MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES

Private Career Colleges Act, 2005

FACT SHEET #4B

TRAINING COMPLETION ASSURANCE FUND: PREMIUMS

August 15, 2007

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1. WHAT IS THE TRAINING COMPLETION ASSURANCE FUND?

The Training Completion Assurance Fund (TCAF) is a new provision of the *Private Career Colleges Act, 2005* (PCCA). TCAF will replace the old financial security requirements with a combination of an insurance fund and a new, reduced financial security requirement.

TCAF will provide students affected by a closure with the option of completing their training or receiving a refund in a prescribed amount and in accordance with prescribed rules under Part VI of O.Reg. 414/06. Participation in TCAF is mandatory for all registered private career colleges (PCCs). TCAF is administered by the Superintendent of Private Career Colleges with the assistance of a TCAF Advisory Board appointed by the Minister of Training, Colleges and Universities.

TCAF will go through two major phases before the fund reaches maturity:

Build-up Period: September 18, 2006 – December 31, 2008

During this period, PCCs will start paying TCAF premiums and will continue to maintain financial security under *Regulation 939*. This will also be a claims-free period. During this time, student claims will be paid exclusively out of financial securities provided by PCCs, not out of TCAF. This allows TCAF to build over a period of time and have adequate resources on hand to respond to student claims once the fund is operational.

TCAF Goes Live: January 1, 2009 and Thereafter

On January 1, 2009 TCAF “goes live” and will administer student claims. Students will be eligible to make claims for training completions, some costs associated with attending a training completion and refunds. At this time, a risk-adjusted approach to calculating premiums and financial securities will come into effect. This means that the amount of your premium will vary by how much prepaid unearned revenue from vocational programs you collect and what your PCC's credit rating is. The amount of financial security required will depend on how much prepaid unearned revenue from vocational programs you collect, subject to a prescribed, minimum amount of $10,000.

2. WHAT PREMIUMS WILL I HAVE TO PAY?

For each year of registration under the PCCA, you will be required to pay TCAF premiums. You will not be asked to calculate these premiums; the calculation of premiums will be done by the Ministry. You will receive an invoice informing you of how much your premium is and when it must be paid.

PCCs interested in estimating their own premiums can do so by determining what type of premium is currently in effect and whether a premium surcharge will be required. The following types of premiums and surcharges may apply to your PCC:

- Founding Premium
- Founding Surcharge
- Initial Annual Premium
- Annual Premium
- Premium Surcharge

See Part IV of O.Reg. 414/06 for a definition of these various premiums.

To help give you a practical idea of how this will work, examples are provided to illustrate how the different premiums and surcharges affect an average PCC over the next 5 years. Here's the relevant data for the sample PCC:

- Fiscal year end is December 31
- Annual gross revenue from vocational programs is $250,000
- Highest monthly prepaid unearned revenue (vocational programs) account balance is $50,000
- Credit score is average (multiplier = 1%)

2.1 Founding Premiums

Founding premiums are paid for the period of January 1, 2007 to December 31, 2008 by PCCs that were registered at the time of proclamation of the Act on September 18, 2006. The founding premium is equal to .875% of the college's annual gross revenue from vocational programs.

Your first premium will cover the period between January 1, 2007 and your current registration expiry date. You will receive a notice informing you of how much your first payment is. Subsequent premiums will be paid for one year periods and are due annually at the time of renewal of registration. Depending on the amount of your premium, you may have the option of paying it in instalments. The details of payment options will be outlined in the premium notice.

Calculating Founding Premium

To determine the first founding premium for the sample PCC, you need to determine what its annual gross revenue from vocational programs is and when its current registration expiry date under the PCCA occurs:

1. Determine PCC's annual gross revenue from vocational programs = $250,000
2. Apply premium rate = .875%
3. Calculate full-year premium = $2,187.50
4. Determine the current registration expiry date = 240 days after fiscal year end (December 31, 2006) = August 28, 2007
5. Pro-rate premium to cover period from January 1, 2007 to August 28, 2007 = $2,187.50 x 65.75% (240 days/365 days) = $1,438.35

The sample PCC's initial founding contribution is $1,438.35. Over a standard one-year registration period, the founding contribution would be $2,187.50.

2.2 Initial Annual Premiums

Every PCC that registers for the first time **after** the PCCA was proclaimed (September 18, 2006) will be required to pay two years worth of initial annual premium. Like the founding premium, the initial annual premium is equal to .875% of the college's annual gross revenue from vocational programs. In this case, the gross revenue is based on the PCC's projection of its revenue from vocational training in its first year of operation.

2.3 Annual Premiums

Annual premiums take effect as of January 1, 2009. Annual premiums are paid based on the risk presented to TCAF by the PCC. There is a minimum annual premium of $500 to ensure long-term sustainability of the fund. The premium is calculated in the following manner:

Amount A		Amount B
1.25%, 1% or. 75%, depending on whether PCC has above-average, average or below-average credit risk score as assessed by a credit rating agency **OR** 1.25% if a report from a credit rating agency is unavailable	**X**	The PCC's highest monthly prepaid unearned revenue (vocational programs) account balance *****

***** See the ***Instructions for Preparation of Financial Statements*** **for more details on how this calculation is made**.

Given this approach, it is possible for individual PCCs to minimize their TCAF premiums by ensuring they have a good credit rating and limiting the amount of prepaid unearned fees they collect.

It should be noted that most PCCs will pay a combination of Founding Premium and Annual Premium for the registration period that includes January 1, 2009, i.e., a PCC that has a registration period from December 2008 to November 2009 would pay one month of Founding Premium and 11 months of Annual Premium for that registration period.

