# *A Strategy to Ensure College Affordability for Low* and *Middle Income Families*

## **"Personal & Political Responsibility Revisited"**


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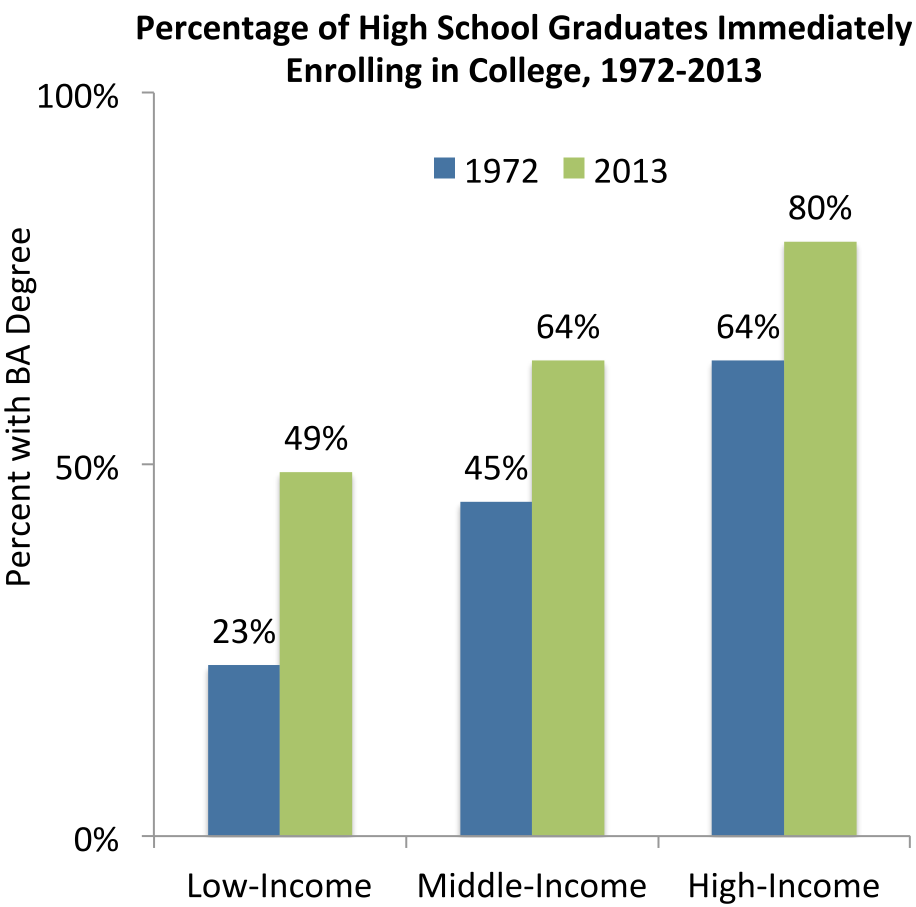
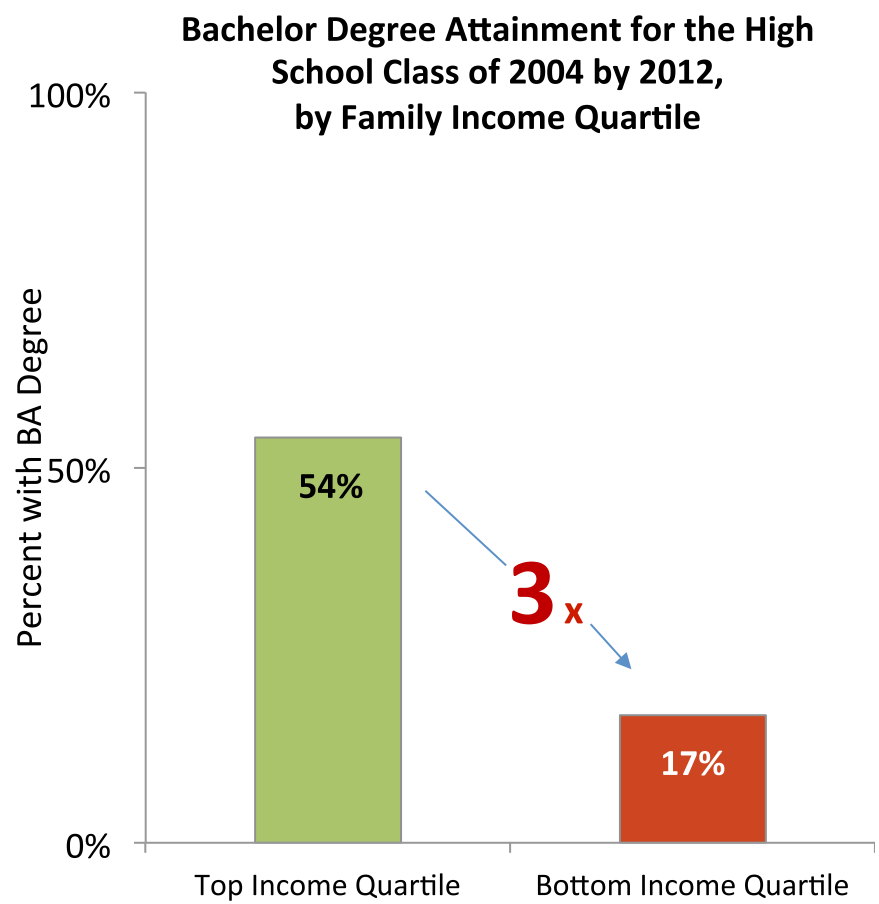
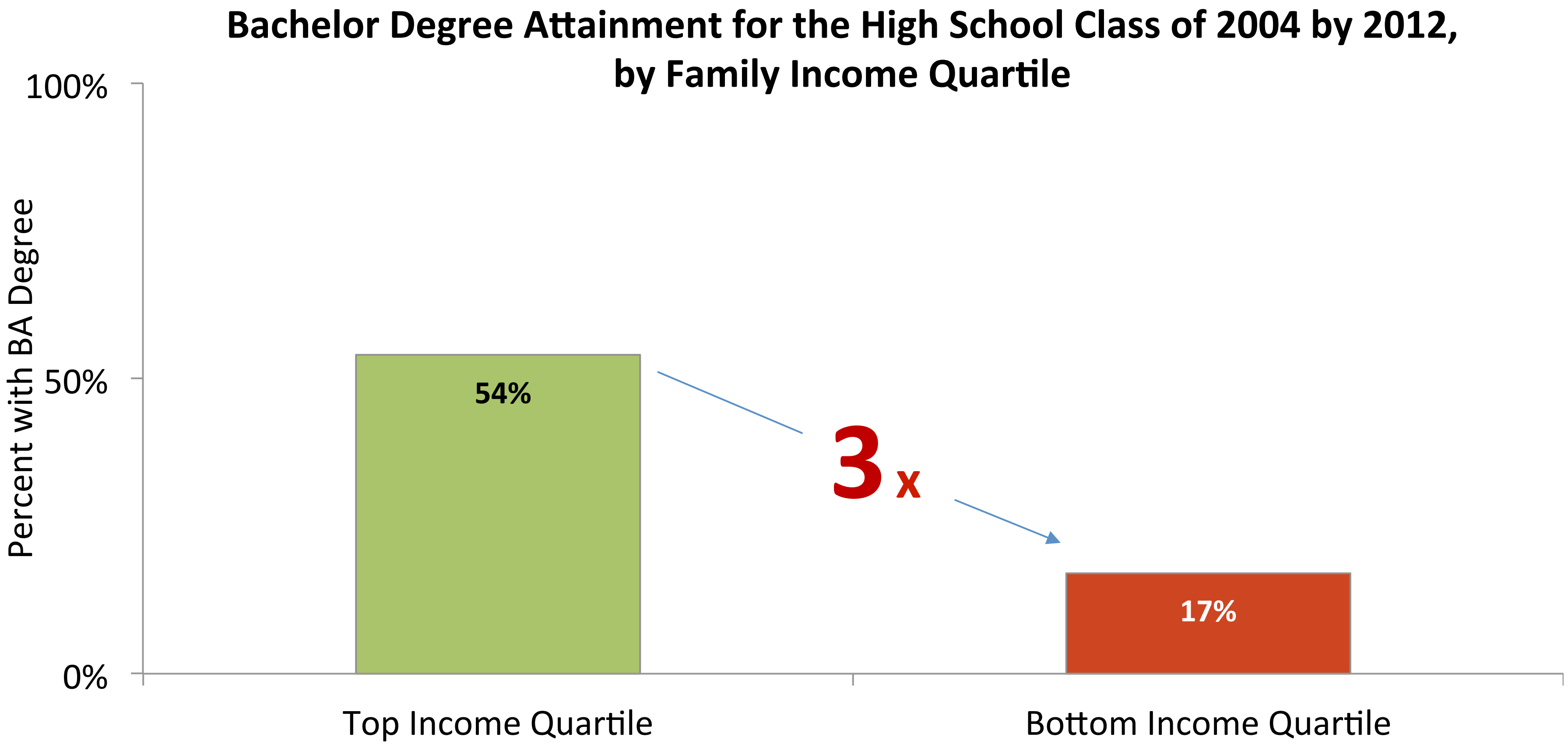
# Higher education is calcifying economic inequality. College access for low-income students has improved, but there is still a large gap in degree attainment rates.




