

Limited Means, Limited Options

College Remains Unaffordable for Many Americans

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Executive Summary

Higher education offers people from all walks of life the opportunity to achieve a more secure future for themselves and their families. Our country was built in part on the idea that, with hard work and a good education, any American should be able to climb the ladder of social and economic mobility. The very notion of the American Dream is based on that concept of freedom—that we are not condemned to a particular social or economic class. Unfortunately, high college costs are stymieing progress for Americans of limited financial means, undermining our basic ideals of opportunity and fairness.

To better understand the nature and scope of inequities in college affordability, Lumina Foundation's Affordability Benchmark can act as a guide for what students should expect to pay for college,¹ while tailored net price data can be used to identify trends across schools for different types of students. IHEP's research—comparing the Benchmark's affordability thresholds for 10 theoretical 21st-century students with over 2,000 colleges' net prices—confirms how unaffordable college has become for many Americans.

The data show wide variation in affordability between students with different income backgrounds. In fact, although the student from the highest income quintile in these analyses could afford to attend 90 percent of colleges in the sample, the low- and moderate-income students with fewer financial resources could only afford 1 to 5 percent of colleges. While it is clear that very few colleges meet a reasonable threshold of affordability for students of modest means, federal, state, and institutional policymakers can help level the playing field.

This paper offers five recommendations to address issues of affordability that negatively affect college access and completion:

- Federal policymakers should protect and strengthen the Pell Grant.
- States should strengthen direct investment in public colleges and need-based aid programs.
- Colleges should manage institutional costs to concentrate expenditures on students.
- Colleges with wealth at their disposal—either in the form of large endowments or company profits—should keep prices low for needy students.
- Congress should pass legislation to improve consumer information and transparency, giving students the information they need to make affordable choices.

Just as the college affordability problem is not attributable to any single factor, these interventions are not mutually exclusive—nor will they be effective as standalone options. Each recommendation should be considered an important part of a larger effort to consider our collective return on taxpayer and student investments in higher education, which includes improving quality assurance, emphasizing outcomes, and addressing college affordability for all Americans. These recommendations are not entirely novel or original. The truth is that many practitioners, advocates, and policymakers know what must be done. What we need now is bold action and political bravery to spearhead these much-needed reforms. Students, our economy, and our nation can wait no longer.

The Affordability Challenge: Inequities and Opportunity

Higher education offers people from all walks of life the opportunity to achieve a more secure future for themselves and their families. Our country was built in part on the idea that, with hard work and a good education, any American should be able to climb the ladder of social and economic mobility. The very notion of the American Dream is based on that concept of freedom—that we are not condemned to a particular social or economic class. Education is crucial to mobility,² yet high college costs are stymieing progress for Americans of limited financial means, undermining our basic ideals of opportunity and fairness.

This problem is worsening, but it is not new. State funding for higher education has been on the decline for decades, shifting the financial burden to students and families.³ Increases in the federal Pell Grant have failed to fully bridge the gap,⁴ as years of rising college prices continue to outpace inflation and income growth.⁵ Indeed, the cost of college—even after accounting for grant aid—is most burdensome for low-income students.⁶ On average, they need to finance an amount equivalent to more than 100 percent of their family’s annual income to attend one year at a four-year college, compared with high-income students, who must finance only 15 percent on average.⁷

The cost of college—even after accounting for grant aid—is most burdensome for low-income students.

At least partially because of these financial hurdles, students from low-income backgrounds—particularly those who need to work to support themselves while enrolled—are much less likely to finish a degree than their peers.⁸ Even among students with similar academic profiles, the wealthier students are more likely to graduate, in part because of the colleges they can access.⁹ Meanwhile, outstanding student debt in the United States has grown to approximately \$1.4 trillion,¹⁰ and Americans without a college degree have seen their prospects diminish.¹¹ This inability for low-earners to afford an education or improve their station erodes belief in a nation founded on the rejection of entrenched social stratification.

To better understand the nature and scope of inequities in college affordability, tailored net price data can be used to identify trends across schools for different types of students. This paper’s first-of-its-kind analysis of more than 2,000 colleges’ net prices further confirms what many low- and moderate-income Americans already know—and what policymakers and institutional leaders need to understand—about how unaffordable college has become for them. Beyond observing affordability gaps for students of varied means, this report examines approaches to addressing issues of cost and aid. It concludes with recommendations for interventions at the federal, state, and institutional levels.

Affordability Looks Different for Different Students

While college affordability discussions abound, they often lack a guidepost for what “affordable” truly means.¹² Moreover, while data show how much students pay for college, and that a majority of Americans think college is unaffordable,¹³ few analyses speak to what students and families *should* be paying. In order to address this complex issue—not simply what the cost of a college degree is but what it *ought* to be—Lumina Foundation convened a group of higher education experts to develop a framework for assessing affordability.¹⁴ The resulting Affordability Benchmark seeks to provide a simple, reasonable, and equitable perspective from which to consider what is affordable for families of varied means (see **Sidebox 1** for more information).

Sidebox 1: The Affordability Benchmark Explained

Lumina Foundation's Affordability Benchmark approaches the complex issue of defining college affordability with a simple value-based proposition, called the Rule of 10—

- The future college student (or their family, in the case of dependent students) should be able to save roughly 10 percent of their discretionary income over a period of 10 years before college.
- The student should be able to work 10 hours per week (500 hours per year) while attending college full-time.

Because the Benchmark is based on *discretionary* income, students and/or families with an income less than 200 percent of the Federal Poverty Guideline for their household size are not expected to save for college.¹⁵ By definition, they do not have discretionary income.

To be considered affordable, the total 10-year savings plus part-time earnings should cover the entire cost of a four-year degree.

