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COST ANALYSIS OF A POST- SECONDARY STUDENT RELIEF PACKAGE



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report is in response to a request by Members of Parliament Leah Gazan (Winnipeg Centre) and Lindsay Mathyssen (London-Fanshawe) to examine the cost of a set of post-secondary education measures outlined in Private Member's Motion M-75, *Implementation of a Post-secondary Student Relief Package*.

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Executive Summary

This report is in response to a request by Members of Parliament Leah Gazan (Winnipeg Centre) and Lindsay Mathyssen (London-Fanshawe) to estimate the cost of a set of post-secondary education measures outlined in Private Member's Motion M-75, *Implementation of a Post-secondary Student Relief Package*.¹

Specifically, it presents PBO's cost estimate for implementing four modifications to the Canada Student Loans Program (CSLP). First, a moratorium on loan payments starting April 1, 2021 until July 31, 2022. Following this, effective August 1, 2022, the non-repayment period would be extended from six months to five years, interest payments would be removed, and an income contingent loan debt reduction plan of up to \$20,000 per student borrower would be introduced.

Summary Table 1 shows the estimated total cost of all the proposed modifications combined, including the impact of the Student Loan Interest Credit. The estimated total cost is \$98 million for the first full fiscal year (2021–2022), rising to \$1,250 million for the last year of projection (2025–2026).²

Summary Table 1 **Estimated combined total cost of all measures**

Total Cost (\$ millions)	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Proposed scenario: with debt reduction of up to \$20,000 per student borrower	98	712	898	993	1,250
Source:	PBO calculations				
Notes:	Totals may not add due to rounding. Figures represented in nominal (then-year) dollars. Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.				

Under alternate scenarios, shown in Summary Table 2, the proposed measures with an income contingent loan debt reduction plan of up to \$10,000 per student borrower would reduce the estimated cost to \$913 million in 2025–2026. On the other hand, the cost with a debt reduction plan of up to \$30,000 per student borrower would increase to \$1,415 million in 2025–2026.

Summary Table 2 **Estimated combined total cost of all measures: alternate debt reduction scenarios**

Total Cost (\$ millions)	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Alternate Scenario 1: with debt reduction of up to \$10,000 per student borrower	98	-48	600	700	913
Alternate Scenario 2: with debt reduction of up to \$30,000 per student borrower	98	1,085	1,044	1,137	1,415

Source: PBO calculations

Notes: Totals may not add due to rounding. Figures represented in nominal (then-year) dollars.
Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

Note that the distribution of outstanding loan balances contributes to the varying differences in the estimated total cost between the proposed and the alternate scenarios. Thus, the difference in the amount of federal loans forgiven when moving from a debt reduction plan of up to \$10,000 to \$20,000 per student borrower is greater compared to moving from a debt reduction plan of up to \$20,000 to \$30,000.

Note further that the estimated saving in 2022-2023 under the alternate Scenario 1 is due to the amount of loans forgiven being less than the saving generated by the elimination of the RAP.

1. Introduction

This report is in response to a request by Members of Parliament Leah Gazan (Winnipeg Centre) and Lindsay Mathyssen (London-Fanshawe) to estimate the cost of a set of post-secondary education measures outlined in Motion M-75, *Implementation of a Post-secondary Student Relief Package*, placed on notice on March 18, 2021.³ This report presents the estimated costs of the various relief measures in the Motion, including the following which are to go into effect August 1, 2022:

- Extending the non-repayment period for federal student loans repayment from six months to five years (60 months);
- Removing student interest payments on federal student loans; and
- An income contingent debt reduction plan of up to \$20,000 per student borrower for federal student loans in repayment, with alternate scenarios of debt reduction up to \$10,000 or \$30,000 per student borrower to be considered.

This report also includes the costing of:

- Placing a moratorium on student loan payments from April 1, 2021 to July 31, 2022.

This report presents the PBO's estimates for implementing the above proposed modifications to the Canada Student Loans Program (CSLP)⁴. The cost estimates cover all aspects of CSLP associated with the repayment of federal student loans, including payments to provinces and territories that do not participate in CSLP.⁵ Costs are broken down separately for each of the proposed modifications to CSLP. The combined policy cost is calculated with their interactions incorporated. The impact of non-refundable Student Loan Interest Credit is also considered. The costs are presented on a fiscal year basis.

