S. HRG. 114–627

REAUTHORIZING THE HIGHER EDUCATION ACT: ENSURING COLLEGE AFFORDABILITY

HEARING

OF THE

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

UNITED STATES SENATE

ONE HUNDRED FOURTEENTH CONGRESS

FIRST SESSION

ON

EXAMINING REAUTHORIZING THE HIGHER EDUCATION ACT, FOCUSING ON ENSURING COLLEGE AFFORDABILITY

JUNE 3, 2015

Printed for the use of the Committee on Health, Education, Labor, and Pensions

Available via the World Wide Web: http://www.gpo.gov/fdsys/

U.S. GOVERNMENT PUBLISHING OFFICE

94–970 PDF WASHINGTON : 2017

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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C O N T E N T S

STATEMENTS

WEDNESDAY, JUNE 3, 2015

REAUTHORIZING THE HIGHER EDUCATION ACT: ENSURING COLLEGE AFFORDABILITY

WEDNESDAY, JUNE 3, 2015

U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The committee met, pursuant to notice, at 10:06 a.m., in room SD–430, Dirksen Senate Office Building, Hon. Lamar Alexander, chairman of the committee, presiding.

Present: Senators Alexander, Isakson, Collins, Murkowski, Scott, Cassidy, Murray, Casey, Franken, Bennet, Whitehouse, Baldwin, Murphy, and Warren.

OPENING STATEMENT OF SENATOR ALEXANDER

The CHAIRMAN. Good morning. We're looking forward to this testimony. We have a terrific group of witnesses—many Senators interested—on a subject that a lot of people care about, the cost of attending college.

Senator Murray and I will each have an opening statement, and then we'll introduce our witnesses. After the testimony, we'll each have 5 minutes of questions so that we can have a conversation. We'll ask the witnesses if they'll try to summarize their remarks in about 5 minutes. That will give us a chance to have a good discussion.

The question before us is: Can you afford to pay for college? I believe the answer for most Americans is yes. For millions, 2 years of college is free. It is never easy to pay for college, but it is easier than many think, and it is unfair and untrue to make students think that they can't afford college. I believe we should stop telling students they can't afford college.

Four weeks ago, I spoke at the graduation ceremonies in Morristown, TN, at the Walters State Community College. Half the students are low-income. For them, 2 years of college is free, or nearly free. The Pell grant is up to $5,370, and tuition for an average community college across the country is about $3,300. So for the 4 of 10 undergraduates in the United States who attend 2-year colleges, college is affordable, especially in Tennessee, where our State has made community college free for every student, every high school graduate.

Another 38 percent of undergraduate students go to public 4-year colleges and universities where the average tuition is about $9,000. That means about three out of four of our undergraduate students are at public institutions.

At the University of Tennessee, Knoxville, one-third of the students have a Pell grant, and 98 percent of the freshmen have a State Hope Scholarship, which provides up to $3,500 annually for the first 2 years and $4,500 for the next 2 years. So for most students, a public university is affordable, and those include some of the best colleges and universities in the world.

What about the 15 percent of our students who go to private universities where the average tuition is $31,000? Here is what John DeGioia, the president of Georgetown University, told me this week. At Georgetown, the cost of college is about $60,000 annually.

He said,

> "First, we determine what a family can afford to pay. Then we ask students to borrow $17,000 over 4 years. Then we ask the student to work 10 to 15 hours under our work-study program. Then we pay the rest of the $60,000. That costs Georgetown about $100 million a year."

He said they work with 21 other private universities that have the same sort of plan. He said that Harvard, Yale, Stanford, and Princeton are even more generous. Even for these elite universities, they may be affordable.

Finally, 9 percent of students go to for-profit colleges, where tuition is about $15,000.

OK. Let's say that your family still is short of money. Taxpayers will loan you the money on generous terms. We hear a lot about these student loans. Are taxpayers being generous enough? Is borrowing a good investment? Are students borrowing too much?

One way to answer these questions is to compare student loans to automobile loans. When I was 25, I bought my first car. It was a Ford Mustang. The bank made my father co-sign the loan because I had no credit history and no assets. I had to put up my car as collateral. I had to pay off the loan in 3 years.