Example 1: Mia's parents earn a combined \$100,000 per year. For her family of four, the Federal Poverty Guideline was \$24,300,¹⁶ which means their discretionary income is \$51,400 (\$100,000 – 2 x \$24,300). If Mia's parents saved 10 percent over ten years, they could contribute \$51,400 toward Mia's bachelor's degree.

$$10 \text{ years} \times (0.10 \times \$51,400) = \$51,400 \text{ in savings}$$

Mia expects to work 10 hours per week at a minimum-wage job, first while attending community college full-time, and later finishing the final two years at a four-year college. During that time, she can expect to earn approximately \$14,500 in total.

$$\$7.25 \times 500 \text{ hours per year} \times 4 \text{ years} = \$14,500 \text{ in earnings}$$

According to the Benchmark, Mia should be able to earn her bachelor's degree for a total of \$65,900 (\$51,400 + \$14,500), or \$16,475 per year on average.

Example 2: Benjamin's mother is a single parent who earns \$30,000 per year to support Benjamin and his younger sister. For a family of three, the Federal Poverty Guideline was \$20,160.¹⁷ The Benchmark acknowledges that she cannot save for Benjamin to earn a bachelor's degree because her income is below 200 percent of the Federal Poverty Guideline (\$30,000 – 2 x \$20,160 < \$0).

$$10 \text{ years} \times (0.10 \times \$0) = \$0 \text{ in savings}$$

Benjamin still expects to work 10 hours per week at a minimum-wage job while attending a four-year college full-time, earning approximately \$14,500 over those four years.

$$\$7.25 \times 500 \text{ hours per year} \times 4 \text{ years} = \$14,500 \text{ in earnings}$$

According to the Benchmark, Benjamin should be able to earn a bachelor's degree for \$14,500 (\$0 + \$14,500), or \$3,625 each year.

Calculating an individual affordability threshold according to the Benchmark provides a useful guidepost against which to measure college affordability for students with different backgrounds. The 10 theoretical students featured in these analyses illustrate actual student diversity with varied family size, income, assets, academic profiles, and other relevant characteristics derived from nationally representative datasets. Each characteristic provides a specific answer to a question that net price calculators ask of real students. See the [Technical Appendix](#) for further details.

Meet the 10 Students

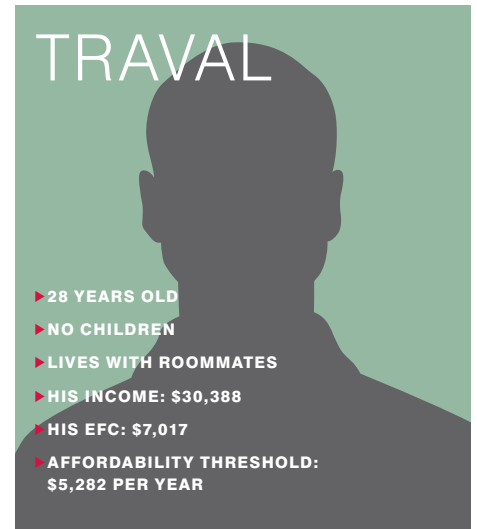
The profiles of these students are based on aggregate data from national datasets representing real Americans, and are intended to typify 21st-century students. Each of the five dependent students represents a different income quintile, and possesses attributes based on national averages for students in their quintile, while the five independent students characterize the diverse array of personal and family circumstances among independent students.

Independent students



ANTHONY

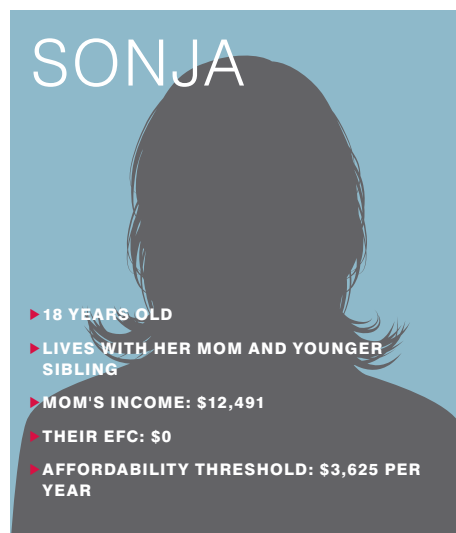
- ▶ 28 YEARS OLD
- ▶ NO CHILDREN
- ▶ LIVES WITH ROOMMATES
- ▶ HIS INCOME: \$2,706
- ▶ HIS EFC: \$0
- ▶ AFFORDABILITY THRESHOLD: \$3,625 PER YEAR



TRAVAL

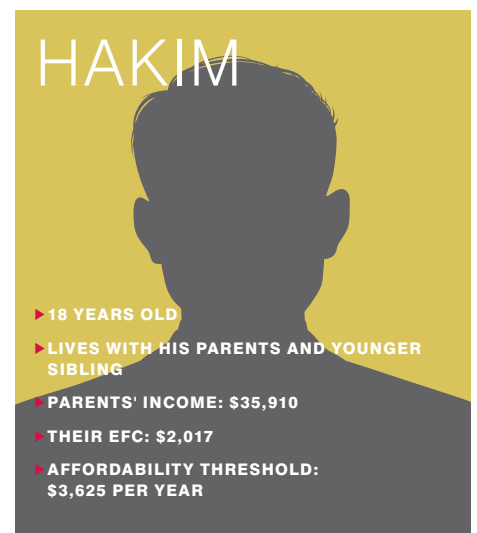
- ▶ 28 YEARS OLD
- ▶ NO CHILDREN
- ▶ LIVES WITH ROOMMATES
- ▶ HIS INCOME: \$30,388
- ▶ HIS EFC: \$7,017
- ▶ AFFORDABILITY THRESHOLD: \$5,282 PER YEAR

Dependent students



SONJA

- ▶ 18 YEARS OLD
- ▶ LIVES WITH HER MOM AND YOUNGER SIBLING
- ▶ MOM'S INCOME: \$12,491
- ▶ THEIR EFC: \$0
- ▶ AFFORDABILITY THRESHOLD: \$3,625 PER YEAR



