



# LESSONS IN LEARNING

**Working to learn:** Meeting university and college costs

June 29, 2006

The cost of pursuing post-secondary studies in Canada has risen dramatically over the past 15 years. University undergraduate tuition fees have nearly tripled since 1990 and college fees have more than doubled (see Table 1).

How are students financing their studies in the context of these rising costs? There is clear evidence that students are taking on more debt. University students who completed their programs in 2000 owed 68% more (in constant 2002 dollars) than did their counterparts in 1990, and college students owed 63% more. Over the same time period, median debt-to-earnings ratios increased from .28 to .44 for university graduates and from .21 to .33 for college graduates.<sup>1</sup>

**Debt-to-Earnings Ratio** is defined as the debt of students at graduation divided by their earnings two years after graduation. The higher the ratio, the greater the debt burden. A ratio of .44 indicates that the total value of debt amounts to 44% of total yearly income.

While larger student loans are covering some portion of the rising costs of post-secondary education, employment earnings and personal savings are the principal sources of funds for most post-secondary students. According to data from the Postsecondary Education Participation Survey, three-quarters of full-time students aged 18 to 24 used personal savings and two-thirds used employment income to cover the costs of their studies. Based on dollar amounts, employment income was the single most important source of funds for a majority of students.<sup>2</sup>

Are student earnings keeping pace with rising tuition fees? The Canadian Council on Learning recently commissioned a Statistics Canada analysis of trends in student employment.<sup>3</sup> The data suggest that student earnings are lagging behind rising tuition fees.

## Trends in student employment

Overall, the proportion of post-secondary students who work during their studies has increased considerably since the late 1970s. In 1979, fewer than 30% of university students and fewer than 40% of college students worked either part- or full-time. By 2001, over 40% of university and over 50% of college students were working. Within those steadily increasing trends, there is substantial year to year variability, depending in large part on labour-market conditions.<sup>4</sup>

This variability plays out differently for younger versus older students; for male versus female students; and for school-year versus summertime employment. With respect to earning money for post-secondary studies, trends for older students (aged 18 to 24) are likely more informative than are trends for younger students (aged 15 to 17). However, given that most post-secondary students rely on personal savings and employment earnings from their high-school jobs are one likely source of these savings, we have also included employment trends for younger students in the following discussion.

Student employment rates during the school year hit record highs in 1989–1990, but subsequently fell during the recession of the early 1990s. Older students were modestly affected by this drop. Their employment rates have since recovered and are now higher than ever. Employment rates for younger students fell much more precipitously and remain lower than they were in the late 1980s. Approximately 46% of older students worked during the 2004–2005 school year, compared to 31% of students aged 15 to 17. This represents a large change from the late 1970s, when similar proportions of each group held jobs during the school year. It also marks a large increase in the percentage of older students who were working; in 1976–1977, slightly more than one-quarter of 18- to 24-year-olds held jobs during the academic year.

An employment gap has also emerged between male and female students. In 1976–1977, about the same proportion of young men and young women held jobs during the school year. By 2004–2005, about half of female full-time students between the ages of 18 and 24 were working at a job during the school year, compared to 41% of males. For 15- to 17-year-olds, 34% of female full-time students reported working during the 2004–2005 school year, compared to 28% of males.

Summer employment rates for students also fell during the recession in the early 1990s and have yet to fully recover. During the summer of 1989, 61.4% of students planning to resume their studies in the fall were employed, while only 51.7% were employed during the summer of 2005. The recession affected male students more than female students and the recovery has been weaker for male students. As a result, female full-time students are now much more likely than their male counterparts to be employed during the summer months. Compared to the summer of 1998, employment rates for female students increased 7.1 percentage points, reaching 55.2% in the summer of 2005; this compares to a 2.2 percentage-point increase for male students over the same period, with the employment rate rising to 47.9% in 2005. Between 1998 and 2003, overall employment increased during the summer months; however, employment rates remained flat in the summers of 2004 and 2005 for female students, while male students experienced declines.

### Students Working More

Should we be concerned that students are working longer hours during the school year?

