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The Canadian Education Savings Program and its Implications for U.S. CSA Policy

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Overview

- Why is Canada a good comparison?
- Research questions
- Lessons the U.S. might learn from the Canadian experience
- Additional thoughts for discussion and debate

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Why Canada?

- Despite differences, considerable similarities in educational landscape (rising tuition and debt, growing inequality, reduced need-based aid)
- Canada has education savings program with structures and incentives used/considered in U.S. (initial deposit, savings match, tax-preferred instrument, participation of private financial institutions)
- Chance to look at two dimensions of CSA effects—asset accumulation and account ownership—and their evidence in a national program

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What We Did

- Conducted a research review
- Policy analysis through lens of U.S.-based asset scholarship
- Collaborative deliberation with academics, administrators, providers, and advocates in both national contexts
- Potential identification of future empirical investigation cross-nationally
  - This is meant to be an exploratory/descriptive study.

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Research Questions

- What are the features of the Canadian system?
- What are the similarities and differences between the Canadian Education Savings Program and state 529 plans in the U.S.?
- What are the implications for a national CSA program in the U.S., particularly regarding decisions about delivery systems, enrollment mechanism, incentives, state v. national design, and roles for private institutions?

Comparison of Canada and U.S. System

See Handout

Lessons - Enrollment

- Difficult to secure universal participation without automatic enrollment
  - Targeted outreach can work, but hard to scale, especially if not connected to K-12 policy/system

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Lessons - Savings

- Canada's national plan has increased PSE savings
  - RESPs far outperforming 529s in utilization
  - Potential for lower administrative costs
  - Low-income households save ~$740/year in CESP—higher than most U.S. CSA programs
- Group plans
  - Setting savings expectations may be important
- Leveraging income supports may improve CSA outcomes
  - Low-income Canadians may have more resources for saving (UCCB, supplement); removing asset limits reduces 'friction'
- Transfers may increase balances and may also encourage saving (even when HH saving not required)

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Lessons - Delivery System

- Potential trade-offs in using existing structure v. designing one intentionally redistributive
  - Utilizing existing infrastructure may make universal engagement more elusive
    - RESP requirement for SIN, cultural distance to institutions
  - Absent universal enrollment, participation skews to more advantaged, even with progressive incentives
  - Separating accounts from incentives, administratively, may frustrate policy reforms
  - Having account architecture may accelerate development of asset approaches

Lessons – Use of Private Institutions

- Public/private system may blunt some potential benefits
  - May contribute to skew to advantaged households
  - May lose 'gateway' effects, since some providers don't offer other products
- Provider mix, plan options, regulatory constraints important
  - Institutional performance varies; few incentives for private institutions to offer these accounts
  - Savings contracts may increase savings, but at cost of increased risk and reduced account ownership effect
- Positive -private institutions may drive down costs
  - Administration of the CESG costs just $12.85 per beneficiary over six years, on average, for annual administrative costs of just $0.06 for every $1 of financial assistance

Lessons - Incentives

- Matches and initial deposits may work together as effective tools to increase savings, asset accumulation, account opening
  - Incentives encourage private institutional participation, but may not secure active partnership
  - May not have to choose between 'seed' and 'match'—98% of CLB recipients also saving in their RESP
- It appears that incentives must include direct redistribution to overcome liquidity constraints and counteract disproportionate participation of advantaged households

Additional Thoughts for the Field

- Policy may need to find levers for account ownership and asset accumulation effects
- CSAs may need to include adequate transfers— may need to make the case for these investments
- May want to think about the limits of equity within state 529 system
- Need better data to make CSA case and inform policy reforms
- Policy/program structure may increase positive effects with attention to asset theory:
  - Encourage regular deposits and early opening by setting clear savings goals
  - Cultivate 'ownership'—even automatic enrollment doesn't guarantee engagement
  - Make accounts lifelong

Additional Thoughts for the Field to Consider

- Policy/program structure may increase positive effects with attention to asset theory:
  - Encourage regular deposits and early opening by setting clear savings expectations/goals
  - Cultivate children's 'ownership'—even automatic enrollment doesn't guarantee engagement
  - Make accounts lifelong

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