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Research Paper

ICLRPs: An Overview

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Overview

In response to a request from the OUSA General Assembly in Fall 2007 the OUSA research staff has undertaken the task of developing a research paper regarding Income Contingent Loan Repayment (ICLRP). In light of the particular intricacies of ICLRPs, the paper seeks to meet several objectives. Overall, it attempts to analyze if an ICLRP could be a viable alternative for loan repayment in Ontario. The paper, however, does take a multi-faceted approach, in order to deliver a holistic overview of the situation.

In my introduction, I simply address the need for post-secondary education (PSE) in Ontario. As a result of this increased need for PSE in Ontario, I acknowledge increasing debt-loads of students and the obligation they are tasked with to repay loans they have been granted. Next, I introduce the current state of affairs of loan repayment in Ontario and attempt to analyze both the arguments for the mortgage-style loan repayment system in Ontario and the arguments against it. After acknowledging the arguments for and against the Ontario system, I move into an explanation and analysis of ICLRPs, and the arguments for and against ICLRPs. The next section reviews ICLRPs in practice in peer jurisdictions such as New Zealand, Australia, the United Kingdom, Sweden, South Africa and the United States of America and relays some of the merits and downfalls of each program.

After this overview of ICLRPs, I will discuss OUSA's current stance on ICLRPs and our arguments which maintain this position. Currently, OUSA maintains that ICLRPs are not a viable option as a repayment program. However, a viable option and potential recommendation for repayment may be the recently implemented Extended Repayment Program (ERAP) in Nova Scotia, which has also recently been implemented at a national level by the federal government. As an addition to the paper and to provide the reader with a broader overview, I also provide other potential loan repayment options which, although they are not in great usage, could be other potential options to consider.

As a conclusion, the paper maintains that ICLRPs, with all its merits, should not be implemented in Ontario. Rather, other alternatives such as the ERAP in Nova Scotia should be strongly considered.

Introduction: The Need for Post-Secondary Education

It is clear to most analysts today that a post-secondary education (PSE) is imperative for most individuals in Ontario, if not all of Canada. If Ontario is to address any of the ills it may be facing, education is a key to addressing the issue. Education has a variety of benefits. In fact, the Organization for Economic Co-operation and Development (OECD) has consistently stated that "in examining the relationship between skill/competence levels and the individual's performance in the labour market, the most common pattern observed is the consistently large association between low educational attainment and low relative earnings and high unemployment."[1] Subsequently, a rational response to high unemployment rates, low earnings, would be to increase educational attainment. While not a guarantee that education will eradicate all the ills facing a society, research consistently reflects that it is a key determinant to social and economic prosperity. The following table outlines many of the benefits that come as a result of education:

Figure 1: The Economic and Social Benefits of Post-Secondary Education[2]

	Public Benefits of Higher Education
Economic	Increased tax revenues
	Greater productivity
	Increased consumption
	Increased workforce flexibility

[1] OECD Jobs Study: facts, Analysis, Strategies, OECD, Paris, 1994 (find a more up to date quote)
[2] Adapted from Institute for Higher Education Policy, cited by Junor and Usher 2004, p. 321

	Decreased dependence on government financial support
Social	Reduced crime rates
	Increased civic engagement
	Stronger social cohesion and appreciation for diversity
	Improved ability to adapt to new and emerging technologies
	Less reliance on health care system

The benefits of PSE benefit not only society, but individuals. Research has indicated that educated individuals are more socially responsible. They are healthier, less likely to access expensive social services, more likely to contribute to their community through volunteering and monetary support, and more likely to vote. According to studies undertaken in the United Kingdom, graduates with post-secondary education are "…less depressed, healthier, more likely to vote in elections and help with their children's education…"[3]

Furthermore, individuals with a post-secondary education are more likely to have higher average lifetime earning. In fact, a university-educated worker's weekly earnings are on average 61 per cent higher than their counterparts with just a high school education. In the same study by TD Economics, it revealed that university students receive 12 to 20 per cent return on their investment in university education.[4]

The evidence clearly reflects that PSE has a variety of benefits: socially, economically, and personally. Most individuals are becoming aware of the benefits of education; and more individuals between the ages of 18 and 24 are attending university, as is reflected in the most recent release by Statistics Canada which states that, on a national level, 2005/2006 enrolment numbers were at a record high for the fifth year in a row. In 2004/2005, enrolment surpassed one million for the first time. In 2005/ 2006, 1, 047, 700 students signed up for classes, increasing enrolment numbers by 3 per cent.[5] In Ontario, similar numbers followed suit; between 1999/2000 and 2005/ 2006, there has been a 38 per cent increase in university enrolment numbers.[6]

With increasing enrolment numbers comes increasing need to fund post-secondary education. While OUSA advocates increased funding to the PSE system by both the federal and provincial government, OUSA also recognizes that a fully funded system with free tuition is unlikely to occur in the near future. In Ontario, students are increasingly funding more of their education. Through tuition, students contribute approximately 45 per cent of university operating grants.[7] As a result, increasing numbers of students are accessing loans and grants to pay for their education.

Effect of Student Debt

[3]Higher Education Funding Council for England, "Benefits of higher education reach far beyond the job market," (England: HEFCE, 2003); available online at http://www.hefce.ac.uk/news/hefce/2003/benefit.htm.

[4] TD Economics, "Investing in a post-secondary education delivers a stellar rate of return", TD Economic Topic Paper, January 22, 2004, p.1-2; accessed online at http://www.td.com/economics/special/ca0104_education.pdf.

[5] http://www.statcan.ca/Daily/Enlish/080207/d080207a.htm

[6] Percentage increase calculated based on numbers provided by Statistics Canada, "University Enrolment – 2005/ 2006," 7 February 2008, accessed online on 13 February 2008, (Ottawa: Statistics Canada, 2008); available online at http://www.statcan.ca/Daily/English/080207/d080207a.htm.

[7] COU resource document 2007. p. 17-18

This increased use of loans subsequently leads to increased debt loads for students, and repaying these loans after graduation can become increasingly difficult as debt loads increase.[8] Christine Neill has found that increasing the limits of student loans ultimately leads to an increase in student loan debt. Over the last decade, from the funding-starved years of the 1990s to long-awaited investments in 2005, student debt has been increasing at a rapid rate. As the cost of university has increased, student debt has subsequently followed suit. As debt levels in Ontario rise, it is increasingly difficult for students to repay their loans. Studies have reflected that the default rate on student loans in Canada is approximately 30 per cent, with 90 per cent of these students defaulting on their loans in the first three years of repayment.[9] In 2005, which has the most recent data available, approximately 10.6 per cent of Ontario student loans were in default. The number for Ontario colleges is appallingly much higher, at 21.5 per cent in 2005.[10]

High debt levels have a variety of influences upon graduates. First and foremost, high repayment rates affect quality of life. A study conducted in Norway revealed that as student loan debts increase, the probability of having difficulty paying regular household expenses increases.[11] The amount of debt owed and income affects the ability to repay. A study by Ross Finnie and Saul Schwartz also reveals, as anticipated, that variations of amount owed was statistically significant and has a great impact upon the likelihood of an individual reporting difficulties. For women and men, an extra $1000 in loans affected the probability of repayment problems by 5 per cent and 7 per cent, respectively.[12]

Furthermore, a study by Baum and Schwartz in 2006 evaluated the subjective debt burdens of individuals in Canada. Their study revealed that, on average, 27 per cent of individuals, almost one-third, of individuals reported having difficulty in repaying their student loans. Approximately 24 per cent of university graduates reported experiencing some difficulty repaying their student debts. Moreover, as the chart displays, over the years, there is an increase in the number of students reporting difficulty in repaying their student loans.

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[8] In general, studies of financial aid programs reflect evidence that reductions in university cost results in higher enrolment numbers. For students of lower income, this effect seems to have an even greater impact (Kane, 1994; van der Klaauw, 2002; Linsenmeier, et al., 2002).

[9] Joseph Berger, Anne Motte and Andrew Parkin, The Price of Knowledge, Access and Student Finance in Canada 3rd ed. (Montreal: Canada Millennium Scholarship Foundation, 2007): 135.

[10] http://osap.gov.on.ca/eng/PDF/0506/2005%20Default%20Rate%20-%20University.pdf
Ontario Student Loan Recipients and Defaults for Ontario Universities,
2005 and 2004

[11] Vibeke Opheim, "The Economic Burden of Student Loan Repayment in Norway," Education Economics, 13. 4 (2005): 436.

[12] Ross Finnie and Saul Schwartz, Student loans in Canada: an analysis of borrowing and repayment Economics of Education Review Vol: 21, Issue: 5, October, 2002 p. 509. I do acknowledge that Ontario has debt reduction measures in place that help students experiencing extreme hardship and repayment problems.

Figure One: Subjective Debt Burden in Canada[13]

"Have you had any difficulties in repaying all of your government student loans?"

Year of Graduation	*1990*	*1995*	*2000*
	Percent Yes	*Percent Yes*	*Percent Yes*
Male			
Two-Year College	22	21	30
University	NA	17	24
Female			
Two-Year College	21	23	32
University	NA	22	24
Two-Year College and Universities Combined			
Male	22	19	27
Female	21	22	27
All	21	21	27

Sources: National Graduates Survey: 1990, 1995, and 2000 cohorts

The situation is not limited to Canada. Students in the United States also report feeling increasingly burdened with debt. Over one-third of students reported financial hardship as a result of student loans.

Figure Two: Subjective Debt Burden in the United States[14]

Subjective Debt Burden in the United States				
National Student Loan Survey Data	*1988*	*1991*	*1998*	*2003*
"To what extent do you feel burdened by your student loan payments?" (Percent feeling burdened)	NA	NA	50	55
"Since leaving school, my student loans have caused me more financial hardship than I had anticipated at the time I took out the loans." (Percent agreeing)	27	25	36	34
"Think back to the time when you first started your education after high school. If you could begin again at that point in time, and taking into account your current experience, would you borrow: (1) much less; (2) a little less; (3) about the same; (4) a little more; (5) much more." (Percent reporting "much less" or "a little less")	NA	31	45	54

Source: Baum and O'Malley, 2003.

[13] Sandy Baum and Saul Schwartz, "How Much Debt Is too Much? Defining Benchmarks for Manageable Student Debt," College Board, (New York: The College Board, 2006), 9; available online at http://www.collegeboard.com/research/pdf/06-0869.DebtPpr060420.pdf

[14] Sandy Baum and Saul Schwartz, "How Much Debt Is too Much? Defining Benchmarks for Manageable Student Debt," College Board, (New York: The College Board, 2006), 10; available online at http://www.collegeboard.com/research/pdf/06-0869.DebtPpr060420.pdf

Debt levels can also result in a delay of major life choices for many students. A poll in the United States revealed that a significant number of students and graduates delay buying their first house, delay marriage, and delay having children.[15] In fact, debt loads can also impact career choice, leading students toward high paying jobs in the private sector and avoiding jobs in the civil service and other public sector jobs.[16] Debt loads affect future decisions, not only career choices but high levels of debt also act as a deterrent for future studies. Data reveals that students with high levels of debt are less likely to continue on to obtain education beyond a bachelor's degree, it affects pursuit of both master's and PhD degrees. Finnie and Schwartz note that accumulating debt "may have deterred some individuals from continuing [or pursuing] their [post-graduate] studies."[17]

The fear of high debt levels will deter many students from even accessing PSE, opting rather to obtain the stability of a steady income right out of high school rather than take a chance on pursuing post-secondary education with a guarantee of debt and no guarantee of employment upon graduation. Often, those who are debt-averse are low-income students who are already, statistically, less likely to access PSE. A report from Nellie Mae, a large lending institution in the US, stated that "borrowers from low-income families struggle with student debt that is manageable for those from more privileged backgrounds."[18] Debt levels more adversely affect low-income individuals both at the point of PSE entry and often upon graduation. Therefore, not only do high-debt levels affect individuals after PSE, but often hinders individuals from even attempting to access the system in the first place.

