

The Illiteracy of the Literate:

The Lack of Financial Aid Knowledge among Canadian University Students



Canadian Alliance of Student Associations

2010

The Canadian Student Survey is a project by the Canadian Alliance of Student Associations, in partnership with the Council of Alberta University Students, the Ontario Undergraduate Student Alliance, and the Alliance of Nova Scotia Student Associations.



The Canadian Alliance of Student Associations (CASA) is a non-partisan, not-for-profit national student organization composed of 25 student associations, representing over 300,000 students from coast to coast.



The Council of Alberta University Students (CAUS) represents the interests of over 70,000 Alberta university students from the University of Alberta, the University of Calgary and the University of Lethbridge to the public, government and other post-secondary education stakeholders. Based in Edmonton, CAUS is a non-partisan and active advocacy group looking to ensure a fully accessible and high quality system of education in Alberta.



OUSA represents the interests of over 140,000 professional and undergraduate, full- and part-time university students at seven Ontario institutions.



The Alliance of Nova Scotia Student Associations (ANSSA) is a non-partisan provincial lobby group representing over 35,000 students at 5 post-secondary institutions across the province of Nova Scotia. ANSSA's mandates focuses exclusively on post-secondary education and it is committed to a high quality system that is affordable and accessible to every qualified student.



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Executive Summary

Student loans in Canada are extremely complicated, and allocated to individuals with the least amount of experience with consumer loans. Despite a lack of a credit history or credit rating of their own, they are asked to make significant decisions and choices about very complicated financial products. Counselling is rare and published information is opaque. And students who opt for loans rarely have a choice about doing so; taking them is usually a last resort when family contributions and work alone do not suffice.

The purpose of this paper is to explore the conflation of these two factors—inexperienced individuals with complicated borrowing. As part of the Canadian Student Survey, a pan-Canadian survey involving over 20,000 students, a series of questions regarding financial aid were posed. The results give an excellent portrayal of the state of student aid literacy, as well as some intriguing results about how different sources of information help – or hinder – students’ understanding of student assistance.

Overall, the research found that there was a significant lack of financial aid literacy among Canadian university students, and the problem lies, in part, with the sources of financial aid information that students are turning to.

The key research findings were as follows:

- **Students were very poorly informed about the details of the government financial aid system.** Three-quarters of them failed our financial aid literacy test. Even among upper-year government loan recipients, who have some of the best reasons to know the answers to this test, the failure rate is still 54%.
- **A large number of students were unaware of aid that might be available to them.** This was the case for 29% of students who both did not take out loans or grants and were unaware that grants for low-income students were available for non-loan recipients, as well as for the 48% of students who did not realize that loans are available to part-time students, and for the fifth-years who did not apply for government loans because they believed they would not receive sufficient government funding – 71% of whom were unaware that their parents’ income would not be taken into account. It is certainly the case for the one in eight non-loan recipients who simply did not know how to apply for a loan.
- **Many students who had loans did not know the basic details about repayment.** They were confused about repayment dates and interest rate accrual, and will find out that they owe more money than they had expected.
- **Sources of financial aid information impacted student knowledge.** One quarter of students used only friends and family for their financial aid, and these individuals performed the worst on the financial aid quiz. Students who reported using information imparted by high school guidance counsellors did not perform much better. The most effective sources, federal and provincial government websites, were only used by about 40% of students; however, use of these government web sites improved student test scores by less than ten percentage points.

The potential impacts of this illiteracy are far ranging and detrimental. For some students, the lack of knowledge will make their repayment process more painful than necessary; for others, financial aid illiteracy has shut them out of the government financial aid system altogether.

In short, the challenge facing policymakers is two-fold. First, student exposure to the most effective sources of financial aid information needs to be increased. The quarter of students who are using only friends and family for information need to be enticed to turn towards more reliable sources; government websites, in particular, are a relatively effective source but are used by only four in ten students. Second, the quality of sources needs to be improved. While there is no clear way for policymakers to directly improve the quality of information coming from parents, friends, or siblings, there are certainly policy levers for improving institutional sources. Government websites are the easiest to change, and although they are the best performing source that we consider, there is still much room for improvement. Although improving the effect of university financial aid offices and high school guidance counsellors is less straightforward, this is also a very important area to explore – 48% of students use one of these two sources as a principle source of financial aid information.

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Introduction

One of the harsher assessments of the Canadian system of student aid was delivered more than a decade ago by a banker from one of the financial institutions then involved with Canada's short-lived system of risk-shared loans. "Why," he asked "do we insist on building the system around giving one of the country's most complicated and sophisticated consumer loans to the country's least knowledgeable and sophisticated customers?"

It's a good question, which remains relevant today, despite a different loan system and changed student body.

Student loans in Canada are fearsomely complicated. At least eight different forms of income and assets are taken into account in different ways in the need assessment process, and each is "taxed" at a different rate. The rules on interest rates change twice over the life of a loan. To get their full entitlement of loans, students have to borrow through both a provincial and a federal loan program, and while this process is not as cumbersome as it used to be, the rules and subsidies attached to the loans can differ significantly (as can the quality of the information provided to students about these loans). There are generous systems of assistance available to protect low-income borrowers in repayment, but these are so complicated that a recent study showed that roughly half of those eligible to receive it do not apply.

On the other side of the equation, the users of these loans are, if not unsophisticated then at the very least inexperienced. Despite not having had any experience with consumer loans and despite the lack of a credit history or credit rating of their own, they are asked to make significant decisions and choices about very complicated financial products. Counselling is rare and published information is opaque. And students who opt for loans rarely have a choice about doing so; taking them is usually a last resort when family contributions and work alone do not suffice.

And the conflation of highly complicated information with individuals untested with borrowing has consequences. These young borrowers with tens of thousands of dollars of debt have to make real-life decisions about their financial futures with an imperfect understanding of the costs and benefits of various courses of action.

The purpose of this paper is to show the conflation of these two factors. As part of the Canadian Student Survey, a pan-Canadian survey involving over 20,000 students, a series of questions regarding financial aid were posed. The results give an excellent portrayal of the state of student aid literacy, as well as some intriguing results about how different sources of information help – or hinder – students' understanding of student assistance.

The Canadian Student Survey – Background and Methodology

Background

The Canadian Student Survey was a bilingual, multi-institutional survey conducted on university campuses across the country in the fall term of the 2009-10 academic year. The first project of its kind in Canada, the survey was designed and coordinated by students, and strived to engage the entire student body to share their opinions and experiences regarding post-secondary education. The end goal of the project was to work with national, provincial and institutional student leaders, stakeholders and policymakers to improve higher education in Canada for current and future students.

This project was a collaboration between the Canadian Alliance of Student Associations (CASA) and its regional and institutional partners, including the Ontario Undergraduate Student Alliance (OUSA), the Council of Alberta University Students (CAUS) and the Alliance of Nova Scotia Student Associations (ANSSA). The survey was administered by the Canadian Education Project (CanEd), part of the Higher Education Strategy Associates; CanEd was also responsible for cleaning, analysing and reporting on the survey data.

Survey Instrument

The research took place during November 2009. Participants were invited to participate via email and directed to a secure website, where they had to log in using either their institutional email address or a unique login that was assigned for the purpose of the survey. The survey was open for a period of three weeks, and students were sent a follow-up email during the second week reminding them to complete the survey.

The Canadian Student Survey instrument contained a mixture of multiple choice and user-inputted response questions and was composed of six different modules:

- Background information
- Paying for PSE
- Expenditures
- Financial Aid Literacy
- Policy Choices
- Demographics

The Ontario and Alberta provincial and institutional groups designed province-specific modules, which were only visible to students who indicated that they were enrolled in PSE in those provinces. The base survey was 52 questions in length; the Alberta version had a total of 56 questions and the Ontario version had a total of 57 questions. The survey took approximately 15-20 minutes to complete.

The present paper focuses primarily on the results from the eight-question Financial Aid Literacy module.

Sample Characteristics

The research took place during November 2009. Participants were invited to participate via email and directed to a secure website, where they had to log in using either their institutional email address or a unique login that was assigned for the purpose of the survey. The survey was open for a period of three weeks, and students were sent a follow-up email during the second week reminding them to complete the survey.

The survey instrument was administered in both English and French. The breakdown of responses by language is given in Table 1.

Table 1 – Responses by Instrument Language

Survey Language	Full-Time Undergraduate Responses
French	640
English	13,947
Total	14587

A total of 21,634 individuals from 17 different universities responded to the Canadian Student Survey. This report focuses specifically on full-time undergraduate students¹ who attended high school in Canada, and who responded to at least one question in the financial aid literacy module. This reduces the sample to 14587 individuals.

Weighting by Enrolment and Gender

The distribution of survey respondents by institution and by gender was not proportional to that in the university population as a whole. In order to improve the representativeness of the sample, survey results were weighted to reflect the population distribution of students by institution.² Furthermore, within each institution results were weighted to reflect the actual gender breakdown at that institution.

