Thirty years ago, the maximum Pell award was equivalent to about three-fourths of the cost of attending a public four-year institution. Now it covers only about one-third.

Since the early 1990’s, states have increased funding for grants that are not based on students’ financial need at more than four times the rate of need-based grants.

Public four-year colleges used to spend more than twice as much on needy students, but now spend about the same as on wealthy students.
At every level, from the federal government to the campus, our spending has shifted away from the students who most need support toward those who will attend college no matter what.
A lack of situational awareness has been blamed for many of the most counterproductive decisions American policymakers have made on the battlefield, in response to natural and man-made disasters, and in the design and implementation of domestic policies. There are two key elements such disparate events as the escalation of the Vietnam war, the handling of relief efforts in the aftermath of Hurricane Katrina, and the under regulation of the subprime mortgage market have in common. First, there are decision-making processes grounded in ideology and political expediency, rather than values and social contracts. Second, there are many missed opportunities — usually acknowledged in hindsight and attributed to the “fog of war” — to make timely decisions that could have altered the catastrophic outcomes before they unfolded.

In “Priced Out: How the Wrong Financial Aid Policies Hurt Low-Income Students,” we demonstrated how far too many low-income students are priced out of higher education, in no small part because of the counterproductive financial aid policies enacted by federal, state, and institutional policymakers. The negative impact of these policies — many of which were enacted in a robust fiscal environment and thrived through complacency with the status quo — has worsened throughout the current financial crisis. The bottom line? At every level, from the federal government to the campus, our spending has shifted away from the students who most need support toward those who will attend college no matter what.

Leaving this situation unattended will effectively deplete our ever-diminishing reserve of opportunity in America. In this companion brief, we seek to lift the fog and to enhance situational awareness not only for those we have entrusted with our higher education policymaking, but for those who can influence the debate in order to avert an impending disaster: trustees, faculty members, parents, students, and advocacy groups.

The Strategic Context
There are dangerous contradictions between public discourse and public action, public aspirations and public policy, public needs and public funding. Some policymakers talk about increasing American competitiveness, others about recapturing American exceptionalism — grand collective goals that require a collective sense of purpose and commitment to equip individuals to rise to the challenge. Whatever the rhetoric, one thing is clear: Our economic competitiveness and the strength of our democracy rely on a more highly educated citizenry.

However, in the face of fiscal stress, leaders at all levels are lost in the fog of war, making decisions with limited information and a precarious preoccupation with short-term deficit reduction and budget balancing. These decisions exacerbate existing trends toward inequality biases in higher education policymaking — trends that have been steadily advancing over the past three decades through inattention to the true challenges facing higher education. Now, as these policy trends threaten to accelerate during the current economic crisis, leaders must avoid dramatic, permanent decisions that will further inequity. In order to make choices that position our country for long-term stability and success, decision makers must take a step back, regain clarity, evaluate the data, and act promptly to address America’s true economic needs.

Indeed, the American economy relies on an educated workforce, but without serious changes to postsecondary education trends and policies, we will have a shortage of about 3 million workers with college degrees by 2018.¹ Not only are college-educated workers needed to fill the jobs of the future and support the economic well-being of individuals, but a more educated population also can expand
and strengthen struggling tax bases and support economic advancement. In fact, workers with bachelor’s degrees contribute nearly twice as much in taxes as workers with only a high school diploma.²

Despite the clear benefits of postsecondary education — both for our country’s economic health and for the financial stability of millions of Americans — decision makers are limiting opportunity and growth, rather than promoting it. Instead of reversing recent trends that fail to provide postsecondary opportunities first and foremost to the neediest students, policymakers have intensified these shifts. While attempting to solve the urgent crises facing our nation today, leaders have fallen into a decision pattern that heightens inequality in our higher education financing policies and practices, effectively undermining our ability to succeed. Because low-income and working-class families remain underrepresented in higher education, bringing them in can contribute the most toward our collective goals. But, policymakers at all levels — federal, state, and institutional — continue to make choices that place the heaviest burdens on those who have the least.

**Cumulative Impact on Students**

The impacts of these choices are clear and quantifiable. Low-income students are forced to pay more, borrow more, and work more to attend college today than in the past, while policies at all levels continue to divert billions of dollars to wealthy students — money that could be directed to students who truly could not afford to go to college otherwise. As a result of such policies, progress in advancing access and success for low-income students has been stalled. The data speak for themselves.

