



Education Savings: The Value of Provincial Government Investment

EXECUTIVE SUMMARY

In the 2013 Alberta budget the Government of Alberta announced the phasing out of the Alberta Centennial Education Savings grant (ACES). Since the 2013 budget the program's status was changed to 'under review.' However, in March 2015 the government introduced legislation that cancels the ACES grant. As of May 2015, this legislation has not been passed.

Momentum is calling on the Alberta Government to not cancel the ACES grant and maintain it in its current form. If the grant must be changed, the ACES grant could become an income-tested grant for low and modest income families. Government can also partner with non-profit organizations to raise awareness of RESPs and grants especially among low income families.

Children with an education savings account, like a Registered Education Savings Plan (RESP), are up to six times more likely to finish high school and move on to post-secondary education. This is even more important for low income families given Alberta's

high dropout rate and that 25% of children raised in poverty will remain in poverty throughout their life. An investment in education savings is an important tool to reduce poverty.

Momentum has worked with over 4,000 families since 2009 to open over 1,200 RESP accounts.

Uptake of RESPs and government grants is continuing to increase and this is in spite of a lack of promotion of RESPs and education grants by the Alberta Government. If the government had raised awareness among Albertans of the importance of RESPs and the availability of the ACES grant, its impact would be greater. Momentum has worked with over 4,000 low income families since 2009 to open over 1,200 RESP accounts. This has helped to raise low income families' uptake of RESPs in Calgary to the highest in Alberta.

What is an RESP?

An RESP is an investment vehicle used by parents to save for their child's post-secondary education. Saving through an RESP gives parents access to government grants such as the Canada Education Savings Grant and the Canada Learning Bond in addition to ACES.

What is the ACES Grant?

This grant provides an initial \$500 when parents open an RESP account on behalf of their child. It also provides another \$100 at ages 8, 11, and 14 if parental contributions are also made.

What is the Canada Education Savings Grant (CESG)?

A federal grant which will give 20% on every dollar for the first \$2,500 saved in a child's RESP every year.¹ If a family's income is below \$87,907 an additional 10% is contributed. If a family's income is below \$43,953 another 10% is contributed, for a total of 40%.²

What is the Canada Learning Bond?

The CLB is given to low income families for a child's RESP. Parental contributions are not necessary. Families who receive the National Child Benefit Supplement are eligible for the CLB. \$500 is provided when an RESP is opened and \$100 per year is added until the child is 15.

1. Canada Education Savings Grant. <http://www.canlearn.ca/eng/savings/cesg.shtml>.

2. Additional Canada Education Savings Grant. <http://www.canlearn.ca/eng/savings/a-cesg.shtml>.

HISTORY

The ACES grant was implemented in 2005. Its timing coincided with federal implementation of the CLB which provided an incentive to save specifically for low income families. The justification of the implementation of ACES according to the Act which legislated the program was to “raise awareness of the benefits of post-secondary education among children and their parents.” Additionally the government sought to “encourage parents to plan and save for their children’s post-secondary education.”³ ACES was not meant to specifically benefit low income families. At the time of implementation, ACES was hailed as a visionary program and the first of its kind among Canadian provinces. It is only in the last two years that other provinces have implemented comparable RESP grants or tax credits.

GOVERNMENT ACTION

The program’s cancellation comes as it experiences its highest ever take up rate.

When the ACES Amendment Act, which canceled the grant, was introduced March 2015, the brief justification of the program’s cancellation was that the program was “underutilized and not achieving its goal of encouraging families to save for their children’s education.”⁴ The government has claimed that Alberta RESP rates have declined by 2% between 2005 and 2010 and that low income participation in the grant was low and made up only 17% of total grants.⁵ However, uptake of the CLB was 27.3% in 2013 in Alberta. This suggests that not all CLB eligible families were receiving the ACES grant.⁶ This is likely due to a lack of awareness by both families and financial institutions. However, since

2008 the ACES grant has seen marked improvement in its overall take up rate which more than doubled from 13.2% in 2008 to 32.3% in 2013.⁷ The program’s cancellation comes as it experiences its highest ever take up rate.

