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Under Pressure

The impact of rising tuition fees on Ontario families

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Introduction

SINCE 1990, ONTARIO has witnessed a period of remarkable economic and social growth, with unprecedented accumulation of wealth. And this fall, many who came of age in the early 1990s, went to and graduated from university, are now seeing their own children prepare to start their journey towards a post-secondary degree.

In addition to this being a time of tremendous personal, social and intellectual change and possibility, a university degree represents more employment opportunities and increased prospective earnings.[1]

A university education is increasingly a standard requirement for a good, middle class job in Ontario. For these and other reasons, families do what they can to assist their children bear the financial burden of university. However, as this paper will explore, significant generational and financial shifts have occurred over the past 20 years that have fundamentaly changed the way we provide, experience and pay for higher education.

Discussions about the cost of higher education tend to focus on the individual student, but this narrow framework excludes the significant role that entire families play in helping make that student's higher education goals a reality. This exclusion is particularly ironic given that the income of the household of which that student is a part largely determines the size of the loans for which he or she will qualify (and eventually the debt for which he or she is responsible).

The burden of paying for an expensive university education is a burden that falls not only on students; it falls heavily (and increasingly) on Ontario parents as well.

However, in addition to steadily rising tuition fees, Ontario families are facing their own challenges including record high household debt and years of stagnant incomes. As a result, paying for university on top of existing financial pressures can come with significant consequences which are not often factored into the analysis of the rising costs of higher education.

Rather than focusing exclusively on students, this report aims to paint a more comprehensive picture of how Ontario families are coping with the impact of rising tuition fees within a broader context which includes the reality of stagnant incomes and household debt. As families are often an important source of financing for university education, this report also examines some of the additional burdens families are taking on due to rising tuition fees.

It is not only families who suffer as tuition fees increase; Ontario society as a whole is worse off as new professionals, saddled with debt, are unable to contribute as much to society because their priority is repaying the money they have borrowed from the government and their families to finance their education. This repayment often takes precedent over their desire and ability to fully participate financially, politically or socially in the ir communities.

The situation becomes more serious as the debt loads increase: medical school graduates may find themselves less likely to choose family practice over more lucrative areas of specialization; new lawyers may decide human rights law, legal aid or a community legal practice are less fiscally prudent decisions than the pursuit of corporate law. Given the current shortage of family physicians, these choices are not without impact for all residents of Ontario.

As this report will demonstrate, the system of financing higher education is becoming more regressive for families, less equitable and, by inadequately addressing financial barriers, is providing diminished opportunities for people to reach their potential and contribute to society at the levels of which they are capable. By increasingly downloading onto families and exploiting the parental desire to provide for their children, Ontario is severely hampering its economic and educational potential.

Drowning In Debt

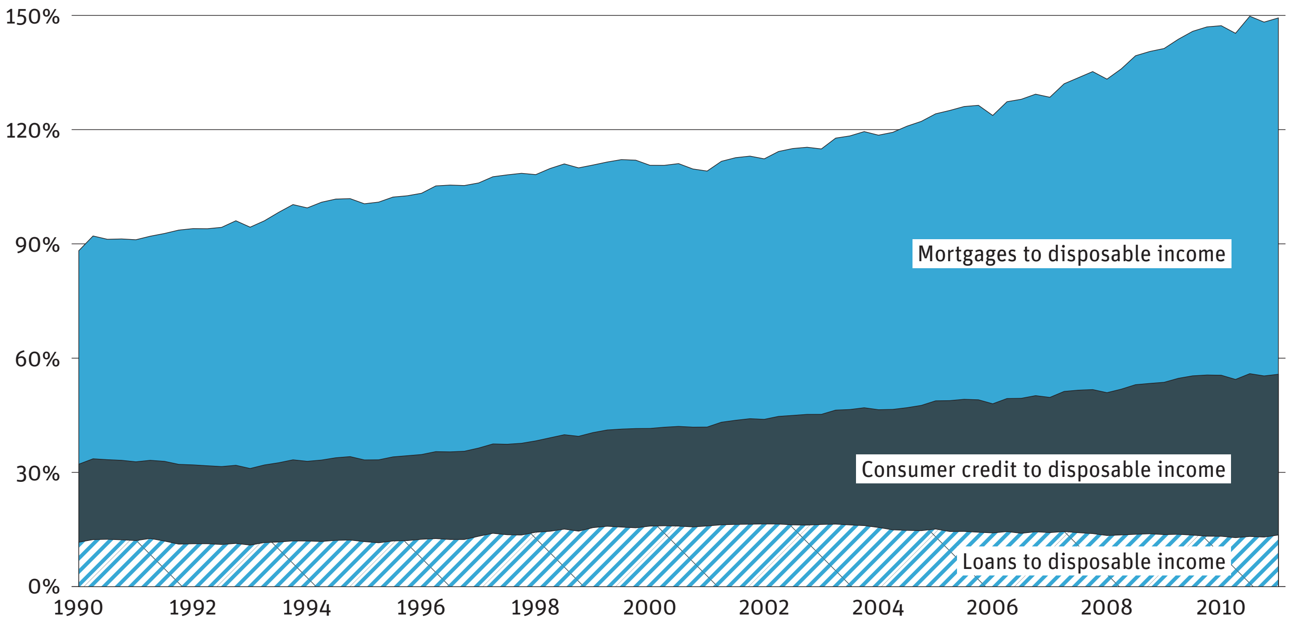
ONTARIO FAMILIES PUTTING a child into university this fall are under significantly more financial stress than those of a generation ago. Over the past two decades, average debt levels for Canadians have risen every year (*Figure 1*) with the exception of 1995 and 2000 when interest rates rose.

