# KEEPING COLLEGE WITHIN REACH: SIMPLIFYING FEDERAL STUDENT AID

## HEARING

BEFORE THE

## COMMITTEE ON EDUCATION AND THE WORKFORCE U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, NOVEMBER 13, 2013

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# C O N T E N T S

# KEEPING COLLEGE WITHIN REACH: SIMPLIFYING FEDERAL STUDENT AID

**Wednesday, November 13, 2013**
**U.S. House of Representatives**
**Committee on Education and the Workforce**
**Washington, DC**

The committee met, pursuant to call, at 10:03 a.m., in room 2175, Rayburn House Office Building, Hon. John Kline [chairman of the committee] presiding.

Present: Representatives Kline, Petri, Wilson, Foxx, Thompson, Walberg, Guthrie, DesJarlais, Rokita, Heck, Brooks, Messer, Andrews, Scott, Hinojosa, Tierney, Holt, Davis, Grijalva, Bishop, Courtney, Fudge, Polis, Sablan, Wilson, Bonamici, and Pocan.

Staff present: Janelle Belland, Coalitions and Members Services Coordinator; James Bergeron, Director of Education and Human Services Policy; Amy Raaf Jones, Education Policy Counsel and Senior Advisor; Nancy Locke, Chief Clerk; Brian Melnyk, Professional Staff Member; Daniel Murner, Press Assistant; Krisann Pearce, General Counsel; Nicole Sizemore, Deputy Press Secretary; Emily Slack, Legislative Assistant; Alex Sollberger, Communications Director; Alissa Strawcutter, Deputy Clerk; Tylease Alli, Minority Clerk/Intern and Fellow Coordinator; Kelly Broughan, Minority Education Policy Associate; Jacque Chevalier, Minority Education Policy Advisor; Eamonn Collins, Minority Fellow, Education; Jamie Fasteau, Minority Director of Education Policy; Rich Williams, Minority Education Policy Advisor; Michael Zola, Minority Deputy Staff Director; and Mark Zuckerman, Minority Senior Economic Advisor.

Chairman KLINE. A quorum being present, the committee will come to order.

Before we proceed with this morning's hearing I would like to recognize Mr. Hinojosa for an announcement.

Mr. HINOJOSA. Thank you, Chairman Kline.

It is a privilege and I want to welcome our newest member to the Education Committee. Congressman Mark Pocan, who represents Wisconsin's 2nd district, is filling the vacancy on this committee left by Congressman John Yarmuth, who is now on the Energy and Commerce Committee.

Congressman Pocan is tailor-made for working on this committee. He is a small business owner and he is a union member. He knows how to work across political divides and he knows how to legislate.

He served seven terms in the Wisconsin State Assembly. His successes earned him the Best Legislator Award from Milwaukee Magazine.

This is Congressman Pocan's first term in the House of Representatives and he has already proven to be a strong voice for students and working families from his home state and across the country.

With his assignment to this committee I am submitting senior Democratic Member Miller's letter announcing the new subcommittee assignments for Democratic members.

And Congresswoman Wilson will be moving from Early Childhood to the Higher Ed Subcommittee. Congresswoman Bonamici will be moving from Workforce Protections to the HELP Subcommittee. And Congressman Pocan will be joining the Early Childhood and Workforce Protections Subcommittee.

I urge all my colleagues to join me in welcoming Congressman Pocan. [Applause.]

Mr. PETRI. Would the gentleman yield?

Mr. HINOJOSA. Yes. I yield to you.

Mr. PETRI. I would like to join in welcoming my colleague, who I am very happy is a member of this committee, my colleague from Wisconsin, who represents—has within his district one of the great educational institutions really in the world, the University of Wisconsin. It is internationally famous in many areas and I suspect that may be one of his priorities. And we look forward to working together on helping the university.

Mr. HINOJOSA. Mr. Pocan, I would like to yield time to you.

Mr. POCAN. Sure. I just want to say thank you very much. I'm looking forward to serving on the committee and looking forward to the work we have to do that is ahead of us.

Thank you very much.

Mr. HINOJOSA. That is the briefest speech I have ever heard.

Mr. Chairman, I ask unanimous consent that this letter advising the chairman of our revised subcommittee assignments be included in the record.

[The information follows:]

COMMITTEE ON EDUCATION
AND THE WORKFORCE
U.S. HOUSE OF REPRESENTATIVES
2181 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6100



November 13, 2013

The Honorable John Kline
Chairman
Committee on Education and the Workforce
2181 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Kline:

I am pleased to report that the House Democratic Caucus has assigned Congressman Mark Pocan to the Education and the Workforce Committee. The following subcommittee assignment changes for Democratic Members have resulted from the new assignment.

**Congresswoman Wilson** will be moving from the Subcommittee on Early Childhood, Elementary, and Secondary Education and joining the Subcommittee on Higher Education and Workforce Training. **Congresswoman Bonamici** will be moving from the Subcommittee on Workforce Protections and joining the Subcommittee on Health Employment Labor and Pensions. **Congressman Pocan** will be joining the Subcommittee on Early Childhood, Elementary, and Secondary Education and the Subcommittee on Workforce Protections.

With these changes, the composition of the subcommittees should be as follows:

**Subcommittee on Early Childhood, Elementary and Secondary Education**

1. Carolyn McCarthy, Ranking Member
2. Robert C. "Bobby" Scott
3. Susan A. Davis
4. Raúl M. Grijalva
5. Marcia L. Fudge
6. Jared Polis
7. Gregorio Kilili Camacho Sablan
8. Mark Pocan

**Subcommittee on Workforce Protections**

1. Joe Courtney, Ranking Member
2. Robert E. Andrews
3. Timothy H. Bishop
4. Marcia L. Fudge
5. Gregorio Kilili Camacho Sablan
6. Mark Pocan

**Subcommittee on Health, Employment, Labor and Pensions**

1. Robert E. Andrews, Ranking Member
2. Rush Holt
3. David Loebsack
4. Robert C. "Bobby" Scott
5. Rubén Hinojosa
6. John F. Tierney
7. Raúl M. Grijalva
8. Joe Courtney
9. Jared Polis
10. Frederica S. Wilson
11. Suzanne Bonamici

**Subcommittee on Higher Education and Workforce Training**

1. Rubén Hinojosa, Ranking Member
2. John F. Tierney
3. Timothy H. Bishop
4. Suzanne Bonamici
5. Carolyn McCarthy
6. Rush Holt
7. Susan A. Davis
8. David Loebsack
9. Frederica S. Wilson

If you have any questions please contact me or direct your staff to contact Megan O'Reilly at 202-225-3725.

Sincerely,

George Miller

**GEORGE MILLER**
Senior Democratic Member

Chairman KLINE. Without objection.

Mr. HINOJOSA. Okay. I think this is—and I yield back.

Chairman KLINE. Gentleman yields back.

Mr. POCAN, I also welcome you to the Committee on Education and the Workforce. I know you, like I and Mr. Petri, are looking forward to a football game on Saturday. I have different expectations, I am sure, than you do, but we are glad to have you.

I would like to thank our witnesses for joining us today. We look forward to your testimony.

In preparation for the upcoming reauthorization of the Higher Education Act, the committee has held nearly a dozen hearings to explore the challenges and opportunities facing our nation's colleges and universities.

We have discussed the value of transparency and data in helping prospective students choose the postsecondary institution that best meets their unique needs. We have examined factors that contribute to rising college costs and reviewed the consequences of burdensome federal regulations and paperwork requirements. And we have highlighted the critical importance of promoting innovation and academic freedom in our nation's higher education system.

Without question, ensuring more students have access to an affordable, quality postsecondary education is a top priority for everyone in this room. But despite the best of intentions, the federal efforts to expand aid programs over the past 50 years have resulted in an overly complex system that is difficult to navigate.

Today, with the help of our witnesses, we will explore opportunities to streamline the federal aid system, making it easier for students to evaluate federal aid options and make smart investments in postsecondary education.

I would like to take a moment to share with you the process students and families must go through when trying to access federal aid. First, students must complete the Free Application for Federal Student Aid, or FAFSA, which includes more than 100 detailed questions on a range of topics including earnings and savings, parental education attainment, receipt of government benefits, and assets.

After completing the lengthy FAFSA application, students must try to understand the available aid options while also deciphering the differences between loans and grants. To make an informed decision about financial aid, students and their families need to grasp what makes each program unique, including the terms and conditions, eligibility requirements, and aid amounts awarded by individual institutions.

And finally—excuse me—when a student chooses an aid package he or she must also begin thinking about how to eventually repay the loans. As we saw with the recent student loan interest rate debate, far too many students don't fully understand their loan obligations until after they after they graduate, and students often miss opportunities to take advantage of federal repayment initiatives simply because they don't know such programs exist.

During the 2008 reauthorization of the Higher Education Act, Congress took an important first step toward improving the federal aid system by simplifying the FAFSA, but the still-cumbersome application proves there is more work to be done. Fortunately, the

higher education, business, and policy communities, in coordination with the Bill and Melinda Gates Foundation's Reimagining Aid Design and Delivery initiative, have put forth a number of interesting ideas to restructure the system.

One proposal suggests further streamlining the FAFSA by dramatically simplifying the need analysis formula used to determine student eligibility. Instead of calculating a student's expected family contribution through detailed questions, a modernized formula would only use a family's size and adjusted gross income to determine eligibility. Additionally, the new formula would build on past efforts to rein in the FAFSA through partnerships with the IRS, allowing applicants to retrieve financial information more easily.

To reduce confusion and complexity in the federal aid system, another proposal calls for the consolidation of all existing federal postsecondary aid programs into a "one loan and one grant" structure. In this scenario, students would have access to a single loan with a market-based interest rate and one universal repayment plan. Other proposals focus on helping students access more transparent information about their federal aid options, which has long been a Republican priority.

Before I yield to the distinguished ranking member—today, Mr. Hinojosa—I would like to note that I am proud of the work we did earlier this year to revamp federal student loans. Though it was a difficult battle, eventually we came together on a bipartisan solution that has resulted in lower interest rates for millions of loan borrowers.

We now have the opportunity to build on this success and find the common ground necessary to reauthorize the Higher Education Act. I look forward to working with my colleagues on both sides of the aisle to strengthen the law and ensure more students can realize the dream of a college degree.

And with that, I would now like to recognize Mr. Hinojosa for his opening remarks.

[The statement of Chairman Kline follows:]

**Prepared Statement of Hon. John Kline, Chairman, Committee on Education and the Workforce**

Good morning and welcome. I'd like to thank our witnesses for joining us today. We look forward to your testimony.

In preparation for the upcoming reauthorization of the Higher Education Act, the committee has held nearly a dozen hearings to explore the challenges and opportunities facing our nation's colleges and universities.

We've discussed the value of transparency and data in helping prospective students choose the postsecondary institution that best meets their unique needs. We have examined factors that contribute to rising college costs and reviewed the consequences of burdensome federal regulations and paperwork requirements. And we've highlighted the critical importance of promoting innovation and academic freedom in our nation's higher education system.

Without question, ensuring more students have access to an affordable, quality postsecondary education is a top priority for everyone in this room. But despite the best of intentions, federal efforts to expand aid programs over the past 50 years have resulted in an overly complex system that is difficult to navigate.

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After completing the lengthy FAFSA application, students must try to understand the available aid options while also deciphering the differences between loans and grants. To make an informed decision about financial aid, students and their families need to grasp what makes each program unique, including the terms and conditions, eligibility requirements, and aid amounts awarded by individual institutions.

And finally, when a student chooses an aid package, he or she must also begin thinking about how to eventually repay the loans. As we saw with the recent student loan interest rate debate, far too many students don't fully understand their loan obligations until after they graduate. And students often miss opportunities to take advantage of federal repayment initiatives simply because they don't know such programs exist.

During the 2008 reauthorization of the Higher Education Act, Congress took an important first step toward improving the federal aid system by simplifying the FAFSA—but the still-cumbersome application proves there's more work to be done. Fortunately, the higher education, business, and policy communities, in coordination with the Bill and Melinda Gates Foundation's Reimagining Aid Design and Delivery initiative, have put forth a number of interesting ideas to restructure the system.

One proposal suggests further streamlining the FAFSA by dramatically simplifying the need analysis formula used to determine student eligibility. Instead of calculating a student's expected family contribution through detailed questions, a modernized formula would only use a family's size and adjusted gross income to determine eligibility. Additionally, the new formula would build on past efforts to rein in the FAFSA through partnerships with the IRS, allowing applicants to retrieve financial information more easily.

To reduce confusion and complexity in the federal aid system, another proposal calls for the consolidation of all existing federal postsecondary aid programs into a 'one loan and one grant' structure. In this scenario, students would have access to a single loan with a market-based interest rate and one universal repayment plan. Other proposals focus on helping students access more transparent information about their federal aid options, which has been a longstanding Republican priority.

Before I yield to the distinguished ranking member, George Miller, I'd like to note that I am proud of the work we did earlier this year to revamp federal student loans. Though it was a difficult battle, eventually we came together on a bipartisan solution that has resulted in lower interest rates for millions of loan borrowers. We now have the opportunity to build on this success and find the common ground necessary to the reauthorize the Higher Education Act. I look forward to working with my colleagues on both sides of the aisle to strengthen the law and ensure more students can realize the dream of a college degree.

With that, I would now like to recognize the senior Democrat member of the committee, Mr. Miller, for his opening remarks.

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Mr. HINOJOSA. Chairman Kline, thank you. Thank you for holding this hearing on student aid simplification, an important topic as we begin to reauthorize HEA.

We know that now, more than ever, a higher education is the gateway to the American dream and a middle-class life. Unfortunately, we also know that rising costs are pushing a college degree out of reach for too many families.

After many years of skyrocketing tuition, state budget cuts, and stagnant household incomes, students and their families are turning to loans to pay for college at unprecedented rates. Student loan debt has almost tripled in the last 8 years, as more students need to borrow more money to go to college. The average student now graduates with $26,000 in debt.

This year, the Consumer Financial Protection Bureau found that total student debt in this country was more than $1.2 trillion—higher than the nation's total credit card debt.

And it isn't just young people borrowing for school. Those 40-year-olds and older carry more than 34 percent of our nation's student loan debt.

Falling behind on monthly payments will maim a borrower's credit rating and open the door to wage, Social Security, and tax refund garnishment. This debt threatens the upward mobility that higher education once guaranteed.

We must make it as easy as possible for current and former students to dig out from underneath these burdens.

For example, this committee can make student loan repayment easier. While federal loan borrowers enjoy a variety of payment plans, we have heard that borrowers can find the sheer number of options confusing. Repaying college loans should not be a troublesome, arduous process.

This committee should examine if consolidating seven different repayment options into fewer, more robust plans would benefit borrowers.

Other options to explore are whether distressed borrowers could be automatically placed into an income-based repayment plan before the harsh penalties of default and collections occur.

Recent initiatives to simplify the financial aid process and make college costs more transparent for students, such as the Financial Aid Shopping Sheet or the College Scorecard, and FAFSA simplification have improved access to a higher education. But they alone cannot make the process of repaying student loans easier.

As we look at ways to simplify the repayment process, we must also take care not to cut student aid programs nor eligibility. Such changes would only increase student loan debt.

We must not lose sight of the fact that these borrowers are the nation's future. If they are shackled by unmanageable debt our economy will invariably suffer.

In closing, I want to say we have a moral and economic obligation to ensure that all qualified students who want to attend college can afford to go. I look forward to hearing from our witnesses on ways Congress can work together to address these questions and reduce student loan debt.

Thank you, Mr. Chairman, for—thank you to the panelists, rather. Thank you for joining us today and I look forward to hearing your presentations.

With that, I yield back.

[The statement of Mr. Hinojosa follows:]

**Prepared Statement of Hon. Rubén Hinojosa, a Representative in Congress From the State of Texas**

Good morning, Chairman Kline. Thank you for holding this hearing on student aid simplification, an important topic as we begin to reauthorize the higher education act.

We know that now, more than ever, a higher education is a gateway to the American Dream and a middle class life.

Unfortunately, we also know that rising costs are pushing a college degree out of reach for too many families.

After many years of skyrocketing tuition, state budget cuts, and stagnant household incomes, students and their families are turning to loans to pay for college at unprecedented rates.

Student loan debt has almost tripled in the last eight years as more students need to borrow more money to go to school. The average student now graduates with $26,000 in debt.

This year, the Consumer Financial Protection Bureau found that total student debt in this country was more than $1.2 trillion—higher than the nation's total credit card debt.

Repaying this massive debt complicates other life decisions.

It affects where people can work, whether they can save enough money to purchase a home, whether they can afford to take a risk and start a business, or whether they can get married or start a family.

And it isn't just young people borrowing for school—those 40 years old and older carry more than 34 percent of our nation's student loan debt.

Older borrowers may be forced to delay saving for their child's education or their retirement.

Falling behind on monthly payments will maim a borrower's credit rating and open the door to wage, Social Security, and tax refund garnishment.

This debt threatens the upward mobility that higher education once guaranteed.

We must make it as easy as possible for current and former students to dig out from underneath these burdens.

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Other options to explore are whether distressed borrowers could be automatically placed into an Income Based Repayment Plan—before the harsh penalties of default and collections occur.

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But they alone cannot make the process of repaying student loans easier.

As we look at ways to simplify the repayment process, we must also take care not to cut student aid programs or eligibility. Such changes would only increase student loan debt.

We must not lose sight of the fact that these borrowers are the nation's future. If they are shackled by unmanageable debt, our economy will invariably suffer.

We have a moral and economic obligation to ensure that all qualified students who want to attend college can afford to go.

I look forward to hearing from our witnesses on ways Congress can work together to address these questions and reduce student loan debt.

Thank you for joining us today. I yield back.

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Chairman KLINE. Thank the gentleman.

Pursuant to committee rule 7(c), all committee members will be permitted to submit written statements to be included in the permanent hearing record. And without objection, the hearing record will remain open for 14 days to allow statements, questions for the record, and other extraneous material referenced during the hearing to be submitted in the official hearing record.

It is now my pleasure to introduce our distinguished panel of witnesses.

Ms. Kristin Conklin is a founding partner of HCM Strategies, LLC and a government relations and strategy development firm. Prior to starting HCM, Ms. Conklin served as senior advisor to the undersecretary of the U.S. Department of Education.

Dr. Sandy Baum currently serves as a research professor at the George Washington University Graduate School of Education and Human Development and a senior fellow at the Urban Institute.

Ms. Jennifer Mishory is the deputy director of Young Invincibles, a national nonprofit organization dedicated to expanding opportunities for young adults.

And Mr. Jason Delisle serves as the director of the Federal Education Budget Project at the New America Foundation. Previously, Mr. Delisle was a senior analyst on the Republican staff of the Senate Budget Committee and a legislative aide in the office of Mr. Thomas Petri.

Before I recognize each of you to provide your testimony let me briefly explain our high-tech lighting system.

You will each have five minutes to present your testimony. When you begin, the light in front of you will turn green; when 1 minute is left, the light will turn yellow; and when your time is expired, the light will turn red. At that point I ask you to wrap up your remarks as best you are able.

After everyone has testified members will each have five minutes to ask questions of the panel.

I now recognize Ms. Conklin for 5 minutes.

**STATEMENT OF KRISTIN D. CONKLIN, FOUNDING PARTNER, HCM STRATEGISTS, LLC**

Ms. CONKLIN. Thank you, Chairman Kline, Ranking Member Hinojosa, and members of the committee, for the opportunity to discuss how federal financial aid investments can work better for students, families, and taxpayers.

My name is Kristin Conklin and I stand before you as a Pell Grant recipient—the first in my family to graduate college. As a result of the education I received, I am the first in my family to start a business and create jobs.

I am here to share the work of HCM Strategists, a public policy and advocacy consulting firm.

For millions of students, financial aid clears the path to the American dream. If I can leave you with one point it is that simpler is better. Simpler is the best way to improve outcomes and more efficiently spend the billions of dollars in aid we already invest.

Simpler requires a holistic look at all programs. This can be accomplished with a blank-slate approach to reauthorizing the Higher Education Act next year.

After decades of tinkering we now have four different grant programs and five different loan programs, each with different eligibility criteria, different standards for maintaining the awards, different lengths of time a student can receive the awards, and different repayment terms. The average student completing the FAFSA faces 61 questions. No wonder nearly two million students eligible for aid never even apply.

We can do better. This January, HCM released the American Dream 2.0 Report. The report is a product of diverse leaders such as Indiana Governor Mitch Daniels; former director of the CBO, Robert Reischauer; president of the National Urban League, Marc Morial; and Tom Snyder, of Ivy Tech Community College; as well as two of the co-panelists testifying with me today.

The report received coverage in the New York Times and 280 other media outlets for its three overarching recommendations: one, make aid simpler and more transparent; two, spur innovations in higher education that can lower costs and meet the needs of today's students; and asked institutions, states, and students to share responsibility for producing more graduates.

The technical panel of experts HCM led went a step further, and offered specific recommendations needed to deliver on the coalition's recommendations. Our report, "Doing Better for More Stu-

dents," offers the most exhaustive modeling of options and impacts of any financial aid report.

Our principal recommendations: students, families, and taxpayers would be much better served with one grant, one loan, and one tax benefit.

Through pilot improvements tested in the last 4 years, we know it is possible to give students an instant lookup table powered by a smartphone app. Congress, however, will need to radically simplify needs analysis to make this vision a reality.

We propose reducing needs analysis to four variables. First, if you receive federal means-tested assistance you are automatically eligible for student aid. Two other variables, adjusted gross family income and family size, would be retrieved by the IRS.

Our final variable would apply to students with more complex financial situations. Information regarding their assets can also be retrieved by the IRS.

According to the Urban Institute, Brookings modeling, HCM Commission, these changes can save between $37 billion and $73 billion.

We also call for a single income-based loan repayment program with common annual and aggregate borrowing limits—for undergraduates, $8,750 a year and $35,000 total; for graduate students, $30,000 a year and $90,000 total. Savings from this simplification are projected to be $38 billion over 10 years.

For both the single grant and loan programs we recommend shared responsibility for college completion.

To get a maximum annual grant or loan students should complete 30 credit hours in a calendar year—enough to finish a bachelor's degree in four or an associate's degree in two years. For colleges, we recommend adding measures of equity and success to institutional Title IV eligibility. Ten-year savings are projected to be $39 billion.

Public opinion supports an emphasis on completion and simplification. Last year, HCM Strategists commissioned Hart Research Associates and the Winston Group to survey voters.

They found 84 percent of voters agree that earning credential is very important. Ninety-five percent of African American parents and 97 percent of Hispanic parents agreed.

More than three in five voters think streamlining is a good approach.

What can we expect from these changes? More needy students will believe that college is possible.

Redefining full-time status will mean more students progress and graduate faster, requiring fewer total years of support. Financial aid counselors will spend less time on regulatory compliance and more time helping students succeed. Savings can be found that shore up the Pell Grant for another decade.

Thank you for allowing me to talk on this important topic and I look forward to your questions.

[The statement of Ms. Conklin follows:]

**"Keeping College Success Within Reach: Simplifying Federal Student Aid"**

Kristin D. Conklin, Founding Partner, HCM Strategists

Hearing before the Committee on Education and the Workforce
United States House of Representatives

November 13, 2013

Written Testimony and Resources for the Record

Kristin D. Conklin
Founding Partner, HCM Strategists
1156 15th Street, NW, Suite #850
Washington, D.C., 20005
202-494-3279


HOW CAN FINANCIAL AID HELP MORE STUDENTS SUCCEED?
Extra money to help you get ready for college
Confidence that the college you choose to use your aid at has met certain minimal standards
Automatic eligibility for financial aid if you receive other kinds of federal support like free and reduced price lunch
Clear reports with the information you need to make decisions about where to go to college
A financial aid application that pre-loads data for you
Loans you can repay based on your income after graduation, which are forgiven after 25 years if not paid off
More money for enrolling in enough classes to graduate on-time
An instant notification of the grants and loans you can expect
A simple tax credit to reimburse you for individual courses you may need in your career
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# Doing Better for More Students
## ISSUE BRIEF

**In July 2012, HCM convened a small group of financial aid, tax and higher education policy experts. The technical panel was charged with examining the overall financial aid system and developing innovative policy ideas that respond to the fiscal, economic and demographic realities the nation faces today. This brief summarizes the results of their collaboration.**

## WHY DOES THIS MATTER?

The nation's financial aid system was built for a different age. In 1965, when the first significant federal financial aid program began, 23 percent of Americans had a college degree. This attainment level was sufficient to support a vibrant middle class. That economy and those times are no more.

Today, the economy places a premium on postsecondary credentials and the skills these degrees represent. By 2018, 45 percent of all jobs will require some type of college degree, including certificates. Unfortunately, nearly half of all students start college but fail to earn any credential within 6 years; the outcomes are much worse for African Americans and Hispanics.

The financial aid system – its collective $226 billion in investment – needs to be seen as part of the solution for a nation that needs many more skilled graduates, a stronger middle class and greater opportunity.

In size and scope, student financial aid is more important than ever. Nearly half of all undergraduates receive a Pell grant. Revenues from Pell grants pay almost $.20 on every $1.00 received by a college or university in this country, ranging from 43 percent at 2-year public colleges to 7 percent at 4-year private colleges. If current trends continue with public colleges in several states, the percentage share that federal financial aid pays of total operating costs soon will exceed what states pay.

It is time to modernize the financial aid system and align it with today's economic and fiscal realities. The level of aid matters, but so does its design and delivery, according to research. Known barriers in how financial aid dollars are distributed hinder innovation and the expansion of more cost-effective approaches to a quality postsecondary education. A new survey of engaged voters confirms Americans are ready for reform and open to conversations about ways financial aid can serve more students, better.

**OUR NATION IS FACING A GROWING CRISIS**

**46%**

**63%**

**58%**

# A SIMPLER, MORE EFFECTIVE FEDERAL AID SYSTEM:
## One Grant, One Loan, One Tax Benefit

**FIRST, simplify financial aid** with a single federal grant program and a single loan program accessed by means of a simpler application. A new grant program would consolidate federal support into a grant designed to provide an open financial door to higher education and focus on applicants with genuine need. A simplified loan program, with universal income-based repayment, would be available for middle-income students who do not qualify for grants, as well as to supplement grant resources for low-income recipients.

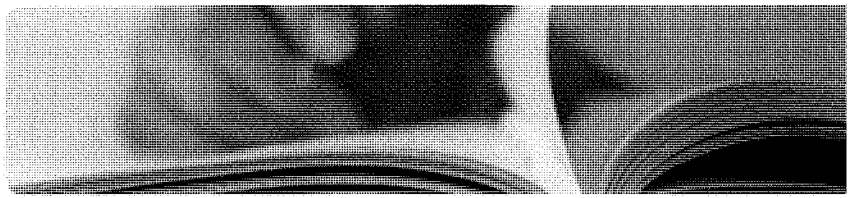
For most students, application data for both the grant and loan program would be directly imported from federal income tax data, simplifying the process, making the total financial aid package and terms of repayment more transparent, and reducing opportunity for error or fraud.

### ONE GRANT PROGRAM

### ONE LOAN PROGRAM

**SECOND, simplify federal tax benefits** for higher education. The single grant and loan program, as proposed, provides generous but better-targeted financial benefits to all students. Making these changes reduces significantly the need for the current tax benefits for college tuition and fees. Further, there is little evidence that tax credits and deductions have significantly affected higher education outcomes, but their effectiveness could improve if they were better targeted, better timed and better integrated into financial aid policy. A single Lifetime Learning Credit, available for education and including training that happens outside of a formal program (for example, an assessment for credit for prior learning or proficiency in a Massive Open Online Course, or MOOC), replaces the existing credits and deductions.

### ONE TAX BENEFIT



**THIRD,** promote **shared responsibility** for completion. For students, this means making smart choices about schools to attend and upgrading the definition of satisfactory academic progress—or what is required to receive and keep a maximum award. Promoting intensive enrollment for all students improves the odds of completion and focuses the size and scope of the federal aid investment in structured and accelerated pathways that can work better for students who juggle work, family and other commitments while attending school.

A set of balanced metrics can be used to create stronger eligibility criteria for institutions receiving federal aid. An "Institutional Effectiveness Index" can integrate measures of access and equity, loan repayment and risk-adjusted completion rates. Institutions would not need to perform strongly on all components of the index to have a passing score. In fact, it would be unlikely that they could do well on all. But they also could not get by with weak performance in all or most components.

**FOURTH,** spend a portion of the federal aid budget on demonstration programs that spur **innovation and experimentation.**

This could include pilot programs such as: 1) a "Pell-ready Grant Demonstration" in which students with family incomes within 250 percent of the poverty level who need remediation would receive a flat award, for use at either traditional or nontraditional providers, with incentives to both the student and institution for timely completion; 2) a "Competency-based Demonstration" that would support students and institutions pursuing competency-based (as opposed to seat-time- or credit-hour-based) models of higher education; 3) a "Performance Contract Demonstration" that would maintain federal needs analysis and a guaranteed federal student award, but give institutions discretion over how to allocate their federal aid dollars in exchange for successfully graduating higher numbers of low-income students.

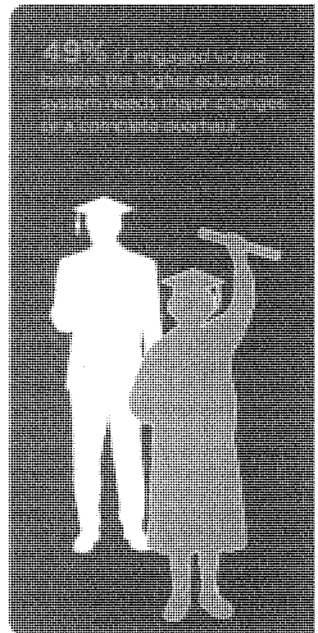
## INCENTIVES FOR ON-TIME COMPLETION

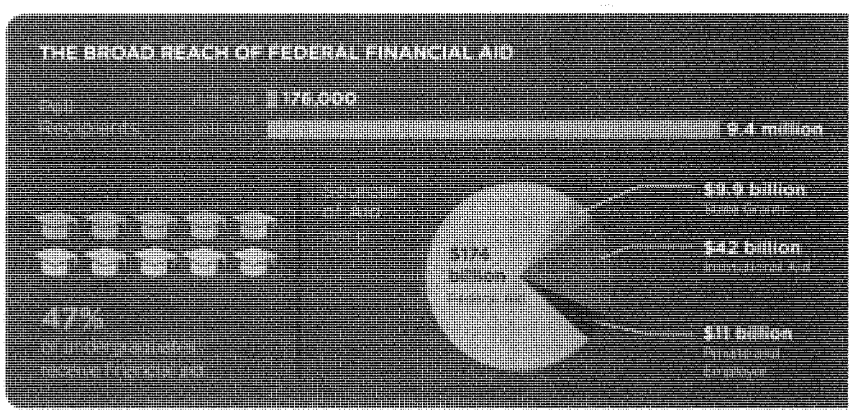
# ENDING THE PARALYSIS:
## Statement Of The Technical Panel

The time for policymakers to consider fundamental improvements to the federal financial aid program is now. Forty-nine percent of engaged voters believe the higher education system needs major changes or a complete overhaul. When presented with arguments for and against providing financial aid based on completion, 73 percent of engaged voters surveyed believed this was a good idea.[5]

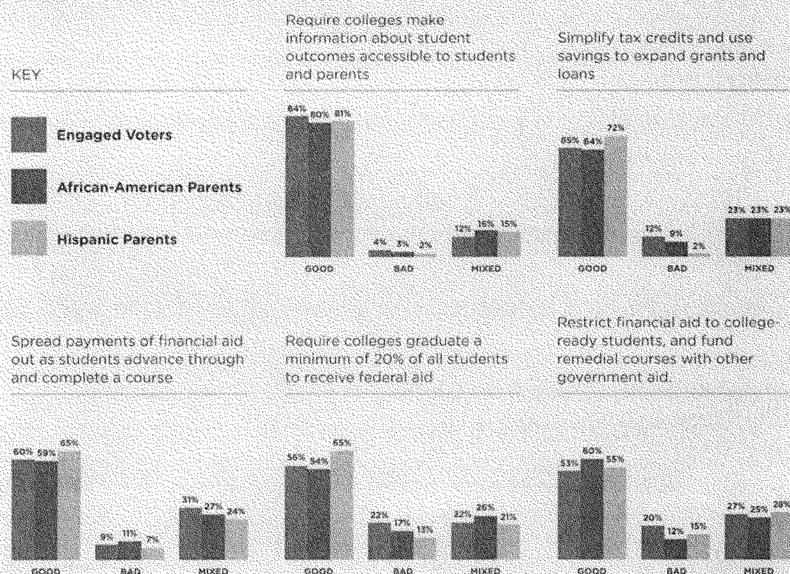
At the same time, statutory provisions that offer important benefits to borrowers and taxpayers will expire this year or shortly thereafter.[6] Most of the program authorities provided by the Higher Education Act expire within two years.[7] Policymakers must not let this opportunity pass.

Our knowledge of how financial aid works and how it affects higher education outcomes is imperfect, and the system as it stands has largely evolved based on politics, ideology and available budgets rather than evidence. The solutions we have outlined work from what imperfect information we have, while remaining open to continued improvement as our understanding advances. For that advance to occur, we support improvements in descriptive data collection about aid recipients and their results, as well as expanded experimentation with a portion of the federal aid budget to increase the knowledge base that policymakers can draw upon in future reforms.



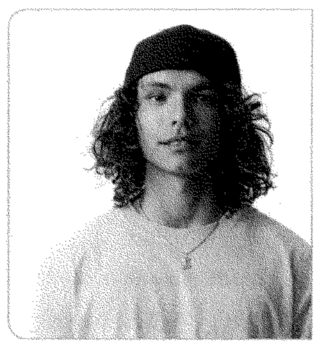


## REACTIONS TO SPECIFIC APPROACHES TO REFORMING FEDERAL AND STATE STUDENT FINANCIAL AID PROGRAMS

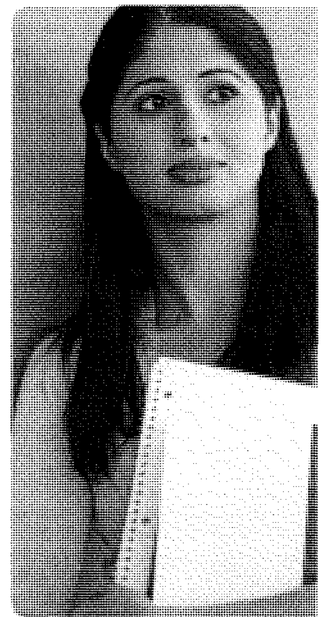



The new College Score Card can help students, colleges and the public make more informed decisions. It can be improved if all institutions receiving federal financial aid collect and publicly report for all students:

- enrollment data, including full-time and various measures of part-time and transfer;
- tuition prices and other costs of attendance;
- completion and graduation data, including student mobility-adjusted persistence rates, graduation rates that consider institutional missions, and time to degree by field of study; and
- financial aid data from state, institutional and third-party sources.



# HCM STRATEGISTS' EXPERT TECHNICAL PANEL



Dr. Steven E. Brooks, North Carolina State Education Assistance Authority

Kevin Carey, New America Foundation

Kristin Conklin, HCM Strategists (chair)

Jason Delisle, Federal Education Budget Project, New America Foundation

Dr. Tom Kane, Harvard University

Andrew Kelly, American Enterprise Institute

Daniel Madzelan, retired, U.S. Department of Education, Office of Postsecondary Education

Dr. Kim Rueben, The Urban Institute and the Urban-Brookings Tax Policy Center

The work of this Technical Panel was supported by a grant from the Bill & Melinda Gates Foundation to HCM Strategists (HCM) and the analysis, advice and management of Lauren Davies, Terrell Halaska, Dr. Kim Hunter-Reed and Dr. Nate Johnson.

[1] This assumes current take up rates, we eliminate campus based aid programs and it includes closing the current $44 billion current projected shortfall. Our simplified formula saves $37 billion even if we assume full take-up rate of eligible students.

[2] The technical panel proposes eliminating the AOTC and moving savings into an expanded grant program. For example, t\ he savings from consolidating the tax credits could be used to expand the size of the maximum grant to $7,000. If a tax credit aimed at undergraduate education is deemed essential, it should be non-refundable and be structured more like the Hope credit, which was replaced by the AOTC.

[3] This assumes using existing FAFSA aid system and that ¼ of students taking 12 credits will increase their courseload. The savings are higher and more targeted to lower income students if the simplified application is used.

[4] This assumes using existing FAFSA aid system and that ¼ of students taking 12 credits will increase their courseload. If the simplified application is used, the expanded grant will save about $42 billion, Alternatively, it would cost $11 billion if eligibility is expanded to 250% of poverty rate.

[5] Hart Research Associates in collaboration with HCM Strategists and contributing partner The Winston Group. 2013. *College Is Worth It*. http://hcmstrategists.com/americandream2-0/report/FINALHartPublicOpinionResearch.pdf.

[6] Higher Education Opportunity Act of 2008 authorizes the programs for five years (P.L. 110-315).

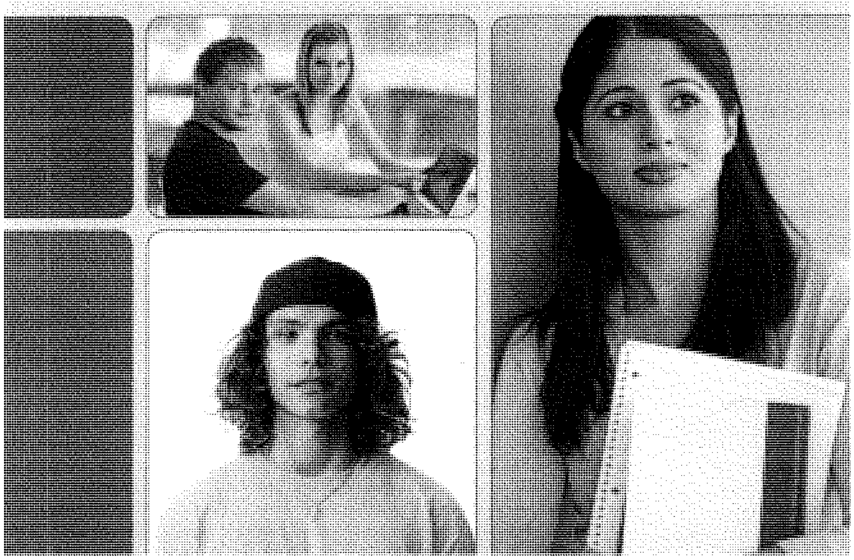
[7] Some programs authorized through HEA can continue to receive funds and operate one additional year after authorities expire through the authorities provided in the General Education Provisions Act. 20 USC 1226a (P.L. 112-123)

HCM STRATEGISTS

ALIGN. ADVOCATE. ADVANCE.

# DOING BETTER FOR MORE STUDENTS

*Putting Student Outcomes at the Center of Federal Financial Aid*



# About the Technical Panel

Between July 2012 and February 2013, HCM Strategists convened a small group of independent experts to review available research, trends in federal aid participation, spending and outcomes data. Their eight-month deliberations focused on offering a cohesive set of options that could put student outcomes at the center of the federal student aid programs, while putting critical aid programs on a more sustainable fiscal path.

This report reflects the analysis, experience, expertise and deliberations of a Technical Panel that included:

Dr. Steven E. Brooks, North Carolina State Education Assistance Authority

Kevin Carey, New America Foundation

Kristin D. Conklin, HCM Strategists (chair)

Jason Delisle, Federal Education Budget Project, New America Foundation

Dr. Tom Kane, Harvard University

Andrew Kelly, American Enterprise Institute

Daniel Madzelan, retired, U.S. Department of Education, Office of Postsecondary Education

Dr. Kim Rueben, Urban Institute and Urban-Brookings Tax Policy Center

HCM Strategists, a public policy and advocacy consulting firm specializing in health and education, led the development of this paper. HCM team members contributing to this project included Lauren Davies, Terrell Halaska, Dr. Kim Hunter Reed and Dr. Nate Johnson. Additional independent data and analyses and draft reviews were provided by the Urban-Brookings Tax Policy Center, Postsecondary Analytics, Hart Research Associates, the Winston Group, Dr. Sandy Baum, Dr. Sara Goldrick-Rab, Arthur Hauptman, Robert Kelchen, Dr. Michael McPherson, Travis Reindl, Kimrey W. Rhinehardt, Celia Simms, Bruce Vandal, and Jane Wellman.