THE BENEFIT OF EDUCATION SAVINGS & GRANTS

Parents are saving through RESPs

Assets invested in RESPs have increased every year but one since 1998 across Canada. Since 2005, total assets in RESPs have grown from \$18 billion to over \$40 billion in 2013.⁸ RESP deposits grew more in the two years following the CESG introduction than in the first 25 years of the existence of RESPs.⁹ This is a very positive trend. Parents are enthusiastic about saving for education and savings grants provide an incentive for parents to save.

Families on low incomes are saving through RESPs

In the 2004 federal budget speech, then Finance Minister Ralph Goodale said “when it comes to putting money aside for their children’s education, Canadians know how hard it is to save—but how important it is to start. This challenge is particularly acute for low-income families who struggle just to make ends meet.”¹⁰ This led to the start of the Canada Learning Bond (CLB) in 2005. Specifically targeted to low income people, uptake was initially slow but has steadily grown from 16.3% in 2008

3. Province of Alberta (2004). Alberta Centennial Education Savings Plan Act. <http://www.qp.alberta.ca/documents/Acts/A14P7.pdf>, 1.
4. Province of Alberta (2015). Alberta Hansard for Thursday, March 26, 2015. http://www.assembly.ab.ca/ISYS/LADDAR_files/docs/hansards/han/legislature_28/session_3/20150326_1330_01_han.pdf, 18.
5. The Edmonton Journal (2015). *Alberta Tories Criticized for cancelling ‘visionary’ RESP grant*. <http://www.edmontonjournal.com/Alberta+Tories+criticized+cancelling+visionary+RESP+grant/10935517/story.html>
6. Government of Canada. *2013 CESP Annual Statistical Review*. http://www.esdc.gc.ca/en/reports/cslp_cesp/cesp_2013.page, 7.
7. Government of Alberta information sent to the author.
8. Government of Canada. *2013 CESP Annual Statistical Review*. http://www.esdc.gc.ca/en/reports/cslp_cesp/cesp_2013.page, 7.
9. Lewis, Melinda and William Elliott III (2014). *Examining the Canadian Education Savings Program and its Implications for U.S. Child Savings Account (CSA) Policy*, University of Kansas & Assets & Education Initiative, 6.
10. Ibid, 7.

to 29.4% in 2013.¹¹ Grants for low income families require an upfront investment. This was done by CLB and ACES. Both provide \$500 upon the opening of an account, this helps to create the habit of saving while matching grants like CESG maintain the habit. As a result, 97% of low income families with an RESP contributed their own dollars as well.

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Families on low incomes face barriers to education savings

Initiatives like the CLB and ACES grant are excellent ways to ease the burden of post-secondary costs, however, people must be aware of them to take advantage. Government has not effectively promoted RESP. Non-profit agencies have successfully worked to raise awareness. In Toronto, the Omega Foundation increased CLB uptake from 27.7% to 39.3% in three years.¹² In Calgary, Momentum has worked with low income families through the StartSmart program. Since 2009, Momentum has helped over 1,200 RESP accounts to be opened by low income families and has partnered with school boards to raise awareness. This has increased the uptake of the CLB to 37.8%, which is well above the provincial average of 27.3%. If ACES promotion occurred across Alberta the results would be similar.¹³

Asset limits are a barrier for many low income individuals in setting up an RESP. For example, to qualify for social housing programs in Alberta an applicant must not have more than \$7,000 in assets. This includes RESP assets. The up to \$2,500 that low income Albertans can receive from government for an RESP is a large portion of this limit. If government consistently exempted RESP from these asset

calculations it would encourage more people to open RESP. In this respect, the provincial government has inadvertently limited opportunities for lower income Albertans to save for their child's education.

Mainstream banking access is also a barrier. Low income individuals may not be able to open a bank account and therefore cannot access an RESP account. Alternatives such as group plan provider RESP generally do not work well for lower income families due to contribution requirements and inflexible payment schedules.

RESP participation is not declining

The provincial government noted a 2% decline in RESP participation between 2005 and 2010. However, Alberta was then and still is experiencing record population growth. This decline could be attributed to new Albertans being unaware of RESP and available grants. In addition, the CLB eligible population across Canada will increase each year until 2022.¹⁴ ACES eligible population will also grow through this period. This population trend may contribute to claims by the Alberta government that ACES uptake has remained low among low income Albertans. However, it is likely a matter of RESP awareness not keeping up with population growth.