Since the early 1980s college tuition and fees have increased 538 percent — more than three times the rate of median family income, almost twice as fast as healthcare costs, and about four-and-a-half times as fast as inflation (Figure 1).³ As a result, the typical low-income college student must finance an amount equivalent to about 72 percent of his or her family’s annual income each year to attend a four-year college or university after federal, state, and institutional grant aid.⁴

Because of these high costs, low-income students must work long hours and borrow heavily — negatively affecting their chances of success — in order to meet the onerous financial demands of higher education. While most college students today work, it is no longer feasible to pay for college through work alone. Doing so would require a student to work over 50 hours per week to pay for a public four-year education, and more than 100 hours a week to afford a private institution.⁵

As a result, students must supplement their earnings by taking out loans to cover the remaining costs — and the neediest students are most reliant on loans. In 2007-08, sixty-eight percent of low-income bachelor’s degree recipients at public four-year colleges took out student loans.

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**Figure 1: College costs have increased dramatically**


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**Figure 2: Low-income students are more likely to borrow than their wealthier classmates**

Public 4-Year Colleges

<table>
<thead>
<tr>
<th>Low-income students</th>
<th>High-income students</th>
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<tbody>
<tr>
<td>68% borrow</td>
<td>40% borrow</td>
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compared to 40 percent of high-income students (Figure 2). At private nonprofit colleges, the borrowing rates among graduates were even higher — 84 percent and 52 percent, for low- and high-income students, respectively.6 In fact, borrowing has become so commonplace that outstanding student loan debt now totals almost $900 billion and exceeded our nation’s credit card debt for the first time in 2010.7

Because of these enormous barriers for students from low-income families, it is no wonder that the children of the wealthy are 10 times more likely to have a college degree by age 24 than are the children of the poor (Figure 3).8 However, policymakers have the power to change these patterns by regaining a clear vision of our country’s needs and making choices that promote achievement. The inequality bias in current policies is pervasive, but can be changed — if leaders simply make different choices about the distribution of scarce funds. Our country can’t afford retrospective clarity on the issue of equitable educational opportunity. We must emerge from our current, panic-induced fog and develop postsecondary policies with forward-looking, 20/20 vision.

Inequitable Policies at the Federal Level:

Misperception: “So you can go to college on Pell Grants — maybe I should not be telling anybody this because it’s turning out to be the welfare of the 21st century.” —Rep. Denny Rehberg (R-Mont.), 4/1/11

Reality Check: Only deep misconception and scarcity of facts can explain Representative Rehberg’s pronouncement that Pell Grants are tantamount to welfare. The federal government’s 40-year-old financial aid program for low-income students — provide educational opportunities for needy students, enabling them to attend college and contribute productively to our national economy and to society. Indeed, given the importance of postsecondary education to America’s financial health, the federal government historically has taken on an important role in helping students pay for college through grants, subsidized and unsubsidized loans, and work-study programs.

In recent months, Pell Grants have come under attack as unsustainable. Meanwhile, billions of dollars are spent each year to provide tax breaks to institutions of higher education and upper-class college students and their families. It is true that the costs of Pell have risen as dislocated workers have returned to college, family incomes have declined, and more and more people have realized the value of a college education. However, this improved college access must be sustained, rather than restrained. The cognitive dissonance evoked by this combination of increased college access during the economic downturn, spending on benefits for wealthy students and institutions, and pleas for cuts to the Pell program can only be resolved through a renewed focus on our country’s long-term needs. In this light, what is truly unsustainable is a failure to invest in the education of America’s neediest students.

This improved college access must be sustained, rather than restrained.

- Pell’s purchasing power has declined since the program’s inception. Thirty years ago, the maximum Pell award was equivalent to about three-fourths of the cost of attending a public four-year institution. Even with recent increases, it now covers only about one-third (Figure 4).9

- The Pell Grant program has grown in size, but it has plateaued. The program was designed to expand during economic downturns, and the Congressional Budget Office expects Pell Grant costs to decline in FY12 and FY13, after adjusting for inflation.10

- Pell Grants are targeted toward the students who need the most assistance. The median family income among Pell Grant recipients is only about $18,000.11

- Pell Grant recipients are more likely to borrow, and borrow more, than their higher income classmates. Sixty-three percent of Pell Grant recipients borrow, com-
pared with 30 percent of non-Pell recipients, and their average debt upon graduation from a four-year college is $24,800 — about $3,500 more than higher-income students.12

In FY 2011, more than $23 billion in federal dollars were diverted to education tax benefits,13 many of which benefit institutions or wealthier students. This shift in priorities has left the Pell Grant program — and the low-income students who rely on it — vulnerable to budget cuts.