¹ A respondent was considered to be an undergraduate student if they indicated that they were studying for a “University Undergraduate Certificate or Diploma (below a Bachelor’s Degree)” or a “University Bachelor’s Degree (e.g. B.A., B.Sc., B.Ed.).”

² Data was weighted using 2007 full-time undergraduate enrolment data from Statistics Canada’s Postsecondary Student Information System (PSIS). Results were weighted for the full survey sample of university undergraduate students. As such, the percentages reported for the reduced sample discussed in this report may vary somewhat from the actual breakdown at Canadian Institutions, due to survey attrition and the exclusion of students who attended high school outside of Canada.

Figure 1 – Respondents by Gender

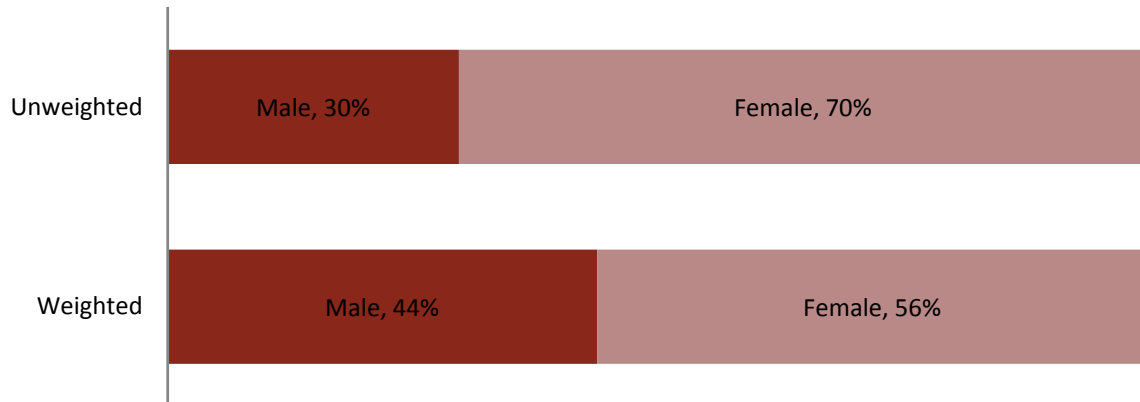


Figure 2 shows the raw number of respondents by institution, the percentage of students from each institution in the unweighted sample, and the percentage after the weight had been applied.

Table 2 – Respondents by Institution

Institution	Respondents	% of unweighted sample	% of weighted sample
Acadia University	215	1.5%	1.4%
Brock University	1,754	12.0%	6.4%
Cape Breton University	200	1.4%	1.1%
Dalhousie University	854	5.9%	4.5%
McMaster University	258	1.8%	10.0%
Queen’s University	1,330	9.1%	6.3%
St. Francis-Xavier University	419	2.9%	2.0%
Saint Mary’s University	558	3.8%	2.6%
University of Alberta	2,203	15.1%	13.8%
University of Calgary	210	1.4%	9.4%
University of Lethbridge	657	4.5%	3.1%
University of Moncton	662	4.5%	2.0%
University of New Brunswick	243	1.7%	4.2%
University of Prince Edward Island	345	2.4%	1.5%
University of Waterloo	940	6.4%	9.8%
University of Western Ontario	1,954	13.4%	11.7%
University of Windsor	696	4.8%	4.9%
Wilfrid Laurier University	1,089	7.5%	5.5%
Total	14,587	100%	100%

Survey respondents were disproportionately female: only 30% of respondents were male. Figure 1 shows the breakdown of responses by gender, before and after weighting.

Weighted Demographics

From this point on, we present only weighted demographics, for the sample of full-time undergraduate students who attended high school in Canada and who responded to at least one question on the Financial Aid Literacy module.

Figure 2 shows the breakdown of our sample by age. The median age of participants was 20 years.

Figure 2 – Respondents by Age

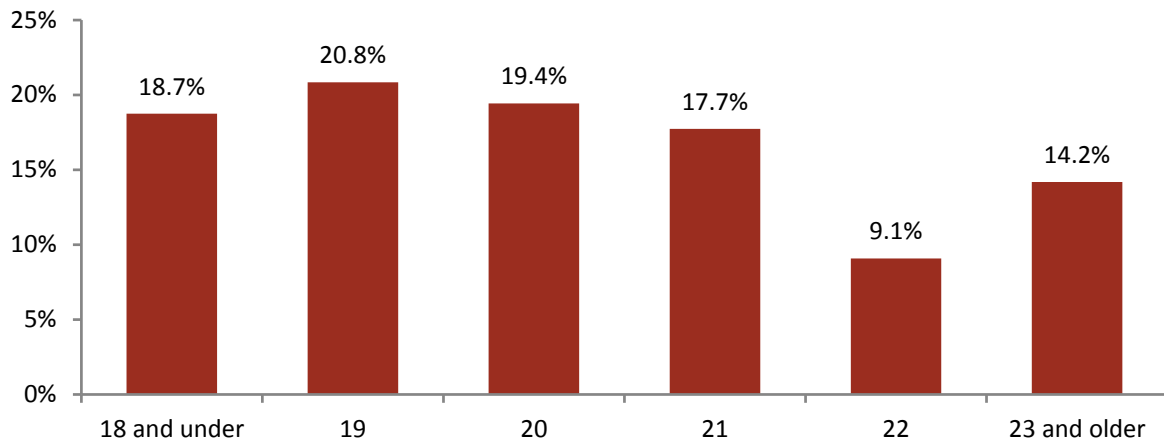


Figure 3 presents the parental education levels of our sample. More than half (54.6%) of participants reported that their parents had a university education or higher, while 26.3% had a college or CEGEP education and 17.6% had completed some or all of high school.

Figure 3 – Highest Parental Education Level of Survey Participants

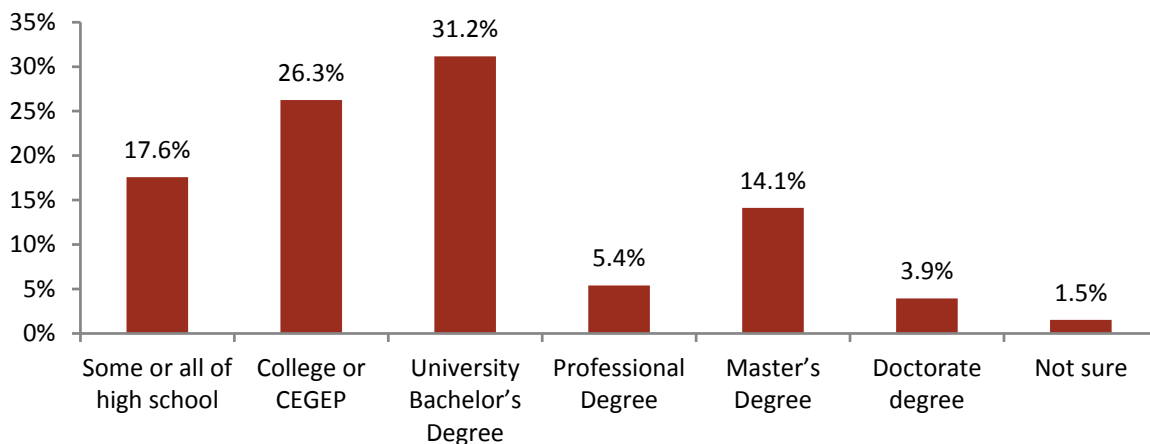
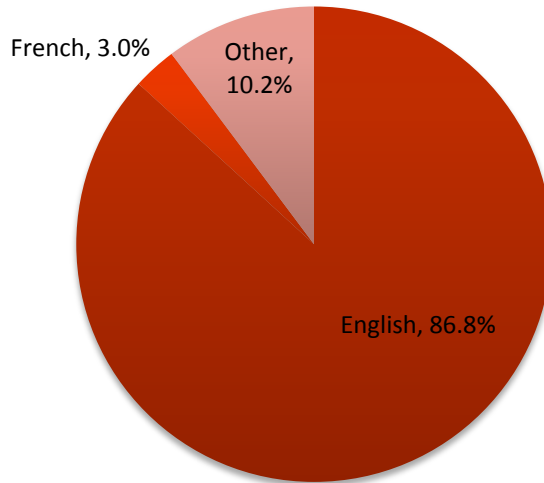


Figure 4 presents information on language spoken at home. 86.8% of survey participants reported that they spoke English at home, while just 3.0% reported speaking French. 10.2% said that they spoke a language other than English or French at home.

Figure 4 – Language Spoken at Home



Participants were asked to report the province in which they had last attended high school; the results are summarized in Figure 3.