This situation is largely the result of rising mortgage debt as well as an increasing reliance on consumer credit. The explosion in housing prices in 2001 has forced many Canadian families to hold larger mortgages. Those in urban centers like the GTA have been particularly affected as housing prices have climbed relentlessly for a decade forcing new families to take on more and more mortgage debt in order to break into the market.

It would be convenient to conclude that higher debt loads have resulted in higher defaults. While overall credit problems for Canadians have definitely risen, tripling since 1990, their present rate of 0.6% insolvency is still quite low.[2] Mortgage defaults have also risen since 1990 to 0.4% but that is still low.[3] Credit problems have not yet occurred in earnest for Canadians due to declining interest rates. Instead of defaults, indebted Canadians have opened themselves up to more serious credit problems if interest rates rise.

It has been steadily declining interest rates since 1990 that have allowed Canadians families to hold ever-higher debt loads. Since 2008, interest rates have declined even further as the Bank of Canada set emergency low rates following the recession. These lower interest rates have allowed families to

FIGURE 1 Canadians are drowning in debt



Source Statistics Canada

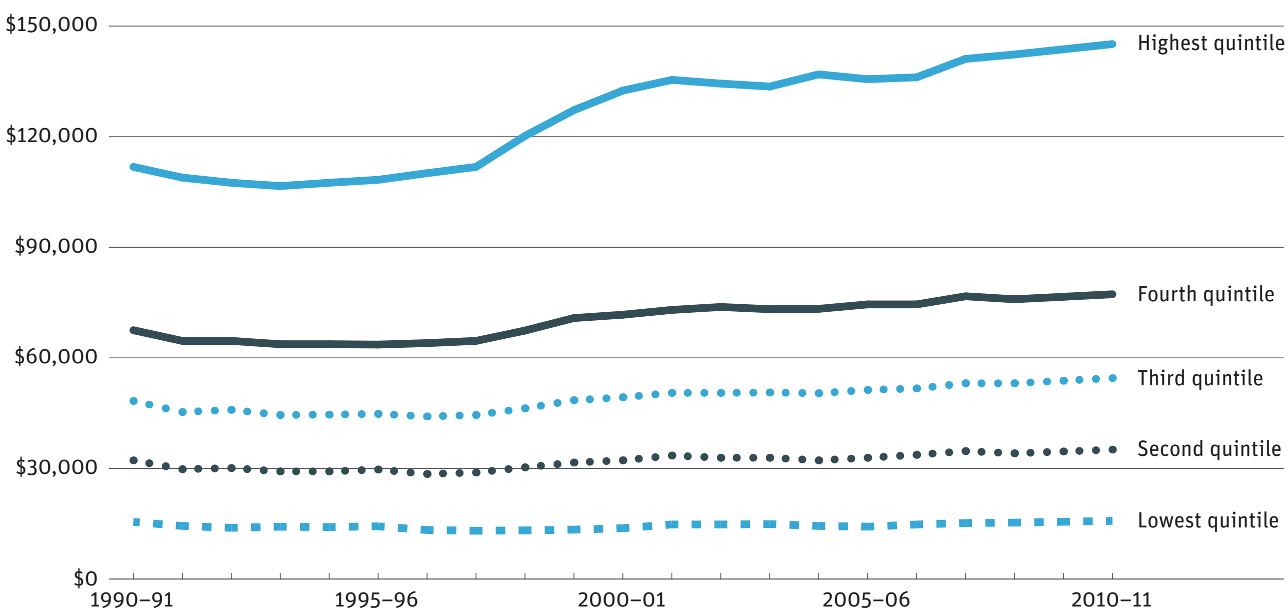
hold larger debts — at the expense of being much more exposed to interest rate fluctuations leaving little flexibility when crises hit.

In other words, a family putting a child into university this fall faces a much higher debt burden than a similiar family did in 1990. For comparison's sake, a 1990 family held debt equal to only 93% of disposable income; today's family already has debt equal to 150% of its disposable income.

Incomes Stagnating

ONTARIO FAMILIES ARE not just contending with higher debt loads; growing income inequality, particularly for the bottom 60% of earners, has become an entrenched feature of life in Ontario. As the economy grows, up-

FIGURE 2 Ontario family incomes are stuck in neutral (2008 dollars)



Source Average after tax income for all Ontario Families, Statistics Canada, using after-tax income for all Ontario families.
Note 2009–10 and 2010–11 are estimates.

per income families are seeing their incomes rise substantially, but all other families are experiencing little or no wage increase above inflation.

Figure 2 shows how, particularly in the lowest three quintiles of income distribution, inflation-adjusted after-tax incomes have risen very little. The middle income bracket has seen only a 10% increase in real after-tax income over the past 20 years. In contrast, the top income bracket is running away from the pack with a 28% gain in the past 20 years. The lowest bracket actually makes less today than it did in 1990, adjusted for inflation.

With the exception of the top two income brackets, Ontario families are not seeing significant increases to their incomes over time, making it difficult for the households in the lower brackets to afford expenses that are rising faster than inflation. And fewer raises means fewer dollars to deal with increasingly expensive items like university education.

Tuition Fees

RISING TUITION FEES — and other ancillary costs — are an inescapable backdrop to discussions surrounding higher education and the decision to attend. Because families are increasingly an integral part of financing higher education, higher tuition fees mean more pressure on families to either pay those fees in part or watch their children to acquire significant student debts. Parents are understandably concerned about their children accumulating significant student debt at the outset of their careers.

