

# Targeted Tuition Fees: Is means-testing the answer?

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## **A note to readers**

Please note that unless otherwise noted, all prices are in Canadian dollars (CAD). Currency conversions for this report have been measured against the Big Mac Index's dollar PPP (purchasing power parity) and are as follows:

1 CAD =

0.5 British pounds (GBP)

0.83 American dollars (USD)

0.58 Euros (EUR)

21.67 Filipino peso

410.3 Chilean peso

4.75 Southern African rand

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## **Foreword**

**Nick Hillman**  
**Director of HEPI**

In the early days of the first New Labour Government, David Blunkett, the Secretary of State for Education and Employment, announced the introduction of upfront undergraduate tuition fees set at £1,000. Crucially, however, only students from households on higher incomes were to face the full amount; the Secretary of State told the House of Commons, 'We shall ... ensure that the poorest students do not have to pay fees.'

The introduction of fees at this level had been a recommendation of the Dearing report, which had appeared soon after the 1997 general election. Yet, in key respects, the new fees were different to those that had been recommended. The Dearing report, for example, said fees should be fixed rather than means tested, and backed by income-contingent loans rather than paid upfront. As the Opposition spokesperson told the Commons, the new policy 'was specifically examined and specifically rejected by Sir Ron Dearing'.

Nonetheless, the reform took effect for full-time, first-degree students entering higher education from 1998. Yet the new upfront fees were short-lived. Less than five years after their introduction, the Government proposed a new system of fees capped at £3,000 and backed by a personal tuition fee loan repayable after study on an income-contingent basis. This began in 2006/07. Although the fee cap has since jumped to a whopping £9,250, the same system – including much of the underpinning legislation – remains in place.

The upfront fees introduced in 1998/99 may have been short lived but they had an important legacy. They normalised the idea of a student contribution and they stabilised funding for teaching, which had been falling since the second-half of the 1970s. This was no accident: the system had much in common with that in place before the late 1970s, when better-off families had been liable for tuition fees (as well as with the system that Keith Joseph had unsuccessfully tried to introduce in the mid-1980s).<sup>1</sup>

As this paper shows, means-tested fees for publicly-funded universities are now enjoying a renaissance all over the world. In the pages that follow, Alex Usher and Robert Burroughs show that 'targeted free tuition' can provide an answer to the dual challenge of:

- needing sufficient resources for high-quality teaching in mass higher education systems and;
- persuading potential students from the poorest and most debt-averse families that higher education is for them.

These points explain why targeted free tuition has recently been implemented in a number of places, from Santiago to Saskatchewan. The policy, like all policies, satisfies some objectives better than others. For example, while it smooths the path to higher education for those from the poorest backgrounds, it enables those graduates who start off poor but end up rich to avoid contributing as much as they might to the costs of their own education.

<sup>1</sup> The post-war student finance system is described in Nicholas Hillman, 'From Grants for All to Loans for All: Undergraduate Finance from the Implementation of the Anderson Report (1962) to the Implementation of the Browne Report (2012)', *Contemporary British History*, vol. 27 no. 3, 2013, pp.249-270.

Appropriately, this paper is being launched simultaneously on both sides of the Atlantic. But it could not be more timely for UK, particularly English, audiences. This is partly because the independent Augar review will soon report to Government with recommendations on post-18 education and training. It is also because there is a powerful head of steam in favour of reclassifying much of the outlay on income-contingent student loans as current public spending.

A panoply of the great and the good – including independent bodies, parliamentarians and influential commentators – have recommended this and it seems likely to happen. At a stroke, it would remove one of the main drivers behind the student funding model that is dominant in England and exists in modified form in Wales and Northern Ireland while promoting a different sort of conversation about university finance.

To take just one example, if the portion of your student loan that you are not expected to repay counts as current public spending in the national accounts, then the Government may as well just pay that money direct to your university without pretending it is a loan that will one day be repaid. This paper shows a progressive and practical way to do just that.



## Introduction

For most of the past thirty years — certainly since the publication of Bruce Johnstone's 1986 book, *Sharing the costs of higher education: Student financial assistance in the United Kingdom, the Federal Republic of Germany, France, Sweden, and the United States* — the higher education world has been arguing about the desirability of cost-sharing.

To oversimplify somewhat, the debate pits two opposing camps against each other:

- one argument suggests that fees — any fees — act as a deterrent to access, and that in order to ensure democratic access to higher education, fees must never be introduced
- the other argument says that:
  - i) charging fees allows institutions to have more resources and hence provide more / better education;
  - ii) most students are not deterred by fees and hence subsidies to those that are not — mainly those from upper-income brackets — are both wasteful and regressive and;
  - iii) that various combinations of student assistance can be used to offset the effect of fees for those who are. This latter camp can perhaps best be described as the 'fees plus aid' camp.

For those in the 'no fees' camp, this is a matter of principle. They also tend to dispute the second point in terms of the proportion of students who might be deterred by fees, while side-stepping

the issue of windfall gains to wealthier families, and suggest that offsetting student assistance is not as effective as lower tuition is because there are informational and cultural barriers to applying for aid and / or that aid is unlikely to overcome financial barriers because fees seem simpler and more 'real' to students than financial aid, which can often be complicated and somewhat opaque. Those in the 'fees plus aid' camp tend to have most but not quite all of the evidence on their side: student aid in various forms seems to offset nearly all the effects of fees, but this does little to settle the argument.

For most of the last few decades, the partisans of these two positions have mostly talked past one another. For a brief time in the 1990s, it seemed as if universal income-contingent loans of the kind offered in Australia and New Zealand might act as a kind of middle ground, keeping higher education free at the point of delivery while at the same time bringing new resources into the system. However, as time passed and governments in some cases (notably Westminster) allowed nominal student debts to rise far beyond what was sensible, it became clear that in fact this was not ground for reconciliation. The argument over fees simply became displaced into an argument about debt.

But over the past few years, a new policy phenomenon has taken hold across five continents. It is one that could bridge the gap between the partisans of 'no fees' and those of 'fees plus aid', namely: Targeted Free Tuition (TFT). Under TFT, governments no longer set fees and student aid policies separately: instead, they are effectively combined. Rather than lower-income students being charged tuition and then given offsetting

grants, lower-income students are simply not charged tuition. Financially, the implications are the same for students (though they are accounted for differently by government). But the communication of the financial offer is completely different and — in theory, at least — easier for students to comprehend, and hence more likely to overcome any lingering doubts about cost. Importantly, the main benefit of TFT is improved transparency.

The attraction for both sides is obvious:

- i. TFT creates 'free tuition' for some, but it also retains the principle of charging user fees to those who can afford it.
- ii. The vulnerable are protected, but the more affluent are taxed, with the proceeds going to institutions to increase either the quantity of places or the quality of education.
- iii. Each side can claim a victory for principles if they so choose and neither side has to veer into the indefensible (subsidising the rich in one case, deterring the poor in the other) to do so.

TFT has spread across the globe with incredible speed. The movement began in Chile after the election of Michelle Bachelet to a second term of office as President in 2013. In 2016, it began to spread across North America with versions of it appearing in Ontario, New Brunswick and New York. More recently, it has spread still further to Italy, Japan and South Africa.

Oddly, this is a movement without proselytisers. Few, it seems, remember that the world had already seen a TFT regime in England and Wales from 1998 to 2006. No one is playing the evangelist role that Australian economist Bruce Chapman or

the London School of Economics' Nick Barr did in the spread of income-contingent loan schemes. Furthermore, with the exception of New Brunswick (which copied Ontario's model), it is not even clear that policymakers in different countries are actually watching what each other is doing closely: there is no evidence that policymakers in Ontario or Japan were inspired by the Chileans, for instance, or that Governor Cuomo in New York had the slightest notion of what was going on in Canada when he came up with the Excelsior Scholarship Programme. Rather, it seems to be a sensible piece of policy upon which many jurisdictions are converging independently.

