

## **I. Executive Summary**

Effective 1 August 2000, the Government redesigned the delivery of the Canada Student Loans Program (CSLP) and moved the Program from one delivered by chartered banks to one directly financed by the Government. As part of this redesign, the Office of the Chief Actuary was given a mandate to conduct an actuarial review to provide a precise assessment of the current costs of the CSLP, a long-term (25 years) forecast of these costs, a portfolio projection, and a discussion of all the assumptions underlying the results of the review.

### **A. Purpose of the Report**

This is the third actuarial report on the CSLP established under the *Canada Student Loans Act* and the *Canada Student Financial Assistance Act*. It presents the results of an actuarial review of the CSLP as at 31 July 2003 and includes projections of future costs of the Program through the loan year 2027-28. An actuarial review of the CSLP is planned annually to provide an evaluation of the Program's overall financial costs and to increase the level of information to the Minister of Human Resources and Skills Development, the Minister of Finance, Parliament and the public.

In accordance with accepted actuarial practice, the main purpose of this actuarial report is to show estimates of:

- the number of students in the CSLP and amount of new loans issued;
- projections of the portfolio of loans in-study, loans in repayment and Program cost elements by type of financial arrangement or regime. Also included are projections of the provisions and allowances under the new regime in effect since August 2000; and
- projections of the net cost of the new regime as well as the remaining net cost for the pre-2000 regimes.

### **B. Scope of the Report**

This valuation report is based on the Program provisions as described in Appendix 1. After a short discussion of our best-estimate assumptions in section A of the Main Report, section B presents projections of new loans issued, the number of eligible students to receive a loan and the average amount of new loans issued. Section C includes projections of the portfolio by type of regime. Section D contains projections for the operation of this Program, such as revenues and expenses for all three types of regimes. These are followed by a conclusion of our actuarial review and the actuarial opinion regarding this review.

The various appendices provide supplemental information on Program provisions, description of data, assumptions and methods employed and the sensitivity tests conducted.

## C. Main Findings

The results in this report present an overview of the Government's cost in being involved in the Direct Loan Regime of the CSLP. The following summarizes the main findings of the report.

- The number of students receiving a CSLP loan in a year is expected to increase from 332,000 to 496,000 over the projection period. This represents an increase in the loan uptake rate of students in post-secondary institutions from 42% to 66%.
- The total growth rate of new loans issued averages 2.1% a year during the projection period. It is composed of an average annual increase of 1.6% in the number of students in the CSLP and a 0.5% increase in the average loan size caused by keeping the weekly loan limit constant.
- The total amount of new loans issued increases from \$1.5 billion in the loan year 2002-03 to \$2.6 billion at the end of the projection period in 2027-28.
- The portfolio of student loans increases from \$10.1 billion to \$19.5 billion in 2027-28. In constant dollars, the portfolio is projected to decrease slightly during the same period from \$10.1 billion to \$10.0 billion. Moreover, by July 2018, the entire portfolio consists of loans issued in the Direct Loan Regime.
- The total net cost, which is defined as the difference between the expenses and the revenues of the Government's involvement in the CSLP, is expected to grow from \$753 million to \$1.2 billion in 2027-28. This represents an average annual increase in cost to the Government of 1.8%. The cost of the Government's involvement in constant 2003 dollars is expected to decrease from \$753 million to \$599 million. This represents an average annual decrease of 1.0% in constant dollars.
- In the projections, the percentage of students eligible who are at the loan limit increases from 47% to 86% in 2027-28. This demonstrates that an increase in the loan limit would have a significant impact on the long-term cost of the Program.
- A one-time increase of \$45 to the weekly loan limit (\$165 to \$210) in the loan year 2005-06, and maintained at that level thereafter, is included in Appendix 4 as a sensitivity test. In that test:
  - an additional \$239 million (14% increase) of new loans is issued in 2005-06 and an additional \$608 million (23% increase) in 2027-28; and
  - the portfolio reaches \$23.8 billion instead of the expected \$19.5 billion in the loan year 2027-28 and the total net cost for the Government's involvement in the CSLP increases by \$205 million (18% increase) in the loan year 2027-28.