



Bipartisan Policy Center

# A New Course for Higher Education



**STRENGTHENING ACCESS,  
AFFORDABILITY,  
AND ACCOUNTABILITY**

January 2020

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# TASK FORCE ON HIGHER EDUCATION FINANCING AND STUDENT OUTCOMES

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## DISCLAIMER

This report is the product of BPC's Task Force on Higher Education Financing and Student Outcomes. The findings expressed herein are those solely of the task force, though no member may be satisfied with every individual recommendation in the report. The contents of this report do not necessarily represent the views or opinions of the Bipartisan Policy Center's founders or its board of directors, nor the views or opinions of any organization associated with individual members of the task force.



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# Letter from the Co-Chairs

High-quality and broadly accessible higher education is a key driver of social mobility for any country. It is also critical for maintaining an internationally competitive workforce and fostering economic growth. America's higher education system has long been heralded as the best in the world, attracting top faculty and researchers, and positioning students to succeed in the workplace. But this primacy is under threat, as higher education has grown increasingly unaffordable, especially for low- and middle-income families. At the same time, too few students make it to graduation and too many are burdened with oppressive levels of student debt. These disturbing trends can be partly attributed to an outmoded policy apparatus that is not equipped to manage a landscape characterized by rapid innovation and demographic change.

Policy changes are needed because higher education in the United States is evolving, as postsecondary institutions experiment with different learning models, forge links to labor markets, and develop new opportunities for skills training. Colleges and universities are also being challenged to serve growing numbers of adult learners, who are more likely to require multiple, flexible pathways to degree attainment. At the same time, declining birth rates and lower levels of international enrollment have led to shrinking demand for higher education in certain regions of the country, placing financial strains on some institutions.

Despite these major shifts and challenges, the Higher Education Act, which guides federal involvement in higher education, has not been updated since 2008, when the two of us led the House Education and Labor Committee. Because the original HEA and subsequent HEA updates were largely designed with traditional four-year institutions in mind, the current federal policy framework fails to adequately incorporate other pathways to postsecondary credentials, such as short-term training programs, many of which provide students with in-demand skills. In addition, accessing and completing a postsecondary degree has become overwhelmingly expensive. While a college degree, despite its cost, remains a good investment in most cases, too many students are failing to realize positive returns on their educational expenditures, particularly if they fail to graduate or graduate from institutions with lackluster student outcomes. Many of these students finance their education with debt that they are unable to repay, threatening long-term financial security. Taxpayers are also exposed to risks from the current system, given that most student debt is issued by the federal government. Ultimately,

tens of billions of federal dollars flow each year into a higher education system that lacks transparency, accountability, and adequate consumer protections.

In response to these challenges, the Bipartisan Policy Center asked us to co-chair a Task Force on Higher Education Financing and Student Outcomes. Convening a range of leaders and experts in higher education from across the political spectrum, our group was tasked with developing a package of recommendations that could serve as a blueprint for a comprehensive and bipartisan HEA reauthorization.

Over the past 18 months, the task force examined a variety of issues and conducted modeling, where relevant data were available, to inform our decision-making. The recommendations we articulate in this report are aimed at advancing multiple objectives: promoting college affordability and reducing equity gaps; strengthening institutional accountability while also ensuring that low-capacity institutions have the resources needed to succeed; simplifying the federal student loan program and reducing unsustainable borrowing; and providing better information and data to policymakers, researchers, and—most importantly—students and families.

These deliberations were not easy, demanding a high level of compromise and pragmatism among task force members with strongly held views and differing backgrounds. But our group was unified in the belief that too many low- and even middle-income students struggle to afford a college degree. The fact that many students can't afford to stay in school, or can do so only by taking on unsustainable levels of debt, is clearly a major contributor to declining levels of social mobility. There was also broad agreement that federal student aid should be targeted better and made less complex, the federal government should improve oversight over low-performing programs, and federal data systems must be improved to aid student and family decision-making.

Despite consensus on these issues and a shared view of the urgency and importance of the nation's higher education challenges more generally, task force members remained philosophically divided on one key question: what level of federal resources should be directed to postsecondary education? Some members expressed a belief that more federal dollars are needed to promote increased access and affordability. Other members stressed that the federal government already spends more than \$100 billion annually on federal student aid, and despite these resources, prices continue to rise and the system's overall performance—in terms of student outcomes—continues to fall short. In their view, heavy government involvement could even be driving up tuition prices for students and increasing costs for taxpayers.

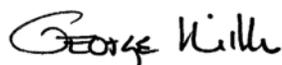
Given this divergence of views on the funding issue, the task force agreed to a framework of rough budget neutrality in which our focus would be on allocating available resources more effectively through policies that better

target those low- and middle-income students who currently face gaps in their higher education financing. Combined with a complementary set of policies to improve education quality and empower students to make more informed financial and educational decisions, we believe this approach will also help to put downward pressure on tuition costs and push schools to take steps that improve student outcomes.

It is important to emphasize that not every task force member would support every recommendation in this report in isolation. Those who favor increasing federal resources, for example, would not support proposals that reduce federal funding without the complementary proposals we put forward for better supporting low- and middle-income students. Similarly, advocates of reduced federal involvement would not support the recommendations that call for increased funding if those recommendations were not paired with the proposals for reducing ineffective and poorly targeted spending. Rather, task force members have agreed as a group to a package of reforms, and their support for individual recommendations can only be viewed in that context.

We believe this package, taken as a whole, will improve both accountability and access so that students, educational institutions and taxpayers are better served by federal higher education spending. Our ability to reach bipartisan consensus suggests to us that pragmatic and data-driven reforms are possible. We hope this report provides new momentum to policymakers as they negotiate an approach that dramatically improves higher education outcomes—for the good of students, their families, and the nation as a whole.

Sincerely,



George Miller



Howard P. "Buck" McKeon

# Section I: Three Challenges

**A**merica's higher education system has long been an engine of opportunity, providing students the skills and knowledge that empowers economic growth and social mobility. But the system is failing to meet the needs of too many students today. Tuition prices, fees, and living costs are all on the rise, outpacing federal support for low-income students and increasing more rapidly than household income.<sup>1</sup> This has caused more students, particularly those of limited means, as well as graduate students, to rely on debt to finance their education, as evidenced by the \$1.5 trillion in total outstanding federal student loans.<sup>2</sup>

Moreover, the system produces lackluster student outcomes, as just around two-fifths of first-time, full-time students graduate with a bachelor's degree within four years, and around 60% graduate within six.<sup>i,3</sup> Individuals who begin postsecondary education but fail to complete tend to have lower wages compared with graduates, and borrowers who never receive a degree are left in an especially precarious financial situation of having to pay off debt without the benefit of a credential. Although far from the only challenge, low completion rates and the subsequent impact on wages are reflected in broader student loan repayment trends. Currently, just around half of new borrowers are able to reduce their principal balance within three years of entering repayment.<sup>4</sup> More strikingly, nearly two out of five (39%) outstanding loans expected to be in repayment in the federally managed portfolio were either delinquent or in default in 2019.<sup>ii,5</sup>

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i These graduation rates represent full-time students who completed a degree within four or six years at the same institution where they initially enrolled, and therefore do not include part-time or transfer students. Research suggests that including part-time and transfer students into this analysis would reduce average graduation rates even further. For more information, see: <https://www.thirdway.org/memo/new-data-further-cements-completion-crisis-in-higher-education>.

ii The federally managed portfolio includes Direct Loans and Department of Education-held Federal Family Education Loans. This figure is for quarter 3, ending September 30, 2019, and represents borrowers whose loans are more than 30 days delinquent, including those whose loans have gone into default. It does not include loans among borrowers in school or loans in deferment, forbearance, or in the six-month grace period. Recipient counts are based at the loan level. As a result, recipients may be counted multiple times across varying loan statuses. For more information, see: <https://studentaid.ed.gov/sa/repay-loans/deferment-forbearance>.

In addition to large loan balances, these repayment struggles partly reflect the fact that even those who do graduate are too often unprepared for the labor market. Surveys suggest roughly half of business executives and hiring managers believe that colleges and universities need to improve their performance in order to ensure students have the skills and knowledge needed for the workforce.<sup>6</sup> Similarly, only four in ten current students believe that their college education has left them well prepared for a job.<sup>7</sup>

Thus, while federal investments in student aid have helped to bring forth major gains in higher education access,<sup>iii</sup> public policy has fallen short of promoting improvements in student outcomes and at addressing changing student demographics and needs. A large majority of today's students are some combination of parents, working adults, veterans, and online students. These groups bring diversity and unique strengths to higher education, but they are not being well served by a system that was designed for full-time students who enter college soon after graduating from high school.<sup>8</sup>

In part, these troubling figures can be attributed to an institutional accountability and quality assurance system that is insufficient and largely disconnected from the challenges above. Oversight and enforcement today are mostly limited to a set of all-or-nothing triggers that can result in the federal government restricting or revoking institutions' access to federal student aid—a punishment so severe that it is rarely invoked. When sanctions are enforced, the penalties can lead to school closure, and federal policy is ill-equipped to protect students when this occurs.

Compounding these challenges is the fact that a paucity of relevant data makes it difficult to gauge institutional performance. Not only is reporting inconsistent among institutions, but the federal government's Integrated Postsecondary Education Data System, or IPEDS, lacks the granularity needed to provide a complete picture of how students fare as they move through the higher education system and what happens to them after they leave it.

Similarly, students—and student borrowers in particular—risk making uninformed decisions regarding higher education enrollment and financing. Part of this challenge can be attributed to the fact that the information provided to them is neither clear nor straightforward. Although federal regulations require institutions disbursing loans to provide counseling, research indicates that much of the counseling currently offered is ineffective and focused on content that is irrelevant for many borrowers.<sup>9</sup> Lack of standardization in the materials sent to prospective students makes it difficult for students to weigh their options, and required loan disclosure forms are complex, full of jargon,

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iii Enrollment in postsecondary education among the population aged 18 to 24 has grown from 26% to 40% since 1970. For more information, see: [https://nces.ed.gov/programs/digest/d18/tables/dt18\\_302.60.asp](https://nces.ed.gov/programs/digest/d18/tables/dt18_302.60.asp).

and too general to aid borrowers in making decisions that reflect their personal circumstances.<sup>10</sup> To make matters worse, the federal form used to calculate financial aid awards, known as the Free Application for Federal Student Aid, or FAFSA, is complex and burdensome, which hinders participation, especially among low-income and first-generation students.<sup>11</sup>

Another issue is that many schools serving high proportions of low-income students, adult learners, and students of color—such as community colleges and Historically Black Colleges and Universities—are chronically underfunded, despite the large role they play in bridging equity gaps and promoting opportunity.<sup>12,13,14</sup> Without appropriate investment, many of these schools will continue to lack the institutional capacity to implement the range of programs and practices needed to fully support student success.<sup>15</sup>

Given the diverse array of challenges facing the U.S. higher education system, it is imperative that public policies work to boost student outcomes and drive down tuition costs. BPC’s Task Force on Higher Education Financing and Student Outcomes has developed a pragmatic, forward-thinking vision for higher education reform to support today’s students. The package of recommendations described in this report seeks to better leverage existing federal higher education resources to foster affordability and accountability, while simultaneously reducing equity gaps and promoting investments in institutional capacity. In addition, we have prioritized the goal of providing better data and information to policymakers, researchers, and most importantly, students and families. We believe these recommendations, which are meant to be adopted as a package, can move the needle toward a higher education system that better serves all Americans in creating pathways for increased economic opportunity and providing the skilled workforce that will ensure our nation’s long-term prosperity.

The remainder of this section provides important context for the recommendations put forward in Section II of this report by discussing, in greater detail, specific challenges that must be addressed to ensure America’s higher education system meets the needs of students and our economy. We group these challenges in three categories: A. Access and Affordability. B. Outcomes and Accountability. C. Data and Information.

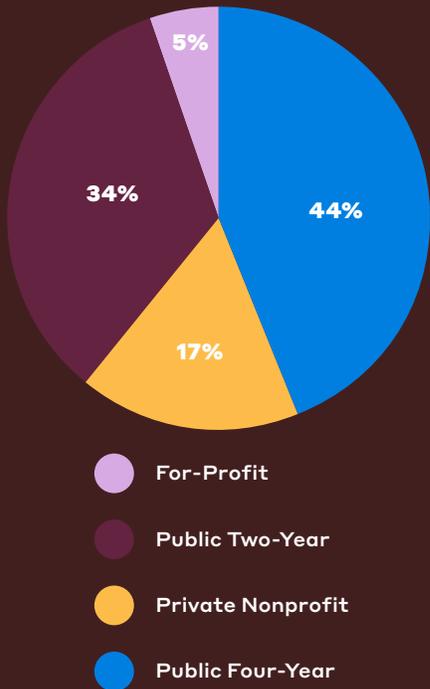
## Box 1: Today's Students

The prevailing stereotype of a college student—someone who enrolls full-time at a four-year institution directly from high school—is inconsistent with the reality of the current college-going population in the United States:<sup>16</sup>

- 38% of students attend college part-time
- 14% of students receive their education entirely online
- 40% of students are 25 or older
- 62% of students work (full- or part-time) while in school
- 28% of students have children

Today's student body is also increasingly diverse, with students of color making up 44% of total enrollment.

**Figure 1: Undergraduate Enrollment, by Sector**



**Source:** National Center For Education Statistics, Higher Education General Information Survey, Fall Enrollment 2017

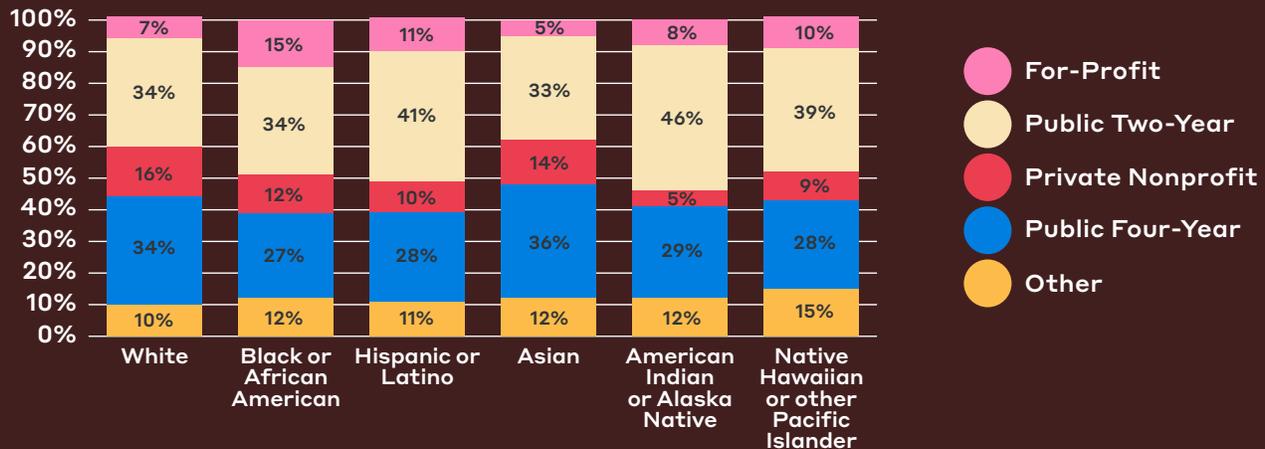
**Table 1: Share of Undergraduate Enrollment, by Federal Poverty Level**

Percent of Federal Poverty Level	Median Income	Share of Undergraduate Enrollment
0 - 50%	\$1,323	18%
51 - 100%	\$14,042	14%
101 - 150%	\$23,891	12%
151 - 200%	\$34,557	10%
201% or more	\$84,340	47%

**Source:** National Center for Education Statistics, National Postsecondary Student Aid Study, 2016; U.S. Department of Health and Human Services

**Note:** Total does not sum to 100% due to rounding.

**Figure 2: Undergraduate Enrollment Patterns, by Race**



**Source:** National Center for Education Statistics, National Postsecondary Student Aid Study, 2016

**Note:** "Other" includes students enrolled in certificate programs or students who attended more than one school. Totals may not sum to 100% due to rounding.

## I.A CHALLENGE: ACCESS AND AFFORDABILITY

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The federal government has a compelling national interest in expanding access to higher education for all Americans, given the importance of a postsecondary degree to economic success and financial security, and employers' need for skilled workers to thrive and grow their businesses.<sup>17</sup> However, the price of a postsecondary education continues to rise, with tuition, fees, room, and board, or TFRB, growing more rapidly than inflation and available financial aid.<sup>18</sup> For example, the maximum Pell Grant, the federal government's primary need-based support for low-income students, currently covers just 28% of average published TFRB at public four-year schools, down from 39% in the 1999–2000 academic year.<sup>19</sup>

Meanwhile, per-student state spending is on a long-term downward trend,<sup>iv</sup> exacerbating price increases at public institutions and swelling student debt burdens.<sup>20</sup> It is notable that total outstanding student debt—estimated at over \$1.6 trillion—now constitutes the second-largest category of household debt in the country after only home mortgages.<sup>21,22</sup>

Much of this debt—more than 90%, or roughly \$1.5 trillion—is held or guaranteed by the federal government, and by extension, U.S. taxpayers.<sup>23,24</sup> In fact, outstanding federal student debt has more than doubled since 2007, when the total was \$634 billion.<sup>v,vi,vii,25</sup>

Beyond the concern that increased spending has not resulted in improving student outcomes, a subject we cover in the next section, the rapid growth of the federal student loan program could itself be contributing to tuition inflation—

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iv It should be noted that higher education spending varies significantly by state. For a summary of state funding over the past 10 years, see: <https://sheeo.org/project/state-higher-education-finance/>.

v These figures are in 2019 dollars, adjusted for inflation using the Consumer Price Index for All Urban Consumers (CPI-U).

vi Between 30% and 40% of all undergraduate students take out federal student loans annually, and 70% of students who complete a bachelor's degree hold some student debt. For more information, see: <http://collegeaffordability.urban.org/covering-expenses/borrowing/>.

vii The average annual amount borrowed in federal subsidized and unsubsidized loans by undergraduate borrowers in 2018-19 was \$6,660. Graduate students who took out loans borrowed, on average, \$19,250 (excluding PLUS Loans). For more information, see: <https://research.collegeboard.org/trends/student-aid>.

by reducing incentives for colleges and universities to boost efficiencies and restrain price increases.<sup>26</sup> That concern particularly applies to graduate programs, where loans are allowed up to the total cost of attendance, which is set by the institution. Other critiques of the current federal program focus on its lack of effectiveness in targeting and supporting those students who face the highest barriers to access, versus subsidizing relatively wealthy students at the expense of their low-income counterparts. In the discussion that follows, we focus on specific aspects of the access and affordability challenge.

## The High Cost of College Attendance

It is no secret that America's higher education system is plagued with rising costs. Over the past two decades, published TFRB has increased by 76% at public four-year institutions, 51% at private nonprofits,<sup>viii</sup> and 23% at public two-year schools (Figure 3).<sup>27</sup> Meanwhile, median household income has grown by less than 3%,<sup>28</sup> which is a major reason why college has become increasingly unaffordable for many families.<sup>ix</sup>

Given that relatively few students pay full "sticker price" to attend a given institution, average net TFRB—which accounts for tuition discounts, tax credits, and state and federal grant aid—are a more meaningful measure of trends in pricing. Here, too, real prices have risen, albeit less dramatically in some sectors. Since the 1999–2000 academic year, average net TFRB at public four-year institutions has grown 70%, only slightly more modestly than published TFRB would indicate. At private nonprofits, by contrast, average net TFRB increased 21% over the same period (or by less than half the 51% increase in published TFRB for these institutions).<sup>x</sup> For public two-year institutions, the average net TFRB increase was 10% (Figure 3).<sup>29</sup> This substantial discrepancy between the published prices and out-of-pocket costs underscores the need for greater price transparency to help students and families make informed decisions about their higher education options.

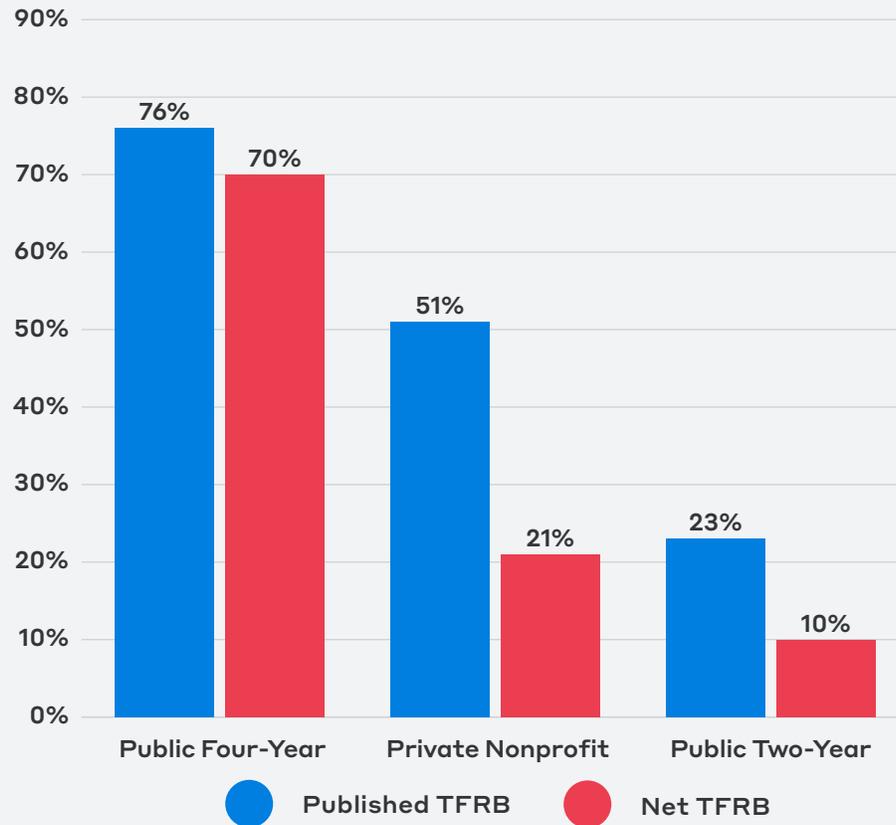
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viii This figure refers to private four-year nonprofits, which make up 99% of total nonprofit higher education enrollment.

ix The increases in published TFRB are measured from the 1999-2000 academic year to the 2019-20 academic year. The change in median household income is measured from 1999 to 2018, the most recent year for which data are available. All comparisons are made in 2019 dollars, adjusted for inflation using the Consumer Price Index for All Urban Consumers (CPI-U).

x This figure refers to private four-year nonprofit institutions only.

**Figure 3: Percent Increase in Published and Net Tuition, Fees, Room, and Board (TFRB) from 1999–2000 to 2019–20, by Sector**



**Source:** Calculations by the Bipartisan Policy Center; College Board, Trends in College Pricing, 2019

**Note:** Increases reflect percent changes after adjusting for inflation.

Schools provide students with an estimate of the total costs associated with enrollment, called the cost of attendance, or COA.<sup>xi</sup> Unfortunately, estimates of non-tuition costs often vary widely, even among schools in the same county, suggesting their accuracy may be questionable. But there is no question that rising costs for other

xi Cost of attendance, or COA, is the total amount it will cost a student to attend a specific institution for the academic year. This calculation is determined by each institution and typically includes tuition and fees; on-campus room and board (or a housing and food allowance for off-campus students); and allowances for books, supplies, transportation, loan fees, educational technology or materials, and child care, when applicable. For more information, see: <https://ifap.ed.gov/sfahandbooks/attachments/O607Vol3Ch2.pdf>.

expenses are adding to the affordability and access challenges facing many low- and middle-income students and their families.<sup>xii</sup>

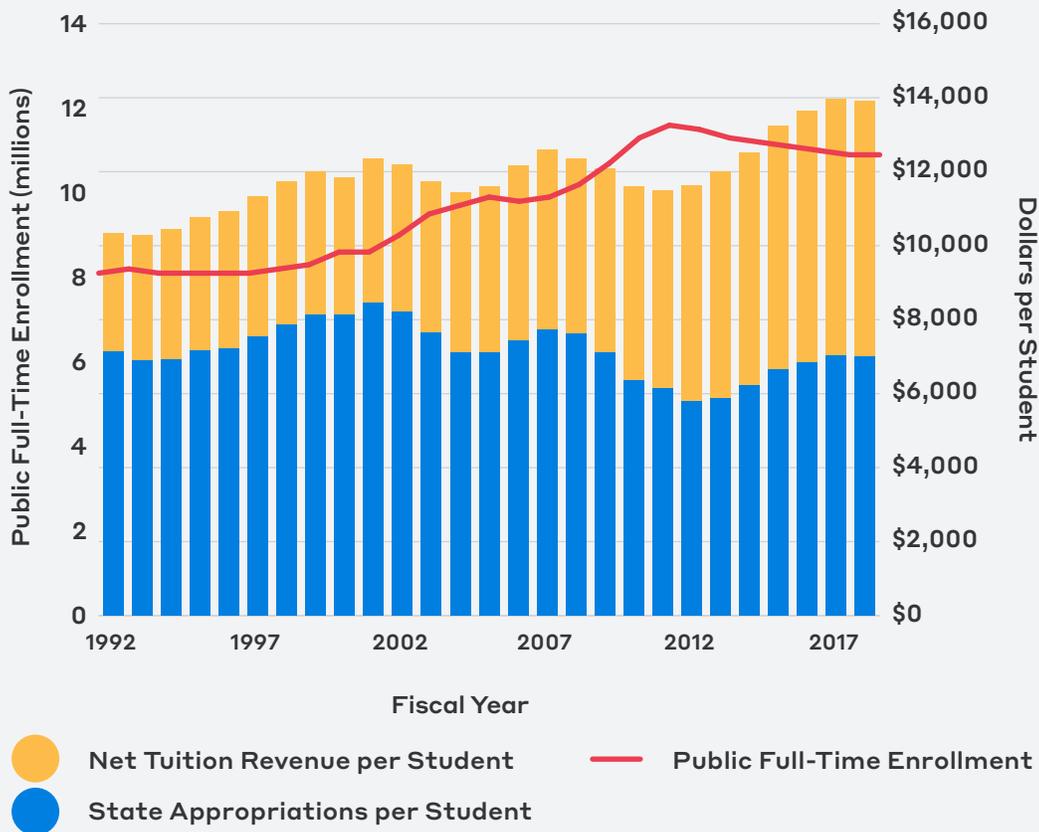
A variety of competing and complementary theories have been put forward to explain the rising cost of higher education. Some point to the federal loan program as a source of easy credit that puts upward pressure on tuition prices and leaves institutions with little incentive to cut costs. Others point to declining state funding, which has led institutions—particularly public four-year schools—to rely more heavily on tuition revenues to plug funding shortfalls.

Indeed, states have historically been the primary funders of public higher education, directly supporting state university systems through annual or biennial appropriations, while also providing both need-based and merit-based grant aid to students within the state.<sup>xiii</sup> This has left the federal government to play a complementary role, providing federal student aid (largely in the form of loans and grants) to promote broader access to postsecondary education and mitigate remaining funding gaps.

More recently, however, declining state support for higher education has altered these roles. Between 1992 and 2018, state appropriations for higher education fell modestly in real terms, from \$7,146 to \$6,991 per student (Figure 4).<sup>xiv,xv,30</sup>

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- xii While there is no consensus on what constitutes low- and middle-income families, the Integrated Postsecondary Education Data System, or IPEDS, identifies low- and middle-income students as families with reported annual incomes ranging from \$0-\$75,000 (for purposes of calculating net price). For more information, see: <https://nces.ed.gov/ipeds/use-the-data>.
- xiii State grant aid can generally be used at public or private institutions. For more information on state grant aid, see: <https://www.ecs.org/50-state-comparison-need-and-merit-based-financial-aid/>.
- xiv Per-student refers to full-time equivalent, or FTE, students. One FTE can, for example, equal one full-time student or two part-time students. For more information, see: <https://www.sandiego.edu/facts/quick/current/fte.php>.
- xv State appropriations is defined as educational appropriations minus local appropriations and funds from the American Recovery and Reinvestment Act of 2009. These figures are in 2019 dollars, adjusted for inflation using the Consumer Price Index for All Urban Consumers (CPI-U).

**Figure 4: Enrollment in Public Higher Education, State Appropriations, and Net Tuition Revenue**

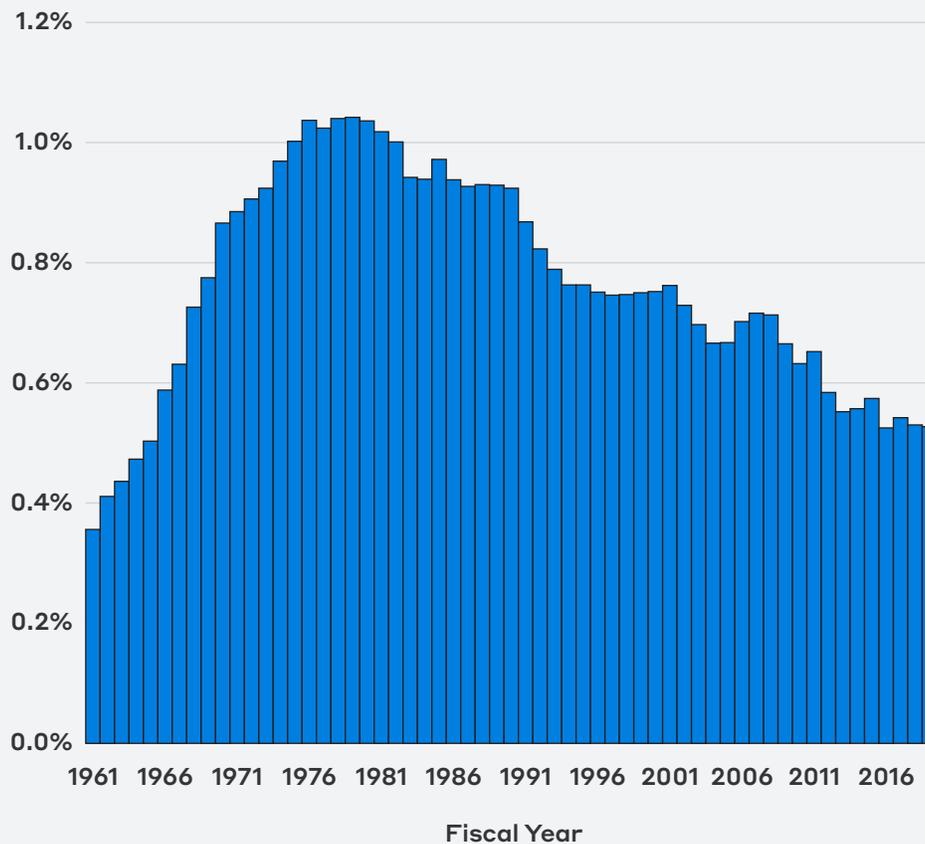


**Source:** SHEEO State Higher Education Finance, 2018  
**Note:** “State appropriations” excludes local appropriations and funds from the American Recovery and Reinvestment Act of 2009. All figures are measured in 2019 dollars.

