

# Doing Away With

# DEBT

**Using Existing Resources to Ensure College Affordability for Low and Middle-Income Families**



The Education Trust

#### TO THE POINT

- ▶ Consolidate and target over \$20 billion a year in current federal support for higher education.
- ▶ Deliver no-interest loans to 1.5 million students from middle and upper-middle income families – at no new cost.
- ▶ Deliver a debt-free guarantee to 2 million more students from working class and low-income families – at no new cost.

More than **2 million**  
low-income students  
will receive a no-loan  
guarantee worth an  
average of \$8,000 *annually.*

# EXECUTIVE SUMMARY

America's financial-aid system has become almost impossible to navigate and burdensome for those who need it most. Tuition and fees rise unabated, forcing almost half of college-going students to borrow. Low and middle-income students are taking on frightening levels of debt. Bachelor's degree recipients who borrow leave school with an average of \$26,600 in debt, often substantially more, and over 100,000 students are shut out of college each year with cost acting as a major limiting factor. We *must* and *can* do better for students willing to work hard to learn their way into the middle class.

The Education Trust proposes a college aid redesign – consolidating and targeting at least 10 grant, loan, and higher education related tax programs – separate from the Pell Grant program – to finance a “no debt” guarantee to students from low-income families and a “no interest loan” guarantee to students from middle and upper-middle income families. Reallocated funds would flow to states for distribution to their institutions of higher education and high schools to increase college completion, reduce student debt, and close education opportunity gaps.

## Underlying Principles

**Our redesign is based on seven basic principles for action:**

- Needy Students First
- Prioritize Low-Cost Provider
- Rational Incentives for all Stakeholders
- Accountability for All
- Simple, Stable, and Predictable
- Tangible Impact
- Shared Responsibility

## No-Loan/No-Interest Loan Guarantees

We used these seven principles to assess the current federal financial aid system and determined that a different design – one with a crystal clear, up-front, no-loan guarantee to low-income families and a no-interest loan guarantee to middle and upper-middle income families would better serve students. Fifty-five colleges already make similar guarantees.

Low-income and working-class students with incomes less than \$50,000 who attend school full-time, take a college prep course of study in high school, do 10 hours of work or service a week on average, and complete within 150 percent of regular time can attend college with no loans. Middle and upper-middle class students with incomes between \$50,000 and \$115,000 can receive no-interest loans if they meet the same requirements. States would have the option to raise income thresholds.

## The Mechanics

Re-designated funds – separate from the Pell Grant program – flow to states based on their percentage of students in poverty and performance on access, affordability, and success measures. Funds must be spent on education; up to 20 percent may be spent on secondary schools improvement to ensure that *all* students are provided a college- and career-ready course of study with accompanying support services.

### STATES COMMIT TO:

1. Ensuring no-loan and no-interest guarantees;
2. Enrolling all students in a college- and career-ready course of study in high school;
3. Ensuring ease of transfer among institutions, including two-year to four-year institutions;
4. Stabilizing tuition and fees by meeting a minimum fiscal requirement for state funding of higher education; and
5. Publishing return-on-investment data for all institutions of higher education.

### INSTITUTIONS COMMIT TO:

1. Meeting minimum standards on indicators such as graduation, Pell enrollment, and Pell graduation rates;
2. If they have exceptionally large endowments, using their own funds to provide the no-loan guarantee; and
3. Offering the courses and course pathways necessary for students to complete in a set period of time.

### STUDENTS COMMIT TO:

1. Completing a college- and career-ready course of study;
2. Attending college full time and making an out-of-pocket “expected family contribution” for college costs;
3. Working or doing service 10 hours a week on average; and
4. Completing within 150 percent of time.

## No-Loan/No-Interest Loan Guarantees Are Cost Neutral

There are at least 10 student-aid programs – SEOG, College Access Challenge Grants, in-school interest rate subsidies, the American Opportunity Tax Credit (refundable and non-refundable portions), Lifetime Learning Credits, 529 Plans, Coverdell plans, student loan interest rate deduction, parent personal deduction, and facility bonds for private nonprofit educational facilities – that can be targeted, consolidated, or re-imagined to better provide funding for low and middle-income students to access and complete college debt-free or with no-interest loans.

# Doing Away With Debt

## Using Existing Resources to Ensure College Affordability for Low and Middle-Income Families

BY MICHAEL DANNENBERG AND MAMIE VOIGHT

America's college financial-aid system has helped millions of students obtain a postsecondary education, but the system's flaws are increasingly apparent. Growth in tuition and fees outpace available resources, particularly for students striving to rise out of poverty. Low- and middle-income students confront frightening levels of education debt. Our financial-aid system, built in a different era for a different demography and continually expanded over the years, is now inefficient, inequitable, and inadequate to address current college affordability challenges.

Most disheartening, nearly half of all college students do not graduate, including many who received substantial aid, as well as many who have taken on substantial debt.<sup>1</sup> Of those who complete, many do so without the skills and knowledge needed to get the kind of job that will enable them to repay their loans without significant economic hardship.<sup>2</sup>

Responsibility for these shortcomings is shared by all stakeholders in the higher education system — the federal government, state governments, institutions of higher education, and students themselves. We need to increase college completion, reduce student debt, and close the opportunity and attainment gaps that consign so many talented young Americans to lives on the margins of our society. And that will require change from everybody. The good news is such change is within our reach — without massive new expenditures.

It starts with a redesign of a large portion of our financial-aid system, making it simpler, fairer, and more effective. We should consolidate federal programs, target resources, and, most important, further engage states. A large portion of the current panoply of federal support for higher education outside of the Pell Grant program — other grant, loan, and higher education tax programs — should be consolidated into state grants and delivered to needy students and colleges in ways that states deem best as long as college access, affordability, and success outcomes are met, including those related to reduced student debt and increased college completion.

States are the best leverage points for addressing the challenges of college access, affordability, and quality in a systemic way. In bypassing states, current federal aid programs deprive state leaders of the leverage and resources they need to drive improvements in college cost and quality. That's a mistake because, more than any other stakeholder, state policymakers have the power and position to cause — or constrain — tuition and fee growth at public colleges and universities. And states have multiple vested interests in improvement, with both a large fiscal investment in higher education and much to gain from a better-educated population. Further, states control elementary and secondary education, and thus the preparation students need for success at the postsecondary level. Although a number of state leaders — Maryland Governor Martin O'Malley on completion and Tennessee Governor Bruce Haslam on performance funding, for example — are stepping up, federal policies need to shift to engage many more state leaders in the effort to make the dream of a college degree a reality for a much higher proportion of their citizens.

There is no reliable route upward in America anymore that doesn't run through college. Yet for too many of our young people, that road is effectively blocked.

We can't fix all of the problems that contribute to this loss of talent overnight, but we can fix one right now: the high cost of college. We can stop spending so many billions of dollars — in federal, state, and institutional funds — on the students, families, and institutions that do not need the money, and start directing it toward those who do. By taking the federal resources we already spend on higher education and focusing them like a laser on reducing college costs for families with incomes below \$115,000 a year (the bottom 80 percent) — providing debt-free education to those below \$50,000 (the bottom 40 percent) and no-interest loans with income-based repayment to the rest — we can do much to solve this critical problem without adding to the overall cost of federal student aid.

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A redesigned financial-aid system should channel a substantial amount of federal funds through states — and create incentives for states and institutions to channel their own funds — to needy students first. It should use grants, loans, and tax benefits to ensure that colleges and students are accountable for results. It should be stable and simple. It should prioritize low-cost, high-quality institutions of higher education. **Most important, a redesigned financial-aid system should provide students from low-income and working-class families with a clear, ironclad guarantee that they can attend college debt-free. It also should provide students from middle-income families a guarantee that they can graduate with interest-free federal student loans and an affordable repayment plan.** To benefit from this plan, however, low and middle-income students must do their share. They must: (1) work hard while in high school to prepare for college; (2) work or serve their communities while in college; (3) pay their fair share of college expenses; and (4) complete their postsecondary studies in a reasonable amount of time.

This new compact — between the federal government and the states, and between one generation and the next — will help expand economic mobility, enhance academic rigor, and repair our fraying social contract. Financial aid is supposed to help students help themselves, so that they in turn may one day help others. In recent decades, it has drifted a long way from those roots, used as often to burnish institutional reputations as to help the students who can't go to college without it. A redesigned system should return our

aid programs to their original purpose — the purpose that voters and taxpayers continue to support by wide margins: helping students help themselves so they in turn can contribute to our collective prosperity and well-being.

## THE CHALLENGE

American higher education has an unparalleled track record. Our institutions are much admired across the globe. And together, they have produced what was — until very recently — the best-educated workforce in the world.

Today, however, countries that once followed our lead are surpassing us. College degree attainment for our overall adult population still ranks quite high, though it is no longer first in the world: The United States has the fourth highest level of postsecondary attainment in the developed world. But if we count only our young adults, that ranking drops to 13th.<sup>3</sup> Perhaps worst of all, we are one of only a handful of countries where today's young adults are *not* significantly better educated than their parents.

When we pull the data apart and ask why, the answers quickly become clear. We are still doing fine for the groups of young people for whom we have always done relatively well. But our record for the young people who, together, have grown to form our “new majority” — Latino, African-American, American-Indian, and low-income students — is cause for concern and action.

### FIXING THE PELL GRANT SHORTFALL

The Pell Grant program confronts a projected funding gap of more than \$40 billion over the next 10 years at current discretionary spending levels. The estimate is an echo of past shortfalls stemming from dramatic growth in the number of low-income students as a result of the sharp economic downturn and the program's reliance on a unique funding structure. Some \$56 billion in past shortfalls have been “filled” mainly through a series of student-aid benefit cuts, including elimination of summer Pell Grants.<sup>14</sup> Arguably, a more balanced approach is in order. Ideally, we would finance restoring those summer grants, closing the funding gap, and placing the Pell Grant program on the mandatory side of the budget in order to avoid future funding gaps. Recommended in the short term are three general steps:

**1. Adjust the Pell Baseline:** The more than \$40 billion projected shortfall is based on frozen program funding levels. Given that the Budget Control Act of 2011 increased

overall discretionary spending limits over the next 10 years to account for increased program costs, the Pell program should at least see a proportionate share of the past budgeted increase in overall discretionary spending. **Doing so would cut the projected shortfall by about \$23 billion over 10 years.**

**2. Return to Title IV Reform:** When a student withdraws from college prior to completion of a term, the former student and his or her institution must return a portion of disbursed federal financial aid (aka Title IV aid). In most cases, return of Pell Grant aid is entirely the institution's responsibility. Only in cases where the former student's Pell Grant exceeds tuition and fees does he or she hold any responsibility for returning a portion of aid. Current policy, however, allows former students and institutions that served them to retain a percentage of aid disproportionate to former students' periods of enrollment. Instead, federal policy should: (1) require funds be returned in proportion to time not enrolled

Right now, roughly 8 out of 10 young people in families earning \$99,000 per year or more earn a bachelor's degree by age 24. Among families earning less than \$33,000 per year, however, the attainment rate drops to 1 in 9 (Figure 1).<sup>4</sup>

Indeed, there is a troubling relationship between bachelor's degree attainment and family income across the spectrum. Young people from families in the third quartile of income, those earning between \$62,000 and \$99,000 per year, are *less than half* as likely as those in the top quartile to earn that degree. And those in the second quartile, families earning between \$33,000 and \$62,000, are *less than one-fifth* as likely.