If you are an undergraduate student today, you are entitled to borrow at least $5,000 to $6,000 from the taxpayers each year. It doesn't matter what your credit rating is. You don't need collateral. The fixed interest rate for new loans is 4.29 percent this year.

When you pay your loan back, you don't have to pay more than 10 percent of your disposable income each year. If that doesn't pay it back over 20 years, your loan is forgiven.

Is your student loan a better investment than your car loan? Cars depreciate. The College Board estimates that a 4-year degree will increase your earnings by $1 million, on average, over your lifetime.

Is there too much student loan borrowing? The average debt of a graduate of a 4-year institution is about $27,000. That's about the same amount as an average car loan in the United States.

The total amount of outstanding student loans is $1.2 billion. That's a lot of money, but the total amount of auto loans outstanding in the United States is about $950 billion. Excuse me. The student loans is $1.2 trillion. Auto loans is $950 billion. I don't hear anyone complaining that the economy is about to crash because of auto loans, nor do I hear that taxpayers should do more to help borrowers pay off their auto loans.

You might say, "What about the $100,000 student debts?" The answer is debts over $100,000 make up 4 percent of student loans, and 90 percent of those are doctors, lawyers, business school graduates, and others who have earned graduate degrees.

Nevertheless, it is true that college costs are rising and that a growing number of students are having trouble paying back their debt. Seven million, 17 percent, of Federal student loan borrowers are in default, meaning they haven't made a payment on their loans in at least 9 months. The total amount of loans currently in default is about 9 percent of the total. All those loans get paid back one way or another, usually.

The purpose of this hearing is to find ways to keep the cost of college affordable and to discourage students from borrowing more than they can pay back. I'm going to submit the rest of my statement for the record to save a little time and just summarize these remaining points.

I suggest five steps the Federal Government could take to make college more affordable and to discourage students from borrowing more.

One, is to stop discouraging colleges from counseling students about how much they should borrow. We've had witnesses here who have told us that they're not allowed to require additional counseling before students borrow.

Two, help students save by graduating sooner. Senator Bennet and I and others have introduced the FAST Act which would make the Pell grant available year-round.

Three, make it simpler to pay off student loans. A Tennessee college president told me last week it took him 9 months to help his daughter pay off her student loan, and he had the help of his financial aid officer.

Four, allow colleges to share in the risk of lending to students.

And five, point the finger at ourselves in Congress. In my opinion, State aid to public universities is down because of the imposition of Washington Medicaid mandates and a requirement that States maintain their level of spending on Medicaid. In the 1980s, Tennessee was paying 70 percent of the cost of a college education. Medicaid spending was 8 percent. Today, it's 30 percent—Medicaid spending—and the dollars have come right out State-supported universities.

Chancellor Zeppos of Vanderbilt told us that the Boston Consulting Group estimated that it cost Vanderbilt University $150 million in 2014 to comply with Federal rules and regulations, about $11,000 per student, which is more than the average tuition and fees for a 4-year public university. Zeppos co-chaired a report to us that said that universities are ensnared in a jungle of red tape.

We should take steps to make college more affordable. I believe we should also cancel the misleading rhetoric that causes so many students to believe they can't afford college.

Community college is free for many. At UT Knoxville, 75 percent of your tuition may be aid. Even at elite private universities, college may be affordable. If you still need to borrow money, your student loan is likely to be about the same as your car debt, and your student loan is a better investment.

Dr. Anthony Carnevale of Georgetown says that without major changes, the American economy will fall short of 5 million workers with postsecondary degrees by 2020. It's a better investment for our country, too.

[The prepared statement of Senator Alexander follows:]

PREPARED STATEMENT OF SENATOR ALEXANDER

The question before us is, can you afford to pay for college? I believe the answer for most Americans is, yes. And for millions, 2 years of college is free. It is never easy to pay for college, but it is easier than many think and it is unfair and untrue to make students think that they can't afford college.

Four weeks ago, I spoke at the graduation of 800 students from Walters State Community College in Morristown, TN. Half those students are low-income. Their 2 years of college was free, or nearly free, because taxpayers provided them a Pell grant of up to $5,730 for low-income students and the average community college tuition is about $3,300.

For the nearly 4 of 10 undergraduate students in our country who attend 2-year institutions, college is affordable.