2. Cost Estimate

The costs of proposed modifications to CSLP are estimated using the PBO's Student Financial Assistance Model. The model projects CSLP revenues and expenses, reflecting current CSLP policies and parameters. The long-term outlooks used in the projection are consistent with the annual reports from the Office of the Chief Actuary. The model tracks student loans in a loan year, which runs from August to July of the following year. For more information on PBO's model, see PBO report "Projecting the Revenues and Expenses of Canada Student Loans Program".⁶

What underlies CSLP revenues and expenses is the lifecycle of student loans. The lifecycle consists of three periods: the study period when the student is in school, the six-month non-repayment period after the end of studies, and the repayment period. Throughout each period, the federal government incurs expenses and revenues that are dependent on the amount of outstanding student loans and student borrower repayment patterns.

2.1. Data and Methodology

The PBO's Student Financial Assistance Model is calibrated to reflect recent program data available at the Office of the Chief Actuary.⁷ It is brought up to date by incorporating the recent change to CSLP announced in the 2020 Fall Economic Statement, which eliminated interest on repayment of federal student loans for the duration of fiscal year 2021-2022.

The PBO's model is used to independently estimate the net expense of CSLP under the current policy and the proposed modifications. The cost differences between the baseline model and the proposed changes are reported as the impact of the policies on all aspects of CSLP.

The costs of all proposed modifications are estimated using this model except for the income contingent debt reduction plan. To estimate the cost of a debt reduction plan, PBO used Statistics Canada's data and simulation model SPSP/M, along with data from Employment and Social Development Canada to determine the percentage of federal student loan balances in repayment eligible for income contingent debt reduction.⁸ Because of data limitations, PBO made assumptions on linkages between household income and loan amounts in repayment.

The universe of CSLP administration data is available to determine historical student loan disbursements and program costs. These are projected using a top-down approach to modelling loan repayment behaviour. Historically, such behaviour exhibits a certain degree of randomness; therefore, the value

of future federal student loan balances could be influenced by this randomness as well as by the labour market and the broader economy.

However, these cost estimates do not account for any behavioral or distributional changes resulting from the proposed measures. PBO assumed that default rates, the portion of student borrowers that need assistance from the Repayment Assistance Plan (RAP), as well as repayment behaviour would follow historical trends.

The estimated impact to the non-refundable Student Loan Interest Credit is estimated accordingly, referencing the annual Report on Federal Tax Expenditures by Finance Canada published in February 2021.⁹

2.2. Results

When estimating the cost of extending the non-repayment period from six to 60 months, PBO assumes that only student borrowers entering repayment on or after August 1, 2022 will be eligible. Under this proposal, interest does not accrue during this 60-month non-repayment period. It is also assumed that the status quo repayment period of 114 months (9.5 years) would remain in place and that repayment would start following the conclusion of the extended non-repayment period. The upfront savings of this proposal are due to reduced RAP costs. These are partly offset by the cost of deferred interest revenues. The full impact of this proposal, however, will not be observed until 2026-2027 when RAP costs begin to rise. This is due to the first cohort of beneficiaries completing the five-year non-repayment period and entering repayment.

Removing student interest payments on federal student loans begins August 1, 2022. To that end, interest for all current and future federal student loans in repayment are set equal to zero. As interest will no longer accrue, the main source of cost for this proposal is reduced interest revenues.

Under the proposal for income contingent debt reduction, students become eligible for debt reduction as soon as student borrowers start to repay their loans. Following current program parameters, this occurs following the six-month non-repayment period. The total amount of eligible debt reduction is based on students' household income and the projected federal student loan outstanding after leaving school. Because of data limitations, eligible debt amounts are not adjusted for household characteristics other than income. Nor are household income thresholds indexed. It is assumed that an income contingent debt reduction plan would replace the existing RAP. The main cost of this proposal are the upfront and annual costs of debt write-downs. These are partly offset by savings generated by the elimination of the RAP.

