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November 2009

# Formative Evaluation of the Additional Canada Education Savings Grant and Canada Learning Bond

*Final Report*  
**November 2009**



# ***Formative Evaluation of the Additional Canada Education Savings Grant and Canada Learning Bond***

**Final Report**

***Evaluation Directorate  
Strategic Policy and Research Branch  
Human Resources and Skills Development Canada***

***November 2009***

**SP-951-05-10E  
(également disponible en français)**

Note: the departmental catalogue number is placed on the front cover, bottom left hand side.

You can order this publication by contacting:

Publications Services  
Human Resources and Skills Development Canada  
140 Promenade du Portage  
Phase IV, 12<sup>th</sup> Floor  
Gatineau, Quebec  
K1A 0J9

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**Paper**

ISBN: 978-1-100-15891-4

Cat. No.: HS28-176/2010E

**PDF**

ISBN: 978-1-100-15892-1

Cat. No.: HS28-176/2010E

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## *Executive Summary*

The Canada Education Savings Grant (CESG) was established in 1998 to encourage Canadians to save for the post-secondary education of children through Registered Education Savings Plans (RESPs). The CESG provides a grant of 20 percent on the first \$2,500 of contributions made each year to an RESP for children up to age 17. In 2005, as a result of the 2003 formative evaluation findings, the CESG was enhanced (called the Additional CESG or A-CESG) and the Canada Learning Bond (CLB) was introduced to provide additional grants to assist lower income families. This formative evaluation was undertaken to examine the preliminary impacts of these two new measures. A summative evaluation is scheduled to be completed within two years of completing the formative evaluation.

Evaluation findings suggest that, although there has been a gradual increase in the accumulation of RESP assets (from \$4 billion in 1998 to \$23.5 billion in 2007) and in the share of eligible children in receipt of the CESG (from 9.7 percent in 1998 to 36.3 percent in 2007), there has not been a significant change in the share of lower income RESP subscribers since the inception of the A-CESG and CLB. The data shows that 28.7 percent of RESP participants in 2006 had annual family income of less than \$40,000, only 3.6 percentage points higher than in 2001. Since wide-scale financial promoter participation in delivering the A-CESG and CLB did not occur until July 2006, it is quite likely that the full effect of the two new measures has not completely occurred. More recent preliminary data shows that this may be the case, as CLB take-up rates have increased sharply in 2008.

Lower-than-expected take-up rates, specifically in the case of the A-CESG, can also be explained by the fact that a subscriber must apply for the A-CESG in order to receive it. Findings reveal that 47.1 percent of all recipients of the basic CESG were eligible to receive the A-CESG but did not receive it because they didn't apply for it.

As well, although the government has been making efforts to financially support Canadians in post-secondary education, the awareness of any government financial assistance program is low. Survey findings suggest that 39.6 percent are unaware of any government financial assistance program for post-secondary education, with well more than half (of both subscribers and non-subscribers) being completely unaware of either the A-CESG or CLB. This is not surprising, given that it was not until the middle of 2006 when the A-CESG and CLB were made publicly available due to implementation delays.

Finally, early take-up rates may not have matched expectations because many lower income families have difficulty saving money. However, previous studies have indicated that there are other more important factors than financial constraints that affect post-secondary education enrolment rates.



# *Management Response*

## **Introduction**

The Canada Education Savings Program (CESP) management team would like to acknowledge the work of the Evaluation Directorate on the *Formative Evaluation of the Additional Canada Education Savings Grant and the Canada Learning Bond* and to thank everyone involved in completing this process.

This formative evaluation was undertaken to examine preliminary impacts of the Canada Learning Bond (CLB) and the Additional Canada Education Savings Grant (A-CESG) both introduced in 2005. The period of review is from January 2005 until the end of December 2007.

This Management Response outlines plans to allow the Program to continue to achieve its goal of improving access and affordability of post-secondary education (PSE) for Canadians through early and sustained savings in Registered Education Savings Plans (RESPs). The Program aims to reinforce the importance of planning early for PSE, help low income families build savings for PSE, and reduce reliance on student loans and debt relief.

## **Background**

The Government of Canada has demonstrated strong interest in making the RESP investment vehicle more flexible and financially attractive, most notably through the evolution of the design of its savings incentives over the recent years. Enhancements to the Canada Education Savings Grant (CESG) were announced in Budget 2004. These enhancements, which included two new incentives (the A-CESG and CLB), were designed to provide further encouragement for low income families to save for PSE through the use of RESPs.

Annual A-CESG payments over the 2005-2008 period have increased from \$7.3 million in 2005 to \$26 million in 2008, with an average annual growth rate of 54.6 percent. In addition, the CLB has experienced success in promoting savings among low income RESP clients. Results from an analysis of CESP administrative data show that in 2008, over 94 percent of families who received the CLB also contributed to RESPs themselves. This suggests that the CLB instrument contributes to changing savings behaviour for PSE among lower income earners.

The CLB participation rate has slowly but steadily grown since its inception, from 4.6 percent in September 2006, to 10.5 percent in September 2007, 14.6 percent in June 2008 and to 16.3 percent as of December 2008. Although these results are encouraging, the CLB take-up rate of 16.3 percent falls short of the projected take-up rates (22 percent) when the CLB was established in 2005. In addition, as noted in the Formative Evaluation, according to 2006 income tax data, 47 percent of existing subscribers have not applied for the A-CESG even though they would be eligible for it.

The Formative Evaluation concluded that the A-CESG and the CLB were successful in encouraging parents to save for the PSE of children, resulting in increased savings in RESPs. The incentives have also had a positive effect on attitudes and expectations towards PSE. Evaluation surveys showed that most Canadians attach a high importance to their children's acquisition of a PSE and that they became even more positive about PSE after participating in RESPs and the CESP. Parental expectations about their children's obtaining a PSE increased with participation in the CESP.

Overall, Canadians are satisfied with the service they have received from both RESP providers and HRSDC. However, the evaluation also highlighted challenges facing the Program in effectively reaching and assisting lower-income families, and increasing their use of the A-CESG and the CLB. The CESP monitors the Program's participation rates closely. The relatively low participation of lower-income families in using RESPs to save for PSE has been previously acknowledged by Management. This has prompted Management to make increased take up of the A-CESG and the CLB a program priority.

## **Findings and Management Response**

Many of the evaluation's findings are aligned with ongoing efforts being undertaken by the CESP area. Management has demonstrated strong interest in building stronger evidence about the reasons for low CLB and A-CESG take-up.

### **Recommendation 1 – Delay Summative Evaluation**

It is important to note that the evaluation report's scope only covers approximately one and a half years of full program implementation. Management agrees that a Summative Evaluation would be premature at this time and therefore should be delayed. The next evaluation will be better positioned to inform the Program on issues relating to the long-term impact of the incentives. With sustained promotional and outreach activities, Management expects that the success of Government of Canada savings incentives will become more pronounced and that program take-up will exhibit sustained growth.

### **Recommendation 2 – Better understanding of savings behaviour**

As part of this Formative Evaluation, internal and external research was conducted to better understand the savings behaviour of low income families and the incidence on the take up for the A-CESG and CLB. A range of areas were examined to help identify potential barriers, including the client's level of confidence in the government and the financial industry in general, the effectiveness of communication strategies used to disseminate information about the CLB and RESPs, administrative requirements surrounding the client enrolment process, and general perceptions of RESPs. Management recognizes that low take-up is a multi-faceted problem, with solutions needed from both client and service provider perspectives.

Management is in the process of developing a research strategy focused on key areas of interest including: asset-based policy, savings behaviour and financial capability.

- To better understand asset-based policy interventions such as the CESP, the Program will be tracking and leveraging results of similar interventions in other program areas, including international models, along with the findings of relevant research projects such as *Learn\$ave*.
- The program will also be conducting and tracking research to better understand the current savings behaviour of its client base and the influences on that behaviour. This will include mining key findings from surveys including the *Access and Support to Education and Training Survey* (ASET) and the *Canadian Survey on Financial Capability*.
- As financial capability plays a key part in influencing the optimal participation and use of the Program, the CESP will continue to undertake and leverage research on the matter.

This research agenda is consistent with HRSDC research activities, and will allow the Program to more fully continue to track current and emerging research, trends or tendencies which could inform policy and program design, development and delivery.

The CESP has a particular interest in financial capability as it offers a program which requires its clients to be comfortable with assessing, managing, monitoring, and planning their financial needs. Management has been supporting several initiatives related to financial capability. This includes the Human Resources and Skills Development (HRSD) Departmental Task Team on Financial Capability, the Government of Canada Interdepartmental Steering Committee on Financial Literacy, the Organisation for Economic Co-operation and Development (OECD)'s International Network on Financial Education (INFE) and the Canadian Survey of Financial Capability.

The Program continues to collaborate with partners within and beyond HRSDC to better understand how its clients' financial capability affects program delivery. Similarly, the Program is working to leverage research efforts surrounding asset-based policy and program interventions. This will help inform a refined assessment of whether and how to adjust income eligibility parameters and program benefits.

### **Recommendation 3 – Increase awareness**

Evaluation findings note that awareness levels of the A-CESG and CLB are fairly low. Informational barriers, as mentioned in focus group sessions held for this evaluation, often surround the complexity of RESP vehicles overall, in addition to complexities surrounding the incentives and related administrative requirements.

The CESP has a unique delivery model whereby its incentives are delivered through a public-private partnership between the Government of Canada and almost 80 financial institutions across Canada. These institutions open RESPs and apply for the CESG on behalf of the client, often the parent. They are responsible for administering the CESP's incentives,

including the A-CESG and the CLB, while they are held in a child's RESP, and for providing education assistance payments to qualifying students when they are ready for PSE.

RESP providers provide these services through agreements with HRSDC, and do not receive compensation from the Government of Canada for doing so. RESP providers have expressed concerns with the complexity of RESPs and with the CESP's financial incentives. They have expressed difficulty in explaining the process to their clients, and have taken a moderated approach in promoting the CESP and its related incentives.

This public-private partnership delivery model ensures that Canadians can access CESP incentives across the country in their communities, with a single application at the time they open an RESP. It is also the foundation for the electronic service delivery model that allows HRSDC to accept applications electronically and to deposit CESP incentives directly into a child's RESP. Ninety percent of subscribers in the focus groups encountered no barriers in obtaining the A-CESG and CLB, however the model can present some challenges as the CESP is not directly engaged in delivering its incentives to its clients.

Management is supporting the development of pilot projects aiming to increase awareness of the CLB. These include the testing of a tailored voucher for CLB-eligible families, for clients to take to participating promoters. A second pilot will test the use of electronic outreach to CLB-eligible families (e.g. text messages, voice mail). These pilots will be designed and tested in collaboration with a series of internal and external partners, and will be measured and assessed for impact. This will ensure that current and future outreach and awareness initiatives are not only being developed in collaboration with key partners but also measured to ensure the most efficient use of resources.

In addition, the CESP is working with other non-government/non-profit organizations under the Education Savings Community Outreach (ESCO) Grants and Contributions Program. Launched in 2005, this initiative aims to expand the reach of the CESP and maximize its effectiveness at promoting and encouraging savings for PSE. In particular, it seeks to encourage the development and delivery of outreach activities related to the Government of Canada's education savings incentives, including the CESP and the CLB, within various targeted communities. The ESCO Program targets groups, such as low- to modest-income families, families with new-born and young children, aboriginal communities, and newcomers to Canada that could benefit from the Program's savings incentives. ESCO's goal is to increase the level of awareness of and participation in RESPs, as well as the CESP and the CLB.

Management remains committed to further strengthening relationships with the financial industry through strengthened engagement, training, and seeking opportunities to test innovative delivery and marketing approaches and using new communications technologies.

#### **Recommendation 4 – Improved access to data**

Management recognizes the necessity of better understanding potential factors influencing program outcomes through analysis of Program data. Management is committed to working with the Evaluation Directorate to ensure that they can obtain the information required to undertake analysis of the CESP.

The need to access income-related data is essential to understanding clients. It will enable the Program to develop a profile of clients, to better address policy questions and provide ongoing performance measurement of its successes and challenges. Management is currently consulting with the Canada Revenue Agency to obtain aggregate income distribution data for reporting purposes, along with socio-economic data from Statistics Canada to better understand its clients. It also continues to work to build more sophisticated regional profiles of program trends and population characteristics, and is developing a long-term solution to access income data.

## **Conclusion**

Overall, the conclusions of this Formative Evaluation are generally positive and the recommendations validate Management's efforts to improve its ability to improve access to, and affordability of, PSE for Canadians through early and sustained savings in RESPs.

In alignment with its own on-going research and analysis regarding low CLB and A-CESG participation among low-income families, Management concludes that no one solution to increase CLB and A-CESG take-up exists. Indeed, Management has found that these issues need to be addressed using a holistic approach, focused on both the needs of the clients and RESP providers.

Management would also like to emphasise that the Formative Evaluation will not provide final answers on all of the questions raised. This evaluation has focused primarily on the formative aspects of the A-CESG and the CLB. Future evaluations when the Program has matured will be better positioned to address questions related to the impacts and effects of the incentive.





# 1. Introduction

## 1.1 Overview

Through the Canada Education Savings Program (CESP), the Government of Canada offers two incentives to encourage parents, family and friends to save for a child's post-secondary education (PSE). The first incentive, the Canada Education Savings Grant (CESG), was established in 1998<sup>1</sup> to encourage Canadians to save for the PSE of children through Registered Education Savings Plans (RESPs). At that time, the CESG provided a grant of 20 percent on the first \$2,000 of contributions made each year to an RESP for children up to age 17.<sup>2</sup> The first formative evaluation<sup>3</sup> of the CESG, completed in April 2003, indicated that the CESG encouraged adults to save for the PSE of children, as savings in RESPs increased considerably since the introduction of the grant. However, the evaluation also noted that awareness of and participation in the program was significantly lower among lower-income families, and increased with income levels.

As a response to the finding of low participation on the part of low-income families, in October 2004, enhancements made to the CESG and the creation of the second CESP incentive, the Canada Learning Bond (CLB), were announced. As of January 1, 2005, the CESG rate on the first \$500 contributed each year to an RESP increased for eligible beneficiaries, depending on net family income: (i) RESP subscribers from low-income families receive an additional 20 percent grant on the first \$500 contributed, and (ii) middle-income families receive an additional 10 percent grant. These additions on top of the initial 20 percent are henceforth referred to as the "additional" CESG or A-CESG.<sup>4</sup> At the same time (retroactive to January 1, 2004), the CLB was created to benefit eligible lower-income families by paying \$500 into an RESP when the RESP is opened, and subsequently depositing \$100 each year thereafter until the beneficiary turns 15 years of age.<sup>5</sup>

A second formative evaluation of the revised CESP, with a focus on the A-CESG and CLB, was initially scheduled for the 2006-07 fiscal year<sup>6</sup> but, due to delays in implementing the CLB and A-CESG, was rescheduled for the 2007-08 fiscal year. A summative evaluation is scheduled to be completed within two years of completing the formative evaluation.

This formative evaluation is far more qualitative in nature than the summative evaluation will be since the former focuses primarily on formative aspects of the A-CESG and the CLB. While questions are asked on early impacts and effects, the formative evaluation

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<sup>1</sup> The CESG was established under Part III.1 of the Department of Human Resources Development *Act*. It was formally announced on February 24, 1998.