Equitable Considerations: An expanded field of view can eliminate inequality biases and promote equitable policymaking at the federal level. The federal government must reevaluate its policies and uphold its fiduciary responsibility to ensure that taxpayer dollars are targeted appropriately toward students who truly need assistance.

Preserve Pell Grants. Even though the purchasing power of Pell Grants has declined, these grants still serve as a lifeline for the neediest students and are a key tool in ensuring traditionally underrepresented students can access and succeed in college. In fact, research shows that grants are more effective than loans at increasing college access and success, particularly for low-income students.14

Given this evidence — and the clear economic needs of our nation — policymakers must avoid cuts to the maximum Pell award or harmful eligibility changes, even in the face of ongoing budget pressures.

Look elsewhere for cost savings. The Pell Grant program was already cut by $4 billion when summer Pell Grants were eliminated as part of the 2011 budget agreement. Low-income students have already contributed to deficit-reduction efforts, therefore others must be asked to sacrifice as well — even if it requires raising revenues. Higher education institutions and higher income families must shoulder some of the burden associated with budget cuts. Here are just a few examples of how they can contribute (Figure 5):

- Eliminate tax benefits for construction of private non-profit educational facilities to save approximately $17.7 billion over five years.15
- Raise income caps for higher education tax credits and deductions. While recent changes have expanded eligibility for the American Opportunity Tax Credit to more low-income families, eligibility was also expanded for high-income families earning up to $180,000 a year. Setting an income cap of $100,000 as an eligibility cutoff for education tax credits and deductions could generate $5.1 billion.16
- Continue to simplify and demystify the student aid process. The administration should continue its efforts to simplify the FAFSA — the federal financial aid form — as much as possible. Research has shown that uncertainty and complexity in the financial aid process can prevent low-income students from receiving the grant aid they are eligible for and need to go to college.17 The Department of Education can reach students and families early through other programs and agencies, such as the National School Lunch Program or state Divisions of Motor Vehicles, to explain the financial aid process and help families estimate aid eligibility.

Hold institutions that receive federal financial aid accountable for student results. The federal government needs to use its limited financial aid dollars wisely — particularly in times of fiscal austerity. Colleges and universities should be held accountable for serving Pell recipients well, and, at the very least, must provide reliable data on graduation rates for Pell Grant recipients. These data are available, but under current law, colleges are merely required to disclose these rates upon request.18 They should be required to report these data annually to IPEDS, using consistent data definitions.

Inequitable Policies at the State Level:
Misperception: “Another idea is to work economic need into the equation, though that idea does not have much support, both lawmakers and educators said.” —“Georgia Facing a Hard Choice on Free Tuition.” The New York Times,
1/6/11. (On the funding troubles facing Georgia’s HOPE Scholarship program.)

Reality Check: The agreement between politicians and educators about the impracticality of reducing Georgia HOPE expenditures by accounting for students’ financial need represents a decision-making scheme completely removed from the true needs of students and families. The same New York Times article features Hopemobiles — the fancy cars upper income parents give their students as rewards for winning the HOPE scholarship. A state grant program that funds “car incentives” for the wealthy, rather than educational opportunity for those who lack access to college, deviates notably from the responsible stewardship of taxpayer dollars that is necessary in times of fiscal austerity.

States other than Georgia have made similarly misguided decisions. Even though the current economic downturn has underscored the importance of postsecondary education in meeting states’ workforce development needs, many states have put higher education on the chopping block. Surely legislators must make difficult decisions in the face of deep budget cuts. But panicked action without long-term vision can lead to disastrous consequences. The tuition increases resulting from these budget cuts have placed immense burdens on students and families. And shifts toward non-need-based grants — which direct student aid toward students who don’t need the assistance at the expense of low-income students who rely on the aid — have exacerbated the disastrous effects on the neediest students.

On average, tuition — as opposed to state subsidies — now covers 49 percent of the cost of education at public master’s universities, and more than half of the cost at public research universities, up from 37 percent and 38 percent ten years ago.19 These changes effectively shift the cost burden of college directly onto students and families.

Recent funding cuts have had the greatest negative impact on institutions where low-income students are concentrated. For example, over the past 10 years, community colleges have increased enrollment by 1.6 million students, but their funding per student has remained flat. All other types of colleges have been able to increase spending per student over the course of the decade.20

Since the early 1990s, states have increased funding for student grants not based on financial need at more than four times the rate of need-based grants (Figure 6).21

This shift in state financial aid was precipitated by the proliferation of programs like the Georgia HOPE Scholarship in more than a dozen states. These programs largely subsidize middle-income and upper-income students who could and would go to college without it, at the expense of low-income and minority students.22

Equitable Considerations: An expanded field of view can eliminate inequality biases and promote equitable policymaking at the state level. States should work to balance budgets without decimating the public higher education institutions and need-based financial aid programs upon which individual futures and state economies rely.