The options contained herein align with the problem statement and guiding principles recommended in "The American Dream 2.0: How Financial Aid Can Help Improve College Access, Affordability, and Completion", which this Technical Panel advised. That coalition of national leaders in civil rights, student activism, business, higher education and philanthropy called for financial aid policies in America today to reflect a new set of guiding principles:

- Build on our country's historic investment in access by helping students not just enroll in higher education but also complete a credential with value to themselves and the economy.
- Focus federal resources on the neediest students.
- Innovate and evaluate new strategies to make a high-quality education more affordable and better suited for today's students, including the adults enrolling in increasing numbers.

- Simplify aid and give students and parents a clear and complete picture of their college costs, repayment obligations, and career and earnings prospects.
- Hold institutions, states and students accountable for completion.

The work of this Technical Panel was supported by a grant from the Bill & Melinda Gates Foundation to HCM Strategists. The views expressed in this report are those of the Technical Panel's and not of any organizations or individuals referenced herein nor of any funders or clients supporting HCM Strategists.

# Executive Summary

The nation's financial aid system was built for a different age, when access and choice were sufficient programmatic objectives. In 1965, when the first significant federal financial aid program began, 23 percent of Americans had a college degree. This attainment level was sufficient to support a vibrant middle class. That economy and those times are no more.

Today, the economy places a premium on postsecondary credentials and the skills these degrees represent. By 2018, 45 percent of all jobs will require some type of college degree, including certificates. Unfortunately, nearly half of all students start college but fail to earn any credential within 6 years; the outcomes are much worse for African Americans and Hispanics.

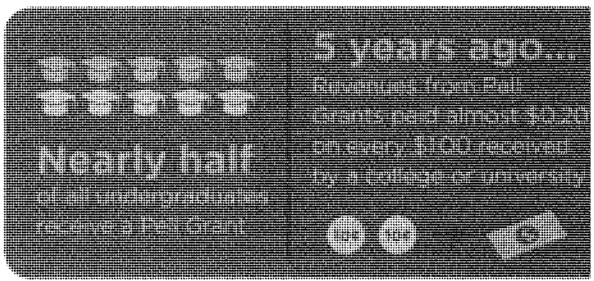
> "The nation's financial aid system was built for a different age, one when the nation was able to sustain a healthy middle class with a 23% higher education attainment rate."

The financial aid system needs to be seen as part of the solution for a nation that needs many more skilled graduates, a stronger middle class, and more opportunity. Each year, the federal government's investment in student financial aid supports nearly $156 billion in grant, loan and work-study assistance to more than 10 million students and their families.[1] Investments in student aid are more than double spending for any other federal educational program, including Title I of the Elementary and Secondary Education Act (ESEA) and the Individuals with Disabilities in Education Act programs for K-12 schools.[2] Yet for all of the money it invests, the U.S. government has rarely, if ever, conceived of financial aid programs as a potential tool to encourage student success in college. It provides money to (mostly) needy students and hopes for the best.

In size and scope, student financial aid is more important than ever. Nearly 40 percent of all undergraduates receive a Pell grant. Five years ago – before significant increases in the Pell program – revenues from Pell Grants paid almost $.20 on every $1.00 received by a college or university in this country. Reliance on Pell funds ranged from 43 percent at 2-year public colleges to 7 percent at 4-year private colleges.[3] As student tuition has increased – now becoming the majority of institutional revenue in many cases – the federal subsidy share of tuition has also increased. If current trends continue, the indirect federal subsidy of public institutions via tuition subsidies will soon be greater than the direct state subsidy of operating revenues to the institutions.

1 College Board. 2012. "Trends in Student Aid 2012."
2 Delisle, J. and McCann, C. (2012). "How the Pell Grant Program Overtook PreK-12 Educational Programs." 11/14/2012. EdMoney Watch Blog. Washington, D.C: New America Foundation.
3 Internal U.S. Department of Education analysis of the 2007-08 National Postsecondary Student Aid Survey.

It is time to modernize the financial aid system and align it with the new economic and fiscal realities. The level of aid matters, but so does its design and delivery, according to research. Known barriers in how financial aid dollars are distributed hinder innovation and the expansion of more cost-effective approaches to a quality postsecondary education. A new survey of engaged voters confirms Americans are ready for reform and open to conversations about ways financial aid can serve more students, better.[4]




This report offers a brief summary of federal student aid policy. It then provides an overview of the obstacles that policymakers must address to put improved student outcomes at the center of the aid structure's design and delivery. Next are longer discussious of four broad policy options intended to work together as a comprehensive, more financially sustainable system:

- **one federal grant and one federal loan program** with simpler terms to promote increased access, affordability and completion;
- **a single tax credit** to complement the new benefits in the single grant and loan programs;
- **new reporting and financial aid eligibility criteria** that holds institutions accountable for student access and success; and
- investments in **research and demonstrations** to evaluate cost-effective ways to finance more student success.

4 Hart Research Associates in collaboration with HCM Strategists and contributing partner The Winston Group. 2013. "College is Worth It." http://hcmstrategists.com/americandream2-0/report/FINALHartPublicOpinionResearch.pdf

# A Synopsis of Federal Student Aid Policy Objectives

The student assistance programs authorized by Title IV of the Higher Education Act were created to equalize access to postsecondary education. In presenting Title IV in 1965, the chief House sponsor, Congresswoman Edith Green, stated: "All of the studies have indicated that financial need is one of the most important reasons why qualified students do not attend college. This is a loss that I think this Nation cannot afford. Higher education . . . should not be reserved for the wealthy but should be available to the qualified young man or woman whether the youth comes from a family that is rich or a family that is poor."[5] Each successive reauthorization, as well as "off-cycle" legislation amending the authorizing statute, has reinforced this commitment to postsecondary education access, and arguably none more so than 1972's creation of the first generally available portable grant program, now known as Pell Grants.

There is much to celebrate in this investment. Today, the number of Pell Grant recipients approaches half of all undergraduates. Since 1971, total college enrollment has increased by 134 percent.[6] However, the near-singular focus on postsecondary access has left little room to pursue financial aid policies that would contribute to program completion or credential attainment. Among students starting school in 2003, Pell recipients attained a bachelor's degree six year later at about half the rate of their non-Pell counterparts (19.5 percent vs. 37 percent). Associate degree attainment was essentially the same for both groups, whereas certificate attainment by Pell recipients was better than two and one-half times that for non-recipients (15.9 percent vs. 5.9 percent).[7]

From time to time policymakers have called for a focus on "access to success," but the design and delivery of financial aid was never aligned to promote access, affordability *and* completion. The equity impact is profound: Just 42 percent of Hispanic students complete any credential six years after beginning a program; only 37 percent of African American students do so in the same period of time.[8] Many would agree that financial aid awarded to a low-income student who did not attain a credential represents the cost of offering the opportunity. However, if current policy does too little to protect our most vulnerable students from entering the labor force with debt but no degree, then we are doing them a disservice.

5 Cervantes, A. et al. 2005. "Opening the Doors to Higher Education: Perspectives on the Higher Education Act 40 Years Later." TG Research and Analytic Services at http://www.tgslc.org/pdf/hea_history.pdf.

6 National Center for Education Statistics. "Digest of Education Statistics: Advance Release of Selected 2012 Digest Tables." Table 198: Total fall enrollment in degree-granting institutions by attendance status, sex of student, and control of institution: Selected Years, 1947 through 2011. http://nces.ed.gov/programs/digest/d12/tables/dt12_198.asp.

7 U.S. Department of Education, National Center for Education Statistics. 2003-04 Beginning Postsecondary Students Longitudinal Study, Second Follow-up (BPS:04/09).

8 Radford, A.W.; Berkner, L.; Wheeless, S.C.; and Shepherd, B. 2010. "Persistence and Attainment of 2003–04 Beginning Postsecondary Students Six Years Later." http://nces.ed.gov/pubs2011/2011151.pdf. NCES 2011-151, p. 8, Table 1.

# Obstacles to a More Effective, Sustainable Student Aid System

The size and scope of the total investment in student financial aid is significant. Federal, state, and institutional grant aid pays for approximately 46 percent of all instruction-related expenditures in higher education.[9] Together, the programs help structure the market in which students and institutions operate. Until now, though, these programs have not been well harmonized and improved student outcomes have not been at the center of program and policy objectives.[10] Application processes are complex and difficult to understand, particularly for the families that stand to gain the most. Policy discussions traditionally have centered on what it would take to attract and keep private lenders in the program. Student subsidies have been more a matter for program budget development. Even today, loan program subsidies are poorly targeted and cost taxpayers more than necessary to help students manage their repayment obligations and maintain a reasonable debt burden. Eligibility rules don't encourage students to attend full-time and finish promptly, and in fact may do the opposite. Participating institutions are held to low eligibility standards and only rarely lose access to federal aid.[11] This continued access provides little incentive to contain tuition prices; meanwhile, existing statutes and regulations tend to stunt new approaches and bar program participation by innovative postsecondary education providers.

The structures of various financial aid programs create incentives for both students and institutions to behave in certain ways, so they are potentially powerful levers to drive changes in those behaviors.[12] Many students need grants and loans to help pay the cost of attendance, and they will behave in ways that ensure they remain eligible. Because institutions rely on tuition dollars to operate, they have an incentive to abide by the policies that let them participate in the student aid program. Since most of that aid functious as a voucher that empowers student choice, institutions have an incentive to behave in ways that attract and retain students to generate revenue.[13]

> "The question for policymakers is how the incentives embedded in the design and delivery of aid programs can reward valued student and institutional behaviors."

9 Analysis by HCM Strategists using Delta Cost Project formulas for E&R with institutional expenditure data from the Digest of Education Statistics, 2011 Digest Tables, and financial aid expenditure data from College Board, 2012, "Trends in Student Aid".

10 Other federal policies that help structure the market in which students and institutions operate include accreditation policies and tax benefits such as the tax-exempt status enjoyed by public and nonprofit institutions of higher education, and the tax-free municipal bonds that institutions can access to finance capital construction.

11 U.S. Department of Education. Sept. 28, 2012. Press Release: First Official Three-Year Student Loan Default Rates Published. and U.S. Department of Education. Office of Student Financial Aid. Postsecondary Education Participants System. 34 CFR 668.34.

12 Leslie, L., Brinkman, P. 1987. "Student Price Response in Higher Education: The Student Demand Studies" Journal of Higher Education. Vol. 58, No. 2 (Mar-Apr. 1987), pp. 181-204. Kahneman, D., Tversky, A. 2000. Choices, Values, and Frames. Cambridge University Press, Cambridge: MA.

13 One indicator is legislation enacted several years ago in response to the worldwide financial crisis that caused credit markets to seize both here and

The question for policymakers is how the incentives embedded in the design and delivery of aid programs can reward valued student and institutional behaviors. Recasting aid as a tool to drive student success and encourage effective programs requires that policymakers rethink current approaches to simplification, eligibility rules, and student and institutional responsibility.

Over the past 50 years, Congress has created a patchwork quilt of federal grant, loan and tax benefit policies. Before presenting options for rationalizing these programs and orienting them to be more effective for students and financially sustainable, it is helpful to summarize major obstacles that must be addressed. A more detailed discussion of obstacles and barriers is provided in Appendix B.

- *Despite recent improvements, the design and delivery of federal aid continues to be too complex for students and lags behind changes in higher education delivery.*
    - Complexity makes repayment of the loans more challenging, and does nothing to explain to students the income repayment options that can help re-label the loans and reduce measurably loan aversion.[14]
    - Allocation of financial aid is based on clock or credit hours, which makes it difficult to keep up with rapid transformation in postsecondary delivery models for an increasingly diverse student population.
- *Federal policymaking demonstrates a lack of long-term thinking and coherent planning.*
    - Policymakers have layered new grant, tax, loan and repayment programs on top of each subsequent reauthorization, budget reconciliation and even emergency spending bills, without stepping back to assess how the pieces work together to accomplish the outcomes currently needed from the programs.
    - Emergency funding measures, knee-jerk changes to eligibility rules, and redirected resources through elimination of other aid programs have caused financial uncertainty for students and institutions.
- *Federal policy lags behind what research says are promising ways to serve students more effectively.*
    - Information is inadequate for students, families and those who advise them about college costs and student outcomes. Research shows a "best college match" between student and institution helps that student complete a credential.[15]
    - The federal definition of "satisfactory academic progress" is neither standardized nor enforced.[16]

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abroad. ECASLA—the Ensuring Continued Access to Student Loans Act of 2008 (P.L. 110-227)—provided the Education Department with unprecedented authority to intervene in the federally backed student loan financial markets to ensure the uninterrupted flow of federal student loans. More than one college president expressed gratitude to Congress and the Administration for this effort.

14 Caetano, G., Palacios, M., and H.A. Patrinos, H.A. 2011. "Measuring Averison to Student Debt: An Experiment Among Student Loan Candidates." The World Bank. Policy Research Working Paper 5737. http://elibrary.worldbank.org/. Institute for Higher Education Policy. 2008. "Student Aversion to Borrowing: Who Borrows and Who Doesn't." Washington, D.C. http://www.ihep.org/assets/files/publications/s-z/studentaversion-toborrowing.pdf. Caetano, G., Palacios, M., and H.A. Patrinos, H.A. Measuring Averison to Student Debt: An Experiment Among Student Loan Candidates. The World Bank. Policy Research Work

15 Bowen, W., M. Chignos, and M. McPherson. 2009. Crossing the Finish Line: Completing College at America's Public Universities. (Princeton, NJ: Princeton University Press).

16 Adelman, C. 2006. "The Toolbox Revisited: Paths to Degree Completion From High School Through College." Washington, D.C.: U.S. Department of Education.

- The federal government inadequately engages states, systems and colleges as partners in our collective completion challenge. Federal aid can play an outsize role by leveraging state and institutional expenditures and insisting that other stakeholders contribute to the highest-impact programs.

We know from economic theory and empirical evidence that financial aid affects student behaviors.[17] Without the federal government's enormous investment in need-based aid, along with states' even bigger investment in subsidies for both students and institutions, it seems implausible that nearly as many students would be attending postsecondary education.

Changes in aid amounts without additional conditions or targeting have yielded ambiguous results.[18] On the other hand, aid tied to clear expectations for progress, such as MDRC's Performance-Based Scholarships, or aid tied to effective academic and student support, as in Canada's Millennium Scholarships, appears to have some impact. Certain subgroups—low-income students, academically at-risk students, adults and women—also seem to respond more to financial incentives and support.[19]

## One Federal Grant and One Federal Loan Program with Simpler Terms to Promote Increased Access, Affordability and Completion

Expand eligibility and take up for the neediest first-time Pell Grant students through a simplified need analysis and application process, while increasing expectations for progress toward completion.

### *Overview*

The redesigned grant program would merge all existing federal postsecondary grant programs into the Pell Grant program. It would continue to be focused on the lowest-income students and maintain current initial eligibility standards.[20]

17 Bettinger, E. 2012. "Financial Aid: A Blunt Instrument for Increasing Degree Attainment" in Getting to Graduation. Edited by Andrew P. Kelly and Mark Schneider. (Baltimore, MD: Johns Hopkins University Press), pp. 157-174. Harris, D.N. & Goldrick-Rab, S. 2012. Improving the Productivity of Education Experiments: Lessons from a Randomized Study of Need-Based Financial Aid. *Education Finance and Policy*. p. 143-169.

18 Harris and Goldrick-Rab 2012. Rubin, R. 2011. "The Pell and the Poor: A Regression-Discontinuity Analysis of On-Time College Enrollment." Research in Higher Education. Vol. 57, No. 7. pp. 675-692.

19 R.A. Malatest and Associates, Ltd. 2009. FINAL Impacts Report: Foundations for Success Project. Canada Millenium Scholarship Foundation: Toronto, Canada. and Patel, R. & Richburg-Hayes, L. 2012. Performance-Based Scholarships: Emerging Findings from a National Demonstration. MDRC. http://www.mdrc.org/sites/default/files/policybrief_41.pdf..

20 Eligibility standards include the ability to receive the award for an equivalent of 150 percent of program time and requiring a GED or high school diploma for receipt. As this standard was set in 2012, it does not seem appropriate to change standards further before the effects of these changes can be evaluated.

The need analysis and application process would be significantly simplified through a three-tiered FAFSA (Free Application for Federal Student Aid) filing system. Applicants in this means-tested program could verify their participation across agencies and access maximum benefits. For most applicants, data sharing with the Internal Revenue Service would pre-fill their application by allowing use of their tax information from two prior years. Students and families with more complex financial situations would submit additional IRS schedules, allowing for aid to be better targeted.

A simple app based on income and family size would let students plan early and choose wisely. The need analysis would be based mainly on Adjusted Gross Income (AGI) and family size. It would no longer provide additional aid for families with multiple members enrolled at one time. Together, these changes would encourage more low-income students to file a simplified FAFSA, while targeting federal aid dollars to the neediest students.

Expectations for student aid recipients need to increase. To receive the maximum award each year, students would have to enroll in enough credits to complete on time (e.g., an associate's degree in two years or less). This requires a minimum of 15 credits per semester or additional summer courses. The levels of grants for course-taking below 15 would be set on a pro-rata basis.

> "The eligibility criteria would be simplified dramatically, relying in most cases only on AGI as reported to the IRS, and a measure of family size (number of IRS income tax exemptions)."

Savings from these changes, collectively, to a single grant program, are projected between $86 billion and $120 billion assuming current grant maximums. These savings could be reinvested by offering a larger financial incentive for increased course-taking.[21] For example, Table 1 in Appendix A estimates the cost of expanding the maximum grant amount to $7,000, coupled with the other single grant recommendations contained herein, can be done on a revenue neutral basis.

### *More Details: A Simplified Need Analysis*

A single federal grant program for undergraduates would determine eligibility using a simplified need analysis formula. Students would qualify academically if they received a high school diploma or an equivalent credential and acceptance to a postsecondary institution under the redesigned program, matching current standards. Their financial situation would be subject to a means test to determine the amount of any federal grant aid. However, the eligibility criteria would be simplified dramatically, relying in most cases only on AGI as reported to the IRS, and a measure of family size (number of IRS income tax exemptions). The income and assets of the dependent student would not be considered, and the number of students in college would not be relevant for any one applicant. The Pell Grant would be awarded to the individual student and would not depend on the timing of his or her enrollment relative to any siblings' enrollment. Therefore, a student would not be considered more financially needy because another family member was in school in the same year, as currently is the case.

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21 Appendix: Tables 1 and 2: savings will depend on additional take-up rate of students from simpler application.

Rather than producing a specific value for each applicant's expected contribution, which would be used to establish the grant amount for that student for the academic year, the simplified formula would produce the actual grant amount for that student were she enrolled full-time for a full academic year. This contrasts with current practice in which the applicant is not immediately notified of the grant amount for which she is eligible, only that she is eligible for a grant based on the level of her expected family contribution (EFC).

The simplified formula would build on the successful partnership between the IRS and FSA that allows many FAFSA applicants to retrieve individual tax return income and other financial information directly from the IRS as part of the federal aid application process.

*More Details: Streamlined Aid Application Process*

The application process and eligibility determinations would be streamlined. Essentially, current FAFSA applicants are directed to one of three paths for determining their aid eligibility: an "automatic zero EFC" for the lowest-income students, a "simplified need test" for many moderate-income applicants and a "full formula" for all other applicants, though focused on those with more complicated income sources. However, this three-tier approach can be improved upon, largely by means of better leveraging existing technology.

First, the FAFSA would collect personal identifying information such as name, address and Social Security number, and the names of colleges in which the student has an interest. The next questions should ascertain whether a student's family is already eligible for a means-tested federal income support program, such as TANF or SSI. For these students, the means test has already been performed, and they would qualify automatically for a maximum Pell Grant (subject to verification of their status). Ideally, this would be accomplished via an unobtrusive match with the relevant cognizant authorities.

"Rather than producing a specific value for each applicant's expected contribution, which would be used to establish the grant amount for that student for the academic year, the simplified formula would produce the actual grant amount for that student were she enrolled full-time for a full academic year."

Thus there would be a true "bypass" to full grant eligibility. Currently beneficiaries from other means-tested federal programs must still meet an income threshold. Additionally, the current automatic zero EFC approach states that otherwise-eligible applicants are not required to file a Form 1040 income tax return. This criterion causes confusion because many taxpayers who filed a Form 1040 did so to get other federal benefits administered through the tax system (i.e., the refundable Earned

Income Credit). The purpose of tbe current criterion is to filter those applicants who appear to be low-income but in fact have used legitimate income adjustments and deductions to reduce their AGI. It is estimated that 13 percent of all filers would fall into this first category, providing maximum simplicity and transparency.[22]

Next, for the majority of remaining filers, the FAFSA would use a data retrieval system with the IRS to ascertain the number of exemptions (which would represent current household size) and the AGI for the applicant (or the parents for dependent students). As this match was performed, IRS data should also reveal whether the relevant tax return (parental if under age 24; otherwise student) was a Form 1040 that included Schedule B, C, D, E or F. If no such schedules were part of the tax return, an eligibility result would be returned based solely on AGI and exemptions. As with the automatic zero EFC, the current system guards against applicants who appear to be lower-income by stipulating that they are not required to file a Form 1040. Again, as with tbe automatic zero EFC eligibility test, the purpose is to filter those applicants who have legitimately used aspects of the tax code to reduce their taxable incomes. It is estimated that 50-70 percent of all filers would fall into this category, providing a simpler, more transparent grant calculation than is possible today.[23]

Finally, for students whose relevant tax return does include one or more of the schedules listed above, more information would be required. While this is a relatively small proportion of all FAFSA filers (an estimated 17 percent), the inclusion of these schedules implies that AGI is not necessarily the best indicator of family financial circumstances.[24] The goal of equitable distribution of limited resources mandates a more rigorous analysis in these cases, to flag students from families

**REGULATORY RELIEF WITH A SIMPLER SINGLE GRANT PROGRAM**

[illegible]

22 Tax Policy Center calculation based on 2007-2008 NPSAS data. Note the number of students filling out FAFSA forms have already begun increasing in the last few years with the more streamlined process.

23 The percentage of students who can use the simplified look-up tables rises to 70 percent if students with some but limited nonwage income also are allowed to use the simpler calculator (i.e., move the cutoff from one to two schedules).

24 Tax Policy Center calculations based on IRS tax information.

whose complicated financial circumstances allow them to shelter significant resources behind low AGI levels. It should be standard practice to use more-robust tax data to calculate awards for these students.[25] The IRS Data Retrieval Tool (DRT) in these situations should be enhanced to populate data elements from the Form 1040 that match the data from the appropriate schedule. All negative numbers should be set to zero in the calculation, and a modified AGI used instead of AGI. Additionally, questions about family assets and other tax schedule-sensitive issues should be asked of these students and used in an eligibility calculation.

### *More Details: IRS Data Sharing*

When the aid application was a paper-based process, concerns about multiple forms and duplicating responses were not unreasonable. However, today the vast majority of federal aid applicants—at least 98 percent, according to recent public statements by FSA—file their FAFSAs electronically.[26] Thus concerns regarding the need for families to complete multiple applications in hard-copy formats—with much of the same household and financial information collected multiple times—are outdated. In fact, today's FAFSA on the Web (FOTW) encourages applicants to complete a separate "form"—via the DRT—at the IRS website. While in that session, an applicant can initiate a second session at the IRS website. Today it is more appropriate to think about the aid application process as a series of concurrent online sessions instead of physically distinct paper application forms.

> "Today it is more appropriate to think about the aid application process as a series of concurrent online sessions instead of physically distinct paper application forms."

The IRS-DRT illustrates how technology can simplify the financial aid application process. It also can help policymakers think about ways to improve program design and delivery. An application-programming interface (API) is a readily available and common way in which various software components (e.g., FOTW and the IRS-DRT, or the apps for tablets and smart phones) communicate with each other. It seems a similar solution could facilitate communication between the federal government and various third parties in the aid application context. Furthermore, the U.S. Department of Education-IRS partnership could provide information regarding the availability of financial aid to families with precollege-age children.

25 For example, net capital losses/gains might be added back to/subtracted from AGI before determining eligibility, since for purposes of recurring family income these are a change of asset position and not actually "income" at all. Depending on additional information from the forms, these taxpayers may also be required to submit additional information about asset values similar to the system currently in place. However, the number of students subject to this more complicated FAFSA would be much smaller.

26 U.S. Department of Education. 2012. Why Complete a FAFSA? Federal Student Aid. http://studentaid.ed.gov/sites/default/files/2012-13-completing-the-fafsa.pdf.

To ensure that tax return data are available from the IRS for most applicants, income and exemptions from two years prior to enrollment ("prior-prior" year income) could be used instead of from the year before (prior year), which is currently the basis for the aid eligibility formula (e.g., 2010 income for 2012-13 eligibility instead of 2011 income). Research indicates that using the "prior prior" income has a negligible impact on the distribution or award amount for most applicants. Specifically, for 77 percent of applicants, the Pell Grant remains within $500 when using this year-older income data. For 67 percent of applicants, and 44 percent of recipients, the grant does not change at all.[27] Students who face a change in economic circumstances—because of a job loss or other changes—could be allowed to file updated forms with the assistance and professional judgment of a campus financial aid administrator, on a case-by-case basis.

### *More Details: Revising the Definition of Full-Time and Satisfactory Academic Progress*

Federal law defines full-time enrollment for financial aid as 12 credit hours, which is less than what generally is needed to complete a credential on time. Financial aid recipients must demonstrate "satisfactory academic progress" (SAP) toward degree/program completion beyond the initial year of aid receipt, but the federal government does not mandate specific standards. Schools establish their own SAP standards within rather broad federal guidelines.

Promoting more intensive enrollment can not only improve time to degree but also the odds of completion. To encourage on-time progression and completion, the redesigned Pell Grant program should be based on the intensity of students' enrollment, with the maximum grant to first-time students set on the basis of at least 15 credits in each of the first two terms. Afterward, the student could receive the maximum by enrolling in at least 15 credits per term, or by having earned sufficient credit to demonstrate a clear path to on-time completion. For example, a student who earned 33 credits in her first year could be awarded a maximum grant if she enrolled in only 12 semester hours in one term her second year, as long as she earned at least 27 credits in that second year. Students could use summer and other nonstandard terms to increase credits and move toward graduation.

### *Suggested Pell Grant Award Schedules*

These tables illustrate what grant amounts would look like at different intensity levels for different grant amounts using our current application system.

27 Dynarski, S. and Wiederspan, M. "Student Aid Simplification: Looking Back and Looking Ahead." National Tax Journal, March 2012, 65 (1). 211-234. http://ntj.tax.org/wwtax/ntjrec.nsf

With Increased Grant Amounts: $7,000 Maximum and $700 Minimum[28]

| Credits | 0 EFC | 1,000 EFC | 2,000 EFC | 3,000 EFC | 4,000 EFC | 5,000 EFC |
|---|---|---|---|---|---|---|
| 15+ | $7,000 | $6,000 | $5,000 | $4,000 | $3,000 | $2,000 |
| 12-14 | 5,600 | 4,800 | 4,000 | 3,200 | 2,400 | 1,600 |
| 9-11 | 4,200 | 3,600 | 3,000 | 2,400 | 1,800 | 1,200 |
| 6-8 | 2,800 | 2,400 | 2,000 | 1,600 | 1,200 | 800 |

Using Current Pell Grant Maximum and Minimum Amounts

| Credits | 0 EFC | 1,000 EFC | 2,000 EFC | 3,000 EFC | 4,000 EFC | 5,000 EFC |
|---|---|---|---|---|---|---|
| 15+ | $5,550 | $4,550 | $3,550 | $2,550 | $1,550 | $550 |
| 12-14 | 4,440 | 3,640 | 2,840 | 2,040 | 1,240 | |
| 9-11 | 3,330 | 2,730 | 2,130 | 1,530 | 930 | |
| 6-8 | 2,220 | 1,820 | 1,420 | 1,020 | 620 | |

A redesigned Pell Grant program would maintain the current expectation that students complete programs within acceptable time limits, defined as a maximum of 12 full-time semesters or the equivalent.[29]

## Streamline the loan programs into a single, income-based repayment program.

*Overview*

The redesigned federal student loan program would collapse the numerous benefits, rules and restrictions under the current program into a single "foundational" loan program with uniform borrower benefits and one repayment plan. The loans would include annual and overall maximum amounts. All borrowers would have to repay under a hybrid version of the two existing Income-Based Repayment (IBR) programs. Borrowers with outstanding loan balances would have that balance forgiven after a certain number of years: 20 years for those with entering repayment amounts less than $40,000 and 25 years for all other borrowers. The new loan program would end the 10 different annual and aggregate borrowing limits in the current program. The single loan program would end the various distinctions among the subsidized Stafford, unsubsidized Stafford and Grad PLUS loans, and it would end the Grad PLUS, Parent PLUS and Perkins Loan programs. The single program would set new borrowing limits: one for undergraduate students and one for graduate students. Collectively, a single loan program as proposed here would save nearly $38 billion over ten years.

28 The tables presented in Appendix A are illustrative, in practice the student would be able to calculate their grant amount using a formula which subtracts EFC from the Max grant and then multiplies by the intensity of enrollment. We much prefer our simplified system, which would calculate grant amounts directly based on AGI, number of people in household and course intensity.

29 This policy is roughly equivalent to the 150 percent credit cap proposed for the single loan program.

*More Details: A Reformed, Default Income-Based Repayment Program*

Income-based repayment can mitigate interest rate risk for both borrowers and taxpayers. A borrower's monthly payment would not be based on any particular interest rate or outstanding principal balance on the loan; it would be based solely on his or her income. The interest rate would serve only to determine the speed at which the loan balance was reduced or retired given a certain level of income. Lower incomes would have the same effect as higher interest rates: The reduction in outstanding principal decelerates. Borrowers may pay a bit longer, but they would never pay longer than 20 years (25 years for high debt borrowers), thus dampening interest rate risk, particularly for struggling borrowers. On the other hand, borrowers with higher incomes would pay back their loans faster under the new income-based plan than they do currently, which would mitigate the risk to taxpayers that the repayment program is overly generous. In essence, the program would be much more self-correcting than the current income-based repayment program, for both borrowers and taxpayers.

"The new, single loan program would end the 10 different annual and aggregate borrowing limits, end the various distinctions among the subsidized Stafford, unsubsidized Stafford and GradPLUS loans, and set new borrowing limits: one for undergraduate and one for graduate students."

The new program would not include any special status features such as in-school interest subsidies, or routine deferment and forbearance options, but it would still allow borrowers to forgo monthly payments while enrolled at least half-time. The existing suite of benefits is complicated for borrowers to understand, and it requires considerable time and effort for loan servicers and institutions to administer and track. Instead, borrowers would be charged interest while in school. The loss of the deferment and forbearance benefits would be offset by other new benefits. (Income-based repayment allows borrowers to exempt 150 percent of the federal poverty guidelines from their income, thereby providing a form of indefinite deferment or forbearance for borrowers with no or low incomes.) The Congressional Budget Office estimates this provision would save more than $40 billion over the 10-year budget window.

A borrower's monthly payment would generally be calculated the same way as the current income-based repayment program in the federal loan system, with several modifications.

Under the current plan, a borrower pays 10 percent of his adjusted gross income toward his loan annually (divided by 12 months) after deducting from his income 150 percent of the federal poverty level based on household size. In other words,

discretionary income is defined as income in excess of this poverty level-based calculation, and the borrower pays 10 percent of this amount. Today, that deduction for an individual is about $16,500. However, the borrower's monthly payments are also subject to a maximum; they cannot exceed the amount the borrower would pay under a straight-line 10-year amortization plan (the "standard repayment plan"), based on the borrower's loan balance at the time he entered repayment in the IBR plan. That cap makes the current program regressive and allocates benefits to borrowers with higher income in later years. The new IBR plan suggested here ends the cap and the regressivity it currently creates.

The new income-based repayment program would continue the income deduction based on federal poverty guidelines and maintain the repayment rate at 10 percent of discretionary income, but only for borrowers with incomes below 300 percent of the poverty level appropriate to family size. Borrowers earning more would pay at a rate of 15 percent of discretionary income. This is similar to the structure of the federal income tax: A portion of the taxpayer's income is exempt from taxation—i.e., a standard deduction—and income above that amount is taxed at progressively higher rates. However, in the case of the new IBR plan, there would be just two rates, and borrowers would be subject to one or the other, minus the exemption.[30]

Borrowers could always opt to pay more per month if they chose. Unpaid interest that was due would accrue, but it would be added to the principal (negative amortization) only after a borrower's debt-to-income ratio fell below a certain point, just like the existing program.

Borrowers who are married, but file separate federal income tax returns, would have to include combined income in the IBR calculation—though the poverty level deduction would be adjusted to account for household size per the federal guidelines. In cases where both spouses were repaying student loans, each could base his or her payment on one-half of the combined household income. As noted earlier, borrowers with loan balances below $40,000 when they entered repayment would qualify for loan forgiveness after 20 years in repayment status. Borrowers with higher debt entering repayment would qualify after 25 years.

A federal loan system in which the only repayment option was Income-Based Repayment (IBR) would eliminate much borrower confusion. One loan with one annual maximum and one cumulative maximum would replace multiple possibilities, thus helping students focus on managing college costs, repaying with interest based on actual income, and considering examples of average incomes for their careers when making appropriate borrowing choices.

### *More Details: New Loan Limits*

Under the new approach, the current loan system would be replaced by one loan type with an annual limit of $8,750 for all undergraduate borrowers and an aggregate limit of $35,000, i.e. four years of the annual maximum. Graduate and professional students would be subject to an annual limit of $30,000 and an aggregate of $90,000. The total maximum undergraduate plus graduate aggregate limit would therefore be $125,000.

30 In our current modeling we are assuming the student pays either 10 or 15 percent of their income above the poverty line based on AGI. However, this may lead students to try and hide income to avoid the higher rate, an alternate way of implementing this program would be (like the tax system) to have the student pay 15 percent of AGI that is higher than 300 percent of the poverty level.

Students would be limited to borrow for the credit hour equivalent of 150 percent of program length to reduce the number of unneeded courses taken for program completion. The limit would prevent credit creep and encourage institutions and students to focus on clear paths to graduation.

The new loan program would have the same rules regarding maximum award eligibility as the redesigned grant in terms of enrollment intensity. Fifteen credits per semester would be considered full-time. First-time students would receive the maximum loan by taking at least 15 credits in both semesters their first year. Subsequently, students must enroll in 15 or more credits per term, or have enough credits to be on a path to on-time completion. For students enrolled less than full-time, loans would be issued on a pro-rata basis. As in the current system, students enrolled less than half-time per term would be ineligible for federal loans. Note that these limits are higher than under the current program in some cases (Stafford loans for dependent undergraduates) but lower for others (independent undergraduates, and graduate students because of the elimination of Grad PLUS loans).

> "The new loan program would have the same rules regarding maximum award eligibility as the redesigned grant in terms of enrollment intensity."

Parent PLUS loans would be eliminated. The higher loan limits for dependent undergraduates suggested here would restore some of the borrowing authority for students whose parents would have used the Parent PLUS program. Many parents are also good candidates for obtaining private credit, whereas most students are not. Terminating Parent PLUS would help guard against imprudent borrowing and tuition inflation, given that it allowed parents to finance the entire cost of an education, regardless of the tuition.

Graduate students would be eligible for lower limits than the current program because the Grad PLUS program would be eliminated. The annual and aggregate limits, however, still would be higher than under the current Stafford limits for graduate students. In that regard, the program would end the unlimited borrowing feature of Grad PLUS but allow larger loans than Stafford.

### *More Details: Interest Rates*

Interest rates could become less relevant and less meaningful for borrowers in a program that offers payment based on income and loan forgiveness after 20 years of repayment and 25 years for high debt borrowers. Monthly payments would not be based on loan balance or interest rate, only income. That said, interest rates influence how long a borrower must repay (even if payments are based on income), and rates partially offset the government's cost of funding and operating the program—which at a minimum includes time-value of money, risk and losses from loan forgiveness.

The interest rate in the single loan program would be fixed at 3 percent plus a markup equal to the interest rate on the 10-year U.S. Treasury note at a point certain during the year in which the loan was originated. Thus all loans issued in a given year

**NEW FEATURES IN THE COMPREHENSIVE SINGLE LOAN PROGRAM HELP MITIGATE POTENTIAL NEW RISKS TO BORROWERS OR TAXPAYERS, SUCH AS:**

- [illegible]
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- [illegible]
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- [illegible]

would carry the same rate. The markup would ensure that the interest rate on loans issued in a given year bore some relation to interest rates in the economy. For example, rates on newly issued loans this year would be about 4.9 percent. Unlike prior experience in the federal student loan program, the interest rate would not be capped. However, income-based repayment provides an implicit interest rate cap. For example, a borrower who earns a low income throughout his repayment term, but borrowed at a 9 percent interest rate, would be unlikely to make payments that would equate to such terms. His payments would be based on his income, and he would likely receive loan forgiveness before he was affected by the high interest rate.

*More Details: Better Loan Counseling*

Good borrowing decisions by students would continue to be crucial. The current system of campus recommendation, if not actual specification, of loan amounts is not a shining example of a borrower-centered approach. Numerous press accounts and studies indicate the need for a more serious and rigorous approach in guiding good borrowing decisions.

High-quality student access and success programs help students explore careers, look at postsecondary options and find the college that is right for them. Local entities are best positioned for providing these programs. That help should be extended to students at the time they are deciding *whether* to borrow for higher education and, if so, *how much*. The use of an independent third party is also highly desirable during repayment and should be beneficial to borrowers and to taxpayers, since the economic interests of loan servicers will be to grant lower repayments and thus extend the life of servicing and their servicing fees. While this may be more immediately convenient for a borrower, a more reasoned approach considering long-term impact for the borrower could be more beneficial. Specific services that an independent third party should provide

include early education of the prospective student and borrower, loan counseling at the time of borrowing, and counseling and promoting borrower wellness during repayment. This information should be seen as part of a continuum of college access and success activities. It should be offered by entities with experience in college access and student loan issues that are independent of the current federal loan servicing activities. Better counseling before borrowing and during repayment should save more in defaulted loan expenses than it would likely cost.

## A Single Tax Credit to Complement the New Benefits in the Single Grant and Loan Programs

In addition to direct spending programs to help families pay for higher education, the federal government also provides assistance through the tax code. The 14 different tax benefit programs are designed to help make higher education affordable and provide relief for students before, during and after. These programs need to be understood in three dimensions: their cost relative to other financial aid investments; their complexity; and the evidence of their effectiveness at promoting access, affordability or completion.

> "Today the nation spends a large share of its federal education dollars on tax preferences. For example, it is estimated that higher education preferences will cost the federal government $116 billion between 2011 and 2015, which approximates the three-year cost of the Pell Grant program as currently configured."

First, it is important to understand the relative cost of postsecondary tax benefits. Today the nation spends a large share of its federal financial aid dollars on tax preferences. For example, it is estimated that higher education preferences will cost the federal government $116 billion between 2011 and 2015, which approximates the three-year cost of the Pell Grant program as currently configured.[31] With the introduction of the American

31 The $116 billion represents the $79 billion cost estimate as reported by the Joint Committee on Taxation in JCS-62-12 (July 23, 2012) and an additional $37 billion passed as part of the American Taxpayer Relief Act of 2012 (JCS-1-13) on January 3, 2013.

Opportunity Tax Credit (AOTC), for example, federal spending on tax credits doubled from 2008 to 2009, from $9 billion to $18 billion.[32] These expanded costs reflect both more-generous programs and increases in eligibility.

