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**JUNE 2018**

# **THE REGULATION OF GROUP PLAN RESPS AND THE EXPERIENCES OF LOW-INCOME SUBSCRIBERS**

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A REPORT ON THE RESEARCH COMPONENT OF THE GROUP RESP  
RESEARCH AND EDUCATION PROJECT



## **RESEARCH TEAM**

Dr. Jerry Buckland, Dr. Gail E. Henderson, Kevin Schachter, and Gaylen Eaton, with Simon Chung

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Dr. Jerry Buckland,<sup>1</sup> Dr. Gail E. Henderson,<sup>2</sup> Kevin Schachter,<sup>3</sup> and Gaylen Eaton,<sup>4</sup> with Simon Chung<sup>5</sup>

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# ACKNOWLEDGEMENTS

The research team is pleased to acknowledge the assistance provided by many people and organizations. We are grateful for the contributions made by SEED Winnipeg, Momentum (Calgary), the Legal Help Centre of Winnipeg, Menno Simons College (a college of Canadian Mennonite University, affiliated with the University of Winnipeg), and the Queen's University Faculty of Law. We are particularly appreciative of the SEED Winnipeg and Momentum staff who supported the implementation of this research, including Louise Simbandumwe, Jenn Bogoch, Millie Acuna, Bemnet Hailegiorgis, Aileen Krush, and Roberta Douglas (SEED Winnipeg); and Anna Jordan, Lora Pesant, Hiroko Nakao, and Dean Estrella (Momentum). We acknowledge the community-based researchers and RESP Community of Practice members for their support with the subscriber interviews. We are grateful for the research assistance provided by Leah Wilson for the service provider focus group, the editing assistance provided by Raena Penner and Andrew Douglas (SEED Winnipeg), the copyediting provided by Maureen Epp, and the design and layout created by Danielle Sheedy. Finally, we are most grateful to our anonymous participants who took part in the interviews and focus groups.



**United Way**  
Calgary and Area



**United Way**  
Winnipeg



SEED Winnipeg and Momentum would like to acknowledge the United Way of Calgary and Area, the United Way of Winnipeg, The Winnipeg Foundation, and the Kanovsky Family Foundation for supporting our work to increase access to RESPs and the Canada Learning Bond.



**The Law  
Foundation  
of Ontario**

*Advancing access to justice*

We are pleased to acknowledge The Law Foundation of Ontario Access to Justice Fund, which provided financial support for the Group RESP Research and Education Project. While financially supported by The Law Foundation of Ontario Access to Justice Fund, the authors of this report are solely responsible for all content.



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# 1. EXECUTIVE SUMMARY

In 2016, SEED Winnipeg received a grant from The Law Foundation of Ontario Access to Justice Fund to conduct research and public legal education on group plan RESPs. Through the Group RESP Research and Education Project, SEED Winnipeg, Momentum (Calgary), the Legal Help Centre of Winnipeg, and an interdisciplinary research team studied the regulation of group plan RESPs and the experiences of low-income subscribers, and developed public legal education materials to support low-income RESP subscribers in understanding and making informed decisions about their RESP investments. This report presents the research component of this project.

## 1.1 RESPs and Group Plan RESPs

Registered Education Savings Plans (RESPs) enable Canadian families to contribute money toward their children's post-secondary education and benefit from the tax-deferred growth of their savings. As of 1998, RESPs have also enabled families to access funds from the Government of Canada's Canada Education Savings Program (CESP) to supplement their savings. In opening an RESP, an individual (frequently a parent) subscribes to a plan and designates one or more beneficiaries (frequently their children) to access the earnings on the contributions made into the account. When the beneficiaries enroll in a qualifying post-secondary program, they may gain access to funds contributed by the subscriber, funds paid into the account by the CESP, and any accumulated investment income. The government grants and investment income paid out to beneficiaries to help cover the cost of a qualifying post-secondary program are known as Educational Assistance Payments (EAPs).

RESPs are offered by approximately 90 organizations known as promoters, which sell and market these plans to Canadian families. Five promoters offer a specific type of RESP known as a group plan. These plans are characterized by several unique features, including a pooled investment model, front-loaded sales charges, the non-profit organizational status of the promoter, and the terms that subscribers must follow for their investments to reach maturity and for their designated beneficiaries to access EAPs. These terms are described in detail in each plan's prospectus.

SEED Winnipeg, Momentum, and other community-based organizations across Canada have been working for over a decade to increase the take-up of RESPs by low-income families. This work has also led our organizations to be in contact with community members who had opened group plan RESPs and had questions about their plans. Frontline staff reported feeling ill-equipped to understand and explain the terms outlined in the plan prospectuses. Accordingly, SEED Winnipeg identified a need to conduct research on the regulation of group plan RESPs and the experiences of low-income subscribers in order to build community capacity to provide accessible and neutral information about RESP investment options, including group plans.

## 1.2 Methodology

This research was carried out by an interdisciplinary team that included Dr. Jerry Buckland, Dr. Gail E. Henderson, Kevin Schachter, and Gaylen Eaton. Research assistance was provided by Simon Chung. SEED Winnipeg staff, Momentum staff, and Calgary RESP Community of Practice members supported the implementation of this research in Winnipeg and Calgary, respectively.

# 1. EXECUTIVE SUMMARY

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The research team undertook a mixed methodology approach using six research methods:

## 1) Interviews with Group Plan RESP Subscribers

A total of 48 interviews with group plan RESP subscribers were conducted between May and September 2017. These interviews were co-ordinated by Gaylen Eaton and conducted by several interviewers in Calgary and Winnipeg. Participants were recruited on the basis of their subscription (past or present) to a group plan RESP and on their self-reported living on low income at the time of subscription.

## 2) Focus Groups with Group Plan RESP Subscribers

Two subscriber focus group meetings were conducted with a total of 11 group plan RESP subscribers in Calgary and Winnipeg. The primary objective of these focus groups was to draw on participants from the existing pool of subscriber respondents and invite them to “tell their story about group RESPs.” These focus groups were co-ordinated by Gaylen Eaton.

## 3) Review of Regulatory Requirements Applicable to Group RESP Promoters, Compliance Reviews, and Enforcement Orders

A regulatory review was undertaken in two parts. The first part, researched and authored by Simon Chung and Dr. Gail E. Henderson, reviews the securities regulation regime applicable to group RESPs. The second part, researched and authored by Dr. Gail E. Henderson, briefly describes the history of non-compliance with securities regulation by certain scholarship plan dealers, provides a detailed description of the most recent compliance reviews and enforcement actions taken by the Ontario Securities Commission (OSC), and notes other past and ongoing legal actions involving scholarship plan dealers.

## 4) Key Person Interviews

Eleven key person interviews were undertaken by Dr. Jerry Buckland in early 2017 with various stakeholder groups that have experience with and knowledge of group plan RESPs. Each stakeholder group was asked a different set of general questions about the group RESP companies and product, how the product affects vulnerable Canadians, and the regulatory environment within which the plans operate.

## 5) Focus Group with Service Providers

The research team hosted a focus group meeting in Winnipeg with seven service providers that are highly experienced at providing support and settlement services to former refugees, immigrants, and other low-income community members. The two key objectives of this focus group were to (1) gain service providers’ insights on their communities’ knowledge and

# 1. EXECUTIVE SUMMARY

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experiences with RESPs, and particularly group RESPs; and (2) identify strategies for recruiting low-income group RESP subscribers to participate in interviews.

## 6) Literature Review

A literature review on the field of education savings in Canada, including scholarly and professional literature on RESPs, government policy, the scholarship plan industry, and access to financial services by low-income community members, was conducted by Dr. Jerry Buckland and Kevin Schachter. This review also analyzes data on RESP assets over time and the distribution of RESP assets and Government of Canada grant funds between the four categories of RESP promoters.

## 1.3 Key Findings

We found consistency across the results from different methods, which provides evidence that the results have strong validity. Key findings from the research results are presented below.

- 1) **Group plan RESPs are a complex financial product.**
- 2) **The unique characteristics of group plan RESPs can be beneficial in promoting savings for children's post-secondary education; however, if the product is not well aligned with the needs of the subscriber, participation in a group plan may be detrimental to a subscriber's financial well-being.**
- 3) **There continues to be significant representation of low-income subscribers in RESPs held by group plan promoters.**
- 4) **Redistribution of earnings on contributions from subscribers who exit their plans early to those who stay to maturity is integral to the design of group plan RESPs. There are concerns that low-income subscribers may be more likely to exit these plans prior to maturity or prior to their beneficiaries accessing the full complement of EAPs.**
- 5) **More than half of the scholarship plan dealers that sell group plan RESPs have a history of non-compliance with the securities regulations that apply to the industry. Among other issues, compliance reviews found breaches of securities regulations related to selling plans to low-income investors for whom they were not suitable.**

- 6) Evidence from this study suggests that the non-profit status of group plan promoters and trust in community salespeople play an important role in motivating some low-income subscribers to open group plan RESPs.

## 1.4 Recommendations for Public Legal Education

The key findings from this study reinforce that there is a need to provide public legal education about RESP investment options to low-income families. Subscribers and prospective subscribers need accessible and neutral information about their rights and the options available to them to make informed decisions about post-secondary education savings.

We recommend that public legal education materials and training sessions should

- increase investors' awareness of where to access information about group plan RESPs and scholarship plan dealer sales representatives;
- increase subscribers' awareness of their legal and contractual rights;
- clarify the nature of the relationship between the Government of Canada and RESP promoters, including group plan promoters;
- explain the distinction between scholarship plan dealers and scholarship foundations;
- describe the pooled investment model inherent to group plan RESPs, and the role of attrition in creating surplus earnings that can be redistributed to remaining plan members; and,
- be disseminated and delivered to community-based agencies and other trusted service providers that engage with low-income community members.

Based on these recommendations, the project team developed public legal education materials including plain language guides for prospective RESP subscribers and current group plan subscribers, and an activity that community service providers can use to increase their clients' understanding of RESP investment options.

## 2. INTRODUCTION

In 2016, Canadian families saved \$4.43 billion toward their children's post-secondary education in Registered Education Savings Plans (RESPs), reaching a total value of \$51.3 billion of assets held in RESP accounts (ESDC, 2017a, pp. 9–10). RESPs enable families to benefit from the tax-deferred growth of their savings. In opening an RESP, an individual (frequently a parent) subscribes to a plan that is registered with the Government of Canada and designates one or more beneficiaries (frequently their children) to access the earnings on contributions made into the account for their post-secondary education.<sup>1</sup> Instead of the subscribers being taxed on the earnings during the intervening years of contribution growth, the beneficiaries (who can deduct associated tuition credits to reduce their income tax burden) are taxed when they access the funds for post-secondary education. Moreover, as of 1998, the Government of Canada has supplemented subscribers' savings in RESPs through the Canada Education Savings Program (CESP).<sup>2</sup> In 2016, grant and bond payments made by the CESP added a combined \$1 billion to the RESPs held by Canadian families (ESDC, 2017a, pp.18–21). In addition to the earnings on subscriber contributions, beneficiaries gain access to the grant, bond, and accumulated investment income upon their enrollment at a designated post-secondary educational institution. These payments are known as Educational Assistance Payments (EAPs).

RESPs are offered by approximately 90 organizations known as RESP promoters, which sell and market these plans to Canadian families (ESDC, 2017a, p. 16). Most RESP promoters offer RESPs in addition to other financial services, investment opportunities, and/or insurance products. These promoters are categorized by Employment and Social Development Canada (ESDC) into three categories: “banking services”; “investment services”; and “insurance and other” (ESDC, 2017a, p. 16). As of December 31, 2016, these three categories of RESP promoters held a combined total of 77% of all RESP assets (\$39.8 billion). The fourth category of RESP promoters, “group plan promoters,” is characterized by a singular focus on offering RESPs; group plan promoters held 23% (\$11.8 billion) of RESP assets at the end of 2016.

To open an RESP, subscribers must first choose a promoter that will register the account with the Canada Revenue Agency (CRA), request the government grants from ESDC, and provide EAPs to eligible beneficiaries (ESDC, 2018b). Subscribers must select from one of three different types of plan when opening an RESP (ESDC, 2017b). Individual plans enable a subscriber to designate one beneficiary, who does not need to be related to the subscriber.

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<sup>1</sup> Two individuals may be joint subscribers on an RESP if they “have a spousal or common-law relationship.” (ESDC, 2017b)

<sup>2</sup> The Canada Education Savings Program (CESP) is housed within the Government of Canada department Employment and Social Development Canada (ESDC), formerly known as HRSDC. The CESP is made up of the age-tested Canada Education Savings Grant (CESG), which includes a matching grant available without regard to income level and a means-tested enhancement known as the Additional Canada Education Savings Grant (A-CESG), and the age-tested and means-tested Canada Learning Bond (CLB), which does not require subscriber contributions. The policy purpose of the CESP is “to encourage the financing of children's post-secondary education through savings, from early childhood, in registered education savings plans.” (Canada Education Savings Act, 2018, p. 2).

## 2. INTRODUCTION

Family plans allow subscribers to designate one or more beneficiaries, who must be related to the subscriber by blood or adoption. Individual and family plans are widely available through RESP promoters including banks, credit unions, and investment services. The third type of RESP, a group plan, is only offered by group plan promoters.

### 2.1 GROUP PLAN RESPS

Group plan RESPs are characterized by several unique features:<sup>3</sup>

- While the plans are held and administered by not-for-profit entities known as “scholarship foundations,” they are sold by for-profit companies known as “distributors” or “scholarship plan dealers.”
- While scholarship foundations also offer individual plans, and in some cases family plans, the overwhelming majority of their business comes through group plans.<sup>4</sup> Accordingly, we use ESDC’s terminology “group plan promoters” in this report.
- Scholarship foundations offered the original education savings plans in the 1960s. These plans predate the 1975 amendment to the Income Tax Act, which established RESPs as a tax-sheltered registered savings plan (Robson, 2013, pp. 229–231).<sup>5</sup>
- Group plans pool together the contributions made by all plan subscribers for a group of beneficiaries who are expected to enroll in post-secondary education in the same year. The pooled contributions are invested by the group plan promoter. Subscribers purchase one or more “units” in the group plan, and each unit corresponds to a share of the pooled investment income when the plan matures in the year the beneficiary group is expected to attend post-secondary education.
- Subscribers to a group plan must choose and fulfill a designated contribution schedule in order for their beneficiaries to qualify for a share of the pooled investment income. If the subscriber completes their contribution obligations and the beneficiary enrolls in a qualifying educational program, the beneficiary will receive a share of the pooled investment income as an EAP.

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<sup>3</sup> The unique features of group plan RESPs are described in ESDC (2017b), Knight, Waslander, and Worstsmann (2008, pp. 27–40), Ontario Securities Commission (2016), and Canada Revenue Agency (2017).

<sup>4</sup> According to the 2017 audited financial statements of the four major group plan promoters that are registered across Canada, over 90% of holdings are in group plan RESPs, as defined by net assets (in three cases) and subscriber contributions (in one case).

<sup>5</sup> For a detailed historical account of the development of RESPs and the CESP, see Robson (2013, chap. 6).

## 2. INTRODUCTION

- To enroll in a group plan, a subscriber must pay a sales charge per unit (either \$100 or \$200, depending on the promoter) that is deducted from the initial subscriber contributions according to a prescribed formula.<sup>6</sup> All group plan promoters offer the possibility of receiving at least a partial refund of this charge if the subscriber remains in the plan until maturity.<sup>7</sup>
- However, if a subscriber withdraws from a plan or has their plan cancelled prior to the maturity date, the subscriber may be required to forfeit the fees they've paid and their share of the pooled investment income. In addition, if a beneficiary does not enroll in a qualifying educational program for a long enough time period to earn a full complement of EAPs, the subscriber may have to forfeit some of the investment income to which their beneficiary would otherwise be entitled. These scenarios are respectively known as pre-maturity and post-maturity attrition. In both cases, the forfeited investment income may be redistributed to other beneficiaries in the beneficiary group whose plans reach maturity and who enroll in qualifying educational programs.<sup>8</sup>

These unique features of group plans exist over and above the many rules, regulations, and stakeholders involved in administering all RESPs, which have led experts to conclude that RESPs are a complex financial product (Milligan, 2002; Knight, Waslander, and Worstsmann, 2008; Robson, 2013).

### 2.2 THE NEED FOR RESEARCH ON GROUP RESPS

SEED Winnipeg, Momentum (Calgary), and other community-based organizations across Canada have been working for over a decade to increase the take-up of the Canada Learning Bond by low-income families.<sup>9</sup> While the majority of this work has focused on increasing awareness in low-income communities of the benefits of RESPs and helping families obtain necessary identification and open RESP accounts, this experience has also led frontline staff to be in contact with community members who had previously opened group plan RESPs and had questions about their plans. These community members reported uncertainty about the rules and regulations that applied to their plans, the fees they had been charged, and the potential risks associated with their investments.

While frontline staff attempted to provide financial literacy education to support community members in understanding the plans in which they had invested, staff reported feeling ill-equipped

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<sup>6</sup> See Section 4.3.2 below for details.

<sup>7</sup> Some group plan promoters define the partial or full refund of sales charges as a discretionary payment; other promoters consider it to be a non-discretionary payment that all subscribers receive if they meet the terms and conditions specified in the plan prospectus.

<sup>8</sup> As with the refund of sales charges, some promoters consider the redistribution of earnings that have been forfeited due to attrition to be discretionary payments, while other promoters deem these payments to be non-discretionary.

<sup>9</sup> Including through projects funded by HRSDC's Education Savings Community Outreach (ESCO) Grants and Contributions Program (HRSDC, 2009, p. vi) and as members of the Canada Learning Bond Champions' Network.



## 2. INTRODUCTION

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to understand the regulations that govern the operation of group plans and the rules and options outlined in group plan prospectuses. Accordingly, SEED Winnipeg identified a pressing need to increase community capacity to provide accessible and neutral information to support low-income RESP subscribers in understanding and making informed decisions about their RESP investments.

An initial literature review conducted by SEED Winnipeg staff identified a gap in the literature with respect to the experiences of low-income Canadians with group plan RESPs.<sup>10</sup> While some literature describes the workings of group plan RESPs (Knight et al., 2008; Robson, 2013) and the proportion of low-income subscribers enrolled in RESPs at group plan promoters (ESDC, 2014, 2015a, 2016, 2017a), the experience of subscribers themselves has not been a central focus. Moreover, while public legal education materials exist for prospective subscribers seeking to open RESPs,<sup>11</sup> there is a lack of detailed information that current group plan subscribers may need in order to make informed decisions about their investment options. This finding is indicative of a larger gap in the availability of unbiased financial information that is tailored to the needs of low-income and other financially vulnerable groups (ABLE, 2014). The need for tailored and accessible information about the rules and regulations associated with group RESPs is heightened given that until 2016, low-income families were overrepresented in the RESPs held by group plan promoters.<sup>12</sup>

### 2.3 THE GROUP RESP RESEARCH AND EDUCATION PROJECT

In this context, SEED Winnipeg partnered with The Legal Help Centre of Winnipeg, Momentum, Dr. Jerry Buckland (Principal Investigator and Full Professor, International Development Studies, Menno Simons College of Canadian Mennonite University and University of Winnipeg affiliate), and Dr. Gail E. Henderson (Assistant Professor, Faculty of Law, Queen's University) and was awarded a grant from The Law Foundation of Ontario Access to Justice Fund in August 2016. Through the Group RESP Research and Education Project, the project team

- conducted research on group plan RESPs, the experience of financially vulnerable<sup>13</sup> group plan subscribers, and the regulatory context in which these plans are sold;

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<sup>10</sup> A detailed literature review on the topic is included below as Appendix A.

<sup>11</sup> For example, Ontario Securities Commission (2008, 2016).

<sup>12</sup> Based on data from ESDC's Annual Statistical Reviews of the Canada Education Savings Program: the percentage of Canada Learning Bond payments made into RESPs held at group plan promoters divided by the percentage of RESP assets held by group plan promoters. See Table 5 for details.

<sup>13</sup> By financially vulnerable, we mean people living on low-income, who have low levels of household savings and other assets, or who face barriers to accessing independent financial information and advice.



## 2. INTRODUCTION

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- analyzed group plan prospectuses and developed accessible public legal education materials on the typical rules and restrictions associated with group plan RESPs and the rights of group plan subscribers; and
- delivered public legal education sessions on group plans to low-income community members and service providers engaged in promoting the uptake of RESPs by low-income Canadians.

This report presents the following findings of the research component of this project:

- The following section (3. Methodology) describes the approach and research methods used in this study.
- The next section (4. Results) reports on the primary research involving group plan subscribers, service providers, and key persons with detailed knowledge about the industry, and a review of the regulatory context in which group RESPs are sold.
- The concluding section (5. Discussion & Conclusion) offers key findings from the study and discusses their implications for the development of public legal education materials.
- The appendices contain the literature review, the research instruments used in the primary research component of the study, and supporting materials for the regulatory review.



## 3. METHODOLOGY

There are many ways to undertake social research, ranging from approaches that are purely quantitative through approaches that mix qualitative and quantitative methods to approaches that are purely qualitative. Each research approach has strengths and weaknesses. To be effective, a research methodology needs to be well aligned with the goals of the research project. The best aligned approach is one whose strengths are maximized in reaching the goals of the project, while minimizing its weaknesses.

The approach for this project, mixed methodology, was chosen because it is well aligned with the goals of the research: to learn about the experiences of low-income group RESP subscribers, and to develop public legal education materials to help low-income community members make informed decisions about saving money for their children's education. This research project used a number of quantitative and qualitative methods with relatively small numbers of participants from several participant groups, based mostly in Winnipeg and Calgary. This methodology has become well established in the research literature and is well suited for a variety of types of research, including action-oriented projects such as this one (Reid, Greaves, and Kirby, 2017; Bryman, Teevan, and Bell, 2009). Mixed methodology approaches seek to reflect the thoughts and feelings of individuals and groups about certain issues, and use multiple methods in order to identify results that are consistent across methods. The use of qualitative methods, in particular, provides a means to gain a deeper understanding of participant views about an issue.

One limitation of smaller sample surveys in which the sample is not randomly selected is that the sample may not represent the underlying population and may be biased in some way. We recognize bias as a risk associated with each of the methods used in this research. One way we sought to minimize this risk, which is common in mixed methodology research, was to use a variety of methods. Validity is improved in mixed methodology research when results are consistent across several methods. In this research we found consistency across the results from different methods, which provides evidence that the results have strong validity. Key findings are presented and discussed in the concluding chapter.

### 3.1 METHODS

The methods used in this project were developed and implemented by an interdisciplinary team that included the following researchers: principal investigator Dr. Jerry Buckland, with co-investigators Dr. Gail E. Henderson, Kevin Schachter, and Gaylen Eaton. Research assistance was provided by Simon Chung. SEED Winnipeg and Momentum staff supported the implementation of this research by recruiting participants, conducting interviews, and co-facilitating and taking notes at focus groups.

### 3. METHODOLOGY

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Six methods were used in the course of this research:

#### 1) Interviews with Group Plan RESP Subscribers

**Co-ordinated by Gaylen Eaton**

A total of 48 subscriber interviews were conducted between May 9, 2017, and September 5, 2017, in Calgary (24) and Winnipeg (24). Participants were recruited on the basis of their subscription (past or present) to a group plan RESP and on their self-reported living on low income at the time of subscription.

#### 2) Focus Groups with Group Plan RESP Subscribers

**Co-ordinated by Gaylen Eaton**

Two subscriber focus group meetings were conducted: one in Calgary on August 25, 2017; and a second in Winnipeg on November 20, 2017. The primary objective of these focus groups was to draw on participants from the existing pool of subscriber respondents and invite them to “tell their story about group RESPs.” Selection was based on three criteria: (1) interest in participation; (2) general knowledge about group RESPs (as evaluated by the interviewer); and (3) availability to attend. Participants were not selected on the basis of their satisfaction or dissatisfaction with group RESPs.

#### 3) Review of Regulatory Requirements Applicable to Group RESP Promoters, Compliance Reviews, and Enforcement Orders

**Completed by Dr. Gail E. Henderson and Simon Chung**

A regulatory review was undertaken in two parts. The first part, researched and authored primarily between September 2016 and April 2017 by Simon Chung and Dr. Gail E. Henderson, reviews the securities regulation regime applicable to group RESPs. This part focuses on the rules governing the sale of group plans and the ongoing subscriber-promoter relationship, rather than the rules governing the investment of contributions and firm governance of plan promoters. The second part, researched and authored primarily between April 2017 and August 2017 by Dr. Gail E. Henderson, briefly describes the history of non-compliance with securities regulation by certain scholarship plan dealers, provides a detailed description of the most recent compliance reviews and enforcement actions taken by the Ontario Securities Commission (OSC), and notes other past and ongoing legal actions involving scholarship plan dealers.

## 3. METHODOLOGY

### 4) Key Person Interviews

#### **Completed by Dr. Jerry Buckland**

Eleven key person interviews were undertaken by Dr. Jerry Buckland in early 2017 with various stakeholder groups that have experience with and knowledge of group plan RESPs. These groups were scholarship plan industry representatives (three respondents), non-profit agency staff who work in low-income communities (five respondents), staff from mainstream financial institutions (two respondents), and a person with a law degree who had assessed scholarship plan prospectuses (one respondent). Each stakeholder group was asked a different set of general questions about the group RESP companies and product, how the product affects vulnerable Canadians, and the regulatory environment within which the plans operate.

### 5) Focus Group with Service Providers

#### **Co-ordinated by Gaylen Eaton, SEED Winnipeg staff, and Dr. Jerry Buckland**

At the beginning of the project, the research team hosted a focus group meeting with service providers that are highly experienced at providing support and settlement services to former refugees, immigrants, and other low-income community members. Seven service providers attended this focus group, held at SEED Winnipeg on January 14, 2017. The two key objectives of this focus group were to (1) gain service providers' insights on their communities' knowledge and experiences with RESPs, and particularly group RESPs; and (2) identify strategies for recruiting low-income group RESP subscribers to participate in interviews.

### 6) Literature Review

#### **Conducted by Dr. Jerry Buckland and Kevin Schachter**

A literature review on the field of education savings in Canada, including scholarly and professional literature on RESPs, government policy, the scholarship plan industry, and access to financial services by low-income community members, was conducted by Dr. Jerry Buckland and Kevin Schachter. This review, included below as Appendix A, also analyzes data on RESP assets over time and the distribution of RESP assets and Government of Canada grant funds between the four categories of RESP promoters.

Research instruments, including focus group guides, interview schedules, and consent forms, are included below in Appendix B. A list of OSC enforcement documents reviewed by Dr. Gail E. Henderson is included below as Appendix D.



## 4. RESULTS

This section reports on the results from the different methods used in the study:

- Interviews with group RESP subscribers
- Focus groups with group RESP subscribers
- A review of regulatory requirements applicable to group RESP promoters, compliance reviews, and enforcement orders
- Key person interviews
- A focus group with service providers





## 4. RESULTS

### INTERVIEWS WITH GROUP RESP SUBSCRIBERS

#### 4.1 INTERVIEWS WITH GROUP RESP SUBSCRIBERS

**Gaylen Eaton**

This section contains the results from interviews conducted with 48 group RESP subscribers who participated in the study (24 in Calgary and 24 in Winnipeg).

##### 4.1.1 The respondents, their educational goals, and savings plans

Twenty-three of the 48 respondents were born in Canada and reported English to be their first language. Of the 25 respondents not born in Canada, 11 were from the Philippines, eight were from African nations, three were from south-Asian nations (India and Pakistan), two were British, and one was Vietnamese. Languages spoken in addition to English included Amharic, Bangwa, Bengali, Sesotho, Somali, Tagalog, Urdu, Vietnamese, and Yoruba. Immigration to Canada occurred between 1991 and 2016, averaging to 2009 with the modal (or most common) year of arrival being 2016.

As noted previously, interviews were completed with people living on low income at the time of their group RESP purchase. Reported annual household income (current year) ranged from \$0–\$20,000 to over \$70,000. Twenty-four households reported their current income between \$0 and \$40,000, while 12 households reported between \$40,000 and \$70,000 in annual income and 11 households reported income above \$70,000. Figure 1 shows annual household income distribution as reported by the 47 study participants who responded to the question.

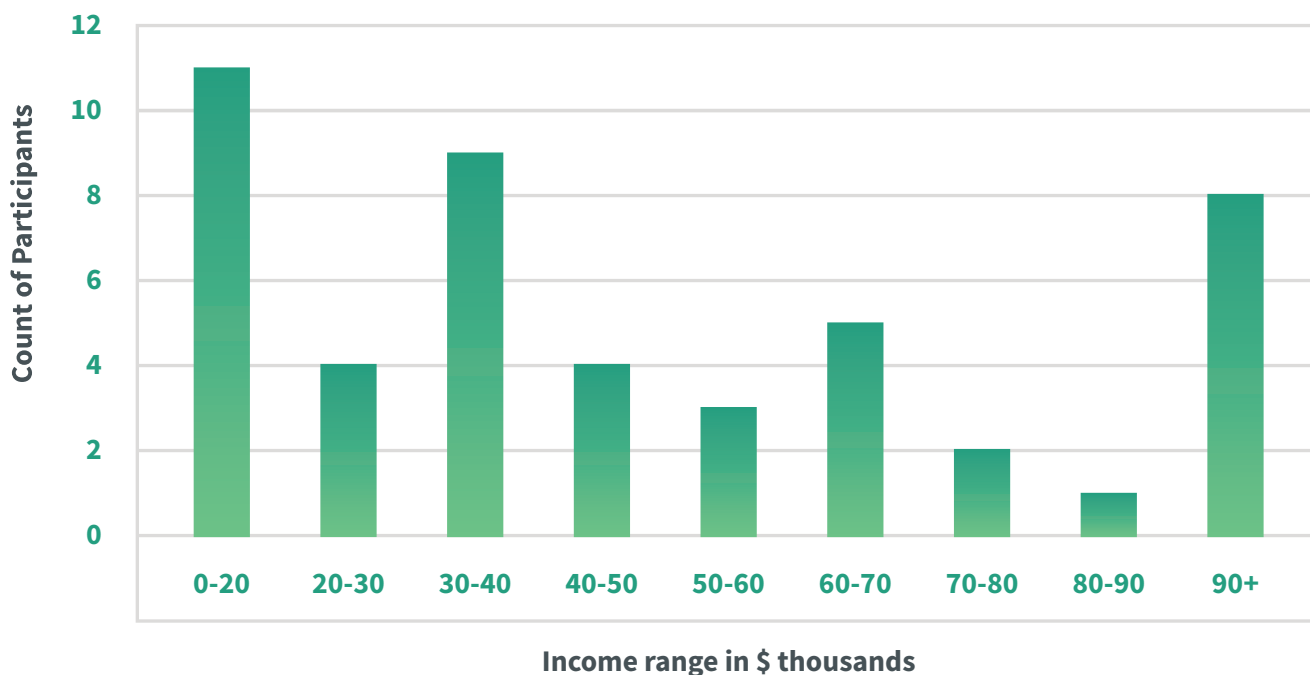


Figure 1. Current Annual Household Income as Reported by Study Participants

## 4. RESULTS

### *INTERVIEWS WITH GROUP RESP SUBSCRIBERS*

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All respondents stated they were saving for their children's education. Of the 46 respondents who answered the question, 20 people hoped their children would complete a four-year university degree program, three expected their children to attend a one- to two-year college diploma program, and 23 others did not express a preference, only that their child(ren) have the opportunity to attend post-secondary education.

Participants explained the meaning of post-secondary education for them:

- “We are giving her a lift to a better life – her education.”
- “There would be a solid nest-egg to work from, no strain like there is now.”
- “[I want] my children to know that we put thought into [their] future beyond living at home.”
- “Further education is a must. It gives security and knowledge.”

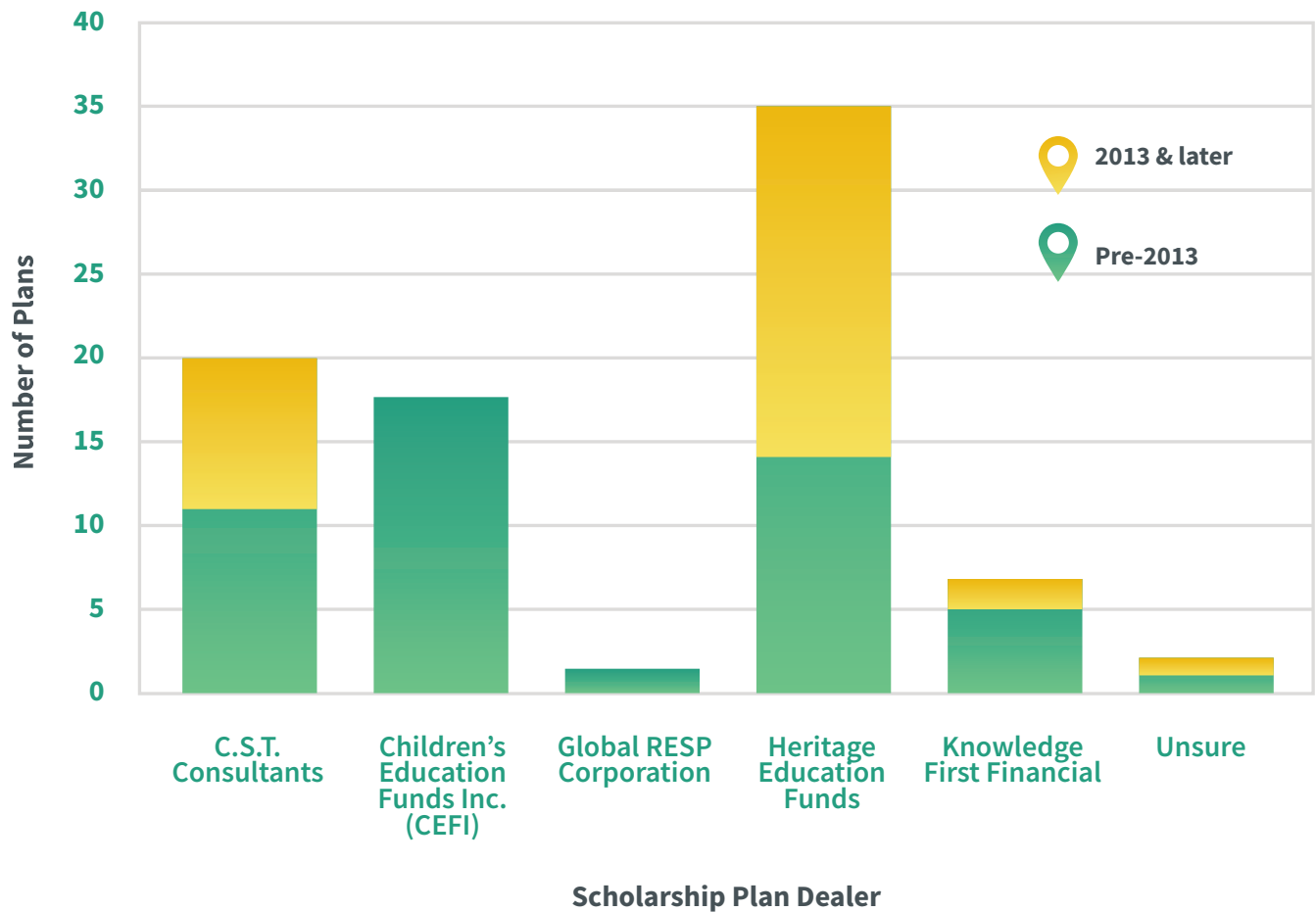
A total of 83 group plan RESPs were purchased by the 48 respondents, representing an average of 1.7 plans per subscriber. Over \$6,900 is invested per month, or \$82,812 per year on behalf of the 83 plans. Monthly deposits range from \$10 to \$400 per month. All subscribers invest on a monthly basis, typically around the 20th or 21st of the month, immediately following Canada Child Benefit (CCB) direct deposits. The distribution of the number of plans purchased by group RESP promoter and the timeframe of purchase (pre-2013, or 2013 and later) is shown in Figure 2. The research team decided to isolate plans purchased after 2013 in order to investigate any differences that may be related to the outcomes of the OSC compliance reviews and the changes to the mandatory disclosure requirements.<sup>1</sup>

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<sup>1</sup> See Section 4.3 for information on the compliance reviews and disclosure requirements.

