Review

of

Registered Education Savings Plan Industry Practices

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By

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Glossary

AIP	Accumulated Income Payment
ACES	Alberta Centennial Education Savings
CESG	Canada Education Savings Grant
CESP	Canada Education Savings Program
Children's	Children's Education Foundation
CLB	Canada Learning Bond
CST	Canadian Scholarship Trust
EAP	Educational Assistance Payment
FCAC	Financial Consumer Agency of Canada
GIC	Guaranteed Investment Certificate
Heritage	Heritage Education Foundation
HRSDC	Human Resources and Social Development Canada
KYC	Know Your Client
NCBS	National Child Benefit Supplement
OSC	Ontario Securities Commission
PSE	Post-Secondary Education
RESP	Registered Education Savings Plan
RRIF	Registered Retirement Income Fund
RRSP	Registered Retirement Savings Plan
SIN	Social Insurance Number
TFSA	Tax-Free Savings Account
Universitas	Fondation Universitas
USC	University Scholarship Corporation

Review of RESP Industry Practices

1. Introduction

This report presents a review of industry practices with respect to Registered Education Savings Plans (RESPs) in light of evolving government policy objectives and experience of subscribers.

The purpose of the review is to identify policies, practices and contractual arrangements that may impede, deter or harm an individual's ability to save and access funds for a child's education after high school.

We have gathered information through interviews with government officials, securities regulators and representatives of 19 RESP providers, as well as through review of government and industry documents. The interviews with industry representatives consisted of 33 questions developed with input from Canada Education Savings Program staff.

There are two kinds of RESP providers: financial institutions such as banks, credit unions and investment firms, and group scholarship providers. We have determined that their practices are quite different, and we discuss them separately. As well, the group scholarship plan is a particular savings instrument that is probably not widely known and understood. We therefore include, as part of this report on policies, practices and contractual arrangements of the RESP industry, a generic description and review of group scholarship plans. A detailed description of the five main group scholarship plans and the recent experience of Canadians with those plans is included as an Appendix to the report.

As may be expected, RESP providers did more than report on their practices, and shared with us their views on the government's programs and support for the industry. We use this report to pass these views on.

The structure of the report is as follows:

- We begin with a brief description of the government's approach to education savings, the government programs, and results obtained to date.
- The core of our report is a review of industry practices in two parts: for the financial institutions in general, and for the group scholarship providers.
- We then report what we heard from industry representatives about the government's programs.
- A conclusion and recommendations follow.
- The Appendix describes the five main group scholarship providers currently available.

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2. Saving for Education

The government has put in place several programs to encourage saving for the future education of children. These programs are delivered through RESP providers. Knowledge of the government's approach is essential background to the review of industry practices.

Also important is the experience of Canadians with saving for education. We present data to show that the Canadian public has engaged in education savings on a large scale, and that these savings are making a contribution to funding of post-secondary students. In recent years, the Government of Canada, through Budget 2007 and Budget 2008, has introduced measures to provide more flexibility to families who save through RESPs, and to make RESPs more responsive to the changing needs of education today. These changes and a need to ensure alignment across the industry, together with consideration of complaints received from Canadians, prompted the need for a closer examination of industry practices.

Finally, setting money aside to meet the cost of a future education is only one of the many reasons why Canadians save. Families may find that it is not easy to save and may not be familiar with saving instruments. We make a few comments about saving by families in general, as background to their experience with RESPs.

A. The government's approach to education savings

In 2006, the Government of Canada invested $695 million to support Canadians who are saving for the post-secondary education of children. This amount is a modest but rapidly growing part of the government's financing of post-secondary education. It is part of $3.6 billion in funding of students - $2 billion in the form of grants, scholarships and loans, and $1.6 billion through the personal income tax system, mainly in the form of tax credits for education, tuition and textbooks.

The $695 million in support of education savings includes $175 million in income tax revenue forgone in 2006 due to Registered Education Saving Programs (RESPs). This item is projected to increase to $285 million by 2008. It also includes $503 million in expenditure on the Canada Education Savings Grant (CESG), and $17 million in expenditure on the Canada Learning Bond (CLB). The RESP, CESG and CLB are the three main instruments of the Government of Canada's education saving policy.

Education saving policy

Since 1998 the government has been actively encouraging saving for post-secondary education of children from birth, through significant financial incentives in the form of the CESG, while using the existing RESP tax facility. The objective of the policy is to help the public prepare to meet the cost of the future post-secondary education (PSE) of children. This cost was rising more rapidly than consumer prices generally. Through saving for education, it is anticipated that the public will be able to contribute more to funding of post-secondary education. As well, research has shown that saving for education of children reduces financial barriers to participation in post-secondary education.

In 2004, the government introduced two incentives for families with low and modest income: additional CESG match rates and the CLB. These financial incentives were introduced to encourage more families to save, while at the same time reducing the amount they have to borrow to cover the cost of a post-secondary education.

The subsidies and investment income earned on savings in RESPs can be used for virtually any form of education after high school, including part-time studies, studies of short duration, and apprenticeship and trades training.

The RESP

The government provides income tax support to those who save to finance the post-secondary education of a child through the Registered Education Saving Plan (RESP).

The key features of the RESP are:

- Contributions are not tax-deductible and can be withdrawn at any time without tax consequences.
- Investment income is not taxable while in the plan.
- Investment income can be withdrawn in the form of an Educational Assistance Payment (EAP) when the beneficiary is enrolled in a qualifying educational program and is then taxed as income of the student. This generally means that no tax applies, as the student tends to have little other income.
- If the beneficiary does not enrol in a qualifying educational program, another beneficiary may be designated, or investment income can be extracted by the subscriber through an Accumulated Income Payment (AIP).

When an RESP beneficiary begins attending post-secondary studies at an eligible institution and in a qualifying program, withdrawals from the RESP generally commence; these comprise PSE withdrawals of subscribers' contributions and EAPs of investment income. Usually, a qualifying educational program is a course of study that lasts at least three weeks in a row, with at least 10 hours of instruction or work each week or at least 12 hours per month in the case of part-time studies. A program at a foreign educational institution must last at least 13 weeks. Qualifying educational programs include apprenticeships, programs offered by a trade school, CEGEP, college or university. RESP funds can be used for full-time or part-time study in a qualifying program.

AIP withdrawals are possible only if the beneficiary is at least 21 years old or if the RESP has been in effect for 10 years. The withdrawals are taxed as income of the subscriber, and are subject to an additional tax of 20%. The AIP can be rolled into an RRSP without immediate tax consequences to the extent it is within the RRSP deduction limit of the subscriber for the year the AIP is received, or it can be donated to a designated educational institution in Canada.

There are three types of RESPs. These are described after the grant and the bond.

The CESG

Children living in Canada, up to the end of the calendar year in which they turn 17, are eligible to receive the Canada Education Savings Grant (CESG) if they have a Social Insurance Number (SIN) and are named as the beneficiary of an RESP into which money has been deposited.

The regular CESG is 20 cents per dollar of contribution to the RESP. However, on the first $500 saved in a child's RESP, there is an additional grant of 20 cents per dollar, if family net income is below a certain level - $37,178 in 2007, and 10 cents per dollar, if family net income is between $37,178 and 74,357 in the year 2007. The family net income amounts are updated each year based on the rate of inflation.

The basic CESG is paid on up to $2,500 in contributions per year. Under changes introduced in 2007, the maximum amount of basic CESG (at 20% of contributions) is $1,000 in any year, providing there is accumulated contribution room from previous years, i.e., less than $500 per year in CESG was granted in earlier years.

The most CESG a child can receive by age 17 is $7,200. This lifetime limit also applies to each individual child when the CESG money is shared with other beneficiaries as in the case of a family RESP. No CESG can be paid if the beneficiary is 16 or 17 years old unless, before the year in which the beneficiary turns 16, contributions have reached at least $2,000, or contributions of at least $100 have been made in at least 4 years.

The CESG, along with investment income in the RESP, is paid to the beneficiary in one or more EAPs. Each EAP includes a specific amount of the CESG, usually the same proportion as of investment income.

If the child does not go on to education after high school, the CESG must be returned to the Government of Canada. However, if the RESP is a family plan, the CESG may be used by another eligible child named in the plan, providing the total CESG per child is within the lifetime limit of $7,200.

The CLB

The Canada Learning Bond (CLB) is a Government of Canada bond to help modest-income families start saving early for their child’s education after high school. It is put directly into an RESP in which the child is named as a beneficiary. The child must be born after December 31st, 2003, and the family must receive the National Child Benefit Supplement (NCBS) for the child. The supplement is generally for families with a net annual income below a certain level, $37,178 in 2007. The family net income amount is updated each year based on the rate of inflation.

The initial amount of the CLB is $500. This is followed by entitlements of $100 per year until the child turns 16, for every year the family receives the National Child Benefit Supplement. The lifetime limit of the CLB is $2,000. The government pays an additional $25 with the first $500 bond to help cover the cost of opening an RESP.

The CLB is paid out to beneficiaries in the same way as the CESG, i.e., through an EAP. Each EAP includes a specific amount of the CLB. If the child named in an RESP does not continue education after high school, the CLB must be returned to the Government of Canada. The CLB cannot be used by another child named in an RESP, regardless of sibling relationships.

Three types of RESPs

There are three types of RESPs:

- An individual plan has a single beneficiary who does not have to be related to the subscriber. The beneficiary can be named at any age.
- A family plan can have one or more beneficiaries who must be related to the subscriber by blood or adoption and to each other. Beneficiaries must be under 21 years of age when they are named. Additional CESG and the CLB can only be paid if all beneficiaries of the RESP are brothers and sisters. CESG paid into a family plan may be used by any beneficiary to a maximum of $7,200 per beneficiary, but the CLB can be used only by the child for whom it is granted. Investment income earned on contributions and on the CESG, additional CESG and CLB can be used for any of the beneficiaries.

- A group scholarship plan is an individual RESP that is joined with other RESPs to pool investment income by single-year age cohort. This investment income is distributed to beneficiaries according to a particular set of rules established by the Trust that makes the plan available. According to rules established by the government, the CESG, CLB, Alberta Grant and related investment income can only be paid to the beneficiary and not be pooled. If the beneficiary does not pursue PSE, the CESG, CLB and/or Alberta Grant must be repaid to the government(s), and investment earnings on the bond and grants can be paid as an AIP or donated to a designated educational institution.

B. The Canadian public and education savings

Savings and payments to students

At the end of the first quarter of 2007, assets in RESPs exceeded $22 billion, and the government had paid out a cumulative $3.4 billion in CESG grants (Table 1).

Table 1 The Canada Education Savings Program (CESP) at March 31, 2007

Total value of assets in Registered Education Savings Plans (RESPs)	$22.3 billion
Canada Education Saving Grant (CESG)	
Number of recipients (children) to date	2.94 milllion
Total CESG amount paid to date	$3.4 billion
Number of CESG beneficiaries attending PSE in 2006	190,179
Number of CESG beneficiaries who received an EAP in 2006	159,519
CESG participation rate among children of 0-17 years of age	35.2%
Canada Learning Bond	
Number of recipients (children) to date	38,268
Total CLB amount paid to date	$24 million
Number of children eligible for the CLB	481,953
Take-up rate	7.9%

Source: HRSDC: Canada Education Savings Program. Quarterly Statistical Review, March 31, 2007.

During 2006, RESP assets increased by 18.2% from $18.0 billion to $22.3 billion. Among provinces, the CESG participation rate varies from 39.8% in Alberta to 28.5% in Quebec. In Canada as a whole, the participation rate is 30.8% for children of 0-4 years of age, 42.2% for children of 5-9, 35.8% for children of 10-14, and 30.2% for children of 15-17 years of age. The average age of new CESG recipients is 4.7 years.

During 2006, Canadians withdrew $1,062 million of RESP assets to support 190,179 students, for an average of $5,585 per student. PSE Withdrawals of contributions for 124,557 beneficiaries totalled $651 million, for an average of $4,839. EAP payments of investment income and grants amounted to $447 million for 159,519 beneficiaries, for an average of $2,800 per student.

Complaints from consumers

Although, Canadians have engaged in education savings in very large numbers and already benefit in a major way from the results, some have found their experience with saving for education disappointing. Consumers have made inquiries and lodged complaints with both federal and provincial regulators. We were provided with a sampling of complaint letters received by Human Resources and Social Development Canada (HRSDC) and the Ontario Securities

Commission (OSC) in 2006 and 2007, as well as with a log containing one-line summaries of telephone inquiries and complaints received by the Financial Consumer Agency of Canada (FCAC) between March 2004 and September 2007.

In general, the complaints are from subscribers and beneficiaries:

- who withdraw their contributions and find that they receive much less than they paid because of high up-front fees they may not have been fully aware of. This is the case with group scholarship providers. These subscribers also have no claim on the investment income accumulated in their own RESP.
- who try to switch to a different promoter and cannot transfer the investment income their savings have earned. This too happens with group scholarship providers.
- who find that they cannot get all or even part of the accumulated investment income in their RESP because their program of study is not eligible under their plan, their studies are too short in duration, they miss application deadlines, the term of their RESP has expired, or because of other restrictions. Most of these complaints also pertain to group scholarship providers.

Many of these complaints relate to the design of plans sold by the group scholarship providers and not necessarily the practices of the industry in dealing with its clients. It is often difficult to know whether a complaint arises because features of the plan were not fully disclosed before the consumer opened a plan, or because the consumer ignored or forgot the features, objected to a particular feature only when affected by it, did not exercise other options available, or for other reasons.

Complaints also arise as subscribers encounter the limits of tax treatment of RESPs and of the CESG and CLB programs. Among these limits are the age and time requirements for AIPs, the rule for 16- and 17-year olds, taxation of over-contributions that may arise when a new beneficiary is named, and the maximum grant and grant contribution room. People are not always fully aware of these rules, and may miss opportunities to take full advantage of the government's financial incentives for education savings.

Consumers also make many inquiries directly to the government about its programs, as well as about the different RESP promoters, their plans and their fees. Inquiries are also received from financial institutions regarding the specific administration rules of RESPs and the related Government of Canada programs.