Trends in state appropriations, however, fail to tell the complete story, because personal incomes (and hence tax revenues) have risen over time, as has the cost of a postsecondary education. As a share of personal income, for example, state support for higher education has dropped from 1.0% in the mid-1970s to 0.5% today (Figure 5).<sup>xvi,31,32</sup>

xvi State support for higher education includes all sums appropriated for state aid to institutions and state-based financial aid. The metric excludes appropriations for capital outlays and debt service as well as appropriations derived from federal sources, student fees, auxiliary enterprises, and other non-tax sources. For more information, see: [https://sheeomain.wpengine.com/wp-content/uploads/2019/04/SHEEO\\_SHEF\\_FY18\\_TechPaper.pdf](https://sheeomain.wpengine.com/wp-content/uploads/2019/04/SHEEO_SHEF_FY18_TechPaper.pdf).

**Figure 5: State Fiscal Support for Higher Education as a Percentage of Personal Income**



**Source:** Center for the Study of Education Policy and State Higher Education Executive Officers, Grapevine, FY 2018-19; Bureau of Economic Analysis, 2019

As state support has declined, public colleges and universities have increased their reliance on tuition revenues. In 2018, tuition revenues accounted for 47% of public institutions' total revenues—up from 31% in 1998.<sup>xvii,33</sup> Students have struggled to afford these higher tuition costs, often resorting to increased dependence on federal student aid.<sup>34</sup> Others wind up deferring their enrollment or leaving school before obtaining their degree.

xvii Part of this increase reflects the fact that many universities have aggressively recruited out-of-state and international students, who generally pay higher tuition prices. For more information, see: O. Jaquette and B. Curs, "Creating the out-of-state university: Do public universities increase nonresident freshman enrollment in response to declining state appropriations?," *Research in Higher Education*, 56(6): 535-565, 2015.

**Table 2: Government Funding for Higher Education**

Federal Support for Higher Education	State Support for Higher Education
<p><b>Federal Financial Aid (Grants/Loans/Work-Study)</b> Aid provided directly to students in the form of grants, loans, or a part-time job to defray the cost of college.</p>	<p><b>General Operating Expenses (Appropriations)</b> State appropriations primarily directed to public colleges and universities, but some funds support students at private colleges.</p>
<p><b>Tax Credits and Deductions</b> Credits, deductions, and savings plans to help taxpayers cover their higher education expenses.</p>	<p><b>State Financial Aid (Grants/Scholarships)</b> Aid provided directly to students to defray the cost of college.</p>
<p><b>Research Grants</b> Awards to researchers, schools, or programs to support research for innovation in the national interest.</p>	<p><b>Research Grants</b> Awards to researchers, schools, or programs to support research in the state.</p>
<p><b>Institutional Capacity Grants</b> Support for institutions that enroll a high proportion of low-income and historically underrepresented students.</p>	
<p><b>Veterans' Benefits</b> Support for military veterans enrolled in higher education through the GI Bill.</p>	

Declining state funding, though partially attributable to state tax cuts,<sup>35</sup> also reflects the fact that states have competing priorities, such as funding for K-12 education and Medicaid; most states are subject to balanced budget amendments (or limits on deficits) that further constrain spending.<sup>36</sup> Given these difficult tradeoffs and because tuition revenues (backstopped by federal loans and grants) provide an alternate funding source for higher education, many states have curtailed higher education funding in favor of other priorities.

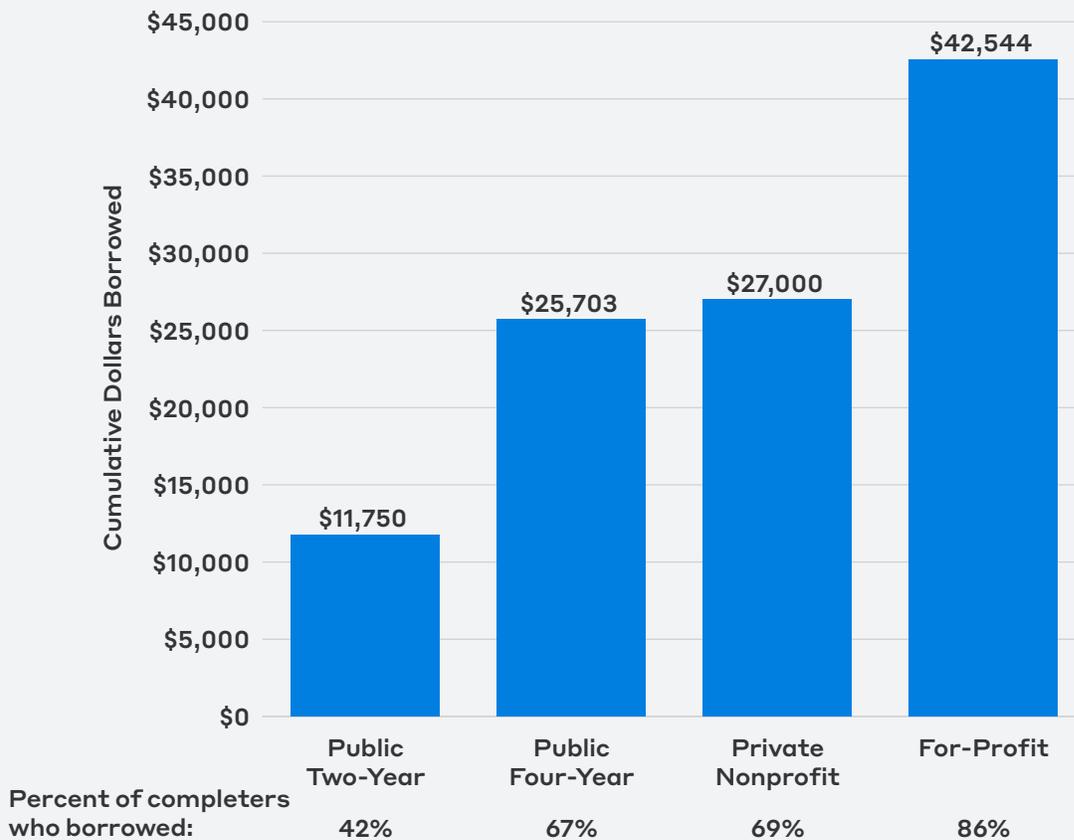
Macroeconomic trends can exacerbate the funding squeeze. Increasing or even maintaining support for higher education can be difficult during a recession, when declining tax receipts force states to make tough choices about where to cut funding.<sup>37</sup> Moreover, enrollment in colleges and universities tends to increase during recessions, as unemployed workers and graduates unable to find work return to school. This combination of forces makes it more difficult for lawmakers to maintain consistent levels of per-student funding in tough economic times.

Ultimately, rising tuition prices—facilitated in part to offset state disinvestment—have led to a sharp rise in unmet need, meaning the gap between out-of-pocket higher education costs and available student resources, which includes all grants, scholarships, loans, family support, and wages. In turn, student debt has also continued to rise, a subject to which we turn in the next section.<sup>38,39</sup>

## Rising Levels of Student Debt

Though the subject of student debt has prompted considerable alarm in recent years, it is worth noting, despite large increases in total cumulative lending, the typical bachelor's degree recipient carries around \$30,000 in debt. In the 2015-16 academic year, the median student borrower who graduated with a bachelor's degree from a public four-year university shouldered \$25,703 in student loan debt, compared to a median of \$27,000 among graduates of private nonprofit institutions, and \$42,544 among graduates of for-profit institutions (Figure 6).<sup>40</sup>

**Figure 6: Median Amount Borrowed Among Undergraduate Completers, by Sector**



**Source:** Calculations by the Bipartisan Policy Center; National Center for Education Statistics, National Postsecondary Student Aid Study, 2016

These averages, however, mask large variations in borrowing among individual students.<sup>xviii</sup> Just 6% of borrowers hold \$100,000 or more in student loan debt, compared to 76% of borrowers who hold \$40,000 or less.<sup>41</sup> Put another way, a relatively small number of borrowers are responsible for a disproportionate share of the overall debt load.

Students throughout the higher education system take on debt, but borrowing tends to be especially prevalent among low-income students and students of color. Black bachelor's degree recipients take on more debt than any other racial or ethnic group, with the median debt per borrower at \$32,523, compared to \$27,000 for all groups.<sup>42</sup> The same is true for low-income students, as 84% of graduating seniors with Pell Grants carry debt, compared to around half (51%) of non-Pell graduating seniors.<sup>43</sup> Some of this borrowing is prompted by the need to cover non-tuition expenses, such as housing, transportation, and child care. Nearly one-third of low-income students borrow for non-tuition expenses, compared to 20% of high-income students.<sup>44</sup>

Borrowing for graduate degrees is another major driver of overall debt. Graduate students rely more heavily on borrowing because they are ineligible for need-based federal grant aid,<sup>xix</sup> and they are also not subject to explicit annual borrowing limits like undergraduates.<sup>45</sup> Thus, during the 2018-19 academic year, the average graduate student borrowed more than four times the average undergraduate student: \$18,470 compared to \$4,410 (Figure 7).<sup>46</sup> And the trend line is rising: between 2004 and 2016, average cumulative debt among graduate borrowers increased from \$44,203 to \$56,202.<sup>xx,47</sup> Professional degrees, in particular, tend to be high-priced and entail significant borrowing.<sup>48</sup> Among degree recipients in professional programs, 78% take on debt for their graduate studies, with a median borrowing amount of \$140,000.<sup>49</sup>

## Falling Support From Need-Based Grant Aid

Among the array of programs and policies that support postsecondary education (Box 2), need-based grant aid plays a critical role in making college accessible to low-income students in particular. Funding for this type of aid, however, has not kept pace with rising tuition prices and cost of living.

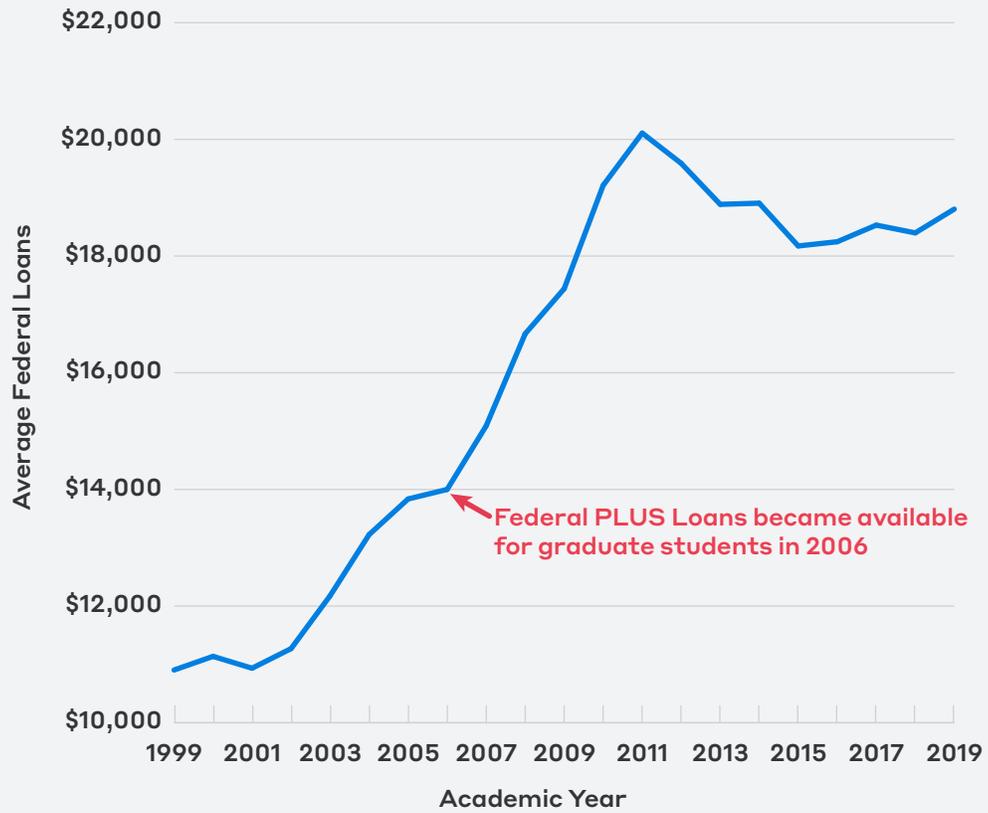
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xviii There are also large variations in student debt across states and institutions. For more information, see: <https://ticas.org/wp-content/uploads/2019/09/classof2018.pdf>.

xix For example, graduate students are ineligible for Pell Grants and subsidized student loans (Table 3).

xx These figures are in 2019 dollars and measure cumulative loan debt for graduate studies only. They do not include any loan debt from undergraduate studies.

**Figure 7: Average Annual Borrowing Among Graduate Students**



**Source:** College Board, Trends in Student Aid, 2019

**Note:** Y-axis does not begin at \$0. Average federal loans are measured in 2019 dollars per-FTE (full-time equivalent) student. These averages are among all graduate students, including those who do not borrow.

**Table 3: Major Types of Federal Loans**

Type of Loan	Interest Rate	Eligibility Criteria	Total Annual Limit	
			Dependent Students	Independent Students
<b>Direct Subsidized</b>	4.53%	Undergraduate students with financial need	First year: \$3,500	First year: \$3,500
			Second year: \$4,500	Second year: \$4,500
			Third year and beyond: \$5,500	Third year and beyond: \$5,500
<b>Direct Unsubsidized</b>	Undergraduate: 4.53%	Undergraduate, graduate, and professional students	First year: \$5,500	First year: \$9,500
			Second year: \$6,500	Second year: \$10,500
			Third year and beyond: \$7,500	Third year and beyond: \$12,500
	Graduate: 6.08%			Graduate yearly limit: \$20,500
	<b>Total Aggregate Loan Limit, Direct Unsubsidized and Subsidized:</b>		\$31,000	Undergraduate: \$57,000
				Graduate: \$138,500. Limit includes loans received for undergraduate study
<b>Grad PLUS</b>	7.08%	Graduate/professional students	Can borrow up to the cost of attendance minus other financial aid	
<b>Parent PLUS</b>		Parents of dependent undergraduates without an adverse credit history		

Source: U.S. Department of Education, Federal Student Aid

## Box 2: Types of Federal Financial Aid for Students

### **Gift Aid (does not need to be repaid)<sup>xxi</sup>**

**Federal Pell Grant** – Direct aid to students with eligibility based on financial need, college costs, and enrollment status.

### **Campus-Based Aid (allocated directly to institutions)**

**Supplemental Educational Opportunity Grant** – Grant aid that is awarded directly to students who demonstrate exceptional financial need.

**Federal Work-Study** – Matching wage incentive for employers to hire students for part-time employment. Jobs must be acquired by the student with eligible employers, where the institution will cover up to 75% of the student's wages, depending on the eligibility of the employer.

### **Student Loans (need to be repaid\*)**

**Direct Subsidized Loans** – Loans available to students based on demonstrated financial need. Interest does not accrue while the student is in school.

**Direct Unsubsidized Loans** – Loans available to all students attending eligible institutions. Interest accrues while the student is in school.

**Parent PLUS Loans** – Loans available to the parents of dependent undergraduates to help pay for expenses not covered by other financial aid. Not guaranteed—a loan application is required, though borrowers are largely approved unless they have an adverse credit history.

**Grad PLUS Loans** – Loans available to graduate students to help pay for expenses not covered by other financial aid.

\*Some federal student loans are eligible for loan forgiveness.

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xxi TEACH Grants are also available to students who intend to complete teacher licensing requirements and teach, and Iraq and Afghanistan Service Grants are available to some descendants of deceased veterans. For more information, see: <https://studentaid.ed.gov/sa/types/grants-scholarships#federal>.

The Pell Grant program is the largest federal source of need-based grant aid. While Pell funding grew significantly during the 2000s—to more than \$30 billion per year—the grant has eroded in value.<sup>50</sup> As mentioned previously, published in-state TFRB at public four-year institutions increased by 76% between the 1999–2000 and 2019–20 academic years, from \$12,440 to \$21,950. Meanwhile, the maximum Pell Grant grew by just 29%, from \$4,810 to \$6,195 (Figure 8).<sup>xxii,51</sup>

The consequences of insufficient need-based grant aid can be seen in higher borrowing levels among low-income students. Pell Grant recipients who graduate with debt shoulder an average of \$4,500 more in student loans compared to higher-income students.<sup>52</sup>

Federal student loans, however, are subject to limits that leave many undergraduate students, including middle-income as well as low-income students, with significant financing gaps. For example, first-year loan eligibility limits are set at \$5,500 for dependent students (Table 3). Even when this loan amount is combined with a maximum Pell award of \$6,195, the total falls about \$10,000 short of the \$21,950 average TFRB at a public four-year institution in 2019.<sup>53</sup>

Such financing gaps increase the likelihood that students drop out before degree completion or that families engage in risky borrowing to help make up the shortfall. Private student loans are available to families that meet underwriting requirements, but these loans often have higher interest rates and fewer protections compared to Direct Loans.<sup>54</sup> Additionally, Parent PLUS Loans allow parents of undergraduate borrowers to take out loans up to the cost of attendance, filling remaining financing gaps after other sources of aid are exhausted. Unfortunately, these loans are too often issued to borrowers without the means to repay, exposing families to significant financial risks.<sup>55</sup> For Parent PLUS borrowers at schools in the bottom decile of repayment rates, aggregate loan balances actually increased by 32% five years into the repayment period (from 2009 to 2014).<sup>xxiii,56</sup> As of 2019, at least 3.5 million borrowers owed a total of \$93 billion in Parent PLUS Loans, up from \$67 billion in 2014.<sup>xxiv,57</sup>

Also concerning is the fact that Parent PLUS Loans lack many of the protections offered through the Direct Loan and Grad PLUS programs. (Grad PLUS Loans allow graduate students to borrow up to the cost of attendance

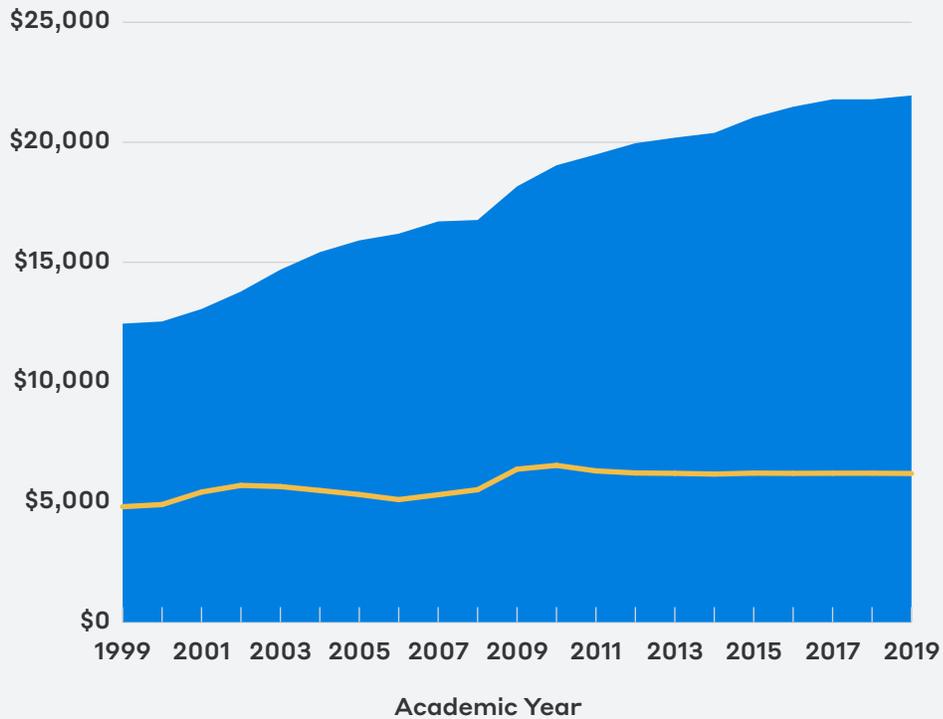
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xxii These figures are in 2019 dollars, adjusted for inflation using the Consumer Price Index for All Urban Consumers (CPI-U).

xxiii The report referenced defines repayment rates as the share of borrowers who make at least a one dollar reduction in their principal balance within five years of entering repayment. For more information, see: <https://www.brookings.edu/research/parents-are-borrowing-more-and-more-to-send-their-kids-to-college-and-many-are-struggling-to-repay/>.

xxiv This figure does not include any consolidated loans. Figures are in 2019 dollars, adjusted for inflation using the Consumer Price Index for All Urban Consumers (CPI-U).

**Figure 8: Maximum Pell Grant Relative to Published In-State Tuition, Fees, Room, and Board (TFRB) at Public Four-Year Institutions**



● Public Four-Year In-State Published TFRB    — Maximum Pell Grant

**Source:** College Board, Trends in College Pricing, 2019; College Board, Trends in Student Aid, 2019

**Note:** All figures are measured in 2019 dollars. Data for TFRB in 2019 is provisional.

at a given institution.) In particular, Parent PLUS Loans lack income-driven repayment,<sup>xxv</sup> which offers flexible terms to borrowers and potential loan forgiveness. Additionally, these loans—with relatively high interest rates and fees—have minimal underwriting standards: borrowers generally qualify unless they have an adverse credit history. This means borrowers with no credit history, or with incomes that do not reflect an ability to meet monthly payment

xxv Although PLUS Loans made to parents cannot be repaid under any of the income-driven repayment plans, parent borrowers may consolidate their PLUS Loans into a Direct Consolidation Loan and then repay the new consolidated loan under the Income-Contingent Repayment plan, or ICR. For more information, see: <https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven>.

obligations, can still receive a Parent PLUS Loan up to the cost of attendance at a given university, which can amount to tens of thousands of dollars.<sup>xxvi</sup>

Given these characteristics, it is unsurprising that Parent PLUS Loans can lead to unsustainable debt accumulation and repayment burdens for low-income families.<sup>58</sup> These loans are generally taken after the student has reached Direct Loan limits, meaning both the student and the student's family have taken on substantial debt, which can adversely impact retirement savings, home purchases, and family formation.<sup>59,60,61</sup> Parents who are unable to repay have limited recourse, and risk garnishment of wages and Social Security benefits by the federal government if they default, which further threatens financial stability. Ultimately, while Parent PLUS Loans are one of the only federal tools available to fill financing gaps after other aid is exhausted, they also carry considerable risk that is too often shouldered by vulnerable families.

## Inequities in Program Design and Implementation

Many of the federal benefits and programs that aim to promote affordability and expand access to higher education—including campus-based aid, tax expenditures, and flexible loan repayment and forgiveness options—suffer from undue complexity and other flaws that direct their benefits disproportionately to higher-income students and families, as well as to wealthier institutions.

A prime example is federal campus-based aid. This includes funding for Federal Work-Study, or FWS, which supports part-time employment for students, as well as Supplemental Educational Opportunity Grants, or SEOG, which provide need-based grant aid for students. Federal resources for campus-based aid flow directly to institutions to distribute to low-income students on campus. Because allocations are tied to an outdated formula that rewards schools based on how long they have participated in the program and a need calculation that is partially driven by the price of the institution, a disproportionate share of these resources ends up flowing to older, and often wealthier, institutions that enroll a smaller share of low-income students.<sup>xxvii,62</sup> Despite private nonprofit schools comprising just 21% of total postsecondary enrollment in the United States—and an even smaller share of Pell-eligible students—those institutions receive close to 40% of all federal campus-based aid,<sup>xxviii,63,64</sup> including 32% of total SEOG funds and 42% of FWS funds.<sup>65</sup>

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xxvi It is worth noting that Direct Loans and Grad PLUS Loans have no underwriting standards at all, given their goal of offering credit to low-income students. However, these borrowers have flexible repayment terms offered through IDR, as well as the potential for wage gains stemming from postsecondary attainment, benefits not available to parent borrowers.

xxvii The fair-share formula calculates a need figure for every school. Given that many older, wealthier institutions charge high tuition prices, their calculated need figure is often larger than those of less-expensive schools.

xxviii Low-income students disproportionately attend the least selective institutions, which have fewer resources to help students succeed. For more information, see: <https://www.thirdway.org/report/the-pell-divide-how-four-year-institutions-are-failing-to-graduate-low-and-moderate-income-students>.

Another source of inequity in federal higher education spending comes via the tax code (Box 3), where federal benefits intended to defray out-of-pocket costs for students and families are significantly tilted towards those in the top half of the income distribution.

### Box 3: Higher Education Tax Expenditures

Three of the most significant federal tax expenditures are the Lifetime Learning Credit, or LLC, the American Opportunity Tax Credit, or AOTC, and the student loan interest deduction.<sup>xxix</sup>

- The **AOTC** is a partially refundable tax credit, meaning the credit can either reduce a filer's federal income tax liability (the amount owed to the government) or part of the credit can result in a refund to the filer if, after accounting for the credit, they owe no income taxes. The current annual limit is \$2,500 per student, with income phase-out thresholds from \$80,000 to \$90,000 for single filers, and \$160,000 to \$180,000 for joint filers. The credit is awarded for qualifying educational expenses to students or to the parents of dependent students who are enrolled at least half-time in their first four years of postsecondary education.<sup>66</sup>
- The **LLC** is a non-refundable tax credit that reduces a filer's tax liability by up to 20% of their first \$10,000 in qualifying tuition and fees, up to a maximum of \$2,000. This credit begins to phase out at a lower income level than the AOTC, with thresholds from \$57,000 to \$67,000 for single filers, and \$114,000 to \$134,000 for those filing jointly.<sup>67</sup> Unlike the AOTC, the LLC can be used beyond the first four years of postsecondary education and there is no enrollment status requirement. Each tax year, no more than one of these two credits can be claimed for any given student.
- The **student loan interest deduction** allows borrowers to deduct up to \$2,500 in student loan interest from their taxable income. This benefit is available to any federal student loan borrower with income below the threshold for their filing status. Current thresholds depend on family size but phase out between \$65,000 to \$80,000 for single filers and \$135,000 to \$165,000 for joint filers.<sup>68</sup> This deduction is only available to the borrower (not a parent or guardian), regardless of tax status or financial aid dependency status.<sup>69</sup>

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xxix It is worth noting that higher education tax expenditures are not under the jurisdiction of the Senate Committee on Health, Education, Labor, and Pensions or the House Committee on Education and Labor, which means that they are not within the purview of HEA reauthorization. The tax expenditures do, however, make up a significant proportion of federal higher education spending, which led the task force to include reforms to them in the package of recommendations.

In 2016, more than 10 million taxpayers claimed a total of \$18 billion in the AOTC and LLC, and around 12 million taxpayers deducted a total of \$13 billion in student loan interest (at a cost to the federal government of roughly \$2 billion).<sup>70</sup>

Higher-income households reap disproportionate benefits from these tax expenditures. In 2018, just 21% of the total benefits from the student loan interest deduction went to households with an adjusted gross income, or AGI, below \$50,000, while households with an AGI over \$100,000 received 38% of the deduction's benefits.<sup>71</sup>

These credits and deductions are designed in a way that disproportionately benefits higher-income households, which are more likely to have a tax liability. (Many low-income households earn too little to owe federal income taxes.)<sup>72</sup> For example, the LLC is non-refundable, meaning that households without a tax liability cannot benefit from it. The student loan interest deduction is similar in that it reduces a filer's taxable income.

Research also suggests tax expenditures are generally an inefficient means to support students and ineffective at encouraging them to pursue additional postsecondary education.<sup>73</sup> This is partially due to their complexity, which research suggests prevents families—especially lower-income families that lack access to tax-preparation assistance and may be unaware of the provisions—from taking full advantage of their benefits.<sup>74,75</sup> There is also a timing gap between when the expenses are incurred and when the tax benefits are delivered (during the following tax season). Finally, these tax expenditures are expensive. Together, the AOTC, student loan interest deduction, and LLC are estimated to cost the federal government around \$20 billion per year.<sup>76</sup>

Complexity is likewise a feature of other federal higher education programs, such as the array of loan repayment and forgiveness options designed to support student borrowers and help them manage their monthly payments. The default repayment option for borrowers is the standard 10-year repayment plan, under which payments are fixed and the balance is paid off in 120 monthly payments. However, borrowers also have the option of enrolling in one of several income-driven repayment plans, or IDR, which tie loan payments to the borrower's income and offer forgiveness on the remaining balance after a specified period of time, generally 20 or 25 years, depending on the plan.<sup>xxx</sup> IDR plans are especially important for struggling borrowers, as they can help to ensure affordable payments.<sup>xxxi</sup> But the wide array of repayment options

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xxx Student loan balances forgiven under income-driven repayment plans are considered taxable income. Discharged balances under the Public Service Loan Forgiveness program, as well as several other programs, are considered non-taxable. For more information, see: <https://www.irs.gov/taxtopics/tc431> and <https://www.finaid.org/loans/forgivenessstaxability.phtml>.

xxxi Borrowers also have the option to enroll in a graduated plan, under which payments increase over time, or an extended plan, which is paid off after 25 years.

available, each with different terms, makes it difficult to determine which plan is in a borrower’s best interest. Additionally, borrowers are required to opt in to IDR and recertify annually, a process that can entail significant paperwork, income verification, and contact with one’s loan servicer—in effect discouraging participation by the most vulnerable borrowers.<sup>77</sup>

The federal Public Service Loan Forgiveness program, or PSLF, which is intended to benefit borrowers who work in government or the nonprofit sector,

**Table 4: Student Loan Repayment Plans**

Monthly Payments Scaled by:	Repayment Plan	Repayment Term	Size of Monthly Payments
<b>Size of Loan</b>	<i>Standard</i>	Repaid in 10 years	Fixed amount.
	<i>Graduated</i>	Repaid in 10 years	Low at first but increasing over time.
	<i>Extended</i>	Repaid in 25 years	May be fixed or graduated.
<b>Income</b>	<i>Revised Pay as You Earn</i>	Forgiven after 20 years* (undergraduate)	10 percent of discretionary income.
		Forgiven after 25 years* (graduate)	
	<i>Pay as You Earn</i>	Forgiven after 20 years*	10 percent of discretionary income, but never more than payments under the 10-year Standard plan.
	<i>Income-Based Repayment</i>	Forgiven after 20 or 25 years, depending on date of first loan origination*	Either 10 or 15 percent of discretionary income (depending on date of first loan origination), but never more than under the 10-year Standard plan.
	<i>Income-Contingent Repayment</i>	Forgiven after 25 years*	The lesser of: (1) 20 percent of discretionary income; or (2) the amount you would pay under a fixed 12-year plan, adjusted based on your income.
<i>Income-Sensitive Repayment</i>	Repaid in 15 years	Scaled by annual income; can vary by lender.	