The purpose of this paper is to examine the state of TFT programmes in the jurisdictions where they have been announced: Chile, Ontario, New Brunswick, New York, Italy, Japan and South Africa, as well as a retrospective look at the programme as it existed in the UK from 1998. It begins in Part I by providing short historical sketches of how each programme came about and the key features. Part II delves more deeply into the mechanics of TFT in each country. There are two significant differences: the number of students covered, and what happens to students just on the other side of the eligibility line. In the conclusion, we look at the key lessons to be learned from early implementation efforts, and the prospects for continued expansion of TFT efforts in other countries.

## **PART I**

### **United Kingdom (1998-2006)**

The earliest contemporary example of income-tested tuition fees came about as a result of the report of the National Committee of Inquiry into Higher Education, chaired by the then-Chancellor of the University of Nottingham, Sir Ron Dearing, which was tasked with looking at future funding of the British higher education system. The Committee was established in the dying days of John Major's Government in 1996 but did not report until after Tony Blair's Labour Party had taken power in 1997. It recommended the introduction of tuition fees of £1,000 (which the Dearing report approximated was 25 per cent of course costs). In addition, the Government abolished the previous system of maintenance grants and introduced income-contingent loans, with repayments 'to be based on a percentage of the graduate's marginal income over £10,000.' Together, the introduction of fees and the abolition of maintenance grants meant a rather significant shift in the sharing of the costs of higher education between governments on the one hand and students (or graduates) and their families on the other.

However, while the principle of charging fees was central to Dearing's recommendations, the Teaching and Higher Education Act (1998) contained provisions to ensure that '[tuition] will continue to be free for students from lower income families'. Specifically, it stated that students from families whose gross income was less than £23,000 would not pay tuition, while those from families whose gross income was less than £35,000 would pay less than the maximum, based on

a progressive scale.<sup>2</sup> The government estimated that roughly one-third of students would not pay tuition, while another one-third would pay less than the maximum (Wilson, 1997). This contradicted the Dearing report's recommendation of non-means tested fees.

The Brookings Institution, an American research group, produced a study on the effects of the 1998 changes and noted that enrolment rates among traditionally-aged undergraduate students had more than doubled since the 1998 reforms, jumping from 16 per cent participation in 1998 to 35 per cent in 2015, though some of this may be related to the opening of places previously restricted as part of prior funding packages to universities (Murphy, Scott-Clayton & Wyness, 2017). Similar trends were observed for older students, though mature student numbers have fallen more recently. Further, the participation rates of first-year students from the bottom quintile have grown since 1997 (pre-Dearing changes) and rose 5 per cent between 2002 and 2014 for all low-income students across all years. Importantly, the report noted that the income and socio-economic gaps, 'which had widened dramatically in the 1980s and 1990s', appear to have levelled off or be shrinking.

This regime stayed in place in England until Tony Blair's Government engaged in its next act of higher education reform in the Higher Education Act (2004), which allowed universities to set top-up tuition fees up to £3,000 from 2006 onwards.<sup>3</sup> Ostensibly, the purpose of this measure was to bring new money into the system, permit system

<sup>2</sup> This translates to \$50,300 in 2018 Canadian dollars.

<sup>3</sup> In Scotland, fees were replaced by a Graduate Endowment Scheme in 2000. This rose to £3,225 for the 2009/10 academic year on account of inflation.

expansion (which it did), and open up the system to competition, particularly on price (which it did not, as nearly all institutions chose to charge the maximum).<sup>4</sup> There was no obvious reason why the post-2006 regime should have eliminated the 1998 Targeted Free Tuition (TFT) system: the fee exemption levels could have been applied intact had the government of the day chosen to do so. However, the reinstated maintenance grants, which went primarily to those students who received full or partial fee-waivers under the TFT scheme, effectively offset the disappearance of the TFT system, which appears to have passed unlamented from the UK political scene in 2006.<sup>5</sup> Though maintenance grants survived the reform of 2012, which increased fee maximums to £9,000, they were eventually abolished in 2016 for new students.

The issue of TFT has not resurfaced in a serious way in the UK since 2006.

## Chile

The Chilean higher education system has long relied on tuition fees as a way to support itself, and for many years appeared alongside Japan, Korea and the United States as a country with a very low percentage of funding coming from public sources. To the extent that public money was used, it was done partially to support what might be called 'traditional' universities, a mix of 16 public and nine private non-profit institutions which are

<sup>4</sup> At the time, the Russell Group (now including 24 public research universities responsible for 60 per cent of all doctorates gained in the United Kingdom) complained to then-Prime Minister Blair that the United Kingdom would be left without world-class universities if fees were not introduced.

<sup>5</sup> The grants were reinstated in 2004, two years before the fee increase to £3,000.

collectively referred to as CRUCh (after the name of the Rectors' organisation that groups them). More recent universities, as well as the less-prestigious systems of colleges and polytechnics, have always received their funding primarily through fees.

Because of the fee-dependence of the Chilean system, student assistance programmes have been important. Chile has two sets of student aid systems: one for public institutions and one for private. Both systems have long had an intriguing and unique feature, that they quite deliberately do not always cover the sticker price of tuition. The reason for this seems to be an acceptance of what is known in the United States as the Bennett Hypothesis — that is, that student aid causes price inflation in higher education because students do not spend financial aid as stingily as they would spend their own money. As a result, the Chilean financial aid system has assigned each programme a 'reference tuition' that ranges from about 80 per cent to 100 per cent of actual tuition fees.

From mid-2011, Chile was rocked by a series of student protests which began as a reaction to increased transport fares, but which turned into a broader critique of higher education and fees. In the 2013 election, the winning socialist candidate Michelle Bachelet promised 'gratuidad sin beca ni credito' — meaning zero tuition, not tuition offset by student aid. The initial promise was to make all universities free this way, but gradually, starting with students from the bottom seven income deciles.<sup>6</sup> This was to be financed by a new set of taxes which, after

<sup>6</sup> In Chile, a number of benefits are targeted based on which decile of income one is in, a figure which is calculated based on tax returns. The term used to describe students from the bottom seven deciles is usually translated as 'the 70 per cent poorest students', and while this is a direct translation, it mis-characterises what is actually meant by the phrase. Students from the seven poorest income deciles in fact make up less than 40 per cent of the student body.

being implemented in the wake of a worldwide commodity price downturn in 2014, turned out not to bring in as much extra funding as anticipated. For this reason, the programme was introduced in a less expansive (and less expensive) fashion than initially intended.

In the initial implementation of *Gratuidad*, only students attending CRUCH institutions were eligible for the award. After a legal challenge, this was expanded to include certain non-CRUCH universities, as well as some non-profit colleges and polytechnics as well, which increased costs significantly. Institutions can choose to participate or not. Those that do receive a flat sum of money per student accepted, with the amount varying according to the quality level assigned to the college by the national higher education accreditation agency.<sup>7</sup> This system tends to work much better for public universities, which historically charged lower fees because of their receipt of state aid, than private ones, who for the most part now receive less per student than they did prior to the change. For this reason, some two-thirds of all private universities have decided not to participate in the programme.