C. Saving by families

People save for many reasons and many eventualities. Families with young children tend to save so as to have a financial buffer against adverse events, for a down payment on the family home, to buy a car, or to build capital for the children when they reach adulthood, and also to help pay for education of the children.

In the 2004 budget speech, the Minister of Finance acknowledged that many people find it difficult to save: "When it comes to putting money aside for their children's education, Canadians know how hard it is to save – but how important it is to start. This challenge is particularly acute for low-income families who struggle just to make ends meet".

A requirement to make periodic, modest deposits may help people save. It may also become too much of a burden when circumstances change, especially for those with limited or scarce means. As well, income or expenditures of many families may not be stable from year to year. Savings may be needed to tide families over loss of a job, a divorce or other life events. People may need to tap into their savings unexpectedly and for other reasons than they intended.

For families that save, financial institutions provide various vehicles, including savings accounts, guaranteed investment certificates (GICs) and mutual funds of stocks or bonds. An instrument familiar to many is the registered retirement savings plan (RRSP). RRSPs tend to come without a contribution schedule and with GICs or mutual funds as investments. In the first two months of the year the media are full of advice about the advantages of RRSPs and investment strategies. Many Canadians are familiar with these products, the returns they generate, the risks and fees.

However, there are also people who are not as familiar with saving instruments, and who may not be financially literate. As they are drawn into savings schemes by generous subsidies, they face information and decisions they are not familiar with. They need simple vehicles and clear options.

3. Financial institutions providing individual and family plans

A. Two types of RESP providers

General financial institutions have provided RESPs only for the past ten years. Up until the late 1990s, RESPs were offered by group scholarship providers. The introduction of the AIP in 1997 made individual RESPs attractive by giving subscribers a way of extracting the investment income from the RESP if the beneficiary failed to qualify for EAPs. At present, financial institutions which provide individual and family plans, but not group plans, account for 71% of RESP assets (Table 2), and the share of group scholarship trusts has declined to 29%.

Table 2 Distribution of RESP assets by promoter type, March 31, 2007

Promoter Type	Value of assets (billions of dollars)	Share of RESP assets
Group Scholarship Trust Plans	$6.5	29%
Personal Banking Industry	$2.7	12%
Investment Banking and Securities Dealers	$9.1	41%
Portfolio Management and Investment Advice	$3.6	16%
Other	$0.4	2%
Total	$22.3	100%

Source: HRSDC: Canada Education Savings Program. Quarterly Statistical Review, March 31, 2007.

Because the financial sector has a fiduciary responsibility towards its clients, its practices are subject to regulation by federal or provincial authorities regarding disclosure of risks, charges and remuneration, training and licensing of personnel, and governance and conflict of interest. Within this framework, the retail operations of financial institutions are regulated generally, and not specifically with respect to RESPs. Group scholarship trusts are regulated as investment funds. However, group scholarship providers operate in a fashion that is rather different from that of other financial institutions. They also have a rather different product and a different organisational structure.

All these differences have led us to review the two segments of the RESP industry separately. This chapter presents our findings regarding financial institutions generally.

B. Practices of financial institutions with respect to RESPs

The product

The personal banking industry, i.e., banks and credit unions, have a range of retail products to attract deposits from consumers, including chequing accounts, savings accounts, Guaranteed Investment Certificates (GICs), and mutual funds. They offer Registered Retirement Saving Plans (RRSPs) and RESPs to enable their clients to take advantage of favourable tax treatment and subsidies.

Banks offer individual and family plans but no group scholarship plans. The banks structure and administer RESPs according to the rules set by government, with limited additional features. Some institutions have a minimum initial deposit and a minimum monthly contribution amount. Customers may opt for a fixed payment schedule, but can change this at any time. With respect to payment of investment income through EAPs, the banks follow government rules regarding eligibility of beneficiaries and qualifying programs at eligible institutions.

The banks offer several investment options for RESPs, generally GICs and mutual funds. Some banks have a dedicated education fund that is structured so that investments chase high returns in early years but switch to less risky investments in later years. The investment strategies for RESPs are similar to those for RRSPs and RRIFs.

Investment bankers and securities dealers, and portfolio managers and investment advisors deal with RESPs in much the same way as the commercial banks. As well, they tend to deal with people that have financial assets, and therefore are inclined to see the RESP as a rather small savings vehicle. The funds in the RESPs they provide are invested mainly in mutual funds.

Administration fees and costs

Banks do not charge a registration fee. Annual administration fees can range from $0 to $50. Transfer to another RESP provider generally costs $30 to $50. Similar fees are charged by other financial institutions.

Generally, the cost of administering RESPs is covered out of the banks' general revenue fund, which is a type of central operating account, where most of the revenues received by the banks are deposited and from where most expenditures are made. Revenues are generated by interest spreads, fees for managing and operating investment funds, and sales commissions charged on the purchase of the mutual fund. These sources of revenue are not specific to RESPs. The cost of providing RESPs is part of the overall cost of the retail operations of the banks.

The cost of providing and administering RESPs, as distinct from managing the funds invested, is perhaps not readily measured. However, the banks and credit unions regard the RESP as expensive to administer because of administrative requirements associated with both the RESP itself and the grant and bond. One interview respondent indicated the cost of administering RESPs is three times that for a RRSP.

Marketing

Advertising for RESPs is generally done through short campaigns, targeted to audiences at key points during a given fiscal year. Banks provide information about this product through flyers, the Internet, notices on account statements, etc. Banks do not try to draw customers to their branches with RESPs and do not try to find people who may be interested in RESPs. Financial advisors at the banks, taking a life-cycle approach, will often suggest RESPs to customers who may have young children or grandchildren.

Other providers – investment brokers and securities dealers, and portfolio managers and investment advisors – also do not actively promote RESPs. They look to the interest of the client and, given the complexity of the RESP product, may direct their clients to a personal trust that is easier to set up and administer, even if this means forgoing the CESG.

According to industry representatives, this moderate approach derives from the relatively modest amounts in RESPs, the complexity of the product to both seller and buyer, and heavy administrative requirements. Financial institutions regard the RESP as a product that they must have to retain customers who might otherwise leave, but that is too costly to administer.[1] Some respondents indicated that they would rather not have the RESP.

In their dealings with clients, financial advisors handle a range of financial retail products including RESPs. They receive briefings on these products, but deal with RESPs only some of the time and may not be as fully in command of government rules and administrative requirements as someone who deals only with RESPs.

Institutions use Know-Your-Client forms to help them tailor the financial product to the needs and means of clients. Generally they have a 48-hour period for reconsideration, but may allow more time, as they are interested in a long-term relationship with clients.

C. Findings

- **Financial institutions deliver RESPs as designed by government and according to prevailing industry practices**

Financial institutions provide the RESP product as designed by government, without additional restrictions. The RESP is one of a range of products the institutions make available to clients. We find that the practices of financial institutions in RESP dealings with clients are no different from industry practices generally. In the complaints from consumers that we reviewed we did not see indications that there is a particular problem with the way that this segment of the industry handles RESPs. It has been the government's approach to rely on the industry and the regulators to see to it that RESPs are provided and administered according to today's standards for industry practices. We conclude that the government is justified in this.

- **Financial institutions do not vigorously market RESPs**

The one exception to this general finding is that financial institutions do not vigorously try to interest their customers in RESPs. Their lack of interest in promoting the product may keep people from saving through RESPs as a result of a lack of awareness and failure to appreciate how they can benefit from it. This is a barrier to the achievement of the government's objectives for education savings. We find it difficult to judge how significant a barrier this is, since year after year many Canadians open RESPs at financial institutions. However, we would suggest that the government explore ways to encourage financial institutions to take a more pro-active approach to marketing RESPs in the interest of furthering its education saving objectives.

[1] The term "loss leader" was used by some respondents, but, as described, the RESP is not really used to attract customers.

4. Group scholarship providers

While other RESP providers have claimed a large share of the market over the past ten years, group scholarship providers still have a significant portion ($6.5 billion), and they continue to grow. Over $1 billion in CESG has been paid into group scholarship plans to date. Four group scholarship providers – Heritage, Children's, CST and USC[2] – have formed an industry association. Some statistics for the four group scholarship trusts that have formed the RESP Dealers Association of Canada are shown in Table 3.

Table 3 Selected statistics for members of the RESP Dealers Association of Canada, October 2007

Current plans under administration:	1.23 million
Total funds paid out since inception:	$2.3 billion
New plans opened November 2006 - October 2007:	103,130
Amount of EAPs paid November 2006 - October 2007:	$179.0 million
Number of students benefiting Nov.-Oct.:	58,040

Source: RESP Industry Association of Canada, December 2007.

There is one more provider that is not part of the RESP Dealers Association of Canada, Fondation Universitas, with 128,000 plans at the end of 2006. Universitas paid $6.6 million in EAPs during 2006.

Group scholarship providers operate in a different fashion from the rest of the financial industry. The trusts are managed by non-profit organisations whose only product is the RESP. The group scholarship plan (or group plan for short) is a unique financial retail product. Group scholarship providers also offer individual plans, and some offer a family plan, but these have very few subscribers compared to the group plans.

Group scholarship trusts are regulated as investment funds. They are subject to certain restrictions on their investments. Regulators also aim to promote meaningful disclosure of the plans and fair representation of performance information. Among other things, group scholarship providers have to supply a prospectus. Effective March 17, 2008, prospectuses of the scholarship plans, like those of other investment funds, will be subject to National Instrument 41-101, a nationally harmonised set of requirements of provincial securities regulators.[3]

Because group plans are so different from other saving vehicles including individual and family RESPs, and because many readers probably are not familiar with group plans, we provide a description of the plans as well as the experience of Canadians with these plans.

[2] In full: Canadian Scholarship Trust Consultants Inc., Children's Education Funds Inc., Heritage Education Funds Inc., USC Education Savings Plans Inc.

[3] Prior to March 17, 2008, scholarship providers were subject to Form 15 of the *Ontario Securities Act* and Ontario Securities Rule 41-502, and the equivalent provisions of securities legislation in the other provinces and territories.

A. Group scholarship plans

This section summarizes the five main group scholarship plans that are currently open to new subscribers, and also the experience with those plans. All statements in this section about the plans and the results they have generated are based on the Appendix, which contains a comparative overview of the plans and their performance based entirely on information contained in the current prospectuses of the five plans. The reader who wants to verify statements made here or explore the particulars of plans further is invited to examine the Appendix.

Since the beginning of 2004, Canadians have opened nearly one million RESPs, and 76,000 of these drew the Canada Learning Bond. Nearly three hundred thousand of these RESPs were group scholarship plans, and 44,000 of these drew the CLB. The share of RESPs that attracted the CLB is three times as large among group scholarship plans as among individual and family plans.

The design of group scholarship plans

Group scholarship plans operate according to the following general rules:

- Subscribers commit to a contribution schedule that can be monthly, annual, or a single lump sum.
- Funds are invested in accordance with investments permitted under National Policy 15, as administered by the Canadian Securities Administrators. This means that the assets are conservatively invested, making for low downside risk and a relatively stable return.
- All plans come with an enrolment fee and several annual fees, and all but one charge various transaction and penalty fees. Providers undertake to return the enrolment fee in whole or in part at or after the end of the contribution period.
- Investment income is held in trust for the subscriber/beneficiaries and the beneficiaries are entitled to that investment income, provided they meet the plan's criteria.
- Subscribers with a group plan generally have no claim on the investment income earned on their contributions, except when they transfer to an individual plan with the same provider. Qualifying beneficiaries are entitled to a share of the total investment income earned by the one-year cohort of which they are part when they become enrolled in a post-secondary program of a minimum duration. Payments to students exceed the net investment income earned on their own contributions.
- Generally, payments of investment income are made annually, and the total amount paid varies according to the duration of studies.
- Generally, beneficiaries have to indicate their study plans before the start of their studies, and apply for scholarship payments before the start of the academic year. Delays in start and progress of studies are allowed, generally one year at a time.

At its core, the group scholarship plan concentrates investment income on plans that survive through the contribution period and meet various restrictions. Beneficiaries receiving scholarships receive not only the investment income earned on their own contributions, but also a share of investment income earned on contributions in plans that do not result in a claim on the pooled investment income, or in only a partial claim. Payments to these beneficiaries include the grant and bond deposited in their own plans, and other enhancements.

Investment income of a group plan becomes available for distribution to beneficiaries of other plans in the same cohort in three situations. First, the subscriber may close a plan and withdraw contributions made to date – an option that exists with individual and family plans as well.

Second, the provider closes a plan when the subscriber fails to make contributions on schedule and fails to make catch-up payments or exercise other options available. Third, when all contributions have been made according to schedule, the beneficiary may fail to qualify for a full scholarship under the rules of the plan (rules that are more restrictive than the rules established by the government). When the investment income in a plan becomes available for distribution to other plans, the grant and bond are repaid to the government.

The scholarship plan is sometimes likened to a "tontine", a particular type of investment vehicle that existed in the 17th and 18th centuries, in which those who survive the longest receive the greatest benefits.[4] Scholarship plans have something of the tontine in that payments of investment income to beneficiaries who "survived" are enhanced by proceeds earned in plans that closed.

However, it may also be helpful to regard scholarship plans not only as a savings vehicle but also as insurance for the possible future event of a post-secondary education, with characteristics more or less as follows:[5]

- The income earned on invested contributions in each plan over time serves as a series of insurance premiums.
- A claim arises when the insured event occurs, i.e., the beneficiary attends university or college full-time.
- The amount of the claim may vary with the cost of the study program, measured by the duration of the study program.
- Termination of the RESP before maturity amounts to cancellation of the insurance. As with other forms of insurance, the insurance premium – the accumulated investment income – is not reimbursed.

Thus, scholarship plans are a hybrid financial vehicle, a savings plan and a form of insurance rolled into one.

Recent experience with group plans

We now turn to the recent experience of Canadians with group scholarship plans. We have already seen that there are 1.35 million plans, with assets of $6.5 billion, clearly a huge success for the government's policy. Here we focus on the experience of participants, which we would summarize as follows:

- The large majority of plans reach maturity. However, a significant share of plans are closed during the contribution period, resulting in losses to subscribers.
- Scholarships are paid to selected beneficiaries who meet the plan's criteria.
- Scholarship trusts restrict payment of the grant and the bond to beneficiaries.