Some research suggests that combining work with school can carry important benefits—beyond the obvious financial ones. High-school students who work up to 20 hours per week are more likely to finish high school than those who do not work at all<sup>19</sup> and are also more likely to pursue post-secondary studies.<sup>20</sup>

However, high-school students who work longer hours tend to have lower grades,<sup>20</sup> do less homework<sup>22</sup> and are more likely to drop out of school<sup>23</sup> and less likely to pursue post-secondary studies.<sup>24</sup> Post-secondary students who work long hours are also more likely to abandon their studies.<sup>25</sup>

Some analyses suggest that the relationship between working long hours and negative academic outcomes is not causal, but rather a reflection of pre-existing differences between students who choose to work long hours and those who do not.<sup>26</sup> However, the overwhelming weight of evidence suggests that students should avoid devoting too many hours to paid employment.

## Student job sectors

The post-recession recovery in student employment rates has largely been the result of employment growth in two sectors: retail and wholesale trade, and accommodation and food services. Combined, these two sectors employed six in 10 working students during the 2004–2005 school year. Employment growth has been particularly strong for wholesale and retail trade over the last eight school years. In 2004–2005, 36.8% of employed students were working in this sector, compared with 31.6% in 1997–1998.

While jobs in the retail and service sectors seem to be readily available to students, they also offer low pay, little employment security, and few opportunities for skill development. In contrast, higher-paying jobs in the goods-producing sector are becoming more scarce. These changes are having a particularly strong impact on male students. In the summer of 1989, 23.4% of male employed students worked in construction, manufacturing or agriculture. By the summer of 2005, this number had dropped to 17.2%. Most of these jobs have shifted to the lower-paying service industries, where 81.3% of male employed students worked during the summer of 2005—up from 74.2% in 1989.

## Student wages and hours worked

Average hourly wages for full-time students have changed little since 1997–1998. After adjusting for inflation, hourly wages during the school year have decreased 1.8% for younger students and increased 2.1% for older students. During the summer months, hourly wages have decreased by 0.8% for younger students and increased by 2.4% for older students. Hourly wages are not keeping up with rising tuition fees, but students appear to have compensated for this disparity by working longer hours—at least during the school year. Younger students are now working 1.2 hours per week more than they were during the 1997–1998 school year, and older students have increased their weekly average by 0.9 hours. During the summer months, younger students have been putting in fewer hours, with their weekly average dropping by 0.7 hours. Older students worked 0.6 more hours per week in 2005 than they did in 1998.

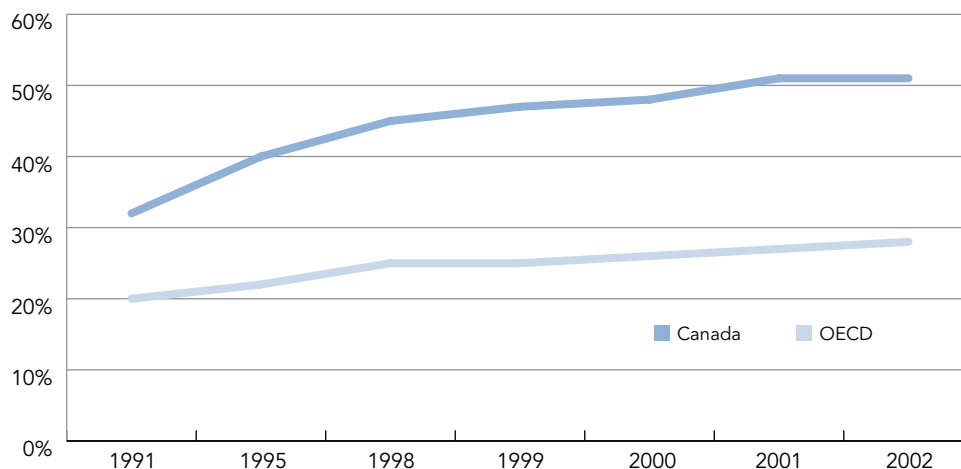
The net result is that, since 1997–1998, students in both age groups have managed to increase their average weekly earnings by 8% during the school year. Older students' summer weekly earnings grew by 5.2% between 1998 and 2005, while younger students' fell by 3.9%. During that period, undergraduate tuition fees rose by approximately 35%.