With debt and debt aversion rising among individuals, repayment of this debt must be something that is examined. While replacing loans with up-front grants is the ideal solution, individuals with student loans still exist, and OUSA therefore attempts to examine repayment options.

CURRENT STATE OF AFFAIRS IN ONTARIO

Under the current system of student loans, the Ontario Student Assistance Program (OSAP) administers government loans to students. 60 per cent of the loan is provided by the federal government and the remaining 40 per cent is provided by the provincial government. For a single, dependent student, living away from home[19] the current yearly maximum loan limit administered by the OSAP program is $11, 900.[20] This is the absolute maximum and loan amounts for students can vary, dependent upon assessment by the program.

The assessment formula takes the following into consideration when determining student need and loan allocation: direct educational costs such as books, tuition, and other educational materials, expected living costs, and related expenses. These are then contrasted with student savings from summer jobs, required parental contribution,

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[15] Center for American Progress, Education, "College Students Need Help," 18 January 2008 (Washington: Center for American Progress, 2008); available online at http://www.americanprogress.org/issues/2007/01/tuition.html.

[16] Sandy Baum and Marie O'Malley, College on Credit: How Borrowers Perceive their Education Debt, Results of the 2002 National Student Loan Survey, 6 February 2003. page 15; available online at http://www.nasfaa.org/annualpubs/journal/Vol33n3/Baum_Omalley.pdf

[17] Ross Finnie and Saul Schwartz. "Student Loans in Canada. Past, Present and Future," C.D. Howe Institute, Toronto, 1996. Finnie and Schwartz have outlined three reasons to explain why those who went on to higher studies borrowed less money that those at the earlier stages. First, students who went on to achieve master's and PhD degrees were usually better students who received bursaries and scholarships, thus reducing their need and demand for loans. Second, individuals from more affluent families were less likely to need loans and more likely to go on to higher levels of study. Last, they cite accumulating levels of debt may deter some students.

[18] Baum and O'Malley, College on Credit, 24.

[19] Single, dependent, student, living away from home will guide our data in this research unless otherwise specified.

[20] Insert link and reference where the numbers on loan limits can be made available.

bursaries, scholarships and other sources of support.[21] The assessment formula calculates need versus contributions and a loan certificate is issued to address the remaining need (up to the maximum). Provincial grants and loans are issued to make up the full financial support package.

The OSAP Website outlines assessment in the following manner:[22]

Allowable Educational Costs	- (minus)	Expected Financial Contribution	=(equals) Calculated Financial Need
▪ Tuition and compulsory fees ▪ Books and supplies ▪ Equipment ▪ Computer Costs ▪ Personal Living Expenses ▪ Child Care ▪ Travel		▪ Student Income ▪ Student Assets ▪ Parental Income ▪ Spousal Income ▪ Spousal Assets	

Students often contribute to some of the costs of their education. They generally rely on a variety of financing options: personal income and assets, family savings (RESPs, RRSPs), parental or spousal contributions, private loans, private or family borrowing, tax credits, institutional loans, and government provided loans and grants.[23] The OSAP assessment formula, as far as personal contribution goes, does not take private loans and private borrowing into consideration but does consider all other options as potential contributions to education financing.

Many students finance their education through one or all of the options available to them. As mentioned, both levels of government expect some personal contribution. In addition to personal contribution, grants and loans are provided through a variety of avenues. Some students are provided a federal bursary administered through the Canada Millennium Scholarship Foundation. The Canada-Ontario integrated student loan, as mentioned, can provide up to $11,900 contingent upon need. In addition, the Ontario Student Opportunity Grant (OSOG) reduces debt loads after graduation. Through OSOG, any loan administered to a student in excess of $7,000 for a two-term year is turned into a grant. So, for example, if a student is provided the full $11,900 in a loan amount, he or she would only be required to repay $7,000 of that allocation and the remaining $4,900 is turned into a grant by the Ontario government for the Ontario portion of the loan. Last, many students acquire loans from private lending institutions such as banks and receive scholarships from private or not-for profit organizations that are not affiliated with the government.

Loan Repayment

[21] As noted by Alarie and Duff, it is interesting that although there are significant differences in housing costs in different locations, the assessment formula makes no adjustment for these variations. Alarie and Duff, p. 559. Rather, rent cost is calculated as half of the cost of a two-bedroom apartment in Toronto. Food and nutrition allocations are made based upon the Canada Food Guide and what it determines to be a healthy basket of food for the nutritional needs of one individual. The assessment does not include things like alcohol or vacations.

[22] OSAP Access Window, "Getting Started- OSAP Basics," (Toronto: OSAP Access Window, 2008), available online at http://accesswindow.osap.gov.on.ca/aw/ENG/not_secure/osap1011.htm#S1-200

[23] Canada Millennium Scholarship Foundation, Focus on: Ontario (November 28, 2004)

Students taking the entire loan amount each year of study can graduate with a loan that is quite large. In theory, the introduction of the OSOG system is a debt reduction measure that would limit the maximum of a student's loan (an undergraduate student enrolled in four year program with two-terms each year) to $28, 000 in total. However, if a student takes an extra year to complete his or her degree, that total could increase to $35, 000.

While a student is enrolled in her program of study, the government pays the interest on the loan on her behalf. Once an individual is no longer enrolled as a student, interest begins to accumulate on the loan immediately. Interest on the loan is calculated in several ways, and depends on the student's choice of repayment. On the federal portion of her loan, a student may choose a fixed or floating interest rate. If a student selects the Fixed Interest Rate option, interest is locked in at the current prime interest rate plus 5 per cent. If the student selects the Floating Interest Rate option, interest on the loan is calculated at the varying rate of prime plus 2.5 per cent.[24] These two options are available for the federal portion of the loan, which makes up 60 per cent of a student's loan. The remaining 40 per cent of the student's loan is subject to the Ontario loans interest rate, calculated at prime interest rate plus 1 per cent.

6 months after completing studies or ceasing studies, a student is expected to begin repayment of the loan. Payments for each individual vary, dependent upon applicable interest rate, balance outstanding, and repayment or amortization period. On average, individuals enter a 10 year amortization period (9.5 years plus the 6 month grace period). However, this period can be shortened or lengthened (up to 15 years) as the student chooses. [25] Students negotiate the repayment schedule with the National Student Loan Service Center (NSLSC); the federal and provincial government transfer authority over the loan to the NSLSC after a student ceases her studies.

The loan repayment system in Ontario is a mortgage-style repayment system. Monthly loan repayment is contingent upon several features, such as the size of the loan, interest rate, and maturity of the loan. What does not impact monthly payments of the loan is income. In some systems of loan repayment, as will be discussed later, loans are paid as a percentage of a student's earnings. This is not the case for a mortgage style loan with OSAP. Rather, monthly loan payments are calculated solely on amortization: repaying a loan over a certain length of time, monthly payments are calculated to include both interest and loan premium. Clearly, in this repayment system, students pay the same amount for their loan at the beginning of repayment as at the end (with some variation as interest rates change). A graduate pays a certain amount each month that will result in the loan being repaid by the end of the repayment period.

The following chart displays average repayment periods, along with amortization and interest accrued:

Figure Three: Loan Repayment Plans

Loan Repayment by Principal and Repayment Period				
Principle	Repayment Period	Monthly Payment	Interest Paid[26]	Total cost of Education
$10,000	10 years	$126.83	$4, 458.11	$14, 458.11
$10,000	15 years	$98.72	$7, 176.79	$17, 176.79
$15,000	10 years	$190.24	$6, 687.16	$ 21, 687.16

[24] For more information regarding repayment and interest rates, please reference any of the following sites: Ontario Government. Ontario Student Assistance Program: Repaying Your Loans. 23 August, 2007. Accessed on 13 February, 2008 (Toronto: Queen's Printer for Ontario, 2008); available online at http://accesswindow.osap.gov.on.ca/eng/not_secure/repay_howwhen_12.htm. For interest rates

[25] Amortization: payment of an obligation in a series of installments or transfers. amortization. Dictionary.com. WordNet® 3.0. Princeton University. http://dictionary.reference.com/browse/amortization (accessed: February 13, 2008).

[26] Calculated with a floating interest rate with the current rate of prime: 5.75%. For loan calculator, access at http://tools.canlearn.ca/cslgs-scpse/cln-cln/35/lrc-crp/calculate.do#prime

$15,000	15 years	$148.08	$10, 765.18	$25, 765.18
$20,000	10 years	$253.65	$8, 916.22	$28, 916.22
$20,000	15 years	$197.43	$14, 353.57	$34, 353.57
$25,000	10 years	$317.06	$11, 145.27	$36, 145.27
$25,000	15 years	$246.79	$17, 941.97	$42, 941.97

Debt Reduction Strategies

If a student does experience a great deal of difficulty repaying his or her loan, the federal and provincial government have established some debt reduction measures to alleviate debt burdens in dire situations. First, graduates can request that the NSLSC extend their amortization period to 15 years, resulting in lower monthly payments. If a student can prove that he or she is a low-income student or is unemployed, he or she can apply for interest relief, for a six month time period, up to a maximum of 30 months. In some circumstances, this interest relief period can be increased up to 54 months, but only if the student has completed studies in the last five years and has already increased loans repayments up to 15 years.[27]

If a student has exhausted all other avenues of relief, he or she can apply for Debt Reduction in Repayment (DRR). If a student has been out of school for more than five years and has obtained interest relief for 30 months or more, it is quite likely that she can become eligible for DRR. DRR is administered by both the federal and provincial governments, and each government provides different levels of funding. The provincial portion of the debt reduction is up to $4,300, a second reduction up to $2, 200 and a third reduction up to $2, 200. The federal portion of DRR can reduce a student's loan up to $26, 000. This includes both principle and interest accrued. The first reduction can be up to $10,000 or 50 per cent of the loan, whichever is less. A second reduction can also total up to $10, 000 and a third reduction can be up to $6, 000. The goal of the program is to reduce the individual's principal loan amount if he or she is experiencing long-term financial difficulties. The assessment of debt reduction and interest relief is calculated on monthly loan repayment and monthly income, including the income of both the individual and the individual's partner or spouse.[28]

There are a few stipulations regarding the DRR strategy. First, the loan must not already be in default or in collection with the Canada Revenue Agency or some other collection agency. Second, the student must be out of school for at least five years. Furthermore, the student must not have participated in a bankruptcy related event before May 11, 2004.[29] In addition, the government has stipulated maximum income guidelines to determine eligibility for both interest relief and the DRR program.[30] Other stipulations do exist for the DRR program but, due to space limitations, this must suffice.[31]

Arguments for the OSAP loan repayment system

An initial scan of the mortgage style repayment system should allow for some broad, general observations of the potential arguments for and against the mortgage-style loan repayment system which OSAP currently implements.