Second, it is important to evaluate these programs' complexity since the evidence for simplification is well documented in traditional grant programs. The 14 existing programs fit into three classes: benefits prior to enrollment for education savings plans or qualified tuition programs, benefits during enrollment for tuition and related expenses, and benefits after enrollment for student loan repayment. Most occur while the student is enrolled. Among the benefits are excluding scholarships and grants as income, employer-provided education benefits, extended exemptions for children who are 19 to 23 and enrolled in school, and four different credits or deductions for paying tuition or the cost of attending postsecondary schools. While enrollment is a prerequisite to receiving these benefits, there is little evidence that families or students see them as part of higher education financial aid policy. Often taxpayers take the wrong credit or deductions. A 2012 GAO analysis of 2009 IRS data found that about 14 percent of filers failed to claim a credit or deduction for which they appeared eligible.[33] In an earlier report, GAO found taxpayers often claim the wrong deduction—or don't maximize the size of their tax benefit.

The timing of tax credits (up to 15 months after tuition is paid) also decreases the effectiveness of using them as a tool to help increase access and completion.[34] Timing is not the only issue these policies raise. They also add needless duplication and complexity to the financial aid application and delivery process. Last, it is difficult for families to save appropriately for college when the tax benefits are set to expire, and at different dates. Fundamentally, it would help if federal policy were passed on a permanent basis, rather than extended one or two years at a time.

**Simplify four major tuition-related tax benefit programs into a single Lifetime Learning tax credit.**

To simplify the process and offer aid to a wider class of students, one option is to eliminate AOTC, Hope and the tuition and fees deduction and retain a single credit patterned on the Lifetime Learning Credit (LLC). This nonrefundable credit would let taxpayers dednct up to $10,000 qualified tuition and related expenses incurred on behalf of the taxpayer, spouse or dependent. The credit would be available for an unlimited number of years, and be available to pay expenses associated with new delivery models (e.g., assessments to award credit for skills and knowledge obtained by completing MOOCs). Keeping a less generous credit (like the LLC) would benefit a larger number of students but with a smaller average benefit. While available for undergraduates, having a benefit available to more types of students would help play a different role in the process. Under the other reform proposals described herein, undergraduate students would be better served by student grants and loans—making the need for a tax credit less urgent.

32 Rueben, K. July 27, 2012. Do Higher Education Tax Credits Make Sense? Tax Vox: The Tax Policy Center blog. Tax Policy Center.

33 U.S. Government Accountability Office. 2012. Report to the Committee on Finance, U.S. Senate: Higher Education: Improved Tax Information Could Help Pay for College. GAO-12-560.

34 Long, B.T; 2008; "What is Known About the Impact of Financial Aid? Implications for Policy." Working Paper. National Center for Postsecondary Research.

## More Details: Alternative Ways to Simplify Tax Benefits for Students

An alternative option would be to eliminate the LLC and tuition and fees deduction and limit the AOTC. This would focus the benefit on undergraduates early in their postsecondary education. Immediately, the costs of the AOTC could be restrained and savings reallocated to the single grant program and/or innovation and research in the aid program if the AOTC income limit were capped. The cost of extending the AOTC tax credit would be less if the benefit were capped for families with income below $125,000 rather than the current $180,000. This would concentrate the tax benefits in households lower down the income distribution. It should be recognized that under current tax policy the AOTC is scheduled to expire. Any benefit or cost of this change depends fundamentally on whether this benefit is expected to be provided on an ongoing basis and what other changes are made to the tax system (currently a complicated collection of temporary rules concerning both tax rates and credits).

## Integrate the tax benefits more fully into the financial aid system.

Leaving all tax benefits in place, more can be done to integrate their value into a redesigned financial aid system that is centered more around student success. The refundable portion of the AOTC (filers with no taxable income still receive a credit resulting in a tax refund) functions much like a grant program for lower-income students and families. It is a prime example of how complexity undermines the potential effectiveness of federal subsidies to influence student behavior. The federal budget records the refundable portion of the credit as spending, totaling about $3 billion annually, but this aid is not delivered through institutions of higher education and financial aid offices like federal grant aid; it is delivered through the tax filing process.[35] Students and families, therefore, must complete two separate applications to receive their total federal aid—one with the help of a financial aid office and another requiring the assistance of a tax preparer. Thus a first step to making federal tax policy that affects higher education more effective would require simplification and better information about the distribution of these benefits.

For all AOTC beneficiaries, there are additional ways the federal education tax credit could be better integrated with financial aid policy. It would help if the timing of the credit could be changed to earlier in the year, when tuition is due (thus helping students use these funds directly for school expenses). If the timing cannot be changed, it would help if institutions could provide students a consolidated financial aid statement that clearly outlined current levels of grants, loans and also expected tax credits that students would be eligible for (based on current expenses, assuming income equal to prior year's). The U.S. Department of Education should provide a line-by-line template for institutions to use in creating this consolidated statement. In this way, students would be aware of this benefit. Again, this requirement is useful only if federal tax benefits for higher education are part of the permanent law—and thus their value is known.

35 U.S. Department of the Treasury. Oct. 12, 2010. The American Opportunity Tax Credit. http://www.treasury.gov/resource-center/tax-policy/Documents/American-Opportunity-Tax-Credit-10-12-2010.pdf.

# New Reporting and Financial Aid Eligibility Criteria that Holds Institutions Accountable for Student Access and Success

Federal financial aid policy should promote shared responsibility for completion, which means higher expectations for everyone. For students, this means receiving maximum benefits in exchange for taking and completing more courses. For colleges, this means meeting minimum thresholds for performance on a variety of access and success metrics. These metrics would paint a more complete picture of student success than the current cohort default rates used for determining financial aid eligibility. An "Institutional Effectiveness Index" could integrate measures of access and equity, loan repayment and risk-adjusted completion rates. Institutions would not need to perform strongly on all components of the index to have a passing score, but neither could they get by with weak performance in all or most components.

## Collect and publicly report a common set of student outcome metrics.

A new set of common student outcome metrics should explicitly connect students' postgraduation behaviors and labor market participation to their institutions of choice. This Institutional Effectiveness Index would expand the current Title IV oversight policy and use three basic measures to determine ongoing institutional eligibility in all federal student aid programs: protection of access and equity and completion rates, adjusted if possible fnr the characteristics of incoming students and federal student loan repayment.

### *More Details: A Protection of Access and Equity Measure*

Much is known from Federal Student Aid's administrative files about the number of aid recipients attending each institution. But little is known about the share of an institution's student body that its aid recipients represent. Some work has been reported in recent years, but those analyses largely focused on more-selective colleges and universities. A specific institution-by-institution accounting of federal aid recipients—especially Pell Grant recipients—is needed.

Ideally, an access and equity measure would be based on a percentile distribution of family incomes for each institution's student body. However, such data are currently unavailable nationally. Pell Grants—the most income-targeted student aid—could provide a reasonable proxy: that is, the percentage of an institution's undergraduate students who are Pell Grant recipients. The access and equity threshold need not be uniform across all institutions. Consideration could be given for mission, selectivity, sector and other factors. This specific measure would entail additional data collection.

### *More Details: Completion Rates*

Completion rates, as currently collected at the federal level, suffer from two critical measurement errors: the exclusion of part-time students and students who attend multiple institutions, colloquially referred to as "swirl," and failure to account for the differences in incoming students. In April 2012, the U.S. Department of Education moved to implement the recommendations

of the Committee on Measures of Student Success to include in federal graduation rates part-time and transfer students. An input-adjusted completion rate could be used with the more-complete federal data collection.[36]

*More Details: A Loan Repayment Measure*

A federal student loan repayment rate performance measure, such as that initiated by the department in the gainful employment regulations, would improve the current, annual cohort default rate (CDR) calculation. This measure is used to determine continued institutional eligibility, but aligns institutional and borrower incentives in the wrong direction. That is, institutions have a strong incentive to exclude their former students from the CDR calculation by encouraging them to take advantage of forbearance or deferment options on their loans. This is typically a short-term strategy for institutions, masking the poor financial situations of former students because the CDR calculation only covers the first two years in repayment (soon to be the first three years).

A repayment rate calculation , adjusted for the characteristics of students, ensures that an appropriate share of former students has sufficient income to service their educational debts, while incentivizing institutions to encourage former students to repay their loans rather than assisting them in postponing repayment.

**Protect students and taxpayers by limiting federal aid to institutions with a proven track record for graduating a minimum of students on time, particularly low-income students.**

Reducing financial barriers has long been—and continues to be—the hallmark of federal postsecondary education policy. The significant expansion of the federal student aid programs in the late 1970s (primarily the Middle Income Student Assistance Act) raised new concerns about waste, fraud and abuse in these programs.[37] The focus of these compliance efforts was to minimize institutions' opportunities for taking financial advantage of their own or their students' failures.

Initial institutional participation in federal aid programs is currently governed by interrelated statutory and regulatory provisions. Fundamentally, an institution must be duly accredited and authorized as a postsecondary institution by the state. In addition, the department certifies institutions as eligible participants, ensuring that they can administer the federal student aid programs properly and operate as ongoing business enterprises.

Institutions must be held accountable to ensure students' success is a primary objective when receiving those students' financial aid. Currently, the department annually evaluates a number of accountability measures—e.g., cohort default rates, financial responsibility standards and the "90-10" rule—to help ensure that federal funds are properly spent. Accountability is further examined via required annual audits and periodic program reviews. However, the accountability scheme does not adequately measure how and to what extent student financial aid recipients benefit from these programs.

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36 The *Context for Success* project offers several options for adjusting completion rates. See Harris, D. and Kelchen, R. 2012. *Can 'Value-Added' Methods Improve the Measurement of College Performance? Empirical Analyses and Policy Implications.* Washington, DC: HCM Strategists.

37 34 CFR 668.161-162.

The proposed Institutional Effectiveness Index would be evaluated periodically (less frequently than annually). It would be phased in over time, using the six-year cycle for the current recertification process. That is, the new index would be put in place for an institution as it came up for its certification renewal. However, sanctions would not be imposed until the institution had the chance—perhaps after four years—to effectively implement new requirements.

This phased-in approach is similar to the implementation of the cohort default rate (CDR) calculation and subsequent imposition of penalties a number of years ago. The department computed CDRs for each institution for several years before the results were used to rescind participation in the loan program. Initially the institutions thought the CDR-based approach to continued participation unfairly held them accountable for their former students' failure to repay federal loans. However, over time they learned, periodically with the help of Federal Student Aid, to manage their default rates.

## Investing in Research and Demonstrations to Evaluate Cost-Effective Ways to Finance More Student Success

Over the past decade or so, Pell Grant expenditures have nearly quintupled in real dollar terms and tripled in constant dollars.[38] Recipients have increased at about half that rate.[39] Over the same period, federal student loan volume (FFEL and Direct Loan programs) has more than tripled in real dollar terms and doubled in constant dollars.[40] Thus it is more important than ever to identify, develop and use data to ensure that the significant federal investment in student aid is well spent.

In its early days, the Department of Education had a broad programmatic interest in evaluation studies to help guide policy decisions. Many were accomplished in-house by the Institute for Education Sciences and the National Center for Education Statistics (as they are now known). Over the years, however, the traditional role of NCES—to collect and disseminate information relating to education at all levels in the United States—became predominant. To be sure, the department still conducts evaluation studies of its programs under the Government Performance and Results Act, but these studies have typically supported future appropriations requests more than tested program effectiveness.

Most studies related to financial aid have focused on the factors that shape enrollment decisions or on the overall impact of specific programs. But few have examined how the presence or absence of aid actually affects students' decisions about their education. The kinds of financial aid programs that work best, for which students and in what ways, are simply unknown.

38 College Board. 2012. "Trends in Student Aid 2012." Table 1.
39 Office of Postsecondary Education. 2010-2011 Federal Pell Grant Program End-of Year Report. Table 1: Federal Pell Grant Program: Summary Statistics for Cross-Year Reference.
40 College Board. 2012. "Trends in Student Aid 2012." Table 1.

Without research and development on financial aid, federal policymakers have been limited in their ability to answer basic questions about the effect of existing programs on student success, let alone to propose promising changes in existing programs. The lack of research also sets up a Catch-22: Reformers have trouble making a case for policy change, while conducting such research requires experimenting with reforms that the advocates of programs may resist on the grounds that they are not research-based.

More large-scale, longitudinal studies in which students are randomly assigned to receive either their regular aid packages or variations would help. These variations could include additional aid, aid that is disbursed in different ways and different times, or aid that comes with additional counseling or alternative performance conditions. Studying differences in behavior between randomly selected groups of students who receive different levels of aid or aid with different conditions can allow researchers to distinguish the independent impact of that aid. Even the most thorough regression-based evaluations of aid are subject to potentially fatal self-selection error.

Other methods of quasi-experimental evaluation, such as regression discontinuity or the use of instrumental variables, should be strongly encouraged where possible and can also yield good results. These methods, however, often depend on accidents of history or quirks in policy (e.g., strict GPA cutoffs, short or nonexistent phase-in periods) that may not be present and, if present, may not be desirable. Rather than depend entirely on serendipitous research opportunities, federal policy should devote a small percentage of the aid budget (e.g., 1-2 percent), to structured experiments that can complement and expand the existing research base in a more intentional and targeted way.

### *Demonstrations to Test and Evaluate Innovation in Aid Design and Delivery*

The Department of Education has implemented several statutory demonstration programs in the past related to certain aspects of the financial aid programs. Typically, however, they have been limited in scope. One example is the Distance Education Demonstration program authorized by the 1998 HEA Amendments.

Such efforts are promising but insufficient. To make up for years of neglect, a sustained federal and philanthropic commitment to research and development on financial aid is needed. In the United States, the amount of funding spent on educational research and experimentation is dwarfed by spending for medical research. Spending on medical research and experimentation has been estimated to be as high as $140 billion dollars in 2010, with private industry providing the bulk of this (54 percent) and the federal government funding in second place (32.7 percent). In contrast, less than $700 million is budgeted toward education research by the federal government each year.[41] The least that can be done is to devote a fraction of that commitment to making sure financial aid works as well as it can.

41 Research America. 2010. "Investment in Health Research" http://www.researchamerica.org/uploads/healthdollar10.pdf. The Department of Education's budget for 2013 http://www2.ed.gov/about/overview/budget/budget13/13pbapt.pdf. The NSF's website documenting awards for science of learning centers http://www.nsf.gov/funding/pgm_summ.jsp?pims_id=5567.

Three areas where this Technical Panel suggests experimentation and research is needed:

1. *finding more effective and less expensive ways to get students ready to succeed in college-level courses;*
2. *funding delivery models where progression and attainment are defined by competencies, not credit hours;*
3. *creating alternative regulatory frameworks for engaging states, systems and institutions. These frameworks should promote innovative and evidence-based approaches to using financial aid as part of a comprehensive completion management strategy.*

Suggested design and delivery features of three sample approaches – none of which is costly – are offered for discussion and improvement.

## The Pell-Ready Grant Demonstration Program

Over 1 in 3 Pell Grant recipients report they use their grant to support remedial education. Currently, Pell rules allow grant funds to be used for up to 30 credit hours of remediation. The Pell-Ready Demonstration Program would provide new grants, no larger than $1,800, to academically underprepared students in a limited number of states. The objective of this demonstration is to test whether it is possible to finance remediation in more cost-effective ways than currently occurs in the Pell Grant program. A suggested initial investment of $125 million in this demonstration program would serve 125,000 students, not including funds for evaluation.

In this demonstration program, students could use the new Pell Ready Grant to purchase instruction, tutoring and support services before they enroll, thus helping them avoid remediation. Participating states would be chosen by the Department of Education through a competitive grant process.

### *Eligible Students and Allowable Uses of Funds*

Eligible students would be lower income students on-track to receive a Pell Grant (family incomes below 250 percent of the poverty line) but demonstrating deficiencies in college readiness skills.[42] The majority of funds would be focused on low-income high school juniors who were on track at the end of their junior year to graduate. These juniors would use a new Pell Ready Grant to pay for accelerated remedial instruction during their senior year of high school. Twenty-five percent of funds set aside for lower-income adults that want to enroll in postsecondary education but lack college-ready skills.

A small portion of the funds would finance a low-stakes, online assessment of college readiness. Students would use provider services to prepare for the readiness assessments. The assessments would be administered by an organization independent of the provider of choice. Students could retake the necessary exams once every month for 18 months, not unlike a competency-based model.

42 The definition of low-income student could be determined through the Free or Reduced Lunch Program. It could also be determined through the low-income designation for students tracked by schools in the Elementary and Secondary Education Act.

Grant money could also be used to pay for co-requisite remedial coursework on campuses that had adopted such a model.

### *Eligible Providers*

Based on federally established criteria, the states would develop a list of approved remediation providers. Approved providers would include community colleges, for-profit colleges, online course providers, and tutoring firms. Approved providers must have established agreements with a Title IV-eligible institution that students who have passed the readiness assessment will be admitted into credit-bearing courses.

## BEYOND FEDERAL FINANCIAL AID: TESTING ALTERNATIVE WAYS TO FINANCE HIGH-QUALITY CREDENTIALS

[illegible]

[illegible]

[illegible]

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43 DAMVAD. 2011. "The Taximeter System: Executive Summary." DAMVAD.com: Copenhagen, Germany. http://www.damvad.com/media/31738/taxameter_-_executive_summary.pdf.

44 As other governments around the world are experimenting with ways to structure performance contracts and new third-party payers to provide social services, the Department of Labor in Massachusetts is experimenting with social impact bonds by investing $50 million to tackle two state priorities: improving transitions for juvenile offenders and reducing chronic homelessness. Related, Goldman Sachs invested $10 million in August 2012 to improve recidivism outcomes in New York City. In a quote that demonstrates the parallelism with the structural deficit faced in the Pell Grant program, Jay Gonzales, Massachusetts secretary of administration and finance, says, "We have a new fiscal reality in government. We have to find innovative and new ways to get better results at less cost. We don't have a choice at this point." (Rosenberg, T. "The Promise of Social Impact Bonds," New York Times, June 20, 2012.)

*A Performance-Based Payment System*

Students would use their grant dollars to purchase access to providers in three-month increments. Those who passed the competency-based remedial exams quickly could "roll over" half of the remaining dollars into a grant that could be used at Title IV-eligible institutions. The other half would be paid to the provider as a bonus for helping students over the finish line more quickly. The rollover feature would provide students with an incentive to choose providers who were low-cost or allowed for accelerated progress, or both. Providers would have an incentive to develop these kinds of programs to attract students. Students who transferred from one provider to another could take any remaining grant funds with them.

Providers' eligibility would be performance-based and updated semiannually. They would be beld accountable on two levels: successful pass rates in the remedial programs themselves, and whether program graduates could pass through to college-level work at a Title IV-eligible institution. Providers would be required to report regularly a variety of internal student success metrics: overall percentage of students who successfully passed, percentage who passed in less than the allotted time, and percentage who failed to pass after paying for the full 18 months. Providers who failed to reach benchmarks would be removed from the approved list. These metrics would be made public to help inform prospective students about their options.

Postsecondary institutions would report to the state on the proportion of students who were declared college-ready by a given provider and who successfully passed a college-level course. If completers from a particular provider consistently failed to complete a credit-bearing course, the provider would be barred from the approved list, thereby cutting off access to grant funds. Successful providers would maintain and expand their market share.

Students who passed the college-level skills exams within the 18-month window would receive a certificate of completion endorsed by the state and accepted by partnered institutions.

Those who used the grant but failed to pass the required assessments within the 18-month period would be eligible to pay for 15 credits of remediation with a traditional Pell Grant aid. Receipt of the Pell-Ready Grant would have no bearing on eligibility for any basic federal grant or federal student loans.

States interested in reducing remedial costs could offer matching grants to students who successfully completed the program. The matching state grants would be redeemable for tuition at in-state institutions.

## A Competency-Based Higher Education Demonstration Program

Competency-based higher education delivery models have the potential to offer high-quality postsecondary education at a lower cost to students and taxpayers. However, the current federal framework for allocating financial aid is based on the credit hour, a unit of measurement developed a century ago for standardizing high school transcripts and determining faculty workload for pension purposes. The purpose of this demonstration program is to allow alternative financial aid allocation systems and test their cost-effectiveness. This demonstration program could he revenue neutral, not including funds for evaluation.

### *Eligible Institutions*

Eligible institutions would not need to be currently Title IV eligible to participate. Rather, institutions in the Competency-Based Demonstration Program must agree to provide low-cost, high-quality programs leading to a credential that are transparent as to intended and actual student outcomes.

### *Allowable Uses of Funds*

The Competency-Based Higher Education Demonstration Program would encourage institutions or groups of institutions to develop modules for teaching specific knowledge and skills validated by scholarly and professional groups, wage and employment data, and other sources. Financial aid allocations would not be determined based on the demonstrations of competencies gained, rather than time-based credit hours attempted.[45] Further, annual maximum grant awards in this Program would be set at a lower level to encourage acceleration and use of lower-cost instructional models that blend high-quality on-line instruction and assessment with face-to-face teaching and student supports.

## A Performance Contract Demonstration Program

The current financial aid regulatory framework is focused on compliance of individual institutions that receive financial aid. The burdensome nature of this framework is well documented.[46] Meanwhile, the size and scope of federal financial aid could be more optimally integrated into a comprehensive completion management strategy that puts student success at the center of integrated academic, information technology, business, and student support services. The purpose of the Performance Contract Demonstration Program is to test and evaluate the cost-effectiveness of an alternative regulatory framework for federal financial aid. This demonstration program could be revenue neutral, not including funds for evaluation. Additional funds could be made available for a bonus scheme that rewarded entities that exceeded negotiated performance agreements.

### *Eligible Entities*

The Performance Contract Demonstration Program would allow the Department of Education to enter into performance-based contracts with up to 10 states, public college systems and/or large universities or university consortia.[47] In exchange for a commitment to graduate more Pell students in less time, the department would block-grant Pell funds—and potentially loans—to give participating entities maximum flexibility and financial incentives for meeting or exceeding contracted benchmarks.

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45 The U.S. Department of Education has regulatory authority to work with accrediting agencies to approve postsecondary programs that are grounded in competencies and learning. For a more detailed discussion of this authority, see Laitinen. A. 2012. "Cracking the Credit Hour." New America Foundation: Washington, D.C. http://newamerica.net/sites/newamerica.net/files/articles/

46 Advisory Committee on Student Financial Assistance. 2011. "Higher Education Regulations Study: Final Report." Advisory Committee on Student Financial Assistance: Washington, D.C. http://chronicle.com/items/biz/pdf/HERS%20Final%20Report.pdf

47 For reliable and robust measurement of effects, a minimum Pell Grant population should be determined as the basis for eligible institutions.

### *Allowable Uses of Funds*

Aggregating individual Pell Grant awards into a single, multi-year performance contract with public systems or large institutions represents a revenue-neutral source of new funds for innovative, completion-oriented policies and delivery models. Examples of innovation in aid design and delivery that can be tested voluntarily at scale with statewide systems and large, multi-campus systems or consortia include:

- modifying definitions of ability to benefit, to reach deeper into nontraditional student populations;
- varying the amounts of the awards, and allowing awards to be used for assessments of competencies, including prior learning or demonstrated knowledge attained through massive, open online courses;
- encouraging demand for and success in structured and/or accelerated programs;
- distributing aid incrementally and at times during the academic period that reward completion of learning units or courses;
- modifying financial aid packages when life circumstances change dramatically;
- varying the selectivity within the Pell-eligible pool; and
- creating different or additional standards for financial need and/or academic progress.

Eligible entities would receive a fixed amount for each year of the contracted performance period set at the level of the total amount of Pell aid received in the prior academic year, adjusted by the consumer price index and fixed for the contract period. Fines for not meeting contracted annual benchmarks would be levied. Bonuses would be explicitly written into each agreement, to be paid annnally for attainment of performance benchmarks such as: increasing the number of students enrolled from the bottom two quintiles of household incomes; exceeding the contracted momentum and completion benchmarks; and reducing the net price for the same bottom two quintiles in the overall population.

### *Suggested Terms of a Multi-Year Performance Contract*

Each eligible entity would voluntarily enter into a performance agreement with the Department of Education to increase success for students from households with incomes in the bottom 40 percent of the national distribution, and graduate a predetermined, negotiated number of those students with undergraduate postsecondary credentials (including certificates, associate and bachelor's degrees).

Eligible entities would enter into five-year performance agreements with the Department in which they agreed to:

- use the same, simplified federal need analysis and application process described herein so every student eligible for a Pell Grant receives some federal financial award;
- maintain or increase the number of Pell Grant recipients enrolled over the term of the contract;
- increase the number of low-income aid recipients graduating with the agreed-upon types and levels of credentials;
- publicly report learning outcomes and evidence of learning (a normed assessment selected by the entity);
- monitor and report progress annually for entering cohorts of aided students and compare against agreed-upon "on-track" benchmarks;

- participate in a federally sponsored evaluation in which data are open and accessible for public analysis; and
- demonstrate financial integrity.

# Conclusion

The time for policymakers to consider fundamental improvements to the federal financial aid program is now. Forty-nine percent of engaged voters believe the higher education system needs major changes or a complete overhaul. When presented with arguments for and against providing financial aid based on completion, 73 percent of engaged voters believed this was a good idea.[48] At the same time, statutory provisions that provide important benefits to borrowers and taxpayers will expire shortly. Most of the program authorities provided by the Higher Education Act expire within two years. Policymakers must not let this opportunity pass.

Knowledge about how financial aid works and how it affects higher education outcomes is imperfect, and the system as it currently stands has largely evolved based on politics, ideology and available budgets rather than evidence. The solutions outlined herein will work given the imperfect information available today, and they can be improved as the system is better understood. For that advance to occur, improvements in descriptive data collection about aid recipients and their results are crucial, as well as expanded experimentation to increase the knowledge base that policymakers can draw upon in future reforms.

48 Hart Research Associates, 2013

Appendix A

# Tables for Reform Options

***Table 1:***

## Pell Grant Options, Default Take-up

Pell Grant Recipients (millions) and Value of Grants (billions of dollars), 2013-2022[1]

| Baseline and Proposal | | Calendar Year 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total 2013-17 | Total 2013-22 | Savings 2013-22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Current Pell Shortfall ($billions)** | | 0 | 0 | 1.366 | 6.165 | 4.850 | 5.341 | 5.686 | 6.161 | 6.931 | 7.247 | 12.381 | 43.747 | |
| **Cost of Campus-Based Aid[2] ($billions)** | | 1.722 | 1.652 | 1.749 | 1.760 | 1.755 | 1.755 | 1.770 | 1.762 | 1.762 | 1.771 | 8.635 | 17.455 | |
| **Option 1: Current Law** | Recipients (millions) | 9.592 | 10.040 | 10.101 | 10.338 | 10.367 | 10.617 | 10.747 | 10.764 | 10.924 | 11.098 | 50.438 | 104.588 | |
| | Value of Grants ($billions) | 33.194 | 35.053 | 36.012 | 38.398 | 39.149 | 40.018 | 40.380 | 40.551 | 40.918 | 41.416 | 181.806 | 385.089 | |
| **Starting Cost[3]** | Value of Grants ($billions) | 34.916 | 36.711 | 36.395 | 33.983 | 36.054 | 36.432 | 36.464 | 36.152 | 35.749 | 35.940 | 178.060 | 358.797 | |
| **Option 2: Simplified Application Process with $5,550 Pell Maximum** | Recipients (millions) | 8.843 | 8.741 | 8.612 | 8.473 | 8.433 | 8.483 | 8.529 | 8.450 | 8.399 | 8.441 | 43.102 | 85.404 | |
| | Value of Grants ($billions) | 28.459 | 28.616 | 28.675 | 28.667 | 29.037 | 29.035 | 29.038 | 28.506 | 28.010 | 27.800 | 143.454 | 285.843 | 72.954 |
| Options that Incentivize Higher Intensity | | | | | | | | | | | | | | |
| **Option 3: With $5,550 Pell Maximum** | Recipients (millions) | 8.379 | 8.715 | 8.764 | 8.935 | 9.016 | 9.222 | 9.308 | 9.313 | 9.420 | 9.614 | 43.809 | 90.686 | |
| | Value of Grants ($billions) | 26.596 | 28.180 | 29.013 | 30.470 | 31.241 | 31.920 | 32.171 | 32.388 | 32.600 | 33.090 | 145.500 | 307.669 | 51.128 |
| **Option 4: With $5,550 Pell Maximum, with Increased Full-Time** | Recipients (millions) | 8.450 | 8.779 | 8.819 | 8.991 | 9.086 | 9.278 | 9.368 | 9.371 | 9.473 | 9.676 | 44.125 | 91.291 | |
| | Value of Grants ($billions) | 27.668 | 29.288 | 30.136 | 31.631 | 32.436 | 33.100 | 33.372 | 33.561 | 33.782 | 34.308 | 151.159 | 319.282 | 39.515 |
| **Option 5: With $7,000 Pell Maximum** | Recipients (millions) | 9.637 | 10.132 | 10.188 | 10.301 | 10.389 | 10.560 | 10.643 | 10.599 | 10.681 | 10.829 | 50.707 | 104.019 | |
| | Value of Grants ($billions) | 37.556 | 39.765 | 40.920 | 42.626 | 43.644 | 44.546 | 44.832 | 44.876 | 45.068 | 45.521 | 204.711 | 429.554 | -70.757 |
| **Option 6: With $7,000 Pell Maximum, with Increased Full-Time** | Recipients (millions) | 9.749 | 10.202 | 10.263 | 10.369 | 10.446 | 10.615 | 10.686 | 10.648 | 10.714 | 10.856 | 51.029 | 104.548 | |
| | Value of Grants ($billions) | 38.880 | 41.217 | 42.406 | 44.183 | 45.381 | 46.076 | 46.310 | 46.361 | 46.548 | 47.005 | 212.067 | 444.367 | -85.570 |
| Options that Simplify the Application Process and Incentivize Higher Intensity | | | | | | | | | | | | | | |
| **Option 7: With $5,550 Pell Maximum** | Recipients (millions) | 7.825 | 7.760 | 7.626 | 7.507 | 7.447 | 7.501 | 7.523 | 7.479 | 7.419 | 7.452 | 38.165 | 75.539 | |
| | Value of Grants ($billions) | 22.924 | 23.078 | 23.072 | 23.069 | 23.329 | 23.362 | 23.348 | 23.019 | 22.630 | 22.472 | 115.472 | 230.303 | 128.494 |
| **Option 8: With $5,550 Pell Maximum, with Increased Full-Time** | Recipients (millions) | 7.910 | 7.832 | 7.707 | 7.578 | 7.526 | 7.579 | 7.592 | 7.538 | 7.474 | 7.511 | 38.553 | 76.247 | |
| | Value of Grants ($billions) | 23.869 | 23.992 | 23.997 | 23.980 | 24.249 | 24.276 | 24.235 | 23.869 | 23.469 | 23.320 | 120.086 | 239.255 | 119.542 |
| **Option 9: With $7,000 Pell Maximum** | Recipients (millions) | 8.312 | 8.226 | 8.105 | 7.981 | 7.923 | 7.959 | 7.967 | 7.884 | 7.797 | 7.830 | 40.547 | 79.984 | |
| | Value of Grants ($billions) | 30.643 | 30.821 | 30.839 | 30.824 | 31.175 | 31.101 | 30.966 | 30.382 | 29.762 | 29.539 | 154.302 | 306.052 | 52.745 |
| **Option 10: With $7,000 Pell Maximum, with Increased Full-Time** | Recipients (millions) | 8.363 | 8.287 | 8.170 | 8.041 | 7.985 | 8.013 | 8.008 | 7.916 | 7.825 | 7.850 | 40.846 | 80.458 | |
| | Value of Grants ($billions) | 31.707 | 31.920 | 31.963 | 31.923 | 32.256 | 32.149 | 31.966 | 31.343 | 30.702 | 30.456 | 159.769 | 316.385 | 42.412 |
| **Option 11: With $7,000 Pell Maximum phased out at 250% of poverty line, with Increased Full-Time** | Recipients (millions) | 9.887 | 9.916 | 9.870 | 9.754 | 9.716 | 9.772 | 9.764 | 9.774 | 9.746 | 9.839 | 49.143 | 98.038 | |
| | Value of Grants ($billions) | 36.215 | 36.720 | 36.903 | 37.122 | 37.656 | 37.615 | 37.432 | 36.966 | 36.445 | 36.359 | 184.616 | 369.433 | -10.636 |

*Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-3ED), estimates of campus aid and Pell shortfall based on calculations by New America Foundation using CBO projections.*

*Table 2:*

# Pell Grant Options, Full Take-up

Pell Grant Recipients (millions) and Value of Grants (billions of dollars), 2013-2022 [1]

| Baseline and Proposal | | Calendar Year 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total 2013-17 | Total 2013-22 | Savings 2013-22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Current Pell Shortfall ($billions)** | | 0 | 0 | 1.366 | 6.165 | 4.850 | 5.341 | 5.686 | 6.161 | 6.931 | 7.247 | 12.361 | 43.747 | |
| **Cost of Campus-Based Aid[2] ($billions)** | | 1.722 | 1.658 | 1.749 | 1.750 | 1.755 | 1.755 | 1.770 | 1.762 | 1.762 | 1.771 | 8.635 | 17.455 | |
| **Option 1: Current Law** | Recipients (millions) | 9.692 | 10.040 | 10.101 | 10.338 | 10.367 | 10.617 | 10.747 | 10.764 | 10.924 | 11.098 | 50.438 | 104.588 | |
| | Value of Grants ($billions) | 33.194 | 35.053 | 36.012 | 38.398 | 39.149 | 40.018 | 40.380 | 40.551 | 40.918 | 41.416 | 181.806 | 385.089 | |
| **Starting Cost[3]** | Value of Grants ($billions) | 34.916 | 36.711 | 36.395 | 33.983 | 36.054 | 36.432 | 36.464 | 36.152 | 35.749 | 35.940 | 178.060 | 358.797 | |
| **Option 2: Simplified Application Process with $5,550 Pell Maximum** | Recipients (millions) | 11.235 | 11.104 | 10.937 | 10.745 | 10.645 | 10.566 | 10.472 | 10.288 | 10.151 | 10.142 | 54.666 | 106.285 | |
| | Value of Grants ($billions) | 32.967 | 32.898 | 32.787 | 32.666 | 32.940 | 32.569 | 32.234 | 31.503 | 30.871 | 30.552 | 164.156 | 321.907 | 36.890 |
| Options that Incentivize Higher Intensity | | | | | | | | | | | | | | |
| **Option 3: With $5,550 Pell Maximum** | Recipients (millions) | 10.978 | 11.233 | 11.224 | 11.370 | 11.449 | 11.502 | 11.511 | 11.404 | 11.476 | 11.591 | 56.154 | 113.640 | |
| | Value of Grants ($billions) | 31.889 | 33.441 | 34.221 | 35.574 | 36.449 | 36.754 | 36.717 | 36.599 | 36.748 | 37.041 | 171.574 | 355.433 | 3.364 |
| **Option 4: With $5,550 Pell Maximum, with Increased Full-Time** | Recipients (millions) | 10.884 | 11.239 | 11.233 | 11.372 | 11.457 | 11.510 | 11.516 | 11.415 | 11.484 | 11.599 | 56.185 | 113.711 | |
| | Value of Grants ($billions) | 32.805 | 34.421 | 35.214 | 36.609 | 37.490 | 37.807 | 37.771 | 37.657 | 37.618 | 38.117 | 176.539 | 365.709 | -6.912 |
| **Option 5: With $7,000 Pell Maximum** | Recipients (millions) | 11.603 | 11.952 | 12.026 | 12.130 | 12.163 | 12.204 | 12.185 | 12.079 | 12.141 | 12.229 | 59.914 | 120.752 | |
| | Value of Grants ($billions) | 42.055 | 44.117 | 45.161 | 46.897 | 48.022 | 48.327 | 48.292 | 48.094 | 48.252 | 48.579 | 226.252 | 467.796 | -108.999 |
| **Option 6: With $7,000 Pell Maximum, with Increased Full-Time** | Recipients (millions) | 11.614 | 12.001 | 12.040 | 12.143 | 12.172 | 12.213 | 12.193 | 12.094 | 12.145 | 12.233 | 59.970 | 120.848 | |
| | Value of Grants ($billions) | 43.266 | 45.408 | 46.473 | 48.262 | 49.396 | 49.713 | 49.678 | 49.487 | 49.653 | 49.993 | 232.805 | 481.329 | -122.532 |
| Options that Simplify the Application Process and Incentivize Higher Intensity | | | | | | | | | | | | | | |
| **Option 7: With $5,550 Pell Maximum** | Recipients (millions) | 9.906 | 9.786 | 9.604 | 9.452 | 9.357 | 9.302 | 9.198 | 9.078 | 8.953 | 8.952 | 48.105 | 93.588 | |
| | Value of Grants ($billions) | 27.064 | 27.067 | 26.966 | 26.878 | 27.113 | 26.836 | 26.522 | 25.946 | 25.403 | 25.146 | 135.088 | 264.941 | 93.856 |
| **Option 8: With $5,550 Pell Maximum, with Increased Full-Time** | Recipients (millions) | 9.917 | 9.796 | 9.623 | 9.465 | 9.373 | 9.321 | 9.212 | 9.086 | 8.963 | 8.956 | 48.174 | 93.712 | |
| | Value of Grants ($billions) | 27.837 | 27.841 | 27.744 | 27.649 | 27.878 | 27.599 | 27.272 | 26.676 | 26.128 | 25.864 | 138.949 | 272.498 | 86.309 |
| **Option 9: With $7,000 Pell Maximum** | Recipients (millions) | 9.906 | 9.786 | 9.604 | 9.452 | 9.357 | 9.302 | 9.198 | 9.078 | 8.955 | 8.952 | 48.105 | 93.590 | |
| | Value of Grants ($billions) | 34.116 | 34.127 | 34.000 | 33.906 | 34.184 | 33.835 | 33.439 | 32.713 | 32.029 | 31.704 | 170.333 | 334.053 | 24.744 |
| **Option 10: With $7,000 Pell Maximum, with Increased Full-Time** | Recipients (millions) | 9.917 | 9.796 | 9.623 | 9.465 | 9.373 | 9.321 | 9.212 | 9.086 | 8.966 | 8.956 | 48.174 | 93.715 | |
| | Value of Grants ($billions) | 35.091 | 35.103 | 34.981 | 34.878 | 35.148 | 34.797 | 34.385 | 33.633 | 32.944 | 32.610 | 175.201 | 343.570 | 15.227 |
| **Option 11: With $7,000 Pell Maximum phased out at 250% of poverty line, with Increased Full-Time** | Recipients (millions) | 11.661 | 11.657 | 11.594 | 11.407 | 11.336 | 11.310 | 11.262 | 11.208 | 11.161 | 11.243 | 57.655 | 113.839 | |
| | Value of Grants ($billions) | 40.043 | 40.395 | 40.467 | 40.543 | 40.987 | 40.720 | 40.390 | 39.760 | 39.140 | 38.987 | 202.435 | 401.432 | -42.635 |

*Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0112-6ED), estimates of campus aid and Pell shortfall based on calculations by New America Foundation using CBO projections.*

# Notes Regarding Revenue and Distribution of Pell Grant Options

## Description of Options

The simulations apply the alternative proposals to current-law Pell grant.

*Default Take-up:* The same percentage of Pell-eligibile students in the model that currently receive actual Pell grants receive the proposals.

*Full Take-up:* All students that are eligibile in the model to receive a Pell grant, receive one.

*(1) The simulations apply the alternative proposals to current-law Pell grant*
*(2) Shortfall and estimates for campus based aid is based on estimates from Jason Delisle, New America Foundation and CBO baselines as of 2/07/2012*
*(3) Starting Cost is Current Law Cost minus the Current Pell Shortfall plus the Cost of Campus-Based Aid*

*Option 2:*

Simplified Application Process with $5,550 Pell Maximum -- Under this proposal, undergraduate students pursuing a degree would be eligible for up to $5,550 of Pell grant. The actual eligible amount depends on each student's attendance status, AGI and relevant Federal Poverty Level which depends on the size of the student's tax unit. Tax units' sizes for this purpose cannot exceed 6. The actual amount is $0 for students eligible less than $550. The eligible amount for full-time students is $5,550 if students' AGI is less than or equal their relevant Poverty Level and phased out completely once their AGI reach 200% of the relevant Poverty Level. The eligible amount for half-time students and less-than-half-time students are 50% and 25% of the full-time amount, respectively.