**Source:** U.S. Department of Education, Federal Student Aid

\*Under current law, balances forgiven under the income-driven repayment plans are treated as taxable income.

is similarly complicated. Under PSLF, borrowers' remaining balances are forgiven after they make 120 on-time monthly payments. But the program's requirements are extensive. In order to make qualifying payments, borrowers must be enrolled in an income-driven repayment plan, submit on-time payments for the exact amount indicated in the repayment plan or specify that any extra amount not be applied to cover future payments,<sup>78</sup> and demonstrate that all payments were made while employed full-time with an eligible employer.<sup>xxxii</sup> Additionally, the process entails an annual recertification process to verify the borrower's employment eligibility and income, which leads to further paperwork. To make matters worse, research suggests that student loan servicers may not always properly inform borrowers of available repayment options, and some servicers have incorrectly calculated income-based repayment amounts, both of which are important requirements to qualify for PSLF.<sup>xxxiii,79</sup> Given these onerous requirements and inconsistent communication among loan servicers, it is unsurprising that the majority of borrowers have been out-of-compliance with the program, which has led to a 99% rejection rate among applicants.<sup>xxxiv,80</sup>

Current loan repayment and forgiveness programs are also poorly targeted. With no income cap in place, forgiveness provides disproportionate subsidies to high-balance borrowers, who tend to have higher earnings compared to low-balance borrowers.<sup>81</sup> Many graduate programs are expensive, requiring high levels of debt but also enabling students to command high wages after they graduate.<sup>82</sup> This means that high-balance (and therefore high-income)

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xxxii Government organizations, tax exempt not-for-profit organizations, and other qualifying public services are considered eligible employment, and must be approved with submission of the Employment Certification Form, or ECF. For more information, see: <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service#qualifying-employment>.

xxxiii According to Congressional Budget Office estimates, PSLF will cost taxpayers an estimated \$23 billion between 2020 and 2029. This projection assumes uptake of the program is much higher than current levels. For more information, see: <https://www.cbo.gov/system/files/2019-05/55207-education.pdf>.

xxxiv The resulting outcry prompted Congress to introduce the Temporary Expanded Public Service Loan Forgiveness program, or TEPSLF, in 2018. TEPSLF provided \$700 million for borrowers who had made payments to non-qualifying repayment plans and were thus deemed ineligible for the original program. Yet, many of these applicants did not realize that before they submitted a TEPSLF application, they had to first apply for PSLF and be denied. Additionally, all the other requirements for qualifying payments remained the same as the original program. For most borrowers, the highly specific requirements for approval continue to be a challenge, with (a familiar sounding) 99% of applicants under the new policy rejected during the program's first year. The ongoing high rate of rejections runs counter to the program's original intent of incentivizing and supporting employment in public service professions. For more information, see: <https://www.gao.gov/assets/710/701157.pdf> and <https://studentaid.ed.gov/sa/about/data-center/student/loan-forgiveness/pslf-data>.

borrowers benefit more from forgiveness programs, potentially leaving taxpayers on the hook for high-priced degrees and creating incentives for borrowers to take on high levels of debt and repay as little as possible before forgiveness kicks in.<sup>83</sup>

A further source of inequity is the FAFSA itself, which students must submit annually to qualify for federal student aid. Research has found that students who file the FAFSA are 72% more likely to persist in higher education than those who do not, and low-income students who file a FAFSA are more than twice as likely to persist than their low-income peers who do not file.<sup>84</sup> The length and complexity of the FAFSA, however, create a disproportionate obstacle for low-income students and their families, who are likely to find it more difficult to complete the application (Box 4).

#### Box 4: How the FAFSA Works

The FAFSA consists of 108 questions,<sup>xxxv</sup> of which 28 ask about sources of income and six inquire about assets.<sup>85,86</sup> This data, along with information on certain untaxed income and benefits,<sup>xxxvi</sup> family size, and number of college-enrolled family members, is used to generate an Expected Family Contribution, or EFC, for every student based on federally determined formulas.<sup>87</sup> A student's EFC is a measure of financial strength—it does not necessarily equal the amount a family would be expected to pay for college. EFC is considered in relation to COA at a given institution to establish eligibility for federal student aid.<sup>88</sup>

The length of the FAFSA, as well as the depth of information required, can confuse or intimidate students and families and may discourage them from completing the form, especially if parents have limited time and access to technology to gather their financial records, or an unwillingness to share information. Moreover, many of the questions on the FAFSA affect the EFCs of only the wealthiest students and are not relevant for low- to middle-income students—generally the ones who receive need-based federal student aid. Studies have found that just four FAFSA questions explain most of the variation in a student's EFC: adjusted gross income, marital status, family size, and number of family members enrolled in college.<sup>89,90</sup>

The form must be completed every year that a student is enrolled at a postsecondary institution. While this process may be somewhat simplified by the pre-population of certain elements of the form from the previous year's submission, the need to re-apply still creates roadblocks. Sixteen percent of Pell recipients in good academic standing do not re-file a FAFSA for their sophomore year. In addition to potentially leaving money on the table, students who fail to re-file have a higher likelihood of dropping out before completing a bachelor's degree.<sup>91</sup> Ironically, the students who are most likely to be deterred by re-filing requirements are also the income group with the most stable EFCs. A recent study found that 70% of Pell-eligible students saw an EFC change of \$500 or less for the duration of their enrollment, and 52% of Pell-eligible students never experienced a change in EFC.<sup>92</sup>

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xxxv Not all applicants must answer all 108 questions due to skip logic. For more information, see: <https://studentaid.ed.gov/sa/fafsa/filling-out/help>.

xxxvi Untaxed income and benefits come from sources such as workers' compensation, disability benefits, refugee assistance, and health savings accounts. For more information, see: <https://studentaid.ed.gov/sa/2021/help/student-other-untaxed-income>.

Several efforts have been made to streamline and simplify the FAFSA process. For example, the Simplified Needs Test, or SNT, provides low-income students with an abbreviated FAFSA form that does not consider asset questions and therefore reduces reporting burdens. Similarly, students from households that earn less than \$26,000 per year automatically receive a zero EFC and are thus entitled to the maximum amount of need-based federal aid.<sup>93</sup>

Importantly, the 2009-10 financial aid year saw the advent of the IRS Data Retrieval Tool, or DRT, that allows for automatic transfer of data from a student's tax return directly to the FAFSA.<sup>94</sup> But the tool works only for households that file taxes; others must still input their financial information manually.<sup>xxxvii,95</sup>

Despite simplification efforts, roughly half of low-income high school seniors do not complete the FAFSA.<sup>96</sup> While this is partly driven by the fact that not every senior graduates from high school and some students choose technical or vocational training that is ineligible for federal student aid, students cite the complexity of the form and not knowing how to fill it out as top reasons for failing to submit.<sup>97</sup>

A further hurdle to accessing federal aid is the FAFSA verification process. Every year, some applicants are selected for verification, which means they must submit additional documentation (similar to a tax audit).<sup>xxxviii</sup> While verification is crucial to protecting taxpayers and preventing fraud (given that the FAFSA is based on self-reported data), the process is also complex.<sup>98</sup> Many students do not realize they have been selected or fail to complete the process due to confusion or an inability to obtain the necessary paperwork. Just 56% of students who are selected for verification go on to receive a Pell Grant, compared to 78% of FAFSA filers who are not selected for verification.<sup>99</sup>

Compounding the problem is the fact that low-income students are disproportionately targeted for verification. This is partially due to the fact that all applicants who do not file taxes are required to submit verification of their non-filing status. It is also the result of the targeted verification model, which was first implemented in the 2012-13 financial aid year, and uses risk modeling to flag students for verification.<sup>100</sup> In the 2015-16 financial aid year, roughly 98% of students selected for verification were Pell-eligible.<sup>101</sup> Ultimately, the current system lengthens and complicates financial aid decisions, adding to the hurdles faced by low- and moderate-income students.<sup>102</sup>

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xxxvii Specifically, the DRT can only import information from the 1040, 1040A, and 1040EZ forms. For more information, see: <https://ifap.ed.gov/fsahandbook/attachments/1819FSAHbkAVGCh4p83.pdf>.

xxxviii Paperwork can include but is not necessarily limited to dependent or independent verification worksheets; tax transcripts or non-filer statements; signed W-2s; benefits statements; parents' death certificates; letters from a school homeless liaison; and legal guardianship forms.

## Failure to Meet the Needs of Today's Students

The current system of federal student aid is primarily focused on recent high school graduates entering four-year institutions as full-time students. As a result, it is not well suited to the needs of a student population that is increasingly composed of working students (62%) and students with children (28%) who require flexible schedules and have additional non-tuition expenses for necessities such as transportation and child care.<sup>103</sup> These added costs and responsibilities increase the likelihood that students will leave school without completing a degree, especially if new challenges arise, such as an unexpected car repair or a child care arrangement that falls through.

Additionally, 40% of individuals enrolled in postsecondary institutions today are 25 and older.<sup>104</sup> These students are likely to be more focused on gaining relevant workforce skills rather than having the traditional college experience. It should also be noted that the population of student veterans has grown over time—and a disproportionate number of these students are adult learners (85%), first-generation (62%), and parents (47%).<sup>xxxix,105</sup>

The enrollment patterns of adult learners reflect the responsibilities facing these students outside of the classroom, as well as the possibility that they may be returning to school to gain specific skills. A higher percentage of adult learners (53%) enroll in two-year programs compared to other students (35%), and adult learners disproportionately enroll in for-profit programs (17%).<sup>106</sup> Adult learners are also more likely to pursue their education part-time—only 41% of these learners maintain full-time enrollment in a given year compared to 63% of other students.<sup>107</sup>

While adult learners are making enrollment decisions that consider their needs, graduation rates among that population suggest that these students are not well served by their schools. When looking at six-year graduation rates, students who enter college after age 24 face completion gaps relative to their younger peers of 17 percentage points at public four-year institutions, 16 percentage points at private nonprofit colleges, and 6 percentage points at public two-year schools.<sup>108</sup>

Unfortunately, many postsecondary programs that might be better suited to these students—such as short-term and vocational training programs with strong links to the labor market—are not eligible to accept federal student aid.<sup>109</sup> It should also be noted that incarcerated individuals are banned outright from receiving Pell Grants.

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xxxix This adult learner statistic, in contrast to the prior one, uses a definition of 24 and older.

### **Box 5: Understanding the Ability to Benefit**

The ability to benefit provision, or ATB, makes financial aid, including Pell Grants, available to low-income individuals without a high school diploma or equivalent, with the goal of improving educational training opportunities and boosting labor market outcomes.<sup>110,111</sup> Eliminated in 2012 and reintroduced in 2014, the latest iteration of ATB requires that participating programs meet the definition of a “career pathway” under the Workforce Innovation and Opportunity Act, or WIOA.<sup>x1</sup>

Some examples of WIOA and ATB-approved career pathway programs include programs for food safety certification, technical and mechanical licensing for special equipment, and commercial driver’s licensing.<sup>112</sup> To receive aid, students must first complete six credits (or equivalent) applicable toward a degree or certificate, pass a Department of Education approved exam, or complete a state process approved by the Secretary of Education.<sup>113</sup>

While the 2014 law restored access to aid for the ATB population, the definition of an eligible career pathway program was not determined until 2016. This led to confusion among states and institutions and a resulting hesitancy to authorize ATB for students.

In response, the Department of Education has indicated that no federal agencies or officials are required to approve career pathways and that institutions are empowered to decide on their own whether their programs meet requirements of the career pathway definition.<sup>114</sup> Several states have also tried to increase awareness of and participation in ATB, either by officially establishing a state-level approval process or affirmatively stating that there is no necessary approval, in order to help guide institutions in making determinations.<sup>115</sup> Uptake remains limited, however, which can be attributed to confusion surrounding the program’s requirements.

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x1 Career pathway program is defined in section 3 of the Workforce Innovation and Opportunity Act (29 U.S.C. 3102(7)). See section 484(d)(2) of the HEA. For more information on career pathway programs, see: <https://ifap.ed.gov/dpcletters/GEN1609.html>.

## Box 6: Promoting College Affordability: The Role of State Governing Boards

It is a little-known fact that neither states nor institutions are wholly responsible for approving tuition adjustments at public colleges and universities. Rather, those changes are usually approved by entities known as state governing boards. Though the structure of these boards varies greatly by state, they are generally composed of the governor's political appointees, who are often business leaders or other high-profile individuals. Boards usually meet several times a year, and their responsibilities include voting on any changes in tuition and fees that have been proposed by the institution or university system.

Ideally, governing boards should be stewards of both the university's and the public's interests. This balancing act includes ensuring not only that the institution has the resources necessary to provide a quality education, but also ensuring students can receive a return on their educational investment and are not overburdened by high tuition costs.<sup>xli</sup>

Unfortunately, evidence suggests board members lack sufficient information to guide their decision-making. According to polling from the Association of Governing Boards, just 32% of board members disagree that more information or resources are needed in order for them to understand key issues in higher education.<sup>116</sup> Another challenge is that board membership is generally a part-time position, with members meeting infrequently. These individuals tend to be prominent (and busy) leaders of the community, who may not have the time to analyze the particulars of a proposed tuition hike.

To address these challenges, the three former state governors serving on BPC's higher education task force have developed key considerations for state leadership in the selection and development of governing board members to better serve institutions, students, and the public interest.

- **Diverse skills and experiences should be prioritized in recruiting governing board members.** Universities are like small cities, with complex organizational structures and unique and diverse demands. Governors should have a transparent process in place to appoint governing board members who are competent, collaborative, and diverse. Key criteria for recruitment should include:
  - A record of public or community service
  - A record of commitment to education
  - Collaborative leadership ability
  - Commitment to impartial decision-making
  - Availability for constructive engagement
  - Experience in complex organizations, including business leadership
  - A record of integrity and value
  - A willingness to seek out resources for the institution<sup>xlii</sup>
- **Governing board members should not over-engage in management.** It is crucial that there is separation between governing board members and the management of the institution. Board members should absolutely remain informed about higher education trends and the role of the college presidency in an effort to better support

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xli Partners for College Affordability and Public Trust has developed a framework for effective governing boards. For more information, see: <https://www.pcapt.org/about-us/institutional-governance#our-history>.

xlii Many of these considerations stem from New Mexico, which, in 2019, adopted a set of criteria used to evaluate potential board members. For more information, see: <https://www.apnews.com/9e2ab7958c154ba1b3b63b012c99a216>.

university leadership<sup>xliii</sup> and guide decision-making, but these individuals should not overreach, such as by signing off on dean selection or by having a stake in who is selected to head various departments.

- **Additional training and onboarding activities are needed.** Currently, only nine states require training or orientation for new members.<sup>117</sup> Training serves as an important opportunity for state leaders to initiate board members, often including an overview of state higher education priorities and mechanisms to lower costs. More states should adopt onboarding activities and periodic trainings to ensure board members are prepared for their roles.
- **Governors should consider term limits for board members.** New faces help ensure fresh-thinking, dynamism, and continued diversity in board composition.

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xliii The College Excellence Program at the Aspen Institute developed recommendations to provide governing board members with greater assistance in supporting university presidents. For more information, see: <https://www.aspeninstitute.org/publications/renewal-progress-strengthening-higher-education-leadership-time-rapid-change/>.

## I.B CHALLENGE: OUTCOMES AND ACCOUNTABILITY

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A quality postsecondary degree means more for American workers today than ever before. Multiple studies find having a degree is associated with higher wages, lower levels of unemployment, and increased economic and social mobility. In short, a college degree is increasingly seen as essential to supporting a middle-class standard of living in the 21st-century economy. The result has been a marked increase in the share of high school graduates who go on to seek postsecondary education—a positive development.<sup>118</sup> But unfortunately, many of those who enroll do not complete a degree. Too many students begin school and are unable to graduate, and too many colleges provide a poor-quality education for a high tuition price. Low-income students and some students of color face particular challenges; they are significantly less likely to benefit from higher education than their higher-income and white peers. This disparity perpetuates and exacerbates inequality and hinders social mobility in a labor market where students without a meaningful degree or credential have trouble accessing high-quality jobs. Students from disadvantaged backgrounds are also disproportionately impacted by school closures, which have grown in scope over the past several years—a trend that will likely continue, due in part to shifting demographics.

In part, these challenges can be attributed to a lax system of accountability for institutions of higher education, which receive an average of \$156 billion dollars<sup>xliv</sup> in loans and grants per year from the federal government with

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xliv This figure represents the average amount in federal student aid (loans and grants) allocated annually over the past 10 years, in 2019 dollars.

ineffective oversight and quality control.<sup>119</sup> This status quo hurts students, who risk attending a low-quality institution that is not worth their time or money. It also hurts taxpayers, who are on the hook for federal student loans that are left unpaid—an outcome that becomes more likely if the borrower fails to complete a degree or goes to a poor-quality school. A further problem is that many institutions lack financial resources, which hinders their ability to provide additional support to students. This is particularly true for community colleges and Minority-Serving Institutions. In sum, institutional accountability and capacity are two sides of the same coin and both must be strengthened in order to improve outcomes in higher education.

## Poor Outcomes for Students

Even as higher education remains critical for success in today's economy, too many students receive a poor return on their investment, often because they never complete a degree. Currently, just 40% of first-time, full-time students graduate with a bachelor's degree in four years and just 60% complete a degree within six years.<sup>xlv,120</sup> These outcomes are even worse for historically underrepresented populations. While 64% of white students obtain a bachelor's degree within six years, the number drops to 54% for Hispanic students and 40% for Black students.<sup>121</sup> Pell Grant recipients, who tend to be low-income, face bachelor's degree completion gaps of more than 10 percentage points at public colleges and nearly 15 percentage points at private nonprofit colleges compared to non-Pell students.<sup>122</sup>

Students who fail to complete a degree tend to have limited employment prospects and lower wages compared to their peers with degrees.<sup>123</sup> Among young adults from high-income families, 58% will earn a bachelor's degree by age 24, compared to 11% of their low-income peers.<sup>124</sup>

But even for those who do graduate, the return on investment for a postsecondary degree varies significantly. A college education remains a worthwhile investment for most students—the median college graduate will earn about \$900,000 more than the median high school graduate over the course of their career.<sup>125</sup> But this one figure masks notable variation, including by field of study and the type of institution attended. In the short term (10 years), community colleges and other certificate programs have the highest return on investment, due in part to their low tuition price. After 40 years, however, four-year schools have the best payoff, with private nonprofit colleges generally out-returning public institutions, despite the former's relatively higher prices.<sup>126</sup> Earnings outcomes also vary by program within an institution.

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xlv These graduation rates represent full-time students who completed a degree within four or six years at the same institution where they initially enrolled, and therefore does not include part-time or transfer students. Research suggests that including part-time and transfer students into this analysis would reduce average graduation rates even further. For more information, see: <https://www.thirdway.org/memo/new-data-further-cements-completion-crisis-in-higher-education>.

For example, the post-graduation median salary of a computer science major at Harvard University is \$129,000, compared to \$37,000 for an English language and literature graduate.<sup>xlvi,127</sup>

Beyond middling completion rates and inconsistent wage gains, poor outcomes are also exemplified by the fact that relatively few borrowers are able to meet their student loan obligations. This in part demonstrates a poor return on investment for higher education, as earnings are highly correlated with a borrower's ability to pay down their debt.<sup>128</sup> Unfortunately, just around half of new borrowers are able to reduce their principal balance within five years of beginning repayment (known as the five-year repayment rate).<sup>xlvii,129</sup> This non-repayment is a burden on students, who face growing loan balances over time if their monthly payments are insufficient to cover accrued interest. It also places strains on the federal budget, as taxpayers are ultimately on the hook for non-repaid debt. Overall, five-year repayment rates stand at 43% at public two-year institutions, 65% at public four-year schools, 67% at private nonprofit institutions, and 34% at for-profit institutions, suggesting that this is a challenge affecting every higher education sector.<sup>130</sup>

It should be noted that these disparities in outcomes are partly driven by admissions criteria. For example, highly selective institutions will likely always exhibit stronger outcomes than open-access schools, due to the fact that they enroll a higher proportion of students who have benefited from greater preparation.

Loan non-repayment can stem from default and delinquency, both of which are on the rise.<sup>xlviii</sup> The volume of Direct Loans in repayment that are at least 31 days delinquent has increased by 48% since 2014, from \$58 billion to \$85 billion, and the cumulative volume of Direct Loans in default has grown from \$43 billion to \$115 billion (Figure 9).<sup>xlix,131</sup> In 2019, the volume of student loans in default surpassed all other types of severely derogatory debt in the United States.<sup>1,132,133</sup>

Repayment challenges are especially acute for low-income students and students of color, who tend to have fewer family resources to rely on, often suffer from

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xlvi Due to data limitations, median earnings are based only on students who received federal financial aid. The figures also do not account for students who have no income the year after graduating or those who did not complete their degree.

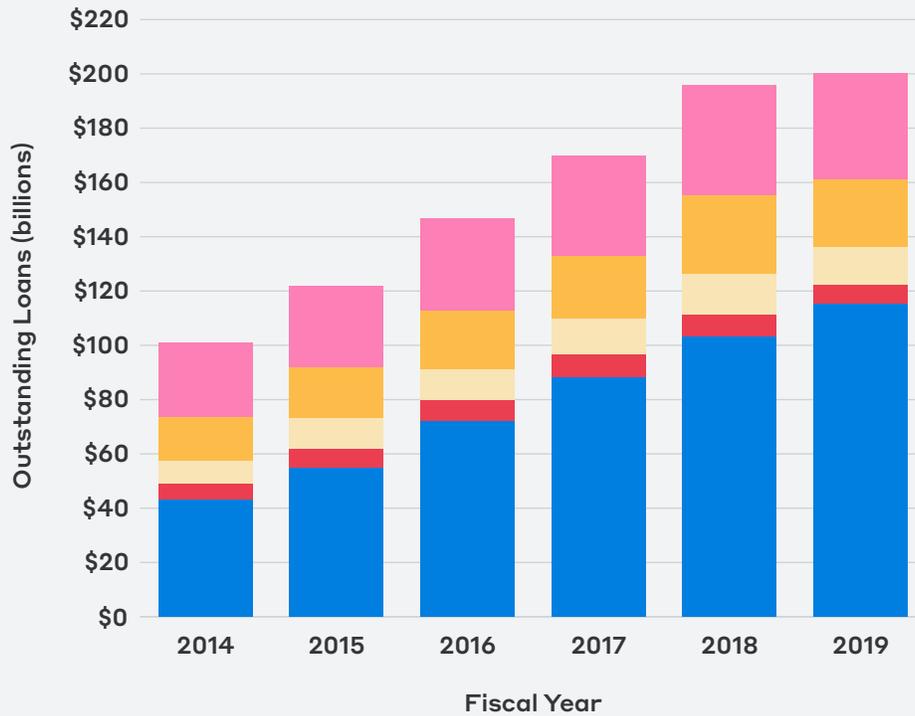
xlvii The repayment rate is defined as the portion of a given cohort that pays down at least \$1 in principal within a specified number of years of entering repayment.

xlviii Borrowers are considered delinquent on the first day after they miss a payment and are generally considered to be in default once they reach 271 days past due. For reporting purposes, however, the Department of Education defines default as 361 days delinquent. For this report, BPC follows the department's reporting standards. For more information, see: <https://studentaid.ed.gov/sa/repay-loans/default>.

xlix These figures are in 2019 dollars, adjusted for inflation using the Consumer Price Index for All Urban Consumers (CPI-U).

1 Severely derogatory debt is defined as a loan that is both delinquent and subject to repossession, foreclosure, or chargeoff.

**Figure 9: Total Volume of Federal Student Loans in Default and Delinquency**



- 31-90 Days Delinquent
- 91-180 Days Delinquent
- 181-270 Days Delinquent
- 271-360 Days Delinquent
- In Default

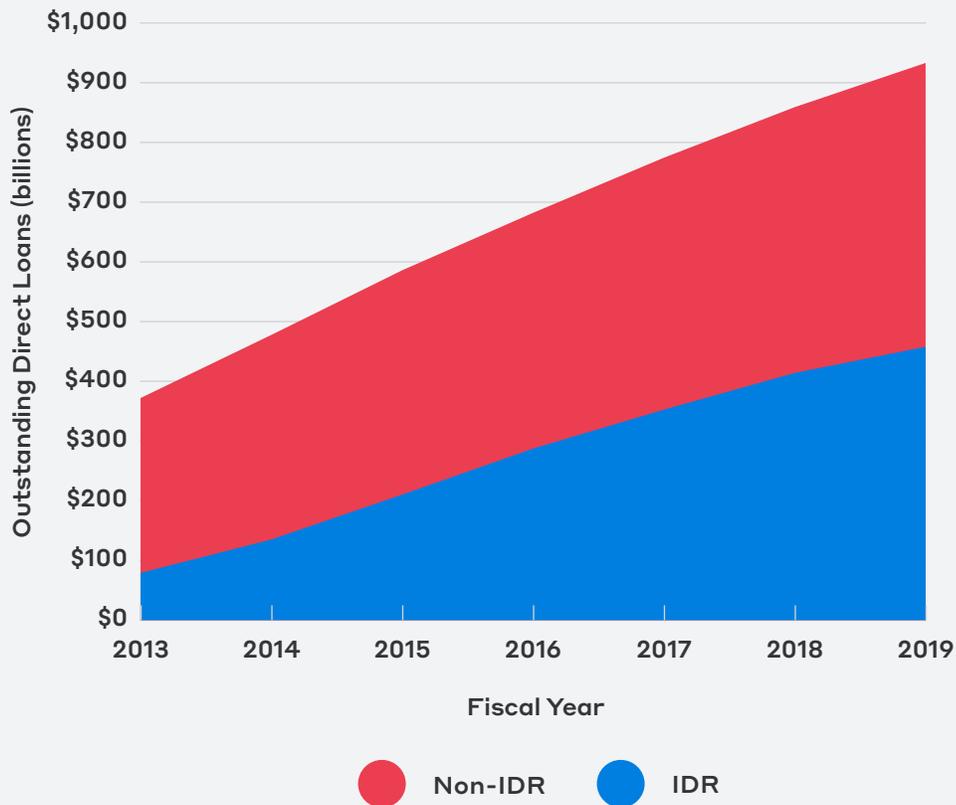
**Source:** National Student Loan Data System, Federal Student Loan Portfolio, 2019  
**Note:** Fiscal Year 2019 data only available through Q3. All other years use Q4 totals. All figures are measured using 2019 dollars.

discrimination in the labor market, and more frequently support other family members, all of which hamper loan repayment.<sup>134,135</sup> Research suggests that 20 years after college enrollment, the median white student loan borrower has paid off all but 6% of their accumulated student loan debt, while the median Black borrower still owes 95% of their cumulative borrowing total.<sup>136</sup> Twelve years after enrollment, 38% of Black borrowers end up in default, compared to 12% of white borrowers.<sup>137</sup> This persistent loan burden is a drag on economic mobility and financial wellbeing, as federal student loans are nearly impossible to discharge in bankruptcy, and default carries lasting financial repercussions.

Student-parents also face greater challenges repaying their loans. Forty-six percent of borrowers with children default on their loans within 12 years of enrolling, compared to 25% of borrowers without children.<sup>138</sup> The challenge is particularly acute for borrowers who enroll as single parents: half of these borrowers default within 12 years, versus 40% of parent borrowers with partners.<sup>139</sup>

It is worth noting that borrowers can exhibit non-repayment even if they are not delinquent or in default. For example, borrowers can enter deferment or forbearance, either of which allows for the temporary suspension of monthly payments if the borrower is continuing their education or can demonstrate financial hardship, among other reasons. Borrowers can also enter an income-driven repayment plan, which conditions monthly payments on income and offers loan forgiveness after a specified number of payments. Borrowers on IDR can be in non-repayment if their monthly payments are too low to lead to a reduction in their principal balance over a given number of years. A total of \$458 billion—or 49% of the Direct Loan portfolio currently in repayment, forbearance, or deferment—is held in IDR plans, up from 21% in 2013 (Figure 10).<sup>li,140</sup>

**Figure 10: Portion of Outstanding Direct Loan Portfolio Held in Income-Driven Repayment Plans**



**Source:** National Student Loan Data System, Federal Student Loan Portfolio, 2019  
**Note:** Fiscal Year 2019 data only available through Q3. All other years use Q4 totals. Data include loans in repayment, deferment, and forbearance, and exclude borrowers in default, in-school deferment, and in their six-month grace period. Additionally, data include only Direct Loans issued by the federal government and not federally-backed loans, which comprise roughly one-third of the federal loan portfolio.

li This figure excludes loans that are in: default, in-school deferment, or their six-month grace period.

Non-repayment, and poor student outcomes more broadly, is a complex and multi-faceted issue that depends on numerous interrelated factors, including whether or not the student received a degree, the quality of the degree they received and the earnings potential it provided in the current job market, the amount borrowed, and personal decision-making and financial literacy. It is clear from the data, however, that many borrowers struggle to repay their loans, which in turn suggests, for at least some of these borrowers, investment in postsecondary education is not yielding adequate returns.