These outcomes are a result of the design of the plans, and the treatment of the grant and bond is also a result of government policy. To some degree - a degree that we cannot determine precisely - these findings are also a result of industry practices.

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[4] A tontine is an organization of individuals who enter into an agreement to pool sums of money or something of value other than money, permitting the last survivor of the group to take everything. The holders of tontine life insurance contracts enter into an agreement to pay premiums for a certain amount of time before they gain the right to acquire dividends. In the event that a policyholder dies during the tontine policy, his or her beneficiary will be entitled to benefits, but no dividends. The earnings that ordinarily would be used to pay dividends are accumulated during the tontine period and subsequently given only to policyholders who are still alive at the end of the term. Source: West's Encyclopedia of American Law, Edition 2, the Gale Group, Inc.

[5] Scholarship plan representatives do not appear to refer to their product as a form of insurance.

Contributions

Subscribers to group scholarship plans have to make deposits according to some schedule. This may generate savings that would not occur without such an obligation. It is impossible to say how much in extra savings for education is a result of the requirement to save steadily, but it probably is a large amount. However, steady periodic contributions mean a commitment that some may find difficult to meet.

In 2006, at the five main group scholarship providers, 3.9% of plans that existed at the beginning of the year and did not mature during the year did not exist by the end of the year.[6] Some subscribers cancelled their plans and had their contributions returned to them. At the five main scholarship plans, last year, 1.4% of subscribers took this action. This also happens with individual and family plans at other providers, but we do not have information about the extent to which it takes place.

However, group plans can also be closed by group scholarship providers, as happened to 1.9% of group plans in 2006. To put this in perspective, consider that the average RESP has a contribution period of about 13 years. If 1.9% of group scholarship plans were terminated every year over 13 years, 22% of plans would not reach maturity. This is only an estimate; the actual number may be higher or lower. This extrapolation suggests, however, that termination of plans by providers is a significant risk for subscribers to group plans.

When the group scholarship provider closes a group plan, the subscriber can reclaim the contributions, and these are then returned net of fees and without the investment income. Closing also means the grant and bond are repaid to the government, and these cannot be earned back later if new contributions are made for the same beneficiary.

If an RESP is closed in its first few years, the loss to the subscriber consists mainly of the enrolment fee he or she has paid. For the average group scholarship RESP, the enrolment fee is in the order of $800 to $1,200, depending on the provider. Enrolment fees make the cost of failure in the early years of a plan very high in relation to contributions, especially in the case of RESPs with a long term to maturity.

Investment income accumulates over time, as does the grant amount when subscribers make contributions steadily over time. When a group scholarship plan is closed, both are forfeited, for a large loss in the later years of a plan.

In all, there is a significant risk that participants in group plans end up in a worse financial situation as a result of their participation. These participants may be discouraged from saving again or from enrolling in post-secondary education. Such outcomes are not in accordance with education saving policy objectives.

In most group scholarship plans, subscribers have the option to switch to an individual plan with or without the investment income. This option is more advantageous than termination if the subscriber does not have a need to retrieve the contributions. It is somewhat surprising that many plans are terminated by group scholarship providers when the option of conversion into an individual plan is available. We wonder whether subscribers just give up or are not fully aware of other options and their advantages. Perhaps group scholarship providers could do more to make subscribers aware of the options available to them.

[6] Estimates of attrition in this and the next paragraph are derived from Appendix Table A10.

Scholarships

The basic thrust of group scholarship plans is to concentrate benefits on a subset of plans that reach maturity and whose beneficiaries engage full-time in study programs of longer duration. A scholarship generally is significantly larger than the investment income earned on contributions in the plan of the qualifying beneficiary. Part of this “enhancement” of scholarships consists of investment income from plans that do not reach maturity and plans that do not result in full or partial scholarship payments.

There are various reasons, other than failure of the beneficiary to qualify according to government rules, why a group plan may not result in EAP payments or in partial EAP payments. The five group scholarship providers only pay EAPs to full-time students. Most do not pay EAPs for study programs of one year or less. Vocational programs generally are excluded. Further, a partial scholarship or an “adjusted” full scholarship is paid for study programs of less than four years. When a beneficiary switches to a program of longer duration or enrols in a second program after completing the first, the student may not be entitled to the remainder of the full scholarship amount. All group scholarship providers allow several years’ delay in the start of studies, and allow delay in completion of studies, but certain limits apply. Moreover, beneficiaries have to apply for scholarship payments before the beginning of the academic year, and risk losing their entitlement to EAPs if they fail to do so.

Group scholarship plans have their own rules for awarding scholarships that are different and more restrictive than government rules. The prospectuses vary in disclosure as to how many plans receive full scholarships and how many do not, and do not indicate the rules of the plan are more restrictive than the government rules.

Tailoring scholarships to the duration of studies strikes us as a principle many people would endorse, and which is not necessarily in conflict with government objectives. As for exclusion of short-term study programs, participants in plans can finance those with their contributions. However, we wonder about the merit of excluding vocational and part-time programs and of deadlines and time limits. We also think that the consumer should know more clearly the odds of not receiving a scholarship payment after years of savings.

Payment of the grant and bond

Generally, the grant and bond are paid out as part of the scholarship payment. In group plans, students who are entitled to payment of the grant and bond according to government rules may receive nothing or only part of the grant and bond because of the additional rules imposed by the group plan. The same comment applies to investment income earned on the grant.

Before 2004, the grant was fully part of group scholarship structure and beneficiaries receiving scholarship payments were getting more grant money than their own contributions had earned. The government did not want the CLB and additional CESG introduced in 2004 to be redistributed among beneficiaries of group scholarship plans in this way, because these incentives are specifically directed to families with lower incomes. As a result, the grant and bond are now distributed on an individual basis.

The prospectuses of the group scholarship plans still present the grant as an integral part of the group scholarship structure and the scholarship payments. The grant, of course, is a major draw of all RESPs. That payment of the grant to the beneficiary is subject to more restrictions in group plans than in other plans may well escape the attention of the consumer.

B. Practices of group scholarship providers

We briefly describe the practices of group scholarship providers before reporting the findings of our review.

Organisational structure

Scholarship plans are provided by foundations or trusts, i.e., not-for-profit corporations without share capital. The foundation or trust is the “manager” of the group plan. The “distributor” of the plan is a for-profit operating company that markets the plan, and to which the administration of the plan is delegated. At all five group scholarship providers, the distributor is closely linked to the trust. In three cases, the trust owns the distributor.

Generally, the trusts have a scholarship committee that gives advice regarding the scholarship plan, as for instance about the distribution of investment income to beneficiaries. Most trusts have delegated investment of plan assets to one or more independent advisors. Under National Instrument 81-107, all five trusts have independent committees to review the decisions of the fund manager that give rise to a conflict of interest.

Marketing

Group scholarship providers market their products proactively in a variety of ways. While advertising through the major media and newspapers is generally considered too expensive, group scholarship providers do market in a myriad of other ways including: participation in trade shows; exhibits and kiosks in malls and shopping centres; contests for a free RESP; placing flyers in doctors’ offices; or through advertisements in community newspapers – all targeting families with young children. All providers have web sites. Flyers and prospectuses can be downloaded from some sites; some providers only mail prospectuses. One plan comes with Air Miles.

Many contacts are made by referrals or word of mouth. Sales representatives tend to ask clients if neighbours or friends might be interested. Ultimately, group scholarship providers sell their product by offering to come to the home of a potential client to provide one or more information sessions. The providers feel that they reach a segment of the population that has modest and lower income – if not the very lowest incomes – a current target group for the government’s CLB and additional levels of CESG.

The sales force

Group plans are marketed by sales representatives who are paid a commission per new plan. Sales representatives tend to be self-employed and are supervised by a manager at the group scholarship trust. The representatives are licensed by the provincial regulatory authorities. They receive training, typically of about one-week in duration, by the Trust. In recent years, provincial securities regulators have imposed training requirements and set limits on the number of sales representatives per manager. In Quebec, sales representatives are required to take ongoing training in order to keep their professional licence.

Presentation to the client

Generally, the sales people present the key features of their plan and promote it on the basis of advantageous tax treatment and subsidies as well as the enhancements of returns group plans provide. How the particular risks attached to group plans are presented is less clear. Prospectuses provide some information about risks and gains as a result of requirements imposed by provincial regulators. “Know Your Client (KYC)” forms are filled out as required by regulators, and some providers have established guidelines for the amount of contributions in relation to income customers can sign up for.

As required by provincial securities regulations, customers have the right to walk away from their new RESP during the 60 days after signing, with full return of contributions and enrolment fees but not the small insurance fee.

The RESP Dealers Association of Canada (RESPDAC)[7] has adopted a code of sales practices which urges fair dealing and balanced representation. Transfer out of a group plan is specifically addressed: Members agree to discourage subscribers from transferring out of a group plan after 60 days because they would have no claim on accrued interest and the enrolment fee they paid. The code stipulates that subscribers who want to transfer to another provider should acknowledge that they have been advised of these financial implications by filling out a Plan Transfer Disclosure Form.

C. Findings

- **Group scholarship providers proactively market their group plans**

In contrast to the financial industry generally, group scholarship providers actively market their product using a sales force of independent representatives, lengthy prospectuses and a wide range of promotional materials and strategies. This furthers the objectives of the government when the plans generate outcomes that are in line with those objectives.

- **Fixed contribution schedules may yield larger savings**

People who find it difficult to save may save more when they have to make modest deposits according to some schedule. The schedule is a "commitment device", a support for something that would otherwise be difficult to maintain over the longer term. A plan with periodic deposits that a consumer can afford may generate more savings than would occur without it. Automatic withdrawals may further facilitate a steady rate of saving.

- **Prospectuses are thick and difficult for the reader**

The group scholarship plan is a unique saving vehicle. Life insurance is perhaps the closest financial instrument to the group scholarship plan, but there is little similarity between the two. The group plan is also quite complex. In order to understand all the risks and rewards of a group scholarship plan or to choose rationally among plans, one has to devote a considerable amount of time to serious study. This is so even for those familiar with other saving and investment instruments. The unique character and complexity of group plans alone may deter people from opening an RESP, if this is the only option they seriously consider. There is also a risk that consumers do not fully understand what they sign up for.

The current prospectuses are quite lengthy and difficult. These documents can be from 50 to 90 pages with explanations of the plans and another 16 to 60 pages with financial statements. One major reason for this is that there is much information to convey. We think, however, that the

[7] The association has four members, all based in Ontario: Canadian Scholarship Trust Consultants Inc., Children's Education Funds Inc., Heritage Education Funds Inc., and USC Education Savings Plans Inc.

existing plans can be better presented. The full details of the plan, however, are not always set out in the best order and in clear, simple language.

- **The range of fees makes it difficult for the consumer to understand their full scope and impact**

The scholarship funds have five or six general fees and a range of transaction fees as well as insurance premiums. Currently the fees are prominently presented in prospectuses in the form of a table. We believe that the consumer would benefit from a presentation of fees that, to the extent possible, shows their combined cost. We find that enrolment fees are adequately presented in prospectuses.

- **Enrolment fees create different incentives for consumers and sales representatives**

Enrolment fees are charged in dollars per Unit. This means that fees are higher relative to contributions the longer the term to maturity. In a plan opened when the beneficiary is still an infant, the enrolment fee is from 1.4 to 1.8 times the amount of contributions for a year. The older the beneficiary, the lower the enrolment fee is in relation to contributions. If the beneficiary is 12 or 13 years old when the plan is opened, the enrolment fee is between 10% and 20% of annual contributions.

All plans make a firm or conditional commitment to pay enrolment fees back at maturity or as part of full or partial EAP payments. This is a feature that people can easily understand and that may help sell plans. However, it is less advantageous for those who start saving early than for those who start saving late. “Lending” the amount of the enrolment fee to a scholarship fund without interest results in a greater loss if the term of the “loan” is 18 years than when it is 5 years.

To the consumer, the relatively high enrolment fees for plans with a long term and the practice of returning the fee after maturity is an incentive for delaying education savings. It may not be a strong incentive, as the consumer may not perceive clearly how the fee and the value of the repayment commitment vary with the length of the contribution period.

To the sales representative, the relatively high enrolment fees for plans with a long contribution period are an incentive to seek out families with a very young child. An early start with savings is a positive thing, provided the subscriber is able to maintain contributions over the term of the RESP. However, there is a risk that sales representatives, in order to generate a higher amount of fees out of which they get paid, may attempt to make people commit to contributions they cannot maintain in the long run.

Regulators require that sales representatives are properly trained and supervised, and that consumers are made aware of the nature and size of enrolment fees. As well, providers withhold or recuperate sales commissions for plans that have a very short life. Some providers have established maximum ratios of contributions to family income to help ensure that families can afford contributions.

These measures probably have had an effect. Investment income from attrition, i.e., from plans that closed before maturity, has declined as a share of total income available for group plan scholarships. It seems to us that if consumers know how many plans do not reach maturity, they will be more likely to commit to a plan that they can maintain in the longer run. This information is not available to them.

The financial incentives remain, however. If enrolment fees were structured differently as a share of total contributions instead of being based on a per Unit basis, interests of sales representatives and consumers would be more aligned.

- **Disclosure of risks is less effective than it might be**

The prospectuses describe the rules of the group plans, and various possible outcomes. The alert consumer will learn of the nature of the risks that are particular to scholarship plans – not the usual investment risk, but the risks associated with fixed contributions and redistribution of investment income, though this information may be difficult to find.

Currently, prospectuses give the number of accounts that were closed or transferred before maturity in the course of the latest complete financial year. We would suggest that it would be more useful for consumers to know the total attrition that occurs over the term of an RESP to maturity.

The latest prospectuses also provide information about full, partial and nil scholarship payments for one or more recent cohorts. This information is incomplete, mainly because scholarship payments still to be made are not included. We would suggest that the consumer would benefit from having a complete picture, through a presentation that combines scholarship payments made with estimates of remaining payments based on applications by beneficiaries. The estimates of future payments are likely to be accurate enough for the purpose of informing the consumer.

