Decrease in College Affordability

- Need-based grants are failing to keep pace with increases in college costs
- Federal and state governments are cutting student aid spending to reduce budget deficits
- College costs continue to rise
  - Public college tuition inflation is driven by cuts in state appropriations (effectively taxing students)
  - College discount rates are increasing, putting pressure on college student aid budgets
- Family income is stagnant due to the economy
- More families are demonstrating financial need

Consequences of Drop in Affordability

- Families are more concerned about college costs and financial aid because of the increase in out-of-pocket costs
- Low and moderate income students shifting enrollments to lower-cost colleges, causing a decline in Bachelor’s degree attainment
- Average debt at graduation is increasing by thousands of dollars
- There is an increased focus on improving the efficiency and effectiveness of student aid funds

Recent Cuts in Student Aid Funding

- Cuts to Pell Grant Program Funding
  - Department of Defense and Full-Year Continuing Appropriations Act, 2011 (P.L. 112-10) suspended the Year-Round Pell Grant program effective with the 2011-12 award year
    - The Year-Round Pell Grant program allowed students in accelerated degree programs to receive two Pell Grants in a single award year
    - This cuts $8 billion/year in Pell Grant program funding
  - 2010-11 was also the last year of the Academic Competitiveness Grant (ACG) and National SMART Grant programs (SMART Grant)

- Increases in Funding are Inadequate
  - Scheduled increases in maximum Pell Grant will fall short of inflation through 2020
    - Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) provided funding for anemic increases in the maximum Pell Grant through 2019-2020
    - Five years of no increases, five years of CPI increases, the equivalent of CPI – 0.75%
  - Budget Control Act of 2011 allocated $17 billion to the Pell Grant program for 2012-13 to address an existing funding shortfall, but left the program with a $1.3 billion funding shortfall
Recent Growth in Pell Grant Program

<table>
<thead>
<tr>
<th></th>
<th>2007-08</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recipients</td>
<td>5.34</td>
<td>6.12</td>
<td>7.74</td>
<td>8.87</td>
</tr>
<tr>
<td>Max Pell</td>
<td>$4,310</td>
<td>$4,731</td>
<td>$5,350</td>
<td>$5,550</td>
</tr>
<tr>
<td>Average Pell</td>
<td>$2,620</td>
<td>$2,970</td>
<td>$3,646</td>
<td>$4,115</td>
</tr>
<tr>
<td>Minimum Pell</td>
<td>$400</td>
<td>$590</td>
<td>$976</td>
<td>$555</td>
</tr>
<tr>
<td>Minimum Pell</td>
<td>$400</td>
<td>$400 plus $490 mandatory</td>
<td>10% of discretionary max plus $690 mandatory</td>
<td>10% of overall maximum</td>
</tr>
<tr>
<td>Appropriations</td>
<td>$13.7 billion</td>
<td>$16.26 billion</td>
<td>$25.3 billion</td>
<td>$32.9 billion</td>
</tr>
</tbody>
</table>

- Pell Grant appropriations doubled from 2008-09 to 2010-11
- Number of recipients increased 45% from 2008-09 to 2010-11
- Grew from a third of students in 2008-09 to almost half in 2010-11
- Average Grant increased 39% from 2008-09 to 2010-11

Most Likely Changes to the Pell Grant

- Priority is on maintaining maximum Pell Grant of $5,550, but there will be no increases
- Cut subsidized interest on undergraduate subsidized Stafford loans to yield funding for Pell Grant program
- Reduce the number of semesters of eligibility from 18 to 12 for Bachelor’s degree programs, with lower limits for Certificate and Associate’s degree programs
- Require a minimum of half-time enrollment
- Eliminate eligibility for students who qualify for less than 10% of the maximum Pell Grant
- Changes to federal need analysis, such as changes to income protection allowance or auto-zero-EFC threshold

Other Student Aid Cuts Are Likely

- Efficiency improvements from reallocating funds from one student aid program to another will be diverted toward deficit reduction
  - Budget Control Act of 2011 cut subsidized interest for graduate students and loan discounts, saving $21.6 billion, but redirected $4.6 billion to deficit reduction
  - Budget Control Act of 2011 cut budget deficit, but did not specify what would be cut
  - Across-the-board budget cuts are likely
  - Extension of 3.4% subsidized Stafford loan interest rate for undergraduates is unlikely
  - Bush Administration tax cuts expire at end of 2012

Impact on College Affordability and Debt

Growth in Student Loan Debt

- Student loan debt continues to grow faster than income, driven by the failure of grants to keep pace with increases in college costs
- Total student loan debt outstanding exceeded credit card debt outstanding in June 2010
- Total student loan debt outstanding will reach the $1 trillion mark in late 2011
- One-third of students are graduating with more than $20,000 in debt, eligible for 20-year or longer repayment terms