If we are going to return to our position of global leadership — not to mention fill projected job openings for college-educated workers — we have to stop this waste of talent, and work harder as a nation to help all young people obtain the postsecondary education that every survey of students and their parents says they want.

Certainly, the cost problems detailed in this paper are not the only contributing factors to the attainment gap. But when you look at years of stagnant and falling wages for the bottom income groups, and then compare those with the rapidly escalating costs of college and the surge in student debt, it is not hard to conclude that we have a serious college affordability problem. It is a problem that is sapping the energy, drive, and optimism of countless young Americans and their families. A problem that is depriving American employers of the talent they need. A problem that, worst of all, has helped reduce economic mobility to the lowest point since the middle of last century, betraying principles Americans hold dear.<sup>5</sup>

In the pages that follow, we describe the data and issues in more detail, lay out a framework for a redesigned system, and suggest how it can be funded — with no additional federal expenditure.

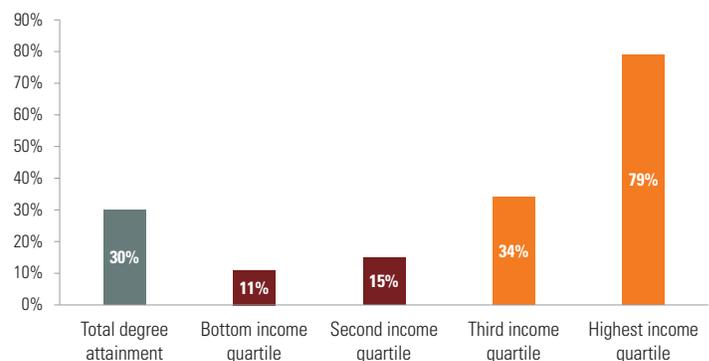
## The Rising Cost of College

Over the last 70 years, annual tuition and fee growth typically has exceeded inflation.<sup>6</sup> During the 1940s and early '50s, increases in the price of college were manageable because median family income grew even faster. But that dynamic stabilized through the '60s and '70s, reversed around 1980, and came to a crashing halt in the beginning of this century.<sup>7</sup> Today, not only is tuition rising faster than for generations past, it is and it *feels* less affordable as a function of a decline in family wealth.

High labor costs, especially health-related costs, and an old delivery system play a role, but rising tuition is at its core a direct result of: (1) state disinvestment from higher education; (2) a relatively stagnant supply of traditional

postsecondary institutions; and (3) increased, yet under-informed consumer demand. The primary cause of rising tuition at public colleges and universities, which educate more than 70 percent of all undergraduate students, is declining state funding for higher education.<sup>8,9</sup> When states confront budget shortfalls or prioritize other areas, including tax cuts, they reduce aid to higher education, because they know colleges can backfill those cuts with higher tuition. Over the last 20 years, states have cut higher education funding per full-time equivalent student by 26 percent.<sup>10</sup>

Figure 1: Percent with a bachelor's degree by age 24



Source: Tom Mortenson, "Bachelor's Degree Attainment by age 24 by Family Income Quartiles, 1970 to 2010," (Oskaloosa, I.A.: Postsecondary Education Opportunity, 2012).

Students and families know it is essential to go to college to get a good job and so demand is high, especially at public colleges, which tend to be the most reasonably priced. But students have few options when faced with higher tuition at public institutions, because the private education sector is even more expensive. As they struggle to choose and pay, families are limited in their ability to assess the real economic value of specific institutions, too often relying on incomplete or irrational proxies for quality, including price, advertising, and amenities. Perversely, college spending on these non-academic goods further drives up tuition, reinforcing the dysfunction of the higher education marketplace.

## Inefficient Processes, Inadequate Need-Based Aid, and High Student Loan Debt

### Inefficient Processes

To offset rising college costs, federal spending on financial aid has gone up, too. But instead of creating a simple system that focuses exclusively on the families that most need assistance to afford college, that money is distributed among dozens of complicated and poorly targeted higher-education related tax benefits, grant programs, student-loan programs, interest subsidies, work-study aid, and loan forgiveness and repayment schemes.<sup>11</sup> Moreover, the application process is burdensome, benefits are hidden, and options are confusing.

For the neediest students, there is not enough aid to cover college-related costs, forcing many to confront frightening levels of debt, debt of such a scale that it scares too many away from college altogether. Debt has become a centerpiece rather than supplementary feature of our student-aid system.

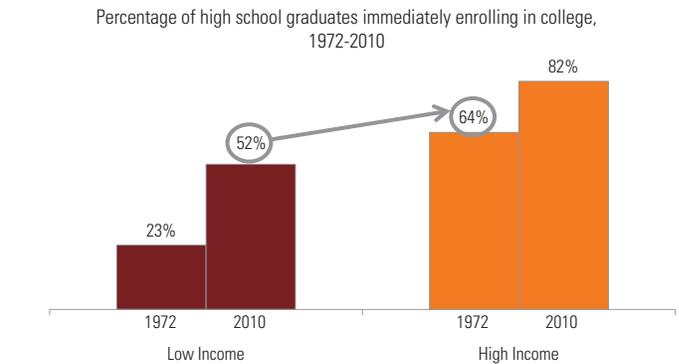
### Inadequate Need-Based Financial Aid

Despite the inefficiencies, it is a testimony to the past success of America's financial-aid system, particularly the Pell Grant, that college-going is up for all income groups. In fact, since 1972, college-going rates for all students have increased — nearly doubling for low-income students. But stark opportunity gaps remain. Low-income students today still go to college at lower rates than their high-income peers did nearly 40 years ago (Figure 2). Even though U.S. employers need more college graduates, the latest data show that more than 100,000 low-income, college-qualified high school graduates do not pursue postsecondary education each year — and financial concerns act as a substantial barrier.<sup>12</sup>

Part of the problem is that funding for the federal Pell Grant program — the foundation of our federal financial-aid system — has not kept pace with rising college costs. We use resources, instead, to expand tax benefits that disproportionately aid upper-income families and wealthy institutions of higher education at a cost of billions of dollars each year.<sup>13</sup>

To compound the problem of inadequate need-based aid, states and institutions of higher education have shifted their own financial-aid programs away from needy students.

Figure 2: College-going for low-income students is nearly 40 years behind upper-income students



Source: NCES, Condition of Education (2010) and Condition of Education (2012)  
 Note: Data for low-income students represent two-year moving averages because of small sample sizes.

Today, 15 states distribute more grant dollars *without regard to financial need* than they spend on grants targeted to helping low-income students access college. Together, states now spend about \$2.7 billion on non-need-based “financial aid” each year.<sup>16</sup>

Similarly, institutions of higher education spend \$11 billion annually on non-need-based “financial aid,” often in a quest for higher rankings in college guides.<sup>17,18</sup> In the ‘90s,

rather than allow institutions to retain 100 percent funding for enrollment once a student completes just 60 percent of a term; (2) establish two weeks of attendance — the typical drop/add period — as the default withdrawal date for students who do so without formal notification or institution documentation of attendance, rather than assume 50 percent of term attendance as current policy does; (3) no longer allow former students — typically those at community colleges — who use Pell Grant aid to cover costs beyond tuition and fees to keep half of awarded aid, regardless of when they withdraw; and (4) provide for return of funds to the federal programs from which they were derived rather than have all dedicated to loan programs prior to grants. **Altering Return to Title IV guidelines would save more than \$10 billion over 10 years** without placing undue burden on needy students.

**3. A Rainy Day Fund.** Just as families take advantage of good times to save money for future financial hardships, the federal government should husband funds for future Pell Grant program shortfalls. For example, when the

Congressional Budget Office’s (CBO) Mid-Session Review produces “good news” with an unexpectedly low deficit due to stronger than anticipated economic growth, a portion of that surplus — say 20 percent — should be dedicated to a Pell Grant rainy day fund. The remainder of the unexpected windfall can be used to reduce the deficit. While it may seem easy to divvy up rainy day funds among a number of federal programs, they should remain targeted solely on the Pell Grant, which is unique in its occasional need for supplemental funding. **Over the past 10 years, this policy would have generated \$25 billion in support for the Pell Grant program.**<sup>15</sup>

Additional sources of revenue also could capitalize a Pell Grant rainy day fund, including: (1) billions in savings associated with encouraged refinancing of outstanding Federal Family Education Loan program volume into the Federal Direct Loan program; (2) legal settlements associated with Higher Education Act administration; or even (3) voluntary charitable contributions. ■

## INCOME-BASED REPAYMENT: PART OF THE ANSWER

Federal policy has tried to ease the burden of student debt by offering a variety of repayment and loan forgiveness plans. But repayment programs are complex and not particularly well targeted. A recent New America Foundation analysis of both the old income-based repayment (IBR) system and the new IBR system (known as “Pay As You Earn”), shows that although these plans offer a safety net for struggling borrowers, the new IBR system provides windfall benefits to high-income, high-debt borrowers.<sup>27</sup>

The new IBR formula makes the biggest beneficiaries of the repayment system borrowers who accumulated large debts during graduate school and who have substantial post-graduate earnings. What’s more, a number of low and moderate-income borrowers enrolled in IBR end up paying more and for longer than they would under a standard 10-year plan, even though portions of their loans will be forgiven.<sup>28</sup>

Thus, though we should move toward a system where all students enter IBR by default, the formula has to be adjusted so that it is better targeted and the biggest beneficiaries are borrowers who truly need debt relief during repayment. ■

public, four-year colleges provided twice as much grant aid to students in the lowest income quintile as those in the highest; today, the amounts they distribute to poor and rich are approximately the same. In the ‘90s, private, nonprofit colleges provided about the same amount of institutional aid to low and high-income students; today, they devote nearly twice as much to their wealthiest students.<sup>19</sup>

This combination of choices made at every level — federal, state, and institutional — has created a financial-aid system that no longer works well for many low-income students. Even after scholarships and grant aid are counted, the lowest income students must find a way to come up with an amount equivalent to roughly three-quarters of their annual family income to pay for *one year* at a four-year college (*Table 1*).<sup>20</sup> That is approximately five times the share of family income it takes our wealthiest families to pay for a year of college. Consequently, low-income students often work long hours and are more likely to borrow huge amounts and ultimately drop out than their high-income classmates.<sup>21</sup>

### Growing Reliance on Student Loan Debt

Student loan debt now exceeds \$1 trillion.<sup>22</sup> More students than ever — about half — borrow to finance their education;

they are borrowing higher amounts than ever; and many pay unnecessarily high private interest rates and fees, because they are confused by the process and fail first to exhaust their eligibility for safer, lower cost federal loans.<sup>23</sup>

Especially large education debt tends to be concentrated among certain groups of students, particularly those from low-income families and those who attend for-profit colleges. Almost 90 percent of graduates who received a Pell Grant also rely on an average of more than \$24,000 in student loans.<sup>24</sup> *More than half* (53 percent) of bachelor’s recipients at for-profit colleges accumulate more than \$30,500 on their way to a degree, compared with only 24 percent of students at private nonprofit colleges and 12 percent of students at public colleges and universities.<sup>25</sup> Among colleges with accessible data, average debt ranges from \$3,000 per student to more than \$55,000.<sup>26</sup>

Table 1: Today’s low-income students must devote an amount equivalent to 72 percent of their family income toward annual college costs

Family Income	Average Income	Cost of Attendance	Expected Family Contribution (EFC)	Average Grant Aid	Unmet Need After EFC and Grant Aid	% of Income Required to Pay for College After Grant Aid
\$0-30,200	\$17,011	\$22,007	\$951	\$9,704	\$11,352	72%
\$30,201-54,000	\$42,661	\$23,229	\$4,043	\$7,694	\$11,493	36%
\$54,001-80,400	\$67,844	\$23,640	\$10,224	\$5,352	\$8,064	27%
\$80,401-115,400	\$97,594	\$25,050	\$18,158	\$4,554	\$2,339	21%
\$115,401+	\$173,474	\$27,689	\$37,821	\$3,822	\$-13,953	14%

Source: Education Trust analysis of NPSAS:08 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.