Source: National Center for Education Statistics (NCES), *The Condition of Education* 2010 and *The Digest of Education Statistics* 2014. Matthew M. Chingos analysis of the Educational Longitudinal Study of 2002.. "How can we track trends in educational attainment by parental income?." (Washington, D.C., Brookings Institute, 2015).

# A child born into a poor family is three times less likely to attain a bachelor's degree within eight years of high school graduation than a child born into a upper-income family.



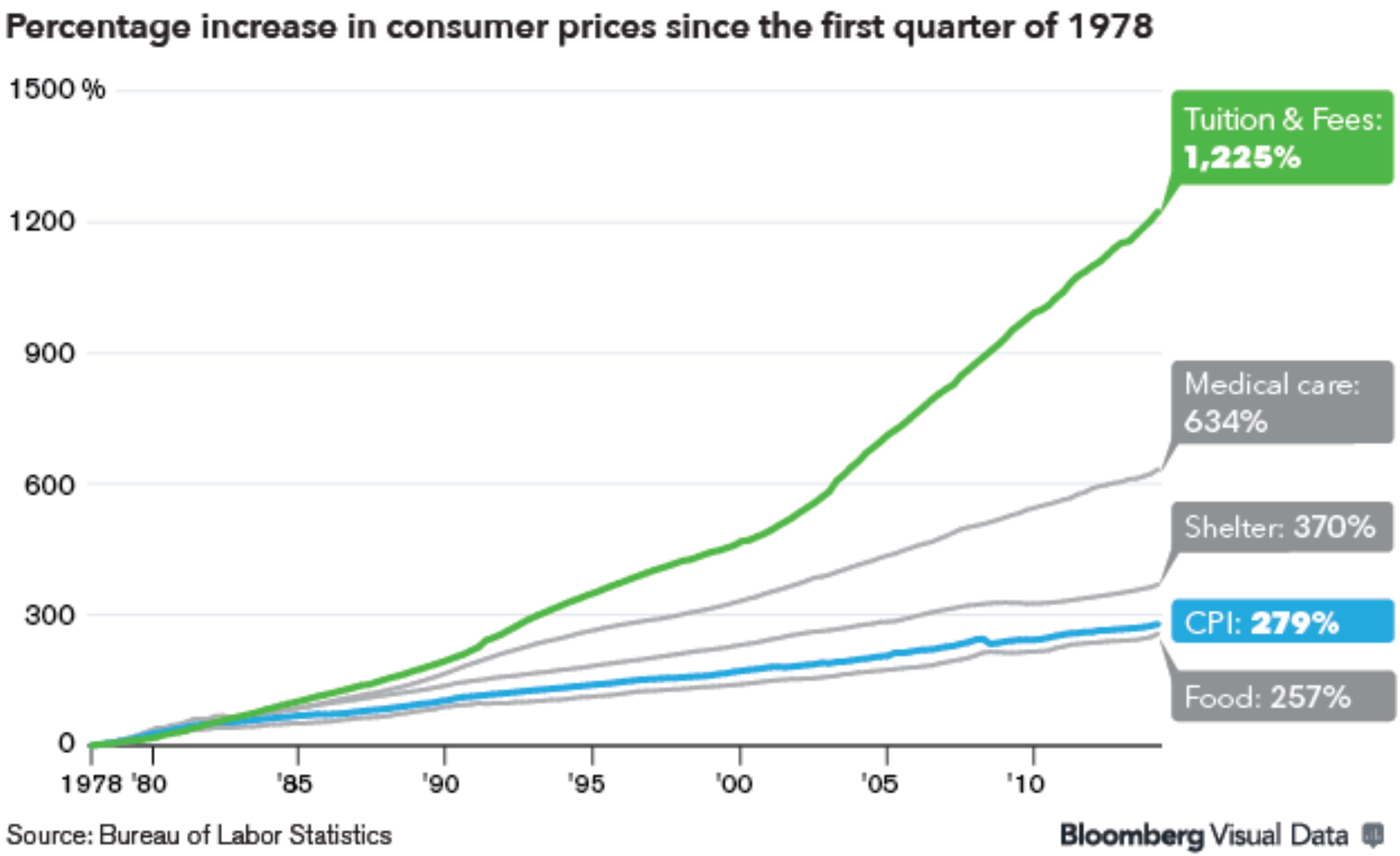

Source: Matthew M. Chingos analysis of the Educational Longitudinal Study of 2002.. "How can we track trends in educational attainment by parental income?." (Washington, D.C., Brookings Institute, 2015).