<sup>2</sup> As of 2008, the CESG provides a grant on the first \$2,500 of annual contributions.

<sup>3</sup> The formative evaluation can be found at <http://www.hrsdc.gc.ca/en/cs/sp/hrsdcd/edd/reports/2003-002509/page00.shtml>.

<sup>4</sup> Unlike the basic CESG, in order to receive the A-CESG, an RESP subscriber needs to apply for it.

<sup>5</sup> Eligible families do not need to contribute to an RESP in order to receive the CLB, but they need to be qualified for receiving the National Child Benefit Supplement.

<sup>6</sup> The HRSDC fiscal year runs from April 1 to March 31.

will not provide final answers on every question. For example, this formative evaluation provides early results about the percentage of participants and non-participants attending PSE, but does not attempt to attribute causation to the program. A framework for the summative evaluation will be set out at a later date, which will more fully answer questions relating to program impacts and effects using quantitative analysis.

## 1.2 Evaluation Goals

The overall objective of this evaluation is to provide information on program relevance, objectives and achievements, and on design and delivery, particularly of the CLB and A-CESG. It is important to note that some questions have been left to the summative evaluation, namely those related to program impacts.

A Steering Committee was created to oversee and guide the evaluation.<sup>7</sup> The Steering Committee decided to focus the analysis of this formative evaluation on six questions related to evaluation issues and nine questions related to program delivery. The questions fall into four broad categories:

- Rationale;
- Objectives and Achievements;
- Early Impacts and Effects; and
- Program Delivery Issues.

The key evaluation questions and the methods of research adopted to provide evidence are listed in Exhibit 1.1. This summary report discusses the outcome of each evaluation question.

Exhibit 1.1 Matrix of Evaluation Issues and Lines of Evidence						
	Literature/ File Review	Data Analysis	Subscriber Survey	Awareness Survey	Key Informant Interviews	Focus Groups
<b>Rationale</b>						
1. Is there a continued need for the CESG, since the previous formative evaluation?	X				X	
2. Does the addition of the CLB and the A-CESG on the first \$500 of contributions (i.e. 30 and 40 percent grants) make sense as a way to deal with low participation in the CESP by lower income groups?					X	
a. Are the income ranges for receiving the 30 and 40 percent grants reasonable?				X	X	
b. Is the size of the grant and the learning bond sufficient and meaningful to subscribers?				X	X	X

<sup>7</sup> Key stakeholders on the Steering Committee included representatives from Treasury Board, CESP and Evaluation Services.

<b>Exhibit 1.1</b> <i>(continued)</i> <b>Matrix of Evaluation Issues and Lines of Evidence</b>						
	Literature/ File Review	Data Analysis	Subscriber Survey	Awareness Survey	Key Informant Interviews	Focus Groups
<b>Objectives and Achievements</b>						
3. Is the CESP reaching intended audiences?		X	X	X		
a. What is the demographic profile of the participants in the CESP and CLB?			X			
b. Has participation of middle- and lower- income families increased since the introduction of the A-CESG and CLB?		X				
<b>Early Impacts and Effects</b>						
4. What is the source of RESP savings? (i.e. is the savings incremental or does it come from other savings such as RRSPs?)			X	X		X
5. Has the introduction of the A-CESG and CLB resulted in increased savings in RESPs?			X			X
a. What percentage of CLB accounts has contributions?		X				
b. Has the introduction of the A-CESG and CLB had an impact on the age at which an account is opened?		X	X			
c. What are the savings patterns of A-CESG and CLB accounts (size and frequency of contribution)?		X	X			
6. Does participating in the CESP have an impact on the formation of attitudes about post-secondary education?			X	X		X
a. Do the CESP and CLB affect parental expectations regarding their children attending post-secondary education?			X	X		X
b. Do the CESP and CLB affect the perceived affordability of PSE?	X		X	X		X
<b>Program Delivery Issues</b>						
7. To what extent are Canadians aware of the CESP, including the CLB and the additions to the CESP?				X		X
a. To what extent are RESP subscribers aware of the A-CESG?			X	X		X
8. How satisfied are subscribers with RESP promoter/trustee service?			X		X	X
9. How satisfied are subscribers with the overall quality of service of the CESP?			X		X	X
10. How satisfied are RESP promoters with the overall quality of service of the CESP?					X	
11. What percentage of promoters delivers the CLB and A-CESG and what is the extent of their coverage of the market?					X <sup>1</sup>	
12. Why do some promoters not participate in the CLB and A-CESG?					X	
13. Why did non-subscribers not subscribe?				X		X
a. What are the barriers that cause some potential subscribers not to subscribe?				X		X
14. What barriers did subscribers find difficult in the process of obtaining the CLB and A-CESG and what were their strategies to overcome them?			X			X
15. Does the CESP have an appropriate performance measurement and reporting strategy? What elements of this strategy could be improved?					X	
Notes: <sup>1</sup> Source of information is an internal document supplied by the CESP program area.						

## 1.3 Lines of Evidence

Whenever possible, this evaluation used multiple lines of evidence to help answer these evaluation issues and questions. Some of the analysis was performed by consultants, while some analysis was conducted in-house by the Evaluation directorate. The analysis performed by consultants (in brackets) was comprised of:

- A survey of RESP subscribers (Compas Inc.);
- A survey of program awareness (Compas Inc.);
- Key informant interviews (Ekos Research Associates); and
- Focus groups of RESP subscribers and non-subscribers in Halifax, Montreal, Toronto, Calgary and Vancouver (Decima Research).

The work conducted in-house by Strategic Evaluation consisted of:

- An analysis of CESP data; and
- A literature/file review.

### 1.3.1 Survey of RESP Subscribers

Compas Inc. completed a national survey of RESP subscribers, drawn from CESP data (n=873), in mid-December 2007.<sup>8</sup> The survey examined a number of themes:

- General awareness of relevant government programs and specific awareness of the A-CESG and CLB.
- Satisfaction with financial institutions and government.
  - Causal models of drivers of satisfaction.
- Respondent behaviour:
  - Policy attitude – perceived contributions to affordability;
  - Patterns of savings;
  - The impact of RESP participation on attitudes to PSE and expectations of children; and
  - Parental savings patterns if government contributions ceased.
- Barriers to RESP participation along with proposed solution.

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<sup>8</sup> By region, there were 50 responses from the Atlantic region, 135 from Quebec, 358 from Ontario, 213 from the Prairies, and 117 from British Columbia.

### **1.3.2 Survey of Program Awareness**

Compas Inc. also conducted a national survey of awareness of the CESP (specifically the A-CESG and CLB) with 1,506 parents of children under the age of 18 that was also completed in mid-December 2007.<sup>9</sup> The survey explored the following main themes:

- Importance of PSE;
- Awareness of government programs to help families defray the costs of PSE;
- Policy attitudes (public perception of government grant incentives, e.g. qualifying income thresholds for beneficiaries);
- Respondent behaviour including participation and savings patterns, cultural impacts, and impediments to subscribing, etc.; and
- Respondent recommendations for spurring greater participation in RESPs.

### **1.3.3 Key Informant Interviews**

In order to gather additional information on the A-CESG and CLB, particularly information related to rationale and program delivery issues, 32 interviews were conducted with three different types of stakeholders of the CESP – promoters, trustees and sales agents at financial institutions (17); government representatives (9); and academics/researchers (6). Key informants were identified from lists provided by HRSDC. The key informant interviews explored the following themes:

- Overall awareness levels of the CESP, A-CESG and CLB;
- The extent to which the size of the CESP and CLB are meaningful to subscribers;
- RESP savings behaviour and sources of savings;
- The impact of the A-CESG and CLB on RESP savings behaviour and amounts;
- The impact of the grants on attitudes towards PSE, the perceived affordability of PSE, and parental expectations of their children's attendance in PSE;
- Reasons for not subscribing, barriers to subscription, and strategies to overcome the barriers; and
- Subscriber satisfaction with promoter/trustee service and CESP service.

The key informant interview questions were designed in an open-ended fashion based on the evaluation issues to permit interviewees to provide detailed responses. The interview guide for each group was tailored to the perspective and knowledge level of each of the three respondent groups. Given the qualitative nature of the interview data, the results are presented in a format that uses qualifiers rather than percentages.<sup>10</sup> The length of each

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<sup>9</sup> By region, there were 109 responses from the Atlantic region, 354 from Quebec, 585 from Ontario, 257 from the Prairies, and 201 from British Columbia.

<sup>10</sup> For the sake of consistency, qualifiers such as “small number”, “minority”, “few” or “some” refer to two to four respondents. Qualifiers such as “several” or “many” refer to more than four but less than half of respondents. “Most” refers to more than half of respondents.

interview was between 45 and 60 minutes. Interview respondents, where possible, were provided with the choice of an in-person versus a telephone interview.

### 1.3.4 Focus Groups

HRSDC commissioned Decima Research to complement the other lines of evidence for this evaluation. Decima Research conducted ten focus groups in five cities across Canada with two audiences:

- The first audience was comprised of subscribers. These participants were drawn from a HRSDC list of RESP subscribers in receipt of the CESG and/or the CLB.
- The second audience was comprised of non-subscribers. These were parents of children under the age of 18, with an annual household income under \$74,000. Further, it was ensured that there was a mix of participants from households with incomes below \$37,000 and those with household incomes between \$37,000 and \$74,000. These participants were selected via brief telephone interviews.

The focus groups explored most of the same issues touched upon in the key informant interviews. For all groups, respondents were chosen in such a way as to ensure the groups were representative of the Canadian population in terms of gender, education and socio-economic status. Senior Decima consultants designed all of the tools (recruitment screener and moderation guide) required in close consultation with HRSDC. The focus groups were conducted at professional focus group facilities that provided for client viewing, and video and audio-taping. Two focus groups were held each night. Groups lasted two hours and participants were provided with an incentive of \$65 to attend.

An attempt was made to recruit 12 participants for 8-10 participants to attend the groups. However, this was not always feasible due to the limited sample size for potential participants for some of the focus groups. Exhibit 1.2 provides the number of participants in each group.

<b>Exhibit 1.2</b>					
<b>Summary of Focus Group Attendance</b>					
<b>Focus Group</b>	<b>Halifax</b>	<b>Montreal</b>	<b>Toronto</b>	<b>Calgary</b>	<b>Vancouver</b>
Subscribers	6	5	9	7	9
Non-Subscribers	8	7	8	7	7

Since the nature of the research is qualitative, the actual number of participants is not as important as it is with other lines of evidence, such as a survey or an analysis of administrative data.<sup>11</sup> It is common practice within public opinion research to conduct focus groups with five participants in them. Thus, one needs to keep in mind the smaller sample sizes usually associated with focus groups when analyzing the results.

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<sup>11</sup> Because of its qualitative nature, interviews are designed to elicit the range of ideas, attitudes, experiences and opinions of a selected sample of participants on a defined topic, instead of arriving at a definite conclusion.

### 1.3.5 Data Analysis

The data analysis, which made use of CESP and CLB data from both the Production and Reporting Databases, as well as Canada Revenue Agency (CRA) T1 income tax data, focused on the following three issues:

- Determining the percentage of RESP subscribers at each of three income levels;
- Calculating the average RESP contribution made by subscribers in receipt of the CLB, as well as RESP subscribers in general; and
- Estimating the impact of the A-CESG and CLB on the average beneficiary age at which an account is opened.

The Production Database contains all contract, beneficiary/subscriber information, financial information, Social Insurance Registry data and CRA data. It is the main database into which all data received from promoters is processed. The Reporting Database is the portion of the Production Database that the CESP program area uses to report on performance (e.g. the Quarterly Statistical Report). The Reporting Database also contains a few other datasets for statistical analysis purposes.

CRA T1 income tax data was also used because the Production and Reporting Databases do not contain comprehensive income level data (due to the *Privacy Act*). However, the Production and Reporting Databases do provide information about income ranges/brackets with which different grant rates (20, 30 or 40 percent) are applied to RESP contributions.

The CRA data analysis consisted of a random sample of 100,000 unique subscribers who were in receipt of the basic CESP sometime during the 1998 to 2006 period. The sample was then sent to CRA to be linked to T1 income tax data.<sup>12</sup> The purpose of examining the CRA data was to determine the income composition of these subscribers.

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<sup>12</sup> At the time of writing this report, full income tax data for the 2007 tax year is not yet available.

### **1.3.6 Literature/File Review**

The literature/file review for this evaluation, including an investigation of various legislation surrounding the CESP, covered the following areas:

- A synopsis of the costs of PSE and the various factors that can influence PSE participation;
- An examination of the concept of asset-based policies and various Canadian studies that have investigated the impact of these policies on PSE savings;
- A summary of the details regarding Canada's asset-based policies for PSE, namely the CESG and CLB;
- An overview of PSE savings behaviour in Canada, including results from the 2002 Survey of Approaches to Educational Planning;
- A look at U.S. studies covering the topic of asset-based policies; and
- A review of industry practices with respect to RESPs in light of evolving government policy objectives and experiences of subscribers.



## ***2. Description of the A-CESG and CLB***

### **2.1 Background**

Before discussing details of the CESP and its incentives (CESG, A-CESG and CLB), as well as the general rules of RESPs, some basic information on CESP stakeholders/partners and the targeted population is presented.

**Stakeholders and Partners** – The administration of the CESP is the product of a cooperative effort between the CESP, the CRA, over 80 RESP promoters and the Social Insurance Registry. These parties are responsible for conducting one or more activities during the grant payment cycle.

**Targeted Population/Reach** – The targeted population for the CESG is parents with children under 18 years of age. The targeted population for the CLB is parents with children born after 2003, where total family income is less than about \$35,000 (2004 rate quoted, and it is indexed yearly).

#### **2.1.1 RESPs**

An RESP, introduced in 1972, is a contract between an individual (the subscriber) and a person or organization (the promoter).<sup>13</sup> The subscriber (or a person acting for the subscriber) can open an RESP account at any of the financial institutions offering such service, name one or more beneficiaries, and then make contributions to the RESP, which can earn income.<sup>14</sup> The promoter, in turn, agrees to invest both the subscriber's contributions and government grants and make payments (Education Assistance Payments) to the named beneficiary when he or she begins their PSE.

If not paid out to the beneficiary, the contributions are usually paid by the promoter to the subscriber at the end of the contract. Subscribers do not usually have to include the contributions in their income when they get them back.

Generally, there are no restrictions on who the subscriber can be under an RESP:

- An individual and their spouse or common-law partner can be joint subscribers under an RESP.
- A public primary caregiver of a beneficiary under an RESP may also be an original subscriber. He/she is one who receives a special allowance under the *Children's Special Allowances Act*, and may be:

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<sup>13</sup> The promoter can be any person or organization offering an RESP to the public, such as a bank, a trust company, a mutual fund company, an investment dealer, an independent financial advisor, or group scholarship trusts. As required by the *Income Tax Act*, the property of an RESP must be held by a corporation licensed to be a trustee in Canada.

<sup>14</sup> The maximum lifetime contribution limit into an RESP is \$50,000.

