

THE IMPACT ***OF STUDENT DEBT***

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EXECUTIVE SUMMARY:

Post-secondary education is effectively a requirement to succeed in today's labour market. Unfortunately, while the demand for education has increased, public funding has failed to keep up. Public funding shortfalls have resulted in a significant growth of costs that have been downloaded onto individual students, namely in the form of high tuition fees. From 1990 to 2014, national average tuition fees have seen an inflation-adjusted increase of over 155%. In Ontario, tuition fees have increased over 180%.

For most students—often having spent little time fully active in the workforce—funding their education has become increasingly difficult. Many students must now take on significant levels of debt to pay for their education. Students requiring a Canada Student Loan now graduate with an average debt of over \$28,000.

Relying on debt to finance education means the full impact of high tuition fees is delayed until after graduation—when it is then compounded by interest. This impact is now exacerbated by the effects of the Great Recession and the rising trend of precarious, and even unpaid, employment. The broader effects of high levels of student debt on both the individual and the general economy are now becoming obvious:

- **Young Canadians (15-24) accounted for over 50% of the net job losses during the Recession;**
- **Lost wages and wage scarring due to un- and under-employment will cost the Canadian economy over \$22 billion by 2031;**
- **In 2014, youth un- and under-employment among Canadian youth was 27.7%;**
- **30% of medical students expect to graduate with over \$100,000 in student debt;**
- **Underemployment and working outside one's field of study lead to skill degradation, falling behind in experience, and lost networking opportunities;**
- **42% of Canadians under 30 years old still live in their parent's home—up 15% from 1981;**
- **Those with student debt have a lower net worth, fewer assets, and are less likely to have savings or investments compared to debt-free peers.**

Starting out with massive debt and facing a weak labour market, many graduates are struggling to fully participate in the Canadian economy. Student debt impacts career choices, even among professional faculties such as medicine and law. Unpaid internships, affecting an estimated 300,000 young people who work without pay, privilege those who have the financial support to work for free. Those with high levels of debt now often find themselves underemployed outside of their field of study because of pressures to repay loans.

Despite spending over \$2.7 billion each year on piece-meal financial aid and incentive programs for post-secondary education, Canadians are falling behind because of the financial barriers they face upon graduation. Restructuring the current system away from inefficient and complicated programs would immediately and significantly reduce student debt levels. This would provide new graduates with an equal opportunity to compete and succeed in today's evolving labour market, regardless of their financial background. In order to create opportunities for college and university graduates to thrive in our rapidly changing economy, we must invest in those seeking higher education, not indebt them.

INTRODUCTION:

Over the past twenty years, there has been an increase in the demand for advanced skills and training required to enter the workforce, pushing many to pursue post-secondary studies. As a result, Canada now boasts one of the highest rates of post-secondary education attainment in the world.

Unfortunately, as the demand has increased, public funding for the post-secondary education has decreased significantly. Today, public-funding accounts for roughly half of post-secondary education institutions' operating budgets, down from more than 90 percent in the 1960s and 1970s. The lack of public financing has created a funding gap for universities and colleges, which has been increasingly filled by relying on private sources of funding, primarily in the form of tuition fees. In 1990, the average undergraduate student paid \$1,271 for tuition, equivalent to \$1,993 in 2013. In 2013, the average undergraduate student paid \$5,772.

Skyrocketing tuition fees have led students to increasingly rely on loan-based financial assistance to cover the cost of their education, pushing student debt to historic levels. Currently, the students who receive funding through the Canada Student Loans Program (CSLP) are graduating with an average loan debt of \$28,495.¹ It is estimated that the outstanding student debt owed to the CSLP alone is over \$16 billion, as of 2013.

High tuition fees not only result in student debt, but can also have a secondary impact of keeping certain groups of potential students out of the system all together, hindering their ability to fully integrate into our knowledge-based economy. Debt aversion is strong among those who do not pursue post-secondary education, with one quarter citing financial issues as their primary reason for not enrolling. Specifically, racialised communities, lower income families, and single parents are more likely to hold strong negative feelings toward taking on student debt.²

This paper will examine some of the impacts that unnecessarily high levels of student debt have on both the individual and the broader economy. It will also provide solutions to reduce the burden of student debt and improve the ability of Canada's post-secondary graduates to contribute to the economy and society as a whole.



