

# Registered Education Savings Plans

## A National System of Grants for the Wealthy

### Introduction

Federal funding cuts to post-secondary education during the 1990s resulted in massive tuition fee increases in every jurisdiction except Québec. Yet even in today's era of federal budget surpluses, the federal government has chosen to ignore its responsibility to restore funding to universities and colleges. Instead, the current government favours an approach whereby the individual pays an increasing portion of the cost of education by spreading it out over a lifetime:

Period	Individualised Cost-Bearing Mechanism
Pre-enrolment	Registered Education Savings Plans
Study	Access to debt (student loans)
Post-graduation	Income-contingent repayment <sup>1</sup>

From this perspective, RESPs are a core program in a funding model for post-secondary education that reduces the role of the federal and provincial government.

### The Registered Education Savings Plan

The Registered Education Savings Plan is an investment vehicle that allows a contributor to save for a child's post-secondary education. Unlike Registered Retirement Savings Plans (RRSPs), the RESP contributions are not tax deductible. However, the savings grow tax-free until the beneficiary is ready to go full-time to college, university, or any other eligible post-secondary educational institution. Under the current rules, one can contribute a maximum of \$4,000 per year for a lifetime limit of \$42,000. Contributions can be made for 21 years and the plan must be collapsed after 25 years.

The RESP is in fact a national system of indirect grants: the income generated by the RESP accumulates tax-free. The foregone tax revenue is tantamount to a grant payable only to RESP investors. Since 2000, the federal government has spent \$567 million on the RESP program.

### The Canada Education Savings Grant

RESPs became more attractive after the 1998 federal budget because in addition to an indirect grant in the form of

foregone tax revenue, the federal government said it would offer a direct grant—the Canada Education Savings Grant (CESG)—to any parent who had sufficient income to purchase an RESP. The Government of Canada pays directly into a beneficiary's RESP 20% of the first \$2,000 in contributions made on behalf of an eligible beneficiary each year.

This means the Grant can be as much as \$400 each year per beneficiary up to a lifetime maximum grant of \$7,200 per child. In other words, if you are wealthy enough to put aside \$2000 per year from the time your child is born until the end of the year in which your child turns 17, the government of Canada will give you a tax-free grant of \$7,200 towards your child's education.

### Two Billion Dollars and Counting

Since the CESG is a "statutory" expenditure, there is no predetermined budget for the program: if every single eligible Canadian could afford an RESP, the federal government would have to pay out the corresponding CESG.

From 1998 to 2004 the Government of Canada spent \$2.36 billion in Canada Education Savings Grants. In terms of what the Government of Canada is prepared to spend on CESGs, if every eligible parent participated in the CESG and invested the maximum \$2,000 per year, it would cost \$2,827,512,000 each year.<sup>2</sup>

### Benefitting Those Who Need it the Least

Research on RESPs shows that high income Canadians benefit far more from this program than do low income households. In 2001, children from households in the lowest quintile (incomes under \$25,000) made up only 9.7% of families who were saving for post-secondary education. Households

with incomes exceeding \$85,000 (the highest quintile) accounted for 31% of savers.<sup>3</sup> The average savings by high-income families was nearly \$7,000 in 2001, whereas low-income households only saved one third that amount on average.

Taken together, the RESPs and CESGs represent a substantial system of indirect and direct grants to primarily high-income families.

"These plans came under heavy criticism in mid-July from the Ontario Securities Commission for their sometimes dodgy sales practices, early redemption penalties, and loose portrayal of investment returns".

Jonathan Chevreau, *Financial Post*,  
August 28, 2004

## “Enhanced” CESGs and the Learning Bond

In response to widespread criticism about the regressive nature of the RESP and CESG programs, the federal government attempted to make the programs more appealing for low-income Canadians by introducing changes to the CESG in the 2004

federal budget. The CESG payout was adjusted on a sliding scale to be more generous to low-income recipients, and in addition, children

born into a low-income family beginning in 2005 will receive \$500 towards an RESP account (the “Learning Bond”) plus \$100 for every subsequent year the child’s family qualifies as low-income.

Rather than acknowledge the real forces putting higher education out of reach for low-income families, the Learning Bond’s proponents cling to a naïve vision for solving social ills: “Through savings incentives and supports such as financial literacy, low-income earners are encouraged to save for their future goals. With the right incentives the poor can and do save!”<sup>4</sup>

Nevertheless, speaking in purely financial terms, the amount of money that low-income Canadians may accumulate under a Learning Bond will be wholly inadequate to cope with the rapidly increasing costs of college and universities in most jurisdictions. Dennis Howlett, Executive Director of the National Anti-Poverty Organisation has noted that “When people are struggling to feed their children and keep a roof over their heads, they have no extra money available to ‘invest’ in university education, even if they were better informed about the costs and benefits...starting salaries, even for those with a university education, have been falling for some time, at the same time as the costs of education have been rising, making it less and less of a good investment”<sup>5</sup>.

Government-sponsored education savings vehicles also promote uneven spending across the country. In provinces where forward-looking governments have kept tuition fees low, such as Québec, parents will have less need to save. The federal government has openly conceded this point: “The lower RESP take-up rate in Québec is likely attributable to the province’s publicly

funded college system (CEGEP) and relatively low university tuition fees for Québec residents”<sup>6</sup>. Thus, Quebecers and families in other lower tuition fee provinces have a diminished benefit from a multi-billion dollar federal grants program.

The biggest winners of the increased emphasis on savings schemes are undoubtedly the RESP providers. The federal government has created a profitable scheme for the banks at the expense of real access to college and university. Nevertheless, the education savings industry has

repeatedly been the subject of criticism from both the Alberta and Ontario Securities Commissions for its sales tactics.

## Conclusion: Towards an Effective and Fair Grants Program

Savings-based access to education re-frames the question about affording high tuition fees as a question about the individual and their savings history, rather than about Canada’s collective resources and the collective responsibility to make education affordable to all. Students with financial need would be better served if the RESP and CESG programs were converted into a national system of needs-based grants. The federal government expects to spend \$615 million on the CESG in 2005—approximately what it would cost to give a \$5,000 grant to one in three student loan recipients, thereby reducing the debt of current students by 22%.

### Endnotes:

1. Students forced the federal government to reject income contingent repayment in 1995, but the schemes are still a serious policy threat to this day. For more information visit [www.cfs-fcee.ca](http://www.cfs-fcee.ca).
2. This amount includes the Learning Bond announced in the 2004 federal budget.
3. Planning and preparation: First results from the Survey of Approaches to Educational Planning (SAEP) 2002. Statistics Canada.
4. Peter Nares, Executive Director of Social and Enterprise Development Innovations.
5. Formative Evaluation of the Canada Education Savings Grant Program: Final Report.
6. National Anti-Poverty Organisation news release “Anti-poverty Organization Critical of New Education Report”, July 7, 2005.

**“Want to really make a kid’s eyes really light up on Christmas morning? An RESP could be just the thing. Imagine how grateful that special girl or boy will be to receive a little something toward what will undoubtedly be an atrociously expensive post-secondary education”**

Rob Carrick, *The Globe and Mail, Money and Markets*, December 21 1999

**“When Ottawa will pay you \$400 per year...simply for saving \$2000 per year yourself, who can refuse? Especially when getting the money is so simple”.**

Geoff Kirbyson, “Pro: Why open an RESP”, *IE: Money*, August 1999

“CESGs give scarce public funds to the wrong households...[t]he CESG program should be discontinued”.

UBC Economist Kevin Milligan