HAKIM

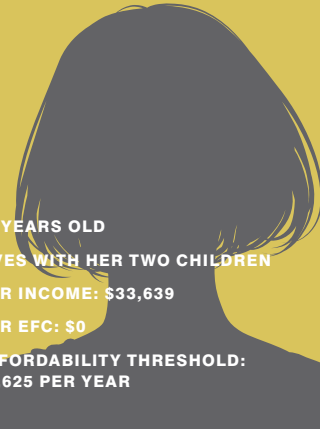
- ▶ 18 YEARS OLD
- ▶ LIVES WITH HIS PARENTS AND YOUNGER SIBLING
- ▶ PARENTS' INCOME: \$35,910
- ▶ THEIR EFC: \$2,017
- ▶ AFFORDABILITY THRESHOLD: \$3,625 PER YEAR

ANEESA



- ▶ 28 YEARS OLD
- ▶ LIVES WITH HER TWO CHILDREN
- ▶ HER INCOME: \$2,130
- ▶ HER EFC: \$0
- ▶ AFFORDABILITY THRESHOLD: \$3,625 PER YEAR

JIN SOOK



- ▶ 28 YEARS OLD
- ▶ LIVES WITH HER TWO CHILDREN
- ▶ HER INCOME: \$33,639
- ▶ HER EFC: \$0
- ▶ AFFORDABILITY THRESHOLD: \$3,625 PER YEAR

MOHAMMED



- ▶ 28 YEARS OLD
- ▶ LIVES WITH HIS SPOUSE AND TWO CHILDREN
- ▶ SPOUSE'S INCOME: \$20,719
- ▶ THEIR EFC: \$0
- ▶ AFFORDABILITY THRESHOLD: \$3,625 PER YEAR

AVA



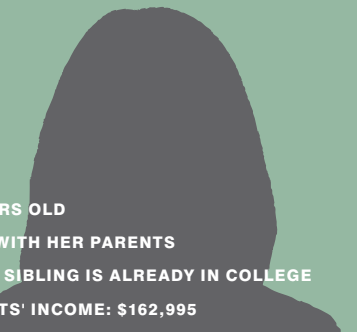
- ▶ 18 YEARS OLD
- ▶ LIVES WITH HER PARENTS AND YOUNGER SIBLING
- ▶ PARENTS' INCOME: \$69,000
- ▶ THEIR EFC: \$9,361
- ▶ AFFORDABILITY THRESHOLD: \$8,725 PER YEAR

SERGIO



- ▶ 18 YEARS OLD
- ▶ LIVES WITH HIS PARENTS AND YOUNGER SIBLING
- ▶ PARENTS' INCOME: \$105,405
- ▶ THEIR EFC: \$21,747
- ▶ AFFORDABILITY THRESHOLD: \$17,826 PER YEAR

MARIA



- ▶ 18 YEARS OLD
- ▶ LIVES WITH HER PARENTS
- ▶ OLDER SIBLING IS ALREADY IN COLLEGE
- ▶ PARENTS' INCOME: \$162,995
- ▶ THEIR EFC: \$53,839
- ▶ AFFORDABILITY THRESHOLD: \$32,224 PER YEAR

Counting the Cost for Different Students at Different Schools

While many students, families, and even researchers have traditionally focused on the price of college tuition, determining the true financial cost of attending college is far more complicated. Students pay many expenses in addition to tuition, including mandatory fees, books and supplies, and living expenses (see **Sidebox 2**). All students require food and shelter regardless of where they live or what school they attend, and many incur additional costs for transportation. These costs—all of which are central to college success—add up, but not all college students pay this total cost of attendance (CoA) out-of-pocket. In fact, 66 percent of first-year, full-time undergraduate students receive some federal, state, or institutional grant aid (financial aid that, unlike loans, does not need to be paid back).¹⁸ Subtracting from CoA the amount of grant aid a student receives yields the college's net price for that student—a much more accurate estimate of what they are expected to pay than the published “sticker” price.

Sidebox 2: How Do We Measure College Prices?

The Higher Education Act (HEA) defines cost of attendance (CoA)—including its components—and net price, which colleges report to the Integrated Postsecondary Education Data System (IPEDS).¹⁹ CoA and net price are calculated as follows:

Cost of attendance = Tuition & fees + Room & board + Books & supplies + Transportation & other costs

Net price = Cost of attendance – Grant aid

HEA also details general requirements for net price calculators,²⁰ with clarifying guidance provided by the U.S. Department of Education.²¹ Net price calculators (NPCs) provide more customized estimates than IPEDS net prices because the net price data in IPEDS are based on averages for groups of students who receive federal aid. In both cases, however, net price represents the amount a student pays out-of-pocket (through student or family contributions and/or loans).

Net price calculators are hosted on individual college websites, with no easy way to compare them. There is no federal website where students can answer one set of questions and compare net prices across colleges. However, College Abacus, owned by ECMC, has a free web tool that searches individual NPCs for many colleges and provides results in one place, allowing students to explore multiple colleges' net prices at once.²² For these analyses, College Abacus converted their public-use tool into an analytic research tool that could calculate thousands of net prices simultaneously.

Not all U.S. colleges are included in this sample. Over 500 specifically block College Abacus from accessing their data, and more than 1,600 of the calculators produced errors over the course of this research. The usable data for over 2,000 two- and four-year, degree-granting colleges that serve undergraduate students and participate in Title IV federal aid programs have some limitations as well. For example, different colleges report net price data for different years. Also, question format and phrasing differs among colleges, creating some comparability challenges. While these limitations mean that the data are not suited to individual comparisons of colleges, they are sufficient to examine broad trends among different types of students and schools.

