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Social and Enterprise Development Innovations (SEDI) is pleased to provide input to the Canadian Securities Administrators with respect to the new National Instrument 41-101 and related efforts to modernize the security regulation of scholarship plans. We believe that low income Canadians can benefit from savings and asset building tools such as the Canada Education Savings Grant (CESG) and Canada Learning Bond (CLB). We have spent the past three years working with community groups across Canada to improve access for low income children to the Canada learning Bond.

This report reflects what we have learned through this experience and provides recommendations for improving access to these savings instruments including scholarship plans. We are in general agreement with the materials provided through the consultation and applaud the efforts of the CSA to simplify and thereby improve access to education savings for low and moderate income Canadians. In our view these efforts are consistent with the growing acknowledgement that financial literacy plays in helping Canadians save for their children's futures.

ISSUE: Making RESPs Work for Low Income Canadians

- Uptake by those eligible for the Canada Learning Bond (CLB) is around 16.3% as of December 31 2008; well below uptake for the Canada Education Savings Grant (CESG) (39.3%) and well below projected government targets.
- Uptake could be significantly improved by addressing barriers that continue to prevent low-income Canadians from saving for their children's' post-secondary education using Registered Education Savings Plans (RESPs).

Objective:

This document seeks to outline some of the barriers that prevent low income families from investing in their child's education through RESPs. It also suggests policy options to overcome these barriers.

Background:

Poverty is about more than income. It is also about opportunities to save and invest in a better future. Savings and assets can leverage new income; cushion against sudden income loses or planned risks and build social capital by enhancing inclusion and participation. One of the most important forms of human capital is higher education. Therefore, given that early investment pays-off over the life course, RESPs are a particularly important type of savings and asset-based instrument.

An RESP is a special savings account that can help Canadians save early for their child's post-secondary education. Savings in a RESP can grow tax free until a child named as a beneficiary in the RESP enrolls in a post-secondary education program. [1]

RESPs were designed to help "encourage families to save for their children's education"[2]. However, evidence shows that the RESPs primarily benefit families with high income, wealth and education levels.[3]

- The 2004 federal Budget introduced several changes to RESPs to encourage low-income Canadians to save for their child's post-secondary education.

    - The Canada Learning Bond (CLB) was designed to "kick-start education savings for low-income families."[4] The CLB offers a $500 endowment to all children receiving the National Child Benefit supplement (NCBS) and a further $100 annually for up to 15 years. In addition, through the Education Savings Community Outreach (ESCO) program, Human Resources and Social Development Canada (HRSDC) provides funding support to agencies promoting the CLB in communities across Canada.

    - The CESG was also enhanced for those with low and moderate incomes. Enhanced CESG rates apply to the first $500 contributed in a year to a child's RESP and, when combined with the basic CESG, has a matching rate that ranges from 30%-40%.

- The CLB was expected to cost $170 million in its first two years and benefit over 120,000 newborns in its first year. [5] However, as of December 2007, after a year and a half on the market, less than $51 million have been spent on CLB direct payments, benefiting less that 76,000 children. The participation rate for the CLB currently sits at 16.3%.[6]

- As one of twelve agencies in the ESCO program, SEDI was funded by HRSDC to run a program called *My Child's Future*. The program promoted post-secondary educational savings through RESPs for families with low-income. Through a network of 4 community agencies (YWCA, Halifax; Welcome Hall Mission, Montreal; Learning Enrichment Foundation, Toronto and SEED, Winnipeg) *My Child's Future* provided workshops and one-on-one support to help families become aware of

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[1] http://www.hrsdc.gc.ca/en/learning/education_savings/publicsection/CESP/RESPs_General.shtml
[2] Government of Canada, *Budget 1998: The Canadian Opportunities Strategy*. (Ottawa: Finance Canada) p.35.
[3] Milligan, K. Who uses RESPs and Why (UBC, 2004) p. 13.
[4] Budget, 2004, p. 117
[5] Budget 2004, p. 118
[6] CESP Annual Statistical Review December 2008

incentives to save in RESPs and to overcome barriers to purchasing an RESP from a provider. Although the *My Child's Future* program supported families of different income levels, low income families eligible for the CLB are the primary target market.