*Option 3:*

Incentivize Higher Intensity with $5,550 Pell Maximum -- Under this proposal, undergraduate students pursuing a degree would be eligible for up to $5,550 of Pell grant. The actual eligible amount depends on each student's number of credits taken and EFC. The eligible amount for full-time students with 15 credits or more ("the full-time amount") is $5,550 less the students' EFC. The eligible amount for full-time students with 12 to 14 credits is 80% of the full-time amount. The eligible amount for 3/4 time and 1/2 time students are 60% and 40% of the full-time amount, respectively. Less-than-half-time students would be ineligible for Pell grant. The actual amount is $0 for students eligible less than $550.

*Option 4:*

Incentivize Higher Intensity with $5,550 Pell Maximum, with Increased Full-Time-- This proposal is the same as Option 3, except that we assume that 25 percent of students who are currently taking 12 credits will decide to take 15 credits.

*Option 5:*

Incentivize Higher Intensity with $7,000 Pell Maximum -- This proposal is similar to Option 3, except that the full-time amount is up to $7,000 instead of $5,550 and the actual amount is $0 for students eligible less than $700.

*Option 6:*

Incentivize Higher Intensity with $7,000 Pell Maximum, with Increased Full-Time -- This proposal is the same as Option 4, except that the maximum grant amount is increased to $7,000.

*Option 7:*

Simplified Application Process with $5,550 Pell Maximum with Incentivize Higher Intensity -- This proposal is similar to Option 2 except that the eligible amount for full-time students with 15 credits or more ("the full-time amount") is $5,550 less the students' EFC. The eligible amount for full-time students with 12 to 14 credits is 80% of the full-time amount. The eligible amount for 3/4 time and 1/2 time students are 60% and 40% of the full-time amount, respectively. Less-than-half-time students would be ineligible for Pell grant.

*Option 8:*

Simplified Application Process with $5,550 Pell Maximum with Incentivize Higher Intensity, with Increased Full-Time -- This proposal is the same as Option 7, except that we assume that 25 percent of students who are currently taking 12 credits will decide to take 15 credits.

*Option 9:*

Simplified Application Process with $7,000 Pell Maximum with Incentivize Higher Intensity -- This proposal is similar to Option 7, except that the full-time amount is up to $7,000 instead of $5,550 and the actual amount is $0 for students eligible less than $700.

*Option 10:*

Simplified Application Process with $7,000 Pell Maximum with Incentivize Higher Intensity, with Increased Full-Time -- This proposal is the same as Option 9, except that we assume that 25 percent of students who are currently taking 12 credits will decide to take 15 credits.

*Option 11:*

Simplified Application Process with $7,000 Pell Maximum phased out at 250% of poverty line, with Incentivize Higher Intensity, with Increased Full-Time -- This proposal is the same as Option 10, except that the Pell grant amount is fully phased out when AGI reaches 2505 of the relevant poverty level.

*Table 3:*

## Distribution of Current Law Pell Grant and Alternative Proposals by Size of Adjusted Gross Income, Tax Year 2015: Assuming Baseline Take-up Behavioral Responses, All Undergraduate Students

Assuming Baseline Take-up Behavioral Responses, All Undergraduate Students [1]

| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| All | $3,565 | $36,012,364 | $3,330 | $28,675,399 | $3,311 | $29,013,490 | $3,417 | $30,135,935 | $4,016 | $40,920,439 | $4,132 | $42,405,720 |

*Notes for Pell Distribution and Revenue Tables:*

(1) *Preliminary estimates. The simulations apply the alternative proposals to current-law Pell grant.*
(2) *Adjusted Gross Income refers to income of the students' tax units in 2015, in 2012 dollars.*

## Table 3 (cont.)

Assuming Baseline Take-up Behavioral Responses, All Undergraduate Students [1]

| [illegible] | [illegible] | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | [illegible] | | [illegible] | | [illegible] | | [illegible] | | [illegible] | |
| | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | | [illegible] | [illegible] | [illegible] | | [illegible] | | [illegible] | |
| [illegible] | [illegible] | | [illegible] | [illegible] | [illegible] | | [illegible] | | [illegible] | |
| [illegible] | [illegible] | | [illegible] | | [illegible] | | [illegible] | | [illegible] | |
| All | $3,025 | $23,071,880 | $3,417 | $30,135,935 | $3,805 | $30,839,277 | $3,012 | $31,962,872 | $3,739 | $36,902,747 |

| Size of Adjusted Gross Income (2012 dollars) [2] | Number of All Students in the Group | Number of Recipients | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Option 1 | Option 2 | Option 3 | Option 4 | Option 5 | Option 6 | Option 7 | Option 8 | Option 9 | Option 10 | Option 11 |
| $0 or less | 602,114 | 459,769 | 468,331 | 401,488 | 406,174 | 439,231 | 439,722 | 408,697 | 413,583 | 446,643 | 447,134 | 447,134 |
| > $0 and <= $5K | 1,369,912 | 1,070,212 | 1,072,864 | 958,495 | 966,768 | 1,018,260 | 1,023,111 | 957,838 | 967,911 | 1,020,912 | 1,025,764 | 1,025,764 |
| 5K-10K | 1,457,128 | 1,151,656 | 1,169,158 | 1,017,257 | 1,020,975 | 1,097,645 | 1,105,355 | 1,037,413 | 1,041,199 | 1,112,518 | 1,120,160 | 1,120,160 |
| 10K-15K | 2,159,028 | 1,515,273 | 1,735,530 | 1,374,104 | 1,378,515 | 1,481,532 | 1,487,262 | 1,571,411 | 1,585,056 | 1,665,094 | 1,671,068 | 1,679,805 |
| 15K-20K | 1,598,261 | 1,055,193 | 1,156,461 | 896,142 | 901,011 | 1,008,826 | 1,015,951 | 1,012,793 | 1,021,335 | 1,070,655 | 1,082,284 | 1,128,926 |
| 20K-25K | 1,784,468 | 966,218 | 993,832 | 818,704 | 829,030 | 940,527 | 951,151 | 854,970 | 870,673 | 906,725 | 918,005 | 1,220,810 |
| 25K-30K | 1,568,870 | 788,111 | 656,205 | 684,697 | 685,067 | 781,622 | 784,593 | 575,570 | 590,554 | 623,535 | 638,366 | 865,080 |
| 30K-40K | 2,739,490 | 1,249,990 | 823,780 | 1,082,528 | 1,089,661 | 1,304,032 | 1,316,534 | 748,308 | 752,613 | 786,066 | 789,312 | 1,244,406 |
| 40K-50K | 2,308,534 | 860,320 | 405,430 | 749,639 | 753,805 | 932,661 | 944,166 | 360,571 | 364,897 | 372,940 | 378,818 | 694,131 |
| 50K-75K | 3,395,694 | 817,603 | 120,230 | 651,659 | 653,863 | 934,116 | 940,700 | 98,278 | 99,437 | 100,137 | 101,295 | 443,376 |
| 75K-100K | 2,728,639 | 132,480 | - | 100,814 | 101,354 | 196,293 | 198,201 | - | - | - | - | - |
| 100K-200K | 3,761,787 | 34,624 | | 30,086 | 33,699 | 53,385 | 56,727 | - | - | - | - | - |
| 200K+ | 733,212 | - | | - | - | | - | | - | - | - | - |
| All | 26,207,136 | 10,101,447 | 8,611,820 | 8,763,613 | 8,818,922 | 10,188,129 | 10,263,474 | 7,625,850 | 7,707,258 | 8,105,226 | 8,170,206 | 9,869,693 |

*Notes for Pell Distribution and Revenue Tables:*

*(1) Preliminary estimates. The simulations apply the alternative proposals to current-law Pell grant.*
*(2) Adjusted Gross Income refers to income of the students' tax units in 2015, in 2012 dollars.*

## Table 4:

# Distribution of Current Law Pell Grant and Alternative Proposals by Size of Adjusted Gross Income, Tax Year 2015: Assuming 100% Student Take-up for Alternative Proposals, All Undergraduate Students

Assuming 100% Student Take-up for Alternative Proposals, All Undergraduate Students[1]

| [illegible] | [illegible] | | [illegible] | | [illegible] | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | [illegible] | | [illegible] | | [illegible] | | [illegible] | |
| | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | | [illegible] | | [illegible] | | [illegible] | | [illegible] | | [illegible] | |
| All | $3,565 | $36,012,384 | $2,998 | $32,786,917 | $3,049 | $34,220,908 | $3,135 | $35,213,872 | $3,755 | $45,161,189 | $3,880 | $46,473,373 |

*Notes for Pell Distribution and Revenue Tables:*

(1) *Preliminary estimates. The simulations apply the alternative proposals to current-law Pell grant.*

(2) *Adjusted Gross Income refers to income of the students' tax units in 2015, in 2012 dollars.*

## Table 4 *(cont.)*

Assuming 100% Student Take-up for Alternative Proposals, All Undergraduate Students[1]

| [illegible] | [illegible] | | [illegible] | | [illegible] | | [illegible] | | [illegible] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Average per Recipient | Total Cost (in thousands) | Average per Recipient | Total Cost (in thousands) | Average per Recipient | Total Cost (in thousands) | Average per Recipient | Total Cost (in thousands) | Average per Recipient | Total Cost (in thousands) |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| All | $2,808 | $26,966,233 | $2,883 | $27,744,257 | $3,540 | $33,998,906 | $3,635 | $34,980,864 | $3,490 | $40,466,916 |

| Size of Adjusted Gross Income (2012 dollars)[2] | Number of All Students in the Group | Number of Recipients | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Option 1 | Option 2 | Option 3 | Option 4 | Option 5 | Option 6 | Option 7 | Option 8 | Option 9 | Option 10 | Option 11 |
| **$0 or less** | 602,114 | 459,769 | 586,350 | 502,539 | 502,539 | 502,539 | 502,539 | 509,948 | 509,948 | 509,948 | 509,948 | 509,948 |
| **> $0 and <= $5K** | 1,369,912 | 1,070,212 | 1,328,492 | 1,193,167 | 1,193,167 | 1,193,167 | 1,193,167 | 1,194,310 | 1,194,310 | 1,194,310 | 1,194,310 | 1,194,310 |
| **5K-10K** | 1,457,128 | 1,151,656 | 1,405,192 | 1,218,437 | 1,218,437 | 1,220,191 | 1,220,191 | 1,234,353 | 1,234,353 | 1,234,353 | 1,234,353 | 1,234,353 |
| **10K-15K** | 2,159,028 | 1,515,273 | 2,096,600 | 1,692,594 | 1,692,594 | 1,712,381 | 1,712,381 | 1,896,594 | 1,896,594 | 1,896,594 | 1,896,594 | 1,896,594 |
| **15K-20K** | 1,598,261 | 1,056,193 | 1,526,212 | 1,133,193 | 1,133,761 | 1,182,763 | 1,182,763 | 1,306,593 | 1,306,593 | 1,306,593 | 1,306,593 | 1,343,810 |
| **20K-25K** | 1,784,468 | 966,218 | 1,301,721 | 1,070,385 | 1,070,676 | 1,129,917 | 1,130,840 | 1,085,587 | 1,091,600 | 1,085,587 | 1,091,600 | 1,465,076 |
| **25K-30K** | 1,568,870 | 788,111 | 943,186 | 903,219 | 903,219 | 939,526 | 939,528 | 820,089 | 824,019 | 820,089 | 824,019 | 1,066,345 |
| **30K-40K** | 2,739,490 | 1,249,990 | 1,058,058 | 1,360,642 | 1,361,159 | 1,511,287 | 1,511,626 | 967,061 | 968,552 | 967,061 | 968,552 | 1,494,074 |
| **40K-50K** | 2,308,534 | 860,320 | 532,488 | 1,034,878 | 1,034,878 | 1,139,000 | 1,147,325 | 469,048 | 474,308 | 469,048 | 474,308 | 849,737 |
| **50K-75K** | 3,395,694 | 817,603 | 152,992 | 912,635 | 920,579 | 1,157,069 | 1,159,521 | 120,887 | 122,824 | 120,887 | 122,824 | 539,958 |
| **75K-100K** | 2,728,639 | 132,480 | - | 150,985 | 150,985 | 262,152 | 264,060 | - | - | - | - | - |
| **100K-200K** | 3,761,787 | 34,624 | - | 51,333 | 51,333 | 75,662 | 75,662 | - | - | - | - | - |
| **200K+** | 733,212 | - | - | - | - | - | - | - | - | - | - | - |
| **All** | **26,207,136** | **10,101,447** | **10,937,292** | **11,223,978** | **11,233,328** | **12,025,656** | **12,039,603** | **9,604,469** | **9,623,099** | **9,604,469** | **9,623,099** | **11,594,205** |

*Notes for Pell Distribution and Revenue Tables:*

*(1) Preliminary estimates. The simulations apply the alternative proposals to current-law Pell grant.*
*(2) Adjusted Gross Income refers to income of the students' tax units in 2015, in 2012 dollars.*

### *Table 5:*

## Cost Estimates for Higher Education Loan Reforms (in $ Billions)

(+) savings (-) cost in outlays, by fiscal year

| Proposal | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2013-2017 | 2013-2022 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Subsidized Stafford eliminated (new loans) | 3.000 | 3.100 | 3.350 | 3.600 | 3.850 | 4.100 | 4.400 | 4.800 | 5.300 | 5.900 | 18.900 | 41.400 |
| Unsubsidized Stafford loan limit for dependent undergraduates increased (fair-value) | 0.524 | 0.066 | -0.598 | -1.229 | -1.831 | -2.203 | -2.487 | -2.594 | -2.675 | -2.759 | -3.067 | -15.785 |
| Unsubsidized Stafford limit for independent undergrads conformed to limit for dependents (fair value) | -0.131 | -0.017 | 0.149 | 0.307 | 0.458 | 0.551 | 0.622 | 0.648 | 0.669 | 0.690 | 0.767 | 3.946 |
| Grad PLUS loans eliminated (fair-value) | -2.150 | -1.772 | -1.069 | -0.327 | 0.454 | 0.944 | 1.332 | 1.463 | 1.560 | 1.658 | -4.864 | 2.092 |
| Graduate Stafford loan limit increased to $30,000 | 0.393 | 0.050 | -0.448 | -0.922 | -1.373 | -1.652 | -1.866 | -1.945 | -2.006 | -2.069 | -2.300 | -11.839 |
| Parent PLUS loans eliminated (fair-value) | -2.975 | -2.482 | -1.795 | -1.131 | -0.501 | -0.151 | 0.087 | 0.121 | 0.125 | 0.129 | -8.884 | -8.573 |
| Interest rates on all new student loans pegged to 10-year T-note plus 3.0 percentage points | -4.599 | -7.671 | -5.376 | -1.377 | 2.754 | 5.886 | 7.790 | 8.798 | 9.214 | 9.503 | -16.269 | 24.922 |
| **TOTAL Net budget effect** | **-5.838** | **-8.576** | **-5.629** | **-0.913** | **3.985** | **7.657** | **10.069** | **11.492** | **12.398** | **13.274** | **-16.972** | **37.917** |

*Note: All budgetary effects are estimated relative to current law as of December 19th, 2012.*
*Source: New America Foundation*

# *Table 6:*

## Education Tax Options

Impact on Tax Revenue (billions of current dollars), 2013-2022[1]

Savings are positive, costs are negative

| Baseline and Proposal | Fiscal Year 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total 2013-17 | Total 2013-22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Option 1: Eliminate AOTC, Hope, Lifetime Learning Credit (LLC), and tuition and fees deduction** | 17.7 | 23.7 | 23.9 | 24.2 | 24.7 | 15.8 | 13.3 | 14.1 | 14.9 | 15.6 | 114.2 | 187.8 |
| **Option 2: Maintain and expand LLC, eliminate AOTC, Hope, and tuition and fees deduction** | 12.0 | 15.8 | 15.7 | 15.7 | 15.9 | 6.6 | 3.5 | 3.9 | 4.1 | 4.2 | 75.0 | 97.3 |
| **Option 3: Extend AOTC but end phaseout at $125,000 for married taxpayers filing jointly ($62,500 for single, head of household, and married filing separately)** | 2.3 | 3.5 | 3.8 | 4.1 | 4.5 | -4.7 | -7.7 | -7.1 | -6.9 | -6.7 | 18.2 | -15.0 |
| **Option 3a: Extend AOTC but end phaseout at $125,000 for married taxpayers filing jointly ($62,500 for single, head of household); eliminate tuition and fees deduction and LLC** | 4.6 | 6.0 | 6.2 | 6.7 | 7.2 | -1.7 | -4.3 | -3.4 | -2.7 | -2.0 | 30.7 | 16.7 |
| **Option 3b: Extend AOTC as a nonrefundable credit but end phaseout at $125,000 for married taxpayers filing jointly ($62,500 for single, head of household); eliminate tuition and fees deduction and LLC** | 7.6 | 10.0 | 10.1 | 10.5 | 11.0 | 2.1 | -0.5 | 0.4 | 1.2 | 1.9 | 49.2 | 54.3 |
| **Option 4: Extend AOTC as a nonrefundable credit; eliminate LLC and tuition and fees deduction** | 4.9 | 6.4 | 6.3 | 6.3 | 6.4 | -2.8 | -5.7 | -5.1 | -4.7 | -4.3 | 30.4 | 7.8 |
| **Option 4a: Extend AOTC as a nonrefundable credit through 2017, then revert to Hope; eliminate LLC and tuition and fees deduction** | 4.9 | 6.4 | 6.3 | 6.3 | 6.4 | 5.1 | 5.0 | 5.2 | 5.5 | 5.8 | 30.4 | 57.0 |
| **Option 5: Eliminate the student loan interest deduction** | 0.7 | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 | 1.3 | 1.3 | 4.8 | 10.9 |

*Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-8FD).*

*(1) Fiscal years. Estimates assume a microdynamic behavioral response. Revenue amounts reported are TPC estimates and may differ from official revenue estimates from the Joint Committee on Taxation.*

*Table 7:*

# Distribution of Pell Grant and Education Tax Incentives by Size of Adjusted Gross Income, Tax Year 2013 Current Law: All Students

| Adjusted Gross Income under the Current Law | Number of Undergraduate Students in the Group | Students with Pell Grant | | | Students with AOTC | | | Students with Either Pell Grant or AOTC [2] | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Number of Students | Total Amount [thousands $] | Average Per Student [$] | Number of Students | Total Amount [thousands $] | Average Per Student [$] | Number of Students | Total Amount [thousands $] | Average Per Student [$] |
| **No adjusted gross income** | 664,868 | 509,747 | 1,943,058 | 3,812 | 263,329 | 214,533 | 815 | 556,007 | 2,157,591 | 3,881 |
| **$1 under $5,000** | 1,724,780 | 1,065,570 | 3,933,229 | 3,691 | 512,713 | 430,580 | 840 | 1,180,518 | 4,363,809 | 3,697 |
| **$5,000 under $10,000** | 1,743,782 | 1,152,222 | 4,444,933 | 3,858 | 532,354 | 440,763 | 828 | 1,243,162 | 4,885,696 | 3,930 |
| **$10,000 under $15,000** | 2,537,186 | 1,530,595 | 5,917,412 | 3,866 | 810,286 | 658,492 | 813 | 1,856,793 | 6,575,903 | 3,542 |
| **$15,000 under $20,000** | 1,564,372 | 946,130 | 3,395,345 | 3,589 | 545,543 | 581,699 | 1,066 | 1,188,715 | 3,977,035 | 3,346 |
| **$20,000 under $25,000** | 2,218,271 | 1,027,790 | 3,519,466 | 3,424 | 824,054 | 1,207,759 | 1,466 | 1,515,197 | 4,727,225 | 3,120 |
| **$25,000 under $30,000** | 1,546,454 | 668,800 | 2,289,377 | 3,423 | 496,239 | 796,998 | 1,606 | 975,572 | 3,086,375 | 3,164 |
| **$30,000 under $40,000** | 2,951,113 | 1,141,585 | 3,594,769 | 3,149 | 1,218,074 | 2,152,584 | 1,767 | 1,909,998 | 5,747,353 | 3,009 |
| **$40,000 under $50,000** | 2,406,539 | 735,000 | 2,169,907 | 2,952 | 993,735 | 1,805,256 | 1,817 | 1,371,500 | 3,975,163 | 2,898 |
| **$50,000 under $75,000** | 3,900,073 | 714,718 | 1,681,815 | 2,353 | 1,928,688 | 3,910,008 | 2,027 | 2,237,524 | 5,591,823 | 2,499 |
| **$75,000 under $100,000** | 2,993,964 | 70,151 | 191,384 | 2,728 | 1,888,918 | 3,803,502 | 2,014 | 1,912,733 | 3,994,886 | 2,089 |
| **$100,000 under $200,000** | 4,171,390 | 29,805 | 111,952 | 3,782 | 2,554,364 | 5,337,194 | 2,089 | 2,565,631 | 5,449,146 | 2,124 |
| **$200,000 under $500,000** | 492,791 | 4,823 | 13,225 | 2,742 | 0 | 0 | 0 | 4,823 | 13,225 | 2,742 |
| **$500,000 under $1,000,000** | 75,608 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$1,000,000 under $1,500,000** | 18,471 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$1,500,000 under $2,000,000** | 8,775 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$2,000,000 under $5,000,000** | 12,778 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$5,000,000 under $10,000,000** | 3,411 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$10,000,000 or more** | 2,029 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **All returns** | **29,335,656** | **9,596,736** | **33,205,872** | **3,460** | **12,568,292** | **21,339,357** | **1,698** | **18,518,173** | **54,545,230** | **2,945** |

*Notes for Distribution of Pell Grant and Tax Incentives:*

*(1) Preliminary estimates with the Tax Policy Center version 0412-8 with the 2012 education module. For the description of the current law baselines, see http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=3131. Also see Tax provisions in the American Taxpayer*

*Relief Act of 2012 (ATRA) http://www.taxpolicycenter.org/UploadedPDF/412730-Tax-Provisions-in-ATRA.pdf. in particular, ATRA extended the American Opportunity Tax Credit to the end of 2017 and tuition and fees deduction to the end of 2013.*

- *Students with Pell Grant are defined as students receiving some Pell Grant.*
- *Students with AOTC are defined as students whose eligible expenses were used for calculating AOTC.*
- *Students with Lifetime Learning Credit are defined as students whose eligible expenses were used for calculating the credit.*
- *Students with Tuition and Fees Dedication are defined as students whose eligible expenses were used as a basis for the deduction.*
- *Students with Lifetime Learning Credit or Tuition and Fees Deduction can be either undergraduate or graduate students.*

*(2) See Table X2s for more information regarding students who received both Pell Grant and AOTC.*

*(3) A tax unit's deduction value is the product of its statutory marginal tax rate and the effective deduction amount, where the effective amount is the amount of claimed deduction that can be used to reduce taxable income. For example, a tax unit with $1,000 deduction but -$400 in taxable income after accounting for such deduction would be deemed to have only $600 effective deduction since the other $400 would not reduce taxable income beyond $0.*

## Table 7 (cont.)

| Adjusted Gross Income under the Current Law | Students with Lifetime Learning Credit | | | Students with Tuition and Fee Deductions | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Students | Total Amount [thousands $] | Average Per Student [$] | Number of Students | Total Amount [thousands $] | Average Per Student [$] | Total Value³ [thousands $] | Average Value Per Student [$] |
| **No adjusted gross income** | 66 | 35 | 538 | 38,675 | 76,428 | 1,976 | 0 | 0 |
| **$1 under $5,000** | 0 | 0 | 0 | 182,121 | 574,650 | 3,155 | 0 | 0 |
| **$5,000 under $10,000** | 0 | 0 | 0 | 201,866 | 656,370 | 3,252 | 112 | 1 |
| **$10,000 under $15,000** | 212,986 | 51,617 | 242 | 77,348 | 160,752 | 2,078 | 11,086 | 143 |
| **$15,000 under $20,000** | 153,925 | 83,229 | 541 | 66,605 | 163,789 | 2,459 | 10,067 | 151 |
| **$20,000 under $25,000** | 167,741 | 108,666 | 648 | 102,628 | 220,019 | 2,144 | 18,274 | 178 |
| **$25,000 under $30,000** | 151,760 | 107,954 | 711 | 56,972 | 124,706 | 2,189 | 13,674 | 240 |
| **$30,000 under $40,000** | 333,623 | 218,653 | 655 | 132,258 | 260,938 | 1,973 | 29,134 | 220 |
| **$40,000 under $50,000** | 340,271 | 231,982 | 682 | 160,698 | 318,373 | 1,981 | 49,049 | 305 |
| **$50,000 under $75,000** | 583,856 | 402,234 | 689 | 445,061 | 910,869 | 2,047 | 178,352 | 401 |
| **$75,000 under $100,000** | 506,155 | 363,353 | 718 | 232,087 | 356,048 | 1,534 | 57,012 | 246 |
| **$100,000 under $200,000** | 128,210 | 113,536 | 886 | 723,650 | 1,560,380 | 2,156 | 356,952 | 493 |
| **$200,000 under $500,000** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$500,000 under $1,000,000** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$1,000,000 under $1,500,000** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$1,500,000 under $2,000,000** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$2,000,000 under $5,000,000** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$5,000,000 under $10,000,000** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$10,000,000 or more** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **All returns** | **2,578,592** | **1,681,259** | **652** | **2,419,959** | **5,383,323** | **2,225** | **723,713** | **299** |

*Notes for Distribution of Pell Grant and Tax Incentives:*

*(1) Preliminary estimates with the Tax Policy Center version 0412-8 with the 2012 education module. For the description of the current law baselines, see http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=3131. Also see Tax provisions in the American Taxpayer*

*Relief Act of 2012 (ATRA) http://www.taxpolicycenter.org/UploadedPDF/412730-Tax-Provisons-in-ATRA.pdf. In particular, ATRA extended the American Opportunity Tax Credit to the end of 2017 and tuition and fees deduction to the end of 2013.*

- *Students with Pell Grant are defined as students receiving some Pell Grant.*
- *Students with AOTC are defined as students whose eligible expenses were used for calculating AOTC.*
- *Students with Lifetime Learning Credit are defined as students whose eligible expenses were used for calculating the credit.*
- *Students with Tuition and Fees Dedication are defined as students whose eligible expenses were used as a basis for the deduction.*
- *Students with Lifetime Learning Credit or Tuition and Fees Deduction can be either undergraduate or graduate students.*

*(2) See Table X2s for more information regarding students who received both Pell Grant and AOTC.*

*(3) A tax unit's deduction value is the product of its statutory marginal tax rate and the effective deduction amount, where the effective amount is the amount of claimed deduction that can be used to reduce taxable income. For example, a tax unit with $1,000 deduction but -$400 in taxable income after accounting for such deduction would be deemed to have only $600 effective deduction since the other $400 would not reduce taxable income beyond $0.*

### *Table 8:*

## Distribution of Pell Grant and Education Tax Incentives by Size of Adjusted Gross Income, Tax Year 2013 Current Law: All Students with Both Pell Grant and AOTC

All Students with Both Pell Grant and AOTC [1]

| Adjusted Gross Income under the Current Law | Number of Students | Pell Grant | | AOTC | | Pell Grant and AOTC | |
|---|---|---|---|---|---|---|---|
| | | Total Amount [thousands $] | Average Per Student [$] | Total Amount [thousands $] | Average Per Student [$] | Total Amount [thousands $] | Average Per Student [$] |
| **No adjusted gross income** | 217,065 | 907,885 | 4,183 | 187,019.8 | 862 | 1,094,905 | 5,044 |
| **$1 under $5,000** | 397,766 | 1,551,077 | 3,899 | 337,126.3 | 848 | 1,888,203 | 4,747 |
| **$5,000 under $10,000** | 441,413 | 1,846,502 | 4,183 | 369,234.9 | 836 | 2,215,737 | 5,020 |
| **$10,000 under $15,000** | 484,087 | 1,894,874 | 3,914 | 383,871.8 | 793 | 2,278,746 | 4,707 |
| **$15,000 under $20,000** | 302,958 | 1,154,201 | 3,810 | 310,417.2 | 1,025 | 1,464,618 | 4,834 |
| **$20,000 under $25,000** | 336,648 | 1,233,160 | 3,663 | 430,656.5 | 1,279 | 1,663,816 | 4,942 |
| **$25,000 under $30,000** | 189,466 | 687,622 | 3,629 | 275,353.8 | 1,453 | 962,976 | 5,083 |
| **$30,000 under $40,000** | 449,661 | 1,423,753 | 3,166 | 730,062.5 | 1,624 | 2,153,815 | 4,790 |
| **$40,000 under $50,000** | 357,235 | 1,107,055 | 3,099 | 641,240.1 | 1,795 | 1,748,295 | 4,894 |
| **$50,000 under $75,000** | 405,882 | 957,299 | 2,359 | 877,402.6 | 2,162 | 1,834,702 | 4,520 |
| **$75,000 under $100,000** | 46,336 | 107,778 | 2,326 | 92,900.3 | 2,005 | 200,678 | 4,331 |
| **$100,000 under $200,000** | 18,338 | 65,610 | 3,578 | 42,210.7 | 2,302 | 107,821 | 5,880 |
| **$200,000 under $500,000** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$500,000 under $1,000,000** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$1,000,000 under $1,500,000** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$1,500,000 under $2,000,000** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$2,000,000 under $5,000,000** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$5,000,000 under $10,000,000** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **$10,000,000 or more** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **All returns** | **3,646,854** | **12,936,814** | **3,547** | **4,677,496.4** | **1,283** | **17,614,311** | **4,830** |

*(1) Preliminary estimates with the Tax Policy Center version 0412-8 with the 2012 education module. For the description of the current law baselines, see http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=3131. Also see Tax provisions in the American Taxpayer Relief Act of 2012 (ATRA) http://www.taxpolicycenter.org/UploadedPDF/412730-Tax-Provisions-in-ATRA.pdf. In particular, ATRA extended the American Opportunity Tax Credit to the end of 2017 and tuition and fees deduction to the end of 2013.*

- *Students with Pell Grant are defined as students receiving some Pell Grant.*
- *Students with AOTC are defined as students whose eligible expenses were used for calculating AOTC.*

## Table 8 (cont.)

| Adjusted Gross Income under the Current Law | Number of All Students in the Group | Number of Students with Both Pell and AOTC | Number of Students with Pell | Number of Students w AOTC | Share of Students with both AOTC and Pell | Share of Pell Students with AOTC | Share of AOTC Students with Pell |
|---|---|---|---|---|---|---|---|
| **No adjusted gross income** | 864,868 | 217,065 | 508,747 | 263,325 | 25% | 43% | 82% |
| **$1 under $5,000** | 1,724,780 | 397,786 | 1,065,570 | 512,713 | 23% | 37% | 78% |
| **$5,000 under $10,000** | 1,742,782 | 441,413 | 1,152,222 | 532,354 | 25% | 38% | 83% |
| **$10,000 under $15,000** | 2,537,185 | 484,087 | 1,530,595 | 810,286 | 19% | 32% | 60% |
| **$15,000 under $20,000** | 1,664,372 | 302,958 | 946,130 | 545,543 | 18% | 32% | 56% |
| **$20,000 under $25,000** | 2,218,271 | 338,648 | 1,027,790 | 824,054 | 15% | 33% | 41% |
| **$25,000 under $30,000** | 1,546,454 | 189,466 | 668,800 | 498,239 | 12% | 28% | 38% |
| **$30,000 under $40,000** | 2,951,113 | 449,661 | 1,141,585 | 1,218,074 | 15% | 39% | 37% |
| **$40,000 under $50,000** | 2,406,539 | 357,235 | 735,000 | 993,735 | 15% | 49% | 36% |
| **$50,000 under $75,000** | 3,900,073 | 405,882 | 714,718 | 1,928,688 | 10% | 57% | 21% |
| **$75,000 under $100,000** | 2,993,964 | 46,336 | 70,151 | 1,889,918 | 2% | 66% | 2% |
| **$100,000 under $200,000** | 4,171,390 | 18,338 | 29,605 | 2,554,364 | 0% | 62% | 1% |
| **$200,000 under $500,000** | 492,791 | 0 | 4,823 | 0 | 0% | 0% | |
| **$500,000 under $1,000,000** | 75,608 | 0 | 0 | 0 | 0% | | |
| **$1,000,000 under $1,500,000** | 18,471 | 0 | 0 | 0 | 0% | | |
| **$1,500,000 under $2,000,000** | 8,775 | 0 | 0 | 0 | 0% | | |
| **$2,000,000 under $5,000,000** | 12,778 | 0 | 0 | 0 | 0% | | |
| **$5,000,000 under $10,000,000** | 3,411 | 0 | 0 | 0 | 0% | | |
| **$10,000,000 or more** | 2,029 | 0 | 0 | 0 | 0% | | |
| **All returns** | **29,335,656** | **3,646,854** | **9,596,736** | **12,569,292** | **12%** | **38%** | **29%** |

### *Table 9:*

## Shared Responsibility: Numbers of Students, Institutions and Cost of Pell Grants in Institutions That Scored in Bottom Decile of 2 out of 3 Categories

| [illegible] | [illegible] | | | [illegible] | | |
|---|---|---|---|---|---|---|
| | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| **Total** | 299 | 136 | $3,196 | 274 | 102 | $1,054 |

*Notes: The three categories are A) percent of students receiving Pell grants in 2010-11 (from IPEDS data) B) percent of first time full time students who completed their credential within 150% of normal time in 2010 (from IPEDS data) and C) Repayment Rate for 2009 from the New America Foundation. Failing a category was defined as being in the bottom decile in that category. For uniform failure levels, all institution types were treated the same. For varying standards, failing a category was defined as being in the bottom decile in that category for that institution type. Sample includes the 4344 institutions which report all three measures and represent 7.2 million Pell students and $29 billion of Pell grants.*

### *Table 9A:*

## Cutoffs Ranges for Calculations

| School Type | Percent Pell | Percent Completers | Repayment Rate |
|---|---|---|---|
| **Uniform Failure Levels** | 22.9% | 18.1% | 24.5% |
| **Non-Profit** | 17.8% | 29.1% | 35.1% |
| **For-Profit** | 41.1% | 39.8% | 19.8% |
| **Public 2 Year** | 21.1% | 10.2% | 27.3% |
| **Public 4 Year** | 22.9% | 23.3% | 32.2% |

*Table 9B:*

**Alternative Shared Responsibility Measure: Number of Institutions and Cost of Pell Awards in Institutions, by Number of Credentials Awarded Per Full Time Equivalent Student**

| School Type | Institutions Issue Less than 6 2/3 Credentials per 100 Full Time Equivalent Students | | Institutions Issue Less Than 12.5 Credentials per 100 Full Time Equivalent Students | |
|---|---|---|---|---|
| | Number of Institutions Affected | Total Pell ($ millions) | Number of Institutions Affected | Total Pell ($ millions) |
| **Non-Profit** | 32 | $16 | 89 | $215 |
| **For-Profit** | 72 | $124 | 219 | $813 |
| **Public 2 Year** | 6 | $75 | 125 | $1,884 |
| **Public 4 Year** | 7 | $44 | 50 | $344 |
| **Total** | 119 | $258 | 492 | $3,267 |

*Notes: Sample include 7,469 institutions which report credentials per full time equivalent $31.6 billion of Pell grants.*

**_Table 10:_**

## Pell Expenditures at Block Pell Grant Pilot Institutions (illustrative examples)

| Ope ID | School/System of Schools | | 2011-12 Pell Grants | | 0.02 | Five-Year Contract |
|---|---|---|---|---|---|---|
| | | State | Recipients | Awards | | Amounts |
| 00108100 | Arizona State University | AZ | 26,129 | $100,029,068 | | $520,555,287 |
| 00113900 | California State University, Long Beach | CA | 14,492 | $59,684,302 | | $310,599,505 |
| N/A | Total -- Miami Dade College | FL | 47,746 | $172,014,272 | | $895,169,177 |
| 00157400 | Georgia State College | GA | 14,071 | $53,479,729 | | $278,310,657 |
| N/A | Total -- University of Hawaii System | HI | 18,889 | $65,610,687 | | $341,440,650 |
| 00991700 | Ivy Tech Community College of Indiana | IN | 80,896 | $239,815,164 | | $1,248,007,747 |
| N/A | Total -- Purdue University | IN | 12,894 | $47,970,410 | | $249,639,941 |
| N/A | Total -- Kentucky Community College System | KY | 61,520 | $199,853,901 | | $1,040,047,727 |
| N/A | Total -- University of North Carolina System | NC | 69,429 | $276,304,521 | | $1,437,899,824 |
| N/A | Total -- City University of New York | NY | 147,073 | $561,829,629 | | $2,923,783,951 |
| | **Total** | | 493,139 | $1,776,591,683 | | $9,245,454,484 |

*Note: The net cost of program is expected to be zero. Schools will be penalized or expelled from the program if low-income student enrollment falls below certain criterion (current performance). If the program is effective at increasing enrollment and completion of low-income students, schools will keep the ability to participate in the program for the remainder of the period and an additional five years. The above schools and programs are sampled for illustrative purposes only.*

**_Table 11:_**

## Pell Ready Grant Program

College ready grant program. Create a college-ready exam that juniors will take and that is available to continuing education students. For example, $125 Million program, can serve 1/3 of students attending high poverty schools, and includes funding for returning students at or below 250 percent of the poverty line.

| | Serving Low-Income Schools | Serving 100,000 Students |
|---|---|---|
| Current Cohort of Juniors | 3,541,891 | 100,000 |
| Assume open to 9.3% of schools with 75-100% student populations on free/reduced price lunch | 329,396 | N/A |
| Assume $50 testing cost | $16,469,793 | $5,000,000 |
| $1750 Grant for on-line course open to those who not ready (if use NAEP basic 55% need help if use NAEP proficient 90%) (assumes 55%) | $317,043,518 | $96,250,000 |
| Total Cost | $333,513,311 | $101,250,000 |

# Appendix B

## Obstacles to a More Effective, Sustainable Student Aid System

Over the last 50 years, Congress has created a patchwork quilt of federal grant, loan, and tax benefit policies. The Technical Panel's financial aid program and higher education policy expertise contributed to this synopsis of perceived obstacles in the current student aid system. Specifically, four overarching obstacles hinder the efficiency and long-term sustainability of the aid programs, as well as make it difficult to improve outcomes among aid recipients.

1. *Despite recent improvements, the design and delivery of federal aid continues to be too complex for students.*
    - Complexity in the loan program harms affordability in repayment and inefficiently targets scare subsidy.
    - The way financial aid is allocated is not keeping up with rapid transformation in the college student population and disruption in higher education delivery.[1] This disruption is needed to help find ways to reduce the cost of delivering a postsecondary credential and the prices students face as well as maintain the value of financial aid invested.
2. *Federal policymaking demonstrates a lack of long-term thinking and coherent planning.*
3. *Federal policy lags behind what research says are promising ways to more effectively serve students.*
    - Inadequate information for students, families and those who advise students about how much college costs and student outcomes. Research shows the value of a "best college match" between student and institution to completing a credential.[2]
    - The federal definition of "satisfactory academic progress" does not align with the research showing the value of continuous enrollment intensity, which increases the likelihood a student completes a certificate or degree, and completes on-time.[3]
    - The federal government inadequately engages states, systems and colleges as partners in our collective completion challenge.

Each of these obstacles is examined in further detail.

1 Laitinen, A. 2012.*Cracking the Credit Hour*. New America Foundation: Washington, D.C.

2 Bowen, W., M. Chignos, & M. McPherson. 2009. "Crossing the Finishing Line: Completing College at America's Public Universities." Princeton University Press: Princeton, N.J.

3 Adelman, C. 2006. "The Toolbox Revisited: Paths to Degree Completion From High School Through College." U.S. Department of Education: Washington, D.C.