# Instead of completion and inequality, the general public and policymakers are focused on college affordability and four key aspects of that problem.

1. Rising Tuition
2. Student Loan Debt
3. Low & Slow Levels of College Completion
4. Simplification of the Financial Aid System

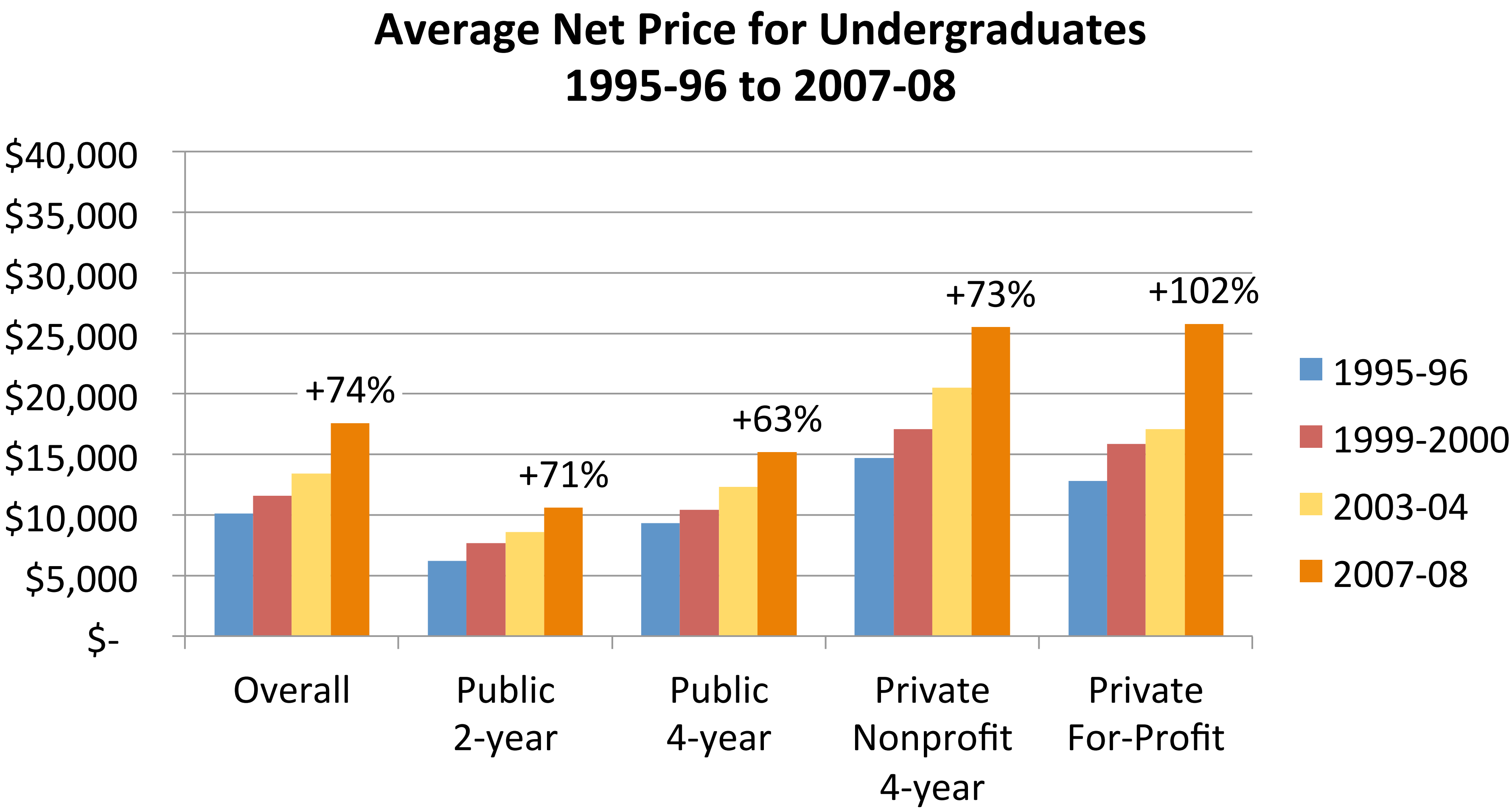
Source: n/a

# Rising tuition is a top & legitimate issue for public concern. Sticker price is up over 4½ times the rate of inflation.



