Eight Proposals to Help Inform Reauthorization of the Higher Education Act with a Focus on Financial Aid

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The Higher Education Act is the federal law governing federal programs related to higher education. This includes financial aid programs that assist most college students to pay their college attendance costs and support services programs such as the federal TRIO and GEAR UP programs supporting increased higher education opportunity. This law was passed in 1965 and was subsequently reauthorized in 1968, 1972, 1976, 1980, 1986, 1992, 1998, and 2008 with new initiatives, changes, and adjustments in each reauthorization. Currently the Higher Education Act is due for reauthorization and issues are being reviewed by Congressional Committees. The reauthorization process presents an opportunity and an obligation to address the issues brought to our attention in this Indicators report concerning the barriers that continue to be faced by a growing share of college students. Specifically of major concern is that as family incomes decline, college costs continue to increase. Changes to the nation's economy and demography require a broad review of the purposes and effectiveness of federal student financial aid programs.

- *Since 1973 income has been redistributed according to educational attainment*. Those with the most education have prospered, while those with the least education have suffered.
- This is the Human Capital Economy. And in this environment higher education has become a key engine dividing Americans into those who have more and others who have less.
- *Increasingly in the 21st century this human capital economy has gone global*. The economic engine that has driven growth in the United States since 1973 is now driving economic growth and development worldwide. Economic development now hinges on human capital productivity and development.
- *Since 2000 family incomes have declined*. Median family incomes peaked in 2000 then declined slowly until the Great Recession in 2008 when they dropped sharply. Family income has not recovered from this drop.
- *Since 1980 states have been defunding public higher education*. The current state investment efforts are, on average, 55 percent of what they were in 1980. This has led public colleges and universities to raise tuitions to replace lost state operating support. The costs of higher education have been shifted by states from taxpayers to students and their families.

86 All views expressed in this essay are the sole responsibility of the author, and do not represent the position of the Pell Institute for the Study of Opportunity in Higher Education or the Alliance for Higher Education and Democracy of the University of Pennsylvania (PennAHEAD). This essay is adapted from the Postsecondary Education Opportunity Newsletter, "Thoughts on What the Data Tells Us that Can Help Inform Reauthorization of the Higher Education Act," 2016-1

- *Since the mid-1980s the federal government has shifted its financial aid focus away from need-based grants*. The shift has increasingly emphasized less needy and higher income students and families first through education loans and more recently through tax credits.
- *Since the early 2000s the United States has not kept pace* compared to other counties in the production of college graduates to drive their human capital economies. Other countries have learned from and implemented what we have forgotten and abandoned.
- *Educational debt has grown* to interfere with marriage, child bearing, and family housing production—life itself. We have reversed course: Instead of a country that invests in its future, we have become a country that takes from the future to support current wants.

Proposals for Reauthorization

We have been studying and reporting on college affordability since 1970—for the last 46 years. Our studies and reports have focused on the financial barriers faced by needy students including: unmet financial need, student work-loan burden, net price to families, the net price tax on family incomes, and the substitutability of loans for grants. We think we know what Congress and the President should do to address college affordability in this Reauthorization of the Higher Education Act. Here is what we propose:

1. $13,000 Pell Grant maximum Award
2. $2,000 Super Pell grant for students whose calculated family contribution is far less than zero
3. Joint federal-state partnership for financing Pell Grant Program
4. College work-study for all students
5. Income-contingent education loan repayment for all students with time limits
6. Lottery for admission at class exclusive colleges and universities requirement for continued eligibility for Title IV program participation and tax exempt status
7. Expansion of the TRIO/GEAR UP support services for low-income, first-generation students and students with disabilities to cover at least 20 percent of the eligible students per year
8. Rigorous program evaluation of all federal student financial aid programs, beginning with federal education tax credits

1. $13,000 Pell Grant Maximum Award

If today's Pell Grant maximum Award of $5,775 bought as much higher education today as it did in the late 1970s after it was created and when it was fully implemented, it would be about $13,000.[87] That is, it would cover about the same share of 4-year institutional charges as it did in the late 1970s. Increasing the Pell Grant maximum award to $13,000 would address the most serious financial barriers faced by students from the bottom half of family income, up to about $65,000 per year.

87 The Pell Grant maximum award would be $13,986 at a public 4-year institution, $9,173 at a public 2-year institution, and $13,159 at a private 4-year institution in 2014 to equal 1980 purchasing power. Purchasing power is measured by institutional charges for tuition and fees, and room and board.