They have reason to be worried. Young Canadians who hold student debt have lower net worth, are less likely to own homes, are less likely to have savings and less likely to have investments.[4] To avoid this predicament, families are trying to spare their children from having to take on debt in their own name by helping children directly, potentially putting off their own retirement savings (and other priorities and decisions) in the process.[5]

Ontario undergraduate tuition fees are now the highest in the country. In 1990, the average university student paid only $1,680 for a year ($2,500 in 2011 dollars). This fall, the average undergraduate student will pay an estimated $6,500 for the year. For the foreseeable future Ontario tuition rates will increase at 4% to 4.5% a year, more than double the rate of inflation. By the last year of their four year degree, an Ontario undergraduate student entering university this fall will pay over $7,500 a year.

If tuition fees and other compulsory fees are adjusted for inflation, Ontario students have witnessed a 244% real tuition fee increase between 1990 and 2011.

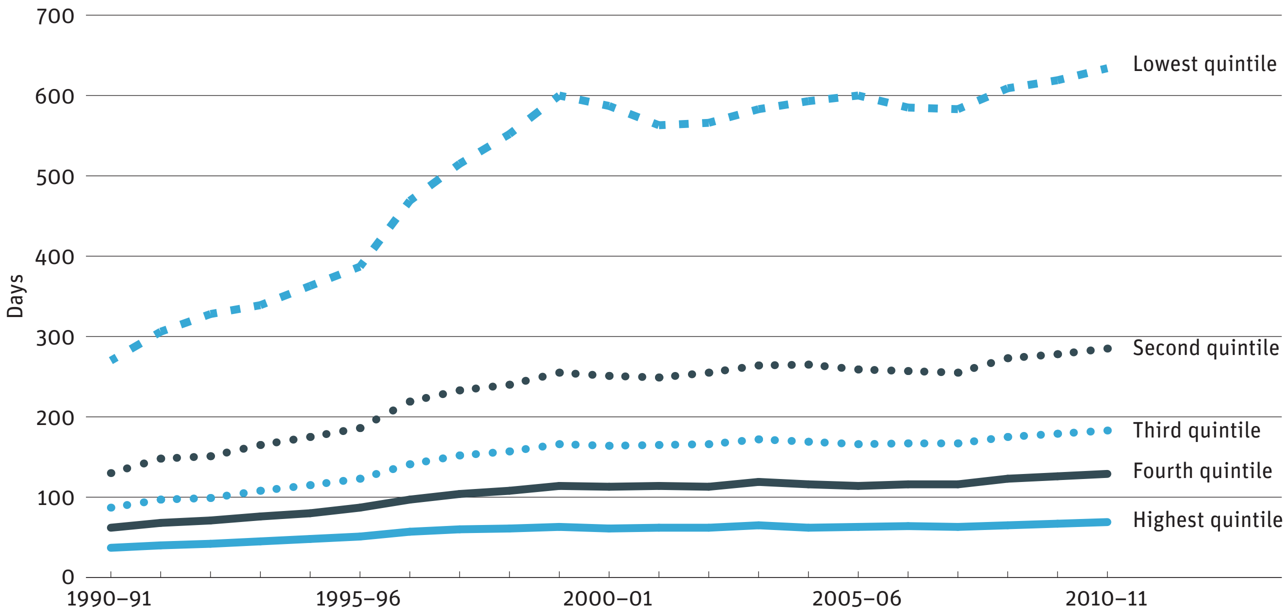
A Perfect Storm: Something's Gotta Give, But What?

TUITION FEES (AND fee increases) are generally examined on an annual basis, but university is not just one year; attaining the full degree is a four year commitment and the goal of every student entering university this fall is completion of their degree.

Upon graduation students are left with four years worth of debt owed or expenditures forgone, as a lump sum. Certainly when students — particularly from low income households — and their families are contemplating pursuing higher education, it is the global expense that they measure against the benefits of a degree. And for many students and their families, it is a staggering burden. For others, the expense, and the sacrifices required to pay for it, is simply too overwhelming to contemplate.

To illustrate the financial enormity of what many families take on when a child pursues a degree, we look at the length of time a family would have to work after taxes to pay the cost equivalent of the four year degree (including tuition and ancillary fees). This means every after-tax cent earned by the household would have to go towards the tuition and ancillary fees, assuming that the family could put all other payments on hold — like food, rent or mortgage, utilities, retirement savings and any other financial commitments.

FIGURE 3 Days it takes Ontario families to pay for a degree (by income quintile)



Source Statistics Canada and author's calculations, using after-tax income for all Ontario families
Note 2009–10 and 2010–11 are estimates.

Figure 3 examines how many days of after-tax income it would take Ontario families at various income levels to pay for a four year degree. As with university itself, the payment clock starts ticking on September 1, to coincide with Welcome Week at Ontario universities.

Note that these calculations are using after-tax income — underscoring the fact that every cent above that which goes towards paying for the cost of the four year degree is put towards user-fees, not the publicly-supported portion of higher education which is paid out of tax dollars.

If we take two generations of Ontario families, one with a daughter that graduated in 1990 and a second family with a child going to university this fall (in 2011), the pressures are very different. When their daughter graduated from university in 1990 our middle income family would have to dedicate the equivalent of 87 days (about three months) of their after-tax income to pay for the degree. So, if our 1990 family started working exclusively for their daughter's tuition fees on September 1st, 1990 (foregoing mortgage payments, food and any other expense in the process), by November 27th, 1990 the family income would have paid for their child's four year undergraduate degree.