The Government's initial iteration of the *Gratuidad* programme provided tuition relief for students in the bottom 5 deciles, serving almost 140,000 students (roughly 12 per cent of the student body), and was later expanded to the 6<sup>th</sup> decile (Delisle & Bernasconi, 2018). As of June 2017, approximately 280,000 students (one-fifth of the student body) benefitted from the *Gratuidad* programme. Note, however, that most of the students receiving aid would have received at least some other

<sup>7</sup> The Chilean accreditation system effectively rates institutions by accrediting them for different lengths of time: the top institutions receive accreditation for seven years, while those which are considered borderline for accreditation receive it for just one year.

types of benefit in any case. Government figures suggest that roughly seven out of eight non-first-year beneficiaries in 2016 had received grants the previous year; previous work from The Organisation for Economic Co-operation and Development (OECD) suggested that this aid on average amounted to roughly two-thirds the value of tuition (OECD, 2009).

Though the programme was much criticised by opposition parties while it was being implemented, during the 2017 electoral campaign, the winning right-wing candidate, Sebastián Piñera, decided to reconsider his position and stated that he would not roll back the programme. He has also stated that he would like to extend the threshold to the 9<sup>th</sup> decile for community college students, though he anticipates no further expansion for students in universities (Pells, 2018).

## **Canada**

In Canada, provinces control operating funding to institutions and have the power to regulate tuition fees. Student assistance, however, is an area of joint responsibility with the federal government. Every province has its own student aid programme, and in nine provinces and one territory, these run alongside the federal programme. Quebec, Nunavut and the Northwest Territories have opted out of the Canada Student Loans Programme and receive compensation for this, which they use to fund their own stand-alone programmes.

Each provincial student aid programme also manages the federal programme on its territory, which permits them to integrate the two programmes in a relatively seamless fashion. As such, students only make a single application to the

two programmes. The need assessment processes for each programme may be quite different, however. To a large extent, provinces treat the federal programme as a base, and use their own resources to build a programme around it. Therefore, programmes can look very different from one province to another, given different provincial priorities and desires to invest in student aid.

Average tuition fees across Canada are moderate in international comparisons (higher than in the Netherlands, but lower than in Australia or Japan). But the average masks some significant variations between provinces – Ontario’s average tuition in 2016 was roughly \$8,100 and Nova Scotia and Saskatchewan both had average tuition levels over \$7,000, while Quebec, Newfoundland and Labrador’s were below \$3,000.

One peculiarity of the Canadian student aid system for most of the past 20 years has been the prevalence of back-end financial aid instruments. Three types of these are particularly significant:

### *Loan forgiveness*

Starting in the mid-1990s, many provinces (notably Ontario) began providing a large proportion of their non-repayable aid in the form of forgivable loans. To take Ontario as an example, single students enrolled in 2015 for two standard-length terms per academic year could borrow up to \$11,400, of which \$4,300 (that is, the entire provincial portion of the loan) could be written off if the student successfully completed the year.

## *Tax credits*

Since 1961, Canada has provided students and their families with tax breaks for education, though the generosity of these has changed over time. Originally these measures allowed students (or their families, to whom they could transfer the benefit) to deduct the value of tuition fees plus a small monthly allowance from their income tax. In 1989, these deductions were turned into non-refundable tax credits, meaning they were no longer worth more to wealthy families than poor ones, but individuals whose personal income was below the taxable minimum who did not transfer them would lose their value (non-refundable tax credits can bring one's tax down to zero but no lower). Starting in 1997, students were permitted to carry forward the tax credit into future tax years, which truly made them a universal benefit for the first time.

From 1996, the value of the monthly amount began to climb rapidly (from \$60 per month to \$400 per month in 2000 and \$465 by 2006), and in 1997 ancillary fees were included in the tax credit. As of 2015, a federal tax credit of 15 per cent (that is, equal to the lower marginal tax rate) was available for tuition, as well as an amount equal to \$465 per month for full-time students and \$140 per month for part-time students. All provinces except Quebec (abandoned in 2012) and New Brunswick (in 2017) have similar credits for tuition, valued at the lowest marginal provincial tax rates (between 5 per cent and 11 per cent). All except Quebec also have monthly education amounts, with a value of between \$200 and \$730 per month, depending on the province. New Brunswick, Ontario, Saskatchewan and Quebec have all announced the elimination of their education and textbook tax credits.

## *Graduate retention rebates*

In the early 2000s, several provinces with persistent youth exodus problems (starting with New Brunswick) adopted policies that reduced taxes for graduates, based on the amount of tuition paid. In the most generous province, Manitoba, graduates could see their taxes in the seven years following graduation reduced by an amount equal to 60 per cent of the tuition paid over their degree. Over the past few years, however, three of the four provinces which introduced this programme have rescinded it. Saskatchewan remains the only province to continue this practice.

### **Ontario**

Ontario is a classic high-tuition / high-aid jurisdiction. Its universities have had the highest tuition in Canada since the mid-2000s, but for much of that period the province has also had one of the most generous systems of grants and loan remission. A study done in 2014 showed, for instance, that for low-income students entering post-secondary education for the first time, the average net cost (ie after grants and loan forgiveness) was slightly negative, despite a sticker-price tuition of \$6,754 (Usher, Lambert & Mirzazadeh, 2014).

A federal election in the autumn of 2015 brought a centre-left Liberal government to power. Among their promises was a commitment to eliminate the federal education tax credit of \$465 per month and use that money to increase need-based grants to low- and middle-income students.<sup>8</sup> As the

<sup>8</sup> The exact line for what constitutes low- and middle-income varies by family size and province, but for a family of four, the line of \$40,000 and \$80,000 per annum is close enough on a national level for discussion purposes.

federal public service was trying to put this into place for a March budget, the Government of Ontario decided to use this change in the federal programme as a restructuring of its own programme.

This restructuring consisted of three inter-related steps. The first was to eliminate a back-end (annual loan forgiveness) subsidy worth hundreds of millions of dollars. The second was to eliminate the province's own tuition and education tax credits. Together, this created a fund worth just over a billion dollars (Csanady, 2016) and allowed them to establish the Ontario Student Grant, or OSG, which topped up the soon-to-be-enriched federal grant to an amount 'equal to average tuition' for all students from families with an annual income of \$50,000 or less starting in the 2017/18 academic year.<sup>9</sup> The combined federal-provincial grant falls in value from 'average tuition' at the \$50,000 threshold to \$1,800 at \$110,000 in family income. It stays a flat \$1,800 until family income reaches \$160,000, at which point it falls to zero.<sup>10</sup> The grant is only available to undergraduate students for a maximum of eight semesters, which is the normal time to a degree in Ontario's four-year university system.

In theory, this new programme was meant to be slightly cost-negative as the total projected cost in year one was less than the cost of the loan forgiveness and tax credit systems it

<sup>9</sup> The threshold for individuals is an annual income of \$30,000 or less.

<sup>10</sup> This strange fall-off rate is a remnant from a previous student aid reform in 2011 from the same provincial government, in which all students with family incomes up to \$160,000 were given a rebate of 30 per cent on average tuition. The government did not want the new system to take away a perceived benefit from anyone who benefitted from the previous system – hence the extension of benefit to wealthier families even though a continuation of the phase-out rate on the benefit past \$110,000 would probably have seen benefits fall to zero at around the \$130-135,000 mark.

replaced (the balance was given to universities and colleges in the form of an increase to operating grants). This shows both the generosity and opacity of the previous system of assistance. It also shows, that to a considerable degree, this process was one of transferring money from wealthier students and their families who lost their tax credits and directing those funds to less well-off students, who also lost tax credits but saw their grants increase by even more than the tax credit loss.