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[27] http://osap.gov.on.ca/eng/not_secure/ir.htm

[28] http://www.hrsdc.gc.ca/en/learning/canada_student_loan/debt_reduction.shtml

[29] There are some interesting stipulations regarding bankruptcy and new policy. Legislation in 1998 decided that, should a student declare personal bankruptcy, the student loans would not be absolved along with other debt. For more on this, please read Alex Usher and Sean Junor, "The Price of Knowledge: Access and Student Finance in Canada," The Price of Knowledge (Montreal: Canada Millennium Scholarship Foundation, 2004), 214.

[30] DRR- http://www.canlearn.ca/en/support/help/glossary/maximum_income_guidelines_DRR.shtml. Interest relief- http://www.canlearn.ca/en/support/help/glossary/maximum_income_guidelines_IR.shtml

[31] Debt Reduction in Repayment, "Am I Eligible for the Debt Reduction in repayment Program?" (Ottawa: HRSDC, 2008); available online at http://www.hrsdc.gc.ca/en/learning/canada_student_loan/debt_reduction.shtml

Interest Subsidization

Unlike other student loan programs, the Canada-Ontario Integrated Student Loan is subsidized during the student's course of study. It is only when a student has completed his or her studies that interest on the loan begins to accumulate. This stands in contrast to other systems on all ends of the spectrum; for example, in the Netherlands, students are charged a 3 per cent interest rate on their loans which begin to accrue throughout the student's course of study. In addition, student lines of credit also consistently charge interest on the amount that the student has used. Interest rates on these vary anywhere between prime plus 1 per cent to prime plus 2.5 per cent (or higher). As a result, an argument for the OSAP program is the interest subsidization measure throughout the course of a student's study.

Predictability and Stability

To a degree, the mortgage-style repayment system offers some form of predictability and stability. Although the monthly repayment may vary somewhat contingent upon the prime rate of interest at the time, in general the amount repaid each month, for however long the loan agreement lasts, is quite consistent. This will allow many students to begin long term planning. Furthermore, as a student begins to earn more, the proportion of loan repayment as a percentage of income is markedly decreased. Other repayment systems may increasingly take more and more of a student's income as the student begins to earn more.

In addition, the system does provide for some degree of stability in the sense that it prepares for drops in employment that last for short periods of times, such as short bouts of unemployment. The Ontario government has instated Interest Relief for students who experience very low-income periods as well as short spurts of unemployment. Students can apply for periods of interest relief which last for six months. They must reapply after each six month term but can extend interest relief up to 30 months. As the program accommodates for six month time spans, it covers the eventuality of unemployment and low-income quite well.[32]

Debt Reduction Strategy

Most analysts have also noted that approximately one tenth of Canada's student debt is forgiven through remission.[33] Although data for Ontario is limited, many Ontario students do benefit from debt remission strategies. First, as mentioned, the Ontario government has implemented the Ontario Student Opportunity Grant (OSOG), which effectively lowers student overall debt loads upon graduation. Through OSOG, any loan administered to a student in excess of $7,000 for a two-term year is turned into a grant. So, for example, if a student is provided the full $11,900 in a loan amount, he or she would only be required to repay $7,000 of that allocation and the remaining $4,900 is turned into a grant by the Ontario government for the Ontario portion of the loan.

Second, as previously mentioned, the federal and provincial governments have implemented debt reduction measures in order to address overly burdensome loan repayments for perpetually low-income individuals. Initially, the Ministers of Education underwent an extensive consultation period to determine if an implementation of an ICLRP in a Canada context would be feasible. After the consultation period, they determined instead to pursue debt reduction strategies, including interest relief and DRR programs rather than the income-contingent loan repayment strategy.

Repayment Threshold

[32] This has also been noted by CD Howe, to whom I owe this piece of insight. CD Howe commentary p. 13
[33] Alex Usher, Global Debt Patterns, p. 8

OSAP introduces a threshold for repayment. If a student's income falls below a certain threshold, he or she can apply for interest relief that lasts for six month time periods. During this time, an individual will not be required to make repayments on his or her loan for the time in which he or she is approved for interest relief (sometimes up to 54 months). Furthermore, during this time period, the government pays the interest that accrues on a student's loan allowing him or her to avoid increasing debt loads. This is actually one of the strongest arguments in favour of the system as it introduces an income repayment threshold without introducing a strict ICLRP. As noted, this introduces an element most common to an ICLRP in which an individual is not required to repay his or her loans until his or her income reaches a certain threshold.

Loan Repayment Subsidization

Although this subsidization is a measure implemented at the end of a student's study period, as far as loan repayment is concerned, the tax credit received annually by students does serve to reduce monthly loan repayment. As noted by Alex Usher, both Canadian and American borrowers receive tax credits. These credits do lower repayment amounts somewhat. During analysis in 2004, Usher found that a student paying approximately $209.83 per month would receive a tax credit at the end of the year worth approximately $18 per month. This would reduce the "net" payment of the loan to approximately $191.83 per month.[34]

It should be noted, however, that this is a benefit that comes as a result of the structure of the OSAP system, and not necessarily one of the mortgage-style loan repayment system. Any other system implemented by the government could implement a similar system of tax credits and benefits.

Arguments against the OSAP loan repayment system

Although there are arguments for mortgage style repayments, arguments in opposition also abound.

High Interest Rates

An immediate drawback of the OSAP system referenced by most individuals is the high interest rate charged by the program. As lenders know, and as noted by Barr, "there is a high risk premium association with investing in human capital."[35] He explains that just as insurance companies charge higher premiums for bad drivers, banks and lenders charge higher interest rate for investment in human capital.

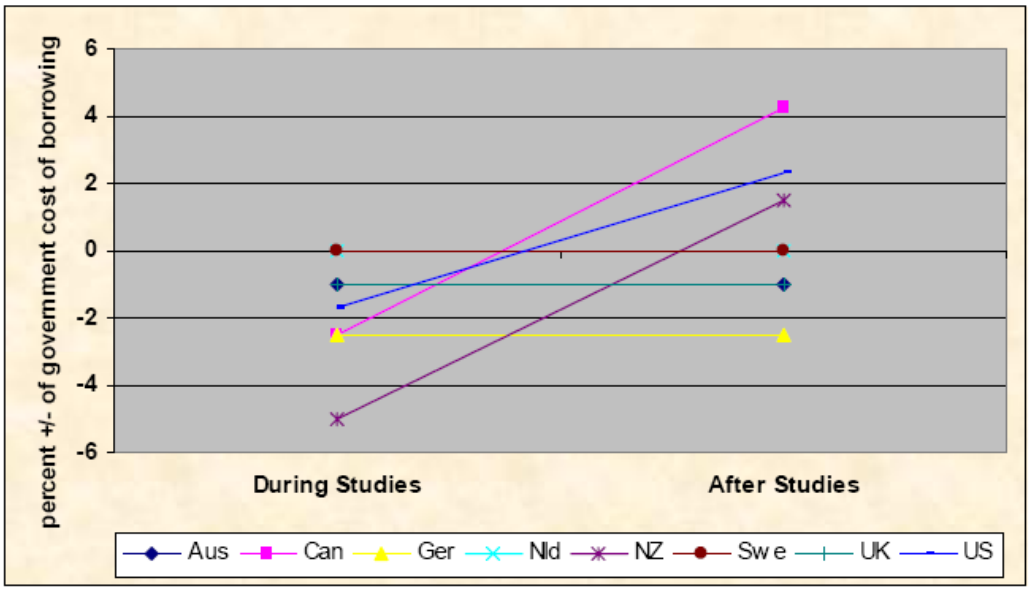
In order to make up for a high default rate and the precariousness of investment in human capital, the OSAP system charges approximately an 8.5 per cent interest rate per annum. The interest rate is substantially higher than interest rates charged on loans which are not vested in human capital. The apprehension, although understandable, results in interest rates that are some of the highest among peer jurisdictions, as displayed by the chart below:

Figure Four: Student Loan Interest Charges During and After Studies Relative to the Government Cost of Borrowing[36]

[34] Alex Usher, Global Debt Patterns, p. 14

[35] Barr p. 182.

[36] Usher p. 5. New Zealand's newest legislation now charges 0 per cent interest upon student loans during or after study.



This chart does not reflect exact interest rates, but the current state of post-study interest rates has not altered. As Alex usher has noted, Canada charges its students the most on their student loans.[37]

Interest Relief Measures May Increase Debt

In order to qualify for many of the debt reduction strategies, students must first increase their loan repayment period to 15 years. Students who take advantage of extending their repayment period, along with the high interest rate, ultimately pay substantially more for the same education than those who do not experience financial hardship. For example, as displayed in Figure Three, two students with the same $20,000 debt can still pay substantially more for their education. A student who takes 9.5 years to repay his or her debt will pay approximately $8, 916.22 in interest.[38] In contrast, a student who extends his or her amortization period to the maximum of 15 years will pay almost double in interest payments: $14, 353.57. Interest Relief measures can, in fact, actually increase debt for students experiencing the most financial hardship.

Interest Relief Limitations

Interest relief measures are only available to students whose loans are in good standing. In order to qualify for interest relief, the student must often first pay off the interest that has accrued on his or her loan, or capitalize the interest before he or she can qualify.

First, when an individual capitalizes interest, he or she turns interest accrued into principal. When the amount has been turned into principle, that principle can accumulate interest. Therefore, capitalizing the interest on one's loan can actually increase one's debt load by driving up interest accumulation.

Next, as noted by many commentators, interest relief is injurious to those who have already fallen behind on loan payments. If a student is unable to pay off the interest that has accrued on the loan before he or she can qualify for interest relief measures, the debt will continue to grow and the student will be placed in consistently more limiting

[37] Usher p. 4

[38] Based on numbers provided by www.canlearn.ca. current interest rate of 5.75%

financial hardship. As noted by CD Howe "those who are already far behind in their repayment are arguably in the greatest difficulty and have no relief."[39]

Furthermore, DRR is only introduced after a period of extended financial hardship. The individual must be out of school for five years and be able to prove that he or she will experience continued low-earnings. Five years is a long time to teeter on the brink of poverty.

Last, as of 1998, declaration of bankruptcy no longer absolves student loans. Although there was an epidemic of student's declaring bankruptcy to get out of their student loans, completely reversing the situation seems counter-productive. Bankruptcy is only allowed in extreme measures. If a student is in such a dire situation as to merit bankruptcy, perhaps absolving student loans may be a wise measure. Unfortunately, this is not the case and students are burdened with the loan despite bankruptcy.

Exclusion of Part-Time Students

The OSAP system excludes part-time students. Studies do reflect that increasing numbers of students are enrolling in university as part-time students. Yet, the OSAP system does not extend the same interest subsidization to part-time students as it does to full-time students. Part-time students are required to make interest payments on their OSAP loans while enrolled in school. As a result, these students do not experience many of the benefits of being a student in pursuit of higher education.

All or None Mentality

Another limitation of the OSAP system and mortgage-style repayment system is an all or none mentality extended by the repayment structured. Regardless of one's situation, his or her burden of repayment -"relationship between fixed repayments and current income"- does not vary. Two individuals with the same loan amount may experience varying hardship depending on his or her income. While one individual may only need to allocate 4 per cent of monthly income to service the OSAP loan, another individual could be forced to allocate 15 per cent of monthly income to service the OSAP loan: a service charge which may be quite hefty. As mentioned, while the individual can extend the loan repayment period, there is a limit of 15 years on this extension, which may still not reduce monthly loan repayment to a manageable monthly amount.