The story for our 2011 family is very different. If they began dedicating every cent of their after-tax earnings (in the process not paying the mortgage and bills and stopped eating entirely) towards the cost of their daughter's tuition fees on September 1st 2011, they would have to work until March 14th 2012 before they paid for the four years of university. Note that the income quintile is representative of household — not individual — income; this means all after-tax income earned by anyone in the family whose salary goes towards that household's collective income would now be working until March 14th 2012 to pay the equivalent of four years of tuition fees.

While the situation today is squeezing middle class families, it is downright crushing for lower income families. Families in the lowest income quintile who in 1990 needed to spend the equivalent of 270 days (nine months) of after-tax income on tuition fees for a degree are now looking at 673 days (almost two years) of household income for a child entering university this fall. In other words, if a lower income family in Ontario stopped paying rent, stopped paying the bills and stopped eating on September 1st, 1990, they would have to devote their entire after-tax income until May 29th, 1991 to pay for the four year degree. However, for that same family with a child entering university this fall, they couldn't pay rent or eat until July 5th, 2013 — almost two years later. With costs that high, the tuition burden itself becomes a major barrier to entry for the children of lower income families.

At the upper end of the income spectrum, while the situation has become somewhat worse it is still extremely manageable. For the wealthiest income earners, tuition fees for a degree amounted to 37 days of their after-tax income in 1990. In calendar terms, they had the four years worth of tuition fees paid for about one month after Labour Day on October 8th, 1990. With higher tuition rates this fall, that high income family would have to devote their entire family income until November 14th, 2011, a little earlier in the year than the middle income family found itself nearly two decades earlier.

Current spending patterns for Ontario households illustrate the degree to which disposable income is already spoken for, with less and less room to spare for day-to-day priorities and responsibilities (see Appendix B). But families simply can't suspend mortgage or rent payments for months or years at a time. And so, for middle and low income families, paying the cost of a full degree often requires re-prioritizing, postponing, or cancelling other priorities altogether.

What does this "priority roulette" between daily household expenses, mortgage payments and retirement savings look like? At the very least, the financial burden of higher education is resulting in a significant savings squeeze. For some already-overworked families it means working additional jobs or taking on extra shifts. For other families it might mean downsizing to a smaller house. For still others it requires taking out a second mortgage, a dedicated line of credit, or maxing out credit cards in an attempt to come up with the dollars necessary to send a child to university.

Retirement savings also become a casualty as some parents find themselves forced to postpone retirement as they shift their financial focus to their child's upcoming tuition fees.

Even with these measures, many students are forced to apply for loans and upon graduation are left with student debt. Debt after graduation is precisely what many parents have tried to spare their children from. After all, with higher debt comes the potential for credit rating problems and long-term ramifications for homeownership.

This, of course, does not address those individuals for whom the price tag attached to higher education is too large a barrier to overcome; whose parents are not in a position to help no matter how hard they try; and for whom, because student loans do not cover the full costs of a four-year degree, the prospect of a student debt load upwards of $23,000 due upon graduation (even with the six month interest-free grace period) is too great a burden to contemplate.[6]

And all this is for one child. With each additional child who wishes to pursue higher education the financial burden multiplies for the parents who will do whatever they can to support their children in achieving their dreams and fulfilling their potential.

Full Education Burden

Tuition fees are not the only expense that families face when putting their children through school. If children are living at home, they will likely be commuting and incurring some living expenses, many of which are absorbed by the family. For families who have children who go away for school, the expenses can be much higher. Costs will include living expenses, particularly rent which can be high depending on where the university is located. Of course, these costs can be mitigated. Extended family may play a role in providing low or no rent accommodations if they live close to a university. On the savings side, families enjoy tax benefits if their children are in university. If families are willing or have no other option but to let their children take on significant debt, there are loan forgiveness programs that will reduce the amount of debt that must be repaid. Nevertheless, living costs can be a significant burden.

While tuition fees have expanded much faster than inflation, rental costs in most Ontario cities have fallen behind inflation, a trend which has benefitted approximately 52% of families whose children study away from home.[7]

When it comes to living expenses and rent, different cities have different costs. Families with children studying in the GTA will experience both higher living expense and much higher rent, while families with students going to more remote universities in Sudbury or Thunder Bay will have lower expenses and rent.[8] Approximately 38% of students go to university in Toronto, and 57% go to school in mid-sized Ontario cities with the remainder going to more remotely located universities.[9]

Income tax breaks from both the federal and Ontario governments have played an increasingly important role in offsetting some of the tuition fee increases. Students can deduct both the cost of tuition fees as well as benefit from textbook and education tax credits. All tuition and related university tax credits are non-refundable which means that they can only reduce family taxes if the family pays taxes in the first place. If they don't, then the credits cannot be used in that year. If the student cannot make full use of those credits they can either transfer them to their parents or carry them forward to future years.

Interestingly, the amount that students transfer to their parents varies with income.[10] At the two lowest income brackets, parents and children together only claim approximately 65% of the available tax credits. The difference is presumably carried forward. This low rate may be due to the fact that lower income families don't have enough income to make full use of the credits. It is also possible that, because of the complexity of the income tax system, lower income families simply miss these deductions. Middle income families (parents and students together) claim approximately 85% of the tax credits between the parents and children. Families with the highest incomes claim approximately 75% of available credits.