- **Executive compensation is not disclosed**

At present, prospectuses do not provide information about executive compensation. Public companies including financial institutions are required to disclose executive compensation, but group scholarship providers are not public companies. We believe that compensation of the senior people at the group scholarship providers should be made public, as they are entrusted with large sums of money from the public and as their funds receive preferential tax treatment and subsidies from the government. We see an analogy with labour-sponsored capital funds, which are subject to a disclosure requirement because of the special tax treatment investments those funds receive.

- **Some trust directors are in a conflict of interest regarding fees**

At two of the trusts the majority of the board has a financial interest in the distributor. These directors are senior employees of the distributor, own shares of the distributor, or both. When a director of the trust has a financial interest in the distributor there is a conflict of interest. As directors of the trust these people need to act in the interest of subscribers and beneficiaries. As they set fees that cover the cost of operations, however, they are also determining how much revenue is generated to pay their own salaries and other remuneration out of the contributions and investment income of subscribers. This becomes a problem when directors with a financial interest in the distributor form the majority of the board.

The standard for good corporate governance is that independent directors should form the majority of every board. This is one of the guidelines of the Canadian Coalition for Good

Governance, a group of institutional shareholders of financial companies.[8] An independent director is a director who is independent of management and has no material relationship with the company other than director fees and share ownership. Independence of the director is meant to ensure that the interests of the director align with the interests of shareholders. Applied to the non-profit scholarship trusts, absence of a material interest in the operating company ensures that the director is free to act entirely in the interest of subscribers and beneficiaries. A director of the trust who owns shares in the distributor or is an employee of the distributor is not independent. As remuneration is determined by the distributor, its Board of Directors too should have a majority of independent directors.

Conclusion

The government's approach has been "buyer beware" – the consumer decides and trades off the possibility of a larger return against the risk of no or a partial return. This approach presumes that the consumer is fully advised of all possible outcomes and the risks and rewards they present, and that the outcomes generated by the plans that draw the grant and bond are for the most part in line with government policy objectives.

As for the first point, practices of the group scholarship providers with regard to disclosure have improved in recent years. We find that, for the most part, they are in accordance with current standards for the financial sector. However, we see room for improvement of the presentation of the plans and the risks and rewards to participants. We also find that some providers do not meet the high standard of governance that is appropriate for organisations that have a fiduciary responsibility to their clients and are entrusted with government funds.

With respect to the second point, group scholarship plans and providers are supportive of the government's policies in ways unique to them, while they also produce outcomes that seem less desirable. Group scholarship providers proactively market their products, and induce people to save who would not otherwise do so, or to save more than they otherwise would. These are positive results. However, plans also cause some savers to lose money and deny EAPs and government subsidies to students who are entitled to these benefits under government rules. These outcomes are bound to have negative effects on saving by households and participation in post-secondary education. We do not know the precise extent to which these situations occur, but we wonder whether the concentration of the benefits of saving on some beneficiaries does not come at too high a price in losses and denial of benefits to others.

Over time, the group scholarship providers have adapted their product offerings, partly in response to changes in tax treatment and subsidies. Two providers have developed new group plans and are no longer marketing their earlier plans. Other providers have made changes to their plans and applied these to existing as well as new subscribers. The group scholarship trusts have added individual and family plans or EAP payment options to their product offerings, and allow transfers from the group plan to the individual plan.

We expect that group scholarship plans will undergo more changes in future. They will not change quickly and radically, because they have contracts in place with their current subscribers.

[8] The Canadian Coalition for Good Governance was formed to promote good governance practices in the companies owned by its members, a wide range of institutional investors - pension funds, mutual funds and third party money managers. Generally, the companies are members of the S&P/TSX Composite Index. Currently, the Coalition has 47 members who in total manage approximately $1.4 trillion of assets on behalf of Canadian investors from all walks of life. The mission of the Canadian Coalition for Good Governance is to represent Canadian institutional shareholders in the promotion of corporate governance practices that best align the interests of boards and management with those of the shareholder.

5. Industry views

Representatives of the banks, credit unions and investment houses interviewed in the course of this review were unanimous in saying:

- The RESP-CESG-CLB is an extremely complex instrument for both seller and buyer.
- Administrative requirements are burdensome and administrative support is weak.
- More lead-time is needed for implementing changes; changes should not be "effective immediately".

The group scholarship providers view the programs differently and did not offer these same criticisms. We suspect that staff at the group scholarship providers are more familiar with the government's programs and the administrative requirements because the RESP is their only product.

However, the group scholarship providers did have some specific suggestions for change, as did the other providers. In this section we pass on these specific suggestions, along with some comments.

A. Fewer and less complicated rules

The 16-17 year rule

In the year the beneficiary turns 16 or 17, the CESG is paid only if, before the year in which the beneficiary turns 16,

- contributions have reached at least $2,000, or
- contributions of at least $100 have been made in at least 4 years.

These requirements are rather modest, but some people discover the grant rather late and do not want to be left out. Several promoters raised this matter without specific prompting and spoke in favour of abolishing this rule.

If the rule were dropped, people would be able to collect up to $2,000 in grants in the two years before the beneficiary turns 18 without having saved before. The trusts might be able cover the cost of setting up the RESP, drawing the grant and making EAP payments through fees. Other providers might not like an RESP with such a short term because of the cost of administration, while the short-term nature of the plans would do little for client retention.

The maximum EAP for the first 13 weeks

The maximum amount that can be paid out in EAPs during the first 13 weeks of studies is $5,000. Promoters who pay EAPs from the start of studies find this restrictive as they may have to split payments. Beneficiaries may need more than $5,000 to meet tuition and expenses at the very beginning of their studies. Of course, they can withdraw contributions through a PSE withdrawal to meet those expenses; however, perhaps this is not clearly understood.

Timing of contributions that draw the grant

The industry suggests that the maximum contribution rules to attract the CESG should be relaxed. Some feel that it should be possible to draw the maximum lifetime amount ($7,200) for a one-time contribution.

It seems that the industry could develop something like an automatic annual transfer from a savings account into an RESP. As well, the Budget 2007 changes to the program make it possible to draw $1000 in grants year after year, as long as there is grant contribution room. Finally, allowing people to draw a large grant for large contributions early in the life of a beneficiary might require some actuarial adjustment for the sake of equitable treatment, similar to the adjustment of CPP benefits.

The AIP

Several industry spokespersons pointed to the existence of RESPs that are past their useful life but that cannot be closed. Some of these accounts have very small balances, and those accounts would normally be closed or eroded by small-balance fees. The industry people ask that they be allowed to close these accounts.

These situations arise when investment income is not paid out to beneficiaries through EAPs and subscribers do not yet qualify for an AIP. In the case of group scholarship plans, only income earned on the grant and bond is involved.

Accumulated income in an RESP can be claimed by the subscriber only if:

- The RESP has been in existence for 10 years or
- The beneficiary is at least 21 years.

The suggestion by the industry is that the government should allow income to be extracted through an AIP as soon as it is clear that it will not be paid as an EAP may be worth considering. There seems to be little point in keeping the money locked up in an account if it is no longer to be used to finance education.

Maximum duration of the RESP

Industry representatives pointed out that the 25-year maximum life span of RESPs may prevent people from collecting the full benefits of RESP savings if they do not complete their studies within that time frame, or when a younger beneficiary is named. In the February 2008 Budget, the government increased the maximum term to 35 years and extended the maximum contribution period by ten years.

B. Government support for providers

Promoting RESP savings and explaining changes

The industry feels the government is not doing what it can to promote RESP saving. They regard some of information from the government as too general and vague - some of the main promotional material of the Government of Canada does not even mention the RESP.

Budget 2007 announced a number of changes to the RESP and CESG without an explanation. Following the announcement, the Government of Canada did make information as well as questions and answers available. However, many promoters commented that it still requires time to understand and adjust processes for the changes introduced.

The RESP Dealers Association has taken issue with some statements made in the Tip Sheet “Saving for Your Child’s Education – Understanding RESPs” issued by FCAC, in particular the assertion that “Group Plans are more expensive than individual and family plans”. It also objected a warning to ”be sure to read the rules carefully, understand the fees related to the plan and shop around to get the plan that best suits your needs", arguing that this should apply to all promoters, not just group scholarship providers.

A single secretariat

It was suggested that the government could explore the possibility of a single contact point for RESPs that would handle requests from both promoters and the public for information about tax treatment, subsidies, registration, termination, approval of EAPs, and complaints.

Qualifying programs at eligible institutions

Some industry people claim that the list of eligible institutions is ten years old; others thought it is merely a phantom. A number of people interviewed regard verification that a study program is approved as time-consuming. It was suggested that the schools could streamline the verification process.

SIN applications and RESP registrations

Some promoters experience a high refusal rate when submitting SIN numbers through the CESP system, and receive insufficient explanation to allow them to make the necessary correction. It seems this has to do with family names, the identity of the primary care giver, common-law relationships, etc. Problems also arise in cases of shared custody, use of the mother's family name. In addition, many feel that the RESP application form/process is too long.

Dealing with problems

With respect to RRSPs, CRA has an adjustment provision under which accounts can be set aside and issues concerning SIN numbers are resolved. A similar mechanism might be tried for resolving problems with registration of RESPs.

Time to implement changes

A number of industry people interviewed indicated that changes to programs that take effect immediately when announced are difficult to deal with, as there is no time to instruct investment advisors and to change administrative systems to accommodate the changes. The general financial industry finds that it needs time to adjust its IT systems to deal with changes and brief its investment advisors.

6. Conclusion and Recommendations

Over the past ten years, a large number of Canadians have accumulated significant sums in education savings, thanks to generous government incentives and widespread availability of RESPs. Financial institutions and group scholarship providers have been instrumental to this success. Our review of industry practices confirmed that, for the most part, the industry is delivering government programs in accordance with policy objectives and is encouraging and supporting Canadians who save for the education of children. We make some modest recommendations that may lead to even better results.

As we do so, we are conscious of the fact that industry standards and the government's education saving policy continue to evolve. Providers may not always be completely in step with the changing environment. We advocate certain standards we consider appropriate but which at this time do not formally apply to members of the industry. As well, providers have made commitments to consumers who opened RESPs, and cannot change those existing plans freely.

Through our interviews with RESP providers we have found that financial institutions, including banks, credit unions, investment and securities dealers, are not actively promoting RESPs. We believe that this is less than fully conducive to achievement of the government's education saving objectives. More Canadians would save for education, benefit from the grant, and be more fully aware of the range of RESP options available to them if financial institutions would take a more proactive approach.

1. We recommend that the Government of Canada engage financial institutions in discussions to improve promotion of RESPs, through publicity about the plans and subsidies, information materials and training for personnel directly dealing with consumers, and in other ways.

Saving for education through RESPs is one of many saving options available to consumers. It is vital that consumers have good information that enables them to make choices that are in their best interest. Consumers would benefit from simple, clear information in plain language, a standard that group scholarship provider prospectuses could more closely achieve.

In addition to risks that flow from the type of investment chosen, savings in an RESP are also subject to the risk that the plan will not result in payment of all investment income, the grant and the bond to the beneficiary through EAPs. Various other outcomes are possible, depending on the type of plan. Consumers are made aware of these possible outcomes, but do not get clear, simple information about the probability that a plan will have a result other than the most desirable one.

The consumer who has a full appreciation of the risks and rewards attached to various RESPs can make good choices, not just among different RESPs and different providers, but also between RESPs and other forms of saving. Some might opt for other saving vehicles, including RRSPs and the new Tax-Free Saving Account, which have different risks and rewards.

2. We recommend that the Government of Canada, working with the RESP industry, examine opportunities to improve the disclosure of the specific features of plans and the probabilities of various potential outcomes of plans to consumers.

We have shown that directors of foundations who are employees of the distributor or own shares in the distributor are in a conflict of interest, and that they make up the majority of two boards of the group scholarship trusts. We are concerned about this, as these organisations are entrusted with the delivery of major programs and play a fiduciary role towards both the government and the public.

3. We recommend that the Government of Canada establish minimum standards regarding the governance structures of RESP providers with whom it enters into agreements.

Finally, we have shown that group scholarship plans produce desirable and less desirable outcomes in relation to the education savings policy objectives of the Government of Canada. On the one hand, group scholarship providers reach out to people who would otherwise not save for education and encourage many to save more than they otherwise would. Where the beneficiaries of these plans ultimately receive EAPs, the providers make a contribution to the government's objectives.

However, they also impose a cost when plans are closed prematurely or when beneficiaries do not qualify for full EAPs and payment of the grant and the bond because of rules they, not the government, impose. Beneficiaries may be discouraged from pursuing post-secondary education for lack of financing. As well, subscribers to group scholarship plans that fail may also be discouraged from saving through other means.

Our concern is heightened by recent program data that show that lower-income Canadians disproportionately sign up for group scholarship plans, since they are more at risk of not being able to save according to a fixed schedule over a long term. Since the beginning of 2004, Canadians have opened nearly one million RESPs, and 76,000 of these drew the Canada Learning Bond. Nearly three hundred thousand of these RESPs were group scholarship plans, and 44,000 of these drew the CLB. The share of RESPs that attracted the CLB is three times as large among group scholarship plans as among individual and family plans.

We think that the government's objectives would be better served if more RESPs in group scholarship plans survived until maturity and resulted in EAP payments, or if the consequences of other outcomes would be more favourable. Here are some potential changes that would move the plans in that direction:

- Making transfer to an individual plan without a contribution schedule the default option when the subscriber misses deposits. This would ensure that no subscriber unwillingly loses entitlement to investment income, the grant and the bond.
- Making the enrolment fee proportional to contributions. Plans with a long term to maturity would have a lower fee than at present and be more attractive to the consumer, and losses in case of termination of those plans would be reduced.
- Giving beneficiaries who qualify for EAPs according to government rules at least some of the investment income their contributions have earned and part of the grant, the bond and related investment income.
- Offering scholarship payments for part-time studies and vocational programs.
- Providing upward adjustment of the scholarship payment if the student switches to a longer program or a second program, as is already being done to some extent. Providers could withhold part of the scholarship amounts as a reserve for later claims by beneficiaries.
- Reducing the negative consequences of missing deadlines and reducing restrictions on delays in completion of studies.
- Making a greater effort to advise participants of advantageous options available to them.