## Capacity Constraints at Community Colleges and Minority-Serving Institutions

Community colleges play a crucial role in the U.S. higher education system, providing flexible and affordable pathways to postsecondary attainment. These schools account for more than half of all enrollments at public institutions among underrepresented students of color and also disproportionately enroll adult learners.<sup>141</sup> Research suggests community college students realize significant wage gains from credential attainment. On average, an associate degree leads to a 13% increase in annual earnings among men and a 22% increase among women compared to a high school diploma.<sup>142</sup> These gains generally come at a lower cost and on an expedited timeline compared to a four-year degree, which is an added benefit.

Minority-Serving Institutions, or MSIs, also play a valuable role in postsecondary education. Historically Black Colleges and Universities, or HBCUs, are historically designated, mission-driven institutions focused on enrolling and graduating Black students. These schools, both public and private, are a vital pipeline to employment opportunities in STEM fields.<sup>143</sup> Evidence suggests that Black students who attend HBCUs have better labor market outcomes, and surveys indicate they are more likely to thrive on a range of other indicators, than Black students who go to most non-HBCU institutions.<sup>144,145,146,147</sup>

Similarly, Hispanic-Serving Institutions, or HSIs, are defined as schools that enroll high percentages of Hispanic students. Unlike HBCUs, HSIs are not historically designated. Rather, the HSI designation applies to any institution that has at least a 25% Hispanic enrollment rate.<sup>148</sup> HSIs, which are primarily public institutions, serve as an important conduit for bringing these students into STEM fields.<sup>149</sup> In fact, in the 2015-16 academic year, HSIs awarded 41% of all STEM bachelor's degrees earned by Hispanic students.<sup>150</sup> Tribal Colleges and Universities, or TCUs, likewise play a key role in postsecondary access and attainment for American Indian and Alaskan Native students. TCUs often serve geographically remote regions and offer additional community services, such as adult basic education, remedial or high school equivalency programs, and other services, such as cultural wellness programs, counseling, libraries, and courses on language, art, and history, that help promote their students' success. More

broadly, these institutions provide access to technology and work to preserve and grow Tribal cultures in the communities they serve.<sup>151,152</sup> Most of these schools were founded relatively recently.<sup>153</sup>

Despite the benefits of these institutions, many community colleges and MSIs—particularly HBCUs and Tribal Colleges—lack sufficient resources, which hinders their ability to support their students, who are disproportionately low-income, adult learners, and students of color.<sup>154</sup> For example, the federal government, recognizing the important role these institutions play, has historically provided supplemental support, largely through investments in Titles III and V of the Higher Education Act, or HEA (Box 7). Resource disparities remain, however, which hinders the capacity of these institutions to address the unique needs of their students.<sup>155,156,157,158</sup>

### Box 7: Titles III and V of the Higher Education Act

**Title IIIA** authorizes the Strengthening Institutions Program, or SIP, which supports lower-resource schools—including many community colleges—that enroll a high proportion of students with demonstrated financial need. Title IIIA also authorizes similar programs to support MSIs that serve low-income students and students of color.

**Title IIIB** provides funding for HBCUs. Unlike the other programs described here, which disburse funds largely through competitive grants, Title IIIB funding is distributed through a noncompetitive allocation formula.

**Title V** provides funding for HSIs.

In 2019, the federal government allocated \$167 million to Title IIIA, \$355 million to Title IIIB, and \$136 million in discretionary funding to Title V.<sup>lii,159</sup>

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lii It should be noted that Titles IIID, IIIE, and IIIF of HEA also provide significant funding for MSIs, totaling \$291 million in 2019. For more information, see: <https://www2.ed.gov/about/overview/budget/budget20/summary/20summary.pdf>.

The median community college has roughly \$8,302 in total resources per student, compared to \$12,776 at the median public four-year institution. Similarly, total resources at the median private nonprofit HBCU stand at \$13,192 per student, compared to \$19,135 at the median private nonprofit non-HBCU.<sup>liii,160</sup> This lack of resources can have detrimental effects on student outcomes if institutions are unable

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liii Total resources are defined as tuition revenues, state and local appropriations, and endowment income, which is estimated to equal 5% of an institution's total endowment.

to provide the multi-faceted support and services that many students need to stay in school and graduate on time.

A common critique of existing federal funding mechanisms for MSIs is they are often outdated and fail to effectively target the students who would most benefit from support. For example, the HBCU designation is based on a school's founding date and its historic mission of serving Black students. Maintaining this status, however, is unrelated to the institution's current racial demographics. Composition of the student body has changed over time at several HBCUs due to a combination of factors, including desegregation in the 1960s and an influx of white students as a result of the GI Bill (which supported former service members in their pursuit of higher education).<sup>161</sup>

Another concern is that the approach used to distribute federal funds to HBCUs does not reflect the income distribution of students at these institutions. HBCUs do, in general, serve a higher proportion of low-income students than the average American postsecondary institution: the average HBCU's student body comprises 67% Pell Grant recipients, compared to approximately 40% at public four-year and private nonprofit institutions.<sup>162</sup> But the current allocation formula for Title IIIB, unlike those for most other Title III grant programs, has relatively few need-based requirements. For example, to be eligible for these funds, an HBCU does not need to demonstrate that it serves a high percentage of low-income students.<sup>163</sup> In fact, much of the available funding allocated in Title III is for non-competitive minimum allotment grants, which means that institutions are grandfathered in based on what they received the previous year.<sup>164</sup>

Other MSIs receive federal support through competitive grants,<sup>liv</sup> but such grants tend to disproportionately benefit schools with higher levels of resources because wealthier schools are better positioned to compete for the funding. This has the potential to undercut the original purpose of these grant programs, which is to promote equity. For example, there is evidence that a higher proportion of white students is correlated with HSIs receiving more funding under Title V grants.<sup>165</sup>

In sum, many community colleges, MSIs, and other institutions that enroll large numbers of students of color, low-income students, and adult learners perform crucial functions, but also lack the resources needed to improve student supports and educational outcomes.

## A Broken Federal Accountability System

Poor outcomes can also be attributed to an outmoded federal accountability system, which provides insufficient incentives for institutional improvement and ineffective sanctions on the worst-performing schools. Although some accountability measures exist, they are inadequate to protect students and safeguard taxpayer dollars.

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liv Competitive grants are discretionary allocations awarded by the Department of Education using a competitive process. For more information, see: <https://www2.ed.gov/fund/grants-apply.html>.

At the federal level, one lever of institutional accountability is eligibility for financial aid, including loans and grants. For example, the cohort default rate, or CDR, tracks the share of an institution's students who default on their loans within a certain period. Schools that consistently have high CDRs can theoretically become ineligible for federal student loans and grants. But in 2016, only 15 institutions faced the loss of eligibility based on their CDR, 10 of which were cosmetology schools.<sup>166</sup> This is partly because the threshold CDR for losing federal aid eligibility is high: only schools with default rates in excess of 30% for three consecutive cohorts or 40% for a single cohort are at risk. And the CDR measures only outright default. Students who avail themselves of IDR plans because their earnings are too low to repay their loans under conventional terms aren't considered in this accountability metric. As a result, too many poor-performing institutions can continue accepting federal loan and grant dollars indefinitely, with minimal strings attached.

Another effort to introduce accountability at the federal level, the gainful employment rule, was introduced in the 1965 HEA and eventually defined through negotiated rule-making during the Obama administration. It was designed to revoke federal loan and grant eligibility among a small cohort of programs in which a large proportion of borrowers have high debt-to-earnings ratios soon after graduation. The newly defined rule drew criticism for targeting for-profit colleges and career training programs while excluding degree-granting programs at public and private nonprofit institutions. It was repealed in July 2019.<sup>167</sup>

Of course, institutions of higher education must be accredited and maintain their accreditation to receive federal loans and grants. The accreditation system, however, is largely one of peer review, with few legal or regulatory requirements regarding student outcomes. The accreditation agencies focus primarily on regulatory requirements, adherence to institutional mission in stated objectives and achievements, and evaluations of curricula, faculty, facilities, and fiscal and administrative capacity. The current system has been criticized as lacking clear and observable performance metrics that connect to consequences.<sup>168</sup> According to the Government Accountability Office, between October 2009 and March 2014, fewer than 1% of schools lost accreditation for failing to meet standards.<sup>169</sup> Furthermore, schools with weaker student outcomes (as measured by graduation rates, retention rates, and loan default rates) were no more likely to be sanctioned by national accreditors than schools with strong outcomes.<sup>iv,170</sup>

The vast majority of colleges and universities provide a quality education; they have strong reputational and financial incentives to retain and graduate students. It is certainly also true that students themselves bear a large share of the responsibility for achieving good outcomes and realizing satisfactory

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iv Accrediting agencies establish their own standards for academic quality. The student outcomes observed in the GAO report included retention rates, graduation rates, and cohort default rates. For more information, see: <https://www.gao.gov/assets/670/667690.pdf>.

returns on educational investments. Nonetheless, low degree completion rates and inadequate preparation for workforce demands remain significant challenges for the higher education system as a whole and for students of color, low-income students, and adult learners in particular. These are also the students most likely to enroll at schools that face resource constraints and other obstacles to improving educational outcomes. In the worst case, students take on tens of thousands of dollars of debt without obtaining a degree of value or any degree at all, often undermining their own and their family's long-term financial security and—in the case of delinquency or default—leaving taxpayers to cover the unpaid debt. More effective accountability mechanisms, along with better information and data transparency (the subject of the next section), would help identify poor-performing schools and create stronger incentives for all institutions of higher education to serve their students better.

## The Growing Problem of School Closures

When colleges and universities unexpectedly close, the ripple effects for students can be disruptive and severe. Too often, students receive insufficient notice and have few viable options to finish their degree. Not only do their time and tuition dollars go to waste, but they are also unable to receive the wage gains associated with a postsecondary credential. School closures are also costly for taxpayers because the federal government forgives (or discharges) the debt of students at institutions that close, if the students do not continue their studies elsewhere.

The reality is that existing accountability mechanisms and other federal education programs are ill-suited to identify institutions at risk of closing or to help manage the fallout when they do, largely due to a lack of real-time data in the forecasting metrics. In some cases, revoking or limiting federal aid may even accelerate a vicious cycle of financial struggle that leads eventually to financial failure. As mentioned above, schools can lose eligibility for student loans or grants if their CDR is too high; schools can also see their Title IV eligibility revoked or limited due to poor finances or other compliance reasons.<sup>lvi</sup> While many of these institutions are bad actors that should not be able to access taxpayer dollars, the federal process for managing school closure is insufficient for protecting the students enrolled at these institutions.

The federal government has a complex process in place to identify struggling schools and mitigate the effects on students if they close. For private nonprofit and for-profit institutions, the U.S. Department of Education develops “financial responsibility scores” and establishes financial reporting requirements.<sup>lvi,172</sup> Institutions deemed to be at risk may be subject to restrictions on their Title IV disbursements, known as Heightened Cash Monitoring (Box 8). These schools are also required to have a teach-out plan on file that specifies what steps will be taken to protect current enrollees in the event of closure.

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lvi Public institutions are backed by a state government and therefore are not subject to financial responsibility score regulations.

## Box 8: The Financial Responsibility Score and Heightened Cash Monitoring

A financial responsibility score seeks to estimate an institution's financial health based on three measures:

1. Primary Reserve Ratio—the ratio of the school's liquid resources to overall expenses
2. Equity Ratio—the proportion of its assets that the school actually owns, reflecting the school's ability to borrow
3. Net Income Ratio—a measure of the school's profitability or surplus revenue

Together, these ratios form the financial responsibility score for private nonprofit and for-profit institutions. A school with a low score must file a letter of credit<sup>lvii</sup> and becomes subject to Heightened Cash Monitoring, or HCM. (This status and its additional oversight can also be assessed for a variety of compliance issues not related to financial responsibility scores.) HCM operates by controlling the disbursement of Title IV funds. The sanction comes in two levels of severity:

1. Under HCM-1, schools must make disbursements to students from their own funds and then submit disbursement records to the U.S. Department of Education in order to draw down federal funds.
2. Under HCM-2, after making disbursements from their institutional funds, schools must submit an official request for reimbursement along with records for every student receiving funds. These requests can happen only once every 30 days.

HCM-2 is much more onerous for schools, severely limiting their cash flow. Being placed on HCM-2 is often seen as the death knell for a struggling school, as it may prevent the school from meeting its financial obligations and precipitate closure.

As of September 1, 2019, the Department of Education lists 423 schools on HCM-1 and 60 schools on HCM-2.

Sources: Federal Student Aid, "Financial Responsibility Composite Scores," accessed August 25, 2019. Available at: <https://studentaid.ed.gov/sa/about/data-center/school/composite-scores>; Federal Student Aid, "Heightened Cash Monitoring," accessed September 1, 2019. Available at: <https://studentaid.ed.gov/sa/about/data-center/school/hcm>.

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lvii A letter of credit is a financial assurance that a given institution will cover a specified portion of the costs associated with student loan discharges in the event of closure. For more information, see: <https://www.gao.gov/assets/690/686709.pdf>.

Unfortunately, these protections, in their current form, are ineffective. Financial responsibility scores, for example, are backward-looking, often based on data that are more than a year old.<sup>173</sup> In fact, a 2017 GAO report found that the metrics used to identify financially at-risk institutions predicted only half of school closures since the 2010-11 academic year. GAO also found that the Department of Education's methodology has not been updated since it was first established 20 years ago.<sup>174</sup>

Furthermore, school closures can rapidly deteriorate into crisis, which makes developing and implementing a teach-out plan a daunting task. In the event of a teach-out, the closing institution no longer admits new students and implements a plan to bring all currently enrolled students to completion of their program. Administrators are forced to quickly navigate the complex teach-out environment—where they must address concerns from students, administrators, accreditors, alumni and community members—as they simultaneously respond to the impending possibility of losing their own job. While accreditors set requirements with respect to what constitutes an adequate teach-out plan,<sup>175</sup> administrators often have a poor grasp of the details and mechanics behind actually implementing these plans; the tasks often require core competencies well beyond their likely role.

Regulatory roadblocks and restrictions can also hinder the smooth implementation of teach-out plans. Many of these restrictions have to do with managing the financial liabilities of school closures, but the same regulations can create strong disincentives for outside parties to acquire a troubled school and teach out its students. While it is important that the federal government not rubber stamp any and all teach-out acquisitions, and that protections are in place to deter potentially predatory parties, undue regulatory barriers can discourage teach-outs and prolong the uncertainty endured by students.

This ineffective federal policy is especially troubling given the fact that school closure is becoming increasingly prevalent in the U.S. higher education system, partly due to the proliferation of for-profit institutions with questionable finances, a high degree of dependence on federal student aid, and poor outcomes among students.<sup>176</sup> Research suggests, on average, students who complete for-profit certificate programs experience no discernable wage gains compared to similar students who do not enroll.<sup>177</sup>

Broader demographic trends are also playing a role in school closure: although the share of high school graduates has increased significantly over the past 20 years, the aging of the overall population has led to a decline in the traditional college-age population, which has depressed demand.<sup>178</sup> In 2018, a total of 218 institutions and campuses closed in the United States, affecting roughly 100,000 enrolled students. Of these affected students, a disproportionate number (60%) were students of color and 59% received Pell Grants. Schools that closed also tended to be small, with median enrollment of just 341 students.<sup>179</sup>

While smaller schools tend to be more prone to closure, several high-profile closures involving larger institutions have adversely affected thousands of students and led to billions of dollars in loan discharges in recent years. These closures have generally occurred among for-profit chains, such as Corinthian College and ITT Technical Institute, which closed in 2015 and 2016, respectively. Similarly, Dream Center Education Holdings,<sup>lviii</sup> the parent company of Argosy University, closed all of its campuses in recent years and went into receivership in 2019. Cumulatively, from 2014 to 2018, the closing of for-profit colleges affected roughly 490,000 students.<sup>180</sup> Federal policy arguably contributed to these institutions' sudden closure by placing them on Heightened Cash Monitoring, which severely restricted their cash flow, though it is also worth noting that these institutions suffered from shaky finances to begin with.<sup>lix</sup>

For-profit institutions need to run a reasonable profit over time in order to stay open and compensate owners and shareholders, which may be one reason they are more prone to closure compared to private nonprofit schools that only need to break even. Yet despite this important difference, growing numbers of private nonprofit institutions are also vulnerable, given falling demand. Compounding the demographic trends noted earlier, international student enrollment is also declining—by about 35,000 students over the past two years alone—due to changes in immigration policy and international competition.<sup>181,182</sup> And the enrollment challenge is about to grow: based on demographic factors alone, the number of high school graduates is projected to decline steeply after 2025.<sup>183</sup>

Small private liberal arts colleges in the Northeast have proven especially vulnerable to these trends. A recent report examined 750 of these institutions and found that the median net revenue per student covered only 53% of the median expense per student.<sup>184</sup> In total, 129 private nonprofit institutions have closed over the past five years.<sup>185</sup>

Given these challenges, comprehensive reforms are needed to better protect students and taxpayers from the fallout of school closures. More accurate and timely warning systems are needed, together with streamlined processes for developing and implementing teach-out plans. Above all, federal policy should work to ensure that affected students are kept on track to degree completion and are not financially harmed.

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lviii Dream Center Holdings was technically a nonprofit organization, having purchased a chain of for-profit institutions before converting them into nonprofit status. For more information, see: <https://www.insidehighered.com/news/2017/03/06/large-profit-chain-edmc-be-bought-dream-center-missionary-group>.

lix For more information on the relationship between HCM and college closure, see: <https://tcf.org/content/report/how-to-stop-sudden-college-closures/>.

## **I.C CHALLENGE: DATA AND INFORMATION**

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The choice of where to pursue postsecondary education is among the most consequential decisions that millions of Americans make each year. Unfortunately, many students and their families lack access to data that could help them make fully informed choices at this critical juncture. Similarly, policymakers, researchers, and schools themselves could benefit from additional data about the effectiveness of different strategies for improving student outcomes.

Beyond the data itself, information, tools, and resources available to borrowers are often not adequate to help individual students and their families take charge of and manage their personal finances. At a time when overall indebtedness is rising along with rates of loan default and delinquency, it is alarming that many borrowers lack detailed knowledge of their student loans. Surveys suggest just 52% of first-year students can accurately estimate within \$1,000 the amount of debt they have taken out.<sup>186</sup> Many students with federal loans are, in fact, unaware they have any student debt at all.<sup>187</sup> Although all borrowers are required to undergo federally mandated loan counseling, this requirement does not appear to be yielding the intended results.

The current approach to federal student loan disclosure is also confusing for borrowers; institutions' attempts to provide information to students through financial aid offers (which are often called "award letters") can be both misleading and difficult to understand. Further, the personalized information presented to students is often inadequate. For example, students may be unaware that annual and cumulative caps on federal student aid can limit their access to further loans or grants.

In sum, America's higher education system suffers from information shortcomings in two key respects: 1. It does not collect and disseminate certain important data on students and schools. 2. It fails to provide adequate information to student-borrowers.

### **Data Gaps with Respect to Student Outcomes and Institutional Behavior**

Since 1986, all postsecondary institutions receiving federal aid have been required to contribute to the Integrated Postsecondary Education Data System, which records the results of annual surveys conducted by the Department of Education's National Center for Education Statistics, or NCES. The IPEDS database, which is publicly available, includes all institutions of higher education in the United States and provides aggregate information about institutional characteristics, finances, enrollment, degree completion, and student outcomes.<sup>188</sup>

Additionally, NCES administers surveys to representative samples of students to collect student-level data on demographics, school characteristics, financial aid, student supports, academic courses, college costs, and labor market outcomes. One prominent survey, the National Postsecondary Student Aid Survey, or NPSAS, provides data on several key measures of student outcomes, by institution type. These data are more granular than IPEDS, as they are collected at the student-level, but they are also less timely, occurring biennially. This survey also does not include institution-level results, and the disaggregated student-level data are only available through a rigorous licensing process.<sup>189</sup>

Without publicly available student-level data, it is often challenging to assess outcomes by key demographic characteristics.<sup>lx</sup> Similarly, the data collected on veterans in accordance with the Post-9/11 GI Bill make it difficult to evaluate outcomes for many student veterans who receive federal aid.<sup>190</sup>

The College Scorecard, compiled by the Department of Education and first published in its current format in 2015, marked a big step forward in data collection. This dataset displays student outcomes by institution, including borrowing, default, and loan repayment rates, by merging IPEDS data with linked Internal Revenue Service tax records and administrative data from the National Student Loan Data System, or NSLDS, a federal student loan database. Regrettably, the Scorecard has some limitations, as it only focuses on averages and aggregate rates, thereby obscuring variations in outcomes among student subgroups. It also lacks data on the roughly 30% of students who either do not receive federal financial aid or drop out, as these groups of students are not reported in employment or earnings outcomes.<sup>191</sup>

Other shortcomings in data reporting and collection practices diminish the usefulness of the information that is collected from various sources. For example, several of the IPEDS surveys have inconsistent reporting periods, which hampers cross-survey comparability. Furthermore, schools are required to aggregate student data and report it to NCES at the institutional level, which diminishes the Department of Education's ability to provide information, such as student outcomes, with a high degree of granularity. This aggregation, in addition to limited data on students who transfer schools or drop out, has also made it impossible to gauge performance within specific programs or departments.<sup>lxi</sup> Program-level data are especially important to gain insight

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lx For example, the IPEDS Graduation Rates survey reports separate data for Black students and for students receiving Pell Grants, but it does not report data separately for students who are both Black and receiving Pell Grants.

lxi It is worth noting that the new version of the College Scorecard includes some program-level data on debt, earnings, and loan repayment rates among those who complete their degree. To review the data, see: <https://collegescorecard.ed.gov/data/>. This was the subject of a technical review panel in April 2019. For more information, see: [https://edsurveys.rti.org/IPEDS\\_TRP\\_DOCS/prod/documents/CS2\\_Summary.pdf](https://edsurveys.rti.org/IPEDS_TRP_DOCS/prod/documents/CS2_Summary.pdf).

into whether the amounts being borrowed can be repaid with post-graduation earnings. Some recent research indicates that loan repayment rates for certain graduate programs at widely respected schools are comparable to those at some of the worst-performing institutions.<sup>192</sup>

One issue for improving data collection is the HEA's ban on doing so at the student-level, which was included in the 2008 HEA reauthorization to protect students' privacy and security. Proponents of the ban cite concerns around student privacy and data security, pointing to recent data breaches in other government agencies as well as in the private sector, and also question the federal government's authority to expand data collection to students who do not receive federal aid. Critics of the ban, on the other hand, emphasize the potential to solve several of the issues enumerated above and point out that many federal, state, and private entities have collected student-level data for decades without any known security issues.

Beyond data collection, there is considerable room for improvement in data dissemination. Consumer tools such as the Scorecard have certainly made existing outcomes data more accessible to students and families—in fact, most users report that the Scorecard is easy to navigate and helpful in their college search process. Nonetheless, this resource and others are under-utilized, and some research suggests awareness of the Scorecard among high school students is low.<sup>193</sup>

Students and families, as well as researchers, would also benefit from more accessible and granular data on institutional spending and priorities. The IPEDS Finance Survey, which tracks expenditures and revenue, does not distinguish between spending on activities that promote student success (such as counseling and career services) and spending designed to capture additional revenues (such as marketing and inter-collegiate athletics). Instead, these types of spending are often lumped together in the “student services” category in IPEDS, which makes their magnitude and impact difficult to assess.<sup>lxii,194</sup>

Data quality is another problem because IPEDS currently lacks strong reporting standards and adequate oversight. While financial data, as an example, are provided from an institution's audited financial statements, no comprehensive auditing requirement exists for IPEDS, meaning misreporting and human error can go largely unchecked. Some quality measures do exist, but they are limited. Generally, institutions are only asked to explain large year-to-year changes and anomalous values in the IPEDS surveys.<sup>195</sup> In addition, data definitions in the IPEDS framework (particularly within the IPEDS Finance Survey) are poorly specified, which can undermine the validity of the data and compromise their usefulness for research purposes.

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lxii As part of internal performance assessments, institutions have begun to use IPEDS and other data to benchmark their spending against that of other institutions.

## Students Have Inadequate Information on Federal Financial Aid

Many students also lack the tools and information to make sound financial aid choices. As early as high school, students are aware of and concerned about student loan debt. In a recent study, the significant majority of students surveyed indicated that price was a “very important factor” in their college decisions.<sup>196</sup> This was particularly true of first-generation students and students of color, many of whom expected to pay for college without the help of their families and hoped to minimize how much debt they incurred. Unfortunately, the respondents also had limited knowledge about their financial aid options. While most were aware the federal government offers student loans, the majority did not know subsidized loans or income-based loan repayment plans exist.

After a student is accepted, most schools send the student a print or electronic communication—often (and misleadingly) called an “award letter”—that provides details on the cost of attendance and the financial aid package being offered, including federal loans, grants, and work-study opportunities, as well as any state support and institutional tuition discounts or scholarships. These documents from the institutions, however, lack uniformity, making it difficult for students to compare financial aid packages across schools or to understand the level and type of aid they are being offered. Some financial aid offers do not display information on the cost of attendance, leaving students unaware of additional expenses they may incur. Other offers fail to clearly disclose what portion of the student’s “award” is actually a federal loan that must be repaid with interest or Federal Work-Study that must be earned through part-time employment.<sup>197,198</sup> These are all critical pieces of information for students as they decide whether a school is within their means and right for them.<sup>lxiii</sup>

In a 2018 report, New America and uAspire analyzed financial aid offers from 515 different schools and documented various discrepancies that can be confusing to students. The aid offers referred to Direct Unsubsidized Loans in 136 unique ways, 24 of which did not include the term “loan.” One-third of the offers did not include any information on the cost of attending the school.<sup>lxiv</sup> Among the sample, 70% grouped all aid together, not distinguishing between grants and loans. Nearly 15% included Parent PLUS Loans under “awards,” instead of “loans.” Last but not least, schools presented 23 different methods for calculating residual costs after receiving aid.<sup>199</sup>

This confusing, patchwork approach is a disservice to all students, but it is especially problematic for those low-income students who are likely to be

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lxiii It is worth noting that many schools do provide comprehensive financial aid offers to prospective students. For some examples, see: <https://www.newamerica.org/education-policy/policy-papers/decoding-cost-college/>.

lxiv Cost of attendance includes tuition and fees as well as indirect costs, such as room and board, books, transportation, etc. It does not account for financial aid and therefore does not reflect out-of-pocket costs.

most in need of financial aid, have fewer resources at their disposal to fully understand financial aid offers, and are most vulnerable to the consequences of taking on excessive debt.<sup>200,201</sup>

An aspect of federal student aid that is particularly poorly understood is the fact that this support is subject to annual and lifetime caps per student. Currently, total aggregate borrowing through the Federal Direct Loan Program is capped at \$31,000 for dependent students, \$57,500 for independent undergraduates, and \$138,500 for graduate or professional students (Table 3).<sup>lxv,202,203</sup> Pell Grants are also subject to annual and lifetime limits, though eligibility and annual grant amounts are tied to a student's financial need.<sup>204</sup>

Currently, there is no systematic mechanism in place to inform students about where they stand relative to their aggregate Direct Loan and Pell Grant limits. Students who want to know how close they are to hitting the caps must use the Federal Student Aid website to calculate their individualized limits (which, again, can vary based on each student's personal finances and enrollment status) and compare with their own previous aid usage. But many students are either unaware of the limits or do not realize that reaching them could lead to difficulties in accessing further financing.<sup>205</sup>

The ideal times to inform prospective and current borrowers about the terms and nature of their loans are shortly before they take out a loan or before they begin repaying an existing loan. Accordingly, the government requires both entry and exit loan counseling for all federal borrowers and details a long list of topics that such counseling must address, including the consequences of debt accrual, loan terms, repayment options, and estimated monthly payments. The Department of Education provides an online counseling platform that around 70% of institutions opt to use to satisfy these requirements.<sup>206</sup>

A study by TG (a nonprofit student loan company), however, indicates that the online counseling platform is ineffective. Students can click through the session in a matter of minutes without fully absorbing the information, yet the design assumes that users not only will read everything that appears on the screen, but also have the financial literacy to understand all the information presented and apply it toward a calculated borrowing decision. The authors found that the Department of Education's online counseling platform is text-heavy, not easily navigable, and includes irrelevant content for first-time borrowers. For example, 40% of respondents had difficulty understanding the platform's descriptions of basic loan concepts.<sup>207</sup>

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lxv Lending through the Direct Loan program is subject to annual caps that range from \$3,500 to \$20,500. Precise limits depend on the student's dependency status, their year in school, as well as whether they are an undergraduate or graduate student. These limits do not apply to Grad PLUS or Parent PLUS Loans, which allow graduate students and the parents of undergraduates to borrow up to the cost of attendance, as determined by the institution. For more information, see: <https://studentaid.gov/understand-aid/types/loans#borrowing-limit>.

## Box 9: The Department of Education's Loan Counseling Experiment

The Education Department's Office of Federal Student Aid is currently conducting a loan counseling experiment on ways to improve the system.<sup>208</sup> Launched in 2016, this multiyear study is being conducted at 51 institutions across the country. The experiment has several design features:

- Each institution provides its student borrowers with either the Department of Education's online counseling platform, the institution's own loan counseling system, or a third-party platform.
- Institutions randomly assign entering borrowers to treatment and control groups. Students assigned to the treatment group are given additional counseling on top of the standard entrance and exit counseling, while those in the control group are provided only standard counseling.
- After collecting data for several years, an evaluator will identify which method is most effective at increasing loan repayment rates and helping borrowers manage their loans.

In addition to mandatory loan counseling<sup>209</sup> and completion of the Master Promissory Note<sup>210</sup> that contains the full terms of the loan, student borrowers receive a Plain Language Disclosure Form from the federal government.<sup>211</sup> While the form is meant to provide easy and accessible information about loan terms and conditions, its title is misleading at best. At close to 7,000 words, it is jargon-filled, dense, and provides broad definitions of terms rather than projections that are tailored to the individual borrower. For example, the form does not estimate the individual borrower's monthly payments or interest accrual. It also leaves out the annual percentage rate, or APR, which projects the cost of the loan on a yearly basis—incorporating not only the interest rate but also the loan's origination fee, which can add thousands of dollars in costs for the borrower.<sup>212</sup> Due to this complexity and lack of personalization, students often have little sense of the financial burden they are taking on with student loan debt until years later.

