Student Debt in Canada:
Education shouldn't be a debt sentence

Canadian Federation of Students
cfs fcée
Winter 2021

Canadians are making sacrifices to prepare themselves for a changing workforce. Federal and provincial government decisions are forcing students to take on more education-related debt than any previous generation, while middle class earnings have largely stagnated in the past twenty years.

Skyrocketing tuition fees and the prevalence of loan-based financial assistance have pushed student debt to historic levels. In 2018-19 over 532,000 students were forced to borrow in order to finance their education. The amount of student debt from loans disbursed by the Canada Student Financial Assistance Program is increasing by $7 million per day.

A Generation in Debt

In July 2020, the total amount of student loans owed to the government surpassed $22.3 billion, the legislated ceiling set by the Canada Student Financial Assistance Act. This figure only accounts for a portion of total student debt; it does not include provincial and personal loans, lines of credit, and education-related credit card debt. In response, the government altered the definition of "student loan" to exclude over $1.5 billion in federal student loan debt. Even with this new definition, the federal student loan debt surpassed the $22.3 billion limit. In response, the federal government amended the Canada Student Financial Assistance Act once again in order to increase the limit to $24 billion.

CANADA STUDENT LOAN DEBT

$22,300,000,000

In July 2020 the amount of student loans owed to the Government of Canada surpassed $22.3 billion dollars - more that the debt of some provinces. Worse, the $22.3 billion figuredoes 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 Ontario and the Maritimes have had the highest average debt loads, averaging more than $28,000 over a four year period.

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 mobilization 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, then in 2013 massive student mobilization against increases in tuition fees contributed to the defeat of the Charest Government in the 2012 provincial elections. Collective action has afforded Québec one of the lowest tuition fees and lowest levels of student debt of any province at just over $13,000. However, since 2013, tuition fees in Quebec have been indexed to the cost of living.

Students in Newfoundland and Labrador have been successful in lobbying consecutive governments to freeze and reduce tuition fees since 1999. 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, in 2011 the government has also eliminated the interest on student loans, giving a break to those who accrued debt.

The Impact of Debt on Students and Society

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. Financial struggles lead to a diverse array of consequences.

Debt Aversion

Many potential students are reluctant to take on the required debt and associated risk required to pay for a college or university degree. Research has found that debt aversion is strong among those who chose not to pursue post-secondary education. Of the 70 percent of high school graduates who cite financial reasons as the main factor for not pursuing post-secondary education, one in four cited accumulation of debt as the main deterrent. Those from marginalized communities, low-income backgrounds, and single parents are more likely to be strongly averse to accumulating student debt.

Students are also finding it more difficult to find meaningful summer employment to help cover the costs of rising tuition fees. According to Statistics Canada, student unemployment is twice as high as the rate of unemployment for the general population and peaked at 40 percent in May 2020, the highest unemployment rate for students since 1976.[1]

Persistence and Mental Health

Canadian research suggests that debt levels have a direct impact on success in post-secondary education. Apprehension about accumulating debt can also have a profound impact on the likelihood of completing a post-secondary degree. 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.

One study found that as student debt rose from less than $1000 to $10,000 per year, program completion rates for those with loans and some aid in the form of grants decreased from 79 percent to 38 percent, while completion rates for students with only loans (and no grants) plummeted from 59 percent to 8 percent.[2]

According to Statistics Canada, student debt contributed to lower mental health and increased substance abuse. In fact, prior to the Covid-19 pandemic, 40 percent of young Canadians aged 15-24 stated they have poor mental health. A percentage which has likely only been exacerbated since the beginning of the pandemic.[3] 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."[4]

"Canadian tuition has increased at 3.7 percent annually in the last 10 years but the rate of inflation has only increased 1.65 percent annually in that same time period."

Career Choice

Student loan obligations reduce the ability of new graduates to start a family, work in public service careers, own a home, car and other assets, build career-related volunteer experience, or take lower paying work in their desired field to get a "foot in the door". Research also suggests that high student debt levels dissuade recent graduates from entrepreneurship, forcing graduates to make employment decisions based on what can best contribute to loan repayment.

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 tend to seek higher paying jobs in fields or regions that are not necessarily their first choice.[5] Thus, 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.

In 2018, close to one in five of all insolvencies in Ontario included student debt.

Financial Ruin and Bankruptcy

Bankruptcy is supposed to be the last chance for the honest, but unfortunate, debtor. Students are already an indebted and vulnerable population but those declaring bankruptcy from loan debt are increasing annually. In 2018, close to one in five of all insolvencies in Ontario included student debt. This was a historic rate over the previous decade.

Conclusion

Although the Canada Student Financial Assistance Program has been in place since 1964 and hundreds 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. Canadian tuition has increased at 3.7 percent annually in the last 10 years but the rate of inflation has only increased 1.65 percent annually in that same time period. Students and their families have shouldered these cuts causing a massive increase in student debt.

The tax credit and education savings schemes currently operated by the federal government allow for personal income tax savings on education-related costs and a higher *rate of return on education-related savings, respectively. The indications are, however, that the total cost of the programs will exceed $2.8 billion this year, making them by far the government's most expensive direct spending on post-secondary education measure.*

Despite their large price tag, the education tax credit and savings programs are very poor instruments to improve access to post-secondary education and relieve student debt. All students qualify for tax credits, regardless of financial need, which ultimately benefits those with the lowest amount of debt and those from high-income backgrounds. Savings schemes have largely benefitted those from high-income backgrounds, as individuals from low-income families often do not have the funds necessary to invest in the first place.

If this $2.8 billion was instead used for up-front grants, it would turn every dollar loaned by the Canada Student Financial Assistance Program into a non-repayable grant. The program expects to lend approximately $3.6 billion during the 2020-21 academic year. If the amount of money the federal government spent on savings schemes and education-related tax credits each year had been simply shifted to the Canada Student Grants Program, student debt owed to the federal government could be greatly reduced.

Sources

1. Statistics Canada. "Youth Unemployment." December 1, 2021
2. McElroy, Lori. "Student Aid and University Persistence: Does debt matter?" Millennium Scholarship Foundation, 2005.
3. 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.
4. Statistics Canada. "Impacts on Youth." October 20, 2020.
5. Ontario Bar Association. "Money, Jobs, and Fear: Tuition report from the OBA student division." Young Lawyers' Division Newsletter, Vol. 10, No. 2, January 2003.