A good way to proceed, we believe, is for the government to engage in consultations with all parties involved, including the RESP providers, to review the facts and develop new approaches.

4. We recommend that the Government of Canada engage in consultation with all partners, including the RESP industry, to introduce measures that ensure that RESPs are in accordance with the government's RESP and education saving policy objectives.

Appendix: Group Scholarship Plans

This Appendix gives an overview of five group scholarship plans currently being marketed in Canada, based entirely on the latest prospectuses. It conveys what a person who is considering opening a group scholarship RESP may learn about the available plans by careful study of the prospectuses. This person will want to decide whether or not to enroll in a group scholarship plan, whether to do so presently or later, how much to invest, and which of the plans to enroll in. The person will want to learn the design of the plans, what each plan asks of him or her, the costs of participating, the returns if all goes well, and the risk of less favourable outcomes and the nature of those outcomes.

The prospectuses describe the plans in considerable detail and give information about recent results obtained by the plans, including financial statements. Even so, consumers will not find all the information they may want to have when deciding whether to enroll, nor will they find it all presented in a convenient form. This Appendix is intended both as a source of information about the plans, and as a basis for making judgments about how adequate the information is and how it might be improved.

The promoters and plans, with the 2007 dates on the prospectuses in parentheses, are:

- Canadian Scholarship Trust Foundation (CST) – Group Savings Plan 2001 (Oct. 2)
- Children's Educational Foundation of Canada (Children's) - Group Option Plan (Sept. 10)
- Heritage Educational Foundation (Heritage) – Heritage Plans (Nov. 9, 2007)
- The International Scholarship Foundation (USC) USC Family Group Education Savings Plan (Oct. 11)
- Fondation Universitas (Universitas) – Plan Universitas (Nov. 7)

This Appendix has three sections. The first gives a description of the plans, and the second describes the recent experience of Canadians as a basis for what the consumer opening a new plan may expect. The second part leads off with a description of the organisational structure of group scholarship providers, also an item of some interest to the consumer. A brief review of the scope of the information and the quality of presentation is given in the Conclusion.

CST, USC and Universitas also have plans that are no longer being marketed. These are not described in this Overview, as it deals with "open" plans only. This Overview, therefore, omits a large part of savings and education assistance payments taking place.

Each promoter also offers an individual and/or family savings plan. These plans have few subscribers compared to the group plans. Universitas also offers a second group plan, Plan Réeeflex. Children's offers the Achievers Plan, which is an individual pooled plan. These various other plans are briefly described at the end of the first section.

We submitted a draft of the Appendix as a separate document to the group scholarship plan providers, with a request to verify the document for accuracy and fair representation. The providers agreed to this request, and we are grateful to them for helping us avoid errors. The Appendix remains very much our document, however. The description of the plans and comments made on them are ours and should not be attributed to the providers.

A1. How the group scholarship plans work

A. The main features of group scholarship plans

The RESP, combined with the grant and bond, is a fairly complex saving instrument. However, the basic design is simple. Contributions are not tax-deductible and can be withdrawn at any time without tax consequences. The CESG is deposited as contributions are made, and the CLB is deposited if families qualify. Investment income accumulates free of income tax. Income, the grant and the bond are withdrawn through EAPs when the beneficiary is a post-secondary student, and taxed as income of the beneficiary. If this does not happen, the income can be extracted through an AIP, and is taxed as income of the subscriber, with an extra tax of 20%. The grant and bond are then paid back to the government.

To this design the scholarship plans add the following elements:

- Subscribers commit to a contribution schedule that can be monthly, annual, or a single lump sum.
- Funds are invested in accordance with investments permitted under National Policy 15 of the Canadian Securities Administrators. This means that the assets are conservatively invested, making for low downside risk and a relatively stable return.
- All plans charge an enrolment fee and several annual fees, and all but one charge various transaction and penalty fees.[9] Enrolment fees may be returned at or after the end of the contribution period.
- Subscribers with a group plan generally have no claim on investment income earned on their contributions, except when they transfer to an individual plan with the same provider.
- Beneficiaries are entitled to a share of the total investment income earned by the one-year cohort of which they are part when they become enrolled in a post-secondary program of a minimum duration.
- Payments to students include investment income earned on contributions in plans that do not result in payments to students, and other enhancements.
- Generally, payments of investment income are made annually, and the total amount paid varies according to the duration of studies.
- Generally, beneficiaries have to indicate their study plans before the start of their studies, and apply for scholarship payments before the start of the academic year. Delays in start and progress of studies are allowed, generally one year at a time.

Although the group scholarship plans differ in many details, they have these features in common. At its core, the group scholarship plan is a scheme that concentrates gains on plans that survive through the contribution period and meet various restrictions. Beneficiaries receiving scholarships receive not only the investment income earned on their own contributions, but also a share of investment income earned in plans that do not result in a claim on the pooled investment income, or in only a partial claim. Payments to these beneficiaries include the grant and bond deposited in their own plans, and other enhancements.

Investment income of a group plan becomes available for distribution to beneficiaries of other plans in the same cohort in three situations: First, the subscriber may close a plan and withdraw contributions made to date – an option that exists with individual and family plans as well.

[9] All RESP providers charge fees. Group scholarship providers charge several fees that have no counterpart elsewhere.

Second, the provider closes a plan when the subscriber fails to make contributions on schedule and fails to make catch-up payments or exercise other options available. Third, when all contributions have been made according to schedule, the beneficiary may fail to qualify for a full scholarship under the rules of the plan, rules that are more restrictive than the rules established by the government. When the investment income in a plan becomes available for distribution to other plans, the grant and bond are repaid to the government.

B. Saving

A group scholarship plan consists of Units

Subscribers to group scholarship Plans sign up for one or more "Units". The Unit is the basis for contribution schedules, enrolment fees, and the distribution of investment income.

A Unit is a share of income available for distribution at maturity, i.e., when the beneficiary can first enroll in a post-secondary program, typically in the year that he or she turns 18. At maturity, investment income is transferred to a separate pool of funds to be distributed across all Units held by qualifying beneficiaries within the same cohort.

Contribution schedules

Table A1: Two contribution schedules for a Unit, and the underlying assumptions

Term to maturity	18 to 19 years		5 to 6 years		Ratio total contributions, 18-19 years to maturity and 5-6 years
	Number of contributions	Annual amount ($)	Number of contributions	Annual amount ($)	
CST Group Savings Plan (2001)	204	118	60	1,289	3.2
Children's Group Option	204	119	60	1,453	3.6
Heritage	207	60	63	566	2.9
USC	208	59	64	600	3.1
Plan Universitas	204	141	60	1,946	4.1

All contribution amounts include enrolment fees and premiums for insurance against death and permanent disability.

	Interest rate	Other assumptions stated in prospectus
CST Group Savings Plan (2001)	6% effective annual rate	Includes lapse assumptions reflecting the overall attrition rates experienced by CST plans.
		Includes enrolment fees and depository charges.
Children's Group Option	10.25%	No lapse assumptions used.
		(Fees not mentioned)
Heritage	6.08% before fees	Zero terminations.
		(Fees not mentioned)
USC	5% before fees	No assumptions about lapse or attrition rates.
		Includes enrolment fees of $100 per unit, depository fees of $3.50 and $10.00 per year, insurance premiums and sales tax.
Plan Universitas	bonds: 3.8%	Economic and non-economic assumptions.
	Canadian shares: 6.3%	Includes life insurance fees; other fees not mentioned.

A subscriber purchases a number of Units and selects a contribution schedule from a table provided in the prospectus. The amount of contribution per Unit varies according to the age of the child, the frequency of contributions (once, annual, monthly) and the duration of the contribution period.

All contribution schedules were developed by external actuaries. Typically, there is a table with seven different schedules, each with 14 different levels of contribution depending on the age of the beneficiary when the plan is opened. The contribution schedules are developed to generate an approximately equivalent amount of income per unit by maturity for every child in the same age cohort, regardless of the age of the child when enrolling in the plan. Beneficiaries receive the same EAP per Unit from the pool of investment income and, to maintain equality, each Unit contributes a like amount of income to the pool.

The contribution per Unit is lower if a plan is opened when the beneficiary is young and investment income on early contributions can accumulate over many years (Table A1). A later start requires contributions per Unit that are higher, per year and in total.

The ratio of total contributions in a plan with a five-year term to maturity to a plan with an 18-year term to maturity varies considerably among the five plans. At Universitas, this ratio is 4.1, and at Heritage 2.9 (Table A1, last column). It appears that, compared to other plans, at Universitas enrolling in a plan is most advantageous when the child is young, while at Heritage it is advantageous to enroll when the child is older. The consumer may want to consider this when deciding when to enroll and in which plan.

The assumptions used in calculating contribution schedules vary among the plans. As indicated in Table 1, the prospectuses give the interest rate used in the calculations, but do not fully set out other assumptions (Table A1, lower part).

Fees

Enrolment Fees

Group scholarship providers charge an up-front enrolment fee of $100 or $200 per Unit (Table A2). The contributions per Unit vary in a similar way. At Heritage and USC, annual contributions in a plan with somewhat more than 200 monthly contributions are about one-half of annual contributions at CST and Children's, just like the enrolment fee per Unit. All plans allocate the entire contribution amount to the enrolment fee until one-half of the fee is paid. After that, one-half of each subsequent contribution is allocated to the fee until it is paid in full.

For monthly contributions starting at the birth of the beneficiary, the enrolment fee is approximately 170% of the annual contribution amount, except at Universitas where it is 142% (Table A2). For RESPs that are opened when the child is 13, the enrolment fee is a small fraction of the annual contribution amount.

Table A2: Enrolment fee and contributions per Unit for two durations

	Enrolment fee ($)	Months	Annual amount ($)	Ratio	Months	Annual amount ($)	Ratio
CST Group Savings Plan (2001)	200	204	118	1.70	60	1,289	0.16
Children's Group Option	200	204	119	1.68	60	1,453	0.14
Heritage	100	207	60	1.67	63	566	0.18
USC	100	208	59	1.68	64	600	0.17
Plan Universitas	200	204	141	1.42	60	1,946	0.10

All contribution amounts include enrolment fees and premiums for insurance against death and permanent disability.

In an RESP opened at the birth of the beneficiary with a monthly contribution schedule, there is a balance of only a few dollars of savings at the end of the first year. It takes two to three years to pay the full enrolment fee. Thus, depending on the age of the child and the deposit frequency selected, subscribers who cancel their plans within the first few years and request a return of their contributions will receive a small to modest fraction of the money they put in.

Annual Fees

All scholarship providers levy additional fees. The level of fees is similar across the five funds, the one exception being Universitas which charges a higher fee for administration than the other providers but has no deposit and transaction fees.

Table A3: Fees

			CST	Children's*	Heritage	USC	Universitas
1	**Enrolment**		$200	$200	$100	$100	$200
	Per unit, once						
	Paid from contributions:100% of initial contributions until 50% of fee paid, thereafter 50% of contributions						
2	**Depository**		$10	$12	$10	$10	None
	Fixed amount, yearly						
	Deducted from accumulated contributions						
3	**Custodial**		0.015%	0.019%	0.015%~	0.015%	0.019%
	Percentage of trust assets, yearly	up to	$300 million	$200 million	$500 million	$300 million	$200 million
	Paid out of investment income*	above	0.010%	0.010%	0.010%~	0.010%	0.010%
4	**Administration**		0.50%	0.50%	0.50%	0.50%	1.22%
	Percentage of plan assets, yearly						
	Paid out of investment income*						
5	**Investment management**		.1% to .3%	0.24%	0.06%	.08% to .21%	0.14%
	Percentage of plan assets, yearly			average	average		average
	Paid out of investment income*						
		years to maturity**					
6	**Insurance****	18 to 19	$3.60	$6	$2.88	$1.01	$6.00
	Per unit, yearly	5 to 6	$4.80	$18.00	$26.88	$10.20	$19.80
	Added to contributions		optional	optional	optional	mandatory	mandatory
	Death and permanent disability						

* At Children's, all fees are deducted from deposits. ~In 2006, the custodial fee at Heritage was paid by the Distributor. ** The term to maturity and number of monthly contributions for each plan are the same as in Table A1. ~Children's offers two types of additional insurance. At USC, the insurance premium is 1.7% of contributions.

Annual fees are prominently displayed in each prospectus. There are four annual fees:

- Depository fees for processing deposits, in the form of an annual fee that ranges from $0 to $12 depending on the contribution frequency and the plan chosen.
- A custodial fee for holding the assets of the plan in trust. This fee has two rates that range from 0.01% to 0.019% of assets.
- An administration fee of .5% of assets.
- Investment management fees, also a percentage of assets. Some plans give a range of rates, some state an average fee. The fees range from .06% to .3% of assets.

Although, strictly speaking, insurance premiums are not fees, these premiums are included in Table A3 since they are a cost to the subscriber. All group scholarship plans offer insurance against death and permanent disability of the subscriber. At USC and Universitas the insurance is mandatory, at other plans it is optional. Premiums generally are presented in the form of a schedule with various rates.

Transaction Fees
All plans except Universitas charge various fees for transactions other than scheduled deposits (Table A4). Transactions include switching to a different contribution schedule, naming a new beneficiary, changes to the date of maturity and the date of eligibility. The four providers charge more than their lowest fee for a transfer to another RESP provider.

Four providers also charge penalty fees for missing deposits and application deadlines. The largest penalty is charged for not applying for an EAP on time. Before the beginning of an academic year the income in a cohort is distributed over Units of beneficiaries who qualify for EAPs. The provider determines what amount to pay out per Unit on the basis of EAP applications. The large penalty for a late application is intended to encourage timely applications that give the provider the information needed to determine the scholarship payment amount. More information about application deadlines is given in the section "Changes in timing" below.

Table A4: Transaction fees

	CST	Children's	Heritage	USC
Transaction				
Transfer to another RESP	50	25	50	25
Penalty for late application for EAP	100	200	75	0
Lost cheque replacement	15			20
Missed deposits	15	15	10	10
Special services (e.g., change maturity date)		12	10	10
Change of contribution schedule		25	10	20
Change beneficiary, adding beneficiary, etc.		12	10	20

Options during the contribution period

All providers offer certain options during the contribution period. Subscribers can switch to a different schedule for the same number of Units, and may have to make an adjustment payment if they do so.