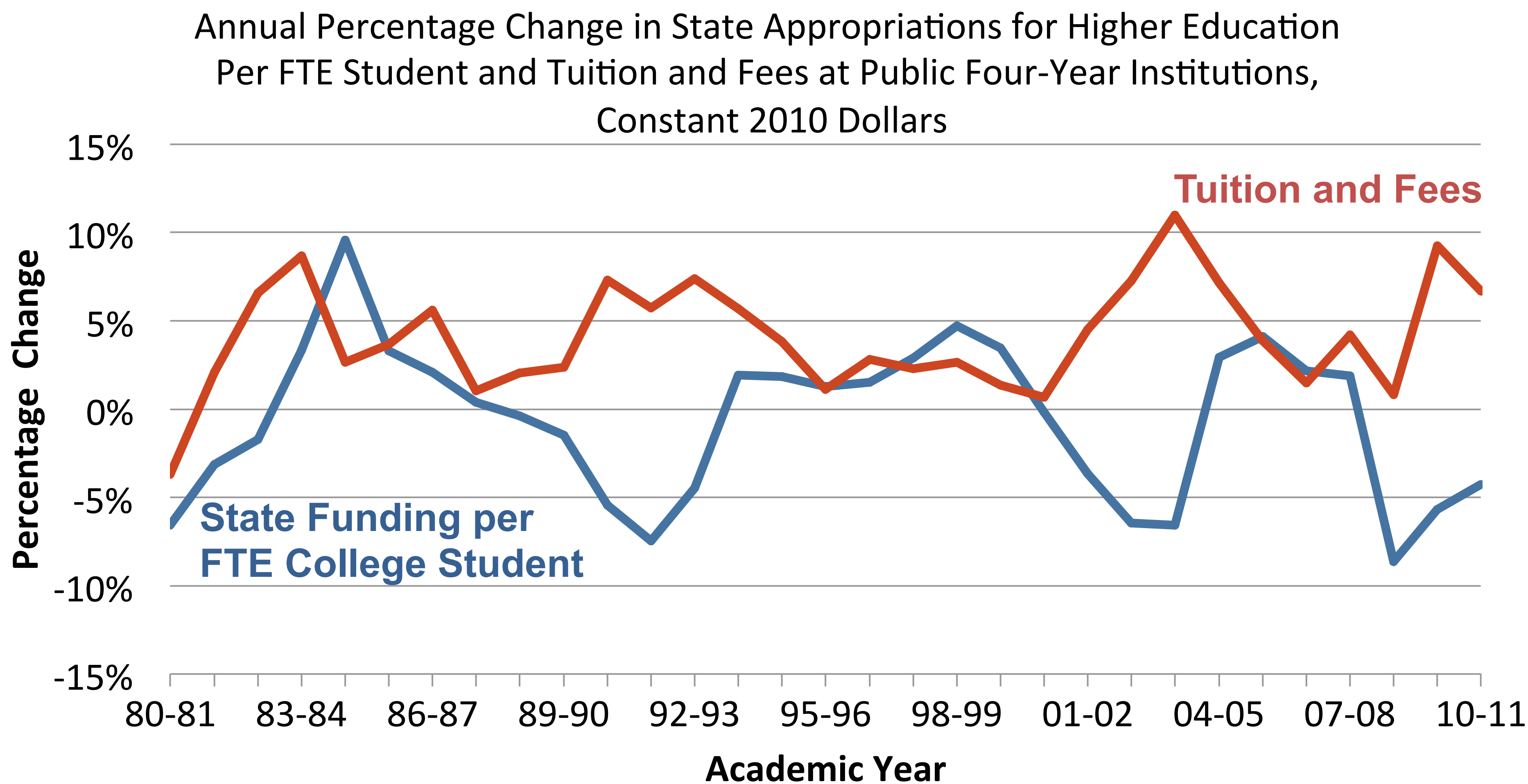

Source: Bloomberg Chart of the Day, August 18, 2014.

# Net price (i.e. after financial aid) is lower than sticker price and rising more slowly, but it still has increased markedly.



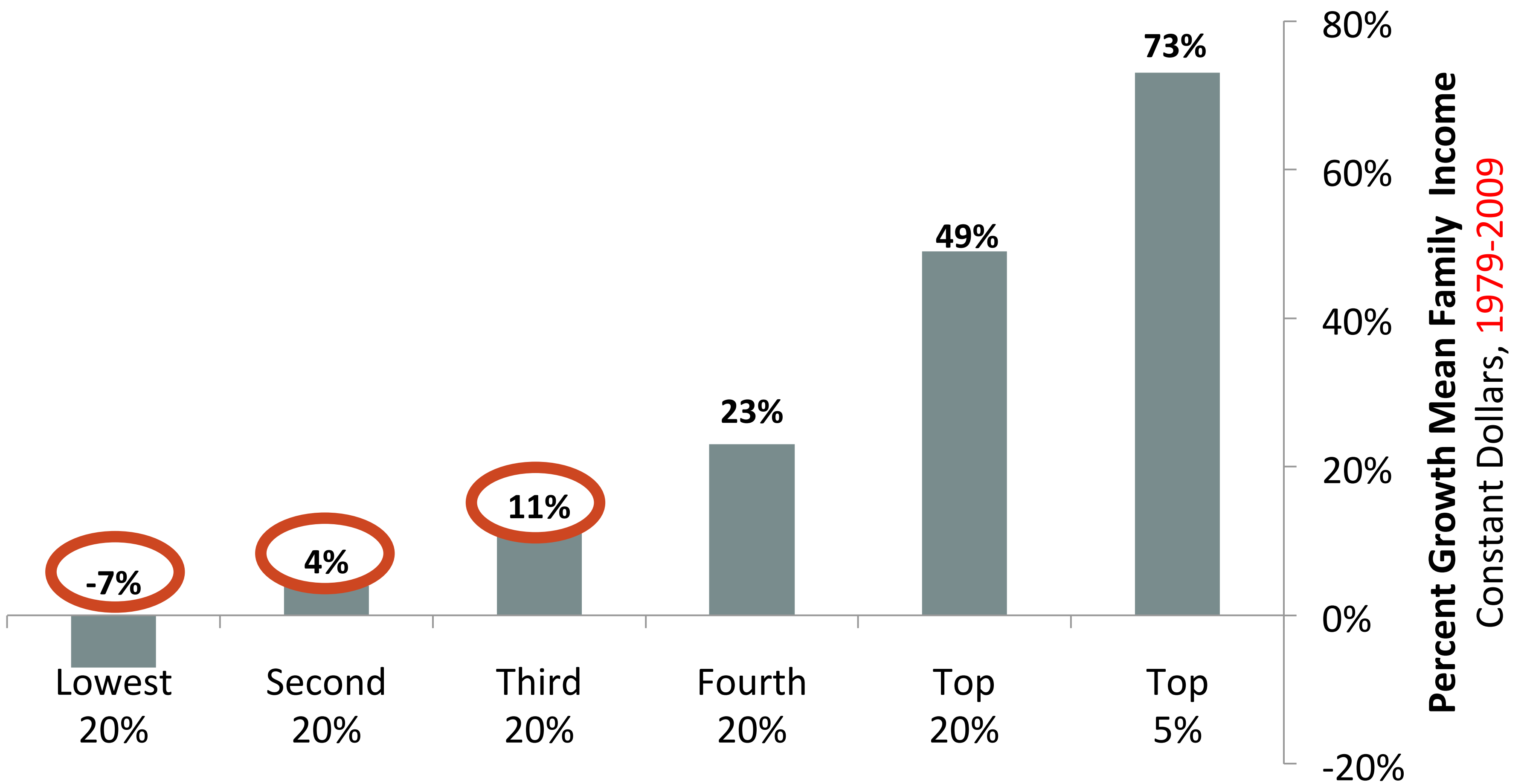

Source: NCES, Trends in Student Financing of Undergraduate Education: Selected Years, 1995–96 to 2007–08.