- The department, agency or institution that cares for the beneficiary; or
- The public trustee or public curator of the province in which the beneficiary resides.

If an individual is not the original subscriber, there are additional situations in which one can become a subscriber.

Like a Registered Retirement Savings Plan, all money invested in an RESP grows tax-free while in the RESP.<sup>15</sup> The money that the investment earns while in the RESP isn't taxed until money is taken out to pay for the designated child's education (the money originally put into the RESP is not taxed, only the gains). Money is paid out of the RESP as an Education Assistance Payment and is taxed in the hands of the designated child when they go onto PSE. Since many students have little or no other income, they can usually withdraw the money tax-free.<sup>16</sup>

### **2.1.2 CESG, A-CESG and the CLB**

The CESG was announced on February 24, 1998 to encourage Canadians to save early for the PSE of children. This program provides a grant of 20 percent on the first \$2,500 (\$2,000 prior to 2007) of annual contributions to RESPs by subscribers for children up to the age of 17.

As a response to the previous formative evaluation finding that indicated low participation in RESPs on the part of lower-income families, in March 2004 enhancements to the CESG (called the additional CESG or A-CESG<sup>17</sup>) and the creation of the CLB were announced. Due to political events during the year, the legislation for these two incentives was not formally approved by Parliament until July 2005, with the A-CESG being retroactive to January 1, 2005 and the CLB being retroactive to January 1, 2004.

The A-CESG amount depends on the household income of the beneficiary's parental caregiver:

- If net family income<sup>18</sup> is below \$37,885 in 2008, the A-CESG is 20 cents for every dollar on the first \$500 of annual contributions in the RESP (i.e. maximum of \$100); and
- If net family income is between \$37,885 and \$74,769 in 2008, the A-CESG is 10 cents for every dollar on the first \$500 of annual contributions in the RESP each year (i.e. maximum of \$50).<sup>19</sup>

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<sup>15</sup> However, for an RESP subscriber, unlike a Registered Retirement Savings Plan, they do not get a tax deduction for the money they put into an RESP.

<sup>16</sup> If the child decides not to go onto PSE, the original CESG/CLB grants are returned to the government and the subscriber pays the tax on all income earned inside the RESP. However, a subscriber may be able to reduce their taxes by transferring the earned income into a Registered Retirement Savings Plan.

<sup>17</sup> A subscriber must apply for the A-CESG in order to receive it.

<sup>18</sup> Net family income is based on the combined income of the child's parents for Canada Child Tax Benefit purposes.

<sup>19</sup> The family net income amounts are updated each year based on the rate of inflation.

No matter what net family income is, the basic CESG grant is 20 percent on the first \$2,500 of annual contributions to RESPs. If a subscriber does not contribute enough to qualify for the full \$500 basic CESG (\$400 prior to 2007) in any given year, the unused portion of the CESG can be carried forward and received in future years.<sup>20</sup> However, subscribers cannot carry forward any unused A-CESG.

The CLB was introduced to help lower-income families to start saving early in RESPs for their children's future PSE. To be eligible for the CLB, the subscriber must be receiving the National Child Benefit Supplement and the child must be born on or after January 1, 2004. To receive the CLB, an individual must open an RESP, but no contributions need to be made. The amount of the CLB is equal to the sum of the following amounts, and can add up to a lifetime maximum of \$2,000 per child:

- \$500 for the year in which a child is born or their family becomes eligible for the National Child Benefit Supplement, provided that the beneficiary is less than 15 years of age (note that all beneficiaries who are eligible for the CLB are those who are currently less than 5 years old)<sup>21</sup>; and
- \$100 in each subsequent year, until the beneficiary reaches 15 years of age.

Entitlements for the CLB accumulate and are held until the child turns 21 years of age, so even if parents do not open an RESP for a child right away, they receive their full entitlement in a lump sum when they do.

## 2.2 Objective

The CESG was introduced in the 1998 Federal Budget as part of the Canadian Opportunities Strategy, which was proposed to “expand access to the knowledge and skills Canadians need for better job opportunities and a higher standard of living in the 21<sup>st</sup> century”. The Strategy proposed action on seven fronts to:

- Promote access to PSE by helping students in financial need cope with rising costs;
- Increase assistance for advanced research and for graduate students;
- Help individuals repaying student loans – especially those in financial hardship;
- Help Canadians upgrade their skills throughout their working lives;
- Help families save for their children's education;
- Encourage employers to hire young Canadians and help young people make the transition to work; and
- Help bring the benefits of information technology into more classrooms and communities across Canada.

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<sup>20</sup> Under changes introduced in 2007, the maximum amount of basic CESG is \$1,000 in any year, providing that there is accumulated contribution room from previous years (i.e. less than \$500 per year in CESG was granted in earlier years).

<sup>21</sup> The first CLB payment includes an additional \$25 to help cover any costs of opening the RESP account.

This strategy aimed to “make RESPs among the most attractive savings vehicles available for a child’s education” and to address the challenge of encouraging “families to save early for their children’s education”. As stated in the *Education Savings Act*, the objective of the CESG is to encourage the financing of children’s PSE through savings from early childhood in RESPs.

Following the 2003 formative evaluation of the CESG that showed low RESP participation among lower-income families, the A-CESG was announced in March 2004. The basic objective of the A-CESG is to strengthen financial assistance for low- and middle-income families who want to save for their children’s PSE.

Finally, the CLB was implemented with a similar objective to that of the A-CESG – to help modest-income families to start saving early for their child’s (children’s) PSE.<sup>22</sup>

## 2.3 Eligibility

### CESG and A-CESG

To be eligible for the CESG, the beneficiary must be a Canadian resident at the time the RESP contribution is made and possess a valid Social Insurance Number. Contributions must be made prior to the end of the calendar year in which the beneficiary turns 17 years of age. Contributions may be made by anyone if the RESP is an Individual Beneficiary Plan (IBP), but can only be made by parents, grandparents and siblings if the RESP is a Family Beneficiary Plan (FBP). There is also a third type of RESP, called a Group RESP, which is offered mainly by scholarship trust companies or foundations.<sup>23</sup>

Eligibility for the A-CESG is based on the primary caregiver’s net family income and is payable only to a non-family plan or a family plan in which all beneficiaries are siblings.

An individual may open an IBP for one child, or a FBP for children related to the subscriber by blood or adoption. Each of these plans has unique features:

- Anyone can open an IBP, but only parents, grandparents and siblings may open a FBP;
- Sharing of assets is not applicable for an IBP, but funds not used by one beneficiary in a FBP can be directed to another beneficiary within the plan; and
- All grants are available under an IBP, while all grants are available under a FBP only if all beneficiaries are siblings (plans with non-siblings are eligible for the basic CESG only).

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<sup>22</sup> The CLB receives its authorities from Section 6 of the *Canada Education Savings Act*.

<sup>23</sup> Since 2004, among the newly-opened RESPs, 30 percent were Group plans. This type of RESP is offered mainly by scholarship trust companies or foundations. Typically, contributions are returned to the subscriber tax-free to fund the beneficiary’s first year in PSE, and then accumulated earnings and the grant are paid out as “scholarships” to the beneficiary in his/her second, third and fourth years of PSE. These “scholarships” are Education Assistance Payments. Group plans are also known as pooled trusts because contributions are pooled with others and invested for the benefit of those eligible for the scholarships. The amount paid is dependent on the number of units or shares the subscriber purchased, the rate of return, and the number of students under the plan that pursue PSE.

To be eligible to receive the CESG when the beneficiary reaches the age of 16 and 17, certain minimum contributions had to have already been made before the end of the calendar year in which the beneficiary turned 15 – either a minimum of \$100 in annual RESP contributions made and not withdrawn in any four years, or a total of \$2,000 in RESP contributions made and not withdrawn.

If an RESP beneficiary does not attend a post-secondary institution, there are a number of different options available to the subscriber to get their contribution back. Firstly, if the RESP allows for it, the subscriber may wish to leave the money in the plan for a few years in case the beneficiary changes his or her mind. Secondly, the subscriber can name a sibling under the age of 21 as a new beneficiary without loss of the grant or, if the RESP is a family plan, another child in the plan could use the grant to a maximum of \$7,200.

Once all of the RESP beneficiaries turn 21 years of age and are still not attending a post-secondary institution, and the plan has been in existence for at least ten years, the subscriber may be able to withdraw the income earned in the RESP as an Accumulated Income Payment.<sup>24</sup> When the beneficiary is not enrolled in PSE, withdrawal of contributions from an RESP containing a grant causes a repayment of the grant to the Government of Canada on the portion withdrawn.

## **CLB**

In order to be considered eligible for the CLB, a beneficiary must be:

- Born on or after January 1, 2004;
- A Canadian resident; and
- A dependent of either an individual primary caregiver who is entitled to the National Child Benefit Supplement, or a public primary caregiver who receives payments under the *Children's Special Allowance Act*.<sup>25</sup>

The primary caregiver doesn't have to be a subscriber, but if the beneficiary has many RESPs it is the beneficiary's primary caregiver who decides which RESP will receive the CLB.

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<sup>24</sup> Prior to 2008, the age limit was 21 years.

<sup>25</sup> Eligible families may receive the National Child Benefit Supplement as part of their Canada Child Tax Benefit payment from the CRA. Families can apply for the Canada Child Tax Benefit when they file their income tax return, with eligibility based on a number of criteria, including the number of children and family net income. Under the *Children's Special Allowance Act*, the CRA pays a special allowance to agencies who maintain children who are under 18 years of age and reside in Canada.

## 2.4 Program Activity

### Registered Education Savings Plans (RESPs)

RESP saving has grown significantly since the introduction of the CESG in 1998. Between 2000 and 2007, RESP assets have increased at an average annual growth rate of 19 percent. As of December 2007, the total level of RESP assets was approximately \$23.5 billion (see Exhibit 2.1).<sup>26</sup>

From 2001 to 2007, all industry segments experienced growth in their market value with respect to RESPs. *Investment Banking and Securities Dealers* and *Group Scholarship Trust Plans* hold the largest proportion of RESP assets, worth \$9.4 billion and \$6.8 billion respectively.

### Canada Education Savings Grants (CESGs)

Up to the end of 2007, the total amount of CESGs paid into RESPs is \$3.8 billion. Since 2003, these payments have increased at an average annual growth rate of 9.4 percent. As well, the number of children under 18 years of age in 2007 who had received a CESG at least once was about 2.5 million (average annual growth rate of 6 percent). An additional 650,000 children over 18 have received the CESG on their prior savings and are now able to use it for their PSE. These figures are illustrated in Exhibit 2.1.

Exhibit 2.1 also provides some insight into CESG take-up rates for the 1998 to 2007 period. In 1998, 9.7 percent of all children eligible for the CESG received a grant. By 2007, the share of eligible children receiving the CESG had increased to 36.3 percent. Since 2002, the annual increase in the CESG take-up rate has been about two percentage points.

<b>Exhibit 2.1</b> <b>RESP and CESG Activity from 1997 to 2007</b>					
<b>Year</b>	<b>Cumulative RESP Assets (\$millions)</b>	<b>Annual CESG Payments (\$millions)*</b>	<b>Number of CESG Recipients**</b>	<b>Number of Children Eligible for CESG***</b>	<b>CESG Take-Up Rate (%)</b>
1997	2,359	N/A	N/A	N/A	N/A
1998	3,994	151	698,000	7,189,688	9.7
1999	5,586	291	1,118,000	7,157,153	15.6
2000	7,193	318	1,413,000	7,137,692	19.8
2001	8,234	348	1,647,000	7,121,079	23.1
2002	10,005	370	1,840,000	7,095,985	25.9
2003	12,609	389	1,967,000	7,053,939	27.9
2004	15,236	426	2,095,000	7,023,932	29.8
2005	18,048	468	2,226,000	7,005,983	31.8
2006	21,327	509	2,379,000	6,996,462	34.1
2007	23,534	557	2,504,000	6,966,317	36.3
* Annual CESG payments from 2005 to 2007 include the basic CESG and the A-CESG. ** The number of children under 18 years of age in given year who had received a CESG at least once. *** Based on Statistics Canada data for the number of children under 18 years of age.					

<sup>26</sup> The \$23.5 billion is comprised of RESP contributions, the CESG/A-CESG, the CLB, and all investment income earned on these contributions and grants.

Planned spending estimates for the CESG for the 2006-07 fiscal year amounted to \$575 million, \$70 million higher than actual spending of \$505 million (see Exhibit 2.5).<sup>27</sup> This difference was due mainly to lower-than-expected payments of the A-CESG. As for the 2007-08 fiscal year, planned spending estimates were revised downward to \$540 million.<sup>28</sup> Actual expenditures for the 2007-08 fiscal year were \$580 million.

## Canada Learning Bond (CLB)

Exhibit 2.2 illustrates the quarterly amount of CLB payments that have been made since the third quarter of 2005. Overall, cumulative CLB payments have increased from \$16,050 in the third quarter of 2005, the first CLB paid out, to \$50.4 million in the fourth quarter of 2007. During this 10-quarter time period, the number of CLB beneficiaries increased from 26 children to 75,700 children.

<b>Exhibit 2.2</b>		
<b>Quarterly CLB Activity from September 2005 to December 2007</b>		
<b>Quarter</b>	<b>Quarterly CLB Payments (\$)</b>	<b>Number Children Ever Received CLB</b>
2005 Q3	16,050	26
2005 Q4	434,050	756
2006 Q1	1,784,950	3,771
2006 Q2	2,041,650	7,278
2006 Q3	6,035,775	16,049
2006 Q4	6,821,925	26,933
2007 Q1	6,889,000	38,268
2007 Q2	7,006,825	49,903
2007 Q3	11,135,400	62,903
2007 Q4	8,248,875	75,700
Source: CESP Quarterly Statistical Review, December 31, 2007.		

The amount of CLB payments made in the third quarter of each year is much higher than the amount of the second quarter and, in 2007, the CLB payments made in the third quarter are substantially higher than those in the fourth quarter. This is due to the fact that the CLB payments made in the third quarter of each year consist of two types of CLB payments: (1) \$500 + \$25 to new CLB beneficiaries, and (2) the annual CLB payment of \$100 to existing CLB beneficiaries, whereas CLB payments in other quarters are made only to new CLB beneficiaries.<sup>29</sup> Thus, it is not surprising that there were large jumps in CLB payments in the third quarter of each year. It is expected that this type of jump will continue each year and become greater and greater as the number of CLB beneficiaries increases over time.

<sup>27</sup> For further information, see “2006-2007 Estimates: A Departmental Performance Report”, HRSDC. Note that the \$575 million estimate does not include administrative costs, which were projected at \$9.4 million. As well, \$6 million was originally allocated for a national advertising campaign to promote the new program, but no campaign took place.

<sup>28</sup> For further information, see “2007-2008 Estimates: A Report on Plans and Priorities”, HRSDC.

<sup>29</sup> The \$25 payment helps subscribers cover the costs of opening an RESP.

As for the actual take-up rate of the CLB (i.e. the number of CLB beneficiaries divided by the number of eligible children), as of December 31, 2007, the take-up rate is 11.8 percent. Exhibit 2.3 provides this information by province. Note that take-up rates vary from 5.8 percent in Prince Edward Island to 15.0 percent in British Columbia.