The amount that remains unclaimed by families is carried forward by the student, likely to a year or two after their degree is finished when they are hopefully making enough money to use the credits to offset higher income taxes. In the meantime neither the family nor the student gets a break as the carry-forward credits are only useful in four to five years time, not when tuition fees are actually due.

Grants can also play a part in offsetting university expenditures. However, since 1992 in Ontario, grants have largely been replaced with loans and loan forgiveness. The majority of Ontario and federal grants are only accessible if families want their children to take on debt to fund their degrees. There are upfront grants, but the only way to access them is to take on significant debt through the Ontario Student Assistance Program (OSAP). However, the full OSAP application has become so byzantine that it now contains more pages than a printed income tax package. Given the almost unlimited permutations of OSAP funding and overlapping grants it is essentially impossible to model those grants into the calculations below.

Given the limitations, for the purposes of this report the Full Education Burden, a more inclusive cost estimate, includes tuition fees, ancillary fees, textbook costs, rent, living expenses and tax breaks (excluding carry-for-

FIGURE 4 Days it takes to pay for the full cost of a university degree, by income quintile

Period	Lowest quintile	Second quintile	Middle quintile	Fourth quintile	Highest quintile
1990–91	981 days	472 days	310 days	222 days	135 days
Starting this fall (2011)	1268 days	571 days	357 days	254 days	137 days

Includes Tuition, textbooks, tax breaks, living expenses and rent, using after-tax income for all Ontario families

ward credits). It excludes OSAP and federal grants and loan forgiveness. For more information on how this is calculated see Appendix A.

For middle income families putting a child into university this fall, the Full Education Burden will be 357 days (about a year) of family income for an undergraduate degree, up from 310 days (about 10 months) in 1990. What is driving the increase in the Full Education Burden is the same culprit as in the earlier calculation: rising tuition fees.

By way of comparison, to cover the equivalent of the full cost of a four year degree, our 1990 middle class family would have to work and pay for nothing else from September 1st, 1990 until July 8th, 1991. For the family whose child is entering university this fall (2011), it means that the family has to work a full two months beyond that date, or essentially an entire year, to pay the equivalent of the full cost of university. That means no mortgage payments, no RRSP contributions and no food for the rest of the family for a full year. Parents are willing to make extraordinary sacrifices for their children; however, the rising cost of university education is pushing those boundaries.

The increase in the Full Education Burden from 1990 to 2011 is not as dramatic as it is for the Tuition Burden. For the former, costs have increased from 310 days of middle class family incomes to 357 days for a difference of 47 days. The Tuition Burden on the other hand has risen from 87 days to 195 days of middle class family incomes (a difference of 108 days). The Full Education Burden, although starting from a higher base, has not risen as rapidly for two reasons: declining rental costs and tax breaks.

The Full Education Burden for an upper income family has barely changed since 1990. Rapidly rising incomes at the top end combined with tax breaks have meant that for wealthier families, university costs the same today as it did in 1990 at 137 days of family after-tax income.

An upper income family in 1990 would have had to have worked from September 1st, 1990 until January 14th, 1991 to pay the equivalent of the full cost of their child's four year university degree. While the middle income family with a 2011 fall entrant has to work an additional two months compared to 1990, the higher income family only has to work an additional two days, paying off their child's four year degree by January 16th, 2011.

For those families in the lowest income bracket, the Full Education Burden has become a dramatic 1,268 days (about three years, six months) of family after-tax income for students entering university this fall. This is up from an equally prohibitive 981 days (about two years, nine months) of family after-tax income in 1990. The low income family, starting September 1st, 1990, would have had to work non-stop without paying rent, or any other expense for three of the four years that their child pursued a degree, or until May 9th, 1993.

Amazingly, that near-prohibitive situation has deteriorated further. For a low income family with a child entering university on September 1st, 2011, all family members would have to work until February 20th, 2015 to pay for the equivalent of the Full Education Burden — essentially until their child finished their four year degree.

While lower income families may well decide to send their children to university despite the daunting cost, the result will undoubtedly be significant debt upon graduation. As mentioned above, Ontario's grant system only functions if significant debt is taken on. It cannot be an easy choice for parents to encourage a child to get a university education when they know this requires their child to take on a potentially life-altering debt load.

Into the Future: Impact of Deregulation

THE SERIOUS CHOICES faced by families are merely compounded if children are smart and lucky enough to gain entry into professional programs. For the 1990 family, if their child worked hard and was accepted into law or medical school the tuition burden was slightly higher than the average undergrad program but not by much. For a middle income family in 1990, the tuition burden for a four year professional program was between 75 and 95 days of family after-tax income. For the average undergrad program it was 87 days so the professional programs were essentially equivalent in cost to other undergraduate programs.

But tuition fee deregulation in several professional programs provides an opportunity to project what ongoing downloading and underfunding of higher education will mean to families in the form of skyrocketing costs.

Tuition fees have indeed skyrocketed since the professional program deregulation "experiment" started in 1996.[11] The result was a predictable explosion in fees. Undergraduate tuition fees in law, medicine and dentistry are now well above $10,000/year with dentistry breaking the $20,000/year level. Engineering tuition fees are fast approaching the $10,000/year mark.

In many professional programs, deregulation, followed by partial re-regulation, has further exacerbated existing financial pressures and equity concerns, putting the prospect of lower and even middle income kids becoming doctors, dentists, lawyers and engineers further out of reach.