The moratorium on student loan payments is assumed to start on April 1, 2021 and last until July 31, 2022. Repayment of federal student loans are

paused for these 16 months and would resume at the conclusion of this period. Accordingly, interest would not accrue either. The time remaining on a borrower's federal student loan repayment is extended to account for the length of the moratorium. RAP payments by the federal government would also be paused for the duration of the moratorium. The main source of cost during this period is deferred interest revenues and increases in loan provisions, offset partly by reduced RAP payments. At the conclusion of the moratorium, annual ongoing costs are decreased, driven principally by higher student interest payments than projected under the baseline model.

The costs for each proposed modification to CSLP is separately shown in Table 2-1. It is important to note that the full impact of the proposed measures will not be observed until 2026-2027, the first year that a cohort of beneficiaries of these policy changes completes a five-year non-repayment period and becomes eligible for the loan debt reduction plan.

Table 2-1 Estimated cost of individual measures (no interactions)

Cost (\$ millions)	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Extending non-repayment period from six months to five years	-	-107	-148	-124	-37
Remove student loan interest payments	-	221	382	465	553
Reducing up to \$20,000 in student loan debt	-	4,527	1,885	1,627	1,682
Placing a moratorium on student loan repayments	98	43	-71	-68	-65

Source: PBO calculations

Notes: Totals may not add due to rounding. Figures represented are in nominal (then-year) dollars.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost

Table 2-2 considers the estimated total cost of the proposed modifications combined, including the impact of the Student Loan Interest Credit. It is estimated at \$98 million for the first full fiscal year (2021–2022) and \$1,250 million for the last year of projection (2025-2026).

There are significant interaction effects when all policies are considered at once. These effects are driven by differences in timing. All policies are impacted by this to some degree, but the proposed debt reduction is the most significantly affected. When it is considered on its own, it occurs six months after a beneficiary enters repayment. Combined with other proposals, debt forgiveness occurs 60 months after loans entering repayment due to the proposed extension of non-repayment period. This causes a decrease in the amount of loans forgiven in 2022-2023 and a shift to future years.

The lengthened non-repayment also provides time for the average beneficiary's income to increase. A beneficiary household income will likely be higher five years after leaving school than after six months, resulting in less debt being forgiven.

Finally, the moratorium on payments from April 1, 2021 to July 31, 2022 increases the amount of loans remaining in repayment, thus increasing the total amount of loans forgiven.

Table 2-2 Estimated cost of measures combined

\$ millions	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Cost of proposed measures combined	98	725	917	1,016	1,277
Student Loan Interest Credit	-	-13	-19	-23	-27
Total cost	98	712	898	993	1,250

Source: PBO calculations

Notes: Totals may not add due to rounding. Figures represented are in nominal (then-year) dollars.
Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance
"-" = PBO does not expect a financial cost

3. Alternate Debt Reduction Scenarios

As part of the motion M-75, the Members of Parliament propose to consider the alternate scenarios of federal student debt reduction at \$10,000 and \$30,000 per student borrower.

3.1. Scenarios and Costing Assumptions

The same set of assumptions used to estimate the cost of an income contingent debt reduction plan of up to \$20,000 are applied to the two alternate scenarios.

In both scenarios, the analysis assumes that the introduction of an income contingent debt reduction plan replaces the existing RAP. While this is a likely outcome under the scenario of \$30,000 per student borrower, it is less certain under the \$10,000 scenario. Once again, the one-time savings in loan provisions for RAP in loan year 2022-2023 partly offset the upfront cost of debt write-downs. In addition, when combined with all proposed measures, the full impact will not be observed until 2026-2027, the first year that a cohort of beneficiaries of these policy changes completes a five-year non-repayment period becoming eligible for the loan debt reduction plan.

3.2. Results

Table 3-1 displays the estimated total costs of an income contingent debt reduction plan under two alternate scenarios. Compared to the results under the \$20,000 scenario, the estimated cost of a debt reduction plan of up to \$10,000 per student borrower in 2025-2026 is reduced by \$635 million to \$1,048 million. The scenario of a debt reduction plan of up to \$30,000 per student borrower is \$301 million more expensive, with a cost of \$1,983 million in 2025-2026.

