Enhancing access to the Canada Learning Bond

Discussion paper prepared for Canada Education Savings Program, Employment and Social Development Canada

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Final report
Submitted December 2, 2016
Contract number: 4500000809

Abstract

This discussion paper responds to a request from ESDC to develop options for reforms to the Canada Education Savings Program and, more specifically to improve access to the Canada Learning Bond. I review individual and institutional challenges to participation in the current system and consider three approaches for reform. I present a case study of the United Kingdom's Child Trust Fund, which included an auto-enrolment default mechanism. I conclude that the model used in the UK is not suitable for Canada and instead make a series of recommendations for both incremental and more ambitious reforms to fulfill the Government's commitment to improve access to the Bond.

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Executive summary

- The Government has committed to improving access to the Canada Learning Bond (CLB) and other Canada Education Savings Program (CESP) incentives. There is a platform commitment and ministerial mandate item that provide political and administrative momentum. Using available information, I estimate that 1.5 million Canadian children could currently make a claim for a little over $1 billion in unpaid CLB benefits. This dollar figure and the number of children affected will continue to increase steadily until at least 2025, when the first cohort of eligible children ages out of the program.

- The policy objective of the CLB remains relevant as a means to improve education outcomes. As the Government noted when it launched the program, earlier access to financial assets for education are expected to result in positive attitudes towards education and better school performance.[1] While the program to date has emphasized savings outcomes, current evidence suggests that positive impacts on educational outcomes can also take place absent family contributions. The Government introduced the CLB as a “guaranteed source of savings” and emphasized the value of the CLB assets absent any parental contributions.[2] But, to generate positive effects on children, recipients must be aware of and have a sense of ownership over the asset.

- There are both individual and institutional obstacles to CLB access, but most appear to be related to the Registered Education Savings Plan (RESP) as the platform for the CLB. However, some barriers are related to the process required to verify eligibility for the CLB and required of providers to keep CLB funds separate from other amounts in an RESP. There may be some, but rather limited, scope to reduce the complexity of the RESP or the administrative measures tied to the CLB without compromising the integrity of the program.

- I discuss three options for reform: 1) A default auto-enrolment into an RESP for CLB-eligible children, inspired by the UK’s Child Trust Fund; 2) Incremental measures to simplify the CESP incentives, create a market for simplified RESP products and significantly accelerate ESDC’s outreach efforts; 3) A redesign of the CLB program to permit default auto-enrolment.

Summary of main recommendations:

Recommendation 1: Do not pursue auto-enrolment for the CLB if it relies on deposits into RESPs with a private sector financial institution.

A review of the available evidence from the now-defunct UK Child Trust Fund (CTF) suggests that automatic enrolment there was only feasible owing to a very different legislative regime. The true impacts of the auto-enrolment default will not really be known given that the program was cancelled before it matured. However, an ongoing experiment in Oklahoma suggests that government-held automatic accounts can still have meaningful impacts on children and families.

A review of the Canadian legal and market context does not show a clear path forward for automatic enrolment if the CLB can only be transferred into an RESP at a financial institution. Without explicit

[1] Volpe, The Hon. J. (2004). “Canada Education Savings Act”, Second Reading Speech, *Debates of the House of Commons,* Thursday, October 14. Available online at: http://www.parl.gc.ca/HousePublications/Publication.aspx?Pub=Hansard&Doc=8&Parl=38&Ses=1&Language=E&Mode=1#Int-963142. Accessed November 23, 2016.

[2] Department of Finance. (2004). *Budget 2004: A new agenda for achievement*. The budget plan. Available online at: https://fin.gc.ca/budtoc/2004/budlist-eng.asp. Accessed November 23, 2016. See page 119.

consent of parents or legal guardians, the risks for the Government are too large. Comparable systems (in Canada and abroad) in which governments have taken steps to negotiate a favourable financial product reserved for a target population have ensured that the explicit consent of citizens has been obtained before a contract is made with a financial services provider. The CTF appears to be the only exception to this rule and it has since been replaced by a voluntary system that requires explicit consent of participants.

Recommendation 2: Invest in options to simplify the existing education savings system.

and

Recommendation 3: Make substantial investments in social marketing and horizontal partnerships to boost awareness.

Whether or not the Government decides to pursue a more ambitious reform that would allow automatic enrolment (outlined at Recommendation 5, below), there are several more incremental measures that it can and should take to improve accessibility of RESPs and the CESP incentives:

- First, using regulatory powers under the *Canada Education Savings Act,* the Minister can require RESP promoters to offer a low-cost basic RESP product that does not demand minimum monthly contributions, as a condition of agreement to participate in any CESP incentives. Note, this would require that the RESP promoter have such a product but would not compel consumers to use it to receive the CESP benefits.

- Second, ESDC should make a more aggressive investment in social marketing and other outreach efforts. This will require a substantial increase to the program's spending on outreach to date.

- Third, to reach harder to serve families who require high-touch services to complete the multiple steps involved in accessing the CLB and other CESP incentives, ESDC should create partnerships in social service systems that have regular interaction with parents of young children. Community initiatives in Toronto, Winnipeg and elsewhere offer opportunities to pilot and scale-up successful practices.

- Fourth, ESDC should collaborate with the Canada Revenue Agency as it moves forward with efforts (funded in Budget 2016) to dramatically increase volunteer tax-filing clinics and proactive measures to support access to federal benefits.

- Fifth, and finally, the Accelerated Canada Education Savings Grant (A-CESG) should be streamlined to a single rate and the eligible annual contribution amounts should be the same for both incentives. Consideration should also be given to indexing the value of the CLB and of CESP contribution limits. A simplified and better targeted mix of incentives may be more effective and will be easier to communicate in outreach efforts. To help cover the cost of this program change, and to improve the distribution of CESP transfers, I also recommend that the Government cancel the basic CESG matching payments to higher income families.

Recommendation 4: Phase-in an auto-enrolment default that preserves flexibility to participate in RESPs and respects federal obligations.

Although calls from stakeholders and academic experts for an auto-enrolment default cannot be met through the existing system of RESP contracts, a more ambitious reform would permit the Government to ensure default accounts for children whose parents do not open an RESP to receive the CLB benefits. As mentioned above, an on-going trial of a comparable system in the US has demonstrated positive early results.

There are policy precedents at the federal level for a system of government-managed individual accounts. This approach also mobilizes one the current program's greatest assets – a well-developed system for managing information about eligibility and transfers to beneficiaries.

Legislative amendments would be required to provide Ministerial authorities and to permit the government to use the application for the Canada Child Benefit as deemed consent for the CLB review. Auto-enrolment can be designed to target children who are always or regularly living in low-income. Program changes can and should permit continued opportunities for parents to open RESPs to save their own funds. Steps are also needed to ensure that automatic accounts opened by the Government are visible to beneficiary families and that beneficiaries have a sense of ownership over the asset. Awareness and ownership are likely critical to triggering an endowment effect and positive impacts on educational attitudes and behaviors.

Introduction and aims

Since 2005, the Government of Canada has offered the Canada Learning Bond (CLB), to low-income families who open a Registered Education Savings Plan (RESP) to save for the post-secondary education of their eligible children. In the last decade, participation in the CLB among eligible children in families has reach 33.1%.[3] This is a significant increase over the participation rate (just 6%) observed in the program's first full year of operation (2006). Since 2010, the participation rate in the CLB has inched upwards by roughly 2% per year as the program has attracted an average of 107,000 new beneficiaries per year.

But participation in the CLB remains well below that (55.1%) of the Canada Education Savings Grant (CESG) available to all children (aged 0-17 years) with an RESP. Participation rates in the CLB have also significantly lagged the Government's original projections for the program.[4]

In her mandate letter, the Minister of Employment, Workforce Development and Labour has been asked to work "collaboratively with provinces and territories to improve promotion of RESPs and Canada Learning Bonds, to make registration simpler, and to increase take up rates".[5]

Policy and administrative responsibility for the delivery of RESPs and the CLB is shared by Employment and Social Development Canada (ESDC), the Department of Finance and the Canada Revenue Agency.

Some provincial governments have education savings grants or bonds administered in association with federal programs and have roles in both service delivery to CLB-target families and securities regulation of RESP promoters. Finally, financial services providers play an important role in promoting RESPs as savings products and in the administration of individual accounts, including reconciliation of federal and provincial education savings incentives.

To date, federal efforts to increase participation in the CLB have included direct marketing, simplified and integrated consumer information, and funding for community-based outreach to low and modest income parents, among other approaches. In addition to enhanced marketing, some observers have also called for amendments to the RESP itself and for auto-enrolment in the CLB.[6]

This discussion paper is intended to supplement other research and analysis conducted by or for the Learning Branch at ESDC. This paper provides a broad discussion on approaches to easing access to the CLB, including consideration of alternative vehicles and changes to the broader CESP program design.

This paper is organized in the following sections:

Section 1 briefly reviews the current stated policy objectives of the CESP and the rationale for the CLB. Drawing on a review of secondary literature, I discuss the effects of savings and assets on education.

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[3] Employment and Social Development Canada (2016). "2015 CESP Annual Statistical Review", Canada Education Savings Program Branch, ESDC, Government of Canada: Ottawa.

[4] For example, Budget 2004 projected that the program would transfer approximately $85 million in CLB payments to eligible children in each of the first two years of the program (fiscal years 2005-06 and 2006-07) and $325 million per year at full maturity (by 2021). Transfers made through the program did not exceed $85 million until 2012.

[5] Prime Minister of Canada (2015). "Minister of Employment, Workforce Development and Labour Mandate Letter", Privy Council Office, Ottawa.

[6] See, for example, keynote remarks by Dr. Phil Oreopoulous to the Canadian Economics Association Annual Conference 2016, Ottawa; See also, Prosper Canada and Bridgeable Designership Program (2014) "RESPs for Low-Income Families: Co-Creating Solutions", Toronto.

Section 2 briefly describes some of the known challenges or obstacles to take-up of the CLB. These obstacles include both individual obstacles as well as obstacles that are institutional in the design of the CESP model.

Section 3 reviews 3 different options for consideration in meeting the Minister's mandate commitment. These include auto-enrolment into RESPs to access the CLB, easing access to the current program through outreach and simplification efforts and considering a more ambitious program change to use a different vehicle to enable maximum increases in CLB take-up.

The paper ends with a brief conclusion.

A summary of recommendations made throughout the paper is included in the Executive Summary.

At the request of ESDC, Annex 1 provides an estimate of a 'natural' CLB take-up rate. Estimates in this section rely on three different set of assumptions that each offer a different counterfactual to the observed take-up rate. Each of these belies a different perspective on the policy intent of the CLB. This section also presents new analysis of published data on CLB eligibility, take-up and spending to provide an estimate of the annual and cumulative amount the Crown may owe for unpaid CLB transfers if eligible beneficiaries claim their benefit before age 21. Trends in CLB eligibility are also discussed.

Data sources and methods

This paper is based on a review of more than 25 separate published English-language reports on education savings and assets in Canada, the United States and the United Kingdom. All annual statistical reports published by the CESP have been used and validated against selected internal reports prepared by ESDC and shared with the author.

I also conducted some original analysis of Statistics Canada's Canadian Financial Capability Survey (CFCS, cycles 2009 and 2014) and Survey of Approaches to Education Planning (2002), using the Public Use Microdata File for each survey. Results from the Statistics Canada Survey of Financial Security, Master Data File accessed at the Research Data Centre[7]

Information sources, including any direct communication with experts, are noted in footnotes. Finally, I also draw on my first-hand knowledge of the CLB program based on direct involvement in the 2004 announcement and legislation, subsequent research projects and advisory roles, including technical advice provided to the current government.

[7] Accessed as part of a project on Asset Poverty with David Rothwell (Oregon), funded by the Social Sciences and Humanities Research Council.

1: What are the goals of the CLB and the CESP?

The CLB is a statutory program authorized under the *Canada Education Savings Act (CESA).*[8] That legislation describes Parliament's intent to "encourage the financing of children's post-secondary education through savings, from early childhood, in registered education savings plans". The reference in the legislation to both savings and the RESP are worth noting. At the time the legislation was created, a top of mind concern was equity in the rates of participation in RESPs.

But the CESP has had several different policy goals over the years. In the text below, I list a wider range of policy goals of the CESP and briefly discuss some available evidence for impact of the CESP.