Since 2009, colleges have reported their average net price figures to the Integrated Postsecondary Education Data System (IPEDS).²³ These data provide useful information about typical prices, increase transparency around college costs, and offer students an initial glimpse into what they can expect to pay at a given school. However, aggregate data cannot speak to any individual's specific personal circumstances. Since 2011, though, any college that participates in federal aid programs must also post on its website a net price calculator (NPC), which calculates a student's expected net price based on the personal background information they input.²⁴

The calculators, which ask students questions regarding household finances and academic qualifications, must display each of the components of CoA—tuition and fees, room and board,

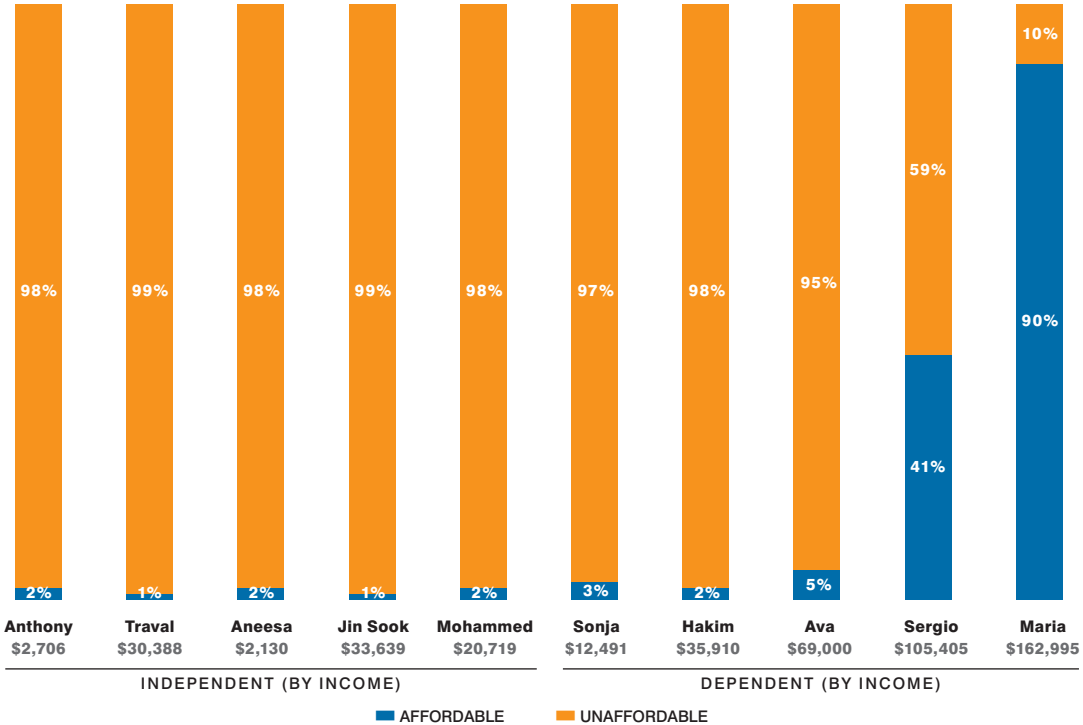
books and supplies, transportation and other costs—as well as the total CoA, average estimated grant aid, and resulting net price.²⁵ While still estimates, the resulting net price figures provide the closest existing approximations of expected college prices for individual students. Comparing those figures back to individual affordability thresholds, per the Affordability Benchmark, gives a sense of which colleges might be affordable for those specific students.

Further Evidence That College is Unaffordable for Most Americans

Unfortunately, comparing the sample colleges’ net prices with the students’ respective affordability thresholds yielded sobering results. As **Figure 1** shows, the vast majority of the sample colleges were unaffordable for 8 out of the 10 students. Colleges were most dramatically unaffordable for students near the bottom of the income distribution, including all five of the independent students. Out of more than 2,000 colleges, nearly half (48 percent) were affordable for *only* the wealthiest student (with a family income over \$160,000) and more than one-third (35 percent) were affordable only for that student and the next wealthiest (with a family income over \$100,000). As seen in **Figure 1**, while the student from the highest income bracket could afford to attend 90 percent of colleges in the sample, the low- and moderate-income students with fewer financial resources could only afford 1 to 5 percent of colleges.

Affordability patterns varied by sector. Public colleges (particularly community colleges) were more affordable on average, but two-year and four-year public colleges that failed to meet the students’ affordability thresholds missed the mark by averages of around \$7,000 and \$9,000, respectively. Among private institutions, nonprofit colleges missed students’ affordability thresholds by an average of about \$16,000, and for-profit colleges by an average of roughly \$18,000. Note that these are all yearly figures, and that such gaps multiply over the course of earning a degree. The additional \$18,000 or so that a student would need in order to pay for their first year of college could multiply to \$72,000—or more, since colleges generally do not increase returning students’ grant aid to match tuition increases.²⁶

Figure 1. Percent of sample colleges that are affordable or unaffordable for example students.²⁷



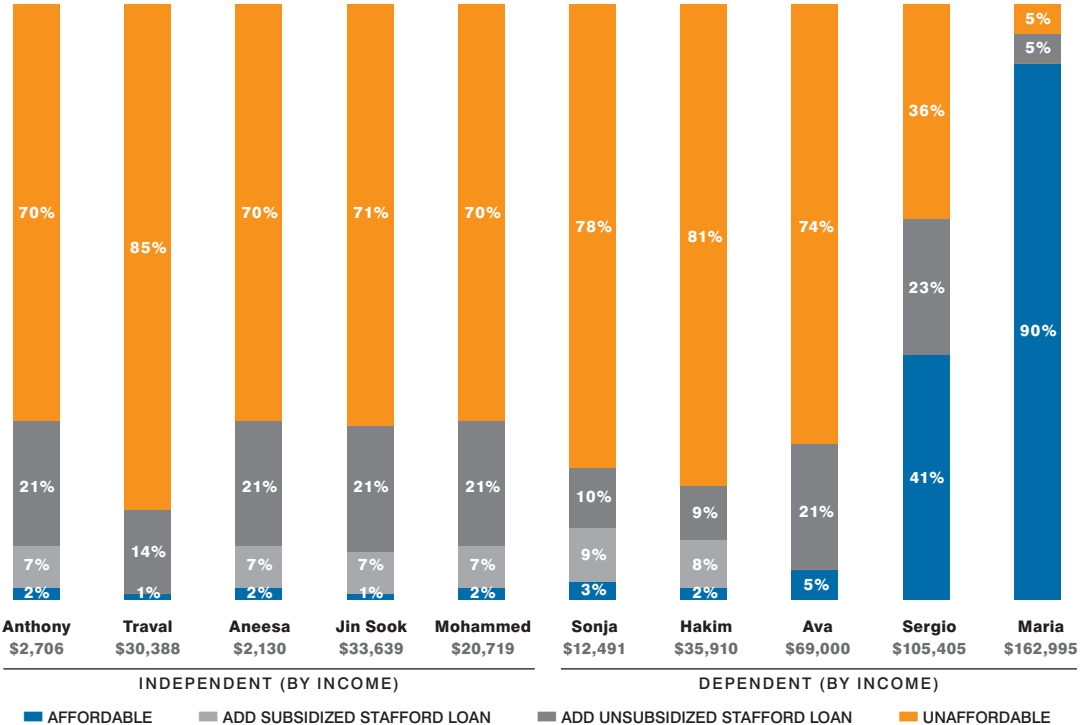
While nonprofit colleges in the sample offered the most grant aid on average, their average cost of attendance was high enough that the grant aid they offered was insufficient to make up for the higher costs. This highlights the problem that emerges when “high-tuition, high-aid” policies fail to make college affordable for all students in practice.²⁸ For-profit colleges featured the highest average cost of attendance while offering the least average grant aid, resulting in the highest overall average net prices in the sample. Indeed, data already show that for-profit colleges offer lower discounts to students on average than colleges in other sectors of higher education.²⁹ Prior research also demonstrates that for-profit colleges adjust pricing structures to maximize revenue even at the expense of student success,³⁰ which has a negative effect on access, completion, and post-college outcomes for students of limited means.

