EXAMINING THE CANADIAN EDUCATION SAVINGS PROGRAM AND ITS IMPLICATIONS FOR U.S. CHILD SAVINGS ACCOUNT (CSA) POLICY

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Examining the Canada Education Savings Program and its Implications for Children's Savings Account (CSA) Policy in the United States

As support for CSAs builds, U.S. advocates are focusing on building a national structure but face significant questions about how to best proceed. To help inform these deliberations, the Assets and Education Initiative (AEDI) and New America Foundation, with funding from the Ford Foundation, conducted an exploratory investigation of Canada's education savings system, where policy tools to facilitate asset accumulation and encourage household saving may provide useful lessons for the U.S. experience.

Overview of the Canada Education Savings Program

The Account Architecture: Registered Education Savings Plan (RESP)

- Tax-preferred PSE savings account held by a financial institution or group scholarship provider. RESPs in banks or other traditional financial institutions can be individual or family accounts, held in deposit instruments or other investments, while a group scholarship plan is an individual RESP joined with others to pool investment income by age cohort.
- Contributions are not tax-deductible, but disbursements are taxed at the beneficiary's rate.
- RESP accounts may be open for 35 years, and incentives are only required to be repaid if the plan is terminated. RESP incentives cannot be rolled over into other registered savings vehicles, but they are somewhat more transferable than 529 holdings. If the beneficiary does not enroll in a qualifying educational program, another beneficiary may be designated or the subscriber can extract investment income through an Accumulated Income Payment.

The Savings Match: Canada Education Savings Grant (CESG) and Additional CESG (A-CESG)

- Children in Canada, up to the end of the calendar year in which they turn 17, are eligible for the CESG if they have a Social Insurance Number (SIN) and are named as the beneficiary of an RESP into which money has been deposited. The CESG provides a direct grant of 20% for the first $2,500 in contributions made each year. The maximum amount of basic CESG is $1,000 in any year and the most a child can receive by age 17 is $7,200.
- In 2013, Canada paid more than $782 million in CESG matches to RESP accountholders.[1]
- The A-CESG, created in 2005 to escalate asset accumulation among low-income families, provides additional grants to those most in need of assistance in saving. In 2014, a household earning less than $43,561 annually could receive an additional 20% grant for qualifying contributions, while households earning between $43,562 and $87,123 could receive an additional 10%.[2]

The Initial Deposit and Asset Transfer: Canada Learning Bond (CLB)

- Canada created the CLB in 2005 to seed the RESPs of low-income families. To receive the CLB, the child must be born after December 31, 2003, and receive the National Child Benefit Supplement.[3] The initial CLB is $500, followed by entitlements of $100 per year until the child turns 16, for every year the family receives the Supplement, to a lifetime limit of $2,000. The government pays an additional $25 with the first Bond to help cover the cost of RESP opening. If the beneficiary does not attend PSE, the CLB must be returned to the government. While households are not required to make deposits in order to receive the CLB, they must apply.

[1] Canada Education Savings Program. (2014). Canada Education Savings Program. Annual Statistical Review 2013. Copy provided to the authors by Employment and Social Development Canada. Also available from ESDC website: http://www.esdc.gc.ca/eng/jobs/student/reports/statistics/cesp_2013.shtml.
[2] Canadian Education Savings Program. (July 15, 2014a). Overview of the Canadian Education Savings Program (CESP). Presentation to U.S. researchers. Gatineau, Quebec: Canada.
[3] For more information about the NCBS and related Canadian child tax benefits, see Canada Revenue Agency, nondated, available at CRA website: http://www.cra-arc.gc.ca/E/pub/tg/t4114/t4114-e.html#cctb.

- In 2013, 29.4% of CLB-eligible children received the Bond, with payments totaling $100.66 million.[4]

The Provincial Savings Programs

- Since 2005, Alberta has made a $500 initial deposit and then deposited $100 at specific milestones (ages 8, 11, and 14), through the Centennial Education Savings Plan.[5] When it comes online in 2015, the British Columbia Training and Education Savings Grant will deposit $1,200 for every B.C. child born on or after January 1, 2007. In late 2012, Saskatchewan announced a 10% match, to a maximum of $250 per year on top of the CESG.

Findings and Implications for U.S. CSA Policy Design, Incentives, and Delivery Systems

Canada's national plan has increased PSE savings: In the U.S., 37% of families with children under 18 and incomes less than $35,000 are saving for college,[6] compared to 48% of low-income and 70% of all Canadian parents.[7] And the RESP is much more utilized than the U.S. corollary, the state-run 529 plan. In 2010, fewer than 3% of U.S. families save in a 529 or Coverdell,[8] while nearly half (47.1%) of Canadian children live in households that have received the CESG.[9] This national policy may increase savings amounts, as well; low-income Canadian households save approximately $740/year in their RESPs, higher than seen in most U.S. CSA programs.

A national plan may lower administrative costs: Administration of the CESG costs just $12.85 per beneficiary over six years, on average, for annual administrative costs of just $0.06 for every $1 of financial assistance,[10] although these costs would be higher if the government was responsible for all of the functions conducted by financial institutions. Additionally, provinces can leverage the CESP infrastructure for their savings initiatives, unlike in the U.S., where states seeking to layer progressive savings incentives onto the 529 plan architecture often face considerable challenges in developing the information technology, communications materials, staff training, and legal agreements needed to support their initiatives.[11]

It is difficult to secure universal participation without automatic enrollment: Even with progressive incentives, participation skews toward more economically-advantaged households without automatic enrollment; in 2008, 35% of low-income and 59% of high-income households had RESPs. More than 47% of recipients of the basic CESG could have received the enhanced A-CESG but did not apply,[12] and, while take-up has increased steadily, more than 1 million Canadian children are eligible for but not receiving the CLB.[13] Targeted, intensive outreach can work but is hard to scale.