*Complexity in the loan programs harm affordability in repayment and inefficiently target subsidy*

Differing program structures add to aid complexity and likely confuse students and their parents, which can contribute to the matching errors affecting college completion. For example, the availability of Federal Supplemental Educational Opportunity Grants (FSEOG) depends on the institution attended by the financial aid applicant. Unlike Pell Grants, FSEOG awards are not portable. The statutory formula that allocates FSEOG funds among colleges and universities embeds a basic horizontal inequity in the program.[4] Institutions well served by the formula can provide their low-income students with more grant funds than like students at other institutions.

Historically, the federal student loan program was characterized by many private lenders aggressively competing for student borrowers. As a result, by the time they completed their schooling, many borrowers had loans held by various lenders. Congress' continued propensity to change terms and conditions frequently, especially with regard to borrower interest rates, has done little to help reduce complexity. The same could be said about the department's regulatory activities in recent years. The inconsistent way of reporting costs and aid packages has also added to the complexity, with students often not distinguishing between loans and grants and instead focusing on the out-of-pocket costs.

The program complexity and resulting borrower confusion are not conducive to the efficient operation of the loan program. More important, however, failure to repay is an awful outcome for the student borrower. For all practicable purposes, federal student loans are not dischargeable in bankruptcy. While perhaps harsh, it might not be unreasonable given that federal student loans have no underwriting standards and thus the price of the loan charged to the borrower does not reflect any risk of nonpayment. Consequently, the federal government will pursue collection from a defaulted borrower through wage garnishment, offsetting income tax refunds and attaching other federal benefits. And the department will not cease those efforts until the defaulted loan is paid in full.[5] Thus, students should have a more thorough understanding of debt and the consequences of default when they assume student loans.

Throughout the evolution of the federal student loan program, policymakers have never settled on how broad its benefits should be. At various times beginning in 1966, the program provided the same interest benefits to all of its borrowers, and at other times borrowers received different levels of benefits. Finally, in 1992 they decided it was both: Stafford loans with in-school interest subsidies for needy borrowers, and Stafford loans lacking such interest subsidies for all borrowers.[6] In practice, the term "subsidized" has been understood to refer to Stafford loans wherein the government pays the interest due while the borrower is in school. So there are two loans—not distinctly branded—that are identical in terms and conditions save for borrowing limits and who pays the interest due while the borrower is a student. Stafford loan limits are dollar-based. There is no time limit—students may borrow for an unlimited number of years. Students enrolled at least half-time, even if they are not currently borrowing, are not required to pay the interest due on their Stafford loans.

Two additional loan programs for parents of undergraduate students and graduate and first professional students, PLUS and Grad PLUS respectively, allow parents of undergraduates and graduate students themselves to borrow annually up to the full cost of attendance at institutions. Borrowers in both programs are themselves responsible for all interest that accrues on their

4 Higher Education Act of 1965, as amended, Title IV, Part A, Subpart 3; 20 U.S.C. 1070b to 1070b-4.
5 U.S. Department of Education. Federal Student Aid. 2012-13 Federal Student Aid Handbook. Vol. 6 Ch. 5.
6 Higher Education Amendments of 1992, (P.L. 102-325).

loans. However, there is no absolute (dollar-based) annual limit, nor is there an aggregate (lifetime) limit for borrowers.[7] There is no limit to the number of years they can borrow as well.[8] Such program features do not encourage timely degree completion and may even encourage growth in tuition prices. Furthermore, they can reduce the value of a degree to the extent that students are able, and perhaps encouraged, to overpay for their educations. For parent borrowers, they can reduce the value of the credential for first-generation/low-income students to the extent that a family overpays and over-borrows to finance a student's education, or that institutions charge higher prices than they otherwise could.

The Internal Revenue Code provides additional benefits to federal student loan borrowers. Within certain income limits, interest paid on college education loans is a deductible expense for individual taxpayers. Though not as generous as the tax credits provided for college tuition payments, this deduction is nonetheless regressive in nature, as it tends to benefit disproportionately higher-income taxpayers. According to the Joint Committee on Taxation, taxpayers with incomes above $75,000 receive between 47 and 53 percent of the total amount of the benefit, depending on which benefit is claimed.[9]

Programs currently allow for unlimited forgiveness on all federal student loans (except Parent PLUS) through the Income-Based Repayment (IBR) plan. There is no doubt that IBR can be a very helpful tool for borrowers managing their student loan debt and ensuring their financial resources are not overwhelmed by required debt service. Yet IBR, if not designed properly, can weaken the incentive borrowers normally face to borrow and spend prudently. It can also disrupt optimal enrollment patterns because it may strengthen the incentives that institutions already face, including consumer price sensitivities and value calculations, to raise tuitions and thus prolong enrollment times.[10]

*The way financial aid is allocated is not keeping up with rapid transformation and disruption in higher education delivery.*

Federal, state and institutional aid programs are designed for a traditional-age student at a brick-and-mortar campus. At no level does student aid support an unbundled (less than a course worth of learning), course-by-course or portfolio approach to postsecondary learning.[11] Currently, federal student aid can be used for eligible educational *programs*. Part of the determination is based on credit hours. This "seat time" credit hour, a measure of time spent in class, is not an adequate measure of student learning. Innovative and potentially lower-cost delivery models such as competency-based or modular programs are difficult to quantify under the credit hour measure.

The Kentucky Community and Technical College System, for instance, launched its Learn on Demand (LoD) initiative after the most recent reauthorization of the Higher Education Act in 2008. LoD is an innovative, accelerated and less expensive statewide associate degree program that allows adults to work at their own pace and demonstrate mastery of knowledge as the measure of progress in their degree program. Unfortunately, LoD is constrained in its growth and in serving more nontraditional students because federal regulations require a college to set specific definitions such as academic year, term,

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7 Originally, Congress placed borrowing limits on the PLUS loans. These limits were removed in Higher Education Amendments of 1992. (P.L. 102-325).

8 U.S. Department of Education. Federal Student Aid. 2012-13 Federal Student Aid Handbook. Vol. 3 Ch. 5.

9 Joint Committee on Taxation. January 17, 2012. Estimates of Federal Tax Expenditures for Fiscal Years 2011-2015. Government Printing Office JCS-1-12. p. 52. (Distribution Based on 2010 rates and Income Levels)

10 Kelly, A. Dec. 2012. "A Student Debt Cure Worse Than the Disease." The American. American Enterprise Institute: Washington, D.C.

11 Laitinen, A. 2012. 34 CFR 600.2 and 34 CFR 602.24 and 34 CRF 66.8 http://ifap.ed.gov/dpcletters/attachments/GEN1106.pdf

payment periods and enrollment status consistent with federal guidelines when determining how to disburse federal aid to their students. Competencies gained are then assigned credit hours, so students can receive federal aid.

While regulations have been tweaked in recent years to better accommodate competency-based and modular programs that are often provided online through distance education programs, these aid programs are not currently designed for students to take full advantage of new instructional models. Thus, while a few innovators go through the administrative process at the institution to quantify learning in terms of credit hours and justify earned aid to the Department of Education, most institutions can cite the complex and labor-intensive process of quantifying learning in terms of traditional constructs as an impediment to trying innovative programs.

*Recent federal financial aid policy debates and funding approaches demonstrate a lack of long-term thinking and coherent planning.*

Over sixty years, policymakers have layered new grant, loan, repayment programs with each subsequent reauthorization, budget reconciliation and even emergency spending bills. With each modification, made to satisfy a particular need or interest group, subsidy and policy work at cross purposes, resulting in sub-optimal outcomes for students and taxpayers. Further, federal student aid programs have fallen victim to the same policymaking approach that now plagues most federal tax and spending policies: lack of a coherent plan or framework to ensure long-term financial stability. As a result, annual funding for the Pell Grant program is now provided through not one but three budget streams. Worse, one-fifth of that funding expires each year, creating a "funding cliff" that Congress has addressed with emergency funding, knee-jerk changes to eligibility rules, and redirected resources through elimination of other aid programs. Policymakers must contemplate major reductions to program funding, or find an additional $32 billion between 2014 and 2023.[12]

This dysfunctional dynamic affects federal student loan programs as well. Policymakers spent three months in 2012 debating the merits of providing lower interest rates on a subset of loans that may make up a portion of an undergraduate's loans, but only for one year.[13] The issue arose because in 2007 Congress enacted a series of temporary borrower interest rate reductions on these loans.[14] The reductions were too expensive to make permanent, so that policy expired in 2012. Under a one-year extension of that policy enacted in 2012, at a cost to taxpayers of $6 billion, the maximum savings to any one borrower is about $9 a month.[15] This policy expires again in July 2013.

Add to this patchwork of student loan policy and expiring provisions a new, more-generous Income-Based Repayment (IBR) plan that took effect in 2012.[16] If borrowers pay based on a small share of their income under IBR (not more than 10 percent), how much do interest rates matter, and for whom do they matter? What interest rates do borrowers really pay when they use IBR? These are all complicated questions that few policymakers or stakeholders have thought to ask. But answering those questions is the key to better policy.

12 Based on calculations by Jason Delisle, New America Foundation.
13 Moving Ahead for Progress in the 21st Century Act of 2012. P.L. 112-141.
14 College Cost Reduction and Access Act of 2007. P.L. 110-84
15 Moving Ahead for Progress in the 21st Century Act of 2012. P.L. 112-141. Based on calculations by Jason Delisle, New America Foundation.
16 U.S. Department of Higher Education.Office of Federal Student Aid. http://studentaid.ed.gov/repay-loans/understand/plans/pay-as-you-earn.

No discussion of this incongruous and temporary federal aid policy would be complete absent a mention of income tax benefits. Students and families can qualify for one of several tax benefits to offset the cost of college tuition. In recent years, those benefits have become vastly more generous. The American Opportunity Tax Credit expanded an existing $5 billion tax credit to provide nearly $14 billion in benefits annually.[17] Due to its expense, this program was originally set to expire after 2010, but lawmakers extended it through 2012.[18] Then, in December 2012, Congress extended the AOTC till 2017 in the American Taxpayer Relief Act of 2012, at a cost of $67 billion.[19] This policy, then, would continue to compete for resources with the other federal student aid programs.

*Federal policy lags what recent research says are promising ways to more effectively serve students.*

Recent research on the effects of financial aid on student outcomes identify some ways that the design and delivery of current federal financial aid policy lag emerging evidence.

*The role of simplification in promoting access and affordability*

No barrier is perhaps as well substantiated by research as the role that simplifying the application process could play in promoting access, affordability and completion.[20] Needy students who never apply for federal financial aid lack foundational resources to enroll, and preferably enroll full-time, in college.

The federal need analysis formula creates application barriers and hinders otherwise eligible students from receiving aid. The Free Application for Federal Student Aid (FAFSA) is complex, though perhaps unintentionally so. Prior to the 1986 Amendments to the Higher Education Act (HEA), Congress specified the broad outline of the need analysis formula, and the department—via regulation—established the detailed methodology and parameters. In 1986, however, Congress took complete responsibility for need analysis policy as well as the formula details.[21] Family and applicant income—both taxable and untaxed—as well as liquid and non-liquid assets were explicitly defined in the statute, along with the various offsets that shielded portions of income and assets from consideration in the formula. The statute also defined the composition and members of the applicant's household. Congress also provided for a "simplified need test" using a reduced set of income and household information for applicants who met certain income and federal income tax filing requirements.

In response to widespread concern about the actual and possible proliferation of need analysis application forms and the associated family/student burden in filing multiple forms, Congress mandated in the 1992 HEA Amendments a single

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17 This refers to the expansion of the Hope Credit to the American Opportunity Education Tax Credit under the American Recovery and Reinvestment Act of 2009 PL 111-5.

18 Tax Relief, Unemployment Insurrance Reauthorization and Job Creation Act of 2010. P.L. 111-312.

19 American Taxpayer Relief Act of 2012. PL 112-240. Calculations regarding the Hope and American Opportunity Tax Credit by Jason Delisle, Advisory Panel member and Director of the Education Budget Project at New America Foundation.

20 Dynarksi, S. and Scott-Clayton, J. 2007. College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid. Brookings Institution; Washington, D.C. Bettinger, E. 2012. "Financial Aid: A Blunt Instrument for Increasing Degree Attainment" in Getting to Graduation. Edited by Kelly, A. and Schneider, M. (Johns Hopkins University Press: Baltimore, MC), pp. 157-17.mCollege Board. 2008. "Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid: The Report from the Rethinking Student Aid Study Group". Bettinger, E., Long, B., Oreopoulos, P. & Sanbonmatsu, L. 2012. "The role of simplification and information in college decisions: Results from the H&R Block FASFA experiment "(*Working Paper No. 15361*). National Bureau of Economic Research.

21 The Higher Education Amendments of 1986 (P.L. 99-498)

methodology as well as a single, no-charge application form (FAFSA) for determining Title IV eligibility. Congress also authorized the department secretary to include a limited number of data elements to serve as an incentive for states and institutions to use the FAFSA and federal methodology for awarding their own aid.[22]

Owing to a federal need analysis formula specified in statute, prior—and largely unsuccessful—efforts to simplify the financial aid application process have taken a "form follows formula" approach. That is, the financial aid application form can be simplified, but only if the federal formula is modified, which, of course, requires congressional action.

Three years ago, the department took a different tack: Approach aid simplification from the user's perspective by leveraging available technology. The department, and in particular Federal Student Aid, has greatly improved the electronic products—most notably FAFSA on the Web—with improved skip logic and response times. Current estimates are that at least 98 percent of all FAFSAs are submitted electronically.[23] What is not known is the number of students, and prospective students, who would otherwise be eligible for aid but who do not apply. To be sure, there is evidence that this number is in decline. After all, the number of FAFSAs processed by FSA each year is approaching the total postsecondary enrollment.[24]

As of 2010 certain online applicants for federal student aid could retrieve information needed to establish student aid program eligibility from Internal Revenue Service income tax files. Not all FAFSA filers can utilize this feature because of the mismatched timing of filing individual income tax returns and applying for financial aid. But for the 24 percent of applicants who can use it, required verification of FAFSA applicant information is greatly simplified.[25] Better coordination between the timing of aid application and income tax filing would allow many more aid applicants and their families to take advantage of this simplification feature.

*The role of better consumer information in guiding a "best college match"*

The choice of institution can have a significant effect on student success, over and above students' academic and socioeconomic background. For instance, in Bowen, Chingos and McPherson's analysis of six-year graduation rates from 21 public flagship universities and four statewide systems, the authors argue that "broadly speaking, education attainment suffers, and students (and higher education in general) are harmed, whenever two types of sorting errors occur: (a) students are "overmatched" by enrolling in programs for which they are not qualified or (b) students are "undermatched" by failing to attend colleges and universities at which they will be appropriately challenged.[26] Undermatching primarily occurs during the admissions process, which is linked to the financial aid process.[27]

22 The Higher Education Amendments of 1992 (P.L. 102-325)

23 U.S. Department of Education. 2012. Why Complete a FASFA. Federal Student Aid. http://studentaid.ed.gov/sites/default/files/2012-13-completing-the-fafsa.pdf

24 2012 Federal Student Aid Conference Presentations. Session 26: FASFA & Application Processing Update. [PowerPoint Presentation]. (November 2012) Parkinson, S. & Sears, J. U.S. Department of Education.

25 U.S. Department of Education, 2011. Federal Student Aid Application: Facts and Figures. U.S. Department of Education: Washington, D.C.

26 Bowen, W., M. Chignos, & M. McPherson. 2009.

27 Researchers have also found that an approach to learning that holds incoming students to high standards while providing them with support services—both academic and social—and supportive environments leads to improved outcomes, including higher completion rates.

The federal financial aid system does not exert adequate consumer protection by providing information to prospective students and their families or by protecting them from investing their aid dollars in low-quality institutions. Such information can assist students and their families to think about the range of available postsecondary options in terms of what are the likely financial and personal returns on their prospective college investment.

To start, students applying for college and financial aid do not always have clear information about whether the colleges they are considering have a track record of graduating students on time, and low-income students have little clue which campuses serve needy students best. While the U.S. Department of Education has begun providing institution-specific six-year graduation rates to federal financial aid applicants, institutional eligibility to participate in the Title IV programs still does not provide sufficient consumer information and protection to help students and families make good college choices.[28]

To be sure, the regulations are full of required disclosures, notifications, reporting and the like. But there is no focused determination of what prospective students and their parents need to know. These "consumerism" requirements have essentially become a set of check-off boxes for the department to determine institutional eligibility, rather than a proactive tool with which regulators can help inform consumer choice and aid in consumer and taxpayer protection. Instead of conducting research and a thorough *ex post facto* review of their efficacy and utility, policymakers have simply layered one required disclosure on top of another, leading to a product of little use to the average consumer. Simple performance metrics and thresholds, tied to institutional eligibility for federal financial aid, could be a much more powerful way to protect students, particularly first-generation college students, while providing the comparative information they need to make a "best college match."

### *The role of targeting aid in improving student outcomes*

A recent meta analysis, conducted by Drs. Doug Harris and Sara Goldrick-Rab, summarizes findings of financial aid experiments in the United States and Canada. Similar findings emerge about tbe relationships between how financial aid is targeted and student outcomes:

- Aid often does help improve student outcomes.
- Effects can be small if the aid is not targeted.
- Some groups respond (positively) more than others:
    - low-income students (e.g. Pell-eligible);
    - lowest-income students within low-income groups (e.g., the lowest-income Pell students);
    - students without strong academic backgrounds (though not necessarily the weakest);
    - older students (e.g., 25 years and older); and
    - women (a consistent finding, but probably not relevant for policy).[29]

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28 34 CFR 668.41-.48; College Navigator , Net Price Calculators required by the 2008 HEOA and the institutional performance measures sent to students from the Office of Federal Student Aid only after choosing to send their financial information to an institution are examples of current consumer information provided or required by the federal government.

29 Harris, D.N. & Goldrick-Rab, S. 2012.

Studies Finding Behavioral Effects of Student Financial Aid by Subgroup and Treatment Type

| Type of Aid Provided (Treatment Type) | Sub-Groups | Smaller/ Negative Effect | No Difference/ No Effect | Larger/ Positive Effect |
|---|---|---|---|---|
| **Need only (Pell, Social Security)** | Women | | | 1 |
| | Minorities | | 1 | |
| | Low-income/SES | | 1 | 1 |
| | Older/ nontraditional | | | 1 |
| | Low ACT/GPA | | | |
| **Merit within need (GMS, Opening Doors, state programs)** | Women | 1 | 1 | 2 |
| | Minorities | | 1 | |
| | Low-income/SES | | 1 | 3 |
| | Older/ nontraditional | | | 2 |
| | Low ACT/GPA | | | |
| **Merit only (Canada STAR, state programs)** | Women | | 1 | 1 |
| | Minorities | 1 | 1 | 1 |
| | Low-income/SES | 1 | | 1 |
| | Older/ nontraditional | | | |
| | Low ACT/GPA | | | 2 |
| **General (GI Bill, tuition changes)** | Women | | | |
| | Minorities | | 1 | |
| | Low-income/SES | 0.5* | | 1 |
| | Older/ nontraditional | | | |
| | Low ACT/GPA | | | |

*Reprinted from Harris, D.N. & Goldrick-Rab, S. 2012. Improving the Productivity of Education Experiments: Lessons from a Randomized Study of Need-Based Financial Aid. Education Finance and Policy. p. 143-169. *Study listed as 0.5 because authors felt the study was dated and occurred in a higher education system with significantly different conditions.*

Some studies show early evidence that there are better results when the aid is provided as an incentive to help the student progress toward a degree, such as taking more courses or participating in support services. Most of the experiments structured with those elements have found positive results.[30]

30 Johnson, N. & Yanagiura, T. 2012. "Evaluation of Indiana's Financial Aid Programs and Policies." HCM Strategists. HCM Strategists: Washington, D.C.. Observed from studies such as: R.A. Malatest and Associates, Ltd. 2009. "FINAL Impacts Report: Foundations for Success Project." Toronto: Canada Millenium Scholarship Foundation. Patel, R. & Richburg-Hayes, L. 2012. Performance-Based Scholarships: Emerging Findings from a National Demonstration. MDRC. http://www.mdrc.org/sites/default/files/policybrief_41.pdf. Scott-Clayton, J. 2011. "On Money and Motivation: A Quasi-experimental Analysis of Financial Incentives for College Achievement." The Journal of Human Resources. Vol. 46 no. 3. University of

A major, statewide experiment under way in Wisconsin, on the other hand, has found that simply adding dollars to low-income students' aid packages with minimal communication, targeting or strings attached has little significant effect on student outcomes for recipients.[31] However, the same study is finding improvements for the most at-risk students and students at the least selective four-year institutions (who are often the same students). Thus, there is some evidence that additional funds could benefit the neediest students.

### *The role of intensity of enrollment in completion*

Research has shown that a student's attendance pattern is highly correlated with the likelihood he or she will attain a credential. The recent research conducted by the Community College Research Center contributes multiple studies on the role of credit accumulation and the attainment of certain credit "milestones" in predicting college completion.[32] Cliff Adelman's earlier longitudinal transcript study on the factors affecting college completion found continuous enrollment was one of the strongest predictors of attainment, increasing the likelihood of degree completion by 43 percent.[33] This research has informed the development of performance metrics used to guide program and institutional improvement in top-performing community colleges, in performance funding systems for public colleges in Indiana, Ohio, Tennessee and Washington, and in a common set of metrics 32 states voluntarily collect through participation in the Complete College America Alliance of States.

This is not to say the federal government has historically ignored student progress. But the program characteristics intended to address such goals and concerns have been indirect until recently. In 2012, Congress reduced the lifetime limit for Pell from 18 to 12 semesters (or equivalent).[34]

With respect to determining a student's enrollment intensity, regulations governing Title IV defer to institutional policy, but with one overarching standard: A student must be enrolled for a minimum of 12 credit hours (or equivalent) to be eligible for a financial aid award available to full-time students. Assuming a 120-credit standard for a bachelor's degree, federal policy does not provide an incentive for students to complete a bachelor's program within four years. At 12 credit hours per semester, it would take a student five years, assuming all classes were passed. While the federal standard is derived from the statutory definition of an academic year, it nonetheless provides no incentive for students to complete their program of study promptly – or for colleges to minimize credit creep in programs, offer core courses when needed, or put structured degree pathways in place.

More recent research has examined the effect of using financial aid to create incentives for students to accumulate credits and strive for higher grade point averages (GPAs). The results provide early lessons that policymakers might consider to enhance individual students' academic progression. In the small number of randomized financial aid experiments findings have generally confirmed that financial aid can improve student success, especially if it is appropriately used. Several controlled experiments with "performance-based scholarships" have found that additional aid, presented as an incentive for course

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Wisconsin Press.

31 Harris, D.N. & Goldrick-Rab, S. 2012.

32 Bailey, T., Jeong, D.W., & Cho. S.W. (2010). "Student progression through developmental sequences in community college," *45*, Community College Research Center: Columbia University. Jenkins, D. & Cho, S. (2012). "Get with the Program: Accelerating Community College Students' Entry into and Completion of Programs of Study." *32*, Community College Research Center: Columbia University.

33 Adelman, C. 2006.

34 Budget Control Act of 2011. (P.L. 112-25).

completion, increases the progression rates of low-income students.[35] A significant Canadian study of aid at two-year technical and community colleges found improvements in outcomes when additional aid was given to randomly selected students in connection with enhanced advising and student services (compared with students who got nothing, or just the additional services).[36]

*The federal government inadequately engages states, systems and colleges in our collective completion challenge.*

The federal effort to work cooperatively with states and institutions to address common policy objectives has been superficial at best. The Higher Education Act authorizes the education secretary to include data elements on the FAFSA that are not needed to determine eligibility for federal aid but that states and institutions would find helpful for allocating their own resources. Regrettably, this essentially is the extent of federal-state cooperation with regard to coordinating common policy goals.

Though federal student aid is critically important in accelerating desired outcomes for higher education, states and institutions must engage as well. State and local government spending on higher education still far exceeds the federal contribution. In addition to some $9.9 billion in grant aid to students, state and local governments spend more almost $70 billion each year in directed appropriations to institutions that help keep tuition costs well below the actual cost of instruction.[37]

In recent years Congress has eliminated funding for a long-standing federal-state partnership—the Leveraging Educational Assistance Partnership program (LEAP)—on the grounds that the program achieved its objective to establish in each state a publicly funded, need-based grant program.[38] However, a similar matching program the College Access Challenge Grant program continues to be funded with a maintenance of effort provision aiming ot increase the number of low-income students entering college.[39] All that remains to align and incent investment in need-based aid at the state and institutional levels is the blunt maintenance of effort definition, which requires a state to financially support higher education in an amount equal to or greater than the average amount provided over the past five fiscal years for both (a) public colleges and universities (excluding capital expenses and research and development costs) and (b) private higher education (as measured by financial aid for students attending private colleges).[40] Given that a Pell Grant can not be expected to cover the full cost of postsecondary education, new approaches to strengthening the federal/state/institutional partnership need be tested and evaluated.

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35 Patel, R. & Richburg-Hayes, L. 2012. Scott-Clayton, J. 2011.

36 R.A. Malatest and Associates, Ltd. 2009. FINAL Impacts Report: Foundations for Success Project. Toronto: Canada Millenium Scholarship Foundation.

37 College Board. 2012. "Trends in Student Aid 2012." College Board: New York, NY. State Higher Education Executive Officers. 2012. "State Higher Education Finance FY 2011." SHEEO: Boulder, CO.

38 Office of Management and the Budget. 2010. The President's Budget for FY 2011.

39 20 U.S.C. Section 1141

40 U.S. Department of Education. April 13, 2012. College Access Challenge Grants Maintenance of Effort: Technical Assistance Webinar.

[The report, "Doing Better for More Students," may be accessed at the following Internet address:]

*http://hcmstrategists.com/wp-content/themes/hcmstrategists/docs/Technical_report_fnl.pdf*

Chairman KLINE. Thank you.
Dr. Baum?

**STATEMENT OF DR. SANDY BAUM, RESEARCH PROFESSOR OF EDUCATION POLICY, GEORGE WASHINGTON UNIVERSITY, SENIOR FELLOW, URBAN INSTITUTE**

Ms. BAUM. Thank you.

Chairman Kline, Mr. Hinojosa, members of the committee, I am very pleased to have an opportunity to speak with you today about simplifying the student aid system. I am a research professor at the George Washington University Graduate School of Education and a senior fellow at the Urban Institute, but the comments that I am making today reflect my own opinions and are not the opinions of the organizations with which I am affiliated.

I could talk all day about student loans but I am going to focus on simplifying the federal grant system, and in particular, the Pell Grant program. I agree with everything that Kristin said—almost.

But I really want to focus on the Pell Grant program because the Pell Grant program is the bedrock of the federal student aid system. For 40 years it has transformed the lives of many students and it can continue to do so. It can do better over the next 40 years if we simplify it, if we make it more transparent, if we make it more predictable for students, and if instead of just handing students money we make sure that it involves the right incentives and the right supports for students and the institutions in which they enroll to achieve their goals.

So what we need to do is we need to think carefully about how to reform the program using the principles of simplification, and predictability, and appropriate incentives. So we should simplify the application process so students don't have to provide information not available from the IRS. We should determine eligibility once, before students begin their studies, so that they don't have to reapply every year.

We should simplify the formula with a simple lookup table that applies to most students. We should simplify the way enrollment is linked to the amount—enrollment intensity, the amount of courses you take and credits for which you enroll is linked to the amount of money you get.

We should think about the standards for academic progress more carefully and we should consolidate federal aid programs.

So as background, I know everyone is worried about how much the Pell Grant program spends. Pell Grant spending doubled very quickly over a few years and the number of recipients also increased dramatically.

But it is important to note that 2010-2011 was a peak; it is not that we were on a trajectory. The recovery in the economy and some of the changes that Congress made, made spending fall, made the number of recipients fall. We can argue about whether that is good or bad, but it is not that it is going to keep doubling.

So let me talk a little bit about some specific proposals for reforming the Pell Grant program. And one important thing is that these are based on the ideas of how students and how human beings behave. We know a lot from behavioral economics about how people respond to information and opportunities, and in particular, we know that they respond to complexity by just withdrawing from making decisions and taking the path of least resistance.

For young people growing up in middle-and upper-income families the path of least resistance is going straight to college. But for people growing up in low-income households, it is not; it is going to the workforce.

So we need to simplify the system so that we make the path of least resistance going to college and knowing that you will be able to afford it.

We can make the application process simple by saying, "We already know your information either through the IRS or through needs-based programs that you are available for." This would save the difficulty of verifying the information that people put on their FAFSA.

We can simplify by saying you apply once. For juniors in high school, we could calculate their Pell eligibility and tell them about it. This would make not going to college and not taking a Pell Grant a loss, and people respond more strongly to losses than they do to being given certain amounts of money.

One very important issue is how we allocate the amount of Pell Grant funds that students have to pay for their courses. Right now, if you are enrolled for 12 credit hours you get the maximum Pell Grant if you have maximum need, and if you want to enroll for 15, we won't give you any more money, whether you do it over the summer or in the following semester.

This means that students enroll for 12 credit hours and they take five years to get a bachelor's degree or longer than two years to get to an associate degree. We don't understand why students don't complete on time. This would help them to complete if we would give them additional funding when they enroll for the number of courses that they need in order to complete.

Satisfactory academic progress is designed to make sure that students progress towards their goals, but right now if you don't meet the standards at one school you can go across the street to another school and get a new Pell Grant. That doesn't help students who borrow money who spend their time going from school to school and not making progress. We need to make rules and regulations that will support students in meeting their goals.

We also need to consolidate programs. Instead of having multiple federal grant programs—and that would exclude things like veterans' programs and specifically targeted programs—we should have the Pell Grant program.

The funds that are now in the campus-based programs should go to campuses, but they should be allocated to campuses to help them support the success of low-income students. We need to experiment with programs like this, get rigorous evidence about how to make them work well, but we can do this.

To make the Pell Grant program work better it has to be simpler, it has to be clearer, and it has to be designed to support students in meeting their goals.

Thank you.

[The statement of Ms. Baum follows:]

**Simplifying Federal Student Aid:**
**Toward a More Effective Federal Grant Program for Students**

Dr. Sandy Baum

Senior Fellow, The Urban Institute
Research Professor of Education Policy, The George Washington University
Graduate School of Education and Human Development

U.S. House of Representatives
Committee on Education and the Workforce

Keeping College Within Reach:
Simplifying Federal Student Aid

Wednesday November 13, 2013

Note: The views expressed are those of the author and should not be attributed either to George Washington University or to the Urban Institute, its trustees, or its funders.

Chairman Kline, Representative Miller, and Members:

My name is Sandy Baum. I am an economist and senior fellow at the Urban Institute, as well as research professor at the George Washington University Graduate School of Education and Human Development. The views expressed in my testimony are mine alone, not those of either of the organizations with which I am affiliated.

Thank you for the honor of providing testimony today on the vital issue of simplifying the federal student aid system. I have been doing research and policy analysis relating to student financial aid for many years. I share your concerns for using taxpayer funds as effectively as possible to increase the opportunities Americans have to improve their lives and to assure the economic and social strength of our nation.

The federal Pell Grant program is the bedrock of the student aid system. In 2012-13 it provided almost 9 million undergraduate students with average funding of about $3,700 each, making college a realistic possibility for them. Our $32 billion was well-spent, increasing our ability to educate Americans, to prepare a skilled and flexible workforce for the coming years, and to work toward the strengthening of a society that promises its members an opportunity to live up to their own potential.

But we can do better. Effective student aid requires more than dollars. The aid program must be designed so that that the students who have the most potential to benefit from the program know about it, understand it, can predict and count on its benefits, and can access it without undue difficulty. Moreover, federal student aid should not just be about access. It is not enough to put postsecondary enrollment in financial reach. We must ensure that aid programs provide the appropriate incentives and supports for both students and institutions to succeed in meeting the educational goals of our nation and its students.

I would like to focus today on a few core ideas for simplifying federal grant aid. These ideas are based on the principles that the program should be simple, predictable and well-targeted and should use taxpayer funds as efficiently as possible to meet the nation's goals.

I propose:

- Simplify the aid application process by relying on data available from the IRS, eliminating the requirement that students provide financial information already available through either the tax system or other means-

tested government support programs.

- Determine Pell eligibility once, before students begin their studies, making annual reapplication unnecessary.
- Simplify the formula determining individual awards, creating a look-up table that will allow most students and families to determine well in advance how much Pell Grant funding they can expect to receive.
- Simplify the way aid is linked to enrollment intensity, allowing students to progress at their own speed without concern for definitions of academic years or full-time status.
- Strengthen standards for academic progress so that students use their funds efficiently and complete their programs in a timely manner.
- Consolidate federal aid programs so that the Pell Grant is the single federal grant received by most students, with the possible exception of some specialized aid (including veterans' aid). Use the funding now devoted to Campus-Based aid to provide subsidies directly to institutions in a way that provides strong incentives for them to support low-income students in completing credentials in a timely manner.

Before providing more details about these proposals, a little background about the Pell Program is in order.

*Background*

The Pell Grant Program: 2002-03 to 2012-13

| | Pell Expenditures (in millions of 2012 dollars) | Number of Recipients (in millions) | Average Grant (in 2012 dollars) |
|---|---|---|---|
| **2002-03** | $14,809 | 4.8 | $3,099 |
| **2003-04** | $15,832 | 5.1 | $3,080 |
| **2004-05** | $15,907 | 5.3 | $2,996 |
| **2005-06** | $14,883 | 5.2 | $2,880 |
| **2006-07** | $14,430 | 5.2 | $2,794 |
| **2007-08** | $16,142 | 5.5 | $2,912 |
| **2008-09** | $19,051 | 6.2 | $3,095 |
| **2009-10** | $31,908 | 8.1 | $3,942 |
| **2010-11** | $37,492 | 9.3 | $4,028 |
| **2011-12** | $34,048 | 9.4 | $3,605 |
| **2012-13** | $32,269 | 8.8 | $3,650 |
| Source: The College Board, *Trends in Student Aid* | | | |

Members of the Subcommittee are well aware of the recent increase in expenditures on Pell Grants. Federal spending more than doubled, after adjusting for inflation, between 2007-08 and 2010-11. Less attention has been paid to the

reality that the number of recipients increased from 5.5 million to 9.3 million over these years, and to the fact that 2010-11 was a peak, both in terms of dollars and in terms of recipients. The program cost about $5 billion less in 2012-13 than it had two years earlier, and the number or recipients also declined. So it's not that 2010-11 represented a new trajectory. In addition to some policy modifications designed to contain spending, a recovering economy has meant fewer people seeking new training and fewer families unable to help their children.

In thinking about reforming the Pell Grant program, it is also important to keep in mind the multiple functions the program serves. Most people think of Pell recipients as young people from low-income families who have recently completed high school and whose parents are not in a position to support their education. This is an important group of recipients, and about 90% of them come from families with incomes below $50,000 a year. But 60% of Pell recipients are independent students. Their eligibility is based not on the financial circumstances of their parents, but on their own situations. Half of all Pell Grant recipients in 2011-12 were age 24 or older and one-quarter were over the age of 30.

Age Distribution of Pell Grant Recipients, 2011-12

| Age | Percentage of Recipients |
|---|---|
| 20 or younger | 30% |
| 21 to 23 | 21% |
| 24 to 26 | 13% |
| 27 to 30 | 11% |
| 31 to 40 | 15% |
| 41 or older | 9% |
| Source: U.S. Department of Education, *Pell Grant End-of-Year Report* | |

The Pell Grant program is now the single most important source of federal funding for adults seeking education and training for the workforce. Many workers without bachelor's degrees who lost their jobs or saw their earnings plummet during the Great Recession knew they needed more training to assure that they would be productive members of the labor force. Without Pell Grants they would not have been able to get that necessary training. Most of these older students are not working towards bachelor's degrees. They are enrolled in programs directed towards specific occupations and it is vital that they have sufficient support to allow them to develop new skills as quickly as possible.

The important role of Pell Grants in preparing people for the labor market should not interfere with our understanding of the role of college in providing the broad education necessary to transform people's lives, to prepare them to be well-informed and active participants in our democracy, to communicate effectively,

and to think critically and creatively about their lives and about the future of our nation.

We can have a postsecondary education system that accomplishes all of these goals and a federal student aid system that effectively supports our students in meeting these goals.

*Proposals:*

Our understanding of how people make decisions is improving, with contributions from the fields of behavioral economics and cognitive psychology. When faced with complexity, people tend to take the path of least resistance. For students from middle- and upper-income families, the path of least resistance is going to college right after high school. For young people from less privileged backgrounds, the path of least resistance is looking for a job. Without the expectation that college is affordable and facing the daunting task of filling out complicated paperwork, too many promising students are likely to put off indefinitely applying to college. A recent set of papers from the George Washington University Graduate School of Education and Human Development on insights from behavioral economics into policies supporting enrollment and success in postsecondary education summarizes much of the evidence and draws policy implications.[1] The proposals that follow are consistent with insights and evidence developed in this work.

*Simplify the aid application process by relying on data available from the IRS, eliminating the requirement that students provide financial information already available through either the tax system or other means-tested government support programs.*

There is growing evidence about the importance of simplicity in the design of student aid programs. Particularly important studies include an experiment with filling out the FAFSA for H&R Block clients, which yielded impressive increases

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1 "Understanding Student Behaviors: A Prerequisite to Supporting College Enrollment and Success"; http://gsehd.gwu.edu/faculty/sandy-baum. See in particular, Sandy Baum and Saul Schwartz, "Student Aid, Student Behavior, and Student Attainment." http://gsehd.gwu.edu/files/downloads/publications/2013/PUBLISHED_Baum_Schwartz.pdf

in college enrollment and persistence.[2]

The IRS has data about the finances of taxpayers. People with incomes too low to be required to file taxes should automatically be eligible for maximum Pell awards. The new system that allows aid applicants to download tax information to fill in the FAFSA suggests that it would possible to implement a system that would eliminate the need for most people to provide financial data separately on aid applications.

Relying on IRS data has the additional advantage of eliminating the need for the expensive and difficult process of verifying the information applicants provide on their FAFSA forms.

*Determine Pell eligibility once, before students begin their studies, making annual reapplication unnecessary.*

We could calculate Pell eligibility automatically for high school juniors, based on their parents' recent tax forms. Students would be notified of this eligibility in time to apply for college and could activate their awards if and when they enroll. Eligibility could last until they turn 24 and become independent students, at which time they would have to reapply if they wanted to go to college.

This system would let low-income students know that the money is there, just as students from families with more resources know this. Knowing that the money is there makes not using it a loss, and we know that people respond more strongly to the prospect of losing money than they to do the prospect of gaining a similar amount of money. The system would also eliminate considerable paperwork for students and families, for college and universities, and for the federal government.

*Simplify the formula determining individual awards, creating a look-up table that will allow most students and families to determine well in advance how much Pell Grant funding they can expect to receive.*

For most applicants, Pell Grant eligibility could be based on AGI and family size, as measured by exemptions on tax forms. This would allow the construction of

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[2] Bettinger, Eric, B. T. Long, Philip Oreopoulos, and Lisa Sanbonmatsu. (2012) "The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment." *Quarterly Journal of Economics*: 127(3). The authors report that "high school seniors whose parents received the treatment were 8 percentage points more likely to have completed two years of college, going from 28% to 36%, during the first three years following the experiment. Families who received aid information but no assistance with the FAFSA did not experience improved outcomes."

simple look-up tables that students and families could review well in advance of the time they plan to enroll. It would not be difficult to include a caveat, requiring a more detailed calculation for taxpayers with negative AGI or for those who file multiple supplemental forms with their 1040s.

Analyses of the implications of simplifying the formula to involve only a couple of data elements from the IRS instead of the many pieces of information and the complicated calculations now involved indicate that there would be minimal impact on the distribution of Pell Grants. Allocating aid to students from families with higher incomes, such as those with financial need supported by many state and institutional grants, requires more information. However, relatively few families or students with incomes below $50,000 have assets or other complicated situations that significantly affect current Pell Grant awards.[3]

If the federal government implements this simple formula for determining Pell eligibility, it could at the same time calculate a more detailed eligibility index based on additional IRS information that could be used by states and institutions to award need-based aid higher up the income scale.