Figure 3 – Province in Which Participants Last Attended High School

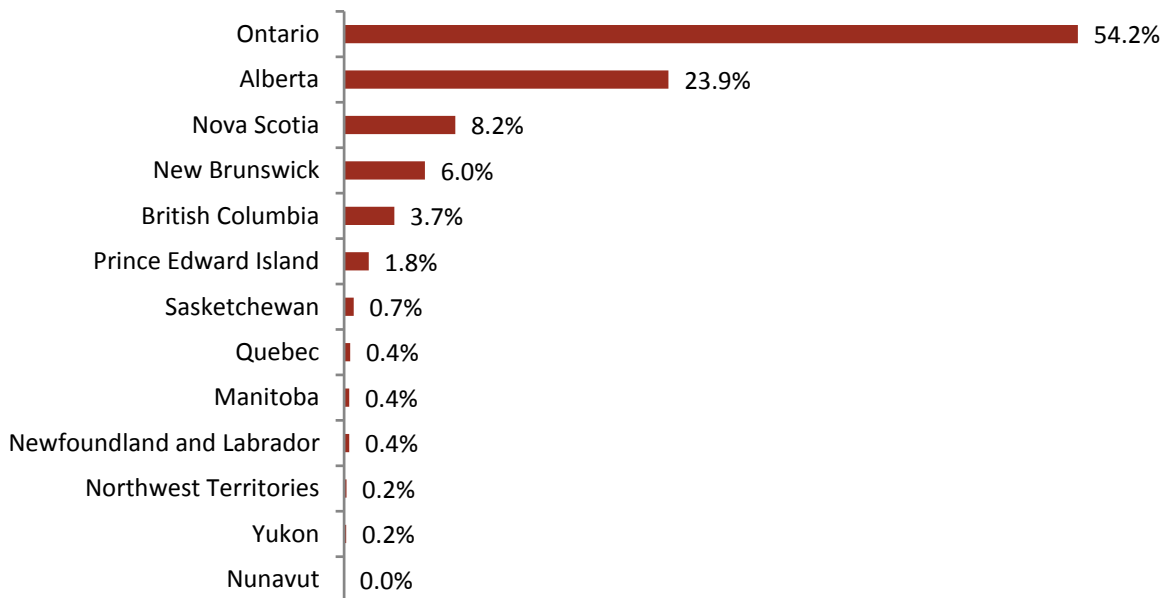
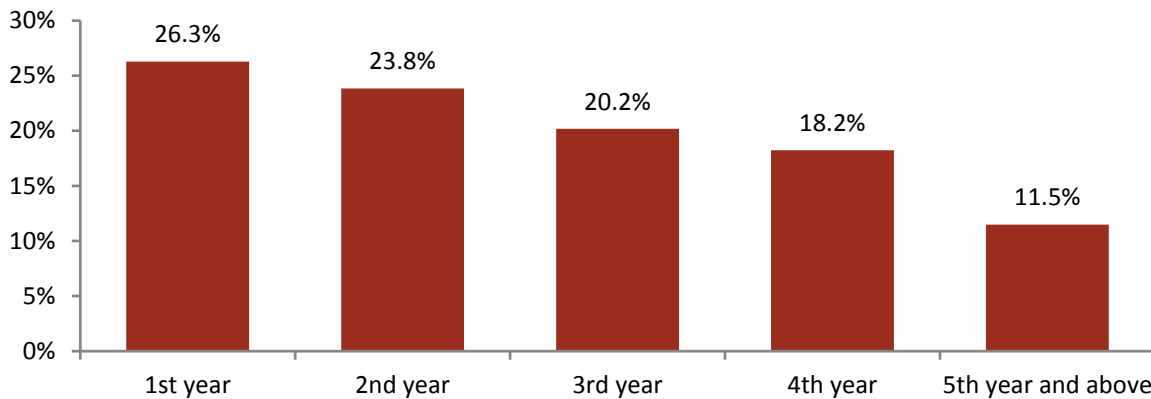


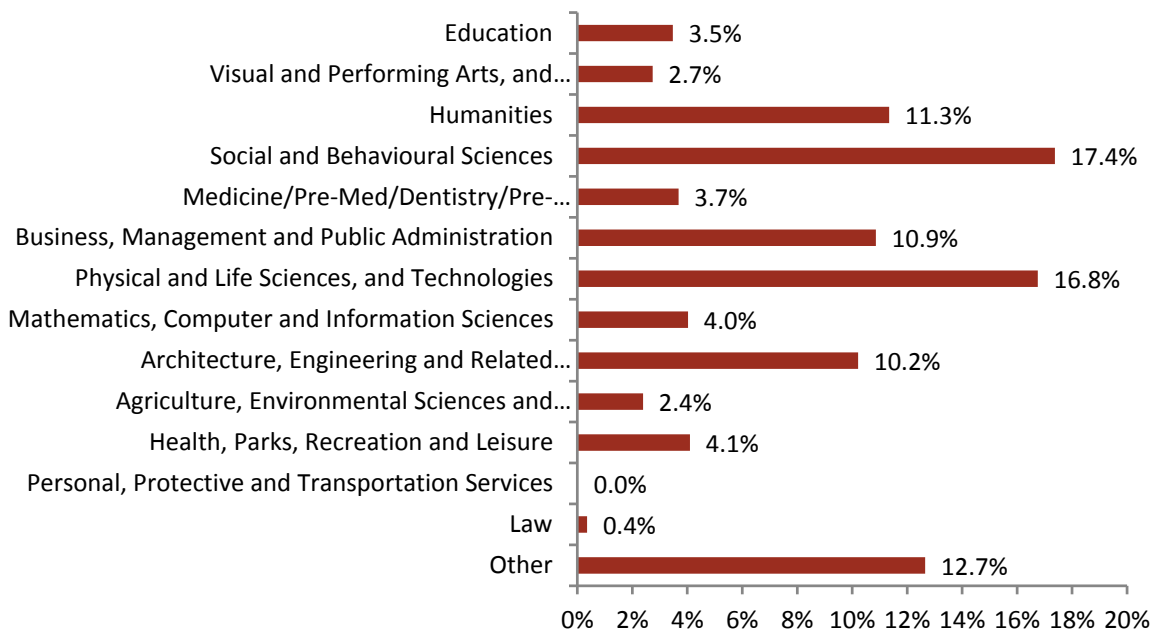
Figure 4 shows the breakdown of our sample by year of study.³

Figure 4 – Sample by Year of Study



Our sample contains only students who indicated that they were pursuing bachelor’s degrees or undergraduate certificates or diplomas. 94.3% were pursuing bachelor’s degrees, while 5.7% were pursuing university undergraduate certificate or diplomas. The breakdown by program of study is given in Figure 5.

Figure 5 – Sample by Program of Study



Finally, a group of particular interest in this report is the group of students who are recipient of government loans. 39.2% of our sample were government loan recipients, while 60.8% were not.

³ Participants were not asked their year of study directly. Instead, they were asked in which year they had initially enrolled. The year of study used in this report is based on the number of years since initial enrolment.

Questions overview

Participants were asked seven questions about government-run financial aid programs. Here we provide an overview of the questions and student responses. We consider only students who attended high school in Canada, as students who did not attend high school in Canada are likely international students who are ineligible for student loans; there is no expectation that these students be informed about the details of Canadian Government financial aid programs.

The first four questions focused on financial aid eligibility. They took the form of statements that participants were asked to identify as true or false. Participants could also indicate that they did not know the answer by selecting “Not sure / don’t know”. The last three questions focused on issues surrounding loan repayment. These were multiple choice format questions with five choices each, in addition to the option of “Not sure / don’t know”.

Financial Aid Eligibility Questions

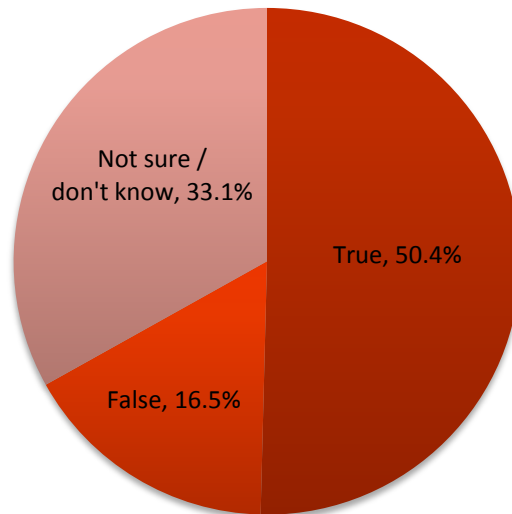
Question 1 – Students from low-income families are eligible for grants that do not need to be repaid from the Government of Canada, even if they don't take out a loan.

The correct answer to this question is ‘true’. As of the 2009-2010 school year, the Canada Student Grants program provides grants to low and middle income families that do not need to be repaid.⁴ There were also ways of obtaining grants without loans prior to 2009-2010, although this was not quite as clear as it is now that the Canada Student Grants exist.⁵

⁴ See Human Resources and Skills Development Canada’s website at http://www.hrsdc.gc.ca/eng/learning/canada_student_loan/cgsp.shtml for more information.