Especially in Tennessee, where our State has made community college free for every high school graduate.

Another 38 percent of undergraduate students go to public 4-year colleges and universities where the average tuition is about $9,000.

At the University of Tennessee, Knoxville, one-third of students have a Pell Grant. Ninety-eight percent of in-state freshmen have a State Hope Scholarship, which provides up to $3,500 annually for freshmen and sophomores and up to $4,500 for juniors or seniors.

For most students, 4 years at a public university is affordable and these include some of the best colleges and universities in the world.

What about the 15 percent of students who go to private universities where the average tuition is $31,000?

Here is what John DeGioia, the president of Georgetown University, where college costs are about $60,000 annually, told me this week.

First, he said,

> "We determine what a family can afford to pay. Then we ask students to borrow $17,000 over 4 years. Then we ask the student to work 10–15 hours under our work-study program. Then we pay the rest of the $60,000 which costs Georgetown about $100 million a year."

He said that 21 other private universities that work together on financial aid have the same policies and that Harvard, Yale, Stanford and Princeton are even more generous.

Even these so-called elite universities may be affordable.

Finally, another 9 percent of students will go to for-profit colleges, where tuition averages $15,230 a year.

OK, despite all this, let's say your family still is short of money for college. Taxpayers will loan you money on generous terms.

We hear a lot about these student loans.

Are taxpayers being generous enough? Is borrowing for college a good investment? Are students borrowing too much?

One way to answer these questions is to compare student loans to automobile loans.

When I was 25 years old I bought my first car. It was a Ford Mustang. The bank made my father co-sign the loan because I had no credit history and no assets. I had to put the car up as collateral. I had to pay off the loan in 3 years.

If you are an undergraduate student today, you are entitled to borrow at least $5,500 from the taxpayers each year. It doesn't matter what your credit rating is. You don't need collateral. The fixed interest rate for new loans this year is 4.29 percent.

When you pay your loan back, you may elect to pay no more than 10 percent of your disposable income. And if at that rate you don't pay it off in 20 years, the loan is forgiven.

Is your student loan a better investment than your car loan? Cars depreciate. The College Board estimates that a 4-year degree will increase your earnings by $1 million, on average, over your lifetime.

Is there too much student loan borrowing?

The average debt of a graduate of a 4-year institution is about $27,000—or about the same amount of the average new car loan.

About 8 million undergraduate students will borrow about $100 billion in Federal loans next year. The total amount of outstanding student loans is $1.2 trillion. That's a lot of money, but the total amount of auto loans outstanding in the United States is $950 billion, and I don't hear anyone complaining that the economy is about to crash because of auto loans—nor do I hear that taxpayers should do more to help borrowers pay off their auto loans.

Well, you might say, what about all those $100,000 student loan debts?

The answer is, debts over $100,000 make up only 4 percent of student loans, and 90 percent of those borrowers are doctors, lawyers, business school graduates and others who have earned graduate degrees.

Nevertheless, it is true that college costs have been rising and that a growing number of students are having trouble paying back their debt.

According to the Department of Education, about 7 million, or 17 percent, of Federal student loan borrowers are in default—meaning they haven't made a payment on their loans in at least 9 months.

The total amount of loans currently in default is $106 billion or about 9 percent of the total outstanding balance of Federal student loans—although the Department also says that most of those loans get paid back to the taxpayers, one way or another.

The purpose of this hearing is to find ways to keep the costs of college affordable and to discourage students from borrowing more than they can pay back.

Here are five steps the Federal Government could take:

- **Stop discouraging colleges from counseling students about how much they should borrow.** Federal law and regulations prevent colleges from requiring financial counseling for students, even those clearly at risk of default who are over-borrowing. At a March 2014 hearing our committee heard from two financial aid directors who said that there was no good reason for this. One said,

> "Institutions are not allowed to require additional counseling for disbursement. We can offer it, but we're not allowed to re-

quire it. And without the ability to require it, there's no teeth in it."

• **Help students save money by graduating sooner.** For example, our bi-partisan FAST Act would make the Pell Grant available year-round to students so they can complete their degrees more quickly and start earning money with their increased knowledge and skills.

