daniel Boothby and Torben Drewes, "The Payoff: Returns to University, College and Trades Education in Canada, 1980 to 2005." C.D. Howe Institute, August 2010: 5
http://www.cdhowe.org/pdf/ebrief_104.pdf

3. Don Drummond, *How Are We Doing on Social Policy: is the recession paralyzing or transforming*. TD Economics, Special Report. 2009: 4.
www.td.com/economics/special/dd0809_speech.pdf

Why can't low-income students get bursaries and scholarships?

Scholarships and bursaries can be a great help for low-income students. The problem is that they are only available to those who apply to attend a post-secondary institution. The challenge for low-income students is that the high costs of education can dissuade them from applying.

What tools exist to encourage low-income children to save?

The federal government has developed a number of tools as part of the Canada Education Savings Program to encourage saving for education. These include:

- Registered Education Savings Plan (RESP) – a tax-sheltered account for education savings with a contribution limit per beneficiary of \$50,000.
- Canada Education Savings Grant – a matching incentive grant (maximum grant of \$7,200 per beneficiary) to motivate families to contribute to an RESP.
- Canada Learning Bond – a contribution by the federal government into the RESP of a low-income child born after 2004. An initial grant of \$500 is followed by an additional \$100 per year, to a maximum of \$2,000.

To what extent do low-income families use these tools?

The RESP and Canada Education Savings Grant benefit higher-income families much more than lower-income families. In fact, 85% of RESP assets are held by families whose income is higher than \$40,000.

The Canada Learning Bond, which has been designed specifically for low-income families, is not reaching the vast majority of children for whom it is intended. At the end of 2009, over 880,000 low-income children across Canada (81% of eligible children) had not received Bonds to which they were entitled.

4. Drummond, *How Are We*, 4.

5. Lynn Barr-Telford et al., "Access, persistence and financing: First results from the Postsecondary Education Participation Survey (PEPS)," Statistics Canada. Ottawa. 2003: Table A-1: 17 www.dsp-psd.pwgsc.gc.ca/

Collection/Statcan/.../81-595-MIE2003007.pdf

MORE THAN MONEY: MINING THE HUMAN AND FINANCIAL POTENTIAL OF CANADA'S EDUCATION SAVINGS PROGRAMS FOR LOW-INCOME FAMILIES

BY MAY WONG AND SHEILA MURRAY

MAYTREE, DECEMBER 2010

This report examines how low-income families are deterred from participating in the RESP, the Canada Education Savings Grant and the Canada Learning Bond by a number of factors.

1. Most significantly, families are not aware that these tools exist, and they do not know that the Canada Learning Bond does not require any financial contribution by the family.
2. Community service providers are not encouraging families to save for education. They may not consider education savings a priority, even though parents themselves view saving for their children's education as important.
3. There is a lot of confusion about the different kinds of RESP products. Retail banks offer the most flexible types of RESPs: individual and family plans. Most of their plans mirror the rules set by government, with few costs or restrictions. Group plans are offered exclusively by scholarship plan dealers and their rules are often more restrictive.
4. The enrolment process for these savings tools is unnecessarily complicated. After selecting an RESP provider, a parent must apply separately for access to benefits like the Canada Learning Bond. This is despite the fact that eligibility of individual children has already been pre-determined by government.

This report highlights a number of recommendations to encourage better use of RESPs and of the Canada Learning Bond.

1. Service providers, including hospitals, daycares, schools, benefits administrators, and settlement workers, should inform themselves about basic RESP facts.
2. Service providers should inform themselves about the Canada Learning Bond and encourage low-income families to secure it for their eligible children.
3. Service providers should only provide unbiased, non-commercial information to their clients.
4. Service providers should encourage their clients to get a social insurance number for their children and open an RESP in order to, at a minimum, receive the Canada Learning Bond which can total \$2,000 without parental contributions.
5. The Canadian Securities Administrators should require group scholarship plans to provide consumers with brief (two-page), plain-language summaries of their group plan products, clearly outlining the costs, risks, performance and restrictions associated with each plan.
6. The federal government and RESP providers should simplify and consolidate application forms to avoid enrolment missteps and missed incentives.
7. The federal government should examine models of automatic enrolment to determine feasibility with respect to the Canada Learning Bond.
8. Provincial and municipal government agencies that administer income support or other financial benefit programs for low-income families, such as childcare subsidies and housing support, should identify opportunities to encourage eligible families to secure the Canada Learning Bond.

One simple thing **YOU** can do:

Individuals:

Tell your friends that families don't have to contribute any money to receive the Canada Learning Bond and that an RESP can be started at most major banks at no cost.

Hospitals:

Promote RESP awareness instead of a particular RESP product. Distribute unbiased RESP information from the government of Canada to new parents in the place of sales material from group plan dealers.

Daycares:

Distribute non-commercial information on the Canada Learning Bond to all parents. Contact Human Resources and Skills Development Canada, publications@hrsd-rhdcc.gc.ca, 819-994-6406 for free brochures. In Toronto, community organizations can contact SmartSAVER, info@smartsaver.org, 416-966-1418 for free copies.

Newcomer serving agencies:

Encourage newcomer parents to get social insurance numbers for their children when they get their own. In Toronto, organize an RESP learning session for front line staff. Contact SmartSAVER at 416-966-1418, info@smartsaver.org to schedule.

Social benefits case managers:

Distribute non-commercial information on the Canada Learning Bond to your clients and make sure they know that the Canada Learning Bond will not impact their social benefits.

More information about the Canada Learning Bond

www.smartsaver.org

The SmartSAVER website provides consumer-friendly print and video information to help families learn more about RESPs and how to access government money for their children's post-secondary education. The website enables parents to explore RESPs in the following 14 languages: Arabic, Cantonese, English, Farsi, French, Korean, Mandarin, Portuguese, Punjabi, Spanish, Tagalog, Tamil, Urdu and Vietnamese.

SmartSAVER is a non-profit community project convened by the Omega Foundation, supported by government, financial institutions and charitable partners. SmartSAVER does not sell RESPs or investments, nor does it financially benefit from their sale.

www.canlearn.ca

CanLearn is a federal government website that provides Canadians with the information and services they need to decide what and where to study and how to cover the costs.

“For me the big revelation is that you don’t have to have money to start an RESP and you don’t have to have money to get the Canada Learning Bond. I didn’t know that and I’m pretty good at navigating the system.”

- a service provider



About Maytree Policy in Focus

Maytree Policy in Focus, a publication of Maytree, identifies and shares practical research to help inform policy- and decision-making.

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