<b>Exhibit 2.3</b> <b>CLB Take-Up Rates by Province</b> <b>(as of December 31, 2007)</b>				
<b>Province*</b>	<b>CLB Payments (\$)</b>	<b>Number of CLB Beneficiaries</b>	<b>Number of CLB Eligible Children</b>	<b>CLB Take-up Rate (%)</b>
N.L.	530,475	782	9,771	8.0
P.E.I.	113,500	164	2,811	5.8
Nova Scotia	787,750	1,178	17,808	6.6
New Brunswick	1,135,200	1,685	14,500	11.6
Quebec	13,837,675	20,823	147,702	14.1
Ontario	17,511,550	25,919	231,095	11.2
Manitoba	1,548,500	2,295	33,964	6.8
Saskatchewan	1,392,100	2,095	29,242	7.2
Alberta	5,953,450	9,264	75,641	12.2
B.C.	7,527,750	11,381	75,927	15.0
Canada	50,337,950	75,586	638,461	11.8
Source: CESP Quarterly Statistical Review, December 31, 2007.				
* There were too few observations to be reported for the Territories.				

The overall CLB take-up rate for Canada (11.8 percent) is far lower than the 22 percent target that was expected when the program was launched in 2005. However, the Reporting Database indicates that, as of June 30, 2008 (within six months), the take-up rate has increased to 14.6 percent.<sup>30</sup> Two major factors that have contributed to this lower-than-expected take-up rate are that: (i) it was not until July 2006 that a significant number of financial institutions started offering the CLB service; and (ii) the CLB was only promoted in a limited manner. Exhibit 2.4 shows the number of promoters delivering the CESP from 2005 to mid-2008.

<b>Exhibit 2.4</b> <b>Number of Promoters Delivering the CESP</b>			
<b>Year</b>	<b>CESG</b>	<b>A-CESG</b>	<b>CLB</b>
2005	69	7	9
2006	73	38	34
2007	77	52	51
2008 (June)	78	59	59
Source: CESP Promoter Grant Payment Data.			

<sup>30</sup> The 22 percent take-up rate was based on an estimate of RESP savings patterns of low-income families in 2004.



Planned spending for the first three fiscal years of the CLB (2004-05 to 2006-07) was much higher than actual spending, as the original forecast for 2004-05 may have been ambitiously high (see Appendix V for more information).<sup>31</sup> Actual spending for the CLB for the 2006-07 fiscal year (i.e. April 1, 2006 to March 31, 2007) came in at \$21.8 million, while planned estimates were for \$45 million. For the 2007-08 fiscal year, planned spending was \$25 million due to revised assumptions in the take-up rate and the fact that planned communication and outreach activities had not yet taken place due to certain events beyond the CESP program area's control. Actual expenditures for the 2007-08 fiscal year were \$35.7 million, although these figures are not yet available in the HRSDC Departmental Performance Report. These spending figures for the 2007-08 fiscal year show that the impact of the communication and outreach activities, as well as the increased participation of financial institutions that offer the CLB, is starting to have a more pronounced impact on CLB take-up rates.<sup>32</sup>

Exhibit 2.5 summarizes the forecasts for planned spending for the CESP and CLB and the actual amounts spent for each fiscal year.<sup>33</sup>

<b>Exhibit 2.5</b> <b>Planned and Actual Spending on CESP and CLB</b> <b>(in \$millions)</b>				
<b>Fiscal Year</b>	<b>CESG</b>		<b>CLB</b>	
	<b>Planned Spending*</b>	<b>Actual Spending**</b>	<b>Planned Spending*</b>	<b>Actual Spending**</b>
2004-2005	405.0	426.0	85.0	0.0
2005-2006	510.0	462.5	85.0	2.2
2006-2007	575.0	505.0	45.0	21.8
2007-2008	540.0	579.7	25.0	35.7
* Planned spending is based on projections from the HRSDC Report on Priorities and Planning. ** Actual spending is based on figures published in the HRSDC Departmental Performance Report.				

<sup>31</sup> Note that planned spending estimates are established in March and are modified during the year, resulting in what are called 'Supplementary Estimates'.

<sup>32</sup> In addition, the ability of individuals to carry forward eligibility for CLB funding without opening an RESP is also going to have a significant impact on future actual expenditures. For example, parents whose child was born in 2004 and who only become aware of the CLB in 2010 and open an RESP in 2010 will receive not only the initial \$500 CLB payment, but also a \$100 CLB payment for each year from 2005 to 2010.

<sup>33</sup> In the 2004-05 and 2005-06 editions of the Report on Priorities and Planning, planned spending was forecasted for a three-year period for both the CESP and CLB. For example, in the 2004-05 report, planned CLB spending for the 2004-05 to 2006-07 fiscal years was \$85 million, \$85 million and \$100 million respectively. However, starting with the 2006-07 edition of the report, only planned CESP and CLB spending for the current fiscal year is estimated.



## 3. Key Findings

### 3.1 Rationale

**Q-1: *Is there a continued need for the CESG, since the formative evaluation?***

As mentioned in Section 2.2, the CESG was introduced in the 1998 Federal Budget as part of the Canadian Opportunities Strategy, which was proposed to “expand access to the knowledge and skills Canadians need for better job opportunities and a higher standard of living in the 21<sup>st</sup> century”. While acting on seven fronts, the Strategy “builds on actions taken in previous budgets to provide Canadians with enhanced access to knowledge and skills”.

The CESG was designed to “encourage families to save early for their child’s education”.<sup>34</sup> As stated in the Strategy, by introducing the CESG the government is making RESPs more attractive as a savings vehicle for education.<sup>35</sup> To that effect, the CESG has been quite successful in encouraging RESP savings, which have gone from \$4 billion to \$23.5 billion in 10 years.

Findings from the key informant interviews suggest that there may be a continued need for the CESG. It was noted that, by encouraging lower-income parents to save, the CESG may encourage attendance in PSE of children within this population. Several suggested that if children grow up knowing that money is being saved for PSE, they may then feel that it is expected or planned for them to attend, which would result in an increase in PSE participation.

As well, a study of the literature, specifically EKOS Research (2002), noted that although the availability of government student loans has helped to make up for university tuition increases and reduced grants and bursaries, thereby ensuring that students who come from lower-income families can obtain access to PSE, this has resulted in increased student debt. A government of Canada report, *The Price of Knowledge*, concluded that “families must have access to the resources needed to manage the costs of post-secondary studies without accumulating unmanageable debt. Efforts to help students most affected by such barriers must begin early in a student’s education – rather than as an afterthought following high school graduation.” Thus, there is a rationale for the CESG in order to reduce the financial burden of PSE, and especially the A-CESG and CLB to help modest-income families to start saving early for the PSE of their children.

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<sup>34</sup> For more information, see “The Canadian Opportunities Strategy”, Department of Finance Canada, Ottawa (February 1998).

<sup>35</sup> The forthcoming summative evaluation will address whether there is a continued need for the A-CESG and CLB. This question was not investigated at this time because it was not until July 2005 that the A-CESG and CLB were made public. Thus, the summative evaluation will have had a longer period of elapsed time to complete a more comprehensive review.

Although financial constraints may not be the biggest driver of PSE participation, as noted in various studies<sup>36</sup>, the CESP is intended to help parents better afford higher education for their children (i.e. to encourage long-term savings before PSE). In that regard, the CESP appears to have succeeded.

**Q-2: Does the addition of the CLB and A-CESP on the first \$500 of contributions (i.e. 30 and 40 percent grants) make sense as a way to deal with low participation in the CESP by lower income groups?**

One of the studies in the literature review, Crossley et al (2008), noted that lower income families, at a certain point, become completely unresponsive to higher rates of return and cannot be induced to save. Thus, in the case of the A-CESP, the increased amounts offered to lower income families will not lead to the expected levels of participation.

However, based on findings from the key informant interviews (comprised of financial promoters, academics and researchers, and government officials), CESP program managers (government officials) agreed that the CLB and A-CESP are well-designed to target lower-income Canadians. These two incentives are designed to work together: the CLB offers the initial incentive to participate in the program (given that no RESP contribution is required), thus encouraging them to establish an RESP account. The A-CESP is then available to incite them to start to save some of their money in order to receive the government's grants. They acknowledged, however, that there are a number of key obstacles to take-up which need to be addressed in the design and delivery of the A-CESP and CLB (see Questions 13 and 14).<sup>37</sup>

Most financial promoters in the key informant interviews agreed that the A-CESP and CLB are relevant tools to encourage lower-income Canadians to save, and that these tools are clearly targeted at this audience. A few promoters also note that the CLB is the most promising tool for the low- and moderate-income audience. One promoter also notes that the CLB is relatively simple to understand (as it is a set amount). Another promoter notes that the CLB is the more promising tool for low-income Canadians as it is difficult for them to find savings. The CLB was described as being "very helpful" in giving funds to get started. However, these promoters also identify several obstacles to the success of the program.

A few academics and researchers in the key informant interviews also suggested that the CLB is the most promising approach to addressing the limited financial means of this target audience. The CLB is described as "free money" that can help get parents started in terms of accumulating savings.<sup>38</sup> They agreed that the CLB may help lead to further savings (and use of the A-CESP) once the savings behaviour has been established. CESP data bears this out, as about 93 percent of families who received the CLB also contributed themselves in 2006 (see Exhibit 3.6). However, it was suggested that, through the A-CESP

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<sup>36</sup> For more information, see Knighton and Mirza (2002), Finnie et al (2005), Drolet (2005), Frenette (2005, 2007), and Finnie and Muller (2008).

<sup>37</sup> For further information on some of the obstacles, see Questions 13 and 14.

<sup>38</sup> However, the notion of "free money" may not be the case, given that some financial institutions have minimum requirements in order to open an RESP and therefore receive the CLB.

and CLB, the federal government is really trying to reach an audience that has not traditionally planned for PSE, and is attempting to change parental behaviour/attitudes to get them to plan and prepare for savings. One academic suggested that the existing tools are insufficient to achieve that, and that an extensive communications component would be necessary to accompany these programs. Therefore, the academic suggested that the program is only succeeding in reaching parents who were already planning for their child(ren) to attend PSE. As a result, while it has been successful in getting “planners” to save, it has not reached those parents who are not “planners”.

***Q-2a: Are the income ranges for receiving the 30 and 40 percent grants reasonable?***

The current income range for receiving the 30 and 40 percent grants are based on ranges determined by the CRA. In the case of the 40 percent grant, the income range is closely-tied to the income range for families in receipt of the Canada Child Tax Benefit. To be eligible for a 40 percent CEG grant, total family income must be less than \$37,885.

According to the awareness survey, Canadians are split between those who perceive the threshold as fair and those who feel that it is too low. Among awareness survey respondents, 53.7 percent found that threshold to be fair.<sup>39</sup> Among those considering the threshold to be unfair, the vast majority (85.7 percent) thought that the \$37,885 ceiling was too low.<sup>40</sup>

Respondents were then asked what the ceiling for low-income families should be.<sup>41</sup> Most felt unable to provide an answer. Among those suggesting a figure, responses tended to be at or around \$50,000 per family. Those from Western Canada were the most apt to say present support was adequate, while those from Quebec and Atlantic Canada were the most likely to call for additional support.

Key informants (government officials, promoters, and academics and researchers) generally believe that the current income ranges for receiving the 30 and 40 percent grants are reasonable, as they didn’t suggest any changes to the current ranges.

***Q-2b: Is the size of the grant and the learning bond sufficient and meaningful to subscribers?***

Focus group findings indicate that while assistance is welcome, the incentives of the CESG are regarded by many as being very small compared to the total expected cost of PSE. However, it is worth noting that the CESP was not designed to cover the entire cost

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<sup>39</sup> Respondents were asked “In order to be considered a lower-income family and be eligible for a 40% government grant under the A-CESG, as well as the CLB, total family income must be less than about \$37,000. Do you think it is fair to classify a lower-income family as having total family income of less than \$37,000?” Note that 5.6 percent did not respond to this question.

<sup>40</sup> Respondents were asked “Do you think the \$37,000 threshold is too high or too low?” Note that 4.7 percent did not respond to this question. There was no survey question related to the fairness of the 30 percent grant income range.

<sup>41</sup> Respondents were asked “What do you think the threshold in order to be considered a lower-income family should be?”

of a PSE, and that there are several other financial assistance programs in action to help reduce the financial burden of attending PSE.

Exhibit 3.1 provides a snapshot of the costs of a four-year university undergraduate program, with projections given to the year 2014. Note that this table only represents the upper range of overall PSE costs. Since PSE, for the purpose of the CESP grants, also covers college, trade and part-time programs, tuition-related costs would be much lower (by approximately 40-50 percent) than the cost of a four-year university program.

<b>Exhibit 3.1</b> <b>University Cost Projections – National Average</b> <b>(Including Personal Expenses)*</b>				
Year of Admission	With Residence		Without Residence**	
	1 <sup>st</sup> Year of Program	4-Year Program	1 <sup>st</sup> Year of Program	4-Year Program
2008	\$15,800	\$66,300	\$8,900	\$38,000
2009	\$16,400	\$68,200	\$9,400	\$39,400
2010	\$16,800	\$70,100	\$9,700	\$40,700
2011	\$17,300	\$72,100	\$10,000	\$42,100
2012	\$17,700	\$74,200	\$10,300	\$43,600
2013	\$18,300	\$76,400	\$10,700	\$45,200
2014	\$18,800	\$78,600	\$11,100	\$46,800
Source: The Guide to University Costs in Canada – Fall 2007. * Personal expenses include items such as laundry, entertainment, personal grooming, transportation and regular out-of-pocket expenditures, estimated at a total cost of \$2,500. ** "Without Residence" costs are calculated for students who live at home while pursuing their studies, not having to pay for either food or shelter costs.				

Some focus group participants stated that the CESG amount itself does not significantly impact on the affordability or accessibility of PSE. It is noted that the income sensitivity of the A-CESG was applauded by focus group participants, but given that it amounts to a maximum of either \$50 or \$100 per year was not seen as being very helpful – the extra \$100 per year compounded for 15 years at, for example, a real annual rate of return of 5 percent, works out to an extra \$2,265.75.<sup>42</sup> Those who are not RESP subscribers felt that the incentives were great, but some were frustrated that they were financially unable to take advantage of it because of a lack of available money.

Reactions to the CLB were positive, but the \$2,000 lifetime grant cap was considered not sufficient for many. In addition, the age stipulation (born after 2003) caused a number of focus group participants to question the rationale for that criterion. In both the RESP subscriber and non-subscriber focus groups, participants offered a view that if they didn't begin saving while their children were young, it was virtually impossible for them to make any meaningful progress with the CLB incentive.

<sup>42</sup> An individual eligible for the 20 percent CESG receives \$100 on the first \$500 of annual contributions, while those eligible for the 30 and 40 percent CESG receive \$150 and \$200 respectively on the first \$500 of annual contributions.