This simple formula for Pell eligibility should not depend on whether or not a student has siblings in college and it should break the existing link between the maximum level of Pell funding students with the lowest resources can receive and the maximum income level at which students are eligible for the program.[4]

This simplified approach would allow the federal government to send families annual notification of the Pell Grants for which their children would be eligible if they were of college age. This early information would be a valuable component of efforts to encourage low-income children to prepare academically for college.

*Simplify the way aid is linked to enrollment intensity, allowing students to progress at their own speed without concern for definitions of academic years or full-time status.*

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[3] See, for example, Dynarski, Susan M. and Judith E. Scott-Clayton. "The Cost Of Complexity In Federal Student Aid: Lessons From Optimal Tax Theory And Behavioral Economics," National Tax Journal, 2006, v59 (2,Jun), 319-356; Baum, Sandy, Kathleen Little, Jennifer Ma, and Anne Sturtevant. 2012. *Simplifying Student Aid: What It Would Mean for States.* New York: The College Board.

[4] Students with no expected contribution do not benefit from the provision increasing awards for those with siblings in college at the same time. For examples of formulas and look-up tables consistent with this proposal, see The Rethinking Student Aid Study Group (2008), *Fulfilling the Commitment,* The College Board;. Baum et al (2013). *Rethinking Pell Grants.* The College Board.

Under the current Pell Grant system, students are considered full-time if they are enrolled in at least 12 credit hours per semester. They receive ¾ of the funding for which they are eligible if they enroll for 9-11 credit hours, and less if they enroll for fewer hours. But they do not receive additional funding if they enroll for the 15 hours necessary if they are to be on track to complete a bachelor's degree in four years or an associate degree in two years. They cannot receive extra funding if they make up the courses they are lacking over the summer.

A simpler system, and one that would do more to support the timely completion of college degrees, would award Pell funds based on the number of credit hours for which students enroll. If instead of thinking of the maximum award as $5,645 per year, we thought of it as $235 per credit (based on 24 credits per year) or $188 per credit (based on 30 credits per year), students could spread their courses out over the year in the way that best fits their personal circumstances.

Under the current system, a student who completes a 120 credit bachelor's degree by taking 24 credits per year for 5 years receives five full Pell Grants. A similar student who completes the same degree by taking 30 credits per year for 4 years receives only four full Pell Grants. At institutions, like many community colleges, that charge tuition by the credit hour, registering for 15 credits is likely to reduce the cash students have on hand to buy books and cover other expenses.

We should design the Pell Grant program to do a better job of supporting student progress.

*Strengthen standards for academic progress so that students use their funds efficiently and complete their programs in a timely manner.*

Students need more guidance in selecting their programs and institutions and in progressing through their studies if they are to succeed at higher rates. In the best of all worlds, the Pell Grant program would be able to provide some of this guidance. But at a minimum, we should strengthen the Satisfactory Academic Progress (SAP) regulations, which require students to meet minimal standards at their institutions in order to remain eligible for Pell Grants. Currently, if a student fails to meet these standards at one institution, he can move to another institution and start over with a Pell Grant.

This system does a disservice to both students and taxpayers. Many of the students who receive Pell Grants but don't make progress towards degrees are also relying on student loans. Devoting their time to studies that lead nowhere and accumulating debt in the process leaves them worse off. We can provide the support at-risk students need, with leeway for students to try again when they don't succeed the first time, without fostering these unproductive outcomes for both students and taxpayers.

*Consolidate federal aid programs so that the Pell Grant is the single federal grant received by most students, with the possible exception of some specialized aid (including veterans' aid). Use the funding now devoted to Campus-Based aid to provide subsidies directly to institutions in a way that provides strong incentives for them to support low-income students in completing credentials in a timely manner.*

Simplifying the Pell Grant program and improving its design so that it more effectively supports student success can make a big difference in the lives of the students it subsidizes. But the entire federal student aid system of which the Pell Grant program is the core should also be simpler. It would be much easier for students to know how much federal grant aid they will receive if there were one federal grant program for the general student population.[5]

The federal government now allocates just over $700 million a year for the Supplemental Educational Opportunity Grant Program, which distributes funds to institutions based on a complicated and outdated formula. While these funds certainly provide needed assistance to individual students, they are not well targeted or predictable. The campus-based funds should be redirected into a program that would fund institutions based on their success in educating low- and moderate-income students.

The details of this program of institutional subsidies are crucial and successful program design will require rigorous study of possible structures, with consideration of potential unintended consequences. But institutions have a major role to play in meeting our national goals for a well-educated population and we should do our best to assure that federal funding goes to institutions that provide meaningful opportunities for students who would not otherwise have access to these opportunities.

*Conclusion*

Our country needs a strong federal Pell Grant program more than ever. Pell Grants make it possible for many young people from low- and moderate-income families to get a college education. They make it possible for many adults whose labor market opportunities are limited to access the education and training they need to get jobs that allow them to support themselves and their families and that maximize their contributions to our society and our economy.

Over its forty years, the Pell Grant program has made a major difference in the

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[5] Grant programs targeted at specific populations such as veterans must be thought of separately. However, developing large numbers of grant programs for small specialized populations interferes with the goal of simplification.

lives of many Americans. It will have a bigger impact over the next 40 years if we succeed in simplifying the application process and the allocation of awards. Students should know well in advance how much support they can expect from the federal government. And that support should be designed to help them succeed in their postsecondary studies, not just to pay for those studies. Students need more than the kinds of information that is currently the focus of many efforts to improve educational choices. They need personalized guidance and they need appropriate supports and incentive structures. The Pell Grant program cannot solve all of these issues, at least in the short run, but it can go farther in the right direction.

Thank you again for giving me the opportunity to share my ideas with you. I welcome your questions.

Chairman KLINE. Thank you.
Ms. Mishory, you are recognized.

**STATEMENT OF JENNIFER MISHORY, J.D., DEPUTY DIRECTOR, YOUNG INVINCIBLES**

Ms. MISHORY. Thank you.

Chairman Kline and Ranking Member Hinojosa, I thank you for having this important hearing today and for inviting me to share the student perspective on simplifying financial aid.

My name is Jennifer Mishory. I am the deputy director of Young Invincibles. We are a nonprofit dedicated to expanding economic opportunity for young adults. We engage with students around college affordability and access, elevate their stories, and ensure that our leaders understand the experience of today's student.

This generation understands that higher education is essential, but faces growing challenges. States are spending 28 percent less per student on higher education than they were in 2008, leading to a 27 percent increase in tuition at 4-year public colleges.

As a result, in 1980, the Pell Grant covered more than half the cost of a 4-year school. It now covers less than a third and it forces two-thirds of graduates to take out student loans. Many struggle to navigate the aid system in doing so.

Take Robin, a college freshman at a 4-year school studying to be a physical therapist. Robin grew up in a low-income community in Chicago, and as a first-generation student she struggled to obtain an education and gain financial security.

Like most college students, she relied on a maze of grants and loans. However, at the end of her first semester she found herself with an overcharged account and nowhere to turn.

She reached out to a mentor, a former high school teacher who happened to be a friend of mine. I spent literally days working through all of the paperwork that she had and that I myself found very confusing and finally realized she simply didn't have enough aid to cover her costs. The complex system meant it took months for the unmet need to become clear.

Robin couldn't afford to pay the shortfall. Private loans were not an option for her. And this college freshman with so much potential dropped out.

I am hopeful that she enrolled in a 2-year school but I don't know how her story will end.

This story illustrates how an overly complex aid system can limit access and success. But it also illustrates that simplification cannot result in cutting aid to students working to educate themselves into the middle class.

Students support making aid simpler but oppose cutting aid. In a 2011 poll, eight in 10 students opposed cutting Pell or loan subsidies to reduce the deficit—important to keep in mind as we discuss these reforms.

I want to talk about three reforms specifically: first, simplifying the aid application process on the front end; second, ensuring that students can make good choices in dealing with financial aid; and third, streamlining repayment on the back end.

First, applying for financial aid through the FAFSA, a 106-question form, leaves many confused and deters some from applying.

About 2 million students who would have qualified for financial aid failed to even file a FAFSA in 2007. We urge this committee to reduce the number of questions on the FAFSA to make it simpler.

And once students are making decisions on aid, students also need better information. Over 90 percent of students in one survey agreed that financial aid award letters should be standardized.

Second, understanding aid can also be daunting, as we saw with Robin. In a recent survey, 40 percent of high-debt respondents to this survey reported they did not receive federally mandated loan counseling. It is possible that some students didn't receive the counseling, but it is also likely that many benefited so little that they didn't remember it or didn't consider what they received to be counseling.

I urge this committee to explore reforms that provide clear, consumer-tested materials to students and provide them with much more help from counselors.

Third, loan repayment is also challenging and the seven different repayment plans mean that borrowers frequently struggle to choose a plan that is right for them or to even know about their options. As a result, many debtors struggle to afford the standard payments and we face a sky-high 15 percent default rate.

Income-based repayment has helped some borrowers but we can do more. We are pleased that the Department of Education will begin proactively reaching out to students about IBR and believe that this committee could build on that.

We recommend either automatically enrolling all students in income-based repayments or allowing them to opt out of an income-based repayment plan rather than having to opt in. A survey conducted by Y.I. found that 89 percent of respondents agreed with automatically being enrolled in IBR.

We could also alter the formula, helping students pay faster if they can, and we could potentially streamline repayment through the payroll tax system. While most students would still pay off their loans in a similar amount of time, it would cushion debtors facing financial distress, ultimately lowering default rates. It would make repayment less confusing and reduce the risk perceived by students who hesitate to pursue a degree in the first place.

Finally, in this system schools must be held accountable to keep tuition low. We are encouraged that some members of this committee have expressed an interest in repayment reform.

We have concerns, however, about proposals that strip necessary protections. Caps on interest rates and forgiveness for public service employees or debtors who have been paying for decades are vital elements in the current system. We can simplify financial aid and preserve those elements.

Thank you for exploring these important issues, and I look forward to the discussion.

[The statement of Ms. Mishory follows:]

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November 13, 2013

**Testimony of Jennifer Mishory, Young Invincibles' Deputy Director, Before the House Education and the Workforce Committee**

Chairman Kline and Senior Democratic Member Miller, I thank you for inviting me to testify before you today about issues central to improving access to postsecondary education: the student experience with federal financial aid.

My name is Jennifer Mishory and I am the deputy director of Young Invincibles, a non-profit organization dedicated to expanding economic opportunity for young adults. We are committed to ensuring that a quality postsecondary education is affordable and accessible for all. At Young Invincibles, we engage with students across the country on issues such as college affordability and access, elevate their stories, and ensure that our leaders in Washington truly understand the experience of today's student.

Our generation understands that getting a post-secondary degree is essential to our own success and to grow our economy. But we are concerned that declining public investment in higher education has fueled tuition hikes and made it harder for so many young people to go to college. For instance, states are spending 28 percent less per student on higher education nationwide this year than they were in 2008 when the Great Recession hit.[1] As a result, tuition at four-year public colleges rose 27 percent in the last five years, and in some states, it spiked more than 70 percent.[2]

While grant aid historically paid for a much larger share of tuition, that is no longer the case. In 1980, the Pell grant covered more than half the cost of a typical four-year public college, but now, Pell grants cover less than one-third of the cost, the lowest level since the start of the program.[3] With grant aid falling and tuition rising, students across the country struggle to make up the difference by taking out loans. As a nation, we now hold over $1 trillion in student debt. About two-thirds of all college students now graduate with loans.[4] Thirty-nine million student loan borrowers have outstanding student loan balances.[5] Over five million student debtors have at least one past due student loan

[1] The Center on Budget and Policy Priorities (CBPP), "Recent Deep State Higher Education Cuts May
[2] Ibid.
[3] The Institute for College Access & Success (TICAS), "Pell Grants Help Keep College Affordable for Millions of Americans," http://www.ticas.org/files/pub//Overall_Pell_one-pager_FINAL_03-15-13.pdf (last visited July 29, 2013).
[4] Young Invincibles, "College Affordability Facts," http://younginvincibles.org/wp-content/uploads/2012/10/college-affordability-fact-sheet.jpg (last visited August 2, 2013).
[5] Federal Reserve Bank of New York, "Student Loan Debt by Age Group," http://www.newyorkfed.org/studentloandebt/ (last visited September 30, 2013).

account, and of our total outstanding student loan debt, $85 billion is past due.[6] Reforms are now more important than ever. Federal financial aid must provide meaningful access to higher education for all students and families, and we urge this committee to explore how to urge colleges and universities to lower the rising cost of college.

As more students and families turn to loans to make up for state and federal disinvestment in higher education, we know that students struggle to navigate the complex maze that is federal financial aid, from applying for aid to repaying their loans.

I want to share one story with you that is particularly relevant to today's hearing. Last winter, a friend – a former teacher – reached out to me about his former student, whom he had taught years ago. This student was working hard as a freshman at a four-year public institution in Illinois toward a career as a physical therapist. She grew up in a low-income community in Chicago, and as the first member of her family to attend college, she strove to obtain an education to lift herself out of poverty.

Like most college students, she relied on a series of federal and state grants and loans to get to where she was. However, at the end of the semester, she found herself with an account that was overcharged, and nowhere to turn for help to fully understand the system. After working through a morass of information that I myself found confusing, I realized: she simply did not have enough financial aid to cover her costs. She faced a confusing yet very real aid gap. There were a variety of reasons why it took until January before her second semester for the unmet need to become clear, but by then it was too late. She could not find a way to fill the shortfall and clear her account for the second semester. Her mother was, understandably, hesitant to take out parent loans, and worried she would not qualify. Private loans were not an option. This college freshman, with so much potential, dropped out. I'm hopeful that she enrolled in a two-year school, but I don't know how her story will end.

I tell this story for two reasons. The first is to illustrate what an overly complex federal aid system can do to limit access and success. The second is to illustrate that simplification of that system cannot result in further cutting aid to students struggling to educate themselves into the middle class. Students that we talk to generally support making aid simpler and more functional, but students are overwhelmingly against cutting financial aid and protections for borrowers. In fact, in a 2011 poll, about 8 in 10 students opposed cutting Pell or loan subsidies to reduce the deficit.[7]

I urge this committee to keep that in mind as you consider steps to make this important system more transparent. Reforms are now more important than ever, as students face a dizzying array of challenges while trying to use federal financial aid to advance their careers and achieve economic security.

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[6] *What We Found: A Summary of Key Findings from Young Invincibles Youth Bus Tour* (Washington, DC: Young Invincibles, 2012), 13-18, accessed August 2, 2013, http://younginvincibles.org/2012/06/june-1-2012-2/.

[7] Jen Mishory and Rory O'Sullivan, *The Student Perspective on Federal Financial Aid Reform*, 10.

First, students face unnecessary complexity in the federal financial aid system from the start. Applying for financial aid through FAFSA, a ten-page, 106-question form[8], leaves many confused and deters some students from even applying for aid. An estimated 2.3 million students in 2007-2008 who would have qualified for financial aid failed to even file FAFSA.[9] While there have been recent improvements, only 55 percent of high school seniors completed FAFSA in 2012.[10] One out of four lower-income students who did not file FAFSA would have qualified for federal grant aid.[11]

Next, students grapple with pages upon pages explaining the master promissory note, financial aid award letters with drastically different definitions of aid, numerous loan types, changing interest rates, and an 80-page explanation of education tax benefits.

In a recent Young Invincibles survey, 40 percent of high-debt borrower respondents reported that they did not receive federally mandated loan counseling.[12] It is perhaps unlikely that so many schools are out of compliance, but that statistic warns us that many young people benefit so little from loan counseling that they do not remember receiving it – or did not consider what they received to constitute counseling. About two-thirds of private loan borrowers in a recent survey, including those with private and federal loans, did not understand the major differences between their private and federal loan options.[13]

Finally, things get arguably even more complex when borrowers gear up for repayment. They face seven different student loan repayment plans of varying terms and benefits. Though each plan may have arisen from good intentions to help specific types of borrowers, together these plans create a system where borrowers frequently struggle to choose the repayment plan that's right for them. Many borrowers simply stay in standard repayment, even if they will struggle to afford the monthly payments. At the same time, we face a sky-high student loan default rate.

Challenges like these make it imperative that we create a streamlined, transparent federal financial aid system. Fortunately, there are several promising reform ideas.

First, we suggest that this committee consider how to reduce the burden on students and institutions when applying for aid. For example, one significant reform that has been discussed is transforming the FAFSA into a two-question form: family size and gross

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[8] Federal Student Aid, "FAFSA: Free Application for Federal Student Aid, July 1, 2013 – June 20, 2013," U.S. Department of Education, http://www.fafsa.ed.gov/fotw1314/pdf/PdfFafsa13-14.pdf (last accessed August 2, 2013).

[9] Heather Novak and Lyle McKinney, "The Consequences of Leaving Money on the Table: Examining Persistence among Students Who Do Not File a FAFSA," *Journal of Student Financial Aid* 41, no. 3 (2011): 6, www.nasfaa.org/WorkArea/linkit.aspx?LinkIdentifier=ID&ItemID=10164.

[10] Education Sector at American Institutes for Research, "FAFSA Completion Rates by State," The Quick and the Ed, http://www.quickanded.com/2013/07/fafsa-completion-rates-vary-by-state.html (last accessed September 26, 2013).

[11] Ibid.

[12] Jen Mishory and Rory O'Sullivan, *The Student Perspective on Federal Financial Aid Reform*, 11.

[13] *What We Found: A Summary of Key Findings from Young Invincibles Youth Bus Tour* (Washington, DC: Young Invincibles, 2012), 13-18, accessed August 2, 2013, http://younginvincibles.org/2012/06/june-1-2012-2/.

income. Not only would this dramatically reduce administrative costs for the Department of Education and the taxpayer, but it would also be a major step forward for students. Now is the time to be exploring bold proposals like this one.

Second, I urge the committee to consider consumer testing financial literacy materials and student loan counseling to create a simple counseling system that helps borrowers make smart financial decisions. For example, students receive financial aid award letters with inconsistent language. Often, the language makes it hard for students to understand the amount of grants and loans they will receive. Over 90 percent of students agree that financial aid award letters should be standardized.[14] We know that we need to find out from students themselves what information borrowers need and how to convey it. Websites, navigators, and other tools that are tailored to contain the best information in the easiest-to-digest way could help students make better, more informed choices about schools and financing their education. We further suggest updating federal financial aid systems by simplifying the interface through student feedback.

However, student feedback also consistently tells us that policymakers must not assume that students will be able to translate data and information into good decisions without accompanying investment in better counseling and financial literacy. We strongly urge the committee to explore ways to increase access to counselors for students who desperately need guidance.

Third, it is also worth noting that our current system of providing higher education tax benefits is overly complicated and flawed. While I recognize that it is outside this committee's jurisdiction, I urge the committee to rethink and simplify tax incentives for higher education while better targeting tax expenditures to students striving to lift themselves and their families out of poverty. There are more than 18 higher education-related tax benefits, and they often come too late and are too complex. One suggestion is to consolidate credits into the American Opportunity Tax Credit that better targets the neediest students. Another option is to redirect expenditures for tax-exempt qualified 501(c)(3) bonds that help private institutions and high-income investors to bolster the Pell grant program, so that we serve the students who need assistance the most.

Finally, simplifying repayment could make a big difference for borrowers. Income-based repayment has gone a long way to help borrowers with unmanageable monthly payments. It was implemented with bipartisan support in 2007, and we thank the members of Congress in this committee for their support for the policy.

But, too many borrowers who could benefit from income-based repayment don't know about the option. Uptake of income-based repayment has been low, leading to financial stress and defaults in difficult economic times. Many people report that they were unaware of income-based repayment until they were already struggling to repay their loans, or had already defaulted. Others report difficultly actually enrolling into the system. Yet this much-needed relief could be key to lowering default rates. We are

[14] Jen Mishory and Rory O'Sullivan, *The Student Perspective on Federal Financial Aid Reform*, 15.

pleased that the Department of Education will begin proactively reaching out to students who may be eligible for plans like IBR.

This committee could build on that effort with bold changes. As part of an improved system, we recommend either automatically enrolling all borrowers in income-based repayment or allowing them to opt out of income-based repayment and into standard repayment if they deem it a better repayment plan for their individual needs. Students support this shift: a survey conducted by Young Invincibles found that 89 percent of respondents agreed or strongly agreed with being automatically enrolled in an income-based repayment plan.[15] We should also revisit the current IBR system to explore how to incentivize borrowers who can afford to pay their loans off faster to do so. Repayment should be as easy as possible, and we suggest exploring ways to collect debt payments through the payroll tax system, or allow automatic deferments to kick in if a borrower is earning too little or is unemployed.

Under our vision of a reformed income-based repayment plan, the typical borrower would still pay off their loans in similar monthly payments to the current standard plan. But income-based repayment would serve as a cushion for the many borrowers who find themselves in periods of unplanned financial distress. That would lower default rates and give borrowers the relief that they need with minimal burden to the federal government or servicers. It would also reduce the number of repayment plans, making repayment simpler and less confusing for borrowers as a whole.

We are encouraged that this committee has expressed an interest in simplifying student aid, and specifically by using a single repayment plan to reduce confusion. We have concerns, however, about some aspects of the income-based repayment proposals that have come out in the past, in that they lack many necessary protections for struggling student loan debtors. Caps on interest rates, student loan forgiveness for public service employees or debtors who have been paying for decades, are vital elements in the current system. Again, we should not throw out important policies in the name of simplicity. There are plenty of opportunities that simplify federal financial aid *and* preserve the best parts of the system for our nation's hardworking students.

As we discuss reforms that we know we must make to create a simpler, more efficient federal financial aid system, we cannot ignore the institution's role in improving higher education. Schools should also strive to do their part to keep tuition low, particularly if increasing numbers of student loan borrowers repay their loans based on their income. Servicers must also focus on creating borrower-friendly policies to support struggling students and families.

We know that students struggle to navigate the complicated federal financial aid systems that we have in place, and I am encouraged that this committee is devoting this hearing to exploring how to make it better. We can make a lot of progress if we use student-centric mindset to improve our policies. I thank this committee for considering the student perspective as you work to explore much-needed reforms.

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[15] Ibid.

Chairman KLINE. Thank you.
Mr. Delisle?

**STATEMENT OF JASON DELISLE, DIRECTOR, FEDERAL EDUCATION BUDGET PROJECT, NEW AMERICA FOUNDATION**

Mr. DELISLE. Chairman Kline, Ranking Member Hinojosa, and committee members, thank you for inviting me to testify about the need to simplify the federal student loan program.

From the borrower's perspective, the loan program is unnecessarily complex and many of its important benefits are difficult to access, are hidden, or require the borrower to opt in. Some terms and benefits even overlap or cancel one another out.

When a student applies for his federal loans, he will confront a mix of types, terms, and names. Some may make sense, others will confuse him, and some he may not even know exist.

Will he know that a Stafford Loan is a loan from the federal government? Will he understand that "unsubsidized" doesn't mean he is getting a bad deal?

When he repays his loans, he will have up to nine different plans to choose from—that is my count, others said seven—each with its own set of terms and eligibility rules. But here is the kicker: the Department of Education, by law, will automatically enroll him in a plan where he will make the highest monthly payments—the 10-year standard repayment plan.

To be sure, this policy signals to borrowers that they should repay their loans quickly. Yet, policymakers need to recognize its inherent tradeoff: borrowers who really need to make lower payments may not understand that they have such an option or may not be able to successfully navigate the enrollment process. That seems like a high price to pay in order to nudge borrowers to repay quickly under the 10-year repayment plan.

So as Congress considers the reauthorization of the Higher Education Act in the coming months, lawmakers should make it a priority to remedy these issues. Briefly, they should minimize the different names, types, and terms of the loans and then offer just one plan when borrowers repay—the existing income-based repayment plan, or what the Obama Administration calls "Pay As You Earn"—but only after making essential modifications to that plan.

In its current form, Pay as You Earn is a massive tuition assistance program for graduate students masquerading as a means-tested safety net program.

So let me provide you with a few examples of the complexities and optional benefits in the federal loan program that I mentioned earlier. The program offers two different types of loans to undergraduates: unsubsidized and subsidized Staffords. Many borrowers qualify for both, and they receive both.

An undergraduate could also have a third type of federal loan, called a Perkins Loan. And if he goes on to graduate school, he could end up with a fourth type of federal loan, called a Grad PLUS Loan.

Earlier I mentioned that a borrower, once out of school, can choose from up to nine repayment plans. He might not be eligible for all of them, although that is actually possible, but he probably qualifies for at least four of them. Many of these plans have hidden

benefits or confusing names that make them difficult to distinguish.

I wonder if even the committee members can keep the differences straight between graduated repayment, income-contingent repayment, income-based repayment, and Pay as You Earn.

And I would bet that everyone is surprised to learn that the biggest benefit of the consolidation repayment plan has nothing to do with consolidating debt. Nope. That plan lets anyone with a balance of just 7,500 or more reduce his monthly payment by extending the term of his loan to anywhere from 12 to 30 years depending on the balance.

And now that I have said that I am sure someone, somewhere is wondering why, then, the program also offers an extended repayment plan, which, by the way, is not the same as the consolidation plan but it will extend the term of the loan, and by a completely different set of rules.

The written testimony that I submitted today includes some specifics on how to minimize the different terms on federal loans. It also includes changes lawmakers should make to Pay as You Earn so that the plan does not let high-income borrowers walk away from their debts, does not allow graduate students to finance most or all of their educations using loan forgiveness, and does not indemnify or reward schools when they charge more and students when they borrow more.

Before making Pay as You Earn the only repayment option, which is what I am recommending today, Congress must ensure that its loan forgiveness benefit is truly and only a safety net and that the public service loan forgiveness benefit is subject to limits.

Making Pay as You Earn the only repayment plan available would greatly simplify the program. It would also automatically provide benefits that exist right now in the current program and it would provide them to those who need them most. Borrowers who still want to pay their loans off on a 10-year plan could do so by making repayments in amounts automatically calculated on their statements.

Now, I should note that under the modified version of Pay as You Earn that I am recommending, some borrowers would make higher monthly payments—that is, they would repay faster than under today's system—particularly high earners and those with smaller loan balances. Yet, that is a tradeoff worth making in order to achieve a student loan program where benefits for those who need it the most are automatic and obvious rather than obscure and optional.

That concludes my testimony today. I look forward to answering your questions.

[The statement of Mr. Delisle follows:]

**U.S. House of Representatives Committee on Education and the Workforce**

**"Keeping College Within Reach: Simplifying Federal Student Aid"**
November 13th, 2013

**Testimony of Jason Delisle**
Director, Federal Education Budget Project
New America Foundation

Chairman Kline, Ranking Member Miller, and committee members, thank you for inviting me to testify about the need to simplify the federal student loan program.

From the borrower's perspective, the federal student loan program is unnecessarily complex, and many of its most important benefits are opt-in, difficult to access, or even hidden – and many terms and benefits overlap or cancel one another out. When a student applies for federal loans, he will confront a mix of types, terms, and names. Some may make sense to him, others will confuse him, and some he may not even know exist. Will he know that a "Stafford" loan is a federal loan? Will he understand that "unsubsidized" doesn't mean he is getting a bad deal?

When a student begins to repay his loans, he will have up to nine different repayment plans from which to choose, each with its own set of terms and eligibility rules. But here is the kicker: The Department of Education, by law, will automatically enroll him in the plan where he will make the *highest* monthly payments and receive the fewest benefits – the 10-year standard repayment plan.

To be sure, this policy signals to borrowers that they should repay their loans quickly. Yet policymakers must recognize the inherent trade-off in that policy: Borrowers who really need to make lower payments (by extending the duration of the loan, in some cases) may not understand that they have such an option or may not be able to successfully navigate the enrollment process.

As Congress considers a reauthorization of the Higher Education Act in the coming months, lawmakers should make it a priority to remedy these issues. Briefly, Congress should minimize the different names, types, and terms of the loans when issued, and then offer just one plan when borrowers repay: a modified version of the existing income-based repayment plan, or what the Obama Administration calls Pay As You Earn.

The program must be modified because, in its current form, Pay As You Earn is a massive tuition assistance program for graduate students that doubles as a means-tested safety-net program.

Likewise, the Public Service Loan Forgiveness benefit under Pay As You Earn is an even larger tuition assistance program for graduate students that allows for excessive amounts of loan forgiveness for high and low earning borrowers alike. Before making Pay As You Earn the only repayment option, as I am recommending, Congress must ensure that its loan forgiveness benefit is truly – and only – a safety net, and that the Public Service Loan Forgiveness benefit is subject to limits.

To help illustrate the complexity and myriad benefits that the federal student loan program provides, below is a list of the relevant loan rules grouped by when the borrower encounters them – at origination and during repayment. The remainder of this testimony focuses on how Congress can simplify and improve the loan program.

**Complicated and Confusing Federal Loan Terms at Origination**

- Federal student loans have multiple names, and even the same loan can have many different names. For example, the U.S. Department of Education can refer to the exact same loan as an: Unsubsidized Stafford Loan; a Federal Unsubsidized Stafford Loan; a Direct Federal Unsubsidized Loan; an Unsubsidized Direct Stafford Loan; and a Direct Unsubsidized Stafford Loan.

- The federal loan program offers two different types of widely available loans to undergraduates: Unsubsidized and Subsidized Stafford loans. The former is issued to anyone, regardless of financial need, and the latter is awarded based partially on financial need and partially on the cost of the institution the student attends.

- The borrowing limits are different for each loan type, and many borrowers receive a mix of both loan types in a given semester. In fact, 82 percent of recent undergraduates who have a Subsidized Stafford loan also have an Unsubsidized Stafford loan.[1]

- Subsidized Stafford loans do not accrue interest while the borrower is in school, including subsequent enrollment in graduate school. Unsubsidized Stafford loans do accrue interest while the borrower is in school. Remember, a borrower may have a mix of each loan type, so some of his loans are accruing interest while he is in school and other are not.

- Annual and aggregate loan limits – how much an undergraduate can borrow in the federal program – are different for "dependent" and "independent" undergraduates, but only for Unsubsidized Stafford loans, not Subsidized.

- Some undergraduates may also borrow federal Perkins loans in addition to Stafford loans. Perkins loans have their own set of borrowing limits, repayment plans, and interest rates separate from Stafford loans. There is no standard eligibility criteria for a

Perkins loan, they are only available at certain schools, and students will not know whether they can get a Perkins loan or how much until they receive a financial aid package from a school. Perkins loans are not repaid through the U.S. Department of Education, but are instead administered by a student's school. Graduate students can also receive Perkins loans.

- Parents of dependent undergraduates may borrow federal Parent PLUS loans without any annual or aggregate limit so long as it doesn't exceed a school's total cost of attendance. Students whose parents opt to apply for PLUS loans but fail the very limited credit check for these loans may borrow Unsubsidized Stafford loans at the independent student limits, which are about $4,000 higher per year.

- Borrowers are assessed an origination fee that is automatically rolled into the loan balance and repaid as part of the principal balance. The borrower does not pay the fee upfront like a true origination fee; it is therefore simply part of the effective interest rate on the loan. The origination fees are significantly different for Stafford and PLUS loans: 1.05 percent and 4.2 percent, respectively.

**Complicated and Confusing Federal Loan Terms at Repayment**

- The automatic repayment plan for a federal student loan is the standard 10-year repayment plan. Under this plan, a borrower makes equal monthly payments in the amount necessary to pay off the entire loan, plus interest, in a 10-year period. Most borrowers are enrolled in this plan. However, the standard plan is just one of many (up to nine) options a student can choose from. Any borrower can request to make payments on a "graduated" plan over 10 years where the payments start lower and increase gradually. For graduated repayment, payments may not be lower than the accruing interest and the highest payment may not be three times larger than the smallest in the schedule.

- Borrowers can request an "extended" repayment plan that allows them to repay the loan in fixed payments over 25 years if they have a balance of more than $30,000. Extending the term reduces the borrower's monthly payment, but increases the interest he will accrue and pay. Under this plan, a borrower may also elect to make "graduated" payments with the extended plan and therefore be enrolled in the "graduated extended" plan.

- Extended repayment is not the only way borrowers can lengthen the term of their loans and reduce their monthly payments. They can also do so through the "consolidation" plan, but the terms are completely different from extended repayment. As the name suggests, this option converts a borrower's multiple loans into one, but by far its largest benefit is that it allows borrowers longer repayment terms based on their loan balances. It allows borrowers with balances of $7,500 to $9,999 to pay over 12 years; borrowers

with $10,000 to $19,999 in loans to pay over 15 years; borrowers with $20,000 to $39,999 in loans to pay over 20 years; borrowers with $40,000 to $59,999 in loans to pay over 25 years; and borrowers with $60,000 or more in loans to pay over 30 years. Borrowers can elect to make fixed monthly payments or graduated payments under any consolidation plan.

- Perkins loans must be repaid separately from other federal loans, unless the borrower opts to repay them through the consolidation plan.

- There are three plans that allow borrowers to make payments based on their income and household size, and all offer loan forgiveness. They are Income-Contingent Repayment, Income-Based Repayment, and Pay As You Earn. Each one has different repayment terms and eligibility rules. Some borrowers may qualify for all three, some only for one, and others qualify for none.

**Direct Loan Portfolio by Repayment Plan**

| Standard | | Standard Graduated | | Extended and Consolidation | | Extended and Consolidation, Graduated | |
|---|---|---|---|---|---|---|---|
| Dollars Outstanding (in billions) | Recipients (in millions) | Dollars Outstanding (in billions) | Recipients (in millions) | Dollars Outstanding (in billions) | Recipients (in millions) | Dollars Outstanding (in billions) | Recipients (in millions) |
| $139.9 | 9.84 | $27.8 | 1.27 | $62.1 | 1.63 | $17.5 | 0.45 |

| Income-Contingent | | Income-Based | | Pay As You Earn (New Plan as of Dec. 2012) | | Other/Unknown | |
|---|---|---|---|---|---|---|---|
| Dollars Outstanding (in billions) | Recipients (in millions) | Dollars Outstanding (in billions) | Recipients (in millions) | Dollars Outstanding (in billions) | Recipients (in millions) | Dollars Outstanding (in billions) | Recipients (in millions) |
| $20.1 | 0.63 | $50.9 | 0.91 | $1.3 | 0.04 | $41.7 | 1.00 |

Source: National Student Loan Data System (NSLDS); New America Foundation

*Includes outstanding principal and interest balances of Direct Loans in Repayment, Deferment, and Forbearance*

- Qualifying borrowers with very low incomes need not make any payments on their student loans if they are enrolled in one of the income-based repayment plans listed above. Separately, borrowers need not make any payments on their loans for a limited time if they are enrolled in any of the other repayment plans and are granted "forbearance." There are two different types of forbearances and multiple ways to qualify for each.

- During repayment, a Subsidized Stafford loan does not accrue interest if the borrower applies for and is granted a deferment (i.e. postponement of payments) because he is unemployed or experiencing an economic hardship at any point during repayment for up to three years. Borrowers can qualify for the same deferment for Unsubsidized Stafford loans, but those loans accrue interest, though it need not be repaid during deferment. Again, many borrowers have *both* types of loans.

**Recommendations to Simplify the Federal Student Loan Program**

*Set One Loan Limit for All Undergraduates, Irrespective of Their Dependency Status*

Policymakers should simplify the federal loan program by eliminating the distinction between dependent and independent undergraduates and allow both types of students to borrow the same amount of loans. Annual limits for all undergraduates should be $6,000 for a first year student, $7,000 for a second-year student, and $9,000 for a third-, fourth-, or fifth -year student. The aggregate limit for undergraduates should be $40,000.

Note that those limits are higher than dependent undergraduates can currently borrow on their own but less than independent undergraduates can take out. The current loan limits for independent students can lead to excessive amounts of debt. As of now, an independent undergraduate student who borrows the maximum in federal loans would begin repayment with a principal and interest balance of approximately $74,000, an amount that would require $486 monthly payments over 30 years to repay under the currently available repayment plans.

*End the Subsidized Stafford Interest Rate Benefit, and Let Income-Based Repayment Subsidize Repayment*

Since the passage of the Higher Education Amendments of 1992, all undergraduate borrowers have been able to take out federal Stafford loans regardless of income or other need-based tests, at terms that have been generally more favorable than those in the private market.[2] Prior to the enactment of that policy, the federal loan program allowed only financially needy students to borrow.[3] These loans had always included an interest-free benefit under which the loan would not accrue interest while the borrower was in school. However, when policymakers opened up the federal student loan program to borrowers of all income backgrounds in 1992, they maintained the interest-free benefit for borrowers who met a needs analysis test that accounted for the cost of attendance at students' institutions, but did not provide a similar benefit for other borrowers.

That interest-free benefit remains the distinction between the two loan types for undergraduates that still exist in today's program: Subsidized Stafford loans and Unsubsidized Stafford loans, with Subsidized Stafford loans carrying the interest-free benefit. Again, 82 percent of recent undergraduates who have a Subsidized Stafford loan also have an Unsubsidized Stafford loan.

Ending the benefit would remove a confusing and oftentimes misunderstood distinction between the loans and it would result in only one type of federal loan for undergraduates. The entire program could then be called "Stafford Loans," dropping the Unsubsidized and Subsidized prefixes.

While that would result in a reduction in benefits for some borrowers, Congress should keep two facts in mind before opposing the change. First, subsidized Stafford loans do not always provide the lowest-income students with the greatest benefits. Because they are awarded to borrowers in part according to the cost of attendance of their schools, a borrower with a high family income will be eligible for the loans if he attends the most expensive type of institution or has siblings in college at the same time. About 12 percent of borrowers who receive Subsidized Stafford loans come from families earning over $100,000 per year.[4] Second, providing an income-based repayment plan better aligns a borrower's ability to repay with what he actually pays on the loans, whereas Subsidized Stafford loans are provided to borrowers based largely on their family income when they enter school.

*End Grad PLUS, but Increase Stafford Loan Limits for Graduate Students*

Policymakers should end the Grad PLUS loan program. This program allows graduate and professional students to borrow up to the full cost of attendance at an institution of higher education, with no time or aggregate limit. Such a policy, especially when coupled with loan forgiveness and income-based repayment, can discourage prudent pricing on the part of institutions and sensible borrowing by students. However, policymakers should increase the annual limit on Unsubsidized Stafford loans for graduate students from the current $20,500 to $25,500 to modestly replace some of the borrowing ability graduate students will lose when the Grad PLUS loan program is eliminated.

Under this proposal, graduate students would borrow only one type of federal loan with uniform terms and limits. Combined with the recommended changes to undergraduate loans, all federal student loans could then be called "Stafford loans" but with a distinction for graduate and undergraduate terms.

Even with an increase in the Stafford loan limits, ending the Grad PLUS program will cause some

graduate students to turn to the private loan market to partially finance their educations. This would ultimately be beneficial in addressing the high costs of graduate schools. If institutions can no longer rely on PLUS loans to fund their high-tuition programs and if the private market is responsive to the ability of borrowers to repay, then graduate schools may have to set their pricing based, in part, on students' expected earnings. Since those in graduate school already have an undergraduate degree and are preparing for a profession, it is more reasonable to expect that loans above the Stafford limits be based on prospective ability to repay. Underwriters will likely focus most intently on institutional characteristics to determine risk, meaning that programs that poorly prepare students to repay their debts will not find that their students can access much credit in the private market, which should change institutional behavior in terms of quality and pricing.

*Income-Based Repayment Should Be the Only Repayment Plan*

Congress should eliminate all of the different repayment programs and replace them with *one* income-based repayment plan similar to those in place now, but with a few essential changes. Those changes would ensure that the plan does not provide high-income borrowers with loan forgiveness; does not allow graduate students to finance most or all of their educations through loan forgiveness, regardless of price; and does not indemnify or reward schools when they charge more, and students when they borrow more. The current program does not sufficiently guard against those outcomes, as is documented in a number of past publications and a forthcoming research paper.[5] Department of Education data also indicate that students with debt from graduate school are predominantly using the Income-Based Repayment plan given that the average balance in the program is $55,769, significantly above the federal loan limits for undergraduates (reliable information for the Pay As You Earn plan is unavailable).[6]

Here are some illustrations of how Pay As You Earn in its current form does not guard against the outcomes listed above. The examples were generated using the New America Foundation's IBR calculator. Each assumes a household size of one. Note that borrowers can exclude a spouse's income from the IBR and Pay As You Earn calculations; they may, however, *still include the spouse in the household size calculation.*[7] Thus, if the household size were larger, the loan forgiveness figures would be larger due to the increase in the income exemption.