Public-funding accounts for roughly half of post-secondary education institutions' operating budgets, **down from more than 90 percent** in the 1960s and 1970s.



A recent report by TD economics stated that, **“there was a time that students could fund their tuition, other school fees, and living expenses from savings accumulated through summer and part-time jobs. Those days are past.”**¹⁰ Post-secondary education is becoming harder to afford every year, and those who are unable to pay upfront are gambling that they will be able to repay their increasing amount of debt with future employment.

EDUCATION-RELATED DEBT:



2011

Living at home
\$55,000

Away from home
\$84,000

2030

Living at home
\$102,286

Away from home
\$139,380

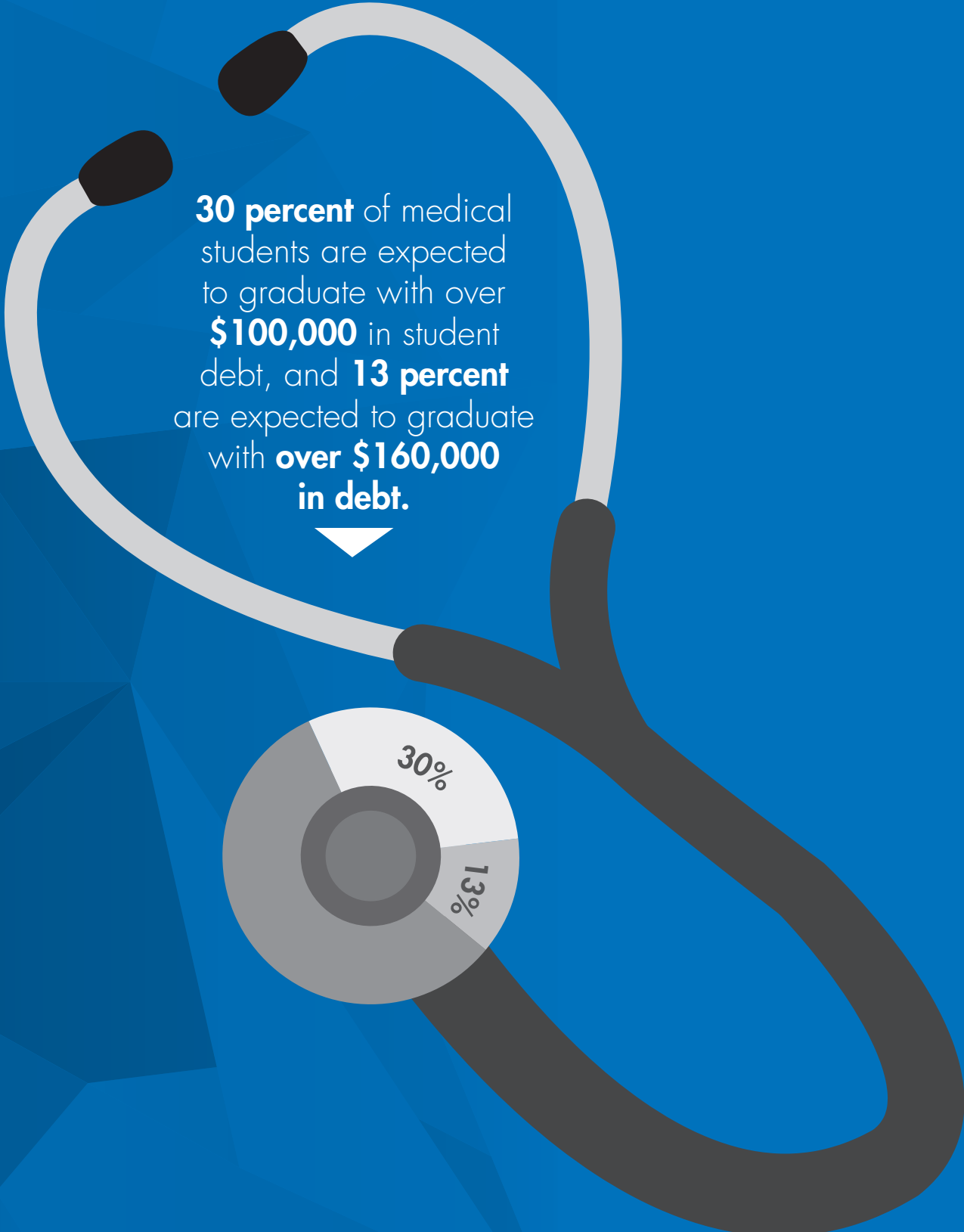
Actuarial reports of the Canada Student Loan Program predict that student financial need will continue to rise, which will drive up the amount of student loans required to pay for post-secondary education. The federal government predicts tuition fees will rise at a rate of 2.5 percent above inflation annually over the next 25 years. At this rate, it is expected that fees will increase from an average of \$5,959 in 2014-15³ to \$19,900 in 2035-36.^{4,5}