Issue:

- After 36 months of running the *My Child's Future* program, it has become clear that significant barriers remain for low-income families who want to open an RESP and obtain the associated federal benefits. Of course, there are also many personal reasons why a family might not open an RESP (i.e. preferences, financial constraints and priorities). However, initial observations made by the coordinators of the *My Child's Future* program suggest that there are significant barriers inherent to the design and delivery of the RESP product that prevent low-income Canadians from using these products to save.

- To better understand the barriers that prevent many low income Canadians from purchasing an RESP product and receiving the available benefits, it is helpful to separate the delivery practices of the two primary providers, financial institutions and group scholarship trusts.

Financial Institution Sector Providers:

  - **Financial institutions do not widely market RESPs**. "According to industry representatives, this moderate approach derives from the relatively modest amounts [financial contributions] in RESPs, the complexity of the product to both seller and buyer and heavy administrative requirements."[7]

  - **Knowledge of RESPs and available benefits is often low**. Observations from the *My Child's Future* program suggest that many customer service and branch staff in financial institutions have a low level of knowledge about RESPs and are ill-equipped to inform prospective clients about the product and associated government grants and benefits. Participants have been rejected when trying to open an RESP because they were wrongly informed that they required an initial $500 to contribute to the account.

  - **The wide range of RESP products is overwhelming for consumers.** RESP products are not only significant in number but they are also very diverse in type, making it difficult for consumers to get adequate product information, evaluate options and make an informed decision on an appropriate product. In the U.K, research on the Child Trust Fund, a savings account for children set up at birth, has found similar challenges: "…the variety of account types and large number of providers may be underming participation."[8]

[7] HRSDC Report Knight, Waslander, and Wortsman, *Review of Registered Education Savings Plan Industry Practices: Report Prepared by HRSDC,* (HRSDC 2008) p. 23
[8] Bennett et al. *The UK Child Trust Fund: A successful launch.,* (London: IPPR, 2008) p. 12

- **Minimum investment requirements may deter families with low income from opening an RESP.** Most RESP products require consumers to invest in mutual funds or guaranteed investment certificates (GICs). These investment options require an initial minimum investment and may deter families with smaller amounts to invest.

- **Approval for the CLB occurs after opening an RESP.** This might prevent a parent with limited resources from opening an RESP because they are unsure if they will get the CLB. It also makes the provider reluctant to recommend an RESP because there is no clarity on whether the consumer will get the financial support, through the CLB, they might need to open an RESP.

- **Eligible subscribers do not always receive the CLB and enhanced CESG because the wrong form was used to apply for the benefits.** There are three application documents that providers use:

  - *Canada Education Savings Grant Application*
  - *Basic and Additional Canada Education Savings Grant Application*
  - *Basic and Additional Canada Education Savings Grant and Canada Learning Bond Application.*

  Research conducted prior to the launch of the *My Child's Future* program found that several branch staff from major banks were unaware of the application that included the Canada Learning Bond. This has prevented several participants of the *My Child's Future* program from getting the benefits they were eligible for because the wrong application was used.

Group Scholarship Providers (Group plans)

Notably, most of the concerns heard from participants in the *My Child's Future* program regarding group scholarship providers have been echoed in the recent HRSDC report, *Review of Registered Education Savings Plan Industry Practices*.

- **Group plans are too complex for the average consumer to understand with confidence**. While conducting research for the *My Child's Future* project we found that doing a cost benefit analysis of Group Plans requires extensive knowledge of finances and requires one "to devote a considerable amount of time to serious study."[9]

- **The complex fee structure and the high enrolment fees of group plans create significant risk for a consumer who might not see their plan through to maturity.** Several participants of the *My Child's Future program* have lost money because they were unable to see their group plan RESP to maturity.

[9] Bennett et al. *The UK Child Trust Fund: A successful launch.*, (London: IPPR, 2008) p. 17

- **Details about the risk associated with Group plans are often not articulated clearly by sales representatives to prospective clients.** Group RESP providers aggressively market their RESP products to potential customers. Some participants of the *My Child's Future* program who have purchased a group plan RESP have reported that their sales representative did not explain all the fees and risks associated with their products.