At four of the five providers, subscribers can request a transfer to the individual or family plan at the same provider, subject to certain conditions. Switching to the individual or family plan removes the requirement to make contributions according to a schedule. However, the possibility of an enhanced return is given up as well. These transfers are described in the section "Other plans offered by scholarship trusts".

Finally, subscribers can request transfer to a different provider. If the beneficiary remains the same, they can transfer the RESP with contributions net of fees, and with the grant and bond and related investment income. The investment income earned on contributions, however, remains in the pool and cannot be transferred.

Subscribers who have difficulty making contributions according to schedule may choose one of these options. They can cancel their plan or cancel Units to reduce the amount of contributions they have to make. If they fail to make the required deposits on time, the provider will take action as described next.

Failure to make deposits on schedule

All group scholarship providers respond quickly to missed deposits by sending a notice to the subscriber. Generally, if the subscriber does not pay the deposit or makes other arrangements within a period of one to three months, the plan is declared inactive or, in one case, converted into an individual plan.

As noted, four providers give the option to transfer to their individual or family plan before maturity or until the beneficiary reaches a certain age, subject to certain conditions. At CST and USC, this option is available after three years of contributions[10], and at Children's after enrolment fees have been paid in full. Universitas allows the transfer at any time before the beneficiary turns 16, but without investment income earned on contributions. Heritage offers no such option.

The subscriber is given the option of resuming deposits and bringing the plan up to date by depositing the missed contributions plus the interest that would have been earned if the deposits had been made. Subscribers who choose this option may have to bring deposits up to date within a period of a few years, before the beneficiary reaches a certain age, or whichever comes first. In all cases, plans have to be reinstated before their originally scheduled maturity date.

At CST, an inactive plan is automatically converted into an individual or family plan if contributions have been paid for three years or more. This transfer is tantamount to having a contribution holiday, since the individual and family plans have no contribution schedule. The subscriber can rejoin the group scholarship by making the necessary catch-up payments. At USC, a transfer to the individual or family plan is available if catch-up deposits are not made within two years.

Failure to transfer to an individual plan, request suspension of contributions, or bring the plan up to date ("reinstate" or "reactivate") by paying missed deposits plus interest leads to termination. Subscribers can have their contributions returned net of fees and without any investment income. According to rules established by the government, when a plan is closed, the CESG and CLB are repaid to the government, the corresponding grant contribution room is lost, and investment income earned on the grant and bond is set aside to be extracted through an AIP or donated to an educational institution.

Interest charged on late deposits is intended to restore the accumulated income to what it would have been if contributions had been paid according to the contribution schedule. Three of the five prospectuses do not give a precise interest rate but indicate the rate should reflect the rate earned by the pooled contributions in the scholarship plan. Children's charges an "Interest Deficiency Administrative Adjustment", which seems to be the same thing. Universitas charges a rate of 9% on arrears, more than the rate used to establish its contribution schedules.

The government treats the entire catch-up deposit, including interest on arrears, as a contribution. In plans where contributions have been scaled to reach the lifetime contribution limit of $50,000, interest on arrears would push contributions over this lifetime limit, with adverse tax consequences. All prospectuses contain warnings about this risk.

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[10] The mechanics differ. CST allows the transfer after contributions have been paid for three years. At USC, the individual plans have the same Units and contribution requirements as the group plan for the first three years.

Table A5: Missed deposits, reactivation and termination

	Missed payment, notice sent, no payment made within 30 to 90 days	Reactivation by paying all missed contributions with interest earned in active plans	Termination
CST	Automatic transfer to individual or family plan if contributions paid for at least three years.	Transfer back to group plan possible until maturity.	If not eligible for transfer to individual or family plan, two years to reactive, otherwise plan terminated.
Children's	If enrolment fees paid in full, can request transfer to individual plan before maturity or suspension of deposits.	Within three years, before 16th birthday.	Plan terminated if not transferred to individual plan before missing three consecutive deposits or not reinstated.
Heritage	Request reactivation option, or plan terminated.	Up until 15th brithday; if older, within 6 months from missed payment and up to six months before maturity.	Plan terminated if not reactivated.
USC	Can request suspension of up to 24 months or transfer to individual or family plan.	Before end of suspension and before 14th birthday. Automatic transfer to individual or family plan at end of suspension period if eligible.	Plan 'discontinued" if not reactivated and not eligible for transfer to individual or family plan, and CESG repaid to government. If not reactivated within two years, plan terminated.
Plan Universitas	Automatic default unless suspension of up to 24 months requested and granted.	Before end of suspension period granted. Interest at 9%.	Plan terminated if suspension not requested and granted, and if not reactivated.

Account statements

All five providers issue account statements to subscribers as required under securities legislation. The statement shows the amount of contributions, fees deducted, and the rate of return or investment income earned during the year. As well, all providers undertake to send annual reports and management reports if requested.

C. Withdrawals

Maturity and eligibility

In group scholarship plans, contributions are made over a period of time that is determined at the outset. Each plan has a date of maturity which generally is in the year in which the beneficiary turns 18 (19 in the case of Plan Universitas), i.e., the year the beneficiary would, under normal circumstances, be able to enroll in post-secondary studies. At CST and Children's, the maturity date is the precise date of the anniversary of the opening of the plan, while at Heritage and USC it is the 31st of July.

At maturity, contributions are available to be repaid to subscribers, who may, however, want to postpone this action until they have submitted proof that the beneficiary is enrolled in a post-secondary program, since otherwise the CESG has to be repaid to the government. CST allows subscribers to keep contributions in the plan until the final EAP payment, and credits them with market interest until they are withdrawn. Universitas does the same until the first scholarship payment, at which time it pays out interest earned on contributions since maturity. In other plans, interest earned on contributions after maturity goes to the investment income pool.

In the year following the date of maturity, qualifying beneficiaries become eligible for scholarship payments. The year is called the year of eligibility. At CST, eligibility coincides with maturity, and at Universitas, eligibility generally occurs in the year the beneficiary turns 19.

The scholarship payment schedule

All group plans make scholarship payments only for full-time studies at eligible institutions (as defined by government) in Canada and elsewhere. Heritage specifies that the student should be enrolled for at least 6 months per year, and treats correspondence and distance courses as eligible. Plan Universitas pays scholarship only to students enrolled in university or in the technical stream of a CEGEP.[11]

All plans except CST make payments only for programs that are at least two years in duration. Contributions generally are returned in the first year, and a scholarship payment is made in the second year, except at Universitas where payments start in the first year. A student in a one-year program does not have a claim on the accumulated income of the cohort, but two or more consecutive one-year programs may entitle the student to one or more payments. CST pays out one-quarter of the accumulated income in the first year (Table A6). Universitas makes a first scholarship payment after 12 credits at a university, i.e., one semester.

Table A6: Scholarship payment schedules

Duration	1	2		3			4			
Year	1	1	2	1	2	3	1	2	3	4
CST Group Savings Plan (2001)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Children's Group Option*			1.00		0.33	0.67		0.33	0.33	0.33
Heritage*			1.00		0.50	0.50		0.33	0.33	0.33
USC			0.33		0.33	0.33		0.33	0.33	0.33
Plan Universitas - university				0.33	0.33	0.33	0.33	0.33	0.33	
- college		0.33	0.33	0.33	0.33					

* Programs of two or three years entitle the beneficiary to 100% of a reduced scholarship amount.

At Children's and Heritage, the beneficiary chooses a payment option before maturity. The scholarship is paid in full, but the amount of the scholarship is lower for a two- or three-year program than for a four-year program.[12] CST and USC make only a partial payment for programs of two or three years. A study program of two years draws one-half of the full scholarship amount from CST, and one-third of the full scholarship amount from USC. Universitas pays the full scholarship amount in three installments for university programs of three or four years, but makes only two payments for college programs. However, when a college graduate goes on to university, the third installment is paid after some time.

[11] In Quebec, two years of academic training in the "university transfer" stream at CEGEPs await the person who has completed high school and wants to go on to university. These two years of study are not eligible under Plan Universitas.

[12] The prospectuses do not give information about the manner in which the reduction that applies to these "accelerated" payments is calculated.

In accordance with legislation, the CESG is paid out in the same installments as investment income earned on contributions. Beneficiaries who do not qualify for scholarship payments do not receive the grant as part of their EAPs, even if they qualify for this under rules established by the government. A beneficiary who receives only a partial scholarship receives the same part of the grant. Thus, for instance, at CST and USC, only four years of post-secondary study entitle the beneficiary to the full amount of the grant, and at Universitas the grant is not paid in full for a college program. The same applies to the CLB and investment income on the grant and bond.

Thus, the grant, bond and related investment income are not pooled. Grant and bond amounts that are not paid to the beneficiary in whose plan the grant was deposited are repaid to the government. Investment income earned on the grant and bond that is not paid to the beneficiary can be extracted by the subscriber through an Accumulated Income Payment (AIP) or is held by the provider until it can be so extracted. If an AIP is not at all possible, the funds are donated to an educational institution. These same rules apply when the plan is closed before maturity.

The amount of the scholarship payment

In the year of eligibility, the group scholarship provider determines how much each Unit held by qualifying students pays out for that year. The amount is the same for each Unit of all qualifying beneficiaries in each cohort group that reaches eligibility.

The net income earned through invested contributions up to the maturity date is the primary source of funds for scholarship payments. The group scholarship payments are augmented using the following sources:

1. accumulated income transferred out of plans when they closed before the maturity date;
2. interest earned on the accumulated income of plans that closed, from the closing date to maturity;
3. accumulated income of plans that reach maturity but do not result in a full scholarship payment;
4. interest earned on the accumulated income that remains invested after the maturity date to the date at which scholarships are paid;
5. amounts that are not claimed by subscribers;
6. at some plans, investment income on contributions from maturity until they are repaid to the subscriber;
7. a surplus of revenue over cost of operations.

Each fund has its own way of arranging and accounting for these top-ups of scholarship payments. Generally the scholarship trusts have an “enhancement fund” through which some of these amounts are channeled, and some trusts have more than one fund to handle the accounting. The not-for-profit Foundation that sponsors the plan may contribute a surplus of revenue over cost of operations towards the scholarship payments to beneficiaries. The degree to which this occurs varies by promoter.

The degree of discretion exercised by providers in determining the top-up varies according to the source of funds. Income from plans that close before maturity may be directly credited to the subscribers’ pool, but allocation of a share of operating surplus is entirely discretionary.

There is a considerable difference between the providers in the extent to which the funds treat the top-ups as automatic or discretionary. With CST and Universitas, the process is entirely laid down in rules set out in the prospectus, and CST has only one discretionary item: the transfer from operating surplus. Children’s presents the augmentation of scholarship payments, except for income from plans closed at the request of subscribers, as entirely discretionary. The prospectuses remind the reader that discretionary top-ups are not guaranteed and that past amounts are not a guide to future amounts.

To determine the group scholarship amount, the provider needs to know how many beneficiaries in the cohort will be entitled to a full payment and how many to a partial or zero payment, as it redistributes the income earned but not claimed by beneficiaries to other beneficiaries. Beneficiaries are asked to indicate the duration of their studies and provide evidence of enrolment before the beginning of the academic year. The process is repeated for the second, third and fourth scholarship payment. The amounts of those payments may be somewhat different as students may drop out of studies and investment income is earned. However, the scholarship payments generally stay close to the shares indicated in Table A6.

Repayment of enrolment fees

All five providers undertake to repay enrolment fees in whole or in part. Universitas guarantees full repayment at maturity, and takes the funds out of the pool of investment income. The other four repay the fee in installments with scholarship payments, and three of those offer no guarantee that the entire fee will be returned. CST guarantees repayment of 50% of the enrolment fee, and sets aside part of the enrolment fees it collects as a reserve for this purpose.

USC, CST and Children’s distribute the refund evenly over the group scholarship payments. Heritage pays one-quarter of the refund with each of the first two scholarship payments, and the remainder with the third payment. Thus, only students in four-year programs receive the full refund from these three providers, and students in two-or three-year programs, and at CST also those in a one-year program, get only part of the refund.

Table A7: Repayment of enrolment fees

CST Group Savings Plan (2001)	50% guaranteed
	One-quarter of fee with each scholarship payment
Children's Group Option	No guarantee
	One-third of fee with each scholarship payment
Heritage	No guarantee
	One-quarter with first payment and with second payment, one-half with third payment
USC	No guarantee
	One-third of fee with each scholarship payment
Plan Universitas	Full repayment at maturity, guaranteed

Changes in timing

All providers require that beneficiaries indicate their study plans and, if applicable, show proof of enrolment of the beneficiary before the beginning of the academic year. Generally the deadline is August 1. At Universitas it is July 10, and Heritage has a separate deadline for EAP payment applications: August 15.

Providers allow changes in the date of maturity and the year of eligibility to accommodate a different starting date for post-secondary studies. Approval of advancement and postponement of the date of maturity for up to two years tends to be automatically given.

If the maturity date is advanced, the final contributions in the schedule may not be made, and an adjustment is necessary. Most providers convert some of the contributions made up to that point into investment income, thereby maintaining the number of Units in the plan but reducing the amount of contributions. Universitas requires that all scheduled contributions are made before the advanced maturity date. The providers move the plan and the income associated with it to the earlier cohort. Postponement of the year of maturity means transfer to a later cohort.

The year of eligibility is changed with the date of maturity. It can also be postponed after maturity and before the first EAP payment, up until the year in which the beneficiary turns 21, 22 (USC), or 24 (Universitas). By postponing the year of eligibility, the first group scholarship payment is postponed, and the plan is transferred to the later cohort.

Scholarship payments can also be postponed after the first payment has been made. All plans provide varying degrees of flexibility to accommodate different student academic progress. Some plans allow a postponement a year at a time, and some prospectuses advise that postponement of more than one year may not be granted. The prospectuses warn that, under government rules, EAPs cannot be paid after a certain age and that the RESP has a maximum lifetime.