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### INTERVIEWS WITH GROUP RESP SUBSCRIBERS



**Figure 2. Number of Plans Purchased from Scholarship Plan Dealers<sup>2</sup>**

As shown, plans from Heritage Education Funds were the most common purchase made among respondents, both as a proportion of all sales (42%) and of post-2013 sales (63.6%). C.S.T. Consultants sold 24% of all plans and 27% of plans dated 2013 or later. Prior to 2013, Children's Education Funds Inc. (CEFI) led all other companies in sales of its group plans but these plans do not appear among study participants in recent years. A review of the company's website (November 6, 2017) indicates that it is active, with an office in Winnipeg, Manitoba, and its head office in Burlington, Ontario. Neither Global RESP Corporation nor Knowledge First Financial were major sellers among study participants.

<sup>2</sup> Although Global RESP Corporation only sells individual plan RESPs, they share many similarities with the other scholarship plan dealers including their corporate structure, commissioned salesforce, front-loaded enrollment fees, and the opportunity for discretionary payments.

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#### Respondents' experiences with group plan RESPs

Respondents were asked how they first learned about RESPs. Twenty-one respondents learned about RESPs through their personal networks: 16 heard of them through friends or family or in their place of work; three learned about RESPs through community organizations such as churches; and two learned about them through sponsor families who housed them when they first arrived in Canada. The remaining 26 respondents learned about RESPs from group RESP salespeople.

Key messages or advice provided most frequently by friends or family were as follows:

- It is good to begin early in saving for a child's education;
- A longer timeframe for savings will increase overall savings; and
- With access to an RESP, a child can avoid taking out loans for university.

Key messages or advice that participants reported hearing from salespeople included the above messages but were notably more focused on the benefits available from the Government of Canada, such as the Canada Education Savings Grant. The Canada Learning Bond was mentioned only once by salespeople and not at all by friends or family.

#### Group RESP salespeople

There were a number of ways that group RESP salespeople initiated contact with study participants. Forty-seven participants answered the question of how they met their salesperson. Twenty met a salesperson through a referral from family or friends. Two others met salespeople through educational courses, such as computer courses for newcomers, and one was introduced to group RESPs through a "Budgeting for Baby" course that is hosted in Calgary by licensed sales representatives<sup>3</sup> of Heritage Education Funds.<sup>4</sup> Six identified trade shows as the method by which they met their sales representatives. Booths/kiosks were set up at shows such as the "Mommy and Me" or the "Mom and Baby Expo," and in one case, at the Calgary Stampede.

The Welcome Wagon, as part of its Welcome Wagon Hospital and In-Home Baby Programs, sends its representatives to hospitals (and homes, if requested) with a free gift for new mothers. Five study participants received brochures on group RESPs with their free gift. In at least one instance, the Welcome Wagon representative was the salesperson. The remainder of respondents to this question (14) met salespeople through unsolicited "cold calls," two of which were house visits and

<sup>3</sup> Budgeting for Babies, <http://www.budgetingforbabies.com/discussion-topics.php>, retrieved November 10, 2017.

<sup>4</sup> Heritage Education Funds, <https://www.heritageresp.com/gordonbranden>, retrieved November 10, 2017. According to the Canadian Securities Administrators National Registration Search, Gordon Branden and Laurie Branden are registered sales representatives for Heritage Education Funds. We discuss the National Registration Search in Section 4.3.1.

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### *INTERVIEWS WITH GROUP RESP SUBSCRIBERS*

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a dozen that occurred over the phone. Two of the study participants did not have ideas on how the salespeople might have gotten their contact information, and six did not speculate. Six suspected that their contact information was collected through prize entries they had filled out. For example, one thought that the information may have been purchased from a maternity store, and another had entered the “Canada’s Luckiest Baby” contest, which is associated with C.S.T. Consultants (Parent Life Network, n.d.). Others filled out numerous ballots for prize draws, which they suspected led to unsolicited sales calls. While such sales tactics remain anecdotal and unproven, study participants felt that other ways by which their contact information would be available were limited.

#### THE SALES EXPERIENCE

Group plans were sold to study participants between 1983 and 2017. All sales, with the exception of two, were conducted in the homes of study participants. During their sales experience, study participants were asked if they had enough time to decide to join the group RESPs. Of the 40 participants who answered this question, 27 indicated that they had to decide during the sales visit, three were given a day to decide, and the remaining 10 scheduled a second meeting at which to sign the paperwork.

Despite the short turn-around time for decision-making, 27 respondents indicated that they had been provided enough time to make their decision. Three respondents were unsure about the amount of time they were given, and 17 thought they did not have enough time. For those who didn’t feel they had enough time, the comments below reflect how they felt at the time. (The year that they purchased the product is in noted in parentheses.)

- “We had no time to read the booklet to make the best decision. The person was very hard to deal with and had made us feel like small as I couldn’t agree to contribute the amount he was demanding.” (1998)
- “I just felt rushed ... she made me feel guilty if I didn’t sign up for my kids.” (2010)
- “There was a lot of pressure. You were a bad parent if you didn’t sign up.” (2011)
- “I felt pressured.” (2016)
- “... if you don’t sign right away ... [there was a] sense of urgency ... had to do it right away [because] maybe Government will change the law.” (2016)
- “I wish I had time to do research first ... but I was told ‘think about your children!’, there was a lot of pressure to follow through [with the purchase].” (2017)

Some subscribers felt pressure to invest more money than they felt comfortable, as evidenced in the comments below. (The year that they purchased the product is in parentheses.)

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- “I was pushed. I really felt high pressure sales tactics were used on us like ‘why wouldn’t you want to do this for your kids?’ Even with the \$25, I felt looked down upon, like it wasn’t going to be enough.” (2009)
- “I was told to try to take the most [units]. They tried to take all of the Child Tax Benefit, trying to try to get me to use it all.” (2012)
- “I am saving \$100 a month but was being pushed to add \$50 more. It seems for their benefit [salesperson].” (2016)

#### WITHDRAWING WITHOUT PENALTY

Of the 31 that were certain they remembered whether or not they had been advised on withdrawing from the plan without penalty, only 14 reported that they had been made aware of this option. The remaining 17 recalled that they had not been advised that they could withdraw from the plan without penalty within 60 days.

#### UNDERSTANDING THE PRODUCT

Study participants were asked how the product was explained by the salesperson. Participants responded by stating that the RESP company was regulated by government and that the money was invested in secure investments not subject to losses. A summary of the projected earnings or growth of the fund was presented. Salespeople also explained that when it was time to retrieve the money, there was minimal waiting (around five days). Among Filipino respondents, a major concern was whether the company would declare bankruptcy over the long term, as they reported companies had in the Philippines. Study participants were assured that this would not happen. Overall, 20 of the 39 study participants who answered this question were satisfied with the way the product was explained to them at the time of the sale.

Study participants were asked what about the product was not explained well by the salesperson. Overall, 25 of the 39 study participants who answered the question were unsatisfied with how at least some aspects of the product were explained to them at the time of the sale. Participants thought that the amount of money that would be lost if they opted out of the plan was not well explained (including loss of the government contributions, fees, or possibly principal contributions). Participants felt that salespeople could have advised them of other options available that were not group RESPs. One participant felt that the smaller, more insignificant fees were described in detail but the main fees were glossed over so that one could not understand the magnitude of the fees cumulatively. These included the front-end loaded nature of the fees. Some participants had purchased insurance on their contributions without their knowledge. One felt strongly that they were not advised of fees at all, stating that “I wasn’t provided correct information. I was lied to [because I] was told no fees or penalties.” Some felt that they knew so little about RESPs that they did not ask appropriate or relevant questions at the time.

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#### AWARENESS OF RESTRICTIONS

Study participants were asked an open-ended question about whether they were aware of any restrictions to accessing the funds when their child was to attend a post-secondary institution. Of the 46 who answered the question, 23 participants indicated that they knew of no restrictions to accessing the funds. Four thought that there were restrictions, but they were not sure what they were.

The remainder (19) stated their knowledge of restrictions. Three thought that recipients needed to be 18, while one stated that money could be withdrawn at the age of 16. Six were aware that the funds were for education only as opposed to other purposes. Two stated that there was a list of eligible post-secondary schools<sup>5</sup> and one thought that it didn't matter which school the child went to, and that proof of enrollment was all that was needed to access RESP money to study anywhere in Canada or abroad.

Five people commented on the payment schedule. One thought that funds could not be accessed during the recipient's first year at school. Conversely, another respondent thought that all the money could be withdrawn in the first year. One believed that all of the deposits would be paid out in the first year, with grants and interest paid out in subsequent years. Two stated that \$5,000 is available to full-time students and \$2,500 is to part-time students at the outset of their studies.

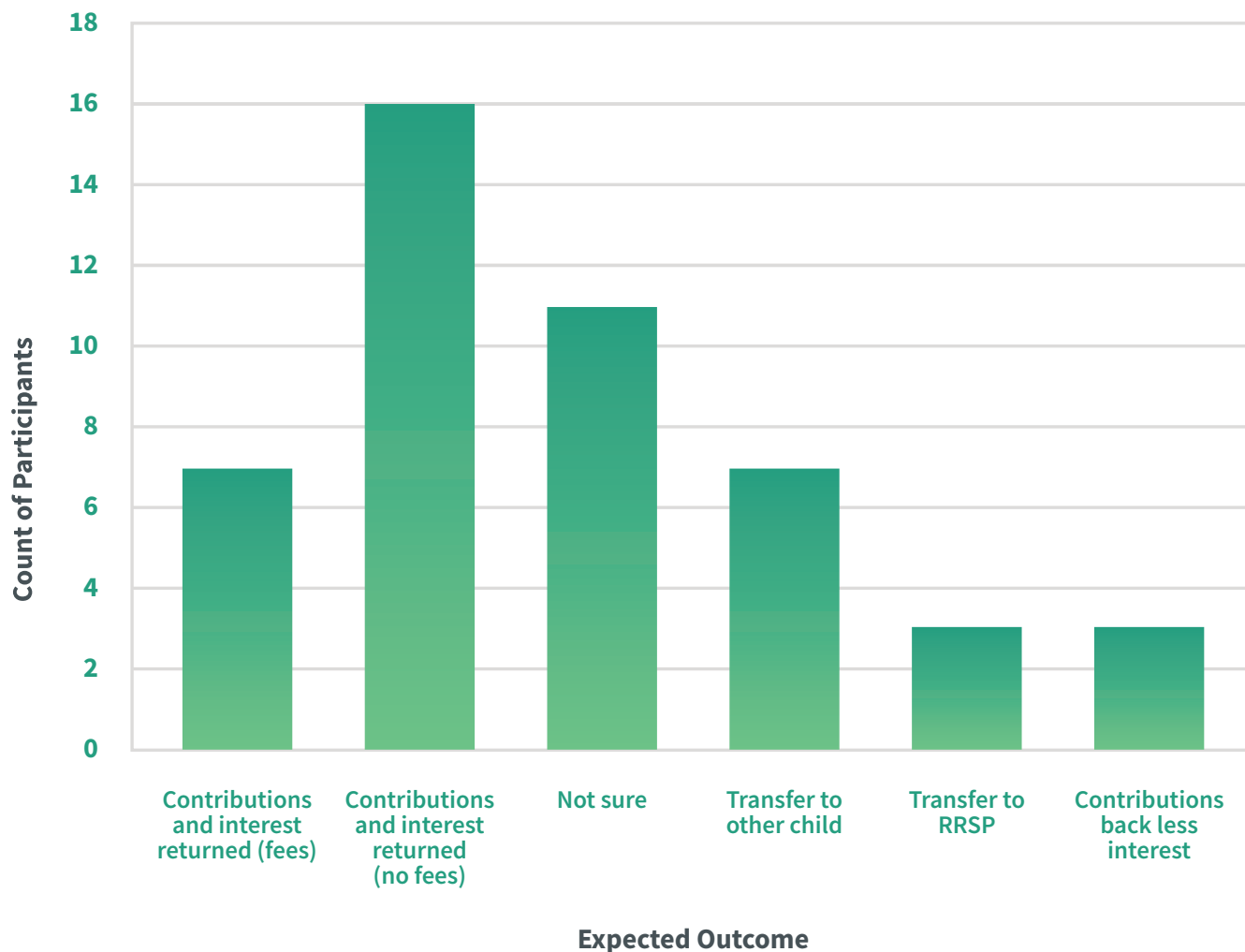
Participants were asked what would happen if their child did not attend a post-secondary institution (shown graphically in Figure 3). Eleven people were not sure of what would happen to the RESP funds. All of the remaining 37 were aware that the government would retract the grant money. However, there were substantial differences in opinion as to what would happen to their contributions, the interest earned, and whether any fees or penalties would be applicable to the balance. Sixteen people thought that their contributions would be returned to them with no additional fees; seven thought that there would be fees levied on the funds; and three thought that the interest on the funds would be lost to them but did not think any fees would apply. Six thought that the funds were transferrable to RRSPs or to another child.

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<sup>5</sup> Government of Canada, list of designated educational institutions. <https://www.canada.ca/en/employment-social-development/programs/post-secondary/designated-schools.html>, retrieved November 13, 2017.

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**Figure 3. Expected Outcome If Child Does Not Attend Post-Secondary Education**

#### HARDSHIPS AND CONSEQUENCES

Participants were asked if they had difficulty with making payments and if they experienced any consequences. A total of 20 experienced some form of temporary hardship. Some were required to pay an NSF charge on their account when funds were insufficient. These fees were typically less than \$100 in total, paid to both the bank and the group plan promoter; however, in some instances, fees were compounded because of contributions owed on multiple children's accounts. Of those who incurred NSF charges, two received calls or letters and felt shamed for not having sufficient funds. Other participants responded to temporary hardships by borrowing money from friends and family. Still others temporarily reduced spending on food, clothing, entertainment, and other household expenses to make up missed payments.

Three participants indicated that they had experienced longer-term hardships relating to loss of employment, inability to work because of maternity leave, and divorce. Of those three cases,



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one individual was certain that they experienced a loss of \$6,000 in fees due to needing to reduce the number of units they had purchased, and one noted that their account balance would be recomputed when their payments resumed. The last case resulted in cancellation of the plan and the individual was uncertain about fees paid as they reported that they did not receive an account statement.

#### 4.1.3 Strengths and weaknesses of group plan RESPs

Participants were asked to reflect on the strengths and weaknesses of their group RESP products. Eleven participants focused on government grants as the primary strength of their group plans. Government grants were described as being “very motivating” and requiring no action to collect, which was considered convenient. Automated monthly withdrawal was also a commonly identified strength. Participants noted that bank savings could be accessed in emergencies, making the savings vulnerable to being withdrawn by the participants themselves. For some members of the Filipino-Canadian community, security of the investment was a key feature of group RESPs, as bankruptcies among education savings companies in the Philippines had devastated family savings there. Another strength participants listed was the pooling of investments, which they believed generated more favourable rates of return than alternative investments at banks. Eight participants did not feel there were any strengths to group RESP plans.

Weaknesses were also described. For example, participants said that the product was not described adequately during the sales process (pros and cons) and that the sale was expected to occur on the same day, making their decision rushed. Others noted that the materials describing the group RESP are not understandable, and that there was no way to compare to other RESP options such as those from the bank. Some participants felt that fees were unreasonable and that group plans lacked flexibility in the following ways: funds cannot be accessed before maturity; changing contribution amounts is challenging; and transferring money to other children in the family is not possible. Participants expressed frustration with a lack of control over their own money and with difficulty accessing the money when the plans matured (e.g., a post-secondary course was not eligible; or the money took a long time to access and/or the paperwork was challenging, leading to months of effort to access the money). Participants noted that a portion of their money would be forfeited if they stopped paying into the account. In contrast to these perspectives, twelve participants did not feel there were any weaknesses to group RESP plans.

#### 4.1.4 Overall assessment

Participants were asked how they would advise a parent who is thinking of enrolling in a group RESP. Of the 47 that responded, 12 were positive about group RESPs, 12 were negative, 19 recommended caution when selecting RESP products, and four had no opinion. Of the eight respondents to this question who enrolled in group RESPs in or after 2013, five had negative assessments of the product while three had positive assessments.

Positive statements included “Do it! 100%”; “I would suggest [group plan promoter] because they are a non-profit organization. I go against banks because of [their focus on] making profit and not

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sharing with people”; “They really have to get it and to think about the future of the kids. I will go to all my friends to get them to go out to get these”; “If people have a kid on the way, we pass the contact to them – the salesperson’s contact”; and “You have to put your trust into this kind of program.”

Negative reactions included “I would tell them ‘run,’ run far away. Don’t do it”; “I highly advise them not to take part, go to the bank”; and “Do your research, and explore all options, including banks. I feel like group RESP is predatory, I don’t see the value. Find out what fees really are.”

Those who recommended caution suggested, “Do your research! It’s a great opportunity to save money if it’s with the right company/bank”; “Read documents before signing up, do your budget and sign up for what you can afford”; “Have a look at other options, not have all your eggs in one basket.”

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## 4.2 FOCUS GROUPS WITH GROUP RESP SUBSCRIBERS

**Dr. Jerry Buckland**

### 4.2.1 Introduction

This section summarizes the discussions that took place at two focus group meetings of group RESP subscribers, one in Winnipeg and one in Calgary. Participants were asked about their experiences with the product (why they subscribed; how they subscribed; their thoughts about their plans) and their thoughts on how group RESPs might be changed, if needed. The focus groups involved a total of 11 people: four participants in Winnipeg in November 2017; and seven participants (including one couple) in Calgary in August 2017.

Dr. Jerry Buckland conducted a content analysis that began with reading and re-reading the meeting notes (approximately 30 pages) that were taken by Gaylen Eaton as well as by SEED and Momentum staff.<sup>1</sup> Once the content of the material was well understood, key themes were identified and grouped into categories. In the end, six major categories emerged from the data:

- The importance of post-secondary education
- The lack of, or misleading nature of, information about group RESPs
- Trust in the RESP product and/or the sales staff
- Dissatisfaction with group RESPs
- Advice for others
- Ways to improve group RESPs

The dominant “voice” in these meetings was dissatisfaction with the product for a number of reasons, as discussed below. However, there was also a minority voice associated with some comments from one participant in Winnipeg and some participants in Calgary. This minority voice was modestly supportive, but by no means strongly supportive, of group RESPs.

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<sup>1</sup> Dr. Jerry Buckland was present at the focus group in Winnipeg but not the one in Calgary. The notes for the Winnipeg meeting were more detailed, therefore allowing the use of quotations. The notes from the Calgary meeting were more abstracted and did not allow, to the same extent as Winnipeg, the drawing of verbatim quotations. Analysis of the meeting notes was done after having read the personal stories that emerged from the focus groups (as recorded by Gaylen Eaton); however, these stories were not included in the content analysis.

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### FOCUS GROUPS WITH GROUP RESP SUBSCRIBERS

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#### 4.2.2 The importance of children's post-secondary education

Participants recognized the importance of education for their children's future well-being. As one participant from Winnipeg shared,

*[I was] so excited when I had my daughter – wanted to do everything right. My financial advisor said I needed 500 dollars to open an RESP. Oh – I don't have that. But I'll open a savings account and then I'll build up the money and bring it back to you. I just knew it was education savings and the government will give me money and it will be great. (Focus Group Participant, Winnipeg)*

Another participant described how the salesperson reinforced the importance of their child's education:

*[The] conversation with salesperson was 15 years ago. At the time she just grabbed me and said you can start saving for \$25 a month, her future is really important to you, right? That "feel-good" sales pitch. (Focus Group Participant, Winnipeg)*

#### 4.2.3 The lack of, or misleading nature of, information about the product

The next major category that emerged from the focus group data had to do with the lack of, or misleading nature of, information about the group RESP product. Many of the participants had come to understand the complexity of the product and some, in fact, learned about the complexity through their participation in the focus group.<sup>2</sup>

##### Product information: Too little, too complicated, or inaccurate

A major area of concern raised by focus group participants related to product information. Many of the participants reported that there was too little information provided about group RESPs, that the information they were given was too complicated, or that they were given inaccurate information. These responses fall into three areas: before subscribing, after subscribing, and examples of this problem.

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<sup>2</sup>One Winnipeg participant, after hearing other focus group participants discuss their experiences with the product, commented, "What I've heard is really shocking. I'm going to have to go back and take a look at what I'm doing and see what needs to be done" (Focus Group Participant, Winnipeg).

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### *FOCUS GROUPS WITH GROUP RESP SUBSCRIBERS*

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#### **Before subscribing**

Some participants commented that before becoming subscribers, they received too little information about the product and in some cases felt rushed by the salesperson to subscribe. One Calgary participant recalled that “the [group RESP] representative who came to the house only half explained – they are doing a sale and thinking about a commission” (Focus Group Participant, Calgary). In this quote, the participant has inferred a motive behind the salesperson’s actions, a point that will be discussed further below. The key point here is that the respondent believed that they were not fully informed at the time of subscription.

Other participants who were provided detailed information about the group RESP product (e.g., marketing material, the product contract) commented that the written material was long and complicated. For instance, one participant said, “The words are all in complicated jargon” (Focus Group Participant, Calgary). Another participant noted that the language came across as formal and legally oriented: “[The documents] were too much. Dry ‘legalese’ language that can be interpreted in many different ways” (Focus Group Participant, Winnipeg). One participant found the quantity and quality of the information was a disincentive to learn more: “[The documents about the product] were overwhelming” (Focus Group Participant, Winnipeg). Another respondent argued that training was needed to fully understand the product: “You need a course to understand [the group RESP product]. We want simplicity. We’re too busy to know all this stuff” (Focus Group Participant, Winnipeg). However, one participant in Calgary had a different experience with respect to learning about the product before subscribing. In this case the salesperson took the participant slowly through the document, section by section, and made sure everything was understood (Focus Group Participant, Calgary).

In some cases, participants thought that the product information that had been shared with them was not complete and therefore was inaccurate. For instance, one participant observed that “[n]othing negative was said [about the product] – they don’t present that you can lose money” (Focus Group Participant, Winnipeg). The respondent did not understand some of the more challenging aspects of the product (e.g., consequences if one cannot sustain the subscription payments, or if the child does not enroll in post-secondary studies) and so felt as though only the best-case scenario was presented. Another participant had been told that there was no fee and so felt misled into subscribing (Focus Group Participant, Calgary).

In addition to complaints about insufficient and unclear product information, another comment was that participants felt pressured to quickly subscribe. One Winnipeg participant noted that “I certainly remember them being fairly high pressure. It’s a ‘buy-it-now’ kind of attitude. They’re intent on selling to you that day” (Focus Group Participant, Winnipeg). This pressure to immediately subscribe can negatively reinforce the lack of clear information.

#### **After subscribing**

Some participants noted that the annual statements they received were complicated, or that these statements did not come soon enough after subscribing. One participant said, “Annual statements don’t make sense. If you call [the group plan promoter for clarification] it takes two hours to talk

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to someone” (Focus Group Participant, Calgary). Based on annual statements, one Winnipeg participant expected around \$80,000 for their children’s education but was disappointed: “And every time they give a statement – the amount that they tell you to expect to receive – it’s way higher [than what I received]. Almost half. So disappointed. [The statement said the savings were] always in the 80,000s.” (Focus Group Participant, Winnipeg).

Other participants noted that attempts to clarify issues about their product through the telephone led to a lot of waiting and high frustration. A Calgary participant shared that “If you call it takes two hours to talk to someone” (Focus Group Participant, Calgary). Another participant was trying to figure out the state of their investment and had great difficulty getting through on the phone: “I had to call them so many times, I had to beg, it was shocking the different people that I talked to. One of them even said, that’s not your money, and that really scared me. I thought, I saved all these years and it’s about to be gone” (Focus Group Participant, Winnipeg). In one case the participant was redirected back to the salesperson: “I was told that only the salesperson could give me information. I found that odd. I couldn’t call the head office – they’d redirect me back to the salesperson” (Focus Group Participant, Winnipeg).

### Examples of lacking or misleading information

Participants shared specific examples of when they felt that the information they received was not accurate. In some cases this related to the fees that they would be charged. Several individuals were surprised when large fees were taken off the first few years of their contributions. One Winnipeg participant commented:

*2008 comes and I’m working with a financial advisor who told me to take the money out. Was told that if I stopped there would be repercussions. I went to do the transfer out and the fees were astonishing. \$5,700 [was] contributed and \$2,900 [was] received.*

Another Winnipeg participant expected \$8,000 more than what they received.

Another matter that participants raised had to do with how the group RESP fees compared to fees for an individual RESP. One participant commented, “I was told that I would pay a lot of fees at the bank: ‘This [group RESP] is cheaper than the bank’ is what I was told. Because I was ready to open at the bank. That was a reason that we signed up – promised lower fees” (Focus Group Participant, Winnipeg). This individual was dissatisfied because they believed that the fees they paid were in fact higher for a group RESP.

Another example of advice that participants perceived to be *not* in their best interests had to do with the level of savings. Some focus group participants reported that they were advised to save an amount above what they could sustain: “[They work with] families living under \$25,000 a year. They target newcomers. Someone from your community approaches you – they [the person selling the product] think it’s a good product. You trust them. One family was [saving] \$278 per month” (Focus Group Participant, Calgary).

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#### 4.2.4 The trust of participants in the product and/or the staff

A third major category identified in the focus group notes deals with the trust that the participants held, at least initially, toward the product and sales staff. Participants noted a variety of ways in which they trusted the group plan promoter at the beginning of the process of subscribing to a group RESP. Their trust in the company led them to subscribe to the product without much hesitation or further investigation. For several participants, this trust broke down due to some unexpected event like job loss or their child deciding to do further studies in a program different than what was originally planned.

Participants identified a number of reasons why they trusted the group plan promoter, at least initially. Several noted that the company had connections within their ethno-cultural community, and because of this they trusted the company and the product. Some remarked that certain companies direct their sales toward ethno-cultural communities. One Winnipeg participant observed, “I see them going to newcomers” (Focus Group Participant, Winnipeg).

Participants commented that family members and friends would refer them to the group plan promoters. One participant said, “I didn’t know much about it. Like I said, it was through a friend” (Focus Group Participant, Winnipeg). Another participant noted:

*But the person who linked [me to the group promoter] was part of my [ethno-cultural] community. He is a friend of a friend. He made an appointment with the salesperson who came to my home. The community member was there [at the appointment]. I felt [the salesperson] was someone I could feel comfortable with. (Focus Group Participant, Winnipeg)*

In this case, the community member acted as a “bridge” to bring together the participant with the company salesperson. Because the community member made the referral, the participant trusted the salesperson more than they might have without a referral. In another case, the salesperson was from the participant’s home country:

*The person who sold was from [a scholarship plan company]. [Ethno-cultural] community. Linked up through a friend of a friend. Facilitated an appointment. Referral from someone trusted. At the meeting – felt comfortable. They came to your home. Makes people comfortable. Sales person came to the home. I felt it was someone I could be comfortable with. Ready to be signed up. We already knew about it and thought we’d do it at the bank – but when the community member first came to the home and told us about the product – said it’d be nice to open it at [the scholarship plan company] so you don’t pay fees. When salesperson came, they said the same thing. It was just easy to sign up. If the community member wasn’t involved, I would’ve found out more; work to find out about [the scholarship plan company]. Because we were ready to go to the bank. We signed up that first meeting. (Focus Group Participant, Winnipeg)*

One participant first learned about the product when they had their baby. This was an important time for the parents to be thinking about and possibly investing in their newborn’s future. One



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participant noted, “This community person would call while I was at home with my baby, my husband was at work, he would call every day and come visit” (Focus Group Participant, Winnipeg).

This leads to another point that several participants raised, which was that the salesperson came to their homes, and in fact arranged for signing the contract there. That the context was their own home added a sense of comfort for the participants:

*I was in hospital and I agreed to do Welcome Wagon, a woman came to my bed who asked if I was interested in RESP, she wanted to start savings. 25 dollars a month, the woman said she would come to my home, sounded really wonderful. (Focus Group Participant, Winnipeg).*

According to several participants, group RESPs are sold and marketed by members of their community. However, the effect of community connection is not limited to the sales process. One participant noted that the sense of community connection prevents some subscribers from complaining about the product, because they don’t want to get their fellow community member in trouble: “That’s what a lot of people think. When you work with someone from the community, you’re more reluctant to get them in trouble. You don’t want them to talk badly about you in the community” (Focus Group Participant, Winnipeg). Talking critically about a fellow community member might harm that person and subsequently also harm the complainant.

Other reasons participants pointed to in trusting the product had to do with their assumptions about the Canadian economy, the non-profit nature of the company, and the use of Welcome Wagon or the hospital for product marketing. One participant felt confident in the product because they assumed it must be good if it was being offered in Canada: this Calgary participant saw an ad on their Facebook newsfeed about how the government would give you money and thought it’s a great country to give you free money (Focus Group Participant, Calgary). Another participant felt greater trust toward the group RESP company because it was a non-profit organization. The thing that made them subscribe to the RESP was the non-profit status of the plan promoter, which they thought would mean that it would work for their interests (Focus Group Participant, Calgary). Another participant was connected to the product through Welcome Wagon: “[they] got connect with [the group RESP product] by Welcome Wagon” (Focus Group Participant, Calgary).

Participants indicated that they gained trust in group plan promoters in these ways – through staff or contacts from their own ethno-cultural community, because of the non-profit status of the scholarship foundations, and due to the connections these companies made with the local hospital or Welcome Wagon. But as discussed above, for most participants this trust was broken.

#### 4.2.5 Subscriber dissatisfaction

While a minority of focus group participants voiced support for their group plan RESPs, a more common view was dissatisfaction with the product. This dissatisfaction relates to a number of the issues discussed above, including insufficient, untimely, and/or misleading information about the product or fees, high fees, and misplaced trust in the salesperson. Some participants expressed strongly critical views about the product. One Calgary participant asked, “What’s the difference



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### *FOCUS GROUPS WITH GROUP RESP SUBSCRIBERS*

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between what these companies are doing to families [compared] to other scammers running off with people's money?" Another participant commented, "It's counter-intuitive that government programs help families to save with vultures like this" (Focus Group Participant, Calgary). Words like "scammers" and "vultures" are very strong and demonstrate a high level of criticism by these respondents toward the group RESP product and companies. The second quoted respondent is critical of other actors, in this case the Government of Canada, for being connected to the product.

#### 4.2.6 Advice for others

Focus group participants were asked what they would advise other prospective clients to do before investing in a group RESP product. Responses included a suggestion for prospective clients to "sleep on it! Try to not sign up that day [when the salesperson comes]". This participant also recommended double-checking the information before subscribing (Focus Group Participant, Winnipeg).

#### 4.2.7 Ways to improve the product

Participants were also asked how the group RESP product could be improved to more effectively meet their investment needs. Responses fell into two areas: provide clear information to prospective consumers, and regulate the sector more carefully.

##### Provide clear information to prospective consumers

Most participants called for scholarship plan sales representatives to provide better information about their product. The issues identified by the participants included the need for more information about product fees and rules, the need for simplified language to explain the product, and a desire to know how the group product compares with individual and family plan RESPs.

##### Clear and timely information about fees and product rules

Participants reported that they needed clear and timely information about the size and timing of the fees, penalties for not meeting requirements like saving contributions, information on worst-case scenarios (in addition to best-case scenarios), and cancellation policies. Participants stated how important it is to explain the front-loaded nature of the fees: "Be very clear about being front-loaded. No savings for the first two years" (Focus Group Participant, Winnipeg). Some participants also commented that it is important to explain when penalties may apply; for instance, if the child decides to go to a shorter education program or not study at all. "[The salespeople are] giving you best-case scenario rather than what happens if your child takes a shorter course. Let's talk worst case" (Focus Group Participant, Winnipeg). In this last quote, the participant is recommending that the salesperson provide a more realistic assessment of the potential outcomes of a group plan investment, including the worst-case scenario.

Underlying what some participants were calling for was that group plan promoters be more transparent about their product. There was strong support in the Winnipeg Focus Group for the idea that the rules associated with the group plan should be clarified for prospective consumers

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(Focus Group Participants, Winnipeg). One participant also remarked on the importance of annual statements being provided soon after the product was subscribed to, and provided regularly. This individual commented: “You don’t get a statement for a long time – won’t encounter issues in first 60 days when you can apparently cancel” (Focus Group Participant, Winnipeg). Another participant made the similar comment that salespeople should explain the cancellation policy (Focus Group Participant, Winnipeg).

#### **Simplify language**

Several participants found that the materials they received from the RESP promoter were unclear and/or overly complicated. For them to have made an informed decision about their investment, they needed documents with clear, comprehensive, and simple language. One participant noted that “documentation that people have to sign has to be legible, easy to read, clear, not ambiguous. Something that they can understand before they sign” (Focus Group Participant, Winnipeg). Significantly, another participant highlighted the need for simplicity in presenting materials about the product: “We want simplicity. We’re too busy to know all this stuff.” (Focus Group Participant, Winnipeg). Given the complexity of the group RESP product, this will be a challenge.<sup>3</sup>

#### **INFORMATION ON THE GROUP PRODUCT COMPARED WITH INDIVIDUAL AND FAMILY PLANS**

Focus group participants thought that before deciding on a group RESP, prospective consumers need to know that there are alternatives, including savings products from mainstream financial institutions. Participants thought that comparison would enable better decision-making: “[A]s long as you’ve been able to compare both, make your decision based on that. But before you do, check your other options” (Focus Group Participant, Winnipeg).

One participant recommended that charts be created to enable comparison between group and individual RESP products: “Rules and fee chart. How much it would cost you to take out money? Can you make lump sum payments? What happens if your child doesn’t go to school? How much money would you really get? What happens if you can’t contribute anymore? What happens if your child takes a shorter program?” (Focus Group Participant, Winnipeg).