## Access to post-secondary education

Students' ability to earn money has clearly not kept pace with the rising cost of post-secondary education. Is this having a negative impact on the accessibility of post-secondary education in Canada? On the surface, the answer appears to be no. Post-secondary enrolment among Canadian youth continues to grow and remains well above other OECD countries (see Figure 1). Even for low-income youth, affordability does not seem to be the only factor determining young people's willingness and ability to pursue post-secondary studies. In a recent study, the Educational Policy Institute reported that public, four-year post-secondary education is less affordable in Canada than in the U.S.—when

tuition and other fees, living costs, and subsidies for students are all taken into consideration. Even so, Canadians from low-income families are more likely to attend university than their American counterparts.<sup>5</sup>

**Figure 1:**  
Proportion of 25- to 34-year-old population with at least some post-secondary education



Source: OECD Education at a Glance 2004

Nonetheless, affordability does play an important role in the decision to pursue post-secondary studies. According to data from Statistics Canada's Youth in Transitions survey, financial concerns are the most commonly reported reason for failing to pursue (either dropping out of or never starting) post-secondary studies.<sup>6</sup>

Statistics Canada also reported that the relationship between family income and university participation grew stronger through the early to mid-1990s. That is, lower income youth have always been less likely to pursue university studies than higher income youth, and this tendency grew even stronger when tuition fees first started increasing in the early 1990s. This relationship eased off again once governments responded to tuition hikes by increasing the maximum student loan limits. But, though university participation rates among youth from the lowest income families (below \$25,000) has risen steadily since the mid-1990s, participation rates among middle income youth have been declining. While college fees have also been rising, they remain substantially below university tuition fees, and college participation is not as closely tied to family income. The differences in college participation rates across income groups are relatively small and participation rates have been generally rising.<sup>7</sup>

Though enhanced student-loan programs have bolstered post-secondary participation rates through the current period of tuition fee increases, there may be limits to students' ability to bridge the gap between rising costs and relatively flat earnings. This may be particularly the case for low-income students in programs with the greatest tuition increases. Two recent studies have documented the shrinking proportion of low-income students in programs

where tuition fee increases have been especially sharp. In a report published in the *Canadian Medical Association Journal*, a group of researchers tracked the proportion of low-income students in Ontario medical schools over a period of time during which tuition fees tripled. Over that period, the proportion of medical students whose family income was less than \$40,000 fell from 22.6% to 15.0%.<sup>8</sup> Similarly, a study at the University of Western Ontario on the effects of tuition deregulation revealed that low-income students made up 17.3% of the medical school class immediately before deregulation (when annual tuition was \$3,500) but only 7.7% after deregulation (when tuition was \$10,000).<sup>9</sup> These findings suggest that there are limits to the resilience of post-secondary participation in the face of declining affordability.

### Now what?

There are signs that the period of skyrocketing tuition fees has ended and that students can begin to expect more modest tuition fee increases. While the average yearly university tuition increase between 1990–1991 and 2000–2001 was 13.5%, this dropped to 2.2% between 2000–2001 and 2005–2006. As well, five provinces (Alberta, Saskatchewan, Manitoba, Quebec, N.L.) currently have tuition freezes and three more (B.C., Ontario, N.S.) have placed limits on tuition fee increases. Nonetheless, today's students face much higher tuition costs than did their predecessors 15 years ago.

How are students and governments responding to these changes?

The primary government response to rising tuition fees has been to enhance student loan programs. According to Statistics Canada analyses, this approach has been effective in maintaining post-secondary participation rates while tuition fees rise and student employment earnings stagnate. The student response has included working longer hours and making use of the greater availability of student loans. Given the evidence on the deleterious effects of devoting too much time to paid employment, it is important to ensure that student loan programs keep pace with the rising cost of post-secondary education.

Recently, the federal government (in the 2004 budget) increased the maximum loan amount from \$165 to \$210 per week of study. In addition, the expected parental contribution was reduced, making more students—primarily from middle income families—eligible for student loans. A one-time grant was also made available to low-income students to cover half the cost of their first year of tuition. To assist in alleviating the increasing burden of debt that students are assuming, changes to the Canada Student Loans Program also enhanced the interest relief and debt reduction components by increasing the income threshold below which borrowers become eligible for interest relief and increasing the maximum amount available for debt reduction.<sup>10</sup>