Calculating Annual Premium

To determine the annual premium for the sample PCC, you need to know its credit rating and the amount of its highest monthly prepaid unearned revenue (vocational programs) account balance:

1. Determine premium rate associated with PCC credit rating average = 1%
2. Determine highest monthly prepaid unearned revenue (vocational programs) account balance = $50,000
3. Multiply premium rate by highest monthly prepaid unearned revenue (vocational programs) account balance = 1% x $50,000 = $500

The sample PCC's calculated annual premium is $500, which is equal to the minimum premium set in the regulation. If there are no surcharges in place that year, the PCC would pay $500.

2.4 Founding Surcharges

When the annual premium is in effect, PCCs will be required to pay an additional founding surcharge until TCAF reaches its fund target (i.e., 3% of gross sector revenues from vocational programs). This approach ensures that TCAF receives additional monies when it is below its target and that PCCs automatically receive a premium discount when the target has been reached. It is currently projected that TCAF will reach its fund target by January 1, 2011.

Founding surcharges are calculated by multiplying the annual premium (described above) by six and then adding the surcharge to the annual premium to get the total premium for the year.

Calculating Founding Surcharge

To calculate founding surcharge, you need to know how much a PCC's annual premium is and whether the fund target has been reached:

1. Determine if fund target has been reached: No, it has not
2. Determine PCC's annual premium = $500
3. Multiply annual premium rate by six = $500 x 6 = $3,000
4. Add annual premium and founding surcharge = $500 + $3,000 = $3,500.

The sample PCC's total premium is $3,500. Once TCAF has reached its target, PCCs will no longer be required to pay the founding surcharge. For many PCCs, this will result in a premium decrease of approximately 85%.

2.5 Premium Surcharges

Paid only if fund drops below target

Once TCAF has reached its fund target, there is no guarantee that it will stay there. TCAF may fall below the target again due to payment of claims. If this occurs, it will be necessary to re-establish a premium surcharge to replenish the fund. Premium surcharges are calculated by multiplying the annual premium by a set amount. The amount of this multiple will depend on how far below the target the fund has fallen.

Fund Value	Surcharge
at least 2.25 per cent but less than 3 per cent of sector revenues from vocational programs	3
at least 1.5 per cent but less than 2.25 per cent of sector revenues from vocational programs	4
at least 0.75 per cent but less than 1.5 per cent of sector revenues from vocational programs	5
less than 0.75 per cent of sector revenues from vocational programs	6

This approach ensures that the amount of the surcharge is tied to the amount that TCAF needs to raise to get back to its target and will never exceed a factor of 6. When TCAF reaches its fund target again, the surcharge will be removed.

2.6 Levies

Paid only if fund needs to be replenished immediately

The Superintendent can establish extraordinary levies if the fund is inadequate to meet claims. Before a levy is imposed, the Superintendent must consult with the TCAF Advisory Board on any levy and consider the impact of the levy on the PCC sector. These levies would be charged in-year, independent from other TCAF premiums or surcharges due for that year. To minimize the impact on PCCs, these levies cannot exceed .875% of revenues from vocational programs.

Premium Costs over 5 Years for the Sample PCC – For PCCs that register under the PCCA for the first time after September 18, 2006

	Initial Annual Premium (.875% of gross revenue)	Annual Premium (1% of unearned revenue)	Founding Surcharge (6 X annual)	Total TCAF Premium
Year 1	$2,187.50	-	-	$2,187.50
Year 2	$2,187.50	-	-	$2,187.50
Year 3	-	$500	$3,000	$3,500
Year 4	-	$500	$3,000	$3,500
Year 5	-	$500	-	$500

3. PCC'S WITH GROSS REVENUE FROM VOCATIONAL PROGRAMS IN EXCESS OF $25M

PCCs with gross annual revenue from vocational programs that exceed $25 million are not required to pay TCAF premiums but effective January 1, 2009, they are required to have $3 million financial security in place in lieu of premiums. Once a PCC has reached the $25 million threshold once, only a decrease in gross annual revenue from vocational programs to below $20 million will lead to that PCC leaving this 'segregated risk' category. In the event of a closure or the Superintendent's declaration that the financial security is forfeit, any resulting claims are funded solely from the PCC's financial security.

4. PCC ACCOUNTING PRACTICES

For each renewal of registration under the PCCA, you are required to submit financial statements for the fiscal year immediately preceding the year of renewal. You will be provided with more details about the type of financial statements required in your Notice of Renewal of Registration. As the Ministry transitions from the current financial security regime to the new one established under the PCCA, you will be required to maintain and report on different financial information. You should refer to ***Instructions for Preparation of Financial Statements*** for details on the appropriate accounting and financial reporting practices applicable during each phase.

This document is provided for your information and convenience only. It is not a legal document. For further information and the exact wording please refer to the *Private Career Colleges Act, 2005* and regulations.

Need More Information?

If you have questions about the *Private Career Colleges Act, 2005*, call the Ministry of Training, Colleges and Universities at:

Ministry of Training, Colleges and Universities
10th Floor Mowat Block
900 Bay Street
Toronto, ON M7A 1L2

Telephone: (416) 314-0500 or 1-866-330-3395
Fax: (416) 314-0499

OR

Visit our website at: www.edu.gov.on.ca/eng/general/private.html

The full text of the act and regulations can also be downloaded from the Ontario government E-Laws website at:
www.e-laws.gov.on.ca