Preserve fiscal support for postsecondary institutions — even in these tough budget times — to prevent or
reverse the shift toward burdening students and parents with the lion’s share of college costs. California is a prime example of a state that has shifted the financial burden of college onto students. In 2011-12, the state cut $650 million from the California State University System’s budget, forcing a tuition increase of 23 percent in just one year.²³

States must avoid such draconian cuts, but they also can help institutions manage costs by eliminating inefficient budgetary practices, such as not allowing unspent funds to carry over annually.²⁴

Target grant funds toward students who cannot otherwise afford college, rather than spending scarce state funds on non-need-based aid. At a time of fiscal stress, states must prioritize the use of aid dollars on true need to have the maximum impact. To ensure that funds reach the students who can benefit most from them, grant programs must also be transparent and predictable so that students and families can estimate their awards from an early age. Further, states can encourage institutions to offer need-based financial assistance by offering matching state grant awards.

Prioritize funding to institutions serving large numbers of low-income students and provide incentives for schools that serve these students well. Too often, open access institutions — which tend to enroll the most low-income students — have the least amount of money to spend on each student.²⁵ And yet, these “access” institutions will likely be the most heavily relied upon as states attempt to meet the demand for increased educational attainment.²⁶ Some states and state systems, such as Tennessee and the Pennsylvania State System of Higher Education, have already developed institutional funding formulas that include measures aimed at promoting access and success for traditionally underserved students.

Align policy on tuition, financial aid, and state funding to institutions to increase access and affordability. Some states follow a “high-tuition, high-aid” model, theorizing that high-income students will pay full tuition, while low-income students will receive additional state subsidies in the form of grant aid to keep college affordable. In reality, however, tuition and aid policies are often developed independently of each other, leading to high net costs for all students. Higher education finance policies must be set in tandem to ensure that increases in tuition do not outpace increases in grant aid and family income.²⁷

Inequitable Policies at the Institutional Level:
Misperception: “Recruiting more full-pay students — those who don’t need financial aid — is seen as a key goal in public higher education, a sector traditionally known for its commitment to access.” —INSIDE Higher Ed, 9/21/11. (From survey of college admissions directors.)

Reality Check: As this recent survey of college admissions directors shows, many public institutions have shifted away from their traditional role as vehicles of access. In public doctoral and master’s institutions, more admissions directors cited “recruiting more full-pay students” as an important admissions strategy than named “providing adequate student aid for low- and middle-income students.” By focusing so intently on solving their immediate fiscal crises, colleges are neglecting the students who struggle the most. And, in some cases, full-pay students are so sought after that they will be admitted despite having lower academic credentials than the average admit.

As a result, many colleges and universities are making inequitable choices with their grant funds. Institutions have a wealth of resources at their disposal, but too often choose to spend money on wealthy students who will attend and complete college without financial assistance, leaving low-income students struggling to cover costs.²⁸ Out of about 1,200 four-year colleges and universities nationwide, only 65 expect low-income students to pay a proportion of

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**Figure 6:** Since the early 1990’s, states have increased funding for grants that are not based on students’ financial need at more than four times the rate of need-based grants

![Chart showing four times increase in non-need-based aid](chart.png)

their family income that does not exceed what the average middle income family pays for college. And only 15 expect low-income students to pay a proportion of their family income no more than what the average high-income family pays for college.29

Colleges and universities spent $33 billion on student grants,30 making up more than a third of total grant aid distributed in this country.31

Public four-year colleges and universities spend about the same amount of money on students from families earning more than $115,400 as they spend on those with incomes below $30,200. This represents a clear shift from a decade ago when public institutions spent more than twice as much on the lowest income students (Figure 7).32

Private four-year colleges exhibit similar trends. These institutions used to award slightly more aid to the lowest income families, but they now award nearly twice as many grant dollars to students from families in the top income quintile as to families in the bottom quintile (Figure 8).33

Equitable Considerations: An expanded field of view can eliminate inequality biases and promote equitable policymaking at the institutional level. While institutions certainly must maintain fiscal solvency, they also must avoid panicked actions that reprioritize key values. Indeed, through reasoned decision making, colleges can restore their financial health, while also protecting the broad principles of equity and access.