• **Make it simpler to pay off student loans.** Last week, a Tennessee college president told me it took him 9 months and the help of a financial aid officer to make a full one-time payment on his daughter's student loan.

• **Allow colleges to share in the risk of lending to students.** This could provide an incentive to colleges to keep costs down and to students to borrow no more than they can pay back.

• **Point the finger at ourselves.** Congress is one cause of higher college costs. The main reason State aid to public universities is down is the imposition of Washington Medicaid mandates and a requirement that States maintain their level of spending on Medicaid. In the 1980s when Tennessee was paying 70 percent of the cost of its students' college education, Medicaid spending in Tennessee was 8 percent. Today it's 30 percent, and the dollars have come right out of State-supported colleges.

Chancellor Nick Zeppos of Vanderbilt University told this committee that the Boston Consulting Group estimated that the cost for Vanderbilt to comply with Federal rules and regulations on higher education was $150 million in 2014, equating to about $11,000 in additional tuition per year for each of the university's students.

Zeppos co-chaired a report commissioned by a bipartisan group of Senators on this committee that told us that colleges and universities in this country are ensnared in "a jungle of red tape."

We should take steps to make college more affordable but we should also cancel the misleading rhetoric that causes so many students and families to believe they can't afford college.

This is untrue and unfair.

It's untrue because:

• If you're a low-income community college student your education may be free thanks to a taxpayer Pell Grant.

• If you're a 4-year UT Knoxville student—between a Pell Grant and the Hope Scholarship—75 percent of your tuition may be covered with student aid you never have to pay back.

• Even at elite private universities, if you are willing to borrow $4,500 a year and work 10–15 hours a week, the university will pay what your family can't.

• If you still need to borrow money to help pay for a 4-year degree, your average debt is going to be roughly equal to the average car loan. And your college loan is a better investment.

• Your student loan is a better investment for our country as well. Dr. Anthony Carnevale of Georgetown University says that without major changes the American economy will fall short of 5 million workers with postsecondary degrees by 2020.

The CHAIRMAN. Senator Murray.

OPENING STATEMENT OF SENATOR MURRAY

Senator MURRAY. Thank you, Mr. Chairman. I want to thank all of our witnesses who are here today.

You know, for many Americans, higher education can be a ticket to the middle class. It's not just important for students and their future. It's also important for our economy. A highly educated workforce is going to help our Nation compete in the 21st century global economy. We should be working on ways to help more students earn their degree and gain a foothold into the middle class.

I personally know how critical this is because I saw it with my own family when I was growing up. When I was just 15, my family fell on hard times, but because of strong Federal investments, all of my brothers and sisters and I were able to get a quality education. We were able to afford to go to college through Pell grants and other Federal aid programs.

I really come to this believing that we should ensure students continue to have the success and the same opportunities that my family did. Today, skyrocketing costs can be a major barrier for students to go to college and to stay in school until they complete their degree.

I was in my home State of Washington a few weeks back, visiting with some students at Central Washington University. Many of those students were the first in their families to go to college. They told me about the troubles they and their peers had even just imagining being able to afford college growing up in low-income communities. I have heard this over and over again from students and families in my State.

Last week, I met with community college students in Seattle who told me about the challenges of having to hold down two jobs, while also being full-time students, just to keep up with the rising tuition and fees and rent. They will still end up with loan debt when they graduate. That really places an unfair burden on our students and their ability to succeed.

In our country today, many students are doing the right thing. They are working hard in school and they are getting into college. They want to take the next steps to move into the middle class, but the high cost of college creates insurmountable roadblocks. Across the country, average annual tuition at public universities has gone up by more than $2,000 since the recession alone. That is an increase of nearly 30 percent.

Over the last 20 years, tuition has gone up far faster than inflation, while real family incomes, of course, have declined, but our investments in need-based aid have not kept up. This has made it much more difficult for young people, particularly from low-income families, to complete a college degree.

A high sticker price can deter some students from even applying to college. Quite often, increasing tuition means students have to borrow more and more, saddling them with the crushing burden of student debt.

According to the Federal Reserve, outstanding student debt is now more than $1.3 trillion. There are now 41 million Americans, 41 million Americans, with Federal student loan debt today, up from 28 million in 2007. Seven in ten college seniors who are graduating from a public or private nonprofit college have student loan debt, with an average of $28,400 per borrower.