- A borrower has an outstanding federal loan balance of $60,000 with an average interest rate of 6.25 percent from undergraduate and graduate studies. He earns a starting salary of $43,000 (with an AGI of $38,700) and an 8 percent annual salary raise every year. In ten years his salary is therefore $86,000. He works at a 501(c)(3) tax-exempt non-profit organization for those 10 years. After his tenth year of payments, he has $61,185 forgiven, the remaining balance on his federal student loans at that point.

- A borrower has an outstanding federal loan balance of $100,000 with an average interest rate of 6.5 percent from graduate studies. He earns a starting salary of $60,000 (with an AGI of $54,000) and a 6 percent annual salary raise every year. In ten years his salary is therefore $87,000. He works at a 501(c)(3) tax-exempt non-profit organization for those 10 years. After his tenth year of payments, he has $119,000 forgiven, the remaining balance on his federal student loans at that point.

- A borrower has an outstanding federal loan balance of $65,000 with an average interest rate of 5.4 percent from undergraduate and graduate studies. He earns a starting salary of $45,000 (with an AGI of $40,500) and a 3 percent annual salary raise every year. In his tenth year of repayment he receives a promotion and his salary jumps to $90,000. He continues to earn a 3 percent annual raise. He works in the private, for-profit sector for his entire career. After 20 years of payments on his federal student loans, he has the remaining balance,$54,000, forgiven. He is earning a salary of $120,000 at that point.

- A borrower has an outstanding federal loan balance of $120,000 with an average interest rate of 6.0 percent from graduate studies. He earns a starting salary of $70,000 (with an AGI of $59,500) and a 3 percent annual salary raise every year. In his tenth year of repayment he receives a promotion and his salary jumps to $110,000. He continues to earn a 3 percent annual raise. He works in the private, for-profit sector for his entire career. After 20 years of payments on his federal student loans, he would have $128,000 forgiven, the full remaining balance on his loan at that point. He is earning a salary of $148,000 when his loans are forgiven.

There are multiple ways to address the current problems with Pay As You Earn. The following changes below are my recommendations that address the issues highlighted above but ensure that the program still provides an essential safety net for borrowers:

1. Maintain the lowest-available-payment calculation (10 percent of Adjusted Gross Income after the exemption of 150 percent of the federal poverty guidelines) but only for borrowers with AGIs at or below 300 percent of the federal poverty guidelines (about $34,000 for a household size of one). Borrowers with AGIs above 300 percent should pay 15 percent of their AGI after the exemption.

2. Link the loan forgiveness timeframe to the amount borrowed. Maintain the loan forgiveness timeframe of 20 years of payment, but only for borrowers whose loan balances when they entered repayment do not exceed $40,000. Borrowers with higher initial balances would qualify for loan forgiveness after 25 years of repayment.

3. Limit the amount of debt that can be forgiven under Public Service Loan Forgiveness. The program currently provides *unlimited* loan forgiveness to a very broad category of "public service" that captures 25 percent of the U.S. workforce.[8] Then consider accelerating when it is provided so that a borrower with an undergraduate level of debt

could benefit. (Because borrowers must make payments for 10 years to qualify, undergraduates are far less likely to have any debt remaining at that point, while graduate students are far more likely to have debt remaining, and forgiven.) For example, borrowers could receive $5,000 in loan forgiveness after five years of qualifying payments and an additional $5,000 after a subsequent five years, thereby limiting loan forgiveness to $10,000 and providing earlier benefits so that students with only debt from undergraduate studies could benefit. Lawmakers should also define "public service" more narrowly than the current rules so that only certain professions or job categories qualify.

4. Eliminate the maximum payment cap. Borrowers must always pay based on the income formulas, no matter how high their incomes are. The current program bases a borrower's payments on his income until they reach what he would pay if he repaid his initial loan balance according to a 10-year fixed payment plan.

5. Instead of Adjusted Gross Income, the program should base payments off of a broader measure of borrowers' incomes. Adjusted Gross Income allows for generous exclusions which includes retirement savings, fringe benefits, and above-the-line deductions. The program should base payments on all wage and other income before pre-tax benefits and above-the-line deductions.

6. Policymakers should also require borrowers to agree in the promissory note they sign upon borrowing to allow their loan servicers and the U.S. Department of Education to access necessary information from their most recent federal income tax return to calculate payments based on income. This will help make income information automatically available to the Department so that it may calculate borrowers' payments without waiting for information from borrowers as is the case in the current system.

With the proposed changes in place, income-based repayment is then the single best option for repayment. Most importantly, making income-based repayment the only repayment option gives borrowers automatic access to the plan with the most risk protections without requiring that they first know it exists and then complete a complicated enrollment process each year. It is likely to reduce delinquency and defaults for the greatest number of borrowers when compared to any other of the repayment plan, although it is impossible to know by how much given how little we know about what causes borrowers to miss payments. Lastly, IBR significantly changes the effect interest rates have on the loans. Borrowers' monthly payments are not dictated by the interest rate charged on the loan, because payments are based *only* on income. To be sure, the interest rate could change the duration of the loan (i.e. how long a borrower pays), but borrowers with persistently low incomes would be shielded from those effects as the added interest would eventually be forgiven.

*Create an Embedded 10-Year Repayment Option*

While income-based repayment would be the only repayment plan available, borrowers should be told how much they would need to pay each month in order to retire their debt in 10 years—thus mimicking the standard repayment option. This is a simple option to add because federal student loans allow borrowers pay off their loans faster than is required, without penalty.

Under this "embedded option" each month a borrower receives his bill (or when he logs into the servicing website) he can see the amount he needs to pay to stay on a 10-year repayment plan based on when he began repaying. Generally, the payment he must make according to the income based repayment formula would be his "minimum monthly payment." In some cases it could be higher. If a borrower has a higher income, then his income-based payment would be higher than payments under the 10-year plan (because this proposal also eliminated the payment cap that exists now under the Income-Based Repayment program). Thus, higher-income borrowers could be required to pay off their loans faster than a 10-year plan would allow. Borrowers with low initial balances would, as well. Even so, required payments would still be based solely on income.

The embedded option ensures that borrowers do not need to enroll in Income-Based Repayment when they need the assistance, but it also allows borrowers to always pay faster if they want to (thus eliminating any extension of repayment that Income-Based Repayment may incidentally encourage) and gives them a target – the 10-year payment plan – against which to gauge their decisions.

*End Deferment and Forbearances*

Congress should end the deferment and forbearance benefits on federal student loans except for borrowers who are in school or in a few special cases, such as military deployment and certain teacher loan forgiveness programs. Income-Based Repayment already includes an exemption for "non-discretionary" income that is equal to 150 percent of the federal poverty guidelines, adjusted for household size. It is approximately $17,700 for a family of one. Thus, borrowers with low incomes need not make payments or may be required to make very small monthly payments.

**Conclusion**

Student loans are an increasingly necessary way for students to help finance their postsecondary educations. But the current system presents them with too many options and choices, both on the front end when they decide to borrow and especially when they enter repayment. Even worse, the smallest benefits are automatically available to all borrowers while larger benefits with the most protections are available only to those who know about them and have the time and wherewithal to navigate the enrollment processes. The suggestions outlined in this testimony would make the programs more straightforward to students, with clearer benefits that are better targeted.

Respectfully Submitted,

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New America Foundation

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[1] U.S. Department of Education, National Center for Education Statistics. *2011-12 National Postsecondary Student Aid Study*. Computation Sept. 26, 2013 by NCES PowerStats using variables STAFSUB and STAFUNSB.

[2] P.L. 102-325.

[3] Cervantes, A.; Creusere M.; McMillion, R.; McQueen, C.; Short, M.; Steiner, M.; Webster, J. (November 2005). *Opening the Doors to Higher Education: Perspectives on the Higher Education Act 40 Years Later*, TG Research and Analytical Services: http://www.tgslc.org/pdf/hea_history.pdf.

[4] U.S. Department of Education. (March 31, 2011). *FY 2012 Justifications of Appropriations Estimates to Congress: Student Loans Overview.* Available: http://www2.ed.gov/about/overview/budget/budget12/justifications/s-loansoverview.pdf, S-15.

[5] Delisle, J. & Holt, A. (2012). *Safety Net or Windfall: Examining Changes to Income Based Repayment.* Washington, D.C.: New America Foundation. http://newamerica.net/publications/policy/safety_net_or_windfall; Matthews, Dylan, "How Georgetown Law Gets Uncle Sam to Pay Its Students' Bills," Wonkblog, *The Washington Post* (August 9, 2013) http://www.washingtonpost.com/blogs/wonkblog/wp/2013/08/09/how-georgetown-law-gets-uncle-sam-to-pay-its-students-bills/; Forthcoming paper by Jason Delisle and Alex Holt to be published by Upjohn Press (2014).

[6] U.S. Department of Education, office of Federal Student Aid. *Federal Student Loan Program, Direct Loan Portfolio By Repayment Plan: http://studentaid.ed.gov/about/data-center/student/portfolio*

[7] The calculator is in Excel spreadsheet format and can be downloaded at the following address: http://edmoney.newamerica.net/sites/newamerica.net/files/articles/NAF%20IBR%20Calculator%20with%20PSLF%20for%20New%20IBR.xlsx

[8] Consumer Financial Protection Bureau. (2013). *Public Service & Student Debt. Analysis of Existing Benefits and Options for Public Service Organizations:* http://files.consumerfinance.gov/f/201308_cfpb_public-service-and-student-debt.pdf.

Chairman KLINE. Thank you very much.

Thanks to all of you.

I didn't hear any of you say that you thought we ought to have a more complicated system. Just when I am convinced that it would be impossible for us to make a more complicated system, I look around and we have done so.

So, I am delighted that there seems to be a consensus among you and I am guessing among our colleagues here on both sides of the aisle—but we will see as we go forward—that what we have now is too complicated and so it doesn't get used in some cases, it gets abused in other cases. Mr. Delisle sort of challenged the members of the committee to explain the four, five, nine, hike different ones, and nobody here is going to take that challenge I don't think—maybe Mr. Hinojosa, but—

So I think that there is a growing consensus that we have a complicated system that must be changed.

So let me start with you, Ms. Conklin. You must have heard from some people that oppose creating a single source of loan and grant funds. Who are those people and what do you say to them?

Ms. CONKLIN. I hear most people object to the idea of picking and choosing from options. So what we recommend, through this HCM technical panel, is a holistic look at the—at a single grant and a single loan program because it can promote college affordability so much better than the alternatives.

It can make it much easier for students to apply. We expect many more students will be eligible. We can pay for that with savings in the loan program in the ways that Jason has identified, where we transfer the subsidy to the back end of the loans.

It finds savings that will allow us to shore up the Pell Grant program beyond 2014, when deficits are projected again. According to the Southern Education Foundation, half of our students in school today are on free and reduced lunch. It is highly likely that they will be needing a Pell Grant and we need to find savings to make sure and support them.

Three, it helps more students graduate and graduate on time. The biggest college affordability issue we face is students who graduate—who fail to graduate but have debt, so this debt with no degree, or who take five, six, seven, eight years, and every year they are paying more tuition and losing income. That is an affordability crisis.

And last, again, the significant loan aversion we see for low-income students who don't understand this process. Again, if you look at this holistically instead of picking and choosing different provisions, you can create a program that is much simpler, we think that many more of the Pell Grant students who turn down loans today will be inclined to borrow and, therefore, go full-time and complete on time.

Thank you.

Chairman KLINE. I think I understand the arguments for this, but I guess let me try the question again. When you—HCM, you put your report out there and you explain this program, you never run up against somebody who says, "No, we shouldn't do that"?

Ms. CONKLIN. We were surprised by how remarkable the consensus was for the general recommendations we proposed.

Chairman KLINE. Okay. Fair enough. As I said in my remarks just a minute ago, there does seem to be a growing consensus that what we have now is just awful.

Dr. Baum, you limited your remarks to the Pell Grant program. It is huge.

And I think one of you—somebody noted that it has essentially doubled over the last few years but is leveling, and it looks like we are actually going to see a dip and make money, if you will. That is a poor choice of words, but that probably won't continue.

So if we go to simplification as one of our goals here, not just for loans but for others, will that help to stabilize the Pell Grant—keep this kind of thing from going on? And how would that work?

Ms. BAUM. Well, I think that simplification can help all aspects of the program. Let me just say, in response to the question that you asked about why there is opposition to simplification, nobody is opposed in principle to simplification, but the fact is, any changes that you make are going to have—change the benefits that some people get. And it is very difficult for people who are used to a system being the way it is not to focus on the loss that individual students might experience.

And I think that Congress has to be very careful in modifying the program to look at who is going to benefit and who is going to be hurt. But we will be immobilized if we think that if we find an individual student who ends up worse off we can't move forward.

One important issue and one of the issues that I have focused on a lot is that Pell Grant recipients and student aid recipients altogether include not just our vision of young people from low-income households but also adults. I mean, this is really a workforce education program that pays to get people the skills that they need to be productive workers, and I think people focus either on one group or another. Both groups are very important.

But it is the kind of thing where people are focused on what will happen to one group if we make a small change, and I think that a careful analysis and careful approach to reform will help that.

In terms of simplification and the budget, if we can predict—if students can predict ahead of time what they are going to get, we will be more able to predict who is going to benefit. If students have incentives to progress in a timely manner we should be able to give students more money to cover their studies while giving them money for a shorter period of time, and that can save money.

If we are careful about defining who is eligible for benefits, for example, in the ways that Jason discussed, making sure that the loan program works correctly—we can target the program effectively and we can control its costs without depriving the students who really need the funding from those benefits.

Chairman KLINE. Thank you.

My time is expired.

Mr. Hinojosa?

Mr. HINOJOSA. Thank you.

I have lots of questions and want to start with Jennifer Mishory.

Ms. Mishory, some proposals to link loan repayment to a borrower's wages would eliminate student loan forgiveness options, something that I consider to be very important, especially those of us who represent regions with a high percentage below the na-

tional poverty level. Are loan forgiveness options important if a borrower is repaying based on a percentage of their income?

Ms. MISHORY. We think that loan forgiveness options are very important in any reform. They both give students and borrowers a light at the end of the tunnel, so if someone has been paying for 20, 25 years, they are at a point when they should be starting to think about retirement—should have started to think about retirement before then. And we want borrowers to be able to move on with their life.

The system perhaps didn't work for them. You know, they paid for 20 years and they didn't get the returns that they expected when they entered school. So we think that kind of forgiveness is very important.

And we think that public service loan forgiveness is very important. You know, it provides students from low-and moderate-income families with the ability to serve their communities, to serve their country. It provides us with students who may be interested in entering the workforce and filling jobs where we actually need more public service workers and really giving them the ability to do that.

And it allows those talented and dedicated young people who may, again, be from low-and moderate-income families to really find a good skills match for their skills in the public service.

Mr. HINOJOSA. Thank you.

Ms. Conklin, in your testimony you recommend moving to a single income-based loan repayment system. When other countries have moved to similar systems they are frequently paired with strong, front-end protections for the students to control the college costs.

Could an automatic income-based repayment system reduce pressures on colleges to control costs? And likewise, could it reduce the pressures on students to borrow less?

Ms. CONKLIN. Thank you, Mr. Hinojosa.

So one of the recommendations that is implicit in one loan program is to eliminate both the PLUS and the Grad PLUS loan programs, which don't have time limits and we think create an incentive for institutions to not restructure their costs in the way they need to do to get tuition to a more moderate rate.

So again, what we do in creating one default income-based repayment program is we actually raise the loan limits within that program. We set one for undergraduates, one for graduates, and we hope that while that is lower than what is currently available if you are availing yourself of a PLUS loan program, that that will be sufficient to pay for school for most students and will create some downward pressure on the higher-priced institutions to restructure their costs.

We also look at the role of states. The American Dream 2.0 Coalition was very clear that the role of states is to create more low-cost pathways, and so it is very important for states to do that. I don't think that is a federal role; I think that is the states stepping up on their historic role, sir.

Mr. HINOJOSA. Thank you.

Dr. Baum, you propose determining Pell eligibility just once when students are juniors in high school and allowing that eligi-

bility to last through age 24. Could you elaborate on how this simplification would encourage more low-income students to apply to college while reducing the burden on institutions of higher education?

Ms. BAUM. So the idea of having people apply just once is important because it means that people don't go through this bureaucracy over and over. It means that they know ahead of time how much money they will get.

And, again, as I said in my testimony, if you—it is sort of—you are saying to people, "You have this money," and it is theirs not to spend. And that can make a significant difference.

The amount of bureaucracy that goes on now at institutions to verify what people say on their FAFSAs—I mean, you can write anything you want to on your FAFSA, right, and so what we have to do is compare it to the tax forms and it is all very complicated. And that is a waste of everyone's resources and we could eliminate that.

Mr. HINOJOSA. I understand.

I am running out of time but there are two questions that are very important to me. One is that in the years of 2002 through 2010, under the Bush administration, there were Pell Grants of 3,000 to 3,400, and two years I remember they wanted to either eliminate it or cut it in more than half because we needed that money for war.

Yet, when they lost the majority I remember having presidents and chancellors come to my office, because by then I was chairman of the committee, and they said that one of their highest priorities was to raise the Pell Grant because middle-income families were hurting badly. And all of this to say that we were trying to get out of recession.

So, I want members of our committee to be able to see that chart in your remarks and understand why that happened. And lastly, that we increased minorities—Hispanics and African Americans—going to community colleges and to universities because it became more affordable and accessible. Thank you.

Chairman KLINE. Gentleman's time has expired.

Mr. Petri?

Mr. PETRI. I thank you, Mr. Chairman.

I noticed in your prepared testimony that everyone except, I think, Dr. Baum, who was more talking about grant programs, endorsed making some form of income-based repayment the automatic or sole repayment option for federal student loans. And I would really like to ask each of you—and, Dr. Baum, if you would care to comment on it as well—if you could elaborate on your thinking regarding the potential benefits of making income-based automatic, in terms of simplification and other goals that we are pursuing in the reauthorization.

Who would like to start?

Ms. BAUM. I will start, since I didn't say anything about it. I totally support that proposal.

It is too complicated for students. Not enough people are participating in the program. And making it the default option would make more students be able to benefit from it, but we do need to make the kinds of revisions that Mr. Delisle has proposed in order

to make this an efficient program, and many of those provisions are in the bill that you have proposed about income-based repayment.

Mr. PETRI. Ms. Mishory?

Ms. MISHORY. Sure. I mean, I think that for students who are trying to figure out their options when they leave school, having a simple, streamlined process can be huge and can be very helpful. We were actually down in Miami last week doing roundtables with students and talking about the kinds of information that they need and what they know about different programs, and none of the students we talked to had actually heard of income-based repayment.

And, so you know, that is the problem, right? This is a program that can be very helpful to a lot of students and we need to make sure that we are providing this policy in a way that students know that it is there for them so they can understand what types of risks they may be taking on and really encourage them to go to school and take out loans when they need to.

And then when they—on the back end, when they might be struggling to repay those loans, we do face a high default rate for student loans and we want to make sure that we can cut into that by doing things like streamlining this process.

Mr. DELISLE. So I hear a lot of people say, when we talk about our student loan system in the United States they point to other countries, like the U.K. or Australia, that have income-based repayment programs, and then they say, "Why don't we have something like that?" We do. We do have something exactly like that, it is just not automatic.

So I think when people ask that question what they are saying is, "Why don't we just make it automatic then, if we already have it?"

So what we have done is we have—I mentioned in my spoken testimony about the Department of Education automatically enrolling people in the 10-year standard repayment, which is basically your highest monthly payment, and then we sort of let them maybe find their way to the more generous, more beneficial options in the loan program. But if they are there, why not just start people in those programs to begin with and why not just make that the only program, especially since it provides people who need the most help with it automatically?

Now, there are people using the income-based repayment program. People who have figured this out, that this is available, are graduate students. The average outstanding loan balance in income-based repayment right now is about $57,000.

Now, we heard at the beginning the average amount of debt that an undergraduate leaves with is around $25,000, and in fact, the federal government caps how much an undergraduate can borrow well below $57,000. So what we have got is we have got a program here where the graduate students have figured it out and the people who really need the help—the undergrads—aren't necessarily using the program.

Ms. CONKLIN. Mr. Petri, I want to echo what my group has said and again, what we—I said to the chairman that there is a remarkable amount of consensus in the reform community for the pro-

posals that, frankly, you were an early leader on, and so I commend you for that.

I am actually going to respond that one of the reasons for the income-based repayment and the simplification and the default option we talk about is to put student success at the center of what we do. We see there is some really good data out of Wisconsin looking at individual students, and at least 20 percent of Pell Grant students fail to even take a single loan and up to half of students do not take the amount they are eligible for.

What does that mean? They are much less likely to go full-time. They are much less likely in that first year to make the progress they need to make that we know is associated with success.

Some of them are much less likely to go to the more selective institutions we know they are likely to attend. That is that undermatching phenomenon you may have been reading about lately.

So really understanding early, whether you are a traditional or nontraditional student, that this is a single loan repayment option, and what your repayment terms will look like is, I think, a way to put student success at the center of our loan programs.

Mr. PETRI. Thank you, thank you all.

I just have 20 seconds left so I just want to make one comment that was touched on, I think, especially in Ms. Mishory's testimony, and that is where and how, if we simplify the program, we focus the subsidies that—there are inevitably going to be subsidies that people who just can't repay their loans, and if—and whether they are—and how we should be—if we should be applying subsidies also to higher-income people and others because they are doing something that sounds good, but—anyway, that is a discussion for another day.

But if we have a pot of subsidies, we should have a rational discussion as to on what basis they should be given rather than just have an automatic preference for some people who, when you have analyzed the situation, may not deserve it.

Chairman KLINE. Gentleman's time is expired.

Mr. Bishop?

Mr. BISHOP. Thank you very much, Mr. Chairman. You know, you said before the—who are the people that are opposed to one grant, one loan, and I hate to see you disappointed, Mr. Chairman, so I thought that I would—

Chairman KLINE. Will the gentleman yield?

Mr. BISHOP. Of course.

Chairman KLINE. I knew I could count on you.

Mr. BISHOP. Thank you, Mr. Chairman.

But before I talk about my skepticism regarding one grant, one loan, one work, I sincerely do want to thank you for this hearing and thank the panel. This has been great. Lots of great ideas.

I think in all seriousness, Mr. Chairman, we should be doing a couple of these. Because there are lots of issues here. We are not going to be able to cover them all in one hearing.

So thank you all very, very much.

And, Dr. Baum, I am going to kind of focus on you because you are proposing the elimination of the campus-based programs, which, I will say respectfully, I think is a bad idea. And let me tell you why.

I used to administer campus-based programs. I was a financial aid director for 7 years way, way back. And what I found was the most helpful about the campus-based programs is that they were a way of, you know, what I always call putting out fires. They were a way of dealing with students whose circumstances had changed, or that the traditional programs, the external programs, the entitlement programs didn't give them what they needed.

And so to give the financial aid officer the discretion that he or she could then apply to save enrollments—I mean, we have two problems here. We have an access problem, and I think you could make an argument that one grant, one loan, one work would be assessed with an access problem, but we also have a completion problem, and I think if you were to eliminate campus-based there would be a serious concern with respect to completion.

Because if you look at it, the traditional private, not-for-profits, they discount aid, they have institutional aid, so they could address that issue. But the state schools don't really discount aid, and so unless they have endowment income or, you know, philanthropy, they are not going to have their own resources to provide. And the for-profits do very little in the way of discounting aid or what we would call traditional institutional grant aid.

So I am concerned that in the overall heading of simplifying, that what we are really going to do is deny a resource to the campus aid officer that has used it, you know, millions of times a year to save enrollments.

I would like to hear your comment.

Ms. BAUM. Well, I would note that I am not proposing taking this money away from campuses. I am proposing distributing it to campuses differently.

Right now some campuses get a lot of the campus-based money just by historical reasons, and many of the campuses that enroll many needy students don't get much of it. So if we allocate the funds to institutions based on their success with low-income students, they will have the opportunity to use the money to put either directly into students' pockets or to support the students—

Mr. BISHOP. If I may, but if we go to one grant, one loan, one work, which is what I am hearing, one grant presumably is Pell, right? And unless we are going to restructure the way we award Pell, then, that is going to money that, I mean—and yes, we are going to add to the funding for it, but that is money that is going to be available to the student up front.

Ms. BAUM. No, so my proposal would put money in the institutions that they could use to give institutional grants to students. It wouldn't interfere with the—

Mr. BISHOP. I am not trying to be argumentative. So you are not, then, advocating one grant, one loan, one work?

Ms. BAUM. In my view, I am advocating one grant to students from the federal government.

Mr. BISHOP. Now I am thoroughly lost, but with this as a discussion perhaps we can continue.

I want to go to a point that Ms. Mishory made, which I think is really, really important and none of us should lose sight of this. What you said—what I heard you say—was that the aid process ought to be simpler. I think we all agree with that. But we ought

not to reduce supporting—we ought not to reduce the total amount of student financial aid that is available.

And I think what is important for us to all recognize is that is precisely what we are doing. We are reducing the total amount of aid that is available to students.

Current law: Pell Grant will go down by $310 next year and $400 the year after unless we change current law. Sequestration is current law. That has resulted in a $37 million reduction in SEOG in the current year, and a $40-some million reduction in SEOG next year.

College Work Study: There has been a $49 million reduction in College Work Study this year, and next year another $79 million unless we change current law. That is what we are dealing with.

And current law, the Perkins Loan program goes away in 2015. That is $1.2 billion a year taken out of the student loan program.

So we can simplify all we want, and I would urge us to do so, but let us not do so at the cost of the assistance that students very badly need. Yet, that is precisely what we are doing and we ought not to let a focus on simplification be, in effect, a fig leaf for what we are really doing to students, which is taking away resources.

With that, Mr. Chairman, I will yield back.

Chairman KLINE. I thank the gentleman.

Ms. FOXX?

Ms. FOXX. Thank you, Mr. Chairman.

At a recent meeting, I had an agreement with Ranking Member Miller, and I have to say that I have a little bit of an agreement with Mr. Bishop in terms of keeping campuses involved in ways that they are dealing with students. Having worked on a campus myself and worked with—I wasn't a financial aid director, but I worked with Upward Bound, special services, and orientation and academic advising—

Mr. BISHOP. Will the gentlelady yield?

It is only a very select group that are chosen to be financial aid directors.

Ms. FOXX. But I think he makes a really good point about the need to keep campuses involved with what is happening with the students in terms of aid.

But, Ms. Conklin, I would like to ask you a question. The committee has been grappling with the question of what information the federal government should make public to help students and families make informed decisions about their postsecondary education options, and there are certainly plenty.

If we were to drill down to five or six data points that are absolutely necessary for students to have to make good decisions, what do you think those points would be? And maybe a little bit about how they could be presented to the students? Some people have expanded a lot on what should be made available, but just brief comments about that.

Ms. CONKLIN. Thank you for your focus on transparency. Again, the Hart research that we did with the Winston Group showed that this was the most important issue to voters—was to increase transparency and improve their decisions.

HCM led a project called the Voluntary Institutional Metrics Project and we had a group of, very diverse group of institutions—

not-for-profit, for-profit, and public—come together and agree on five metrics. Those are useful metrics to answer your question.

The first are progression and completion metrics—the kind that a number of states have voluntarily agreed to report already; loan repayment, input-adjusted of course, if possible; cost per degree or net price, two sides of the same—two important metrics; recent wages of recent graduates; and a learning metric. And so I would start with that.

I think from an investor perspective at the federal level you also need to know what—regularly how many—the percentage of Pell students an institution enrolls and how well they do, what is their completion statistics.

Ms. FOXX. Thank you very much.

Mr. Delisle, your testimony raises some interesting suggestions, but you didn't really touch upon ideas about how to encourage completion. And I realize in this whole debate we have been having in the last couple years how the emphasis has changed from access to all of a sudden everybody is interested in completion.

Is there a way for the federal government to encourage college completion with the needs of nontraditional students, many of whom have to balance family or jobs with their academics?

And I am going to give a prize to anybody who can come up with a way to stop using the word "nontraditional students" because what we talk about as traditional students make up like 27 percent of the student body now, and something is wrong with this picture. So anybody on the panel, if you can come up with a good word, I am looking for one.

Mr. Delisle?

Mr. DELISLE. So, I wanted to keep my testimony today—you are correct, I didn't mention anything about incentivizing completion explicitly. I wanted to keep the testimony very much so focused on the message of simplification and highlighting the complexities that exist in the program now.

Also, when you start talking about adding in provisions that might incentivize completion, you tend to start to make the program more complicated rather than simplify it, so there is a very difficult tension there between those two goals that I—it seems like my testimony skirts them a little bit.

But I would point out that there are parts of my recommendations that would implicitly incentivize completion,—for example, the messages around loan limits. For example, you know, parents, for example, can borrow whatever the school charges in federal loans through the Parent PLUS loan program—whatever the school charges and for as long as the student wants to attend. There is no aggregate; there is no annual; there is no lifetime limit on the amount of money the federal government will lend a parent whose student is attending an undergraduate school.

Well, putting some limits on that or eliminating that program and putting higher loan limits in the undergrad limits sends a message that there is a limit to the amount of time you can use federal aid to attend college. There are other examples where students can borrow for their full cost of living even if they are only attending part time. Well, that seems not to make sense and that is another—

Chairman KLINE. I hate to interrupt, but the gentlelady's time has expired.

Ms. Bonamici, you are recognized.

Ms. BONAMICI. Thank you very much, Mr. Chairman, and thank you for holding this important hearing. Thanks to you and Mr. Hinojosa.

Thank you to the witnesses for being here. I actually worked my way through community college, college, and law school using a combination of grants, loans, and Work Study, and although that was more than a few years ago, I think you have certainly made the case that simplification is needed.

But I have to say that simplifying the financial aid process is an important step, but only one step in helping more students access college, and how we simplify, of course, is what we will be discussing, and whether that simplification results in more or fewer students attending college is going to be important.

But as a committee we should always be looking for new and creative ways to help lower the cost of college, and that includes allowing colleges to work together to increase institutional need-based aid, and also doing what we can to promote reversal of the trend of state disinvestment in higher education.

I want to start by asking Ms. Mishory—and I agree with you that too many students are taking on too much debt, and they need to be included in this conversation so thank you for your work. Is there any part of the financial aid system right now that does a good job of listening to students' needs? And if so, will you briefly discuss that?

Ms. MISHORY. Sure. I mean, I think that the Pell Grant program itself is a very important program. It helps millions of students access higher education who wouldn't otherwise have been able to do soand it has been a bedrock of the program. So the Pell Grant program is incredibly important for students and I would urge the committee to continue and to really prioritize that as we are looking at reauthorization.

You know, I think that there are—programs that I think have a lot to offer but we could also think about how we could actually improve them, and the Federal Work Study program is actually something we have been looking at a lot. There is a lot of potential there.

You know, there is the potential to be working and actually getting experience while you are studying and really combining those two processes. I think right now—and Dr. Baum mentioned this earlier—the Federal Work Study program isn't always targeted in a way that we would like to see it targeted. Some institutions might get it because they have been around for a long time; some higher-earning families might get it when we really want to see it targeted at lower-and moderate-income families.

So I think there are things that are absolutely working for students. There are things that we can improve. And there are certainly things we can simplify.

Ms. BONAMICI. Great. Thank you.

And I actually have a bill, Opportunities for Success, that will help Pell Grant-eligible students get internships that will help them get job experience. So we can talk about that at another time.

So many of you are likely aware that my home state of Oregon recently passed legislation to study an innovative proposal, Pay it Forward, Pay it Back, and we have, actually, representatives from Portland State University with us today. So under this system, which Oregon is studying—has not implemented, just to make that clear—, students would pay no upfront cost for tuition but then after graduation would pay back a certain percentage of their income for a certain length of time. All of these elements are going to be considered in the study.

And frankly, I applaud our state legislature for passing that legislation to embark on that study because we really need some big-picture, creative thinking about better ways to make college more affordable and more workable for students. So, I want to hear your thoughts on how both Congress could think more creatively about affordability and retention, and how can we encourage institutions of higher education to do the same?

And I want to start maybe with Ms. Conklin. And I know that your report—your second recommendation is for spurring innovation, so can you talk about some—let's think outside the box. What are some other ideas to help with college affordability?

Ms. CONKLIN. So there were three—thank you very much. I appreciate that question and agree with you that that idea in Oregon is big and creative, and I understand that the study is being carefully watched nationwide.

A couple ideas. One I would talk about just today and refer you to the report for a couple of others. But the first one is to recognize that a significant way we lose students, and they don't succeed and the significant way that college becomes more expensive for them, is when they spend a lot of time in remediation.

And so one of the innovative ideas we proposed is to create a new Pell-ready grant worth 1,800; test it in five or six states; rigorously evaluate it; portion out the money on the basis of how students attain those college-ready skills; allow them to be regularly tested; create some competition for providers—have the states select those providers; really kind of set aside 80 percent for low-income students in the high schools, 20 percent for adults who need basic skills—we saw the OECD report yesterday, there are 23 million Americans who need basic skills.

So try this way to get students the remediation they need at a much lower cost than when at the full price in a traditional public—a postsecondary institution.

Ms. BONAMICI. Terrific.

And my time is about to expire and I want Ms. Mishory to respond, as well. Thank you.

Ms. MISHORY. Sure. And we have looked at the Pay it Forward proposal and I think that, you know, it is a bold, innovative idea. I think we—there are both positives and negatives to the idea. You know, I think that we are also carefully watching that.

But I think we have looked at some ideas around campus aid and how we can better send some of that aid to schools that are doing a better job with students, and so that is something that we are particularly interested in.

Ms. BONAMICI. Thank you.

Chairman KLINE. Gentlelady's time has expired.

Ms. BONAMICI. Yield back. Thank you, Mr. Chairman.

Chairman KLINE. Mr. Messer?

Mr. MESSER. Thank you, Mr. Chairman. I appreciate the opportunity to be here and this important hearing. I certainly understand the importance of the federal student loan program; I am very much a product of the federal student loan and student financial aid program. Stafford loans, Perkins, Pell Grants, all those things were part of my life.

And I want to maybe give Mr. Delisle—is that right?—an opportunity to finish his answer from just a few minutes ago and just say this: I think one of the things that has changed in the way we approach federal student aid or at least needs to change is we had a system that was always based on access, and that made sense because by and large the numbers were that if you had some college you were going to be better off economically in your life than no college at all. Clearly that is changed now, and if—unless you have a degree of completion in a degree that adds value in the marketplace, you are not going to do any better academically—I mean, you are not going to do any better economically than you would otherwise have done.

And sadly for many students, if you—leave with tens of thousands of dollars in debt and have no degree then you are, by definition, much worse off because you don't have a better economic opportunity and you have a lot of debt. And so, I think reforms that drive us towards completion are at least something we ought to give strong consideration.

So invite Mr. Delisle to finish, maybe, your answer from a minute ago, and any others on the panel that would like to talk about what we could do to—or to motivate completion.

Mr. DELISLE. Sure. What I was talking about was that there are places where, you know, I think that we have probably gone overboard or haven't thought very carefully about the signals that we send to people in the amount of aid that is available and when it is available and under what circumstances that are perhaps too open-ended. So, for example, on the students who attend part time but then can borrow the full loan amount as if they were attending full time, so essentially what they are doing is they are using up a huge chunk of their loan eligibility for cost of living or whatever it might be rather than paying tuition, and we cut that off, and then on the graduate side we just let it go and go and go and go.

Mr. MESSER. Sure.

Ms. BAUM. I would like to add that I think that discussions about how to structure student aid programs to incentivize completion are important, but we shouldn't just take as given where students are. Students have to select programs and institutions that are appropriate for them, and right now students don't have the information or the assistance in doing that—particularly older students who don't have high school guidance counselors, who don't have people around them to really help them.

We need to make sure that students have assistance in making the decisions about what to study, where to study, and when to study, and then they will be more likely to complete.

Ms. MISHORY. I would just like to echo the comment on counseling. I think that it can't be underscored enough. I think right

now our high school counseling rate is perhaps one counselor to every 476 students in a public high school, and so a student really trying to make good decisions for themselves is not getting the kind of help that they need.

Ms. CONKLIN. Mr. Messer, I think it is important to recognize that failing to complete a college credential is not a demographic destiny, that it is due in some part to what public policy pays for.

A recent survey out of Complete College America, based in your home state, found that fewer than a third of full-time community college students are actually taking enough courses to graduate on time. They are taking the Pell Grant and they are taking our cue that 12 credit hours is sufficient. So in a sense, we are not telling them that the expectations are much higher than you realize.

And in fact, because of the way we price college, where we are doing it a la carte by credit, you actually are penalized and you get a bigger rebate if you take the fewer credits than if you took the 15. So we really ask you to examine what are the incentives based in what we define as full time.

Mr. MESSER. And not knowing how much time exactly I have left, I would just make one other quick comment. If we have time I hope to get your response. Hopefully we can explore it in a different hearing.

I think a second area is that many of these programs tend to only incent four-year degrees in the right—you know, in sort of the traditional college where you show up and go to four homecomings, you are carrying a backpack. And at least in my district, which is 19 mostly rural counties with agriculture or manufacturing-based economies, folks that could take a technical degree or maybe even a trucking course that gave them a 3-month trucking course but gave them a job right away and the ability to pay back many of these programs right away—what could we do to look at broadening the array of programs that these financial aid is eligible for?

Ms. BAUM. Well, students are actually able to use their financial aid for those programs now. It is just that they don't know how to pick the right program. Some of them are great and some of them are not.

Mr. MESSER. I mean, I will tell you, our community colleges and others have said that—have talked to me directly about the restrictions on those kinds of programs. So you are saying you don't believe those restrictions are there?

Ms. BAUM. As long as they are credit-bearing. There are noncredit courses for which aid is not available and that is an issue at community colleges.

Mr. MESSER. Okay.

Chairman KLINE. Gentleman's time has expired.

Mr. Pocan?

You know, new members to the committee are limited to 30 seconds, so—

[Laughter.]

Mr. POCAN. Thank you. I try to do that at the beginning, be very brief to make up for now.

I do just want to say, if I can, before I start with the questions, I really am glad to be on this committee, not only, as mentioned, my background—I have been a small business owner for 25 years,

it is also of a union shop, so when it comes to labor and employment issues, hopefully I can bring some of that background to the committee.

But also, I have about 75,000 students in my district. Not only do we have the flagship University of Wisconsin—flagship of our system, a world-class university, but we also have private colleges like Beloit College, which were started before our statehood, 1846. We have Edgewood College, Madison College, a technical college, many small private colleges. So I'm especially glad to be on this committee and I thank you very much for that opportunity.

I think one of the questions or areas I would like to get to, when—I went around this past period and I was at Beloit College, and I was at U.W. Madison, I was at a number of high schools, I am going to Edgewood College this Saturday, so I do spend a lot of time talking to students and folks going to universities.

You know, we talk about the three parts. One is the affordability of school, and I think there is still a lot more conversation around that, although, Ms. Mishory, I really appreciate the comment you said about public universities. When we got the economic hit and the states—49 states got hit—I was the chair of a finance committee at the time. We did decline our support and we have continued to decline our support to our state university, like we have seen in many other states, and that has had a really big impact.

We talk about the availability of financial aid, making sure we have got loans available—and as Mr. Bishop said, things like Pell Grants and things that are being hit because of the sequester. I am a Pell Grant recipient, loan recipient. That is how I got through college. It is real important.

But one of the things that came up, the third area I talk about, is how you make sure that you are able to pay for those loans afterwards. When I went to school it wasn't as many years you had to pay it off. Between 1982 and 1986 when I went to school, you know, it was a little bit easier.