Interest relief can reduce a student's debt burden for a short period of time. Yet, once that time of relief is over, oftentimes he or she is still making payments that chew up a considerable amount of his or her salary. An investment in education is different than investment in a home, and taking on a mortgage. The rate of return on a house is almost guaranteed. In contrast, student borrowers face risk and uncertainty because their return on investment for their qualification is not guaranteed. If the investment turns out to be low (such as the situation would be with a house) they cannot sell their qualification and are saddled with a growing debt load.[40] Therefore, if the investment in education doesn't pan out, the debt repayment still exists, often times regardless of income and size of debt. Students are subsequently saddled with a large burden of debt repayment with little leeway.

Mortgage Style Repayment Can Limit Student Choice

Often, student with high debt loads will choose to pursue a career in the private sector for a higher paying salary. This often comes at the expense of public service jobs. The government in British Columbia has noticed this trend and has implemented legislation that will erase an individual's student debt after a certain period of time of service in

[39] CD Howe commentary paper. P. 13 http://www.cdhowe.org/pdf/commentary_233.pdf
[40] Nicholas Barr, The Welfare State as a Piggy Bank, p. 182

the public service. In fact, many governments in the United States have pursued similar avenues, reducing the debt loads of lawyers who decide to pursue work in the public, not-for-profit, sector.

As there is little accommodation for an income and debt ratio, many students pursue higher paying jobs even though there may be great need and desire on the part of the students to work in the public sector.

IS THERE A BETTER WAY?

In this next section, I will explain the parameters of an income contingent loan repayment program (ICLRP) and examine the arguments for and against such a system. I will also examine the ICLRP in practice in other peer jurisdictions. Furthermore, I will examine OUSA's current position regarding ICLRPs.

What about an Income Contingent Loan Repayment Program (ICLRP)?

The ICLRP was first touted by Milton Friedman in 1955, in his essay entitled *The Role of Government in Education*. Friedman disagreed with public subsidization of the education system. Rather, he maintained that governments should provide the funds necessary to pursue higher education on the condition that a specified fraction of earnings be paid to the lender.[41] Friedman advocated for a repayment income threshold and a time period after which the loan would be written off. Through Friedman's approach, public subsidization of universities could be reduced or eliminated and more free market economics introduced. As noted in one of OUSA's previous papers, an ICLRP is "a compelling solution to theoretically separate, but practically entangled, goals: injecting more financial resources into universities without raising government expenditures, and facilitating student access by providing a fair method of loan repayment."[42]

In brief, in an income contingent loan repayment system, an individual is required to repay his or her student loan upon graduation as a proportion or percentage of income.

The ICLRP differs from a traditional repayment system. In the traditional system, three contractual elements are displayed:

1. An annual interest rate expressed as a percentage of the amount borrowed, or still to be repaid;
2. A prescribed time period, or repayment period, in which the individual needs to repay the loan;
3. A mode of repayment, varying from either set monthly payments with equal installments, or installments which begin small and increase over time.

As mentioned, the traditional repayment system has often been criticized for failing to be sensitive to income, as they are calculated against time. As a result, these programs often experience high default rates.

In contrast, the ICLRP system is often touted a system that is sensitive to varying financial situations. This system also presents three basic elements:

1. A percentage of income or earnings that is required to go to loan repayment. This can be a fixed flat rate or a progressive rate scale, in which the proportion of repayment increases with salary;
2. Stipulation of what qualifies as income;
3. A provision of release for further repayment. This could entail full repayment with interest, or debt forgiveness after a maximum period, or maximum age.

[41] Friedman, "The Role of Government in Education," Economics and the Public Interest. Ed. Robert A. Solo. Rutgers University Press: 1955.
[42] Graeme Stewart, hot potato paper, . p. 168.

There is a great deal of malleability within this system: monthly repayment, length of repayment, ultimate repayment, introduction of interest rates, and the like. As the chart below will display, the implementation and variety found within an ICLRP is vast:

Table One – Features of Different Income-Contingent Loan Programs[43]

	Type of ICR	Threshold for Repayment	Fixed Repay-ment Rates	Extended repayment period	Universal Coverage	Use of Income Tax System	Interest Subsidy in Repay-ment	Possibility of Negative Amor-tization?
Australia	Hard	Yes	Yes	Yes	Yes	Yes	Yes	No
New Zealand	Hard	Yes	Yes	Yes	Yes	Yes	Partial	No
UK	Hard	Yes	Yes	Yes	Yes	Yes	Yes	No
South Africa	Hard	Yes	Yes	Yes	No	No	Yes	No
US ICR	Hard	Yes	Yes	Yes	Yes	No	No	Yes
US non-ICR	Soft	Yes	No	See footnote 4	Yes	No	No	See footnote 4
Netherlands	Soft	Yes	No	No	Yes	No	No	No
Germany	Soft	Yes	No	No	No	No	Yes	No
Canada	Soft	Yes	No	No	No	No	No	No

ICLRP with Risk-Sharing

The ICLRP with risk-sharing is a widely implemented scenario. In this situation, default that occurs is not carried by those in one's cohort but by higher earners in the entire system and the tax payer. Unlike the risk-pooling ICLRP (in which the student's cohort takes responsibility for loan default), the risk-sharing ICLRP reflects no down-side risks for any of the borrowers. If the government does not receive its anticipated revenue from the system, and lower than expected repayments, there are no associated penalties for the borrowers, while there is in a risk-pooling system. On the other hand, if the government receives greater than anticipated revenue, borrowers also do not receive a benefit.

Arguments for an ICLRP

Sensitive Monthly Payments

The traditional loan repayment system has been scourged for its unyielding monthly payments. Under the conventional mortgage style repayment program (OSAP), a university graduate earning an initial salary of $36,000 with a debt of $28, 000 will have monthly payments of $355.11. In contrast, a university graduate in the income contingent system with a proportional repayment of 6 per cent could pay approximately $180/month in the first few years after graduation.[44] On a monthly basis, the ICLRP approach is much more manageable and serviceable for most graduates.

Limiting Default

[43] For a definition of hard and soft ICLRP papers, please read Usher's paper. Usher, *Much Ado About a Very Small Idea, p. 6*

[44] This was calculated assuming no interest is accruing on the loan.

Chapman argues that, at least from a government and economic perspective, if ICLRPs are properly designed, they can eliminate the prospect of default and address "the basic capital market failure."[45] The repercussions of OSAP default are hefty, including a damaged credit score, which could effectively lock an individual out of a credit driven economy, affecting his or her ability to buy a house, a car, or receive loans to start small enterprises and businesses. By using an ICLRP, a student may be less likely to default and more likely to make manageable monthly payments.

In 2004, OSAP default cost the government approximately $96 million.[46] By reducing the probability of default, the Ontario government could reinvest this money into the system, benefiting all students and institutions.

Accessibility and Equity

Low-income students may be more likely to access PSE and would not be as averse to incurring debt. As they would not need to worry about repaying their loans until their income exceeds a certain threshold, they would not need to worry about landing a low-income job or not finding a job at all. As one review of the system notes, the ICLRP would not only minimize perceived barriers but would also "avoid under-investment in human resources;"[47] meaning that individuals with little financial capacity but high human capital potential would not be dissuaded from PSE due to financial constraints.

Alarie and Duff argue that ICLRP has the distinct advantage of reducing "sticker shock" at the point of entry. They maintain that "there is a strong case that post-secondary education should be free at the point of use in order to maximize accessibility."[48] With no fees due at the point of entry into PSE, individuals may be more likely to access the system. This can thus reduce the shock of PSE cost for students who express significant risk aversion until a later date, when the benefits of PSE can become tangible. A paper by the CD Howe institute maintains ICLRPs can mitigate risk aversion, arguing that they can lower "the variance in returns to postsecondary degrees for borrowers, and particularly by lowering the chance of making a very bad investment… have the potential to encourage risk-averse individuals, particularly liquidity-constrained individuals from poor socioeconomic backgrounds, to invest in them."[49]

Research by Chia in 1990 found that individuals who were uncertain of their ability and who were facing a great deal of uncertainty regarding income post-graduation preferred an income contingent system rather than paying up-front fees. In a similar research project, Grout discovered that the benefit of risk-sharing ICLRPs was greater the less certain the individual of his or her future income and the greater the risk aversion. As is noted "the effect of [ICLRPs] on welfare even given a significant range of risk aversion are relatively small compared to their benefits in terms of minimizing the effects of uncertainty."[50] It must be noted that in contrast, those who were aware of their abilities and assured of high future income were less likely to want an ICLRP and would prefer to pay all their fees up-front.[51]

Sustainable Revenue

Through the ICLRP, it is quite likely that students will shoulder a greater proportion of the cost of PSE. Some analysts argue that this is a positive advancement. Students can meet increased tuition fees with no immediate negative effects of access. Also, from a government perspective, this is a positive development, as the government would be

[45] Chapman page 30
[46] Footnote 96 in Graeme's paper
[47] Federal Support to Post-Secondary Education p. 38-39
[48] Alarie and Duff, "The argument for an ICRP in Ontario," Taking Public Universities Seriously,(year, etc.): 571.
[49] CD Howe institute paper, commentary, p. 11.
[50] Find exact page number for the quote. P. Grout, "Education finance and imperfections in information," Economic and Social Review, 15.1 (1983): 25, 33.
[51] T.T. Chia, Returns to Higher Education in Australi, PhD Thesis, Economics Program, Research School of Social Sciences, Australian National University, Canberra. 1990.

required to provide less funding. In fact, government would argue that the ICLRP could provide a diversified system of financing with increased student contribution. PSE institutions would be less reliant upon public funds and funding.

Clearly, from a student perspective, the concept of responsible cost-sharing is severely undermined. It would invert the system of university funding and result in a greater proportion of university funding falling to students.

Removal of Needs Test

Under an ICLRP system, the needs test is often removed, along with parental contribution requirements. As a result, eligibility requirements to receive financial funding would be largely removed. Furthermore some commentators also note that this scheme would free students from financial dependence upon parents and family members and free the family from the burden of financial contribution.

Alternate Borrowing

Further proponents of the system maintain that debt accumulated under an ICLRP would not impact debt incurred for other purposes, such as the purchasing of an automobile or home. It is argued that a lender for the mortgage or car loan would see no significant payment problems, as the student loan payment is not fixed. As maintained by analysts, "lenders would thus be likely to treat income contingent repayment as an adjustment to disposable income rather than as a regular liability."[52]

Arguments Against an ICLRP

Although there are arguments to support an ICLRP, arguments against such a program also abound.

Increasing Debt Loads

Many students may be unable to repay their loan if there are no limits to lending, therefore making the repayment of the loan through any scheme nearly impossible. Furthermore, if an ICLRP has few subsidies, low-income students will have to borrow more to pay for their education. As will be noted later, an ICLRP is often used to justify tuition increases, therefore increasing debt-loads substantially. Larger debt loads will also often result in longer debt repayment periods, thus resulting in accumulating interest in addition to the principle, driving up the total cost of a degree significantly more than was the initial cost at entry.

Reduced Subsidies

Some analysts argue that creating an ICLRP would force students to decide whether to borrow or simply work with the amount they already have. There is a scary clause found in the advice of some analysts. They argue that "to avoid and excessive inducement to borrow, however, and to minimize costs to the taxpayer, such freedom to choose would probably require that the loans not be subsidized."[53] Such a recommendation implies that a government (if the program is government administered) could justify the total removal of subsidies and grants, on the grounds that an ICLRP would stabilize the insecurity of investment in a university education.