Nudging the RESP marketplace:

Until 1998, RESPs were a product offered as a private contract between a small set of private sector providers and their client subscribers with no government contribution. The 1998 federal budget announcement of the Canada Education Savings Grant (CESG) was intended to generate a financial incentive for deposit-taking institutions[9] to enter the RESP market. With a stronger financial incentive, the government hoped, more deposit-taking institutions would market education savings products to families, reducing anxiety over future education costs while providing competition to the more established group providers.[10] In advance of the 1998 federal budget, the Minister of Finance directed officials to review the state of the RESP industry and to identify ways to enhance the attractiveness and accessibility of the savings products for more Canadian families.[11]

In 1997, there were only 22 providers of RESPs, none of which included mainstream deposit institutions. At most recent count, there are nearly 90 RESP providers, including deposit-taking institutions.[12] As an incentive to alter market conditions, the original CESG has proven successful. However, in the years immediately following the introduction of the CESG, subscriptions in RESPs were heavily skewed towards upper-middle and high income households.[13]

Promoting use of RESPs among lower income families and changing the distribution of RESP ownership:

The CESA was introduced by the Government to address a clear inequality in the ownership of RESPs by household income. For example, the Government noted, 26% of families with incomes below $25,000 were already saving for a child's education but that a minority were using RESPs as their savings vehicle. As the Minister put it in his Second Reading speech, "the poorest people in this country who do save are struggling to do so on their own, largely without the benefit of the Canada education savings grant. This is an imbalance that we ought to rectify."[14]

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[8] *Canada Education Savings Act,* S.C. 2004, c. 26, Consolidated Statutes of Canada.
[9] Primarily those listed in Schedule 1 of the *Bank Act, S.C. 1991, c. 46,* Consolidated Statutes of Canada.
[10] The market conduct of some group providers has historically been an issue for provincial and federal policy-makers. For a discussion see Knight, B., Waslander, B. & Wortsman, A. (2008). Review of registered educations savings plan industry practices - Final report. Research report prepared for Human Resources and Skills Development Canada, Ottawa, ON. Retrieved from http://publications.gc.ca/site/eng/334301/publication.html.
[11] Personal communication with a former senior official in the Department of Finance and other senior political officials who were involved at the time.
[12] It's also important to note that the 1998 federal budget also announced some changes to the Canada Student Loans Program at the mid-point of a risk-sharing agreement with participating financial institutions that expired in 2000.
[13] Milligan, K. (2002). "Tax Preferences for Education Savings: Are RESPs Effective?", *Commentary 174,* C.D. Howe Institute: Toronto.
[14] Volpe (2004).

The financial benefits of saving inside an RESP instead of outside are three-fold:

1. The direct transfer from federal and provincial education savings programs that are conditional on RESP ownership.

2. Exemptions from provincial social assistance asset-tests, which reduce benefits or exclude applicants. These tests exclude education savings for children if they are in an RESP.

3. Tax-sheltered investment income on deposits into the RESP. According to the Department of Finance, the federal government's tax revenues are reduced by between $125 million and $170 million per year through this tax shelter.

While, the second benefit is perhaps only meaningful to low-income families, the other two are particularly meaningful to families with greater financial means to save (and trigger matching public grants) and higher tax liabilities. If high income families are more likely to own RESPs than are low-income families, then they will also enjoy greater access to the conditional savings incentives and to the tax-sheltered investment income.

Based on the most recent data on household income, savings and debts, just 18% of families with children (under age 18) in the lowest income quintile reported any RESP assets, while 41% of comparable families in the highest income quintile reported any RESP assets.[15] Differences in the mean value of RESP assets were likewise pronounced by family income: Families with children in the bottom income quintile reported just $228 in mean RESP assets while mean RESP assets for similar families in the top income quintile were over $6,500.

Other surveys have tried to estimate, based on self-reported data, the likelihood of a parent reporting any education savings for a child and, conditional on that, whether those savings are taking place inside an RESP rather than another vehicle. In Table 1, below, I summarize results on self-reported education savings and RESP use from the Survey of Approaches to Education Planning (2002) and the Canadian Financial Capability Survey (2008 and 2014). I report the incidence of education savings and of RESP as the vehicle by household income quintile to illustrate how the relative distribution in use of RESPs has changed over time.

Table 1: Parents' self-reported education savings and conditional RESP use, 2002, 2008 and 2014.

	Families in the lowest income quintile[16]			Families in the top income quintile[17]		
	% saving for education	Of those, % using RESP to save	% of all parents reporting RESPs	% saving for education	Of those, % using RESP to save	% of all parents reporting RESPs
2002	28%	44%	12%	69%	61%	42%
2008	47%	53%	25%	83%	74%	61%
2014	49%	48%	24%	83%	75%	62%

Although self-reported take-up of RESPs amongst lower income families has increased (from 12% overall to 24% amongst families in the lowest income quintile), take-up has also increased among high income households (from 42% to 62% overall amongst families in the top income quintile). The gap in the

[15] Author's calculation. Survey of Financial Security, 2012, Statistics Canada. Master Data File, accessed at the RDC, University of Ottawa.

[16] Total household income is below $30,000 in 2002 and below $32,001 in 2008 and 2014. Dollar values are nominal and cannot be adjusted for inflation using the public use file.

[17] Total household income is above $90,00 in 2002 and above $120,000 in 2008 and 2014. Dollar values are nominal and cannot be adjusted for inflation using the public use files.

incidence of RESPs between low and high income families remains significant and has actually increased (from 30% in 2002 to 38% in 2014). Other studies have found that RESP assets are concentrated among children of better-educated parents,[18] among families with high wealth and other significant tax-preferred assets.[19]

The distribution of CESP transfers has become somewhat more progressive. According to an internal study by ESDC, the share of CESP payments going to families with an income under $25,000 per year nearly doubled between 1999 and 2012.[20] During the same period, the share of CESP transfers going to high income families (those with incomes above $125,000 per year) remained unchanged at 39%. The redistribution that took place seems to have been away from middle and upper-middle families (those with annual incomes from $45,000 to just under $125,000) and toward low and modest income families. This may not be the optimal redistribution. But so long as high income families are most likely to maximize their tax-benefitted savings in RESPs and the basic grants remain universal, high income families are likely to continue to receive a disproportionate share of CESP transfer payments.

Increasing financial assets among low-income families, whether or not parents save:

The 2004 federal budget announced the creation of the CLB and the A-CESG, as a "kick-start education saving for low-income families" (117).[21] However, the budget document also described the CLB as a "guaranteed source of savings for PSE" (119) and made clear that the Government saw value in the transfer whether parents contributed or not. For example, the budget emphasized the potential for compound interest to increase the maximum value of the CLB from $2,000 to $3,000 for a child entering post-secondary. In his Second Reading speech, the Minister argued "what might sound like pocket change to some can mean a world of difference to families and children doing without."[22]

Many of those families who have received the CLB do appear to make deposits. Between 78% and 83% of RESP accounts receiving the CLB also receive at least $1 deposited by the subscriber (normally the primary caregiver to the child). [23] Annual contributions to CLB accounts are over $1,000.

In a 2013 study, using data published in the 2011 Annual CESP Statistical Report, I estimate that RESPs receiving the CLB saved an average of at least $856 per year of their own money, after accounting for the value of matching CESG and A-CESG amounts. This is substantially higher than the best available estimates of annual savings for education outside of RESPs among low and modest income families likely to be eligible for the CLB, approximately $485 per year.[24]

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[18] Gray, D. & McDonald, T. (2012). "An evaluation of the RESP program based on the National Graduate Survey", research paper submitted to Human Resources and Skills Development Canada, Strategic Policy branch: Ottawa. Cited with permission.

[19] Robson, J. (2013). "Does Canada have a Wealth-Fare State?", Doctoral Thesis, School of Public Policy and Administration, Carleton University: Ottawa.

[20] Analysis of a sample of families with children using a linked tax-filer and CESP data file, cited in Strategic Policy and Research Branch. (2015). "Canada Education Savings Program (CESP): Summative evaluation report", Employment and Social Development Canada, Government of Canada: Ottawa.

[21] Goodale, Hon. R. (2004). Budget Plan: A new agenda for achievement. Minister of Finance, Government of Canada: Ottawa.

[22] Volpe (2004).

[23] Canada Education Savings Program (2016). "2015 CESP Annual Statistical Review", Employment and Social Development: Ottawa. See also Robson (2013).

24 This estimate is based on data in Shipley, Ouellette and Cartwright (2003) for the 2002 Survey of Approaches to Education Planning. Data in the more recent Canadian Financial Capability Survey were not usable for this analysis. The estimate of $485 is based on a median annual savings outside of RESPs of $480 for the lowest income families (earning less than $25,000) and $490 for the next quintile (earning between $25,000 to under $45,000). All of the families in the first quintile are likely eligible for the CLB and many in the second may be as well. The similarities of the dollar values in median savings for the two groups is striking. Reports of average RESP contributions by all

Even though the CLB doesn't ask families to save, it may support some users in doing just that. Remember that these are low and modest-income families who have historically been assumed to be unable to save much of any significance. According to one review, 62% of families eligible for the CLB have a household income below $20,000 and working-age adults in the household report fewer weeks of paid employment compared to other families.[25]

However, families of the 33% of CLB eligible children who have been the early-adopters of the benefit may have different attitudes, motivations and capability to save for education than the remaining 67% of the eligible population. The frequency of family contributions may be a happy outcome of the CLB for the families who have used it so far, but I would caution against any approach to CLB reforms that devalued accounts that do not receive personal deposits.

In considering options for reform, too much emphasis on savings may well deter families from even trying to access the CLB if they believe they will be required to make deposits of their own. When low income parents who do not save for a child's education are asked why they don't save, they are dramatically more likely to cite financial obstacles such as unemployment (34%), insufficient income (37.9%) and other financial obligations (34%) than they are to cite low expectations for their child's education (1.5%).[26]

Enhancing education outcomes through financial assets:

When the CLB was created, the Government signalled that it expected that low-income children receiving the benefit to show positive educational outcomes. As the Minister noted during his speech on the legislation to create the CLB, "studies demonstrate that children with savings for post-secondary education have a more positive attitude toward their schooling. They have better marks and they go further in school."[27]

Most Canadian researchers have, however, generally focussed on non-financial characteristics of children (such as skills, academic achievement and positive regard for school), non-financial characteristics of parents (education, attitudes and behaviors to support a child's education) and personal or household financial characteristics, measured by income or use of student loans.[28] Generally, the studies conclude that participation in higher education is positively associated with positive education experiences for the child, with higher parental education and with higher family income.[29] Between these latter two, however, researchers have generally concluded that parental education plays a greater role than parental income.[30] In Canada, few studies to date have considered the role of household assets in

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Canadian families suggest relative stability over time (see for example HRSDC, 2008; 2009; 2011). Adjusting for inflation (author's calculation using the Bank of Canada Inflation Calculator and based on Statistics Canada series V41690973) provides an estimate of $570 for 2010

[25] Drewes, T. (2011). "Understanding the population eligible for the Canada Learning Bond", Research paper for Human Resources and Skills Development Canada: Ottawa. Cited with permission.

[26] Author's analysis of the Canadian Financial Capability Survey (2014), Public Use Microdata File. Accessed via ODESI.

[27] Volpe (2004).

[28] See for example, Finnie, R., Mueller, R., Sweetman, A. and Usher, A. (2008). Who Goes? Who Stays? What Matters? Accessing and Persisting in Post-Secondary Education in Canada. McGill-Queen's University Press: Montreal.

[29] Knighton,T. & Mirza, S. (2002). "Postsecondary participation: The effects of parents' education and household income", *Education Quarterly Review, vol. 8*(3), 25-36; de Broucker, P. (2005) "Getting There and Staying There: Low-income Students and Post-secondary Education", Working Paper W-27, Canadian Policy Research Networks: Ottawa;

[30] Drolet, M. (2005). "Participation in post-secondary education in Canada: Has the role of parental income and education changed over the 1990s?", Research Paper No. 243, Analytical Studies Branch, Statistics Canada:

post-secondary education and studies on the long-run education impacts of the CLB will not be possible for several more years.

One Canadian study suggests that students who report savings ear-marked for their education may be more likely to participate in higher education, particularly if the student has themselves contributed to the savings account.[31] But the study did not control for factors such as parental income and wealth, parental education or parental expectations.

Another Canadian study found that students with savings, whether in an RESP or not, were more likely to move quickly into post-secondary education after high school, and were more likely to compete their post-secondary program. [32] Another study likewise found that students with RESPs participated in education programs that were of longer duration compared to students without RESPs.[33] However, multivariate analysis to isolate the effect of savings from other explanatory variables (such as family income and parental attitudes) failed to find any relationship between savings and post-secondary education participation.[34]

In the US, one meta-review of 34 different studies concluded that assets, and financial assets in particular, have an important impact on the odds of a child starting post-secondary studies.[35] The same review also concluded that net worth and other forms of assets have a positive impact on the likelihood of completing post-secondary program. However, when measures to control for a child's own academic performance are included, the evidence for the impact of assets was mixed. The same meta-review suggested that a sense of ownership over the financial asset might play a mediating role in education outcomes. The reviewers concluded that children who had their own savings, even if not earmarked for education, showed stronger improvement in some measures of secondary school. Ownership of financial assets appeared to increase student performance in mathematics but not reading scores.

Other US researchers have examined the effects of more targeted early commitment grants for higher education. These programs offer a promise of future non-repayable aid to a student in middle or secondary school. There is evidence that these early commitments can improve secondary school performance,[36] and increase odds of completing a post-secondary education program.[37]

Another very recent study in the UK found large treatment effects when students who do not inherently value education were offered a financial asset of £200, in exchange for positive education behaviors.[38] Students' performance on later tests (not associated with the reward) also improved significantly for

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Ottawa; Finnie, R. and Mueller, R. (2008). "The backgrounds of Canadian youth and access to post-secondary education: New evidence from the Youth in Transition Survey", in R. Finnie *et al.*

[31] Barr-Telford, L., Cartwright, F., Prasil, S. and Shimmons, K. (2001). "Access, persistence and financing: First results from the Postsecondary Education Participation Survey", Research Paper No. 007, Catalogue no. 81-595-MIE, Statistics Canada: Ottawa.