Attending to asset theory in program design may increase positive effects: While Canada evidences significant commitment to fostering children's PSE asset development, positive outcomes from these investments may be increased with policy reforms that incorporate the potential for asset accumulation *and* account ownership effects. Among the lessons here are that clear savings expectations and goals may encourage early account opening, regular

[4] Canada Education Savings Program. (2014)
[5] Human Resources and Skills Development Canada. (2012).
[6] Lassar, T., Clancy, M., & Mcclure, S. (2011). College savings match programs: Design and policy. St. Louis, MO: Center for Social Development. Available from CSD website: http://csd.wustl.edu/Publications/Documents/RP11-28.pdf.
[7] Guilmette, S. (2011). Competing Priorities – Education and Retirement Saving Behaviours of Canadian Families. Education Matters: Insights on Education, Learning and Training in Canada. Volume 8, No. 1. Ottawa, Canada: Statistics Canada. Downloaded February 19, 2014 from: http://www.statcan.gc.ca/pub/81-004-x/2011001/article/11432-eng.htm.
[8] General Accounting Office. (2012). A Small Percentage of Families Save in 529 Plans. Available from GAO website: http://www.gao.gov/products/GAO-13-64.
[9] Canada Education Savings Program. (2014).
[10] Leckle, N., Dowle, M., and Gyorfl-Dyke, C. (2008). Learning to Save, Saving to Learn: Early Impacts of the Learn$ave Individual Development Accounts Project. Social Research and Demonstration Corporation, for Human Resources and Skills Development Canada.
[11] Corporation for Enterprise Development. (2014). From Aspirations to Achievement: Growing the Children's Savings Movement. Downloaded August 4, 2014 from CFED website: http://user-ak7qcrz.publ.com/From-Aspirations-to-Achievement#2.
[12] Human Resources and Skills Development (HRSDC) Canada. (2009). *Formative Evaluation of the Additional Canada Education Savings Grant and Canada Learning Bond*. Downloaded February 3, 2014 from: http://www.esdc.gc.ca/eng/publications/evaluations/learning/2009/sp_951_05_10-eng.pdf.
[13] Omega Foundation. (2013). Smart Saver Final Evaluation Report. Downloaded February 3, 2014 from The Omega Foundation website: http://www.theomegafoundation.ca/documents/smartsaver%20Final%20Evaluation%20Report.pdf.

deposits, and greater savings amounts; regulations may want to cultivate children's ownership by placing accounts in their names and allowing them to easily make deposits on their own; and lifelong accounts may best meet families' asset-building needs throughout the lifespan.

There are potential trade-offs in using existing structure v. designing one intentionally redistributive: While the existence of the RESP facilitated fairly rapid implementation of asset incentives in Canada, it (like 529s in the U.S.) is an instrument designed for higher-income households, and low-income families may struggle to navigate the enrollment process. Even seemingly 'neutral' rules, such as requiring identity documents, may pose disproportionate burdens. Here, the separation of the accounts from the incentives may frustrate policy reforms. Canada's Department of Finance oversees the RESPs, and CESP staff have little authority to make changes that might better suit their objectives.

Delivery of a CSA intervention through private financial institutions may blunt some potential benefits: While CSAs can play a critical 'gateway' role,[14] connecting low-income children to mainstream financial institutions, there may be drawbacks of relying on private companies to deliver essential benefits. This structure may contribute to the disproportionate participation of advantaged households, given the cultural distance between marginalized communities and investment houses. Additionally, since some CSA providers (529s in the U.S. and group scholarship plans in Canada) may not offer other, more basic financial services, the opportunity for linking to accounts may be missed.

If private financial institutions are to play a role, the provider mix, plan options, and regulatory constraints may be important: In Canada, institutional performance varies, and, with few incentives to offer providers, some have relatively poor track records in serving low-income savers. The government incentives that make CSAs relatively more profitable may increase provider participation but still not secure full partnership. Financial institutions may not actively market CSAs, and some adopt rules unfriendly to low-income families' needs. For example, while savings contracts such as those used by group scholarship plans in Canada may increase savings, these strict rules increase the risk of loss, with some group scholarship providers reporting cancellation rates as high as 42%.

Matches and initial deposits may work together as effective tools to increase savings, asset accumulation, and account opening: CSA policymakers in the U.S. may not need to choose between 'seed' and 'match' as savings supports. While direct redistribution is needed to overcome liquidity constraints, transfers can also spur saving; 97% of CLB recipients are also saving in their RESP, despite no requirement to do so. Looking at Canada's system through the evolving CSA framework reveals potential for both asset accumulation and account ownership effects:

- Low-income households may be accumulating as much as $400/year *more* than they would without these incentives. Almost 40% of RESP withdrawals are from government incentives, suggesting that these transfers are a significant part of overall holdings.[15]
- In 1998, the average age of new CESG beneficiaries was 8 years; by 2013, this had fallen to 3.5 years. After launch of the A-CESG and CLB, the percentage of RESPs opened in a child's birth year climbed from 80% to 90%.[16] Earlier account opening allows balances to grow and can also foster increased expectations and educational engagement.

[14] Friedline, T., Johnson, P., & Hughes, R. (2014). *Toward healthy balance sheets: The role of a savings account diversification and accumulation*. Paper presented at the Balance Sheets of Younger Americans: Is the American Dream at Risk? St. Louis, MO.
[15] CESP, 2014.
[16] HRSDC, 2009.

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