Alarie and Duff, although they make some good observations in their analysis, argue that the implementation of an ICLRP should do away with interest subsidies. They maintain that "the current practice whereby students pay no

[52] Federal Support to Post-Secondary Education p. 38-39
[53] Federal Support to Post-Secondary Education p. 38-39

interest until they have completed their studies diminishes the incentives students have to borrow only what they need."[54]

Soaring Tuition Fees

There is no reason to assume that the introduction of an ICLRP will automatically result in rising tuition fees. However, in practice, this has often been the case, especially in the UK, where tuition fees soared after the introduction of an ICLRP. Policy makers reason that as access to PSE is enhanced through the ICLRP and repayment burdens will never be too high in an ICLRP, tuition increases can be justified and should be manageable within such a scheme. As the increase in tuition is often masked by manageable monthly payment, it is often easy for policy makers to make these hikes. As a result, it does often happen. However, it does not need to. As average tuition in Ontario skyrocketed in the 1990's when tuition became deregulated and traditional style mortgage repayments became the norm.

High Cost

There are a number of factors that will increase the cost of implementing an ICLRP by the Ontario government. First, some individuals will never repay their loans, either as a result of consistent low earnings, death, illness, dependent children or other extraneous factors. Therefore, the government will consistently have to subsidize these individuals. Second, if the system is to remain student friendly, the government would be required to introduce interest relief programs, up-front grants, and additional assistance to low-income students. Third, as ICLRPs can be a volatile market with high risk of default, there is little probability of private investment. Subsequently, the government will be required to make a heavy up-front investment. The heavy price tag of implementing the program has already resulted in an abandonment of the program one time already. Bob Rae's NDP government previously considered implementing the program but when the price tag of the program was delivered, the plan was abandoned.

Sustainable Revenue Without Accessibility

Through the ICLRP, it is quite likely that students will shoulder a greater proportion of the cost of PSE. Some analysts argue that this is a positive advancement. Students can meet increased tuition fees with no immediate negative effects of access. They will likely make a greater contribution to the costs. Thus, from a government perspective, this is a positive development. They would have to fund less. In fact, government would argue that the ICLRP could provide a diversified system of financing with increased student contribution. PSE institutions would be less reliant upon public funds and funding. [55]

Clearly, from a student perspective, the concept of responsible cost-sharing is severely undermined. It would invert the system of university funding and result in a greater proportion of university funding falling to students. Although it is argued that students can be more influential at their PSE institution due to their greater contribution, and universities would be more responsive to student need, the privatization argument is still too pervasive in this approach, in which students incur increasing debt loads and cost-sharing responsibility under the auspice of accessibility and quality.

Accumulating interest

As students pay less principle on their loan in the initial years of repayment, interest will consistently accumulate on the loan, resulting in an even greater debt load than initially anticipated. Johnstone has noted that "the cheapness or expensiveness of a loan – not to be confused with the manageability of its repayments- is measured by the 'true'

[54] Alarie and Duff, p. 576
[55] Federal Support to Post-Education p. 39

simple annual interest rate." In other words, depending on the terms of the ICLRP, the rate of interest and the time taken to repay the loan, the loan may actually end up costing a low-earning individual significantly more than a high earning individual, as the low-earner would service more interest on a debt that takes him or her longer to repay.

Although a repayment time limit may assist in mitigating this accumulated interest, many authors argue against this, claiming that "artificially limiting the payment term would tend to benefit those who remain capable of paying toward the accumulated cost of their education plus a reasonable rate of interest."[56]

Opting Out

As previously mentioned, it is possible that individuals who anticipate being high earners will choose to opt out of the system and leave a large cohort of long-time low-earners. If this situation were to occur, the system would not be sustainable and leave a gaping hole in the student financial aid system with no sustainable cost-recovery model in place. It would likely require a massive investment by the government or result in higher interest rates for students.

Feminization of Debt

The ICLRP disproportionately affects women (and visible minorities), who, on average, take longer to repay and accumulate greater interest levels. There are several reasons for this: on average women consistently earn less than male throughout their careers. Current wage inequity in Ontario persists. As one statistic states, in 2000, the most recent data available, average employment income for Canadian woman with a full-time full-year position was equal to 70.8 per cent of average employment income for men.[57] As a result of this wage inequity, women will take longer to repay. Also, as women often enter prime child-bearing years during the initial time of loan repayment the ICLRP will delay loan repayment, increase interest accumulation, and result in a much longer repayment term, with consequently higher education costs.

One Australian study tracked the same cohort of males and females from time of enrolment, to graduation and repayment. The study, completed and reported in 2002, found that male science graduates, earning average incomes and working full-time took approximately 8 to 9 years to repay their debt. Equivalent females took approximately 12 years to repay. Although individual experiences could be varying, the average Australian data reflected longer repayment periods for women.[58]

A research study by Harding has revealed similar evidence. She has noted that as women defer their repayments into their late 30s and 40s, women's HECS and AUSTUDY repayments were higher than those made by men during the same age range. In Harding's study, some women were repaying their student loans under an ICLRP strategy into their 50s when most males were no longer liable for repayments.[59] In the Australian system, women, on average, completed their HECs payment at the age of 39 and their AUSTUDY payment at the age of 44. In stark contrast, the average age of completion for men was 34 for the HECs payment and 37 for the AUSTUDY: a significant difference in repayment ages.[60]

This issue, however, could be effectively ameliorated. Wage inequity may not persist forever and the wage gap could close. As a result, the feminization of debt argument may not be relative in subsequent analyses of the issue.

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[56] Alarie and Duff. P. 578
[57] http://www.justice.gc.ca/en/payeqsal/6005.html
[58] Bruce Chapman p. 61
[59] Ann Harding, "Financing Higher Education: An Assessmen of Income-Contingent Loan Options and Repayment," Education Economics, 3.2 (1995): 173.
[60] Harding, 173

Furthermore, the issue of feminization of debt is not isolated simply to an ICLRP. In fact, an analysis of the system by Finnie and Schwartz revealed that women also reported having difficulty repaying students loans in a conventional loan repayment system, in which there is less sensitivity to monthly loan repayments. Holding other variables constant, women reported more difficulty in repayment than men.[61] The female debt issue is manifested in different ways, with debt being more long-term in an ICLRP.

ICLRPs in Practice

Now that I have reviewed the arguments for and against ICLRPs, I will take a brief overview of the system in practice. There are several systems repeatedly touted for their benefits and denounced for their burdens. This section will examine the system in practice in the following countries:

Australia

Australia introduced the Higher Education Contribution Scheme (HECS) in 1989 and it was seen as an innovation in university financing. In 2005, it was renamed HECS- HELP (Higher Education Loan Programme). The program has several features:

1. No needs testing: HECS covers the cost of up-front tuition fees for all students who wish to access the program, regardless of parental income or personal assets.
2. Income-contingent repayment: repayment is on a sliding scale, based on an individual's income.
3. Minimum Income Threshold: The minimum repayment threshold for compulsory repayment of a HECS debt was increased due to 2005 amendments from AU$25,348 in 2003-04 to AU$35,000 in 2004-05, and AU$36,184 in 2005-06 for a HELP debt.
4. Subsidized interest: No real interest accrues on the student loan. Rather, the government covers the cost of borrowing and balance owing is indexed for inflation (consumer price index). In such a scheme, the nominal amount to be repaid each year would increase.
5. No debt forgiveness: Forgiveness of loan does not occur, rather the loan exists until the loan is repaid or the borrower dies.

Most recently, deregulation in the system has significantly increased debt loads for many students. Tuition was deregulated, allowing institutions to increase fees from 0 to 125 per cent increase. As a result, although the initial intent of the system was to have students fund only 30 per cent of the cost of their education, this has not persisted and levels consistently increase up to 50 per cent.

In addition, the system has an opt-out clause, in which those who can afford their tuition up-front receive 20 per cent reduction in their fees (down from 25 per cent before the amendments). Up-front payments can vary in their amounts as long as they exceed $500. Therefore, those who pay up-front end up paying less for their education than those who need to access the system and spend years repaying their loan, without the 20 per cent fee reduction. This feature is quite regressive.

Furthermore, HECS-HELP only covers the cost of tuition. As a result, students must access an additional loan for living expenses. Depending on their age, or aboriginal status, in some cases, students receive a loan for living expenses. However, loan provision is woefully inadequate, leaving students consistently below the poverty line.[62]

On average, most reviews of the system have revealed that the introduction of the program has had little positive effect on the participation of lower income groups. Also, there has been no significant change in the socio-economic

[61] Finnie and Schwartz, Student loans in Canada: an analysis of borrowing and repayment Economics of Education Review Vol: 21, Issue: 5, October, 2002. p. 510

[62] For more on this, read Graeme's article Hot Potato, page 171.

composition of the PSE student body.[63] If the argument is that the "sticker shock" of PSE is diminished as a result of an ICLRP, such was not the case in Australia.

There are a few strengths of the program. First, administration of the system is quite low. Analysis of the system by Nicholas Barr revealed that collection of the HECS has amounted to just 1 per cent of annual HECS collection.[64] Second, Australia introduced amendments in 2005. This includes increased thresholds for repayment. Students, as a result, are not required to make any payments until income exceeds AU$35, 000.[65] This results in students being able to attain a moderate standard of living before repayment is required. Last, a bonus of 10 per cent exists for students who make voluntary repayments of a HECS- HELP debt. This acts as an incentive for students to pay off their loan quite quickly.

United Kingdom

The United Kingdom has interesting system of charging for PSE. It recently introduced both tuition fees and an ICLR system. Tuition fees, however, are contingent upon parental income. If parents earn less than 21,475 pounds per annum, fees are completely waived. If a parent's income exceeds 31,973 pounds, then full fees are assessed. In between, there is a means tested tuition fee. Student loans can be used to cover tuition and cost of living.

Some students are eligible for a Higher Education Grant, which was introduced in 2004. The grant is worth up to 1,000 pounds and is dependent upon family income. If family income is below 15,200 pound, then students will receive the full grant. If family income is between 15,000 and 21,285 pounds students receive a partial grant. Any income exceeding those numbers will not be considered for the grant. In addition, other students from low-income families may also be eligible for an additional grant of up to 2,700 pounds.

Students have the option of paying their tuition fees of deferring payment of tuition by taking a fees loan, that can cover all of tuition. As of 2006, tuition fees were deregulated, but could not exceed 3,000 pounds per year. If an institution decides to charge the full 3,000 pounds then it must ensure that low-income students are provided with bursaries of 300 pounds. As a result, in combination with the 2,700 grant and 300 pound bursary, a low-income student would be able to cover the full cost of tuition in bursaries and grants.

Upon graduation, a student enters into an ICLRP. Repayment is 9 per cent of all income in excess of 15,000 pounds per year. The threshold for repayment was raised to 15,000 pounds from 10,000 in 2006. Unlike the Australian system, there is no sliding scale of loan repayment but a fixed repayment percentage.