In the key informant interviews, opinions were mixed in regards to the appropriateness of the current sizes of the A-CESG and the CLB. While some noted that the current size is appropriate only if parents begin saving early, others noted that it is insufficient given the current cost of a PSE and the difficulty involved in attracting moderate-income Canadians who don't completely understand the concept of compounding interest. It was suggested that the size of the incentive is of utmost importance in establishing a pattern of saving, but that the size of this incentive is irrelevant unless the barriers to subscription (financial and informational) are addressed.<sup>43</sup>

Results from the general awareness survey showed that 54.1 percent of RESP subscribers felt that the size of the A-CESG and/or CLB was sufficient and meaningful to them.<sup>44</sup>

## 3.2 Objectives and Achievements

### **Q-3: Is the CESP reaching intended audiences?**

According to the 1998 federal budget, the goal of the CESP is to help ensure that all families can better save for their children's future education and can better afford higher education for their children by saving. This can be accomplished by reducing financial barriers and other obstacles that might prevent individuals from acquiring skills and knowledge through PSE. CESP data shows that 37 percent of children under 18 have an RESP.

Exhibit 3.2 represents part of the awareness survey results on RESP take-up by region and education. The results indicate that 51 percent of all households with a child under the age of 18 have at least one child that is covered by an RESP.<sup>45</sup> Ontario has the highest share of children that are covered by an RESP, with Quebec and Atlantic Canada having the lowest shares. As well, university-educated households also have a higher share of children covered by an RESP.

<b>Exhibit 3.2</b> <b>Percentage of Children Covered by an RESP*</b>							
<b>Number of Children Covered</b>	<b>Overall n=1,506</b>	<b>BC n=201</b>	<b>PRA n=257</b>	<b>ONT n=585</b>	<b>QUE n=354</b>	<b>ATL n=109</b>	<b>University Degree n=517</b>
None	47.7	46.3	42.0	39.3	62.7	59.6	30.2
1	21.9	21.9	21.8	25.1	17.5	19.3	28.6
2+	28.7	30.9	34.6	34.4	16.7	19.3	40.0
DNK**	1.7	1.0	1.6	1.2	3.1	1.8	1.2
Source: 2007 CESP Awareness Survey. * Includes only households with children that are 18 years of age or younger. ** DNK indicates that share of the population that did not respond.							

<sup>43</sup> See Questions 13, 13a and 14 for more information on barriers to subscription.

<sup>44</sup> Respondents who were subscribers were asked "Is the size of the A-CESG and/or CLB sufficient and meaningful?" Note that 12.6 percent did not respond to this question.

<sup>45</sup> Respondents were asked "How many of your children are covered by an RESP?"

The awareness survey also finds significant variation in RESP take-up by total family income.<sup>46</sup> Findings reveal that:

- 58.7 percent of all households with total family income of more than \$74,769 had at least one child who was covered by an RESP<sup>47</sup>;
- 42.7 percent of all households with total family income of between \$37,885 and \$74,769 had at least one child who was covered by an RESP<sup>48</sup>; and
- 35.4 percent of all households with total family income of less than \$37,885 had at least one child who was covered by an RESP.<sup>49</sup>

A further analysis of Statistics Canada data, CRA data and awareness survey data (Exhibit 3.3) shows that the share of RESP subscribers with less than \$20,000 in annual family income has remained within the 5-12 percentage point range since the 2003 formative evaluation.<sup>50</sup> If only the Statistics Canada data and the CRA data are considered, there has been little change between 2001 and 2006 in the distribution of RESP subscribers by income, except in the case of those with annual family income of less than \$20,000, where the share of RESP subscribers increased from 8.6 percent to 11.4 percent.

<b>Exhibit 3.3</b> <b>Percentage of RESP Subscribers by Income Category</b>			
<b>Income Category (2001\$)*</b>	<b>% of RESP Subscribers by Income Category (2001)**</b>	<b>% of RESP Subscribers by Income Category (2006)***</b>	<b>% of RESP Subscribers by Income Category (2006)****</b>
Less than \$20,000	8.6	11.4	4.7
\$20,000 to \$39,999	16.5	17.3	15.5
\$40,000 to \$59,999	19.8	19.3	17.4
\$60,000 to \$79,999	18.9	18.3	27.8
\$80,000 or more	36.2	33.7	34.6
<p>* Income growth assumed to be 2.5% per annum during the 2002 to 2006 period. These income categories are used in order to form comparisons to the 2001 data. These categories have nothing to do with the income ranges associated with A-CESG eligibility.</p> <p>** Based on a merged file of CESP data and Statistics Canada's Longitudinal Administrative Databank file. Data includes only those individuals who contributed to an RESP at any time from 1998 to 2001.</p> <p>*** Based on Canada Revenue Agency data for the 2006 taxation year for a random sample of 100,000 RESP subscribers who contributed in 2008.</p> <p>**** Based on 2007 Subscriber Survey. Data includes a random sample of 677 RESP subscribers (who contributed at any time during the 1998 to 2006 period) who answered the survey question on total family income for 2006.</p>			

<sup>46</sup> There were 292 respondents who did not answer the question related to total family income.

<sup>47</sup> Note that 1.7 percent did not respond to this question.

<sup>48</sup> Note that 1.6 percent did not respond to this question.

<sup>49</sup> Note that 1.9 percent did not respond to this question.

<sup>50</sup> In 2006, 39.7 percent of all Canadians who filed their income taxes reported total income of less than \$20,000. By comparison, only 9.6 percent reported total income of \$75,000 or more.



The above results address the CESP more broadly, but in terms of the A-CESG, it was not reaching intended audiences as of 2006. One possible explanation is that a subscriber must apply for the A-CESG in order to receive the grant. An analysis of CESP data that was based on a random sample of 100,000 RESP subscribers in receipt of the basic CESP merged with CRA income tax data indicates that 47.1 percent of all recipients of the basic CESP were eligible for the A-CESG in 2006 but only received the 20 percent basic grant (see Exhibit 3.4). This indicates that subscribers may not be aware that they must apply for the A-CESG. Another possible explanation is that financial institutions were slow to begin offering the A-CESG (as shown in Exhibit 2.4). Thus, the total number of A-CESG beneficiaries has the potential to be far higher than the 210,050 that were reported in the 2006 CESP data (increased to 316,037 in 2007).

<b>Exhibit 3.4</b>		
<b>Income Distribution of Basic CESP Recipients</b>		
<b>Net Family Income (2006\$)</b>	<b># of RESP Subscribers</b>	<b>% of RESP Subscribers</b>
Less than \$36,378	17,473	18.3
\$36,378 to \$72,756	27,602	28.8
More than \$72,756	50,603	52.9
Total	95,678	100.0
Source: 2006 CRA Income Tax Data merged with CESP Data.		

**Q-3a: What is the demographic profile of the participants in the CESP and CLB?**

According to findings from the subscriber survey, 92.2 percent of RESP subscribers are married or living common-law. More than two-thirds have a post-secondary degree (67.1 percent), with 22.5 percent possessing a degree from a community college or technical school, 31.0 percent a Bachelor's degree, and 13.6 percent a Master's degree or higher.<sup>51</sup> Respondents are also slightly more likely to be female than male (55.6 percent vs. 44.4 percent). Finally, subscribers are almost all in the 25-54 year-old age range (87.5 percent), with 23.7 percent in the 25-34 year-old age range, 36.0 percent in the 35-44 year-old age range, and 27.8 percent in the 45-54 year-old age range.<sup>52</sup>

**Q-3b: Has participation of middle- and lower-income families increased since the introduction of the CLB and A-CESG?**

The A-CESG and CLB were introduced to encourage lower-income Canadians to save for the PSE of children. Since the introduction, participation in the CESP has increased at a higher rate than in the immediately preceding one or two years. Exhibit 3.5 presents the average number of beneficiaries who received a grant per month in the given year.

<sup>51</sup> RESP subscribers tend to have a higher level of education than the general population – only 15 percent of subscribers denoted having a high school degree or less, compared to 31 percent of the general population (aged 25-54, based on the 2001 Census).

<sup>52</sup> Findings are very similar to those reported in the 2003 formative evaluation. Note that 1.0 percent refused to answer this question.

<b>Exhibit 3.5</b> <b>Average Number of Beneficiaries Receiving CESG Grants per Month</b>			
<b>Year</b>	<b>Average Number of Beneficiaries per Month*</b>	<b>% Change from Previous Year</b>	<b>% Change in Rate of Change</b>
1998	342,759	–	–
1999	514,128	50.0	–
2000	665,040	29.4	-41.3
2001	783,132	17.8	-39.5
2002	893,039	14.0	-21.0
2003	973,872	9.1	-35.5
2004	1,038,468	6.6	-26.7
2005	1,119,050	7.8	17.0
2006	1,207,895	7.9	2.3
2007	1,318,199	9.1	15.0
Source: CESP Data (100% Sample).			
* Figures are not cumulative and are based on data as of February 28, 2008.			

Exhibit 3.5 shows that there was a progressive deceleration from 1999 to 2004 in the rate of change in the average number of beneficiaries per month receiving CESG grants, falling from 50.0 percent to 6.6 percent. However, in 2005 the rate of change increased for the first time since the inception of the CESG in 1998. The rate of change also increased in 2006 and 2007. These findings suggest that the introduction of the A-CESG in January 2005 led to a higher rate of participation.<sup>53</sup>

In order to confirm that there was indeed an upward shift in the take-up rate since the introduction of the CLB and A-CESG in January 2005, statistical estimation analysis was performed on the monthly data from January 2002 to December 2007 (detailed results are provided in Appendix III). The results confirm the findings from Exhibit 3.5 and indicate a statistically significant impact of the CLB/A-CESG on take-up rates – take-up increased by 3.1 percent.

### 3.3 Early Impacts and Effects

**Q-4: *What is the source of RESP savings? (i.e. is the savings incremental or does it come from other savings such as RRSPs?)***

To generate RESP savings, there are a variety of sources, including generating new savings by spending less; conversion of existing savings by selling assets (e.g. stocks, bonds, real estate, etc.); reducing other forms of current savings (e.g. lowering current RRSP contributions); reducing other forms of PSE savings (e.g. trust accounts); and working more in order to increase cash flow.

<sup>53</sup> Changes in the level of participation among middle- and lower-income families cannot be measured without the use of Canada Revenue Agency income-tax data (forthcoming).

Findings from the focus groups (Canadians who would be eligible for the 30 and 40 percent CESG grants and the CLB) indicate that for most people, the source of RESP savings was a reallocation of existing savings amounts rather than an incremental increase in household savings. However, a few people did say that the latter was definitely the case for them. For those who said the source was a reallocation of existing savings amounts, in most cases the savings came from money that would have gone into an RRSP – not money that was already in an RRSP.<sup>54</sup>

Results from the awareness survey suggest that subscribing families tend to draw their contributions from three sources – new savings (35 percent), redirecting funds that would otherwise have been invested in RRSPs (26 percent), and other unspecified sources (34 percent).<sup>55</sup> There appears to be a greater tendency for high-income households (i.e. only eligible for the basic CESG) to draw on new savings than households eligible for the 40 percent CESG – 37 percent versus 23 percent.<sup>56</sup> Findings from the subscriber survey essentially confirm those of the awareness survey.

This finding that roughly one-quarter of RESP contributions are financed by diverted RRSP savings was corroborated in a 2005 report, which suggests that RESP subscribers are more likely to reduce their RRSP savings in order to expand their RESP contributions relative to non-subscribers.<sup>57</sup>

#### **Q-5: *Has the introduction of the A-CESG and CLB resulted in increased savings in RESPs?***

The subscriber survey findings suggest that 47 percent of subscribers would definitely be encouraged to save as a result of the A-CESG, with 29 percent responding ‘probably’ and 10 percent responding ‘definitely not’.

Further, 10.1 percent of subscribers whose annual family income was less than \$73,000 increased the amount of money they put into RESPs as a result of the introduction of the A-CESG and CLB, while 1.0 percent said that they decreased how much they put into RESPs (70.8 percent did not change their RESP savings habits).<sup>58</sup> The net effect was therefore a small overall increase in RESP savings, a finding confirmed by CESP data

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<sup>54</sup> Money transferred from an RRSP into an RESP is taxable. Although the Lifelong Learning Plan allows individuals to withdraw up to \$10,000 in a calendar year from their RRSP to finance full-time training, the money can only be used by the person withdrawing the funds (i.e. the holder of the RRSP), their spouse or their common-law partner. All withdrawals must be re-paid into the RRSP within 10 years.

<sup>55</sup> Respondents were asked “Thinking of your own family’s pattern of savings, would you say that the money your family sets aside for RESPs came mainly from money you would have otherwise put in RRSPs, new savings, or some other source?” Almost 6 percent did not provide an answer to this question.

<sup>56</sup> Findings from the subscriber survey confirm those of the awareness survey, in that 23 percent of savings for RESPs came mainly from money that would otherwise have been used for RRSPs. As well, 34 percent of RESP savings came from new savings, while 38 percent came from some other source.

<sup>57</sup> For further information, see Informetrica Limited, “Incremental Impacts and Program Take-Up of the Canada Education Savings Grant: Issues, Methods and Preliminary Findings”, January 2005.

<sup>58</sup> Respondents whose family income was less than \$73,000 were asked “As you may know, the government increased the amount of extra assistance to families with RESPs, depending upon how much money the family put in the RESP and depending upon the family’s income. Did this new additional grant lead your family to increase how much it put into the RESP, not change how much it put into the RESP, or decrease how much it put into the RESP?” Note that 18.1 percent were not sure of the impact.

(see Question 5c). There was no significant difference in these figures for subscribers whose annual family income was less than \$37,885 – 8.4 percent increased the amount of money they put into RESPs.

Focus group participants tended to describe the A-CESG and CLB as being more likely to trigger initial RESP subscription than motivate them to make regular, ongoing (or increasing) contributions. This was mentioned as being particularly true of the CLB. Participants tended to be of the view that these incentives moved them to set up an RESP more than it moved them to begin saving for education. For some, it accelerated their action in order to achieve the best possible return.<sup>59</sup>

#### **Q-5a: What percentage of CLB accounts has contributions?**

Exhibit 3.6 presents the number and percentage of CLB accounts with RESP contributions in the years 2005, 2006 and 2007. It also shows the breakdown in the level of RESP contributions for each year. For each year listed in Exhibit 3.6, a different random sample was selected.

<b>Exhibit 3.6</b>			
<b>Percentage of CLB Accounts with RESP Contributions</b>			
	<b>2005</b>	<b>2006</b>	<b>2007</b>
# of CESG/A-CESG beneficiaries in sample	100,000	100,000	100,000
# who received CLB	283	2,771	5,406
RESP contributions for CLB beneficiaries			
% with \$0	7.1	6.5	6.6
% with \$1 to \$49	3.5	0.9	1.0
% with \$50 to \$149	7.4	6.3	5.5
% with \$150 to \$249	9.9	7.9	6.5
% with \$250 to \$499	21.9	15.9	15.6
% with \$500 to \$999	18.0	24.4	22.6
% with \$1,000 or more	32.2	38.1	42.1
% with at least \$1	92.9	93.5	93.4
Source: CESP Data (a different random sample of 100,000 subscribers for each year was used).			