# There are multiple causes behind rising tuition, but the #1 cause is reduced state funding for higher education.



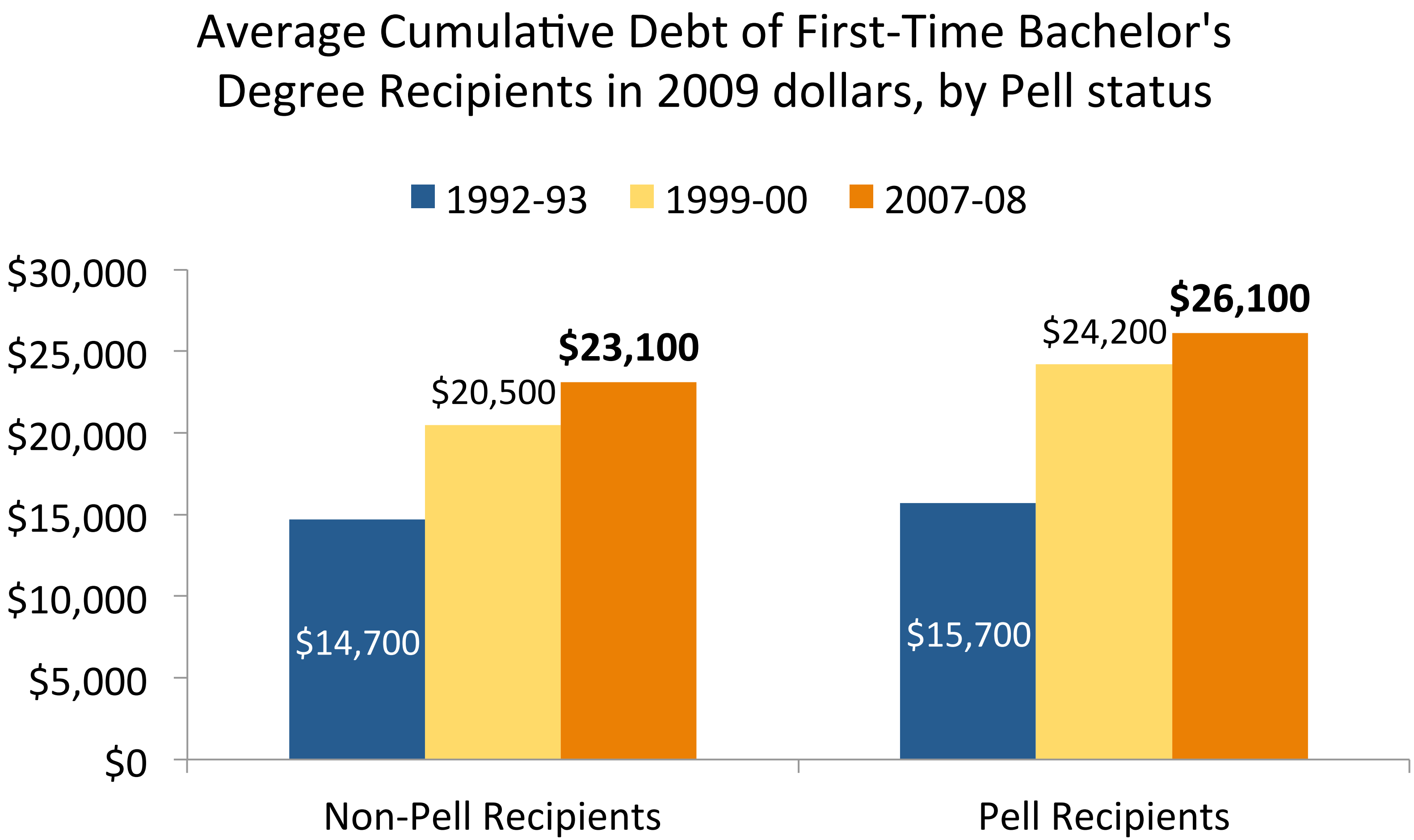

Source: The College Board, *Trends in College Pricing 2011*, 18.

# Tuition long has risen faster than inflation, but in the past wages grew even faster. No more. Now poor, working class, and even middle income families are falling behind.




Source: The College Board, "Trends in College Pricing 2010" (New York: College Board, 2010), 24

# The combination of rising tuition and flat income has led families to borrow bigger and bigger loans.



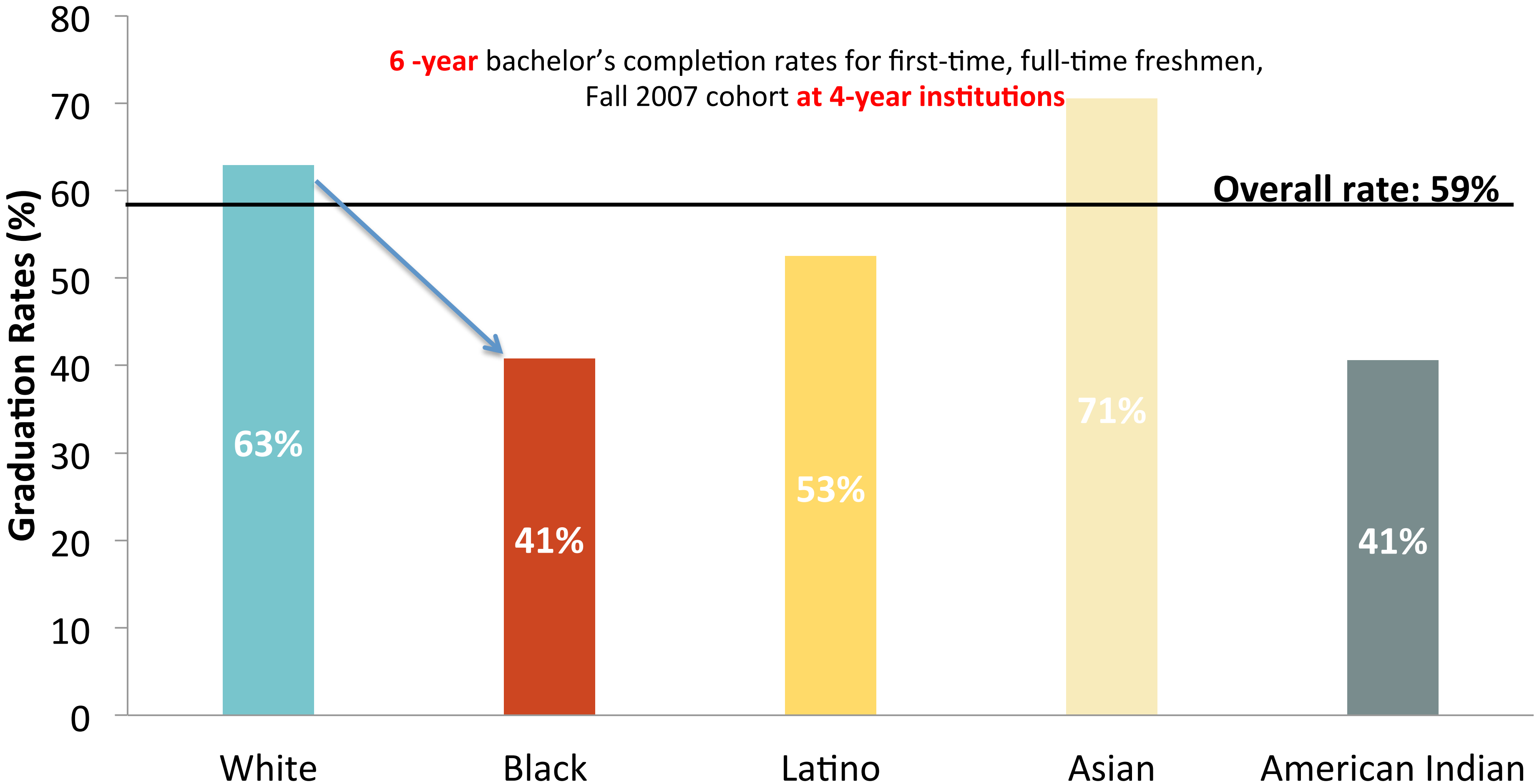

Source: U.S. Department of Education Stats in Brief: Degrees of Debt: Student Borrowing and Loan Repayment of Bachelor's Degree Recipients 1 Year After Graduating: 1994, 2001, and 2009, October 2013.