However, tuition fees only account for part of the costs of completing a four-year undergraduate degree. A recent report by TD Economics estimated that a **student that started studying in 2011 would spend \$55,000 over the course of their degree if living at home. This figure increased to \$84,000 if the student lived away from home. The report projected that children born in 2011 can expect to pay \$102,286 for their post-secondary education if they live at home and \$139,380 if they live away from home while studying.**⁶

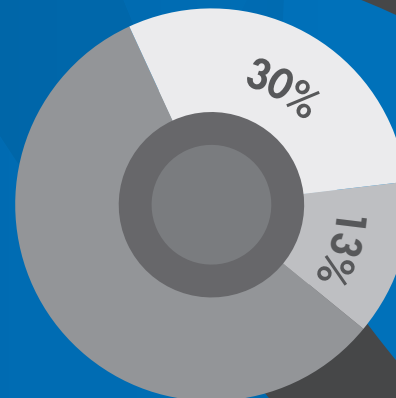
The high cost of completing post-secondary studies leads to significant levels of debt for recent graduates. In 2014, the average debt upon graduation for those with federal student loans is estimated to be over \$28,000. It is important to note that this estimate does not factor in compound interests that accrue after graduation and vary depending on the length of time required to pay back the loan. For instance, assuming a federal student loan in Ontario is repaid at the current interest rate of 5.5 percent, over 120 months (10 years), the required monthly payment would be roughly \$326. After ten years the borrower would have repaid \$39,101, \$10,606 of which is interest.⁸

In a report examining the effects of rising tuition fees on students' families, low- and middle-income Ontario households were compared on the basis of the number of days worth of earnings it would take for the family to pay for four years

of post-secondary education. The costs in 2011 were compared to those of 1990. From 1990 to 2011, tuition fees experienced inflation adjusted increases of 244 percent. Ignoring all other expenses, it was found that in 1990, a middle-income family, earning roughly \$23,943 after-tax (\$36,600 in 2011 dollars) would need to dedicate roughly 87 days of wages, and a low-income family, earning \$11,055 (\$16,900 in 2011 dollars) would need to dedicate over three times that, at 270 days worth of wages. With the average working year in Canada being roughly 250 days, a low-income family in 1990 would need to dedicate over a full-year's worth of wages to pay for a child to obtain a four-year degree. By 2011, the amount of earnings required would take a middle-income family earning \$42,600 after-tax and a low-income family earning \$18,900, 195 days, and 673 days, respectively.⁹



30 percent of medical students are expected to graduate with over **\$100,000** in student debt, and **13 percent** are expected to graduate with **over \$160,000** in debt.



EMPLOYMENT:



The myth that an undergraduate degree will yield an additional \$1 million in income over a lifetime has been thoroughly debunked for some time now.¹¹

While those with higher education are linked to higher earnings than those without, more jobs than ever before, even at the entry level, now require some form of post-secondary education. For example, the BC government predicts that by 2020, approximately 35 percent of all new job openings will require university-level education and 42 percent will require college or trades certificates.¹²

The risk of taking on significant levels of debt at a young age with few assets is often justified as a self-investment necessary to secure future employment and income. However, young Canadians are entering a workforce far different than that of previous generations. Increasing occurrences of precarious work, largely stagnant wages, and fewer (if any) benefits can turn education-related debt into a life-impacting burden.