In order to be eligible for the grant, students need to apply for student assistance — though there is no requirement that students borrow any money — they may obtain a grant and a loan certificate but are under no obligation to actually negotiate the loan. As of spring 2018, the application procedures for student assistance and for university / college registration are being managed in parallel so that students will know their net costs from the moment they receive their acceptance letters – in the past there was a gap of up to three months before students knew their financial aid package and hence net costs. This process is known as ‘net billing’ and is expected to make a difference to student decision-making, as it will give students a fuller picture of their financial position earlier in the process.

One key difference between the earlier UK and Chilean schemes and the Ontario one is that, technically, tuition is not eliminated for any students. All students are charged tuition and institutions, within the limits set by provincial policy, retain control over how much tuition is charged in each programme. What this programme does is provide offsetting grants in a way that makes understanding ‘zero net price’ much more intuitive.

Generally speaking, the reception for this policy has been positive. Neither the left- nor right-wing parties have been critical. The governing party seems to believe this announcement has been positive for them, despite some difficulties in communicating the project initially. One key metric: applications to the Ontario Student Assistance Program (OSAP) increased by 23 per cent, or roughly 71,000 students, (Chiose, 2017) for the 2017/18 academic year. In September 2017, Ontario's advanced education minister announced that 210,000 university and college students (roughly one third of the entire student body) received the full amount of the OSG.

### **New Brunswick**

Shortly after Ontario's announcement to introduce targeted free tuition, the province of New Brunswick decided to launch a similar programme. First unveiled as the Tuition Access Bursary (TAB) in April 2016, the programme provided non-repayable grants equal to tuition (up to a maximum of \$10,000 for university studies and \$5,000 for college-level studies) for low-income students from families with gross annual incomes of \$60,000 or less. As in the case of Ontario, this was paid for by cannibalising the provincial tuition and education tax credits and by building on new federal measures to enrich the Canada Student Loans Programme.

The Government also portrayed the measure as a reinvestment of money saved from the previous year's cancellation of a different and very costly tax measure known as the New Brunswick Tuition Rebate Programme, which offered post-secondary graduates up to \$20,000 in tax relief over a period of 20 years. If one counts this latter programme as a source of

funds then, like Ontario, the move to Targeted Free Tuition was in fact a cost-saving measure. As in Ontario, the programme is delivered through New Brunswick's Student Financial Assistance Programme and is integrated into the provincial student loan programme.

However, unlike the Ontario model, the New Brunswick model had a 'hard' cut-off, meaning that students from families making \$60,001 or more did not qualify for support other than student loans. This meant that some families making \$60,000 to \$80,000 per year were substantially worse off because of the policy change, as they lost tax credits but gained nothing from the new grants programme. This kind of loss also happened in Ontario, but only to families making over \$160,000.

After working with student groups in the province to respond to criticism of the TAB's restrictive approach, the New Brunswick government announced the Tuition Relief for the Middle Class (TRMC) and relabelled the TAB as the 'Free Tuition Programme' (FTP).<sup>11</sup> While the FTP kept the \$60,000 threshold of its predecessor, the TRMC was designed to replace the hard cut-off with a sliding scale on the Ontario model. Unlike Ontario, though, the phase-out rate varied according to family size: for a family of four, the full phase-out occurred at \$100,000. The FTP / TRMC suite came into effect for the 2017/18 academic year.

Currently, only undergraduate students (excluding Law and Medicine, who still remain eligible for other student assistance) attending publicly-funded or publicly-assisted institutions in

<sup>11</sup> This distinction between the two programmes is essentially just for political communications purposes; functionally, and for the purposes of this paper, the FTP / TRMC suite is one integrated aid scheme.

New Brunswick are eligible to receive these grants. Students may obtain the grants for eight semesters if in university and four if in a community college. For the autumn semester of 2017/18, approximately 6,200 students received the full (FTP) grants, while an additional 1,400 received partial (TRMC) grants. This accounts for 35 per cent of university and college students in New Brunswick.

## **New York**

In the second term of Barack Obama's presidency, the issue of tuition costs took on greater saliency. President Obama proposed making two-year community college programmes free across the country, though he was vague about how this would work, and several US states – notably Tennessee and Oregon – have created aid programmes which eliminate net tuition at colleges, at least for traditional-aged learners (Kanter, 2017). Obama's would-be Democratic successors, Hillary Clinton, Bernie Sanders and Martin O'Malley, all proposed various forms of debt-free or tuition-free schemes in their nomination platforms. After obtaining the nomination, Hillary Clinton announced 'The New College Compact', under which all two-year community college programmes would be free, as would all four-year public college and university programmes for students from families making \$150,600 or less.

In April 2017, New York Governor Andrew Cuomo announced that starting in September 2017, tuition at the City University of New York (CUNY) and the State University of New York (SUNY) would be free for New York students through what

was labelled the 'Excelsior Scholarship'.<sup>12</sup> (The State of New York, 2017). The Excelsior Scholarship is delivered through the New York State Higher Education Services Corporation (NYS HESC). The programme provides up to \$6,630 per student, up to the point where a student's total grant allowance from all sources (including Pell Grants — federal needs-based grants to cover tuition — and a pre-existing state programme called Tuition Assistance Programme (NYS TAP) is equal to tuition (currently \$8,040 at SUNY and \$7,870 at CUNY). In the United States this is known as a 'last-dollar grant', which is to say that it only pays the difference between the total grant allowance and what a student receives from other sources.<sup>13</sup> In 2017/18, the programme's first year of operation, the upper threshold for eligibility for Excelsior is a family income of \$120,500; the intention is to increase this threshold to \$150,600 by the autumn of 2019.

To the extent students benefit from other grant programmes, they do not benefit from Excelsior. Because many poorer students already receive significant grants from other sources (in 2017/18, the Pell maximum was \$6,960 and \$6,200 for the NYS TAP), the marginal benefit to lower-income students tends to be quite small or even nil. For instance, of the 75,000 students who applied for the Excelsior in the autumn of 2017, 45,000 were deemed to be eligible (that is, their households had income below the \$120,500 threshold) however, only

<sup>12</sup> Together, CUNY and SUNY represent nearly the entirety of public higher education in New York; the terms CUNY and SUNY are preferred to public higher education because of the somewhat idiosyncratic status of Cornell University, which is mostly private but which also operates three colleges and one school as public institutions on the State's behalf.

<sup>13</sup> The TAP is a non-repayable, state taxable income-based grant to offset tuition costs with thresholds set at USD \$96,400 for dependent undergraduate students and USD \$48,200 for independent students. There is no progressive threshold (sliding scale) for the NYS TAP.

22,000 actually received Excelsior funding as the other 23,000 students already received large enough grants from other sources to cover the entirety of their tuition. This suggests that much of the grant's incidence will fall on families in the upper range of the eligibility criteria, who do not benefit from existing programmes with tighter targeting criteria.

The Scholarship does not cover other direct costs of studies at either SUNY or CUNY, such as non-tuition fees or room and board, which are substantial and can be up to half a student's annual total cost.<sup>14</sup> Critics have noted that this creates an incentive for the institutions to raise non-tuition fees as a revenue source, similar to what happened in Massachusetts as part of the state's efforts to keep the costs of its own tuition grants down.

There are a number of additional programme elements in Excelsior that make access somewhat restrictive and which have garnered some criticism. For example, it requires students to have continuous enrolment in order to maintain eligibility, though exceptions are made for military service, medical and mental health reasons — a restriction that may exclude some of New York's most in-need students. The Scholarship also requires that students be 'on track' to finish within the prescribed time-to-degree (e.g. four years for a Bachelor's) and successfully complete 30 credits per calendar year while maintaining a minimum grade point average. In addition, graduates must live and work in New York State for as many years as they receive the Excelsior Scholarship. If they leave, the grant becomes a repayable no-interest loan.