Canadians are saving for education earlier

The earlier a parent sets up an RESP the longer the savings can grow and cover a greater portion of post-secondary costs. The age at which parents open an RESP is declining. At the start of the CESG the average was 8 years, by 2013 this had dropped to 3.5 years. In the case of ACES, this grant is associated with a 43% decrease in age of RESP initiation. This means that parents are opening an RESP account a full year earlier in their child's life than without the ACES grant.¹⁵

RESPs affect post-secondary aspirations

While 90% of children from high income families see post-secondary education as an expectation, this drops to only 62% for the lowest income families. With

11. Ibid, 7.

12. The Omega Foundation (2013). <http://www.theomegafoundation.ca/documents/SmartSAVER%20Final%20Evaluation%20Report%20Executive%20Summary.pdf>, 4.

13. Government of Canada (2013). *Canada Education Savings Program: Annual Statistical Review 2013*. http://www.esdc.gc.ca/en/reports/cslp_cesp/cesp_2013.page, 24.

14. Lewis, Melinda and William Elliott III (2014), 21.

15. Ibid, 33.

the cost of post-secondary education expected to balloon to \$140,000 for a child born in 2012, parents will have to help children pay for their education.¹⁶ As little as \$3,000 in savings can improve the perception of post-secondary education as reality. Children with an education savings account are up to six times more likely to complete high school and enroll in post-secondary education.¹⁷

increases both high school graduation and post-secondary enrollment. The simplest answer is to maintain the program in its current form.

Income Testing of ACES

In the 2015 Alberta Budget, the government introduced one tax credit and expanded another for low income families. These tax credits phase

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Other Provincial Programs

Alberta appears to be going the opposite direction on education savings grants compared to other provinces. When introducing Bill 25 the government noted it had made student loans easier to access. However, moving from grants to loans and debt will not reduce high school dropout rates and increase post-secondary enrollment. Access to a savings account will. Quebec, Saskatchewan, and British Columbia all have education savings grants in one form or another. British Columbia recently introduced a \$1,200 grant.¹⁸ In Saskatchewan the government will match parental contributions up to 10%.¹⁹

POLICY OPTIONS

Maintain ACES in its Current Form

This report has demonstrated that investment in RESPs by Albertans from all income levels is on the rise. The ACES grant is a relatively small, \$19 million annual investment, which provides a much greater return. It does something that student loans cannot do: incentivize long-term savings for education that

out once a family taxable income surpasses a little over \$41,000.²⁰ This threshold could be used for a modified ACES grant. Such an adjustment would save the government significant dollars while still working towards increasing high school completion and post-secondary enrollment among low income families.

Partnering with Service Organizations to Increase Awareness

Models exist in Canada for the government to work with local organizations to raise awareness and enrollment of RESPs. By partnering with community organizations, the government can achieve its goals of promoting education savings to all Alberta families.

In conclusion, for any program to be successful there must be both a need and awareness. There is certainly a need for education savings but awareness of RESPs and grants were never a serious focus of the ACES program. Other barriers also exist, especially for low income families. Rather than simply give up on a program, why not target it to those who may benefit the most and work with partners to make that a reality?

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16. BMO Financial Group (2012). *BMO RESP Study: Canadian Parents Concerned about Costs of Post-Secondary Education*. <http://newsroom.bmo.com/press-releases/bmo-resp-study-canadian-parents-concerned-about-c-tsx-bmo-201211220836374001>.
 17. Dubois, J. (2002). What Influences Young Canadians to Pursue Postsecondary Studies? Working Paper Series. Catalogue no. SP-578-06-03E. Ottawa: Human Resources Development Canada.
 18. Government of British Columbia (2013). *Start an RESP to get \$1,200 Training and Education Grant*. <http://www.newsroom.gov.bc.ca/2013/03/start-an-resp-to-get-1200-training-and-education-grant.html>.
 19. Government of Saskatchewan. *Saving for Post-Secondary Education: Saskatchewan Advantage Grant for Education Savings (SAGES)*. <https://www.saskatchewan.ca/live/education-learning-and-child-care/saving-for-post-secondary-education>.
 20. Government of Alberta (2015). *Budget 2015 supports working families*. <http://alberta.ca/release.cfm?xID=37960952F60F1-9265-A4A6-B8BA5A4F66862203>.