Despite claims that Canada weathered the recession better than many countries, its youth unemployment rate still remains double the overall unemployment rate. In 2008, prior to the recession, youth unemployment was 11 percent. It peaked in 2009 at 16.4 percent¹³ and although it has decreased it still remains high at 13.4 percent as of June 2014.¹⁴ If part-time employees seeking full-time jobs, unpaid interns, and discouraged young Canadians¹⁵ are taken into account, the youth un/underemployment rate rises to 27.7 percent.¹⁶

Young Canadians (15-24) were hit especially hard in the last recession. Young workers accounted for more than half of all net job losses during the recession, despite making up only 16.5 percent of the workforce.¹⁷ High level of youth unemployment has already resulted in \$10.7 billion in lost wages to young Canadians. Furthermore, over the next 18 years, it is believed this wage scarring¹⁸ will lead to an additional loss of \$12.4 billion.¹⁹

When the rates of recent graduates working outside of their educational background are taken into account, the effects of underemployment and wage scarring become more pronounced. While a struggling youth job market has made it more difficult for many to enter into their fields following graduation, high student loan debt repayments leave recent graduates in a situation where they need an immediate income.

23 percent of post-secondary graduates are not working in or close to their field of study. Not only do these graduates experience greater difficulties

in finding opportunities to network and gain experience in their fields of study, but their income levels tend to be 25 percent less than those who find employment in their field.²⁰ Many recent graduates who are unable to secure adequate income in their field are forced to accept any job to avoid missing loan payments, including positions for which they are overqualified and that may actually be a barrier to eventually find work in their field as their newly acquired knowledge and skills start to degrade.

High levels of student debt have also been found to impact employment choices for students in professional faculties. For example, very high student debt levels among medicine program graduates appears to be a driving force behind young doctors abandoning the idea of family practice, instead choosing to enter higher-paying specialist positions. The National Physician Survey of Medical Students and Residents found that 30 percent of students expected to graduate with over \$100,000 in student debt, and 13 percent expected to graduate with over \$160,000 in debt. This marks a drastic increase from 2004, when only 15 percent of students expected to graduate with \$100,000 and 1 percent expected to graduate with over \$160,000.²²

The long-term implications of high levels of un/under-employment among recent graduates are not well documented. However, recent data from the OECD highlights that the promise of post-secondary education leading to high earnings is not always the reality, as Canada has the highest percentage of university graduates that are earning less than half the national median income.²³



The 2011 National Household Survey (NHS) found that **42 percent of young adults were still living at home, up over 15 percent since 1981.**²⁴

GENERATION 'BOOMERANG':

High levels of student debt and a poor job market are affecting the living situation of young Canadians. The 2011 National Household Survey (NHS) found that 42 percent of young adults were still living at home, up over 15 percent since 1981.²⁴ The primary reason given was poor employment opportunities, high cost of living/housing, and student debt.

In 2012, research found that while the average household income of a young couple has increased by 5 percent since 1976 (adjusted for inflation), Canadian housing prices have dramatically outpaced income gains, rising 76 percent over that same period.²⁵ As housing costs have dramatically surpassed income gains and student debt continues to rise, young Canadians are staying in their parents' homes longer than any previous generation. Furthermore, as saving for a down payment is increasingly out-of-reach for many graduates in repayment, high student debt significantly delays the life milestone of home ownership—one major form of economic stability—and limits the ability of borrowers to fully engage in the Canadian economy.

Trends within the housing market and auto industry in the United States should be of concern to Canada. Prior to the recession, post-secondary graduates, who consistently earned higher incomes, were more likely to own a house before they reached the age of 30.²⁶ The recession has resulted in home ownership rates among youth decreasing across the board, but more dramatically among those who held student debt. This is unsurprising as student debt has rose from 25 percent to 43 percent in the last decade (with average debt levels reaching \$20,326 USD in 2012). A similar trend is being observed in the auto market as well. While there are a variety of factors involved, carrying significant levels of student debt appears to make it more difficult to save—and qualify—for large purchases, such as homes and cars.²⁷

Similarly to the United States, Canadian tuition fees and corresponding debt levels continue to increase. However, unlike the US, where a housing market crash occurred, the Canadian housing market is still relatively strong. **Despite some cooling, prices continue to rise. From 2009 to 2012, housing prices increased 17 percent,²⁸ and from June 2013 to June 2014 there has been an increase of 6.9 percent.²⁹**