***After all grant and scholarship aid,*** **low-income students still have to finance an amount equal to approximately 76% of family income to pay for one year of college. They borrow big, work more, or drop to part-time status -- reducing their likelihood of completion and ability to repay student debt.**

| Family Income Quintiles | Average % of Income Required to Pay for 1 yr of College After Grant Aid |
|---|---|
| $0-24,500 | 76% |
| $24,501-49,000 | 46% |
| $49,001-80,000 | 33% |
| $80,001-117,500 | 25% |
| $117,501+ | 17% |

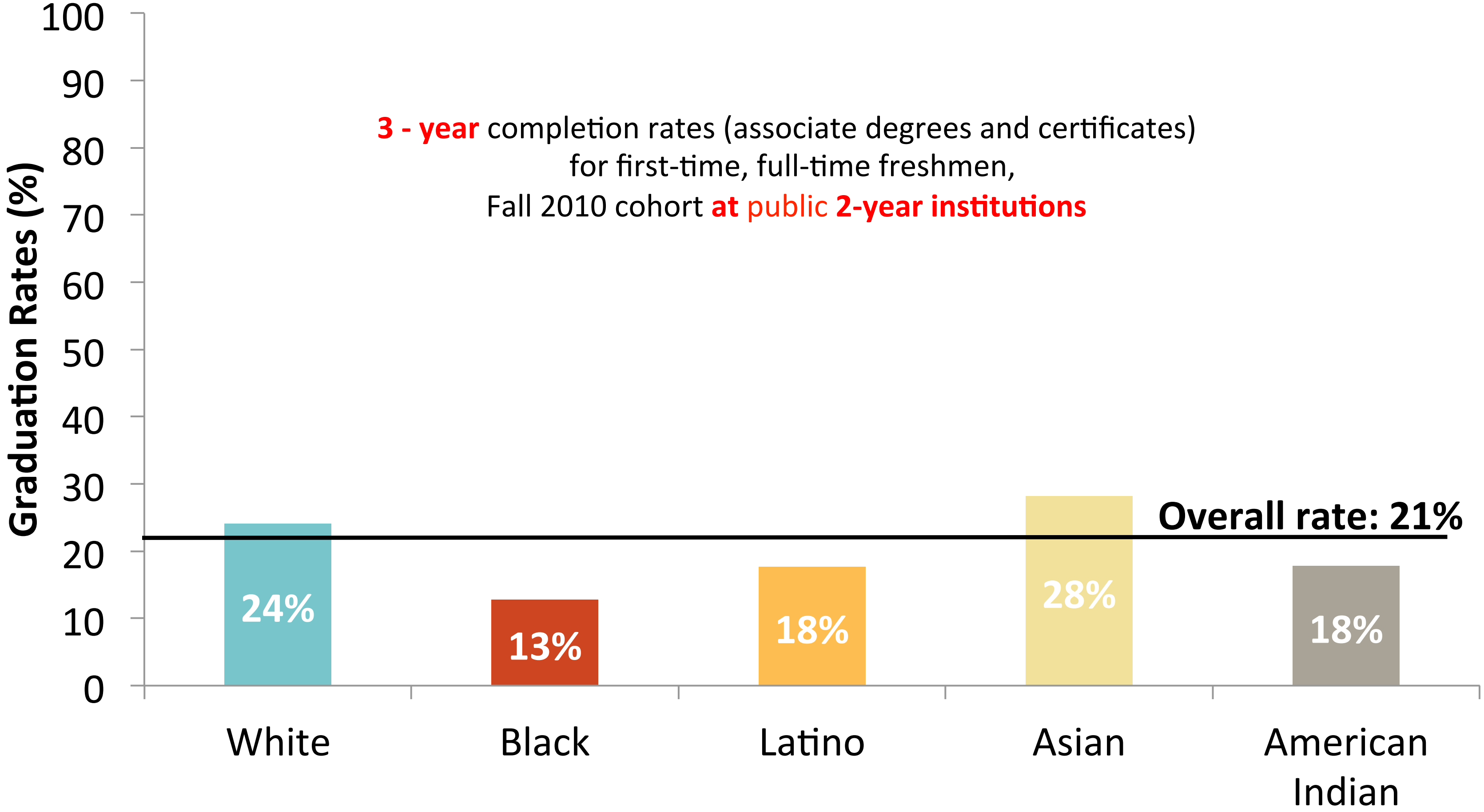
Source: Ed Reform Now analysis of NPSAS:12 using PowerStats, http://nces.ed.gov/datalab/. Results based on full-time, full-year, one-institution dependent undergraduates at public and private nonprofit four-year institutions.

# College debt wouldn't be so bad if graduation rates weren't so low, especially for underrepresented students of color.




Source: NCES (November 2014). Graduation Rates for Selected Cohorts, 2005-2010; and Student Financial Aid, Academic Year 2012-13; First Look (Provisional Data).

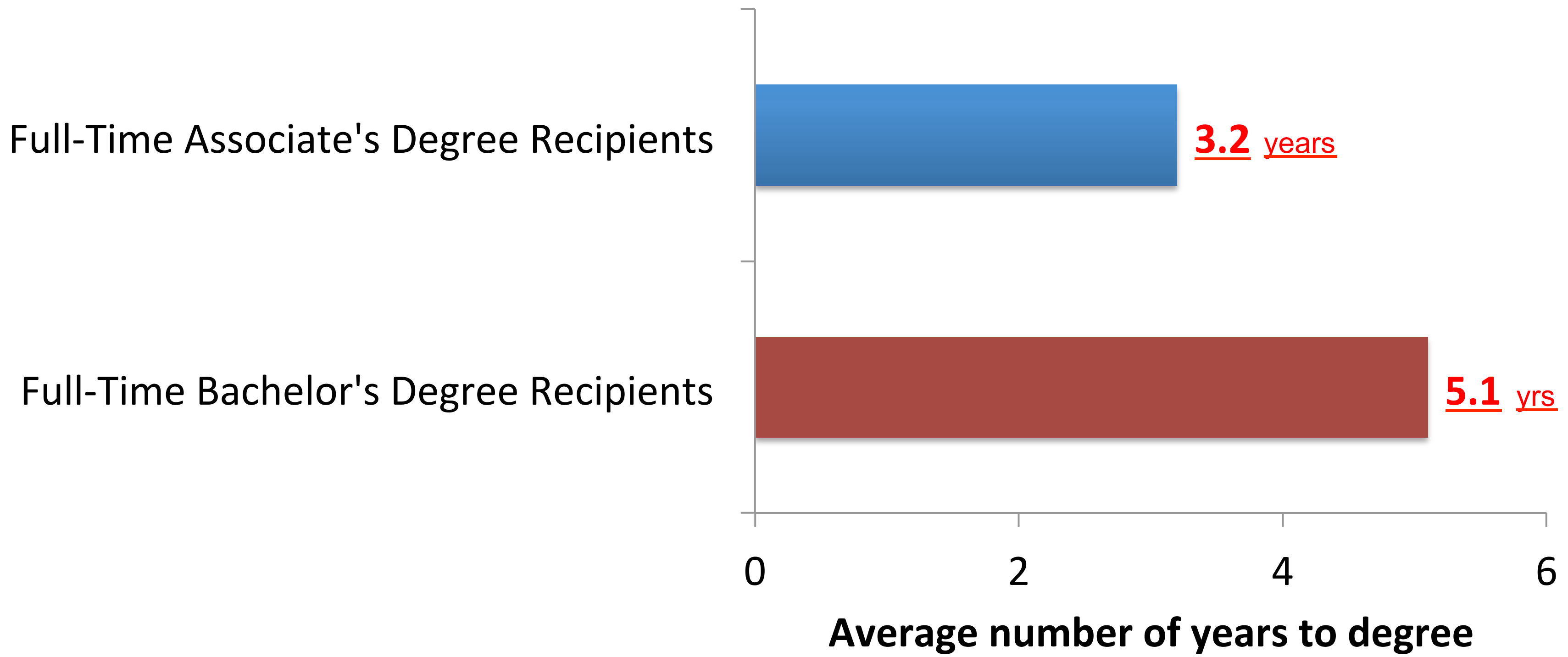
# First time, full-time community college student graduation rates are particularly bad.