These shortcomings in the current financial aid system are alarming given the rapid increase in student loan debt. They are also especially concerning from an equity standpoint. First-generation students, students of color, and their families are disproportionately dependent on student loans to finance higher education.<sup>213</sup> They are also more likely to lack information about loan terms and a clear understanding of the potential consequences of taking on debt. Without straightforward communication that conveys the long-term costs of their education and clear guidance to help navigate the current system, the most vulnerable students and families are also most at risk for making borrowing decisions that can severely hamper their ability to build wealth.<sup>214</sup>

## Section II: Task Force Recommendations

 ver the past decade, the federal government has allocated roughly \$156 billion per year in the form of federal loans and need-based grant aid to help Americans pursue a postsecondary education.<sup>lxvi,215</sup>

Despite this tremendous investment, outcomes for many students—as measured by degree completion and job market success—remain lackluster, and too many Americans are either unable to access a quality education due to prohibitive costs, or emerge from their experience with unsustainable debt levels. The first part of this report described some of the main challenges and systemic failures that help explain these poor results. This section discusses a set of specific reforms, developed by BPC’s Task Force on Higher Education Financing and Student Outcomes, that begin to address the three categories of challenges we have identified: access and affordability, outcomes and accountability, and data and information.

### II.A REFORMS TO IMPROVE ACCESS AND AFFORDABILITY

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As detailed in the first section of this report, access and affordability are key challenges for America’s higher education system, which have been exacerbated by stagnant, and in some cases falling, investment from state governments. One result has been a growing reliance on student loans, evidenced by the \$1.5 trillion in outstanding debt nationwide.<sup>216,217</sup> Meanwhile, the easy credit available from the federal student loan program has itself been criticized for further fueling tuition price increases, particularly for graduate students. Relatedly, a disproportionate share of overall federal investment in higher education—including the cost of tax incentives and loan forgiveness—ends up flowing to higher-income individuals, while the value of Pell Grants, which are intended to make postsecondary education affordable for low-income students, has gradually eroded relative to the cost of college attendance.

To address systemic challenges of access and affordability, the task force has developed a package of 23 recommendations aimed at renewing the federal-state partnership in higher education financing while also streamlining the federal aid system to reduce complexity and boost flexibility for an increasingly diverse population of students, curtail risky lending, and better target resources

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lxvi This figure represents the average amount in federal student aid (loans and grants) allocated annually over the past 10 years, in 2019 dollars.

to low- and middle-income students. We believe these improvements are critical to making a high-quality postsecondary education more accessible and affordable and to ensuring higher education in America continues to function as an engine of opportunity.

Our specific recommendations address the need for improvement and reform in seven key areas: 1. Renewing the federal-state partnership in higher education. 2. Strengthening the federal Pell Grant program. 3. Reforming the federal student loan program. 4. Curtailing tax expenditures for higher education. 5. Facilitating more-accurate assessments of student need. 6. Better targeting campus-based aid resources. 7. Simplifying the Free Application for Federal Student Aid, or FAFSA.

The sections that follow summarize the case for reform in each of these areas and detail the concrete changes or actions we recommend.

It is crucial to note that that this package would greatly expand need-based grant aid for low-income and middle-class students, which we view as central to addressing the challenges of access and affordability. To maintain federal budget neutrality—a self-imposed constraint agreed to by all task force members for purposes of these deliberations—our package also proposes to eliminate several existing types of federal support (including certain tax expenditures and loan subsidies, for example) in favor of more-effective interventions at improving student outcomes, such as boosting need-based grant aid. Thus, our recommendations should be considered as a package—not as a series of stand-alone proposals.

## Renewing the Federal-State Partnership in Higher Education Financing

### **1. Recommendation: Establish a \$5 billion annual matching grant to help states address unmet need and improve student outcomes.**

States have historically been the primary funders of public higher education, supporting institutions and students through direct appropriations and need-based aid. The federal government has played a secondary role in facilitating broad access to higher education through a voucher system of federal loans and grants.

Unfortunately, however, declining state investment has altered these roles. Since the mid-1970s, state and local support for higher education as a share of personal income has dropped from around 1.0% to 0.5% today.<sup>lxvii,218,219</sup>

We recommend the federal government establish a \$5 billion annual matching grant program for states to improve student outcomes (access, completion, and return on investment) and promote college affordability for low- and middle-income students. Participation in this program would be optional, and states would retain a high degree of flexibility, under the recognition that every state higher education system is unique.

States would only qualify for matching federal grants if they increased spending on higher education. In addition, states would be required to set aside a portion of their annual allocation into a rainy day fund, which would be held by the federal government and used only to support consistent higher education funding during recessions. Ultimately, the system would increase state and federal investment in higher education while also creating clear incentives to target public resources in ways that broaden access, improve outcomes, and bridge equity gaps.

Specifically, the task force recommends tying the annual allocation formula—used to determine the maximum grant amount made available to each state—to measures of affordability, efficiency, and state tax effort (Box 10).<sup>lxviii</sup> The formula would also be adjusted to account for state GDP and state population to ensure a proportional distribution of resources.

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lxvii State higher education support includes all sums appropriated for state aid to institutions and state-based financial aid, excluding appropriations for capital outlays and debt service as well as appropriations derived from federal sources, student fees, auxiliary enterprises, and other non-tax sources. For more information, see: [https://sheeomain.wpengine.com/wp-content/uploads/2019/04/SHEEO\\_SHEF\\_FY18\\_TechPaper.pdf](https://sheeomain.wpengine.com/wp-content/uploads/2019/04/SHEEO_SHEF_FY18_TechPaper.pdf).

lxviii Tax effort is a measure of state investment in higher education as a proportion of the state's tax base. Tax effort is defined as the three-year rolling average of the tax rate (tax revenues per capita divided by overall taxable resources per capita) multiplied by the percentage of government resources allocated to higher education — in other words, higher education support divided by total tax revenues and lottery profits.

## Box 10: Proposed Allocation Formula for Federal Matching Grants

The task force recommends an allocation formula for federal matching grants based on the following metrics and weightings:

- **Affordability (60%)**—The affordability of a state’s public institutions, together with the per-student size of the state’s need-based aid fund, which can generally be used at public or private institutions, would be heavily weighted in the allocation formula.<sup>lxxix</sup> All else equal, states with schools that are more affordable for low- and middle-income students and with larger need-based aid funds would be rewarded with a higher maximum grant allocation. The three variables that comprise the affordability metric—net prices for low-income students, net prices for middle-income students, and the per-student size of the need-based aid fund—would each be weighted at 20%.<sup>lxxx</sup>
- **Tax Effort (20%)**—The formula would reward states based on tax effort, defined as a state’s total spending on higher education relative to the size of its tax base. Put another way, tax effort measures a state’s postsecondary investment relative to its capacity to invest. This metric would incentivize additional state spending on higher education while also recognizing that not every state can invest equally in higher education, due to relative resource constraints.
- **Efficiency (10%)**—This measure would tie grant funding, in part, to the number of degrees earned at the state’s public institutions per \$100,000 in institutional revenues. Incorporating a measure of efficiency into the formula would provide an incentive for states to improve degree completion rates.
- **State Wealth (10%)**—Grant allocations would also be tied to state resources (measured by state GDP per capita), as poorer states require more funding to reduce unmet need compared to wealthier ones.<sup>lxxxi</sup>
- **Population**—Finally, grant allocations would be scaled by state population to ensure that, all else equal, states are treated equitably on a per capita basis.<sup>lxxii</sup>

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lxxix The per-student size of a state’s need-based aid fund is calculated using all need-based aid awarded to undergraduates divided by the total number of full-time undergraduate students at all institutions, including private institutions, in the fall of the academic year.

lxxx Low- and middle-income students are defined as students from households with annual incomes below \$75,000. Income thresholds are based on reporting standards for the Integrated Postsecondary Education Data System. For more information, see: <https://nces.ed.gov/ipeds/use-the-data/survey-components>.

lxxxi State GDP per capita is defined as a state’s total economic output divided by the number of residents. This measure of a state’s average income reflects its ability to invest; thus, the formula allocates a greater share of federal resources to states with fewer means to fund their own higher education systems.

lxxii State population is defined as the number of residents in a state ages 16-54, which is meant to represent not only current enrollment levels, but also the potential for enrollment to increase across both the young adult and adult cohorts, given that this system would make higher education more affordable and thereby increase demand for its services.

To qualify for federal funding under this new grant program, participating states would be required to increase total higher education spending relative to a three-year rolling average of previous investment levels.<sup>lxxiii</sup> For every additional dollar invested above this three-year rolling average, the federal government would provide a \$4 match, up to the maximum amount set by the allocation formula.<sup>lxxiv</sup>

Federal grants would be reassessed annually and states that reduced their investment below the three-year rolling average would be ineligible, even if they received federal funding the previous year. During recessions, when state funding is constrained, states would be required to use their rainy day fund resources (detailed below) to assist in maintaining adequate investment levels.

Participating states would be required to use grant funds to reduce unmet student need, improve outcomes for low- and middle-income students, or some combination thereof. Although the federal government would put in place reporting requirements to ensure compliance among states, it would also provide states with a high degree of flexibility on how to achieve these goals. For example, states could provide direct aid to public institutions in order to reduce net prices. Alternatively, states could bolster need-based aid funding (providing grant aid to students for use at an institution of their choice) or invest in College Promise programs, which reduce or eliminate students' cost of attendance. Finally, states could allocate funds to targeted and proven interventions that focus on access, persistence, and degree completion for low- and middle-income students (Box 11).<sup>lxxv,lxxvi</sup>

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lxxiii State investment levels are measured by the total state funding allocated towards higher education.

lxxiv See page 105 in the appendix for additional details on the allocation formula.

lxxv Need-based aid investments and targeted interventions for low- and middle-income students could be directed towards students attending institutions in any sector, at the discretion of state governments.

lxxvi College Promise programs are state, local, or institutional commitments to fund a college education for every eligible student. The programs often consist of initiatives that support students in completing degrees, credentials, or credits that prepare them for the 21st century workforce. For more information, see: <https://collegepromise.org/the-promise/>.

## Box 11: Initiatives to Improve Outcomes and Affordability

States and institutions have employed a number of evidence-based approaches to reduce unmet need and improve outcomes for low-income students.<sup>220</sup> Several of the successful initiatives focus on helping students make wise decisions about how to get the most out of college, with some preliminary results indicating a near doubling of graduation rates.<sup>221</sup> Beyond reducing unmet need, these programs address the barriers facing 21st-century learners, making use of innovative thinking, holistic approaches, mentoring, and high-touch advising and other services to support students all the way from early outreach, through convocation, and onto graduation.

Three well-designed programs provide potential templates for state leaders as they grapple with how to improve outcomes and promote affordability:

- **The Georgia State University GPS Advising Program** uses predictive analytics to track students and provide tailored academic support, such as advising services. Since the inception of the program, more students are graduating, debt burdens have fallen, and the average time to complete a degree has decreased by more than half a semester. More importantly, through a combination of scholarships, completion grants, advising, mentoring, adaptive learning tools, and a strong focus on college to career, Georgia State is now the only national university in which Black, Hispanic, first-generation, and low-income students graduate at the same or higher rates than the general student body.<sup>222</sup>
- **The Washington College Grant** is a College Promise program that provides need-based grant support to students from families earning less than 70% of the state's median family income. Funds can be used to cover the cost of attendance at public institutions, as well as some private two- and four-year schools and apprenticeship programs. Importantly, Washington's is considered a "first-dollar program." This means that funds are provided to students before other grants or awards, such that the program's benefits do not reduce other forms of aid a student might receive, like Pell Grants and institutional scholarships. This structure effectively targets students with the highest need; it also allows for the use of funds to support non-tuition costs, such as transportation and child care.<sup>lxxvii</sup> Additionally, the program allows for part-time enrollment, which provides important flexibility for today's students.<sup>223</sup>
- **The City University of New York Accelerated Study in Associate Programs**, or CUNY ASAP, provides students with a range of financial, academic, and personal supports, including comprehensive and personalized advising, career counseling, tutoring, and transportation (MetroCards). Not only does ASAP provide tuition support to students with demonstrated financial need, it also provides additional aid to defray costs for books and other materials. Additionally, the program supplies students with special class scheduling options, convenient block times for classes, and various pathways to transition into the workforce depending on student goals. ASAP students are more likely to graduate with an associate degree than non-ASAP students. Specifically, the percent of ASAP students who graduate with an associate degree within three years stands at 52% versus 27% for a comparison group of students.<sup>lxxviii,224</sup>

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lxxvii For more information on first-dollar compared to last-dollar programs, see: <https://www.acct.org/page/first-dollar-vs-last-dollar-promise-models>.

lxxviii Reported graduation rates were calculated using a three-year graduation timeline, comparing students in CUNY's Accelerated Study in Associate Programs with like-students using a propensity-score matched comparison group.

The rainy day fund created by setting aside a specified percentage of state allocations would be controlled by the federal government and paid out to states during economic recessions. During such downturns, states would be required to supplement their higher education spending with resources from the rainy day fund, and these funds would count toward qualifying for the federal match. Before implementing this system, the Department of Education should analyze the impact of previous recessions on state higher education systems and, based on that evidence, designate the share of grants to be allocated to the rainy day fund.

If, in the event of a particularly severe recession, rainy day resources are insufficient to compensate for state funding shortfalls, the Department of Education would have the authority to temporarily alter state eligibility requirements for the grant program to minimize disruptions to state higher education systems.

BPC partnered with the National Center for Higher Education Management Systems, or NCHEMS, to model the above proposal, analyzing the effects of a \$5 billion nationwide annual grant program on enrollment, completion, and personal income. The model also forecasts the net budgetary effects of the program at the federal level and for all 50 states, after estimating offsetting savings from increased tax receipts and reduced demand for means-tested benefit programs.<sup>lxxix</sup>

Based on modeling an initial cohort and assuming full participation by every state, a one-year, \$5 billion grant program would yield roughly 220,000 additional postsecondary enrollments and 56,000 degree completions.<sup>lxxx</sup> Over the following decade, that one-year investment would also generate roughly \$14 billion in additional personal income stemming from productivity gains associated with enhanced degree attainment.

Extrapolating out to 10 years of implementation, BPC projects that the program would generate between \$10 billion and \$30 billion in gross federal revenues (and an additional \$10 billion to \$30 billion in gross state revenues), which would partially offset the cost of the initiative (Table 5).<sup>lxxxi</sup>

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lxxix See page 109 in the appendix for additional details on the methodology.

lxxx Completions include certificates, as well as associate, bachelor's, and graduate degrees.

lxxxi Federal and state revenues are generated from increased tax receipts and reduced spending on means-tested benefit programs, both of which result from increases in postsecondary attainment.

**Table 5: Summary of Federal-State Partnership  
Projected Outcomes**

Projected Annual Increase in Enrollments and Degrees Conferred			Projected Additional Personal Income and Federal/State Revenues	
<b>Additional Enrollments</b>			<b>Second-Year Effect from First Year of Grant Funding</b>	
Public Two-Year and Less	81,000		Additional Personal Income	\$1.6 billion
Public Comprehensive & Regional Four-Year	58,000	219,000	Total State Revenues Generated	\$202 million
Public Research	80,000		Total Federal Revenues Generated	\$249 million
<b>Additional Degrees</b>			<b>Ten-Year Effect from First Year of Grant Funding</b>	
Certificates	11,000		Additional Personal Income	\$13.7 billion
Associate	15,000	56,000	Total State Revenues Generated	\$1.7 billion
Bachelor's	22,000		Total Federal Revenues Generated	\$2.1 billion
Graduate	8,000			
Estimated 10-year effect on federal revenues after 10 years of grant funding				\$10 - \$30 billion

**Source:** National Center for Higher Education Management Systems (NCHEMS)

**Note:** Federal and state revenues are generated from increased tax receipts and declines in means-tested benefit programs, both of which result from increases in postsecondary attainment. The second-year effect from the first year of grant funding calculates estimates as a result of one-year's implementation of matching grants. Ten-year effects are assessed on a net present value (NPV) basis with a discount rate of 3%.

It is important to note that, because BPC modeled just one initial cohort, the projections do not incorporate a multiplier effect that would likely occur over successive cohorts and lead to further benefits in access, attainment, personal income, and budget savings. Moreover, the model fails to capture the many positive social and economic externalities from increased access to higher education and greater educational attainment.<sup>225,226</sup>

## Reforming and Expanding Federal Pell Grants

The Pell Grant program is the federal government’s main source of need-based aid to students (Box 12). It plays a critical role in expanding access to higher education—and the long-term economic opportunities and social mobility that come with education—to our nation’s most vulnerable populations. This section focuses on expanding and reforming Pell Grants, ensuring that federal grant aid supports the students and families who need it.

### Box 12: The Calculation of Pell Grants

Pell Grant calculations are made by an institution once a student enrolls in an eligible postsecondary education program. A student’s award amount depends on a combination of factors, including their Expected Family Contribution, or EFC, as determined by information submitted on the FAFSA, the student’s cost of attendance, or COA, and the student’s enrollment status and duration.<sup>227</sup>

- COA is calculated by the institution taking into account tuition, fees, educational expenses, living expenses, and enrollment status.
- EFC reflects the family’s ability to pay based on income, family size, assets, and benefits.
- EFC is subtracted from COA to determine each student’s financial need, or the maximum amount of need-based aid the student can receive.
- Using calculated financial need, the institution applies one of six Pell Grant formulas based on the student’s enrollment status and duration—for example, whether full- or part-time or on standard or nonstandard terms (semesters, trimesters, quarters, or credit hours).

Prior to each award year, the Department of Education releases payment schedules that provide specific maximum amounts for each of the six Pell Grant formulas. The annual amount awarded to a particular student generally is not subject to change, regardless of changes in credit hours or transfer to another school.<sup>228</sup> A student’s eligibility to receive a federal Pell Grant may also be limited by the lifetime award limit of 12 semesters or the equivalent.<sup>229</sup>

## **2. Recommendation: Increase mandatory Pell funding by \$9 billion per year, with expanded eligibility for middle-income households and capped at the fourth income quartile.**

Reducing unmet need is critical to make college more accessible to low- and middle-income students and increase rates of degree completion. Studies have found that 31% of students who leave school before graduating do so for financial reasons.<sup>230</sup> Other research finds that \$3,500 in additional annual grant aid is associated with up to a 5 percentage point increase in on-time bachelor's degree attainment by Pell-eligible students.<sup>231</sup> Unfortunately, federal need-based aid has not kept pace with rising tuition and living costs. The average Pell Grant recipient received \$4,160 in the 2018-19 academic year, while average in-state costs for tuition, fees, room, and board at public four-year universities totaled \$21,400.<sup>232,233</sup>

It should be noted some Pell Grant funding flows to high-income students, generally in cases where the student comes from a large family and attends a high-priced institution: In the 2015-16 academic year, around 8% of students in the top income quartile received a Pell Grant, with an average amount of around \$2,600.<sup>234</sup>

### **Box 13: Funding the Pell Grant Program**

Historically, Pell Grants have been funded entirely through the annual discretionary appropriations process. In 2007, however, Congress enacted an additional mandatory funding source for the program.<sup>lxxxii</sup> This change was intended to help ensure sufficient resources would be available for eligible students.<sup>235</sup> Enrollment levels fluctuate from year to year, and the appropriations process generally occurs before the academic year begins, which leads to a reliance on enrollment estimates among lawmakers.<sup>236</sup> This means Pell Grant funding can accumulate a surplus or shortfall in a given year, the latter of which the mandatory funding stream was established to mitigate. In 2018, roughly one-quarter of Pell funding was through mandatory spending.<sup>237</sup>

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lxxxii Mandatory spending is set by law and not subject to the annual appropriations process.

We recommend increasing federal funding for the Pell Grant program—an additional \$90 billion in mandatory spending over 10 years (approximately \$9 billion per year)—to better support low- and middle-income students. At the same time, we recommend eliminating eligibility for Pell awards for students

from high-income households. Specific features of our recommendation are summarized below:

- **Increase funding for current Pell-eligible students by \$60 billion (approximately \$6 billion annually).** These funds would be used to increase the maximum award available to currently Pell-eligible students.
- **Expand Pell eligibility by allocating an additional \$30 billion (approximately \$3 billion annually).** This change is intended to extend grant aid to more middle-class students, specifically those in the second and third income quartiles who have demonstrated financial need.<sup>238</sup>
- **Cap Pell eligibility at the fourth income quartile.**<sup>lxxxiii</sup> This provision would prohibit students in the top income quartile from accessing Pell resources, regardless of the institution's price, family size, or number of children in college. High-income families typically have other options for financing higher education, and limited federal resources should be focused on providing need-based aid to low- and middle-income students who otherwise might not be able to access a postsecondary education at all.<sup>lxxxiv</sup>
- **Improve how low-income students are measured in existing federal data.** Pell Grant recipients have long been used as a proxy for low-income students. Given the many factors that play into Pell eligibility and the growing number of middle-class families that qualify, such an approach is increasingly flawed.<sup>239</sup> (This is especially true if our recommendations are adopted.) Therefore, policymakers and researchers should develop better methods for tracking low-income students, using measures that rely on existing poverty indicators,<sup>lxxxv</sup> family or household income, or receipt of a specified percentage of the maximum Pell award.

This proposal would reform federal financial aid by boosting up-front support, with the goal of reducing unmet need and mitigating debt burdens among low- and middle-income students and their families.

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lxxxiii The fourth income quartile consists of students from households with reported annual incomes of roughly \$110,000 or more. For more information, see: [http://www.pellinstitute.org/downloads/publications-Indicators\\_of\\_Higher\\_Education\\_Equity\\_in\\_the\\_US\\_2016\\_Historical\\_Trend\\_Report.pdf](http://www.pellinstitute.org/downloads/publications-Indicators_of_Higher_Education_Equity_in_the_US_2016_Historical_Trend_Report.pdf).

lxxxiv It is important to note that under this proposal, EFC would still be broadly used to calculate Pell eligibility. The reform would simply make the formula more generous for students in the first three income quartiles while eliminating eligibility to individuals in the fourth quartile.

lxxxv Poverty thresholds are updated annually by the Census Bureau and poverty guidelines are updated annually by the Department of Health and Human Services, or HHS. The poverty thresholds used by the Census Bureau for statistical purposes are complex and are not composed of standardized increments between family sizes. Since many program officials prefer to use guidelines with uniform increments across family sizes, the poverty guidelines from HHS include rounding and standardizing adjustments. For more information see: <https://aspe.hhs.gov/poverty-guidelines>.

### **3. Recommendation: Restore Pell Grant eligibility for incarcerated students.**

Individuals who are incarcerated are currently ineligible to receive Pell Grants under the Violent Crime Control and Law Enforcement Act of 1994. This policy is misguided given evidence that higher education attainment significantly increases the likelihood of employment subsequent to release; employment, in turn, reduces the likelihood of recidivism.<sup>240,241</sup>

We recommend restoring Pell eligibility for individuals who are incarcerated. This change would extend support to a population that is among the most disadvantaged in terms of accessing a postsecondary education and the social and economic opportunities it provides. Research suggests restoring Pell eligibility could increase earnings among formerly incarcerated individuals by \$45 million in the first year of release alone, and the resulting reduced recidivism rates for this population could cut state prison costs by as much as \$366 million per year.<sup>242</sup>

### **4. Recommendation: Implement a new pilot study that extends Pell to cover short-term programs.**

Under current law, Pell Grants can only be used at degree-granting institutions and certificate programs that are at least 16 credit hours (or 600 “clock hours”) in length.<sup>lxxxvi,lxxxvii,243</sup> This means students generally cannot use Pell Grants to enroll in short-term programs that are focused on providing highly specific job skills. Research indicates, however, that early exposure to a range of career experiences is associated with better postsecondary education outcomes and that occupation- and industry-based career training show promising employment outcomes for youth.<sup>244,245</sup> On the other hand, important questions remain about how changing institutional eligibility requirements might affect quality assurance, student demand, and institutional behavior.<sup>246</sup>

Recently, the Department of Education, through its Experimental Sites Initiative, tested Pell Grant access for programs that do not meet statutory requirements with respect to instructional time or credit hours.<sup>lxxxviii,247,248</sup> This

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lxxxvi Exceptions to this provision are made for programs that can be used as eligibility to gain admission to a graduate or professional degree program, as well as for state authorized programs with the approval of the Secretary of Education.

lxxxvii For more information on clock hours, see: <https://www2.ed.gov/offices/OSFAP/training/materials/clockhourslides.pdf>.

lxxxviii The department’s short-term Pell experiment (150 clock hours / 4 credit hours) allowed access to Pell Grants for students in programs that address local or regional workforce needs, result in completion of employment requirements, such as licensure, and do not exceed more than 50% of the minimum number of clock hours required for training (if the state has established such a requirement).

effort, focused on tracking education, employment and earnings outcomes for participating students, sunsetted in 2019, but the department has yet to release results of the experiment. Additionally, the department did not investigate institutional responses or evaluate the quality of the participating programs.<sup>249</sup>

We recommend a pilot study that extends Pell eligibility to short-term programs, with the goal of building an evidence base around the effects of such an expansion.<sup>lxxxix</sup> This study could be implemented through the Experimental Sites Initiative but, in addition to tracking student outcomes, it should also collect information on institutional behavior when Pell dollars are available for short-term programs.<sup>250</sup>

Additionally, more clarity is needed on the question of what constitutes quality for short-term programs that are not subject to other forms of accreditation. Even if the pilot study we propose yields promising results, Congress will need to carefully examine the issue of quality assurance before expanding Pell eligibility to short-term programs—both to protect students and to assure the efficient use of taxpayer dollars.

### **5. Recommendation: Retain the ability to benefit provision and direct the Department of Education to study its uptake and implementation.**

The ability to benefit provision, or ATB, enables low-income individuals without a high school diploma to access financial aid, including Pell Grants.<sup>xc,251</sup> ATB can be a powerful tool because it makes educational success financially possible for a more diverse population of students, many of whom would not otherwise have access to higher education or family-sustaining wages.<sup>252</sup> Unfortunately, policy changes, including the elimination of ATB in 2012 and its subsequent re-introduction in 2014, together with confusing guidelines for implementation, have resulted in few higher education institutions authorizing Pell funding under ATB.<sup>253</sup>

We recommend retaining ATB in reauthorization of the Higher Education Act, or HEA, while also directing the Department of Education to study barriers to ATB uptake. One such barrier is the existence of two sets of regulations—one under the Department of Education and one under the Department of Labor—that apply to this provision. As a result, states and institutions need further guidance on navigating ATB regulations.<sup>254</sup> Reforming the current regulatory architecture and providing this guidance could reduce uncertainty, simplify implementation, and promote increased use of ATB.

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lxxxix The Pell Flexibility Act, introduced in both the House (H.R. 2161) and Senate (S. 1072), would provide for a short-term Pell Grant pilot for programs between 320 and 600 credit hours. For more information, see: <https://banks.house.gov/news/documentsingle.aspx?DocumentID=1502>.

xc For more information on ATB, see Box 5 in Section I: Three Challenges.

## Improving the Performance of the Federal Student Loan Program

As detailed in the first section of this report, current student loan repayment and forgiveness options are overly complex for borrowers, who often have difficulty identifying and enrolling in the repayment plan that is most appropriate for their circumstances.

A further issue is that some of the federal efforts to offer repayment flexibility and loan forgiveness are poorly targeted. For example, because IDR and Public Service Loan Forgiveness, or PSLF, offer blanket forgiveness on the entire remaining balance of a student loan, high-balance borrowers tend to receive disproportionate benefits from these provisions. The same high-balance borrowers also tend to attend more expensive schools and have higher levels of degree attainment and therefore greater earning potential after graduation.<sup>255</sup> In addition, blanket forgiveness can create incentives for additional borrowing, particularly among graduate students, as it disconnects the decision about the amount of money borrowed from a student's earnings after graduation.<sup>xci</sup>

This phenomenon is largely fueled by two features of the current federal student loan system:<sup>xcii</sup>

- **Grad PLUS Loans** allow students in graduate programs to borrow up to the cost of attendance. COA is set by the institution and can be extremely high for some programs.<sup>256</sup> As a result, Grad PLUS Loans enable high levels of borrowing, increasing taxpayer exposure and the benefit to individual students in the event of loan forgiveness.
- **The standard repayment cap** is a component of several IDR plans that limits a borrower's monthly payments to what the borrower would pay under a standard 10-year plan. This cap allows high-income borrowers to avoid paying the full portion of their discretionary income—generally 10% in most IDR plans—if that figure is higher than what their payment would be under a standard 10-year plan. The standard repayment cap is particularly beneficial for borrowers who have spent time in forbearance or deferment and see high levels of negative amortization on their loan balance, which can ultimately increase the total level of forgiveness. According to the Congressional Budget Office, eliminating the cap would save taxpayers around \$10 billion over 10 years.<sup>257</sup>

The student loan system also suffers from challenges beyond repayment. Many undergraduate students run up against Direct Loan limits that can inhibit their ability to complete a degree or result in lending to parents who lack the means to repay. Meanwhile, as already noted, the largely unlimited nature of the Grad

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xci For more information on this design feature, see: <https://www.newamerica.org/education-policy/policy-papers/zero-marginal-cost/>.

xcii These flawed design features also apply to PSLF. See Recommendation #8 for the task force's proposal to overhaul the PSLF program.

PLUS program has fueled aggregate borrowing, creating additional risks to taxpayers and borrowers when debt burdens become unmanageable.

Our package of recommendations focuses on both simplifying and re-targeting support in a way that puts borrowers first and provides sufficient resources to low-income and middle-class students and families. To roughly adhere to budget neutrality—which was a key constraint in the task force’s work—and put downward pressure on college prices, the package also eliminates some costly and poorly targeted provisions in favor of the expansion in need-based supports outlined in the prior section.

**6. Recommendation: Provide new borrowers with a single income-driven repayment option that would not be subject to the standard repayment cap.**

Current IDR plans are confusing for borrowers, given that there are numerous options to choose from, each with slightly varying terms. Additionally, the standard repayment cap is regressive, providing disproportionate subsidies to high-balance borrowers, who tend to have higher earnings.

We recommend providing just one IDR option to new borrowers, with monthly payments capped at 10% of the borrower’s discretionary income, and loan forgiveness after 20 years for both undergraduate and graduate borrowers.<sup>xciii,xciv</sup>

All borrowers on IDR plans would be required to pay the full 10% of their discretionary income, meaning that monthly payments would no longer be capped at the amount owed under the standard, 10-year plan. Removing this cap would make the system more progressive by disallowing high-earners from taking advantage of both lower monthly payments and eventual loan forgiveness.