<sup>14</sup> At SUNY, off-campus fees and housing are \$6,870 per year. On campus costs rise up to \$16,200. At CUNY, those non-tuition fees range from \$12,530 to \$25,840.

The actual impact of the Excelsior on both affordability, accessibility, and enrolment has yet to be studied. Although applications among first-year students have increased at CUNY, SUNY colleges have reported little-to-no substantive increases. We estimate that the Excelsior has impacted 4 per cent of the total SUNY and CUNY student body — a calculation consistent with SUNY’s claim that the bulk of their eligible students would already be attending with free tuition from either the Pell Grant or the TAP.<sup>15</sup> (Quinlan, 2017)

## Italy

In December 2016, Prime Minister Matteo Renzi introduced a series of financial measures to support young people in Italy, including a €50 million increase in national funding for student grants. Seemingly with little connection at all to events in the Americas, Italy’s 2016 Budget Law also transformed the country’s financial aid system in three ways:

- i. it forced universities to consolidate a variety of fees (e.g. graduation, ancillary and technology costs) into a single fee or ‘contribution’;
- ii. it switched the assessment system for student aid from a strict family income system to one which uses the Equivalent Economic Situation Indicator (ISEE) — a more detailed calculation of economic need used by the rest of the Italian welfare system to assess benefits based on family size, income, and assets — in order to determine student assistance levels; and

<sup>15</sup> 50 per cent of SUNY students and more than 60 per cent of CUNY’s students receive Pell Grants and TAP grants and, as such, do not pay tuition.

- iii. it made payment of tuition fees or 'contributions' contingent on one's *ISEE università* calculation, with less well-off students being exempted from payment.

As a result, starting in the 2017/18 academic year, public or state-funded Italian universities are employing a variation of income-based tuition.<sup>16</sup> Under the new system, not quite all tuition is waived. Regardless of income background, students will still be required to pay 'stamp duty' for the application process as well as a €156 fee collected by regional authorities for the 'right to education', sums that are typically due upon registration.<sup>17</sup> However, the rest of the tuition fee, usually due in an additional instalment before the end of the term, is based on a student's *ISEE università* value. The national requirement for full fee reduction (meaning 'free' tuition — usually no more than €4,000 — minus the mandatory taxes) has an *ISEE università* value of €13,000 (see Table 2 for income equivalents) with partial reductions in fees up to an *ISEE università* value of €30,000. That said, in practice the thresholds vary from region to region, perhaps in line with local government expenditures. For instance, Venezia uses the national threshold but universities in Lombardia and Lazio have set their bottom threshold at an *ISEE università* value of €14,000, while in Emilia-Romagna it is €23,000 and in Trentino-Alto Adige €26,000.<sup>18</sup>

<sup>16</sup> Though the *ISEE università* value is only applicable to and mandatory for public universities, similar income-based tuition models have been used at private universities based on similar calculations to those used by ISEE (e.g., family income, assets and composition) since the early 1990s, either to stay competitive against public institutions, or because of their strong social mandate (this is particularly the case for Catholic universities and institutions).

<sup>17</sup> Financial aid is distributed by the regional governments and, as such, the mandatory tax that feeds into the larger financial aid pool for all students is determined by each region. These taxes average to €140.

<sup>18</sup> Actual tuition levels are also calculated based on *ISEE università* values.

## South Africa

In South Africa, as in Chile, the impetus for policy change came from students themselves. After the relatively successful '#RhodesMustFall' campaign in 2015 against symbols of the country's colonial past, students moved on to a set of protests dubbed '#FeesMustFall'. Tuition fees in South Africa were set at roughly \$8,500 - \$9,500, which is relatively affordable for students from the (disproportionately white) upper-income quintile, but quite expensive for those lower down the economic scale. Student assistance was available through the National Student Financial Assistance Scheme (NSFAS), but this programme, for the most part, targeted the bottom two income quintiles, leaving students and families in the 'squeezed middle' to fend for themselves. Partly because of genuine student frustration on fees, and partly due to generalised disgust with the African National Congress (ANC) over its education policies – education being the field where the party is mostly widely perceived to have fallen short of its self-proclaimed post-Apartheid goals – the '#FeesMustFall' movement produced some of the largest anti-government demonstrations in 25 years. Even the ANC Youth League called on the Government to provide universal free education by 2018.

As a result of the protests in 2016, the Government of South Africa froze tuition fees and established a commission chaired by retired judge Jonathan Heher to evaluate the feasibility of fee-free education. The commission released its report in November 2017 and recommended, among other things, the elimination of fees in the country's technical-vocational institutions (TVET), though not its universities — mainly on the

grounds that Treasury estimates suggested it would cost close to 40 billion rand per year. The commission also suggested a universal system of student assistance to be run on an income-contingent loan basis not unlike that used in the United Kingdom.

However, in July 2017, before the commission had completed its study, the governing party, the ANC, announced that the Government ought to provide full tuition subsidies to students from families making less than \$25,700 annually, with further loans and grants to provide tuition relief for families making up to \$126,315 annually.<sup>19</sup> (Gumede, 2018). In December 2017, after university presidents announced that they would be increasing fees by 8 per cent (roughly, inflation plus 2 per cent) for the upcoming academic year, then-President Jacob Zuma announced that the Government would be phasing in fee-free education for students attending both TVETs or university from families making up to \$73,700. The subsidy would cover full tuition costs, study materials, and subsidised accommodation or travel. In 2018, this would only apply to first-year students, but over the next three years would be expanded to cover all undergraduate students. Students currently in their studies supported by NSFAS would have their loans converted to grants, effective immediately.<sup>20</sup> In addition, the Government froze tuition for students from families earning up to \$126,315 a year.

<sup>19</sup> NB: All prices are in Canadian dollars measured against the Big Mac Index's dollar PPP value (see page 3). The South African rand has drastic variance in its currency valuation between the Big Mac Index's exchange rate value (1 rand = 10.25 CAD) and its dollar PPP (1 rand = 4.75 CAD). As such, the threshold values may appear inflated.

<sup>20</sup> NSFAS distributed aid to 482,000 students in 2016, including 226,000 university students from families making less than \$12,300 annually. The \$1.25 billion that NSFAS disbursed in loans will be converted into grants for the 2018 academic year.

The plan has been largely criticised because the Finance Ministry has yet to confirm how it will pay for it, while it would increase spending on higher education to 1 per cent of GDP (Xinhua Net News, 2018). While the scheme was confirmed in the country's February 2018 budget, delivered roughly a week after President Zuma was ousted from office, clarity on how it would be paid for was still not forthcoming. Moreover, because the Government also did not accept the commission's recommendation to move to an income-contingent loan system, concerns have been raised about the impact of the fee-free decision, whose step function could potentially omit the 'missing middle' of students whose families make between \$73,700 and \$126,315 annually and, as such, do not qualify for support. A universal income-contingent loan system would have eliminated the struggle to pay tuition fees up-front.

## Japan

In the autumn of 2017, Prime Minister Shinzō Abe announced a snap election. Among his promises was one that suggested his ruling coalition — if returned to power — would implement an ambitious \$9.20 billion plan to provide free tuition for low-income families at national universities. National universities are the country's large, prestigious public research universities and they serve roughly one in five of the country's students, with nearly all of the remainder in private universities. This accompanied a raft of other education proposals to further subsidise pre-school, primary and secondary education.