[32] Drewes, T. (2007). "The impact of savings on the decision to pursue post-secondary education", research paper prepared for Human Resources and Social Development Canada: Ottawa. Cited with permission.

[33] Gray & McDonald.

[34] A soon to be released study by Marc Frenette will offer new findings on the impact of RESPs in higher education outcomes.

[35] Elliot, W., Destin, M. and Friedline, T. (2011). "Taking stock of ten years of research on the relationship between assets and children's educational outcomes: Implications for theory, policy and intervention". *Children and Youth Services Review*, vol. 33, 2312–2328.

[36] Harnish, T. (2009) "State Early Commitment Programs: A Contract for College Success?", Policy Brief, American Association of State Colleges and Universities.

[37] Lotkowsi, V. A., Robbins, S. B., & Noeth, R. J. (2004) "The role of academic and non-academic factors in improving college retention", ACT Inc, Iowa City.

[38] Burgess, S., Metcalfe, R. and Sadoff, S. (2016). "Understanding the response to financial and non-financial incentives in education: Field experimental evidence using high-stakes assessments." Discussion paper 16/678, Department of Economics, University of Bristol: Bristol.

standardized mathematics and science exams, closing an observed achievement gap by half. No such response was observed when researchers substituted a non-financial reward of approximately equal value.

Returning to Canada, the Future to Discover project in New Brunswick has tested the effects of Learning Accounts granted to secondary students. Using a randomized control trial, participants in the treatment groups received a financial endowment of up to $8,000 for post-secondary studies as they completed secondary school. The endowment was made available to participants, as long as they completed high school, regardless of their grades, and without parental contributions. The projects early reports showed that, among Francophone students, the offer of the Learning Account had a significant increase on students' thinking about their own futures. These effects were noticeable only for those Francophone students from families with low income and low parental education.[39] Among Anglophone students, the Learning Accounts significantly increased the likelihood that secondary students (again from families with low income and low parental education) reported aspirations to attend post-secondary education. The Learning Accounts also raised the rates of high school completion among many, but not all participants. Anglophone boys and Francophone students with low income or low education parents were significantly more likely to complete high school as a result of the financial endowment.[40] However, the researchers also found that participants' awareness that they were entitled to or had received a Learning Account was quite low. It is likely that awareness and a sense of ownership over the asset may mediate any effects on education attitudes and behaviors.

After secondary school, participants in the Learning Accounts treatment were significantly more likely to enrol in post-secondary education – with effect sizes of between 6% and 15% compared to the control group.[41] Results were stronger for Francophone students, for Anglophone boys and for Anglophone students from disadvantaged households.[42] The most recent project results confirmed the impact on post-secondary enrolment and found that participants in the treatment group were also far more likely to graduate a post-secondary program. [43] The Learning Accounts appear to have had a pronounced effect on college (but not university) graduation rates. In short, the financial endowment seems to have had positive impacts on secondary completion, education aspirations, post-secondary participation and completion.

In short, there does appear to be evidence that financial assets, when delivered before higher education decisions take place, can improve education outcomes for students by:

- improving performance (particularly in math),
- increasing secondary school completion,
- increasing participation in some post-secondary programs, and
- increasing persistence in a post-secondary program.

The effects are not even across all groups of students or for all forms of post-secondary. The available evidence also suggests that while a child's ownership over the account may be important, the act of making a deposit into the education account may not be.

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[39] Smith Fowler, H., Currie, S., Hébert, S., Kwakye, I, Ford, R., Hutchison, J. & Dobrer, S. (2009) "Future to Discover (FTD) – Interim Impacts Report", Social Research and Demonstration Corporation: Ottawa.

[40] Ford, R., Frenette, M., Nicholson, C., Kwakye, I., Shek-wai Hui, T., Hutchison, J., Dobrer, S., Smith Fowler, H., & Hébert, S. (2012). "Future to Discover: Post-secondary impacts report", Social Research and Demonstration Corporation: Ottawa.

[41] *Ibid.*

[42] Impacts on university participation and persistence were observed for students who received career education and planning assistance, with or without the learning account.

[43] Ford, R., Kwakye, I. (2016). "Future to Discover: Sixth Year Post-secondary Impacts Report". Social Research and Demonstration Corporation: Ottawa.

It is my view that assessments of the impact and considerations for changes to the CLB have focused only on family deposits into the RESPs (with an expectation that these will one day lead to changes in post-secondary outcomes). I believe this may be too narrow interpretation of the Government's original policy intent. As the Minister's Second Reading speech in the House noted, the Minister expected that even a small investment could have substantial impacts on low income children:

> "I have seen first-hand what financially disadvantaged kids can accomplish when given the chance. I have witnessed their successes time and time again. When they get that extra bit of encouragement and support, they succeed like no other."

There does not appear to have been, as yet, any effort to measure the influence of the CLB on the education outcomes of children in primary and secondary education, or on the education attitudes or aspirations of families and children. Family deposits into an RESP are a poor indicator of educational hopes and expectations. The act of saving is also mediated by factors such as financial exclusion, financial capability, financial strain and even administrative barriers.

There's some evidence that the CESP programs do increase RESP savings for many families but no real evidence that this is new savings. There's also mounting evidence that financial assets can make an important difference in educational activity and outcomes for kids who might not otherwise value education or pursue post-secondary. Finally, there's promising evidence that financial assets, independent of whether they were acquired by savings or not, can positively impact life-chances.

Box: Can automatic accounts increase private account opening?

The above studies have looked at program models where participation is voluntary. But what happens when families automatically receive an account managed by government? Does this displace their own personal savings? Can automatic accounts managed by government, for post-secondary education, also lead to interim positive impacts and child learning and development?

In Oklahoma, researchers continue to study the impacts of a long-term random control trial of both state-owned child savings accounts and incentives to open an individual college savings account.[44] Families in the treatment group received notice that their child had received $1,000 in a state-held interest-bearing account. The treatment was not limited to low-income families. All families in the treatment group also received information and financial incentives (a $100 opening bonus and income-tested matching savings grants) to open an individual college savings account.

Initial results suggest that the automatic enrolment account did lead to 15% increase in private college savings accounts.[45][46] Qualitative interviews with participating low-income parents also finds positive effects on mothers' education expectations for their children.[47]
Data on education impacts for the children have not been reported. However, standard tests of psycho-social development at age 4, considered to be an early indicator of success in the first years of primary education, were also administered in the treatment group families. In a simple comparison to the control

[44] Beverly, S. G., Clancy, M. M., & Sherraden, M. (2016). Universal accounts at birth: Results from SEED for Oklahoma Kids (CSD Research Summary No. 16-07). Washington University, Center for Social Development: St. Louis, MO.
[45] Marks, E., Engelhardt, G., Rhodes, B. & Wallace, I. (2014). "SEED for Oklahoma Kids: The Impact Evaluation", Research Report, RTI International: Research Triangle Park, NC.
[46] Nam, Y., Kim, Y., Clancy, M., Zager, R. & Sherraden, M. (2012). "Do Child Development Accounts promote account holding, saving, and asset accumulation for children's future? Evidence from a statewide randomized experiment". *Journal of Policy Analysis and Management,* vol. 32(1), pp.6-33.
[47] Beverly, S. G., Clancy, M. M., & Sherraden, M. (2016, June). The early positive impacts of Child Development Accounts (CSD Research Brief 15-08). Center for Social Development: St. Louis, MO: Washington University.

group, children receiving the automatic accounts showed significantly better psycho-social development on only three of 17 indicators. However, using a more complex model that accounts for material deprivation, researchers find that the automatic account does significantly reduce the negative effects of poverty and deprivation on child psycho-social outcomes.[48]

[48] Huang, J., Kim, Y., & Sherraden, M. (2016) "Material hardship and children's social-emotional development: Testing mitigating effects of Child Development Accounts in a randomized experiment." *Child: Care, Health and Development, August*, pp.1-8.

2: Understanding the challenges to boosting CLB take-up

There has been, from my review, no research specific to barriers for take-up of the CLB. This is at least in part because access to the CLB cannot be separated from access to the RESP, currently the only account vehicle that can receive the CLB.

There have been several previous efforts to describe many of the challenges or obstacles in promoting savings amongst low-income families and education savings in particular.[49] This section of the report presents a very brief summary of key results and groups these into each *individual* and *institutional* categories. Here, *individual* challenges are to those that are related to the personal characteristics, experience or circumstances of a parent responsible for a child. *Institutional* challenges are those related to market or regulatory conditions. These aren't mutually exclusive and it is also clear that some challenges arise in the interactions between individuals and institutions. Policy-makers may not able to directly or indirectly impact all of these challenges but should take these into account in considering options for policy reform.

Table 2 (below) provides a summary of each group of challenges.

[49] See: Robson (2013); Knight, B., Waslander, B. & Wortsman, A. (2008). Review of registered educations savings plan industry practices - Final report. Research report prepared for Human Resources and Skills Development Canada, Ottawa, ON; Leckie, N., Shek-Wai Hui,T., Tattrie, D., Robson, J. & Voyer, JP. (2010). Learning to save, saving to learn: Final report of the learn$ave individual development accounts project. Ottawa, ON: Social Research and Demonstration Corporation; Girdharry, K., Simonova, E. & Lefebvre, R. (2010). Registered education savings plans – Valuable opportunities for the students of tomorrow. Research report. Certified General Accountants of Canada.; Schwartz, S. & Ben-Ishai, S. (2012). Access to personal financial services in Canada. Research report for Human Resources and Skills Development Canada, Ottawa, ON.; Stapleton, J. (2013). Stop wondering about under-subscription of benefits. Blog post, January 22.; Whyley, C. & Kempson, E. (2000). Understanding small savers: Saving behaviour amongst low-to-middle income groups. Personal Finance Research Centre, Bristol University.; Wong, Aratani, Y. and Chau, M (2010). "Asset poverty and debt among families with children", Research Report, National Center for Children in Poverty, Columbia University: New York.; Elliot et al (2011); Reyes Mason, L., Clancy, M., Kim, Y. & Loke, V. (2010). "Child development accounts and saving for children's future: Do financial incentives matter?", *Chidlren and Youth Services Review*, v.32, 1570-1576.; Wong. M. & Muray, S. (2010). "More than money: Mining the human and financial potential of Canada's education savings programs for low-income families", research report, Maytree Foundation: Toronto..; SEDI (2010). "Making RESPs work for low-income Canadians", submission to the Canadian Securities Administrators: Toronto.; Craig, J. (2014). "RESPs for Low-Income Families: Co-Creating Solutions", project summary, Prosper Canada and Bridgeable Solutions: Toronto.; Nayar Consulting (2013). "SmartSaver: Final evaluation report." Toronto, ON: Omega Foundation.; Momentum (2011). "Financial literacy and banking: Registered education savings plans (RESPs)", research report, Momentum: Calgary.; Ekos Research (2008) "Research into low income parent's views and experiences regarding RESPs, CESG and the CLB", Research Report for Human Resources and Social Development Canada: Ottawa.

Table 2: Summary of challenges to CLB take-up, individual and institutional

Individual challenges	Institutional challenges
• Parents' attitudes towards education • Parents' perceived financial strain / ability to save • Parents' relationship with financial institutions • Parents' knowledge and attitudes regarding RESPs • Parents' tax-filing behaviour • Parents' financial capability, literacy and numeracy • Parents' persistence in completing RESP and CLB process	• Complexity of choice among both promoters and products • Complexity of the RESP instrument • Participation in CLB by RESP promoters • Federal and provincial program differences • Product and program knowledge of retail staff among promoters • Market conduct of some promoters • Adequate program resources

Individual challenges:

While the vast majority of Canadian parents, including those in low-income, report that they do expect their children to attend post-secondary education,[50] there will be a small number of families who do not anticipate that their children will or should attend higher education. But this obstacle does not seem to be an important obstacle for RESP participation.

Rather, financial constraints seem to be far more important. Studies frequently find that low-income parents are more likely to report that they don't have enough money to save or have other immediate financial pressures that preclude education savings. The fact that so many CLB accounts do in fact receive private contributions is interesting. It may be that inability to save and financial strain is over-reported by non-participants. Or it may be that financial strain is being used as a more socially acceptable response in lieu of another reason. Or it may be that the 33.1% of current CLB users are "early-adopters" who are systematically different in their willingness and interest in saving out of their own income flows. However, the CLB does not require a subscriber to contribute any of their own money. Communications efforts to promote education savings may actually dissuade parents who feel unable to make contributions of their own into an RESP. As highlighted in the previous section, the CLB was always intended as a guaranteed source of education assets to be valued whether or not a family contributed their own money.

Access to the CLB requires parents to enter into a new contract with a financial service provider – either a trustee of a group plan, a bank or similar deposit account institution, or an insurance provider or similar investment provider. Furthermore, RESP promoters require subscribers to have and share bank account information to verify identity (given Know Your Client obligations) and set up electronic funds transfers for contributions. If subscribers have not had positive relationships with financial service providers or do not enjoy full financial inclusion, this interaction with financial institutions can prove to be another layer of challenge. Note that this is separate and apart from a subscriber's literacy, numeracy or capability in managing financial choices.