Several factors contribute to the increase in college tuition. First and foremost, we have seen deep State funding cuts at public colleges and universities, which more than three-quarters of our students attend. Today, 47 States are spending less per student on higher education than they did before the recession, according to the Center on Budget and Policy Priorities and the analysis of one of our great witnesses today.

When student funding is cut, colleges and universities look to make up the difference with higher tuition, cuts to educational and support services, or both. A recent analysis by Demos found that declining State support is responsible for 100 percent of the increase in tuition at community colleges and 79 percent at research institutions.

In my home State, State support per student is down more than 28 percent since the recession. Tuition at several of our 4-year universities has increased by more than $5,000 and by more than $1,000 at our community colleges.

I have heard some of my colleagues argue that Medicaid and higher college costs are somehow directly linked. Nothing forces States to fund one at the expense of the other. Ultimately, State budgets, just like our Federal budget, are about values and priorities. State lawmakers have tough choices to make about spending cuts and raising revenue to fund vital priorities like healthcare and higher education.

Even as the economy has begun to recover, State investments in higher education have not begun to bounce back fast enough. I believe this committee should look at ways to leverage Federal investments to stem the decline in State support for higher education.

There are other ways I believe we should look at to help students and families to bring down the cost of college. I believe we need to protect need-based grant aid so low and middle-income students are not priced out of attending college. Students should also have access to simple, transparent consumer information on costs, expected debt and earnings, and available financial aid, so consumers can make fully informed decisions.

As we embark now on a bipartisan process to reauthorize the Higher Education Act, we've got to make sure that all of our students from all walks of life have the opportunity to further their education and secure their ticket to the middle class. Expanding access to higher education is a crucial part of building an economy that works for all of our families, not just the wealthiest few.

I look forward to hearing from all of our witnesses today on this critical question of how to make sure our colleges are affordable for today.

Thank you very much.

The CHAIRMAN. Thank you, Senator Murray.

I'm pleased to welcome our witnesses. Our first witness is Dr. Judith Scott-Clayton, assistant professor of economics and education at the Teachers College of Columbia University. She has appeared before us before. We welcome her.

Our next witness is Dr. Elizabeth Akers, fellow at the Brown Center on Education Policy at the Brookings Institution.

Welcome, Dr. Akers.

I'll ask Senator Cassidy to introduce our third witness today.

Senator CASSIDY. Thank you, Mr. Chairman. I appreciate this opportunity. I'm honored to introduce and welcome Dr. King Alexander to this hearing. Among other things, he's actually one of my bosses, so I feel obligated to say what a great guy you are, King. By the way, you pay me nothing, but could you pay me some more?

[Laughter.]

He's the president and chancellor of Louisiana State University, which is also my alma mater. Prior to this appointment, Dr. Alexander was president of Cal State University Long Beach, one of the Nation's largest public universities, and during his tenure twice named as the Cal State University Student Association President of the Year, which represents all 23 California State Universities and more than 440,000 students.

Dr. Alexander previously served as president of Murray State University, faculty member at the University of Illinois Champaign Urbana, where he was the director of Graduate Higher Education Programs. As a teacher and administrator, Dr. Alexander has received many honors, served on numerous higher education and statewide organizational leadership boards, and often asked to represent public higher education colleges and universities before Congress. I'll also add that in our conversations, he has taught me a lot about higher education financing.

Dr. Alexander, thank you for being here.

The CHAIRMAN. Thank you, Senator Cassidy. The only reason Dr. Alexander got a longer introduction is because he's from Louisiana, and he has a fortuitous name.

[Laughter.]

Next, we'll hear from Michael Mitchell, policy analyst at the Center on Budget and Policy Priorities. He focuses on State budget and tax policies there and has conducted research on the effects of budget cuts on communities of color and the impacts of the recession on young adults.

Our final witness is Mr. James Kennedy, associate vice president of the University Student Systems and Services at Indiana University in his role there. He is also the university's director of financial aid.

Welcome to all of you. Why don't we start with Dr. Scott-Clayton and go right down the line. If you would each summarize your remarks in 5 minutes or so, we'll then go to questions.