Although details on programme implementation are still being worked out, based on press reports, the thinking seems to be leaning towards a system like those in Canada and the United States which involves a set of grants to offset tuition rather than institutions waiving their fees (average tuition at national universities is approximately \$8,300). It is expected that the new grants will be delivered through the Japan Student Services Organization (JASSO), which currently administers student financial assistance in the country.

Exactly who will receive these grants is still being debated (Kakuchi, 2018). Concerns have been raised that they will be tied to specific programmes of study, as both education plans are linked to Abe's economic productivity and rejuvenation mandate. There have been some indications, too, that grants will be awarded conditionally on academic performance, where failure to maintain a certain academic standard could see the grants turned into repayable loans. There is some discussion that the subsidies could be extended to private universities as

well as at two-year colleges and vocational schools by 2020, but this is far from certain.



## **PART II**

### **Analysing TFT Programmes**

#### *Eligible institutions*

In nearly all of our TFT examples, the programmes are confined to public institutions. For the most part, this is because there are very few non-state universities in most of our jurisdictions. The main exception here is Chile, where the private institutions are eligible to participate in the programme, though many do not because they find the compensation from the Government inadequate. Still, all the private institutions that are members of CRUCH participate in the TFT system, as do several other private non-profit institutions. In New York, private institutions are lobbying to be part of the plan, arguing that the current arrangements are making it harder for them to recruit students. Similarly, in New Brunswick private institutions have threatened to sue the provincial government, claiming that their exclusion from the FTP / TRMC suite is a violation of their students' Charter rights.

Ontario's programme is particularly interesting because it extends outside the province itself. Because the benefit is vested in the student aid programme rather than in universities, it is easy from a technical perspective to allow students to carry grants to any public institution in Canada, which the province permits. New Brunswick, which traditionally sees substantial emigration of its young people, chose not to follow Ontario's lead in this respect.

## *Eligible students*

In Italy and Ontario, targeted free tuition is open to all students at eligible institutions, subject to a family income test. In New York, eligibility is limited to undergraduate students, as it was in the old UK system too, and this appears to be the intention in South Africa as well. Chile and New Brunswick's programmes are mostly for undergraduates, however, students with a bachelor's degree may continue to study for free if they are studying for a teaching (and, in New Brunswick's case, a social work) degree.

All of the programmes in the western hemisphere have some kind of time-limited eligibility related to 'expected time-to-completion', which can vary slightly from one programme to another. This does not currently appear to be the case, however, in Italy. In South Africa, at the time of writing, this policy detail does not appear have been settled. As the North American trio of programmes are tied to student aid, whatever eligibility criteria exist for student aid also exist for this programme. New York's programme has a somewhat odd rider, which restricts eligibility after graduation: individuals who leave the state before having resided in it post-graduation for as many years as they received the grant will see the grant retrospectively turned into a repayable loan.

## *Delivery mechanisms*

Although labelled as 'free tuition', the three North American programmes actually involve providing students with grants that offset tuition. In contrast, the non-North American programmes all involve having institutions themselves waive tuition.

### *The nature of the benefit*

In theory, all the programmes offer 'free tuition' to qualifying students. However, there are sometimes caveats. In South Africa, the commitment to free tuition at present extends to not just tuition but also to books, room and board, and, in some cases, travel to and from campus. Elsewhere, the commitment to 'free' tuition usually falls somewhere short of full tuition. In Italy 'free tuition' does not excuse the students from paying a small fee to the Government for the right to attend higher education. In New York, the maximum value of all grants (Pell, NYS TAP and Excelsior) exceeds direct tuition at both SUNY and CUNY but does not cover additional fees. In New Brunswick, tuition is covered up to a maximum of \$10,000 in universities and \$5,000 in community colleges, which covers the vast majority of programmes. In Ontario, the promise is to pay 'average tuition', which tends to cover fees in the Arts and Sciences but leaves students in more expensive disciplines to pay several thousand dollars in fees (though these can be covered through student loans).

### *The nature of the phase-out*

Most social welfare programmes which involve income-targeting pay attention to the issue of phase-outs or 'tapers', so as to prevent what is known as a 'cliff-edge' or a 'step-function' – the possibility that an extra dollar of income would cause a much larger loss of benefits. In the original TFT, the UK system of 1998 to 2006, the phase-out of the benefit was relatively gradual, from a full benefit (equivalent to £1,000) at a family income of £23,000 to zero benefit at £35,000, meaning a phase-out rate of roughly 8.5 per cent – that is – for every extra pound

**Table 1: Eligibility criteria of TFT programmes**

	<b>Old UK</b>	<b>Chile</b>	<b>Ontario</b>
<b>Participating Institutions</b>	Universities	CRUCh; certain CFTs & IPs plus two new state universities	Publicly-assisted colleges and universities in Canada
<b>Sliding Eligibility<sup>1</sup></b>	Yes	No	Yes
<b>(Geographic) Restrictions</b>	Nil	Only eligible at participating institutions	Portable at any OSAP-recognised institution
<b>(Time)</b>	Nil	Nil	Cannot exceed total of eight academic terms
<b>Relationship to other programmes</b>	Means-tested loans and grants for living expenses	Students not eligible for <i>gratuidad</i> can also be eligible for other grant and loan programmes	Delivered through OSAP, also responsible for student loans (grants can be taken separately from loans), last-dollar after CSG

<sup>1</sup> In technical terms, this would distinguish between a step function (hard cut-off) or a progressive income threshold (sliding scale).

<b>New Brunswick</b>	<b>New York</b>	<b>South Africa</b>	<b>Italy</b>
Public colleges and universities, three other publicly-assisted institutions	Public universities (CUNY and SUNY)	Public TVET colleges and universities	Public- or state-funded universities
Yes	No	No	Yes
Not portable outside NB	Must work and live in NY for as many years as they receive the benefit <sup>2</sup>	Unknown	Nil
3-5 years, depending on programme	2-5 years, depending on programme	Unknown	Must maintain minimum accepted enrolment <sup>3</sup> after first year.
Delivered through NBSFAP, also responsible for student loans (loans must be accepted in conjunction with grant), last-dollar after CSG, other study bursaries and post-graduation benefits	Delivered through NYS HESC, last-dollar after all aid programmes (NYS TAP, federal Pell grant, and scholarships)	Delivered through NSFAS, also responsible for student loan conversion to grants	<i>ISEE università</i> calculation by Italian welfare ministry and self-reported to institutions, no impact on additional scholarships

<sup>2</sup> Additional restrictions include: must be continuously enrolled prior to receiving Scholarship; must have minimum GPA to enrol; ineligibility of any further funding if 30 credits are not obtained within 365-day period (students billed 2nd semester tuition).

<sup>3</sup> 10 ECTS in 2nd year, 25 in 3rd year

**Table 2: Funding details for TFT programmes**

	<b>Old UK</b>	<b>Chile</b>	<b>Ontario</b>
<b><i>New monies in student aid</i></b>	Nil	\$1.26 billion	Nil
<b><i>What does it pay for (CAD)</i></b>	Full tuition	Full tuition	Average tuition
<b><i>Threshold for Full Relief (CAD)</i></b>	\$50,300	Bottom six deciles	\$50,000 <sup>6</sup>
<b><i>Threshold for Partial Relief (CAD)</i></b>	\$76,540	Nil	\$160,000
<b><i>Beneficiaries</i></b>	600,000 (66 per cent of students)	280,000 (20 per cent of student body)	210,000 (33 per cent <sup>9</sup> of student body)

<sup>4</sup> A total of \$9.33 billion for free university fees, as well as a fee-freeze to cover fee increases and the NSFAS loan conversion, will be phased-in over three years.