  Group plan providers have created guidelines for their RESP products that are even more restrictive than government regulations. This may disqualify some beneficiaries from receiving their full Education Assistance Payments (EAPs). Group plans have restricted the use of funds for certain programs, including part-time and vocational programs.[10] According to the Association of Universities and Colleges of Canada, in 2005, approximately 34% of students were enrolled in part time University programs[11] and more and more young adults were beginning to pursue higher education in non-linear patterns. Other restrictions include specifying the time of year that the beneficiary is permitted to apply and successfully receive EAPs. Eligibility for EAPs may also be denied if a student changes their major. EAP are calculated, divided and distributed equally over four years. If a student only enrolls in a higher education program for 2 or 3 years they may not be eligible for the money designated for the additional years.

- **Group plan dealers are permitted to sell RESP's to customers without a Social Insurance Number (SIN), which could lead some customers to lose money if their SIN is not obtained in time.** From the time they open their RESP, customers are given 6 months (with the possibility of an extension) to get their SIN. Consumers may forget to get their SIN, may not be eligible for a SIN or may miss the deadline, which could result in the collapse of their plan and the loss of any initial contributions.

- **Approximately 1.9% of group plans are terminated annually.** By some estimates, 22% of group plans fail to reach maturity.[12] Group plans require fees to be paid up front which could lead subscribers to lose money if their account is terminated.

Barriers Associated with Government Required Documentation:

A SIN and a Birth Certificate are required for both the subscriber and the beneficiary of the RESP.

- **Getting a SIN for a child has proven to be a significant obstacle to opening an RESP**. Observations from the *My Child's Future* project exposed several challenges in getting a SIN: knowledge of the application process, time required

[10] HRSDC Report Knight, Waslander, and Wortsman, *Review of Registered Education Savings Plan Industry Practices: Report Prepared by HRSDC,* (HRSDC 2008) p. 15
[11] http://www.cmec.ca/international/educationcanada.en.pdf
[12] HRSDC Report Knight, Waslander, and Wortsman, *Review of Registered Education Savings Plan Industry Practices: Report Prepared by HRSDC,* (HRSDC 2008) p. 14

to get a SIN, issues surrounding childcare and transportation, comfort with government services and complexities surrounding citizenship to name a few.

- **The cost (usually about $25) of getting a Birth Certificate can also be a barrier for families with low incomes**.

- **In order to get the CLB you have to be receiving the Child Benefit Supplement (NCBS).** Many participants do not know if they are receiving the NCBS, which makes them uncertain about their eligibility for the CLB and may deter some from purchasing an RESP product.

Policy Principles

The options below are framed according to the following principles:

- With the right financial literacy supports low-income people can and will save.
- Asset policy instruments like the CLB should encourage savings behaviour over time.
- Products like the CLB should be easy to find, understand and select.
- Private sector providers should be active participants in the marketing and delivery of the CLB.

Policy Recommendations

Financial Institution and Group Scholarship Providers:

1. The federal government should establish a 'voucher system' in which the parents or guardians of children eligible for the CLB would receive documentation proving their eligibility and outlining the steps necessary to setting up an RESP account. This voucher could be similar to the personalized Statutory Letter of Entitlement that HRSDC recently sent to over 36,000 families who are eligible for the CLB. The voucher should include a SIN application form with a stamped, self addressed envelop. It should also direct recipients requiring additional assistance to a community organization that is funded to support parents through this process.

Parents or guardians would redeem the voucher to open an RESP product with a provider of their choice.

The 'voucher system' would have several positive effects on overcoming many of the barriers that low income Canadians face when opening RESPs. Vouchers would:

- Inform all eligible parents or caregivers of the CLB;
- Motivate eligible families to set up a RESP because they do not want to waste a voucher that could have a value of up to $2000 over time;

- Increase the financial incentive to providers to accommodate and attract customers eligible for the CLB who thus have at least $500 to invest in an RESP.