STATEMENT OF JUDITH SCOTT-CLAYTON, Ph.D., B.A., ASSISTANT PROFESSOR OF ECONOMICS AND EDUCATION, TEACHERS COLLEGE, COLUMBIA UNIVERSITY, NEW YORK, NY

Ms. SCOTT-CLAYTON. Chairman Alexander, Ranking Member Murray, and members of the committee, thank you for the opportunity to testify today. I would like to provide a bit of background about college affordability, in general, and then focus on what the Federal Government can do immediately to improve it.

First, the college affordability crisis is real. College attainment has never been more important for economic mobility. Yet State disinvestment in public institutions has led to both increases in tuition and decreases in resources available per student. Both of these have consequences.

College attainment is becoming increasingly unequal by family income, even among fully qualified students. As the economist, Susan Dynarski, noted in yesterday's *New York Times*, among students with top test scores, only 41 percent of the poorest kids earn a bachelor's degree, compared to 74 percent of kids from high-income families. This is a tragic waste of human potential. It's getting worse, and it demands policy solutions.

However, in terms of Federal policy, the challenges to college affordability may be different than what people usually think. If we focus on the wrong problems, we're likely to end up with the wrong solutions.

First, while tuition is rising, financial aid is higher than many people realize, and affordable options do exist. Only about a third of students pay full sticker price, and the average full-time undergraduate receives about $8,000 in grant aid, as well as $6,000 in other aid to help pay for college. Community college students receive enough, on average, to cover tuition and even some of their additional living expenses.

This is not to say that aid is sufficient to completely meet all students' needs or that affordable options are just as good as more expensive ones. Too many students leave money on the table, failing to apply for aid that might help them persist to a degree, or, even worse, failing to apply for college at all because they assume they can't afford it.

Second, student loan debt is lower than news headlines might lead you to believe. More than two-thirds of college entrants borrow less than $10,000. Those with higher levels of debt typically have higher levels of degree attainment and, thus, higher earnings potential.

Still, the risk of default is concentrated among borrowers, particularly, who attend for-profit institutions or who leave school without any degree at all. The standard 10-year repayment schedule unnecessarily burdens borrowers when their earnings are lowest and most variable.

The real college affordability crisis is not that we're spending too much on college and saddling graduates with too much debt. The true crisis is that Federal student aid has become more essential for more students than ever before. The complexity of the system is undermining its effectiveness.

For many families, the college decision is not an exciting and joyous one, but, instead, is scary and overwhelming. Unfortunately, the burdens of complexity and confusion fall most heavily on the very students who need aid the most—low-income students, minorities, and first generation college goers—who are the least likely to have a family member, friend, or counselor who can guide them through their options and help them fill out the FAFSA.

Too many of these students fall off the path to college early, not because they ever actively decide that it's not worth it, but because they simply assume that they don't have a choice. We can't keep tinkering around the edges of an aid system that was designed nearly half a century ago. We need meaningful Federal aid reforms, and we can't afford to wait.

First, we should simplify the unnecessarily complex Pell eligibility formula and get rid of the FAFSA. If eligibility were based only on tax information already available from the IRS, and if this information were drawn from a prior tax year, eligibility could be calculated automatically without the need for a separate application, and students can learn about aid early enough for it to actually influence their college choice.

Second, streamline Federal student loans into a single program with income-based repayment. Income-based repayment needs to be the default so that students don't have to navigate additional paperwork to enroll. The adjustment of monthly payments needs to be automatic, much like social security deductions, so that payments are based on current income, not income from several months or a year ago.

To some ears, these recommendations might sound boring, too technocratic, or small-minded in light of the serious challenges that we're facing. Complexity and confusion are far more than just an annoyance for low-income families. To the contrary, research has convincingly shown that when the complexity of financial aid is reduced, it significantly increases enrollments for low-income students.

Importantly, the impact of these reforms could reverberate even beyond financial aid. The current system requires an army of high school and college staff, community-based organizations, and volunteers just to help low-income students figure out the FAFSA and their student loan options.

If Federal policymakers could empower students with simple, early information about financial aid, these precious, highly skilled resources could be redirected to helping students figure out where to go, what to study, and how to succeed in college, not just figuring out whether they can afford to go at all.

Thank you.