2. $2,000 Super Pell Grant

When students apply for financial aid, they begin by filling out the Free Application for Federal Student Aid (FAFSA). The family income, assets, age, size, number in college and other information are used in a federal formula to calculate an Expected Family Contribution (EFC). If this EFC is calculated to be less than zero, it is reset to zero by policy choice and the negative EFC is ignored in further federal, state and institutional need analysis. When this calculated EFC falls below zero, this means that the family lacks resources to maintain itself at the low living standard used to protect family income from assignment to the EFC to help pay the student's costs of college attendance. In reality this also means that the student was often contributing to family support through earnings from employment prior to college. This responsibility to provide for one's family does not disappear when the student goes on to college. In one current study (Wisconsin) 40 percent of Pell Grant recipients reportedly sent money home to their families during the school year when they were away at college. On an anecdotal basis, this behavior is common knowledge among financial aid administrators.

Zeroing out a negative EFC is a policy choice that denies the reality of survival in families with very low incomes. It's a bad choice and should be repealed. The negative EFC calculated from FAFSA data should be retained and used to fund a Super Pell Grant that would be used by students at their discretion to send to their families or reduce their education loans. The amount of the Super Pell Grant should be equal to the negative EFC calculated from FAFSA data, or about $2000.

3. Joint Federal-State Partnership for Financing Pell Grant Program

Since the late 1970s the maximum Pell Grant has lost over half of its purchasing power due substantially to the pervasive and relentless defunding of public higher education by the states. Since about 1980 states have ratcheted downward their annual investment effort in higher education. By 2015 state appropriations for higher education as a share of state personal income averaged about 55 percent of what it had been 35 years earlier. If states had invested in public higher education in 2015 at the same rate they had in 1980 they would have appropriated $65.2 billion more than they did.

As states have reduced their funding for public higher education, state colleges and universities have raised their tuition and fee charges to students to offset their lost state funding support. Very few states have made any effort to alleviate the consequences on educational opportunity of this cost-shift on students from low, lower-middle, and now upper-middle income families with state funded need-based grants of their own. So the price of higher education goes up while family incomes are going down.

States have turned away from investing in higher education because the growth in federal student financial aid has allowed them to do so. This proposal seeks to re-engage the states in making their colleges and universities affordable for their own needy citizens. Beyond a certain basic federally funded Pell Grant, states should match the federal award on a dollar-for-dollar basis. While the details of this matching effort remain to be determined, we suggest that all increases in the Pell Grant maximum award beyond the current $5775 be funded on the matching grant basis of 50:50.

4. College Work-Study for All Students

Many decades of research on college-work-study programs have consistently demonstrated positive financial, employment and academic outcomes from college work-study programs. In moderation, college work-study experiences encourage students to organize their time, introduce students to employer performance expectations, and helps integrate the student into the academic and social life of the institutional community. Work-study also produces paychecks that help students pay college attendance costs.

But there is a newer need for college work-study. Since the beginning of the Great Recession in 2008, the unemployment rate for first year college students has jumped substantially. According to data collected and reported by the Bureau of Labor Statistics,[88] between 1985 and 2007 the unemployment rate for college freshmen ranged between 6.0 percent (2000) and 14.4 percent (1992). Then in 2008 this rate reached 14.9 percent, then rose to a record high of 23.6 percent in 2009. By 2014 this had dropped back to 14.5 percent. The share of college freshmen who were employed that had ranged between 40 percent and 45 percent until 2006 thereafter declined to a low of 27.2 percent in 2013. Since 2006, college freshmen have encountered great difficulty finding jobs while enrolled in college. The employment problems of college freshmen also apply to recent high school dropouts and graduates who have not pursued college following high school departure. The job market for young adults has deteriorated sharply in the last decade and college graduates will need work experience to enter the adult labor market following college—if only to repay their education loan debts.

5. *Income-Contingent Education Loans in Repayment*

According to The Institute for College Access and Success (TICAS), in 2014 69 percent of college graduates had accumulated educational debt during their college years and their average debt was $28,950. A decade earlier in 2004 this share was 65 percent and their average debt was $18,550. Between 2004 and 2014 the share of graduates with educational debt rose by 4 percent and their average debt rose by $10,400. Student loan default rates are higher now than they have been in the past, although they have declined slightly since 2013. Since about 1980, the idea has proliferated that taking from the future to pay for the goods and services we consume today is somehow good public policy. While many previous generations of Americans did not require their children to borrow against their future incomes to finance their higher educations, the most recent generations have imposed that obligation on their children.