Now they have become longer-term loans, much more debt. And we have got a group in Wisconsin that has helped us look at the thinking around this a little bit. I talked to a student when I was home this last period who has some loans at 6.8 percent, literally left college to go join the military so they could come back and get a free education after that point, but they still have the 6.8 percent.

And I think one of the issues that came up from a group in Wisconsin and we have done a bill on, and it hasn't really been addressed but I would love to hear your perspectives, is the potential to be able to make it easier to refinance loans. You know, one of the things is if people are paying either higher interest rates or longer-term loans they are having a used car instead of a new car and not helping the economy; they are renting rather than buying—again, not necessarily stimulating the economy.

And, Ms. Mishory, you specifically talked about that 15 percent not paying, but I would love to hear any of your perspectives on the idea of maybe making it easier to refinance at current rates and what that might be able to do to help overall.

Mr. DELISLE. Well, first of all, there—you can refinance the loans just like you can a mortgage. There is no prepayment penalty on

a federal student loan, so you can take out a loan from somebody else at a lower interest rate and pay off your entire federal student loan without a penalty. So in that regard, there is no barrier to refinancing the loan.

Now, the issue is you have to find someone who wants to make you an unsecured loan—

Mr. POCAN. Right.

Mr. DELISLE [continuing]. At a fixed interest rate around 4 or 5 percent for the next 10, 20 years. Nobody wants to do that with their own money. So in that regard, there is no opportunity to refinance the loan.

So what you would have to do essentially is provide borrowers another chance to get a different interest rate on their current student loan. But what you are doing, then, is you are saying the borrower is receiving a subsidy and let's just increase it. But then the question becomes, well, how much and why and for whom and how do you determine that.

And then I would argue that if you can pay back your loan based on your income, which everybody can in the federal student loan program, then the payments are, by definition, affordable and the interest rate does not dictate whether or not you can make your payments.

Ms. MISHORY. I would add to that—I would say that there certainly are students that are facing high interest rates on their federal loans, which is concerning. I just wanted to add and make the point there is also a lot of students that are facing incredibly high interest rates on their private loans, and so that is something to think about, as well. And those interest rates, actually, they are not capped so they can be sky-high, they can be double digits.

So that is something, as you are thinking about refinancing interest rates, to think about as well.

Mr. POCAN. Okay.

Ms. BAUM. If we had interest rates moving with the market on loans then you wouldn't run into this problem, and it is upsetting that students are now locked into loans with high interest rates. When interest rates are high in the economy then we might be concerned about some people, depending on when they went to school, having a subsidy because they have a low interest rate locked in, whereas people who go to school when interest rates are high end up with a higher interest rate.

Mr. POCAN. Thank you. I am going to yield back.

Chairman KLINE. Welcome, again, to the committee. Anybody who yields back is a rarity and we are glad to have—

Mr. POCAN. I am trying to get bonus points today. Thank you.

Chairman KLINE. You just got them.

Mrs. Brooks, you are recognized.

Mrs. BROOKS. Thank you, Mr. Chairman.

And I, too, like Congressman Messer, was a recipient of student loans, but one of the important parts of my loan package in both undergrad and graduate school was work study, and I would like to talk a bit more about work study. And in fact, I was a work study student in the financial aid office, which was an interesting place to be a work study student both in undergrad and in my first year of law school.

But yet, I am curious about what your thoughts are with respect as we are all talking about reforming the student loan, you know, programs, where should the discussion—there has been very little about work study and the advantages of work study, not only particularly for younger people—the time management skills, the actual working, you know, the work experiences they can get. And so I am curious what kind of—starting with you, Ms. Conklin, where are we with respect to work study?

And as you probably know, I have come from Ivy Tech Community College prior to running for Congress and coming here, and my other issue that I am curious about with respect to the older students who have jobs, as many of the community college students have jobs, how does work Sstudy, where they don't have to repay a loan when you get a work study-type of grant, how does that work for those students who are working outside of school?

Ms. CONKLIN. Mrs. Brooks, with all respect, actually, our proposal did call for merging all of the different grant programs into one grant program, so in that sense we were silent on work study or explicit that we really think the extra dollars should go into Pell Grants. But I know that my colleagues at the table have thoughts about that and so I defer to them.

Ms. BAUM. The work study program is not very well funded and not very many students receive it. It is about 10 percent or a little bit more than the number of Pell Grant recipients. So if we really thought Work Study was terrifically important and all Pell Grant recipients should have access to subsidized work on campus, we would have to dramatically increase the work study program. That doesn't seem to be in the cards.

Right now, as I said before, the funds are allocated to institutions in a sort of irrational way, and one of the things that work study—I mean, it is great for students to have jobs, but really, many students are working much more than they could under work study and they need to earn more than they can under work study, and for them this is earnings. They don't care that the federal government is paying part of the money.

These are earnings and I don't think that it needs—it should be considered part of what they are given to help them pay; this is what they are earning to help them get through, and they need other aid to meet their financial need.

Ms. MISHORY. We think that the federal work study program has a lot of benefits and can really help a lot of students. I think that there are also a lot of ways that we can improve it. We can make it better-targeted; we can make sure that it is actually going to students who need it the most. Right now it is not always going to students who need it the most and we can improve that formula.

We think that it can go to schools based off of who they are serving and not necessarily based off of how long they have been in the work study program, which is how the formula is set now. And we think it can go to schools that are providing programs to low-and moderate-income students who are actually getting really good skills and learning—basing their work off of also what they are studying at school.

So there are definitely ways that we can improve this program and make it work even better.

Mr. DELISLE. I think I caught you saying that you got the work study while you were going to law school?

Mrs. BROOKS. I believe. My recollection. I could be wrong on that. That was a long time ago.

Mr. DELISLE. So this brings up a really good point. The campus-based aid programs are available to graduate students, and there is not a lot of money to go around in the campus-based aid programs. And there are plenty of undergraduates who could benefit from work study, yet the federal government is providing work study to graduate students, which seems like a really sort of the wrong set of priorities.

Remember, these are students who already have an undergraduate degree. So you are essentially subsidizing people who already have an undergraduate degree.

Secondly, work study is means-tested, correct? You are providing a means-tested benefit to a graduate student? Does anybody know a graduate student who isn't poor? I mean, that is sort of a—it is sort of a crazy concept to think we are going to have a means-tested program for people in graduate school.

So I think that there are ways to reform the campus-based aid programs. One place to start is stop providing them to graduate students.

Mrs. BROOKS. I am curious, however, whether or not you all agree in the benefits of a work study program or are you opposed to work study? I am unclear. I heard some of you say that you believe that there are benefits to it, but I am curious, rather than, you know, increasing grants and loans and so forth, is there not a benefit to work study?

And I am curious why it was eliminated from your study, Ms. Conklin, just out of curiosity.

Chairman KLINE. The gentlelady's time has expired, but we would like the answer to that for the record if we could.

Thank you very much.

Mrs. Davis, you are recognized.

Mrs. DAVIS. Thank you, Mr. Chairman.

Thank you to all of you.

You know, one of the things that you have mentioned, I think, throughout the discussion is that students need more information. We know that there should be more sophisticated databases and Web sites that students can go to, and I know there has been an—I think we have had some discussion of that here in the committee, as well—something that is a little more foolproof, I think, and really cites the right metrics or, you know, that are important for students, that are agreed upon, kind of a universal consensus among schools.

But I also get the feeling that, you know, there ought to be some other way of doing that. And, do you have any ideas about that?

And let me just share very quickly. I had a number of folks come to me the other day on veterans issues and veterans support within schools, universities, colleges, community colleges, et cetera. And, there is a feeling that more education is needed to really understand how—whether it is the additional dollars that they are receiving as a result of being veterans or other means, that they

don't have that information. And so it is very hard to really make good comparisons.

Is that as big an issue as—I think you have mentioned, but maybe that is not the focus of this discussion. How would you do that? Because one of their interests was in having a mandated course—maybe not even a—well, could be a full semester—if a university takes dollars then they ought to be providing that in a way that students can get that information where they have counselors on hand there, it is more than a Web site, to be able to make those decent decisions.

What do you think? I mean, is that something that—because certainly tuition is the bigger issue here but we are not going to answer that question. I know universities are working on that when it comes to the total package that students are having to deal with.

Ms. MISHORY. So I agree that tuition is a huge issue and investing in the aid programs up front is a huge issue, but obviously counseling and providing information is also a huge issue for students. You know, I think that—we were talking to students the other day and one—you know, one said, "You know, I am studying biology and I think this is going to get me the financial security I need but I just don't know." She didn't have the information about her school, her program, the labor market where she was looking to go.

And so, you know, there are some Web sites out there and there are some tools out there. They are not always great or they are not always provided—

Mrs. DAVIS. How would you do it?

Ms. MISHORY [continuing]. To students in ways that they know that they are out there. So I think it is really important to be thinking about first of all getting the kind of data that students need to make good decisions, providing it in a way that is clear for students and that students can also access very easily. You know, there are some—there is a bill in the Senate that looks at how we can provide consumer-tested information to students, so we actually know when you are providing it at a certain platform it actually works for that student and they can understand their options; ensuring that maybe if schools aren't providing the best outcomes they—you can actually trigger a system where you provide more counseling to students and they are required to provide more counseling.

So I think there is a variety of ways to do it, but I think that including student feedback in that process is incredibly important.

Ms. BAUM. Unfortunately, I don't think there is a foolproof method, but one thing is there are lots of websites out there that have sort of basic indicators and lots of information, and the sophisticated students go to those websites and the students who really need the information don't. So we need to think beyond just the information. It would be helpful if we didn't focus so much on what do first-year graduates earn, because that is not really a very valuable piece of information for people to make choices.

But there is a lot of information about how if you really want to get to students, if you send them a text message with a small amount of information they will pay attention to it, whereas if you put something complicated on a Web site they won't. So we need

to figure out not so much how to provide more information as how to provide it in ways that students can process it and that the students who need it most will get personalized help to make decisions about the best course for them.

And it is a risky investment. It is a great investment to go to school, but it is not going to pay off for everyone and you can't know when you make a decision 100 percent that it is going to pay off.

Ms. CONKLIN. So Mrs. Davis, I think you have hit on a point of consensus among the community, as well, that simplification by itself won't replace the need for good counseling. In our Doing Better by More Students you can find our recommendation that actually we want to see local, third party, independent groups provide this counseling, that we cannot rely entirely on institutions to provide counseling about whether you should borrow and how much. That doesn't encourage that kind of good choice that we are looking for.

Mrs. DAVIS. Yes.

Mr. Delisle, did you want to say something quickly?

Mr. DELISLE. Well, I just wanted to say that, you know, one of the recommendations, you know, that we put out—and there is some consensus around this, around making the income-based repayment program the only repayment option or at least the automatic repayment option. And I think that is important when people are making decisions about what school to attend, will this work out, will I be able to make payments, to be able to tell them, "Well, your payments will automatically be calculated based on your income and the loan should be affordable." That should take a lot of pressure off on knowing what is available and how to make decisions.

Chairman KLINE. Gentlelady's time has expired.

Mr. Thompson?

Mr. THOMPSON. Thank you, Chairman, and thanks for this hearing. You know, we are talking today about providing—we're talking about America's competitiveness, actually, in terms of making sure that folks have access to the education to—so we have a qualified and trained workforce.

I want to start out my first question, Dr. Baum or Mr. Delisle: One of the questions I often have is how we as policymakers can empower students to be good consumers in postsecondary education, in higher education, you know, whether it is a certificate program, whether it is associate degree, whether it is a four-year, whether it is graduate studies.

So beyond the tools currently available by the Department of Education, what recommendations could you make?

Ms. BAUM. Well, one of the things, as I said before, I said I think that people really need personalized information so that they can make choices fitting their own circumstances, and that is a hard thing for the government to figure out how to provide, but they can fund third parties to provide better information, really understanding how students process that information.

It is also true that students assume that if they are allowed to take their federal aid to an institution, that institution basically has the approval of the federal government, and the federal govern-

ment should figure out how to make sure that it doesn't grant that approval to institutions that serve very few students well.

Mr. DELISLE. So there is a provision in federal law right now that requires colleges and universities to report the graduation rate of Pell Grant recipients, which is a really—that is an important factor. That is an important piece of information that if I have a Pell Grant I want to know how many people like me are going to graduate from this institution.

Except the—universities and colleges don't comply with this rule—not very well. They bury the information or they don't even know that they have to provide it.

And so it would seem that there are places where the laws that are already on the books could essentially bebeefed up and the enforcement could be improved such that this information is made available. I think that is one example where we have already had those ideas, they just haven't been implemented effectively and more attention needs to be given to them.

Mr. THOMPSON. Okay. Thank you.

I would argue that we are measuring the wrong metric. It is success in life; it is where that education takes those folks to. Measuring graduation doesn't necessarily constitute success nor being an ability to pay off loans, and so—I do believe that—I agree with the premise of we have got to do some measurements, but I don't think we are measuring the right things if we just stop at graduation rates.

Ms. Conklin, I noticed that the group assembled by HCM had a lot of diverse perspectives on how—best to improve student aid. I was curious, what were the guiding principles that led everyone to come together around the one loan and one grant proposal?

Ms. CONKLIN. Thank you. So the coalition itself, the national leaders I referenced, some of them, they came together around three overarching principles and released their report in January: simpler and more transparent aid; more innovation to promote lower-cost options for today's students; and a shared responsibility for completion among states, students, and institutions.

The technical panel of experts, some who had decades of experience with financial aid, some economists, former congressional staffers sitting at the witness table with me, sat around and said, "Now, taking those guiding principles, how do we translate that into a set of specific recommendations?" And so we—they advised the coalition, helped them come to that consensus on those three overarching principles, and then they tried to translate it and that is the technical report you have in front of you.

Mr. THOMPSON. All right. Thank you.

I have about a minute left. I want to go back to Mr. Delisle.

I am interested in learning more about the streamlining of repayment options, including an idea out there to have student loan payments tied to income, withheld automatically from the borrower's paychecks. Does income-based repayment plans have to be implemented that way, or are there other ways to do it?

Mr. DELISLE. The income-based repayment plan that we have right now is not payroll withholding. It works like all the other repayment plans, where you have to submit your payment. You can do that automatically through, you know, auto debit or something

like that, but it does not come out of your paycheck like your income taxes.

Doing payroll withholding may be a better way to collect payments in that people sort of repay their loans somewhat inadvertently, simply by working, but there are a lot of administrative challenges to doing that and I would argue that the main hurdle to that or the test on whether or not you can do that is if that system is as easy or easier for the majority of borrowers.

Mr. THOMPSON. Thank you, Chairman.

Ms. FOXX [presiding]. Thank you very much.

Mr. Courtney, you are recognized.

Mr. COURTNEY. Thank you, Madam Chairman.

Mr. Delisle, reading your somewhat scathing comments about graduate student programs—you know, and I think, you know, there is some valuable insight that we can take from that. There still, though, is a thing that nags me, which is that we know right now in the workforce, particularly in areas of health care pediatric subspecialties, there are acute shortages in terms of making sure that we have got pediatric psychiatrists, you know, specialties up and down the profession.

And if we were to eliminate Grad PLUS, you know, as part of the greater good in terms of, you know, more efficient use of resources, as you have argued, and cap the amount under Stafford and basically drive students into the private student loan market in terms of ways to fill the gap, you know, where does that leave the medical student who, again, wants to practice in an area where insurance payments are low, where, again, just—there are just huge obstacles in terms of trying to show an originator that youhave got a really strong financial future, as opposed to another student at Yale, maybe in the same class, who is going to become an orthopedic surgeon in New York City.

And so, you know, we have got a problem, right now, in terms of trying to staff up in critical professions, and where does your proposal leave us in terms of being able to meet those challenges?

Mr. DELISLE. So I don't disagree that that is a problem, but what you have done is you have created an income-based repayment program with loan limits and no caps on forgiveness that provides the benefits you are trying to target to a certain sector of workers in the economy to everyone.

Mr. COURTNEY. No, I—

Mr. DELISLE. So that is essentially the issue.

Mr. COURTNEY [continuing]. To that fact that your, you know, larger proposal were to be enacted.

Mr. DELISLE. Right.

Mr. COURTNEY. Where does that leave us in terms of trying to address these shortages?

Mr. DELISLE. So prior to 2006, I would argue that we had doctors. We had lots of doctors prior to 2006, right? And so people were able to go to medical school and they were able to partake in those types of jobs.

But prior to 2006 there was no Grad PLUS. Grad PLUS is a very new program, so I think it is a fairly weak argument to say that we need it and the world would look very different if we didn't have it even though it is brand new.

Mr. COURTNEY. I am not arguing for preserving the status quo, you know, based on, you know, one discrete part of the workforce. I am just saying we have got a problem in terms of one discrete part of the workforce and if we—if we basically are saying we are going to just let the private student loan market be the way that a student who wants to go into an area that is underserved and that is not highly compensated, you know, where does that leave our country in terms of being able to address those needs?

Mr. DELISLE. So you can borrow $20,500 a year in the Stafford program right now. You could increase that limit a bit where you think it is appropriate so that those people can borrow those loans.

And I haven't proposed eliminated loan forgiveness in my proposal. It includes loan forgiveness. But for public service, I suggest limiting the amount that can be forgiven to around $30,000 to $40,000 for anybody that qualifies for public service.

I don't think most people think that $40,000 in the government grant to have your loan forgiven is too little. And then the issue is you can still repay your loan using income-based repayment after you receive your public service loan forgiveness.

Mr. COURTNEY. Okay. You know, I would just say that I think it is important to understand the kind of professions I am talking about are not public sector jobs, okay? These are people who have private practices and who, you know, provide services for child agencies and are not sort of government employees.

So to sort of say that that—I just think you need to think that—

Mr. DELISLE. So I didn't—

Mr. COURTNEY [continuing]. You need to think that through.

Mr. DELISLE. Well, but I didn't—but I have loan forgiveness in my proposal for them.

Mr. COURTNEY. I understand—

Mr. DELISLE. They would receive loan forgiveness after 25 years.

Mr. COURTNEY. What you said was for, you know, public professions.

Mr. DELISLE. And for non-public. There is loan forgiveness in current law—

Mr. COURTNEY [continuing]. Follow up on that because—

Mr. DELISLE. Right. That is current law.

Mr. COURTNEY [continuing]. Frankly, we, in my opinion, can't just sort of accept the status quo in this area. We need to ramp up in terms of—you know, if you look at the graduating class of Yale's medical school and seeing where people are going, the costs and the challenges of financing are driving people away from parts of the profession where there is a critical need.

I yield back.

Ms. BAUM. Oh, I am sorry. Could I just say I think public subsidies for the people you are talking about are totally appropriate. They should be targeted at those people. We should just give public subsidies to people for going into those occupations.

Mr. COURTNEY. Well, I think thatis, you know, I guess that is a good idea. I mean, the problem is, who decides? And that is, you know, something that, you know, we—is sort of left out of some of the discussion that is being talked about here.

So I yield back.

Ms. FOXX. Mr. Andrews, you are recognized.

Mr. ANDREWS. Thank you, Madam Chairman. I want to enter your contest for a new name for nontraditional students. I would call them survivors.

And I want to ask Ms. Conklin—you or anyone else on the panel—the following question: Let's take a woman who makes $30,000 a year, works full time, and she has two children. And she has an associate's degree now, and her goal is to earn a bachelor's degree in accounting because she thinks she could make another $10,000 or $15,000 a year if she did that.

Under the one grant, one loan idea, how much would she get if your idea were adopted and how much does she get now? Let's say she is taking two courses per semester, because, you know, when you look at her, full-time work and full-time mom that is about— she sleeps very little but she takes two courses a semester. How does the proposal affect her?

Ms. CONKLIN. Okay. Thank you, Mr. Andrews. I want to make sure I get this.

So that is my mom. She made $30,000 a year. There were two of us. She had three jobs.

Mr. ANDREWS. She was—

Ms. CONKLIN. She was not able to get back into—

Mr. ANDREWS. She was obviously a very good mom.

Ms. CONKLIN. Thank you, sir.

In the—current system, that person gets a maximum Pell Grant probably as an independent student and gets 50 percent of the award because they are going approximately part time at two courses. What we are proposing to do is to create—there are several options that lay out on the table. We are proposing one of two options.

Without a doubt, we want the Pell Grant to value full-time attendance and we want her to get out as soon as possible because she is losing that promotion that she could otherwise get if she has the bachelor's—

Mr. ANDREWS. Yes, but you don't understand. Full time is not an option for her.

Ms. CONKLIN. Okay, so actually, sir—

Mr. ANDREWS. She has to pay the bills so she—you know, every waking hour she can take those two credits. That is it. Or two courses.

Ms. CONKLIN. You have actually asked the right question. The play for Congress is to get your grant and loan programs to value competencies and completion.

Mr. ANDREWS. Right.

Ms. CONKLIN. And what you can do—that woman—I would advise her, I would advise my mom: Western Governor's University. Kids go to bed, full-time program, self-paced, get your maximum award—

Mr. ANDREWS. But with all due respect, she doesn't want to do that. She wants to go to Rowan University in my district and sit in a classroom. She doesn't want to go online. That is what she wants to do.

If I read this proposal correctly, she gets less under your proposal than she does now, doesn't she?

Ms. CONKLIN. No, sir. There is actually several ways to look at how to invest in that, and these are choices for Congress to make. We actually identify sufficient savings that she could actually get; that the maximum Pell Grant would go to $7,000—that you could afford to pay that with no new dollars.

Mr. ANDREWS. But she doesn't—

Ms. CONKLIN. And so she would not receive any different benefits.

Mr. ANDREWS. But she doesn't get the maximum Pell, does she, because she doesn't meet your—

Ms. CONKLIN. No, but her average Pell would not change, sir, under this system if you choose to reinvest savings because you have adopted this comprehensive set of simplification options.

Mr. ANDREWS. Does she still qualify for the American Opportunity Tax Credit the way she does now? She can get $2,500 refundable now.

Ms. CONKLIN. She would actually get up to $10,000 because we actually propose one lifetime learning tax credit—one tax benefit modeled on the lifetime learning tax credit up to $10,000.

Mr. ANDREWS. But there is no limit on the tax credit now. She can get it every year $2,500, can't she?

What is the limit now, Mr. Delisle?

Mr. DELISLE. I believe it is 4 years.

Mr. ANDREWS. So she is limited to $10,000 now?

Mr. DELISLE. No, I believe that the number of years you could claim the AOTC is 4 years. But also, the AOTC expires in a few years.

Mr. ANDREWS. Well, that is a different question.

But, can anybody tell me definitively whether she is better off under the new proposal or the old one?

Ms. BAUM. I haven't heard anybody propose cutting the—any of the reform proposals involve cutting the aid that a student like that would receive. It is very clear that there are many students who have to enroll part time. They get Pell Grants now; they should continue to get Pell Grants and those Pell Grants should be funded as generously as we can manage to fund them.

Mr. ANDREWS. And I understand this is a conceptual proposal, but we don't legislate concepts; we legislate statutes and they have real impact on real people. And the one thing I am alarmed with reading this is this—look, I think people should finish as quickly as they can, but my concern here is for people for whom full-time going to school is not a viable option. Does this proposal penalize them? Yes or no?

Ms. BAUM. No proposal that I am aware of here penalizes those students, no. No one proposes making a cut in the grant that a half-time student would receive.

Mr. ANDREWS. So she would get the same that she does now, or more?

Ms. CONKLIN. If you elect to make the other changes to simplification we recommend, which generate savings which can be reinvested in a larger Pell Grant, and then she gets exactly the same award.

Ms. MISHORY. And just real quick, I mean, I can't speak to Ms. Conklin's proposals, but I do appreciate the question because I

think it raises a really important point, which is proposals that look at bringing students up from, say, 12 credits to 15 credits, and how can we encourage people to go full time or change the definition of that, they offer real drawbacks to students like that.

They may not be able to take more classes because they have kids. They may not actually be able to take more credits because their school can't offer those credits because their school is underfunded.

So I think those are really important questions to be asking as we are thinking about that.

Mr. ANDREWS. And I appreciate the answers.

I would just say to the chair before I yield back that, you know, I think this goes to her point. The so-called "traditional student" is a minority these days. The majority of students are the people that we are talking about in this line of questioning.

I think this committee wants to be very, very vigilant that someone in that position is not disadvantaged in any way and I think you do too.

I yield back.

Ms. FOXX. Mr. Polis, you are recognized.

Mr. POLIS. Thank you, Madam Chair. I appreciate the time and appreciate you and Chairman Kline doing this hearing.

At a time when college degrees are increasing in importance, we need to make sure that students have more information about their options and an easier way to repay their loans when they have completed their degree. Right now there are seven options that borrowers select when entering repayment.

Even worse, the default option is very rarely the best. In fact, the most expensive at a time when their income is the lowest—likely to be the lowest and the least flexible. I appreciated Ms. Mishory's remarks that said that many haven't even heard of some of the better options that might be available, including income-based repayment.

Students would benefit tremendously from a simpler way to repay their student loans as the default without having to worry about managing complicated paperwork and needlessly missing a payment. That is why I have introduced the ExCEL Act, along with Congressman Petri, who asked a few questions earlier. I believe that is a strong step in the right direction toward a more flexible, student-centered, and success-centered financial aid system.

Under the ExCEL Act, students would pay back their loans on a simple, income-contingent basis. Payment obligation is 15 percent of a borrower's income starting above 150 percent of the poverty line until the loan is repaid. It has strong borrower protections so our neediest students would be paying 0 percent when they are out of college.

My first question for Ms. Mishory is, like the student you described in your testimony, I speak with many students in Colorado who are very frustrated by our complicated, often unforgiving student aid system. As you mentioned, a survey your organization conducted found 89 percent of respondents agreed or strongly agreed with being enrolled in an income-based repayment program.

How can streamlining the system of automatic and universal income-based repayment help students navigate the complicated student aid system and avoid defaulting on debt?

Ms. MISHORY. Thank you. Yes. I mean, I think it can do a lot. I think that it can ensure that students, as they are leaving school, perhaps facing a tough economy, as they have in the last few years, and struggling to figure out their next step, really be able to manage those payments and manage a system that has otherwise been complex.

I think one important point to make is thatwhen you are in an income-based repayment program you can pay more. So you can pay it down faster. So if that makes sense for you then you can go ahead and do that. And so we want to—

Mr. POLIS. So it empowers a student if they want to pay even up to the amount they would under the 10-year repayment program if they want to. Just like you can pay down your credit bill early, you can, if you want to, pay it down.

Ms. MISHORY. That is right. Yes. And so we would—

Mr. POLIS. One more point: You get the advantages—to be clear, you get the advantages of the 10-year repayment program and the flexibility to do that if you want with additional flexibility to pay less if you so choose. Is that correct?

Ms. MISHORY. That is right.

Ms. BAUM. I would—oh, I am sorry.

Mr. POLIS. Yes? Go ahead, Dr. Baum.

Ms. BAUM. I was just going to also point out that in—another advantage is that with the discussion of the Oregon programs, if we had a program like the one you have proposed or others here have proposed in place and everyone knew about it, we wouldn't have individual states trying to develop programs that loan students all this money and don't tell them that it is a loan.

Mr. POLIS. And I appreciate Ms. Mishory's point in that last one that this gives students the option to pay less but if they choose to they can actually do the same 10-year repayment program, which is the default now.

Next question for Mr. Delisle: I would like you to address the most needy borrowers, those who stand to benefit the most from affordable access to quality education. You mentioned that subsidized Stafford loans don't always provide low-income students with the greatest benefits, and of course there is a tranche of students just outside of the eligibility that, of course, rely on student loans, might go into, depending on their degree, lower-and middle-paying jobs.

How do you feel about the simplified universal system of income-based repayment? How do you feel that can be more effective when it comes to serving the students who are most in need and most at risk?

Mr. DELISLE. Well, it does a better job than the current system because it is essentially looking at what their income is when they leave school and setting their payment based on that.

You mentioned the subsidized Stafford—we have a subsidized Stafford loan and we have an unsubsidized Stafford loan; this is part of the confusion I was talking about earlier. The subsidized Stafford loan has this interest rate benefit—has an interest benefit

where the interest doesn't accrue while the borrower is in school, but that, again, is a benefit that they are receiving based on their family's income when they enter school, and an income-based repayment program targets benefits based on their income when they are out of school, which makes much more sense.

The other sort of complicating thing is that those benefits can sometimes cancel one another out. You can only earn one. You can only get the benefit from income-based repayment and not the subsidized Stafford, even though you have it nominally, and that is an example where we have got just too much overlap and complexity in the program.

Mr. POLIS. And you think that more simplicity would work to the benefit of the students?

Mr. DELISLE. Absolutely.

Mr. POLIS. I thank the chairlady and I yield back the balance of my time.

Ms. FOXX. And the gentleman made an unmitigated commercial for his and Mr. Petri's bills. You are very good. That is why we know you came from the private sector.

Mr. DesJarlais?

Mr. DESJARLAIS. Thank you, Madam Chairwoman.

And I thank the witnesses.

A problem that we have seen evolving over the past couple decades is the amount of time it takes for students to complete college degrees. You know, often times it used to be four years; a 16-credit hour was standard. Now kids are actually being sold prices for a 12-credit hour, which graduates them in 5½ and maybe six years. So we are not getting people into college and back out into the workforce in a timely fashion.

I think one great way to lessen costs for college students and taxpayers is to graduate students in as timely a manner as possible while still making sure they gain knowledge and appropriate skills to excel in the economy. I know in my district back in Tennessee, Bridgestone North America and Motlow Community College, along with local stakeholders, created a program—in this case a mechatronics program—in which high school students can gain college credit and technical credentials while gaining real-world work experience.

Ms. Conklin, if you wouldn't mind, can you talk about programs like dual enrollment credentialing and competency-based education?

Ms. CONKLIN. I can, but can I give a shout out to Tennessee first?

Mr. DESJARLAIS. You can. Is this another infomercial—

Ms. CONKLIN. This is.

So HCM, since 2010, has led a state reform network that Lumina Foundation supports called Strategy Labs. Tennessee is a superstar in it, and the reason why I say this is that they are the only state with an outcomes-based funding formula that rewards all of the state's subsidy to institutions based on how well they do improving outcomes for students, particularly most disadvantaged students.

By having such clear, few metrics—again, a simple system that is incentive-based around success. They have one of the best in the nation policies around prior learning assessment; they have a grow-

ing appetite for competency-based education and a way to fund that through their premium on completion, not on courses completed, not on courses attempted, not on students enrolled.

They are seeing institutional—they are seeing faculty and presidents kind of analyze the data, embrace data, analytic techniques, in ways that really we see at scale and we want to embrace, and then again, I was saying, kind of bringing back into Mr. Andrews' question, the Tennessee Tech Centers have completion rates that are so far above the national average and it is because they have a structured cohort program. And so indeed, the way they approach structure is actually great for nontraditional students and they do well under this outcomes-based funding formula.

Now on dual enrollment, we, in this technical panel report, didn't speak directly to it, but dual enrollment is, indeed, if the courses that you take in high school count for college completion, it is a way to reduce the cost of college. If you are a student in an early college high school, for instance, where you can, in high school, earn an associate's degree, you can save 50 percent on your associate's degree.

So it is a phenomenal option. But again, that is a state pathway, and that is why I come back to Tennessee and recognizing where—the role of state leadership in our nation's college attainment problem.

Mr. DESJARLAIS. I appreciate that, and if you need more time to brag on Tennessee, you are welcome to take it.

But I would just ask, how can we encourage students to spend less time in school and more time building their skill sets in the workforce?

Ms. BAUM. Well, one of the things I think that we have to understand is that students are a very diverse group of people. And it used to be that most students were young, full-time, traditional-aged students. That has for a long time not been the case and we can't expect that the single mother of two children is going to be able to progress through a program at the same rate that someone with fewer responsibilities can, but we have to help them to select the right programs.

And all of these ways of making it possible for people to do multiple things at the same time or to get credits for things they already knew are important, but we have to be very, very careful about making sure that students get a quality education, that they really learn something with the process of getting their degree and that we aren't just handing out pieces of paper to students.

Mr. DESJARLAIS. Thank you.

Does anyone else have anything to add?

Ms. MISHORY. I mean, one way is to make sure that we are supporting our aid programs and ensuring that we are investing in things like the Pell Grant that allow students to go to school and maybe work a few hours less because they are able to actually attend school and pay their bills.

Mr. DELISLE. Amy Laitinen, in our office at the New America Foundation, has done a lot of work around the credit hour and competency-based education, and she has done a very good job of pointing out that the way the—federal student aid programs are structured is they essentially endorse a system that is based on the

credit hour and it makes it very difficult for institutions to do something different.

But there are ways in existing statute, such as the experimental sites, where institutions can come up with different ways to provide federal aid that is not necessarily based on these standard delivery models. But I think it is really important for the committee to realize that when you make these rules and the ways the laws get written, if you are sort of codifying an educational system of today and not allowing for the flexibility that we want to be there, it is problematic.

Mr. DESJARLAIS. I thank the panel for their perspective and I yield back.

Ms. FOXX. Thank you very much.

I would like to thank, again, our witnesses for taking the time to testify before the committee today. I realized that when I made my remarks I did not properly thank you and I will correct that now and also thank you on behalf of the chairman, who had another obligation.

I would like to see if Mr. Hinojosa has any closing remarks.

Mr. HINOJOSA. Yes. Thank you.

In closing, I thank our expert witnesses for sharing their views on how the federal government can simplify the federal financial aid process in order to lower costs and improve access to higher education. I think that your presentation was excellent and we thank you for that.

While I applaud President Obama and Secretary Duncan for working to make college costs more transparent, I believe that Congress and the federal government must make student loan repayment options easier for students and families to navigate and understand. As this committee moves forward to reauthorize the Higher Education Act, I intend to continue to explore ways in which Congress can simplify the federal student aid process and ensure that students and families fully understand their funding options.

I plan to introduce an innovative amendment when we go to marking up this legislation as part of reauthorization of the Higher Education Act. That amendment will require that the Financial Literacy Education Program for high school students and their parents include this new component, which informs and teaches them about the new, improved federal student college financial aid that we have been discussing here this morning so they can make better choices for their family.

And with that, I yield back.

Ms. FOXX. Thank you, Mr. Hinojosa.

I have realized, as a result of this hearing today and perhaps some of the other discussions that we have had, but particularly in this one, I think, that I am really a failure, because it took me seven years to get my undergraduate degree and we are so focused now on completion, it is obviously a failure if you take more than four years or even more than six years to get your degree.

But I appreciate the comments that have been made today. I will make just a couple of brief comments.

Dr. Baum, I appreciated very much what you said about the fact that if we focus on one student—and I think Mr. Andrews gave a

great example of that—if you focus on only one student and the impact of change on a particular student, it is very difficult to move forward, and I think that has been a real problem in terms of making changes that need to be made in this area. And I am—again, I appreciate the fact that Mr. Andrews gave the example, I think that you were pointing out in your comments.

I also appreciate your saying that we need to really emphasize that students should be getting a degree that is useful to them or skills that are useful to them when they graduate. We focused on many different things today—we focused on inputs; we focused on getting students the information. But in other hearings, we have focused on that area, and so I appreciate your bringing that up.

We realize this issue of loans and debt and financial aid become an even greater issue when 53 percent of the students who have recently graduated have not been able to get jobs. Ms. Mishory mentioned the terrible economy, and of course, some of us think the economy has suffered tremendously because of policies that have been implemented in recent years.

I am concerned, though, about another issue, Dr. Baum, that you brought up, and that is if students going to college or in college cannot understand from websites on the campus and the colleges what it is that is happening, what about the completion rates, what about loans and all that, I am not sure what—but they can understand it from a text message—I am not sure what that is saying about our college population these days.

How much simpler can we make things? And maybe we need to look at who is being admitted to college if they can't understand the information.

And what you continue to talk about, the obligation of the federal government, to have the material out there that they can understand, but very little has been said about the obligation of the student to understand what is out there.

So anyway, I want to thank all of you for being here today. I think we have all learned a lot.

The committee is now adjourned.

[Additional submission of Chairman Kline follows:]

**Prepared Statement of the Education Finance Council (EFC)**

The Education Finance Council (EFC) is the trade association representing nonprofit and state agency student loan organizations across the country. EFC commends the Committee for examining ways to simplify the federal student aid system and reduce burdensome complexities for students and families. The members of EFC share the Committee's overarching goals of improving postsecondary access, success, and affordability. We believe one of the cornerstones to student success is their access to and understanding of different options and pathways. Particularly, students must have access to an array of options to finance their education.

EFC agrees that there is redundancy and complexity in the federal student aid system that must be eliminated. However, we disagree with the recent calls to switch to a single-loan federal student aid system, which would collapse all federal loan programs into one. Each student's financial situation is unique and each student should have access to options that fit their varying needs. The alternative student loan programs provided by nonprofit and state agency student lenders serve as good examples of successful loan programs with several financing options. Most EFC members' programs include different interest rate options for loans, depending upon the repayment option the student chooses.

Members provide choices of variable- and fixed-rate loans; loans for students, parents, and families; consolidation loans; and loan programs for specific majors or professions. For example, many offer programs for teachers, doctors, and other high-

need professions in their states. The programs provide incentives for studying in such fields and terms and benefits tailored to the profession.

A multitude of options is only useful to students and families in conjunction with effective financial literacy education and individualized counseling. Students must have access to tools and programs to help them evaluate each option and make an informed decision on which will best fit their needs now and in the future. EFC members work with students and families in-person and virtually to ensure they understand their options for financing their education and encourage them to only take on debt they will be able to manage by incorporating over-borrowing prevention strategies into their alternative loan programs and comprehensive financial literacy tools. These financial literacy tools provide information on financial aid options and processes, budgeting, credit scores, identity theft, default aversion, the impact of debt on lifestyle, responsible borrowing decisions, and consequences of over-borrowing.

There is room for much improvement in the federal student aid system. Students and families deserve an easier-to-understand process of paying for college with fewer complexities, affordable options, and financial education that works. EFC members have played a significant role in helping students and families finance higher education for decades and stand ready to help coordinate and implement beneficial changes to the student aid system.

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[Additional submission of Mr. Barletta follows:]

**Prepared Statement of the Pennsylvania Association of Private School Administrators (PAPSA)**

The Pennsylvania Association of Private School Administrators represents the more than 300 for-profit career schools, colleges and universities in the Commonwealth.

Like the rest of the country, PAPSA is deeply concerned about the complexity of federal student aid, and may have a partial solution to the problem. PAPSA believes that if schools were allowed to limit the amount of aid a student receives, it would greatly "streamline" the repayment process. With smaller and fewer loans, there would be less to pay back, and pay back would be done in less time. The outcome: less complexity and less student debt.

Allowing schools to limit the amount of aid to students will help to simplify the "complex patchwork of grants, loans, and institutional support programs" as the committee so aptly puts it. Limiting loans will reduce the confusion of applications, redundant paperwork, and the many different loan programs and repayment initiatives, making the whole process easier for students AND schools.

Currently, many schools just process all of the aid available to a student so they are not cited by the Department. This can be confusing for families, especially if they did not want all of the loans available.

Furthermore, schools have been reporting for years stories of students asking for all the financial aid they are entitled to, paying their tuition and then walking away with thousands of dollars which ends up paying for a newer car, Christmas presents, plastic surgery or big parties which the school usually ends up hearing about. These cash stipends can be, in one case, as high as $24,000 for an associate degree.

Despite the best efforts of schools to curb overborrowing, the U.S. Department of Education mandates that schools must disclose to students all the loan money they are entitled to borrow. What schools in Pennsylvania have found is that over borrowing is a big part of the loan debt problem, especially among unsophisticated borrowers. And it is increasing despite aggressive loan counseling.

The problems PAPSA sees now with overborrowing will only be exacerbated in the future. PAPSA would like to see Congress or the US Department of Education consider additional methods beyond counseling for limiting student borrowing. These methods will help simplify the student aid process and in the end, save student and taxpayer monies.

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[Whereupon, at 12:06 p.m., the committee was adjourned.]

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