Student Loans Are Insufficient to Make College Affordable

Affordability is most problematic for dependent students from low- and moderate-income families and many independent students, who would need to borrow or work long hours to pay prices that exceed what is affordable for them. While borrowing is not the answer to the affordability issue writ large, students are indeed borrowing so that they can afford to attend college, and an examination of whether federal student loans would change the overall affordability landscape for these students proved useful. As seen in **Figure 2**, even when accounting for both Subsidized and Unsubsidized Stafford Loans, most of the students would still struggle to find affordable college choices.

Take the lowest-income dependent student, for example. As **Figure 2** shows, only 3 percent of colleges in the sample met her affordability threshold, but an additional 9 percent met the threshold when considering her estimated eligibility for Subsidized Stafford Loans, along with an additional 10 percent when Unsubsidized Stafford Loans were taken into account—yet even then a full 78 percent of the colleges still failed to meet the threshold. Comparatively, 5 percent of the colleges in the sample met the affordability threshold for the middle-quintile dependent student,

Figure 2. Percent of colleges that meet affordability thresholds after adding federal Stafford Loans.³¹



and an additional 21 percent met the threshold when Stafford Loans were taken into account—yet 74 percent of colleges were still not reasonably affordable for her, either.

What Could Help Fix the Affordability Problem—and What Might Not

The results of these analyses highlight the sizeable college affordability challenge facing Americans today. **Figure 1** demonstrates that all but the wealthiest students face mostly unaffordable options as defined by the Benchmark. **Figure 2** serves to illustrate why some low- and moderate-income students must borrow federal loans to pay for college, and why some turn to even riskier private loans as they struggle to pay college costs.³² Fundamentally, the problem of college affordability in the United States lies with the high prices facing these lower-income students and their families.

While a postsecondary degree is surely an investment, continuing to finance college with student loans is clearly not the answer to this dilemma. Neither is working more than 15 hours per week while enrolled, which often compromises students' ability to persist and attain a degree.³³ Instead, decreasing cost at the institutional level and increasing aid to students can drive down net price and provide vital solutions to the college affordability problem. Institutional leaders and policy-makers must work from both sides of the issue to solve it. **Figures 3, 4, and 5** show two types of policy interventions that could open more doors for students, as well as one that may seem helpful but, in fact, is not.

Doubling the maximum Pell Grant

As seen in **Figure 3**, doubling the maximum Pell Grant would make hundreds of additional colleges in the sample affordable for the students with the fewest affordable options. Not only would increasing the maximum make more colleges affordable for low-income students, including independents, but it also would make some needy moderate-income students eligible for Pell Grants, generating more affordable options for them as well.

Figure 3. Percent of colleges that meet affordability thresholds after doubling maximum Pell.³⁴