⁵ Since the 2004-2005 academic year, the Canada Access Grants have provided grants covering half of tuition (up to \$3000) to first-time, first-year dependent university students whose families’ net income falls within the range of eligibility for the National Child Tax Benefit Supplement. While the grant requires that a student apply for a student loan, in the event that half of the student’s tuition is less than their total assessed need, the grant award replaces their loan entirely. Furthermore, since the Canada Millennium Scholarships Foundation began disbursing awards in 2000, it has been technically possible to obtain a bursary from the Foundation without taking out a government loan (Although as the Canada Millennium Bursaries required a student to have completed 60% of their first year of school, and were awarded to students who had submitted a loan application and who had demonstrated the highest degree of need, in order to receive a bursary without a loan a student would likely have had to decline their awarded loan while still attending more than half of an academic year of classes).

Figure 6 – Students from low-income families are eligible for grants that do not need to be repaid from the Government of Canada, even if they don't take out a loan (Correct option: True).



As we can see from Figure 6, approximately half of respondents answered this question correctly. Approximately a third of respondents indicated that they did not know the response, while 16.5% incorrectly believed that the statement was false.

Contrary to all of the following questions on this survey, on this question students fare somewhat worse with age. Fifty-four percent of students aged 18 and under correctly identify the statement as true, while only 46.9% of students aged 23 and older answer correctly. This may be due to younger students being more informed about the Canada Student Grants due to having first sought aid in the same year that the grants were created. Nevertheless, as the grants are not restricted to first year students, they are still very relevant to upper-year students.

Students who had government loans were more likely to get this question right than those who did not. 58.2% of loan-recipients answered correctly, compared to only 46.9% of non-recipients. Non-recipients were not more likely to get the question wrong, but rather were more likely to indicate they did not know the answer, with 37.8% saying that they were not sure / didn't know, as opposed to 23.0% of those who received government loans.

Lack of knowledge about the Canada Student Grants could lead to significant loss of welfare for low and middle income students. The Canada Student Grants provide awards of \$250 per month of study to low-income students, and \$100 per month of study to middle-income students. 50% of our sample was unaware that this funding source exists. While this is not much of a problem for students who applied for loans anyway (who are automatically assessed for a Canada Student Grant when making their loan

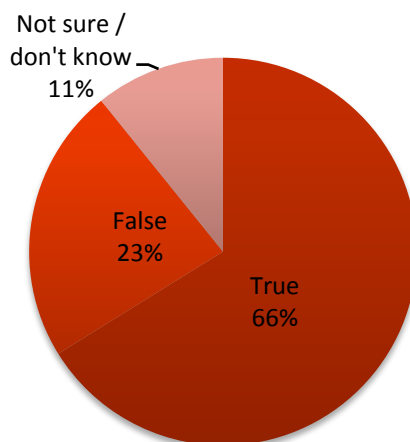
application), out of the 53% of students who did not receive loans or grants, 54% (i.e. 28.6% of the sample overall) are unaware of the Canada Student Grants. Of these students, 36% indicated that they did not take out a loan because they did not want debt. Thus, roughly one in five students who had avoided taking out loans because they did not want debt were apparently unaware that it was possible to receive a grant without taking out a loan.

Moreover, 57% of non-grant recipients in fifth year or beyond were unaware of this source of funding. This is particularly important, since the Canada Student Loans Program allows any student who has been out of high school for more than four years to classify themselves as an independent student, and therefore to use their personal income as their total family income in their assessment for a Canada Student Grant⁶. Since the low-income cut-off in Ontario, for example, is \$22,241 for the 2009-2010 academic year, and the mid-income cut-off is \$40,094, it is likely that there are a large number of students who are missing out on this source of funding due to lack of understanding of the financial aid system.

Question 2 – If you're an undergraduate, governments always take your parents' income into consideration when figuring out if you need a loan

The correct response to this question is 'false'. Parental income is not taken into consideration for undergraduate students who are financially independent⁷ of their families. Results are shown in Figure 7.

Figure 7 – If you're an undergraduate, governments always take your parents' income into consideration when figuring out if you need a loan (Correct answer: False)



⁶ See “Does my Family Qualify as a Low or Middle Income Family?” at the Government of Canada’s CanLearn.ca: <http://www.canlearn.ca/eng/postsec/money/grants/lmit.shtml>

⁷ A student is considered to be financially independent of their family in the eyes of the CSLP if they meet one of the following criteria: 1. The student has been out of secondary school for four years; 2. the student has been in the labour force full-time for two years; 3. the student is or has been previously identified as a married/common-law or a single-parent; or, 4. There is no parent, guardian, sponsor, or other supporting relative

Only 23% of students correctly identify that governments do not always take parents' income into consideration. Two-thirds of students think that parental income is always taken into consideration, while just over a tenth of students admit to not knowing the answer.

As students advance in their studies they are more likely to answer this question correctly. While only 17.8% of first-year students respond correctly, 39.8% of students in fifth year and above correctly identify that the statement is false. This is not surprising; this question is more relevant to upper-year students, as the Canada Student Loans program considers a student to be financially independent (and as such does not take their parents' income into account) if they have been out of secondary school for four years. As such, upper-year students have a greater stake in being informed of financial aid regulations for independent students. Nevertheless, the majority of students in fifth year and above are still incapable of identifying the correct answer.

As with the previous question, government loan recipients fare better than non-loan recipients. 30% of loan recipients answer correctly, contrasted with 19% of non-recipients. However, the number of participants who answer incorrectly is similar in both groups – 65% of loan recipients choose 'True', compared with 67% of non-recipients. Thus while loan recipients are much more likely than non-recipients to get the answer right, they're similarly likely to get the answer wrong; the difference in correct responses is due to only 5% of loan recipients indicating that they weren't sure of the answer. The situation is better for students in fifth year and above: 54.5% answer correctly, while 42.5% choose the incorrect response.

These results may have significant implications for student choice. When it comes to finding funds to complete their degree, or to enrol in a further degree, many students are unaware that their available government funding will not always depend on their parents' income. This could easily lead to students underestimating the funding that is available to them from the government, affecting decisions on whether to pursue further education and how to finance it. In particular, of students who are in their fifth year of university or higher who did not take a government loan because they believed they either would not qualify or would not receive enough money, 71% were unaware that governments do not always take parental income into account for loan eligibility. One wonders how many of those students might have taken out loans had they been correctly informed.

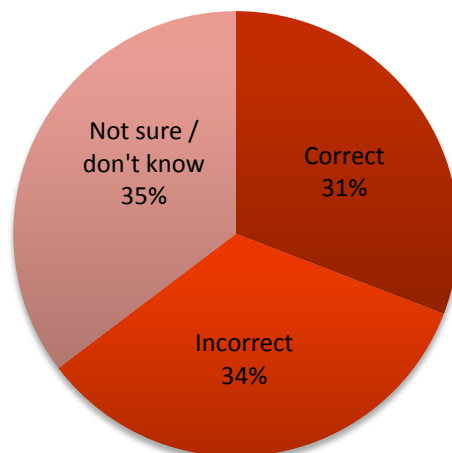
Question 3 – All students who apply for a government student loan have to undergo a credit check to obtain one

The answer to this question varies by jurisdiction. For the most part, the answer is false. While the federal government requires a credit check of individuals 22 years of age or older who are applying for loans for the first time, no credit check is required for students 21 and under. However, Ontario requires a credit check for all first-time borrowers regardless of age.⁸

⁸ As indicated in 'Verification of Your Credit History' on the OSAP website, <https://osap.gov.on.ca/OSAPPortal/en/OSAPStarttoFinish/FullTimeStudents/Step3InfofromYourSchool/TCONT003437.html>. It should be noted that a "credit check" for a student loan differs from one that would be used in other

Figure 8 shows the response breakdown for this question. Unlike in other figures in this report, we divide up students based on whether they were correct, incorrect, or whether they indicated that they did not know the answer. We do so due to the different situation in Ontario, so that we might present the overall results in one Figure 6.⁹

Figure 8 – All students who apply for a government student loan have to undergo a credit check to obtain one.



Just under a third (31%) of students answered this question correctly. The remainder split fairly evenly between an incorrect answer (34%) and admitting that they do not know the answer (35%).

Unlike other questions, the percentage of correct responses is similar for most age groups. Government loan recipients do somewhat better than the population overall; 37.9% answer correctly. Perplexingly, there are just as many government loan recipients who answer incorrectly (37.5%), and who apparently thought that they went through a credit check to obtain their loan even though they did not, or vice versa.

Misunderstanding credit check requirements could affect student willingness to apply for loans. Students who are worried about their credit histories may incorrectly assume they are ineligible for a loan. Alternately, in Ontario, students may be surprised to find that their credit history is being taken into account during the application process.