**7. Recommendation: Make IDR the default option for new borrowers and enable data sharing to verify income.**

IDR’s enrollment and recertification process can be burdensome for borrowers, entailing significant paperwork that must be completed each year. These barriers inhibit participation among borrowers who would benefit from lower monthly payments.

We recommend making IDR the default option for borrowers entering repayment, meaning that borrowers would be enrolled in IDR automatically unless they proactively opt out. This would dramatically reduce barriers to IDR enrollment and put downward pressure on delinquency and default rates.

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xciii Discretionary income is calculated as the difference between adjusted gross income, or AGI, and 150% of the federal poverty level, or FPL. In 2019, 150% of the FPL for a single person was \$18,735. For more information, see: <https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven/questions>.

xciv These terms are similar to the current REPAYE. For more information, see: <https://studentloans.gov/myDirectLoan/ibrInstructions.action>.

Under this system, the Department of Education would send borrowers a form, before they enter repayment, to inform them that they are being placed on an IDR plan. Borrowers would then have the opportunity to actively switch to a standard, graduated, or extended plan.<sup>xcv</sup>

This proposal would be largely facilitated through data sharing between the Internal Revenue Service and the Department of Education. Congress recently passed legislation enabling data sharing along these lines, which would obviate the need for borrowers to submit income data for each year that they are enrolled in IDR, a cumbersome process that currently hampers uptake.<sup>xcvi</sup> It should be noted that the data sharing system still needs to be implemented by the Department of Education.<sup>xcvii</sup>

### **8. Recommendation: Restructure Public Service Loan Forgiveness to provide a flat monthly benefit.**

The PSLF program suffers from undue complexity, subjecting borrowers to numerous requirements that have not been adequately clarified by the federal government or loan servicers. The result is that less than 1% of applicants for PSLF have received the forgiveness they were seeking.<sup>258</sup> Additionally, the blanket forgiveness element of the program is an even more egregious example of an issue that plagues existing IDR plans, namely providing disproportionate subsidies to high-balance borrowers, who tend to have higher earnings.

We recommend restructuring the PSLF program to provide a flat monthly benefit of up to \$300 for up to five years (60 months) that would count toward student loans for borrowers employed in the public sector or at qualifying nonprofit organizations. Ideally, this proposal would be paired with data sharing between the IRS and the Department of Education, with the goal of eliminating red tape by allowing back-end verification of qualifying employment and enabling the Department of Education to provide the payment directly to the borrower's loan servicer. If the borrower's monthly payment is

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xcv Under current law, borrowers are required to consent to enrollment in an IDR plan and sign all disclosures in the borrowing agreement. For more information, see: <https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven#consistent-payments>.

xcvi Per federal law under the Dodd-Frank Act, the Department of Education would still be required to obtain affirmative consent from a borrower in order to authorize the data sharing that facilitates income verification under IDR. Consent could be obtained when the borrower initially fills out the FAFSA. Under the task force's proposal, borrowers who have given that approval would be automatically enrolled in IDR. Ideally, borrowers who did not authorize data sharing on the FAFSA would be provided another opportunity to do so before their loans enter repayment. Those individuals who do not want to have their data shared with the department would be automatically enrolled in the standard 10-year repayment plan.

xcvii See Recommendation #20 for further details on the task force's data sharing proposal.

less than \$300, the remaining balance would be used to pay down principal and interest accruals.

Changing PSLF to a monthly benefit would make the system more progressive by eliminating blanket forgiveness, which tends to disproportionately benefit high earners.<sup>259</sup> Additionally, an upfront benefit would provide beneficiaries with substantial relief as soon as they begin their careers, which is when incomes are at their lowest and borrowers tend to struggle the most.<sup>260,261</sup> Within the first four years of repayment, borrowers with less than \$5,000 in student loan debt are the most likely to default.<sup>262</sup> A restructured PSLF program could help many borrowers avoid this outcome and its serious consequences, instead allowing them to get out from under their debt and build their financial future. In fact, this benefit would cover the entire monthly loan payment for up to five years for eligible borrowers earning less than \$54,000 per year, provided they were enrolled in the IDR option described above. Finally, all qualifying employees with debt would receive a benefit from this new approach, rather than the much smaller number of borrowers who stay in these positions for at least a decade and have residual debt at the end of the period.<sup>xcviii</sup>

### **9. Recommendation: Eliminate in-school interest subsidies on federal student loans.**

Many middle-class students, in particular, do not qualify for Pell Grants under current law, but still face significant levels of unmet need and rely on subsidized loans as their primary source of federal higher education support. Similarly, low-income students are more likely to borrow and be heavily reliant on these subsidies. A plethora of research, however, suggests that direct need-based grant aid (such as Pell Grants) is more effective at promoting retention and attainment compared to back-end supports like loan subsidies.<sup>263,264,265</sup>

Thus, we recommend eliminating in-school interest subsidies on federal student loans, a change that would yield roughly \$22 billion in savings to the federal budget over 10 years.<sup>266</sup> While this change would result in additional loan debt for those who borrow, there is no current evidence to suggest that it would reduce access or degree completion. After the in-school interest subsidy was eliminated for graduate students in 2012,<sup>267</sup> total rates of enrollment and degree completion continued to rise.<sup>268,269</sup> Nonetheless, it is crucial that the elimination of subsidized loans be paired with an increase in alternative supports targeted to low-income and middle-class students—such as the Pell Grant expansion outlined above—that leaves these students with at least an equivalent level of financial support to what is currently offered through loan subsidies.

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xcviii There is considerable uncertainty regarding the federal budgetary cost estimate for moving PSLF to a flat monthly benefit. The costs associated with the reformed program would depend on exactly what types of workers qualify, borrowing trends among qualifying workers, whether the program is facilitated through automatic data sharing, and the rate at which eligible borrowers submit to data sharing.

Replacing subsidized loans with a more robust Pell Grant that extends benefits up to the fourth income quartile would leave the average low- or middle-income student better off than under the current system.<sup>xcix</sup> The typical subsidized loan recipient should receive an increase in net benefits from this change.

### **10. Recommendation: Rein in risky lending to parents and increase loan limits for low-income undergraduates.**

While the Parent PLUS program was originally intended to provide liquidity to families with the means to repay, it is increasingly being used as a last resort by low-income families to cover unmet need when a student's expenses exceed the amount that the student can borrow under federal loan limits. At present, nearly 20% of all Parent PLUS borrowers, and nearly 40% of Black Parent PLUS borrowers, have incomes of \$30,000 or below. Parent PLUS borrowers in the bottom income quartile have an average loan balance (\$16,824) that is twice their average reported annual salary (\$7,748).<sup>270</sup> Parent PLUS loans are not broadly eligible for the same benefits as other federal student loans, such as IDR, and as with other types, they are not dischargeable in bankruptcy, which means that the federal government can garnish the wages and even the Social Security benefits of borrowers who default.

To address this challenge, we recommend:

- **Applying underwriting standards to Parent PLUS Loans.** Currently, borrowers qualify for PLUS Loans as long as they have no adverse credit history, meaning low-income individuals with no credit history can potentially qualify for tens of thousands of dollars of federally issued debt. This proposal would strengthen PLUS lending standards by requiring potential borrowers to demonstrate that they have the ability to repay before they take on this type of debt.
- **Allowing dependent students from low-income households to qualify for higher independent loan limits.** Under current policy, dependent undergraduates have access to a cumulative total of \$31,000 in Direct Loans. Meanwhile, independent students (as well as students whose parents do not qualify for PLUS Loans) face a cumulative limit of \$57,500.<sup>271</sup> This proposal would provide low-income dependent students with access to the higher independent limit, to ensure broad access to higher education is not threatened by tighter standards on lending to parents.

There is no doubt that student debt levels should be reduced across the board—and many of the task force's recommendations are designed to advance this goal. But given that it is the student—not the parents—who directly benefits from postsecondary attainment, the student is better positioned to take on additional debt, if absolutely necessary. Importantly, Direct Loans also offer

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xcix See Recommendation #2 for further details on the task force's proposed Pell Grant expansion.

greater protections to borrowers than Parent PLUS Loans: namely income-driven repayment and loan forgiveness.

**11. Recommendation: Conduct a study to assess options for limiting Grad PLUS Loans.**

Graduate student borrowing is a driving force behind growing levels of aggregate student debt in the United States. Part of this growth is being fueled by the Grad PLUS Loan program, which, by providing unlimited access to credit, is enabling—if not promoting—a lack of price discipline among programs and high debt accumulation by borrowers.

At the same time, the program plays a critical role for many students, particularly low-income students and students of color, who rely on Grad PLUS Loans to finance a graduate-level postsecondary education. Many masters and professional degrees lead to lucrative salaries, and other advanced degrees are inherently expensive for schools to provide (an example would be medical degrees that include clinical rotations). These features can justify the high tuition prices associated with many kinds of graduate degrees.

In a perfect market, tuition prices would be informed by both the cost of producing the degree and its return on investment for the degree recipient—allowing federal student loan limits for a given graduate program to be set accordingly. But unfortunately, little transparency exists in the higher education marketplace, and uncapped Grad PLUS Loans allow graduate programs to increase prices well beyond their expected labor market return because of their unfettered access to federal taxpayer dollars. Capping Grad PLUS Loans could thus work to bring some market discipline to graduate tuition prices. The research needed, however, to set and implement such caps—including defining an appropriate limit for different types of programs and assessing impacts on access and equity—has not been conducted.

We recommend that the Department of Education study the effects of capping Grad PLUS Loans, specifically to determine the impact on low-income and other student sub-group populations. The study should make recommendations on how caps might vary by program type based on the cost of degree production as well as ROI for different kinds of degrees.

**12. Recommendation: Conduct a study on the extent to which students are over-borrowing and under-borrowing.**

There is scant research on the prevalence of overuse of the federal student loan program, such as by students borrowing more than is necessary for them to complete their studies and maintain a reasonable standard of living.<sup>272</sup> With the combination of high levels of borrowing through the Grad PLUS program and large-scale loan forgiveness programs through IDR and PSLF, the potential for over-borrowing certainly exists. Over-borrowing, if prevalent, represents an inefficient allocation of federal resources and places burdens on taxpayers.

Conversely, research suggests that many low- and moderate-income students still struggle to afford college even with the financial supports that are currently available.<sup>273,274,275</sup> While debt aversion has been identified among low-income and first-generation college goers, little is known about the extent to which under-borrowing exists across the higher education system, or how large its effect may be on persistence and completion.

We recommend the Department of Education conduct a study to develop definitions of over-borrowing and under-borrowing in the federal loan system and to assess the prevalence of both based on this definition. If the department finds under- or over-borrowing to be a significant problem, it should also provide recommendations to address the issue.

## Reforming Federal Tax Expenditures on Higher Education

### **13. Recommendation: Eliminate the American Opportunity Tax Credit, the Lifetime Learning Credit, and the student loan interest deduction.**

Federal higher education tax expenditures are poorly targeted. Their benefits flow primarily to filers with higher incomes, who are more likely to have significant tax liability. Low-income households generally cannot take advantage of these credits because they have no federal tax burden or because they lack access to tax preparation assistance that would help them navigate the tax code and claim these benefits.<sup>276</sup>

We recommend phasing out the AOTC, LLC, and student loan interest deduction. Congressional Budget Office estimates that eliminating these provisions would increase federal revenues by nearly \$200 billion over the following decade.<sup>277</sup> The lion's share of that figure would be sufficient to fund the federal-state partnership and the Pell expansion detailed above, both of which would be more effective at boosting postsecondary enrollment and degree completion.<sup>278</sup>

## Improving Financial Need Assessments

### **14. Recommendation: Improve guidance from the Department of Education on developing cost of attendance calculations.**

The cost of attendance is an estimate of the total cost of enrolling at a given institution of higher education. It includes tuition and fees, room and board, and additional living expenses. This figure is set annually by colleges and universities and is generally derived through student surveys.<sup>279</sup> While federal law specifies which types of expenses should be included in the COA, schools have considerable discretion over how they estimate these costs.<sup>280</sup>

Recent research has found that COA estimates are often inaccurate. Nearly half of all colleges assume living costs that are at least 20% above or below

estimated county-level living expenses; even neighboring schools often make dramatically different estimates.<sup>281,282</sup> Moreover, changing student demographics make the COA increasingly difficult to calculate accurately. Many of today's students are commuters, working students, and parents, which leads to significant variation in the costs they face to attend school.<sup>283</sup> When COA estimates are imprecise, the result is that some students are eligible for more federal aid than they really need, while others are left with less than the requisite amount.

We recommend that the Department of Education develop guidance aimed at helping institutions improve their COA calculations. This guidance could highlight the best sources for determining expenses, which may include student surveys, interviews, or estimates of local and regional living expenses from governmental sources.

More-accurate COA assessments could mitigate the potential for under- and over-borrowing among graduate students since PLUS Loans are offered up to the COA threshold. In cases where the COA is adjusted upwards, undergraduates could become eligible for higher levels of need-based aid, such as a maximum Pell Grant award and campus-based aid.

**15. Recommendation: Close the legal guardianship loophole to ensure that high-income families are not utilizing means-tested benefits for higher education.**

Currently, wealthy parents are able to transfer legal guardianship of their college-bound children to relatives or friends so that the student can claim greater amounts of financial aid.<sup>284,285</sup> Although technically a legal practice, it is ethically dubious and takes away scarce resources from middle- and low-income students with greater levels of unmet need.

We recommend implementing a change recently suggested by the Department of Education that would add clarifying language to the Federal Student Aid handbook.<sup>286</sup> Specifically, it would state that, "if a student enters into a legal guardianship, but continues to receive medical and financial support from their parents, they do not meet the definition of a legal guardianship and are still considered a dependent student."<sup>c,287</sup> Before implementing this change, the Department of Education should consult with a range of experts and stakeholders to ensure that there are no unintended negative effects from closing this loophole, particularly among students receiving means-tested benefits, including former foster youth who may have experienced a change of guardianship.

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c Students who receive medical support through the Children's Health Insurance Program, Medicaid, or other state and federally funded health care programs could still meet the definition of a legal guardianship and be considered an independent student.

## Reforming Campus-Based Aid

The federal government provides funding directly to institutions through the campus-based aid program. Institutions are required to allocate these resources to students on campus based on their relative financial need. Campus-based aid has two components: the Supplemental Educational Opportunity Grant program, or SEOG, which provides need-based grant aid to undergraduate students, and the Federal Work-Study program, or FWS, which supports wages for low- and moderate-income students who find a part-time job, often on-campus.<sup>ci</sup> In the 2018-19 academic year, \$840 million was distributed to campuses through SEOG and \$1.1 billion was allocated through FWS.<sup>288</sup>

Two formulas are used to distribute campus-based aid: the base guarantee and the fair share calculation. The base guarantee is applied first; it ensures that participating schools receive at least as much aid as the prior year.<sup>289</sup> After allocating the base guarantee, the fair share formula is used to calculate a need figure for every school, which represents the total unmet need for all students at the institution. Remaining campus-based aid funds are distributed in proportion to each school's calculated need.<sup>cii,ciii</sup>

Because the base guarantee ensures that institutions receive at least as much funding as the prior year, schools that have participated in the program for a long time tend to receive more funding. This has the effect of substantially benefiting older and wealthier institutions.<sup>290</sup> Moreover, because the fair share calculation takes into account the price of the institution, higher-priced institutions get more funding. As a result, private four-year nonprofits receive nearly 40% of FWS funds even though they enroll only about 15% of all FWS-eligible students. In fact, at private nonprofit schools, less than half of FWS recipients are eligible for Pell Grants, which suggests that these resources are not going to the students with the most demonstrated financial need.<sup>291</sup>

The task force recommendations described in this section aim to improve the targeting of campus-based aid programs so a larger share of federal resources is directed to institutions that effectively serve large numbers of low- and moderate-income students.

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ci Campus-based aid also used to include Perkins Loans (low-interest loans for low-income students), but this program was eliminated in 2017.

cii The fair share calculation allocates money to schools based on comparative need. If there are not enough funds to cover the calculated fair share for all institutions, then the remaining monies are distributed in proportion to each school's relative shortfall ratio—the institution's shortfall compared to the shortfall of all schools. For more information, see: [https://www.ppic.org/content/pubs/ffg/FF\\_905TRFE.pdf](https://www.ppic.org/content/pubs/ffg/FF_905TRFE.pdf).

ciii For SEOG, HEA requires that the Department of Education reduce a school's annual calculated need by the amount of the Pell Grants received.

**16. Recommendation: Update the campus-based aid allocation formula to better target institutions that effectively serve large numbers of students with demonstrated financial need.**

As mentioned above, the current campus-based aid allocation formula is outdated and regressive, providing disproportionate resources to older, wealthier campuses, many of which enroll few low-income students.

We recommend revising the allocation formula so it takes into account measures that more comprehensively represent student access, affordability, and success. Examples of such measures include the share of the student population that is low-income, how well a given institution performs at reducing unmet need, and outcomes among low-income students, such as loan repayment rates, debt-to-earnings ratios, and degree completion rates.

If implemented correctly, these reforms would provide increased support to institutions with a proven track record of enrolling and effectively serving low-income students.

**17. Recommendation: Limit Federal Work-Study allocations to undergraduate students.**

Currently, fewer than 10% of FWS program recipients are graduate students, but they tend to receive larger average allocations than undergraduates who are dependents, at around \$2,500 compared to \$1,600.<sup>292,293</sup> This is primarily due to the high price of graduate programs, which results in higher estimates of unmet need for those students. While supporting graduate students in their academic endeavors is important, their inclusion in the institutional needs formula results in poor targeting of FWS dollars for all students. Graduate students also tend to fare better in the labor market, with higher expected future earnings compared to undergraduates, and they often receive graduate assistantships to help support the cost of attendance.<sup>294</sup>

We recommend limiting FWS allocations to students who have not earned a bachelor's degree. To achieve this, policymakers would adjust the FWS formula so that it only considers unmet need among undergraduate students. This change would increase the share of overall FWS funding that goes to community colleges while reducing allocations to better resourced private nonprofit institutions with large graduate programs.<sup>295</sup>

**18. Recommendation: Direct the Department of Education to provide guidance to schools on how to allocate Supplemental Educational Opportunity Grant disbursements.**

Much like Pell Grants, SEOG funds are allocated based on need. Due to limited funds, however, not every low-income student on a given campus may receive

this form of aid. Each college sets its own guidelines for awards, which range from \$100 to \$4,000 per academic year. To be able to assist a larger number of students, many schools limit their awards to \$1,000 or less. Additionally, given that need outstrips available resources, many schools award SEOG to eligible students on a first-come, first-serve basis. This can inadvertently put low-income students at a disadvantage since they are less likely to have the resources and information to apply ahead of regular FAFSA and financial aid schedules.

To better target SEOG funds, we recommend directing the Department of Education to provide schools with guidance on how best to implement this program to ensure that the lowest-income students are being effectively served.

### **19. Recommendation: Allow institutions to use Supplemental Educational Opportunity Grant funding for emergency child care and micro-grants.**

Because more and more of today's college students are balancing the demands of work and parenthood, they are increasingly vulnerable to unexpected events or costs—for example, a car repair, medical problem, or change in child care arrangements—that can derail their path to graduation. Recent research demonstrates that implementing an emergency aid program to help students facing unexpected financial shocks can significantly affect retention and completion. Based on data from its emergency tuition program, the Panther Retention Grant, Georgia State University reports that in 2018 alone, completion grants brought 2,600 students back to school, with more than 86% of recipients graduating.<sup>296,297</sup>

Currently, SEOG funds are provided to students as part of their financial aid packages and disseminated at the beginning of each term.<sup>298</sup> Availing some of these funds, however, to instead help students weather adverse circumstances throughout the school year could reduce the likelihood that such events will cause a student to drop out.

We recommend allowing institutions to repurpose a portion of SEOG resources to implement programs that provide financial support to low-income students who are dealing with emergencies. Institutions could use these funds to establish “micro-grant” programs, which provide cash assistance to students who have experienced a financial shock. These resources could also be used to forge partnerships between colleges and local child care centers to provide emergency child care services. In any case, institutions should be allowed a degree of flexibility to tailor these programs to the unique needs of their student bodies.

## **Reforming the Free Application for Federal Student Aid**

Filing the FAFSA, which students must do annually to qualify for federal student aid, is unnecessarily burdensome and complex, hindering postsecondary access and attainment. Streamlining the application process could play an important role in promoting access and affordability. Research

has found that students who file a FAFSA are 72% more likely to persist in higher education than similarly situated students who do not file. When focusing on lower-income students, the gap is even larger, with those who file a FAFSA more than twice as likely to persist.<sup>299</sup>

The task force has identified several approaches to simplify the FAFSA that would help all applicants and could be particularly beneficial for low- and moderate-income students.

## **20. Recommendation: Enable automatic data sharing between the Department of Education and the IRS.**

The FAFSA filing and verification processes are onerous. This is especially the case for low-income applicants, who are disproportionately selected for verification. These same students generally see minimal year-to-year changes in their EFC, which measures a family's financial ability to pay for college and is used to calculate federal, state, and institutional aid allocations.

While the IRS Data Retrieval Tool, or DRT, now allows for the transfer of tax return information from the IRS to the Department of Education, and the Simplified Needs Test, or SNT, grants some low-income students access to an abbreviated FAFSA form, these simplification efforts are insufficient. The DRT is neither automatic nor universal, and there are limitations in its ability to retrieve all the tax information required to complete the FAFSA.

Better data sharing between the IRS and the Department of Education would substantially mitigate the burden of applying for financial aid. With appropriate privacy protections, policymakers should strive to make as much IRS information available to the Department of Education as possible, including non-filer status and W-2 information not currently transferred through the DRT.<sup>300</sup>

We recommend enabling the transfer of all relevant tax information from the IRS to the Department of Education automatically, which would reduce FAFSA reporting burdens, particularly among low-income families who pass the SNT. These families already benefit from skip logic that excludes asset questions, but under this reform, low-income families would ideally only need to answer a few simple questions: family size, the number of students in the family who will be enrolled in the upcoming year, and which institutions should receive the student's financial information.<sup>civ</sup>

Additionally, data sharing would reduce the burden of paperwork on applicants selected for verification, and it would also benefit borrowers who have entered repayment, such as by laying the groundwork for the reforms to IDR detailed previously. For example, IDR could become the default option for borrowers

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civ Some states use FAFSA data to determine eligibility for state-based aid and may continue to require that SNT-eligible students provide asset information through the FAFSA.

who consent to data sharing, and borrowers would no longer be required to annually recertify their income.

In late 2019, Congress passed and the president signed into law the FUTURE Act, bipartisan legislation that included the authorization of data sharing between the IRS and the Department of Education.<sup>301</sup> Implementation is not yet underway.

**21. Recommendation: Lay the groundwork for an eventual transition to a one-time FAFSA.**

Currently, to be eligible for financial aid, the FAFSA must be completed every year that a student is enrolled in college. Although some fields can be re-populated from the previous year's form, annual submission requirements remain onerous and unnecessary for many students.<sup>302</sup>

We recommend laying the groundwork for a transition to a one-time FAFSA, which nearly every student would complete just once, when initially applying to college. This would reduce the FAFSA's burden on low-income and first-generation students. A one-time FAFSA should be paired with the automatic data sharing recommendation described above, and students should be clearly informed that any significant change in their EFC would be flagged on the back-end and could prompt the requirement to submit a new form.

Before transitioning to a one-time FAFSA, it would be crucial to garner the support of schools and states so they do not respond by creating additional reporting requirements for purposes of awarding institutional and state-based aid. There also needs to be analysis and consensus around the question of what changes would trigger the requirement to submit an updated FAFSA. Additionally, we recommend that the Department of Education study the prevalence of asset fluctuations among middle- and high-income students, and the extent to which these fluctuations affect EFCs and financial aid awards to help ensure that a one-time FAFSA is not vulnerable to being gamed in ways that could produce a windfall for the wealthy.

**22. Recommendation: Rename the “Expected Family Contribution” to better reflect its function as an index of need, rather than a set figure for what the family will be expected to pay for college.**

The term Expected Family Contribution is misleading in the context of an overall financial aid application process that is already complex and confusing for many students and families. The EFC is not intended to establish a set figure for what a student will actually be expected to pay for college; rather, it is a federally determined index of a given student's level of financial need.<sup>cv</sup>

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cv The FAFSA Simplification Act of 2019, introduced by Sen. Lamar Alexander (R-TN) and Sen. Doug Jones (D-AL), would reform the current Expected Family Contribution calculation and rename it the Student Aid Index. For more information, see: [https://www.nasfaa.org/news-item/19836/Bipartisan\\_Senate\\_Bill\\_Simplifies\\_the\\_FAFSA\\_Restructures\\_Pell\\_Grant\\_Eligibility](https://www.nasfaa.org/news-item/19836/Bipartisan_Senate_Bill_Simplifies_the_FAFSA_Restructures_Pell_Grant_Eligibility).

We recommend renaming the EFC to better reflect what this figure represents. Employing clear terminology within the federal student aid application process is a small, but potentially effective step toward promoting more informed decision-making and reducing informational barriers to access.

### **23. Recommendation: Create a more seamless connection between the FAFSA and the Supplemental Nutrition Assistance Program.**

Surveys of college students show varying results when measuring the prevalence of food insecurity on campus, but nearly all conclude that not having enough to eat is a pervasive challenge. Many campus populations report more than 30%, with some reaching over 50%.<sup>303</sup> Supplemental Nutrition Assistance Program, or SNAP, benefits (widely known as “food stamps”) can be an important source of support for low-income students, who may be at risk of dropping out if they are unable to meet their basic needs. While some schools have already adopted the practice of notifying students who may be eligible for food assistance, a recent GAO study estimated that almost 2 million students who might have qualified for SNAP did not receive benefits in 2016.<sup>304</sup>

The FAFSA is a measurement of financial security that is already filled out by a significant majority of students; its goal is to connect students to the federal resources they need to succeed in postsecondary education.

We recommend that any student who receives a zero EFC from their FAFSA should be notified by the Department of Education that they may be eligible for SNAP and other means-tested benefits and should be given information about how to enroll.<sup>305,306</sup>

## **II.B REFORMS TO IMPROVE OUTCOMES AND INCREASE INSTITUTIONAL ACCOUNTABILITY**

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The reforms described in this section address the challenge of improving outcomes and accountability in the U.S. higher education system. Specifically, our recommendations aim to promote quality assurance, increase schools’ capacity to support students and deliver better student outcomes, and give postsecondary institutions stronger incentives for improvement. These recommendations are guided by six core principles that stress the importance of strengthening institutional accountability with respect to higher education (Box 14). We also offer specific recommendations to protect students and taxpayers in the event of school closure, which is becoming a greater risk, particularly for some smaller institutions, as demographic and other trends reduce the overall pool of students seeking placement at U.S. colleges and universities.

### **Box 14: Key Principles for Federal Accountability**

The task force's recommendations concerning federal accountability policies are guided by six principles:

1. The federal government has an obligation to protect student and taxpayer resources, both by disallowing the worst-performing institutions from accepting federal student aid dollars and by incentivizing continuous improvement among institutions that accept these dollars.
2. Robust protections are needed to preserve access and affordability for students of color, low-income students, adult learners, first-generation students, and veterans.
3. Federal accountability policies should be designed to support institutional capacity building and prevent downward spirals in which well-intended but under-resourced institutions are unable to meet performance metrics, and as a result, are further deprived of financial resources.
4. Federal accountability policies should provide students with improved opportunities for employment and help increase the likelihood that students will realize a positive return on their investment.
5. Federal accountability policies should be sector-neutral, meaning punitive measures should not be targeted at specific types of institutions.
6. Federal accountability policies must have clear and transparent goals and metrics that are simple to understand but difficult to game.

## Boosting Institutional Capacity Building

The task force is making two recommendations to enhance capacity among institutions that lack resources—particularly those institutions whose mission is to enroll students of color and low-income students.

### **24. Recommendation: Invest \$400 million annually to boost capacity at Minority-Serving Institutions, or MSIs, as well as low-resource institutions in other sectors that enroll a high proportion of low-income students.**

Low-income students, students of color, and first-generation students face unique barriers to postsecondary enrollment and degree completion. Many of the institutions that disproportionately serve these populations, such as Historically Black Colleges and Universities, or HBCUs, and community colleges, have been chronically under-funded and would benefit from additional resources to assist their students in overcoming barriers to success in school and in the workforce.

We recommend directing \$400 million in additional annual mandatory federal funding to boost capacity at HBCUs; Hispanic-Serving Institutions, or HSIs; Tribal Colleges and Universities, or TCUs; and low-resource institutions in all other sectors that enroll a high proportion of low-income students, such as community colleges. These capacity grants would be allocated directly to institutions through Titles III and V of the Higher Education Act and would be formula-based. This funding could only be used for evidence-based interventions that boost outcomes among low-income students. It could also be paired with targeted technical assistance from the Department of Education, to provide institutions with expertise as they develop these interventions. Additionally, funding should be paired with strong reporting requirements to ensure the resources are being spent as intended.

Specifically, we propose the following funding increases through Titles III and V:

- Title IIIA     \$325 million     Low-resource institutions in any sector<sup>cvi</sup>
- Title IIIB     \$50 million     Historically Black Colleges and Universities
- Title V         \$25 million     Hispanic-Serving Institutions

We recommend that new funding be allocated based on a formula tied to two variables:

- The proportion of low-income students enrolled at the institution.
- Student-centered spending, defined as the portion of an institution's

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<sup>cvi</sup> It is recommended that Tribal Colleges receive a specified portion of this new funding through Title IIIA. Title IIIA allocations would not be available to HBCUs or HSIs, given that they are being provided additional resources through Titles IIIB and V.

resources that are allocated towards student-centered activities, where these activities include not only instruction, but also wraparound supports such as career services and counseling.<sup>cvii</sup>

Additionally, we recommend that new funding through Title IIIA be targeted to low-resource institutions—for example, institutions with below-median financial resources per student.