6. *Lottery for Admission to Class-Selective Colleges*

Many well-known and wealthy colleges and universities openly practice class-based college recruiting and admissions to enhance their revenues, wealth and ranking in U.S. News' annual college guide. At the same time they enjoy a wide and deep array of public financial benefits that support their private interests. We believe that these institutions are entitled to continue to pursue such private interests if they meet legal requirements. But we do not believe they should continue to receive public financial benefits for these activities.

When these tax benefits were enacted, higher education was one of several paths to economic advancement. Jobs in manufacturing paid well without higher education. In 1945 40.3 percent of all jobs in the United States were in goods-producing industries, such as manufacturing, agriculture, and natural resources. By 2010 this share had shrunk to 13.7 percent of all jobs. These jobs have been replaced with

88 http://www.bls.gov/schedule/archives/all_nr.htm#HSGEC

employment in service industries, which have grown from 59.7 percent of employment in 1945 to 86.3 percent by 2010. These industries include education and health care, professional and business services, financial activities, leisure and hospitality and other services. In these service industries the economy calls for more and higher levels of education and training. So higher education has transitioned from one of several portals to the middle class, increasingly, to the sole gatekeeper.

The metrics of the class-selective institutions stand in opposition to the aims and purposes of Title IV student financial aid programs specifically, and the tax-exemption benefits accorded social institutions that provide important social benefits. Title IV student financial aid program eligibility should be reserved for those institutions seriously engaged in recruiting, admitting, supporting, educating and graduating students who are at a disadvantage in their pursuit of opportunity for higher education. And tax exempt status should be restricted to those educational institutions pursuing broadened social inclusion in their recruiting, admission, retention and graduation programs.

For discussion purposes, we offer this proposal. Class-exclusive colleges would be defined as those with undergraduate enrollments of less than 25% Pell Grant recipients. To continue their eligibility for Title IV federal student financial aid programs these institutions would be required to admit a substantial portion of their entering freshmen on a lottery basis from a pool of open admission applicants. Continued eligibility for Title IV programs would be determined by their rates of success graduating these students compared to the graduation rates of the class-selective admissions process of the institution.

7. Setting Funding Targets for TRIO and GEAR UP of Serving at Least 20 Percent of Eligible Students

When Congress first authorized the TRIO programs under the HEA and established the first of the programs in 1965, they acknowledged that financial aid alone would not be enough to ensure college success for low-income, first generation, and students with disabilities, but that additional support services were also critical. Despite studies that have shown that participation in pre-college and college support services substantially increases low-income and first generation students' chances for success, funding levels have only ever been sufficient to serve a very small percentage of the eligible students in any given year. Estimates are that the less intensive pre-college programs (Talent Search and GEAR UP), reach about 4 to 9 percent of eligible students in any given year. The more intensive programs such as Upward Bound (UB) and Upward Bound Math Science (UBMS) reach about 2 percent of eligible low-income, first generation students. The college support programs, Student Support Services (SSS) and McNair programs, combined, serve about 4 percent of the number of students who receive Pell Grants each year. Moreover, the numbers of students served and funding in constant dollars have actually declined over the last decade—even as the numbers of low-income and first generation students have increased. A recent increase, in 2015 (the first of the 21st century) will not even restore the number of students served to the previous levels at the start of the decade.

This pattern of level or funding cuts, with very low percent of eligible low-income and first generation students served has led to missed opportunities for substantial numbers of students to help increase their chances for college access and success. As Indicator 5c has shown the bachelor's degree attainment rates for beginning postsecondary students who are low-income and first generation are about half (21 percent compared to 57 percent) the rates of those who are neither- low-income or first generation. There is a considerable body of evidence from evaluation studies that these programs make a significant difference, and are often the deciding factor in college access and success for low-income, first-generation students and students with disabilities. Using data from the National Educational Longitudinal Study (NELS), a nationally representative sample of U.S. high school students in the 1990s, Horn and Chen found in correlational analysis that participation in pre-college programs doubled the odds for enrollment in a 4-year college after controlling for other factors known to be related to college entrance.[89] Similarly, studies of both Talent Search and Upward Bound have shown effectiveness.[90] The random assignment evaluation of Upward Bound (UB) found that participation in UB, the most intensive of the Federal pre-college programs, resulted in a 50 percent higher bachelor's attainment rate in 6 years among low-income and first generation students who were randomly assigned in middle school or early high school to Upward Bound and who entered the program. Comparisons of Student Support Services retention and completion rates likewise shows that substantially more SSS students are retained and complete college compared to the national averages. For example, among 2-year institutions 86 percent of SSS students were retained to second year compared with 65 percent of students from a national sample and 94 percent of SSS students beginning at 4-year institutions were retained compared with 79 percent for the national sample.[91]

8. *Rigorous Evaluation of All Financial Aid Programs*

The management of public monies and programs requires oversight. That oversight involves regular assessment of program performance relative to the purposes for which policies, programs and funding were created and provided. This requirement applies to financial aid programs—*all* financial aid programs and not just those that serve financially needy students.