[50] See Ekos (2008); Also, using the CFCS (2014), I find that just 1.5% of parents in the lowest household income quintile said they were not saving for their children's education because they did not expect them to attend post-secondary education.

Survey research conducted for ESDC has found that awareness of RESPs and CESP transfers, including but not limited to the CLB, is very uneven among parents.[51] Even among parents with some awareness of the instrument, knowledge about RESPs is often weak. Qualitative research also finds that many low-income adults hold negative beliefs about RESPs and other registered savings instruments.[52] For example, although all provincial social assistance programs have exempted savings in an RESP for a dependent child since 2005, there remains a perception that savings are not allowed and could put essential income support at risk.[53] Among low-income consumers, anecdotal reports of bad experiences or large financial penalties tend to travel far and to endure as a kind of touchstone of financial advice. In the case of the group RESP plans, media reports of disciplinary measures by securities regulators may have led to public doubts about the trustworthiness of RESP providers.

Access to the CLB doesn't just require opening an RESP. Parents must also file an annual income tax return with the Canada Revenue Agency (CRA). Whether or not the subscriber applying for the CLB is the parent, the primary caregiver to the child must have filed a return to verify their income and be in receipt of the federal income-tested child benefit (originally the National Child Benefit Supplement and now the Canada Child Benefit). Some portion of low-income Canadians do not file an annual personal income tax return. By best estimates, 8% of all Canadians do not file an annual tax return on time.[54] Some portion of these Canadians may file later in the year, after the deadline. However, some portion may not file for several years or at all. Anecdotal information from community organizations providing filing assistance to low income Canadians suggests that rates of late or non-filing (whether accidental or deliberate) are non-trivial.

Lower-income families can also be deterred by the length of the forms, technical jargon and multiple steps involved in applying to open an RESP. Survey research conducted for ESDC suggests that, after financial strain, process obstacles were most commonly mentioned (alongside gaps in information) and that nearly half (48%) of eventual subscribers delayed after learning about the CESP.[55] First-hand accounts from community organizations and advocates suggest that CLB-eligible households frequently encounter process obstacles that would be unfamiliar to middle and higher income families.[56] As described by these authors, many of these obstacles are understandably frustrating and discouraging to a parent's desire to claim CLB funds. In some cases, these obstacles are actually institutional factors as discussed later in this section.

One report prepared by the department suggested that lower and middle-income households may have lower financial literacy and be less aware of the costs of higher education.[57] But this conclusion doesn't match Canadian research that instead demonstrates that lower-income households tend to <u>over</u>-estimate the true cost of post-secondary education and to under-estimate the return to that education in labour-market earnings.[58] Financial literacy may pose a barrier to participating in RESPs, but not likely because low-income families are under-estimating the affordability of post-secondary education. Instead, parents with lower literacy or numeracy skills may find the forms and financial decisions involved in using RESPs confusing. The tiered A-CESG structure likewise adds complexity to literacy and numeracy required to

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[51] See Ekos (2008). More recent data from a reliable study could not be found. Media reports of private sector studies could not be validated with a review of their data. A search of the Government of Canada public opinion research database found no reports on education savings.
[52] See for example, Robson (2013) and Momentum (2011).
[53] As a participant in one 2012 focus group put it "I don't really know much, I just know you're not supposed to have those", cited in Robson (2013).
[54] Canada Revenue Agency (2013). "Departmental Performance Report for the Period Ending March 31, 2013", Government of Canada: Ottawa. This data is not available publicly by tax-filer income or household income.
[55] Ekos (2008).
[56] See for example Stapleton (2013), Momentum (2011) and Craig (2014).
[57] ESDC Summative Evaluation published 2015, see page 30.
[58] See Frennette, M. & Robson, J. (2011). "Financial Literacy of Low-income Students: Literature Review and Environmental Scan", research paper for the Higher Education Quality Council of Ontario : Toronto.

fully understand the CESP. But more than the ability to absorb, understand and make use of text and numerical information, households in low-income may have lower confidence in their own ability to navigate both government and banking systems. The ability to act as a self-advocate, to feel empowered in working with representatives of government or other powerful institutions is not a trait that can or should be assumed for all Canadian households.

Institutional challenges:

While the introduction of the CESG in 1998 did broaden the RESP market, the breadth of choice now adds to the complexity of the program for end users. To open an RESP, a user has to chose from among roughly 90 promoters and weigh the benefits of contracting with a retail financial institution, group plan provider or investment/insurance provider. Furthermore, most promoters offer more than one RESP product to chose from. The largest group promoter, for example, offers at least three different RESP products for consumers to chose from. Retail banks generally offer both individual and family plans[59] but subscribers within each must then chose an eligible investment vehicle (such as term deposits, mutual funds, cash savings, bonds and equities) based on their own preferences and their interaction with a sale representative. Because of more lenient tax penalties (compared to RRSPs and TFSAs) for investments in ineligible investments, RESPs may show more diversity and sometimes non-compliant practices in their investment strategies. This increases the burden on consumers who must pick an RESP promoter they believe will provide them with investments that are compliant with legislation and meet their own individual preferences as a consumer. An expectation that vulnerable or even average consumers will behave as fully informed and empowered decision-makers may be unreasonable.

The inherent complexity of the RESP is not only an issue for individual consumers. Financial institutions themselves must comply with administrative terms and conditions set by the CRA (for registration), by provincial or federal regulators (for consumer protection and market conduct) and by ESDC for participation in the CESP and related provincial benefits. Each RESP promoter is responsible for a set of 11 different administrative functions (related to record-keeping, data-collection and data-sharing) and each RESP account for a single subscriber must actually be maintained as a linked series of up to 6 different accounts.[60] The requirement for the separate accounts is necessary to be able to recover federal and provincial transfers, to track which private contributions are eligible for government matching and those that are not, and to track investment earnings that are treated as taxable income for the beneficiary at the time of withdrawal. Some of this complexity is related to the need for transparency and accountability between private and public funds (both federal and provincial) and some is due to the need to track taxable income when it is paid to the beneficiary or returned to the subscriber. There appear to be limited opportunities to simplify the administration of RESPs.

But administrative complexity also increases the costs to RESP promoters. Given the administrative complexity of these products, it is perhaps unsurprising that a federal subsidy was required to encourage new entrants and increase supply. Among retail financial institutions, seem to be offered RESPs are offered as an add-on, and likely an unprofitable product. There is, relative to the cost of operating the plans, unlikely to be enough revenue in promoting CLB accounts to make the practice sustainable without subsidization from other revenue sources. As a result, it is also unsurprising that none of the RESP promoters currently specializes in serving only lower-income CLB-eligible families.

Among RESP promoters, there is also diversity in participation in the various government contributions. Those federal and provincial programs have significant differences in eligibility. Some are universal, some depend on the date of birth of a child but using different dates, some depend on contributions into the

[59] All RESPs recognized under the *Income Tax Act* may qualify for the basic CESG but only family and individual plans can qualify for the A-CESG or CLB.
[60] Canada Education Savings Program. (2016). "Registered Education Savings Plan Provider User Guide", Government of Canada: Ottawa.

RESP account but use different match rates. At least 5 of the current promoters listed by ESDC do not participate in the CLB. Some who do participate in the CLB do not participate in provincial savings incentives for RESPs. Even within a single corporate group that houses different RESP promoters, there may not be harmonization of participation across government incentive programs.[61] While ESDC keeps a list of promoters and which incentives they participate in, it's not clear how a vulnerable or even average consumer would be expected to anticipate the need to consult this list as part of their RESP decision. The burden for seeking information cannot be placed solely on the individual consumer when the market is so clearly not optimal.

Community organizations also regularly report that CLB-eligible families often encounter institutional obstacles even at the point of purchase for an RESP. Even when the consumer is informed and equipped to open an RESP to receive the CLB, frontline retail staff at financial institutions may not be. Community organizations frequently report that low-income clients have negative and discouraging experiences with retail staff in financial institutions. Training and information for retail branch staff to boost understanding of the CLB are also of limited use given rates of turn-over and performance incentives tied to sales of higher-yield products. At least one organization has instead decided to skip the role of retail staff and instead work with central offices to smooth the RESP-opening process through partial automation before a likely CLB-eligible consumer enters the storefront financial institution.

Many plans offered by RESP promoters may not be well-suited to the needs and preferences of lower-income families. These include:

- plans that require a contract for regular contributions, with penalties for missing contributions,
- plans with limited refundability in case a beneficiary child does not pursue higher education
- plans that place additional restrictions on the kinds of education that will be recognized by the RESP provider.

Other reviews,[62] have expressed concern about transparency of fees and terms of contracts for some RESP promoters, while some community organizations have expressed concerns about the cost of fees, minimum contributions and even marketing practices employed by some RESP promoters.[63]

Finally, boosting CLB take-up will require that the CESP is adequately resourced to do so. In Annex 1, I provide an estimate of the gap between what the program has planned to spend annually and the annual cost of paying CLB benefits to all eligible children.

Summary of challenges:

Based on the review above, the main challenges in promoting access to the CLB appear to centre on it's tight connection to the RESP. Parental attitudes towards education don't appear to be a main factor but financial strain, financial exclusion and personal financial capability to navigate a multi-step and complex process are.

On the institutional side, connecting the CLB to the existing RESP was a compromise policy position. Policy-makers at the time had hoped that attaching the CLB to the existing RESP structure would improve the distribution of education assets. But the RESP was never built for the purpose of serving low-income Canadians. It is an instrument of the tax code assembled by the Government, and under duress, to handle the tax-treatment of private savings contracts between promoters and subscribers. If policy-

[61] For example, TD Bank does participate in all federal and provincial savings incentives. However, its sister companies TD Asset Management and TD securities are each registered as separate RESP promoters but only participate in the basis CESG.
[62] See Knight et al (2009).
[63] Conversation with May Wong, Smartsaver.

makers were to rebuild the RESP today, they may prefer to instead use a truly tax-prepaid model like the Tax-Free Savings Account where deposits, interest and withdrawals are all treated on an after-tax basis, dramatically simplifying the need to keep separate accounts for different sums. But so long as both federal and provincial incentives are refundable to the Crown if a beneficiary does not later participate in eligible education, then some administrative complexity in the accounting (and therefore distribution) for transfer payments made into external accounts will remain an essential feature.

3: Options for policy change

In this section, I discuss three different approaches to increasing take-up of the CLB. These are not mutual exclusive and elements might be used in combination, as is recommended in the final section of this paper.

Option A: Auto-enrolment into RESPs: Child Trust Fund model:

Several stakeholders and outside observers have recommended that enrolment in the CLB be made automatic. Behavioural research suggests that, particularly in circumstances of scarcity, individuals may act to minimize costs, whether financial, time or attention. As discussed earlier (see Section 2 of this report), there are several steps that a prospective subscriber must undertake before receiving a single dollar of CLB money in an RESP. After financial strain, process challenges have been the most common reason given by parents for not participating in the RESP and CLB in a survey conducted for the department.[64] The same survey research also suggests that many parents postpone taking action to open an RESP, even after receiving information about CESP incentives. Financial strain, which was the key obstacle cited in the survey commissioned by ESDC, was also evident in the survey data (discussed in Section 1 of this report) as the primary reason for not saving for a child's education. I believe that continued emphasis on the costs of post-secondary education and the importance of parental savings are likely dissuading many CLB-eligible families from opening an RESP and receiving the benefits to which their children are entitled.

Changing parental perceptions, providing ongoing incentives and encouragement during a multi-stage and technical process and overcoming delayed action are all big challenges to overcome for one program. Instead, many have recommended that the CESP offer an automatic enrolment to overcome perceptions, inertia and discouragement.

Automatic enrolment was the approach used in the UK's CTF that helped to inspire the creation of the CLB. Again, the CTF was a universal but income-tested benefit paid to all children born as of September 1, 2002 and until January 1, 2010. Parents and guardians of CTF-eligible children automatically received a paper voucher and program information after enrolling in the national child benefits program. The voucher could be redeemed for a CTF account, subject to other conditions of participating financial service providers (including banks, investment funds and the UK equivalent of credit unions or cooperatives). In addition to choosing a provider, parents in receipt of the voucher also had to choose a type of CTF account, a process not dissimilar to the Canadian experience with RESPs. All CTF providers were required, by legislation, to offer a simple, low-risk and low-cost CTF-eligible product called a *stakeholder* account.[65]

If, after 12 months, a voucher had not been redeemed, based on information shared by CTF providers with HM Revenue and Customs (HMRC), the government would open a stakeholder CTF account in the child's name, based on a rolling-list of CTF providers who agreed to participate in the automatic enrolment system. Legislative requirements ensured that no CTF provider who agreed to participate in

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[64] Ekos (2008). This is the most recent data available. Surveys conducted in 2009 and 2014 (and reported at section 1 of this report) do not ask participants about challenges of using RESPs.