D. Other plans offered by scholarship trusts

Individual and family plans

Every scholarship promoter offers an individual and a family plan or an individual or self-determined scholarship payment option. Some trusts offer both an individual and a family plan or option.

CST and Universitas offer an individual and a family plan, and Children's an individual plan, separately from the group scholarship plan but through the same prospectus (Table A8).[13] These plans come with a minimum initial contribution, but without a contribution schedule. The individual and family plans do not have Units. There is an enrolment fee that is modest compared to the enrolment fee for an average group plan. USC offers an individual and a family plan with the same Units and contribution schedules as for its group plan, but these can be abandoned after three years. For an individual plan drawing the CLB or ACES, USC requires no deposits.

CST and USC allow subscribers with a group scholarship plan to transfer to an individual plan after three years, and Children's allows this after enrolment fees are fully paid. All assets - contributions net of fees, accumulated income, the grant and income earned on it are transferred, and from that moment on the subscriber is no longer bound by a contribution schedule.

Subscribers who switch to the individual or family plan do not pay the enrolment fee for the individual plan, but also do not get a refund of the enrolment fees they paid for the group plan. Universitas allows a transfer to the individual plan before maturity but does not transfer the investment income earned on contributions.

All prospectuses make it clear that under the individual plan or payment option the subscriber forgoes the EAP enhancements available in the group scholarship plan. As well, while enrolment fees may be returned in whole or in part in the scholarship plan, this is not the case in the individual and family plan.

[13] Heritage has an individual plan called the "Impression Plan". It is offered through a separate prospectus and is not referred to in the prospectus for Heritage Plans and therefore is not included in this Overview. The Impression Plan has $0.5 million in assets.

Table A8: Main features of individual and family plans at group scholarship promoters

	Contributions	Enrolment fee	Transfer from group plan
CST Individual Savings Plan and Family Savings Plan	Initial contribution of $150 including enrolment fee, no schedule.	$50 per plan, $25 if plan has CLB.	After three years of contributions, transfer all assets at any time before maturity.
Children's Self-Initiated Option Plan	Minimum of $300 in first six months, no schedule.	$200 per plan.	If enrolment fee fully paid, transfer up to 60 days before maturity.
Heritage Self-Determined Option	Same contribution schedules as for group plan, minimum $4.99 per month.	$100 per Unit, same as group plan.	Select self-determined payment option in last six months before date of maturity.
USC Family Single Student Education Savings Plan and Family Multiple Student Education Savings Plan	Same schedules as for group plan, minimum $9.90 per month, $110 per year or $449 at once. After 3 years, can contribute less or stop. No schedule for new plan with CLB or ACES.	$100 per Unit, same as group plan.	Transfer before maturity until beneficiary turns 19.
Universitas Individual Plan	Initial contribution of $400 including enrolment fee, no schedule.	$200 per plan.	Transfer before maturity without investment income; after maturity with interest since maturity and refund of enrolment fees and must keep individual plan for 12 months.

CST, USC and Children's present further information that a consumer can take into account in choosing among plans. The CST prospectus shows that compound rates of return for the individual and family plans are several hundred basis points lower than the rates for the group plan. The prospectus explains that in the individual and family plans, the assets are managed to meet short- to medium-term cash flow requirements, while in the group plan investment terms are matched to future liabilities.

A second group plan and an individual pooled plan

Universitas has a second group plan called Plan Réeeflex, and Children's offers an Achievers Plan, an individual pooled RESP. These plans pay EAPs for more types of studies than the main group plans of the same providers, and the Achievers Plan is more flexible with respect to contributions.

The Achievers Plan at Children's has these features:

- Units worth $465 each in contributions with an enrolment fee of $55 per Unit;
- An administration fee of 0.95% of assets (0.5% in a Group Option plan);
- No age limit for the beneficiary (a maximum age of 13 years for a new Group Option plan);
- Choice of the date of maturity;
- Change of beneficiary according to the Income Tax Act;
- EAPs are paid for part-time as well as full-time studies, according to the Income Tax Act;
- Scholarship payments can be requested at any time after maturity;
- Investment income earned on one's own contributions can be extracted as an AIP.

Subscribers choose a deposit schedule but can change this at any time. They can make catch-up payments of contributions without interest for up to three years. Under a "continuance" option, they can also request a reduction of their contribution level or an end to contributions altogether. The consequence of this is that fewer units are achieved by the maturity date.

The Réeeflex Plan of Universitas has these features:

- The same age limit, Units, enrolment and administration fees as Plan Universitas. The contribution amounts are different.
- Up to age 21, change of beneficiary to one of the same age or a younger one (In Plan Universitas, this can be done only before the beneficiary turns 15).
- After three years and up to 90 days before maturity, the option to switch contributions, grants and investment income to Plan Individuel (in Plan Universitas, investment income cannot be transferred).
- EAPs are paid for the same studies as Plan Universitas and also for part-time studies in the same programs, as well as for the CEGEP university transfer stream and for professional training of at least 900 hours.

According to the Universitas prospectus, at the end of 2006, there were 22,243 subscribers to Plan Réeeflex compared to 104,379 in Plan Universitas and 568 in Plan Individuel.

A2. Recent experience of Canadians with group scholarship plans

A. What the data cover

This section describes the experience of Canadians with group plans that are currently open for sale, as reflected in activities and financial results reported in the prospectuses of the five providers. It also describes the ownership structure of the trusts. The information about activities and finances pertains to financial year 2006, which is the same as the calendar year, except at CST, where it is November 2005- October 2006. For USC, the data pertain to the period May 2006-April 2007, financial year 2007.

This section does not describe all group scholarship plan activity, only that of plans currently for sale. CST and USC offered different plans in years past and continue to take in contributions and pay scholarships under those plans. At CST there are more than 260,000 subscribers and $1.6 billion in assets, and at USC there is $800 million in assets in plans that are no longer for sale. Hence, scholarship trusts hold $2.4 billion in assets more than reported here. They also collected more in contributions and administration fees, had higher operating expenses, and made more scholarship payments in 2006 than shown here. Table A15 includes the closed plan of CST.

The Children's prospectus contains a single set of financial statements for all their plans. Because of this, the data in Table A11 and A14 pertain to all three plans of Children's, while the other tables in this section describe the group plan.

The information presented here is limited to what was found in prospectuses and is not entirely consistent nor complete. The main omissions concern the number of Units and rates of return. We hoped to construct a Table A10 in terms of Units, but found that we could fill in only a few cells, enough to give an idea of the number of Units per subscriber, but not enough to include the table in this Appendix. As for rates of return, there was so much variation in the way these are presented in prospectuses – before or after fees, with or without enhancements – that a comparative table could not be prepared.

B. Organizational structure

The most common structure of scholarship providers is a not-for-profit foundation that is the provider or "manager" of the scholarship plans, and a commercial operating company or "distributor" which is wholly owned by the foundation (Table A9). Children's and Heritage are exceptions. At Children's, the operating company is owned by Donna Haid Holdings Inc. The operating company at Heritage is owned by its own senior management.

There is a considerable overlap between the directors and officers of the foundations and the operating companies:

- At CST, the Foundation has 15, one of whom is the President and CEO of both the Foundation and the Distributor. The Distributor has one director.
- At Children's, the boards are quite small and the majority of both boards consists of members of the same family.
- At Heritage the two boards are identical, having five directors.
- At USC the two boards are identical, having 11 independent directors.

- Fondation Universitas has 13 directors of whom seven are directors of the Distributor, making up the full board of the Distributor.

By the fall of 2007, all providers had in place an independent review committee for conflicts of interest with respect to regarding investments, as required under National Instrument 81-107.

Table A9: Ownership and board structure

	Ownership		Board	
	Foundation	**Distributor**	**Foundation**	**Distributor**
CST	Canadian Scholarship Trust Foundation, a non-profit corporation without share capital.	CST Consultants, wholly-owned by Foundation,	14 independent directors plus the President / CEO of the Foundation.	Two directors, one of whom is President and CEO of the Foundation and the Distributor.
Children's	The Children's Educational Foundation of Canada, a non-profit corporation.	Children's Education Funds Inc. All common shares owned by Donna Haid Holdings Inc.	Five directors, with Donna Haid as Director, President and CEO. Two directors are employees of the Distributor.	Two directors, one of whom is also a director of the Foundation.
Heritage	Heritage Educational Foundation.	Heritage Education Funds Inc., controlled its senior management through Heritage Financial Group Ltd.	Five directors, four of whom are officers of the Distributor.	The same five directors as at the Foundation.
USC	The International Scholarship Foundation, a not-for-profit Canadian corporation without share capital.	USC Education Savings Plans Inc., wholly-owned by the Foundation.	11 independent directors.	The same 11 directors as at the Foundation.
Universitas	The International Scholarship Foundation, a not-for-profit Canadian corporation without share capital.	Gestion Universitas Inc., wholly owned by the Foundation.	13 independent directors.	Seven directors who all are directors of the Foundation.

Three of the five trusts have a scholarship committee which advises and assists the Trustee and Foundation and makes recommendations regarding the scholarship amount, policies and guidelines, eligibility of beneficiaries, qualifying educational programs and other matters relating to scholarships.

- At CST, two members of the “CST Committee” are appointed by the Trustee, four by the Foundation, two by a Canadian trust company or chartered bank, and two by a national Canadian or charitable organization.
- At Heritage, the scholarship committee consists of the five members of the board.
- Children’s has a scholarship committee that consists of at least one board member and other persons appointed by the board. No other information is provided.
- The prospectuses of USC and Universitas do not mention a scholarship committee.

Investments of the five scholarship providers are managed by one to four specialised, registered investment counselors. The names of the companies are listed in the prospectuses. Each of the advisors is responsible for investing a part of a fund’s assets.

C. The number of plans

In the latest financial year, Canadians opened 114,000 new group scholarship plans, and 32,000 existing plans were closed (Table A10). At the end of the year, nearly 900,000 group scholarship plans were active. These numbers do not include plans that matured in 2006.

The gross rate of increase was 14.1%, and the gross rate of decline 3.9%, for a net change of 10.2%. This number may be misleading, as many plans at CST and USC are not included, as noted earlier. CST is the largest provider of scholarship plans, with 452,000 plans in total. Hence, the number of scholarship plans did not really increase by 10.2%. Only participation in plans currently being marketed increased by that percentage.

Table A10: Number of plans, 2006[14]

	CST	Children's	Heritage~	USC	Universitas	All	Change
Non-maturing plans							
At start of year	**152,585**	**76,602**	**162,426**	**349,200**	**73,108**	**813,921**	**100.0%**
New subscribers	18,033	8,179	19,343	34,930	10,478	90,963	11.2%
Transfers in*	23,416	188		162		23,766	2.9%
New plans added	**41,449**	**8,367**	**19,343**	**35,092**	**10,478**	**114,729**	**14.1%**
Cancelled	870	1,316	1,271	5,087	1,955	10,499	1.3%
Terminated	1,525	916	3,896	8,078	972	15,387	1.9%
Transfer to other promoter	390	145	369	2,040	172	3,116	0.4%
Internal transfer	1,574	185	**	757	81	2,597	0.3%
Plans removed	**4,359**	**2,562**	**5,536**	**15,962**	**3,180**	**31,599**	**3.9%**
Net additions	**37,090**	**5,805**	**13,807**	**19,130**	**7,298**	**83,130**	**10.2%**
At end of year	**189,675**	**82,407**	**176,233**	**368,330**	**80,406**	**897,051**	**110.2%**
As percentage of number at beginning of year:							
Gross rate of increase	27.2%	10.9%	11.9%	10.0%	14.3%	14.1%	14.1%
Rate of attrition	2.9%	3.3%	3.4%	4.6%	4.3%	3.9%	3.9%
Subscribers adding Units	n.a.	1,099	7,377	n.a.	4,579		
Subscribers cancelling Units	n.a.	456	1,232	n.a.	447		

* For CST, transfers from escrow accounts are included. ~ At Heritage, termination by the provider means de-activation; re-activation is possible until maturity. ** Option not available at Heritage. All changes measured as percentage of the number of subscribers at the beginning of the year. Breakdown cancelled-terminated at Universitas was supplied by the provider upon request.

All plans have escrow accounts where contributions are placed until a SIN number is obtained for the beneficiary and the RESP application is approved.

Separately shown in Table A10 are four ways that a group scholarship plan may be cancelled before maturity:

- Cancelled: A subscriber may request repayment of his or her contributions.
- Terminated: A subscriber may cease contributing to the plan according to schedule and ultimately have the plan terminated by the promoter and contributions repaid.

[14] As noted at the beginning of the section, the data are for the year 2006, except for CST (November 2005-October 2006) and USC (May 2006-April 2007). The same applies to Tables A11, A14 and A15.

- Transfer to other promoter: A subscriber may request a plan transfer to another RESP provider.
- Internal transfer: A subscriber may request a transfer to the individual or family plan of the same provider.

Generally, all but the fourth manner of removal from the group plan result in forfeiture of investment income on one's own contributions. The investment income stays in the pool and becomes available for scholarship payments to other plans in the cohort.

Some subscribers bought additional Units and increased their contribution level accordingly, and some subscribers cancelled Units and reduced their contributions.

Overall, 3.9% of subscribers to non-maturing plans at the beginning of the year disappeared from the rolls in the course of the year. This rate of attrition, if maintained over the lifetime of RESPs, means that a large share of plans do not reach maturity.

Units and enrolment fees per plan

At the end of 2006, the average plan had 6.1 Units at CST, and 4.0 Units at Universitas. At Heritage, plans that were removed during the year had 11.0 Units on average. Units at Heritage about one-half as large as Units at CST and Universitas, as is the enrolment fee per Unit. Of the three providers, CST has the largest plans in terms of expected investment income at maturity, and Universitas the smallest, it would seem. The average enrolment fee paid per group plan at the end of 2006 was $800 at Universitas and $1,220 at CST, and at Heritage, $1,100 per plan that was discontinued during 2006.

This information is included here to give an indication of orders of magnitude of Units per plan and the enrolment fee per plan. The information in the prospectuses of Heritage, Children's and USC is not sufficient to present an accounting of Units for the year 2006 that is analogous to Table A10.