Reliance on high levels of student debt to finance higher education is frightening students away from the best institutions for them, or worse, from college altogether. Half of low-income students “under-match” into colleges less selective than their academic credentials indicate they would be eligible to attend. Instead of a selective university, they attend a local community college or a less selective four-year institution, substantially lowering their chances of success.

### The College-Quality Crisis

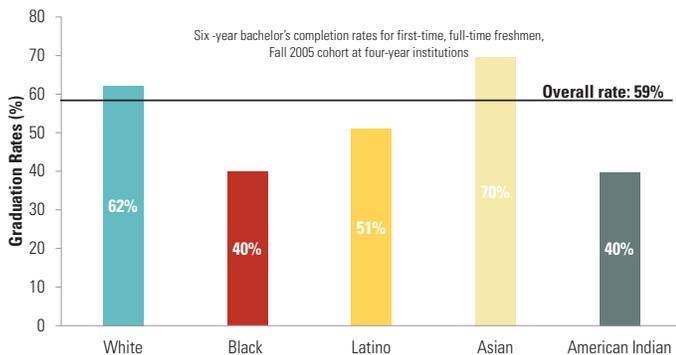
As if these problems were not enough, there are serious reasons to worry about what students are getting in exchange for all that debt.

For starters, fewer than 40 percent of four-year college students actually earn a bachelor’s degree within four years from the school where they began their studies, and fewer than 60 percent complete within six years.<sup>29</sup> (That’s the average. **More than 200 institutions of higher education**

report graduation rates of less than 10 percent!<sup>30)</sup>

Graduation rates for African-American, Latino, and American-Indian students substantially lag those of whites and Asians (Figure 3).<sup>31</sup> And in part because they tend to “under-match,” attending institutions with lower success rates, low-income students are approximately 30 percent less likely to graduate than other students.<sup>32</sup>

Figure 3: Black, Latino, and American-Indian freshmen complete college at lower rates than other students



Source: NCES (December 2012). Enrollment in Postsecondary Institutions, Fall 2011; Financial Statistics, Fiscal Year 2011; and Graduation Rates, Selected Cohorts, 2003-2008, First Look (Provisional Data).

But ultimately, just as important as whether students graduate is whether their colleges equip them with the knowledge and skills necessary to succeed in the workplace and world. Here, available data suggest reason for worry. The 2003 National Assessment of Adult Literacy, for example, found that only about one-third of adults with bachelor's degrees or higher were proficient on each of three measures of literacy — meaning they could understand and use information from prose text, understand and use information from various other types of documents, and perform quantitative calculations based on written material.<sup>34</sup> In one recent study of growth during college, almost half (45 percent) of undergraduates showed no significant gains in critical thinking, complex reasoning, and writing skills by the midpoint of their sophomore year.<sup>35</sup> Employers confirm these problems: They report that only a quarter of four-year college graduates are well prepared for the workforce and note particular deficiency in writing.<sup>36</sup>

## A NEW FEDERALISM FOR COLLEGE AFFORDABILITY AND SUCCESS

Our nation's postsecondary system faces real and pressing challenges. From rising tuition to poorly targeted spending, from a complex, untimely financial-aid system to low graduation rates and shockingly poor student learning outcomes, the problems are big and the consequences for students, families, and our nation's well-being are severe. But with big challenges come big opportunities. Now is the time

### UNDER-MATCHING AND OTHER BARRIERS TO THE SUCCESS OF LOW-INCOME STUDENTS AND STUDENTS OF COLOR

Lower college success rates for low-income students and students of color may seem unsurprising. After all, such students are often less well-prepared for college. Certainly, better elementary and secondary school preparation would help, but there are other things we could do right now while we continue to work on the preparation part.

For one, new research indicates we could produce much higher completion levels if we encouraged higher achieving low-income students and students of color to seek admission to and enroll in more selective institutions. Half (49.6 percent) of low-income students “under-match” into colleges less selective than their academic credentials indicate they would be eligible to attend. In fact, nearly a quarter (22.7 percent) of low-income students under-match into colleges two full selectivity levels below their qualifications — colleges they could have attended without cracking a book in high school. This is problematic because under-matched students — even with strong academic credentials — are substantially less likely to graduate than similarly prepared, but better matched peers.<sup>33</sup>

For another, colleges themselves could focus more energy on getting their students through to a degree. It turns out that completion levels are not predetermined by student preparation or poverty. As the Education Trust's College Results Online web tool makes clear, there are very big differences in graduation rates among colleges serving very similar students. For example, despite the fact they serve students with very similar characteristics, the University of California at Riverside's graduation rate is 15 percentage points higher than the graduation rate at the University of Illinois at Chicago. For underrepresented students of color, it is 27 points higher. What institutions do to support student success toward graduation turns out to matter a great deal. For more on these institutions and profiles of institutions with high success rates for all students, see College Results Online, <http://collegeresults.org/resources>. ■

for real, transformative change in the way each stakeholder — federal, state, institution, and student — does business.

It starts, we think, with a new leadership role for states — brought about by a brand-new state-federal partnership that combines existing, non-Pell Grant financial-aid resources into a state grant that supports implementation of a debt-

**free college guarantee for all low-income students and a companion no-interest loan guarantee for all middle-income students who work hard and earn their certificate or associate degree within three years or bachelor's degree within six years of initial enrollment.**

States' funding power, governance authority, and economic development interests make them uniquely positioned to drive improvements in college access, affordability, and completion. By combining new state education grant funds with their own resources, states can drive change in ways that institutions and individual consumers cannot. In 1990, for example, **Indiana** started the 21st Century Scholars program, guaranteeing full college scholarships to low-income students as early as the sixth grade. Following the implementation of the 21st Century Scholars program, Indiana saw its college participation rates for low-income students increase by *23 percentage points* between 1992 and 2009 — an increase that ranked seventh in the nation.<sup>37</sup> More recently, governors across the country eager to improve college affordability and outcomes have linked state higher education aid to student success. **Tennessee** and **Ohio**, specifically, distribute their higher education aid in part based on completion rates.<sup>38</sup>

All stakeholders would have to contribute to this new paradigm. Only states willing to be held accountable for adhering to policies that stem tuition and fee growth, including maintaining their own fiscal effort for higher education, would be eligible for new education grant funds.

## **TWO ALTERNATIVE DESIGN OPTIONS: CONSUMER AND INSTITUTIONAL**

Forty years ago, Sen. Claiborne Pell and others in and outside of Congress engaged in a historic debate over the design of federal aid for higher education.<sup>39</sup> College associations argued strenuously for a system of institutional aid that would enhance the ability of schools to blend their own financial-aid programs, student loans, and an infusion of federal funds into a package tailored to meet each student's unique economic and family circumstances. Sen. Pell, then Chairman of the Senate Education Subcommittee, insisted on a formula-driven, consumer-centered approach that in his view increased consumer choice.<sup>40</sup>

Pell prevailed. But the truth is there are three general federal financial-aid design models that could balance good policy with good politics: institutional, consumer, and state models. Our recommendation is for the state model. Below, we explore the capacity of the two other approaches — institutional and consumer — to influence the behavior of

Likewise, only institutions of higher education — public and private, including nonprofit and for-profit institutions — meeting minimum student access and outcome levels would be eligible for grant funds passed down by states. And in exchange for no-debt and low-cost debt guarantees, students, too, would have to demonstrate their seriousness by:

- Successfully completing a college- and career-ready course of study in high school;
- Working or serving their communities an average of at least 10 hours a week;
- Paying their fair share of college costs; and
- Completing their certificate or degree program in a reasonable amount of time.

The costs of the new state education grant are substantial, but the potential to drive transformative change across all of the major actors is enormous. Further, the costs can be offset fully by consolidating at least 10 federal financial-aid grant, loan, and higher education tax programs outside of the Pell Grant program, and targeting aid only to low and truly middle-income students (*see Appendix A*).

## **Recommendation — The State Model**

Recognizing the power of states as vehicles for reform, The Education Trust recommends a new state education grant, reliant on a new state-federal partnership. This partnership would be fueled by a sizeable, new federal education grant to states, worth **more than \$20 billion a year drawn completely from existing federal resources for higher education outside of the Pell Grant program.** Dollars

our key actors — states, institutions, and students — while remaining politically feasible.

### **THE INSTITUTIONAL MODEL**

Outside the foundational Pell Grant program, there remains a multi-billion dollar set of federal institutional aid programs. These so-called campus-based aid programs are relatively small compared to the Pell Grant program, but they could be consolidated with other non-institutional higher education aid, grown substantially, and distributed to colleges and universities based on each institution's number and percentage of low-income students and the school's performance on access, affordability, and success metrics.

If enacted, expanded implementation of the institutional model could affect the priorities of institutions, including increasing the appeal of low and middle-income student enrollment and reversing the trend toward non-need-based "financial aid." But an institutional model with strict requirements on colleges and universities likely would

would flow directly to states in increasing amounts over the years in exchange for five key policy commitments:

**1. A College- and Career-Ready Course of Study for All Students.** All students deserve a rigorous high school course of study that prepares them for whatever future they choose — college and career — at whatever time they choose. But currently, far too few high school graduates have completed a course of study that will allow them to be admitted to, much less succeed, in college.

One of the main reasons for low college-preparation course completion is that many students, especially low-income students and students of color, attend schools that do not offer the full array of college preparatory courses. And many low-income students and students of color attend schools that direct them toward “easier” courses. For example, according to the U.S. Department of Education’s Office for Civil Rights, nearly a third of high schools nationwide serving the largest percentage of black and Latino students do not offer Algebra II, a key college requirement.<sup>42</sup>

In order to qualify for new grant funds, states must establish a high school course of study aligned with the requirements for entry into credit-bearing, entry-level college course work, make that the mandatory course of study for all high school students, and demonstrate that required courses are equally available to all students. Currently, nine states and the District of Columbia have implemented a mandatory college- and career-ready curriculum; others have adopted this curriculum as a “default” placement for students.<sup>43</sup> To

assist in making these changes and to finance accompanying support services for students and teachers, states will be permitted to use a small, but not insignificant portion (a maximum of 20 percent perhaps) of relevant new grant funds for secondary school improvement. Further, policymakers could — in fact probably should — require states to evidence a minimum percentage of successful completion among disaggregated groups, especially low-income students, to retain eligibility for new grant funds.