Calgary participants recommended that these data include a comparison of actual industry statistics on non-group versus group plan RESPs. For example, Will a group plan perform better than bank RESPs? Are there benefits to getting a group plan? The participants called for the use of actual industry statistics on investment performance (e.g., the real interest rates) (Focus Group Participants, Calgary).

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<sup>3</sup> See Section 4.3.1 for a description of the regulatory requirements that define what a scholarship plan dealer must include in the plan prospectus and plan summary.

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Calgary participants recommended in particular that full and comparative information about RESPs be made available immediately when people begin a family. They argued that these materials are needed as soon as a child is born and could be provided through the hospital/birth centre as well as online. Social workers, nurses, prenatal programs, public health nurses, doulas, and midwives could provide these materials, or they could be included when the child receives their Social Insurance Number from Service Canada (Focus Group Participants, Calgary).

#### BETTER REGULATION OF GROUP PLAN PROMOTERS

In addition to needing better information, participants believed that group RESP companies needed to be regulated more effectively. Participants felt that regulation would make the companies more transparent and better at proactively informing their prospective and existing clients. Participants in Calgary called for a “tightening up” of the industry.

Participants also recommended that salespeople be licensed to ensure that they were well-trained and operating in a fair way. One participant advocated training for salespeople: “It often is newcomers as salespeople and they’re almost as much a victim as the people buying because they often don’t know, they’re told something, they’re given training for three days then told to sell stuff. That’s probably the level of training they’re getting based on the misinformation” (Focus Group Participant, Winnipeg).

A final and important comment was that there are significant equity issues related to group RESPs. One participant in Calgary noted that some subscribers “win” while others “lose.” For instance, a subscriber who is able complete their savings goals early and whose child completes a full education program can maximize the benefits of a group RESP. However, if a subscriber is unable to sustain the savings and/or their child goes to a shorter or unqualified education program, or does not attend post-secondary education, then that subscriber “loses.” One participant observed that “fees I lost probably went to someone who has more money. So [they are] appealing to those on low income – but benefits those with higher income” (Focus Group Participant, Winnipeg).



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#### 4.3 REGULATORY REQUIREMENTS APPLICABLE TO GROUP RESP PROMOTERS, COMPLIANCE REVIEWS, AND ENFORCEMENT ORDERS

**Dr. Gail E. Henderson and Simon Chung**

This section summarizes the regulatory requirements applicable to promoters of group plan RESPs under Canadian securities regulation (4.3.1), and the history of non-compliance with these requirements and enforcement orders taken in response (4.3.2).

The summary of regulatory requirements in 4.3.1 focuses on investor protection regulations aimed at investors' or clients' decision-making rather than, for example, firm solvency requirements. For brevity and clarity, we have excluded regulatory requirements related to the management of funds in a group plan.<sup>1</sup> Because five of the six scholarship plan dealers are regulated by the Ontario Securities Commission, references in the footnotes are limited, for the most part, to provisions of the Ontario *Securities Act*. Most of the requirements discussed, however, are found in "national instruments" that are applicable in all provinces. This discussion also incorporates applicable sections of the Code of Ethical Business Conduct of the RESP Dealers Association of Canada (RESPDAC).

Section 4.3.2 summarizes findings of non-compliance by past compliance reviews. It focuses primarily on the most recent compliance review of four scholarship plan dealers by the Ontario Securities Commission, which resulted in temporary orders against all four in 2012. The conditions imposed by these temporary orders have since been lifted. This section also briefly discusses privacy breaches at Rouge Valley hospital by three scholarship plan dealers, and a class action being pursued in Quebec against all six promoters for charging fees in excess of the rules applicable in that province.

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<sup>1</sup> These rules are found in the *Income Tax Act*, s 146.1(1), and National Policy Statement No. 15 *Conditions Precedent to Acceptance of Scholarship or Educational Plan Prospectuses*. Some exemptions to NP 15 have been granted pursuant to Undertakings given by plan providers to the provincial securities regulators and filed on the System for Electronic Document Analysis and Retrieval (SEDAR).

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#### 4.3.1 Securities law, regulations, and policies applicable to group plan RESPs

**Dr. Gail E. Henderson and Simon Chung**

##### *Securities regulation in Canada: General background*

Securities regulation is administered in each province by the securities commission, acting under the authority of the securities legislation of that province.<sup>2</sup> In response to industry complaints about the cost and inconvenience of having to comply with 12 different securities regimes, Canada has developed a system whereby market participants are regulated by one “principal” provincial regulator.<sup>3</sup> Children’s Education Funds Inc., C.S.T. Consultants Inc., Global RESP Corporation, Heritage Education Funds Inc. and Knowledge First Financial Inc. are regulated by the Ontario Securities Commission (OSC).<sup>4</sup> Universitas Management Inc. (Universitas), which operates only in Quebec and New Brunswick, is regulated by the Autorité des Marchés Financiers (AMF) of Quebec.

The general mandate of securities commissions is twofold: to protect investors, and to foster fair and efficient capital markets. The general regulatory approach to protecting investors and to fostering fair and efficient capital markets is mandatory disclosure to investors, the regulator, and the market, rather than direct regulation of investment products themselves. In order for securities commissions to fulfill their mandate, provincial legislatures have granted numerous powers to the commissions, including the power to make rules (which have the power of regulations made under other statutes) and to adopt policies (which act as guidelines for applying and enforcing the rules). As a result of collaboration among the provincial securities commissions, the vast majority of these rules and policies are uniform throughout Canada. A rule applicable across Canada is indicated in its name as a “national” instrument.

In securities legislation, group plan RESPs are a type of “scholarship plans.” Scholarship plans are regulated by securities law because units of these plans fall under the definition of a “security.”<sup>5</sup> The primary National Instruments governing the sale of units in group plan RESPs are National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) and National Instrument 41-101 *General Prospectus Requirements* (NI 41-101), in particular Form

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<sup>2</sup> E.g., Manitoba Securities Commission (<http://www.mbsecurities.ca/>), *The Securities Act*, CCSM c S50; Alberta Securities Commission (<http://www.albertasecurities.com/>), *Securities Act*, RSA 2000, c S-4; Ontario Securities Commission (<http://www.osc.gov.on.ca/>), *Securities Act*, RSO 1990, c S.5.

<sup>3</sup> Multilateral Instrument 11-102 – *Passport System*.

<sup>4</sup> Hereafter referred to as CEFI, CST, Global, Heritage, and Knowledge First.

<sup>5</sup> See, e.g., Ontario *Securities Act* [OSA], s. 1(1) “security” part (o) “any document constituting evidence of an interest in a scholarship or educational plan or trust.” See also Alberta *Securities Act*, s. 1(ggg)(xv); Manitoba *The Securities Act*, s. 1(1) “security” part (n).

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41-101F3 *Information Required in a Scholarship Plan Prospectus* (Form 41-101F3).<sup>6</sup> National Policy No. 15 *Conditions Precedent to Acceptance of Scholarship or Educational Plan Prospectuses*, while not binding, has influenced terms of the plans, including the way that sales charges are paid, namely that all contributions go to paying off these fees until the total fees are half paid, and after that, half of every contribution until the sales charge is fully paid. In its 2010 notice for comment on new disclosure rules, which eventually took effect May 31, 2013, the Canadian Securities Administrators (CSA) stated that revising National Policy No. 15 would be part of a “second phase” of modernizing the rules applicable to group RESPs,<sup>7</sup> but this second phase never happened.

Some securities market participants are also regulated by self-regulatory organizations (SROs). Under securities legislation, securities commissions have the power to recognize SROs and delegate to them the power to regulate the operations and standards of practice of their members. Where specified in securities legislation, compliance with the rules and regulations set down by the SRO will be considered compliance with the otherwise applicable securities laws. SROs have the power to discipline members, for example, by imposing fines or revoking their membership. For market participants who are required by securities law to be a member in good standing of an SRO, revocation of membership also means losing the ability to operate their business legally. RESPDAC is an industry association only, not an SRO, although RESPDAC is responsible for preparing and administering the proficiency exam that group plan RESP sales representatives must complete before they can act as a dealer of securities in scholarship plans.<sup>8</sup> Established in 2000, the current members of RESPDAC are Global, Heritage, Knowledge First, and Universitas. CEFI and CST are former members. RESPDAC’s mission is “to develop, maintain and enforce standards of professionalism and ethical conduct by all member companies and their employees and representatives,” and “to ensure cooperative relations among member companies, with the ultimate goal of serving the needs of subscribers first and foremost, and maintaining the high standards of the group RESP industry.”<sup>9</sup> The RESPDAC Code of Ethical Business Conduct applies to member firms and their employees and sales representatives.<sup>10</sup> The Code reinforces or supplements securities law requirements, but the Code itself is not legally binding. Member firms have agreed to follow it and to ensure that their sales representatives and other employees and agents do as well. Because RESPDAC is an industry association and not an SRO, the only means of enforcing compliance with the Code is by the threat of expulsion from the industry association, which would not necessarily have other regulatory consequences for the member. Although the Code includes this means of

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<sup>6</sup> These instruments are available online through the websites of the provincial securities commissions. Form 41-101F3 can be found at [http://www.albertasecurities.com/Regulatory%20Instruments/4909757%20%2041-101F3 Consolidation Eff Sept 22 2014.pdf](http://www.albertasecurities.com/Regulatory%20Instruments/4909757%20%2041-101F3%20Consolidation%20Eff%20Sept%2022%202014.pdf).

<sup>7</sup> CSA Notice and Request for Comment, Modernization of Scholarship Plan Regulation, Phase 1, A New Prospectus Form for Scholarship Plans, 24 March 2010, (2010) 33 OSCB Issue 12 (Supp-1). at 2.

<sup>8</sup> NI 31-103, s. 3.1 definitions of “Branch Manager Proficiency Exam” and “Sales Representative Proficiency Exam.”

<sup>9</sup> Letter from Peter Lewis and James Deeks, RESPDAC to the Ontario Securities Commission and Autorité des marchés financiers, re: CSA Consultation Paper 33-403 (February 22, 2013) at 2, at [http://www.osc.gov.on.ca/documents/en/Securities-Category3-Comments/com\\_20130222\\_33-403\\_lewisp\\_deeksj.pdf](http://www.osc.gov.on.ca/documents/en/Securities-Category3-Comments/com_20130222_33-403_lewisp_deeksj.pdf) [“2013 Letter”].

<sup>10</sup> The most recent version of the Code is dated December 2016. The Code may be found at <http://www.respdac.com/wordpress/wp-content/uploads/2017/01/RESPDAC-Code-of-Ethical-Business-Conduct-2016-12-14.pdf>.



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enforcement, stating that a breach “may” result in the expulsion of the member firm from the association, it also states the association’s expectation “that no serious breaches of this Code will occur that would warrant suspension or expulsion, and that the collegial and cooperative manner that has been the hallmark of RESPDAC will continue to be applied to all matters of mutual interest, competition and/or disagreement.” Because RESPDAC members are also market competitors, this statement appears to be intended to address the concern that a member of RESPDAC would attempt to use non-compliance against a fellow member/competitor. This inference is supported by other provisions of the Code addressing competitive conduct.<sup>11</sup>

#### *Who can sell group plan RESPs: Registration requirements*

A person or company is prohibited from engaging in the business of trading in securities unless the person or company is registered in accordance with applicable provincial securities laws. The company or firm is registered as a “dealer” and the individual salespersons are registered as “dealing representatives” of a dealer.<sup>12</sup> Sole proprietorships must be registered as both.<sup>13</sup> Registered individuals may act for only one registered firm.<sup>14</sup>

Investors or any member of the public can conduct a National Registration Search through the website of the Canadian Securities Administrators at <https://www.securities-administrators.ca/nrs/nrsearchprep.aspx?ID=1325> to confirm that a firm or individual is registered, in which jurisdictions they are registered, whether there are terms and conditions attached to their registration in a particular jurisdiction, and whether they are on the “disciplined list.” A company or firm will show up on the disciplined list if there are decisions against it. How far back the list goes depends on the jurisdiction. For example, decisions against a company by the BC Securities Commission are included dating back to 1987; decisions by the Nova Scotia Securities Commission are included only since 2015. It is recommended that an investor conduct a registration search before deciding to deal with a particular person or company.

There are different kinds of dealers with different requirements.<sup>15</sup> There is a specific dealer category for scholarship plan dealers. A dealer registered in the Scholarship Plan Dealer category may act as a dealer in respect of a security of a scholarship plan, an educational plan, or an educational trust.<sup>16</sup> Other types of dealers (mutual fund dealers and investment fund dealers) may offer individual and family plan RESPs.

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<sup>11</sup> See, e.g., “Members and their Sales Representatives will not encourage the transfer of a Client’s business from one Member to another Member.”

<sup>12</sup> OSA, s. 25. The information that must be provided to the securities regulator in order to register is found in NI 33-109. This instrument also contains requirements for updating the information provided.

<sup>13</sup> NI 31-103 Companion Policy, s. 2.1.

<sup>14</sup> NI 31-103, s. 4.1.

<sup>15</sup> See NI 31-103, s. 7.1(1).

<sup>16</sup> NI 31-103, s. 7.1(2)(c).



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As a general matter, an individual must not perform an activity that requires registration unless the individual has the education, training, and experience that a reasonable person would consider necessary to perform the activity competently.<sup>17</sup> All registrants must meet initial requirements to become registered and ongoing proficiency (i.e., education and knowledge) requirements to maintain their registration status. An individual's fitness to be registered is based on information provided in the registration form and on compliance reviews after registration. Individuals also must meet integrity and solvency requirements.<sup>18</sup> The regulator may consider an individual's history of bankruptcy and existing contingent liabilities in determining whether the solvency requirement is met.

A dealing representative of a scholarship plan dealer must not act as a dealer of these securities unless they have passed the Sales Representative Proficiency Exam,<sup>19</sup> prepared and administered by RESPDAC,<sup>20</sup> as part of the Dealing Representative Proficiency Course.<sup>21</sup> Ongoing proficiency requirements to maintain registration include an obligation to “know your product,” meaning that in order to engage in activities requiring registration, registrants must understand “the structure, features and risks of each security they recommend to a client.”<sup>22</sup> The RESPDAC Code of Ethical Business Conduct requires sales representatives to “be registered, properly trained,” i.e., have completed the Sales Representative Proficiency Exam, “and in good standing with appropriate regulatory bodies, prior to interacting” with investors or potential investors. Sales representatives also have a duty to “ensure that they are up to date on product knowledge, and current market and regulatory requirements,” consistent with the “know your product” requirement imposed by securities law.

It is ultimately the responsibility of the firm to ensure that sales representatives have met and continue to meet proficiency requirements. A scholarship plan dealer must have an “ultimate designated person” and a “chief compliance officer” who are responsible for ensuring compliance with securities laws.<sup>23</sup> The ultimate designated person must be the chief executive officer or someone acting in the capacity of a chief executive officer.<sup>24</sup> In order to be designated as the chief compliance officer of a scholarship plan dealer, the individual must be an officer of the firm, have gained 12 months of relevant securities industry experience in the 36-month period before applying

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<sup>17</sup> NI 31-103, s. 3.4.

<sup>18</sup> NI 31-103 Companion Policy.

<sup>19</sup> NI 31-103, s 3.7.

<sup>20</sup> NI 31-103, s 3.1.

<sup>21</sup> <http://www.respdac.com/respdac-courses/>.

<sup>22</sup> NI 31-103 Companion Policy, s 3.4.

<sup>23</sup> NI 31-103, ss 2.1, 3.8 and 5.1-5.2.

<sup>24</sup> NI 31-103, s 11.2.

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for registration, and have passed the Sales Representative Proficiency Exam, the Branch Manager Proficiency Exam, and the PDO Exam or the Chief Compliance Officers Qualifying Exam.<sup>25</sup>

#### *Rules relating to the sale of units in a group plan RESP*

A variety of rules apply to the initial sale of units in a group plan RESP. These include mandatory disclosure rules, which relate primarily to the content of the plan “prospectus” and plan summary; rules of conduct applicable to sales representatives, including what must be explained to a potential investor and prohibited sales tactics; rules regarding conflicts of interest; and record-keeping requirements.

#### **Mandatory disclosure: Plan summary and prospectus requirements**

A preliminary prospectus and a prospectus must be filed with the regulator, and the regulator must issue receipts for the prospectus before any trade is made that would be a “distribution” of a security.<sup>26</sup> A distribution is a trade in securities not previously issued, i.e., a sale of securities from a company that issues securities to an investor, rather than a trade between two investors. A prospectus shall provide full, true, and plain disclosure of all material facts relating to the securities issued or proposed to be distributed and shall comply with the requirements of provincial securities law.<sup>27</sup> It is an offence to make an untrue statement, a misleading statement, or an omission in a prospectus.<sup>28</sup>

The form and content of a preliminary prospectus and a prospectus are governed by NI 41-101. A prospectus must be refiled annually. No distribution of a security that requires a prospectus may continue after the lapse date. The lapse date of a security is defined as 12 months after the date of the most recent prospectus relating to the security.<sup>29</sup> Securities law requires delivery of a prospectus to an investor within two days of the purchase of a security.<sup>30</sup> In a letter to the Ontario Securities Commission, RESPDAC stated that its members “generally will provide prospective planholders with the Plan Summary at the point of sale,” which, the letter correctly notes, goes beyond the regulatory requirements,<sup>31</sup> but this standard of conduct is not included in the RESPDAC Code of Ethical Business Conduct.

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<sup>25</sup> NI 31-103, ss 11.3 and 3.8. According to NI 31-103, s. 3.1, “PDO Exam” refers to one of two examinations for partners, directors, and officers administered by either the IFSE Institute or CSI Global Education Inc.

<sup>26</sup> OSA, s 53(1).

<sup>27</sup> OSA, s 56.

<sup>28</sup> OSA, s 122(1)(b).

<sup>29</sup> OSA, s 62.

<sup>30</sup> OSA, s 71.

<sup>31</sup> 2013 Letter at 3.

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A scholarship plan prospectus must follow the content and format requirements set out in National Instrument 41-101 Part 3A and Form 41-101F3. The specific rules for a scholarship plan prospectus, summarized here, came into effect on May 31, 2013. The purpose of the securities commissions in introducing these specific rules was to provide “more meaningful and effective prospectus disclosure.”<sup>32</sup> The securities commissions anticipated that these new disclosure rules would help investors to understand and compare different group plans. The securities commissions were prompted to act by the increasing numbers of investors, “particularly investors with low to modest incomes” investing in RESPs.<sup>33</sup>

A scholarship plan prospectus “must be prepared using plain language and in a format that assists in readability and comprehension,” and must “present all information briefly and concisely.”<sup>34</sup> The companion policy to NI 41-101 suggests use of the “Flesch-Kincaid methodology” to rate the grade-level readability of the plan summary, but does not specify the grade level necessary or appropriate to meet the plain language requirement for this document.<sup>35</sup> Proposed amendments published for notice and request for comment would have required information in the plan summary to present information “at a grade level of 6.0 or less on the Flesch-Kincaid grade level scale.”<sup>36</sup> In a letter to the OSC in early 2013, RESPDAC expressed concerns regarding “the length and complexity of the required disclosure.”<sup>37</sup>

Form 41-101F3 consists of two main parts: a stand-alone plan summary, and a “detailed plan disclosure.” The detailed plan disclosure has three parts: general information, plan-specific information and information about the organization.<sup>38</sup> The prospectus must contain only mandatory or permitted information. Only headings and subheadings prescribed in the Form are allowed.

Plan summaries and prospectuses are publicly available through the System for Electronic Document Analysis and Retrieval (SEDAR) ([www.sedar.com](http://www.sedar.com)). SEDAR is the system used for electronically filing mandatory disclosure under Canadian securities regulation.<sup>39</sup> Plan summaries and prospectuses can be found on SEDAR by conducting a search for company documents, and then selecting Scholarship Plan under Industry Group and the desired date parameters. They also

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<sup>32</sup> CSA Notice and Request for Comment – Modernization of Scholarship Plan Regulation Phase 1 – A New Prospectus Form for Scholarship Plans – Proposed Amendments to National Instrument 41-101 *General Prospectus Requirements*, Form 41-101F2 and Related Amendments (March 24, 2010) at 7.

<sup>33</sup> *Ibid.* at 1.

<sup>34</sup> NI 41-101, s 3A.1.

<sup>35</sup> NI 41-101 Companion Policy, s 4.1.1.

<sup>36</sup> CSA Notice and Request for Comment Modernization of Scholarship Plan Regulation Phase 1 A New Prospectus Form for Scholarship Plans, March 26, 2010, (2010) 33 OSCB (Supp-1) at 16.

<sup>37</sup> 2013 Letter at 5.

<sup>38</sup> NI 41-101, s 3.1(2.1).

<sup>39</sup> NI 13-101 System for Electronic Document Analysis and Retrieval (SEDAR).

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are available on the websites of group plan promoters. (See, e.g., <https://knowledgefirstfinancial.ca/about-us/financial-and-other-documents.aspx>.)

The plan summary contains key information for investors. The plan summary must not exceed four pages in length and must be provided as a separate document. The purpose of the requirement for a short, stand-alone document is to help to ensure that potential investors review the most critical information about their potential investment.<sup>40</sup> Immediately following basic information about the plan (i.e., name and type of the scholarship plan, the name of the investment fund manager, and date of the plan summary), the plan summary must include the following statement: “You have up to 60 days after signing your contract to withdraw from your plan and get back all of your money.”<sup>41</sup> Cancelling after 60 days will result in the return of contributions, less sales charges and fees. The mandatory statement includes a warning that since contributions go to sales charges first, “[i]f you cancel your plan in the first few years, you could end up with much less than you put in.” In its December 2015 bulletin, the OSC stated that commission staff will no longer recommend that the commission issue a receipt for a scholarship plan prospectus for plans with “up front commission structures” (i.e., in which the bulk of the first two years’ worth of contributions go to pay sales commissions) that do not provide for a full or partial refund of sales commissions paid “in appropriate circumstances.”<sup>42</sup> Without a receipt for its prospectus, selling units in such a scholarship plan would be a violation of securities laws. The most recent 2017 plan prospectuses of the six main scholarship plan dealers do not provide for a refund of fees if the plan is cancelled after 60 days, except due to the death of the beneficiary.

The plan summary also must include information as to the “suitability” of the investment to the potential investor. Under the heading “Who is this plan for?”, the plan summary must state that a group plan “can be a long-term commitment” and is for investors who are “fairly sure” that they can make their contributions on time, that they will stay in the plan until its maturity, and that their child will attend a qualifying post-secondary institution.

The other items that must be included in the plan summary include information on the most common contribution schedule, what gets paid out to the investor or their child once the child begins their post-secondary education, risks that could result in a loss of some or all of the contributions and investment earnings, the cancellation rate, cost of the plan (i.e., fees), and that money invested is not covered by deposit insurance. A copy of the plan prospectus, any document

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<sup>40</sup> CSA Notice and Request for Comment – Modernization of Scholarship Plan Regulation Phase 1 – A New Prospectus Form for Scholarship Plans – Proposed Amendments to National Instrument 41-101 *General Prospectus Requirements*, Form 41-101F2 and Related Amendments (March 24, 2010) at 6–7.

<sup>41</sup> Form 41-101F3. See also National Policy No. 15 *Conditions Precedent to Acceptance of Scholarship or Educational Plan Prospectuses*, para (9). Most plans state in their prospectus that insurance premiums will not be returned. The exception is Heritage. See Heritage 2017 Prospectus at 31.

<sup>42</sup> 38 OSCB 10486 (December 17, 2015).

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incorporated by reference into the plan prospectus, or any portion of those documents must be provided free of charge within three days of receiving a request.<sup>43</sup>

Once an issuer is granted a receipt for a prospectus, they become a “reporting issuer,” or public company under securities regulation, which means they must comply with continuous disclosure obligations. Reporting issuers are companies legally able to distribute securities to “the public,” in contrast to private companies, which can distribute securities only to certain types of investors, generally those who have a personal connection to the company or that securities regulation considers to be sufficiently sophisticated that they do not need the protection of the full system of securities regulation. The continuous disclosure requirements applicable to reporting issuers include (1) an obligation to effect immediate disclosure of material changes in the affairs of the reporting issuer (“timely disclosure”); and (2) a requirement for regular publication of financial information, including annual audited financial statements and interim financial reports (“regular periodic disclosure”).<sup>44</sup>

In addition to the continuous disclosure requirements applicable to all reporting issuers, scholarship plans must disclose, as of the end of its most recently completed financial year, a separate statement or schedule to the financial statements that provides a summary of education savings plan and units outstanding by year of eligibility, the total number of units outstanding, and a statement of scholarship awards paid to beneficiaries and a reconciliation of the amount of scholarship awards paid with the statement of comprehensive income.<sup>45</sup>

A misrepresentation contained in a prospectus or ongoing disclosure document will give investors a statutory right of action for damages. A misrepresentation in a prospectus also gives investors a statutory right of rescission of the investment contract, i.e., a full refund of the funds invested.<sup>46</sup> A purchaser has 180 days from the date of purchase to bring an action for rescission, but the purchaser has until the earlier of three years after the date of purchase and 180 days after they first had knowledge of the facts giving rise to the cause of action to bring an action for damages.<sup>47</sup> Purchasers also have a statutory right of action for rescission or damages against a dealer who failed to comply with an obligation to send a prospectus to a purchaser of securities or an obligation to send a prescribed disclosure document to a purchaser.<sup>48</sup>

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<sup>43</sup> NI 41-101, s 3A.5.

<sup>44</sup> NI 81-106.

<sup>45</sup> NI 81-106, s 3.11.

<sup>46</sup> OSA, s 130(1).

<sup>47</sup> OSA, s 138(b).

<sup>48</sup> OSA, s 133.

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#### Rules of conduct of sales representatives

Registrants have a general duty to deal with clients “fairly, honestly and in good faith.”<sup>49</sup> This is not a fiduciary duty or a duty to act in the client’s best interest. Rather, among other obligations falling under this general duty, registrants have a specific duty to take reasonable steps to ensure that an investment is “suitable” for the investor.<sup>50</sup> This suitability requirement is discussed further, below. The RESPDAC Code of Ethical Business Conduct requires members to “at all times deal fairly, honestly and in good faith with Clients, Prospects [potential clients contacted by a sales representative] and the public.”

The general Know Your Client (KYC) rule requires registrants to take reasonable steps to gather sufficient information to establish the following: the identity of the client; whether the client is an insider of a reporting issuer, or any other issuer whose securities are publicly traded; the client’s investment objectives, financial circumstances, and risk tolerance; and the client’s creditworthiness if the registered firm is financing the client’s acquisition of a security.<sup>51</sup> When opening client accounts a “registered firm must deliver to the client all information that a reasonable investor would consider important about the client’s relationship with the registrant.”<sup>52</sup>

Scholarship plan dealers and dealing representatives are required to offer only investments that are “suitable” for the investor.<sup>53</sup> Suitable means appropriate for their investment objectives, financial circumstances, and risk tolerance, gathered under the KYC rules discussed above. The amount of information needed to fulfill the obligation to recommend only suitable investments will depend on the circumstances.<sup>54</sup> Since dealing representatives of scholarship plan dealers can offer only units in plans of that scholarship plan dealer, this mainly applies to recommending a particular plan of that scholarship plan dealer and a financial contribution schedule.<sup>55</sup> In a letter to the OSC regarding the possible imposition of a duty to offer only investment options that are in the client’s best interest, RESPDAC suggested that it should not be the role of scholarship plan dealers or its dealing representatives “to suggest to a prospective client that the RESP may not be ‘best’ for the client and the client should go elsewhere to save for their children’s education.”<sup>56</sup> As discussed in Section 4.3.2 below, the OSC has reprimanded scholarship plan dealers for selling plans to investors

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<sup>49</sup> OSC Rule 31-505. See also *Alberta Securities Act*, s. 75.2; *Manitoba Securities Act*, s. 154.2(3).

<sup>50</sup> NI 31-103, s 13.3.

<sup>51</sup> NI 31-103, s 13.2.

<sup>52</sup> NI 31-103, s 14.2(1).

<sup>53</sup> NI 31-103, s. 13.3.

<sup>54</sup> NI 31-103 Companion Policy, s. 13.3.

<sup>55</sup> See 2013 Letter at 6.

<sup>56</sup> 2013 Letter at 6. See also Letter from Paul Renaud, RESPDAC to the Ontario Securities Commission and Autorité des marchés financiers re: Consultation Paper 33-404 (September 28, 2016) at 2, [https://www.osc.gov.on.ca/documents/en/Securities-Category3-Comments/com\\_20160928\\_33-404\\_renaudp.pdf](https://www.osc.gov.on.ca/documents/en/Securities-Category3-Comments/com_20160928_33-404_renaudp.pdf) at 6.

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whose income is simply too low or too variable, or whose children are too old for any group plan to be appropriate.

Registrants are prohibited from engaging in abusive sales practices such as tied selling. This means they cannot require a client to buy or sell a security as a condition of supplying or continuing to supply a product or service; or buy, sell, or use a product or service as a condition of buying or selling a security.<sup>57</sup> A number of scholarship plan dealers require investors in group plans outside of Quebec to purchase mandatory insurance to cover contributions to the plan in the event of the investor's disability or death.<sup>58</sup> In all cases, insurance premiums are deducted from contributions to the plan. Scholarship plan dealers also offer other, optional insurance.

When offering a scholarship plan to a client, scholarship plan dealers must explain any terms of the plan that if not met by the client might cause the them or their designated beneficiary to suffer a loss of contributions, earnings, or government contributions in the plan.<sup>59</sup> The RESPDAC Code of Ethical Business Conduct includes a general duty of sales representatives to provide potential investors with "objective and impartial" information necessary to make an informed decision, as well as a duty to "accurately and completely describe ... the implications for the Client if he or she prematurely terminates the contract" before the investor completes the contract. The Code also requires that "[d]isclosure will be consistent with the information contained in the Member's most recent financial statements, Management Reports of Fund Performance and the prospectus of the applicable RESP."

Before a registered firm accepts an instruction from a client to purchase or sell a security, the firm must disclose the charges that the client will be required to pay.<sup>60</sup> The RESPDAC Code of Ethical Business Conduct includes a duty to "accurately and completely describe the fees that are payable by the Client before the Client completes his or her contract to invest in an RESP" (emphasis added), and mentions enrollment fees in particular.

The Code of Ethical Business Conduct also addresses sales tactics that might be used to induce investors to invest in an RESP. The Code prohibits any sales tactics that directly or indirectly "would have the reasonable potential of misleading [the investor] about the terms of the investment." Specifically, sales representatives must not "commit to a future value for the Plan being invested in, nor hold out enticements, which may cause a Client or Prospect to invest beyond their financial capability."

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<sup>57</sup> NI 31-103, s 11.8.

<sup>58</sup> CEFI, November 6, 2017, Detailed Plan Disclosure (prospectus) at p. 22.

<sup>59</sup> NI 31-103, s 14.2.

<sup>60</sup> NI 31-103, s 14.2.1.



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#### Conflicts of interest

A registered firm must take reasonable steps to identify existing and potential material conflicts of interest that the firm reasonably expects to arise between the firm and a client.<sup>61</sup> The firm must respond to any conflicts. Conflicts of interest are to be avoided, but if they arise, must be managed and disclosed. If a reasonable investor would expect to be informed of such a conflict, the firm must disclose the nature and extent of the conflict to the client in a timely manner.<sup>62</sup> The RESPDAC Code of Ethical Business Conduct imposes a duty on sales representatives to “make recommendations to [investors and potential investors] objectively, impartially and in a professional manner, without considering their own personal interest in any proposed investment, including remuneration that may result from completion of the transaction.”

Generally, a registered firm is prohibited from recommending a trade in a security issued by the registered firm or one of its related issuers or, during a distribution of such securities, a security of one of its connected issuers. However, this rule does not apply to a recommendation in respect of a scholarship plan if the name of the plan is sufficiently similar to indicate that they are affiliated with the firm.<sup>63</sup>

Referral arrangements are prohibited unless (1) there is a written agreement between the registered firm and the person or company; (2) the registered firm records all referral fees; and (3) clients are provided with prescribed disclosure.<sup>64</sup> A “referral arrangement” is defined as “any arrangement in which a registrant agrees to pay or receive a referral fee.”<sup>65</sup>

#### Record-keeping requirements

Registered firms have a general obligation to maintain records that “accurately record [their] business activities, financial affairs and client transactions,” and “demonstrate the extent of the firm’s compliance with applicable requirements of securities legislation.”<sup>66</sup> Specifically, firms must maintain records that document the opening of client accounts, including any agreements with clients.<sup>67</sup> After purchasing or selling a security on behalf of a client, the dealer must promptly deliver to the client or, if the client consents in writing, to a registered adviser acting for the client, a written confirmation of the transaction. The confirmation must set out the quantity and description of the security purchased or sold, the price per security, the commission or any charges in respect of

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<sup>61</sup> NI 31-103, s 13.4.

<sup>62</sup> NI 31-103, s 13.4(3).

<sup>63</sup> NI 31-103, s 13.6.

<sup>64</sup> NI 31-103, s 13.8. NI 31-103, s 13.10 sets out what must be included in disclosure to investors.

<sup>65</sup> NI 31-103, s 13.7.

<sup>66</sup> NI 31-103, s 11.5(1).

<sup>67</sup> NI 31-103, s 11.5(2)(k).



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the transaction, whether the registered dealer acted as principal or agent, the name of the dealing representative involved in the transaction, and the settlement date of the transaction.<sup>68</sup> If a client is enrolled in an automatic payment plan, the dealer is only required to deliver confirmation for the first transaction.<sup>69</sup>

Scholarship plan dealers are exempt from the requirement to deliver interim financial statements to investors.<sup>70</sup>

#### *Ongoing obligations to group plan investors: Annual statements*

A scholarship plan dealer must deliver a statement to the client at least once every 12 months. This statement shall include information in respect of the security held by the client, determined as at the end of the period for which the statement is made, and details of any transactions made for the client during the period covered by the statement.<sup>71</sup> In addition, for each 12-month period, a dealer must also deliver a report on charges and other compensation and an investment performance report.<sup>72</sup> For scholarship plan dealers, the report on charges and other compensation must also include the unpaid amount of any enrollment fee or other charge that is payable by the client. For the investment performance report, a scholarship plan dealer is required to deliver the following information: the total amount that the client has invested in the plan as at the date of the report, the total amount that would be returned to the client if the client ceased to make prescribed payments into the plan, a reasonable projection of the future payments that the plan might pay to the designated beneficiary or to the client at the maturity of the plan, and a summary of any terms of the plan that, if not met by the client, might cause the client or the designated beneficiary to suffer a loss of contributions, investment earnings, or government contributions in the plan.<sup>73</sup> Prior to this requirement coming into force, RESPDAC members were required to comply with a Code of Expected Future Benefits, effective April 2011, regarding disclosure of what investors could expect to receive on plan maturity.<sup>74</sup>

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<sup>68</sup> NI 31-103, s 14.12.