FIGURE 5 Days it would take families to pay tuition fees for a degree

Degree type	Lowest quintile	Second quintile	Middle quintile	Fourth quintile	Highest quintile
1990					
Dentistry	286 days	124 days	95 days	62 days	38 days
Engineering	260 days	113 days	87 days	57 days	35 days
Law	225 days	97 days	75 days	49 days	30 days
Medicine	286 days	124 days	95 days	62 days	38 days
Entering university in fall of 2011					
Dentistry	2,410 days	1,084 days	699 days	495 days	264 days
Engineering	773 days	348 days	224 days	159 days	84 days
Law	1,114 days	501 days	323 days	229 days	112 days
Medicine	1,679 days	755 days	487 days	345 days	184 days

Source Statistics Canada and author's calculations, using after-tax income compared to tuition fees

Families are justifiably proud of children who are accepted into medical school or law school. However, the crushing tuition fee burden that this requires the family to take on may temper that enthusiasm. Middle income families with children who are accepted into professional programs this fall will have a tuition burden of somewhere between 224 (seven months) and 699 days (about two years) of household after-tax income for a four year degree.

In 2011, Dentistry has the highest tuition burden for middle class families at almost two years of family after-tax income. Medicine is not much better at one year, four months of household income. Law and Engineering come under one year of family income for a four year degree at 323 (11 months) and 224 days (seven months) respectively. Compared to the average tuition fee burden of 195 days for undergraduate students entering university this fall, these are significant increases.

As with the tuition burden generally, lower income families are hit hardest. Professional programs in 1990 cost about the same proportion of family after-tax income as the undergraduate average at 225 to 286 days of family after-tax income. However, for a lower income family with a child entering a professional program this fall, the tuition burden alone, before considering any other related costs, is crushing. For the cheapest program, engineering, the family would have a tuition burden of 773 days (over two years) of household income. Worse, for programs like dentistry or medicine, the tuition burden is a shocking 2,410 days (six and a half years) and 1,679 days (four and half years) respectively. With tuition fees that high, entry into these professional programs becomes difficult if not impossible for families at lower income levels.

Higher tuition fees result in much greater debt and forgone expenditures for families and students but they also negatively impact wider Ontario society. While professionals certainly have large earning potential, they also play vital societal roles. Case in point: Ontario is in desperate need of family doctors, an area of medical practice that is not as financially lucrative as some others (for instance, specialists or emergency doctors). While a doctor's income may be used to justify the "right" to charge medical students higher tuition fees, debt loads of between $80,000 to $100,000 upon graduation may provide incentive for that doctor to choose not to become a family physician when the payments start coming due.[12] Higher tuition fees may well create the conditions to hamstring Ontario's need to graduate more family doctors.[13]

The same argument can be made for other professional degrees. New lawyers who might be interested in doing more pro-bono work or specialize in less lucrative areas of legal practice may not be able to afford to as they need to pay off student loans and debt to their families.[14] As a result, Ontarians are losing because these professionals cannot contribute as much to society as they might like, or as their services are required. Debt loads can be a powerful incentive for graduates to put their degree toward a more profitable pursuits of their skills which may not benefit the largest number of people — or people who need their services the most.

The Simplest Solution

THE ONTARIO GOVERNMENT seems particularly averse to tackling rising tuition rates in the simplest way possible, by lowering university tuition rates. Instead, various stopgap measures have been introduced in an attempt to stem the tide. With each stopgap measure, program complexity rises. OSAP for instance has now become more complicated than filing a full tax return. Tax breaks require that the correct receipts be kept and information be filled out correctly so that benefits can be received years later. Increased complexity often means that lower income families may miss relevant deductions on their income tax returns.

The complexity of these stopgap measures inevitably leads to errors and misunderstandings. The full benefits are often not obtained, and honest mistakes, like making too much in a summer job while applying to OSAP, can lead to benefits being clawed back. Increasing grants are matched with increased debt as the only way to get most Ontario and federal grants is to take on more student debt.

RESPs for their part allow families to save, but with dramatically rising household debt levels there simply isn't extra money around, particular when a family is starting out with a lower income, a large mortgage and young children. As emergencies arise, RESPs and other savings get sapped away to simply pay the bills and make the mortgage payment. As with other savings programs, middle and lower income households rarely take full advantage of these programs simply because they don't have the extra income. With rapidly rising tuition fees, it is difficult for families to even try to pre-

FIGURE 6 What it costs to lower university tuition fees

	Total cost	Average cost/ family	Cost for family making $16k/year	Cost for family making $37K/year	Cost for family making $58k/year	Cost for family making $81k/year	Cost for family making $153k/year
University tuition fees to 1990 level	$1.5 billion	$100/year	$57/year	$79/year	$102/year	$113/year	$124/year
Eliminate university tuition fees	$2.5 billion	$170/year	$94/year	$131/year	$167/year	$186/year	$204/year

Source Statistics Canada, Revenue Canada and authors calculations

dict what the correct level of savings would be, even if they could set aside enough money in addition to their other expenses.

While stopgap measures like tax breaks and RESPs offer some relief—largely directed to those best positioned to take advantage of them—they do not turn back the tide of rising tuition fees. In the meantime, the Ontario government continues to inadequately support universities which inevitably drives up tuition fees as universities look to families to compensate for insufficient public financing.

As with other social goods, it is often argued that lowering university tuition rates is simply too expensive. However, compared to the ever-rising tuition burden for middle income families, paying for reduced tuition fees through the tax system is quite inexpensive. Relatively small changes in the tax system could dramatically reduce university tuition rates from their estimated fall level of $6,500 a year down to $2,500 a year where they stood in 1990 (in inflation adjusted terms).