Allocating funding based on this formula would help ensure increased federal support is directed to those low-resource institutions that not only have the highest levels of low-income students, but are also making a good faith effort to improve student outcomes by directing a higher proportion of their own resources to activities that support students.<sup>cviii</sup>

### **25. Recommendation: Conduct an independent, national study to re-evaluate current allocation formulas for supporting Minority-Serving Institutions.**

Many of the grants directed towards MSIs under Titles IIIA and V of HEA are allocated on a competitive basis, which tends to benefit those institutions that already have more resources and can better compete for limited dollars. Additionally, because HBCU is a historical designation, funding for these institutions through Title IIIB is not necessarily tied to the current demographics of student bodies or their respective financial needs.

We recommend commissioning an independent national study to analyze the current design of MSI grant programs and identify the extent to which reforms could better target federal dollars to low-resource institutions that enroll a high proportion of students who face barriers to college success, including low-income students and students of color. The study should be conducted by a diverse group of independent experts and stakeholders.

## **Strengthening Institutional Accountability**

Our next set of recommendations aims to strengthen accountability in ways that remove the worst-performing institutions from accessing the federal aid system while incentivizing continuous improvement among all schools. These changes, together with our proposals to boost institutional capacity, would better protect students and taxpayers from predatory institutions and also make the higher education system more equitable and effective at providing value.

### **26. Recommendation: Strengthen and broaden the metric used to disallow institutional eligibility for federal aid.**

The current federal accountability system is largely toothless. Relying on a school's cohort default rate, or CDR—that is the share of students in a given

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cvii See page 97 for reforms to data collection and dissemination that would better clarify student-centered spending.

cviii See page 111 in the appendix for additional details on modeling the capacity grants.

cohort who default on their loans—to identify under-performing institutions overlooks the many paths that may keep struggling borrowers from outright default, such as deferment, forbearance, and income-driven repayment plans.<sup>307</sup> Together with CDR thresholds that allow relatively high rates of default before a school becomes ineligible for federal student aid dollars, the current mechanism allows taxpayer dollars to continue flowing to some extremely poor-performing institutions.

To address these issues, we recommend developing a more comprehensive measure of institutional performance that is tied to federal aid eligibility. This measure could include not only the current CDR metric, but also other assessments of student outcomes. For example, as a proxy for labor market outcomes, the measure could incorporate a program-level repayment metric, defined as the share of students in a given cohort who are able to reduce their principal balance within a specified number of years after entering repayment. Alternatively, the measure could partly reflect levels of amortization—that is, based on the progress a given cohort of students make in paying down their debt relative to the standard 10-year repayment plan. In either case, the calculation should be crafted to exclude students with an in-school deferment or students who choose service in the Peace Corps, military, or other public service fellowships, to avoid incentivizing schools to funnel students away from public service after graduation.

A new, repayment-focused accountability measure would be best applied at the program-level rather than at the institution-level, where possible. Research indicates program quality and value to students can vary considerably within a given institution, even at the most prestigious schools.<sup>308</sup> In 2017, for example, students of a two-year, graduate-level theater certificate program run by Harvard University borrowed \$78,000 to attend but earned an average of only \$36,000 per year after graduation.<sup>309</sup>

Other metrics that should be considered in identifying under-performing institutions include completion rates, earnings among graduates, and outcomes for low-income students. Schools that consistently score poorly on the metrics that are ultimately included should lose access to federal financial aid dollars.

### **27. Recommendation: Require institutions participating in the federal loan program to pay a premium tied to student loan outcomes.**

The federal student loan system places disproportionate risk on both students and taxpayers. Students take on the significant risk that their postsecondary investment will not pay off through no fault of their own, and taxpayers risk the possibility that federal revenues will be allocated towards low-quality institutions, with the government on the hook for poor-performing loans. Meanwhile, institutions are allowed to accept federal student aid dollars with minimal strings attached, regardless of the quality of the services provided to students.

We recommend requiring that every institution accepting federal student loans pay a small premium tied to the risk it poses to the government’s balance sheet. Specifically, premiums would be calculated based on the portion of an institution’s outstanding loan balance that has not seen a principal reduction within three years of entering repayment. This “non-repayment balance” would be calculated as a three-year rolling average, to provide additional predictability and avoid abrupt swings in premium amounts. We also recommend capping premiums at a specified percent of a school’s total revenues<sup>cix</sup> to help ensure the system is not overly punitive for a given institution. Additionally, this policy should be phased in over several years, to provide the Department of Education with sufficient time to establish the system and allow institutions time to evaluate their performance and begin to make changes to their processes.

A major concern in designing this system will be to avoid demanding higher premiums of schools that have poor outcomes simply because they tend to serve particularly vulnerable student populations. Students from low-income families and students of color face additional barriers to success—both in terms of degree completion and job market outcomes—and schools that disproportionately serve these students, such as community colleges, MSIs, and for-profit schools, will understandably exhibit somewhat lower repayment rates than institutions with wealthier and predominately white student bodies. Thus, any accountability system must adjust for differences in student composition to avoid creating incentives for schools to enroll fewer of these students.<sup>cx</sup>

Furthermore, since the goal is to boost student outcomes (using repayment rates as a proxy for students’ later financial success), a new accountability mechanism should also be designed to encourage schools to invest in interventions that promote degree completion and job market success. It is therefore appropriate for the policy to consider the amount that an institution is investing on services and programs that foster positive student outcomes (such as instructional spending, career services, financial literacy, etc.).

Specifically, we recommend adjusting institutional premium payments based on two risk factors:

- **Low-income enrollment**, as measured by the proportion of low-income students enrolled at the institution. Absent this adjustment, institutions

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cix For more information on the items that could be considered in a calculation to derive an institution’s total revenues, see: <https://nces.ed.gov/ipeds/use-the-data/survey-components/2/finance>.

cx Once this system is operationalized, the calendar deadline for submitting premium payments should occur after institutions receive other annual forms of federal support, such as allocations from Titles III and V. Applying premium payments after schools receive such allocations will help to ensure that low-resource institutions do not face a cash crunch as a result of the new premium system.

might be incentivized to enroll fewer low-income students, thereby exacerbating current equity gaps.

- **Student-centered spending**, as measured by the portion of an institution’s resources allocated towards improving student success. This would include not only instruction, but also wraparound supports such as career services and counseling and other interventions that promote positive student outcomes. Spending primarily designed to attract additional revenues, such as spending on facilities, athletics, recruitment, and marketing, would not be considered “student-centered” for purposes of this adjustment.<sup>cxix</sup>

To explore how our recommended accountability mechanism would work in practice, BPC staff modeled the impacts of charging a base premium equal to 2% of an institution’s non-repayment balance using data from the 2016–17 academic year. The model also capped premiums at 2.5% of an institution’s total revenues. The results indicate that this approach would raise approximately \$370 million annually. The majority of schools would face very small premiums (within 1% of their total revenues), as this reform is not meant to put any schools out of business. Rather, the idea is that even small amounts could begin to move the conversation, and the behavior of institutions, in the direction of improving student outcomes.

In sum, the relatively simple system we propose would create a clear set of incentives for schools to restrain tuition increases, accept a larger share of low-income students, direct more spending toward student-centered activities, and better align curricula to labor market demand. By incentivizing institutions to focus more on their students’ outcomes, it will reduce the risk to students that their educational investment doesn’t pay off and the risk to taxpayers from allocating resources to low-quality schools.<sup>cxix</sup>

**28. Recommendation: Provide additional Pell dollars to students who attend institutions that successfully serve large numbers of low-income students.**

At present, low-income students are more than twice as likely as their high-income peers to drop out within two years of matriculation.<sup>310</sup> There are some institutions, however, that excel at serving low-income students, empowering them to reach their goals and realize the benefit of a college degree or certificate. Public policy should provide incentives for these commendable outcomes.

To strengthen institutional accountability for the effective use of Pell dollars, we recommend implementing a Performance Pell system in which low-income students at qualifying institutions would receive a 10% increase in their initially calculated Pell award.

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cxix An effective insurance-premium approach should be paired with reforms to school financial reporting, as described on page 97, to more accurately account for student-centered spending.

cxii See page 111 in the appendix for additional details on modeling the premium system.

To qualify as a Performance Pell institution, the school would be required to enroll a minimum percentage of students who receive the full Pell award.<sup>cxiii</sup> In addition, the school would need to demonstrate it is achieving positive outcomes among full Pell students, based on the following metrics:

- Completion rate for full Pell students.
- Three-year repayment rate for full Pell students.
- Retention rate for full Pell students.<sup>cxiv</sup>

Institutions should be compared on these metrics to other institutions with similar Pell student profiles and similar levels of resources. This will help to ensure low-resource, high-Pell schools are not competing for Performance Pell funds against high-resource institutions with relatively lower levels of Pell enrollment. The program could also be designed to recognize improvement over a specified period of time, meaning a worse performing institution that manages to significantly improve its Pell-student outcomes can be rewarded.

Finally, this proposal could be regionalized, with a certain number of institutions in each state eligible to receive Performance Pell awards. Given the fact that most students enroll at institutions within 50 miles of their home,<sup>311</sup> this provision would help ensure equal access to Performance Pell dollars among students regardless of where they live. In addition, we recommend that the Performance Pell system be paired with an increase in total mandatory Pell funding (as detailed in the prior section of this report), so Pell recipients enrolled at non-Performance Pell institutions do not see cuts to their Pell awards.<sup>cxv</sup>

A Performance Pell approach would encourage schools to improve outcomes for low-income students and help them overcome barriers to postsecondary completion and success. Perhaps most importantly, the system we propose would give prospective low-income students a signal about which schools might serve them best.

## Mitigating the Effects of School Closure

This set of recommendations seeks to improve policymakers' ability to forecast school closures and mitigate their negative impacts by promoting a student-centric approach to managing the closure process, thereby increasing the number of affected students who are able to complete their degrees and reducing costs to taxpayers.

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cxiii This is defined as students who are full Pell Grant eligible, as determined by a \$0 Expected Family Contribution, or EFC, on the FAFSA. For more information, see: <https://studentaid.ed.gov/sa/types/grants-scholarships/pell>.

cxiv These metrics should be crafted so that institutions are not penalized (either on retention or completion rates) for students who transfer to another school to continue their studies.

cxv This package of recommendations recommends \$60 billion in additional mandatory funding over 10 years for low-income students through the Pell program. See Recommendation #2 for additional details.

**29. Recommendation: Direct the Department of Education to study how best to provide real-time and forward-looking data in financial responsibility scores.**

The current system for tracking schools' financial performance does a poor job of predicting likely closures. Not only has the Department of Education's methodology for calculating these financial responsibility scores been unchanged since it was first established 20 years ago, but the existing scoring system is based on backwards-looking data.<sup>312</sup> The most recent scores, updated in March 2019, use data from the fiscal year beginning July 1, 2016, and ending June 30, 2017. In other words, what is intended to be an early warning system is actually several years late.

In addition, the metrics used to produce these scores are themselves ill-defined. For example, one component, the primary reserve ratio, is highly gameable, which limits its effectiveness. Specifically, long-term debt counts as a positive in the formula, which gives colleges an incentive to take out loans to boost their score, even though their fundamental financial health is unchanged.

We recommend replacing the primary reserve ratio with an alternative measure that more accurately predicts an institution's financial health—potentially by examining changes in enrollment and tuition revenues (net of institutional grant aid), since most colleges at risk of closure are highly reliant on tuition dollars to fund their operations. Switching to these types of measures would make it possible to use real-time data.

Whatever measure is decided upon, regular reporting should be required among the small cohort of institutions deemed to be at risk financially, thereby allowing regulators to gauge the potential for closure in a timely manner. For example, quarterly reporting could be required among institutions that:

- Receive a low financial responsibility score.<sup>cxvi</sup>
- Experience a major decline in enrollment or tuition revenue.
- Are subject to Heightened Cash Monitoring for reasons other than their financial responsibility score.

Armed with better information about which schools are truly at risk of closing, more can be done to both safeguard taxpayer dollars, as well as mitigate the adverse impacts on the students affected by closure.

**30. Recommendation: Set letters of credit for institutions with low financial responsibility scores using an objective process.**

Any school identified as being at risk of closure based on the current system of financial responsibility scores is required to post a letter of credit with

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cxvi Defined as less than 1.0 (or its general equivalent if the operating scale is changed).

the Department of Education, amounting to at least 10% of the school's Title IV exposure.<sup>cxvii</sup> This requirement is intended to offset some of the losses to taxpayers that can result from closure, provide the funds needed to implement a teach-out plan, or both.

The Department of Education has broad discretion to raise the letter of credit threshold for institutions with low financial responsibility scores, but this process lacks a transparent methodology.<sup>313,314</sup> Ideally, the threshold should be linked to the burden that a potential closure would place on students and taxpayers. Unfortunately, the research available to quantify this risk is limited.<sup>cxviii</sup>

In cases where the credit posted is not sufficient, taxpayers fund the shortfall. A notable example was the high-profile closing of Corinthian College in April 2015. The Department of Education announced in 2018 that roughly \$80 million in outstanding federal student loans would be discharged.<sup>315</sup>

We recommend that the Government Accountability Office or the Department of Education Inspector General analyze this issue and outline the costs associated with teach-out plans and loan discharge. The aim would be to better inform policymakers and thereby set the stage for developing and passing evidence-based legislation that provides stronger protections for taxpayers when schools are forced to shutter.

### **31. Recommendation: Require every institution to develop and maintain a robust, funded teach-out plan.**

Currently, the federal government requires colleges that are considered at risk of closure to file a teach-out plan with their accreditor.<sup>cxix</sup> Under a teach-out plan, the closing institution no longer admits new students. In some cases, the school continues to operate until all currently enrolled cohorts complete their studies. Alternatively, a teach-out plan can include an agreement with a partner institution, where the students affected by the closure are eligible to transfer and complete their studies.

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cxvii A school with a low financial responsibility score must file the letter of credit, or LOC, and is also subject to Heightened Cash Monitoring, which provides the federal government with additional oversight of the institution's cash management. Institutions have the option to instead submit a 50% LOC to preclude additional oversight. For more information, see: <https://studentaid.ed.gov/sa/about/data-center/school/loc> and <https://studentaid.ed.gov/sa/about/data-center/school/hcm>.

cxviii In particular, there exists a lack of information on the costs associated with implementing teach-out plans, making it difficult to price the letters of credit.

cxix Accreditation is a system of peer review and self-assessment designed to promote quality in the U.S. higher education system. Institutions must remain accredited to be eligible for Title IV funding. For more information, see: <https://fas.org/sgp/crs/misc/R43826.pdf>.

An at-risk school's finances can deteriorate quickly, leading to precipitous closure and increasing the challenges of developing and implementing a teach-out plan in a very compressed timeframe. For this reason, teach-out plans should be prepared well in advance of an actual closure.

We recommend requiring every institution to develop and maintain a robust teach-out plan that provides students with clear options to continue their education in a timely manner in the event of school closure, while potentially reducing taxpayer exposure to loan discharges. The requirement to develop a plan could be enforced through a state authorization process or as a condition of eligibility for accepting federal financial aid.

It is important that the teach-out plan requirement be applied broadly, rather than to just a few of the most vulnerable schools. Otherwise, the existence of a plan risks creating a self-fulfilling prophecy, drawing negative media attention to affected institutions that, in turn, reduces enrollment and revenues and further weakens the financial position of those schools.<sup>cxx</sup> At the discretion of the Secretary of Education, however, institutions with large endowments or other assets above a certain level could be allowed to opt out of the teach-out plan requirement, given that these schools would already have the resources on hand to teach out all of their students. Finally, schools should be transparent about how their teach-out plans would be implemented, to promote awareness among students and regulators regarding the processes that are in place in the event of closure.

**32. Recommendation: Direct the Department of Education to create templates to inform schools on the development of student-centric teach-out plans.**

When a school is identified as a closure risk, administrators and regulators must move quickly to ensure the school has a robust teach-out plan that puts students first. But administrators at a closing school likely lack experience with teach-out plans. To make matters worse, there is currently a dearth of research and information to inform their preparation.

We recommend that the Department of Education work with stakeholders (such as accreditors and other parties that have experience with teach-out plans) to develop templates and best practices to guide administrators through the specifics of the teach-out process. Better preparation would ease the impact of school closures and help ensure that these institutions have well considered, student-centric plans in place.

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cxx While other lists maintained and published by the federal government (such as Heightened Cash Monitoring) arguably already have this deleterious effect, it could be exacerbated by requiring just those institutions to publish teach-out plans.

### **33. Recommendation: Reduce regulatory burdens to incentivize teach-out acquisitions.**

Parties that might be interested in acquiring a closing school and implementing a teach-out plan for its students confront numerous regulatory hurdles, which disincentivizes these acquisitions. For example, by treating a teach-out acquisition as a “change of ownership,” the Department of Education requires that the outside party accept all liabilities of the closing school. If any physical assets are acquired without accepting these liabilities, the department designates the physical location ineligible for any programs under HEA for two years.<sup>316</sup>

We recommend that current regulations and procedures applying to teach-out acquisitions be thoroughly reviewed with the goal of reducing unnecessary red tape, thereby streamlining the process and helping to ensure that affected students are able to complete their programs with minimal disruption. Under an expedited process, accrediting agencies and regulators would need to develop a system that can respond quickly in order to review the acquiring party’s capacity to operate the program facing closure. Nonetheless, it is crucial that adequate safeguards remain in place to prevent predatory actors from acquiring closing programs.

## **II.C REFORMS TO IMPROVE DATA AND INFORMATION FOR STUDENTS**

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The American public has a strong interest in understanding how the higher education sector is performing and in making sure the market for postsecondary education is functioning efficiently to provide students and taxpayers with a sound return on investment. Information is key to a well-functioning marketplace and critical to students, whose choice of whether and where to pursue a postsecondary education is among the most important investment decisions they will ever make.

Today, however, the system suffers from a lack of high-quality data on student outcomes and institutional behavior. It leaves out large swathes of the student body, does not report on some important outcomes, and obscures school spending patterns. At the same time, the system fails to adequately prepare students to understand and make informed decisions regarding federal financial aid and makes it difficult to compare the financial implications of going to one institution versus another. The recommendations outlined in this section aim to address both of these data and information challenges.

## Improving Data about Schools and Outcomes

### **34. Recommendation: Provide additional outcomes data at the student level.**

IPEDS currently lacks granularity with regard to student outcomes data. Institutions are only required to report topline averages (for example, average completion rates and loan repayment rates),<sup>317</sup> which obscures variations in outcomes by various demographic subgroups and makes it difficult to gauge institutional performance.

We recommend prioritizing reforms that improve the data available on higher education institutions and programs, preferably by implementing and expanding student-level data collection and dissemination.

Student-level data would provide more-robust information about earnings and employment outcomes at both the institution- and program-level. These details would be useful for all students, including veterans and transfer students. The bottom-line objective would be to paint a more comprehensive picture of student outcomes by institution and for different groups and sub-groups within the student population, aiding decision-making for students and informing public policy.

Several states have implemented student-level data systems.<sup>318</sup> These efforts should be encouraged and expanded. The federal government could also consider options to provide student-level data, though it will be imperative to couple any reforms with robust privacy protections to ensure the security of sensitive data elements.

### **35. Recommendation: Increase comparability across existing IPEDS surveys.**

Currently, the two IPEDS surveys on outcome measures and graduation rates use different reporting periods. The former tracks four-, six-, and eight-year windows, whereas the latter measures 150% and 200% of normal time to degree completion, which differs by program.<sup>319,320</sup>

We recommend synchronizing these reporting periods to boost comparability and also to ease reporting burdens for schools, which would no longer have to collect data on two separate periods. The two surveys could be consolidated into a single instrument that tracks outcomes at 100%, 150%, and 200% of typical program time. If undertaken, this simplification should maintain the key disaggregates and cohorts from each survey, such as enrollment status, race and ethnicity, gender, and Pell receipt.<sup>321</sup>

**36. Recommendation: Reform the “student services” metric to better reflect student-centered spending.**

The current categorization of spending in the IPEDS finance survey’s “student services” metric makes it difficult to understand how schools are investing their resources. While marketing and athletics may play a role in helping schools reach out to a wider range of potential students, for example, these budget items should not be categorized under spending that is meant to improve outcomes for existing students. Yet that is currently how they are categorized.

We recommend that NCES reform the existing student services metric in the IPEDS finance survey to encompass all spending on wraparound supports that are directed towards helping students outside the traditional classroom context. This should include, but not necessarily be limited to, spending on career services and counseling, information technology, academic clubs, and other activities designed to promote academic and career success. Expenditures on marketing and recruitment, intercollegiate athletic programs, and other activities designed primarily to attract additional revenues should be categorized separately.

**37. Recommendation: Require institutions to report spending on marketing and recruitment separately.**

Given the government’s substantial investment in higher education, policymakers and the public should have better information about how institutions are spending their revenues.

We recommend that institutions be required to report marketing and recruitment spending separately, thereby providing insight into institutional priorities while also illuminating the complex and opaque world of college finances.

**38. Recommendation: Tighten survey data definitions.**

Institutions currently have a great deal of flexibility when classifying certain expenditures in IPEDS. Schools can, for example, report expenses for specific functions (such as information technology and student support) under the instruction, student services, or institutional support categories.

We recommend directing NCES to create tighter definitions for expenditure categories. This would help ensure that institutions are reporting spending in a uniform manner and make the data on different institutions more useful and comparable.

**39. Recommendation: Direct the Government Accountability Office to conduct an audit of IPEDS.**

The lack of a thorough quality check for IPEDS data calls into question their reliability and can tempt institutions to take advantage of the lack of oversight.

We recommend that GAO conduct a one-time audit to evaluate current IPEDS data and establish a baseline for data quality. This would allow policymakers to better understand the existing data and assess whether a more formalized, recurring auditing process is required to improve the data system.<sup>322</sup>

**40. Recommendation: Increase student awareness of data resources.**

In order for data resources to be useful, prospective students must know that the resources exist and understand how to use them.

We recommend that the Department of Education enhance its partnerships with groups that work to expand education access to develop outreach strategies and increase awareness of tools such as the College Scorecard, especially among low-income students, students of color, and first-generation students. This represents a relatively easy but important way to enhance the value of existing data.

## **Improving Information to Students about Financial Aid Options**

**41. Recommendation: Use an evidence-based approach to reform loan counseling.**

Existing requirements for entrance and exit loan counseling are ineffective. Around 70% of institutions use the Department of Education's online counseling tool, but this platform is not optimally designed for learning and decision-making. Many students quickly click through the session and often have difficulty understanding the dense information.<sup>323</sup>

We recommend adopting changes to loan counseling that are backed by findings from independent research and, importantly, from the Department of Education's ongoing experiment, which is expected to provide insight into the kinds of counseling approaches that are most effective for students and their families. Unless backed by rigorous research and evaluation, a revamped system risks suffering from the same limitations as the current one. Therefore, needed reforms to the federal loan counseling system should be undertaken using an evidence-based approach, relying on proven interventions that enhance borrower information and understanding.

**42. Recommendation: Simplify and personalize the Plain Language Disclosure Form.**

The current Plain Language Disclosure Form that is supposed to inform students about their loans is inadequate, providing information that is dense, unnecessary, and not tailored to individual borrowers.

We recommend several improvements to the form that would make it far more useful to borrowers in helping them understand the important details of the agreement they have entered into:

- Simplify, condense, and individualize the form.
- Break down estimated monthly payments under a standard 10-year plan, and clearly define the other flexible repayment options offered to borrowers.
- Display the loan’s interest rate, additional fees, and annual percentage rate, or APR.<sup>cxxi</sup>

Any changes to the form should be consumer tested before being implemented to ensure prospective borrowers have a comprehensive understanding of the material.

**43. Recommendation: Require schools that accept federal aid to standardize financial aid offers.**

Financial aid offers are a source of confusion for prospective students and their families. A lack of standardization in terminology and presentation makes it extremely difficult to evaluate and compare aid packages across institutions (Box 15). Offer letters from some schools do not disclose key pieces of information, such as the cost of attendance. In other instances, institutions even fail to distinguish between grants and loans, which can lead to uninformed choices among students.<sup>324</sup>

**Box 15: Standardizing Financial Aid Offers: The Current Landscape**

To address the problem of non-standardization in financial aid offers, the Department of Education and the Consumer Financial Protection Bureau designed the College Financing Plan (formerly known as the “Shopping Sheet”), a template to inform institutions’ financial aid offer letters.<sup>cxxii</sup> This document clarifies the distinction between grant aid and loans; if standardized, it would enable students to easily compare aid packages from different schools. Its usefulness is limited, however, by the fact that fewer than half the schools that receive federal financial aid use the template. Among those that do, almost half provide it only to veterans, as required by the U.S. Department of Veterans Affairs.<sup>325</sup> Requiring institutions to use the College Financing Plan would necessitate legislative action. Several states, such as New York, have implemented their own standardized financial aid offer.<sup>326</sup>

Additionally, the National Association of Student Financial Aid Administrators, or NASFAA, a membership organization that represents financial aid administrators, technically requires its members to adhere to a code of conduct that demands financial aid offers meet four baseline reporting requirements, including using standard definitions and clearly identifying different types of aid.<sup>327</sup> Despite this effort, many schools do not follow the NASFAA basic guidelines.<sup>328</sup>

cxxii The Department of Education has announced plans to update the College Financing Plan for the 2020-21 award year. For more information, see: <https://www2.ed.gov/policy/highered/guid/aid-offer/index.html>.

cxxi Some of these recommendations mirror provisions in the pending bipartisan legislation entitled the Student Loan Disclosure Modernization Act. For more information, see: <https://www.congress.gov/bill/116th-congress/house-bill/1161>.

We recommend that institutions accepting federal financial aid be required to use a standard template and standardized terminology in communicating financial aid offers to all prospective students. This template should be evidence-based and developed by the Department of Education in consultation with stakeholders.

Specifically, financial aid offers should have several consistent features:<sup>cxxiii</sup>

- Use standardized terms and definitions that students can understand.
- Include COA with a breakdown of direct expenses (tuition prices) and estimates of indirect expenses (housing and living costs).
- Include a calculation of net price (COA minus gift aid) and the estimated bill to the student (direct cost minus gift aid and loans).
- List gift aid and loans separately, rather than lumping them together under “awards.”
- List Parent PLUS Loans and Federal Work-Study separately and not as line items in aid offers, as these are contingent—not guaranteed—dollars.
- Inform students about next steps—for example, how to accept or reject the proposed aid package, or how to accept less than the full amount of loans offered.
- Explain the student’s unmet need (the balance remaining after the total aid offer) and provide options for financing this unmet need (for example, using PLUS Loans, private loans, Federal Work-Study, other savings or work income, etc.).
- Include a sentence informing students that their financial aid package only applies to one year of school and that the FAFSA must be completed each year for students to qualify for federal aid in the future.
- Provide a reference and link to the College Scorecard dataset, which provides important data on student outcomes by institution (such as completion rates, borrowing rates, and student loan outcomes).<sup>329</sup>

As they incorporate these standard features, institutions should be permitted to delete non-pertinent elements of aid that are irrelevant to an individual student’s financial aid offer, as well as duplicative disclosure information. The federal government should also allow for the use of multiple templates tailored to specific student circumstances (such as first-time students, returning students, or graduate students). Simpler forms that clearly display only relevant information and that make it easy for students and families to identify the most salient points will facilitate better understanding and decision-making with regard to financing options.<sup>cxxiv</sup>

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cxxiii Several of these reforms were developed by New America. For more information, see: <https://www.newamerica.org/education-policy/policy-papers/decoding-cost-college/>.

cxxiv Several of these provisions are included in pending bipartisan legislation entitled the Understanding the True Cost of College Act. For more information, see: <https://www.congress.gov/bill/116th-congress/senate-bill/888>.

Once developed, the updated financial aid offer template should be consumer tested—to refine the best approach for conveying the information laid out above—on an expedited basis before being implemented nationwide. Whatever form federal guidelines take, they must prohibit deceptive language and allow institutions a degree of flexibility, recognizing differences in institutional missions and admissions practices.

**44. Recommendation: Change the name “award letter” to “financial aid offer.”**

The term “award letter” is often used to describe the communication sent from institutions to accepted students about the aid package being offered. This label, however, implies that the student is being gifted something, presumably for free, which is often not the case, with student loans and Federal Work-Study, for example. It is worth noting that the Department of Education recently provided guidance for institutions to avoid using the term “award letter” and instead refer to “financial aid offer,” or use another term that more accurately conveys the diverse financing options available to students.

We recommend codifying this change in terminology and making its use a requirement for institutions that accept federal financial aid.

**45. Recommendation: Require the Department of Education to regularly notify students of their uptake of federal aid relative to cumulative limits.**

Students currently lack easy access to information about how much aid they have claimed relative to caps on aggregate federal loan and grant assistance. These are key points of reference for students who are attempting to finance multiple years of higher education.

We recommend that for every disbursement of federal financial aid, the Department of Education send each student a personalized communication (with an option for doing so electronically) that includes: 1. The student’s cumulative federal financial aid limit. 2. How much federal aid the student has already used. 3. How much aid the student can still access, given lifetime limits on Pell Grants and federal student loans.<sup>cxxv</sup> This information will give students a more complete and up-to-date picture of their financing options.

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cxxv For student loans, this information could be included in the revamped Plain Language Disclosure Form (proposed above).

## Section III: Conclusion

**H**igh prices, lackluster student outcomes, and a lack of data transparency plague the U.S. higher education system. Students face rising levels of unmet need, which has led to ballooning debt levels within a financial aid system that is poorly targeted and difficult to navigate. Earning a college degree remains a worthwhile investment for most students, but too many fail to graduate and realize these gains. Despite the billions of dollars of taxpayer funding dispersed to schools annually, a lax federal accountability system fails to hold institutions accountable for subpar student outcomes and protect students from the impact of school closures. At the same time, higher education outcomes are opaque due to inadequate data systems, and students have insufficient information to inform their decision-making on where to enroll.

BPC's Task Force on Higher Education Financing and Student Outcomes has developed this comprehensive package of recommendations that Congress should consider as part of reauthorization of the Higher Education Act. If implemented, these reforms would put downward pressure on tuition prices, promote efficiency and improve the targeting of federal aid programs, boost quality assurance and institutional accountability, and enhance federal data systems while providing better information for students. Most importantly, these recommendations would measurably improve higher education access and affordability for low- and middle-income students, as well as promote positive student outcomes. Ultimately, this package of reforms would work to ensure every student shares in the benefits of America's higher education system.