Of the 100,000 RESP beneficiaries in the sample in 2005, 283 (or 0.3 percent) received the CLB. Of these 283 beneficiaries, 92.9 percent received at least \$1 in RESP contributions during the year, with 32.2 percent receiving more than \$1,000 in contributions. The share of RESP beneficiaries in receipt of the CLB increased to 2.8 percent in 2006 and to 5.4 percent in 2007, with the share of beneficiaries receiving at least \$1 in contributions remaining in the 93 percent range.<sup>60</sup> There have also been increases in the share of beneficiaries receiving at least \$500 in RESP contributions, climbing from 50.2 percent in 2005, to 62.5 percent in 2006 and to 64.5 percent in 2007.

<sup>59</sup> The summative evaluation will address this issue in more detail.

<sup>60</sup> Part of this high contribution rate can be attributed to the fact that many CLB accounts are part of a scholarship fund which tends to have forced contributions.

***Q-5b: Has the introduction of the A-CESG and CLB had an impact on the age at which an account is opened?***

Survey results suggest that the A-CESG and CLB has encouraged both middle- and low-income families to save earlier – those receiving the A-CESG will start saving between two and two-and-a-half years earlier than those receiving the basic CESG.<sup>61</sup>

According to findings from the subscriber survey, the average age of a child at the time when the first contributions were made to their RESP was 3.4 years of age.<sup>62</sup> Additional findings indicate that 70 percent of all subscribers first contributed to an RESP while their child was two years old or younger.

Data from the CESP Quarterly Statistical Review confirmed the subscriber survey findings – the average age of A-CESG beneficiaries is below the age of 4, while the average age of basic CESG beneficiaries in 2007 is 4.2 years.<sup>63</sup>

CESP data also indicates that between 1998 and 2004, prior to the introduction of the A-CESG and CLB, about 70 percent of all middle- and low-income individuals opened an RESP during the year of birth of their child. This percentage jumped to 90 percent for following the implementation of the A-CESG and CLB.

Statistical estimation analysis further revealed that the A-CESG and CLB led subscribers to start contributing one to two years earlier than they did during the 1998 to 2004 period.

***Q-5c: What are the savings patterns of A-CESG and CLB accounts (size and frequency of contributions)?***

The average annual RESP contribution for the 2005 to 2007 period is listed in Exhibit 3.7. For each year listed, a different random sample was selected (the same samples that were used for Exhibit 3.6).

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<sup>61</sup> The above results need to be placed in the proper context, however, because the legislation for the CLB states that only children born on or after January 1, 2004 are eligible for the CLB. Thus, the children involved from 2004 onwards will be younger, thereby implying that the beneficiary age at which an account is opened will also be lower

<sup>62</sup> Respondents were asked “How old was your child when you first started contributing to an RESP?”

<sup>63</sup> For basic CESG beneficiaries, the average age has fallen considerably from 7 years of age in 1999.

**Exhibit 3.7**  
**Size and Frequency of RESP Contributions**

	2005	2006	2007
<b>Average RESP contribution (\$) for beneficiaries in receipt of :<sup>1</sup></b>			
20% grant (basic CESG)	\$1,292	\$1,419	\$1,576
30% grant (A-CESG)	\$1,085	\$1,160	\$1,233
40% grant (A-CESG)	\$1,207	\$1,209	\$1,252
<b>Number of Years a Contribution was Made</b>			
Zero	29,373	27,108	25,413
One	9,428	10,169	16,877
Two	9,994	16,276	14,873
Three	51,205	46,447	42,837
Source: CESP Data (entire database for the first three rows of data and a different random sample of 100,000 subscribers for each year was used for the second three rows of data).			
<sup>1</sup> Includes only those accounts receiving at least \$0.01 of contributions for the calendar years 2005-2007, with the grant match rates confirmed by CRA.			

For those in receipt of the 20 percent grant, the average RESP contribution in 2007 was \$1,576, an increase of 22.0 percent from 2005. The average annual RESP contributions were lower for those in receipt of the 30 percent grant (average contribution of \$1,233 in 2007) or 40 percent grant (average contribution of \$1,252 in 2007). In the case of those receiving the 30 percent grant, the average contribution increased by 13.6 percent from 2005 and by 3.7 percent from 2005 for those receiving the 40 percent grant.

In terms of the consistency of contributions made, the second part of Exhibit 3.7 shows that approximately half of all RESP subscribers make an RESP contribution annually (e.g. 51.2 percent of a random sample of RESP subscribers in 2005 contributed in 2005, 2006 and 2007). The figures are lower for the samples in 2006 and 2007 because some of these subscribers may have only started an RESP in 2006 or 2007, implying that they could not have contributed in 2005. Exhibit 3.7 also shows that between 25-30 percent of subscribers do not make an annual contribution to an RESP.

The general findings from above were confirmed in the subscriber survey, although the magnitudes were different. Results from the subscriber survey showed that 13.8 percent of all subscribers made no contribution to their RESPs in the previous 12-month period.<sup>64</sup> An additional 21.6 percent only made one contribution during this same timeframe. On average, results indicated that subscribers made 7.7 contributions into their RESPs in the previous 12-month period, with 55.5 percent making 12 contributions.

<sup>64</sup> Respondents were asked "During the last 12 months, how many times, if at all, did your family contribute to the RESP?"

**Q-6: Does participating in the CESP have an impact on the formation of attitudes about PSE?**

Results from the awareness and subscriber surveys indicate that 4 out of 5 Canadians choose the highest possible score on a 7-point scale to signify the importance that they attach to their children's acquisition of a PSE.<sup>65</sup> Close to half of all RESP subscribers became even more positive about PSE after participating in RESPs and being exposed to the CESP.<sup>66</sup>

For both subscribers and non-subscribers in the focus groups, few indicated that the CESP impacts on the value they assign to PSE. For the most part, they value it already and have a "price-tag" in mind that they expect they or their child will face – because it is important to do so. However, expectations regarding their child's PSE is likely dependent on financial capability.

**Q-6a: Do the CESG and CLB affect parental expectations regarding their children attending post-secondary education?**

Findings from both the awareness and subscriber surveys indicate that, because of the CESG and CLB, parental expectations regarding their children obtaining a PSE increased.<sup>67</sup> More than half of all parents noted that their expectations had increased.

Parents in the focus groups tended to feel that there are other, more significant factors (than the CESG and CLB) which will bear a greater influence on whether or not their child enrolls in PSE. The choices the child makes, the grades they earn and, for many, the total costs of PSE were all listed as having more impact.

**Q-6b: Do the CESG and CLB affect the perceived affordability of PSE?**

The literature review noted a study (HRDC 2003) that found that there is uncertainty about the perception of the cost of PSE and how much savings is required. Although some RESP subscribers and non-subscribers have fairly realistic expectations of the cost of PSE, many could not describe what they thought the total annual cost of PSE would be when their child enters PSE. This is not surprising, given that there are many types of PSE with costs that can vary substantially. The study also noted that there is uncertainty about how much of the cost of the child's PSE would be covered by their savings. Hence, although the CESG and CLB make PSE more affordable, the literature review indicated that many do not know to what extent.

In the awareness survey, all respondents were provided details about the A-CESG and CLB. On 7-point scales, they were then asked separately if each of these programs made no difference (score of 1) or a major difference (score of 7). While most respondents were inclined to think that these programs make a difference, opinion was divided. At the

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<sup>65</sup> Respondents were asked "How important is it for you that your child receives a PSE?"

<sup>66</sup> Respondents were asked "Have your feelings about the value of PSE changed as a result of participating in an RESP?"

<sup>67</sup> Respondents were asked "How has participating in an RESP impacted what you expect from your child?"

extremes, those who believed that the A-CESG made a major difference outnumbered, by about 2-to-1, those who thought that it made no difference. Among those with net family income of less than \$37,885 (i.e. eligible for the additional 20 percent grant), the ratio was roughly 5-to-1. In the case of the CLB, those who believed that the CLB made a major difference outnumbered, by slightly more than 3-to-2, those who thought that it made no difference (among those with net family income of less than \$37,885, the ratio was more than 3-to-1).

The same questions were posed in the subscriber survey. Findings showed that subscribers' perceptions of affordability appear to be more influenced by the A-CESG and CLB than the general population. Those who believed that the A-CESG made a major difference outnumbered, by less than 5-to-1, those who thought it made no difference. Among those with net family income of less than \$37,885, the ratio was 12-to-1. In the case of the CLB, those who believed that the CLB made a major different outnumbered, by almost 4-to-1, those who thought that it made no difference (among those with net family income of less than \$37,885, the ratio was almost 8-to-1).

Findings from the focus groups showed that the CESG and CLB were not perceived to have much of an impact on the affordability of PSE, although participants mentioned that the incentives were nevertheless welcome.

### 3.4 Program Delivery Issues

#### ***Q-7: To what extent are Canadians aware of the CESP, including the CLB and the additions to the CESG?***

The awareness survey asked a number of questions related to the awareness of government assistance programs.<sup>68</sup> Results indicate that 56.4 percent of Canadian parents (with children under the age of 18) are aware of such financial programs, while 39.9 percent are unaware or are not sure.<sup>69</sup> Respondents were also asked if they could name one specific financial assistance program such as an RESP, the CESG or the CLB. Roughly 54 percent of respondents volunteered RESPs as their response, while only 3.4 percent volunteered either the CESG or CLB.<sup>70</sup>

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<sup>68</sup> Respondents were asked "Are you aware of any government programs that aid families to finance their children's PSE?"

<sup>69</sup> Note that 3.7 percent were not sure.

<sup>70</sup> Respondents were asked "Could you please tell me the name of the program that you are most familiar with?" Note that 13.4 percent did not offer any specific financial assistance program.



In addition to questions related to general awareness of government assistance, the awareness survey also determined whether or not Canadian parents were aware of the A-CESG and the CLB. The findings indicate that 62.5 percent report being unaware of the A-CESG, with 45.3 percent scoring their awareness at the bottom of the 7-point scale.<sup>71</sup> For the CLB, 79.7 percent report being unaware, with 65.8 percent scoring their awareness at the bottom of the 7-point scale.<sup>72</sup> Further analysis of survey results indicated that there was little difference in A-CESG and CLB awareness levels based on total family income.

In the focus groups, most RESP subscribers were able to describe the CESP, although the tendency was to not use the specific terminology. Many subscribers could not clearly distinguish between the terms RESP, CESP, CESP, A-CESG and CLB and sometimes used them interchangeably. Among non-subscribers, many were aware of the term “RESP”, but few were able to offer details on it or on any of the incentives. Basically, none of the non-subscribers were able to clearly distinguish the differences between the different terms.

Focus group participants tended to have become informed about various aspects of the CESP through financial advisors, scholarship plans, financial institutions, and word-of-mouth from friends and family. However, banks were viewed as not providing much information about how the CESP works, nor about its benefits. Some offered comments that their financial institution seemed less interested in establishing an RESP, particularly when compared to the effort they made to assist with RRSPs.

#### ***Q-7a: To what extent are RESP subscribers aware of the A-CESG?***

In the survey of awareness, 51.1 percent of RESP subscribers reported being unaware of the A-CESG.<sup>73</sup> However, this is still significantly lower than the 73.8 percent reported by non-subscribing parents.

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<sup>71</sup> Respondents were asked “The amount of government assistance to families varies depending upon total family income – the higher the family’s income, the lower the amount of government assistance. This type of assistance is called the A-CESG. On a 7-point scale where 1 means you are definitely not aware of the A-CESG and 7 implies that you are definitely aware of this, what score would you give?” A score of 1-3 implies that an individual is, to some degree, not aware of the A-CESG.

<sup>72</sup> Respondents were asked “For families earning less than about \$37,000 a year, children are also entitled to receive the CLB. Each child can get up to \$500 in the first year an RESP is started and then \$100 in each later year. On a 7-point scale where 1 means you are definitely not aware of the CLB and 7 implies that you are definitely aware of this, what score would you give?”

<sup>73</sup> Respondents were asked “The amount of government assistance to families varies depending upon total family income – the higher the family’s income, the lower the amount of government assistance. This type of assistance is called the A-CESG. On a 7-point scale where 1 means you are definitely not aware of the A-CESG and 7 implies that you are definitely aware of this, what score would you give?”

These findings from the awareness survey were corroborated in the subscriber survey, in that 57.7 percent of RESP subscribers reported being unaware of the A-CESG. In general, there was little difference in awareness levels of the A-CESG by income level, although those with a lower total family income were slightly more aware:

- 51.6 percent of those with a family income of less than \$37,885 reported being unaware of the A-CESG;
- 55.1 percent of those with a family income of between \$37,885 and \$74,769 reported being unaware; and
- 59.7 percent of those with a family income of more than \$74,769 reported being unaware.

Most subscribers in the focus groups were not familiar with the term A-CESG and tended to blur the details of the A-CESG and CESP. An example of blurring would be one or two in most subscriber groups saying that the A-CESG is linked to income, while others indicated that the A-CESG was not linked to income – i.e. they were clearly unaware of the income-related benefits associated with the A-CESG.

#### **Q-8: *How satisfied are subscribers with RESP promoter/trustee service?***

Subscriber survey results showed that 75.7 percent of all subscribers were either very satisfied or satisfied with the overall quality of service provided by the financial organization that administers their RESP.<sup>74</sup> Only 6.2 percent indicated that they were either dissatisfied or very dissatisfied.

Evidence collected from key informant interviews showed that about half of all promoters feel confident that the level of client satisfaction is high. However, others noted that subscriber satisfaction sometimes suffers as a result of the complexity of the application/enrolment process. Promoters realize that some subscribers are frustrated with the process in general, but what isn't clear from the perspective of promoters is whether subscribers are also frustrated with the actual service provided by promoters and/or the CESP.<sup>75</sup>

Most focus group subscribers indicated being satisfied, although some criticisms were offered, namely that RESP statements were either not delivered in a timely fashion or that they provided information that was unclear. One other criticism that was offered in more than one subscriber group was that the financial institution at which they had set up an RESP did not provide as many instances of helpful advice and reminders as they would have liked. There was a sense that there is little incentive for their financial representative to remind them to contribute.

A study by Informetrica (2008) noted that some Canadians have found their experience with saving for education disappointing.<sup>76</sup> In some instances, they have made inquiries

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<sup>74</sup> Respondents were asked "How satisfied were you with the overall quality of service provided by the financial organization responsible for administering your RESP?" Note that 2.5 percent did not have an opinion and that 15.6 percent were neither satisfied nor dissatisfied.

<sup>75</sup> For more information on some of the subscriber frustrations, see Question 9.

<sup>76</sup> See "Review of Registered Education Savings Plan Industry Practices", Informetrica (2008) for more information.

and lodged complaints against promoters/trustees with both federal and provincial regulators. The major complaints are from subscribers/beneficiaries who withdraw their contributions and find that they receive less than they paid because of high up-front fees that they were unaware of. Another complaint is that earned investment income cannot be transferred to a different promoter. Further, some cannot access their education assistance payments due to their program of study being ineligible for some reason. All of these complaints are particularly true for group scholarship providers.

However, the Informetrica study did note that, for the most part, the industry is delivering government programs in accordance with policy objectives and is encouraging and supporting Canadians who save for the education of children.