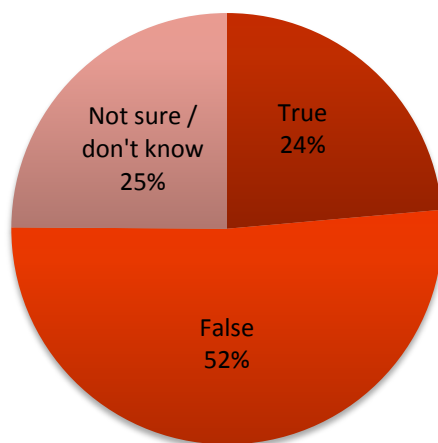
situations. Student loans do not require that students have established a positive credit history; rather, the checks are used to confirm the absence of a *negative* history – three incidents of three-month delays in credit payment in the last three years is deemed evidence of “credit abuse” and will result in a student being denied student loans.

⁹ It is interesting to note, however, that students in Ontario are actually more likely to choose False than students from some provinces where a credit check is not required. 37.7% of Ontario students chose ‘False’, as compared to 28.5% of Alberta students and 36% of Nova Scotia students. Among provinces with a sample of 250 or greater, percentages choosing ‘False’ range from 27.0% in BC to 42.6% in New Brunswick. Thus it appears that Ontario students respond in similar ways as other students, despite the fact that the correct answer is different in Ontario.

Question 4 – You must be a full-time student in order to receive government loans and bursaries for post-secondary education

The correct answer to this question is ‘false’. Federal loans and grants are available to part-time students who are taking between 20 and 59 percent of a full course load.¹⁰ Results for this question are summarized in Figure 9.

Figure 9 – You must be a full-time student in order to receive government loans and bursaries for post-secondary education (Correct answer: False)



Just over half of students (52%) correctly identify that the statement is false. The remainder of students are split evenly between the two remaining options, with a quarter of students believing that only full-time students may receive government loans and bursaries, and a quarter indicating that they did not know the answer to the question.

There were minor differences based on age: approximately 49% of students in the 18 years and under and 19 years age groups answered correctly, while students in the 21 and 22 year age groups were correct 55% and 53% of the time, respectively. As with most questions, students on government loans perform better than non-recipients: 59.5% of loan recipients answer correctly, as opposed to 46.6% of non-loan recipients (however, loan recipients are also somewhat more likely to answer *incorrectly*; 26.7% choose ‘True’, as opposed to 21.5% of non-loan recipients).

It should be noted that the sample under consideration contains only current full-time undergraduate students (although they may have been part-time students in past years). Presumably part-time students who are on loans would fare much better in answering this question. It is nevertheless still important that full-time students know the correct answer, as incorrect information could influence potential decisions to drop down to part time status. Almost a quarter of students incorrectly believe

¹⁰ As explained on the federal government website <http://www.canlearn.ca/eng/postsec/audience/ptstu.shtml>

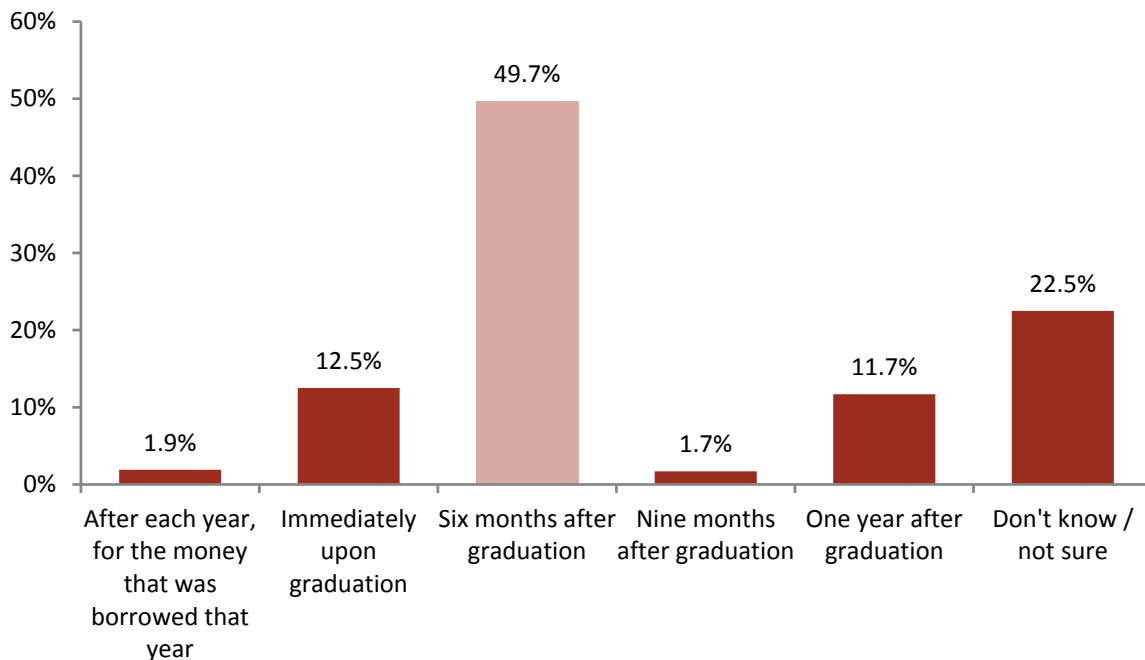
that if they dropped down to part-time status, they would not be eligible for loans; among loan recipients this number is even higher, at 26.7%.

Repayment Questions

Question 5 – At what point are individuals required to begin paying back their Canada Student Loans?

The correct answer is ‘Six months after graduation’. Full-time students¹¹ are given a six month grace period after graduation to begin repaying their loans; while interest accrues on federal loans during that time period, no payments are required.¹² Results for this question are presented in Figure 10.

Figure 10 – At what point are individuals required to begin paying back their Canada Student Loans?



Half of students surveyed correctly identify that individuals are required to begin paying back their Canada Student Loans six months after graduation. 27.8% of students choose an incorrect answer – these students are split roughly evenly between thinking that they have less time or more time to begin repaying their loans. 22.5% of students indicate that they do not know the answer to this question. Government loan recipients fare much better on this question than non-recipients: 73.7% identify the correct response. Not surprisingly, results for loan recipients improve as students approach their repayment dates, ranging from 67.2% correct in first year to 82.8% correct in fifth year. As the need to repay loans becomes more immediate, students become more informed about the details of repayment.

¹¹ While repayment rules differ for part time students, the sample under consideration is composed uniquely of full-time undergraduate students.

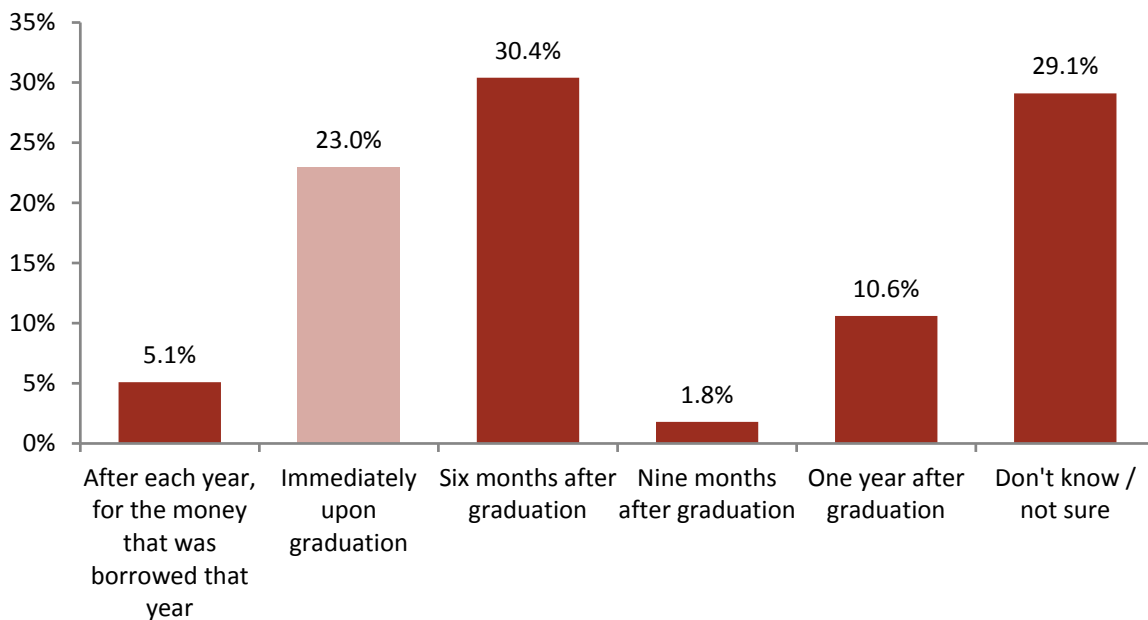
¹² See ‘When to Make Payments’ on the CanLearn website: <http://www.canlearn.ca/eng/after/payingback/wmp.shtml>

Student misinformation in this area has two principle harms. The first is that loan recipients who believe that repayment occurs later than six months after graduation may not be prepared to make their initial payments. Thankfully, this group is relatively small; about 7% of students in fourth and fifth year believe that they have more than six months to repay their loans. The second potential harm is that lack of information about when repayment begins may influence willingness to take out a loan; students who believe repayment occurs immediately upon graduation, or every year for the amount borrowed, may incorrectly believe government loans to be more onerous than they truly are.