Those who denounce the system in the UK argue that it has been highly detrimental for accessibility, maintaining that university applications from lower income students have dropped by nearly 10 per cent since the introduction of tuition fees and ICR loans.[66]

Debt loads in the UK are skyrocketing as well. Tuition fees were deregulated in 2006, with a cap of 3,000 pounds. However, average debt upon leaving PSE is estimated at 17, 500 pound, a crippling amount.[67] When the government introduced its new top-up fees regime in 2007, first year students were faced with even greater debt loads. Daunting

[63] Chpaman and Ryan 2005 page 65. The access implications of income contingent charges for higher education: lesons from Australia, *Economics of Education Review*.
[64] Barr, The Welfare State as Piggy Bank, p. 209
[65] http://www.goingtouni.gov.au/NR/rdonlyres/833E6C74-1D77-4088-ABA2-5B39647F1734/0/pre2005_brochure.pdf
[66] national Union of Students, United Kingdom press release. "NUS reacts angrily to minister dismissing student debt. Friday, 15 november 2002. Available online at http:/www.nusonline.co.uk
[67] Richard Garner, Education Editor, 14 August 2007,

statistics suggest that students who entered their first year of university in 2007 faced a 25.5 percentage point increase on their debts in comparison to those in the previous year.[68]

New Zealand

New Zealand introduced tuition fees in the 1990s. Tuition fees were originally deregulated but were capped in 2003. To finance the cost of education, loans are provided and are intended to cover both tuition and living expenses. Means tested grants are available for some students.

A zero nominal interest rate on loans exists for students while they are enrolled. Until recently interest charges upon graduation depended on the financial circumstances of debtors. However, as of 2006, no interest is charged on student loans, either while they are enrolled in their programs of study or during repayment. This was a drastic change for New Zealand, as interest rates dropped markedly from 7 per cent to 0 per cent.

Repayment is based on an income contingent model, with the presence of a repayment threshold. The repayment threshold is altered annually, with the 2007 threshold calculated at $17, 784. Beyond the threshold, 10 per cent of every dollar a graduate earns must be repaid, until the loan is paid off. The repayment is calculated as such:

(annual income – repayment threshold) x 10% = repayment obligation

The positive impact of the new changes on the system remain to be seen. One consistently lauded strength of the program is its administration costs, which are even lower than HECS in Australia. An analysis by LaRoque in 2005 discovered 2004 collection costs were approximately (NZ) $23 million per year, even lower than the estimates for the cost of HECS collection.[69]

Some limitations do exist in the system. As was previously discussed, women and historically disadvantaged groups take longer to repay their loans. Wage inequities continue to persist for these groups, resulting in longer repayment periods. Fortunately without the increasing interest rates, loan sizes will not continue to increase.

As far as the impact of the ICLRPs on enrolment, the data seems to vary. Maani and Warner argued that there was a marked relative decrease in Maori enrolments at the University of Auckland since the introduction of the ICLRP.[70] LaRoque maintains that there has been a substantial increase in the proportions of Maori enrolling after the introduction of the ICLRP.[71]

Furthermore, few debt reduction or debt forgiveness measures exist. Students are subject to a penalty of approximately 1.7 per cent in interest when they fail to make their yearly payments. In addition, increasing numbers of students are facing crushing debt levels, with one in 10 students with debt. The New Zealand University Students' Association estimated that by 2020 total student debt in New Zealand will rise to almost $20 billion, an amount the country's Auditor General believes could be "a major source of risk" to New Zealand's national government.[72]

United States of America

[68] Average student debt to hit pound17,500 as top-up fees burden starts to bite. Richard Garner, Education Editor. 14 August 2007.
[69] LaRoque 2005
[70] Maani Sh.A and A. Warner. The economic implications of tertiary fee rises in relation to student welfare and the policy environment. Report to the University of Auckland Council. Auckland 2000.
[71] Norman laRocque, "The New Zeland Student Loan Scheme," a presentation ot the KEDU World Bank International Forum, *Financing Reforms for Tertiary Eucation in the Knowledge Economy,* Seoul, the Republic of Korea, April 2005.
[72] New Zealand University Students' Association, The Student Loan Scheme: Inequities and emerging issues. Wellington, 2002.

The US has a variety of loan repayment programs, largely due to the decentralized nature of the system. There are dozens of state and federal financial aid programs. On average, however, the federal government does remain the largest provider of loan assistance. This is administered through the Federal Student Aid (FSA) umbrella program. Students have several options for repayment:

1. Standard repayment program with mortgage style loan repayments for ten years;
2. An extended repayment program with mortgage style loan repayments but with a 12 to 30 year repayment schedule;
3. Graduate repayment program with low initial payments but increasing every two years. Repayments start lower than the standard repayment plan but end much higher;
4. Income contingent repayment plan: repayment contingent on income. Interest rates set yearly by the federal government, capped at 8.25 per cent. Any interest in excess of the amount is covered by the government in a subsidy.

The ICLRP option was introduced in 1997 but has consistently had relatively little take up. There are several reasons for this: first, most students end up paying significantly more for their education using the ICLRP option for repayment. In fact, the difference is quite great for low-earners who pay proportionately more than their high-earning counterparts for the same education. Married coupled also end up paying more, as the system calculates household income, not individual income. The scheme implicitly taxes marriage, as spouses end up having to take responsibility for a debt not their own. Also, although the debt is seemingly erased after 25 years under the auspice of 'forgiveness' amounts still owed are transferred into income and subsequently taxed. As a result, some individuals could be burdened with very high tax amounts to pay that could exceed income.[73]

If that was not enough to limit the effectiveness of the ICLRP in the US, other issues came to the surface. Few individuals understood how the program worked including financial aid counselors. One survey found that only 14 per cent of student Financial Aid Advisors said that they "understood the (income contingent loan) option well."[74]

Last, much of the flexibility found in the ICLRP has been incorporated into the conventional loan repayment programs, with relief and refinancing available in case of unemployment or other hardship. The ICLRP in the US is largely designed to recover costs and often fails to be sensitive to student needs.

Sweden

Sweden does not charge tuition fees but does allocate funding for living costs. Most schools do, however, have nominal student fees. Despite not charging for tuition, the cost of living in Sweden is quite high, and many students receive a loan for a living allowance. The first 35 per cent of a student's funding is provided as a grant, provided the individual qualifies for funding, available for up to 6 years. In order to remain qualified for the loan and grant, students must maintain an adequate level of academic performance. Oftentimes, an additional grant totaling 82 per cent of the total amount is also available for those who demonstrate even greater need for funding. Any form of needs testing that is performed is done solely on the student's income and does not take parental contribution or income into account.

Although Sweden had long been lauded as a country that effectively implemented an ICLRP, it abandoned its strategy in 2001. Not many know why the scheme was abandoned, but some commentators, such as Poutvaara, speculate that Sweden's abandonment of the ICLRP "may reflect the pressures of increased labor mobility."[75] Of all

[73] Bruce Chapman. 2005. Income Continent Loans for Higher Education: International Reform. Discussion Paper No. 491 (June): Australian National University Cenre for Economic Policy Research. P. 39 http://econross.anu.edu.au/pdf/DP491.pdf
[74] P.G. Schrag, "The federal income-contingent repayment option for law student loans," *Hofstra Law Review*, Vol. 29 (2001): 795.
[75] Panu Poutvaara, Educating Europe, CESifo Working Paper Series no. 1114, page 4. January 2004.

those who graduate from university, approximately 15 per cent emigrate. When an ICLRP system is dependent upon the tax system, it is difficult when individuals do not live in the country. Other speculations argued that interest subsidization of the program was too taxing on the state or that the lack of forgiveness provision negatively affected graduates.

Therefore, Sweden has switched to a fixed schedule repayment system, termed a 'modified annuity loan,' determined by annual repayment based on regulations such as a student's age, size of the debt, interest, a two per cent yearly indexed increase, and a repayment term of 25 years. Interest is determined yearly by the government.[76] Outstanding debt is automatically forgiven at age 68.

Quickly, it is interesting to note that even in Sweden, where the subsidization of education is quite high, an individual from a "well-off white collar family" is six times more likely to pursue PSE than an individual from a working class background.[77]

South Africa

The ICLRP in South Africa was introduced in 1991. Students are provided financial resources through the university, with priority being given to students who are low-income and academically able. Means testing is invoked at the point of PSE entry on the basis of family income. [78]

Students repay their loan directly to the National Student Financial Aid Scheme (NSFAS) when their income reaches R26, 000 at the rate of 3 per cent of income. This is calculated on a sliding scale and reaches a maximum of 8 per cent when income exceed R59, 000. The collection parameters are progressive.

Loans carry an interest rate of interest plus two per cent. Little debt forgiveness options exist. However, based on academic performance, a student may be eligible for up to 40 per cent debt remission per year. A strength of the program is that all payments are recycled back into the system and go straight to the institutions, which would suggest that it could eventually become a self-financing system. This still remains to be seen, as the program in its present form is relatively new (implemented fully in 2000). Also, default rates are currently unknown, leading to some uncertainty of sustainability.

There are a few limitations to the program. First, the repayment threshold is very low, at approximately US$5,000. This is a much lower threshold than that found in any other country. Second, students repay their loans to the lending institution. The taxation system is not the first mode of income collection, which could lead to severe limitations and high expenses of administration in the system.

The Dichotomy between Practice and Policy

As the scan of ICLRPs in practice would reflect, the policy of the system and the benefits of the system are often not reflected once put into practice. This section of the paper will analyze the practical limitations of such a scheme and lead me to conclude that a workable ICLRP is still unattainable. OUSA currently maintains that although it may be possible to design an income-contingent repayment program for students, the limitations and downfalls of the program are still too prevalent.

Furthermore, the OSAP repayment structure does currently implement some measures of an ICRLP without introducing a strict ICLRP. For example, OSAP introduces a threshold for repayment. If a student's income falls below a certain threshold, he or she can apply for interest relief that lasts for six month time periods. During this time,

[76] In 2007 the interest rate on student loans was 4.55%. Available online at www.csn.se/cm/2.10/2.133/2.4281.867/1.2873
[77] National agency for higher education, the changing face of higher education in Sweden (may 2003), 21.
[78] Chapman p. 34-35. This section is highly indebted to chapman for all his research.

an individual will not be required to make repayments on his or her loan for the time in which he or she is approved for interest relief (sometimes up to 54 months). Furthermore, during this time period, the government pays the interest that accrues on a student's loan allowing him or her to avoid increasing debt loads. This is actually one of the strongest arguments in favour of the OSAP repayment system as it introduces an income repayment threshold without introducing a strict ICLRP. As noted, this introduces an element most common to an ICLRP in which an individual is not required to repay his or her loans until his or her income reaches a certain threshold.

In addition to the strengths of the OSAP repayment system, there are a variety of limitations to the ICRLP that have been noted, especially in practice. There are a variety of reasons for this, which I will outline below. As has been consistently reflected by OUSA, I continue to recommend against the development and implementation of an income-contingent repayment scheme in Ontario at this time.

Practical Limitations of an ICLRP Scheme

Access

Proponents of the system consistently maintain that as the up-front investment for PSE is not required, it should reduce sticker shock and increase access to PSE by risk averse students, who are often low-income. As evidence would seem to reflect, from the UK, Australia, and New Zealand, it has not had the desired effects. In fact, the introduction of ICLRPs, as the evidence states, has had little to no impact upon the socio-economic demographic of the university population.

Tuition Fees

As most systems reflect, and has been argued is a potential downfall of the ICLRP, governments often justify increasing tuition upon the introduction of an ICLRP. This was the case in the UK, and students face crippling debt loads as a result. Although I do acknowledge that the tuition fees have been capped, the marked increase in the fees still represents a downfall in tuition fee increases shortly after the introduction of ICLRPs.

Limited Cost-Sharing

As has been the case in Australia, students are increasingly forced to shoulder greater proportions of their contribution to higher education. This has consistently been a fear when ICLRPs are introduced into a system, that it becomes easier to download the cost of education, through increased tuition fees, onto students.