[65] At the time in the UK, their national regulator, the then-Financial Services Authority, had also moved to require a wide range of 'stakeholder' products including deposit accounts, savings and investment accounts and more. In Canada, only deposit accounts are subject to similar requirements and the conditions are a mix of legislative and voluntary measures. The new Financial Consumer Framework, tabled in the House of Commons on October 25 updates some of these requirements and increases disclosure requirements for most financial products, but not RESPs.

the automatic enrolment system could refuse an account opened by HMRC. This is in contrast to Canada's banking legislation that does permit a bank to refuse a product to a prospective consumer for reasonable cause.[66]

Once a CTF account was opened by HRMC, notice was provided to the parent or guardian, including full control over the account (for example, to change providers or account type) after the initial government contribution had been made. CTF promoters, including those holding HRMC-opened accounts, were required to provide annual account statements to parents. Subsequent research suggests this practice was not always observed and that some CTF participants later contacted the provider of a HRMC-opened account to learn that the account had been transferred to another provider without the explicit consent of the parent.[67]

During the life of the program, a total of 6.6 million CTF accounts were ever opened. Of those, 1.7 million or 26%, were opened by HRMC. A 2011 evaluation based on survey data, suggests that lower family income was somewhat predictive of an HRMC-opened account – parents with incomes above £3,400 per month were the least likely to report government-opened account (10%).[68] However, the lowest income households (monthly incomes below £569) were less likely (21%) to have a government-opened account than lower-middle and middle income households (23-29%).[69] And yet, early research found that 99% of parents said they intended to open a CTF account with their voucher.[70] Rather than the financial strain reported by non-users of RESPs, qualitative research with parents who had not opened actively opened a CTF account found that the complexity of the choices between multiple providers and multiple types of investment product had discouraged them from completing the account-opening process.[71]

Evaluation and administrative data suggest that contributions into government-opened accounts were far lower than parent-chosen accounts. Among the 1.7 million HRMC-opened accounts, only 37,0000 (2%) had ever received a private contribution as at April 2012.[72] However, it should be noted that just 21% of all CTF accounts, including those opened by parents, ever received a contribution in the same period.[73]

There are no available data on how many HRMC-opened accounts were ever converted into a parent-opened account, for example by transferring the account to a different type or provider. However, a 2011 survey[74] found a lower percentage of HRMC-opened accounts – 19% compared to the administrative estimate of 26%.

After the initial voucher (worth either £500 or £250, depending on family income), there was no further government contribution until a child's 7th birthday when an additional amount (another £500 or £250depending again on family income) was to be deposited. This is in contrast to the CLB that offers an additional $100 deposit in each year that a child is eligible up to age 15 or $2,000 of total CLB contributions. Those additional CTF contributions at age 7 were cancelled by the UK government after July 2010, meaning that only children born from 2002 until July 2003 would have received a second contribution. Also, even the above results regarding account-opening and parental deposits should be interpreted with some caution because of transitional changes made in 2010 as the program was gradually phased out: initial contributions at birth were significantly reduced to a maximum of £100 for low

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[66] This authority is preserved in the new Financial Consumer Framework.
[67] Kempson, E., Finney, A. and Davies, S. (2011). "The Child Trust Fund: Findings from the wave 2 evaluation", Personal Finance Research Centre, University of Bristol: Bristol.
[68] Kempson, *et al.* (2011).
[69] This self-reported data cannot be verified against administrative data because HRMC did not publish CTF statistics by household income.
[70] Bennett, *et al*. (2008).
[71] Prabhakar, R. (2006). "Attitudes Towards the Child Trust Fund: What do parents think?" Working Paper 06-10, Center for Social Development, Washington University in St. Louis: St. Louis; see also Kempson, *et al.* (2011).
[72] HM Revenue and Customs (2013).
[73] This includes 30% among those in a stakeholder account comparable to the HMRC-opened accounts.
[74] Kempson, *et al.* (2011).

income households and just £50 for other households. The first CTF accounts will only mature in 2020, when the first beneficiaries reach age 18.

The legislative framework for the CTF in the UK offered the flexibility required to make automatic enrolment into private accounts possible. For example, the governing legislation for HRMC (the *Commissioners for Revenue and Customs Act)* explicitly allows HRMC to make use of any information it acquires through one function to be used for any other function of the department. Likewise, the CTF legislation gave explicit permission for HRMC to use any CTF information for any other purpose of the department and for other departments to provide information to HRMC or its contractors (this would include CTF providers participating in the automatic enrolment system) for use in the administration of the CTF. Because the launch of the CTF also required that all providers offer low-cost and low-risk accounts, the enabling program legislation was also able to state that the government would not be liable as a result of the choice of provider under the automatic enrolment. Finally, because there were no restrictions placed on the use of the funds at maturity, there is no requirement for complex systems to verify eligible education activity or to keep government funds separate from other contributions.

In Canada, federal legislation governing use of private information would not, generally speaking, permit federal officials to share private information with a third party without the consent of the person or persons to whom the information belongs. The *Privacy Act* does provide for disclosure of private information under control of a federal institution to be shared if the head of the institution believes it is in the public interest or would clearly benefit "the individual to whom the information relates".[75] However, the legislation also requires that heads of agencies notify the Privacy Commissioner about such a disclosure and the Commissioner may, in turn, notify the individual to whom the information belongs. In the case of automatic enrolment for a little more than 100,000 CLB accounts per year, this would represent a substantial administrative and compliance burden for ESDC, CRA and the Privacy Commissioner. In the case of the CLB, the personal data (name, date of birth, SIN, family income, and more) required to open an RESP is not only about the subscribing parent but also about the dependent child. While a child may benefit from access to the CLB funds, it would be difficult to demonstrate a direct and personal benefit to the subscriber parent. Furthermore, the Privacy Commissioner has also expressed a view that information regarding minor children must be treated with additional caution by federal officials. Children cannot, by definition, provide informed consent for the collection and use of their private data and so governments generally require the explicit consent of a legal parent or guardian acting on behalf of a child.

The CRA is only authorized to collection information required to administer the income tax system or benefits whose statute gives the agency authority to collect and use private information to administer the benefit. Under section 241.paragraph 4(d), subparagraph v.ii.1, the CRA has authority to collect information and share it with a federal official for the purpose of administering the Canada Education Savings Act or designated provincial programs. But neither the *Income Tax Act,* nor the *Canada Education Savings Act* would authorize the CRA to share that information with a private sector RESP promoter. Without a major legislative change (and admittedly difficult one to justify given alternatives), it is not clear how the Crown would plan to collect the information needed to verify eligibility for an automatic payment, either for the initial or subsequent CLB amounts. Even so, it is not clear that such a legislative change could absolve the Crown of the duty to obtain clear written consent before sharing the information for the purpose of opening an RESP.

RESP legislation requires that a subscriber enter into a legal contract with a trustee of an RESP plan. In many cases, those contracts include penalties for breaking the contract and fees for administering the account. The Government of Canada cannot compel private citizens to enter into private contracts without the express consent of the affected citizen. Automatic enrolment into an RESP contract may generate legal risk given Charter rights to freedom of association and to equal treatment under the law.[76]

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[75] Section 8 (2), sub-paragraph m (i) and (ii).

[76] Equal treatment provisions in the Charter include references to age, race and ethnic origin. Given that all CLB-eligible residents are of a particular age group, there may be a risk of violation on the basis of age. While rates of

Finally, the Government of Canada could not, in a system of private accounts opened without subscriber consent, ensure that no Canadians would be adversely affected by the Government's choice of RESP promoter. For example, a low-income parent who has an outstanding debt owed to a financial institution could see collection efforts increased or liens placed on other accounts (excluding the RESP). Similarly, financial service providers would be free to engage in sales of other products that may not be appropriate to the RESP subscriber's needs. The experience of the UK CTF also highlights that financial service providers will move in and out of a marketplace. An account opened with one provider may be sold off to another as part of a business acquisition. Given the long life of a CLB-receiving RESP, there is simply no way for the Government to ensure the transfer of private data to a financial service provider would result in no harm to the subscriber and their family. Other examples of un-intended but negative consequences for auto-enrolled subscribers are also possible. Once the Government has shared the private data of Canadian parents and their children with a financial service provider, it has limited ability to prevent that financial institution from making other use of that private data for their own profit. This risk should not be dismissed.

Furthermore, absent a legislative requirement to force RESP promoters participating in an auto-enrolment system to provide a low-risk and no-fee account, there is no way to ensure that an auto-enrolment system would not result in some financial exposure or even liability for fees on the part of the subscriber or beneficiary. The alternative is to require that the Government cover the administrative fees associated with the management of the account, increasing the overall cost and complexity of the program.

In summary, while the concept of ensuring that no CLB-eligible child misses out on this statutory benefit is laudable, as long as the CLB remains tied to the RESP instrument, there is no clear path forward for an auto-enrolment default that results in a new RESP contract. I have not been able to find, in Canada, any examples of a benefit program with an auto-enrolment mechanism that relies on a private sector financial service provider. For example, in BC, prior to recent administrative changes, the automatic enrolment into the BC Children's Education Fund was for a pooled government-held fund, managed by the BC Investment Management Corporation, a Crown corporation. No private data on eligible children would have been shared by the Crown with a private party.

In the US, the Treasury department now offers a system of facilitated enrolment into Individual Retirement Accounts (IRA). Through the myRA,[77] the US Treasury offers low and modest income Americans without an IRA a low-cost IRA in a secure US Treasury bond at a favourable rate. Eligible participants can open an account through a 1-800 number operated by the US Treasury or by completing a form on their federal income tax return. The accounts, though, are actually administered by a private sector financial institution, Comerica Inc., under contract to the US Treasury. Based on information provided by the US Treasury, Comerica then purchases a designated US Treasury bond on behalf of the subscriber. The US Treasury is responsible for verifying eligibility based on information shared from the Internal Revenue Service. Information necessary to open and administer the myRA accounts is shared by the US Treasury with Comerica only after receiving explicit consent from the participating taxpayer.

Similar to the myRA program, between 1991 and 2003, the Government of Canada offered matched savings accounts to famers through the Net Income Stabilization Accounts. Eventually, the savings accounts were held in individual financial institutions chosen by the participating farmer. Participation was voluntary and administered largely through annual income tax returns with an additional schedule added to the federal return for taxpayers with farm income. Completion of the form by the farmer served both as an application and as written consent.

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low-income and therefore CLB-eligibility are more prevalent among recent immigrants, there may also be a risk of violation on the basis of race or ethnicity.

[77] Additional information on myRA is available online at: https://myra.gov/about/, including program regulations, terms and conditions and agreements with participants.

While proponents of auto-enrolment for the CLB have not yet been able to address the requirements for privacy and other federal legislation, they have also argued in favour of an instrument that would, like the RESP, continue to permit personal contributions by parents and caregivers. As long as the CLB remains attached to the RESP as the vessel to collect government and private contributions, I do not see a path towards auto-enrolment that does not still require the explicit and written consent of the subscriber parent.

Recommendation 1: Do not pursue auto-enrolment for the CLB if it relies on deposits into RESPs with a private sector financial institution.

Option B: Easing access in the current system: Investments in marketing and administrative simplification :

In this section, I make several suggestions for more incremental changes that could increase take-up of the CLB and other CESP transfers. I do not expect that any of these would result in full take-up or address the accumulating liability for un-claimed CLB benefits to date. This set of options could be adapted if the CLB were to be amended to include an auto-enrolment default as outlined at Option C, below.

Use Crown authorities to create a market for simpler RESP accounts

Given the evidence that the complexity of RESP choice is actually an obstacle for some, and to address some of the reputational harm inflicted by the conduct of some RESP promoters, one measure to improve access to RESPs and, in turn, the CLB and CESP would be to create an incentive for RESP promoters to offer a more simple, low-cost and low-risk RESP product. Note that this would not require that RESP promoters cease to offer higher-cost, higher-return but complex products. Rather, this approach borrows from federal experience on access to basic deposit accounts governed by regulations under the *Bank Act,* and soon to be included as an amendment to the text of the *Act* itself.[78]

There are two possible avenues for this legislative change:

1) Amend the *Income Tax Act* (*ITA*) at s.146.1, paragraph 2 by adding a clause requiring promoters make available an RESP with no minimum monthly contribution and low fees as a condition of registration.

-Or-

2) Amend the *Canada Education Savings Act* (CESA) Regulations (SOR 2005/151) at section 8, to amend the terms and conditions for trustees to receive CESP transfers. This amendment would impose a new requirement for CESP participation agreements that providers offer an RESP product with no minimum monthly contribution and low fees as a condition for promoter eligibility to receive CESP incentives.