# Section IV: Appendix

## **MODELING A FEDERAL- STATE PARTNERSHIP**

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Under this proposal, the federal government would implement a \$5 billion annual grant program with the goal of reducing unmet need and improving outcomes for low- and middle-income students. This system would be optional and open to any state that increases its total higher education spending based on a three-year rolling average of its previous spending levels. For each additional dollar invested by a state, the federal government would provide a \$4-to-\$1 match, up to the maximum amount specified under the allocation formula.

The National Center for Higher Education Management Systems, or NCHEMS, modeled the effects of this program. Table 6 contains a description of each metric included in the allocation formula, as well as each metric's weighting in the formula, data sources, and the year or years of data included in the calculation.

**Table 6: Federal-State Allocation Formula: Metrics, Weighting, and Data Sources**

Metric	Weighting	Description	Year(s)	Source
Affordability: Net Prices for Low-Income Students	20%	Average net price paid by a student with an adjusted gross income of \$0 - \$30,000. Net price is calculated as the three-year weighted average tuition & fees minus the following: the three-year weighted average grant award, a work amount calculated as the 2016 state minimum wage x 15 hours per week x 48 weeks a year, and the average national 2016 EFC for this income group (\$0).	2014-15, 2015-16, 2016-17	Integrated Postsecondary Education Data System (IPEDS)
Affordability: Net Prices for Middle-Income Students	20%	Average net price paid by a student with an adjusted gross income of \$48,001 - \$75,000. Net price is calculated as the three-year weighted average tuition & fees minus the following: the three-year weighted average grant award, a work amount calculated as the 2016 state minimum wage x 15 hours per week x 48 weeks a year, and the average national 2016 EFC for this income group (\$4,968).	2014-15, 2015-16, 2016-17	Integrated Postsecondary Education Data System (IPEDS)
Affordability: State Need-Based Aid	20%	Need-based aid awarded to undergraduates divided by the total fall undergraduate FTE at all institutions, including private.	2016-17	National Association of State Student Grant and Aid Programs (NASSGAP)
Population	Allocations are scaled on a per capita basis to ensure proportional state allocations.	Total population aged 16-54.	2017	American Community Survey
Efficiency: Degrees per \$100,000 in Revenue	10%	Total degrees awarded per \$100,000 of revenue from tuition & fees and state appropriations (at public institutions with reported tuition & fees revenue).	2016-17	Integrated Postsecondary Education Data System (IPEDS)
State GDP	10%	Per capita real GDP, by state (chained 2012 dollars).	2018	Bureau of Economic Analysis
Tax Effort	20%	Three-year average of a state's tax effort, measured by the tax rate (tax revenues per capita divided by the overall taxable resources per capita) multiplied by the percentage allocated to higher education (higher education support divided by the total tax revenues and lottery profits).	2014, 2015, 2016	SHEEO State Higher Education Finance (SHEF) Report

## Maximum Federal and State Allocations

Based on the allocation formula, Table 7 estimates the maximum federal allocation to each state, as well as the additional higher education investment required by each state in the program's first year in order to achieve the full allocation.

**Table 7: Projected Maximum Federal Grant Allocations and State Contributions**

State	Maximum Federal Grant Allocation (in millions)	Expected State Contribution (in millions)
Alabama	\$84	\$21
Alaska	\$12	\$3
Arizona	\$88	\$22
Arkansas	\$43	\$11
California	\$818	\$204
Colorado	\$62	\$16
Connecticut	\$43	\$11
Delaware	\$10	\$3
Florida	\$386	\$96
Georgia	\$142	\$36
Hawaii	\$14	\$4
Idaho	\$27	\$7
Illinois	\$137	\$34
Indiana	\$122	\$30
Iowa	\$48	\$12
Kansas	\$37	\$9
Kentucky	\$75	\$19
Louisiana	\$67	\$17
Maine	\$23	\$6
Maryland	\$76	\$19
Massachusetts	\$69	\$17
Michigan	\$135	\$34
Minnesota	\$94	\$23
Mississippi	\$56	\$14
Missouri	\$100	\$25
Montana	\$15	\$4
Nebraska	\$34	\$8
Nevada	\$28	\$7
New Hampshire	\$7	\$2
New Jersey	\$90	\$23
New Mexico	\$36	\$9
New York	\$340	\$85
North Carolina	\$191	\$48
North Dakota	\$13	\$3
Ohio	\$182	\$46
Oklahoma	\$62	\$16
Oregon	\$66	\$17
Pennsylvania	\$83	\$21
Rhode Island	\$10	\$2
South Carolina	\$81	\$20
South Dakota	\$13	\$3
Tennessee	\$85	\$21
Texas	\$468	\$117
Utah	\$44	\$11
Vermont	\$3	\$1
Virginia	\$118	\$30
Washington	\$127	\$32
West Virginia	\$32	\$8
Wisconsin	\$90	\$23
Wyoming	\$10	\$2
<b>Total</b>	<b>\$5,000</b>	<b>\$1,250</b>

## Estimated State Outcomes

It's important to note that the modeling assumes full participation in the program among every state, with each state receiving its maximum potential allocation—in other words, the full \$5 billion is distributed. Specifically, the model forecasts changes in enrollment, completion, and return on investment that result from implementing the federal-state partnership. To derive changes in enrollment and completion, the model assumes that every additional dollar invested in higher education will be used to reduce tuition and fees at institutions of higher education within a given state. Additionally, the model assumes that for every \$1,000 decrease in tuition, enrollment will increase by 3.5% and degree production will increase by 3%.

Our model's assumptions are based on a variety of existing research:

T. Abbott, "Evaluating the impact of state funding vehicles of appropriations and financial aid on graduation rates at public institutions: A multilevel analysis," PhD dissertation, 2016. Available at: <https://scholarship.shu.edu/cgi/viewcontent.cgi?article=3272&context=dissertations>.

D. Deming and C. Walters, "The impact of price caps and spending cuts on U.S. postsecondary attainment," NBER Working Paper No. 23736, 2017. Available at: <http://www.nber.org/papers/w23736>.

S. Hemel and D. Marcotte, "The impact of tuition increases on enrollment at public colleges and universities," *Educational Evaluation and Policy Analysis*, 33(4): 435-457, 2011.

M. Titus, "The production of bachelor's degrees and financial aspects of state higher education policy: A dynamic analysis," *The Journal of Higher Education*, 80(4): 439-468, 2009.

L. Zhang, "Does state funding affect graduation rates at public four-year college and universities?" *Educational Policy*, 23(5): 714-731, 2009.

In turn, calculations for the estimated return on investment are based on the expected additional enrollments and degrees resulting from reductions in tuition prices. The projected personal earning gains associated with increases in educational attainment assume the same level of gains that current residents experience. A description of each measure included in the return on investment calculation, as well as the data source and year included, can be found in Table 8.

**Table 8: Metrics, Calculations, and Data Sources Used to Determine Estimated Return on Investment**

Measures	Calculations	Sources
Personal Income	Annual wage earnings, by level of education attained (measuring the average difference in wages between those with college degrees and those without), multiplied by the additional number of college degree-holders generated in the model.	U.S. Census Bureau, 2016 American Community Survey (Public Use Microdata Sample)
State Spending on Postsecondary Education	State and local revenues for higher education per full-time equivalent student, by sector.	NCES, IPEDS, 2015-16 Finance and Enrollment Surveys
State Income Tax Revenues	Average state income tax liability (after credits) per resident, by level of education attained (measuring the average difference in liability between those with college degrees and those without), multiplied by the additional number of college degree-holders generated by the model.	U.S. Census Bureau, 2015-17 Current Population Surveys Public Use Microdata Samples (downloaded from IPUMS)
State Sales Tax Revenues	Total general sales tax generated as a percent of total personal income multiplied by the additional income generated in the model.	U.S. Census Bureau, State Government Tax Collections Summary Report: 2017
State Property Tax Revenues	Average property income tax liability (after credits) per resident, by level of education attained (measuring the average difference in liability between those with college degrees and those without), multiplied by the additional number of college degree-holders generated by the model.	U.S. Census Bureau, 2015-17 Current Population Surveys Public Use Microdata Samples (downloaded from IPUMS)
State Medicaid Savings	Percent of 25- to 64-year-olds covered by Medicaid, by level of education attained (measuring the difference between those with college degrees and those without), multiplied by the mean person market value of those covered, multiplied by the additional number of college degree-holders generated by the model.	U.S. Census Bureau, 2015-17 Current Population Surveys Public Use Microdata Samples (downloaded from IPUMS)
Corrections Savings	Probability of incarceration, by level of education attained (measuring the difference between those with college degrees and those without), multiplied by state prison expenditures per prisoner, multiplied by the additional number of college degree-holders generated by the model. Note: The U.S. educational attainment rates were applied to all states.	Bureau of Justice Statistics, Justice Expenditure and Employment Extracts, 2015; Prisoners in 2015.
Federal Income Tax Revenues	Average federal income tax liability (after credits) per resident, by level of education attained (measuring the average difference in liability between those with college degrees and those without), multiplied by the additional number of college degree-holders generated by the model.	U.S. Census Bureau, 2015-17 Current Population Surveys Public Use Microdata Samples (downloaded from IPUMS)
Federal Medicare Savings	Percent of 25- to 64-year-olds covered by Medicare, by level of education attained (measuring the difference between those with college degrees and those without), multiplied by the mean person market value of those covered, multiplied by the additional number of college degree-holders generated by the model.	U.S. Census Bureau, 2015-17 Current Population Surveys Public Use Microdata Samples (downloaded from IPUMS)
Welfare Savings	Percent of 25- to 64-year-olds receiving welfare, by level of education attained (measuring the difference between those with college degrees and those without), multiplied by the average welfare income of those covered, multiplied by the additional number of college degree-holders generated by the model.	U.S. Census Bureau, 2015-17 Current Population Surveys Public Use Microdata Samples (downloaded from IPUMS)
Food Stamp Savings	Percent of 25- to 64-year-olds receiving food stamps, by level of education attained (measuring the difference between those with college degrees and those without), multiplied by the average food stamp benefit of those covered, multiplied by the additional number of college degree-holders generated by the model.	U.S. Census Bureau, 2015-17 Current Population Surveys Public Use Microdata Samples (downloaded from IPUMS)
Disability Savings	Percent of 25- to 64-year-olds receiving disability insurance benefits, by level of education attained (measuring the difference between those with college degrees and those without), multiplied by the average disability insurance income of those covered, multiplied by the additional number of college degree-holders generated by the model.	U.S. Census Bureau, 2015-17 Current Population Surveys Public Use Microdata Samples (downloaded from IPUMS)

Using these assumptions, Table 9 estimates increases in enrollment, completion, and return on investment at the state level.

**Table 9: Estimated State Outcomes**

State	Projected Annual Increase in Enrollments and Degrees Conferred		Projected Additional Personal Income and State Revenues (in thousands)			
			Second-Year Effect from First Year of Grant Funding		Ten-Year Effect from First Year of Grant Funding	
	Additional Enrollments	Additional Degrees	Additional Personal Income	Total State Revenues Generated	Additional Personal Income	Total State Revenues Generated
Alabama	3,690	840	\$25,350	\$1,764	\$216,239	\$15,047
Alaska	528	124	\$3,010	\$392	\$25,678	\$3,340
Arizona	3,868	1,048	\$27,025	\$3,327	\$230,532	\$28,382
Arkansas	1,891	569	\$14,031	\$1,918	\$119,689	\$16,362
California	35,777	8,342	\$272,603	\$37,042	\$2,325,361	\$315,975
Colorado	2,732	704	\$18,768	\$2,032	\$160,094	\$17,334
Connecticut	1,897	467	\$19,613	\$3,259	\$167,303	\$27,798
Delaware	447	89	\$2,748	\$412	\$23,441	\$3,516
Florida	16,866	5,105	\$113,156	\$9,736	\$965,246	\$83,048
Georgia	6,225	1,762	\$47,028	\$4,982	\$401,159	\$42,496
Hawaii	618	172	\$3,507	\$657	\$29,914	\$5,603
Idaho	1,197	289	\$6,895	\$883	\$58,819	\$7,535
Illinois	6,003	1,619	\$44,835	\$5,345	\$382,450	\$45,594
Indiana	5,324	1,397	\$37,001	\$4,754	\$315,625	\$40,554
Iowa	2,118	532	\$11,156	\$1,773	\$95,160	\$15,121
Kansas	1,634	447	\$11,163	\$1,373	\$95,220	\$11,709
Kentucky	3,265	1,222	\$27,961	\$3,848	\$238,511	\$32,820
Louisiana	2,942	799	\$19,576	\$2,312	\$166,986	\$19,722
Maine	1,015	222	\$5,407	\$769	\$46,120	\$6,556
Maryland	3,308	834	\$30,708	\$5,247	\$261,942	\$44,759
Massachusetts	3,026	721	\$24,967	\$4,131	\$212,970	\$35,241
Michigan	5,907	1,476	\$49,551	\$5,922	\$422,679	\$50,519
Minnesota	4,098	1,063	\$29,446	\$4,288	\$251,176	\$36,575
Mississippi	2,457	564	\$11,599	\$1,681	\$98,943	\$14,338
Missouri	4,377	1,125	\$32,143	\$3,647	\$274,190	\$31,106
Montana	655	149	\$3,142	\$296	\$26,804	\$2,527
Nebraska	1,486	340	\$9,136	\$1,206	\$77,933	\$10,283
Nevada	1,223	273	\$5,811	\$571	\$49,568	\$4,872
New Hampshire	315	71	\$2,192	\$223	\$18,699	\$1,899
New Jersey	3,944	888	\$35,141	\$5,212	\$299,760	\$44,461
New Mexico	1,584	536	\$9,285	\$1,446	\$79,203	\$12,335
New York	14,882	3,408	\$125,711	\$22,202	\$1,072,338	\$189,388
North Carolina	8,374	2,249	\$57,029	\$5,554	\$486,468	\$47,374
North Dakota	562	133	\$2,981	\$259	\$25,427	\$2,208
Ohio	7,966	2,062	\$60,531	\$9,175	\$516,343	\$78,267
Oklahoma	2,725	695	\$17,974	\$1,435	\$153,318	\$12,239
Oregon	2,902	747	\$18,275	\$2,872	\$155,892	\$24,499
Pennsylvania	3,610	808	\$26,628	\$3,074	\$227,142	\$26,219
Rhode Island	429	94	\$3,079	\$463	\$26,261	\$3,949
South Carolina	3,545	821	\$21,781	\$2,408	\$185,795	\$20,539
South Dakota	580	139	\$2,908	\$309	\$24,808	\$2,639
Tennessee	3,714	978	\$25,941	\$2,764	\$221,286	\$23,575
Texas	20,454	4,955	\$163,648	\$14,486	\$1,395,950	\$123,568
Utah	1,934	544	\$10,678	\$1,322	\$91,082	\$11,276
Vermont	150	32	\$729	\$112	\$6,219	\$953
Virginia	5,165	1,292	\$44,054	\$4,816	\$375,793	\$41,081
Washington	5,558	1,521	\$36,885	\$4,341	\$314,641	\$37,026
West Virginia	1,405	350	\$9,080	\$1,325	\$77,455	\$11,299
Wisconsin	3,945	1,107	\$24,918	\$3,528	\$212,559	\$30,095
Wyoming	435	113	\$1,509	\$157	\$12,870	\$1,341
<b>U.S. Total</b>	<b>218,750</b>	<b>55,839</b>	<b>\$1,608,292</b>	<b>\$201,046</b>	<b>\$13,719,061</b>	<b>\$1,714,963</b>

**Source:** National Center for Higher Education Management Systems (NCHEMS)

**Note:** Federal and state revenues are generated from increased tax receipts and declines in means-tested benefit programs, both of which result from increases in postsecondary attainment. The second-year effect from the first year of grant funding calculates estimates as a result of one-year's implementation of matching grants. Ten-year effects are assessed on a net present value (NPV) basis with a discount rate of 3%.

## MODELING PREMIUMS

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Under this proposal, every postsecondary institution would be required to pay an annual premium tied to the risk it poses to the federal student loan system. These premiums would be adjusted to account for levels of low-income enrollment and institutional spending on student-centered activities.

In BPC's model, annual premiums are calculated at 2% of an institution's non-repayment balance, which is the dollar figure of an institution's outstanding loan balance that has not seen a principal reduction within three years of entering repayment.<sup>cxxvi</sup>

BPC's modeling also adjusts an institution's premium based on two factors:

- **Low-income enrollment**, as measured by the proportion of the student body composed of low-income students.  
*Note: BPC's modeling uses Pell enrollment as a proxy for low-income enrollment, due to data limitations.*
- **Institutional spending on student-centered activities**, as measured by the portion of an institution's resources that are allocated towards improving student success.<sup>cxxvii</sup> This would include not only instruction but also wraparound supports, such as career services and counseling, and other interventions that promote positive student outcomes.<sup>cxxviii</sup>  
*Note: BPC's modeling uses instructional spending as a proxy for student-centered spending, due to data limitations.*

The adjustments are calculated as follows: instructional spending and Pell enrollment are equally weighted and indexed on a scale of 0 to 1. If an institution's index of these two variables is more than one standard deviation greater than average, its premium payment is cut in half, to 1%; if an institution's index of these variables is more than one standard deviation less than average, its premium is doubled, to 4%.

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cxxvi Specifically, for modeling purposes due to data limitations, the non-repayment balance =  $(1 - \text{three-year repayment rate}) * (\text{median debt}) * (\text{current enrollment}) * (\text{borrowing rate})$ . When implemented, we recommend that the non-repayment balance be calculated as a three-year rolling average, to provide additional predictability and avoid abrupt swings in premium amounts.

cxxvii Institutional resources = (tuition revenues) + (appropriations) + (5% of total endowment).

cxxviii Spending primarily designed to attract additional revenues—such as spending on facilities, athletics, recruitment, and marketing—would not be considered “student-centered” for purposes of this adjustment. See page x for reforms to data collection and dissemination that would better clarify student-centered spending.

Finally, an institution's annual premium is capped at 2.5% of its total non-auxiliary revenues.<sup>cxxix</sup>

## MODELING CAPACITY GRANTS

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Under this proposal, \$400 million is allocated annually to Minority-Serving Institutions and low-resource institutions in other sectors through Titles III and V of the Higher Education Act. (Note that the proposed allocations are in addition to existing funding through these titles.)

- Title IIIA     \$325 million     Strengthening Institutions Program
- Title IIIB     \$50 million     Historically Black Colleges and Universities
- Title V         \$25 million     Hispanic-Serving Institutions

For Title IIIA institutions, eligibility for these capacity grants would be limited to institutions with below-median financial resources per student.

BPC's model assumes that these new resources take the form of direct appropriations to institutions and that allocations are tied to two variables:

- **Low-income enrollment**, as measured by the proportion of the student body composed of low-income students.  
*Note: BPC's modeling uses Pell enrollment as a proxy for low-income enrollment, due to data limitations.*
- **Institutional spending on student-centered activities**, as measured by the portion of an institution's resources that are allocated towards improving student success. This would include not only instruction but also wraparound supports, such as career services and counseling, and other interventions that promote positive student outcomes.  
*Note: BPC's modeling uses instructional spending as a proxy for student-centered spending, due to data limitations.*

These variables are normalized on a 0 to 1 scale and summed, creating an index. Each institution's capacity grant is applied proportionally to its value in this index. For Title IIIA institutions, the modeling assumes that an institution's annual capacity grant is capped at 2.5% of total non-auxiliary revenues.

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cxxix Non-auxiliary revenues are defined as an institution's total revenues less revenues stemming from auxiliary services, which charge students a fee, such as a campus bookstore or dining hall. For more information, see: [https://surveys.nces.ed.gov/ipeds/VisInstructions.aspx?survey=5&id=30085&show=all#instruction\\_top](https://surveys.nces.ed.gov/ipeds/VisInstructions.aspx?survey=5&id=30085&show=all#instruction_top).

## Data Sources

**Table 10: Data Sources and Variables Used: Premiums and Capacity Grants**

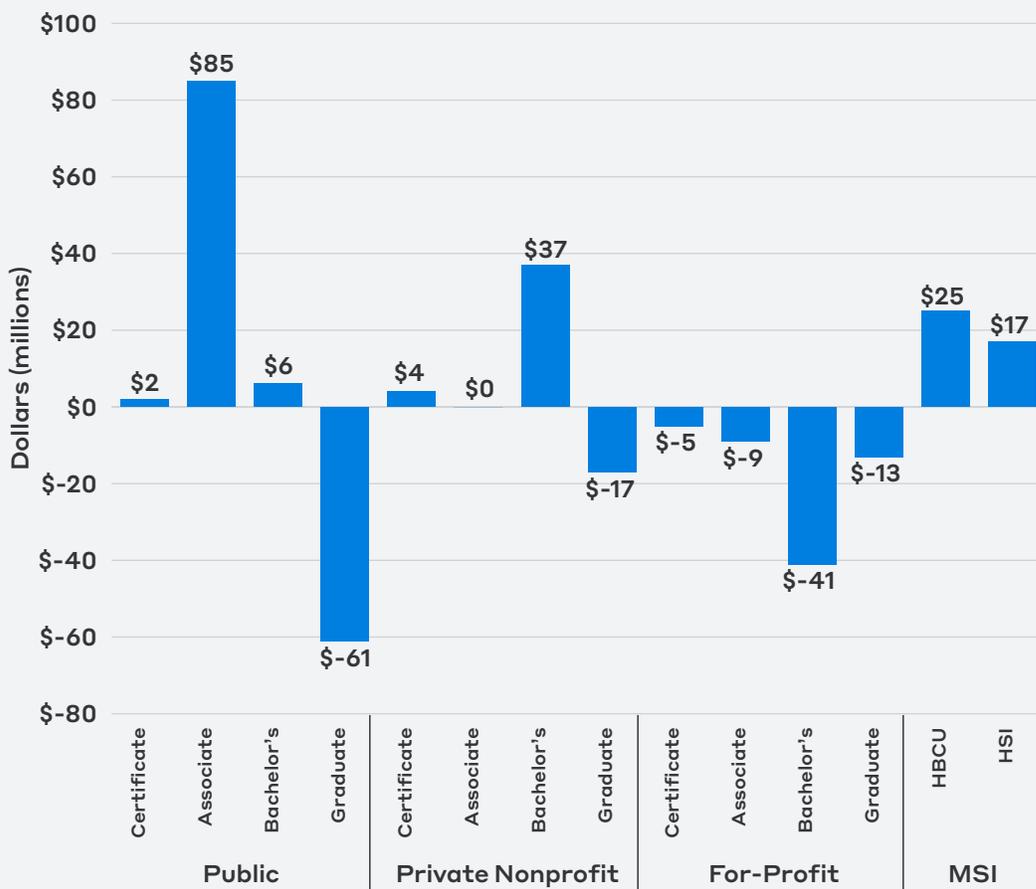
Variable	College Scorecard Variable(s)	IPEDS variable(s)
Sector	CONTROL, HBCU, HSI	
Predominant Degree	CCBASIC	
Three-Year Repayment Rate	3YR_RPY_RATE	
Median Debt	DEBT_MDN	
Current Enrollment		FTE_COUNT
Percent Pell Enrollment	PCT_PELL	
Instruction Spending		XF1C011
Net Tuition		(F1B01 + F1E08 – F1E05 – F1E06), (F2D01 + F2C08 – F2C05 – F2C06), (F3D01 + F3C06 – F3C04)
State and Local Appropriations		(F1B11 + F1B12), (F2D03 + F2D04)
End-of-Year Endowment Assets		F1H02, F2H02
Total Non-Auxiliary Revenue		(F1B09 + F1B19 – F1B05 – F1E09), (F2D16 – F2D12 – F2C09), (F3D09 – F3D07 – F3C07)

**Source:** U.S. Department of Education, College Scorecard; Integrated Postsecondary Education Data System

# MODELING THE COMBINED SECTOR EFFECTS OF PREMIUMS, CAPACITY GRANTS, AND THE FEDERAL-STATE PARTNERSHIP

BPC first estimated the combined effects of the capacity grants and premium proposal, analyzing the net financial impact by sector.

**Figure 11: Combined Effect of Premiums and Capacity Grants Policies, by Sector**



**Source:** U.S. Department of Education, College Scorecard; Integrated Postsecondary Education Data System

**Note:** Institutions are grouped by predominant degree conferred, meaning that institutions are placed into categories based on the type of degree they most frequently produce.

## Forecasting the State Response to a Federal-State Partnership

The task force's federal-state partnership proposal allows states to allocate new funding to public institutions through direct appropriations or to need-based aid, which generally takes the form of voucher funding that can be used at institutions in any sector.<sup>cxxx</sup> Modeling this funding required a series of assumptions regarding how states would allocate new dollars under a federal-state partnership, as well as which institutions would receive additional need-based aid funding.

BPC's modeling assumes that states split new funding between these two channels in a way that mirrors their current behavior (e.g., a state that puts 10% of higher education expenditures towards need-based aid will then put 10% of newly available funds towards need-based aid). In practice, this means that most new funding in BPC's model goes towards appropriations, as the median state allocates just 6% of expenditures towards need-based aid, with the mean allocation at 8%.<sup>cxxxi</sup> Similarly, the model assumes that—within each state—schools receive new appropriations in proportion to their share of current state appropriations.<sup>cxxxii</sup>

Next, the model allocates need-based aid within states according to each school's total unmet need<sup>cxxxiii</sup> among low- and middle-income students. Unmet need is defined as net price less a student's Expected Family Contribution.

The need-based aid allocation occurs in two steps:

1. A small portion (20%) of each state's new need-based aid funds are split equally between schools in that state, up to their total unmet need. This ensures that each school with unmet need receives at least some aid.
2. The rest of each state's new need-based aid funds are split in proportion to each school's total unmet need. No school can receive more than their total level of unmet need.

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cxxx Additionally, states have the option of investing in programs to improve outcomes for low- and middle-income students, a component that is not included in BPC's modeling.

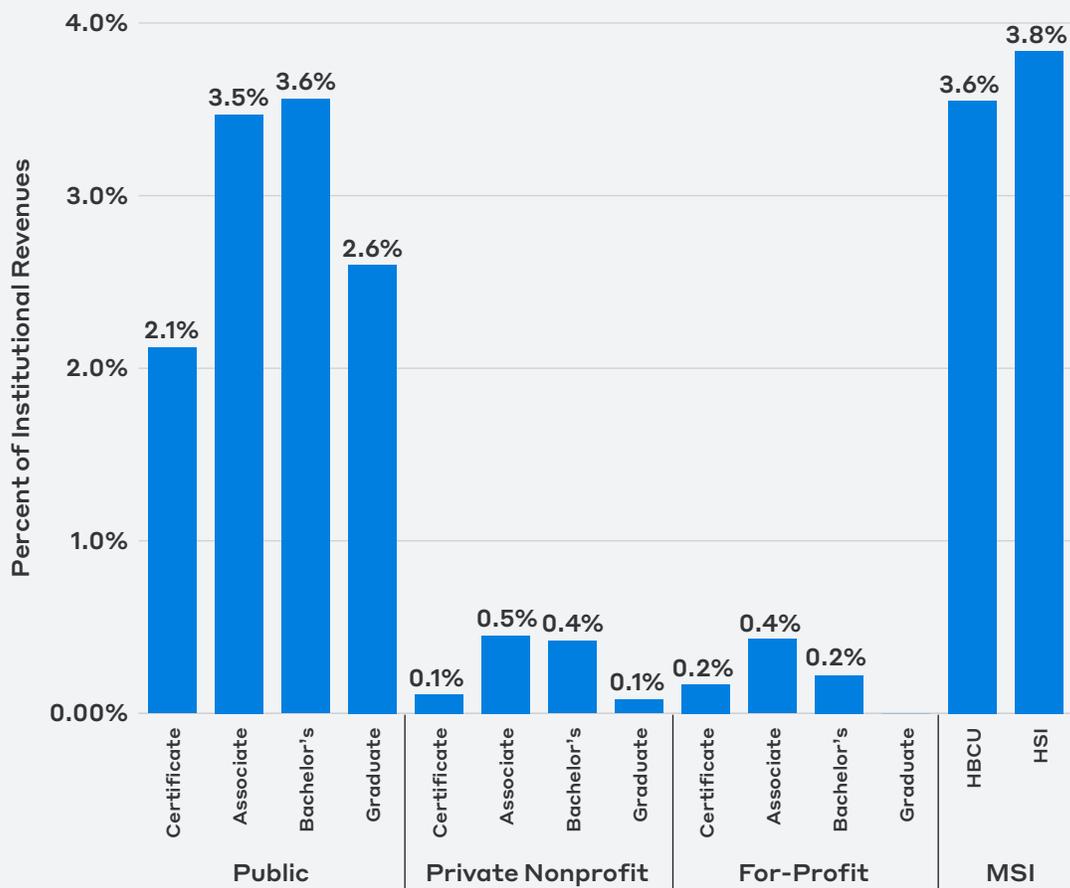
cxxxi State behavior is estimated using the State Higher Education Executive Officers Association's State Higher Education Finance report, available at: <https://sheeo.org/project/state-higher-education-finance/> and the National Association of State Student Grant & Aid Programs' annual survey of state grant aid, available at: <https://www.nassgapsurvey.com/>.

cxxxii These estimates are derived from the IPEDS Finance Survey for fiscal year 2016.

cxxxiii This metric is not directly observed in public data collections. BPC staff imputed it using the National Postsecondary Student Aid Study 2016. Because this imputation is carried out using the NCES PowerStats tool, the imputation simply assigns each school the mean unmet need for Pell Grant recipients in its sector. This data is available at: <https://nces.ed.gov/surveys/npsas/>.

Finally, the model tallies up appropriations and need-based aid to estimate each school's total benefit from the federal-state partnership. This benefit is layered on top of the results from the premium and capacity grants proposals discussed above in order to produce an estimated combined effect. This comprehensive score estimates the median financial effect, by sector, of applying all three of these policy changes.

**Figure 12: Median Effect on Institutional Revenues of the Federal-State Partnership, Premiums, and Capacity Grants Policies, by Sector**



**Source:** Calculations by the Bipartisan Policy Center and National Center for Education Management Systems; State Higher Education Executive Officers, State Higher Education Finance; U.S. Department of Education, College Scorecard; Integrated Postsecondary Data System; National Association of State Student Grant and Aid Programs; Bureau of Economic Analysis; U.S. Census Bureau

**Note:** Institutions are grouped by predominant degree conferred, meaning that institutions are placed into categories based on the type of degree they most frequently produce.

# Endnotes

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