In recent years, the provinces have also enhanced their student loan programs. There has, however, been a concurrent trend toward shifting student aid away from non-repayable grants and toward repayable loans.<sup>11</sup> Together with rising tuition fees, this had added to the growing debt load of post-secondary graduates and may specifically discourage post-secondary participation among

low-income students who already have lower participation rates than students from more affluent families<sup>12,13</sup>. Low-income students whose families have little experience with post-secondary education often lack confidence that their investment in post-secondary education will yield a substantial financial return. These students are less inclined than their more affluent counterparts to take on the financial risk of a student loan<sup>2</sup>, which further limits their options for financing post-secondary education. Governments have made some efforts to alleviate this problem by introducing student aid initiatives targeted to low-income students. For example, the Manitoba government recently announced the Millennium Manitoba Opportunities Grant for low-income students in their first year of post-secondary studies. As student debt becomes a reality for more and more post-secondary students, it will be important to ensure that debt aversion does not prevent low-income students from pursuing post-secondary studies.

Even for students from more financially secure families, rising debt loads can be a heavy burden after graduation. Many students do manage to pay off their student loans with impressive alacrity. Among student borrowers from the graduating class of 2000, 18% had paid off their loans within two years of graduation. However, 30% of graduates reported that they were experiencing difficulty in repaying their student loans. As well, data from the Canada Student Loans administrative data system indicate that student loan default rates rose steadily during the 1990s. In 1991, the one-year default rate was 17.6%; by 1996 it had risen to 21.8%<sup>2</sup>. Though interest relief and debt reduction are available to graduates struggling to repay their loans, further efforts to assist student borrowers may be required. According to a recent report, Canadian student debt loads are not especially high by international standards, but repaying those loans is comparatively more difficult in Canada than elsewhere.<sup>2</sup>

**Table 1:**  
Average Undergraduate<sup>a</sup> and  
College Tuition Fees in Canada

Undergraduate fees <sup>b</sup> (2005 dollars)	1990/91	2005/06
Canada	1,464	4,214
Newfoundland and Labrador	1,344	2,606
Prince Edward Island	1,874	4,645
Nova Scotia	1,941	6,281
New Brunswick	1,925	5,037
Québec	904	1,900
Ontario	1,680	4,881
Manitoba	1,512	3,272
Saskatchewan	1,545	5,062
Alberta	1,286	5,125
British Columbia	1,808	4,874
College fees <sup>c</sup> (2003 dollars)	1990/91	2003/04
Canada	646	1,443
Newfoundland and Labrador	626	1,452
Prince Edward Island	1,447	3,250
Nova Scotia	992	2,250
New Brunswick	647	2,400
Québec	0	0
Ontario	740	1,820
Manitoba	783	1,292
Saskatchewan	932	2,893
Alberta	743	2,840
British Columbia	1,373	2,479

<sup>a</sup>Undergraduate programs include: agriculture, architecture, arts, commerce, dentistry, education, engineering, household science, law, medicine, music, science.

<sup>b</sup>Source: Statistics Canada – University Tuition Fees

<sup>c</sup>Source: Manitoba Council on Postsecondary Education/College Student Alliance

The Educational Policy Institute has suggested that student loan repayment could be made less onerous for a large majority of Canadian graduates by changing the manner by which interest on Canada Student Loans is charged. Currently, the government pays the interest on student loans while students remain in school. To recover the monies paid out in interest, the government later collects interest at a rate that is higher than its own cost of borrowing. If instead, students were charged interest on their loans while still in school but were charged interest at the government cost of borrowing, most students would save money in the long run. These savings would be substantial: at current interest rates, a student leaving school with a \$20,000 debt could save approximately \$5,000 in interest charges over a 10-year repayment period.<sup>17</sup>

If Canadians wish to remain competitive in the knowledge economy, it is important to maintain an affordable and accessible post-secondary education system. A recent report on post-secondary education commissioned by the Government of Ontario<sup>18</sup> contained several recommendations for improving the affordability of post-secondary education. The common assumption underlying all the recommendations is that students should be expected to bear a reasonable share of the costs of their education, but “students should not have to work excessive hours in order to finance their education” (p. 22). By enhancing student loan programs, Canadian governments have worked toward ensuring that this assumption is met. However, the data on student employment indicate that students are working longer hours than ever before. Thus, further efforts may be required to maintain an affordable post-secondary system in Canada.

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