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## Paradigm Shifts in Student Aid Programs and Policies

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### Need to Overhaul Student Aid


- Growing recognition of the need for an overhaul of student financial aid
  - Ongoing pipeline leakage (losses in enrollment, retention and graduation)
  - Low income and nontraditional students are not well served by the current system
  - Student financial aid is too complicated
  - College affordability gap is growing
- Insufficient federal and state support
- New college degree attainment goals

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### No Longer #1 in College Degrees Per Capita

The United States ranks third in percentage of adults aged 25 to 64 with college degrees (Associate's or Bachelor's), but twelfth in the percentage of adults aged 25 to 34. (OECD, 2009)



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### Out-of-Pocket Costs vs. Total Income

Institution Type	< \$50,000		\$50,000 to \$100,000		> \$100,000	
	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08
Public 2-Year	35.4%	38.5%	8.4%	9.9%	4.3%	5.3%
Public 4-Year	47.6%	53.8%	16.3%	19.0%	9.6%	11.6%
Non-Profit 4-Year	58.8%	65.0%	24.2%	29.4%	17.0%	19.0%
For-Profit	64.4%	76.3%	21.7%	33.0%	11.9%	21.3%

Source: Analysis of data from the 2003-04 and 2007-08 National Postsecondary Student Aid Study (NPSAS)  
Out-of-Pocket = College Costs - Grants. Limited to families with positive out-of-pocket cost.

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### Unmet Need vs. Total Income

Institution Type	< \$50,000		\$50,000 to \$100,000		> \$100,000	
	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08
Public 2-Year	18.9%	21.1%	4.4%	5.8%	2.4%	2.4%
Public 4-Year	22.9%	29.6%	7.1%	8.7%	4.1%	4.5%
Non-Profit 4-Year	37.3%	44.2%	13.4%	16.2%	7.7%	8.1%
For-Profit	37.3%	54.4%	8.7%	14.2%	4.6%	7.5%

Source: Analysis of data from the 2003-04 and 2007-08 National Postsecondary Student Aid Study (NPSAS)  
Unmet Financial Need = College Costs - All Aid - EFC. Limited to families with positive unmet need.

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### Growth in Cumulative Debt

- 65.6% of Bachelor's degree recipients graduate with an average of \$23,186 in education debt
- Of Bachelor's degree recipients applying for federal student aid, 86.3% graduate with an average of \$24,651 in education debt
- 86.9% of Pell Grant recipients graduate with debt (\$24,671), compared with 50.2% of non-recipients (\$21,266)
- Pell Grant recipients are 73% more likely to graduate with debt, and the debt is \$3,405 higher

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The FAFSA is a Barrier to Access



- In 2007-08, 2.3 million Pell-eligible students did not apply for federal student aid and 1.1 million would have qualified for a full Pell Grant
- Two-fifths (40.9%) of undergraduate students do not submit the FAFSA, and of these about a quarter (26.8%) would qualify for a Pell Grant
- Of students who borrowed private student loans but not federal loans, three-fifths (60.2%) did not submit the FAFSA
- FAFSA completion rates affect enrollment, retention and graduation rates



FAFSA Completion Rates Vary A Lot



FAFSA Completion Rates	For-Profit	Non-Profit	Public
All Institution Levels	95.4%	71.7%	52.1%
Two-Year Colleges	98.9%	77.7%	43.9%
Potentially Pell-Eligible Students	97.0%	64.6%	84.2%
Pell-Eligible @ 2-Year Colleges	99.5%	83.8%	57.8%
Part-Time Enrollment	96.5%	60.9%	41.1%
Full-Time Enrollment	95.5%	77.7%	66.4%

18.9% of students who don't complete the FAFSA say that the form is too much work or too time-consuming. 93.2% of these students are enrolled at public colleges.



New Goal from the Gates Foundation



*We have set an ambitious goal for ourselves and the nation: double the number of low-income adults who earn a postsecondary degree or certificate with genuine value in the marketplace by the time they reach age 26.*



- Bill & Melinda Gates Foundation  
11/11/2008



President Barack Obama's New Goal



*In a global economy where the most valuable skill you can sell is your knowledge, a good education is no longer just a pathway to opportunity - it is a prerequisite.*



...  
*We will provide the support necessary for all young Americans to complete college and meet a new goal: By 2020, America will once again have the highest proportion of college graduates in the world. That is a goal we can meet.*

- President Barack Obama, 2/24/2009



Lumina Foundation's New Goal



*By the year 2025, we want 60 percent of the American population to hold high-quality, two- or four-year college degrees.*



- Jamie S. Merisotis, 4/23/2009




Prerequisites for Achieving Goals



- You can't get there from here without independent and nontraditional students
  - There aren't enough traditional students in the pipeline to achieve these goals without them
- Improving college preparation is also important, as is reducing college dropout rates
  - About half (53%, averages range from 34.7% to 87.8% based on selectivity) of 4-year college students graduate with a Bachelor's degree in six years
  - Less than a fifth of community college students graduate with an Associate's degree in three years



Why Do Students Drop Out of College? 


