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Tax preferences for education saving: are RESPs effective?

Milligan, Kevin. Commentary - C.D. Howe Institute Iss. 174, (Nov 2002): n/a.

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In this issue...

Though popular, registered education savings plans and the related Canadian education savings grants are a needless, complex and ill-targeted way of supporting postsecondary education. More general tax relief of saving and redeployment of grant money would be simpler and could better improve access to postsecondary education for lower-income families.

The Study in Brief

Since 1998, the government of Canada has substantially expanded its support for registered education savings plans (RESPs) as a means of subsidizing savings for young people's education. This Commentary examines RESPs both analytically and statistically to gauge their effectiveness; it finds several flaws in the program.

The primary economic effect of RESPs is to add needless complexity to Canada's tax system. Through registered retirement savings plans (RRSPs) and other forms of tax-advantaged savings, Canadians already have access to tax-exempt accrual of income. The addition of extra contribution room through the RESPs may attract savings that were destined for another tax-advantaged form, but is unlikely to generate new household saving. Even if RESPs encourage households to save through a "lockbox" effect, or through learning about the importance of saving, other government measures could activate these mechanisms more effectively than the RESP.

Furthermore, the $423 million the government expects to spend this year on Canada education savings grants (CESGs) -- the federal matching grants that accompany RESP contributions -- is a poorly targeted use of public money. The CESG payments end up disproportionately in high-income households. These payments do nothing to improve access to post-secondary education for Canadians from disadvantaged backgrounds. Families with children may deserve a tax break, but the narrowly targeted CESG is the wrong way to do it.

The Commentary recommends reallocating the funds now spent on CESGs into uses targeted more directly to deserving postsecondary students and rolling the RESP program into general...