<sup>69</sup> NI 31-103, s 14.13.

<sup>70</sup> See, e.g., Children's Education Trust of Canada, Detailed Plan Disclosure prospectus (continuous offering), November 8, 2016, at 62.

<sup>71</sup> NI 31-103, s 14.16.

<sup>72</sup> NI 31-103, s 14.17.

<sup>73</sup> NI 31-103, s 14.18(4).

<sup>74</sup> 2013 Letter at 3. This document does not appear to be publicly available.

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#### *Client complaints*

A registered firm is required to document each complaint received regarding any of its products or services, and respond to the complaint in a fair and effective manner.<sup>75</sup> If a firm receives a complaint from a client, the firm must provide the client with a written acknowledgement that must include the contact information for the Ombudsman for Banking Services and Investments (OBSI), the mandated independent dispute resolution service for registered firms outside of Quebec.<sup>76</sup> OBSI has been the mandated dispute resolution service for all registered firms outside Quebec since 2014,<sup>77</sup> but RESPDAC has required its members to use it since November 2007.<sup>78</sup> A firm may either reject or make an offer to resolve the complaint. The firm must provide the client with written notice of its decision as soon as possible.<sup>79</sup> A client may escalate a complaint to OBSI (whose services will be made available at the firm's expense) in one of two circumstances: (1) the firm fails to give the client notice of its decision to reject or resolve the complaint within 90 days of receiving the complaint; or (2) the firm has given the client notice, but the client is not satisfied with the decision (in which case the client has 180 days in which to escalate the complaint).<sup>80</sup>

#### *Rules relating to firm integrity and insurance*

Registered firms have a duty to establish and maintain systems of control and supervision for controlling activities and supervising representatives.<sup>81</sup> This “compliance system” must be sufficient to provide reasonable assurance that the firm and each individual acting on its behalf complies with securities legislation, and to manage the risks associated with its business in accordance with prudent business practices.<sup>82</sup> Registered firms must also designate an “ultimate designated person” (UDP) and “chief compliance officer” to supervise and promote the firm's compliance with securities regulation.<sup>83</sup> The UDP is generally responsible for ensuring compliance with securities legislation.<sup>84</sup>

Every registered firm is required to maintain a minimum amount of “excess working capital,” i.e., funds not required for current operations which it otherwise would invest. If, at any time, the excess

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<sup>75</sup> NI 31-103, s 13.15.

<sup>76</sup> NI 31-103, s 13.16(2).

<sup>77</sup> <https://www.obsi.ca/en/about-us/our-history.aspx>.

<sup>78</sup> 2013 Letter at 2. Universitas, which is regulated by the Autorité des marchés financiers, the provincial securities regulator of Quebec, also uses the OBSI. See <https://www.obsi.ca/en/resource-room/list-of-participating-firms?letter=U>.

<sup>79</sup> NI 31-103, s 13.16(3).

<sup>80</sup> NI 31-103, s 13.16(5).

<sup>81</sup> OSA, s 32(2).

<sup>82</sup> NI 31-103, s 11.1.

<sup>83</sup> NI 31-103, ss 11.2 and 11.3.

<sup>84</sup> NI 31-103, s 5.1.

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working capital of a firm is less than zero, that firm must notify the regulator. The firm's excess working capital must not fall below zero for two consecutive days.<sup>85</sup> Registered dealers that are not also registered investment fund managers are required to maintain a working capital of \$50,000, as calculated in accordance with Form 31-103F1 (Calculation of Excess Working Capital). If the dealer is also a registered investment fund manager, the minimum is \$100,000.<sup>86</sup>

Registrants must deliver audited annual financial statements and a completed Form 31-103F1 (Calculation of Excess Working Capital) to the regulator within 90 days of the registrant's financial year-end. Furthermore, registered dealers must also deliver interim financial information and a completed Form 31-103F1 to the regulator not later than 30 days after the end of the first, second, and third quarter of its financial year.<sup>87</sup>

Every registered dealer must maintain bonding or insurance to protect against loss arising out of dishonesty or fraud by employees, theft, money lost in transit, and forgery.<sup>88</sup> The insurance must also provide for a double aggregate limit or a full reinstatement of coverage. A registered dealer must maintain bonding or insurance in the highest of the following amounts for each clause: (1) \$50,000 per employee, agent, and dealing representative or \$200,000, whichever is less; (2) 1% of the total client assets that the dealer holds or has access to or \$25,000,000, whichever is less; (3) 1% of the dealer's total assets or \$25,000,000, whichever is less; or (4) the amount determined to be appropriate by a resolution of the dealer's board of directors or equivalent.<sup>89</sup> Similar requirements apply to investment fund managers.<sup>90</sup>

### *Conclusion*

Group plan RESPs are regulated by provincial securities laws because units in such plans fall under the legislative definition of a "security." As a result, the companies and individuals involved in the sale of group plan RESPs must be registered with a provincial securities commission, and mandatory disclosure made to investors in such plans. Due to harmonization efforts of the CSA, the vast majority of securities laws applicable to group plan RESPs are the same across provinces.

As registrants, group plan RESP promoters and their sales representatives have a general duty to deal with clients fairly, honestly, and in good faith, and a specific duty to ensure that a group plan RESP is "suitable" to their investors, based on the investors' financial situation and investment time horizon. In 2013, changes were made to the disclosure requirements applicable to group plan RESPs to better protect investors, particularly low- and moderate-income investors targeted by

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<sup>85</sup> NI 31-103, s 12.1.

<sup>86</sup> NI 31-103, s 12.1(3).

<sup>87</sup> NI 31-103, s 12.12.

<sup>88</sup> NI 31-103, s 12.3.

<sup>89</sup> NI 31-103, s 12.3(2).

<sup>90</sup> NI 31-103, s 12.5.

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these investment products. The objective of these amendments was to make it easier for investors to understand better the terms of these plans and to compare different group plans. It remains to be seen whether the new disclosure rules have achieved this goal.

#### 4.3.2 Past compliance reviews and enforcement orders

##### Dr. Gail E. Henderson

A review of a 2003 national compliance review, the CSA's annual enforcement reports from 2010 until 2016, and enforcement actions taken by the OSC in 2012 reveal a history of "significant" and "repeat" non-compliance when it comes to four scholarship plan dealers' legal duties to investors, including the obligation to deal with investors fairly, honestly, and in good faith.<sup>91</sup> Between 2003 and 2012, Global and CEFI were the subject of five compliance reviews by the OSC; terms and conditions were imposed on Global's registration in 2003, 2004, and 2012 and on CEFI in 2004 and 2012. In the same period, Knowledge First was the subject of three compliance reviews, with terms and conditions imposed in 2004, 2005, and 2012. Heritage was the subject of three compliance reviews between 2000 and 2012, with terms and conditions imposed in 2003, 2004, and 2012. The 2012 terms and conditions imposed on all four scholarship plan dealers are discussed in detail below. In attempting to provide a concise summary of the numerous instances of non-compliance listed in the 2012 compliance field review reports, this report focuses on those breaches of securities law deemed most relevant to the Group RESP Research and Education Project.

##### *Compliance reviews 2003–2010*

In 2003, the CSA performed a national compliance review of five unnamed scholarship plan dealers.<sup>92</sup> Seven provinces participated in the review: British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Prince Edward Island, and Quebec. The OSC report of the national compliance review noted generally lax oversight by compliance officers over branch managers, and by branch managers over dealing representatives, as well as deficiencies in the training of dealing representatives. The report also noted that "[c]ertain plans had a high number of terminations or cancellations indicating that these plans were potentially unsuitable for clients at the onset," but "there is no review of the terminations by the compliance officer to determine the reasons."<sup>93</sup> The report suggested that dealers should develop "guidelines" on plan affordability and that deviating from the guidelines should require branch manager approval. It appears that this concern was not addressed adequately, because the development of new affordability guidelines came up again in the 2012 enforcement orders discussed below.

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<sup>91</sup> Going back further, in 2000 Heritage Education Funds Inc. was disciplined by the British Columbia Securities Commission for an inadequate compliance system. It is a term and condition of Heritage Education Funds' registration in BC that it have no less than two compliance officers in the province.

<sup>92</sup> Ontario Securities Commission, Industry Report: Scholarship Plan Dealers (July 2004), [http://www.osc.gov.on.ca/documents/en/Securities-Category3/cmr\\_20040714\\_33-725\\_spd-ind-rpt.pdf](http://www.osc.gov.on.ca/documents/en/Securities-Category3/cmr_20040714_33-725_spd-ind-rpt.pdf).

<sup>93</sup> Industry Report, p. 5.

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The report also expressed concerns about misrepresentation of enrollment and other fees, and the consequences of terminating the plan.<sup>94</sup> Another potential source of confusion was created by sales representatives, in response to training manuals encouraging them to do so, claiming to work for the non-profit foundation sponsoring the scholarship plan rather than the for-profit distributor selling the plan.<sup>95</sup> National Policy No. 15 *Conditions Precedent to Acceptance of Scholarship or Educational Plan Prospectuses* tells scholarship plan dealers to draw “a very clear distinction” between the foundation and the distributor, and warns against use of misleading titles for salespersons, such as “education counsellor.”

In 2010, Heritage was reprimanded by the British Columbia Securities Commission and ordered to comply with applicable securities laws.<sup>96</sup> The order arose from a 2008 compliance review which found that compliance deficiencies uncovered by compliance reviews in 2000 and 2003 had not been corrected.<sup>97</sup> These deficiencies included inadequate supervision of branch managers and employees. A settlement agreement accompanying the order required Heritage to pay \$50,000 to the Securities Commission and to engage an independent monitor “to perform an annual review of [its] compliance and supervision systems and practices” for two years, starting in 2010.<sup>98</sup> Heritage’s 2017 Prospectus states that the 2010 and 2011 monitor’s reports “have not identified any material, continuing deficiencies.”<sup>99</sup>

#### *2012 enforcement actions*

Between June 2010 and October 2011, the OSC conducted compliance reviews of the head offices and branch offices located in the Greater Toronto Area of four scholarship plan dealers: CEFI, Global, Heritage, and Knowledge First. The compliance reviews found a number of “repeat” and “significant” compliance deficiencies, including with respect to the suitability of plans for low-income investors. These compliance reviews resulted in temporary orders, made between July and August 2012, against all four dealers, which imposed “terms and conditions on the registration of” each.<sup>100</sup> Terms and conditions were also imposed on Global Growth Assets Inc., the investment fund manager of Global. As of April 2014, all four orders had been lifted and the terms and conditions

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<sup>94</sup> Industry Report, pp. 6–7.

<sup>95</sup> Industry Report, p. 8.

<sup>96</sup> Order against Heritage Education Funds Inc. pursuant to s. 161 of the Securities Act, RSBC 1996, c. 418, dated May 14, 2010, 2010 BCSECCOM 258.

<sup>97</sup> CSA Enforcement Report 2010.

<sup>98</sup> Settlement Agreement between the Executive Director of the British Columbia Securities Commission and Heritage Education Funds Inc., dated May 14, 2010.

<sup>99</sup> Heritage 2017 Prospectus at 58.

<sup>100</sup> CSA Enforcement Report 2012.

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on their registration removed.<sup>101</sup> The dealers also entered into settlement agreements regarding the misconduct identified in the compliance reviews. The terms of the settlement agreements are described below. New terms and conditions have since been imposed on Global for breach of its settlement agreement.

A full list of documents reviewed for this section (4.3.2) is contained in Appendix D.

### Findings of the compliance reviews

#### SUITABILITY

The compliance reviews for all four providers concluded that the providers were not fulfilling their obligations under s. 13.3 of NI 31-103, which imposes an obligation on dealers to ensure that an investment is suitable for the investor. This failure also constituted a breach of the duty to deal with clients fairly, honestly, and in good faith.

The compliance reviews found that three providers (CEFI, Global, and Heritage) collected insufficient information regarding clients' income to assess suitability of investing in a plan. For example, a Global or Heritage client who indicated that their annual income was less than \$25,000 could have an annual income anywhere in the range from zero to \$24,999, but more precise information regarding income and assets was not obtained. This meant that the providers could have been selling plans to investors who could not afford them – and in fact did so. Knowledge First had sold plans to investors “receiving social assistance, earning variable or seasonal income, or relying on the Ontario Student Assistance Program (OSAP) as a source of income.”<sup>102</sup> The compliance review report for CEFI noted that the inadequate process for assessing suitability made it “extremely unlikely that an investment in one of your scholarship plans would ever be found unsuitable.”<sup>103</sup> In fact, some of CEFI's and Knowledge First's dealing representatives had never turned down a potential investor for suitability reasons. The failure of CEFI's dealing representatives to adequately assess affordability was evidenced by its “historical cancellation rate of approximately 26.5%” and the collection of over \$1 million in NSF fees.<sup>104</sup> Knowledge First and Heritage had similarly high historical cancellation rates of 27.9% and 23.4%, respectively. During the review period, the review found that 11 out of 16 Heritage accounts that were “terminated, inactive, or in default” were a result of missed payments. The reports of both CEFI and Heritage explicitly stated that these providers target low- and middle-income families. The most recent plan prospectuses of the five group plan promoters indicated

<sup>101</sup> For Knowledge First, all of the terms and conditions were removed as of October 23, 2013; for CEFI, as of November 26, 2013; for Heritage, as of June 6, 2014; and for Global, as of April 24, 2014.

<sup>102</sup> Knowledge First Compliance Field Review Report at 7–8.

<sup>103</sup> Compliance Field Review Report, June 14, 2012, at 7.

<sup>104</sup> Compliance Field Review Report, June 14, 2012, at 6. The compliance review found that 38/45 policies cancelled during the review period were as a result of missed payments.



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average cancellation rates, based on the last five beneficiary groups to reach maturity, between 10.6% and 44%.<sup>105</sup>

The compliance reviews also found that affordability guidelines focused solely on family income, and did not take into account other factors such as “household expenses, family and financial situation” (CEFI, Heritage, Knowledge First).<sup>106</sup> For example, Knowledge First was found to have entered an arrangement with the “Vantage Cultural Workshop” to enable members of the Pentecostal church to invest in a group plan, even though this provider knew that the income from these investors was generated primarily from “a multi-level marketing” scheme and therefore fluctuated significantly from month to month, making the payment schedule under the plan unsuitable to these investors.<sup>107</sup> Two providers (CEFI, Knowledge First) relied on letters from the client to get around their own affordability guidelines.

The compliance review reports also found a general failure to consider clients’ investment horizon when assessing suitability. A specific problem related to timing of the investment and suitability was dealing representatives of Global RESP frequently selling plans scheduled to mature after the child, or “nominee,” was over 18. As set out in the Global RESP compliance review report, “418 plans were sold during the review period [one year] to subscribers whose nominee will be over 20 years of age when their plans are scheduled to mature. In fact, of this amount, there were approximately 320 plans sold during the review period whose nominees will be over 21 when their plans mature.”<sup>108</sup> Furthermore, these investors were not told that matching grants from the government end at age 17. Certain dealing representatives of Global appeared to sell exclusively to families in this situation.

Finally, plans of Global RESP were sold to clients with a temporary social insurance number (SIN) who therefore “may not be able to stay in Canada permanently.”<sup>109</sup> In one case, a refugee claimant whose refugee claim was rejected lost their entire investment contribution of \$1,900. This risk was not disclosed to the individual. All of the current prospectuses reviewed disclose the risk of losing contributions and government grants if an RESP is opened using a temporary SIN that is revoked and not replaced with a permanent one.<sup>110</sup> The Global RESP compliance review also noted an “[i]ndication that some clients cannot read English.”<sup>111</sup>

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<sup>105</sup> CST Plan Summary at 2 (10.6%); Heritage, Plan Summary at 3 (19.9%); CEFI, Group Option Plan, February 10, 2017, at 2 (41%); and Knowledge First, Plan Summary at 2 (44%).

<sup>106</sup> Compliance Field Review Report, June 14, 2012, at 6; Heritage Compliance Field Review Report at 8; Knowledge First Compliance Field Review Report at 8.

<sup>107</sup> Knowledge First Compliance Field Review Report at 4–5.

<sup>108</sup> Compliance Field Review Report, March 7, 2012, at p. 13. In one case, the wrong length of plan was recorded on the application, so that the plans were due to mature when the child nominees were 23 and 27. These plans were nevertheless approved by the branch manager. Compliance Field Review Report, March 7, 2012.

<sup>109</sup> Compliance Field Review Report, March 7, 2012 at 14.

<sup>110</sup> CEFI Prospectus 2016 at 16. CST and Heritage provides this information under “If we cancel your plan” CST 2017 Prospectus at 28; Heritage 2017 Prospectus at 31.

<sup>111</sup> Compliance Field Review Report, March 7, 2012, at 18.

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#### SALES TACTICS

The compliance reviews found “use of misleading, inaccurate and high pressure sales training materials” for dealing representatives (Global), “high pressure sales tactics” and “misleading and inaccurate claims in marketing materials” (CEFI, Heritage), contrary to the providers’ duty to deal with clients fairly, honestly, and in good faith. Global’s and Heritage’s marketing materials sought to pressure potential clients into choosing their plans over mutual funds by making misleading statements regarding the fees and risks associated with mutual funds. CEFI’s and Heritage’s marketing materials included misleading information about self-directed RESPs. Heritage’s training materials instructed dealing representatives to represent investing in the plan as “simply opening a savings account for your child’s education.”<sup>112</sup> At Heritage, training materials were reviewed only by sales and marketing staff and not by compliance staff. CEFI’s marketing materials made unsubstantiated statements about the increasing costs of tuition by including a graph showing an annual 4% increase from 2011 through 2031. Global’s training materials instructed dealing representatives to say “[i]n response to a potential client stating ‘I can’t afford it ...,’” “to state ‘If you can’t afford the small ... how will your [son/daughter’s name] be able to afford the 1,000’s of dollars of cost in the future?’”<sup>113</sup> CEFI similarly instructed dealing representatives to say that “there is always something to spend money on,” and “it is seldom money that stands in the way of people who really want to do something.”<sup>114</sup>

The compliance review found that “certain” dealing representatives of CEFI “solicited and enrolled clients on the same day,” and that “[t]hese representatives acknowledged that the prospectus was not read by their client prior to subscribing into the Plan.”<sup>115</sup> The compliance review for Heritage found that training materials instructed dealing representatives to close sales the same day and encouraged them not to take no for an answer. The materials included the following statement: “It would really help me if there were any way you could make a decision tonight. If we had to call on every family twice, we could never get our job done.”<sup>116</sup>

In the case of Global RESP, the compliance review also found that dealing representatives were misleading investors by telling them that the return of their enrollment fees upon completion of the plan was guaranteed, contradicting the information in the prospectus, and in breach of Global’s obligation to deal with investors fairly, honestly, and in good faith. This misrepresentation was repeated on client account statements and other correspondence with individual clients. Global also misled clients by stating in correspondence that switching to another RESP with “low or no enrollment fees” would result in lower returns, a claim that is unsubstantiated. In general, the dealers’ marketing materials and disclosure appeared to try to downplay the effect of the enrollment

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<sup>112</sup> Heritage Compliance Field Review Report at 10.

<sup>113</sup> Global Compliance Field Review Report, March 7, 2012, at p. 21.

<sup>114</sup> CEFI Compliance Field Review Report, June 14, 2012, at p. 10.

<sup>115</sup> CEFI Compliance Field Review Report, June 14, 2012, at p. 11.

<sup>116</sup> Heritage Compliance Review Report at 10–11.



## 4. RESULTS

### *REGULATORY REQUIREMENTS AND COMPLIANCE REVIEWS*

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fees on investment returns and on transferring out of or on terminating the plan. Global also failed to suggest to clients seeking to terminate that they might be better off to suspend their account.

#### SUPERVISION

Deficiencies with respect to compliance controls and supervision of branches and of dealing representatives were also identified, including branch managers failing to document or even perform background checks on dealing representatives (Global), failing to replace an ineffective branch manager (Knowledge First), failing to ensure that dealing representatives receive adequate training (Global, CEFI), and failing to ensure that dealing representatives were complying with terms and conditions imposed on them by securities regulators (CEFI, Heritage, Knowledge First). In two cases, a single branch manager of Global RESP was responsible for supervising over 100 dealing representatives.

In three cases (Global, CEFI, Knowledge First), dealing representatives did not fully understand the terms of the plan and its associated risks, and in two cases, (Global, Knowledge First) did not discuss the associated risks with investors. Once identified, knowledge deficiencies were not adequately addressed (Heritage, Knowledge First). “Knowing your product” is necessary to ensuring that an investment product is suitable for a client.

#### CLIENT COMPLAINTS

Global and CEFI failed to maintain a complete record of client complaints, contrary to NI 31-103, s. 13.15. For example, during the course of the compliance review, CEFI documented 16 complaints (nine against a single dealing representative), while the OSC contact centre received 40 complaints during the same period.

In two cases, how the dealer responded to an issue was found wanting. Global’s response to “a pre-authorized payment error that resulted in multiple payments being taken out of some ... client accounts and/or banking fees charged to client accounts” was inadequate.<sup>117</sup> Specifically, Global failed to “communicate the actions that customers were required to take to ensure they were properly reimbursed.” Heritage’s compliance review found that inadequate steps were taken to return unclaimed payments before these payments were reallocated to other funds. The compliance review also found the disclosure related to unclaimed payments in Heritage’s prospectus to be inadequate.<sup>118</sup> In the case of CEFI, investors were charged fees for missed payments that were not adequately disclosed in the prospectus.

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<sup>117</sup> Compliance Field Review Report, March 7, 2012, at p. 18.

<sup>118</sup> Its 2017 Prospectus at 40 states that “[t]here is no longer a post-maturity five year deadline for subscribers of the inactive plan to claim contributions less sales charges and fees. They can claim these funds up until the end of the 35th year the plan was entered into.”

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#### Temporary orders and settlement agreements

The terms and conditions imposed by the 2012 enforcement orders included “retain[ing] a compliance consultant to develop and implement a compliance plan and a monitor to ensure that all sales are suitable.” Until the compliance plan was fully implemented, the scholarship plan dealers were prohibited from opening new branch locations or increasing the number of sales representatives. An exception was made for replacing sales representatives who left while the order was in place, but in these cases, the OSC required a letter from the compliance consultant confirming that the new sales representatives had received adequate training and would be supervised by a capable branch manager.

The recommendations of the consultants included improvements to Know Your Client forms so as to gather more accurate information regarding suitability and affordability, revising affordability guidelines to focus on disposable income<sup>119</sup> or cash flow, and better training of dealing representatives. The consultants’ plans for Global and Knowledge required analyzing plan terminations to identify “high risk” branches and dealing representatives. The consultant’s plan for Knowledge First Financial also required imposing restrictions on selling to subscribers “whose sole source of income is temporary or fluctuating government benefits,” “with annual income of less than \$25,000,” and “with seasonal or variable income that cannot be expected to support a plan’s committed contribution.”<sup>120</sup>

While the compliance plan was being developed and pending its approval by the OSC, the order required the monitor, who had to be independent of the scholarship plan dealer, to follow up with new clients within 30 days of the investment for the purpose of confirming the client’s Know Your Client information; confirming the suitability of the investment, including the client’s ability to pay; and ensuring the client’s understanding of the fee structure, including the impact of enrollment fees on early termination and any fees and charges incurred from missed payments. If the monitor determined that the investment was not suitable, the investment was unwound at no cost to the client. If the monitor determined that the client did not understand the fee structure, the monitor was to explain it and give the client the option to unwind the investment at no cost up to 60 days after the investment was made. The scholarship plan dealers were required to disclose to new clients that their investment would be reviewed by an independent monitor. At the time the temporary orders were made, the monitor was required to contact all new clients with an annual income less than or equal to \$50,000 for CEFI, and \$55,000 for Heritage Funds and Knowledge First, as well as a random sample of between 10–15% of all other new clients. For Global RESP, the order required the monitor to contact all new clients prior to November 2, 2012, and all subsequent new clients with an income less than or equal to \$50,000 and a random sample of 20% of all other new clients. These terms were varied over the course of the duration of the temporary orders, reducing the

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<sup>119</sup> The consultant’s plan for Knowledge First included “comparisons to authoritative guidance (e.g. Statistic Canada’s [sic] Annual Analytical Reports on Economic Well-Being of Canadians”) relating to affordability.”

<sup>120</sup> Settlement Agreement dated March 5, 2014, at 8.

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### REGULATORY REQUIREMENTS AND COMPLIANCE REVIEWS

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number of clients required to be contacted. For Global RESP, the monitor called 1,412 new clients, and unwound 17 new client applications because the investment was unsuitable, and cancelled an additional 241 new client applications because the clients did not understand the fee structure. For Knowledge First, the monitor reviewed 9,479 applications, called 3,500 new clients, and unwound 88 investments because the investment was unsuitable. For Heritage Funds, the monitor reviewed 8,472 new client applications, called 3,594, and unwound 172 new client applications because the investment was unsuitable. For CEFI, the monitor reviewed 796 new client applications, called 220 new clients, and unwound four new client applications because the investment was unsuitable.

The OSC reached settlement agreements relating to the conduct described in the compliance reviews with all four dealers. In the settlement agreements, the dealers admitted and acknowledged that “their compliance systems did not meet reasonable compliance practices and that changes were required to strengthen their compliance systems so as to better serve the public interest.”<sup>121</sup>

The terms of the settlement agreements required a follow-up consultant’s assessment as to whether the providers were adequately following, administering, and enforcing the compliance plan required by the temporary orders for the year after the temporary orders were lifted. CEFI was granted an order extending the time for delivery of the consultant’s report. Although the settlement agreements are publicly available through the OSC website, confirmation that the terms of the agreements have been fulfilled is not. Heritage’s 2017 prospectus discloses that a report was filed on March 12, 2016, “confirming that improvements to its compliance system ... are being followed, working appropriately and being adequately administered and enforced by” Heritage.<sup>122</sup>

#### *Other problems at Global*

The compliance review of Global identified additional instances of non-compliance, which resulted in further enforcement measures, arising out of improper commissions paid after funds from plan subscribers were directed to a particular investment despite a conflict of interest and despite it being a high-risk investment. Orders were also made against Global Growth Assets Inc., Global’s investment fund manager, Global Education Trust Foundation, and two individuals.

Issam El-Bouji is the sole shareholder of Global RESP Corporation and of its investment fund manager, Global Growth Assets Inc. He was not registered as an adviser. Between February 2009 and September 2011, El-Bouji received almost \$2 million in commissions and fees for directing the plan to purchase over \$30 million in securities of Pacific and Western Bank of Canada. This conflict of interest was not referred to the fund’s independent review committee, which was found to be ineffective, nor was the purchase approved by the board of directors, nor was it disclosed to plan subscribers in the 2009 or 2011 plan prospectuses, as required by securities laws. An increase in the administrative fee charged to the plan by Global Growth Assets Inc. also was not referred to

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<sup>121</sup> CEFI Settlement Agreement at para 39; Global RESP Settlement Agreement at para 42; Heritage Settlement Agreement at para 39; Knowledge First Settlement Agreement at para 38.

<sup>122</sup> Heritage 2017 Prospectus at 58.

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the independent review committee. In addition, enrollment fees were not repaid to the nominees of subscribers in accordance with the terms of the 2002 to 2004 prospectuses, which promised to repay enrollment fees if certain conditions were met. The compliance review found that money was diverted from the fund set up to cover repayment of enrollment fees without explanation.

Among other things, Global was ordered to “create and permanently maintain an independent board of directors” and to appoint a new CEO and “ultimate designated person” (UDP).<sup>123</sup> A condition of the order was that the OSC manager approve the independent directors appointed. Former CEO and UDP Issam El-Bouji was required to resign from these positions, and from his positions as officer and director of Global Education Trust Foundation, and was prohibited from acting as a director or officer of any public company or registered firm for nine years. He also was required to disgorge the \$2 million he received in commissions and fees, which “where practicable” will be allocated to investors of Global RESP.

On May 25, 2018, the OSC approved a settlement with Global RESP for failure to comply with the 2014 settlement agreement. Specifically, El-Bouji had continued to act as an officer of Global. Global was reprimanded and required to pay an administrative penalty of \$50,000 and \$25,000 in costs. Terms and conditions were imposed on Global’s registration.<sup>124</sup>

#### *Privacy breach*

In 2014, two employees of Rouge Valley Hospital were charged with selling the personal information of new mothers to group plan RESP sales representatives.<sup>125</sup> A sales representative with Global RESP Corporation was convicted for her “role in a scheme” to generate sales leads using confidential hospital information.<sup>126</sup> A branch manager for Knowledge First Financial and an assistant branch manager for CST Consultants pleaded guilty to “participating in an improper referral arrangement” for paying a hospital employee for the names of new parents.<sup>127</sup> In July 2015, a class action lawsuit was filed against Global, Knowledge First, CST, and the individuals involved, “on behalf of all persons who provided personal health information” to Rouge Valley Hospital during the relevant time period.<sup>128</sup>

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<sup>123</sup> Under securities legislation, all registered firms must have an individual who is the “ultimate designated person” responsible for overseeing and promoting compliance with securities laws. See NI 31-103, s. 11.2.

<sup>124</sup> Global RESP Corporation (Re), 2018 ONSEC 26.

<sup>125</sup> Ontario Securities Commission, News Release, “Shaïda Bandali charged Quasi-Criminally with Unregistered Trading,” (November 24, 2014), [http://www.osc.gov.on.ca/en/NewsEvents\\_nr\\_20141124\\_shaïda-bandali-charged.htm](http://www.osc.gov.on.ca/en/NewsEvents_nr_20141124_shaïda-bandali-charged.htm); Ontario Securities Commission, News Release, “OSC Announces Guilty Pleas in Hospital Privacy Breach Case” (June 1, 2016), [http://www.osc.gov.on.ca/en/NewsEvents\\_nr\\_20160601\\_guilty-pleas-privacy-breach-case.htm](http://www.osc.gov.on.ca/en/NewsEvents_nr_20160601_guilty-pleas-privacy-breach-case.htm).

<sup>126</sup> CSA 2016 Enforcement Report.

<sup>127</sup> CSA 2016 Enforcement Report.

<sup>128</sup> Statement of Claim between Elia Broutzas and Meagan Ware, Plaintiffs, and C.S.T. Consultants Inc., Knowledge First Financial Inc., Global RESP Corporation, Nellie Acar, Shaïda Bandali, Esther Cruz, Gavriel Edry, Polina Edry, Munish Sethi and Subramaniam Sulur, Court File No. CV-15-532646-00CP.

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As a result of a news report on the privacy breach at Rouge Valley Hospital, one new mother who had been contacted by the Global sales representative filed a complaint with the Office of the Privacy Commissioner of Canada. In 2015, the Privacy Commissioner concluded that “[i]n light of the significant degree of control Global had over their sale representatives, their activities and the information they collected ... Global was responsible and accountable ... for the actions of its salespeople.”<sup>129</sup> The Privacy Commissioner noted “that Global had no reliable system in place to document how personal information of prospective clients [was] obtained and used by its salespeople,” and that even after suspicions were raised about this particular sales representative, Global did not initiate an internal investigation. The Privacy Commissioner recommended that Global implement a number of steps to ensure compliance with privacy laws going forward, which Global agreed to do.

#### *Quebec class action regarding fees*

On July 19, 2016, the representative plaintiff in a proposed class action lawsuit filed a claim in Quebec against all six scholarship plan dealers.<sup>130</sup> The plaintiff alleges that the dealers charged fees exceeding the maximum set in Quebec Regulation No. 15 *Respecting Conditions Precedent to Acceptance of Scholarship or Education Plan Prospectuses*. The regulation is identical to National Policy No. 15 applicable in the rest of Canada. Section 1.1(7) of the Regulation provides that “[t]he fees charged, including the commissions of the distributor and its salesmen, must not exceed \$200 per plan. The first \$100 paid under the plan may be applied against this fee and the balance may be deducted at a maximum rate of 50% of each of the further contributions” (emphasis added).

Three plans charge an enrollment fee of \$200 per unit (CEFI, CST Consultants, Universitas). Other plans charge \$100 per unit (Heritage, Knowledge First). Global’s newest individual plan, launched in February 2016, charges a \$30 per unit sales charge plus a \$40 account set-up fee.<sup>131</sup> The second part of s. 1.1(7) has been followed by scholarship plan dealers in structuring the payment of enrollment fees.

The explanation for the discrepancy appears to be that regulators have deemed fees above the cap acceptable, and have expressed this view by issuing receipts for prospectuses filed that disclose fees above the cap. The fee cap in National Policy No. 15 has not changed since the policy

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<sup>129</sup> PIPEDA Report of Findings #2015-016 (October 19, 2015), <https://www.priv.gc.ca/en/opc-actions-and-decisions/investigations/investigations-into-businesses/2015/pipeda-2015-016/?wbdisable=true>.

<sup>130</sup> *Segalovich c. CST Consultants et al*, Application for Authorization to Institute a Class Action and to Appoint the Status of Representative Plaintiff at paras 47–62, <http://lpclex.com/wp-content/uploads/2016/10/Application-to-Authorize-CST-Filed-July-19-2016.pdf>.

<sup>131</sup> Global RESP Corporation, Plan Summary, Legacy Education Savings Plan, January 31, 2017.

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### REGULATORY REQUIREMENTS AND COMPLIANCE REVIEWS

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was implemented in 1987.<sup>132</sup> As the plaintiff points out, this does not explain why the cap was not amended when Quebec made the policy into a regulation in 2005.<sup>133</sup>

The class of plaintiffs is defined as any group RESP subscribers residing in Quebec who were charged fees in excess of the \$200 cap since July 19, 2013, and/or incurred the complete forfeiture of the capital and accumulated interest in their RESP because it was abandoned before its maturity.”<sup>134</sup>

The certification hearing – a necessary procedural step before a class action can proceed to trial – is pending.

#### *Conclusion*

The history of compliance reviews and enforcement actions taken against these four scholarship plan dealers revealed either a general lack of concern with compliance, or a lack of capacity to ensure compliance with securities regulation. Problems identified included failures to supervise adequately branch managers and sales representatives, and the use of training materials that focus on aggressive and misleading marketing tactics over meeting the regulatory obligation to ensure that a group plan is suitable to the investor. This was particularly problematic given the fact, as recognized by the OSC, that these promoters target low- and moderate-income investors, including newcomers. It remains to be seen whether the most recent enforcement actions were sufficient to change the business culture of these dealers, or whether the next compliance review will turn up more of the same.

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<sup>132</sup> See Application for Authorization at para 200, citing the *Sales Representative Proficiency Course*.

<sup>133</sup> Para 201.

<sup>134</sup> Application for Authorization at paras 209–10.