**2. Stabilized Support for Higher Education, Smaller Tuition Growth.** States must agree to work with their public colleges and universities to curb the growth in public college tuition and fees. At the very least, participating states must maintain higher education funding — both for direct appropriations to public institutions and for student grants at public and private colleges — at a level equal to or greater than the average level of support over the previous five fiscal years.<sup>44</sup> Also, to encourage rigorous long-term planning and cost management and to help each successive cohort of students and families make financial plans for growth in price, all state-supported institutions should provide prospective students with a “truth-in-tuition” pledge that identifies multi-year tuition and fee levels they can expect to face over the duration of their degree programs.<sup>45</sup>

**3. Smooth Transfer.** A major reason why students take five years, on average, to complete a bachelor’s degree and more than three years to complete an associate degree<sup>46</sup> is that they lose credits when they transfer between institutions.<sup>47</sup>

face significant political resistance. Institutions of higher education strenuously resist accountability efforts and federal initiatives aimed at directly guiding the use of institutional aid dollars, and they have successfully fended off many such efforts in the past.

Moreover, such an approach sacrifices an opportunity for the federal government to leverage the important role states play in college affordability. Without stable state support, tuition will keep going up and under-resourced institutions will struggle to meet no-loan and no-interest debt guarantees while maintaining access and quality.

#### THE CONSUMER MODEL

An alternative option is to redesign federal financial aid by consolidating and targeting existing programs while maintaining the system’s current consumer-based structure. Congress could do so either by creating a no-loan policy through increased direct Pell Grant aid to students or by expanding and reforming the American Opportunity Tax Credit (AOTC). The latter would have to be made

fully, not partially, refundable, have its value increased to cover average unmet need after grant aid and expected family contribution, and have its delivery front-loaded to provide students with a no-loan or a low-cost loan college affordability guarantee prior to enrollment. At a cost, all of those changes are possible. Most important would be expanding the proportion of AOTC that is refundable and assuring early delivery of aid.<sup>41</sup>

The consumer model, however, is unlikely to leverage change in state and institutional policies and practices, especially with respect to rising tuition and the growth in non-need-based aid. Bypassing institutions and states and delivering money straight to students is efficient, but leaves two critical actors out. As such, the federal government would have little practical leverage to demand change of those actors — including the leverage that would be needed to get states and institutions to restrain tuition growth and improve quality. ■

To reduce time to degree for students, every state should develop policies to ensure easy transfer.<sup>48</sup> Students should be able to complete general education requirements at a low-cost community college and have those credits accepted — in full — by all public four-year institutions statewide. More than half of bachelor’s recipients transfer at some point.<sup>49</sup> They should not be penalized for taking this potentially lower cost route.

#### 4. Debt-Free and Interest-Free College Guarantees.

Participating states would have to provide all first-time, certificate or degree-seeking, low-income state residents who complete a college- and career-ready course of study in high school with a debt-free college guarantee and a no-interest loan guarantee.<sup>50</sup> These loans would come with income-based repayment terms to all first-time, certificate or degree-seeking middle-income students who graduate in a pre-determined length of time.

On top of Pell Grant aid, eligible students from families in the bottom 40 percent of family income nationally would be able to attend a participating two- or four-year public, in-state college or university without accumulating any student loan debt. For such students who choose to attend eligible private institutions, states must agree to provide eligible students levels of financial support equivalent to what they would provide them to attend a public institution. States would be free to fund a no-loan guarantee for families earning up to \$50,000 a year in any way they choose, including through the use of new state education grant funds, separate state funds, or effective changes to institutions’ tuition and financial-aid policies.<sup>51</sup>

Instead of navigating a maze of federal programs and comparing complex financial-aid packages to decide which colleges they can afford — after completing the college application process — low-income students would have a clear idea up front what their college costs will be. This knowledge would bolster aspirations, foster better academic preparation in high school, improve college selection (*i.e.*, reduce under-matching), and heighten student performance in college. Most important, no hardworking student would feel as if he or she were shut out of higher education simply because of inability to pay or fear of crushing debt. Everyone could pay for college — guaranteed.

**5. Consumer Empowerment.** The vast majority of students attend in-state postsecondary institutions, but there are very few market constraints on the tuition charged by those institutions.<sup>52</sup> That’s because consumers do not have the necessary data to judge whether specific colleges are a good financial investment relative to other schools. Colleges compete for consumers based on prestige and marketing rather than price and performance. To empower consumers

and create some market constraints on tuition, states would be required to create a return on investment (ROI) index score for all institutional degree programs statewide. Much as private websites such as [www.payscale.com](http://www.payscale.com) use survey data for a subset of institutions and the federal government uses Social Security earnings and student loan data for a subset of postsecondary vocational programs, states should match their unemployment insurance wage data with postsecondary institution enrollment data. States that do not want to create their own ROI index using wage and other data can contract with the federal government or a nonprofit organization to do it for them.

States that agree to these five conditions would be eligible for more than \$20 billion *a year* in new state education grant funding. Those funds should be allocated by a formula based on a combination of the percentage of children living in poverty (cost adjusted) *and* the state’s performance on key indicators of postsecondary access, success, and affordability for low-income students (see *Appendix B* for how each state would perform today on poverty and Pell measures alone).

Ideally all states will participate in this targeted student aid program. After all, it will provide significant resources for an agenda that many have already embraced — improved college affordability and heightened completion levels. But if a state opts out, its students would still be eligible for Pell Grant aid and unsubsidized federal student loans; moreover, they could attend college in another participating state, with that state compensated for these students.

Cumulatively, the new state education grant will:

- Fill the “unmet need” gap for all low-income students;
- Blunt the effects of debt aversion, a particular problem for certain groups;
- Improve high school academic rigor and college preparation;
- Counter perverse state and institution incentives to award non-need-based aid;
- Limit outside employment demands on students to fill their unmet need gaps;
- Improve the college selection (*i.e.*, matching) process with respect to two-year versus four-year institution choice;
- Leverage state policy in support of slower tuition growth and faster completion;
- Empower families to choose among colleges more wisely; and
- Create incentives for states and institutions to invest in productivity improvements in order to maximize their ability to use new grant funds.

## The College Role

Like states, colleges and universities must do their part as well to access new state education grant funds. Funds largely should be distributed at a state’s discretion. But to guard against waste and gross inefficiency, it would be reasonable to establish minimum standards on that distribution.

For example, it would be wasteful to provide high endowment institutions like Harvard University, which already has tax-favored status and a more than \$30 billion endowment,<sup>53</sup> with additional federal or state funds to ensure that low-income students can attend debt-free. Harvard can and does contribute from its own resources to meet that goal.

Similarly, although the State of New Mexico may choose to invest its own resources in the Western New Mexico University with its 7.6 percent four-year graduation rate and 17.5 percent six-year graduation rate, the federal government should not provide states additional funds to prop up institutions whose exceptionally low student outcomes run counter to the national interest in increased college completion.<sup>54</sup>

Accordingly, The Education Trust recommends the following minimum standards for distribution:

**1. A Maximum Eligibility Standard Based on Institutional Wealth.** Super-wealthy institutions already get considerable federal support; they do not need more. Some 23 institutions, for example, hold approximately half of the endowment wealth of all our nation’s institutions of higher education.<sup>55</sup> They can afford to ensure low-income student access. In fact, at least 55 relatively wealthy institutions already make use of their own resources to provide low-income students with a no-loan or low-loan guarantee (see *Appendix C*).<sup>56</sup> Focusing new state education grant resources only on less well-resourced institutions helps those institutions and needy students attending them, while encouraging their wealthier competitor institutions that are not doing so already to offer the same policy financed from their own resources.

**2. A Minimum Institution Performance Standard.** In exchange for an exponentially larger — as much as 20 times larger — federal investment in institutional aid passed through states at their discretion, colleges ought to be

### APPROACHES TO DEVELOPING INSTITUTIONAL BENCHMARKS

The Web tool College Results Online (CRO, [www.collegeresults.org](http://www.collegeresults.org)) could be useful for states that are developing more finely tuned institutional eligibility benchmarks. CRO compares each four-year college’s graduation rate, disaggregated among demographic groups, relative to its peer institutions. Each peer group is determined based on an algorithm of 14 variables — including measures of selectivity, student demographics, and institution size and sector — that have been shown in the research to correlate with graduation rates.

(See “*Benchmarks*,” pg. 12)

**Table 2: Similar Colleges Offer Students Different Chances for Success**

Institution	State	6-Year Graduation Rate, 2010	% Pell Recipients Among Freshmen	% Underrepresented Students of Color	Estimated Median SAT / ACT	In-State Tuition and Fees	Size (Undergrad FTE)
William Carey University	MS	41.8%	65%	31.7%	1,125	\$9,750	1,872
University of North Carolina at Pembroke	NC	37.5%	54%	50.1%	945	\$3,736	5,103
Texas A & M University-Kingsville	TX	36.6%	59%	72.5%	885	\$4,386	5,155
The University of Texas of the Permian Basin	TX	32.2%	34%	48.5%	1,010	\$4,502	2,198
Colorado State University-Pueblo	CO	30.7%	46%	36.1%	950	\$5,210	4,191
Southeastern Oklahoma State University	OK	28.7%	52%	37.5%	970	\$4,416	3,228
University of West Alabama	AL	27.6%	60%	53.5%	1,195	\$5,780	1,676
University of Arkansas at Monticello	AR	24.2%	70%	33.4%	N/A	\$4,750	2,775
Calumet College of Saint Joseph	IN	23.1%	52%	51.5%	N/A	\$13,220	746
Sul Ross State University	TX	22.6%	63%	66.7%	N/A	\$4,396	1,667
Indiana University-Northwest	IN	19.4%	38%	33.1%	895	\$5,919	3,692
New Mexico Highlands University	NM	19.0%	56%	71.1%	N/A	\$2,761	1,834
<b>Western New Mexico University</b>	<b>NM</b>	<b>17.5%</b>	<b>61%</b>	<b>57.0%</b>	<b>N/A</b>	<b>\$3,589</b>	<b>2,018</b>
Macon State College	GA	16.2%	59%	38.2%	N/A	\$2,204	4,565
Cameron University	OK	14.1%	46%	31.1%	N/A	\$4,110	4,380
Hodges University	FL	N/A	70%	44.2%	N/A	\$11,420	1,737

Source: College Results Online, 2012.

required to meet some minimum performance standards on indicators such as overall graduation rates, enrollment of Pell students, and Pell graduation rates. Eligibility should be contingent on a minimum percentage of Pell students and at least maintaining enrollment consistent with the number of Pell students nationally. The effect would be not only to guard public funds against waste and institution-gaming of admissions policies, but also to use out-of-pocket student price differences to encourage students to attend schools that offer them a better chance at success.