Debt Catching Up with Income

- Income and Debt for Bachelor's Degree Recipients
  - Average Debt at Graduation
  - Average Income Age 25-34

- [Graph showing income and debt trend from 1980-1981 to 2017-2018]
Higher-Cost Colleges Drive Excessive Debt

Debt Hurts Low-Income Enrollment

- The high cost/high aid model is pricing low-income students out of a college education, especially when the aid includes loans and work
- Debt has a chilling effect on college enrollment by low-income students
- Low-income income students fear debt, causing them to enroll and graduate at 1/6 the rate of equally capable high-income students
- Imagine being asked to borrow more for your education than your parents earn in a year

Out-of-Pocket Costs vs. Total Income

Source: Analysis of data from the 2003-04 and 2007-08 National Postsecondary Student Aid Study (NPSAS)
Trends and Challenges in Financial Aid and College Affordability

Growth in Number of FAFSAs

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of FAFSAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>11.4 million</td>
</tr>
<tr>
<td>2006-07</td>
<td>14.0 million</td>
</tr>
<tr>
<td>2007-08</td>
<td>14.6 million</td>
</tr>
<tr>
<td>2008-09</td>
<td>16.4 million</td>
</tr>
<tr>
<td>2009-10</td>
<td>19.5 million</td>
</tr>
<tr>
<td>2010-11</td>
<td>21.1 million</td>
</tr>
</tbody>
</table>

Steady Increases in Discount Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Freshmen</th>
<th>All Undergraduates</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>37.7%</td>
<td>33.0%</td>
</tr>
<tr>
<td>2006</td>
<td>38.0%</td>
<td>34.3%</td>
</tr>
<tr>
<td>2007</td>
<td>37.3%</td>
<td>36.0%</td>
</tr>
<tr>
<td>2008</td>
<td>37.1%</td>
<td>38.0%</td>
</tr>
<tr>
<td>2009</td>
<td>34.3%</td>
<td>40.0%</td>
</tr>
<tr>
<td>2010</td>
<td>33.6%</td>
<td>42.4%</td>
</tr>
</tbody>
</table>

2011 College Decision Impact Survey

- Greater emphasis on bottom line costs and ROI
- Three most important reasons chose college
  - Quality of major (44.6%)
  - Scholarship or financial assistance (43.2%)
  - Total costs (40.8%)
  - Academic reputation (38.4%)
  - Campus setting/environment (35.6%)
  - Close to home (34.5%)
- Students who are concerned about the economy are much more likely to enroll at public colleges

“Switchers” Influenced by Money

- More likely to switch preference from non-profit to public (24%) than public to non-profit (9%)
- 37.3% of high school seniors did not enroll at their first-choice college. Main reasons:
  - A third (31.2%) said they could not afford 1st choice
  - A tenth (11.4%) got a better aid offer elsewhere
  - Among switchers from public to non-profit, a fifth (20.3%) said got a better aid offer
  - Among switches from public to non-profit, a third (33.0%) appealed for more aid and almost half (44.7%) got an increase in the financial aid offer

Potential for Greater Efficiency

- Given limited funding increases, there will be more emphasis on improving efficiency
  - Eliminate waste and abuse
  - Focus funding on the most effective programs
  - Target financial literacy training, debt counseling and job placement assistance at highest-risk borrowers
- Unfortunately, savings from efficiency improvements may be applied to deficit reduction instead of student aid
- Affordable debt restrictions (gainful employment rules) may be extended to all colleges

More Emphasis on Improving Efficiency
## Funding Constraints → Infighting
- Funding for student aid will be flat or decrease, leading to a zero-sum game
- Improvements in the efficiency and effectiveness of student aid funding are not enough, and may be redirected at deficit reduction
- Public and non-profit colleges will attack the for-profit sector, which accounts for 1/4 to 1/3 of growth in federal grant and loan volume
- Politicians will blame the colleges for tuition inflation and declines in college affordability

## Colleges Need to Cut Costs
- Use technology such as online education to improve productivity and reduce costs
- Leverage economies of scale and centralization for greater efficiency
- Adopt a year-round class schedule for more efficient use of facilities 24/7/365
- Increase student-faculty and student-staff ratios
- Eliminate underutilized and inessential services
- Improve retention and graduation rates
- Focus funding on the college’s core mission

## We Will Miss College Attainment Goal
- Growth in net price will hurt Bachelor’s degree attainment, making it more difficult to achieve President Obama’s 2020 goal to regain top slot in the OECD statistics
- Must have increases in student aid and improvements in student preparation
- Targeted counseling and services can help, but are not the complete solution
- Improvements in efficiency and effectiveness of existing student aid funding are not enough

## Thank You!
Mark Kantrowitz’s student aid policy analysis papers may be found at [www.finaid.org/studentaidpolicy](http://www.finaid.org/studentaidpolicy)