## 4. RESULTS

### KEY PERSON INTERVIEWS

#### 4.4 KEY PERSON INTERVIEWS

Dr. Jerry Buckland

##### 4.4.1 Introduction

Eleven interviews were undertaken in early 2017 as a component of the Group RESP Research and Education Project. Interviews were undertaken with representatives from various stakeholder groups that have experience with and knowledge of group plan RESPs: scholarship plan representatives, non-profit agency staff who work in low-income communities, staff from mainstream financial institutions (FIs), and regulators. Respondents from different stakeholder groups were asked different sets of general questions (see Appendix B) about group RESP companies and their product, how the product affects vulnerable Canadians, and the regulatory environment within which the plans operate.

##### 4.4.2 Method

From March through June 2017, key person interviews were conducted by Dr. Jerry Buckland. The initial plan was to interview eight stakeholders from the various areas noted above. However, given the complexity of the group RESP product and the diversity of views about it, we decided to increase the number of interviews to a total of 11 (Table 1).

It was difficult to find scholarship plan providers and government regulators who would participate in key person interviews. Persons from the non-profit sector were more willing to participate. In total, interviews were conducted with five individuals from the non-profit sector, three representatives from group plan RESP promoters, two respondents from mainstream FIs, and one interview with a person with a law degree who had assessed scholarship plan prospectuses.

In addition to the 11 key person interviews, informal conversations were held with five individuals working in government or in financial services. Conversations with these individuals were valuable in directing us to important data sources and documents, and providing us with insight into the barriers we experienced in recruiting group RESP subscribers for interviews. However, individuals working in government or financial services declined to participate in key person interviews for this study because they were not interested and/or were unable to share their insights about the scholarship plan industry.



## 4. RESULTS

### KEY PERSON INTERVIEWS

Sector	Respondents
Group plan promoters	3: #4, #6, #16
Mainstream financial institutions	2: #8, #9
Non-profit organizations	5: #1, #2, #5, #7, #15
Other	1: #3
Total	11

**Table 1. Respondents Involved in the Key Person Interview Process**

In order to protect the identity of respondents, all are referred to by gender-neutral pronouns (i.e., “they,” “them”). Notes were taken of the interviews, but to ensure the comfort of the respondent, the interviews were not audio recorded. In this report, words or phrases in double quotation marks, (“wasted”) are verbatim comments from the respondent. Words or phrases in single quotation marks (‘a few years ago’) are intended to represent the meaning of the respondent’s comment but are not necessarily verbatim.

#### 4.4.3 Group plan promoters

Three interviews were completed with group plan promoters’ representatives or staff, named below as respondents #4, #6, and #16. At least two additional efforts were made to arrange more interviews with other representatives of group plan promoters. The discussion with the respondents is divided below among key topics that were covered in the interviews. These topics include vulnerable people and product suitability, the benefits of having access to a pooled investment manager, fees and prospectuses, conflict of interest between foundations and their for-profit arms, reforming the group plan features and the individual RESP option, and questions about the research methodology.

Responses from the group plan promoters were comprehensive and detailed, and the tone of these interviews was constructive. These respondents acknowledged that the industry has had problems in the past and that elements of the industry still face challenges.

##### *Vulnerable people, product suitability, and termination*

Industry respondents argued that well-regulated group and individual RESP products are in the best interests of Canadians who wish to save for their children’s education. The relationship between group RESPs and vulnerable Canadians is complicated and, according to these respondents, not well-documented. But they agree that group RESPs are generally unsuitable for vulnerable people.

When asked about the income level of their clients, respondent #4 explained that they do not have enough data to respond to definitively but also stated that through the Know Your Client (KYC)



## 4. RESULTS

KEY PERSON INTERVIEWS

process,<sup>1</sup> the income data that are available is point-in-time and is self-reported, and therefore might not be fully indicative of the respondent's income. Respondent #4 also noted that subscriber income level is only one factor in determining the suitability of the product, which will also depend on the size of the monthly contribution. A smaller contribution might be well aligned with the education savings needs of a vulnerable person. They argued that their firm is not interested in attracting clients who are unable to sustain their savings, and that the company has safeguards to prevent targeting unsustainable investors.<sup>2</sup>

With respect to the KYC process, the respondent noted that the salesperson gets to know the family and seeks to give the prospective client the longer-term perspective on group RESP savings. But they said the key question is how to ensure that the salesperson is looking out for the family's interests. This is an issue for all financial providers, including banks, because giving staff a commission leads them to want to make the sale. This scholarship plan dealer has a rubric to guide the salesperson in assisting the client with decision-making.<sup>3</sup> For instance, the rubric states that if the client is unemployed, a group RESP should not be recommended but an individual RESP is advisable. If the person is employed, then the salesperson needs to look at the family's disposable income level; based on this, the rubric suggests an acceptable monthly savings contribution. Before this is implemented, the plan is reviewed by the branch manager and the head office. The company also does spot checks. For instance, if management sees that a single parent with \$20,000 annual income is planning to save \$50/month toward the group product, then this is assessed as too high. But if the client's parents are providing financial support, then the savings level might be appropriate. In this case the client must provide a document that supports the claim of parental support. Respondent #4 noted that sometimes there are tensions between management and the salespeople about the suitability of the group product. The company also pays close attention to termination rates, cancellation rates, and complaints. If these indicators increase, management will investigate.<sup>4</sup>

Respondent #4 was asked if newcomer groups were targeted by their company, and they said no. They do enter into partnerships with other organizations in order to target mainly middle-income people. They noted that the average annual household income of their clients is \$100,000, and that their clients' ethno-cultural composition is similar to the national one.

Respondents noted that some group RESP companies are less concerned with ensuring alignment between the needs of the client and the group RESP product. One respondent noted that some companies are motivated mainly by the profit motive, and this can detract from their ability to meet

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<sup>1</sup> For an explanation of the Know Your Client (KYC) rules see Section 4.3.1 above.

<sup>2</sup> We note that one scholarship plan dealer states in its prospectus that sales representatives are compensated based in part on retention.

<sup>3</sup> The OSC compliance review also found problems with these rubrics; see Section 4.3.2 above for a discussion of affordability guidelines.

<sup>4</sup> We note in Section 4.3.2 that compliance reviews found examples of failures of scholarship plan dealers to investigate this issue.

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### KEY PERSON INTERVIEWS

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their clients' needs. Respondent #16 worked as a 'referral partner' for a group plan promoter and highlighted this problem. They were paid \$200 when their referrals invested in a group plan. This respondent had recently come to Canada and they referred people from the newcomer community to a sales agent. Many of their referrals were 'successful' in that the client invested in the group plan based on the referral. However, they said that the product was not necessarily appropriate for the client: 'I wasn't thinking about the client, just the money I could earn.'

Another important issue that relates to vulnerable people has to do with the question of termination rates. Are vulnerable people more likely to terminate their group plan as compared with the non-vulnerable? If that is the case, then vulnerable people are disproportionately supporting the richer returns received by the non-vulnerable plan members who are able to complete their obligations. Respondent #4 noted that the vast majority of their subscribers complete the savings plan. They noted that their company had investigated the claim that vulnerable people experience higher termination rates than the non-vulnerable. They said that that they looked into this question a 'few years ago' and that this was indeed the case but noted that the difference was not large. Moreover, they added that their company has put additional safeguards in place since then to support group plan subscribers who cannot sustain their contributions to transfer to individual plan RESPs.

In terms of newcomer groups, respondent #6 noted that South Asian and Chinese communities "love" the group RESP product. They explained that this is because members of those communities are certain their children will go to school and are confident that they can "stick" with a savings plan. Respondent #6 noted that people in these newcomer communities "never quit" their savings plan. People who are more likely to drop out are from 'mainstream' culture, not ethno-cultural communities, the respondent reported.

#### *Benefits of access to a pooled investment manager*

Respondent #4 argued that the advantage of the group RESP is that it connects the small investor with institutional money managers. Generally speaking, they noted, low-income Canadians do not have access to these types of money managers. The respondent noted that for a group plan one can contribute as little as \$9.50/month. The respondent argued that these funds face little risk and can achieve a "decent" annual rate of return of 3–4% through careful investment by top money managers. Respondent #6 noted that the group RESP was advantageous for education savers who otherwise would be unable to access institutional money managers, akin to how a defined benefit pension plan can benefit retirement savers. The group fund manager can apply advanced knowledge of money management to the pooled funds.

Respondent #4 noted that an important feature of the group plan is the regular and required contributions, claiming that "sticks can be good motivators." The company often hears from people who completed the group plan who say that they were so glad about the rules, which kept them focused. The contribution rules enforce a discipline that some people appreciate. The respondent noted that there has also been considerable criticism of this feature of the group RESP plan, particularly in the case of a subscribers who drop out of the plan because they are unable to sustain the savings rate. The respondent noted that now there are ways in which families can make

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### KEY PERSON INTERVIEWS

adjustments to their contributions; for example, if things get tough then the subscriber can move to an individual plan.

#### *Fees and prospectuses*

With respect to the criticism that the fees are high and required up front, respondent #4 said that they understood the criticism. However, they noted that the higher fees reflect that the salesperson will come to the person's home and help them with things such as obtaining a social insurance number (SIN) and SIN card. They also stated that considered on an annual basis, the fees are not high if the subscriber sticks to an 18-year savings plan.

In terms of the criticism that scholarship plan prospectuses are complicated, respondent #4 argued that the requirements of prospectuses come from the regulating securities commissions. This is the case for the detailed plan disclosures and for the plan summaries. They observed that while this allows comparison across firms, the information is not presented as well as, for example, information found in mutual fund documents.

#### *Conflict of interest between foundations and their for-profit arms*

In terms of the criticism that group plan promoters are dominated by their for-profit arms, respondent #4 argued that this was not the case for their company, because the non-profit foundation side controls the for-profit arm. The respondent added that in three other companies the for-profit arm controlled the overall goals of the company. They noted that RESPDAC reflects some of these tensions, as some members are more interested in profit and some are more interested in the success of families completing their savings plans.

Respondent #6 agreed that in certain cases, the structure of the company, particularly the role of the non-profit side in relation to the for-profit side, can affect the motives of the overall company. In some cases, where the foundation takes the strongest role, there the respondent noted that the clients' interests were protected.

#### *Reforming the group plan features and the individual option*

Respondent #6 noted that as a result of regulatory changes, group plan promoters have been changing their structures. In order to do so, the proposed changes must be voted on by the subscribers. In respondent #6's firm, a recent vote led to support for changes to the plan that included more flexibility, such as removing requirements for linear academic progress in order to receive additional Education Assistance Payments (EAPs), and reducing restrictions, such as by allowing part-time post-secondary study.

Respondent #6 thought quite strongly that the scholarship foundations are, and need to continue, reducing the share of their business in the group product and expanding the share of their business in individual RESP products. This is because the group product restrictions are substantial, whereas the individual product restrictions are not. The respondent noted that the majority of their current sales in the last three to five years have been with individual RESPs, not group RESPs. They noted

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that the group plan still has a niche market, but its size is smaller than in the past. They argued that relying on individual products will enable scholarship plan dealers and scholarship foundations to maintain a sustainable business model, as they are able to compete with other individual RESP providers such as banks. Respondent #6 noted that education savers are not interested in high-risk investments and are satisfied with a modest and steady return on their investment. They argued that group plan promoters, because of their pooled funds, are able to deliver this kind of product and return better than are banks.

Respondent #6 noted that if all plan members complete the plan, then there is no benefit to the group plan. In other words, it is only when some people drop out of the plan that remaining members benefit from the dropouts' interest income. They again used the example of the defined benefit pension to demonstrate the effect: if everyone lived to the same age then there would be no benefit in a pooled pension fund. But when some people live longer while other people have shorter lives, then in effect the longer-lived participants benefit more than the shorter-lived members. The unsuccessful group RESP member is akin to the short-lived person, who because of an early death receives their pension for a shorter period of time. The unsuccessful group RESP subscriber loses their interest. The successful group RESP member is akin to the longer-lived person, who receives their pension for a longer period of time. The successful RESP subscriber receives their principal and interest as well as some share of the unsuccessful members' interest.

Interestingly, respondent #6 characterized the group RESP product as “flawed” in the sense that it is not “right” for one person to benefit from another person's failure. They were asked why the group product was created. Respondent six shared that initially it was thought of as a kind of insurance: pay premiums and if, by “accident” the child goes to university, and then one receives the funding. They argued that in the current period where so many people go to university this is a “weird” and “outdated” notion. Perhaps the insurance concept made sense for a time when a smaller share of people went to university. According to this respondent, the group product is not useful anymore for most people.

#### *Concerns about the research methodology*

Respondent #4 had a number of concerns about the methodology that was planned for the Group RESP Research and Education Project. They were concerned that it was unfairly focused on group RESPs and failed to assess individual RESPs. Their assessment of the research project was that it was seeking to evaluate the suitability of the product for vulnerable people. In that case, they asked, why would we not also examine the suitability of individual RESPs? They were also critical of the fact that the research project did not have a clear definition of vulnerable person. Respondent #4 was particularly concerned that the methods would attract participants who are dissatisfied with the group product and would under-represent subscribers who are satisfied with the product. They explained that they think that the non-profit proponents of the study – SEED Winnipeg and Momentum – are unfairly biased against the group product and that this bias would be reflected in the research results. In order to improve the sample quality to manage for bias, the respondent argued, we needed to recruit RESP subscribers who are representative of the population; we should also not rely solely on people who recently opened an RESP but also recruit participants who have

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been subscribers to group RESPs for at least 10 years. We explained the rationale behind the mixed methodology approach and asked if there were ways that they thought we could strengthen it. We also invited the respondent to recruit participants for our subscriber interviews, which they later declined to do.

#### 4.4.4 Mainstream financial institutions

We spoke with two respondents from mainstream financial institutions (respondents #8 and #9). These conversations were primarily intended to understand how individual and family RESPs from mainstream FIs work, and to understand how these plans differ from group RESPs. The conversations were constructive but the respondents' knowledge about the group RESP product was limited.

Respondent #9 had personal experience with a group plan when they had a young child. Their assessment at the time was that group plans are inflexible and so they decided to not invest in one. They later learned about the individual RESP and thought that it was a more flexible and useful product.

##### *Need for the personal touch*

Respondent #8 argued that people, including vulnerable people, prefer that at a minimum their introduction to a financial service come through an in-person conversation. Group plan promoters understand this point, as interpersonal relations are an important dimension to their marketing efforts. FIs are less inclined to market their RESPs. This may prevent people from getting an RESP. Respondent #8 argued that their FI would have greater success in promoting RESPs if it offered presentations to community groups and residents out in the community.

##### *Clarify purpose, timeframe, and comfort with risk*

Respondent #9 explained that if a person is interested in an RESP, they will meet with the potential client and begin the conversation by asking three questions: What is the purpose of the investment? What is the timeframe for the investment? And, What is the person's comfort level with risk? This is the same set of questions that they would ask a client with respect to virtually all types of financial investments. Based on the response to these questions, the respondent may advise the client to place their savings into a mutual fund or into a guaranteed investment certificate. Also, as with other investments, as the RESP moves toward maturity, the allocation of the investment will typically shift from relatively higher- to relatively lower-risk investments. As with other investments, the client would be provided with a prospectus of around two to two and a half pages in length. Fees for the fund are charged daily and are stated in the management expense ratio (MER). Respondent #9 thought that it would be entirely feasible, based on past market performance and given the right purpose, timeframe, and comfort level, for an investor to achieve a 3–4% percent annual return (as reported above by one scholarship plan representative). The respondent noted that for an investment to be successful it must be clearly understood by the investor and therefore, simplicity of investment and its description is very important. Finally, this respondent shared that investment

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decision-making must be done in a comprehensive way and not focus only on the birth of one child. For instance, if an investment plan is made for an RESP without consideration of other issues such as home ownership plans, let alone the birth of other children, then it might not be the optimal plan. In conclusion, respondent #9 would not advise a client to invest in a group RESP, and the lack of flexibility in this product is one important reason why not.

#### 4.4.5 Non-profit organizations

A total of five interviews were held with representatives from the non-profit sector. We spoke with representatives from the non-profit sector who are engaged in financial services in some way. The tone of these interviews ranged from mildly critical (some respondents noted that tighter regulations are reducing problems such as unfair disclosure) to strongly critical of the group RESP product (calling for disallowing the sale of the product). Several key persons noted concern about the group RESPs because they are relatively expensive products, they feature important restrictions, and are heavily marketed in low-income neighbourhoods. Several non-profit respondents concluded that since individual RESPs from financial institutions are available, group RESPs should be disallowed.

Respondent #2 noted that scholarship plan dealers are able to work with a culturally diverse clientele by recruiting and training staff from many different ethno-cultural communities. This enables these companies to access newcomers and others who might not know about individual RESPs. These salespeople are highly motivated to sell the product, as they are paid by commission and in order to achieve their goals, they will come to the prospective client's home. However, respondent #2 expressed also concerns about salespeople, noted below.

Some respondents, including #2, observed that the group RESP, for various reasons, is not well-aligned with people's needs today and should be disallowed. For instance, respondent #5 noted that due to the aggressive sales tactics by poorly trained salespeople, consumers are joining group plans that will not likely benefit them. This respondent noted that scholarship plan dealers target minority communities, evidenced in the fact that the marketing material is in several languages. This respondent asserted that regulators need to carefully test to see if the companies are responding to the 2013 changes in mandatory disclosure requirements and the 2012 OSC enforcement actions. Respondent #5 also stated their belief that these changes have been insufficient to rein in the harmful behaviour of the scholarship plan dealers. At a minimum, fees need to be reduced, returns need to be increased, and termination rates must be reduced. They argued that the introduction of individual plans by group plan promoters does not address the termination problem but simply obscures it. Other concerns this respondent noted include the privacy breaches associated with the relationship between scholarship plan dealers and hospitals. For example, they described a situation in which contact information for parents with newborns was provided to a scholarship plan dealer.<sup>5</sup>

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<sup>5</sup> This is discussed in Section 4.3.2 above.



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Respondent #7 maintained that an important principle is that financial product salespeople work for ‘best interest standards’; that is, they should work for the best interest of the client. This respondent argued that this is not the case with scholarship plans. The respondent echoed the view held by other non-profit participants that these products are no longer suitable and should be disallowed. This is because of factors such as lack of transparency, and because the funds’ success depends on some members dropping out. The plans ‘emotionally’ entice new parents to join right after their baby is born. Respondent #7 also noted that these products are sometimes targeted toward newcomer Canadians, and that the sales tactics used to target this demographic border on “manipulation.” The respondent argued that these companies work with vulnerable people (newcomer communities) and/or with people at a vulnerable moment (e.g., right after giving birth).

### 4.4.6 Assessment of scholarship plan prospectuses

Respondent #3 with a law degree assessed the prospectuses of the six scholarship plan dealers. In a key person interview, this respondent shared their observations about the accessibility, clarity, and simplicity of these documents.

The respondent found that even collecting the prospectuses was a challenge, and that this difficulty was due to the fact that these companies have for-profit and not-for-profit arms. While the information is available from SEDAR, one needs to know how to use SEDAR and know the correct name of the company. The respondent reviewed the documents for three key issues: their length, the clarity of the risks section, and the clarity of material with respect to contributions and fees. The respondent shared the following observations:

1. The prospectuses are very long and, when combined with the technical sections, made the document very intimidating and overwhelming for the respondent. Much of the complexity is due to the vast amount of information in the prospectuses and the technical concepts. The respondent thought that it would be unlikely that anyone would thoroughly read the prospectus. It took the respondent reading through three to four prospectuses before they began to understand the overall meaning of the documents. They found that some portions of the prospectuses were straightforward, and it was clear that the companies had made some effort to use plain language in these sections. But there were other sections that were very technical and difficult to understand (e.g., the risk section). Understanding these sections required the respondent to turn back to the definition of terms section many times.
2. The respondent thought that the risks section is the worst section with respect to plain language. Although they understood some of the concepts, other concepts were complex. The respondent did not think that this section adequately explains the risks in a way that the purchaser would understand. They found that the description of investment risk was the worst and most challenging portion; it was so complicated that they wanted to skim over it. The other sections were not as difficult. The respondent also thought that the materials contained in the documents were repetitive.

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3. The respondent thought that without a clear verbal explanation, the contribution schedules and fee tables would not make sense to most purchasers. They felt that the tables contained a lot of numbers, and that it took quite some time to figure out the meaning of these numbers. The respondent was never able to fully understand the entire table. However, they felt that the prospectuses effectively communicated how the initial fees work.

#### 4.4.7 Key informant personal experience

Respondent #2 had a personal experience with group and individual RESPs. Their parents had subscribed to group plan RESPs for the respondent and their sibling. The respondent felt that their knowledge of their RESP encouraged them to plan for and complete post-secondary studies. However, the respondent's sibling was not prepared to study, but in order to not "lose" the money had completed studies in a field that they were not interested in and therefore "wasted" the money. Because of this mixed experience, the respondent chose to use an individual RESP plan for their own children.

#### 4.4.8 Results from key person interviews

In this section we highlight results from the key person interviews and note areas where respondents' comments seemed at variance with each other or with other data.

The two group plan promoter representatives we spoke with were fairly self-critical of their industry and some of the past practices. These respondents noted problems of the past and identified ongoing needs that required attention. Non-profit organization representatives were the most critical of the industry and several of them thought that given the substantial costs associated with the plans and the limited benefits, the product should not be allowed to continue on the market.

The relationship between the group RESP product and vulnerable people is complicated. Both industry representatives clearly stated that these products are unsuitable for vulnerable people. One respondent claimed that they did not have adequate data to assess the extent that vulnerable people subscribe to their group plan. They noted that there are safeguards to prevent vulnerable people from subscribing and that these were corporate policy, but sometimes salespeople, incentivized by the per-unit commission structure, subscribed vulnerable people. Two industry respondents stated that their marketing focuses on middle-income investors.

Non-profit representatives were quite concerned about this issue, and one noted that group plans are heavily marketed in low-income neighbourhoods. Non-profit respondents observed that salespeople and marketing materials are directed toward ethno-cultural communities and some of these people are vulnerable. One industry respondent noted that certain newcomer ethno-cultural communities that subscribe to the group plan, specifically individuals from Indo- and Chinese-Canadian communities, have higher completion rates as compared to "oldcomer" Canadians. A group plan promoter respondent noted that termination rates were slightly higher for vulnerable



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than for non-vulnerable people, but the company has since put in place safeguards to reduce vulnerable peoples' participation with the product.

Finally, one industry representative commented that group RESPs are akin to group retirement pension plans. They argued that through efficiencies gained through the management of the pooled funds – whether for retirement or education – group investors can achieve higher returns as compared to people using individual investments.



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### *FOCUS GROUP WITH SERVICE PROVIDERS*

#### **4.5 FOCUS GROUP WITH SERVICE PROVIDERS: EXPLORING NEWCOMER COMMUNITIES' KNOWLEDGE AND EXPERIENCE WITH GROUP RESPS<sup>1</sup>**

##### **Gaylen Eaton**

In January 2017, the Winnipeg team of the Group RESP Research and Education Project hosted a focus group with seven service providers who are highly experienced at providing support and settlement services to former refugees, immigrants, and other low-income community members. The two key objectives of this focus group were to gain service providers' insights on their communities' knowledge and experiences with RESPs, and particularly group RESPs; and to identify strategies for recruiting low-income group RESP subscribers to participate in interviews. In this section we report on the insights that service providers shared in the focus group regarding their communities' knowledge and experience with group RESPs.

Focus group participants observed that newcomers generally begin education savings for their children one year after settling in Canada. Initiation of savings likely occurs due to increasing comfort with financial institutions and/or because of receiving information about savings opportunities. Participants also noted that many newcomers save even if they have migrated from countries where people save "under the mattress." Focus group participants thought that investment in RESPs resulted from trust in Canadian financial institutions.

Saving for post-secondary education was viewed positively, given the existence of government savings incentives such as the Canada Education Savings Grant (CESG) and the Canada Learning Bond (CLB) that are targeted for low-income families. Focus group participants suggested that group RESP sales representatives promote their products by referring to the government incentives as a unique opportunity for savings growth that is not otherwise available. Furthermore, participants observed that group RESPs are endorsed by the Government of Canada by virtue of the fact that the products are eligible for the CESG and CLB because of their "registered" status. Accordingly, community members view group RESP promoters as trustworthy.

Service providers reported that newcomers learn about group RESPs through friends and family, trade shows, welcome baskets, social media, promotions in the mail, postings translated into common community languages, and door-to-door sales. One way that new parents find out about group RESPs is through phone calls just days after the birth of their child. Participants were unsure of how salespeople become aware of the births of new children. In all, service providers estimated that there is significant uptake of group RESPs within their ethno-cultural communities.

Trust in community salespeople who are employed to sell group RESPs was also thought to increase subscription to these products. Participants reported that newcomers in their communities were not necessarily aware of where their money was going – only that they trusted the salespeople, some of

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<sup>1</sup> We are grateful for research assistance from Leah Wilson.

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### *FOCUS GROUP WITH SERVICE PROVIDERS*

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whom consisted of community and church leaders. Moreover, given that trust, participants observed that newcomers were less likely to make the effort to learn the rules and regulations associated with a group RESP product or to complain about it thereafter. Sales tactics were described to be high pressure, time limited, and aggressive.

In summary, focus group participants reported the following:

- Newcomers actively participate in RESPs after approximately one year of settlement in Canada.
- While recruitment occurs in many different ways, referrals from family or friends are very common.
- In cases where family or friends are acting as group RESP sales representatives, a level of trust influences the purchase of group RESPs because of subscribers' familiarity with the salespeople.
- The indirect endorsement of the group RESP by the Government of Canada through its "registered" status also increases newcomers' trust in the product.
- This trust, in many cases, dissuades newcomers from closely examining the terms and conditions of their plans.
- High pressure and time-limited selling strategies are used to sell group RESPs to newcomer families.
- Newcomer subscribers are not likely to complain vocally if they have issues with RESPs they purchased from a fellow community member, because the reputation of the salesperson may be affected within the community.

# 5. DISCUSSION & CONCLUSION

In the preceding sections, we reported the results of each research method used by the research team to study the regulation of group plan RESPs and the experience of low-income subscribers. Here, in the final section of the report, we summarize key findings about group plan RESPs, the conduct of the scholarship plan dealers that sell these plans, and the experiences of low-income group plan subscribers. We conclude by articulating the implications of these findings for the development of accessible public legal education materials that could meet the information needs of low-income group plan subscribers, low-income community members considering opening RESPs, and service providers who work with this demographic.

## 5.1 KEY FINDINGS

### 1) Group plan RESPs are a complex financial product.

Given the various stakeholders involved, the rules and regulations that apply, and the multiple plan types, promoters, contribution schedules, and investment options from which a subscriber must select, making informed decisions about RESP investments may be difficult for community members who wish to save for their children's post-secondary education. While group plan promoters might simplify the decision-making process for group plan subscribers by providing help with enrollment, a fixed contribution schedule, and an institutional money manager, the unique characteristics of group plans and the volume of technical information presented to subscribers combine to make group plan RESPs a complex financial product. Although all group plans feature a similar structure and are regulated under the same securities regulation regime, the specific terms of the plans vary between group plan promoters. The complexity of the regulatory regime that applies to scholarship plan dealers is evident from the discussion of the regulatory requirements. Furthermore, the complicated nature of the group plan product is apparent in the literature review, interview and focus group results.

Knight et al. (2008) observed,

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. (Knight et al., 2008, p. 17)

This observation corresponds with responses provided by the group plan subscribers who participated in this study. Some subscribers noted that the materials describing their plans were not understandable, and others felt that they knew so little about RESPs that they did not ask appropriate or relevant questions at the time of enrollment. In their interviews, subscribers reported a variety of understandings of the timing and amount of the Educational Assistance Payments (EAPs) their children would receive upon enrollment in a qualifying post-secondary program, and of what would happen to their contributions if their children did not attend a qualifying program. In many cases, these understandings diverged from the *Income Tax Act* regulations regarding EAP eligibility and from the typical terms contained in group plan prospectuses regarding the funds a subscriber may receive if their designated beneficiary does not attend a post-secondary program. In the focus

## 5. DISCUSSION & CONCLUSION

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groups, subscribers commented that the materials they received from plan promoters were written in “complicated jargon,” that the quantity of information they received was “overwhelming,” and that they would “need a course” to help them to understand the group RESP product. In addition, some participants gained a better understanding of the complexity of their group RESPs by hearing other subscribers’ stories during their mutual participation in a focus group.

While the May 31, 2013 changes to the form of scholarship plan prospectuses were intended to help investors understand and compare plans, a research participant with a law degree who reviewed group plan prospectuses in 2017 reported difficulty in understanding the terms of these plans. The respondent found that the prospectuses were lengthy and repetitive, written in technical language, and featured a particularly complicated description of the risks associated with group plan investments. According to an industry respondent, the complexity of these documents results from the specific requirements for plan prospectuses developed by the regulating securities commissions. Nevertheless, the complexity of these documents is problematic from a behavioural economics perspective because complicated and lengthy materials will act as a disincentive to carefully read about and understand a financial product. In fact, insights from behavioural economics suggest that people need to be encouraged to make decisions that are in their long-term interest. Complicated and long materials have the potential to “nudge” people into decisions that may be against their long-term interests (Thaler and Sunstein, 2008).

In addition to having difficulty understanding their plan prospectuses, participants also reported that they faced challenges in accessing clear and timely information from the group plan promoters by other means. Focus group participants shared their frustrations at the difficulties they experienced in seeking information about their plans by phone, such as long wait times, needing to talk to several people to get the information they requested, and being redirected from a promoter’s head office back to the dealing sales representative. Finally, while annual statements may provide some clarity regarding the fees that a subscriber has paid and the amount that is available for the beneficiary, a focus group participant noted that these statements do not come soon enough for subscribers to avail themselves of their right to a refund of contributions and fees within 60 days of enrollment.

### **2) The unique characteristics of group plan RESPs can be beneficial in promoting savings for children’s post-secondary education; however, if the product is not well aligned with the needs of the subscriber, participation in a group plan may be detrimental to a subscriber’s financial well-being.**

The unique characteristics of group plan RESPs, including in-home enrollment, a fixed contribution schedule, restrictions on accessing savings, and a pooled investment model, can be beneficial in promoting savings for children’s post-secondary education. A few of these features encompass aspects of the best practices identified in the literature on behavioural economics. However, given the high costs that may be borne by subscribers who exit their plans prior to maturity or prior to their beneficiaries receiving EAPs, participation in a group plan RESP may be detrimental for

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a subscriber's financial well-being if the product is not suitable for their income and investment horizon.

There is evidence to suggest that group plan promoters have had success in reaching a demographic that has been underserved by other RESP promoters: families with children eligible for the Canada Learning Bond (CLB). This may be in part due to their flexible sales model, through which enrollment in an RESP can take place within a subscriber's home. In this study, 46 of 48 participants signed up for their plans within their homes, and focus group participants commented on the comfort of being able to open an RESP at home. The literature and subscriber reports have also identified that group plan promoters actively market the benefits of RESPs. Twenty-six of the subscribers in this study first learned about RESPs from dealing sales representatives. In several cases, these sales representatives were members of the subscriber's own ethno-cultural community.

While these marketing efforts and in-home enrollment may be beneficial in facilitating access to post-secondary education savings by low-income community members,<sup>1</sup> there are concerns that this sales model may have consequences for subscribers who enroll in group plan RESPs without the knowledge needed to make an informed decision as to whether the investment meets their current and future needs. To provide a broad context in which to understand the group RESP product, the research team reviewed some of the literature on alternative and "fringe" financial services.<sup>2</sup> This literature finds that in certain contexts, for instance in urban low-income and ethno-cultural communities, people face barriers to using mainstream financial institutions but have opportunities to use alternative services such as payday lenders. While these alternative institutions facilitate financial transactions, their fee structures and product offerings are sometimes complex and unclear to consumers. This literature opens a window into understanding the experiences of people from low-income and ethno-cultural communities in dealing with the group RESP product, particularly in relation to the disclosure of fees and understanding how the product works. If group RESP subscribers do not fully understand that enrollment fees are front-loaded, they might think that, early in the process, they are accumulating significant savings towards their children's post-secondary education. This lack of a clear understanding can lead to customers to make choices that are not in line with their interests. While education might help to rectify this outcome, education efforts may need to be focused on the moments before a family chooses to open an RESP, given that sales frequently take place in the private sphere of the home.

Another alternative financial service that relies on a similar type of marketing and distribution system is the doorstep lender in the United Kingdom. These credit providers offer loans door-to-door and often clients come to rely on the doorstep lender for their credit. The literature finds that this relationship benefits the creditor who is better able to manage default risk as they learn more and more about the borrower. The borrower benefits by accessing a loan. However, criticism

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<sup>1</sup> Sherraden and Barr (2005) find that facilitation can positively affect savings behaviour.

<sup>2</sup> While group plan promoters emerged in a different manner than other fringe financial services, such as payday lenders, they share commonalities with other fringe financial services in that they provide a specific financial product outside of the mainstream financial system without offering a full complement of deposit and credit products.

## 5. DISCUSSION & CONCLUSION

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has been levelled at the cost of these loans, which is higher than that of a mainstream bank loan. Moreover, there is some concern that a borrower can get ‘stuck’ in relying on the doorstep lender rather than accessing financial services from a mainstream financial institution (Leyshon 2004). The literature on doorstep lending reminds us that less formal marketing and distribution models that involve home-based sales and marketing through community connections does not always lead to a win-win outcome. Salespeople with greater knowledge of their clients and products – gained through ethno-cultural community connections, home visits, and product training – may use that asymmetric information to enhance their company’s interests at the expense of the client’s. By subscribing to an RESP at a home visit with a group plan promoter, a subscriber is foregoing opening the RESP at a mainstream financial institution. Accordingly, while these subscribers may gain convenient access to RESPs and the Canada Education Savings Program (CESP) grants within their homes, they may miss the longer-term benefit associated with inclusion within the mainstream financial system, including access to developmental financial services that could build credit and support savings towards other goals.

Second, the benefits of a low monthly contribution, a fixed contribution schedule, and restrictions on accessing savings prior to plan maturity were highlighted in the literature and in reports from research participants. The low minimum contribution per month may facilitate savings by allowing low-income families to open an RESP and benefit from investment earnings without needing to first amass the lump sum required to invest in many mutual funds or term deposits. Knight et al. (2008, p. 17) comment that the fixed contribution schedule is a “commitment device” that may encourage a level of savings that would otherwise be difficult to maintain. Automated monthly contributions were also commonly identified as a strength by the subscribers in this study. An industry respondent similarly commented that “sticks can be good motivators” in promoting savings. In behavioural economic terms, the fixed contribution schedule of group plan RESPs may serve as a “nudge” to facilitate productive savings behaviour (Thaler and Sunstein 2008). In addition, the restrictions on accessing savings before maturity have been identified by some subscribers and by the literature as a means of accumulating longer-term savings (Sherraden and Barr, 2005).