**Q-9: *How satisfied are subscribers with the overall quality of service of the CESP?***

Subscriber satisfaction was somewhat lower when measured in terms of the overall quality of service of the CESP. Evidence collected from the subscriber survey showed that 62.9 percent of respondents were either very satisfied or satisfied with the overall quality of service provided by the Government of Canada, while 7.7 percent were either dissatisfied or very dissatisfied.<sup>77</sup>

Based on findings from the focus groups, most subscribers indicated being satisfied with their subscription. That being said, a few constructive criticisms were offered and two of 73 participants indicated being dissatisfied (see Q8 for more detail).

As alluded to in Question 8, it is difficult to distinguish between subscriber frustration towards the application process and frustration towards the quality of service provided by promoters and/or the CESP. In the key informant interviews, it was also noted that if an applicant incorrectly enters the name of the beneficiary (e.g. “Maggie” instead of “Margaret”), problems may arise during the application process. Several promoters further said that low-income parents typically experience more difficulty applying because they often do not understand some of the terms or concepts involved (e.g. custodial parent, caregiver, etc.).

**Q-10: *How satisfied are RESP promoters with the overall quality of service of the CESP?***

Based on key informant interviews, for the most part, RESP promoters reported being highly satisfied with the service they receive from HRSDC.<sup>78</sup> Promoters noted that HRSDC is easy to contact, helpful, and genuinely interested in feedback. Some also noted that there are difficulties, but that HRSDC is working within the constraints of privacy regulations and other federal legislation (Social Insurance Number Registry,

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<sup>77</sup> Respondents were asked “How satisfied were you with the overall quality of service provided by the Government of Canada, specifically the ease with which you were able to obtain and understand information regarding government financial assistance?” Note that 6.0 percent did not have an opinion and that 23.5 percent were neither satisfied nor dissatisfied.

<sup>78</sup> A list of promoters was obtained from the CESP program area.

*Income Tax Act*, etc.). Again, a few mentioned frustration in being repeatedly transferred between HRSDC and the CRA with questions, or delays in learning of changes. It was suggested that updated training courses be provided when changes have been made to the program.

Similarly, CESP program managers indicated that the level of satisfaction of RESP promoters with the service they received from HRSDC was very high, as evidenced by data from client satisfaction surveys. A survey of RESP promoter satisfaction from November 2006 indicated that 92 percent expressed satisfaction with the overall quality of service they received from HRSDC regarding the CESP, with 50 percent very satisfied.<sup>79</sup>

***Q-11: What percentage of promoters delivers the CLB and A-CESG and what is the extent of their coverage of the market?***

As of June 2008, 59 of the 78 promoters currently offering the CESG were also offering the A-CESG and CLB – collectively accounting for 81.7 percent of all CESG and A-CESG grants paid to date. The 19 promoters who have indicated no interest in offering the CLB or A-CESG account for 15.7 percent of the total share of CESG grants paid to date. Finally, there are 12 promoters who are no longer active, but who have accounted for the remaining 2.6 percent of all CESG grants paid to date.

The top ten promoters of the CESG were responsible for 52.7 percent of all CESG and A-CESG grants paid to date, with the top 20 promoters accounting for 72.1 percent. For the CLB, the figures are 60.5 percent and 85.8 percent respectively.

***Q-12: Why do some promoters not participate in the CLB and A-CESG?***

In the key informant interviews, it was suggested by many CESP program managers that most promoters are doing little to actually promote the A-CESG and CLB given that low- and moderate-income Canadians are not a target audience or a source of significant revenue for promoters. This point of view was also corroborated by several promoters, who noted that some financial institutions are simply not interested in the complexity of the application process and the amount of paperwork involved in setting up small accounts.

***Q-13: Why did non-subscribers not subscribe?***

In the awareness survey, it was suggested that there are two important factors for not subscribing: (i) the difficulties in saving money to contribute to an RESP (average score of 4.4 on a 7-point scale), and (ii) a lack of awareness that the Government of Canada provided matched contributions (average score of 4.3).<sup>80</sup> Lack of awareness of RESPs (average score of 3.6) and parental doubt that their child will go onto PSE (average score

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<sup>79</sup> For further information, see “Canada Education Savings Program (CESP) Client Satisfaction Survey”, Phoenix Strategic Perspectives Inc., Ottawa (November 2006).

<sup>80</sup> Respondents were asked “The following are some reasons why some families do not have an RESP for their children. Please tell me to what extent each reason is a factor in your family’s thinking on a 7-point scale, where 7 means a very true factor and 1 not a true factor.”

of 2.4) were other factors queried of respondents. It is worth noting that 53.7 percent of those who indicated that they were moderately aware or unaware of the CESP and CLB mentioned that they would have opened an RESP had they been aware of the available government financial assistance.<sup>81</sup>

The focus group results suggested that the main reasons for not subscribing included a lack of funds devoted to saving, as well as a lack of information about the specific incentives (i.e. the A-CESG and CLB). For some, the task of saving is so daunting that they are putting it off or avoiding it given all of the other challenges they face. After being presented with information at the focus groups, some remained sceptical about the benefits of these incentives or had concerns about the ability to access the funds in case of emergency. For those with younger children, the answer was that they had not gotten around to it yet. Most of the others in the focus groups responded that, as a result of the information presented in the focus group sessions, they would further investigate the opening of an RESP, although many indicated that they would not commit until their financial situation improves.

The prevailing theme in focus groups was that, while economic circumstances are clearly a very strong factor – including for many a sense of hopelessness – the level of knowledge of the incentives and process, confusion over the various aspects or incentives, and perceptions of complexity are also reducing the odds that some non-subscribers will take advantage of the incentives being offered.

***Q-13a: What are the barriers that cause some potential subscribers not to subscribe?***

As discussed in Question 13, the main barriers mentioned in the focus groups and in the awareness survey are financial barriers and informational barriers – i.e. a lack of available funds to devote to saving and a lack of communication about the available government assistance.

***Q-14: What barriers did subscribers find difficult in the process of obtaining the CLB and A-CESG and what were their strategies to overcome them?***

In general, most subscribers (90.4 percent) encountered no barriers or problems in setting up an RESP account (according to the findings from the subscriber survey).<sup>82</sup> Of those who did find difficulty (7.9 percent), some of the perceived barriers/problems that were mentioned were a lack of knowledge by their financial institution regarding the CESP; low household income; difficulties in obtaining certain pieces of documentation in a timely fashion (i.e. Social Insurance Number/birth certificate); some financial institutions not offering the CLB; and some even charging a fee to set up an account.

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<sup>81</sup> Respondents were asked “Had you been more aware that the Government of Canada contributes to your RESP when families make contributions, would you have opened an RESP?” Note that 17.0 percent had no opinion.

<sup>82</sup> Respondents were asked “Did you experience any barriers or problems in setting up an RESP account for your child?” Note that 1.7 percent were uncertain.

To overcome these barriers, respectively, subscribers had to inform their financial institution about the CESP; find additional employment; wait for proper documentation; go to other financial institutions for service; and re-negotiate terms of the RESP with the financial institution.

Many of the above barriers were also mentioned in the focus group sessions of subscribers. One of the major suggestions that came from the subscriber focus groups was to simplify the overall system, including the application process and the communications about the program.

***Q-15: Does the CESP have an appropriate performance measurement and reporting strategy? What elements of this strategy could be improved?***

Program managers interviewed were asked to identify the performance measurement and reporting systems in place for the CESP and to comment on the effectiveness of these.

The program has a system that collects data on a series of performance indicators, tracks the volume of take-up, and monitors awareness by tracking website activity and 1-800 calls. Data are tracked on an on-going basis and quarterly reports are issued. Reporting occurs at varying levels of formality (at different time intervals). Internally, there is informal reporting that occurs on a monthly basis. More formally, the quarterly reports are made available to stakeholders and government. There is no annual report and the CESP program area cannot break down the information by income level since the *Privacy Act* does not allow it.

## 4. Conclusions

The formative evaluation of A-CESG and CLB attempted to provide answers to specific questions set out by the Steering Committee using multiple lines of evidence from both quantitative data and qualitative information. This section highlights the conclusions from the formative evaluation and recommendations. The summative evaluation will answer issues not addressed in the formative evaluation and, in some instances, will provide more detailed information for some of the issues addressed here.

### 4.1 Rationale

- ***Findings suggest there is a continued need for the CESG.***

By encouraging lower-income parents to save, the CESG may be encouraging attendance at PSE of children within this population. There may be a rationale for the CESG in order to reduce the financial burden of PSE, and especially the A-CESG and CLB to help modest-income families to start saving early for the PSE of their children. Although financial constraints may not be the biggest driver of PSE participation, the CESG is intended to help parents better afford higher education for their children.

- ***The CLB is the more promising of the two new measures.***

The CLB is relatively simple to understand and is helpful in giving funds to get started. It may also help lead to further savings (and use of the A-CESG) once the savings behaviour has been established. However, the federal government may be trying to reach an audience that has not traditionally planned for PSE and may only be succeeding in reaching parents who were already planning for their child (children) to attend PSE.

- ***Opinion is divided on the eligible income range for the 40 percent grant.***

Most survey respondents suggested that the threshold for a low income family should be at or around \$50,000, while government officials, financial promoters, and academics and researchers thought the current income ranges for receiving the 30 and 40 percent grants are reasonable.

- ***The additional financial assistance for PSE was welcomed, but many felt that the level of the incentives was small.***

Many believed the actual amounts would not significantly impact on the affordability or accessibility of PSE. However, it is worth noting that the CESP was not designed to cover the entire cost of a PSE, and that there are several other financial assistance programs in action to help reduce the financial burden of attending PSE.

## 4.2 Objectives and Achievements

- ***There has been little change in the share of lower income RESP subscribers.***

Statistics Canada and CRA data showed that there has essentially been no significant change between 2001 and 2006 in the distribution of RESP subscribers by income. In terms of the A-CESG, it was not reaching intended audiences as of 2006, possibly because a subscriber has to apply specifically for the A-CESG in order to receive the grant, and many of those with existing RESPs have not done so. Analysis revealed that 47.1 percent of all recipients of the basic CESG were eligible for the A-CESG in 2006 but only received the 20 percent basic grant.

- ***RESP subscribers are very similar demographically.***

RESP subscribers tend to be married or living common-law, within the 25-54 year-old age range, and more than two-thirds have a post-secondary degree.

- ***Participation in the CESP has increased at a higher rate after the introduction of the A-CESG and CLB, but it is unclear if this is due to higher participation levels of lower income families.***

There was a progressive deceleration from 1999 to 2004 in the rate of change in the average number of beneficiaries per month receiving CESG grants. However, in 2005 the rate of change increased for the first time since the inception of the CESG in 1998. The rate of change also increased in 2006 and 2007.

## 4.3 Early Impacts and Effects

- ***RESP savings are derived from many sources.***

Results suggested that new savings, other unspecified sources of savings, and redirecting funds that otherwise would have been invested in RRSPs were three significant sources. In the case of RRSPs, money was used that would have gone into RRSPs, not money that was already invested in RRSPs.

- ***The introduction of the A-CESG and CLB resulted in increased savings in RESPs by existing subscribers.***

Findings suggested that almost half of all subscribers were encouraged to save as a result of the A-CESG. Slightly more than 10 percent of subscribers whose annual family income was less than \$73,000 increased the amount of money they put into RESPs as a result of the introduction of the A-CESG and CLB.



- ***About 93 percent of RESP subscribers who receive the CLB make at least one annual RESP contribution.***

The share of RESP beneficiaries in receipt of the CLB was 2.8 percent in 2006 and 5.4 percent in 2007. The share of CLB beneficiaries receiving at least \$500 in RESP contributions climbed from 50.2 percent in 2005, to 62.5 percent in 2006 and to 64.5 percent in 2007, demonstrating that the CLB is encouraging RESP savings among low-income groups.

- ***Since the introduction of the A-CESG and CLB, RESP accounts have been opened earlier.***

Data indicates that between 1998 and 2004, prior to the introduction of the A-CESG and CLB, about 70 percent of all middle- and low-income individuals opened an RESP during the year of birth of their child. This percentage jumped to 90 percent following the implementation of the A-CESG and CLB.

- ***Children eligible for the A-CESG tend to have lower RESP contribution levels.***

For those in receipt of the 20 percent grant, the average RESP contribution in 2007 was \$1,576. The average annual RESP contributions were lower for those in receipt of the 30 percent grant (average contribution of \$1,233 in 2007) or 40 percent grant (average contribution of \$1,252 in 2007).

- ***About half of all subscribers contribute to an RESP every year.***

Between 25-30 percent of RESP subscribers do not make an annual contribution. On average, results indicated that subscribers made 8 contributions into their RESPs in the previous 12-month period, with 56 percent making 12 contributions.

- ***Many RESP subscribers became even more positive about PSE after participating in RESPs and being exposed to the CESP.***

However, there were indications that the CESP impacts little on the actual value RESP subscribers assign to PSE. For the most part, they value it already and have a “price-tag” in mind that they expect they or their child will face – they save because it is important to do so.

- ***Due to the A-CESG and CLB, parental expectations regarding their children obtaining a PSE increased.***

More than half of all parents noted that their expectations had increased. However, some tended to feel that there are other, more significant factors (than the CESP and CLB) which will have a greater influence on whether or not their child enrolls in PSE. The

choices the child makes, the grades they earn and, for many, the total costs of PSE were all listed as having more impact.

- ***Parents are uncertain as to how much savings is required for PSE.***

Although some RESP subscribers and non-subscribers have fairly realistic expectations of the cost of PSE, many could not describe what they thought the total annual cost of PSE would be when their child enters PSE. There is also uncertainty about how much of the cost of the child's PSE would be covered by their savings. However, results from both surveys indicated that those who thought the new measures made a major difference vastly outnumbered those who thought the new measures made no difference, especially for families eligible for the 20 percent CESG grant.

## **4.4 Program Delivery Issues**

- ***Findings suggest that although more than half of Canadian parents are aware of some type of government financial assistance program, few are familiar with the CESG, A-CESG or CLB.***

Of those aware of some type of government financial assistance program, 54 percent offered RESPs as the program they are most familiar with (3.4 percent offered either the CESG or CLB). Overall, 62.5 percent of Canadian parents report being unaware of the A-CESG, while 79.7 percent report being unaware of the CLB. There was little difference in awareness levels by income. Banks were viewed as not providing nearly as much information about how the CESP works, nor about its benefits. Among subscribers, more than half were not familiar with either the A-CESG or CLB.

- ***In general, subscribers are satisfied with the overall quality of service provided by financial promoters and the CESP, although some criticisms were levied.***

More than three-quarters of subscribers indicated satisfaction with the overall quality of service. However, some promoters noted that subscriber satisfaction sometimes suffers as a result of the complexity of the application/enrolment process. One subscriber criticism that was offered on a number of occasions was that the financial institution at which they had set up an RESP did not provide as many instances of helpful advice and reminders as they would have liked. There was a sense that there is little incentive for their financial representative to remind them to contribute (promoters agreed with this).

- ***Promoters report being highly satisfied with the service they receive from HRSDC.***

Promoters noted that HRSDC is easy to contact, helpful, and genuinely interested in feedback. A 2006 Promoter Satisfaction survey showed that 92 percent of RESP providers were satisfied with HRSDC services. Some also noted that there are difficulties, but that

HRSDC is working within the constraints of privacy regulations and other federal legislation (Social Insurance Number Registry, *Income Tax Act*, etc.).

