



Questions and Answers

More than Money: Mining the human and financial potential of Canada's education savings programs for low-income families

What is SmartSAVER?

SmartSAVER helps low income families save for their children's education after high school. The project promotes greater use of the Canada Learning Bond (CLB) which can provide up to \$2,000 in education funds without any parental contributions. To receive the Bond, parents must open a Registered Education Savings Plan.

SmartSAVER works with public, private and community partners to facilitate families' RESP enrolment. SmartSAVER also provides objective and user-friendly research on RESP products to support low-income families' ability to make informed investment choices.

SmartSAVER is a project of the OMEGA Foundation.

Are low-income children as likely to attend post-secondary education as other children?

Children from low-income families are less likely than their more affluent counterparts to attend post-secondary education, even when their parents put as high a value on education and even when their grades are equally high.

Why don't low-income students pursue post-secondary education?

To explain why low-income students are so much less likely to pursue post-secondary education, researchers have suggested a range of factors besides their ability to pay for education, such as parents' lower education level or parental expectations. Such suggestions, however, are not supported by the fact that Canada's low-income population is increasingly composed of highly educated and highly skilled individuals, or by the fact that parental expectations for their children's education are consistently high across all income groups.

Low-income children do not pursue post-secondary education largely because they cannot afford it, or do not see it as financially within their reach.

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 dissuade them from ever getting to the stage of applying.

How can savings help?

Savings can help improve the participation of low-income students in post-secondary education in two ways.

First, savings can help students pay for the costs of post-secondary education. Even modest amounts of savings can reduce the amount of debt that students must assume to complete their education.

Second, and perhaps more importantly, savings can encourage young people to perceive post-secondary education as within their reach. Knowing that there are resources there for their future education, children no longer see education as a pipe dream, but rather an expectation that they should live up to.

What exists to help low-income families save?

The federal government encourages families to contribute to their children's education through the Canada Education Savings Program. The program encompasses the following:

- 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 (CESG) – 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. 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 children use these government savings tools?

The RESP and Canada Education Savings Grant benefit higher-income families much more than lower income families. In fact, higher-income youth are four times more likely to have an RESP than a low-income child.

The Canada Learning Bond, which has been designed specifically for low-income students and provides up to \$2,000 towards post-secondary education without any requirement for family contribution is also underutilized.

Why don't they use these tools?

Low-income families are deterred or discouraged from participating in the RESP, the CESG 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 contributions. There is not much information in circulation in places where low-income families could easily find it, such as schools and community organizations and libraries. The information that does exist, is usually only available in English and French. This is a significant barrier to those low-income families that are also newcomers to Canada.
2. Community service providers are not encouraging families to save for education. Service providers may not know much about RESPs themselves, and may not realize that the Canada Learning Bond does not require a parent's financial contribution. In addition, they may not see education savings as a priority despite the fact that parents themselves see saving for their children's education as a priority. Case workers may mistakenly believe that they are protecting families from these programs, because they don't know that they can be established without risk or cost and can enable families to access government support.
3. There is a lot of confusion about the different kinds of RESP products. Retail banks offer the most common 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 providers and their rules are often more restrictive than the guidelines set by government. Group plans typically require minimum monthly contributions and up-front enrolment fees that can be lost if contributions are not maintained, or if the child does not attend post-secondary education.

Heavier marketing by group plans, combined with little access to informed support or comparative product information has resulted in many low-income families enrolling and failing in RESPs they can't afford.

4. The administrative process for using the savings tools is unnecessarily complicated. After selecting an RESP provider a parent must apply separately for access to benefits like the CLB. This is despite the fact that eligibility of individual children has already been pre-determined by government.

What does the report recommend?

The report makes the following recommendations:

1. Service providers, including hospitals, daycares, schools, benefits administrators, and settlement workers, should inform themselves about basic RESP facts, including where to find unbiased product information, in order to better act as an information resource for families.
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. Service providers should visit, and encourage their clients to visit, websites that provide unbiased information such as www.canlearn.ca or www.smartsaver.org which is available in 14 different languages to better serve diverse families: Arabic, Cantonese, English, Farsi, French, Korean, Mandarin, Portuguese, Punjabi, Spanish, Tagalog, Tamil, Urdu and Vietnamese.
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.

Why are these recommendations important?

These recommendations will increase access to education for those low-income children who are currently underrepresented in post-secondary education. For the individual, higher education means better jobs, higher wages and employment security. For society, the gain is increased productivity, increased tax revenues, and savings of billions of dollars due to avoided social and health costs attributed to low educational attainment. In addition, learning about and using education saving programs will improve the financial literacy of their parents.

If your social insurance number starts with “9” (temporary social insurance number), can you open an RESP and qualify for the Canada Learning Bond?

(Clarification: Refugee claimants, foreign workers, and foreign students receive SIN numbers that start with the number 9. These numbers have an expiry date on them, but may be renewed.)

As long as the child can receive a social insurance number, then the family can start an RESP and receive the Canada Learning Bond. If the child was born in Canada, it is straightforward to secure a social insurance number for the child using his/her birth certificate. (Sometimes, if the child was born elsewhere, a family faces more complication in securing a child’s social insurance number because the child’s identification is not in their own name.)

If a parent’s temporary social insurance number is not renewed, the parent can withdraw their own contributions from the RESP, but any federal grants (Canada Education Savings Grants, Canada Learning Bond) will be returned to the government.

(Answer provided by Service Canada, in consultation with the Canada Education Savings Program. Anyone wishing further explanation or verification of this information should call the Canada Education Savings Program Hotline at 888-276-3624.)