In establishing a minimum graduation standard, an easy-to-understand cut point would be most beneficial. To estimate the costs of a no-loan policy, this paper uses 20 percent as a *placeholder* minimum graduation rate to establish institution eligibility. States could, however, establish more complex, nuanced methods that take into consideration student characteristics and learning outcomes.

We have to note that the 20 percent graduation figure, which we've used to assess reasonable levels of graduation rates for both two- and four-year colleges, poses a particular challenge when applied to community colleges. Currently, reported community college graduation rates only include students who complete an associate degree or certificate. This ignores one clear mission of community colleges and the stated goal of more than 60 percent of community college students: preparing for transfer to a four-year institution.<sup>57</sup> <sup>58</sup> The federal government should begin collecting data on upward transfer (transfer from two- to four-year institutions) in its annual Integrated Postsecondary Education Data System (IPEDS) collection, and community college success rates should count both students who transfer to four-year

**Table 3: Distribution of Family Income, 2011**

Family Income Quintile	Family Income
Bottom Quintile	\$0-27,218
Second Quintile	\$27,219-48,502
Third Quintile	\$48,503-75,000
Fourth Quintile	\$75,001-115,866
Top Quintile	\$115,866+

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

colleges as well as those who complete an associate degree or certificate.

Measures of student success are ever-evolving and hopefully will continue to improve. What's more, institutional performance on graduation rates should continue to improve as well. What's deemed "too low" today or in the summer of 2014 may be viewed as an insufficient eligibility benchmark several years from now. As the no-loan program evolves, institutional standards for student success should be revisited on a regular basis and may need to rise to reflect new successes and accountability measures as well.

### **Recommended: Student Eligibility and Responsibilities**

All families are impacted by rising tuition, but cost barriers for low-income students are most difficult to overcome. For those students, unmet need after grant and scholarship aid can serve as a nearly insurmountable barrier to higher education access and success. That is the primary reason why

that students would be well-served to attend a college, even if it falls toward the bottom of its peer group. For example, Carnegie Mellon University graduates 86 percent of its first-time, full-time students within six years — giving students a strong chance of completion. However, because the college's most similar institutions include highly selective schools like Harvard and Princeton, Carnegie Mellon ranks only 10th in a peer group of 12 institutions. While Carnegie Mellon likely has room to improve — both in overall graduation rates and in success rates for their students of color — financial-aid policies should not discourage low-income students from attending a selective institution like Carnegie Mellon that offers them a high chance of success. Any benchmarking system that includes peer grouping should include not only a floor below which institutions lose eligibility for the no-loan guarantee, but also an upper limit, above which colleges automatically qualify for funds. ■

*("Benchmarks," continued from pg. 11)*

Some institutions do far better than other, quite similar institutions at graduating very similar students (*Table 2*). The CRO peer groups or similarly constructed groups of peer colleges could foster a more refined benchmarking mechanism to identify colleges that are especially low-performing relative to other similar colleges and should not be eligible for state grant funds.

If states were to use a more nuanced method, such as relative standing within peer group as a benchmark for establishing institution eligibility for state grant funds, an absolute performance floor would likely still be necessary because there is a point at which the proportion of students graduating is so low that a peer grouping indicator simply cannot justify additional investment. At the same time, there is a point at which a graduation rate is high enough

student aid policies should focus on needy students first — those in the bottom two quintiles of family income who make less than about \$50,000 annually (*Table 3*).

Once eligible, however, students too must do their part to ensure taxpayer investment results in success. The underlying principle behind the new state education grant is that of shared responsibility. The federal government, states, and institutions are all committing to specific actions aimed at helping more low-income students attend and complete college. It seems only fair that the primary beneficiaries of this large benefit — students themselves — also commit to pursuing vigorously and completing a certificate or degree program.

To receive a no-debt or interest-free debt guarantee from their state (over and above Pell Grant aid), low and middle-income students should have to:

**1. Successfully Complete a College Preparatory Course of Study in High School.** High school curricular rigor is the number one indicator of college completion — it is more influential than race, family income, or parent education.<sup>59</sup> In fact, high school students who complete college preparatory coursework in mathematics up through Precalculus are nearly twice as likely to complete a bachelor’s degree as those who only complete through Algebra II.<sup>60</sup> For students of color, curricular rigor is an even stronger predictor of four-year degree completion rates as well as a stronger indicator than SAT or ACT test scores.<sup>61</sup> The mandatory provision of a college- and career-ready course of study for all students is a critical eligibility component of the recommended new state education grant. And if the state is going to be required to provide the course of study to all students, all students wishing to access the new state education grant’s no-loan or interest-free guarantee will be required to complete it.

Funding for college affordability can leverage change in secondary schools; in turn, improvement in secondary schools can leverage improved college outcomes, including improved college affordability. Well-prepared high school students are not just more likely to complete a bachelor’s degree program, they are also more likely to do well and complete on time, reducing their cumulative postsecondary education expenses — and those of the taxpayers as well.

**2. Commit to attend college full-time and work or serve their communities an average of 10 hours per week while enrolled, child care included.** Research indicates that increased grant aid, full-time attendance, and a moderate amount of work positively impact persistence.<sup>62</sup> There is a tipping point for work or service outside of school: Working more than 15 hours a week correlates with lower

performance. But working fewer than 15 hours correlates with improved performance.<sup>63</sup> Students learn to manage their time better and take their studies more seriously.

Unfortunately, under the current system, too many students are forced to attend college part-time and to work long hours in order to pay college expenses. Research indicates that students who consistently attend college part-time are more than twice as likely to drop out as their peers who attend full time (*Table 4*).<sup>64</sup> A no-loan guarantee, however, should ease the financial concerns of most low-income, part-time students. It should make it more economically feasible for them to attend school full time, which in turn will make it more likely that they graduate. Thus students who wish to take advantage of the no-loan or low-interest guarantee should be required to commit to full-time status, unless exceptional circumstances as per financial-aid officer professional judgment, including responsibility for a dependent child, makes that impossible or highly infeasible. What’s more, a parent’s time spent on childcare should count toward the hourly work requirement.

**Table 4: Students who enroll part-time are less likely to complete college than students who enroll full-time**

Attendance intensity	Student outcome after six years		
	Attained credential (bachelor’s, associate, or certificate)	Still enrolled	Not enrolled
Always full-time	62.7%	7.6%	29.7%
Mixed	41.9%	24.7%	33.4%
Always part-time	15.2%	13.1%	71.3%

Source: Alexandria Walton Radford, et. al., “Persistence and Attainment of 2003-04 Beginning Postsecondary Students: After 6 Years (NCES 2011-151), (National Center for Education Statistics: Washington, D.C. 2010), Table 1.

**3. Pay a fair portion of college expenses.** All students will be required to contribute an amount that they and their family can afford toward college costs. The federal government already has a methodology to determine a student’s Expected Family Contribution (EFC), taking into account a number of factors including family income, family size, number of students in college, and eligibility for other means-tested programs. Under the current system, all students have an EFC calculated for them, but low-income students generally are expected to pay far more than what the federal government calculates they can afford. Under the new state education grant, students will be expected to contribute only what they can reasonably afford under the current EFC formula.

**4. Make progress toward and complete a certificate or degree program in a pre-determined period of time.** New

federal aid should have an end game — a reasonable yet finite period of time in which a student must complete her degree to retain the benefit. The new no-loan compact reduces many barriers to completion, from inadequate academic preparation to excessive amounts of work, part-time attendance, and under-matching. With these barriers removed, students should not need more than six years to complete. Hence, to encourage completion, no-loan and no-interest funds to participating students should be conditioned on minimal biennial progress toward and actual graduation within 150 percent of regular time (*i.e.*, six years in the case of bachelor's degree students), again unless there are exceptional circumstances present as per financial-aid officer professional judgment. In particular, students should not be penalized for the failure of institutions to provide needed courses of study to complete in a reasonable period of time. If a student enrolls full time, successfully completes his or her courses, and does not meet

the 150 percent requirement because a necessary course was not offered, his or her institution must assume financial responsibility for any benefit loss.

## IMPACT ANALYSIS

On the whole, the new state education grant will provide low-income students with far more grant aid than they receive under the current financial-aid system. **More than 2 million low-income students will receive a no-loan guarantee worth an average of \$8,000 annually.** Over time, as the guarantee creates incentives for more low-income students to go to college and complete, the number of beneficiaries will grow even further. This \$8,000 grant far outweighs any “loss” associated with the proposed consolidation of existing student-aid programs. Indeed, even if a low-income student currently benefits from every program proposed for consolidation,<sup>65</sup>

**Table 5: Estimated Impact of New State Education Grant**

Policy	Bottom 40 percent of family income (\$0-50,000)				40-80th percent of family income (\$50-115,000) <sup>1</sup>				Top 20 percent of family income (\$115,000+) <sup>1</sup>			
	Gain		Loss		Gain		Loss		Gain		Loss	
	# Who will benefit	Annual value (for recipients)	# Currently benefitting	Annual value (for recipients)	# Who will benefit	Annual value (for recipients)	# Currently benefitting	Annual value (for recipients)	# Who will benefit	Annual value (for recipients)	# Currently benefitting	Annual value (for recipients)
No-loan guarantee	2,257,221	Approx. \$8,000		no loss		no gain		no loss		no gain		no loss
No-interest guarantee		no gain		no loss	1,462,592	\$1,122		no loss		no gain		no loss
Supplemental Educational Opportunity Grant (SEOG)		no gain	1,208,901	\$685		no gain	59,249	\$722		no gain		no loss
In-school interest rate subsidy		no gain	4,277,578	\$415		no gain	1,708,554	\$394		no gain	229,953	\$394
American Opportunity Tax Credit <sup>2,4</sup>		no gain	5,273,000	\$1,351		no gain		no loss		no gain	1,451,000	\$2,431
Lifetime Learning Credit <sup>4</sup>		no gain	1,909,500	\$619		no gain	1,318,500	\$847		no gain	150,000	\$758
529 Plans <sup>3,4</sup>		no gain		no loss		no gain		no loss		no gain	766,800	\$2,735
Education IRAs / Coverdell		no gain		no loss		no gain		no loss		no gain		data not available
Student loan interest deduction <sup>4</sup>		no gain	4,056,500	\$123		no gain	3,595,500	\$154		no gain	1,355,000	\$208
Facility bonds for private nonprofit education facilities		no gain		no loss		no gain		no loss		no gain		no loss
Parental personal exemption <sup>4</sup>		no gain		no loss		no gain		no loss		no gain	2,468,000	\$1,079
<b>Average gain and loss to undergraduate students receiving all typical types of aid for that income</b>		<b>\$8,000</b>		<b>\$2,574</b>		<b>\$1,138</b>		<b>\$547</b>		<b>\$0</b>		<b>\$6,847</b>

<sup>1</sup> Estimates for the SEOG, AOTC, LLC, Student loan interest deduction, Parental personal exemption, and 529 plans are for students with family incomes between \$50,000 and \$100,000 and students with family incomes above \$100,000 (instead of \$115,000) because the available data are not disaggregated at \$115,000.