<sup>5</sup> In combination with the federal Pell and state TAP grants

<sup>6</sup> Net annual income

<sup>7</sup> Gross annual income

<sup>8</sup> Assuming a family of four with no physical or other assets, this is the income level that translates to the corresponding *ISEE università* scores.

<sup>9</sup> The Ontario government expects that 70 per cent of students who meet the threshold for full relief will receive grants greater than average tuition levels.

<b>New Brunswick</b>	<b>New York</b>	<b>South Africa</b>	<b>Italy</b>
Nil	\$133 million	\$1.48 billion <sup>4</sup>	Nil
\$10,000 per year for university; \$5,000 per year for college	Full tuition <sup>5</sup>	Full tuition, books, room, board / travel	Full tuition minus the mandatory 'right to education' tax
\$60,000 <sup>7</sup>	\$150,600	\$73,700	\$60,350 <sup>8</sup>
\$123,500	Nil	Nil	\$137,900
7,600 (36 per cent of eligible students)	22,000 (50 per cent of eligible students)	340,000 (33 per cent of student body)	Unknown

of family income above the line, they would lose 8.5p of tuition waiver on average.

The two Canadian systems and the Italian model operate much like the old UK system in that there is a gradual withdrawal of benefit, although the exact slope differs somewhat from case to case.<sup>21</sup> The New York system, on the other hand, is a hard cut-off: if family incomes rise one dollar above the threshold, then they are ineligible for any relief, although they would still qualify for loans, tax credits / deductions and other benefits. The other non-North American systems – South Africa and Chile – resemble the New York model. In each case, the student receives a full benefit when one rand / peso below the limit and nothing once the limit is surpassed, although she / he may benefit from other forms of student assistance.

### *Coverage and programme costs*

For governments considering Targeted Free Tuition, what really matters is the cost. This cost is a function of two things: the number of students who are eligible and the cost per student. The first is relatively straightforward: the higher the income cut-off, the more students will be eligible and the greater the cost. The relationship here is not linear; because young people from higher-income families are more likely to attend higher education (and, where fees already exist, are more likely to attend the more expensive types of institutions), costs will tend to rise very slowly at first, and then much more rapidly as one advances up the scale. In Chile, for instance, the cost of covering the first six income quintiles was estimated at roughly

<sup>21</sup> Though note that the New Brunswick case as initially designed had a hard cut-off and only acquired its sliding scale in its second year of implementation.

609 billion pesos; however the cost of covering the top eight quintiles was estimated as 1.27 trillion pesos and the cost of going to 100 per cent free tuition at 2.06 trillion pesos (Ministry of the Treasury, 2016). These patterns will not be exactly the same everywhere, but there is no question that costs will start to rise more steeply the further one puts the threshold above the median family income line.

Of the programmes under examination, New York's eventual target threshold of \$125,000 USD is by far the most generous at roughly twice the state median income. Chile has set its limit at the sixth income decile. The thresholds for both the old UK system and the current New Brunswick system are around the median, whereas Italy's is 50 per cent higher than the median income. Ontario's threshold for full coverage is somewhat below median income for the province, but it has a very long phase-out rate so substantial numbers of families with incomes above the median still receive partial benefits. By design, South Africa's system is only meant to assist the bottom four deciles.

The other half of the cost equation is the cost per student. This is less straightforward for a number of reasons:

i. Cost estimates depend in part on the nature of the *status quo ante*

For instance, in the UK, the targeted free tuition programme was not really deemed to cost anything because prior to its existence no fees had been levied.

ii. Cost estimates depend in part on how institutions / students are being compensated

In Chile, for example, the government is not fully compensating all institutions for foregone tuition. Rather, it pays institutions a set amount based on the field of study and quality of the institution, based on its accreditation results.<sup>22</sup> At cheaper – mainly public – institutions, this sum might be close to or equal to tuition, but at private institutions this sum represented a considerable loss, which is why many declined to participate in the programme. In Ontario, students are not always given the actual value of their tuition but rather as a pre-set amount representing ‘average tuition’ across the province. In short, calculating gross costs is not generally simply a matter of multiplying students by the cost of tuition.

iii. In federal jurisdictions, costs depend on what the other partner(s) are doing

In Ontario and New Brunswick, much of the financial heavy lifting that allowed the provinces to announce free tuition was done by the federal government. In New York, the generosity of the ‘free tuition’ programme is due in part to the much-expanded nature of the federal Pell programme under the Obama Administration.

iv. Cost estimates depend in part on savings in other programmes

Paying tuition on someone’s behalf in a new programme usually reduces costs in existing student assistance programmes. In the case of Chile, *gratuidad* was to a certain extent paid for by these off-setting cost reductions in student assistance. In Ontario and

<sup>22</sup> Under the *gratuidad*, institutions with the same accreditation rating are compensated at the same rates, and the level of compensation decreases slightly from level to level.

New Brunswick, governments actually saved money by moving to targeted free tuition, because of the decision to eliminate certain costly and opaque tax subsidies.

As a result of these factors, it is very difficult to compare the costs of targeted free tuition in one jurisdiction to another. In addition, not every jurisdiction reports gross or net costs in the same way. Chile, so far as can be ascertained, only reports gross costs. Ontario and New Brunswick tend to describe their costs in terms of marginal costs in excess of the *status quo ante* (neither is particularly keen to advertise the fact that they are in fact spending less on students even though they may be spending smarter). Certainly, neither includes the contributions of the federal student aid programme when counting the costs, even though these are crucial to the programmes' successes. Similarly, New York only reports the sums appropriated for this specific programme, although it is a tiny fraction of the amount which is contributing to free tuition for those students who benefit from it – roughly \$1,000 per recipient or about 15 per cent of the cost of tuition).

That said, some general rules hold. To the extent that student grant assistance is already generous, a targeted tuition fee programme will tend to cost less. To the extent that existing subsidies can be shifted from better-off families to worse-off ones as part of the adoption of this measure – which was the case in Ontario – the programme will also cost less.



## Conclusion

Around the world, there are effectively three approaches to subsidising students in public higher education. In the first and simplest approach, everybody gets subsidised equally. Usually, this results in a system of free tuition such as existed in the UK pre-1998 and which still exists in much of continental Europe and Scotland (Hillman, 2015).

In the second approach, students receive differential subsidies based on their incomes after graduation — what one might call targeted post-hoc subsidisation. This is the approach taken by the UK (with the exception of Scotland), Australia, and New Zealand where students are not charged any tuition fees up-front, but take on an obligation which is repaid based on individual income post-graduation. Graduates do not pay any tuition-related fees until their income reaches a certain threshold and are spread out over a lengthy period, 30 years in the case of England. Students who benefit more from higher education and have higher post-graduation incomes end up paying more, while those with smaller financial returns end up paying less. In Australia, it is not simply that higher-earning graduates pay back a greater percentage of their loans, but that the size of the actual debt varies too, as fees are grouped into three bands in rough approximation of their expected financial returns. For example, Humanities are in the lowest band, while Law and Medicine are in the highest.<sup>23</sup> (Hillman, 2018).