A report released by the OECD suggests that Canada's housing market is one of the most overvalued in the industrialised world. In terms of renting, Canadian real-estate could be overvalued by as much as 60 percent.³⁰ In 2007, prior to the recession, it had already been noted that student borrowing affected home ownership in Canada. It was found that three percent fewer graduates with student-debt were homeowners compared to those who did not borrow.³¹ Furthermore, the recent changes to the mortgage rules make it more difficult for recent graduates with significant levels of student debt to even qualify for a mortgage. When the new rules came into effect in 2012, national sales ran 9 to 10 percent below the levels of the first half of 2012.³²

With the rise of contract and temporary employment, job security is becoming increasingly rare. With little income security and increasing expectations of relocation on short notice, purchasing a home, or even saving for a home, becomes a risky decision. High debt from school, high cost of living, and little job security are creating conditions for young Canadians that significantly reduce their ability to participate in one of the largest sectors of the Canadian economy.



WEALTH AMONG BORROWERS AND NON-BORROWERS:

When the financial well-being of young Canadians (aged 20-29) with and without student-debt are compared, the impact of student-debt becomes evident. In a 2010 study published by Statistics Canada found that if student loan borrowers and non-borrowers with similar average total debts were compared, non-borrowers had significantly higher levels of net-worth and assets. The average amount of assets for a student loan borrower was \$60,700 compared to \$106,300 for those who did not take on student-debt. In terms of net worth, student loan borrowers were significantly behind their non-borrowing counterparts at \$17,500 compared \$61,900 respectively. Holding student debt was also found to affect a recent graduate's ability to save and invest. Only 39 percent of student debt holders had investments and/or individual savings, compared to 47 percent of those without student debt.

Lower net-worth, accumulated assets and a reduced ability to save and invest can be explained as the result of income gains being forced to service debt instead of participating in the economy. Instead of entering home-ownership, buying a car, investing, starting a business, etc., graduates with student-debt are forced to use their income gains to pay back loans, with interest, while their non-borrowing counterparts are able to use their income to generate wealth at the individual and societal levels. Paying back a large amount of student-debt does not increase personal wealth or stimulate the broader Canadian economy in any way; it only serves to have an increasing number of young Canadians at a disadvantage when compared to previous generations and their peers who had the financial means to pay for the education up-front.



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LET THE INCOME TAX SYSTEM WORK:

Tuition fees act as a flat tax—ignoring socio-economic realities and individual financial means. As such, high tuition fees disproportionately affect those in the greatest need. Canada already has a progressive tax system that ensures that the more money you make and the more assets you own, the more you contribute to society in taxes.

A more effective and equitable way to increase accessibility and limit student debt upon graduation would be to take the current money being spent on the RESPs and the tuition fee tax credits and use these funds to provide more need-based grants through the Canada Student Grants Program (CSGP). If this had been done in 2011, it would have completely covered the \$2.2 billion in federal loans issued, and resulted in significant federal savings.

If, as a society, having an effective and efficient government is a shared value, delivering financial aid to students through the current financial aid systems are the wrong approach. The current system is needlessly overcomplicated, and this approach reduces efficiency, inflates expenses, and creates waste. If having a robust progressive income tax system—where those with higher incomes pay higher taxes—is a shared value, relying on high user fees to pay for underfunded public services is counterproductive and regressive.³⁴

Eliminating financial barriers, and reducing the burden of student debt by investing in needs-based grants will allow a properly functioning progressive income tax system to recover the cost

of an individual's education and, in many cases, produce a net gain. This cost recovery and gain comes from graduates being able to immediately use their employment income to participate in the broader Canadian economy, instead of paying back student loans, with interest. Beyond increased additional tax revenue, post-secondary graduates contribute an additional 5 to 8 percent more to society through innovation, knowledge creation, economic growth, increasing productivity of less-educated workers, reduced crime, increased civic participation, and improved health.³⁵ Not only does this allow for the government to recover the investment on each student, but it also provides the funding to invest in the next generation of students.

The income taxes paid by graduates and non-graduates in British Columbia are a clear example of this inter-generational payoff. **The average university-educated man in British Columbia, when compared to a man with high school education over the span of a career, would pay over \$140,000 more in income taxes and would require roughly \$15,400 less in government aid (EI, social assistance, etc.).** In the case of university-educated women, an additional \$80,300 in income taxes was paid, and \$18,100 less in aid was required. The study estimated that the cost of providing a student with a degree in BC was roughly \$50,630 per student; meaning that a university-educated man provides a net benefit of \$104,700, and a university-educated woman provides a net benefit of \$47,770 to public coffers through income taxes and social assistance savings alone.³⁶

A properly functioning progressive income tax system would ensure that statistical outliers—**graduates able to secure higher than average incomes, and graduates who find themselves unemployed or underemployed for prolonged periods of time**—are taxed fairly and in a way that is reflective of their income.