<sup>2</sup> These estimates assume that students in the \$0-50,000 income range currently receive the refundable AOTC and all students with family income above \$50,000 receive the non-refundable AOTC. Under this assumption, all students in the \$0-50,000 range will lose their current AOTC benefit, but no students in the \$50-115,000 income range will lose the AOTC.

<sup>3</sup> The number of students currently benefitting from 529 Plans is the number of taxpayers taking distributions from 529 plans. The number of students benefitting could be somewhat higher if some families have 529 plans for multiple

<sup>4</sup> Because of data availability, estimates for each of these tax benefits represent number of beneficiaries and size of benefit for students in bands of *Adjusted Gross Income*. For all non-tax benefits, the estimates are presented in bands of *total income*.

Sources:  
 -No loan guarantee: Education Trust analysis of Integrated Postsecondary Education Data System and Beginning Postsecondary Students study, 2003/09.  
 -Interest-free loan guarantee: Education Trust analysis of Beginning Postsecondary Students study, 2003/09.  
 -SEOG, AOTC, LLC, Student loan interest deduction, and Parental personal exemption: Education Trust calculations on 2009 IRS SOI data in "Improved Tax Information Could Help Families Pay for College," (Washington, D.C.: Government Accountability Office, 2012).  
 -In-school interest subsidy on subsidized Stafford loans: Annual subsidized Stafford borrowing amounts by income and class year estimated using National Postsecondary Student Aid Study, 2007-08. The one-year value of the in-school interest rate subsidy is estimated as the value of the subsidy throughout a ten-year repayment period divided by 16 years (six years in college and 10 years of repayment).  
 -529 plans: "A Small Percentage of Families Save in 529 Plans," (Washington, D.C.: Government Accountability Office, 2012).

he or she only would receive about \$3,400 in aid — much of which would arrive after the student incurred college expenses or after he or she left college altogether (Table 5). The additional \$4,600 in grant aid, not to mention the value of an average \$8,000 in *timely* grant aid, can have an enormous impact on students' ability to enter college and earn a certificate or degree.

Middle and upper middle-income students also will fare better under this proposal than they currently do. **Nearly 1.5 million students will qualify for interest-free loans, valued at more than \$1,100 each year.** This annual benefit translates into more than \$17,000 over the course of the loan (for a student who borrows for six years of college). The existing in-school interest subsidy and student loan interest deduction — both proposed for consolidation — provide the typical recipient with a combined \$550 in annual benefits. Only a small number (fewer than 60,000) of students in this income range receive the federal Supplemental Educational Opportunity Grant (SEOG) for undergraduates with exceptional financial need, making the impact of consolidating this grant program nearly negligible for middle-income students. The Lifetime Learning Credit also will be consolidated, but the impact will be limited primarily to graduate students because undergraduates are better off claiming the AOTC, for which middle-income families will remain eligible. Overall, graduating middle and upper middle-income students at four-year institutions will receive larger subsidies in a more intuitive way — outside of the tax code.

Students with family incomes in the top 20 percent are the ones who stand to lose financial “aid” through this proposed redesign. A typical wealthy undergraduate who currently benefits from all of the consolidated programs could lose about \$6,800.<sup>66</sup> Over one-third (40 percent) of that amount comes from 529 tax benefits foregone due to a proposed income cap for participation. But, with family incomes above \$115,000 a year, these students from the top 20 percent of families are far better able to absorb college costs than their low and true middle-income classmates. And much of the “aid” — like the AOTC and parental personal exemption — that these students currently receive is unlikely to impact their college decisions and opportunities.

**All students — regardless of income — stand to benefit,** however, from the statewide education reforms. *Everyone* will be placed into a mandatory college preparatory curriculum. *Everyone* will see tuition and fee increases moderated as a result of states' maintenance of effort. *Everyone* will benefit from a truth-in-tuition pledge that allows families to predict and better financially plan for college expenses. *Everyone* will benefit from return on investment market data that will inform better college selection and drive institutions to lower price relative to return. *Everyone* will benefit from the ability to take fewer credits on their way toward more timely graduation, because of credit transfer and degree-path reforms colleges will be required to undertake. Federal resources can have the greatest impact when directed toward the neediest students, but all students will benefit from the systemic changes incorporated in the new state education grant proposal.

**If our suggested institutional eligibility standards are adopted, we estimate that over 5,000 institutions of higher education will be eligible for receipt of new state education grant funds and that 788 will not.** In 2011, 756 colleges and universities (13 percent) graduated less than 20 percent of their first-time, full-time freshmen within 150 percent of normal time (Table 6). Although the majority (62 percent) of these low graduation rate institutions are public community colleges, many do not meet the standard simply because IPEDS doesn't collect data on upward transfer to four-year colleges. We recommend that since this is a key destination for many community college students, the Department of Education should begin collecting these data as part of the annual IPEDS collection and that until IPEDS implements this additional mandatory data point, two-year

**Table 6: Impact of a 20 percent graduation-rate eligibility threshold**

	Number of institutions, 2011	Number of institutions with graduation rate less than 20%, 2011	Percent of institutions with graduation rate less than 20%, 2011
<b>Public four-year</b>	585	29	5%
<b>Private nonprofit four-year</b>	1,172	90	8%
<b>For-profit four-year</b>	318	124	39%
<b>Public two-year</b>	1,065	465	44%
<b>Private nonprofit two-year</b>	141	10	7%
<b>For-profit two-year</b>	949	18	2%
<b>Public less than two-year</b>	202	1	0%
<b>Private nonprofit less than two-year</b>	76	1	1%
<b>For-profit less than two-year</b>	1,403	18	1%
<b>Total</b>	<b>5,911</b>	<b>756</b>	<b>13%</b>

Note: Institutions missing 2011 graduation rate data in IPEDS are omitted from these counts.

Source: Education Trust analysis of 150% graduation rates in IPEDS 2011.

institutions should be permitted to report their upward transfer rates voluntarily and new state education grant eligibility recalculated accordingly. That data will reflect the realities of success at two-year colleges more accurately and make more institutions eligible for new state education grant funding.

Outside of public community colleges, fewer than 300 institutions would fail this graduation-rate indicator, unless they improve before this new proposal takes effect. The average graduation rate among these poorly performing schools is *less than 15 percent*. We simply must implement higher expectations for our colleges and universities — *especially* in return for immense federal and state investment.

While some institutions will be ineligible for new state education grant funding unless their performance improves, others will be excluded because they already have the resources necessary to meet no-debt and no-interest guarantees for their students. Many colleges and universities have built up enormous amounts of wealth in their endowments — wealth that should be used to benefit the neediest students. As such, we propose that new state education grant dollars not flow to colleges with endowments greater than \$2 billion. Instead, these institutions will be expected to use their own funds to provide low-income students with a no-loan guarantee and middle and upper middle-income students with an interest-free guarantee. In 2012, 31 colleges and universities had endowments greater than \$2 billion.<sup>67</sup> A number of these colleges already have implemented debt-free guarantees, proving that this level of wealth makes such aid policies entirely feasible (see *Appendix C*).

## COST AND FUNDING ANALYSES

Filling the unmet financial need of low-income students and providing no-interest loans to middle-income students will not be inexpensive. But, a variety of inefficient, poorly targeted existing grant, loan, and higher education tax programs can be consolidated and better targeted to help fund no-loan and no-interest guarantees. Our proposed redesign would simplify the current financial-aid system and target the bulk of resources toward the goal of helping the neediest students attend and complete college debt-free.

Our cost estimate assumes that the no-loan and no-interest guarantees cover student costs for up to six years of undergraduate study (150 percent of regular time) at public institutions and that students attending private colleges will receive an amount equivalent to the average award at public colleges. Based on the net price at public colleges and universities in 2010-11 along with current persistence

and graduation rates, we estimate that a no-loan guarantee for all first-time, full-time students from families making between \$0 and \$48,000 annually will cost approximately \$4.8 billion in year one, \$9.6 billion in year two, and \$18.9 billion annually once the policy is fully implemented.<sup>68, 69</sup> We estimate an additional no-interest loan guarantee for first-time, full-time students from families making between \$50,001 and \$115,000 will cost approximately another \$4.6 billion per cohort in forgone revenue at current federal loan interest rates. All told, using publicly available data, we **estimate that these policies will cost about \$24 billion** under current conditions. This full cost will be realized in year six of implementation, with a gradual ramp-up in costs over this period (see *Appendix D* for cost-estimate methodology).

Although \$24 billion may seem like a daunting figure, comprehensive consideration of federal spending on higher education suggests this level of investment is an attainable goal *without additional federal expense*. Beyond the Pell Grant program, the current federal investment in higher education — exclusive of research, university-run hospitals, and the like — is more than \$38 billion, funneled through tax credits, loan subsidies, and grant aid in ways that are not always transparent, well-targeted, or effective in getting students money when they need it most. **Our redesign suggests the following programs could be consolidated or capped to support a more effective, targeted approach to student aid at no additional cost to taxpayers.** Appendix A provides more detail on the 10 education offsets discussed below.

### Supplemental Educational Opportunity Grant

The federal government provides institutions with Supplemental Educational Opportunity Grants (SEOG) to assist students with “exceptional need” beyond that supported by Pell Grants. But only about half of institutions nationwide are able to participate in SEOG.<sup>70</sup> Institutional awards vary based on an archaic formula rife with multiple “hold harmless” provisions based more on historic participation in the program than current institutional characteristics. Repurposing SEOG funds to finance a broader, more generous, and more transparent no-loan guarantee program will maintain the targeting inherent in SEOG, while simplifying the aid system overall.

### In-School Interest Rate Subsidy

The federal government pays the interest on subsidized Stafford loans, which are available to low and middle-income students, while students are in school. This subsidy — while well-targeted to needy students — costs approximately \$5 billion annually.<sup>71</sup> The investment serves to reduce student debt upon graduation, but it does not reduce the upfront cost of a college education. Consolidating the

value of this financial-aid program with the other programs outlined here into a simple and targeted no-loan policy will ensure that low-income students still benefit from the aid, but in a more direct and impactful way that heightens college access.

### **American Opportunity Tax Credit — Nonrefundable Portion**

In 2009, President Obama implemented the American Opportunity Tax Credit (AOTC) to provide up to \$2,500 per year for a maximum of four years to families paying college expenses. The credit, which expanded upon the less generous HOPE tax credit, is not well-targeted. It sends benefits to families earning up to \$180,000 (\$90,000 for single filers). In 2011, approximately one out of every five dollars spent on the program went to families with incomes above \$100,000.<sup>72</sup> Reducing the income cap on the AOTC to \$115,000 a year (the 80th percentile of total family income) for joint filers and directing the savings toward a no-loan program for low-income students will make far better use of scarce federal resources by targeting aid toward the students who need it the most.