In fact, financial changes equal to or even larger than the cost of a significant reduction in tuition fees have been made recently in Ontario. The corporate tax cuts introduced in 2009 are estimated to cost $1.6 billion for fiscal year 2011–12.[15] The total cost of rolling back undergraduate university tuition rates to their 1990 level (adjusted for inflation and a growing student population) is only $1.5 billion for 2011–12. Instead of giving tax breaks to Ontario's most profitable companies, Ontario's students could have received dramatically more affordable university tuition fees while at the same time saving the Ontario government $100 million, without even taking into consideration additional public money saved as a result of less need for OSAP loans, interest subsidies and loan forgiveness.

Alternatively, if Ontarians simply wanted to pay for lower university tuition fees in higher income taxes instead of reversing the corporate tax cuts of 2009, the annual cost is quite reasonable. For just over $100 a year for the average family, tuition fees could be reduced to 1990 levels (adjusted for inflation and student population growth). If Ontario families were willing to pay just slightly more or an average of $170 a year, undergraduate tuition fees in Ontario could be eliminated. As those increases would be implemented progressively via the Ontario income tax system they would be cheaper for families at the lower end of the income scale and more expensive for those at the upper end. This income-tax-based funding would be directed to Ontario universities to cover the tuition revenue now paid by students and their families.

Conclusion

IN ADDITION TO years of stagnant incomes and unprecedented levels of household debt, Ontario families—with the exception of the very wealthiest—are now being further squeezed with rising tuition fees. The cost of higher education is a growing burden on already-stretched family finances, representing a growing chunk of household income.

The additional pressure being placed on Ontario families whose children are accepted to university comes at the worst possible time, when they are already being squeezed by high mortgage loads and inadequate raises. By downloading the responsibility for financing higher education onto students, the Ontario and federal governments are asking families with university-aged children to take on more debt at a time when they are already drowning in it.

Parents are faced with a difficult choice — help their child pay for the cost of their education, or watch that child rack up significant student debt to be repaid upon graduation. And because many parents want to spare their child the hardship of starting a career hampered with significant debt, families do what they can to help offset the costs of a university degree.

Families — particularly middle income families — are making sacrifices elsewhere to accommodate rising tuition fees. Those stark choices might include downsizing their home; putting off retirement or postponing RRSP contributions; taking out a second mortgage, a line of credit, or maxing out credit cards. At the very least, savings are being squeezed. And ironically, many of these students, even with family assistance, still will have accumulated significant debt upon graduation.

And for those families with no savings, who are living paycheque to paycheque, often the price-tag associated with a four year degree, or fear of the resultant debt load upon graduation, is simply too great a burden to bear. For those who do persevere, their debt upon graduation becomes debilitating at the moment they are ready to begin their careers — not only are they less likely to have savings or become homeowners, their preoccupation for the next few years after graduation is loan repayment.

Since 1990, the system of financing higher education has become more regressive, relying more heavily on already-stretched families who want to help their children pursue their educational aspirations, and we are all paying the price. By forcing all but the wealthiest families to play priority roulette, assume still more debt, or make the difficult decision that higher education is too great a financial burden to bear, Ontario is hampering its economic and educational potential.

There are alternatives to increased downloading onto families. The government of Ontario can maximize investment benefits and create a highly educated populace not overburdened with debt. For example, instead of implementing the 2009 corporate tax cut in Ontario the provincial government could have rolled back Ontario tuition fees to 1990 levels, representing a reduction from $6,500 to $2,500 a year (inflation adjusted).

Progressive methods of financing higher education already exist, and if the personal tax system is the preferred vehicle to provide affordable higher education, for a yearly $100 per family undergraduate tuition fees could be reduced to 1990 levels. For an average annual $170 in additional taxes per family undergraduate university tuition fees could be eliminated altogether.

The choice to continue downloading the responsibility for financing higher education onto students and their already-stretched families has significant negative ramifications. Providing students and their families the opportunity to accumulate more debt is no solution: in the short term it only contributes to an already financially insecure populace; in the long term it makes higher education less accessible to low-and middle-income families.

Investing in higher education — and in making higher education more affordable and accessible — is not only good financial sense; it enhances Ontario's economic potential rather than constraining it, and helps ensure that higher education is truly accessible to all who wish to pursue it — without having to become indebted in the process.

Appendix A

Full Education Burden calculations

THE FULL EDUCATION Burden calculation includes the sum of five components divided by after-tax income: Tuition and ancillary fees; Textbooks; Living Expenses; Rent; Tax savings.

The total burden is divided by 2008 inflation adjusted after-tax income for all Ontario families broken up by equivalently sized quintiles.

Tuition and ancillary fees

Average Ontario university undergraduate fees are obtained from Statistics Canada.[16] The data ends with the 2009/10 school year. The report estimates increases in Ontario undergraduate tuition using the average of the previous four years. Ancillary fees are also obtained from Statistics Canada.[17] The data begins in the 1993/94 school year and ends with the 2009/10 school year. The 1993/94 value is used in the previous three years to start the series in the 1990/91 school year. To estimate ancillary fees going forward the growth rate for the previous four years 2006/07 through 2009/10 is used. All figures are inflation adjusted to 2008 dollars.

Textbooks

Unlike other university related costs, textbook costs are not regularly surveyed. The only data point for textbooks in the university setting is obtained from research completed by the Millennium Scholarship Foundation in 2003.[18] The 2003 average is estimated backwards and forwards using the textbook Canada Price Index component. All figures are inflation adjusted to 2008 dollars.