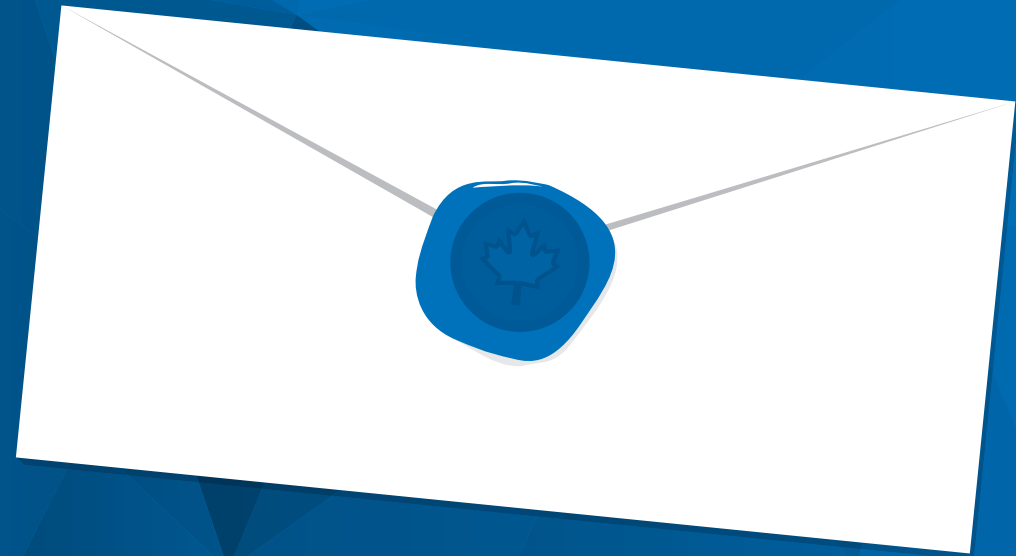
+140,000 income tax

THE POST-SECONDARY EDUCATION ACT:

Canada has a disjointed system for delivering post-secondary education, varying greatly from province-to-province. A federal Post-Secondary Education Act, structured similarly to the Canada Health Act, would help address these root problems. Such legislation would require provinces to uphold principles such as public administration, comprehensiveness, universality, portability, and accessibility. In return for upholding these principles, provincial governments would receive adequate and predictable funding from the federal government. With a post-secondary education act in place, the degree of variance in fees and delivery from region-to-region would be reduced.

If the federal government is concerned about keeping expenses under-control and providing effective public services, the predicted breach of the \$19 billion student loan ceiling in 2020-2021 should provide the motivation to move away from a system that maintains debt to a system that provides both accessibility and affordability in a sustainable way.

A federal post-secondary education act would re-establish a formal federal role in post-secondary education. Canada is currently one of the only developed nations without a formal federal role in post-secondary education. As a result, significant discrepancies can be found across the country when it comes to accessibility and affordability. Having the provincial, territorial, and federal governments acting around unified post-secondary education act would bring a higher level of accountability and cohesiveness to the system and would ensure the most effective use of funding to benefit both students and institutions.



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ALLOW GRADUATES TO CONTRIBUTE IMMEDIATELY:

At the individual level, easing of student debt allows graduates to immediately contribute to the economy and society, rather than being focused solely on paying back student loans. Professionals, such as doctors and lawyers, will be able to enter fields such as family medicine and legal aid, which are in high demand, but are avoided due to high debt.

Allowing young professionals to have the ability to enter these fields will yield positive social-and-economic benefits. For example, addressing the general practitioner shortage will reduce the strain and cost of the healthcare system and reduce emergency department wait times (and costs). Recent graduates from all fields will be able to give back to communities, by learning and teaching valuable skills through volunteering, internships, and lower-paying jobs with high non-monetary benefits because of reduced debt. Instead of having the equivalent of a down payment on a house in student debt, recent graduates could begin saving for an actual down payment. Lower student debt levels also provide graduates the opportunity to plan for and start a family sooner and give graduates the financial flexibility required to take risks and innovate, which could greatly benefit both the individual and society. Starting a business, volunteering, taking a lower-paying entry-level job, or taking jobs for their non-monetary benefits, such as gaining experience and contribution to a community's well-being, would no longer

automatically be high-risk decisions for all but the wealthiest of participants; these choices could be used as stepping stones into rewarding careers that contribute both to society and the economy.