In our experience the principle of program evaluation is applied only to government programs that serve poor people. These programs receive regular scrutiny by federal contractors such as MDRC and others that use random assignment and other credible methods to assess the effectiveness of programs.

But programs that serve affluent populations never receive such objective assessment. This omission is important because higher education largely serves affluent populations, and the amount of money the federal government provides to higher education goes largely to wealthy institutions and wealthy families—not to poor families and poor institutions. This federal largesse is provided in the form of tax breaks: charitable contributions, deductions, income tax credits, etc.

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89 Horn, L. and Chen, X., (1998), *Toward Resiliency: At Risk Students Who Make It to College*, U.S. Department of Education, Office of Educational Research and Improvement, Washington D.C.

90 Cahalan M, (2009), *Addressing Study Error in the Random Assignment National Evaluation of Upward Bound: Do the Conclusions Change?*; can be accessed at http://www.pellinstitute.org/publications-Do_the_Conclusions_ Change_2009.shtml; Constantine J.M, Seftor N.S., Martin E.S., Silva T and Myers D, (2006), *A Study of the Effect of Talent Search on Secondary and Postsecondary Outcomes in Florida, Indiana, and Texas*, U.S. Department of Education; Cahalan, M.,(2003), *The National Evaluation of Talent Search*, *The Implementation of the Federal Talent Search Program: Past and Present*, U.S. Department of Education; Olsen, R, Seftor N, Silva T, Myers D, DesRoches D, and Young J,(2007) *Upward Bound Math Science: Program Description and Interim Impact Estimates*, U.S. Department of Education, Washington D.C., Mathematica Policy Research, Inc.

91 Zeiser, Kristina, Chan, Tsze, Heuer Ruth, Cominole, Melissa, (2015), *Persistence and Completion in Postsecondary Education of Participants in the TRIO Student Support Services Program*, U.S. Department of Education, August.

In the same spirit that federal programs that serve poor students are rigorously evaluated for effectiveness, federal programs that serve wealthy institutions and families should be rigorously evaluated for effectiveness. Anything less reveals a class-biased agenda in the guise of objective program evaluation.

Conclusions

The current reauthorization of the Higher Education Act and its financial aid programs provides a long overdue opportunity and imperative to address the extraordinary financial barriers faced by a majority of college students today. These barriers include unmet financial need, student work-loan burden, net price to family, net price tax on family income, and educational debt. These barriers have grown in depth and breadth to adversely affect student access, choice, persistence and completion. During 35 years of neglect, these financial barriers have been allowed to grow far beyond the resources of those children born into the lowest income families. These barriers are now adversely impacting a broad swath of middle income families, and even some from families that many people would consider almost affluent.

Financial barriers exist because not everyone has the family resources to pay college attendance costs. Not until family incomes reach about $95,000 does the Expected Family Contribution exceed Costs of Attendance at an average cost public 4-year college or university. Below this income level, students need financial aid to pay the remaining costs of college. And median family income for families with dependent members aged 18 to 24 years is now about $65,000.

The consequences of allowing these financial barriers to grow for decades are clearly apparent. In a global economy increasingly driven by college-educated workers, the United States is in free-fall in international comparisons of the production of college graduates. Between 2002 and 2012 the United States dropped from second to twelfth among the 35 industrial democracies of the world. At the current rate of decline the United States will rank about 19th by 2020.

The realities surrounding opportunity for higher education are clear, and compel a substantial revision to the financial aid programs authorized under Title IV of the Higher Education Act.

Congress schedules periodic reviews of the Higher Education Act to address the issues, problems and needs of targeted populations. Our proposals for this reauthorization address many of the most apparent and serious financial barriers students face in paying for college. Others, too, are making bold proposals for this reauthorization.

Congress will be judged by how effectively it addresses these challenges. The lives of today's children will either benefit or be damaged by the Congressional response.