Source: NCES (November 2014). Graduation Rates for Selected Cohorts, 2005-2010; and Student Financial Aid, Academic Year 2012-13; First Look (Provisional Data).

# Even the data on completers is troublesome. Slow time to degree increases aggregate price and opportunity costs for students and families.

## Average Time to Degree




Source: Analysis of Beginning Postsecondary Students Study, 2003/09.

# Recommended Solution

***Strategy:***

***Leverage upper-income family anxiety about college affordability to improve college access, affordability, and completion for the middle class and poor.***

*Design:*

*Either increase or target existing aid to the bottom 80% of families and deliver it through a flexible state grant program. Embed within policies that improve high school academic preparation and speed time to postsecondary degree completion.*

Source: n/a

# Suggested Deliverable

## *A "Cap on Student Loan Debt" for Low and Middle Income Families That Earn It*

*Scale Model College Access & Affordability "Promise" Initiatives*

Models: Indiana 21st Century Scholars Program (statewide)
UNC Carolina Covenant; AccessUVa (college specific)
Kalamazoo Promise; Say Yes to Education (community-based)

Source: n/a

# Offer a New College Affordability Deal

- *A Guaranteed **Cap on Student Loan Debt** to those from low-income families who meet certain conditions.*
- *Guaranteed **Interest Free Loans** to those from middle-income families who meet certain conditions.*

Low-income = less than ~$50K (the bottom 40%)*

Middle income = ~$50K to $115K (40th to 80th percentile)*

| Family Income Quintile | Family Income |
|---|---|
| Bottom Quintile (Poorest 20%) | $0-27,218 |
| Second Quintile | $27,218-48,502 |
| Third Quintile | $48,502-75,000 |
| Fourth Quintile | $75,000-115,866 |
| Top Quintile (Top 20%) | $115,866+ |

***State flexibility to smooth and extend guarantees up the income scale or link guarantee to income percentile as opposed to dollar figure.**

Source: U.S. Census Bureau, CPS, FINC-06. Percent Distribution of Families, by Selected Characteristics Within Income Quintile and Top 5 Percent in 2011.

# Recommended Policy Design

- Large grant funds to states in exchange for a small number of conditions demanded of students, schools, and states (message: “shared responsibility”)

- State flexibility in use of grant funds
  - 100% of partnership grant funds spent on education
  - Up to 20% can be spent on secondary schools or adult pathway education

- Ideally all states participate, but they’re also free to opt out. Students in opt-out states retain Pell Grant, unsubsidized Stafford loan, and PLUS loan eligibility *and* can access a cap on student loan debt guarantee in another participating state.

Source: n/a

# Student Responsibility

Students must:

1. Contribute an out-of-pocket amount based on current law's ability-to-pay formula (i.e. need analysis);
2. Complete a college and career prep course of study in high school (i.e. a college prep track);
3. Attend full-time and work or serve an average of 10 hours/week (inclusive of current hours worked);
4. Complete a degree within a reasonable period of time. (150% of regular program length – 6 years for a 4 year degree).

Note: Financial aid officer professional judgment exemptions for exceptional circumstances (e.g. death in the family)

Source: n/a

# College Responsibility

Colleges must:

1. Commit to offering the courses and course pathways necessary for students to complete in a reasonable period of time (150% of regular time).
2. Contribute their own funds to a no-loan policy, if they have exceptionally large endowments (>$2 billion).
   – 55 wealthy schools already use their own resources to provide low-income students with a no-loan or low-loan guarantee.
3. Meet minimum quality standards on indicators, such as Pell enrollment rates, graduation rates, and student loan repayment rates.
   – To ensure sound investment of taxpayer money, colleges who do not meet the minimum standards would not be eligible for new state grant funds.

Source: n/a

# State Responsibility

States must:

1. Enroll all students in high school on a mandatory college & career-ready course of study.
   - States can use up to 20% of the federal funds for secondary school reform.
2. Provide student loan debt limit guarantees to those from low and middle-income families (e.g. cap debt at 10% of family income).
3. Stabilize tuition by at least providing students with a multi-year tuition and fee schedule.
4. Ensure easy transfer of credit with articulation agreements among all public institutions & voluntarily participating privates.
5. Publish 'return on investment' data for all state institutions of higher education to empower college selection.

Source: n/a

# Offsets: The federal government spends over $22B in poorly targeted or inefficient student aid and higher education tax benefit programs

| Existing Program | Current Cost | Offset Option | Approximate Savings from Recommended Change |
|---|---|---|---|
| Supplemental Educational Opportunity Grant (SEOG) | $0.7 b | Consolidate | $0.7 b |
| **In-school interest rate subsidy** | **$5 b** | **Consolidate** | **$5 b** |
| **American Opportunity Tax Credit – nonrefundable portion** | **$14.3 b** | **Limit to bottom 80%** | **$4.8 b** |
| **American Opportunity Tax Credit – refundable portion** | **$6.6 b** | **Consolidate** | **$6.6 b** |
| 529 Plans | $1.78 b | Limit to bottom 80% | Data not available |
| Education IRAs / Coverdell | $0.08 b | Limit to bottom 80% | Data not available |
| Student loan interest deduction | $0.85 b | Consolidate | $0.85 b |
| Facility bonds for private nonprofit education facilities | $2.32 b | Consolidate | $2.32 b |
| Parental personal exemption | $3.1 b | Limit to bottom 80% | (slightly less than) $1.55 b |
| **Total** | **$38.0 b** | | **$22 billion + savings from 529 & Coverdell** |

# No New Cost

## Can be Funded Entirely Through Existing non-Pell Grant Federal Aid Programs

**Approximately 50% of offsets from grant and loan programs other than Pell; Approximately 50% of offsets from existing higher ed tax deductions and exemptions.**