The high upfront cost to obtain a post-secondary education is a barrier that can prevent those in need of financial assistance from being able to fully participate in the economy for upwards of 10 years post-graduation. The increasing cost of post-secondary education and the resulting debt are a redundant level of bureaucracy, which add a flat tax onto the existing progressive income tax system.



CONCLUSION:

As public funding for post-secondary education has been reduced, institutions have increase tuition fees to make up the difference. As a result, a growing number of students have started relying on loans to fund their education, hoping that future employment will provide them with sufficient income to pay back those debts. **However, each year average tuition fees have risen above inflation rates and average debt loads are now over \$28,000.** A high level of student debt significantly impairs the ability of recent graduates to participate in the economy and achieve financial stability.

Elevated levels of student-debt have been shown to have an effect on career choices. Unable to find gainful employment in work related to their studies or to afford an unpaid internship, recent graduates can be forced into underemployment, in order to ensure debt payments are made. This can lead to graduates' skills degrading as they miss out on innovations in their desired fields, and weakens their ability to network. High debt payments and poor employment prospects are contributing to an increasingly high percentage of young adults living with their parents. In order to save money, young adults

are forced to further delay starting out on their own, which not only impacts personal growth but financial well-being due to not having any significant economic activities in their name, such as a rental agreement, a car, utilities, etc.. This, in turn, delays other, larger economic activities such as home ownership.

This delayed ability to fully integrate into the economy and society is also evident when the wealth, assets, savings, and investments of student debt holders are compared with individuals of similar age without student debt. Despite having similar levels of overall debt, non-student borrowers were found to have more assets, a higher net-worth, and were more likely to have savings and investments.

Student debt also acts to discourage entrepreneurship. Whether it is starting out in family medicine or starting a new business, the risk becomes significantly elevated when a person is already seriously indebted.

Post-secondary education in Canada can actually be made more accessible by eliminating wasteful and inefficient spending on tax credit and savings schemes. Instead, this funding could be more efficiently used investing in students through needs-based grants. An investment in students will pay for itself several times over through Canada's progressive income tax system. For the Canadian workforce to thrive in an evolving labour market, an accessible and affordable post-secondary education system must be a priority for both the federal and provincial governments.

NOTES:

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- ⁴ Under the current set of assumptions, while tuition is expected to rise nearly \$13,000 to just under \$20,000 per year, the loan limit per week will restrict loan growth. This means the projected average loan size will only climb from the 2010-2011 average of \$5,197 to \$6,599 in 2035-2036. If these assumptions hold true, that will leave an additional funding gap of over \$12,000 per year for the student to fill.
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- ¹⁴ Canada, Statistics Canada, Labour Force Survey, June 2014, [Ottawa], 2014, <http://www.statcan.gc.ca/daily-quotidien/140711/dq140711a-eng.htm>
- ¹⁵ Discouraged workers are people are of working age but are not actively seeking work, and/or have stopped looking due to poor employment prospects
- ¹⁶ Goar, Carol, “Why Canada’s job market hasn’t recovered”, Toronto Star, March 13, 2014, http://www.thestar.com/opinion/commentary/2014/03/13/why_canadas_job_market_hasnt_recovered_goar.html
- ¹⁷ “The Plight of Younger Workers,” TD Economics, 2012, http://www.td.com/document/PDF/economics/special/ff0312_younger_workers.pdf.
- ¹⁸ Wage scarring refers to the long-term negative impacts that can occur from early and prolonged unemployment and/or underemployment. By reducing income and income gains early in the career, long-term earning increases are delayed or missed, producing significant ‘lost income’ over a person’s career.
- ¹⁹ Staples, Darren, “Youth unemployment to cost Canadian economy \$23 billion,” Reuters, January 29, 2013, <http://www.cbc.ca/news/business/story/2013/01/29/business-youth-unemployment-cost.html>.
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