- **End the financial aid arms race.** Commit to meeting the financial needs of low-income students before offering non-need-based scholarships aimed at attracting elite students. This means covering the full need of low-income students with no more than 15 hours per week of student work, no loans for at least the first two years, and a total work/loan obligation no greater than what high-income families currently pay, which is an amount equivalent to about 15 percent of their family income.34

- **Help low-income students navigate the financial aid process.** Nearly two million Pell-eligible students did not fill out the FAFSA in 2003-04, completely missing out on federal, state, and institutional aid requiring the form.35 Institutions should educate students about financial aid options and tools at their disposal — including the new net price calculators — send out reminders about FAFSA deadlines, and advise students who are struggling to fill out their financial aid forms. Colleges can also simplify their aid process to make it more transparent and comparable to other institutions. For example, they can eliminate supplemental financial aid forms that are often required for institutional aid, and they can adopt the Department of Education’s forthcoming standardized financial aid award letter, which will allow students to compare aid offers more easily.

- **Link financial aid with other forms of support.** Financial aid has proven particularly effective when paired with
focused advising, academic support services, and moderate amounts of work-study.36 Take Berea College — a school committed to enrolling low-income students and serving them well, as indicated by graduation rates that are above the national average. Berea employs an innovative model that requires all students to work at least 10 hours per week on campus in exchange for full tuition and a living stipend.37 The college supplements the work model with extensive student support services to ensure their students succeed. All schools receiving Pell Grant funds should have dedicated student support services in place, and the effectiveness of these programs should be carefully assessed.

Provide transparent information to prospective students and their families about cost and student outcomes. Institutions are required by the federal government to disclose a multitude of data to students, but these data are often difficult to locate on college websites. Schools should make key data points — such as graduation rates by race/ethnicity and Pell status, job placement rates, net price, average student debt, and default rates — available in a prominent place on their website and in all admissions materials.

Sharper Focus on the Future

At a time when colleges, universities, students, parents — and, indeed, all Americans — are struggling with economic uncertainty, policymakers must not get caught up in rapid-fire budget cuts and policy shifts without regard for our nation’s long-term growth. While massive cuts and reprioritizations may seem appropriate given the current circumstances, more cautious and targeted changes will serve the country far better. To build a stable future, the opportunity deficit in America must weigh as heavily on policymakers’ minds as the budget deficits they aim to tame. Higher education is more than a line item in the budget. It is an investment in the future — one that pays off not only for individual students, but also for states and the nation as a whole.

We cannot risk getting caught in the fog of war, making rash decisions without full information and evaluation. Otherwise, all Americans — particularly those who can contribute the most to our nation’s economic and democratic agenda — will become casualties of well-intentioned, yet poorly executed policymaking. Instead, we must invest in our future workforce, nurture an educated citizenry, and protect opportunity for the most vulnerable. Surely thoughtful, reasoned decision making can effectively resolve our current fiscal distress and set America on a path toward economic recovery, democratic stability, and a stronger, more vibrant future.

Notes

10. CBO projects less than 1 percent annual growth in Pell program costs and recipients in the next two years, and only 2 percent annual growth over the next 10 years. Source: Calculations by TICAS and CBPP on data from the U.S. Department of Education, Fiscal Year 2012 Budget Request: Student Financial Assistance and the Congressional Budget Office (CBO). Budget and Economic Outlook: Fiscal Years 2011 to 2021 and memo to interested parties, CBO March 2011 Baseline Projections for the Student Loan and Pell Grant Programs, April 2011 update to Table 7.
15. Fiscal Year 2012 Analytical Perspectives, op. cit.
16. Education Trust calculations on: Tax Policy Center, Major Individual Income Tax Expenditures, Tables T11-0303, T11-0305, T11-0309, T11-0307, August 22, 2011. Figures include the American Opportunity Tax Credit, Lifetime Learning Credit, Student Loan Interest Deduction, and Tuition and Fees Deduction and apply to the 2011 calendar year. Estimate assumes that the same income cap applies to all four programs.


20 Ibid., p. 44.


24 National Center for Public Policy in Higher Education, Strengthening College Opportunity and Performance: Federal, State and Institutional Leadership. (San Jose, Calif., 2010).

25 Desrochers and Wellman, op. cit.

26 National Center for Public Policy in Higher Education, op. cit.

27 Ibid.


29 Lynch, Engle, and Cruz, op. cit.

30 The College Board, op. cit., Data for Figure 3 in Excel file: 2010_Trends_Student_Aid_All_Figures_Tables.xls. http://trends.collegeboard.org/student_aid.

31 The College Board, op. cit., p. 12.


33 Ibid.

34 Lynch, Engle, and Cruz, op. cit.


37 Lynch, Engle, and Cruz, op. cit.
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 live on the margin of the American mainstream.

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