

# Cost estimate

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Short title: Making Canada Student Loans More Affordable

Description: Lowering the floating and fixed interest rate on Canada Student Loans (CSL) and Canada Apprentice Loans (CAL)

- The floating Interest rate will be lowered to prime, from its current rate of prime plus 2.5 percentage points.
- The fixed interest rate will be lowered to prime plus 2.0 percentage points, from its current rate of prime plus 5.0 percentage points.

In addition, CSL and CAL will not accrue any interest during the six-month non-repayment period after a student borrower leaves school.

These changes will take effect in 2019-20.

Operating line(s): Transfer payments, Personal income tax

Data sources:	<u>Variable</u>	<u>Source</u>
	CSL and CAL interest revenue	PBO student financial assistance model
	Student loan interest credit	Finance Canada and SPSPD/M

Estimation and projection method: The PBO student financial assistance model estimated Canada Student Loans Program (CSLP) net expense under current policy parameters and proposed policy parameters. The difference between these two estimates is the projected cost of the proposed changes to CSLP.

The projected savings in Student Loan Interest Credit was estimated based on the ratio of interest paid under CSL and CAL to interest paid under CSL, CAL and provincial loans. This ratio was applied to the estimated interest paid under CSL and CAL under current and proposed policy parameters. The results were multiplied by 15 per cent to estimate the tax credit. The difference between the two estimates is the projected savings of the proposed changes.

Uncertainty assessment: The cost estimate has moderate uncertainty. The universe of CSL administration data is available to determine historical costs and the model is a top-down approach. However, repayment behaviour of CSL and CAL borrowers exhibit certain degree of randomness. Historical data limitations for CAL borrowers introduces variations of loans entering repayment in the projections. In addition, the value of outstanding CSL and CAL is influenced by the labour market and the broader economy. There is no behavioural response included in this cost estimate, although increased loan repayments may lead to a reduction in CSLP net costs.

## Cost of proposed measure

\$ millions	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total cost	-	123	371	472	490	508

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## Supplementary information

\$ millions	Description	Operating line	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Cost	Reduction in student loan interest rates and an interest free non-repayment period	Transfer payment	-	124	373	476	496	516
Projected Savings	Student loan interest credit	Personal income tax	-	-1	-3	-4	-6	-8
Total net cost			-	123	371	472	490	508

### Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

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

"-" = PBO does not expect a financial cost