Question 6 – At what point does interest begin to accrue on Canada Student Loans?

While repayment on Canada Student Loans begins six months after graduation, interest accrues immediately upon graduation.^{13,14} As Figure 11 shows, the difference between when payment is required and when interest accrues causes some confusion among students.

Figure 11 – At what point does interest begin to accrue on Canada Student Loans?



The most popular option chosen was “Six months after graduation,” which was the response of 30.4% of students. This option corresponds to the date at which loan repayment begins. The second most selected option was “Don’t know / not sure”, coming in at 29.1% of responses. The correct response,

¹³ Interest rates and interest accrual are discussed on the CanLearn website at <http://www.canlearn.ca/eng/after/payingback/inr.shtml>

¹⁴ On March 29, 2010 the Government of Ontario made an announcement stating that the provincial portion of the combined Ontario-Canada Student Loan will be interest-free for six months after graduation starting in 2010-2011. This announcement was made after the Canadian Student Survey was closed, and affects only the provincial portion of the loan. The press release can be viewed on the OSAP website at <https://osap.gov.on.ca/OSAPPortal/en/News/PRD002946.html>, and the new interest rules for repayment are available at <https://osap.gov.on.ca/OSAPPortal/en/OSAPStarttoFinish/FullTimeStudents/Step12Aftergraduation/index.htm>

“Immediately upon graduation”, was selected by a mere 23.0% of students. It appears that many students do not realize that interest accrues before payments are required. Overall, almost half of students (47.9%) erroneously believe that they know when repayment begins.

Among government loan recipients, the situation is not any better. While government loan recipients are more likely to correctly identify that interest begins to accumulate immediately upon graduation (28.1% choose this option), they are also much more likely to choose an incorrect option, with 44.1% choosing ‘six months after graduation’. In fact, 57% of government loan recipients have incorrect beliefs with respect to interest accrual; this is noticeably worse than the population at large. It seems clear that the difference in starting dates for loan repayment and interest accrual is causing confusion among loan recipients.

Even upper-year government loan recipients display significant confusion concerning interest accrual. While 36.2% of students in fourth year and above are aware that interest begins accumulating immediately upon graduation, half (49.5%) believe that accrual begins at a later date, with 41.5% of students believing that interest begins to accrue six months after graduation.

This mistake has a cost. As discussed in *Next Steps: Upper Year Canadian Students’ Future Plans and Debt*, the median debt load from government sources among upper-year students with government debt from this sample of students is \$18,000.¹⁵ Using an annual interest rate of 4.75%¹⁶ and compounding monthly, we find that six months of interest accrual leads to a direct cost of \$430. The average loan recipient will thus find that their confusion has cost them \$430 in unexpected interest. It should be noted that current interest rates in Canada are at a record low; in more usual economic times, a student loan interest rate of about 7.5% could be expected, leading to a cost of about \$685.^{17,18}

Question 7 – If you run into trouble repaying your debt after graduation, which of the following types of assistance might the Government give you?

The correct answer to this question is “All of the above.” Borrowers who are having difficulty repaying their loans may apply to the federal government’s Repayment Assistance Plan, which may result in their loan payments being capped at 20% of income or even suspended for a period of time.¹⁹ Borrowers may also contact the National Student Loans Service Centre to request a Revision of Terms to spread out

¹⁵ The actual national figure, based on data from the National Graduates’ Survey class of 2005 report, is \$20,400 ; the above figure is however the relevant one for this groups because it is based on an identical sample.

¹⁶ At current prime rates of 2.25%, 4.75% represents prime + 2.5% (Bank of Canada, 2010). For floating annual rate student loans, prime plus 2.5% is standard (<http://www.canlearn.ca/eng/after/payingback/inr.shtml>)

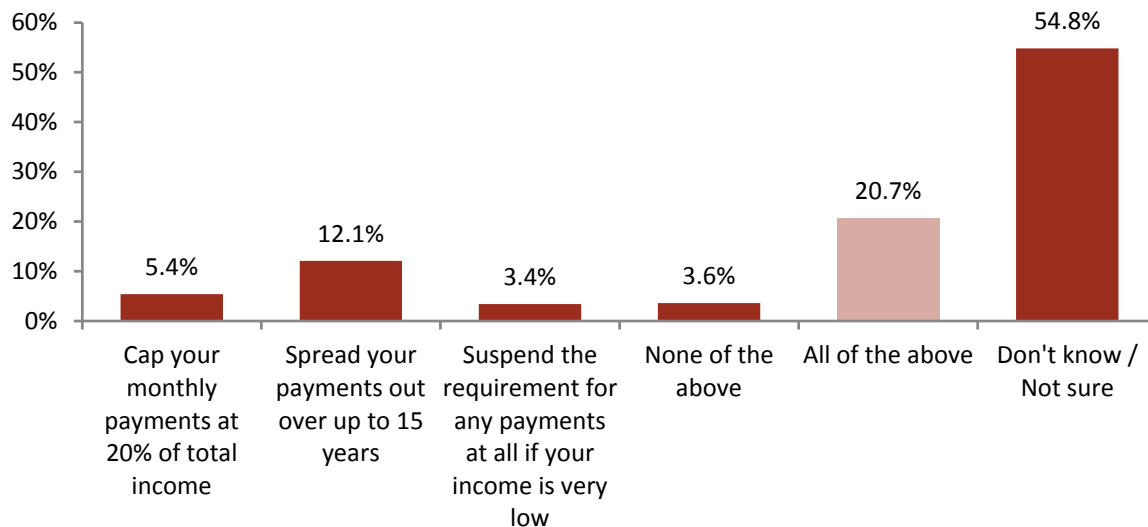
¹⁷ The average prime rate from January 1st, 2000 to January 1st, 2010 was 4.92% (Bank of Canada, 2010). Rounding to 5% and adding 2.5% gives us 7.5%.

¹⁸ It should also be noted that the recent policy change in Ontario will spare many students from a portion of this unexpected interest, as Ontario student loans are now interest-free for the first six months after graduation. However, this only applies to the provincial portion of the loan – the larger federal portion will still accumulate interest as before.

¹⁹ Details are given on the ‘Repayment Assistance Plan’ section of the CanLearn.ca website: <http://www.canlearn.ca/eng/after/repaymentassistance/rpp.shtml>.

their loan payments over a 15 year period, rather than the standard 10 year period.²⁰ Results for this question are summarized below in Figure 12.

Figure 12 – If you run into trouble repaying your debt after graduation, which of the following types of assistance *might* the Government give you?



20.7% of students correctly indicate that all of the listed options are available types of assistance. An additional 20.9% are somewhat correct; they identify one of the possible types of assistance. Most people (54.8%), however, don't know which types of assistance are available. A small number (3.6%) even think that none of these sources exist.

Results among loan recipients are of particular importance, since it is these students who may find themselves in need of repayment assistance. 28.3% of loan recipients identify the correct answer, while another 24% choose one of the three available types of assistance, and 43.7% admit that they don't know. As repayment time approaches, results improve somewhat; 33.7% of students in fourth year and above identify the correct option, while 40.2% indicate that they don't know. Nevertheless, the majority of upper year loan recipients are unaware of the full breath of repayment assistance that is available to them.