Table 3-1 Estimated Cost of Debt Reduction: Alternate Scenarios

Cost (\$ millions)	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Alternate Scenario 1: debt reduction of up to \$10,000 per student borrower	-	2,531	1,177	1,007	1,048
Alternate Scenario 2: debt reduction of up to \$30,000 per student borrower	-	5,498	2,222	1,921	1,983

Source: PBO calculations

Notes: Totals may not add due to rounding. Figures represented are in nominal (then-year) dollars.
Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.
“-” = PBO does not expect a financial cost

The estimated total costs of all the proposed measures combined under the \$10,000 debt reduction scenario are shown in Table 3-2. Compared to the results under the \$20,000 scenario, the estimated total cost in 2025-2026 is reduced by \$337 million to \$913 million under the scenario of a debt reduction plan of up to \$10,000 per student borrower. Note that the estimated saving in 2022-2023 is due to the amount of loans forgiven being less than the saving generated by the elimination of the RAP.

Table 3-2 Estimated cost of measures combined: Alternate scenario 1 (\$10,000 debt reduction)

\$ millions	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Cost of proposed measures combined	98	-35	619	723	941
Student Loan Interest Credit	-	-13	-19	-23	-27
Total cost	98	-48	600	700	913

Source: PBO calculations

Notes: Totals may not add due to rounding. Figures represented are in nominal (then-year) dollars.
Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.
“-” = PBO does not expect a financial cost

Under the \$30,000 scenario, the package of proposed measures is more expensive. Compared to the \$20,000 scenario, it adds \$165 million to the estimated total cost, producing a total scenario cost of \$1,415 million in 2025-2026 (Table 3-3).

Table 3-3 Estimated cost of measures combined: Alternate scenario 2
(\$30,000 debt reduction)

\$ millions	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Cost of proposed measures combined	98	1,098	1,063	1,160	1,443
Student Loan Interest Credit	-	-13	-19	-23	-27
Total cost	98	1,085	1,044	1,137	1,415

Source: PBO calculations

Notes: Totals may not add due to rounding. Figures represented are in nominal (then-year) dollars.
Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.
“-” = PBO does not expect a financial cost

Note that the distribution of outstanding loan balances contributes to the varying differences in the estimated total cost between the proposed and the alternate scenarios. Thus, the difference in the amount of federal loans forgiven when moving from a debt reduction plan of up to \$10,000 to \$20,000 per student borrower is greater compared to moving from a debt reduction plan of up to \$20,000 to \$30,000.

Notes

1. Motion M-75. Retrieved from: [https://www.ourcommons.ca/Members/en/lindsay-mathyssen\(105221\)/motions/11172279](https://www.ourcommons.ca/Members/en/lindsay-mathyssen(105221)/motions/11172279)
2. The full impact of all proposed measures will not be observed until 2026-2027, the first year that a cohort of beneficiaries of these policy changes completes the five-year non-repayment period and becomes eligible for the loan debt reduction plan.
3. Ibid, Note 1.
4. Budget 2021 announced the renaming of the Canada Student Loans Program (CSLP) as the Canada Student Financial Assistance Program (CSFAP).
5. The provinces and territories that do not participate in CSLP receive alternative payments from the federal government to administer their own post-secondary education student financial assistance program. At the time of publication, Quebec, the Northwest Territories, and Yukon do not participate in CSLP.
6. Projecting the Revenues and Expenses of Canada Student Loans Program. Retrieved from: https://www.pbo-dpb.gc.ca/en/blog/news/Revenues_expenses_CSLP
7. Office of the Superintendent of Financial Institutions Canada. (2020). Actuarial Report on the Canada Student Loans Program, as at 31 July 2019.
8. This analysis is based, in part, on Statistics Canada's Social Policy Simulation Database and Model (SPSD/M). The assumptions and calculations underlying the SPSPD/M simulation results were prepared by the Office of the Parliamentary Budget Officer (PBO) and the responsibility for the use and interpretation of these data is entirely that of the PBO.
9. Department of Finance Canada. Report on Federal Tax Expenditures. Retrieved from: <https://www.canada.ca/en/department-finance/services/publications/federal-tax-expenditures.html>