While the amendment to the ITA is not impossible, it will raise concerns from the tax policy and financial sector policy branch in the Department of Finance. First, it would be major departure from the legislative history and precedent of the *ITA* and likely creates a new, and perhaps challenging, precedent for the treatment of other registered instruments. Furthermore, the rules on market conduct for registered instruments are better articulated in the *Bank Act.* New amendments to the *Act* tabled October 25 by the Minister of Finance will allow for regulations to eventually be created to promote consumer interest that

[78] Current regulations are the “Access to Basic Banking Services Regulations, SOR/2003-184”. Under amendments proposed in the Budget Implementation Act no. 2, tabled October 25, 2016, these will be replaced by comparable new text in the body of the *Act*.

would apply to all registered instruments. In my view, ESDC is unlikely to receive support from Finance or other central agencies for this option.[79]

However, Minister Mihychuck already has authority to issue regulations under the *CESA*. She could, with far less difficulty, issue a new regulation to require a ‘stakeholder’ type of account as a condition of agreement in some or all of the CESP incentives, including the CLB. This may result in some RESP promoters opting to cancel their participation in CESP incentives designated under this regulation. However, the experience of SmartSaver suggests that some RESP promoters can and already are complying with such a standard. There are other signals that the RESP promoters may, themselves, already be moving towards more streamlined products to remain competitive. The process of regulatory change would allow for consultation with the promoter community as well as other stakeholders. This approach may help to formalize an emerging trend in the industry. Some early adopters of simplified RESP accounts may benefit temporarily through lower compliance costs, but, given that some absorbed those costs voluntarily, it will be difficult for other promoters to claim these compliance costs are prohibitive. Note that nothing in this approach specifies the rate of return a promoter must offer in exchange for charging no fees and imposing no minimum monthly contributions.

The Investment Funds Institute of Canada (IFIC) has made other suggestions to simplify RESPs,[80] including a request to empower RESP promoters to act as authorized third parties on behalf of clients who have administrative discrepancies in the information contained in the SIN Registry. Another of IFIC’s suggestions is to harmonize the application for CESP or provincial benefits with the application to open an RESP. ESDC has, since 2013, reduced the three applications for the various CESP incentives into a single application. However, because eligibility for the incentives requires that the RESP be first opened and registered with CRA, it seems unlikely that the opening of the RESP and the application for CESP incentives could be consolidated into a single step.

However, using the CESP information and transaction interface system, ESDC could work with promoters to automatically complete sections of the CESP and provincial application forms based on information verified when the RESP is registered.

Based on the application process instructions provided by ESDC to RESP promoters, it seems clear that the RESP account must be opened and registered before an application for CESP incentives will be processed.[81] New contracts for RESPs are received either directly by CRA or by ESDC and are treated as a request to register the plan with CRA. Information required by CRA to register a new plan includes:

- Subscriber information, including name, date of birth, SIN
- Beneficiary information, including name, date of birth, SIN and proof of Canadian residence.

Guidelines for RESP promoters allow the above information and RESP contract information to be pre-filled by promoters on the application forms for federal and provincial incentives, promoters are not permitted to pre-fill all sections CESP application form. This ensures that subscribers are making their own declaration regarding their legal custody and care of the beneficiary child, the opportunity to actively opt-out of CESP incentives, and are exercising consent regarding the collection and use of their personal information.

However, RESP promoters generally collect a declaration from subscribers about their legal custody and care over a beneficiary child. Combined with the other information collected by ESDC/CRA at the time the

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[79] Author’s personal communication with officials at Finance Canada.
[80] Investment Funds Institute of Canada. (2016). “Briefing Note: Encouraging Participation in RESPs”, Toronto. Many of IFIC’s suggestions are beyond the scope of this paper or, in some cases, run counter to the policy goal of making RESPs more accessible and progressive in their distribution.
[81] Employment and Social Development Canada. (2016). “Canada Education Savings Program: Registered Education Savings Plan Provider User Guide”, July 14: Ottawa.

plan is registered, the standard RESP application form could be used by CRA to check likely eligibility for the CESP incentives. The CESP application, using the CESP transaction system, would actually be generated by the ESDC and pre-populated present to the subscriber an offer of the incentives to which they are likely entitled, subject to final verification through the signed CESP application and declarations.

This approach could align well with efforts to increase access to simple, low-cost and low-risk RESP products. It would require changes to the CESP system and processes to treat the RESP application as a presumed consent for ESDC and CRA to make a preliminary assessment of eligibility for CESP incentives.

Invest more aggressively in communication and outreach activities, particularly to CLB-eligible families

In the management response to the Summative Evaluation of the CESP that recommended more outreach on awareness and understanding of CESP incentives, ESDC has already signalled its intent “to develop a new three-year communications and engagement strategy”.

Based on public data in departmental estimates, CESP spending on outreach appears to be rather modest in comparison to other government programs. Spending through a contributions program to eligible organizations to conduct education savings outreach, since 2011, has never exceeded $2.3 million or 0.29% of total CESP benefits paid into RESPs. Funding for this initiative has not been available since 2013-14. However, the return on investment from the outreach activities is unclear.[82]

A brief review of Government of Canada spending on major advertising campaigns suggests that other government programs have invested between $6 million and $11 million annually on outreach to inform target populations about government benefits.[83] For example, in 2013-14, the Government spent $11.3 million on a campaign to promote awareness and take-up of federal skills training initiatives. In 2014-15, the Government likewise spent $5.5 million to promote awareness and take-up of new tax credits.

A well-designed social marketing campaign may be able to more efficiently reach CLB-eligible families and, ideally, should aim to address some of the process and perception obstacles to CLB participation. This would include reputation of RESP promoters, reducing the emphasis on saving for those experiencing financial strain and emphasizing the range of (often more affordable) choices in higher education outside of university degree programs.

Look for opportunities to leverage touch-points that reach families with young children

At the same time, some high-need populations (those facing literacy and language barriers, financially marginalized groups, among others) are likely to continue to benefit from high-touch community efforts in completing the CLB process.

SmartSaver is eager to expand its model and has offered to share its online platform with other service providers. Through the Social Development Partnerships Program, ESDC is also funding a four year (2016-2020) project to build a network of financial empowerment service providers across the country. Organizations in the network will, among their activities, be working to support take-up of CESP incentives, including the CLB.

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[82] Two different organizations who participated in the outreach contribution program reported very different perspectives on their experiences and perceptions of the effectiveness of their activities. ESDC may also have some internal assessments of the outreach activities funded through the contributions program.

[83] Author’s review of annual Government of Canada reporting on advertising expenditures published by Public Works and Government Services Canada.

There are opportunities for ESDC to improve awareness, understanding and take-up of CESP incentives by working with existing social infrastructure. Parents of young children all interact with a range of service providers including:

- *Healthcare providers* such as family doctors, nurse practitioners, health clinics and public vaccination clinics. While not specific to CESP incentives, St. Michael's Hospital in Toronto has piloted a successful and scalable initiative to support front-line healthcare professionals who work with low-income patients to review their likely eligibility for public benefits that could significantly increase their wellbeing. In Manitoba, the "Get your benefits" initiative is likewise working with a range of health and social service providers to help low-income clients become aware of and access a wide range public benefits. This may be a model that could be replicated for the CESP.

- *Public school boards*, particularly at the time of kindergarten registration. Other organizations, such as the Learning Partnership, have found ways to successfully deliver parent-engagement programs in partnership with local school boards (for example "Welcome to Kindergarden" and "Bring our Kids to Work Day").

- *Childcare providers and program waitlists*. Most municipalities have implemented centralized waitlist systems for licensed childcare spaces. Those waitlists provide a mechanism for administrators to communicate directly with parents on a matter related to the early learning of a dependent child.

Some low-income parents will also more frequently interact with local government in applying for social assistance or childcare subsidies. Those social service systems have been reasonably successful in encouraging (or requiring) parents to complete tax returns and apply for federal child benefits. These are two key steps to accessing the CLB. Case workers may be well-placed to shape the financial behaviour of clients, particularly by providing assurance that an RESP for a dependent child will not result in a claw-back of means-tested assistance.

Disadvantaged families may also be more likely to interact with community service organizations that provide programs such as playgroups, community kitchens, parenting programs, emergency rent banks, food banks, and assistance with household furniture and goods. Some such organizations may also specialize in serving Indigenous communities, recent immigrants to Canada and ethno-cultural communities. These groups may be well-suited to using benefit-screening tools or referrals to other community resources that can assist with the more laborious task of completing the RESP and CESP application processes.

Collaborate with CRA as it pursues a mandate commitment to expand the Community Volunteer Income Tax Program and ease access to federal benefits

Yet another existing touch-point for the Government is the annual self-assessment of personal income tax. With funding announced in Budget 2016, the CRA is taking steps to significantly expand its Community Volunteer Income Tax Program (CVITP) and improve access to federal benefits.[84]

CRA provides software and training materials to organizations that agree to host tax-preparation clinics staffed by volunteers. There could be an opportunity to collaborate with CRA to ensure that CESP incentives are included among federal benefits that volunteers are encouraged to review with clients.

In addition to this high-touch program, ESDC may want to ask CRA to add a check-box to the T-1 personal return that would provide permission to the agency to review a taxfiler's return for eligibility for

[84] As part of an internal reorganization, the CVITP and Benefits sections have been brought under one Director General at CRA.

federal benefits, including the CLB and other CESP incentives. Behavioral research suggests that a default opt-in may be the most effective approach.[85] The Notice of Assessment, which has already been amended to be easier to read, would then provide a longer summary of individual entitlements, including the CLB or other CESP incentives with direction to further information on how to collect the benefit (for example directing tax-filers to ESDC's website on the CESP or the Government's 1-800 number). The annual Notice of Assessment for child benefits could be used for the very same purpose. To be effective in boosting access to the CLB and other CESP incentives, this approach would require that either the T-1 collect information on legal custody and care for a dependent child or that permission be given to combine T-1 data with the application for federal child benefits (CRA form RC66).

Because of the annual renewal or change in eligibility for the CLB, an outreach approach based on an existing annual interaction between the Government and tax-filers may be particularly important.

CRA is already taking steps to pilot improvements and expansions of the CVITP. ESDC may wish to take part in a pilot to test the above approach as a cross-departmental collaboration. For example, the standard CVITP training could be expanded to include a mandatory screening for the CLB. The client's copy of the return as filed could be provided with clear instructions on how to access the CLB. If RESP promoters were, with ESDC and CRA assistance, willing to adopt a harmonized first page for all RESP contracts, CVITP clients flagged as likely to be eligible for the CLB could even leave with a pre-populated first page of the RESP application and partially pre-populated CESP application.

Simplify the A-CESG and better target the CESG

The current design of the CESG matched savings incentives can be confusing for consumers and create an obstacle for clear communication using simple language. While the original intent of the universal CESG was to stimulate new entrants in the RESP market, with 90 different promoters and multiple products available, the policy case for a universal savings grant is no longer clear. The early take-up of the basic grant was disproportionately among higher income families and this trend has not been reversed.

Based on 2015 data on the distribution of CESG payments by income, families with $125,000 or more in net family income are receiving 40% of all CESP transfers. While these families are not eligible to receive the A-CESG, they are able to receive the basic CESG and have the greatest capacity to maximize their annual contributions and matched savings for each dependent child. Cancelling the CESG for these higher income families would result in an annual program savings of approximately $45 million in the CESP. This threshold is offered for illustrative purposes only and should be reviewed using internal models. Previous research does suggest that high income and high wealth families are likely to save for their children's education outside of RESPs as well as inside RESPs and ESDC's own evaluation of the CESP recommended removing the basic CESG for high income families.[86] Savings from this policy change could be used to defray some of the cost of indexing and simplifying the other incentives targeted towards low and middle-income families.

The two-tiered nature of the A-CESG cannot be explained quickly or simply. This is no doubt a barrier to understanding and take-up. ESDC's own program evaluation was not able to demonstrate an impact from the A-CESG on RESP take-up.[87] However, there was evidence for a modest impact of the accelerated grant on RESP contributions after an RESP had been opened.

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[85] In other words, to comply with federal privacy rules and rules specific to CRA, text could be added that informs a taxfiler that the agency will use information contained in the return to assess their eligibility for certain federal benefits. If they do not wish to be considered for such benefits, they would have the option of checking a box to opt-out. Filing the return would deemed to be explicit consent.
[86] Robson (2013).
[87] ESDC (2015).

To simplify, the A-CESG, eligibility could be harmonized with the CLB. The current tiered matching rates and differential ceilings on annual contributions could also be drastically simplified. For example, the A-CESG could be set at 30% on all contributions up to the same annual maximum as the basic GESG. Families with incomes above the threshold for the CLB but below some cut-off[88] would remain eligible for the 20% grant.

The value of the CLB could be increased to catch up to inflation since the program was announced. To account for inflation, the $100 annual top-up set in 2006 should now be $117 and the $500 initial payment should now be $590.[89] Annual maximums for the CLB and CESP limits might also be indexed to inflation to the nearest $50.

Recommendation 2: Invest in options to simplify the existing education savings system.

Recommendation 3: Make substantial investments in social marketing and horizontal partnerships to boost awareness.

Option C: Creating a default option outside of RESPs to preserve individual access to financial assets for education

In my assessment, stakeholders and other academic experts are not wrong in concluding that an automatic enrolment system may be the only way to overcomes the multiple individual and institutional challenges that stand in the way of a significant increase in the take-up of the CLB – and, in turn, the CLB's expected impacts on educational performance before and into post-secondary education. The vast majority of these seem to be related to the RESP: An emphasis on saving could dissuade those in financial strain from even opening an RESP even though the CLB requires no personal contribution. The sheer amount of choice in providers and products could also discourage decision-making and action as participants find the information too complex to navigate without personalized help. The legal requirements to provide tax-preferred status to a registered instrument obtained under the contract with a private sector financial institution likewise adds substantial complexity.