Source: n/a

# Impact of targeting & consolidating existing higher education aid to the bottom 80%

- **2 million students** from low-income families get *a cap on student loan debt* worth $8,000 annually.
- **1.5 million students** from middle class families get *interest-free student loans* worth app. $1,100 annually.
- All students get:
  - ***Guaranteed Course Availability***
  - ***College Prep Course of Study***
  - ***Truth-in-Tuition Pledge***
  - ***Return on Investment data***
- More than 6,000 colleges and universities eligible to participate.
  - Excluded: 105 colleges with graduation rates below 15%
  - Excluded: 31 colleges with endowments > $2 billion

Source: n/a

# Benefits

1. Targets federal aid on the neediest students;
2. Fills the ‘unmet need’ gap for all low-income students;
3. Blunts the effects of debt aversion in terms of college access and “under-matching; “
4. Limits outside employment demands;
5. Counters state and institution use of *non*-need based aid;
6. Leverages state policy in support of slower tuition growth;
7. Leverages state policy in support of faster completion;
8. Incentivizes states and institutions to invest in productivity;
9. Empowers families to choose among colleges more wisely; and
10. Improves high school academic rigor and college preparation.

Source: n/a

# Problems

- Steps away from historic higher ed voucher system
- Targets aid away from upper class families (the top 20%)
- K-12 schools may not be ready or want to put all students on a college prep track
- Students who don't complete within 6 years face a give back
- Harms a subset of part-time students who don't – even with extra grant aid – make the transition to full-time status
- Limited accountability beyond the worst of the worst colleges
- ACA experience suggests some states may not participate
- Prompts private, non-profit college opposition

Source: n/a

# With Additional Resources, Almost All Political Problems can be Mitigated

- Additional resources can obviate need to target existing college aid programs away from top 20% of families that currently receive grant, loan, and especially higher ed tax benefits.
- Additional resources can be used to extend the student loan debt cap promise to part-time students.
- Additional resources can be used to bolster work study and service opportunities and ensure they are linked to academic programs (i.e. paid internships).
- Additional resources can be used to lessen the give back requirement for those students who fail to complete.

Source:

# Principles Underlying a "Cap on Student Loan Debt" Already Endorsed by Groups

- Education Trust
- Young Invincibles
- New America Foundation
- Democrats for Education Reform

Source:

# What Leading Commentators Have Said

- *"Visionary… A powerful conception of shared responsibility."*

  *—Ronald Brownstein, National Journal*

- *"Addresses the root causes of the debt-for-diploma system."*

  *—Tamara Draut, author, Strapped: Why America's 20- and 30-Somethings Can't Get Ahead*

- *"The words debt-free college are music to students' ears."*

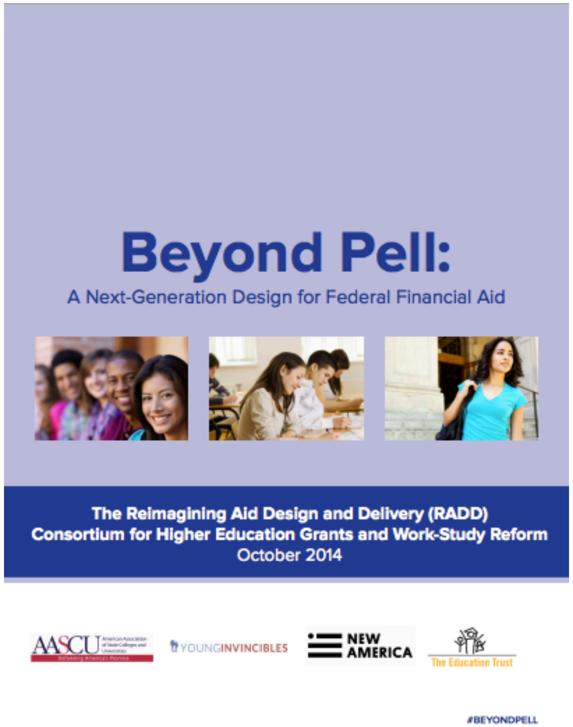
  *—Rory O'Sullivan, Young Invincibles*

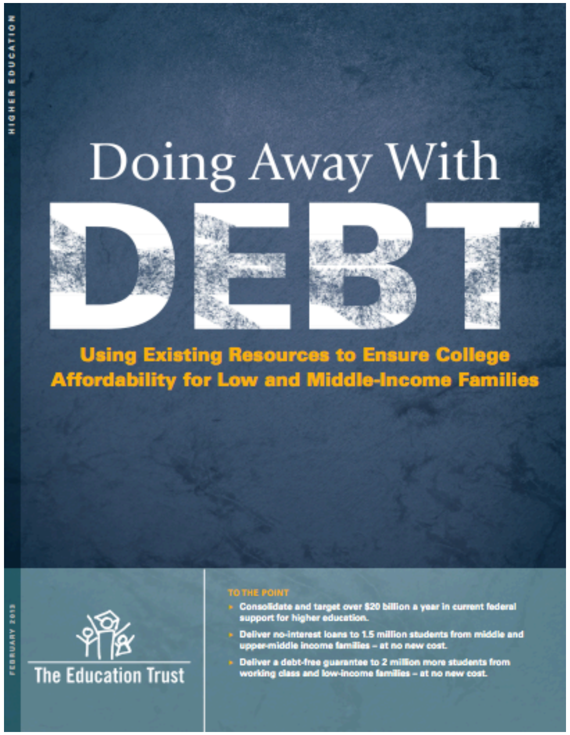
- *"A contribution ... much needed and long overdue."*

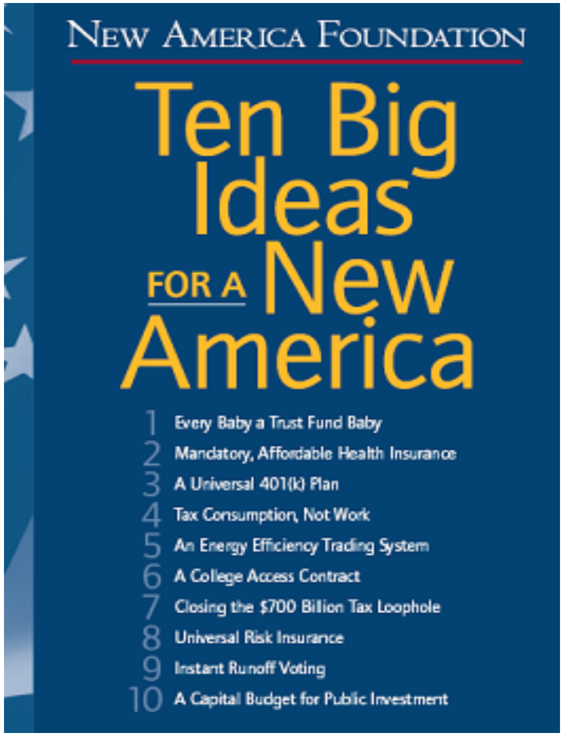
  *—Travis Reindl, formerly with the National Governors Association*

Source:

# For More Information

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