### **American Opportunity Tax Credit — Refundable Portion**

Families with no income tax liability also can benefit from the AOTC through a refundable tax credit worth up to \$1,000. One of the best design elements of the AOTC credit is that it is at least partially refundable, but tax credits are a suboptimal way to distribute college aid to students from very low-income families. Besides requiring knowledge and understanding of the tax code, they provide aid well after families incur education expenses, doing nothing to reduce up-front costs. The low-income families receiving refundable AOTCs are highly deserving of the support, but these dollars would be far more useful if used to fund a simple and transparent no-loan policy that paid college costs *up front*, upon entering school.

### **Lifetime Learning Credit**

The Lifetime Learning Credit (LLC), like the AOTC, provides aid to tax filers who have incurred education expenses. But unlike the AOTC, the LLC also is available to graduate students. At a time when low-income students still face immense barriers to undergraduate education, federal financial aid should focus on college access, affordability, and success. Without a bachelor's degree, graduate study is not an option. Our priority should be increasing low-income students' access and success at the undergraduate level.

### **Qualified Tuition Programs (529 Plans) /Coverdell Plans**

Tax-preferred 529 and Coverdell education savings plans enable families to earn tax-free interest on investments earmarked for education expenses. But these plans disproportionately advantage the wealthiest Americans. 529 plans have no income limits on participation. Coverdell plans have a high income phase-out limit of \$190,000 - \$220,000. Because of our marginal tax rate structure, a dollar earned by the wealthiest families owning these plans gets a larger tax subsidy than a dollar earned by the poorest. What's more, high-income families can use 529 plans to shelter investment gains. There is no limit on the number of 529s a family might have. While there is a penalty for non-education withdrawal, it pales in comparison to the tax shelter advantage for high-income, high investment-earning families over multiple years. Establishing an income limit of \$115,000 for both plans, and a limit on the number of 529 plans families can have, would better target the plans toward needy students and simultaneously generate revenue.

### **Student-Loan Interest Deduction**

With the goal of helping students manage debt, borrowers can claim payments of up to \$2,500 on student-loan interest as an above-the-line deduction on their taxes, increasing their federal refund. However, if the nearly \$1 billion spent on this deduction annually were used to fund a no-loan guarantee for needy students instead, then debt burdens would drastically decline. A proactive approach to addressing student debt before it occurs is preferable to a policy that mildly eases burden only after the debt has been incurred. The former heightens college access. The latter provides relief only to those not dissuaded by debt from pursuing college in the first place.

### **Facility Bonds for Private, Nonprofit Education Facilities**

The federal government subsidizes construction of buildings on private nonprofit college campuses by allowing these institutions to raise capital through tax-exempt bonds. These bonds benefit not only the colleges, which can raise money more affordably, but also disproportionately wealthy individuals with funds available for investment. While low and middle-income students are struggling to afford college and taking on burdensome loan debt, limited higher education funds should not be directed toward wealthy investors financing wealthy institutions.

### **Parental Personal Exemption**

Parents cannot claim tax exemptions for their children once they reach age 19, *unless* the child is enrolled in college full-time — either for undergraduate or graduate studies — in which case parents can claim their children until they reach age 24. This tax benefit is not means-tested, and in fact, half

of all expenditures on this exemption go to families with incomes above \$100,000.<sup>73</sup> A \$100,000 family income cap on this exemption would direct the benefits toward families who need them and generate about \$1.6 billion in funds for no-loan and no-interest loan guarantees to low and middle-income students.

## CONCLUSION

America has some of the finest colleges in the world. But the promise of higher education is realized by too few. College access, affordability, and success are the rungs on the most essential ladder of socioeconomic mobility. Now, however, our system too often hardens class divisions, rather than empowering and inspiring individuals from low-income backgrounds to work and learn their way into the middle and upper classes. We can and must do better.

By consolidating a host of inefficient and poorly targeted federal programs, we can deliver a new state education grant to low and middle-income families. We can promise students that if they are willing to study, work, or serve their communities, and pay what they can afford, the federal and state governments, along with their institutions, will make sure they can afford to go to college. And, more important, we will make sure they can do so without the fear of crushing student loan debt. We will, in short, be one step closer to realizing Sen. Pell's dream that "no student with the talent, desire, and drive to pursue postsecondary education will be stopped by inability to pay."

It was the right vision 40 years ago, and it is the right vision today.

### Appendix A: Estimated savings from program consolidation and targeting

Existing program	Current expenditures (FY 2012, in billions)	Recommended change	Savings from recommended change (FY 2012, in billions)
Supplemental Educational Opportunity Grant (SEOG)	\$0.7	Consolidate	\$0.7
In-school interest rate subsidy	\$5	Consolidate	\$5
American Opportunity Tax Credit – nonrefundable portion <sup>1</sup>	\$14.3	Lower income cap to \$115k	\$4.8
American Opportunity Tax Credit – refundable portion	\$6.6	Consolidate	\$6.6
Lifetime Learning Credit	\$3.3	Consolidate	\$3.3
529 Plans	\$1.8	Implement \$115k income cap	TBD, data not available
Education IRAs / Coverdell	\$0.1	Lower income cap to \$115k	TBD, data not available
Student loan interest deduction	\$0.9	Consolidate	\$0.9
Facility bonds for private nonprofit education facilities	\$2.3	Consolidate	\$2.3
Parental personal exemption <sup>2</sup>	\$3.1	Implement \$115k income cap	\$1.6
<b>Total</b>	<b>\$38.0</b>		<b>\$25.1</b> <b>or more savings from 529 and Coverdell plans</b>

<sup>1</sup> According to the College Board's "Trends in Student Aid 2012," 23 percent of AOTC (refundable and nonrefundable) benefits went to families with incomes above \$100,000 in 2011. Applying this 23 percent to the total AOTC expenditures for FY 2012 (\$14.3 b + \$6.6 b) estimates that approximately \$4.8 billion was awarded to students in this income range.

<sup>2</sup> According to the GAO report, "Improved Tax Information Could Help Families Pay for College," 50 percent of benefits awarded through the parental personal exemption go to families with incomes above \$100,000. Applying this 50 percent to the total parental personal exemption expenditures estimates that approximately \$1.6 billion was awarded to families in this income range. Data are not disaggregated at \$115,000 in family income.

Sources:

-SEOG estimate from: "Student Financial Assistance Fiscal Year 2013 Budget Request," (Washington, D.C.: Department of Education, 2012), page P-25.

-In-school interest rate subsidy: "The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform," (Washington, D.C.: The White House, December 2010), 65.

-All tax expenditure estimates from: "Fiscal Year 2012 Analytical Perspectives Budget of the U.S. Government, Table 17-1. Estimates of Total Income Tax Expenditures for Fiscal Years 2011-2017," (Washington, D.C.: Office of Management and Budget).

**Appendix B: Potential distribution of funds across states**

State	% Children in poverty, 2011	% Pell among undergraduates, 2010-11	Estimated distribution of new state education grants, using % of total children in poverty in state	Estimated distribution of new state education grants, using % of Pell recipients in state
Alabama	28%	40%	\$436,311,956	\$415,071,120
Alaska	15%	24%	\$38,372,713	\$34,658,896
Arizona	27%	30%	\$618,227,039	\$642,897,297
Arkansas	28%	42%	\$279,978,682	\$257,541,181
California	23%	27%	\$2,963,226,150	\$2,873,011,580
Colorado	18%	29%	\$308,402,913	\$329,499,564
Connecticut	15%	29%	\$169,124,178	\$210,305,294
Delaware	17%	30%	\$49,742,405	\$53,620,101
District of Columbia	30%	22%	\$45,478,771	\$39,766,874
Florida	25%	39%	\$1,392,787,351	\$1,760,456,771
Georgia	26%	45%	\$919,523,894	\$839,859,857
Hawaii	17%	24%	\$72,481,791	\$63,125,013
Idaho	20%	44%	\$120,802,985	\$143,746,601
Illinois	22%	25%	\$935,157,222	\$840,786,647
Indiana	23%	31%	\$513,057,381	\$569,222,074
Iowa	17%	38%	\$174,809,025	\$483,863,224
Kansas	19%	27%	\$190,442,352	\$220,673,184
Kentucky	27%	39%	\$390,833,185	\$395,824,281
Louisiana	29%	33%	\$450,524,072	\$331,717,782
Maine	19%	34%	\$71,060,579	\$82,894,501
Maryland	14%	29%	\$254,396,873	\$352,927,592
Massachusetts	15%	27%	\$301,296,856	\$394,049,706
Michigan	25%	37%	\$795,878,486	\$952,053,067
Minnesota	15%	34%	\$275,715,047	\$427,228,777
Mississippi	32%	53%	\$335,405,934	\$318,059,029
Missouri	22%	34%	\$434,890,744	\$479,308,281
Montana	20%	37%	\$61,112,098	\$69,949,832
Nebraska	18%	26%	\$116,539,350	\$133,633,958
Nevada	22%	25%	\$204,654,468	\$117,416,657
New Hampshire	12%	28%	\$46,899,982	\$66,488,804
New Jersey	15%	31%	\$420,678,629	\$490,229,206
New Mexico	31%	33%	\$223,130,219	\$198,667,246
New York	23%	35%	\$1,351,572,215	\$1,488,263,196
North Carolina	26%	38%	\$824,302,718	\$760,614,781
North Dakota	15%	26%	\$31,266,655	\$45,777,333
Ohio	24%	41%	\$910,996,625	\$978,850,963
Oklahoma	23%	34%	\$306,981,702	\$289,386,283
Oregon	24%	35%	\$282,821,105	\$332,170,541
Pennsylvania	20%	33%	\$756,084,562	\$779,785,653
Puerto Rico	57%	not available	\$709,184,580	not available
Rhode Island	22%	29%	\$66,796,944	\$68,694,867
South Carolina	28%	43%	\$422,099,840	\$367,397,666
South Dakota	18%	32%	\$51,163,617	\$55,780,585
Tennessee	26%	42%	\$548,587,671	\$470,243,974
Texas	27%	32%	\$2,599,395,985	\$1,898,733,793
Utah	16%	30%	\$196,127,198	\$321,589,946
Vermont	15%	27%	\$25,581,808	\$37,700,589
Virginia	15%	29%	\$397,939,243	\$558,963,576
Washington	18%	26%	\$402,202,878	\$384,955,013
West Virginia	26%	31%	\$139,278,735	\$184,835,290
Wisconsin	18%	28%	\$336,827,145	\$360,715,664
American Samoa	not available	not available	not available	not available
Micronesia	not available	not available	not available	not available
Guam	not available	not available	not available	not available
Marshall Islands	not available	not available	not available	not available
No. Mariana Islands	not available	not available	not available	not available
Palau	not available	not available	not available	not available
Virgin Islands	not available	not available	not available	not available
<b>Total</b>	<b>23%</b>	<b>33%</b>	<b>\$24,000,000,000</b>	<b>\$24,000,000,000</b>

Sources:

Child Poverty data: "National Kids Count Program," (Baltimore, Md.: The Annie E. Casey Foundation, 2011),

<http://datacenter.kidscount.org/data/acrossstates/Rankings.aspx?loc=2&by=a&order=a&ind=43&dtm=321&tf=867>

Pell recipient data: "College InSight," (Oakland, Calif.: The Institute for College Access & Success, 2012), <http://college-insight.org>.