Repayment Terms

As the Australian case well represents, repayment terms under the ICLRP often extends repayment for years, subsequently increasing debt loads through accrued interest. Furthermore, women and minority groups are most hard hit by the negative results of an ICLRP scheme, as they most often fall under the income threshold, which lengthens repayment periods significantly longer than men in similar situations. The ICLRP significantly skews benefits for some groups while effects damage lower-earners.

Opt-Out Clauses

Some of the systems presented, such as Australia, have introduced an opt-out clause for students who can afford their tuition up-front. These students receive a 20 per cent reduction in their fees. These students end up paying less for their education than those who are unable to afford the up-front cost and spend years repaying their loans without the 20 per cent fee reduction. Such a system is highly regressive. Even systems without the 20 per cent reduction in fees are still regressive, as loans often accumulate interest over the years students spend repaying their loans. The

opt-out clause and its negative effects could be assuaged with the introduction of heavy interest subsidization of the loan, preferably interest subsidization of a 0 per cent interest rate. The introduction of this heavy subsidization, however, is quite unlikely, as it would require a significant up-front investment.

Removal of Debt Reduction Measures

As noted, the introduction of an ICLRP often results in the removal of debt reduction measures. This has happened to some extent in many peer jurisdictions. South Africa has few debt reduction measures other than those based on academic merit that is assessed on a yearly basis. New Zealand has introduced a debt reduction measure in the form of a zero per cent interest rate upon loans. Other than that, however, few debt reduction or forgiveness measures exist. In fact, as noted, students are subject to a penalty of approximately 1.7 per cent in interest when they fail to make their yearly payments.[79]

Expense

Although the program in many areas has little administrative overhead, actually implementing the program is quite costly and almost unattainable. There is a general fear that the upfront capital investment would be so great that the investment into such a program would pull public dollars away from university operating funds. Some critics argue that cost-recover for such a system could be almost 35 years, which is much too long to wait for revenue.

Political Sustainability

The implementation of an ICLRP, moreover, is subject to the whims of subsequent governments. Therefore, even if such a system is introduced, it has the potential to be 'high-jacked' by a subsequent government who will potentially shift increasing cost-burden onto students. This risk is unacceptable.

AVOIDING AN ICLRP IN ONTARIO

In light of the instability surrounding the implementation of an ICLRP in Ontario, I make the recommendation of some alternate policy considerations. OUSA must not endorse the implementation of an ICLRP in Ontario. However, OUSA should consider endorsing a system such as the ERAP in Nova Scotia. In this section, I review the ERAP in Nova Scotia, which has been recently introduced but is quite innovative. Furthermore, I also examine the components of what a potentially workable loan repayment system would entail.

Nova Scotia, Canada

Nova Scotia has recently implemented an Enhance Repayment Assistance Program (ERAP). The implementation of the program is somewhat revolutionary in that it has combined both income contingent principles along with the repayment plan OSAP implements. Although the Nova Scotia government initially implemented a repayment program for the Nova Scotia portion of a student loan (40 per cent), the federal government in its newest budget release has committed to implementing a similar program on a federal level. Currently, the Nova Scotia program focuses on a borrower's ability to repay, rather than a borrower's willingness to repay. The newly implemented plan outlines the following policy positions:

- No borrower should have to make a payment that he / she cannot afford.
- No payment should be required from those with very low incomes.
- Amortization periods should not be unduly lengthened in order to achieve an affordable payment.
- Communication and administrative processes should foster program utilization.

[79] New Zealand University Students' Association, The Student Loan Scheme: Inequities and emerging issues. Wellington, 2002.

As the implementation of the program is fairly new in Nova Scotia, the results of the program and data regarding the actual implementation of the program is not yet available. The program introduces repayment threshold levels similar to those introduced by the Interest Relief model on a federal level. In addition, it introduces a maximum debt-to-income ratio of 20 per cent of gross family income to support total student loan debt. When applying to the program, students are not required to submit a proof of income for the initial application of consideration for participation in ERAP for a duration of up to six-months. However, If a student wishes to increase their participation in ERAP for six month time frames, up to 30 to 54 months, he or she must provide proof of income.

A strong argument for the program is its retroactive nature. In this situation, a student may apply for ERAP in which approval can be retroactive for up to 6 months, which would bring the loan into good standing. This is quite different than the situation experienced in Ontario, in which an individual is only able to apply for interest relief when his or her loan is in good standing. As a result, from first glance, ERAP is able to help low-income individuals who seem to be most burdened by loan repayment.[80]

Another strong argument in favour of the program is its awareness of a need for a workable debt-to-income ratio. That the government finally recognizes the burden of loan repayment and the need debt-to-income ratios is revolutionary.

Furthermore, graduates have the option of extending the grace period for up to 12 months. Interest accrued during that time is based on the government cost of borrowing and rolled into the individual's balance. The program also takes particular interest in the fate of individuals who are required to pursue post-graduation employment, such as medical interns or articling law students. These individuals are able to defer repayment for the duration of their internship or residency. [81]

Upon first glance, it would seem that the program will have some significant strengths to present. A downfall of the program, most clearly, is that this relief is only available for the Nova Scotia portion of the student's loan; this leaves the student with 60 per cent of the loan still subject to the federal stipulations of loan repayment, including interest relief requirements. If the entire loan could be subject to ERAP specifications, along with the comprehensive relief options presented by OSAP, the system could be a very strong one.

Pre-Empting a Potential ICLRP Endorsement

If an ICLRP were to ever be implemented in Ontario, there are stringent requirements that would be necessary.

Any system that has seen success with ICLRPs has had these features in common:

1. A workable taxation system which assists with the collection of money and can accurately assess student income.
2. Similar higher education systems.
3. A clear recognition that the time for free higher education was over (a position that the US did not share since it was used to charges for PSE).[82]

If any policy regarding loan repayment is to be adopted regarding ICLRPs, it should contain the following elements. However, this does not imply that an ICLRP should be adopted:

[80] www.ednet.ns.ca/pdfdocs/studentloans/pdf2007-08/stu_assist_guide_web.pdf
[81] www.ednet.ns.ca/pdfdocs/studentloans/pdf2007-08/stu_assist_guide_web.pdf
[82] chapman p. 55

1. Any repayment period should be capped after a specified number of years, even if the loan is not entirely repaid. Irregardless of outstanding principle, the debt must be entirely forgiven after a certain time period. This would be done to release the low-earner from undue hardship of eternal loan repayment and accumulating interest.

2. Any loans administered should be coupled with a holistic grants system to keep debt levels to a manageable level. This grants system must be accompanied by a targeted grants system aimed at early outreach initiatives for low-income and other at-risk youth. These grants must be available through to degree completion.

3. There must be a limit to the amount of debt that can be accumulated by an individual, and the rest transferred into grants and non-repayable loans.

4. There must be an income threshold and manageable repayment rates. Research by Quiggin in 2003 argued that the most effective ICLRP is one in which there exists a repayment threshold below which there are no repayments required. This threshold, it is argued, has the best welfare properties and produces the greatest levels of consumption smoothing.[83]

5. Any ICLRP must calculate repayment on a sliding scale starting at 2 per cent of income over $34,000, with a maximum of 8 per cent of income. As a result, relatively low earners will pay proportionately less of their income than relatively high earners.

6. There must be a low rate of interest, if any at all. Furthermore, interest must not accumulate until the borrower can begin to make repayments. In addition, if an individual is a low-earner who meets the threshold for repayment, protection measures for interest accruement, such as OSAP Interest Relief, must be implemented.

7. Graduates must be able to apply for periods of interest relief or further debt reduction. On paper, a graduate may seem to receive a decent salary but extraneous factors such as an illness or dependent child may significantly affect his or her ability to repay.

8. At any point in the program, an individual must be allowed to repay all or a portion of the loan principle without penalty.

9. Tuition rates and increases must be capped despite the introduction of an ICLRP.

10. The ICLRP must not result in students shouldering an undue burden. Rather, responsible cost-sharing must persist, in which the student is not forced to contribute to more than 30 per cent of the cost of their post-secondary education.

11. Students must remain the main concern of any financial aid system, with any changes in the system made to address their well-being.

12. Any ICLRP must maximize access while minimizing graduate debt.

13. All wiling and qualified students must be able to access PSE.

14. Any repayment program must be fair and progressive.

15. Financial aid must be available to all students in need.

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[83] John Quiggin, "^The Welfare Effects of Income-Contingent Financing of Higher Education," Faculty of Economics Working Paper No. 428, Australian National University, Canberra (2003): find page number.

14. Needs testing must remain a component of the system. This will guard against over-payment by the system and frivolous spending on the part of the student. Any student who does not receive the level of anticipated parental support will be supported through an appeals process and easily accessible grants and loans system.

In conclusion, any endorsement of ICLRPs in Ontario would need to be subject to these suggestions. However, I continue to recommend against it. In order to present a holistic overview or repayment, the subsequent section outlines alternate repayment methods that have been considered but have been endorsed or implemented.

ALTERNATE CONSIDERATIONS

There are a variety of alternate loan repayment programs available to countries. In this section, I will attempt to relay some other potential alternate cost-recovery models that are not in the mainstream system and assess their benefits and downfalls. I acknowledge that I have not examined every potential loan repayment scheme available. For example, in Hong Kong, a percentage of the gambling tax levied on horse races is used to finance the student loan scheme. I won't be talking about gambling or a gambling tax.

While I do suggest these arguments, on average, their ability to be implemented and 'quirks' remain too great to merit any serious suggestion of implementation.

Human Capital Contracts

The newest concept of loan repayment schemes are "human capital contracts." Although they are often not taken as a serious alternative for most researchers of loan repayment, it does merit some consideration. Human capital contracts are a recent development in the private sector. In this situation, a private financing company and the student arrange a sum of money for tuition and living expenses. In return, the lender receives a percentage of the student's income for a pre-determined time after graduation. The risk is largely taken on by the lender, who assumes that the student will be a high earner. There is, oddly enough, a burgeoning world of literature on the system.[84]

Applicants are largely determined based on merit. The individual usually repays the company, who validates the income amount through revenue agencies, such as the IRS in the United States. A human capital contract program was recently launched in the United States by two university students. Their website, My Rich Uncle, espouses the merits of a human capital contract system. It claims to offer "changes in the student loan industry that work better for parents, schools and most importantly, students."[85] The program examines grade point average (GPA), school and program of study.

Arguments for the Human Capital Contract

There are a few arguments in favour of human capital contracts. First, individuals with high academic merit and the potential of high paying jobs will be readily accepted into the program. This could act as incentive for students to become high achievers in return for almost guaranteed financing.

Furthermore, many students without a good credit rating or co-borrower are more likely to receive a loan. This is due to the nature of the HCC, as the selection is based on merit, not credit-worthiness.

Arguments Against the Human Capital Contract

[84] See, for example, Miguel Palacios, Investing in Human Capital: A Capital Markets Approach to Student Funding. Cambridge: Cambridge University Press, 2004.
[85] http://www.myrichuncle.com/WhoWeAre.aspx. "Who We Are."

Adverse Selection

In contrast, the limitations of the system are widespread. As the system examines grade point average (GPA), school and program of study, adverse selection will occur, in which only students with the highest academic average and lucrative programs of study in the long-term will be rewarded. All other students could fail to receive funding.

Moreover, the program will create a hierarchy of institutions and a vicious cycle can result. Students attending academic institutions with perceived high merit and high employability are more likely to receive funding. As other students discover that these students are more likely to receive funding due to the school they attend, that school will be placed higher on the totem pole of 'first-pick' academic institutions; subsequently, creating a vicious cycle of admissions and loans.