There is evidence that the vast majority of current families who have already obtained the CLB by opening an RESP are making contributions into the account. This is a desirable outcome and private contributions into RESPs by low and modest income families should not be prevented. However, for the remaining 67% of CLB-eligible children who are not receiving the benefit, whether their family is willing and able to save in an RESP or not, they risk missing out on up to $2,000 (plus annual investment earnings).

While the CESP has continued to look for ways to increase take-up of the CLB, it has been very successful in establishing and operating an efficient and effective information management system for ensuring compliance and enabling transactions into individual accounts held outside the government. Using data in the departmental estimates for 2016-17, I estimate that the CESP spends approximately $0.01 on operations and administration per $1 it delivers in transfers to individuals. By contrast, the Canada Student Loans Program spends approximately $0.11 on operations and administration per $1 it delivers in transfers to individuals.[90] In short, the CESP has demonstrated program integrity and efficient

[88] The effect of a $125,000 net family income limit is described above, based on published CESP data. However, additional analysis using internal data should be conducted to determine an acceptable and efficient cut-off.
[89] Rounded to the nearest dollar. Calculations based on the Bank of Canada and Statistics Canada Consumer Price Index, series V41690973.
[90] These programs provide a good basis for comparison given that they each provide financial support for post-secondary education, both operate as large transfer payment systems and both outsource some portion of the administration to one or more private sector firms.

administration. The program has already been through the most difficult and costly work to design, test and launch its information, compliance and transaction infrastructure. The infrastructure that the CESP already holds and maintains is an asset that could be much better mobilized to support a re-designed CLB program.

This re-designed CLB program would have the following key characteristics:

- CLB-eligibility (based on net family income and a child's age) will remain the same.

- Parents of eligible children can continue to apply for benefits to be deposited into an eligible RESP account.

- From a designated start date forward, newly eligible children whose parents do not apply for the benefit to be transferred into an RESP after two years (continuous or not) will have a CLB account maintained by the Government of Canada as program expenditure in the Public Accounts.

- Transitional rules would also apply to children with at least one year of CLB eligibility in a defined period before the start date for the revised program. For example, if this program were to be implemented effective January 1, 2018, the transitional rule might apply to children with any CLB eligibility during the last 4 benefit years.

- At anytime, before a CLB beneficiary's 21st birthday a parent or, from age 18 the beneficiary themselves, may apply to transfer their CLB balance into an RESP. Such transfers would be subject to existing RESP rules.

- The Government of Canada would continue to deposit funds into the Government CLB account for the eligible child in each year that the child was deemed eligible for subsequent CLB payments, based on the Canada Child Benefit. Application for the Canada Child Benefit would be deemed to be consent for the Government to evaluate eligibility for the CLB.

- Funds in an individual account would grow with both additional annual CLB payments and interest payments to be paid at a rate to be determined by the Government.[91]

- Balances in individual CLB accounts would be communicated annually to families through the annual Notice of Assessment for child benefits. This Notice should clearly and prominently describe the cumulative value of the individual CLB (including interest) owned by each dependent child.

- Funds would be paid out in one of two ways: 1) A parent or adult beneficiary (age 18 to less than 21 years) can apply to transfer their CLB balance and accumulated interest into an RESP; or 2) Money would be paid out through an integrated application process with the Canada Student Loans and Canada Study Grants program. CLB money would be paid first, before other federal student aid (repayable or non-repayable) and would not reduce eligibility for other federal student aid. Payment of the CLB would also not be conditional on receipt of other federal student aid. The purpose of using the CSLP system is only to make use of an existing infrastructure for verifying participation in an eligible post-secondary program and mechanism to issue a direct transfer to an individual student.

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[91] For reference, the current federal monthly interest rate for loans made from the CRF with a term of 18 years is 1.6% amortized or 2% term. The monthly interest rate for revolving funds is 1.07%. The Government could adopt one of these or set a new and preferably higher interest rate.

- To facilitate the opportunity for an impact from the early-commitment of the CLB on primary and secondary education outcomes, clear and annual communication regarding the balance of the individual fund to parents and eligible children would be an essential feature. From a designated age, perhaps age 15 or 16 when new Government contributions into the fund would cease, this regular communication should instead provide information on how to withdraw the money and information on other federal sources of student aid.

- In circumstance where a CLB fund is not withdrawn into an RESP or paid directly as part of federal student aid, money will revert to the Consolidated Revenue Fund.

- Because of the long investment horizon for the new CLB funds, the Government has an opportunity to pool individual funds into a revolving pool of capital for investment. The earnings on the investment would help to cover some of the costs for the program. This last option for the redesigned CLB is in part inspired by the role of the Canada Pension Plan Investment Board. The CPPIB may, with provincial agreement and legislative change, be able to accept an annual transfer from the Government to invest for the purpose of defraying some portion of the cost of the new CLB program.

Compared to the status quo, this would:

- Better manage and mobilize tax-payer dollars to meet what could otherwise be significant future un-funded obligations to cover un-paid CLB benefits. This includes, but is not limited to investment interest earned after the CLB-account is activated but before it matures and is collected.

- Create an opportunity to realize, if the endowment is clearly and regularly communicated to families and beneficiary children, the positive attitudinal, early educational and even financial benefits of individual assets for education.

- Remove obstacles imposed by the administrative and market complexity of RESPs in access to the CLB.

Federal precedent for individual accounts in a program

The above-mentioned model has at least two policy precedents: the Government Annuities Program and the Net Income Stabilization Accounts. Both programs found ways to keep individual accounts for eligible beneficiaries, sometimes over very long periods of time.

The Government Annuities Branch of ESDC pays out approximately $26 million in annual benefits to a remaining 34,000 individuals with accounts in the Annuities program. Annuity contracts were sold by the Government of Canada from the pre-War period until 1975. The Branch has to rely on a manual system to process payments that are paid out of the CRF. In contrast to other income security programs, the Branch proactively contacts annuitants a few months before their contract is set to mature. In the 2014-15 fiscal year, the program's total administrative costs (including charges from other branches of ESDC) was $1.9 million or 7% of the total value of transfer payments made. This is above the current administrative cost of the CESP but below that of the CSLP.

The Net Income Stabilization Account program at Agriculture Canada offered a matched savings grant to eligible farmers. The program created and maintained an information management system to track eligibility and annual Government contributions plus interest.[92] This information system was designed to manage the program when the accounts were actually held inside government and continued to be used as the program instead shifted to transfers into eligible savings accounts held by participants in financial institutions. While the accounts were held in a segmented account under the Consolidated Revenue Fund, the program branch in Agriculture provided a summary report of the total balance (in later years, the Public Accounts simply reflected total program costs). The enabling legislation for the NISA program provided direction and authority to create this segmented account.[93] According to program staff, following the initial set-up of the information and accounting system, the administrative costs of the program were very low and the program team even won awards for program integrity and management.[94]

Making auto-enrolment work

This redesigned CLB system would better respect the Government's commitment to improve CLB take-up and improve access to higher education. It would also respond the large and growing risk to the Crown for from unpaid CLB benefits. This should be welcomed by stakeholders who have long called for the automatic enrolment model.

There would, however, be several amendments to federal legislation required:

- The text of the *Canada Education Savings Act* (Section 6) would have to be substantially re-written to instruct the Minister to:
    - Assess eligibility for the CLB based on information shared from the Minister of Revenue.
    - Communicate annually with parents or guardians of CLB-eligible and CLB-receiving children.
    - Establish a mechanism for payment to eligible RESPs (this would be essentially consistent with s.6 paragraph 1 of the current *Act*).
    - Establish a mechanism for payment through the Canada Student Loans and Canada Study Grants program.

- The text of the same *Act* would also have to be amended (at s.6 paragraph 9) to authorize the creation of a segmented account for the CLB any non-budgetary revenue credited to the CRF and annual payments for beneficiaries charged to the CRF. This account would reported in the Public Accounts as the Canada Learning Bond Account.

- The text of the *Income Tax Act* (s. 122.62 paragraph 1) may need to be amended to enable the Government to treat an application for the Canada Child Benefit to be deemed consent to be reviewed for eligibility for the CLB.

- The text of agreement on information sharing between ESDC and the CRA for the purpose of administering the CLB may also need to be amended, depending on the form and contents of that agreement.

Preserving the option of private savings while better reaching the target CLB population

[92] In the case of the NISA program, the Government had announced that NISA funds would be tax exempt. When this proved problematic, the interest payment or "bonus" was paid as an effort to compensate farmers for the federal income tax liability on NISA income. A government-administered CLB system should treat transfers into RESPs as a tax-exempt transfer but payments through the CSLP/CSG system would treat the transfer as taxable income. This would be consistent with current tax treatment of RESP and CESP amounts.
[93] See S.15 of the *Farm Income Protection Act* (S.C. 1991, c. 22).
[94] Personal communication with former senior executive at Agriculture Canada.

This approach would still permit CLB-eligible families to participate in RESPs and benefit from other CESP incentives. If an RESP is opened, the subscriber could request a withdrawal of all CLB benefits and accumulated interest. Furthermore, this new system would also address cases where an RESP has been opened for a CLB-eligible child but no CLB can be paid into the RESP because the promoter does not have an agreement to participate in the CLB or because the subscriber is not the primary caregiver who collects the Canada Child Benefit.

At the same time, the above-described approach is designed to best respond to children who are always or regularly in low-income and therefore eligible for the CLB. Based on ESDC's data, nearly 20% of children who have ever been eligible for the CLB were only eligible in one year and not again. My own analysis (at Table 1-A, in Annex 1 of this paper), suggests that a substantial number of children became temporarily eligible for the CLB during the recession and have since exited the eligible population. I strongly suggest that the automated CLB program would be most efficient and equitable if aimed at children who frequently or regularly live in low income. Based on ESDC's own analysis, it appears that 20% of ever-eligible CLB children in low-income and qualify for the CLB in only 1 year. Priority should be given to children who do not fall into this sub-group. I suggest that, to better reach the population of kids whose parents have consistently or regularly a low income, a two-year threshold to be eligible for the automatic default would be appropriate.

Opportunities for further expansion and investment revenue

An initial payment to catch-up unpaid CLB benefits for children who did not receive these benefits in the last three years would cost approximately $248 million as a one time sum. The ongoing annual cost to cover CLB payments for the 67% of eligible children who are not yet able to receive them through an RESP, less another 20% who are only ever eligible in one year, would be approximately $153 million per year, on top of current benefits being paid out (approximately $105 million per year).

In principle, there may be an opportunity, with a dedicated CLB Account inside the Consolidated Revenue Fund, to create a mechanism to transfer an annual sum to the Canada Pension Plan Investment Board (CPPIB) for investment with investment returns credited to the CLB Account and, when the first cohort of CLB-eligible children complete secondary school (beginning as early as 2020), this funding could be used to reduce the amount, paid out of the larger CRF, to cover CLB benefits. As the new auto-enrolment system matures, annual sums could be deposited with the CPPIB for investment and sufficient funds returned back into the CLB Account, to cover the projected annual liability for transfers to individuals.

A legislative amendment would be required to the governing legislation for the CPPIB, as well as the agreement of provinces.[95]

Outreach and communications efforts would remain key

This automated enrolment default would still rely on proactive and annual communication to families. This communication should be designed to provide transparency about the value of the individual fund and, at the same time, encourage parents and children to view even a government-opened CLB account as their own asset.

The communications should also emphasize the ability of families to chose to transfer their CLB funds out of the government account and into an RESP, before maturity. The communications efforts can also continue to encourage families to participate in RESPs to benefit from the CESG and A-CESG.

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[95] The CPPIB has already designed a system to accept and invest the new additional CPP amounts and provide returns and a separate accounting into the CPP Account in the CRF.

Options for incremental change, as described under “Option B” above, could also be combined with this proposal for an automatic default option.

Recommendation 4: Phase-in an auto-enrolment default that preserves flexibility to participate in RESPs and respects federal obligations.

Conclusion

The CLB is a program that has not, in my view, lived up to its potential to change the educational aspirations, interim and longer-term outcomes for disadvantaged children. While part of the original hope was that the Bond might make an existing system more attractive and accessible to low-income families, evidence over the last decade suggests that the underlying RESP system is simply not, in many respects, fit for purpose if the goal is to ensure substantially better, and even full, access to the CLB and, as Budget 2004 phrased it, the "guaranteed education savings" the CLB provides.

There is little rationale for the CESP to continue to direct a large share of its annual transfer payments towards higher income families who can and likely will find ways to finance the costs of their children's higher education. This finding was already confirmed by ESDC's own evaluation of the CESP. Instead, resources in the CESP can and should be put to better use to help the Minister meet her mandate commitment.

There is much that the Government could do, in a more incremental fashion, to improve awareness and lower barriers to access for the CESP incentives, including the CLB. These would be welcome. However, without some default option to ensure CLB funds reach the intended eligible population, even the best implementation of these incremental changes may not increase the take-up of the CLB substantially enough to be consistent with the Government's commitment in this mandate. The current approach also risks generating a substantial unfunded liability if other stakeholders were to take steps to significantly increase awareness and claims for unpaid CLB benefits.