2. Automatic enrollment could be established for those who do not respond to the voucher before its expiry. The Government of Canada could, with a single provider or a rotating network of providers, set up ‘no-frills’ RESPs that would house the CLB. In the U.K, 25% of accounts opened through the Child Trust Fund are *automatically* opened because parents failed to open a savings account within the first 12 months of eligibility.[13]

3. Eliminate the following HRSDC documents used by providers:

- *Canada Education Savings Grant Application*
- *Basic and Additional Canada Education Savings Grant Application*

Providers should only use the application form titled *Basic and Additional Canada Education Savings Grant and Canada Learning Bond Application*. This will prevent mistakes by providers and ensure that subscribers are getting the appropriate benefits.

4. Create additional training resources for Providers around the CLB and the enhanced CESG. Opportunities to increase the knowledge of providers could be initiated through additional training, an online course, a checklist that providers must follow when opening an RESP account, etc.

5. **HRSDC should establish a single contact number for all RESP inquiries.** There are currently several phone numbers and websites that provide RESP information. Knowing which number to call and getting specific information on RESP products is a challenge. One point of contact that could answer all types of RESP questions would be valuable to consumers, providers, and those contracted to promote the CLB.

Financial Institution Sector Providers:

6. Require that all RESP providers that offer the CLB establish a ‘no frills’ RESP product that is simple, is low risk and has a reasonable annual cap on fees. This would help overcome the ‘tyranny of choice’ and provide a straight forward option for those eligible for the CLB. The federal government might have to establish an incentive for providers of the ‘no frills’ account because RESPs are perceived to be a ‘loss leader’ by some industry respondents.[14] In the U.K, 80% of accounts opened in the Child Trust Fund are ‘stakeholder accounts’, which have a cap on fees and a mechanism that reduces the risk of the investments as the child’s account comes closer to maturity.[15]

[13] Bennett et al. *The UK Child Trust Fund: A successful launch.*, (London: IPPR, 2008) p. 7
[14] HRSDC Report Knight, Waslander, and Wortsman, *Review of Registered Education Savings Plan Industry Practices: Report Prepared by HRSDC,* (HRSDC 2008) p. 10
[15] Bennett et al. *The UK Child Trust Fund: A successful launch.*, (London: IPPR, 2008) p. 7

Group Scholarship Providers:

7. Information about group plans, especially the risks involved, should be presented in plain language so consumers can make an informed decision about whether this product is appropriate. Currently, details of the group plans can be found in a 'Prospectus', which is extensive and difficult for customers to understand.[16]

8. Group plan providers should make the eligible uses for Education Assistant Payments more flexible. A child named in a group plan RESP should be able to use the full benefits of their RESP for part-time programs as well as vocational programs. Moreover, they should be free to change programs if necessary. Part of what is needed for RESPs to continue to be a useful means of supporting access to higher education is for the plans to be more responsive and flexible in how they pay-out benefits.

9. Group plan providers should create a new fee structure for group plans that minimizes the risk of failure at the initial stages. Because non-refundable fees for the group plans are taken at the beginning, plans that are terminated in the initial stages will likely end up with a net loss. Group plans should either alter the fee structure so that it is paid over the life of the plan, or there should be protections in place so that subscribers with limited means will not lose money if the plan is terminated.

10. Group plan providers should give subscribers options before automatically terminating their plans. Subscribers should be moved automatically to an individual plan if they have failed to make their scheduled contributions into their group plan. This would prevent families who have fallen on difficult times from losing their investment and the CLB to which they are entitled.

11. Group Scholarship Providers should not allow people to purchase a group plan RESP without a SIN. Currently, if a subscriber fails to get a SIN within the allotted time, their plan will be terminated and initial fees paid will not be refunded.

Conclusion:

Observations from the *My Child's Future* program have led us to conclude that these concerns must be addressed if RESPs are to continue to be a useful vehicle to promote education savings for low income Canadians.

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[16] HRSDC Report Knight, Waslander, and Wortsman, *Review of Registered Education Savings Plan Industry Practices: Report Prepared by HRSDC,* (HRSDC 2008) p. 17