The third approach is ‘pre-hoc’ subsidisation, which is to say differential subsidies based on differences in socio-economic

<sup>23</sup> See Alec Cameron, *Would differential fees make a difference?*, 11 June 2018. <https://www.hepi.ac.uk/2018/06/11/differential-fees-make-difference/>

status prior to entering studies. This has long been the standard model in North America, but it is not well used elsewhere. The principle is applied to maintenance in England, but not for fees. Indeed, in European - particularly Catholic or religious - universities, this practice dates back to the Middle Ages. In this system, all students are charged tuition, but reductions in net price are given to poorer students, usually through a system of grants. The usual criticism of such schemes is that they are cumbersome and not very transparent or intuitive. TFT is a variation on the pre-hoc subsidisation approach, only one that solves the transparency and intuitiveness issue by simply declaring all students from families with income below a given level go free. Actual total prices are determined in advance of studies, rather than after a wait of 30 or more years as in post-hoc systems.

Broadly speaking, there are two types of TFT programmes. The North American TFT programmes are based on providing grants through the student aid system to offset tuition fees. These systems also tend not to have hard benefit cut-offs and offer a fairly gradual rate of benefit withdrawal, meaning students who just miss out on full benefits still get partial ones. Then there is the what might be called the direct model of TFT, which involves waiving tuition fees at source rather than using off-setting grants. Such programmes also tend to have hard cut-offs, meaning students whose incomes are slightly above the cut-off may miss out entirely. The Chilean, Italian and South African systems share this approach. The old UK system (1998 - 2006) was a hybrid of the two models. It waived fees at source but provided a gradual phase-out of benefits. One suspects that there is a relationship here between who is administering

the programme and the ability to provide a phase-out, since programmes administered directly by the state seem to have these phase-outs while those where institutions play a greater role in administration do not.

While North American systems may seem preferable in terms of their flexibility and lack of a hard threshold, it may be that this kind of programme requires an extant student aid system with a higher degree of sophistication than is available in many countries. The Chile / Italy / South Africa model may, therefore, be the type most likely to spread despite, or because of, being slightly cruder in its administrative methods. Some countries which have fees and might be tempted to move in the direction of targeted subsidisation in the future include South Korea, Israel, the Netherlands and Spain. In parts of Africa, one could imagine similar moves, though the targeting would not necessarily be based on income directly because of difficulties in income verification. Instead, tuition could be provided free to those who have come up through public (state) schools while continuing to charge fees to those who matriculated in private institutions, or provided free to those from rural schools but not urban ones. New Zealand, which has recently shown an interest in free tuition, may find TFT a cheaper and more palatable alternative to full free tuition, which may now take longer than the initial three-year phase-in previously announced by Prime Minister Jacinda Ardern because of budgetary constraints (Davison, 2018). Several Canadian provinces (especially Quebec, Newfoundland and Manitoba) and some US states (Washington and Tennessee) might also be good candidates to move down this path.

At the moment, TFT programmes are exclusively being used by countries that are trying to reduce fee burdens. However, the UK example of 20 years ago reminds us that TFT can also be used the other way: to permit the introduction of fees for students from wealthier backgrounds without creating financial barriers for lower-income students. Should countries currently employing a universal subsidisation model, such as Germany or Scotland, ever feel the need to re-introduce fees then TFT may be a politically attractive way to do so, since it spares the most vulnerable from any impact. Similarly, for countries in east-central and eastern Europe, such as Romania, Poland and Russia, targeted free tuition could be a way to wean people off the current, grossly inequitable dual-track fee systems in which high-achieving students (mainly from wealthier backgrounds) receive their education for free while others pay.

And what about England? Could a return to Targeted Free Tuition be on the cards? It has worked before, and could certainly work again, though it would require a complete break with present practice. The current system is driven entirely by a post-hoc logic while TFT is pre-hoc; one determines net price through graduate incomes, the other by parental incomes. The system would remain progressive, but the basis on which tuition fees were being discounted would change, as would the beneficiaries. A TFT system might also have effects on tuition fees: currently, programmes which do not lead to high-paying jobs receive money no matter what because all students are effectively insured against loss by the way the post-hoc subsidy works. Under TFT, poorer students would pay less, but students from wealthier backgrounds would pay more than others. The latter at least might become more

mind to pay close attention to pay-offs, which could lead to some downward pressure on tuition in some fields at least. Not everyone will see this as a positive thing. But it seems at least worth bringing the pre-hoc subsidy idea back into the conversation. At present, the political discussion is entirely between those who favour full, equal subsidisation, and those who want various modifications of a post-hoc subsidy system. A TFT system represents a third option which might have some appeal as a compromise because it maintains the principle of fees while protecting the disadvantaged.

Perhaps the biggest question with respect to TFT is whether it actually works in the sense of helping to equalise attendance rates across income groups. For the moment, our conclusions must remain tentative. The evidence from England's experiment with this model two decades ago is that the gap in attendance rates between the bottom and top quintiles stabilised after the introduction of the TFT scheme in 1998, after years of increasing under the old universal subsidy (free tuition) scheme (Murphy, Scott-Clayton & Wyness, 2017). That said, the same pattern held in the country after TFT was abolished and fees for all were introduced, so this may in fact have been a result of fees (and their reinvestment in system growth) overall rather than a result of TFT.

Evidence from Chile is not particularly strong one way or the other. The Ministry of Education notes that 15 per cent of incoming students in 2016 say they would not otherwise have enrolled without the support of *gratuidad*, but this kind of self-reporting in response to hypothetical counter-factual questions is not especially convincing. Moreover, given the evidence from previous student aid reforms in Chile that improving

financial aid for middle-class students may crowd-out lower-class students, this kind of self-report does not preclude the possibility that *gratuidad* may simply shift opportunities from the lowest income deciles to the middle ones.<sup>24</sup> None of the other jurisdictions described above has yet published data which would allow us to draw conclusions about their effectiveness. However, more evidence from Chile, Canada and New York should be available within the next 18-months to provide more evidence about the efficacy of TFT.

It is challenging to determine a blanket explanation for why TFT has become the preferred form of subsidisation in all the countries we studied. One possible explanation is that some countries have adopted a societal principle that richer families should be obliged to pay for their education. This could be the case in Japan but not in Chile, for example. Furthermore, this argument is less convincing in the three North American examples. In some countries, concerns from Treasury resulted in a pared down version of the respective government's plans to introduce subsidisation. In others, universal subsidisation was never a serious option. Nevertheless, 'free' is the 'in' word and increasingly governments would like to use it, even if for budgetary, practical or efficiency reasons, or some mix of the three. They do not feel able to provide full subsidies for every student.

In sum, targeted free tuition has both an attractive political and economic logic: it provides benefits to those who need it without providing windfall gains to those who do not. Evidence from several countries over many years tells us that students

<sup>24</sup> See Jason Delisle, *Where abolishing tuition fees has meant underfunded universities, fewer places for poorer families and less autonomy*, 16 March 2018, <https://www.hepi.ac.uk/2018/03/16/5507/>.

from poorer backgrounds have a higher elasticity of demand than students from wealthier ones. Put simply, there is far more value for money in reducing or eliminating net tuition for low-income students than there is in doing so for wealthier ones. An important consideration in TFT's favour is that the efficacy of public services matters. However, unlike a high-fee / high-aid system – which it, in truth, closely resembles – it appears to have better political optics to students and taxpayers alike.

We do not yet know how far this policy will spread, but its diffusion has already been quite extraordinary — a fact which is all the more surprising given that it seems to be happening with very little overt policy learning from jurisdiction to jurisdiction. It is a policy option that bears watching closely and its adoption deserves serious consideration everywhere.



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This HEPI report focuses on international higher education financing, discussing the concept of 'targeted free tuition' – the idea that, while tuition fees backed by income-contingent loans can improve access, they still do not do enough to help people from the very poorest households, who are typically the most debt averse.

Targeted free tuition assumes some people should be partially or wholly exempt from fees. In this report, Alex Usher and Robert Burroughs explore examples of this approach around the world.

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