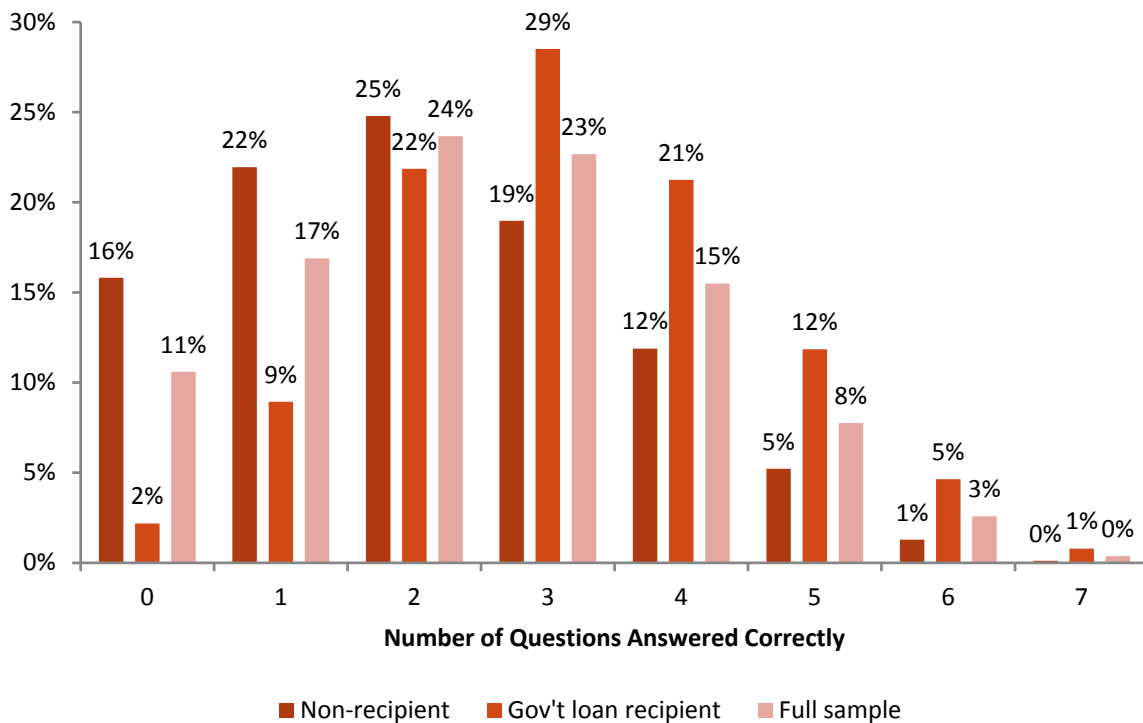
²⁰See 'Revision of Terms: Reduce Your Payment' on the CanLearn.ca website: <http://www.canlearn.ca/eng/after/cant/ryp.shtml>.

Overall Financial Aid Literacy Test Scores

By aggregating the results of the seven financial aid literacy questions, each student can be assigned an overall score. For each question, we give a student one point if they identify the correct response. Students who provide an incorrect response or who choose “Don’t know / not sure” receive 0 points. The maximum possible score is thus seven, with four points available on the eligibility section of the test, and three points on the repayment section.

We consider only students who have answered all seven of the financial aid literacy questions.²¹ We further divide this sample into students who are recipients of government loans and students who are not. A histogram of test scores, indicating the percentage of students receiving each score, is presented in Figure 13.

Figure 13 – Financial Aid Literacy Test Scores



The results are not impressive. The average score overall on the test is 2.51 out of 7, or 36%. The majority of students fail; 74% of students answer 3 or fewer questions correctly. Only one in ten students in our sample receive a grade of B or higher.²²

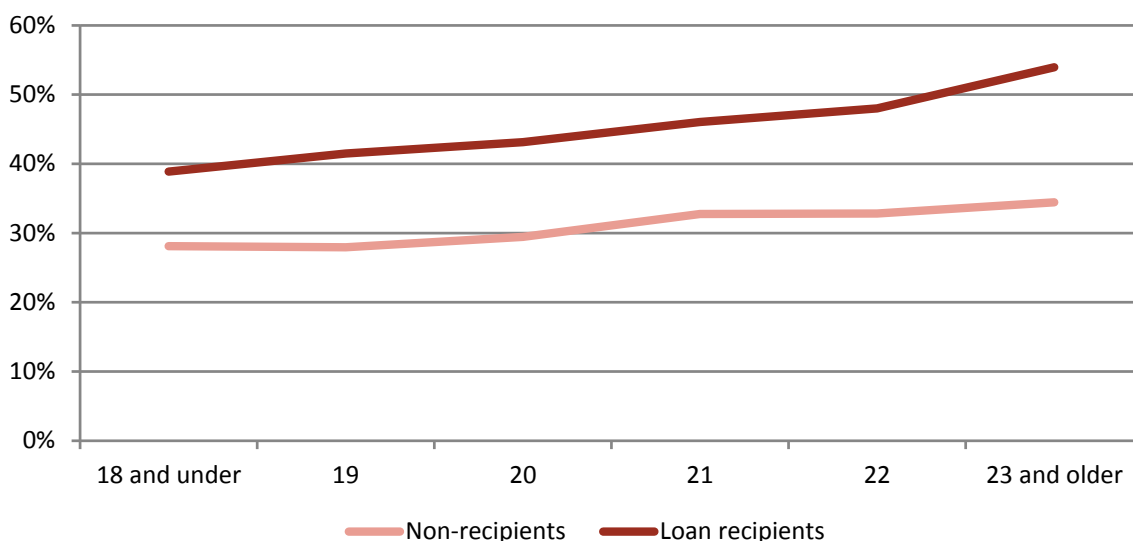
²¹ This reduces our sample to 13,658 respondents.

²² We use a common university grading scheme, where a B corresponds to 70-74%, B+ to 75-79%, etc.

Loan recipients perform somewhat better. Nevertheless, their results are still quite poor. They answer 3.01 questions correct on average, for a score of 43%. The majority fail; 61% receive scores of 3 or less. Only 17% receive a grade of B or above.

As mentioned earlier, student knowledge of financial assistance program does seem to improve slightly with age. Figure 14 demonstrates this effect.

Figure 14 – Financial Aid Literacy Scores by Age and Loan Status (Converted from 7-point scale to percentages)



As Figure 14 shows, older students outperform younger students on the test. The result is stronger for government loan recipients, where scores improve by the equivalent of one correct answer across the age ranges considered, from a 39% average (i.e. 2.73 out of 7) for students age 18 and under to a 54% average for students age 23 and older (i.e. 3.77 out of 7). Among loan recipients, the improvements are driven primarily by results on question 2 (about whether governments always take parents’ income into account in loan decisions) and the repayment section. Question 2 is responsible for almost half of the difference, as students results for this question improve from 12% correct in the 18 and under group to 59% correct in the 23 and older group, increasing test scores by 6.7%. As for the repayment section, loan recipients age 18 and under average 35% correct on this section, while recipients age 23 and older average 54% correct. This is of course a notable improvement, but it is still a very weak mark. The students who should be the most informed about loan repayment barely get a passing grade.

Gender, Language and Socio-Economic Status

In theory, there are other demographic factors that could affect test scores. Here we briefly examine results by gender, language spoken at home, and socio-economic status. We use parental education levels as a proxy for socio-economic status, dividing our sample into three levels of parental education

(high school, college, and university²³). As loan recipients fare much better than non-recipients, we compare groups based on loan status. Thus males on government loans are compared to females on government loans, and males not on loans are compared to females not on loans, and so on.

Gender has little effect on test results. Among non-loan recipients, results of males and females are very similar. Among loan recipients, males perform slightly better; although the difference is statistically significant at 99%, the magnitude of the difference is only 0.13 raw points, or about 2%.

Among non-recipients of government aid, language spoken at home has no statistically significant effect. Among loan recipients, however, there is a statistically significant effect; speakers of languages other than English or French receive scores that are 5% lower than those who speak English at home. As for French speakers, the subsample is too small for us to draw any useful conclusions, though the few that do respond perform slightly better than English speakers.

Looking at socio-economic status, we find that among non-loan recipients, all three SES groups perform very similarly on the test. Among loan recipients, students whose parents were in the 'High school' and 'College' groups perform very similarly on average, while students from the 'University undergraduate or higher' group actually perform slightly worse; their grades are 2.4% lower on average.

²³ Specifically, the high school group is "Some or all of high school", the college group contains students who indicated "College, CEGEP, Trade/Vocational, Apprenticeship" as the highest level of parental education, and the University group contains those who indicated that one of their parents has a "University Bachelor's Degree", "Professional Degree", "Master's degree" or a "Doctorate degree".

Sources of Financial Aid Information

Overview

Students acquire information about financial aid from a variety of sources. These sources vary in method of delivery, and may be official or unofficial, ranging from a government website to a chat with family or friends. In this section, we look at how students' primary sources of information affect their scores on the Canadian Student Survey's financial aid literacy test.

The survey instrument asked students to check the top three sources from which they receive most of their financial aid information, from among a list of nine sources. Students were not required to select any sources, and could select one, two, or three sources, but were prevented from selecting more than three. Using the responses to this question, we are able to compare student financial aid literacy test scores by source of information. Table 3 shows the percentage of students who selected each of the nine sources, as well as the difference in mean test scores between those who used a given source and those who did not. It should be noted that since students were allowed to select multiple sources, a given student's results may be included in multiple rows of the table. The results in this table include all students who indicated at least one source of financial aid information.

Table 3 – Financial aid literacy test scores by source of information

Source of Information	% using as a primary source	Average Literacy Score		Score difference
		Used source	Did not use	
Parents	51.4%	32.1%	40.6%	-8.4%
Siblings	15.4%	32.7%	36.9%	-4.1%
Friends	57.2%	33.3%	40.3%	-7.0%
Federal websites	22.8%	46.0%	33.4%	12.6%
Provincial websites	31.5%	45.0%	32.1%	12.9%
General internet websites	19.9%	36.3%	36.1%	0.1%
High school guidance counsellors	20.0%	33.3%	37.0%	-3.7%
University student financial aid office	32.5%	40.3%	34.3%	6.0%
Other	14.2%	34.1%	36.6%	-2.4%

The most popular sources of information by far are friends and parents, each of which are used by the majority of students. Indeed, a quarter of students (24%) use *only* friends and family as sources of information. The next most important sources, used by just under a third of students, are university student financial aid offices (32.5%) and provincial websites (31.5%). The remaining sources are each used by under a quarter of students, including federal websites (22.8%) and high school guidance counsellors (20.0%).