Indentured Servitude

Foremost, the human capital contract system presents a most distressing concept of bondage. As one author notes, "the problem of default is related to the fact that individuals are not allowed to sell their human capital. This would amount to slavery, or indentured servitude at best, both of which are illegal."[86] Carmichael has succinctly relayed the reality of the situation: students can willingly selling their intellectual and earning potential to private corporations, entering, almost unknowingly, into indentured servitude for a period of time. Control over the loan agreements between these private organizations and the student could result in extreme exploitation, with the student being forced into a particular program of study, potentially into certain careers, among other forms of exploitation.

Graduate Tax

Unlike a Human Capital Contract, the Graduate Tax is a variation of an income contingent loan scheme. The Graduate Tax is an interesting model or presentation of ideas. Although a great deal of writing does exist regarding the program, its actual implementation is quite limited. To date, the graduate tax has only been implemented in Ethiopia and no Ontario peer jurisdiction has implemented the program. This is one of the great limitations to the system and removes it from garnering any legitimate consideration in implementation.

In a Graduate Tax scheme, graduates pay no up-front fees for access to PSE. Once graduated, a surtax is applied to a student's income and the revenue accounts for contribution to PSE. The tax could be applied as a flat rate to a student's income, or function as a progressive tax, contingent upon income. The main difference between the graduate tax and an income contingent loan repayment program (ICLRP) is that it almost erases "the keeping of individual borrower accounts or 'balances owed.'[87] In practice, it is a debt free way of downloading PSE cost onto students.

Arguments for a Graduate Tax

Revenue

Graduate Taxes are excellent revenue generators. In fact, as graduates earn more throughout their career, revenue coffers for post-secondary education can consistently increase. As has already been argued, individuals with PSE will earn significantly more than their high school counterparts over their years of employment. As a result, as more graduates enter the workforce due to the perceived accessibility of a system with no front-end investment, the tax

[86] Carmichael p. 605

[87] Bruce Johnstone, Cost-Sharing and Equity in Higher Education: Implications of Income-Contingent Loans, 2003: International Comparative Higher Edcauion Finance and Accesibility Project.
http:/www.gse.buffalo.edu/org/inthigheredfinance/publications_HiEdFiDBJ.html

revenue of the system would consistently increase -- due to increasing numbers of graduates and increasing incomes -- as would the funding of the PSE system.

Equalization

Furthermore, the graduate tax does not require any form of up-front payment. As a result, it requires no fixed commitment from individuals to contribute to the education. It reduces the initial "sticker shock" of the cost of education at the point of entry. Rather, it relies solely on an individual's return on the investment of higher education. All who are qualified and willing can be allowed to access the system.

There are few disincentives to individuals who are considering attending post-secondary education, with the exception of those individuals who anticipate being very high earners and will experience a greater impact upon net income than any of their other higher education comrades.[88] In contrast to a system of loans, in which the burden of repayment affects those with low incomes more readily than those with high incomes, proponents of the graduate tax argue that it affects high earners much more than low-earners, thus equalizing the system.[89]

This could result in a removal of upfront tuition fees entirely, as the system would be continuously funded by individuals who benefited from post-secondary education and are contributing to the sector by working. However, the argument for graduate tax removing barriers to higher education can be debated. Research in the UK has found that the presence of tuition does not necessarily hinder access to post-secondary education. When the UK introduced tuition, they saw no difference in their rates of low-income individuals accessing PSE. In like manner, when Germany introduced some fees into its PSE structure, it also did not see a change in low-income numbers. Therefore, the argument for the presence of tuition fees and the removal of such fees may not be completely feasible. Sometimes, accessing PSE can be linked to deeper social and cultural issues and barriers that keep individuals from going to university.

Simplicity

Furthermore, advocates of the system also argue that it is quite administratively simple. While a loans system presents a convolution, seemingly, of grants, loans, and parental means testing, the graduate tax addresses only the income of the individual. In fact, it also removes responsibility of PSE from parents and parental contribution. As Lincoln and Walker argue, "it removes the need for a parental contribution to student maintenance and recognizes students as independent citizens."[90]

Arguments Against a Graduate Tax

Increased PSE costs

As institutions can rationalize that students generally face no deterrents to accessing the PSE system, the argument for downloading the cost of PSE onto students is easily implemented. In fact, if graduates are expected to pay a percentage of income for a lifetime, it will produce considerable revenue for the university but also potentially remove the need for government contribution, transferring the cost of PSE onto students.

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[88] For more regarding the graduate tax, please read Ian Lincoln and Arthur Walker, "Increasing Investment in Higher Education: The Role of a Graduate Tax," Education Economics, 3.1 (1993). I am highly indebted to these authors for a great deal of the information provided regarding graduate tax.

[89] It must be noted that this argument is not necessarily consistent. A 5 per cent surtax could affect a low- earner more readily than a high earner as the high earner has, assumedly, a greater amount of disposable income that the low-earner does not have.

[90] Ian Lincoln and Arthur Walker, "Increasing Investment in Higher Education: The Role of a Graduate Tax," Education Economics, 3.1 (1993), FIND PAGE NUMBER.

Unfair

The graduate tax is difficult to attach to the actual cost of the degree. The graduate's contribution often has no connection to the cost of one's degree. If an individual is a perpetual low-earner, it is possible that he or she will never pay for the full cost of his or her degree. In contrast, an individual who is a high earner may pay significantly more for the cost of his or her degree.

Mick Jagger Problem

Barr cites an interesting conundrum that is related to the graduate tax. He explains that the graduate tax is not based on a concept of cost-recovery, which can lead to the aptly termed "Mick Jagger" problem. The lead singer of the Rolling Stones, being quite an astute student in addition to a rocker, studied for some time at the London School of Economics and Political Science. However, he did not complete his degree and dropped out of PSE to pursue his musical ambitions. If the graduate tax was structured in such way as to span Jagger's life income, his payments would vastly exceed the actual direct costs of his education, almost a hundred fold. Although the example may seem unlikely, it is to reflect the situation that revenue collected on an individual's income may vastly exceed the actual cost of the individual's education.[91]

Carmichael argues, in reference to the Mick Jagger issue, that students who fail to graduate or complete their programs should be taxed based on the amount of support they have received. A downfall, clearly, may be that they do not earn enough income to address these costs.[92]

Universal

Must like the denouncement of a universal grant, the graduate tax can have the same root argument. A universal grant is provided to those who do and do not need it. In the same way, paying a graduate tax for a high earner will mean very little for the net income of this person. However, a graduate tax for a low earner can have a significant impact upon his or her quality of life. 5 per cent can have varying degrees of impact upon an individual's quality of life, contingent upon income.

Investment

A primary argument against the graduate tax, and a reason that the graduate tax has never been taken seriously in Ontario is because it would require a significant up-front investment of funds. In fact, the up-front investment may be so large that it is almost unattainable for any province or nation. Also, revenue generation on the system would take a few years, and it is quite likely institutions and the government would be unable to subsidize and maintain universities until revenue generation begins.

Carmichael has noted this problem and has stated, quite aptly, that universities cannot wait for years (he argues it could take up to 35 years before the university is paid in full for the investment in the student). Therefore, the only way the graduate tax system could be workable is if the government paid the university up front "in return for the right to levy a tax on students."[93]

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[91] Barr, 2001, find page number.
[92] Carmichael, p. 612
[93] Carmichael, in Taking Public Universities Seriously, p. 606.

However, he does argue that although this investment would requite significant debt financing on the part of the government, the initial debt would be significantly offset by the vast growth in human capital, a veritable asset for the government, in the long run.[94]

Disincentive

Other authors, such as Lincoln and Walker, maintain that the graduate tax can act toward "higher work disincentives" as it taxes higher earning individuals. They argue that if the graduate tax is a life-long tax the incentive to increase one's earnings may not be a priority.[95] Moreover, if the percentage of taxation is large, for example, five per cent, this could act as an even greater disincentive than a two per cent taxation rate.

Government Commitment

As with any tax or surtax imposed by a regime, it can be easily abandoned by another government. Introducing a graduate tax of some sort requires a very long term commitment that may not be easily garnered from successive regimes. As one writer has commented:

> this seriously diminishes the marketable present value of those future surtaxes, making it impossible to tap a private capital market and forcing governments to treat the initial outlay of funds…as simply another governmental expenditure, which is precisely what the concept…is attempting to lessen.[96]

Opting Out

As with any system, the option of opting out can diminish the usability of the system. Some students would opt to pay all their fees upon enrolment and never enter into a graduate tax agreement. As individuals opt out of the system, adverse selection could subsequently take place, in which those who anticipate low-earnings would choose to stay in the system and those who anticipate higher earnings, or come from already affluent families, would immediately opt-out. Unless the government prohibited opting out, many private sector institutions could emerge, offering opt-out loans with attractive terms to student who would earn high incomes. Obviously, with such a system emerging, the anticipated revenue from the graduate tax system would be greatly diminished.[97]

Administration

While the administration of the system would be fairly simple, if employers were tasked with collecting or garnishing a percentage of the employee's wages for the graduate tax, it is quite likely that the response from employers and the complexity of the situation would be less than positive. In addition, students could skip out on repayment by emigrating. The administratively challenging aspect of the situation would be ensuring that students pay their surtax. One could force students to pay an amount before they leaving the country, but a controlling body would have to ensure that the amount was repaid and would have to undergo a complex calculation model to determine the amount being paid.

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[94] Carmicharl, in Taking Public Universities Seriously, p. 606

[95] Lincoln and Walker p. 27

[96] johnstone, bruce. 2001. "Student loans in international perspective: promises and failures, myths and partial truths."page 6 Mimeo. Center for Comparative and Global Studies in Education, University at Buffalo. http://www.gse.buffalo.edu/org/IntHigherEdFinance/textForSite/StudentLoanInternatFinal.pdf

[97] For more information, please read Lincoln and walker

As this overview of the Graduate Tax would suggest, its limitations far outnumber its benefits. Not only does it fail to be an equalizer, it also often results in individuals paying significantly more for their education. As a result, I cannot recommend the graduate tax as a viable alternative. Furthermore, its limited implementation and usability make it a damaging alternative to the current system.

Conclusion

In my introduction, I address the need for post-secondary education (PSE) in Ontario. As a result of this increased need for PSE in Ontario, I acknowledged increasing debt-loads of students and the obligation they are tasked with to repay loans they have been granted. Next, I introduced the current state of affairs of loan repayment in Ontario and attempted to analyze both the arguments for the mortgage-style loan repayment system in Ontario and the arguments against it. After acknowledging the arguments for and against the Ontario system, I moved into an explanation and analysis of ICLRPs, and the arguments for and against ICLRPs. The next section reviews ICLRPs in practice in peer jurisdictions such as New Zealand, Australia, the United Kingdom, Sweden, South Africa and the United States of America and relayed some of the merits and downfalls of each program.

After this overview of ICLRPs, I discussed OUSA's current stance on ICLRPs and our arguments which maintain this position. Currently, OUSA maintains that ICLRPs are not a viable option as a repayment program. However, a viable option and potential recommendation for repayment may be the recently implemented Extended Repayment Program (ERAP) in Nova Scotia, which has also recently been implemented at a national level by the federal government. As an addition to the paper and to provide the reader with a broader overview, I also provide other potential loan repayment options. However, these options cannot be considered a viable alternative due to their limited implementation.

As a conclusion, the paper maintains that ICLRPs, with all its merits should not yet be implemented in Ontario. Rather, other alternatives such as the ERAP in Nova Scotia should be strongly considered.