Conversely, over 40% of the subscribers who took part in interviews reported that they experienced difficulties in attempting to fulfill their contribution schedule. These hardships ranged from having to pay additional fees for missing contributions, having to reduce household spending to meet their savings commitment, and having to forfeit some of the units in their plan due to income volatility that resulted from life changes such as childbirth, job loss, and divorce. Subscribers also reported that it was challenging to change their contribution schedules. These experiences suggest that the people living on low or volatile incomes may have difficulty maintaining the fixed contribution schedules required by group plan RESPs and that they may experience financial consequences if they are unable to fulfill their contribution commitments.

Subscribers and key persons with detailed knowledge of RESPs shared a variety of perspectives concerning the pooled investment model inherent to group plans. An industry respondent noted that this model enables low-income Canadians to benefit from access to an institutional money manager, which may otherwise be unaffordable or unavailable to them. In addition, some subscribers and the industry respondent shared a belief that the pooled investment model would generate more favourable returns than individual investment options. On the other hand, some



## 5. DISCUSSION & CONCLUSION

subscribers reported frustration with their lack of control over the money they invested. In addition, several focus group participants expressed a desire to compare the performance of group plan RESPs to other investment options. However, given the many variables associated with the pooled investment model, such as market performance, number of units, and plan attrition, it may be difficult to make an accurate comparison prior to a beneficiary accessing EAPs.

### **3) There continues to be significant representation of low-income subscribers in RESPs held by group plan promoters.**

Respondents working within the group RESP industry acknowledged that group RESPs are generally unsuitable for vulnerable people. The 2010-11 OSC compliance reviews found that group plan promoters sold plans to subscribers for whom they were unsuitable due to the subscribers' low or volatile income. Evidence suggests that there is still a significant representation of low-income and other financially vulnerable families within the RESPs held by group plan promoters.<sup>3</sup> While the ratio of CLB payments to the share of assets held by group plan promoters declined to a low of 0.95 in 2016, the \$29.2 million of CLB funds paid into RESPs at group plan promoters in 2016 suggests that many low-income families continue to use these products.<sup>4</sup> Based on the data available to the research team, it is unclear whether these CLB funds have been deposited into group plans or into individual or family plan RESPs offered by group plan promoters. However, as noted in Section 2, over 90% of the business of the four major national group plan promoters comes in the form of group plans.

Furthermore, even if all \$29.2 million of CLB funds were paid into group plans, there are a few potential interpretations of this amount. On the one hand, it could suggest that group plan subscribers who hold RESPs for beneficiaries in receipt of the CLB are fulfilling their contribution schedules and remaining active members of their group plans. On the other hand, the sheer volume of funds deposited could suggest that group plan promoters continue to enroll low-income families. Additional data that disaggregate the CLB holdings at group plan promoters by plan type (group, individual, or family) and that show how many first-time CLB beneficiaries are enrolled in group plan RESPs each year is needed to provide a more conclusive answer regarding the extent to which group plans continue to be sold to low-income families. Further analysis of the extent to which CLB funds are returned to the Government of Canada by group plan promoters may also be illustrative of how many low-income families have been unable to complete their plans.

Moreover, the findings of the interviews and focus groups conducted for this study, while not statistically generalizable, suggest that newcomers and ethno-cultural communities may constitute

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<sup>3</sup> Based on data from ESDC's Annual Statistical Reviews of the Canada Education Savings Program: the percentage of CLB payments made into RESPs held at group plan promoters divided by the percentage of RESP assets held by group plan promoters. See Table 5 for details.

<sup>4</sup> As the maximum CLB payment that could be made for a child in 2016 was \$1,700 and the minimum payment \$100, this amount represents between 17,176 and 292,000 children. Additional data are needed to identify the precise number of CLB beneficiaries with RESPs held by group plan promoters.

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an important segment of the clientele of group plan promoters and a target market for scholarship plan dealer sales representatives. Subscribers and prospective subscribers from this demographic may face additional barriers to informed decision-making about RESP investment options, including insufficient language skills to understand plan summaries and prospectuses, a lack of familiarity with the Canadian financial system, and a reliance upon community connections to refer them to financial products and services. Disaggregated data on the demographic backgrounds of RESP subscribers, including those who subscribe to group plan RESPs, may be needed to effectively assess the extent to which group plan RESPs have been sold to newcomers.

### **4) Redistribution of earnings on contributions from subscribers who exit their plans early to those who stay to maturity is integral to the design of group plan RESPs. There are concerns that low-income subscribers may be more likely to exit these plans prior to maturity or prior to their beneficiaries accessing the full complement of EAPs.**

Findings from the literature review and key person interviews with industry representatives demonstrate that the redistribution of earnings from subscribers who exit their plans early is integral to the design of group plan RESPs. In the literature, the group plan product has been compared to a “tontine,”<sup>5</sup> and an insurance plan in which a subscriber pays premiums to insure against the possibility that the designated beneficiary attends post-secondary education (Knight et al., 2008, p. 13). Industry respondents who took part in key person interviews also used the analogy of insurance premiums in describing the group plan product, and moreover compared group plans to defined benefit pension plans. In this regard, a respondent noted that there is no added benefit to a pooled investment model if all plan members successfully complete the plan, and that the added value comes if some plan members drop out earlier than others. Similarly, Robson (2013) notes that “part of the original design of the pooled plans was an expectation that not all beneficiary children for whom subscribers joined the plan would in fact go on to be eligible for scholarship payments” (p. 233). While recognizing that changes have been implemented to these plans since their introduction, Robson (2013) comments that the structure of the original group plans “was a wager that your child was more likely to go on to university compared to the children of other subscribers” (p. 233).

Data from the most recent group plan summaries indicate that many subscribers have their plans cancelled prior to their children entering post-secondary education. Average cancellation rates, based on the last five beneficiary groups to reach maturity, were between 10.6% and 44%.<sup>6</sup> For two of these promoters, more than 40% of plans were cancelled before they matured. The high rate of plan cancellation suggests that these plans may have been unsuitable for many of the subscribers to whom they were sold. Furthermore, this finding emphasizes that earnings forfeited through pre-

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<sup>5</sup>A tontine is “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.” (Knight et al., 2008, p. 13).

<sup>6</sup>See Section 4.3.2 above for the per-promoter cancellation rate.

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maturity attrition may continue to be a vital source of funds used to increase the EAPs and refund the sales charges for subscribers that reach maturity.

A major concern about the redistribution of earnings from cancelled plans to subscribers whose plans reach maturity is that this redistribution may come at the expense of low-income and other vulnerable subscribers. Focus group participants commented that some group plan subscribers “win” while others “lose,” and theorized that the funds they lost through participation in a group plan went to subscribers with higher incomes. Lewis and Elliott (2014) similarly observed that “the extent to which successful subscribers’ EAPs are composed of income from cancelled plans ... raises the possibility that disadvantaged savers are subsidizing the better-positioned” (p. 19). While we are unable to confirm this observation given the lack of available data, the barriers faced by vulnerable community members – including low or volatile incomes, low levels of household savings, and a lack of access to independent financial advice – and the hardships reported by participants who sought to maintain their savings commitment suggest that vulnerable groups may be more likely to exit group plan RESPs prior to maturity. Future research on the distributional consequences of group plan RESPs would benefit from access to data on the extent to which group plan plans that received one or more CLB payments resulted in each of the following outcomes: reaching maturity; receiving one or more EAP; cancellation prior to plan maturity; or reaching maturity but not receiving EAPs.

### **5) More than half of the scholarship plan dealers that sell group plan RESPs have a history of non-compliance with the securities regulations that apply to the industry. Among other issues, compliance reviews found breaches of securities regulations related to selling plans to low-income investors for whom they were not suitable.**

As reported in Section 4.3.2 above, provincial securities regulators conducted multiple compliance reviews of scholarship plan dealers between 2003 and 2012. These reviews consistently found identical breaches of securities regulation among four dealers, including failing to ensure that the purchase of units in a scholarship plan was suitable for the individual investor, failing to adequately supervise sales representatives, and using misleading marketing materials. In one case, there were breaches related to selling plans to newcomer investors. In 2012, all four dealers were subject to temporary enforcement orders and entered into settlement agreements with the regulator, in which they admitted non-compliance. All four orders had been lifted by April 2014, although new terms and conditions were recently imposed on Global RESP Corporation.

The experiences that subscribers shared in interviews and focus groups match the findings of the compliance review reports with respect to the use of high pressure sales tactics. Twenty-seven subscribers reported that they enrolled in their plan on the day they first met the sales representative, and 17 subscribers stated that they did not have time to make an informed decision before they opened a group plan RESP. Comments from subscribers about their sales experiences include that the sales representative led them to feel “guilty” and that “there was a lot of pressure” to subscribe. Furthermore, several subscribers stated that they felt pressured to invest more money into the group plan RESP than they were comfortable investing. In the 2010-11 compliance review

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reports, OSC noted that these types of sales tactics contravene the regulatory requirement to deal with clients fairly, honestly, and in good faith.

In addition, subscribers who participated in the research reported that the information they were provided by the sales representatives was inaccurate or incomplete. Twenty-five of 39 respondents who answered the question were unsatisfied with how at least some aspects of the product were explained to them at the time of the sale. Focus group participants highlighted that the fees were not adequately described. Comments from participants also included that they felt they were “lied to” about fees and penalties and that the sales representatives focused on presenting the “best-case scenario” without addressing the potential risks associated with the group RESP product.

These experiences were shared by participants who opened RESPs before and after the 2010-11 compliance reviews. Given the small sample size of respondents who opened RESPs after the enforcement orders were lifted, further research with recent group plan subscribers would be useful to ascertain whether the enforcement actions and changes to disclosure requirements have had their desired effects.

### **6) Evidence from this study suggests that the non-profit status of group plan promoters and trust in community salespeople play an important role in motivating some low-income subscribers to open group plan RESPs.**

Many subscribers reported that they opened RESPs with group plan promoters as a result of a pre-existing relationship with a dealing sales representative or a connection to a community member who referred them to the sales representative. Forty-three percent of interview participants reported that they met their sales representative through referrals from friends or family. Focus group participants commented that this was particularly the case for members of ethno-cultural communities, and shared that they trusted the salesperson due to their common membership in a community. In this study, more than half of the subscribers came to Canada as immigrants. Focus group participants observed that sales representatives may target their marketing efforts towards these newcomer communities. Accordingly, we suggest that what we term “community trust” may play an important role in influencing subscribers’ decisions about post-secondary education savings.

While trust in community connections may be beneficial in leading a community member to save for their children’s post-secondary education, these connections may also be detrimental. Focus group participants reported that community connections may prevent them from complaining about the product for fear of harming a fellow community member’s reputation. Furthermore, the behavioural economics literature finds that people can sometimes make irrational financial choices that can harm their well-being by using heuristics or shortcuts to make decisions. One such heuristic is status quo bias, which leads people to stick with what they have done in the past even when a new option may be a better choice. For newcomer Canadians, the status quo may include relying on social networks for information about products including financial services. If relying on social networks leads newcomers to subscribe to a group plan RESP without investigating other options, they may be subject to status quo bias that might limit their options and lead to a decision that could harm

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their financial well-being. The potential effect of status quo bias is evident in a story shared by a focus group participant, who commented that they would have done more research if a trusted community member hadn't referred them to the salesperson.

Our findings also suggest that some subscribers may open group plan RESPs due to what we term the "institutional trust" that is afforded by the not-for-profit status of the group plan promoter, and what they viewed as endorsement of group plans by the Government of Canada. Some subscribers commented that they opened group plan RESPs because they preferred to work with a non-profit organization rather than with a bank. This may reflect a partial understanding of the structure of group scholarship trust, given that these plans are sold and distributed by commissioned sales representatives that work for scholarship plan dealers that are distinct from the non-profit foundations. Other subscribers commented that they trusted the group plan promoter because of its connection with another organization, such as a hospital or welcoming service, or because it was registered with the Government of Canada and offered the CLB and Canada Education Savings Grant (CESG).

Our research suggests that community trust and institutional trust may play a role in shaping the decisions that subscribers make about their post-secondary education savings. As a result of community trust and the in-home sales process, investors may regard the interaction not as a business transaction, but as friendly advice. In addition, subscribers may be less aware of the potential risks associated with their investments if they make their investment decisions based on pre-existing trust in an organization. Further research would be useful to facilitate a deeper understanding of the potential effects of community and institutional trust on investor behaviour, and the extent to which the existence of trust could serve as a disincentive to reviewing written materials, taking additional time to make decisions, and researching other investment options.

### 5.2 RECOMMENDATIONS FOR PUBLIC LEGAL EDUCATION

The key findings presented above reinforce that there is a need to provide public legal education about RESP investment options to low-income families. Research participants advised that prospective subscribers should exercise caution when selecting an RESP and emphasized the importance of doing research prior to enrolling in a plan. The development of accessible and neutral educational materials on RESP investment options could support prospective subscribers in this process. In addition, current group plan subscribers could benefit from accessible and neutral information about their legal and contractual rights and the investment options available to them.

The subscribers that participated in focus groups for this study specifically highlighted that they require clear information about the amount and timing of fees, cancellation policies, and the risks associated with subscription to a group plan, including worst-case scenarios. While the May 31, 2013 changes to the form of scholarship plan prospectuses were intended to help investors to better understand the terms of their scholarship plans, research participants – including subscribers and a person with a law degree – still found these documents difficult to understand. Furthermore, there is no obligation on sales representatives to make sure that investors have read this information prior to investing in a group plan RESP. Given that over 95% of the subscribers who participated in this study opened their group plan RESPs in the private sphere of their homes, it may be unrealistic to expect



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that neutral information about these plans could be provided at time-of-sale. Accordingly, public legal education efforts may be more effective when delivered by trusted providers at “teachable moments” (Robson, 2012, p. 35) prior to enrollment in a group plan RESP or, if possible, soon after enrollment when new subscribers still have the option to withdraw without penalty.

We offer the following recommendations for the content and delivery of public legal education to address the needs of low-income subscribers and prospective subscribers.

### **1) Increase investors’ awareness of where to access information about group plan RESPs and scholarship plan dealer sales representatives**

Educational materials should inform investors that they have the right to receive a Plan Summary and a Prospectus within 48 hours from when they purchase a scholarship plan, and that they can also access these documents online through scholarship plan dealers’ websites. Furthermore, educational materials should increase investors’ awareness that they can conduct a National Registration Search through the website of the Canadian Securities Administrators to confirm that they are buying from registered dealing representatives, and to determine whether the scholarship plan dealer or representative has been disciplined by a provincial securities commission. Materials should recommend that an investor conduct a registration search before deciding to deal with a particular person or company.

### **2) Increase subscribers’ awareness of their legal and contractual rights**

Investors would benefit from materials that clearly describe their legal and contractual rights. The legal rights of a subscriber include the right to a refund within 60 days of subscription, to receive timely information, and to access a complaint process through OBSI. In addition, subscribers have the contractual rights to adjust their contribution schedule, to reduce their commitment to a minimum number of units, or to transfer their contributions and grants to an individual plan held by the group plan promoter.

### **3) Clarify the nature of the relationship between the Government of Canada and RESP promoters, including group plan promoters**

Given that some subscribers in this study believed that the Government of Canada endorsed group plan RESP by virtue of their registered status, public legal educational materials should clarify the nature of the relationship between the Government of Canada and RESP promoters. Specifically, these materials could state that the Government of Canada registers RESPs held by over 90 promoters through Canada Revenue Agency (CRA) and pays the CLB and CESG into these plans through Employment and Social Development Canada (ESDC). However, the Government of Canada does not endorse particular promoters. In addition, the government does not insure subscriber contributions or government grant payments made into RESPs held by group plan promoters

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against loss.<sup>7</sup> Educational materials should emphasize that a subscriber could lose some or all of their contributions, government grants and the earnings on those contributions and grants, and that some government grants cannot be re-earned if the subscriber has their RESP cancelled or withdraws from their plan.

### **4) Explain the distinction between scholarship plan dealers and scholarship foundations**

Educational materials should explain that while group plan RESPs are held by non-profit foundations, the plans are sold by sales representatives that work for scholarship plan dealers. Like other types of salespeople, group RESP sales representatives are paid commission for each unit they sell. In addition, given that scholarship plan dealers are distinct entities from the scholarship foundations that hold the RESPs, their corporate interests may differ from those of the scholarship foundations. While in some cases, the scholarship plan dealer is a wholly-owned subsidiary of the not-for-profit foundation, in other cases the scholarship plan dealer is beneficially owned by individuals who also play a management role in the not-for-profit foundation. Educational materials that explain the distinction between the roles of scholarship foundation and scholarship plan dealer may help prospective subscribers to better understand this corporate structure.

### **5) Describe the pooled investment model inherent to group plan RESPs, and the role of attrition in creating surplus earnings that can be redistributed to remaining plan members**

Prospective subscribers could benefit from clearer information about the pooled investment model inherent to group plan RESPs and the effect of plan attrition in determining the amount of EAPs for which a beneficiary will qualify. Educational materials should explain that the pooled funds held in group plan RESPs are invested by an institutional money manager into specific forms of investments that have been approved by provincial securities commissions – as discussed in the plan prospectuses – and that these plans do not allow a subscriber to direct their contributions into particular investments. Materials should also inform subscribers and prospective subscribers that the amount of EAPs their beneficiary will receive depends on the number of beneficiaries in their cohort that attend qualifying post-secondary programs in each year after plan maturity and the number of subscribers whose plans are cancelled prior to maturity. These materials should highlight that if the subscriber withdraws from their plan or has their plan cancelled before maturity, or if their beneficiary does not qualify for the full complement of EAPs, the earnings on their contributions will be added to the EAPs received by other beneficiaries that remain in the cohort until maturity. In addition, subscribers should be informed that they will not receive their share of the pooled investment earnings unless they meet the terms of their plan.

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<sup>7</sup> The lack of coverage by government insurers such as the Canada Deposit Insurance Corporation is addressed in the plan prospectuses and plan summaries.

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### 6) Disseminate educational materials and deliver training to community-based agencies and other trusted service providers that engage with low-income community members

Robson (2013, pp. 33–34) found that financial literacy interventions are most effective when delivered by trusted service providers, and noted that vulnerable Canadians appear to trust community-based agencies to provide this information. Subscribers that participated in focus groups for this study also identified other service providers that may be well positioned to provide this information, including social workers, healthcare practitioners, and prenatal educators. Building the capacity of these service providers to understand and provide information about RESP investment options may be a promising avenue by which to reach vulnerable group plan subscribers and prospective subscribers.

Based on these recommendations, the project team developed public legal education materials for group plan subscribers, prospective subscribers, and community service providers. These materials include:

- a plain language guide that describes the unique characteristics of group plan RESPs and how prospective subscribers can gain further information about specific plans and dealing sales representatives;
- a plain language guide for current group plan subscribers that explains their rights and responsibilities as investors and the options available to them if they would like to make changes to their plan; and,
- an activity that service providers can use in group workshops and individual education sessions to increase their clients' understanding of RESP investment options, including group plans.



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# APPENDIX A

## APPENDIX A: LITERATURE REVIEW<sup>1</sup>

**Dr. Jerry Buckland and Kevin Schachter**

Since the 2007-2008 sub-prime financial crisis, real interest rates<sup>2</sup> in Canada and other countries of the global North have been very low and in some cases, negative. Low real and nominal interest rates encourage borrowing and discourage savings. This is part of the reason consumer debt has been growing at record rates, and conversely, why personal savings rates are very low. The Canadian government uses a variety of means to encourage citizens to save for different purposes such as home ownership, retirement, and education. One mechanism is to register the savings fund and shelter its taxation or enable a reduction in tax liabilities, for instance through Registered Retirement Savings Plans (RRSPs). Another mechanism, devised to promote saving for post-secondary education, is the Registered Education Savings Plan (RESP) and the Canada Education Savings Program (CESP), through which the Government of Canada supports families to save for their children's post-secondary education (Essaji and Neill, 2012; Parkin, 2016).

In 2016, Canadian families saved \$4.43 billion toward their children's post-secondary education in RESPs, reaching a total value of \$51.3 billion of assets held in RESP accounts (ESDC, 2017a, pp. 9–10). As a registered account, an RESP enables families to benefit from the tax-deferred growth of their contributions. Instead of the resulting investment income being taxed in the hands of the contributors during intervening years of contribution growth, it is taxed in the hands of the beneficiaries (who can deduct associated tuition credits to reduce their income tax burden) when they access the funds for their post-secondary education. Moreover, as of 1998, RESPs have enabled Canadian families to access government contributions for their children's post-secondary education through the CESP.<sup>3</sup> In 2016, the grant and bond offered by the CESP added a combined \$1 billion in value to the RESPs held by Canadian families (ESDC, 2017a, pp. 18–21). These federal government contributions and the accumulated investment income are made available to the designated beneficiaries upon their enrollment in post-secondary education.

As of 2016, RESPs were offered by approximately 90 organizations known as RESP promoters, which sell and market these plans to Canadian families (ESDC, 2017a, p. 16). Most of these firms offer individual or family-based RESPs that involve voluntary contributions and are not included in a pooled fund. Many of the firms offering these products – including banks, investment companies,

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<sup>1</sup> The literature review was first undertaken by Kevin Schachter in 2013 and then updated by Jerry Buckland in May 2017. The review was based on a search of the academic and policy literatures. The academic search was undertaken with an academic database using keywords such as *group-plan RESP*, *scholarship trust plan provider*, and considering the *fringe bank / high-interest credit market* literature. A web-based targeted search was undertaken to find literature on the size, characteristics, and assessment of the group-plan RESP products and companies by those companies and their regulators.

<sup>2</sup> The real interest rate, an indicator of the true cost of borrowing, is measured by the nominal interest rate less inflation.

<sup>3</sup> The Canada Education Savings Program is housed within the Government of Canada department Employment and Social Development Canada (ESDC), formerly known as Human Resources and Skills Development Canada (HRSDC).

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and credit unions – have not heavily marketed the RESP product to the general public (Knight et al., 2008, p. 10). By contrast, promoters that offer group plan RESPs have a singular focus on offering RESPs through active marketing efforts. They are further characterized by their not-for-profit organizational status, their unique investment vehicles, and by the regulations and fees that they have established in addition to or superseding federal government guidelines (Knight et al., 2008, pp. 17–20). The particular design of group plan RESPs thus necessitates a fuller description.

## Government Policy<sup>4</sup>

Until the late 2010s, the federal government and provincial securities commissions took a “buyer beware” approach to their treatment of group plan RESPs (Knight et al., 2008, p. 20). Accordingly, scholarship plan dealers have been required to disclose the rules and risks associated with their plans in a publicly available prospectus, and consumers are therefore assumed to be capable of making informed decisions based upon reading and considering this material. However, Knight et al. found that “disclosure of risks is less effective than it might be” (2008, p. 19).

Federal government regulations also shape the extent to which mainstream banks and credit unions devote their marketing and training efforts toward selling RESPs. Knight et al. found that mainstream financial institutions (FIs) are dissuaded by the high administration costs required of RESPs, their low profitability, and the complexity of knowledge required by both the subscriber (the person who invests in the plan) and the sales representative in order to open these plans (2008, p. 9). The authors suggest that this lack of an effort to market and promote RESPs may limit public knowledge of the benefits of saving in RESPs and therefore reduce access to these benefits (2008, p. 10).

As discussed in Section 4.3.1, regulation of scholarship plan dealers has changed somewhat in the last 10 years. In 2007, scholarship plan dealers became participating firms in the Ombudsman for Banking Services and Investments (OBSI, 2007). The result of this is that the OBSI now tracks complaints regarding scholarship trust plans. In 2016, scholarship trust plans represented 8% (26 cases) of all investment complaints received by the OBSI, the third highest number after mutual funds (44%, or 148 cases) and common shares (34%, or 112 cases), and more complaints than bonds/derivatives/labour-sponsored funds (1% each), guaranteed investment certificates, and income trusts (<1% each) (OBSI, 2016, p. 28). To put the scholarship trust industry in relation to the mutual fund industry, the value of RESP assets held by the scholarship trust sector was just over \$11 billion (see below) in 2015, while the value of assets held by the mutual fund sector topped \$1 trillion in 2014 (Babad, 2014). The scholarship trust sector thus holds approximately 1.1% of the assets held by the mutual fund sector, but scholarship trust complaints at the OBSI in 2016 represented 17.6% of mutual fund cases.

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<sup>4</sup> For details on the regulation of group plan RESPs, see Section 4.3.1 above.



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## Scholarship Plan Dealers and the Group Plan RESP

Scholarship plans have a relatively long history in Canada. Beginning as a private and “niche” product in the early 1960s, they began to receive federal government recognition and support and attract other market entrants in the 1970s (Robson, 2013). The new entrants introduced an individual product that was different from the group-based product offered by the scholarship plan dealers.

Today there are six scholarship plan dealers operating in Canada, five based in the Greater Toronto Area and one in Quebec (Table 2). These six companies have historically provided group plan RESPs, but now also offer individual plan RESPs. Each promoter has a not-for-profit and a for-profit arm.

Not-for-profit Arm	For-profit Arm
Children’s Educational Foundation of Canada	Children Education Funds Inc.
Canadian Scholarship Trust Foundation	C.S.T. Consultants Inc.
Global Educational Trust Foundation	Global RESP Corporation
Heritage Educational Foundation	Heritage Education Funds Inc.
Knowledge First Foundation	Knowledge First Financial Inc.
Universitas Foundation	Universitas Management Inc.

**Table 2. Not-For-Profit and For-profit Arms for the Scholarship Trust Dealers**

The structure of group plan RESPs can best be explained by contrasting it with the structure of the individual and family plan RESPs offered by other FIs. A family who opens an individual or family plan RESP saves in an account that includes only one child (in the case of an individual plan RESP) or the subscriber’s children/grandchildren (in a family plan RESP), is not required to make contributions on a regular schedule, does not have to pay a fee to open a basic account, and is able to withdraw or transfer their contributions, accrued government grants, and the associated investment income for a specified fee. In contrast, a family opening a group plan RESP saves in an account that is pooled together with accounts of a cohort of Canadian children expected to enter post-secondary education in the same year. In opening a group plan RESP, families are required to pay enrollment,

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contribute according to a regular schedule, deposit, and administration fees upon opening the account and at regular intervals thereafter, and to follow the set of rules outlined in each promoter's investment prospectus. If a family decides to withdraw their contributions, misses payments in their contribution schedule, or wishes to transfer to another RESP promoter, they run the risk of forfeiting their share of the pooled investment income, the fees they have paid, and access to the federal government grants that correspond to their contributions. Moreover, if the child named on the RESP takes a different route to post-secondary education than the one prescribed in the trust's rules (such as taking time off before enrolling, enrolling part-time, pursuing a trade, or taking a program shorter than four years in length), they may receive less of the pooled investment income than originally projected.

Based upon the aforementioned rules, members of the trust who successfully invest and withdraw their funds in accordance with the regulations reap the benefits of this group investment vehicle by receiving their share of the investment income as well as the opportunity to gain an additional share of the investment income forfeited by other plan members and the potential refund of the enrollment fees they paid. Conversely, plan members whose saving patterns and path to post-secondary education do not fit the routes prescribed in the plan prospectuses may incur significant losses by running afoul of these rules. On this basis, Knight et al. (2008, p. 13) commented that "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." They also compare the group plan RESP to an insurance plan in the sense that one pays premiums to support the possibility that the designated beneficiary attends post-secondary education (Knight et al., 2008, p. 13).

Annual returns on group funds are reported in the scholarship foundations' annual reports and/or their prospectuses (Table 3). Returns for four of these funds over a four-year period are included below. These returns vary considerably over the period and between dealers, with an overall simple and unweighted average of 3.6%.

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Plan	2012	2013	2014	2015	Average*
Children's Educational Foundation of Canada Group Option Plan	3.2	-0.8	6.8	0.1	2.3
Canadian Scholarship Trust Foundation Group Savings Plan 2001	2.5	-0.5	3.9	3.0	2.2
Heritage Educational Foundation Heritage Plans	4.2	-0.2	8.5	1.4	3.5
Knowledge First Foundation Family Group Education Savings Plan	13.2	5.9	-1.9	8.2	6.4
Average*	5.8	1.1	4.3	3.2	3.6

**Table 3. Annual Returns to Group Funds, Net of Fees, by Group Plan Promoter, 2012–2015**

\*Simple and unweighted average.

Sources: Annual reports and prospectuses.

## The Size of RESP Assets over Time

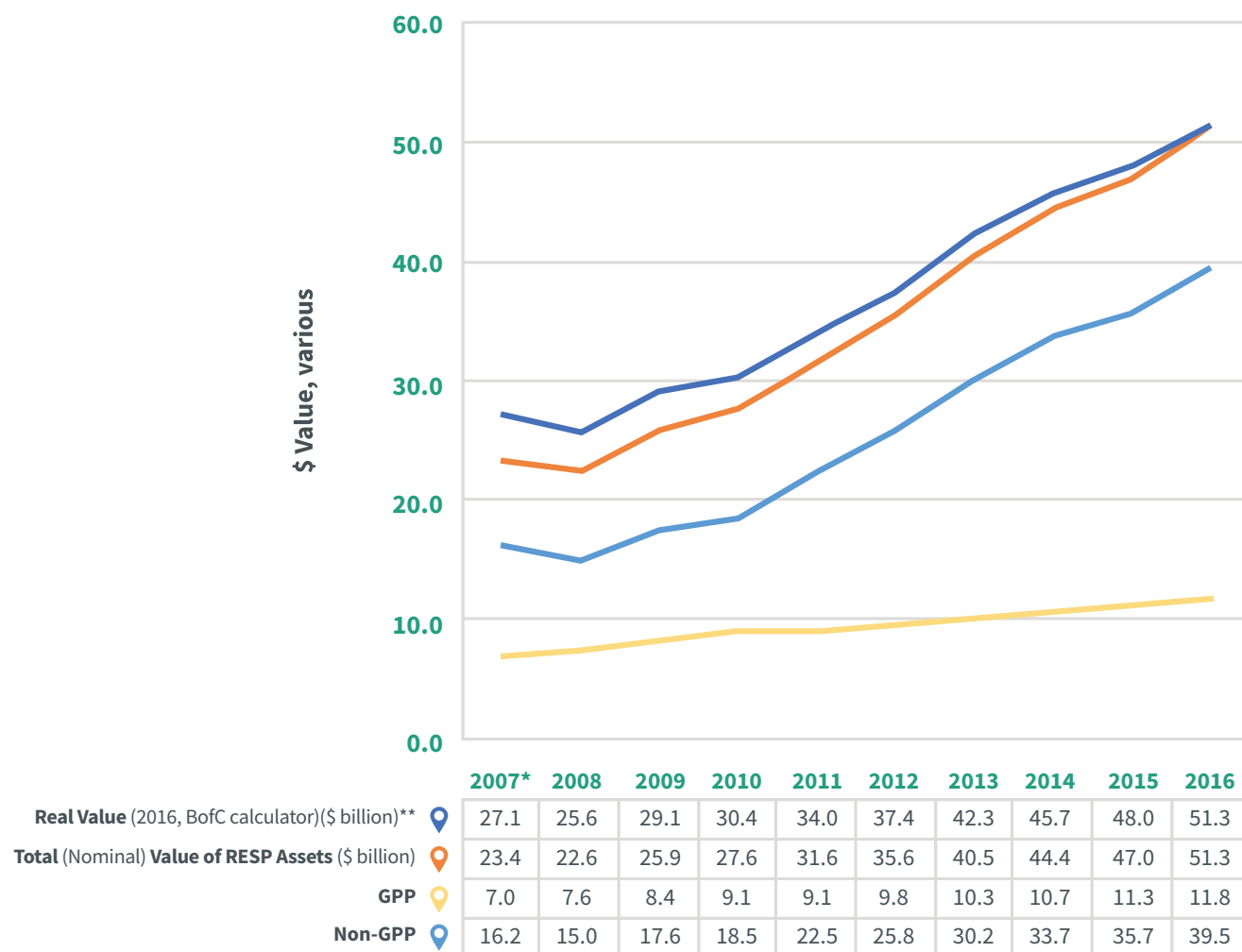
The value of assets held within RESPs has steadily increased over the 10-year period beginning in 2007 (Figure 4). In nominal terms, the value increased from \$23.4 billion in 2007 to \$51.3 billion in 2016. When adjusted for inflation, the asset value increased from \$27.1 to \$51.3 billion during this period.<sup>5</sup> This growth in asset value is mirrored by a significant increase in the number of children who accessed the Canada Education Savings Grant (CESG)<sup>6</sup> as a result of subscriber contributions to their RESPs: in 1998, 10% of Canadian children under 18 years old received the CESG, but by 2015, take-up had increased to 50% (Parkin, 2016, p. 4).

In comparing group to non-group promoters, the highest growth during this period occurred among the non-group plan promoters (non-GPP) rising from \$16.2 to \$39.5 billion from 2007 through 2016. Group plan-based assets have also grown during this period from \$7 to \$11.8 billion. The share of assets held by non-group promoters relative to group plan promoters has risen from 69.3% to 77.0% during this same period.

<sup>5</sup> When adjusted for inflation and population growth, the real per capita value of these assets increased from \$824 to \$1,409.

<sup>6</sup> The Canada Education Savings Grant, offered by the Government of Canada through the Canada Education Savings Program, adds up to 40% of the value of contributions made by a subscriber into an RESP.

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**Figure 4. Real, Nominal, and Per-Capita Value of RESPs**

\*Data for 2007 comes from the 2008 *Annual Statistical Review*.

\*\*Nominal values converted into real values using the Bank of Canada inflation calculator: <http://www.bankofcanada.ca/rates/related/inflation-calculator/>.

**Sources:** Employment and Social Development Canada, *Canada Education Savings Program annual statistical reviews*, 2008–2016.<sup>7</sup>

<sup>7</sup> Between 2008 and 2016, the federal department in which the Canada Education Savings Program is housed was known by three names: Human Resources and Social Development Canada (2008); Human Resources and Skills Development Canada (2009–2012); and Employment and Social Development Canada (2013–2016). The Annual Statistical Reviews have been cited based on the department name at time of publication.

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In terms of funds delivered to investors in the form of the CESG and the Canada Learning Bond (CLB),<sup>8</sup> data are available from 2009 through 2016 (Table 4). Federal government support towards both non-group and group plan investors has increased but more quickly for the former group. Non-group plan investors' share of CESG funds climbed from \$451.2 million to \$677.8 million during this period. Funding toward group plan subscribers rose from \$172.8 million to \$205.8 million. Allocation of the CLB for non-group plan investors rose from \$34 million to \$105 million. Group plan subscribers received \$22.5 million in 2009 and \$29.2 million in 2016.

**Table 4. Payments from the Government of Canada through the CESG and the CLB, 2009–2016, millions of dollars**

	2009	2010	2011	2012	2013	2014	2015	2016
Non-GPP CESG	451.2	471.6	509.8	539.1	578.2	609.3	644.2	677.8
Group Plan Promoters CESG	172.8	195.4	206.2	213.9	213.8	209.7	206.8	205.8
Non-GPP CLB	34.0	37.5	49.1	64.3	73.1	78.7	88.1	105
Group Plan Promoters CLB	22.5	27.7	29.9	34.7	27.9	27.3	28.9	29.2

**Sources:** Employment and Social Development Canada, *Canada Education Savings Program annual statistical reviews*, 2009–2016.