Given the current political will, there is an opportunity to be innovative and to set a more ambitious path forward than has previously been possible. In collaboration with other federal departments and agencies, with provincial governments, and with stakeholders in the community and private sector, ESDC can meet this opportunity.

Annex 1: Estimating the take-up gap and a 'natural' rate of take-up for the CLB

In its annual statistical reports, CESP reports on the percentage of children who have ever received any CLB funding among all children who have ever been eligible for the CLB (starting January 1, 2004). The CLB is a statutory entitlement but actual amounts paid depend on both:

1. Verification of receipt of the income-tested National Child Benefit Supplement (to be replaced, subject to Parliamentary approval of Bill C-29, by an income-tested threshold in the new Canada Child Benefit that approximates the same threshold), [96] and, also
2. Verification of a recognized RESP with a participating promoter.

Entitlement to the benefit only expires at a child's 21st birthday.

ESDC currently estimates that approximately 2.5 million Canadian children have ever been eligible, at some time, for the CLB but that only 950,000 have ever received any CLB transfers into an RESP.[97] This implies that there are approximately 1.5 million who could be eligible for at least $500 in transfer to a total of $750 million in future fiscal costs.

In the table below, I use data from annual CESP statistical reports[98] to estimate annual dynamics in program entry and program exit.

[96] Using the NCBS as the filter, a child is eligible for the CLB in a benefit year (measured as July 1 to June 30) if they received the NCBS for one month in the previous year.
[97] ESDC (2016) CESP Annual Statistical Report.
[98] CESP statistical reports are not available on a continuous basis and in some cases reported estimates of eligibility and beneficiaries for a given year are revised in later reports. In such cases, I use the most recent figure provided in reports.

Table A-1: Annual data on CLB eligibility and exit, reported and derived (headcount)

	FROM CESP REPORTS		*DERIVED*	*FROM CESP REPORTS*	*DERIVED*
	Total eligible this year (A)	Eligible 1st time for $500 (B)	Eligible for $100 (A-B)	Cumulative eligible (C)	Not eligible anymore (C-A)
2004	170,866	n.a.		n.a.	
2005	341,732	170,866	170,866	n.a.	
2006	485,644	143,912	341,732	n.a.	
2007	626,197	140,553	485,644	650,000	23,803
2008	764,676	138,479	626,197	857,613	92,937
2009	942,683	178,007	764,676	1,090,000	147,317
2010	1,112,952	170,269	942,683	1,344,000	231,048
2011	1,268,169	155,217	1,112,952	1,580,000	311,831
2012	1,394,788	126,619	1,268,169	1,820,000	425,212
2013	1,512,565	117,777	1,394,788	2,060,000	547,435
2014	1,473,933	103,373	1,370,560	2,270,000	796,067
2015	1,577,933	104,000	1,473,933	2,508,359	930,426
2016	1,686,933	109,000	1,577,933	2,510,000	823,067
Average	1,027,621	126,548	960,844	1,668,997	432,914
Average 2010-2016	1,432,468	126,608	1,305,860	2,013,194	580,727

Note: Highlighted cells are projections based on trends in prior years.

In the last 3 years, the number of children no longer eligible in that year for the CLB has been equal to 50% or more of the number of children eligible. It's like that the recent rise in the number of kids exiting program eligibility is related to the temporary spike in program entry in 2009, 2010 and, to a lesser extent, 2011.

Because program eligibility, via federal child benefits, will be assessed on the basis of net adjusted family income in the previous year (or, in some cases, year prior to last), the temporary effects of the 2008-09 recession on family incomes appear to have resulted in a temporary spike in eligibility for 2009, 2010 and, to a lesser extent 2011. While I do not have access to microdata to track individual children, it seems that many of these children have not been eligible for the CLB since 2011.

Based on CESP annual statistical reports, the program has been successful in delivering CLB benefits to an average of 107,000 children per year, since 2010. This is a little less than the number of children who become newly eligible for the program each year (127,000 on average since 2010, but much closer to the more recent numbers of newly eligible children). Even if the CESP were able to maintain an annual take-up rate near or equal to the number of newly-eligible children, there would still be a substantial backlog of students with a potential claim for retroactive benefits until at least 2025 (for the first cohort of eligible children).

ESDC has requested an estimate of the 'natural' rate of take-up in the program. The estimate of this take-up reflects a choice regarding appropriate comparisons or counterfactuals of what take-up might otherwise be. Below, I consider a range of possible counterfactuals that suggest a 'natural' take-up rate of perhaps 40% at the low-end and up to 75%. However, I suggest that 100% take-up may be the most prudent, given the nature of the long-term statutory obligation.

One approach, is to look at annual program data to ask whether the CLB has found some kind of 'steady-state'. While year-over-year changes in take-up were large during the first few years, the rate of annual change has slowed dramatically in recent years. Since 2010, the program has seen an annual increase in beneficiaries of about 10% over the previous year.[99] This rate is substantially smaller than the 20% rate of growth observed over the life of the program suggesting that the program may be approaching some kind of natural take-up rate within the next 10 years, all else being equal. But this approach relies on an assumption that the 'natural' take-up rate is restricted to the sub-population of CLB eligible children with parents willing to open an RESP account with a CLB-participating promoter.

Instead, a model could presume that the program works by reducing any income-related obstacles to opening an RESP. In this approach, the 'natural' take-up of the CLB would be reached once rates of RESP ownership had been equivalized between CLB and non-CLB eligible children. Based on current coverage rates, this would imply that CLB take-up would need to rise to roughly 55% of the eligible target group to match the take-up rate for RESPs in the general population of families. To reach this threshold in the short term, based on current data, cumulative beneficiaries would need to increase by 433,000.

Yet another approach to estimating a 'natural' take-up rate for the CLB would be to instead suggest that it would be reached when all CLB-eligible children whose parent/guardian is saving for their higher education is doing so using an RESP. Here the assumption is that the program may not able to alter willingness to save, but that it can alter preferences for saving inside or outside of an RESP. In this case, take-up for the CLB would need to rise to 48% to match the share of low-income families who report saving for a child's education, whether inside or outside of an RESP. A one year change to reach this threshold would be largely similar to the example above.

As mentioned earlier in the paper, the CLB was informed by the creation of the Child Tax Fund in the United Kingdom, a universal but income-tested payment of up to £500. That program gave parents a 12 month deadline to redeem a voucher at a CTF provider. During the lifetime of the program,[100] 74% of all accounts were actively opened by a parent or caregiver.[101] Even among low and modest income parents (below £1,600 in net household monthly income), between 67 and 75% reported having actively opened the CTF account. A review by the Institute for Public Policy Research estimated that this rate of take-up (leaving a 25% gap) was comparable to research on take-up of other savings programs such as employer Individual Retirement Accounts in the United States.[102]

However, a more fiscally prudent approach to estimating potential CLB 'take-up' has to acknowledge that there is a chance that a child who has been eligible for the CLB could make a future claim to recover unpaid benefits. These remain, by law, payable until the child reaches 21 years of age. In this case, we err on the side of caution and estimate that, regardless of parental preferences and behaviour, all children who have ever been eligible for the CLB could take steps to claim their statutory entitlement by opening an RESP account and naming themselves as beneficiary before their 21st birthday. Some of the CESP program design appears to encourage late or delayed claims. For example, RESP withdrawals (including CLB and other CESP amounts) have been made far more flexible, allowing beneficiaries to delay post-secondary studies by several years. Further, while perhaps not well-understood, the program also allows

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[99] Author's calculation based on data in Table 1.

[100] The Child Trust Fund was phased out in 2011. Only children born on or after September 1, 2002 but before January 1, 2011 were eligible for the CTF. Government grants were reduced by 50% starting in May, 2010 and top-up payment for children aged 7 were cancelled effective July 2010.

[101] HM Revenue and Customs. (2013). "Child Trust Funds Statistics Detailed Distributional Analysis", London.

[102] Bennett, J., Lawton, K., Quezada, E. & Perun, P. (2008). "The UK Child Trust Fund: A successful launch", Institute for Public Policy Research : London, UK.

a reasonably inclusive definition of eligible educational programs and providers and is not limited to university degree programs alone.

In the next table, I use the headcount data from Table 1 (above) and ESDC's published data on CLB benefits paid[103] to estimate the potential amount that CLB-eligible Canadians could, legally claim in the future.

Table A-2: Author's estimates of annual fiscal cost and accrued un-paid CLB benefits that could be claimed until at least 2025.

(unadjusted $)

	Total annual cost of $500 payments owed at 100% take-up	Total annual cost of $100 payments owed at 100% take-up	Total annual cost for $500 and $100 payments owed at 100% take-up (D)	Actual benefits paid in that year (E)	Annual deficit, unpaid benefits that could be claimed in the future (D-E)
2004	n.a.	n.a.	n.a.	n.a.	n.a.
2005	85,433,000	17,086,600	102,519,600	400,000	102,119,600
2006	71,956,000	34,173,200	106,129,200	16,600,000	89,529,200
2007	70,276,500	48,564,400	118,840,900	33,400,000	85,440,900
2008	69,239,500	62,619,700	131,859,200	47,200,000	84,659,200
2009	89,003,500	76,467,600	165,471,100	56,100,000	109,371,100
2010	85,134,500	94,268,300	179,402,800	64,900,000	114,502,800
2011	77,608,500	111,295,200	188,903,700	80,200,000	108,703,700
2012	63,309,500	126,816,900	190,126,400	99,300,000	90,826,400
2013	58,888,500	139,478,800	198,367,300	100,700,000	97,667,300
2014	51,686,500	137,056,000	188,742,500	106,400,000	82,342,500
2015	52,000,000	147,393,300	199,393,300	116,500,000	82,893,300
2016	54,500,000	157,793,300	212,293,300	n.a.	n.a.
Average	69,086,333	96,084,442	165,170,775	65,609,091	95,277,818
Total to date	829,036,000	1,153,013,300	1,982,049,300	721,700,000	1,048,056,000

Consistent with the temporary spike in eligibility during the recession (and immediately after, due to the administrative delay in assessing eligibility for federal child benefits), the annual potential cost for first CLB payments (worth $500 per child) increased dramatically in 2009-2011 and has fallen since to $56 million per year (average for 2012-2016). The potential cost for second and subsequent CLB payments of $100 per year has been far more stable over the program lifetime, reflecting ongoing patterns of exit and occasional re-entry. After accounting for payments made, approximately $95 million per year in CLB benefits are not paid but could be claimed in the future by eligible Canadians. Since this program launched, the cumulative dollar amount of unpaid benefits that could be claimed in the future has reached a little over $1 billion. This is an estimate without adjustments for inflation or payment of interest.

[103] Annual spending is taken from departmental performance reports for transfer payments only, excluding administrative costs. CESP statistical reports also provide some data.

It is also important to note here that the program has never, in its history of operating, been allocated adequate funding to meet a 100% take-up on CLB benefits. In the table below, I summarize the public data on what the CESP has planned to spend, what it has actually spent and also planned and actual spending as a ratio of the true cost of the CLB benefits at full take-up.

Table A-3: Comparison of annual CLB program allocations and spending as a share (%) of total annual Crown liability, Departmental estimates

	FROM DEPARTMENTAL ESTIMATES[104] *(DPRs/RPPs)*		*DERIVED (using Table 2, above)*	
	Total planned spending (Fiscal Year ending) $M	Actual spending (Fiscal Year ending) $M	Planned spending as a % of total benefits payable at full take-up	Actual spending as % of total benefits payable at full take-up
2004	n.a.	n.a.	n.a.	n.a.
2005	n.a.	n.a.	n.a.	n.a.
2006	85.0	2.2	80.1%	2.1%
2007	45.0	21.8	37.9%	18.3%
2008	25.0	35.8	19.0%	27.2%
2009	34.0	47.8	20.5%	28.9%
2010	43.0	56.7	24.0%	31.6%
2011	64.0	66.8	33.9%	35.4%
2012	n.a.	88.5	n.a.	n.a.
2013	n.a.	93.7	n.a.	n.a.
2014	128.0	105.9	67.8%	56.1%
2015	127.0	104.1	63.7%	52.2%
2016	130.0	n.a.	61.2%	n.a.
Average	75.7	55.1	45.3%	31.5%

Based on the data in the table above, I conclude that the program only planned for large take-up in its first year of operations and has, in the last three years planned for a smaller rate of take-up. For a brief period (2008 to 2011), actual program spending exceeded allocations. Given that this period overlapped with a sudden spike in, what appears to have been short-lived, eligibility among families who would not normally be eligible for the CLB, this should not be entirely surprising. Over the duration of the program's life to date, it has, on average, received planned to meet only 45% of the annual cost of paying full CLB benefits to all eligible children. In the last 3 years, this has climbed somewhat but has been declining from a peak of 68% to just 61% for the current fiscal year.

In short, even if the CESP were instructed to meet a 100% annual take-up on the CLB, it is not currently, and has never been adequately resourced to do so.

[104] Note: The program benefit year and the fiscal year run on calendars 3 months apart. Fiscal data is for the year ending March 31 of the calendar year.