- ***Not all promoters that offer the CESG also offer the A-CESG and CLB, as lower income Canadians are not a significant source of revenue for them.***

As of June 2008, 59 of the 78 promoters currently offering the CESG were also offering the A-CESG and CLB – collectively accounting for 81.7 percent of all CESG and A-CESG grants paid to date.

- ***Lack of money and lack of awareness were the main reasons for not subscribing to RESPs.***

Lack of awareness of RESPs and parental doubt that their child will go onto PSE were other factors. Many of those who indicated that they were moderately aware or unaware of the CESG and CLB mentioned that they would have opened an RESP had they been aware of the available government financial assistance.

## **4.5 Recommendations**

As a result of the evaluation findings, the following recommendations are suggested:

- The A-CESG and CLB should be re-evaluated when growth rates in terms of the level of take-up begin to stabilize. Although take-up rates have been lower than expected, recent evidence suggests that take-up rates are starting to grow more quickly. Thus, it is difficult to accurately quantify the full impact of these two new measures at the current time. In the case of the A-CESG, one major factor in the lower-than-expected take-up rate is that almost 47 percent of all recipients of the basic CESG are eligible for the A-CESG but have not applied for it, according to 2006 income tax data. This finding may highlight the need for an enhanced take-up strategy. Therefore, a summative evaluation would be premature at this time. Moreover, the current rapid increase in take-up rates should be monitored closely in order to determine the appropriate timing for the summative evaluation.
- Policy research should be undertaken to better understand the savings behaviour of low income families in greater detail, as evidence is mixed and weak on whether the A-CESG and CLB have correctly targeted their audience. Currently, the research information base on which to revise program parameters is weak. Such research could involve significant work with Statistics Canada and CRA and would also support the Summative Evaluation.
- Evaluation findings note that awareness levels of the A-CESG and CLB are fairly low. One area in which awareness levels can be improved is to encourage more active involvement of RESP promoters and for HRSDC to conduct more enhanced marketing. However, consideration needs to be given to who will bear the extra cost.

- Documentation for CESP data needs to be improved, so that any user of the information can read the documentation and figure out exactly how to interpret the data without having to always consult with the program area. In addition, efforts should be made to have access to income data on an on-going basis, so as to support research on parameters and to develop strategic indicators.

## 4.6 Next Steps

A future summative evaluation (timing to be determined) will largely be an empirically-based study (i.e. containing more rigorous quantitative analyses) and may address some of the issues listed above, as well as some new topics such as:

- More in-depth analysis examining take-up and/or participation rates for different income ranges, particularly the degree to which the A-CESG and CLB are taken up by families who would have sent their children onto higher education even in the absence of the two new measures.
- The degree to which A-CESG and CLB payments go to individuals who are in temporarily low income families versus permanently low income families. As well, the extent to which payments go to highly educated families and those with low educational backgrounds should be investigated. These are important issues because it is likely that many children are in families that are only temporarily poor, but have a high probability of joining the middle or upper-middle classes within a few years (e.g. children born to graduate students at university).
- Whether or not individuals found out more about the returns to education because of any advertising associated with the CESG/CLB.
- Reasons for why some financial institutions appear reticent to help in promoting the A-CESG and CLB and what can be done about it.
- The extent to which RESPs interact with the Canada Student Loans Program. It may be the case that more parental savings through RESPs leads to fewer loans and grants under the Canada Student Loans Program, implying that the financial situation of students might remain unchanged, which could limit the impact of RESPs on access.
- The probability of contributing to an RESP each year, conditional on having contributed in the previous year.
- The composition of the total dollar value of assets held within RESP in terms of original subscriber contributions, all Government of Canada grants paid, and the investment income earned on all contributions and grants.

## ***Appendix I – Technical Reports***

### ***Documents Prepared for the Formative Evaluation of the Additional Canada Education Savings Grant and Canada Learning Bond***

Compas Inc. (2008), “Awareness Survey for the Formative Evaluation of the A-CESG and CLB”, HRSDC.

Compas Inc. (2008), “Subscriber Survey for the Formative Evaluation of the A-CESG and CLB”, HRSDC.

Decima Research (2007), “Focus Groups for the Formative Evaluation of the A-CESG and CLB”, HRSDC.

Ekos Research Associates (2008), “Formative Evaluation of the Additional Canada Education Savings Grant (A-CESG) and Canada Learning Bond (CLB) – Report on Key Informant Interviews”, HRSDC.

HRSDC (2007), “Administrative Data Analysis for the Formative Evaluation of the Additional Canada Education Savings Grant (A-CESG) and Canada Learning Bond (CLB)”.

HRSDC (2008), “Formative Evaluation of the A-CESG and CLB Literature Review”.



## *Appendix II – Interpreting RESP Participation Levels*

Some of the RESP participation levels that appear in different documents can appear to differ greatly. For example, consider the following findings:

- The 2003 formative evaluation stated that the proportion of taxpayers with children under 19 years of age and who contributed to an RESP rose from 4.1 percent in 1998 to 6.2 percent in 1999 and to 7.2 percent in 2000.
- Data from the 1999 Survey of Approaches to Educational Planning indicated that 6.5 percent of all households made contributions to an RESP. In the case of households with children under 18 years of age, 17.7 percent made RESP contributions.
- According to the 2006/07 HRSDC Departmental Performance Report, 34 percent of Canadians under the age of 18 have ever received a CESG.
- Findings from the 2007 Awareness Survey for the Formative Evaluation of the A-CESG and CLB showed that roughly 50 percent of all households with children under the age of 18 have at least one child covered by an RESP.

When interpreting each finding, the following points must be kept in mind:

- While some reports refer to the beneficiary (i.e. the child), other reports refer to the subscriber, household or taxpayer (i.e. the parent). Since some parents contribute to an RESP for more than one child, the share of children covered by an RESP will not be the same as the share of parents/households who make contributions.
- Contributing to an RESP is not the same thing as being covered by an RESP (i.e. opening an RESP).
- The definition of children can differ – some reports quote figures for children under 19 years of age, while others use either under 18 or under 17.
- Because comparisons often involve different concepts such as those above, it can be difficult to compare trends through time.





# *Appendix III – Technical Notes and Detailed Econometric Results*

## **A.1 Technical Notes**

This section presents the model estimated and the issues surrounding the estimation technique. The goal of the baseline empirical specification is to model the number of CESG beneficiaries per month. The central question posed in the analysis is whether the introduction of the A-CESG and CLB in 2005 encouraged a permanent level increase in the number of CESG beneficiaries.

### **A.1.1 Model Specification and Definition of Variables**

The following shows the variables and functional form used. The monthly model provided the results that are reported in Exhibit A-1. These results form the baseline results discussed in the report.

#### **Definition of Variables**

*Lnbben* = logarithm of number of CESG beneficiaries per month (dependent variable)

*Lag ln nbbe* = logarithm of lagged number of CESG beneficiaries per month (t-12)

*Lag ln nurate* = logarithm of lagged regional unemployment rate (t-12)

*d \_ clb* = dummy for the CLB/A-CESG (first quarter 2005 and onwards)

*d \_ r1* = dummy for the Atlantic Region

*d \_ r2* = dummy for Quebec

*d \_ r3* = dummy for Ontario

*d \_ r4* = dummy for the Prairies

*d \_ r5* = dummy for British Columbia and Territories (reference)

*d \_ m1* to *d \_ m12* = dummies for the twelve months (reference is *d \_ m1* – January)

*\_cons* = constant term

The following functional form has been used in the pooled Generalized Least Squares regressions with monthly data:

$$Lnbbe = F_1(\_cons, lag \ln nbbe, lag \ln nurate, d\_r_i, d\_m_j)$$

where  $i = 1, 2, 3, 4;$   $j = 1, 2, \dots, 12$

### **A.1.2 Definition of Unemployment Rates**

In order to have a proxy for economic/business factors which can play a role in determining RESP contributions, the unemployment rate was collected for each region (Atlantic, Quebec, Ontario, Prairies, and British Columbia).<sup>83</sup> The unemployment data are based on Statistics Canada's Labour Force Survey and are three-month moving averages that are not seasonally adjusted.

### **A.1.3 Estimation of Panel Data**

The data consists of a pooled cross-section time series combining the Canadian provinces and territories into five regions (Atlantic Canada, Quebec, Ontario, the Prairies, and British Columbia and the Territories). The time dimension is monthly from January 2002 to December 2007 – giving 72 observations per region. The data are seasonally unadjusted. Specialized econometric techniques were utilized to accommodate this kind of panel data.

### **A.1.4 Selection of the Regressors**

The regression may appear to be underspecified to some extent, as many factors that have been shown to affect the participation by families in RESPs have not been included in the equation. However, it is important to note that these equations were estimated on aggregate data. Therefore, the long list of regressors that would normally be used in explaining RESP take-up rates (and, thus, the number of CESG beneficiaries) is not used in the present study. This is because many of the standard demographic variables, such as parental education and income, do not show any significant variation on a monthly basis when presented as an average of all RESP subscribers.

### **A.1.5 Use of the Lagged Dependent Variable**

For the number of CESG beneficiaries, a twelve-period lagged dependent variable has been used. The rationale for incorporating a lagged dependent variable is that the economic variables do not change abruptly, but only gradually over time, reflecting a partial adjustment mechanism. This is the traditional explanation for the use of a lagged dependent variable (see Kmenta 1986 – section on Distributed Lag Models). As well, the data is seasonal in that the number of CESG beneficiaries rises dramatically each December. A third rationale for the use of the lagged dependent variable is that it serves as a proxy for the omitted and unobserved variables (for a detailed explanation of this interpretation, see Woodbridge 2000).

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<sup>83</sup> The territories have been included with British Columbia.

## A.2 Detailed Econometric Results

Exhibit A-1 gives the actual results of the pooled regression estimates that were performed. The regression was run for January 2002 to December 2007 with all five regions across Canada pooled. The models were estimated in Stata with Generalized Least Squares for panel data. The functional form given in equation F1 is used. The non-negative coefficient estimate for d\_clb (0.031) and its statistically significant *P*-value (0.000) indicates that the introduction of the A-CESG and CLB had a positive impact on the total number of CESG beneficiaries.

It should be noted that the  $R^2$  is not provided as it is misleadingly high in the case of a pooled time-series regression with a lagged dependent variable.

Exhibit A-1						
Cross-Sectional Time-Series FGLS Regression						
Coefficients:	generalized least squares			Number of obs		360
Panels:	homoskedastic			Number of regions		5
Correlation:	no autocorrelation			Time periods		72
Estimated covariances			1	Wald chi2(17)	172776.27	
Estimated autocorrelations			0	Prob > chi2	0.0000	
Estimated coefficients			19			
Lnnbbs	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
laglnnbbs	0.807	0.018	43.74	0.000	0.771	0.843
laglnnrate	-0.099	0.014	-7.06	0.000	-0.126	-0.071
d_clb	0.031	0.005	5.99	0.000	0.021	0.041
d_r1	-0.553	0.008	-71.41	0.000	-0.568	-0.538
d_r2	0.527	0.007	71.06	0.000	0.512	0.541
d_r3	1.097	0.005	234.92	0.000	1.088	1.106
d_r4	0.270	0.007	37.59	0.000	0.255	0.284
d_m2	0.002	0.007	0.34	0.736	-0.011	0.016
d_m3	0.006	0.007	0.81	0.417	-0.008	0.019
d_m4	0.005	0.007	0.70	0.487	-0.009	0.018
d_m5	0.004	0.007	0.59	0.552	-0.009	0.017
d_m6	-0.003	0.007	-0.39	0.698	-0.016	0.011
d_m7	-0.001	0.007	-0.15	0.879	-0.014	0.012
d_m8	0.010	0.007	1.51	0.132	-0.003	0.024
d_m9	0.000	0.007	-0.06	0.953	-0.014	0.013
d_m10	0.000	0.007	-0.01	0.996	-0.014	0.014
d_m11	-0.003	0.007	-0.44	0.657	-0.017	0.011
d_m12	0.010	0.007	1.32	0.185	-0.005	0.024
_cons	13.211	0.039	340.43	0.000	13.135	13.287

### A.3 Specification Testing

It has been shown that running regressions on non-stationary data can give rise to misleading or spurious values of the  $R^2$ , the Durbin-Watson, and the  $t$ -statistic, causing analysts to conclude erroneously that a meaningful relationship exists among the regression variables. Several formal tests have been devised to test for the stationarity of the time series and cointegration. For an introductory discussion of the implications of, and recommended methods for, rectifying the errors in time series that are non-stationary while conducting regression analysis, see Woodbridge 2000, pages 348-375 and 578-593.

For this report, one test was applied to determine if the number of CESG beneficiaries is stationary – the Augmented Dickey-Fuller test was utilized to test for unit roots between observations.

#### A.3.1 Augmented Dickey-Fuller Test

Specification tests were conducted for the dependent variable (i.e. *lnnbbs*) individually for each region on the pooled monthly data using the “*dfuller*” command in Stata version 10. The tests were conducted for a lag of zero periods<sup>84</sup>. The results indicate that, in all cases, the  $t$ -statistic is above the critical values given in Exhibit A-2 for all three levels of statistical significance (1%, 5% and 10% levels), thus allowing the rejection of unit roots.

Exhibit A-2 T-Statistics for Augmented Dickey-Fuller Test			
Test Statistic	Interpolated Dickey-Fuller		
	1% Critical Value	5% Critical Value	10% Critical Value
	-3.551	-2.913	-2.592
Atlantic	-1.116		
Quebec	0.331		
Ontario	-0.615		
Prairies	-0.278		
British Columbia	-0.087		
Note: Null hypothesis is non-stationarity.			

<sup>84</sup> The exact command used in Stata 10 was *dfuller lnnbbs*.

## *Appendix IV – Planned CLB Spending*

Planned spending for the first fiscal year (2004-05) of the CLB was forecast to be \$85.0 million.<sup>85</sup> Given that the maximum payout per child for the first official year of the CLB would have been \$500, this assumes that 170,000 children would have received the CLB. To determine the maximum take-up of the CLB, take-up levels for the National Child Benefit Supplement need to be considered, as a family must be in receipt of the Supplement in order to receive the CLB. During the 2004-05 fiscal year, 2.8 million children received the Supplement. Given that there were 6.5 million children in Canada under the age of 18 in 2004-05, 43 percent of all children less than 18 years of age are in receipt of the Supplement. However, the CLB only applies to children born on or after January 1, 2004. According to published Statistics Canada figures, there were approximately 340,000 births in 2004-05. Therefore, applying the 43 percent to the 340,000 births implies that a maximum of 146,461 children could receive the CLB in 2004-05 (maximum spending of \$73.2 million) – lower than the implied maximum of 170,000 children as given by the forecasted spending of \$85.0 million.<sup>86</sup>

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<sup>85</sup> For further information, see “2004-2005 Estimates: A Report on Plans and Priorities”, HRSDC.

<sup>86</sup> These calculations assume that the 43 percent Supplement receipt rate applies to all children less than 5 years of age as well. It is conceivable that there might be a higher Supplement receipt rate for families with very young children, which would mean that the CLB spending maximum of \$73.2 million is higher.