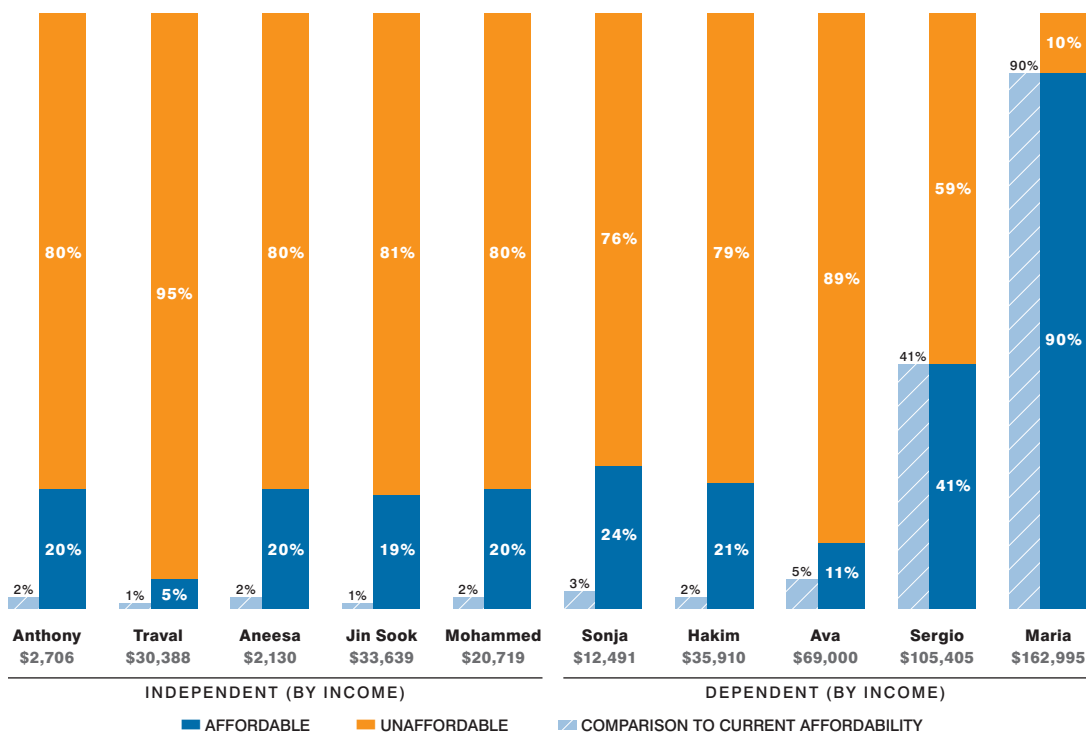
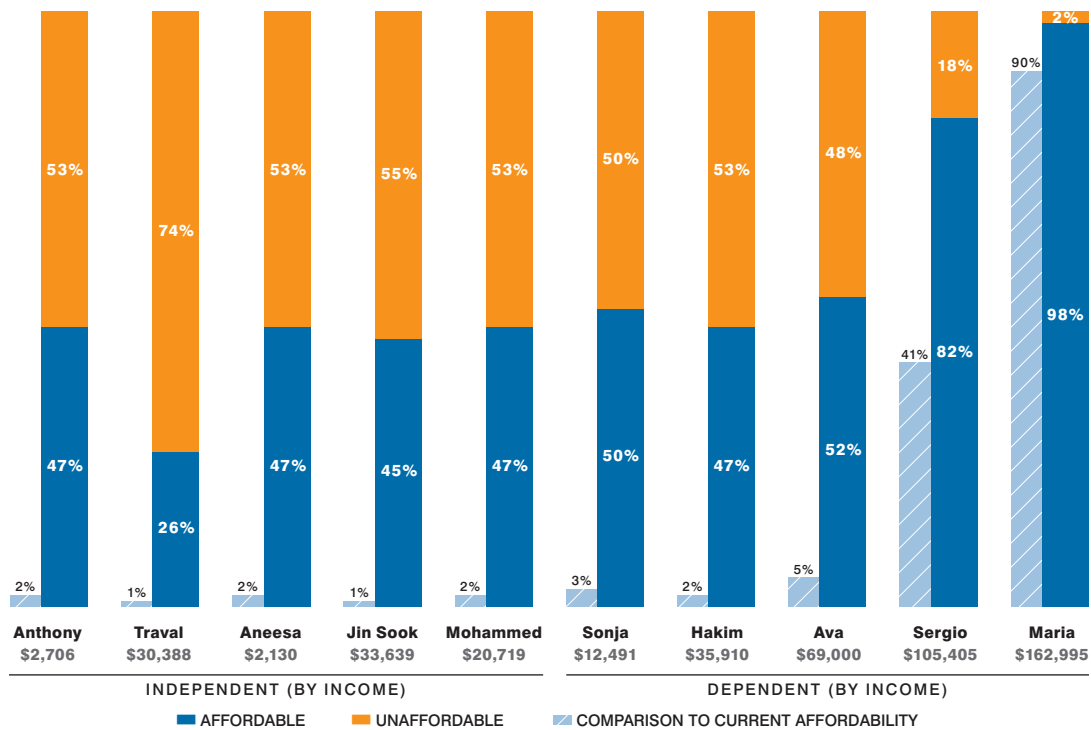


Figure 4. Percent of colleges that meet affordability thresholds after reducing all net prices by \$10,000.³⁵



Decreasing net price by \$10,000 for all students

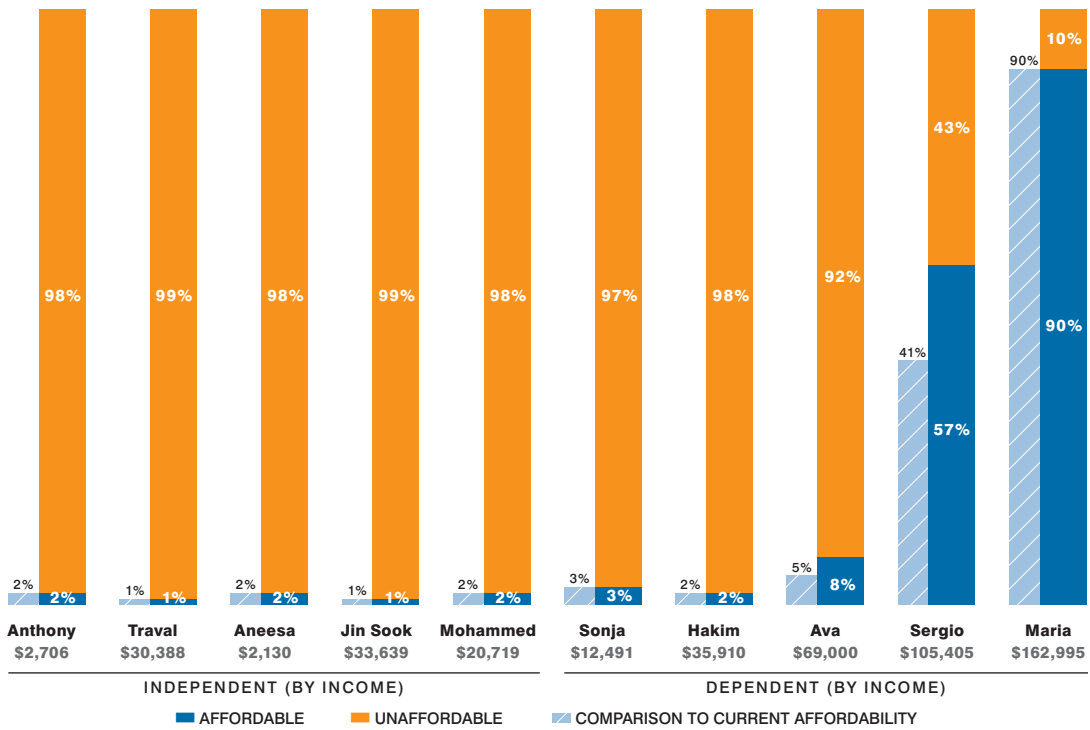
The overall average gap between institutional net prices in the sample and what the students could afford was around \$10,000. Policymakers could achieve something close to a flat \$10,000 reduction in net price with a combination of increased student aid from federal sources such as the Pell Grant, increased state support through need-based grants or lower tuition, larger institutional grants to low-income students, and other efforts that allow institutions to decrease costs for students. As shown in **Figure 4**, lowering college costs and/or increasing grant aid by \$10,000 for all students through additional investment split among federal, state, and institutional partners would yield encouraging prospects for all students in this study (though such adjustments are relatively unnecessary for students from the highest income quintiles).