In looking at how the CLB is paid out to plans held by the different categories of RESP promoters, we can see that 21.8% of CLB payments made in 2016 went to RESPs held at group plan promoters (ESDC, 2016) (Table 5). As group plan promoters held 23.0% of all assets invested in RESPs in that same year, this suggests that low-income families are roughly equally represented among the clientele of group plan promoters. The ratio of CLB payments to the share of assets held by group plan promoters has declined since Knight et al. (2008, p. 12) found that “the share of RESPs that attracted the CLB is three times as large among group scholarship plans as among individual and family plans,” and from a recent high of 1.31 in 2011. Nevertheless, the \$29.2 million of CLB funds

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<sup>8</sup> The CLB, also offered by the Government of Canada through the CESP, adds up to \$2,000 to RESPs opened for children born in 2004 who are from low-income families or are in the care of a child welfare agency that receives the Children's Special Allowance for the child.

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paid into RESPs at group plan promoters in 2016 suggests that many low-income families continue to use these products.<sup>9</sup>

## Obstacles to Banking

The literature on financial inclusion has identified barriers from mainstream FIs and opportunities from fringe FIs that can lead vulnerable people to use more expensive fringe financial services. These issues relate to the study of group plan RESPs because many group plan subscribers are vulnerable people who may face many of these mainstream FI barriers and fringe FI opportunities.<sup>10</sup> The barriers and opportunities relate to the design and delivery of banking services by mainstream and fringe FIs. Most relevant to this study is the design and delivery of doorstep lending in the United Kingdom. Finally, the literature on behavioural economics and financial literacy has found that people will sometimes sacrifice their long-term interests for their short-term survival.

**Table 5. Group Plan RESPs as a Share of All RESP Assets and Their Share of CLB Payments**

	2009	2010	2011	2012	2013	2014	2015	2016
Group plan promoters' share of all RESP assets	32.3	32.9	28.9	27.4	25.4	24.2	24.1	23
Group plan promoters' share of CLB payments	39.9	42.5	37.9	35.1	27.6	25.8	24.7	21.8
Row (2) divided by row (1)	1.24	1.29	1.31	1.28	1.09	1.07	1.03	0.95

**Sources:** Employment and Social Development Canada, *Canada Education Savings Program annual statistical reviews*, 2009–2016.

<sup>9</sup> As the maximum CLB payment that could be made for a child in 2016 was \$1,700 and the minimum payment \$100, this amount represents between 17,176 and 292,000 children. Additional data is needed to identify the precise number of CLB beneficiaries with RESPs held by group plan promoters.

<sup>10</sup> As group RESP promoters received over 21% of Canada Learning Bond payments in 2016 and the Canada Learning Bond is only available to families living on low-income, we conclude that many of these families are financially vulnerable.

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Vulnerable people are less likely than non-poor people to access banking and savings vehicles within mainstream banking. In Canada, vulnerable people are more likely to be unbanked and to rely on financial products from outside of mainstream FIs. Obstacles to basic banking include access, product design, and staff training (Leyshon, French, and Signoretta, 2008; Leyshon and Thrift, 1997; Dymski, 2005; Buckland, 2012). Access can be an obstacle where mainstream FI branches are not located in poor inner-city neighbourhoods or remote rural locations. Conversely, fringe FIs such as payday lenders, cheque-cashers, and pawnshops are densely located in these marginalized neighbourhoods. Access can also be limited by operating hours, which are often more restricted for mainstream FIs than for fringe FIs. Mainstream FIs often do not design their products with vulnerable people in mind; they do not assist people with personal identification or cheque-hold policies in the way fringe banks do. Finally, in some cases mainstream FI staff members are poorly trained to work with vulnerable Canadians. These staff sometimes do not understand the financial challenges vulnerable Canadians face and so may not provide them with the kind of financial advice that they need. In other cases, vulnerable Canadians are simply treated poorly. The resulting experience for many vulnerable people dissuades them from returning to mainstream FIs.

Other studies have found that savings are a particular bank product vulnerable people need, but one that institutions are often unwilling or unable to provide (Sherraden and Barr, 2005). All people, vulnerable people included, need access to safe and affordable ways to save. In some cases in the global South, it has been demonstrated that while vulnerable people save money (Collins, Morduch, Rutherford, and Ruthven, 2009), oftentimes these savings are accumulated through tiny instalments that add up to small sums, as opposed to the small sums that middle-income people save over time to accumulate moderate savings. Counterintuitively, research from the global South has found that vulnerable people are actually *willing to pay* for a good quality savings service (Collins et al., 2009; Rutherford, 2000). Finally, savings and credit are complements, not substitutes, for a healthy household economy (Sherraden and Barr, 2005).

Appropriate information and institutions are necessary to enable vulnerable people to save. Several of these needs are related to the obstacles to banking discussed above: access, information, incentives, facilitation, expectations, security, and restrictions (Sherraden and Barr, 2005). To save, the products need to be accessible, as discussed above, in terms of physical availability, and there must be information about the products. In order to save, there needs to be incentives for people and there needs to be an element of facilitation. Incentives include interest rate payments or matched savings. Facilitation – related to nudging, which is discussed below – is where people are assisted in beginning and continuing a savings process. Expectations relate to social and institutional assumptions of one's savings goals. For saving to be successful, it is essential for the person to understand the process and know that their savings are secure.

An important point about group plan RESPs is the role of restrictions. There is evidence from institutional savings and behavioural economics research that restrictions are sometimes important in order to encourage savings (Sherraden and Barr, 2005). Restrictions might relate to the requirement of regular savings contributions and the inability to easily remove money from the account. These restrictions prevent the saver from easily removing their savings or stalling their savings contributions, and serve as an external form of discipline.

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Another important avenue of research regarding financial inclusion relates to how social relationships are sometimes used as a means to advance fringe banks' financial interests through financial products that target specific communities. The literature has found that certain fringe banks take advantage of how vulnerable people are often knit together within various groups. For instance, some literature finds that vulnerable people learn about financial service options through groups of practice, that is, groups of people with whom they interact on a daily basis (Buckland, 2014; Sprow Forte, 2014). If communities are dominated by fringe banks, such as pawnshops, then it is very possible that many people in these neighbourhoods use these services and that groups of practice within the community encourage their use. In some cases, fringe banks gain clients in a passive way (without taking any action) through these groups of practice. In other cases, fringe banks may use these interpersonal and social networks more actively to expand their clientele.

Doorstep lenders in the United Kingdom are an example of this. These firms are creditors that literally provide loans and facilitate the repayment process at a borrower's doorstep (Jones and Ellison, 2011; Kempson, Ellison, Whyte, and Jones, 2009). Doorstep lenders, with their historic roots in the nineteenth century, involve a credit model that grants the creditor ever-increasing information about the prospective borrower. Creditors get to know their clients better and better, through continuous meetings to provide the initial loan and to receive the repayments. This enables the doorstep lender to correct for what is known in economics as asymmetric information: a situation in which one party knows more than the other does about the product and/or about the other party. In their study of doorstep lenders, Leyshon and others found that "agents build up personal and local knowledge on their customers and then invest trust in those who are deemed to be reliable and, therefore, 'good' customers" (Leyshon, Signoretta, Knights, Alferoff, and Burton, 2006, p. 166). By building social relationships within a community, the doorstep lender can identify "good" customers who will repay their loans, who are then given more loans, and "bad" customers who do not repay their loans, and are therefore not offered further loans.

In many cases, the reasons for the persistence of home service insurance firms [doorstep lenders] were perhaps social and cultural, in that household members built up relationships with agents over a period of years and chose to continue doing business with someone they knew and trusted rather than giving their business to what they saw, in comparison, as anonymous and faceless companies. (Leyshon et al., 2004, p. 634)

But research has found that the doorstep creditor-borrower relationship can be troublesome. Leyshon and others (2006) describe how the borrower can become dependent on this relatively expensive form of credit and also be encouraged by the creditor to purchase other "tied" products, such as insurance.

[T]he weekly visit gives rise to a circle of dependency. Customers have a service offered to their doorstep but, on the other hand, it becomes difficult to break away from offers as they are constantly reminded of the availability of this form of credit due to the agent's interest in selling and generating new business. Dependency is the key to the relationship. (Leyshon, Signoretta, Knights, Alferoff, and Burton, 2006, p. 183)



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Another important related line of research is linked to behavioural economics, a school of economics that seeks to understand the psychological dimensions of economic decision making. One avenue of this research has focused on how people make complex decisions about finances when they face scarcity (Mullainathan and Shafir, 2013). Scarcity is defined in this work as a fundamental limitation of income or time. A vulnerable person might face a fundamental economic limitation. Mullainathan and Shafir (2013) argue that when people face scarcity, they will tend to “tunnel” or focus on a limited number of issues at the expense of other issues. Poverty leads people to focus on the short term at the expense of the long term, and might lead someone to use a payday loan to help meet a financial gap in the short term, a choice that will likely harm them in the medium run if they are unable to pay it off. Some behavioural economists have argued that the state should step into markets with “behaviour failures” to “nudge” people into behaviour that is in their best interests. This is akin to the facilitation idea discussed above (Thaler and Sunstein, 2008).

## Do RESPs Serve Vulnerable Canadians?

The scholarly literature on RESPs is largely centred on analyses of the relative value of RESPs. These analyses compare the costs of the federal government grants and foregone tax revenue with the effectiveness of RESPs as a means of improving children’s likelihood of enrolling in and completing post-secondary education. Many of these studies were conducted prior to the expansion of the CESP in 2005, and so to a certain extent they have been rendered obsolete inasmuch as their analysis depends on the specific set of factors that structured the regulatory context of RESPs at the time of study, which have since been updated. This base of the literature can be divided into two broad categories: studies that convey a favorable analysis of RESPs, and those that articulate a critical perspective.

A favourable analysis of RESPs can be found in the work done by Loke and Sherraden. Loke and Sherraden’s (2009) comparison of child development account policies in several countries found that these policies, including the Government of Canada’s CESP, “have already had an impact on long-term savings and on the future pool of resources available for children” (p. 127). Support for this position is found in data provided by the Director General of the CESP in 2006, which revealed that enrollment in RESPs more than quadrupled in the years since the foundation of the CESP in 1998 (Loke and Sherraden, 2009, p. 127). Nevertheless, Loke and Sherraden’s analysis also found that “lower-income families have lower awareness of the programs, are building up their children’s assets at a much slower pace, and hence benefit from the policies at lower levels than their wealthier counterparts” (2009, p. 122). Another positive yet nuanced analysis is offered by Benjamin and Smart (2011), who conclude that the CESP has “significantly encouraged” (p. 21) Canadians to save in RESPs, but that the take-up of these benefits is still low enough to suggest that RESPs “are simply not a very good investment” (2011, p. 23) in comparison with other options such as the Tax-Free Savings Account (TFSA). Cudmore (2004), meanwhile, offers the very favourable conclusion that “subsidizing RESP savings appears to be an effective means of targeting intergenerational income inequality” (p. 20), and that “subsidizing RESPs is superior to subsidizing tuition” (p. 25) in that RESPs provide encouragement to a child at an earlier age to work to succeed in their studies so that they may qualify for post-secondary education (p. 23).

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A more critical take on RESPs is conveyed in Milligan (2002). Milligan's paper for the C.D. Howe Institute, written before the enactment of the CLB, found that "[t]he primary economic effect of RESPs is to add needless complexity to Canada's tax system," that the CESG disproportionately benefits higher income earners, and that Canadians would be better served by more general tax-free savings accounts and by specific funding policies targeting low-income post-secondary students (2002, p. ii). In a subsequent discussion paper on the topic, Milligan (2004) further articulates this position, concluding that the CESG and RESPs have not successfully redistributed wealth to low- and middle-income families as intended by government policies (p. 26), and that the money devoted to the CESG should be withdrawn and reallocated toward other efforts to increase the affordability of post-secondary education for low-income families (pp. 27–28). A similar take is provided by Donnelly, Welch, and Young (1999), who conclude that "the RESP tax incentive will fail to provide the path to higher education for those Canadians for whom access is a real problem" (p. 82), and suggest that the public funds contributed into RESPs via the CESG, while constituting a "significant commitment" (p. 82) by the Government of Canada, may not result in increased attainment of post-secondary education by people living on lower incomes.

The Omega Foundation sponsored a report that was also critical of the distributional consequences of RESPs, finding that – as with other asset-building programs such as RRSPs – they disproportionately benefit well-off people over vulnerable people:

[T]he [RESP] program retains a fundamental, inescapable and well-known weakness, namely that its impact is regressive. While its purpose is to promote savings in order to make [post-secondary education] more affordable, its benefits accrue disproportionately to wealthier families – namely, those for whom affordability is less likely to be a problem. (Parkin, 2016, p. 14)

Robson (2013) echoes these concerns:

It is clear, however, that as long as wealthier families remain more likely to open RESPs, they will reap a larger share of the benefit from the universal grant programs and a larger share of the benefit from matching savings incentives that, despite improvements, still reward larger savers more than small savers. (Robson, 2013, p. 263)

RESP adoption rates are higher among higher income families than among lower income families: in 2014, 68% of parents with incomes over \$120,000 had RESPs, compared to only 37% of parents with incomes lower than \$32,000 (Parkin, 2016, pp. 14–15). Parkin (2016, p. 18) also found that for 2012, CESG and CLB funds were disproportionately going to better-off households: households with less than \$45,000 in income represented 37% of all households but received only 24% of the total grants; meanwhile, families with incomes exceeding \$90,000 represented 33% of all families and received nearly 50% of the government grants. Furthermore, Parkin (2016, p. 17) noted that there are many cases in which a low-income family is engaged in RESP savings but does not receive the CLB because they have not completed the appropriate application. In 2012, this amounted to 23% of families.

The most recent CESP annual statistical review includes some positive results about the distributional consequences of the CLB and CESG. In the review, Employment and Social Development Canada (ESDC) found that "the proportion of total incentive payments being made by the Government of Canada into RESPs for beneficiaries from middle- and low-income families is

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increasing every year” (ESDC, 2017a, p. 21). Between 2006 and 2016, the proportion of CESP funds paid into RESPs that qualified for the A-CESG increased 417% compared to an increase of 30% for RESPs that only received the Basic CESG.

## Features and Challenges with Group RESPs

Although there are a limited number of studies that look at scholarship plan providers in depth, a report commissioned by Human Resources and Skills Development Canada (HRSDC) and produced by Knight et al. (2008) offers a wealth of relevant data in this area. Through a review of the prevailing practices in the RESP industry, Knight et al. (2008) found that the structure and practices of the group scholarship trusts is distinct from that of the field at large. The review highlights a few prominent features of the structure of group scholarship trusts that render them problematic for families saving for their children’s education, as well as a few features that are beneficial for these families. On the positive side, the authors note that the group scholarship plan’s requirement that families contribute according to a set deposit schedule “may generate savings that would not occur without such an obligation” (p. 14). In behavioural economic terms, the fixed contribution schedule of group plan RESPs may serve as a nudge to facilitate productive savings behaviour. Moreover, Knight et al. identify that the group scholarship plan providers are strong and proactive marketers (p. 16), who tend to have staff that solely focus on RESPs, and that the flexibility of their sales tactics, which include home visits to potential subscribers, may allow them to reach more of the population than is reached by traditional FIs (p. 16).

Nevertheless, Knight, et al (2008, p. 14) found that, due to the front-loaded enrollment fees, fixed contribution schedules, and losses that occur if a plan is closed before maturity, “there is a significant risk that participants in group plans end up in a worse financial situation as a result of their participation.” The review’s investigation into the complaints received by HRSDC, the Ontario Securities Commission (OSC), and the Financial Consumer Agency of Canada (FCAC) regarding RESPs found that many consumer complaints were specific to the design of group plan RESPs and the practices of group plan promoters (Knight et al., 2008, pp. 5–6).

## SCHOLARSHIP PLAN DEALERS CONFLICT OF INTEREST

Moreover, Knight et al. identify two potential conflicts of interest that may lead group scholarship trusts to be detrimental to consumers. First, the structure of the commissions that sales representatives receive is a percentage of the enrollment fee, which corresponds to the amount of money that a subscriber is contractually obligated to contribute according to their contribution schedule. As such, “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” (Knight et al., 2008, p. 18).

A second conflict of interest divides operations between a not-for-profit organization that manages the invested funds, and a for-profit corporation that markets and sells enrollment into this fund. In an examination of the boards of directors of these organizations, the authors found significant overlap between the boards of directors of these organizations (Knight et al., 2008, pp. 41–42).

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Such an overlap creates a conflict of interest since the directors of the not-for-profit organization are obligated to act in the best interests of plan holders, whereas directors and executive of the for-profit organization may be motivated by their own financial interests (Knight et al., 2008, p. 19). This conflict is heightened given that the compensation of the companies' executive is not publicly disclosed (Knight et al., 2008, p. 19).

## GROUP PLAN RESP FEES

A variety of fees are associated with the group plan RESP product, and these fees might come in different forms and can be complicated. Knight et al. (2008, p. 18) identified five or six types of fees, asserting that "[t]he range of fees makes it difficult for the consumer to understand their full scope and impact." The OSC's 2004 report noted a number of ways in which group plan RESP fees were not clearly presented: the nature of the fees and implications for the plan's return were not straightforward; salespeople seemed to lack knowledge about the product; and in some cases enrollment fees were misrepresented, the consequences of termination were not explained, or the 60-day grace period was not explained (pp. 6–7). Overall, the OSC (2004) noted "a lack of disclosure and clarity to clients on the nature of these fees and their implications on the plans' returns" (p. 6).

## DISCLOSURE AND MARKETING THE PRODUCT

A major issue raised in the literature about group plan RESPs is the disclosure of information about the product's rules and features. The OSC (2004) report found problems in how group plan RESP companies presented information on rates of return for investments. In some cases, the formula was not disclosed and in other cases "creative" calculations were performed (p. 10).<sup>11</sup> The report commented that "[o]verall, many more instances of misleading information were noted in the materials we reviewed than those mentioned above" (p. 10). Knight et al. (2008) note that the rules associated with the group plan RESP are more restrictive than what the government requires, and that this gap (between group plan RESP rules and government regulations) is not necessarily adequately disclosed to prospective subscribers (p. 15).<sup>12</sup> Furthermore, prospective subscribers may not necessarily be informed about the possibility that they may not receive the full proceeds of their investments.<sup>13</sup> Knight et al. (2008) argue that prospective subscribers should be more clearly informed about the odds of not receiving a full payment (p. 15).

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<sup>11</sup> The Ontario Securities Commission (2004) found that "within the same dealer firm, there was no consistent methodology for calculating rates of return. For example, rates of return were calculated using creative calculations to make the returns appear higher, or were based on selected returns for only some periods, or were grossed up from net returns using estimates of fees paid rather than actual fees paid by clients" (OSC, 2004, p. 10).

<sup>12</sup> Knight et al. (2008) note that "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" (p. 16).

<sup>13</sup> "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" (Knight et al., 2008, p. 19).

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A problematic feature of group plan RESPs is that they are fairly complicated; Knight et al. (2008) liken it to a life insurance plan in terms of complexity (p. 17). The prospectuses can reflect the nature of the product in complexity and length, ranging up to 90 pages in length. And this material is not always set out in a clear and organized fashion.<sup>14</sup> From a behavioural economics perspective, this is problematic because complicated and lengthy materials will act as a disincentive to carefully read about and understand the product. In fact, insights from behavioural economics suggest that people need to be nudged into decisions that are in their long-term interest (Thaler and Sunstein, 2008). Complicated and long materials have the potential to nudge people into decisions that are against their long-term interests.

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. (Knight et al., 2008, p. 17)

One element of this complexity is that group plan RESP subscribers can convert their group plan into an individual plan. Knight et al. (2008) wonder why a group plan RESP subscriber would terminate their participation when they have the option of converting their investment into an individual plan.<sup>15</sup> This once again illustrates the need for clearer information about the rights and responsibilities of group plan RESP subscribers.

The literature has found that group plan RESP marketing builds on social networks in a similar way to that used by doorstep lenders in the United Kingdom – group plan RESP sales representatives use their existing clients’ friend and family networks to identify prospective clients:

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. (Knight et al., 2008, p. 16)

## RESTRICTIONS AND MATURATION OF THE FUND

The group plan RESP is a unique product. Besides its obvious savings characteristic, the product is also designed to restrict people to a savings plan and has an additional risk feature. The restrictions make it expensive to miss savings installments, to quit saving, or to transfer to an individual or family

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<sup>14</sup> Knight et al. (2008) note, “We think, however, that the 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” (pp. 17–18).

<sup>15</sup> “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” (Knight et al., 2008, p. 14).



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plan. The risk feature relates to the possibility that the subscriber may be unable to complete the savings contributions, or the beneficiary (the person who is specified by the subscriber to use the plan funds for post-secondary education) does not attend post-secondary education. In these cases, major costs may be borne by the subscriber.

As discussed above, the literature on savings by vulnerable people has found that restrictions are sometimes preferred, as they provide an external source of discipline. The group plan RESP embeds this into the product in the form of what Knight et al. (2008, p. 17) call a “commitment device.” This device creates a strong incentive for the subscriber to stick to the savings plan. However, vulnerable people may be unable to maintain that level of commitment when faced with a scarcity of income and assets.

A controversial aspect of group plan RESPs is that if a subscriber closes their plan before maturation they forgo the fees paid upfront to enroll in the plan. These fees can be fairly substantial, estimated by Knight et al. (2008, p. 14) to range from \$800 to \$1,200. In addition, the subscriber forgoes the other regular fees they’ve paid to date, as well as any investment income associated with their savings in the plan. Knight et al. (2008) find that most plans come to maturity, but a “significant share” are closed during the contribution phase, leading to losses by subscribers (p. 13). In addition to subscribers withdrawing from their plans, providers can close a group RESP plan if the subscriber does not fulfill their obligation to contribute. Knight et al. (2008, p. 14) note that in 2006, 1.9% of group plans were closed by the providers and estimate that given 13 years as the average age of a plan, 22% of plans do not reach maturity. More recently, Lewis and Elliott (2014) found that

[i]n 2013, all but one of the group scholarship providers had cancellation rates greater than 25%; in some cases, as many as two out of every five RESP subscribers who began saving with them exited before their child actually reached PSE [post-secondary education] ... This is not just a case of unfortunate lapses in customer service. The number of beneficiaries not receiving any EAP [Educational Assistance Payments] suggests a failure of RESPs’ core mission to help families finance PSE, and the extent to which successful subscribers’ EAPs are composed of income from cancelled plans ... raises the possibility *that disadvantaged savers are subsidizing the better-positioned*. (emphasis added) (Lewis and Elliott, 2014, p. 25)

Of course, if the beneficiary does not attend post-secondary education, the subscriber will face losses in that they will only receive the principal that they contributed, less the fees, and without any accrued interest. However, even if the subscriber completes the savings term and the beneficiary attends post-secondary education, it does not guarantee that they will receive the full group plan RESP proceeds. In order to receive their full share of Educational Assistance Payments from the group plan RESP, a student may need to complete four years of qualifying studies.

Knight et al. (2008) conclude that there is a “significant” risk that a family’s financial position may be worsened through participating in a group plan RESP. Not only can they lose contributions spent on fees and their share of investment income, but “[t]hese participants may be discouraged from saving again or from enrolling in post-secondary education” (p. 14). The authors note that such outcomes are not in accordance with the Government of Canada’s education saving policy objectives.

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## Equity Issues

The equity issue related to group plan RESPs has multiple facets. As noted above, group plan RESPs are distinct from other RESPs in that they charge front-loaded fees to the subscriber upon enrollment in the plan. There is evidence that vulnerable people have been over-represented in RESPs held by group plan promoters and, by extension, under-represented in RESPs held by other sectors. (Knight et al., 2008; Lewis and Elliott, 2014). For instance, Knight et al. (2008) found that “[t]he 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” (emphasis added) (p. 16). This means that vulnerable people, as compared to non-vulnerable people, may be facing relatively higher and more front-end fees.

Moreover, as discussed above, group plan restrictions lead some members to drop out of their savings programs before completion and therefore to lose some of the benefit of their savings. Once again, an important equity issue is raised because there is concern that it is the most vulnerable members who are unable to complete the program and lose potential benefits. Lewis and Elliott (2014) note:

While the Canadian Scholarship Trust Plan’s average percentage of plans cancelled prior to the maturity date (or, the “dropout rate”) is 8.8% ... other plans see far higher “failure” rates, with as many as 42% of all savers losing some of their investments ... and others unable to satisfy the rules for EAP disbursement at all ... While demographics for these aspiring savers are unavailable, it is suspected that they are *concentrated among lower-income households* who find complying with a rigorous savings schedule more onerous. (emphasis added) (Lewis and Elliott, 2014, p. 19)





# APPENDIX B

## APPENDIX B: RESEARCH INSTRUMENTS

### Subscriber Interview Consent Form

INTERVIEW CODE: \_\_\_\_\_

INTERVIEW DATE: \_\_\_\_\_ [interviewer initials followed by interview number]

**A Study about** people's experiences with group Registered Education Saving Plans (RESPs).

Principal Investigator:

Co-Investigator:

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**Research Sponsor:** The Law Foundation of Ontario Access to Justice Fund

**Purpose of the Study:** To learn more about financially vulnerable Canadian residents' experiences with group Registered Education Savings Plans.

#### **What is a group Registered Education Savings Plan?**

A group RESP is one of the options available to help people save for their children's post-secondary education. Each group RESP you sign up for is for one child only. If you have more than one child, you would sign up with a group RESP for each child. A group RESP combines the money you put in for your child's education with money contributed by other people for their children. Each group RESP is different and has its own rules. Usually, the people who have signed up for a group RESP are asked to make regular payments over a specific period of time. How much each child gets depends on how much money is in the group account and how many children in the group plan are going to university or college that year.

#### **Why am I being asked to participate in this study?**

As a person who has joined a group Registered Education Savings Plan, we are inviting you to take part in this study. We are hoping to learn more about how you made your decision to join a group RESP. We are also interested in knowing how you learned about the group RESP and what you know about it. We would also like to learn if you think the program is meeting or will meet your needs.

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## **What will happen during the study?**

We will be asking about 75 or more people like yourself, from Winnipeg, Calgary and Toronto about their experiences with group RESPs. If you are willing to participate in this study, we have several questions to ask you today. This is called an interview. The interview will take about an hour to two hours to complete. By around June 2017, we will have finished interviewing 75 or more people.

## **What are the risks of participating in the study?**

The risks involved in participating in this study are minimal. It is not likely that you will experience harm or discomfort from the interview because it is like a normal conversation. We do want to let you know that you do not need to answer questions that you do not want to answer or any that make you feel uncomfortable. We describe below the steps we are taking to protect your privacy.

## **What are the benefits of participating in the study?**

This study may not benefit you directly while it is underway. The answers you give will help with making educational materials such as fact sheets that describe the available RESP options and what questions you can ask people who are selling RESPs. These are expected to help people who are thinking about buying RESPs to make the choices that are best for them. You will also have access to this information at the end of the study.

## **Will I get a payment for participating in the study?**

Yes. A \$50 honorarium is provided for your participation. Bus or transit tickets are also available to you if you have taken the bus or transit to get here.

## **Who will know what I said in this interview?**

The privacy of the information you provide is important to us. We will record notes from the interview with you either on paper or using a computer. We will use a number that cannot identify you. Your name will be stored separately. Paper interviews will be stored at the Menno Simons College Campus of the Canadian Mennonite University and computer information will be protected by a password. After a year, the information you provide will be destroyed.

We may wish to use a quote from your interview, meaning repeating some of the words exactly as you said them in the study report. We will ask your permission to quote your words. We will give you the choice to use your real name or not to use your real name. Here is an example of two ways to write a quote:

This way uses your name: Mr. Smith said “I began to see the value in learning about the types of RESPs available” or,

This way does not use your name: A study participant said “I began to see the value in learning about the types of RESPs available.”

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### **What if I don't want to be in this study or decide to leave the study?**

It is your choice to be part of the study or not, your participation is voluntary. If you decide to be part of the study now, you can stop for any reason, even after signing the consent form. If you decide not to be involved in the study, there will be no consequences to you. You can also decide later that you don't want your information in the report. We can remove your information if you let us know by July 2017. If you choose not to participate, information you have provided will be destroyed unless you say we can use it. If you do not want to answer some of the questions you do not have to, but you can still be in the study.

### **What will happen at the end of the study?**

When all of the interviews are complete, all the answers will be put together in a report to understand the experiences of all the people who participated in the study. If you are interested, we can send you a summary of the report. That summary will also contain information on how to find the full study report. The information you provide will also help to make educational materials that help people make decisions about the types of RESPs that are best for them. This information will become available to you and others in late 2017. Information about the study may also be published in academic magazines or used to help make decisions about what kind of rules should apply to RESPs offered in the future.

### **What if I want to learn more about the RESPs that I have?**

SEED Winnipeg provides free individual financial literacy and problem-solving sessions for anyone interested to learn more about the RESP choices available for children's education. You do not have to participate in this study to attend these sessions, they are open to anyone that is interested.

### **Questions about the study:**

Do you have any questions about the study? If you have questions later or need more information about the study itself, please contact:

Kevin Schachter, Program Coordinator  
SEED Winnipeg Inc.  
80 Salter St.  
Winnipeg, Manitoba  
(204) 927-9945  
E-mail: [kevin@seedwinnipeg.ca](mailto:kevin@seedwinnipeg.ca)

Gaylen Eaton, Research Coordinator  
University of Winnipeg  
520 Portage Avenue,  
Winnipeg, Manitoba  
(204) 783-7739  
[g.eaton@uwinnipeg.ca](mailto:g.eaton@uwinnipeg.ca)

This study has been reviewed by the Canadian Mennonite University Ethics Review Committee and received ethics clearance. If you have concerns or complaints about this project, you can contact any of the above named persons or the Chair of the Ethics Review Committee, Dr. Brian Froese, at [bfroese@cmu.ca](mailto:bfroese@cmu.ca) or by phone at (204) 487-3300.

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## CONSENT

- I have read the information presented in the information letter about a study being conducted by Dr. Jerry Buckland of Menno Simons College, Canadian Mennonite University and SEED Winnipeg Inc.
- I have been able to ask questions about my participation in this study and to receive answers to my questions.
- I understand that if I agree to participate in this study, I may withdraw from the study at any time up until July 2017.
- I have been given a copy of this form.
- I agree to participate in the study.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name of Participant (Printed) \_\_\_\_\_

[SEE NEXT PAGE]

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1. I agree that my real name can be published in the acknowledgements section of the report.

☐ Yes.      ☐ No.

2. ☐ Yes, I would like to receive a summary of the study's results.

Please send them to me at this email address: \_\_\_\_\_

Or to this mailing address: \_\_\_\_\_

\_\_\_\_\_

☐ No, I do not want to receive a summary of the study's results.

3. We may ask if we can quote your words. If so, I would like you to use my real name ☐ or to NOT use my real name ☐. I do not want my words to be quoted ☐.

4. To which address can we send your honorarium cheque to?

☐ Please use the address listed above, or

Send the cheque to this mailing address:

\_\_\_\_\_

\_\_\_\_\_

**For Winnipeg participants only:**

5. As part of this study, I would like to bring in my group RESP statements to talk about them with someone who works at SEED.

☐ Yes. Please contact me at: \_\_\_\_\_

☐ No.

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## Subscriber Interview Guide

*[Note to researcher: before using this guide, the consent form should have been completed].*

Thank you for taking the time to do an interview with us today. This interview has seven sections that each have a few questions. If you feel like taking a break at any time, feel free to let me know and we can stop for a while. If you do not want to answer any of the questions, just let me know and we can move on to the next one. You do not have to explain why you do not wish to answer any questions.

Did you have any questions before we start? *[Note to researcher: answer questions the participant has about the research or, if you are not sure how to answer, record them for future follow-up]*

Are you ready to start?

### SECTION 1: INFORMATION ABOUT THE PARTICIPANT

*[Note to researcher: please ask all of the Section 1 questions. If anyone chooses not to answer a question, just move on to the next question. Record the answers on the sheet provided.]*

To start out, we have a few questions about yourself and your family.

1. Can you tell me what age group you belong to?

☐ 18 – 30      ☐ 31 – 40      ☐ 41 – 50      ☐ 51 – 60      ☐ 61 and over

2. How do you identify?

☐ Male      ☐ Female      ☐ Other (please specify)

3. Where you born in Canada?

☐ Born in Canada      If not, what year did you arrive in Canada? \_\_\_\_\_

4. What ethnic or cultural background do you identify with? \_\_\_\_\_

5. How many people currently live in your household including you and your children? (total number of people)

☐ 2    ☐ 3    ☐ 4    ☐ 5    ☐ 6    ☐ 7    ☐ 8    ☐ 9    ☐ Live alone

6. How many children under 18 years of age do you have currently living in your household?

☐ 1    ☐ 2    ☐ 3    ☐ 4    ☐ 5    ☐ 6    ☐ Other \_\_\_\_\_

7. Are you saving for post-secondary education for any or all of your children?

☐ No    ☐ Yes. If yes, how many?    ☐ 1    ☐ 2    ☐ 3    ☐ 4    ☐ Other \_\_\_\_\_



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8. Are there other children that live in your household (e.g., nieces, nephews, grandkids)?  
☐ No ☐ Yes. If yes, how many? ☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ Other \_\_\_\_\_
9. Are you saving for post-secondary education for other children that live in your household?  
☐ No ☐ Yes. If yes, how many? ☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ Other \_\_\_\_\_
10. What is your total household income?  
☐ 0 - \$20,000 ☐ \$20,000 - \$30,000 ☐ \$30,000 - \$40,000  
☐ \$40,000 - \$50,000 ☐ \$50,000 - \$60,000 ☐ \$60,000 - \$70,000  
☐ \$70,000 - \$80,000 ☐ \$80,000 - \$90,000 ☐ \$90,000 and over
11. Are you the person who makes decisions about money in your household?  
☐ Yes ☐ No ☐ I share the decisions with another person: \_\_\_\_\_.

### SECTION 2: INFORMATION ABOUT RESPS

This next part of the interview asks about the group RESPs you have invested in: [*note to researcher - refer to definition sheet if needed*)]

12. Are you putting money in a group Registered Education Savings Plan (RESP) for your child(ren)'s post-secondary education?  
☐ Yes ☐ No If yes, how many children are you saving for using group RESP plans?  
\_\_\_\_\_

[*Note to researcher: If more than one child, you can say: "I would like to ask you about your RESP plans for each of the children, one at a time. Starting with the oldest child...."*]

13. What is the current age of the child? \_\_\_\_\_. Year born? \_\_\_\_\_
14. Are the RESPs you purchased for this child part of a "group plan"
15. Do you recall the name of the group RESP company? \_\_\_\_\_

[*Prompt if person cannot recall*]: Some of them are called:

- ☐ Global RESP Corporation ☐ Heritage Education Funds ☐ Knowledge First Financial  
☐ Children's Education Funds (CEFI) ☐ Canadian Scholarship Trust ☐ Universitas
16. Do you recall the year you started putting money into that RESP?