Usage rates do not reflect effectiveness, however. Government sources appear to be the most helpful; students who used federal or provincial websites do almost 13% better than those who do not.

University student financial aid offices are also associated with modest score improvements, with students who used a financial aid office for information performing 6% better than students who did not. These three sources are the only sources that appear to help; for every other source, the group of students using the source either underperforms those who did not, or performs similarly.

Unfortunately, the most popular sources, parents and friends, also appear to be the least helpful. Students who use parents for information perform the worst of all groups on the test, with scores that are 8.4% lower than those of their peers. Friends are similarly ineffective; they are associated with scores that are 7.0% lower. Siblings do not perform much better, with students who use siblings as a primary source of information performing 4.1% worse than those who do not. Overall, it appears that friends and family are the least effective sources of financial aid information. And unfortunately, for a quarter of students they are also the *only* sources of information.

High school guidance counsellors do not appear to be particularly effective either. With a score difference of minus 3.7% for the group using them for information, high school guidance counsellors are ranked fifth overall in terms of score differential in this initial analysis, coming in just behind “Other” sources of information, and doing slightly better than siblings.

At this point, some shortcomings of this initial simple analysis should be noted. First, we do not control in any way for students in a given cell of Table 3 having multiple sources of information. For example, there is significant overlap between students who use federal and provincial websites; the strong effect of both provincial and federal websites may be due to students having used both of those sources together. Similarly, if the group of students who did not use parents as an information source primarily used federal and government websites, then the apparent poor performance of parents might actually be due to the strong performance of government sources. It would therefore be informative to take an approach that takes into account all of the information sources that a student might have. Second, we do not control for government loan status. As was mentioned previously, loan recipients perform better on the test than non-recipients. It is possible that the performance of government sources and university financial aid offices is due to these sources being more popular among loan recipients.

In the next subsection, we turn to a regression approach in order to control for these factors.

Regression Results

To further delve into which sources of information are the most helpful to students, we employ a basic regression approach. A linear ordinary least squares regression takes into account the effect of all of the sources of information that each student reports, as well as government loan status, and lets us answer the question “All else equal, what is the effect on average of a given source of information on a student’s test score?” Here we present the result of three regressions.

The first regression we consider (Regression 1) uses test score as the dependent variable, with a constant and a series of nine indicator variables, corresponding to the nine possible information sources, as the independent variables. The nine indicator variables are each allowed to take one of two values; an indicator is equal to 1 if the student has the given information source, and is 0 otherwise. The

regression coefficient on each indicator variable therefore gives us the effect of that source on a student’s financial aid test score, taking into account the effect of other sources. The regression is carried out for the sample of students who have indicated at least one source of financial aid information, regardless of loan status.

The second regression we consider (Regression 2) uses the same regression model as Regression 1. It differs only in that we restrict the sample to include only recipients of government loans.

The third regression (Regression 3) modifies the model of Regression 1 by adding an additional indicator variable for government loan recipient status. The variable is equal to 1 for recipients and 0 for non-recipients. This regression uses a very similar sample to Regression 1: students who have indicated at least one source of financial aid information for which government loan status is available.²⁴ The results of the three regression models are summarized in Table 4.

Table 4 – Regression Results

Variable	Effect on score		
	Regression 1	Regression 2	Regression 3
Has a government loan	N/A	N/A	+ 10.3% **
Parents	- 3.1% **	- 4.3% **	- 2.9% **
Siblings	+ 1.1% *	- 1.3%	+ 0.1%
Friends	+ 0.1%	+ 0.4%	+ 0.9% *
Federal Government Websites	+ 8.1% **	+ 4.7% **	+ 6.1% **
Provincial Government Websites	+ 9.1% **	+ 4.4% **	+ 6.4% **
General Internet Websites	+ 2.3% **	-1.0%	+ 2.3% **
High School Guidance Counsellors	+ 0.3%	- 2.0% *	+ 1.0% *
University student financial aid office	+ 4.4% **	+ 0.3%	+ 2.9% **
Other	+ 1.6% **	+ 2.7% **	+ 1.9% **

*significant at .05 ** significant at .01

The regression results confirm that federal and provincial government websites are the most effective sources of information. In all three regression models, government websites outperform all other sources; their effect, taking into account government loan status, is to improve results by just over six percent each. This effect is about half of what the basic analysis in Table 3 suggested. This is not surprising; there is significant overlap between students who used federal sites and provincial sites, as well as an association between government website use and being a government loan recipient. In effect, the strong results for federal and provincial websites in Table 3 are due partially to this overlap and the strong results for loan recipients in general; controlling for these factors reduces the estimated benefits of the individual sources.

Table 4 results suggest that the university student financial aid office has the third strongest positive effect on financial aid literacy scores, behind the two types of government websites. The effect seems to

²⁴ For this sample, N = 13,875

be restricted primarily to non-loan recipients; however, in the second regression, which includes only loan recipients, the university student financial aid office has no statistically significant impact on scores. This is a curious result. A possible explanation is that the non-loan recipients who have used the university financial aid office for information are students who are in the process of applying for loans but have not yet received them; these students might be more informed by having gone through the application process, much like government loan recipients.

Another consistent and frankly worrying result across regressions is that students who receive their information primarily from parents perform worse than other students. This is the case in all three regressions; the magnitude of the effect, controlling for loan status, is about 3%. While not actively harmful, siblings and friends are also consistently ineffective sources of information; controlling for loan status, siblings offer no statistically significant improvement in test scores, while friends lead to at best an improvement that is less than 1%. It appears that friends and family are not very good sources of financial aid information.

Other sources offer very little in the way of advantage on the test. In particular, the effect of high school guidance counsellors is slight. At best, when controlling for loan status, they offer a 1% improvement in grades; this difference is significant at 95%. Finally, both “general internet websites” and “Other” sources are associated with a small though statistically significant increase in test scores. These sources improve results by about 2% when controlling for loan status; the result is significant at 99% confidence.

Overall, the biggest single factor that contributes to success on the financial aid literacy test is having a government loan; this factor is associated with an increase in score of 10.3%. Participation in the loan process helps inform students, although with an average score of 43% among loan-recipients, there is certainly much more that they could learn.

Conclusions

We have found that students are very poorly informed about the details of the government financial aid system. Three-quarters of students fail our financial aid literacy test. Even among upper-year government loan recipients, who have some of the best reasons to know the answers to this test, the failure rate is still 54%. This is a significant lack of financial aid literacy that needs to be addressed.

The problem lies in part with the sources of financial aid information that students are turning to; a quarter of students use only friends and family for their financial aid, yet these are the worst performing of all sources. Despite being a more official source that might be thought able to impart more useful advice, high school guidance counsellors do not perform much better. The most effective sources, federal and provincial government websites, are used by only about 40% of students; and even then each sort of government web site improves test scores by only 6%.

The potential impacts of this lack of knowledge are far ranging. A number of students are unaware of aid that might be available to them. This is the case for the 29% of students who both did not take out loans or grants and were unaware that grants for low-income students were available for non-loan recipients, as well as for the 48% of students who did not realize that loans are available to part-time students, and for the fifth-years who did not apply for government loans because they believed they would not receive sufficient government funding – 71% of whom were unaware that their parents' income would not be taken into account. It is certainly the case for the one in eight non-loan recipients who simply did not know how to apply for a loan. Moreover, many students don't know what they're getting into; they are confused about repayment dates and interest rate accrual, and many will find out that they owe more money than they had expected. For some students, lack of knowledge will make their repayment process more painful than necessary; for others, it has shut them out of the government financial aid system altogether.

In short, the challenge facing policymakers is two-fold. First, student exposure to the most effective sources of financial aid information needs to be increased. The quarter of students who are using only friends and family for information need to be enticed to turn towards more reliable sources; government websites, in particular, are a relatively effective source but are used by only four in ten students.

Second, the quality of sources needs to be improved. While there is no clear way for policymakers to directly improve the quality of information coming from parents, friends, or siblings, there are certainly policy levers for improving institutional sources. Government websites are the easiest to change, and although they are the best performing source that we consider, there is still much room for improvement. Although improving the effect of university financial aid offices and high school guidance counsellors is less straightforward, this is also a very important area to explore – 48% of students use one of these two sources as a principle source of financial aid information.

As it stands, lack of knowledge means that students are missing out on resources that could be theirs, or winding up with loans that they don't understand, interest that they didn't expect and a poor grasp of

what sort of relief might be available. Without greater literacy, the potential of Canada's financial aid system is left unmet – and students are left to foot the bill.