Implementing last-dollar “free college”

One much-discussed proposal to solve the affordability problem is “free college,” which can be defined in different ways, and, in some cases, offers the greatest benefit to the wealthiest students.³⁶ Last-dollar free-college proposals, in which federal aid dollars are used first while the state covers the remaining cost of tuition and fees (supplanting rather than supplementing existing aid),³⁷ are likely to further entrench the inequities that already exist when it comes to college affordability. Under a last-dollar program, high-income students who do not receive Pell Grants receive larger tuition subsidies than low-income Pell recipients.

As seen in **Figure 5**, eliminating tuition and fees at two- and four-year public colleges leaves students at the lower end of the income distribution with just as few affordable options as before—instead of creating affordable college opportunities for all students, a last-dollar model produces more options for the dependent student with a family income of about \$100,000. Furthermore, while such a policy would not open more doors for the student with a family income of over \$160,000, the public colleges she can already afford would become less expensive for her—diverting public subsidies to her even though she does not need them.

Figure 5. Percent of colleges that meet affordability thresholds after including last-dollar plans at public colleges.³⁸



Five Policy Interventions to Solve the Affordability Problem

The data show that very few colleges meet a reasonable threshold of affordability for students of modest means—but federal, state, and institutional policymakers can help level the playing field. The following five recommendations address issues of college affordability that arise from inequities in cost and aid, which negatively affect college access and completion. Just as the affordability problem is not attributable to any single factor, these interventions are not mutually exclusive, nor will they be effective as standalone options—each should be considered an important part of a larger effort to address college affordability for all Americans.

These recommendations are not entirely novel or original. The truth is that many practitioners, advocates, and policymakers know what must be done. What we need now is bold action and political bravery to spearhead these much-needed reforms. Students, our economy, and our nation can wait no longer.

1 | Federal policymakers should protect and strengthen the Pell Grant.

Pell Grants form the bedrock of our nation’s financial aid system and are essential to supporting college access and persistence for low-income Americans.³⁹ However, the Pell Grant has lost much of its purchasing power, with the maximum award now covering the lowest portion of college costs than at any time in the program’s history.⁴⁰ Increasing Pell will help solve the college affordability problem for millions of low- and moderate-income Americans who struggle to find ways to pay for college.⁴¹ Doubling the maximum award will help restore its purchasing power, reinvigorating its role in our federal financial aid system.

Funding for this essential aid program could be shifted away from tax credits and deductions that are less timely and do not benefit the neediest students. In fact, the largest form of federal student aid (excluding loans) is not the Pell Grant but tax credits and deductions.⁴² The latest projections further show that \$195 billion could be reallocated to Pell from the American Opportunity Tax

Credit, the Lifetime Learning Credit, and a gradual reduction of the student loan interest deduction by \$250 increments over the 10-year period from 2017 to 2026.⁴³

If politicians are unwilling to boost investment in the Pell Grant to support college attainment and economic investment for working-class Americans, policymakers must—at the very least—not cut or reduce Pell funding in any way, in order to prevent the affordability problem from worsening. At absolute minimum, the Pell Grant should remain indexed to inflation and funded through mandatory dollars, and any funds appropriated to the Pell program should remain targeted toward Pell recipients.⁴⁴ Additionally, this vital grant aid should be extended to support students studying year-round.

2 | States should strengthen direct investment in public colleges and need-based aid programs.

In recent decades, states have reduced per-student state funding for public colleges, causing them to increase tuition and shift more of the financial burden onto students and families.⁴⁵ This effect was especially strong when enrollments rose during the Great Recession but states continued to cut funding in favor of other state priorities,⁴⁶ balancing their budgets on the backs of students in many cases. While state appropriations for higher education have increased slightly in the past year, many states are still funding their colleges at pre-Recession levels or lower.⁴⁷

In addition to funding public institutions through direct appropriations, states should target financial aid and free-college programs toward students with the most need. While a multitude of recent free-college proposals are a promising sign that states and the public are interested in improving college affordability, these programs must be designed as first-dollar rather than last-

States should target financial aid and free-college programs toward students with the most need.

dollar programs, in order to enhance opportunity for students who need it. As the analysis here shows, last-dollar plans do not address affordability for low-income students but rather subsidize high-income students who do not need such assistance. By contrast, first-dollar programs supplement rather than supplant existing funding, and can act like need-based grants to help low-income students pay for tuition and living expenses.

Not only will increased investment in public colleges and need-based aid help students, but it also will bolster states. Research shows that communities benefit from the higher employment rates and tax revenue, lower healthcare costs and incarceration rates, and less reliance on public assistance associated with college graduates.⁴⁸ Therefore, states that slash higher education budgets looking for savings are missing out on the long-term payoff of higher education. To help solve the worsening problem of college affordability, and to address their own long-term needs, states need to reinvest in higher education.

3 | Colleges should manage institutional costs to concentrate expenditures on students.

There are ongoing attempts in higher education to develop cost reduction strategies,⁴⁹ but college prices continue to increase dramatically nevertheless. More must be done to contain costs, examine and refine institutional business models, and manage tuition increases. Most importantly, colleges must examine their budgets and prioritize spending on items that directly relate to increasing student access and improving student outcomes.