- A 2009 study by Public Agenda found that conflicts between work, school and family is the main reason why students drop out of college
- Affordability was also important, as was a lack of financial and non-financial support from parents
- Students who enroll part-time and work full-time are more likely to drop out of college
- Low-income students are less likely to graduate
- Transfer students and students who change majors are more likely to drop out of college



The Needs of Independent Students 


- Assistance completing the FAFSA and applying for financial aid
- Professional judgment adjustments for voluntary job loss to enable full-time enrollment
- Child care and health insurance for part-time too
- Flexible weekend and evening class/office hours
- Locations close to home or work (convenience)
- Distance learning/online education
- Support services, including advising, tutoring and counseling, as well as proactive intervention



H&R Block FAFSA Experiment 

- Participants had AGI < \$45,000 and a family member age 17-30 with no Bachelor's degree
- Compared FAFSA completion and college enrollment statistics among those receiving help completing the FAFSA and those with no help
- Those receiving help completing the FAFSA are
  - More likely to complete the FAFSA, and sooner
  - More likely to enroll in college
  - More likely to qualify for the Pell Grant



FAFSA Experiment Results 

FAFSA Completion Rates	Control	Test	Change
Dependent Students	40.2%	55.9%	15.7%
Independent with Prior College Enrollment	35.3%	55.7%	20.4%
Independent with No Prior College Enrollment	13.8%	39.5%	25.7%


  

College Enrollment Rates	Control	Test	Change
Dependent Students	27.0%	34.5%	7.5%
Independent with Prior College Enrollment	23.7%	24.3%	0.6%
Independent with No Prior College Enrollment	2.9%	3.5%	0.6%


Received Pell Grant	Control	Test	Change
Dependent Students	29.8%	39.6%	9.8%
Independent with Prior College Enrollment	9.6%	11.5%	1.9%
Independent with No Prior College Enrollment	23.3%	26.4%	3.1%



Incentives Increase Retention Rates 

- Ongoing MDRC study of the impact of incentive payments with a short feedback loop on college retention by low income students
- Supplemented existing student aid with small payments to students at beginning, middle and end of semester for meeting performance and enrollment status goals
- Students were more likely to enroll full-time, continue their education (30% increase in retention rates), and pass more classes



General Thematic Trends of Solutions 

- Expanded efforts concerning pipeline leakage
  - Focus on retention and completion in addition to access
  - Ease transfers from 2-year to 4-year schools
- Proactive intervention and counseling (academic, career, jobs) after the student is enrolled in college
- Adapting to schedules/needs of nontraditional students
- Simplifying the student aid programs and processes
- Reduce overborrowing and higher cost debt
- Optimization framework: Experiment, discover what works and is scalable, and implement it nationwide



## Student Aid & Fiscal Responsibility Act

- Student Aid and Fiscal Responsibility Act of 2009 (SAFRA) passed House on September 17, 2009
- Investing in Students for a Stronger America Act of 2009 (ISSAA) still pending in Senate
  - Will probably be enacted through budget reconciliation
- Step in right direction, but does not go far enough to satisfy need and to improve access and completion



## Key Provisions of SAFRA

- Indexes maximum Pell Grant to CPI + 1%
- College Access, Persistence and Completion Innovation Fund
- FAFSA simplification
- Perkins loan program reengineering
- Community college initiatives
- Funded by switch to 100% Direct Lending



## Changes to Pell Grant

- Maximum Pell Grant of \$5,550 in 2010-11
- Indexes maximum Pell Grant to CPI-U + 1%, reaching \$6,900 by 2019-2020
- Not a true entitlement (retains split between discretionary and mandatory funding)
- Minimum Pell Grant would be 10% of discretionary maximum (House) or 10% of overall maximum (Senate)
- Maintains status quo without bolder increases in maximum grant



## Access, Persistence and Completion

- \$3 billion over five years (House), \$4.25 billion over five years (Senate)
- Improve college access, persistence and completion
- Provide financial literacy training
- Encourage students to reduce loan debt
- Expand articulation agreements and provide better information on course credit to ease transfer from 2-year to 4-year institutions
- Develop state longitudinal data/reporting systems



## FAFSA Simplification

- Eliminates all 6 asset questions, but adds a family asset cap on eligibility for Pell Grant, subsidized Stafford and FWS (\$150,000 House, \$250,000 Senate)
- Eliminates 12 untaxed income and benefits questions, retaining just 3 questions (interest on tax-free bonds, untaxed portion of pensions, payments to IRA/Keogh accounts)
- Senate drops employment expense allowance and switches excludable income items to PJ (child support paid, taxable student aid, combat pay, community service living stipend, etc.)



## Perkins Loan Reengineering

- Increases annual loan volume four-fold from \$1.5 billion to \$6.0 billion
- Retains 5% interest rate, but otherwise the same as an unsubsidized Stafford loan
- Serviced by Direct Loan Servicing
- Colleges retain discretion in awarding, but must package Perkins after subsidized and unsubsidized Stafford exhausted (alternative to private student loans, not PLUS)
- Allocation based on self-help need and enrollment/persistence of Pell Grant recipients
- Hold harmless provision ensures that colleges retain at least their previous allocations



Community College Initiatives



- Money for modernization and construction
- Expanding opportunities to transition community college students to bachelor degree programs and jobs
- Development of free high quality online education materials for secondary, postsecondary and adult education and training



Student Loan Payments Cap Proposal



- Modification to Income-Based Repayment (IBR)
  - Current Law: 15% (AGI – 150% Poverty Line), forgiveness of remaining balance after 25 years
  - Proposal: 10% (AGI – 150% Poverty Line), forgiveness of remaining balance after 20 years
- Cuts monthly payment in IBR by one third
- Better safety net for borrowers, but does not provide up front reductions in debt to at-risk students when they enroll in college, so there's still a chilling effect on enrollment
- 20-year forgiveness still taxable



Thank You



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