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17. Do you recall how often you put money into that RESP?

- ☐ every month      ☐ every three months      ☐ every six months      ☐ once a year  
☐ only one time      ☐ other (please specify): \_\_\_\_\_

18. How much money do you put in at each deposit? \_\_\_\_\_

*[note to researcher: repeat for every child]*

*[note to researcher: you can check in with the participant now or at any time to see how they are doing and if they want a break, snack or a refreshment]*

## SECTION 3: INFORMATION ON EDUCATIONAL GOALS

This section is about how you expect the RESP funds to be used.

- For each child you are saving for, do you expect them to:
  - ☐ complete a 1 to 2-year college diploma in trades or technology
  - ☐ complete a 4-year undergraduate degree
  - ☐ complete a 4-year undergraduate degree plus additional post-secondary degrees (e.g., master degree)
  - ☐ I have no specific expectations except that I want them to have a choice of going to post-secondary education
  - ☐ Other \_\_\_\_\_

## SECTION 4: INFORMATION ABOUT THE EXPERIENCE WHEN PURCHASING GROUP RESPS

Now we would like to learn a little more about your experience when you bought your group RESPs. If this happened a long time ago and you can't remember everything, that is okay.

- Can you tell me how you first learned that RESPs were way you could save for your child(ren)'s post-secondary education?
  - ☐ Relative      ☐ Friend      ☐ Sales call      ☐ Internet
  - ☐ Brochure      ☐ Community organization      ☐ Other \_\_\_\_\_
- Do you recall what you were told at that time about RESPs?
- How did you get introduced to the person who sold you your group RESP plan(s)?
- Was the person who sold you your group RESP someone you knew already?

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☐ No. If no, how did you get introduced to the person who sold you your group RESP plan(s)?

☐ Yes. If yes, how did you know them?

19. Where were you when you made the RESP purchase?

- (e.g., at home, at company office etc.)

20. Do you recall if you were given a paper called a “plan summary” before you bought the plan?

*[Note to researcher: this would have been about a four page document]*

☐ Yes      ☐ No      ☐ I cannot remember

21. Do you recall if you were given a paper called a “prospectus” before you bought the plan?

☐ Yes      ☐ No      ☐ I cannot remember

If yes, did you read the prospectus? If so, did you understand it?

☐ Yes    ☐ No. If no, is there anything you recall that made the prospectus hard to understand?

22. Do you recall if the salesperson explained if it was possible to lose the money you put in?

☐ Yes      ☐ No      ☐ I cannot remember. If yes, what do you remember about the conversation?

23. Do you recall if the salesperson explained if it was possible to lose the earnings from the plan?

☐ Yes      ☐ No      ☐ I cannot remember. If yes, what do you remember about the conversation?

24. Do you recall if the salesperson explained if it was possible to lose the money the government provided under the plan?

☐ Yes      ☐ No      ☐ I cannot remember. If yes, what do you remember about the conversation?

25. How much time did you have to think about your decision before you signed up for a group RESP?

- Was that enough time for you?
- Can you tell me more about that? How did you feel?

26. Overall, do you feel that you were well informed by the salesperson about how group RESPs worked when you bought them?

- Were there things that were explained really well?
- Were there things that were not explained really well?

27. Do you recall the types of questions that you asked the salesperson?

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- Did you get all of your questions answered in a way you understood?
- Is there anything more you want to say about that?

## SECTION 5: KNOWLEDGE ABOUT GROUP RESPS AND ALTERNATIVES AT TIME OF ENROLLMENT

This section is about your past knowledge of group RESPs and alternatives. We understand that RESPs are complicated and not everyone has complete knowledge about them.

- 28. Were you aware of any other choices in RESPs when you bought your group RESPs?
  - Which ones were you aware of?
- 29. When you bought your group RESP, what did you expect from it?
  - Did you expect it to pay for all of your child's education or a portion of it?
  - How did you expect your family to benefit from it?
- 30. Were you aware of any fees or charges that came with the RESPs?
- 31. Were you aware of any restrictions to accessing the money when your child went to school?
- 32. Were you aware of what would happen if your child did not go to school?

## SECTION 6: CURRENT KNOWLEDGE ABOUT GROUP RESPS AND ALTERNATIVES

This section is about your current knowledge about group RESPs and other choices available. We understand that RESPs are complicated and not everyone has complete knowledge about them.

- 33. What do you currently think the strengths of group RESPs are?
- 34. What do you currently think the weaknesses of group RESPs are?
- 35. Do you still have the same expectations from the group RESP as when you signed up for it?
  - If not, can you explain how your expectations have changed?
  - What are the reasons behind your change in expectations?
- 36. Has your opinion of group RESPs changed at all over time?
  - If so, how has your opinion changed?
  - What led to your change in opinion?
- 37. Were there or are there any consequences to missing one or more deposits to the RESP?
- 38. Did you ever experience difficulty making your deposits to your RESP? If yes,
  - Did you ever go without necessities such as food or money for housing in order to make a deposit to your RESP?

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- Did you have to give up other things to make your deposits?
- How long did these difficulties last?
- 39. Have you ever tried to reduce the amount of your deposits or delay your deposits? if yes,
  - Were you successful at changing your deposits?
  - Were there any consequences to a change in deposit amounts or times?
- 40. Is there anything that you know now about group RESPs that would have helped with your decision when you bought them?

### SECTION 7: SATISFACTION WITH GROUP RESPS

This section is about your satisfaction with group RESPs.

- 41. Are you aware of the amount you have been able to save to date?
- 42. Have you received statements in the mail that say how much the RESP is worth and how much it has earned?
  - ☐ Yes      ☐ No      ☐ I cannot remember. If yes, are you okay with sharing these statements (for each child if applicable)?
- 43. Do you think you would have been able to save that much if you did not sign up for a group RESP?
- 44. Do you think that you would have been better off / worse off if you had chosen to open your RESPs at a mainstream bank or credit union?
  - What are the reasons behind your answer?
- 45. How would you advise a parent who is thinking about enrolling in a group RESP?
  - Can you share the advice with us?
  - Would you recommend group RESPs or suggest they be avoided?
- 46. Is there anything that we did not ask that you would like to talk about?

# APPENDIX B

## Subscriber Focus Group Consent Form

### LETTER OF INFORMATION AND CONSENT

**A Study about** financially vulnerable people's experiences with group Registered Education Saving Plans (RESPs).

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E-mail: [j.buckland@uwinnipeg.ca](mailto:j.buckland@uwinnipeg.ca)

Community Partner:

Millie Acuna  
SEED Winnipeg Inc.  
80 Salter St.  
Winnipeg, Manitoba  
(204) 594-1368  
E-mail: [millie@seedwinnipeg.ca](mailto:millie@seedwinnipeg.ca)

**Research Sponsor:** The Law Foundation of Ontario Access to Justice Fund

**Purpose of the Study:** To learn more about financially vulnerable Canadian residents' experiences with group Registered Education Savings Plans.

#### **Why am I being asked to participate in this study?**

As a subscriber who has joined group RESP, we are inviting you to take part in a focus group. We are hoping to learn more about your experiences with group RESPs in a group setting.

#### **What will happen today?**

The focus group activity is the last of several study activities planned. We have invited you today to share your experiences with group RESPs.

#### **What are the risks of participating in the study?**

The risks involved in participating in this study are minimal. It is not likely that you will experience harm or discomfort from the focus group because it is like a normal group conversation. We do want to let you know that you do not need to answer questions that you do not want to answer or any that make you feel uncomfortable.

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### **What are the benefits of participating in the study?**

This study may not benefit you directly while it is underway. The answers you give will help with making educational materials such as fact sheets that describe available RESP options. We hope that these will help you and others considering group RESPs to be more equipped to make investment choices that are best for you and them. You will have access to this information at the end of the study.

### **Will I get a payment for participating in the focus group?**

Yes. An honorarium of \$50.00 is available for your participation. Please speak to one of the facilitators if you have any questions.

### **Who will know what I said in this focus group?**

Information collected at the focus group will be summarized as a group product to protect the privacy of information provided by individuals. We intend to audio record this session. This recording will only be used to generate notes for the focus group (your names will not be recorded with what you say).

### **What if I don't want to be in this study or decide to leave the study?**

It is your choice to be part of the study or not, your participation is voluntary. If you decide to be part of the study now, you can stop for any reason, even after signing the consent form. If you decide not to be involved in the study, there will be no consequences to you. If you do not want to answer any of the questions you do not have to.

### **What will happen at the end of the study?**

When the focus group and all of the interviews are complete, all the answers will be put together in a report to understand the experiences of all the people who participated in the study. If you are interested, we can send you a summary of the report. That summary will also contain information on how to find the full study report. The information you provide will also help to make educational materials that help people make decisions about the types of RESPs that are best for them. This information will become available to you and others in late 2017. Information about the study may also be published in academic magazines or used to help make recommendations on the rules that should apply to RESPs offered in the future.



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## Questions about the study:

Do you have any questions about the study? If you have questions later or need more information about the study itself, please contact:

Millie Acuna  
SEED Winnipeg Inc.  
80 Salter St.  
Winnipeg, Manitoba  
(204) 594-1368  
E-mail: [millie@seedwinnipeg.ca](mailto:millie@seedwinnipeg.ca)

This study has been reviewed by the Canadian Mennonite University Ethics Review Committee and received ethics clearance. If you have concerns or complaints about this project, you can contact any of the above named persons or the Chair of the Ethics Review Committee, Dr. Brian Froese, at [bfroese@cmu.ca](mailto:bfroese@cmu.ca) or by phone at (204) 487-3300.

## CONSENT

- I have read the information presented in the information letter about a study being conducted by Dr. Jerry Buckland of Menno Simons College, Canadian Mennonite University and SEED Winnipeg Inc.
- I have been able to ask questions about my participation in this study and to receive answers to my questions.
- I understand that if I agree to participate in this study, I may withdraw from the study at any time or up until September 2017.
- I have been given a copy of this form.
- I agree to this group session being audio recorded for note taking only.
- I agree to keep the names of participants in the focus group anonymous and not to repeat any personal and/or financial details I hear in the discussion
- I agree to participate in the study.

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☐ Yes, I would like to receive a summary of the study's results.

Please send them to me at this email address: \_\_\_\_\_

Or to this mailing address: \_\_\_\_\_

☐ No, I do not want to receive a summary of the study's results.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name of Participant (Printed): \_\_\_\_\_

Mailing address (to send honorarium):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Additional Questions about your RESP?** As a follow-up, SEED Winnipeg can provide additional information on resources available to help community members learn more about group RESPs and alternatives, including free individualized financial problem-solving support offered through the Access to Benefits program.

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## Subscriber Focus Group Guide

### FOCUS GROUP FORMAT

Focus groups are essentially a group discussion guided by a facilitator. The intent is to run one focus group in each city for a duration of approximately 3 hours punctuated by a 15 minute break period. The number of participants is expected to range from 6-12 participants.

Questions will be posed by the facilitator and each participant will be encouraged to provide their insight about the question posed. All participants will be encouraged to participate and share their views.

A consent form will be used to advise participants about the study and request their consent for participating in the focus group. One specific element of consent unique to this focus group is to ensure that participants are aware of /consent to audio recording. Similar to the interview they have already completed, we have supplied information that free individualized financial problem-solving support is available to them should they desire additional decision-making support after the focus group is completed.

Data recording is expected to be conducted by two notetakers. Use of the audio recording is expected to be limited to a supplementary record to address any gaps in notetaking (no other use is intended).

### FOCUS GROUP GUIDE

**Why we are doing this research** - To learn more about the experience of community members with group Registered Education Savings Plans. Our research is focusing on community members who were living on a low income when they subscribed to a group plan RESP.

**What the research will do** – At the end of the study, we will be writing a report about what we learned about group RESPs and peoples' experience with them. We will be creating educational materials such as fact sheets that describe the available RESP options. We hope that these will help community members make investment choices that are best for them. You will have access to this information at the end of the study.

**Purpose of today's discussion** - To learn more about your experiences with group RESPs.

**Privacy** - We may discuss some personal financial information here today. For that reason, we ask participants to not share what others' have said today outside of this group. Notes from this group discussion will also protect privacy because what you say will not have your name attached to it.

**Questions?** – Before we start, does anyone have any questions about the study or the group discussion today?

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**Questions to be posed include but may not be limited to:**

- What led you to purchase an RESP for your child(ren)?
  - How did you first find out about what an RESP is?
  - What did you already know about RESPs?
  - How did you gather additional knowledge about RESPs?
- Can you tell us about your group RESP?
  - Who is it for?
  - When did you buy it?
  - What company is it with?
- How did you buy your group RESP?
  - Who sold it to you?
  - How did the company locate and contact you?
  - What happened when you bought it?
  - What convinced you to buy the RESP?
  - What were you told when you bought it?
  - What information were you given when you bought it?
- Did you consider opening an RESP at a bank or credit union?
  - What was the reason for choosing the private plan provider?
  - In your opinion, what are the advantages or disadvantages of going with a private plan provider versus a bank or credit union?
- How do you know how much you have saved so far?
  - What kind of information did/do you receive about the amount you have saved?
  - Do you feel that statements are easy to understand?
  - Can you suggest any improvements?
- Have you experienced any difficulties with the savings plans?
  - What happened?
  - What should change?
  - What would you like others to know?
- What do you like about the group RESP savings plans?
  - Are the group RESPs helping you reach your saving goals?
  - Are your savings what you expected?
  - What would you like others to know?
- How would you advise people who are considering buying a group RESP?
  - What would you say to them?

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- What information do they need?
  - When do they need to get the information?
  - What is the best way to provide them with this information?
- Would you recommend a group RESP to a friend?
  - Why?
  - Why not?

## APPENDIX B

### Key Person Interview Consent Form

**A Study about** people's experiences with group Registered Education Saving Plans (RESPs).

Principal Investigator:

Co-Investigator:

Dr. Jerry Buckland  
Menno Simons College  
Canadian Mennonite University  
Winnipeg, Manitoba  
(204) 953-3859  
E-mail: [j.buckland@uwinnipeg.ca](mailto:j.buckland@uwinnipeg.ca)

Kevin Schachter  
SEED Winnipeg Inc.  
80 Salter St.  
Winnipeg, Manitoba  
(204) 927-9945  
E-mail: [kevin@seedwinnipeg.ca](mailto:kevin@seedwinnipeg.ca)

**Research Sponsor:** The Law Foundation of Ontario Access to Justice Fund

**Purpose of the Study:** To learn more about financially vulnerable Canadian residents' experiences with group Registered Education Savings Plans.

#### **What is a group Registered Education Savings Plan?**

A group RESP is one of the options available to help people save for their children's post-secondary education. Each group RESP you sign up for is for one child only. If you have more than one child, you would sign up with a group RESP for each child. A group RESP combines the money you put in for your child's education with money contributed by other people for their children. Each group RESP is different and has its own rules. Usually, the people who have signed up for a group RESP are asked to make regular payments over a specific period of time. How much each child gets depends on how much money is in the group account and how many children in the group plan are going to university or college that year.

#### **Why am I being asked to participate in this study?**

As a person who has special knowledge of group Registered Education Savings Plan, we are inviting you to take part in this study.

#### **What are the risks of participating in the study?**

The risks involved in participating in this study are minimal. It is not likely that you will experience harm or discomfort from the interview because it is like a normal conversation. We do want to let you know that you do not need to answer questions that you do not want to answer or any that make you feel uncomfortable. We describe below the steps we are taking to protect your privacy.

#### **What are the benefits of participating in the study?**

This study may not benefit you directly while it is underway. The answers you give will help with making educational materials such as fact sheets that describe the available RESP options and what questions you can ask people who are selling RESPs. These are expected to help people who are thinking about

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buying RESPs to make the choices that are best for them. You will also have access to this information at the end of the study.

## **Who will know what I said in this interview?**

The privacy of the information you provide is important to us. We will record notes from the interview with you either on paper or using a computer. We will use a number that cannot identify you. Your name will be stored separately. Paper interviews will be stored at the Menno Simons College Campus of the Canadian Mennonite University and computer information will be protected by a password. After a year, the information you provide will be destroyed.

We may wish to use a quote from your interview, meaning repeating some of the words exactly as you said them in the study report. We will ask your permission to quote your words. We will give you the choice to use your real name or not to use your real name. Here is an example of two ways to write a quote:

This way uses your name: Mr. Smith said “I began to see the value in learning about the types of RESPs available” or,

This way does not use your name: A study participant said “I began to see the value in learning about the types of RESPs available.”

## **What if I don’t want to be in this study or decide to leave the study?**

It is your choice to be part of the study or not, your participation is voluntary. If you decide to be part of the study now, you can stop for any reason, even after signing the consent form. If you decide not to be involved in the study, there will be no consequences to you. You can also decide later that you don’t want your information in the report. We can remove your information if you let us know by April 2017. If you choose not to participate, information you have provided will be destroyed unless you say we can use it. If you do not want to answer some of the questions you do not have to, but you can still be in the study.

## **What will happen at the end of the study?**

When all of the interviews are complete, all the responses will be put together in a report to understand the experiences of all the people who participated in the study. If you are interested, we can send you a summary of the report. That summary will also contain information on how to find the full study report. The information you provide will also help to make educational materials that help people make decisions about the types of RESPs that are best for them. This information will become available to you and others in late 2017. Information about the study may also be published in academic magazines or used to help make decisions about what kind of rules should apply to RESPs offered in the future.

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### What if I want to learn more about the RESPs that I have?

SEED Winnipeg provides free individual financial literacy and problem-solving sessions for anyone interested to learn more about the RESP choices available for children's education. You do not have to participate in this study to attend these sessions, they are open to anyone that is interested.

### Questions about the study:

Do you have any questions about the study? If you have questions later or need more information about the study itself, please contact:

Kevin Schachter  
SEED Winnipeg Inc.  
80 Salter St.  
Winnipeg, Manitoba  
(204) 927-9945  
E-mail: [kevin@seedwinnipeg.ca](mailto:kevin@seedwinnipeg.ca)

This study has been reviewed by the Canadian Mennonite University Ethics Review Committee and received ethics clearance. If you have concerns or complaints about this project, you can contact any of the above named persons or the Chair of the Ethics Review Committee, Dr. Brian Froese, at [bfroese@cmu.ca](mailto:bfroese@cmu.ca) or by phone at (204) 487-3300.

### CONSENT

- I have read the information presented in the information letter about a study being conducted by Dr. Jerry Buckland of Menno Simons College, Canadian Mennonite University and SEED Winnipeg Inc.
- I have been able to ask questions about my participation in this study and to receive answers to my questions.
- I understand that if I agree to participate in this study, I may withdraw from the study at any time up until April 2017.
- I have been given a copy of this form.
- I agree to participate in the study.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name of Participant (Printed) \_\_\_\_\_



# APPENDIX B

## Key Person Interview Plan

2 May 2017

Key person interviews will be completed with approximately eight (8) stakeholders<sup>1</sup> from group plan RESP promoters, mainstream financial institutions, non-profits with experience promoting the uptake of RESPs, and government agencies, such as Employment and Social Development Canada and the Ontario Securities Commission (See appendix). Key informant interviews are semi-structured in nature and tailored to each institution/organization interviewed (See Table 1).

Table 1: Key Person Interviews Themes/Areas of Inquiry, by Sector

Sector	Key themes/ areas of inquiry
Group plan RESP promoters	Approaches to recruitment and sales, and salesperson training and qualifications. Approaches to communicating fee structures; plan rules and regulations; and reporting and disbursement of earnings.
Mainstream financial institutions	Approaches to recruitment and sales, and salesperson training and qualifications. Approaches to communicating fee structures; plan rules and regulations; and reporting and disbursement of earnings for comparative purposes.
Non-Profit Organizations	Experience with and advocacy work on behalf of frontline service providers / financially vulnerable Canadian residents. Understandings about the ambitions, needs and experiences of financially vulnerable Canadian residents.
Government agencies	Regulatory environment: requirements for provision of plan summaries, prospectus documents, advisement on potential contribution or earning losses and performance reporting on plans.

<sup>1</sup> This excludes group RESP subscribers as they are the focus of the subscriber interviews and subscriber focus groups.

# APPENDIX B

## Service Provider Focus Group Consent Form

### LETTER OF INFORMATION AND CONSENT

**A Study about** financially vulnerable people's experiences with group Registered Education Saving Plans (RESPs).

Principal Investigator:

Co-Investigator:

Dr. Jerry Buckland  
Menno Simons College  
Canadian Mennonite University  
Winnipeg, Manitoba  
(204) 953-3859  
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(204) 927-9945  
E-mail: [kevin@seedwinnipeg.ca](mailto:kevin@seedwinnipeg.ca)

**Research Sponsor:** The Law Foundation of Ontario Access to Justice Fund

**Purpose of the Study:** To learn more about financially vulnerable Canadian residents' experiences with group Registered Education Savings Plans.

### What is a group Registered Education Savings Plan?

A group RESP is one of the options available to help people save for their children's post-secondary education. Each group RESP you sign up for is for one child only. If you have more than one child, you would sign up with a group RESP for each child. A group RESP combines the money you put in for your child's education with money contributed by other people for their children. Each group RESP is different and has its own rules. Usually, the people who have signed up for a group RESP are asked to make regular payments over a specific period of time. How much each child gets depends on how much money is in the group account and how many children in the group plan are going to university or college that year.

### Why am I being asked to participate in this study?

As a service provider who works with people who have joined group Registered Education Savings Plans, we are inviting you to take part in this study. We are hoping to learn more about your experiences working with families who have purchased group RESPs and the best ways to locate and work with these families.

### What will happen during the study?

The focus group activity is the first of several study activities planned. We have invited you today to share knowledge about the experiences of group RESP subscribers and find out how to best access and work with subscribers. After the focus group, we will hire community-based researchers to complete about 75 interviews in Winnipeg, Calgary, and Toronto. Once the interviews are complete, we plan to invite the community-based researchers back to help us interpret the interview results.

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### **What are the risks of participating in the study?**

The risks involved in participating in this study are minimal. It is not likely that you will experience harm or discomfort from the focus group because it is like a normal group conversation. We do want to let you know that you do not need to answer questions that you do not want to answer or any that make you feel uncomfortable.

### **What are the benefits of participating in the study?**

This study may not benefit you directly while it is underway. The answers you give will help with making educational materials such as fact sheets that describe the available RESP options. We hope that these will help you be more equipped to provide clear information to people so they can make investment choices that are best for them. You will have access to this information at the end of the study.

### **Will I get a payment for participating in the focus group?**

No. If you are here representing your organization as a paid employee, there is no honorarium available. There may be some exceptions to this if you are here at this focus group on your own time. Please speak to one of the facilitators if you have any questions.

### **Who will know what I said in this interview?**

Information collected at the focus group will be summarized as a group product to protect the privacy of information provided by individuals.

### **What if I don't want to be in this study or decide to leave the study?**

It is your choice to be part of the study or not, your participation is voluntary. If you decide to be part of the study now, you can stop for any reason, even after signing the consent form. If you decide not to be involved in the study, there will be no consequences to you. If you do not want to answer any of the questions you do not have to.

### **What will happen at the end of the study?**

When the focus group and all of the interviews are complete, all the answers will be put together in a report to understand the experiences of all the people who participated in the study. If you are interested, we can send you a summary of the report. That summary will also contain information on how to find the full study report. The information you provide will also help to make educational materials that help people make decisions about the types of RESPs that are best for them. This information will become available to you and others in late 2017. Information about the study may also be published in academic magazines or used to help make recommendations on the rules that should apply to RESPs offered in the future.

## APPENDIX B

### Questions about the study:

Do you have any questions about the study? If you have questions later or need more information about the study itself, please contact:

Kevin Schachter  
SEED Winnipeg Inc.  
80 Salter St.  
Winnipeg, Manitoba  
(204) 927-9945  
E-mail: [kevin@seedwinnipeg.ca](mailto:kevin@seedwinnipeg.ca)

This study has been reviewed by the Canadian Mennonite University Ethics Review Committee and received ethics clearance. If you have concerns or complaints about this project, you can contact any of the above named persons or the Chair of the Ethics Review Committee, Dr. Brian Froese, at [bfroese@cmu.ca](mailto:bfroese@cmu.ca) or by phone at (204) 487-3300.

### CONSENT

- I have read the information presented in the information letter about a study being conducted by Dr. Jerry Buckland of Menno Simons College, Canadian Mennonite University and SEED Winnipeg Inc.
- I have been able to ask questions about my participation in this study and to receive answers to my questions.
- I understand that if I agree to participate in this study, I may withdraw from the study at any time or up until April 2017.
- I have been given a copy of this form.
- I agree to participate in the study.

☐ Yes, I would like to receive a summary of the study's results.

Please send them to me at this email address: \_\_\_\_\_

Or to this mailing address: \_\_\_\_\_

\_\_\_\_\_

☐ No, I do not want to receive a summary of the study's results.

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Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name of Participant (Printed): \_\_\_\_\_

Organization of Participant (Printed): \_\_\_\_\_

## APPENDIX B

### Service Provider Focus Group Interview Guide

*[The focus group is expected to be a flexible and collegial exercise involving sharing present knowledge and of mutual learning.]*

- Welcome and introduction by Research Coordinator, a SEED Winnipeg staff member and two additional facilitators from the service provider community.
- Introduce research goal and the goal of the focus group activity: *To engage the service-provider community in the process of sharing knowledge about and learning how to best understand the experiences of group RESP plan subscribers.*
- Prior to introducing ourselves, we would like to draw your attention to the consent forms provided *[review and ask for signed consent to be provided – see section 4.1 for consent form]*
- We also need to go over some guidelines for the focus group and discuss confidentiality with you:

**CONFIDENTIALITY** *[this section is read aloud to the group]:*

- Everyone's views are welcomed and important.
- The information which we will collect today will be treated as a group effort. This means that the information you provide as an individual will not be connected with you. This will protect the privacy of the information collected.
- We ask that specific details about the information we share today is not shared outside of this group. This helps to protect the privacy of the people who are providing the information.
- We cannot guarantee that no information will be shared outside of this group so we recommend that you make comments that you would be comfortable saying in public; and to hold back making comments that you would not say in public.
- You can expect this discussion to last about two hours with lunch provided in between

- Conduct icebreaker and introductions
- Introduce specific objectives of the workshop / areas of inquiry including but not limited to:
  - Sharing knowledge about:
    - General ambitions among group RESP subscribers for their children's post-secondary education;
    - Participant knowledge about group RESPs;
    - Knowledge about the experiences of group RESP subscribers with their plans.
  - Exploring methods of learning:
    - How we will locate and recruit group RESP subscribers;
    - What are the sensitivities around discussing group RESP plans with the subscribers?
    - How we can best learn from group RESP subscribers about their experiences

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(suggestions on methods to conduct interviews)

- Thinking about what we will know at the end of this project and how to best share/distribute it.

*[Achieving the specific objectives is expected to involve group brainstorming and break-out group sessions led by the facilitators]*

- Wrap-up by reminding participants of confidentiality discussed at the outset of the session and thanking participants.

# APPENDIX C

## APPENDIX C: LIST OF SCHOLARSHIP PLAN DEALERS

Current Name	Other/Former Names	Registered with the OSC since*	Jurisdictions Registered in
Children's Education Funds Inc.	Education Fund Services Inc.; Educational Trust Services Inc.	1991	All 13
C.S.T. Consultants Inc.	CST Consultants Inc.	Data unavailable	All 13
Global RESP Corporation	Global Educational Marketing Corporation	1997	All 10 provinces
Heritage Education Funds Inc.	Canadian American Financial Corp. (Canada) Limited; Allianz Education Funds Inc.	1988	All 13
Knowledge First Financial Inc.	Scholarship Consultants of North American Ltd; USC Education Savings Plans Inc.; Scholarship Consultants of North America Ltd.	2003	All 13
Universitas Management Inc.	Gestion Universitas Inc.; Unicour Inc.	N/A	Quebec, New Brunswick

\*Some plans existed before this registration date.





# APPENDIX D

## APPENDIX D: OSC ENFORCEMENT DOCUMENTS REVIEWED, 2012–2015

1. Children's Education Funds Inc. (CEFI)
  - A. Compliance Field Review Report dated 14 June 2012
  - B. Temporary Order dated 14 Sep 2012
  - C. Order extending the Temporary Order, 26 Sep 2012
  - D. Order varying the terms of and extending the Temporary Order, 6 Dec 2012
  - E. Order varying the terms of and extending the Temporary Order, 28 Feb 2013
  - F. Order lifting condition of Temporary Order regarding monitoring of new clients, 10 May 2013
  - G. Order extending Temporary Order regarding no new branch openings without consultant's approval, 19 July 2013
  - H. Order adjourning hearing, 23 Aug 2013
  - I. Order extending Temporary Order, 20 Sep 2013
  - J. Order extending Temporary Order only regarding communication between consultant and OSC Staff, 21 Oct 2013
  - K. Order revoking Temporary Order, 26 November 2013
  - L. Settlement Agreement, 31 Mar 2014
  - M. Order approving Settlement Agreement, 7 Apr 2014
  - N. Order extending delivery of compliance report required by Settlement Agreement, 2 June 2015
2. Global RESP Corporation and Global Growth Assets Inc.
  - A. Compliance Field Review Report, 7 March 2012
  - B. Affidavit of Stratis Kourous sworn 24 July 2012
  - C. Temporary Order dated 26 July 2012
  - D. Order extending Temporary Order, 10 Aug 2012
  - E. Order varying terms of the Temporary Order, 7 Nov 2012
  - F. Order adjourning hearing, 13 Dec 2012

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- G. Order adjourning hearing, 22 Jan 2013
  - H. Order adjourning hearing, 13 Feb 2013
  - I. Order rescheduling motion to lift Temporary Order, 30 Oct 2013
  - J. Order lifting condition of Temporary Order regarding monitoring of new clients after date of order, 20 Nov 2013
  - K. Order adjourning hearing, 13 Dec 2013
  - L. Order adjourning hearing, 9 Jan 2014
  - M. Order adjourning hearing, 29 Jan 2014
  - N. Order adjourning hearing, 6 Mar 2014
  - O. Order adjourning hearing, 7 Apr 2014
  - P. Order revoking Temporary Order, 24 April 2014
3. Global RESP Corporation, Issam El-Bouji, Global Growth Assets Inc., Global Educational Trust Foundation, and Margaret Singh
- A. Order adjourning hearing, 28 Jan 2013
  - B. Order adjourning hearing, 27 Feb 2013
  - C. Order regarding disclosure of confidential information to auditors, 21 May 2013
  - D. Order adjourning hearing, 22 May 2013
  - E. Order setting date for potential disclosure motion (subsequently withdrawn), 6 June 2013
  - F. Order varying disclosure of confidential information to auditors, 11 June 2013
  - G. Order for pre-hearing conference, 5 July 2013
  - H. Order adjourning hearing, 7 Apr 2014
  - I. Order adjourning hearing, 11 Apr 2014
  - J. Settlement Agreement, 14 Apr 2014
  - K. Order approving Settlement Agreement, 16 April 2014
  - L. Order vacating hearing dates, 17 April 2014
  - M. Order extending time to comply with Settlement Agreement, 12 June 2014
  - N. Order extending time to comply with Settlement Agreement, 12 Aug 2014

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## 4. Heritage Education Funds Inc.

- A. Compliance Field Report Review dated 14 June 2012
- B. Temporary Order dated 13 Aug 2012
- C. Order extending Temporary Order, 21 Aug 2012
- D. Order varying terms of the Temporary Order, 10 Oct 2012
- E. Order extending Temporary Order, 22 Nov 2012
- F. Order varying the terms of and extending the Temporary Order, 20 Dec 2012
- G. Order extending the Temporary Order, 21 Mar 2013
- H. Order dismissing motion to suspend monitoring, 18 Apr 2013
- I. Order extending Temporary Order, 23 May 2013
- J. Order replacing consultant and extending Temporary Order, 14 June 2013
- K. Order extending the Temporary Order, 17 July 2013
- L. Order suspending monitoring, 6 Sep 2013
- M. Order extending Temporary Order, 15 Oct 2013
- N. Order allowing new branches subject to letter from consultant regarding sufficient supervision, 12 Dec 2013
- O. Order extending Temporary Order, 5 Mar 2014
- P. Order extending Temporary Order, 23 Apr 2014
- Q. Order extending Temporary Order, 15 May 2014
- R. Order revoking Temporary Order, 6 June 2014
- S. Settlement Agreement, 6 Jan 2015
- T. Order approving Settlement Agreement, 12 Jan 2015

## 5. Knowledge First Financial Inc.

- A. Compliance Field Review Report dated 14 June 2012
- B. Temporary Order dated 10 Aug 2012
- C. Order extending Temporary Order, 21 Aug 2012
- D. Order varying the terms of the Temporary Order, 10 Oct 2012

## APPENDIX D

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- E. Order extending Temporary Order, 13 Nov 2012
- F. Order varying the terms of and extending the Temporary Order, 20 Dec 2012
- G. Order suspending monitoring, 21 Mar 2013
- H. Order extending Temporary Order, 18 June 2013
- I. Order allowing new branches subject to letter from consultant regarding sufficient supervision, 21 June 2013
- J. Order revoking Temporary Order, 23 Oct 2013
- K. Settlement Agreement, 5 Mar 2014
- L. Order approving Settlement Agreement, 7 Mar 2014
- M. Order dismissing motion to amend Settlement Agreement, 13 June 2014
- N. Amended Settlement Agreement, 12 Feb 2015

# APPENDIX E

## APPENDIX E: REGULATORY TIMELINE

Date	Regulatory Action
1987	National Policy No. 15: \$200 total fee “cap,” fee structure, restrictions on investments
2003	National compliance review (five unnamed group plans)
March 24, 2010	New mandatory disclosure rules specific to scholarship plans published for comment (i.e., plan summary and scholarship plan prospectus)
June 2010 - Oct 2011	OSC compliance review (CEFI, Global, Heritage, Knowledge First)
July - Sept 2012	Temporary Orders (CEFI, Global, Heritage, Knowledge First)
May 31, 2013	Mandatory disclosure rules specific to scholarship plans came into effect (i.e., plan summary and scholarship plan prospectus)
July - Nov 2013	First plan summaries filed on SEDAR
2013 - 2014	In Undertakings made to the provincial securities commissions, providers agreed that as of the date of the Undertaking, eligibility for EAPs would be identical to the eligibility rules found in the Income Tax Act
Oct 2013 - Apr 2014	Temporary Orders lifted
Mar 2014 - Jan 2015	Orders approving Settlement Agreements between the OSC and each of CEFI, Global, Heritage, and Knowledge First
May 2015 - Mar 2016	Deadlines for delivery of consultants’ reports confirming improvements to compliance systems (CEFI, Global, Heritage, Knowledge First)



**Available in alternative formats, upon request.**

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