Many colleges have demonstrated a willingness to eliminate redundancies as a cost-saving measure,⁵⁰ but data suggest that some savings are simply being spent elsewhere.⁵¹ In many cases, institutions spend more on athletics programs and auxiliary facilities and services than they do on actually educating their students.⁵² In addition to refocusing expenditures on instruction, most colleges could do a much better job of allocating a greater share of non-instructional

resources to student-focused services such as counseling, academic support, and public service. Furthermore, admissions offices must focus recruitment spending on initiatives that attract and enroll more students from low-income backgrounds. Colleges have a duty to ensure that their expenditures align with their mission, and that they focus primarily on supporting students instead of asking them to foot the bill.

4 | Colleges with wealth at their disposal—either in the form of large endowments or company profits—should keep prices low for needy students.

Colleges with large endowments should be required to spend at least the 5 percent that private foundations are required to spend on charitable donations each year,⁵³ and invest those dollars in making their colleges more affordable and accessible for low-income students. In 2013, 138 colleges had endowments over \$500 million, yet 35 of them spent less than 5 percent of those endowments.⁵⁴ Lawmakers, such as Senator Chuck Grassley (R-IA), have telegraphed concerns about endowments and expenditures in the context of rising college costs and have suggested requiring that colleges spend a portion of their endowments each year.⁵⁵ Critiques of these proposals have centered on the idea that the impact would be minimal because wealthy colleges enroll so few low-income students.⁵⁶ They certainly could enroll more, and by all means should be expected to do so.⁵⁷ The Access, Success, and Persistence in Reshaping Education (ASPIRE) Act—pending bipartisan legislation from Senators Coons (D-DE) and Isakson (R-GA)—proposes incentives for colleges that perform well on access and completion as well as disincentives for colleges that enroll extremely low numbers of Pell-eligible freshmen year after year when compared with their peers.⁵⁸

Transparency alone will not fix the affordability problem, but it is an important step in helping students make difficult decisions in a complex environment.

While colleges with large endowments could do more to address affordability, so could for-profit institutions. This paper's analysis found that for-profit colleges on average were the least affordable options for low-income students, falling short of students' affordability thresholds by the greatest margin—an overall average of \$18,000. This level of unaffordability, which forces low-income students to borrow heavily, stands in stark contrast to the profits they distribute to shareholders,⁵⁹ which would serve as some of the largest institutional endowments in the U.S. if they were treated as such.⁶⁰ There is nothing fundamentally wrong with generating profit while providing a much-needed quality service. However, research shows that for-profit colleges are more likely to leave students in worse shape than other schools serving similar students—with more debt, higher default and unemployment rates, lower earnings, and lower student satisfaction.⁶¹ Considering this track record, and the significant public investment,⁶² it is reasonable to expect these institutions to lower prices for students in need.

5 | Congress should pass legislation to improve consumer information and transparency, giving students the information they need to make affordable choices.

Transparency alone will not fix the affordability problem, but it is an important step in helping students make difficult decisions in a complex environment. For example, the bipartisan Net Price Calculator Improvement Act would establish a universal NPC with a standard set of questions,⁶³ making it much less labor-intensive to find and compare net prices. Currently, students and other consumers must visit multiple calculators, input their information repeatedly, and save the results for comparison, making for a time-intensive process. Tools such as College Abacus allow users to input their information once and receive estimates for multiple campuses—but not all colleges are included, with some institutions blocking College Abacus because they are “very sensitive to being compared on price.”⁶⁴ By including all colleges in a universal NPC, the Act would enhance transparency, simplify the college search process, and help students make more informed choices. The bill would also prioritize student privacy by requiring colleges to clearly communicate which NPC questions are required (i.e., that providing personal contact information is optional), and by prohibiting the sale or distribution of personally identifiable information to third parties.⁶⁵

Choosing a More Equitable Future

Concerns about college access and affordability are not unique to this moment in history. President Abraham Lincoln started a strong American precedent for state and federal support of higher education opportunity when he signed the Morrill Act of 1862, helping to establish many of our oldest and most highly regarded public colleges as universities “for the industrial classes.”⁶⁶ A century later, the essence of President Lyndon Johnson’s message when he signed the Higher Education Act of 1965 into law was that no American should have to forego a college education simply because they are poor.⁶⁷ Today, however, we are largely failing in our mission to provide equal educational opportunity in the United States. Instead, we have allowed the rising price of college and growing student debt to fuel inequity in American higher education.⁶⁸

Indeed, as this paper shows, the evidence that many Americans cannot keep up with college costs—even after accounting for grant aid—continues to mount. Borrowing does little to improve many students’ options and leads students to accumulate debt, while last-dollar free-college proposals do not direct resources toward the students in most need of financial support. Meanwhile, the wealthiest students can afford a host of college options. Equality of opportunity and upward mobility for hardworking citizens are fundamental American ideals—yet currently only the wealthiest Americans have reasonably affordable higher education options. Wealthier students already finish college at higher rates than lower-income but academically similar peers.⁶⁹

No American should have to forego a college education simply because they are poor.

Our nation as a whole has grown incredibly wealthy yet incredibly unequal,⁷⁰ and our college affordability problem is fundamentally one of inequity as well.

While our current situation prompts great concern, this paper explores a number of ways to address college affordability across various institution types, from increased aid and investment at the federal and state levels to seeing that institutions do more to support their students. The numbers show that sufficient increases in student financial support could open many more doors for college-bound Americans. Solving this dilemma will require policymakers at all levels—federal, state, and institutional—to mutually acknowledge the problem and then work together to solve it. As such, these five recommendations are not mutually exclusive; each form part of a larger effort to address this issue. Budget adjustments and funding solutions are not likely to be easy, but we know that the investment is worthwhile for our local communities, our states, and our nation as a whole.

We have two paths before us. On the one hand, we can watch as our fellow Americans—who may not even have even completed the education they paid so much for—continue to take on more debt, delay homeownership, and struggle to provide for their families. On the other hand, we have the opportunity to make investments together that will drive our economy, will improve healthcare costs and lower incarcerations rates, and will ultimately help our fellow citizens contribute fully to our way of life. The first option is simply not sustainable,⁷¹ and the long-term consequences for our society may be vast. Federal, state, and institutional policymakers must have the courage to adopt bold policies that address the inequity of educational opportunity in the United States, and ensure that future low- and moderate-income students and families do not find themselves priced out of higher education.

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