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

Out-of-Pocket Costs vs. Total Income

<table>
<thead>
<tr>
<th>Institution Type</th>
<th>&lt; $50,000</th>
<th>$50,000 to $100,000</th>
<th>&gt; $100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public 2-Year</td>
<td>35.4%</td>
<td>38.5%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Public 4-Year</td>
<td>47.6%</td>
<td>53.8%</td>
<td>16.3%</td>
</tr>
<tr>
<td>Non-Profit 4-Year</td>
<td>58.8%</td>
<td>65.0%</td>
<td>24.2%</td>
</tr>
<tr>
<td>For-Profit</td>
<td>64.4%</td>
<td>76.3%</td>
<td>21.7%</td>
</tr>
</tbody>
</table>

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 costs.

Unmet Need vs. Total Income

<table>
<thead>
<tr>
<th>Institution Type</th>
<th>&lt; $50,000</th>
<th>$50,000 to $100,000</th>
<th>&gt; $100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public 2-Year</td>
<td>18.9%</td>
<td>21.1%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Public 4-Year</td>
<td>22.9%</td>
<td>29.6%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Non-Profit 4-Year</td>
<td>37.3%</td>
<td>44.2%</td>
<td>13.4%</td>
</tr>
<tr>
<td>For-Profit</td>
<td>37.3%</td>
<td>54.4%</td>
<td>8.7%</td>
</tr>
</tbody>
</table>

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.

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
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

<table>
<thead>
<tr>
<th>FAFSA Completion Rates</th>
<th>For-Profit</th>
<th>Non-Profit</th>
<th>Public</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Institution Levels</td>
<td>95.4%</td>
<td>71.7%</td>
<td>52.1%</td>
</tr>
<tr>
<td>Two-Year Colleges</td>
<td>98.9%</td>
<td>77.7%</td>
<td>43.9%</td>
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<tr>
<td>Potentially Pell-Eligible Students</td>
<td>97.0%</td>
<td>64.8%</td>
<td>84.2%</td>
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<tr>
<td>Pell-Eligible @ 2-Year Colleges</td>
<td>99.5%</td>
<td>83.8%</td>
<td>57.8%</td>
</tr>
<tr>
<td>Part-Time Enrollment</td>
<td>96.5%</td>
<td>60.9%</td>
<td>41.1%</td>
</tr>
<tr>
<td>Full-Time Enrollment</td>
<td>95.5%</td>
<td>77.7%</td>
<td>66.4%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Control</th>
<th>Test</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>FAFFSA Completion Rates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependent Students</td>
<td>40.2%</td>
<td>55.9%</td>
<td>15.7%</td>
</tr>
<tr>
<td>Independent with Prior College Enrollment</td>
<td>35.3%</td>
<td>55.7%</td>
<td>20.4%</td>
</tr>
<tr>
<td>Independent with No Prior College Enrollment</td>
<td>13.8%</td>
<td>39.5%</td>
<td>25.7%</td>
</tr>
<tr>
<td>College Enrollment Rates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependent Students</td>
<td>27.0%</td>
<td>34.5%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Independent with Prior College Enrollment</td>
<td>23.7%</td>
<td>24.3%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Independent with No Prior College Enrollment</td>
<td>2.9%</td>
<td>3.5%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Received Pell Grant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependent Students</td>
<td>29.8%</td>
<td>39.6%</td>
<td>9.8%</td>
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<tr>
<td>Independent with Prior College Enrollment</td>
<td>9.6%</td>
<td>11.5%</td>
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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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For a copy of this presentation, please visit
www.fastweb.com/educators