Living Expenses

Living expenses vary from city to city, as do rental costs. They also vary depending on whether students live at home or go away for university. HRSDC and OSAP in their estimation of living expenses do not take into account differing city costs. Their estimation of living expenses often underestimates the true cost for students.[19] Unfortunately, these differing expenses are not routinely tracked and the only data point is in 2003.[20] To create a series, living expenses are estimated to remain constant in inflation adjusted dollars.

To better estimate the varying costs for students, three geographic groupings are created, one for students in the GTA, one for students in mid-sized cities and one for students in remote cities. For each group, living expenses are estimated for students living at home, in residence or off-campus. As such, nine groups of students have been created with differing living expenses.

Approximately 52% of students live away from home.[21] For those that live away from home, it is assumed that one year is spent living in residence and three years are spent living off-campus. As well 38% of students go to school in the GTA, 57% of students go to mid-sized city universities and the balance go to remote universities. These proportions are relatively constant and are assumed to stay constant into the future. The average living expenses are allocated following this breakdown.

Rent

Rental expenses are calculated in a similar way to living expenses. However, in the case of the living at home group, rental expenses are zero. All other allocations assumed in the living expenses section also apply to rental expenses.

As with living expenses, rental expenses for students in various cities only have a single data point in 2003.[22] To create a full series rental expenses are estimated backwards and forward using the city specific rent component of the consumer price index. The GTA group uses the Toronto rent component, the mid-sized group uses the Ottawa rent component and the remote group uses the Thunder Bay rent component. All figures are inflation adjusted to 2008 dollars.

Tax Savings

Various tax credits are available to both students in university and parents of students in university. Tax credits that are unused by the student can be transferred to the parent or carried forward by the student to future years. Students can both deduct the cost of tuition itself and ancillary fees (as of 1997). 1997 was also the year that students could carry forward unused tuition credits to future years. On top of those deductions, students also receive both a monthly full time education and textbook credit. While these two credits are technically separate, they operate in the same fashion. In 1990, the total credit was $60 a month when in school. This amount has slowly risen to $465 a month in 2006 where it remains in 2011.

Up until 2000, provincial income taxes were calculated as a proportion of federal income taxes. After that point, income taxes were calculated directly on income. In 2000, Ontario introduced its own tuition and textbook credit of $400 a month. The Ontario version has risen inline with inflation and stood at $481 a month in 2010.

All credits are non-refundable which means that first of all they can only lower income taxes, if income taxes would otherwise have been paid. Second, their actual value to the tax payer is after they have been multiplied by the lowest tax rate. At the federal level this was 15% in 2010, in Ontario it was 5.05%. For example, the Ontario version of the tuition and textbook credit, the actual cash value of the $481 a month is only $24 a month in cash value (481 x 5.05%) in terms of lower taxes paid.

Although students can transfer tuition credits to their parents if their parents can use them, they can also carry them forward. A 2007 Millennium Scholarship Foundation study examines how much different income group use of their potential credits.[23] The study looks at four quintiles total income groups of two parent families with one child between 18–24 years of age. The average amount of credits used by parents is 42% of potential credits in 2004. This matches up nicely with the carry forward amount of 44% from the Department of Finance.[24] That same Department of Finance report shows that on average 36% of potential tuition tax credits are claimed by the student themselves leaving 20% of the potential credits in the carry-forward category. Students likely claim such a small proportion of potential tax credits because they do not make enough to take full advantage of the credits

The income categories used by the Millennium Scholarship Foundation are in quartiles and this study is in quintiles. As such, the income categories do not match up exactly, however, the general trend is clear. If we assume that students claim the average 36% irrespective of family income then the amount claimed by the low income family (including students and parents) is approximately 65% of potential credits, it then rises to 84% for middle income families and falls again to 75% for upper income families.

Tax credit values incorporate these differing claim rates. All figures are inflation adjusted to 2008 dollars.

Grants

Grants are not included in the Full Education Burden as they are simply too complex to model historically or going forward. The OSAP grants systems paired with federal grants has become more complicated than the federal/provincial income tax filings making it very difficult to model. No doubt the grant system has limited the amount of debt potentially taken on through OSAP, but the actual values broken down by family income quintile over time are difficult to project.

Appendix B

Spending patterns in Ontario by household, 2009

FIGURE 7 Spending patterns in Ontario by household, 2009

	2009		2009
Total expenditure	**76,577**	Private transportation	9,197
Food	7,284	Public transportation	1,102
Shelter	**15,560**	Health care	1,718
Principal accommodation	14,426	Personal care	1,294
Rented living quarters	3,333	Recreation	3,742
Owned living quarters	8,586	Reading materials and other printed matter	250
Water, fuel and electricity for principal accommodation	2,506	Education	1,551
Other accommodation	1,135	**Tobacco products and alcoholic beverages**	**1,406**
Household operation	**3,824**	Tobacco products and smokers' supplies	493
Communications	1,766	Alcoholic beverages	913
Child care expenses	490	Games of chance (net)	252
Pet expenses	455	Miscellaneous expenditures	1,296
Other	1,113	**Total current consumption**	**53,572**
Household furnishings and equipment	1,930	Personal taxes	16,133
Clothing	3,164	Personal insurance payments and pension contributions	4,807
Transportation	**10,300**	Gifts of money and contributions	2,065

Source Statistics Canada, Spending Patterns in Canada, Table 4-7. Average expenditure per household, Canada, provinces and territories, recent years—Ontario (2009).

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