D. Contributions and fee revenue

$676 million in contributions were deposited in scholarship plans during 2006 (Table A11). This includes deposits in plans opened in 2006 as well as in plans opened in earlier years. Some 20% of gross contributions went towards fees: enrolment fees on recent and new plans, deposit fees, and insurance fees.

$111 million in contributions was repaid to subscribers, mostly in the form of PSE withdrawals after maturity, but a part was repaid to subscribers whose plans were closed before maturity. Overall, subscribers' savings increased by $427 million to $2.4 billion. Total assets in the plans, which also include government grants and accumulated investment income, stood at $4.0 billion by the end of the year.

Enrolment fees, at $118 million in 2006, are by far the largest source of revenue of the five group scholarship plans that were open to new subscribers in that year. Fee revenue for administration, at $21 million, is only a modest fraction of the enrolment fee revenue. Revenue from administration fees would be higher if the plans at CST and USC that are no longer for sale were included, but it would still be considerably lower than revenue from enrolment fees.

Table A11: Contributions and fee revenue, 2006 (millions of dollars)

	CST	Children's	Heritage	USC	Universitas	All
Contribution activity						
Gross contributions	*180.5*	71.6	154.2	*205.5*	*64.4*	676.2
Fees deducted~	51.0	*15.8*	23.2	40.4	8.0	138.3
Contributions repaid	4.9	10.1	44.7	36.4	14.3	110.5
at or after maturity	3.4	7.4	38.6	n.a.	11.8	61.2 *
before maturity	1.6	2.8	6.0	n.a.	2.5	12.9 *
Net increase in contributions	124.6	45.7	86.4	128.7	42.1	427.3
Balance sheet totals						
Contributions, end of year	349.4	273.3	689.7	834.5	213.2	2,360.0
Plan assets, end of year	590.7	452.3	1,213.2	1,367.6	398.3	4,022.1
Fees on contributions						
Enrolment fees	49.2	10.0	16.8	33.8	8.0	117.9
Depository fees	1.8	2.0	1.7	3.2	~~	8.7
Insurance premiums	~	1.7	4.6	3.3	~	9.6
Fees withheld from investment income						
Administration fees	2.2	*2.1*	6.0	6.2	4.5	21.0
Custodian fees	0.1	0.1	~~~	0.2	**	0.4
Investment management fees	0.6	1.0	0.6	1.3	0.7	4.2
Total fees	**53.9**	**16.8**	**29.8**	**48.1**	**13.2**	**161.8**

~For CST and Universitas, excludes insurance permiums.26:26 * Total not including CST. ~~ Universitas has no deposit fee. ** Included in Investment management fees. ~~~ Fees for 2006 paid by Foundation.

The revenue from administration fees ($21.1 million) is in the order of one-half of one percent of assets at the end of the year ($4 billion), i.e., rather close to the rate charged by four of the five plans (0.5%).

At USC, approximately $67.50 of the $100 enrolment fee per Unit goes towards remuneration of sales representatives. At Children's, up to approximately 65% of the fee is paid to sales representatives and branch managers of the scholarship plan dealer. If other plans also allocate about two-thirds of enrolment fee revenue to sales representatives and their supervisors, then, in 2006, remuneration for marketing and selling of scholarship funds was in the order of $80 million. The other one-third of enrolment fee revenue may cover other costs of marketing, like advertising and printed materials. CST sets aside part of each enrolment fee to meet its obligation to repay the enrolment fee after maturity, and at the end of 2006 had a reserve of $48.4 million for that purpose.

E. Scholarship payments

The full scholarship amount per Unit

The amount of scholarship per Unit varies among plans (Table A12). CST is not included as it has not yet made a complete scholarship payment from its Group Savings Plan 2001.

Table A12: Full scholarship amount per Unit and ratio to contributions

Year of eligibility	2006		2005		2004		2003		2002		Contri-
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	butions
Children's (3)	4,500	120%	4,800	128%	4,800	128%	n.a.		n.a.		3,751
Heritage (1)	740	44%	800	48%	825	49%					
Heritage (2)	*800*	*48%*	900	54%	n.a.		1,050	63%	1,150	69%	1,673
Heritage (3)	*930*	*56%*	*1,050*	*63%*	1,270	76%	1,380	83%	1,430	85%	
USC	*1,020*	*58%*	*1,200*	*69%*	1,390	80%	1,515	87%	1,560	89%	1,746
Plan Universitas	*3,505*	*73%*	3,442	71%	3,451	72%	3,408	71%	3,631	75%	4,817

Th amount of Contributions is sum of the total amount of monthly deposits per Unit in a plan started at birth, with a weight of two-thirds, and deposits in a plan started at age 12, with a weight of one-third. Ratio is the amount of the scholarship payment divided by average contributions so calculated. Italicised amounts are estimated by the authors based on partial scholarships paid to date. (1) (2) and (3) refers to the number of payments.

To put the scholarship amounts on a common basis, Table A12 includes the ratio of the scholarship amount to average contributions per Unit, using the plans and amounts found in Table A1. The contribution amounts include enrolment, deposit and insurance fees, and so these are rates of return on amounts subscribers have actually paid, in total, for beneficiaries who qualify for full scholarship payments.

The ratios indicate large differences in the amount paid to beneficiaries who receive full scholarship payments, and one may wonder why there are such differences, since the plans are similar. Children's deducts annual management, investment and custodial fees from deposits, while other plans deduct these from investment income. Hence at Children's a certain amount of gross deposits generates more investment income and a lower amount of net contributions than at other providers. Further, some plans may have better returns on investment. However, all plans are restricted to certain classes of relatively secure investments, and we would therefore expect that differences in the rate of return, over the average term of plans, are modest. Some plans may have a higher rate of attrition, so that more investment income is available per plan that reaches maturity. As it happens, Children's, the plan with the highest scholarship amount (Table A12) has one of the lower attrition rates (Table A10).

There may be differences in the share of matured plans that pay full scholarships, something that is examined below. As well, Children's makes a downward adjustment to scholarships that are paid out in one or two installments, but gives no details. Perhaps the adjustment is large. As well, as shown in Table A14 below, some providers pay much larger amounts than others as a refund of enrolment fees. In all, while Table A12 is suggestive, it should not be taken at face value.

The scholarship amount per Unit has declined at Heritage and USC, while Universitas has held it more or less to the same level over five years, and Children's over three years.

Full, partial and nil scholarship payments

Only a share of plans that reach maturity result in payment of a full scholarship. Results for recent years show that between 26% and 72% of beneficiaries receive the full amount (Table A13). Perhaps 45% (year 2002 at Universitas) is a more realistic lower bound for the share receiving a full scholarship payment. In every plan there are beneficiaries who receive no scholarships.

In every plan there are beneficiaries who do not receive any payment of income. Three in ten plans in the 2002 cohort at Universitas have this outcome. This is not a final result as payments can still be made, but the prospectus shows that 27% of the 1998 cohort, for which payments probably have been completed or almost entirely so, did not receive an income payment.

Because payments remain to be made, it is not possible to draw any other firm conclusions from this comparison. That there are no data for CST because its plan is too young is also a drawback. The consumer might have wanted to see statistics for its earlier plan.

Table A13: Full, partial and nil scholarships paid out, recent years

			Share of full scholarship paid out							
	Year of eligibility	Number eligible	100%		67%		33% to 60%		0%	
			Number	Share	Number	Share	Number	Share	Number	Share
Children's	2003-06	1,831	1,323	72%	213	12%	2	0%	293	16%
Heritage - total matured plans:		4,879								
Completed plans	2004-06	3,205	3,090	63%	9	0%	82	2%	24	0%
Not yet completed	2004-06	1,674	(34%)							
USC	2002	111	73	66%	16	14%	11	10%	11	10%
	2003	375	246	66%	50	13%	34	9%	45	12%
	2004	975	665	68%	83	9%	106	11%	121	12%
Plan Universitas	2002	2,468	1,118	45%	445	18%	174	7%	731	30%
	2003	2,753	1,015	37%	566	21%	255	9%	918	33%
	2004	3,045	794	26%	644	21%	358	12%	1,250	41%

Except for Heritage, the numbers include plans for which payments remain to be made. At Heritage, years of eligibility vary depending on the payment option. For USC and Universitas, the column "33% to 60%" means 33%. CST is omitted because its plan opened in 2001 only.

Payments to students

Payments from plans currently for sale amounted to $36.4 million. Three-quarters of this is in the form of scholarship payments of investment income including enhancements (Table A14). The grant and bond account for the second largest component of payments, 13% of the total. At CST and USC grants make up one-quarter of the total payment. This probably reflects the fact that these scholarship plans are of recent vintage. Income has accumulated only over a limited number of years, and the grants are therefore large in relation to accumulated income that is distributed through EAPs.[15]

Repayment of enrolment fees amounted to $3.5 million or 10% of the total amount paid to beneficiaries. For USC, no information is available about repayment of enrolment fees, and at Children's the amount is very small.

[15] As well, at the other three funds, some plans that matured in 2006 may have started before grants came into effect in 1998.

Table A14: EAPs and other payments to students, 2006 (thousands of dollars)

	CST	Children's*	Heritage	USC	Universitas	**All**
Amounts (thousands of dollars)						
Investment income	106	2,988	13,698	3,468	6,619	**26,879**
Repayment of enrolment fees	8	6	2,556	n.a.	950~	**2,570**
Grants	42	491	2,367	1,269	573	**4,742**
Interest on grants	10	166	585	403	77	**1,241**
Total	166	3,651	19,205	5,140	8,218	**36,381**
Share of total						
Investment income	0.64	0.82	0.71	0.67	0.81	**0.74**
Repayment of enrolment fees	0.05	0.00	0.13		0.12	**0.07**
Grants	0.25	0.13	0.12	0.25	0.07	**0.13**
Interest on grants	0.06	0.05	0.03	0.08	0.01	**0.03**

Notes: Investment income is income earned on contributions plus enhancements. * Data for Children's include the individual plan, with $279 thousand in investment income and unknown amounts of grants and investment income on grants. ~Universitas refunds enrolment fees to the subscriber, not the beneficiary.

Sources of funds for EAPs

The primary source of funds for scholarships payments (EAPs) is the accumulated investment income earned on contributions in plans that reached maturity. Overall, this source accounted for 56% of scholarship payments in the year 2002, and 62% in 2006 (Table A15).

Table A15: Sources of funds for EAPs, selected years (thousands of dollars)

	CST*	Children's	Heritage	USC	**All**	CST*	Children's	Heritage	USC**	**All**
Amount (thousands of dollars)	**For the year 2002**					**For the year 2006**				
Income in matured plans	272	236	2,516	54	**3,078**	3,098	1,530	8,566	3,090	**16,284**
Income from attrition	61	73	695	3	**832**	462	284	1,280	98	**2,124**
Enhancements	156	262	1,150	60	**1,627**	2,755	901	3,853	279	**7,787**
Total	489	570	4,361	117	**5,538**	6,315	2,715	13,698	3,468	**26,196**
Share of total										
Income in matured plans	0.56	0.41	0.58	0.46	**0.56**	0.49	0.56	0.63	0.89	**0.62**
Income from attrition	0.12	0.13	0.16	0.03	**0.15**	0.07	0.10	0.09	0.03	**0.08**
Enhancements	0.32	0.46	0.26	0.51	**0.29**	0.44	0.33	0.28	0.08	**0.30**
Total	1.00	1.00	1.00	1.00	**1.00**	1.00	1.00	1.00	1.00	**1.00**

Income from attrition is income set aside when an account is closed before maturity. Enhancements include interest after maturity, interest on income from attrition before maturity (except at USC where it is included in Income before maturity), unclaimed amounts, and a discretionary contribution. * The CST data pertain to the group Savings Pan (Series 1), as the Groups Savings Plan 2001 started paying EAPs recently and paid only $106,000 in 2006. For USC, repayment of enrolment fees is included in "Enhancements". In addition to amounts shown in Tables A14 and A15, USC also paid $429,000 in scholarships from the International Scholarship Foundation.

Income from attrition is income that has accumulated in plans closed before maturity at the time they closed. This item has declined as a share of the total, from 15% in 2002 to 8% in 2006. The decline suggests that the share of plans that does not reach maturity has declined in the last five years. However, it seems likely that more than 8% of plans in the most recent cohort did not reach maturity.[16]

The prospectuses do not discuss the reasons for the decline in income from attrition. Possible causes include a different selection of subscribers by the scholarship plans, better disclosure of risks to potential subscribers, better tailoring of the contribution level to the income of subscribers, and a prolonged economic expansion with only a modest downturn since the mid-1990s.

Income from other sources ("Enhancements") has increased as a share of the total, and accounts for 30% of the total in 2006. This includes interest earned on income in terminated accounts until maturity, interest on assets after maturity, amounts not claimed, abandoned accounts, and a transfer out of operating surplus. The prospectuses do not indicate what amounts come from various sources, and do not explain how and why the enhancements have changed over time as a share of the total.

[16] This is so because income from closed plans is measured before maturity. Other plans continue to generate investment income until maturity, and income per plan is therefore likely to be larger in plans that reach maturity than in plans that do not.

A3. Conclusion

A consumer who wants to learn how a particular plan works will find that information in the prospectus. The summary of the plan near the beginning of each prospectus is helpful. Fees are prominently displayed, and the risk of closure before maturity is made clear. Getting at the full details of the plans requires more work – they could be presented more clearly in some of the prospectuses. Comparing plans in detail, we have learned by trying to do so, requires considerable effort.

However, the performance of the plans is not conveyed effectively. In some prospectuses, even the scholarship amount is not prominently presented and only mentioned in footnotes to the financial statements. The consumer cannot find out what share of all plans in recent cohorts closed before maturity and how many ultimately received or will receive scholarship payments. A comparison of the performance of plans is difficult to achieve, as is demonstrated by this Appendix which contains various cautions about what the numbers mean.

On the whole, then, the prospectuses describe the plans moderately well, but they are less effective at conveying performance of the plans. There is room for improvement. Our ideas about improvement are presented in the main report.

The information presented in this Appendix reflects the scope and quality of information in the five prospectuses of the group scholarship plans. The Appendix may also contain errors of fact and interpretation. The account of the experience of Canadians with group scholarship plans therefore should not be taken as definitive.