**Appendix C: Colleges and universities with no-loan or low-loan policies (2009-2010)**

(Chart from the Project on Student Debt)

Institution	Role of loans in covering calculated need*	Maximum family income	Expenses not covered
Amherst College	No Loans	No Income Limit	n/a
Appalachian State	No Loans	Federal Poverty Level	Transportation, Personal, Books, and Supplies
Arizona State University	No Loans	\$25,000†	Transportation and Personal
Bowdoin College	No Loans	No Income Limit	n/a
Brown University	No Loans / Loan Limits	\$100,000 / No Income Limit	n/a
California Institute of Technology	No Loans	\$60,000	n/a
Claremont McKenna College	No Loans	No Income Limit	n/a
Colby College	No Loans	No Income Limit	n/a
College of William and Mary	No Loans	\$40,000†	n/a
Columbia University	No Loans	\$50,000	n/a
Connecticut College	No Loans / Loan Limits	\$50,000 / \$75,000	n/a
Cornell University	No Loans / Loan Limits	\$75,000 / \$120,000	n/a
Dartmouth College**	No Loans	\$100,000	n/a
Davidson College	No Loans	No Income Limit	n/a
Duke University	No Loans / Loan Limits	\$40,000 / No Income Limit	n/a
Emory University	No Loans / Loan Limits	\$50,000 / \$100,000	n/a
Georgia Institute of Technology	No Loans	\$33,300†	n/a
Grinnell College	Loan Limits	No Income Limit	n/a
Harvard University	No Loans	No Income Limit	n/a
Haverford College	No Loans	No Income Limit	n/a
Indiana University, Bloomington	No Loans	185% of Federal Poverty Level	n/a
Lafayette College	No Loans / Loan Limits	\$50,000 / \$100,000	n/a
Lehigh University	No Loans / Loan Limits	\$50,000 / \$75,000	n/a
Massachusetts Institute of Technology	No Loans / Loan Limits	\$75,000 / No Income Limit	n/a
Michigan State University	No Loans	Federal Poverty Level	Transportation and Personal
Middlebury College	Loan Limits	No Income Limit	n/a
North Carolina State University	Loan Limits	150% of Federal Poverty Level	n/a
Northwestern University	No Loan / Loan Limits	EFC Less than 20% of COA / No Income Limit	n/a
Oberlin College	No Loans	Pell Eligible	n/a
Pomona College	No Loans	No Income Limit	n/a
Princeton University	No Loans	No Income Limit	n/a
Rice University	No Loans / Loan Limits	\$80,000 / No Income Limit	n/a
Stanford University	No Loans	No Income Limit	n/a
Swarthmore University	No Loans	No Income Limit	n/a
Tufts University	No Loans	\$40,000	n/a
University of Arizona	No Loans	\$42,400	Transportation and Personal
University of California System	Loan Limits	No Income Limit†	n/a
University of Chicago	No Loans / Loan Limits	\$60,000 / \$75,000	n/a
University of Florida	No Loans	\$40,000†	n/a
University of Illinois at Urbana - Champaign	No Loans	Federal Poverty Level	Transportation and Personal
University of Louisville	No Loans	150% of Federal Poverty Level	Transportation and Personal
University of Maryland, College Park	No Loans / Loan Limits	EFC of 0 by Federal Methodology / No	n/a
University of Michigan, Ann Arbor	No Loans	EFC of 0 by Federal Methodology†	n/a
University of North Carolina, Chapel Hill	No Loans	200% of Federal Poverty Level	n/a
University of Pennsylvania	No Loans	No Income Limit	n/a
University of Richmond	No Loans	\$40,000	Transportation, Personal, Books, and Supplies
University of Tennessee	No Loans	150% of Federal Poverty Level	Transportation, Personal, Books, and Supplies
University of Virginia	No Loans / Loan Limits	200% of Federal Poverty Level / No Income Limit	n/a
Vanderbilt University	No Loans	No Income Limit	n/a
Vassar College	No Loans	\$60,000	n/a
Washington University, St. Louis	No Loans	\$60,000	n/a
Wellesley College	No Loans/ Loan Limits	\$60,000 / No Income Limit	n/a
Wesleyan University	No Loans	\$40,000	n/a
Williams College***	No Loans	No Income Limit	n/a
Yale University	No Loans	No Income Limit	n/a

† In-state Only

\* All of the institutions listed require some student contribution of earnings from academic year work, usually a federal work-study job or summer work. Also, some families may need to borrow to cover any expected family contribution (EFC), even if the institution does not include loans in the financial-aid package.

\*\* Starting with the 2012 entering class, Dartmouth instituted a \$100,000 income limit as part of their no-loan policy. <http://www.dartmouth.edu/admissions/>

\*\*\* Starting with incoming freshmen in 2011-12, Williams College re-introduced loans at modest levels for some students.

Source: "Summary of Pledges: Eligibility Guidelines and Basic Provisions (2009-10)", The Project on Student Debt, The Institute for College Access and Success, [http://projectonstudentdebt.org/Type\\_and\\_Coverage.vp.html](http://projectonstudentdebt.org/Type_and_Coverage.vp.html), Updated April 7, 2010.

## APPENDIX D: COST ESTIMATE METHODOLOGY

Using publicly available data, we estimate the recommended no-loan and no-interest policies will cost about \$24 billion under current conditions. This full cost will be realized in year six of implementation, with a gradual ramp-up in costs over this period. **More than \$24 billion in offsets are summarized in Appendix A.**

At full implementation, the no-loan guarantee for low-income students will cost approximately \$19 billion (*Table D1*). To calculate this cost, we have estimated the total number of low-income (\$0-48,000 family income), full-time freshmen who graduate within six years from an institution with a graduation rate above 20 percent. Students who begin at a community college, transfer to a four-year institution, and go on to complete a bachelor's degree are included in this total as well. This total number of students is then multiplied by students' remaining unmet need — after accounting for grants and expected family contribution. Because students at private institutions will be eligible for aid equivalent to the award at an in-state public institution, the unmet need figure for public institutions is applied to private, nonprofit and for-profit colleges as well. The final cost, therefore, provides an estimate of the price of ensuring that all full-time, in-state students with family incomes below \$48,000, who graduate within six years from an eligible institution, can graduate debt-free.<sup>74</sup>

Instead of limiting the no-loan guarantee to institutions based on performance metrics, such as graduation rates, the guarantee could be limited to institutions by sector. For example, the guarantee could be available only at public institutions, or it could be provided at all nonprofit (public and private) institutions. While such a sector limitation

would reduce program costs (*Table D2*), it also would limit student choice. Rather than focusing on institutional control or corporate structure, students should have the opportunity to receive the no-loan guarantee at any college offering an education that meets at least minimal quality benchmarks.

Providing interest-free loans to middle-income students who complete bachelor's degrees is a far less expensive initiative, costing about \$4.6 billion annually. Using the Beginning Postsecondary Students (BPS) study (2003-2009), we estimated the average value of Stafford loans for each year of college for students with family incomes between \$50,000 and \$115,000. Because these data are old, we adjusted the results for inflation, for increases in loan limits that have occurred since the BPS study, and for recent increases in the number of borrowers. To be conservative, we assumed that all students would take full advantage of the increased loan limits, even though such behavior is unlikely. This approach likely will overestimate the cost of the policy. Without the new state education grant guarantee, a student with family income between \$50,000 and \$75,000 who borrows for six years at a public, four-year college would face a 6.8 percent interest rate throughout college and during a 10-year repayment period, paying about \$51,000 over the course of the loans. Without interest though, the amount owed would remain at about \$31,000 throughout the life of the loan, saving the student about \$20,000. We replicated this analysis for students in the \$75-115,000 income range and saw similar results (but with smaller amounts borrowed). Students at public, two-year institutions borrow far less, so the interest-free guarantee for these students does not greatly impact the total cost. Multiplying the average student benefit at public institutions by the number of Stafford borrowers who graduate within 150 percent of time at all institutions yields a cost estimate of approximately \$4.6 billion. ■

**Table D1: Cost (in billions) of no-loan guarantee during phase-in period**

	Cohort 1	Cohort 2	Cohort 3	Cohort 4	Cohort 5	Cohort 6	Total annual cost
<b>Year 1</b>	\$4.8						\$4.8
<b>Year 2</b>	\$4.8	\$4.8					\$9.6
<b>Year 3</b>	\$4.9	\$4.8	\$4.8				\$14.5
<b>Year 4</b>	\$3.0	\$4.9	\$4.8	\$4.8			\$17.5
<b>Year 5</b>	\$1.1	\$3.0	\$4.9	\$4.8	\$4.8		\$18.6
<b>Year 6</b>	\$0.3	\$1.1	\$3.0	\$4.9	\$4.8	\$4.8	\$18.9

Source: Education Trust analysis of IPEDS and BPS: 2003-2009 data.

**Table D2: Cost of no-loan guarantee at full implementation, by sector**

	<b>Cost of no-loan guarantee at full implementation (in billions)</b>
<b>Public four-year</b>	\$8.1
<b>Private nonprofit four-year</b>	\$4.4
<b>For-profit four-year</b>	\$0.4
<b>Public two-year</b>	\$0.8
<b>Private nonprofit two-year</b>	\$0.1
<b>For-profit two-year</b>	\$1.7
<b>Public less than two-year</b>	\$0.2
<b>Private nonprofit less than two-year</b>	\$0.1
<b>For-profit less than two-year</b>	\$3.0
<b>Publics</b>	\$9.1
<b>Private nonprofits</b>	\$4.7
<b>For-profits</b>	\$5.1
<b>Total Publics and Nonprofits</b>	\$13.7
<b>Total</b>	<b>\$18.9</b>

Sector costs may not add up to totals due to rounding.

Source: Education Trust analysis of IPEDS 2011 and BPS: 2003-2009.

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66. This estimate includes the value of the in-school interest rate subsidy, AOTC, 529 plans, the student loan interest deduction, and the parental personal exemption. It does not include the LLC because the majority of LLC beneficiaries are graduate students.
67. "U.S. and Canadian Institutions Listed by Fiscal Year 2012 Endowment Market Value and Percentage Change in Endowment Market Value from FY 2011 to FY 2012" (Washington, D.C.: National Association of College and University Business Officers, 2013). Note: Several of these large endowments are held by systems, such as the University of Texas System, which encompass multiple campuses. For system endowments, the size will be divided evenly by the number of campuses in the system to determine whether those colleges are eligible for new state education grant dollars.
68. The time to degree was estimated using the Beginning Postsecondary Students Study, 2003/09.
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## **ABOUT THE EDUCATION TRUST**

The Education Trust promotes high academic achievement for all students at all levels — pre-kindergarten through college. We work alongside parents, educators, and community and business leaders across the country in transforming schools and colleges into institutions that serve all students well. Lessons learned in these efforts, together with unflinching data analyses, shape our state and national policy agendas. Our goal is to close the gaps in opportunity and achievement that consign far too many young people — especially those who are black, Latino, American Indian, or from low-income families — to lives on the margins of the American mainstream.

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