[The prepared statement of Dr. Scott-Clayton follows:]

PREPARED STATEMENT OF JUDITH SCOTT-CLAYTON, PH.D., B.A.*

Chairman Alexander, Senator Murray, and members of the committee: My name is Judith Scott-Clayton. I am an assistant professor of economics and education at Teachers College, Columbia University, as well as a research fellow of the National Bureau of Economic Research and a senior research associate at the Community College Research Center. Over the past decade, I have conducted my own research on the impacts of financial aid policy, reviewed the evidence from others doing work in the field, and participated in policy working groups examining financial aid and other college access interventions at both the State and Federal level. Thank you for the opportunity to testify about the current landscape of college affordability and to suggest promising directions for reform.

In the following testimony, I focus on three questions: (I) What is the affordability crisis? (II) Should public investments be broad-based in the form of tuition subsidies, or targeted in the form of financial aid? And (III) What does research suggest are the highest-impact directions for Federal policy reform?

I. WHAT IS THE AFFORDABILITY CRISIS?

The answer to this question might seem obvious: "The price of college is rising out of control, and too many students are getting crushed under the weight of excessive student loans." Indeed, it's no mirage that prices are rising steadily. Over the

*Note: The views expressed are those of the author and should not be attributed either to Teachers College, Columbia University; the Community College Research Center; or the National Bureau of Economic Research.

past 20 years, published tuition and fees at public 4-year institutions has more than doubled in real terms, and stood at $9,139 in 2014–15 (Baum & Ma, 2014). Including room and board brings costs even higher, to $18,943 on average at public 4-year institutions. Private institutions are more than twice as expensive, on average. Nearly two-thirds of bachelor's degree graduates take on student loans, with an average cumulative amount of close to $30,000 for those who borrow. The recent recession brought these problems into high relief, as public institutions enacted particularly steep tuition increases and the dismal economy placed strains on graduates saddled with high debt.

The facts cited in the prior paragraph are absolutely real. But for the reasons I describe below, focusing on sticker prices and aggregate debt levels alone can be deceiving, and can distract us from the real factors driving the real affordability crisis we face today. **We *do* have a college affordability crisis in this country, but it may be different from the one most people think we have.**

1. Tuition increases in the public sector largely reflect shifts in who pays for college rather than increases in the cost of providing a college education. Costs themselves are not spiraling out of control: over the past decade per-student spending has risen by just 8 percent at public research universities, 1 percent at public master's/bachelor's degree granting institutions, and has actually fallen by 12 percent at community colleges (Hiltonsmith, 2015). However, tuition has been rising much faster than costs as institutions attempt to fill in the budget gaps caused by declining State support. States provide public institutions with 25 percent *less* funding per student than they did just a decade ago (Mettler, 2014; Desrochers & Hurlburt 2014).

2. Increases in net tuition and fees (i.e., after accounting for grants and scholarships) have been less dramatic than increases in sticker prices. While students are picking up the burden of decreased State investment, students today also receive substantial amounts of financial aid, so focusing on sticker prices alone can be deceiving. In 2013–14, full-time undergraduates received an average of over $14,000 in aid, including over $8,000 in grants (College Board, 2014). After accounting for grants and tax credits, net tuition and fees at public 4-year institutions rose by 53 percent over the past two decades, compared to a 117 percent increase in sticker prices (Baum & Ma, 2014). The picture is further distorted when we focus on the most headline-grabbing prices of elite private institutions, rather than on more affordable options that do exist. For needy students, the current maximum Pell grant covers almost two-thirds of average tuition and fees at a public 4-year institution. For students attending community colleges, the maximum Pell is *larger* than average tuition and fees, enabling students to use the remaining amount to cover books, supplies, transportation, or basic living expenses.

3. Rising returns to college credentials means that most graduates still will be significantly better off financially than non-graduates, even after subtracting out loan repayments. After taxes, median earnings of young workers with associate's degrees are about $4,000 higher per year than for those with only a high school diploma. If these graduates devote half of that after-tax premium to loan repayment, they could repay a $22,000 loan at 6.8 percent interest in 20 years (Baum & Ma, 2014). For bachelor's degree recipients, the earnings premium is even higher; a typical graduate could repay a $30,000 loan over 10 years without devoting more than 25 percent of their extra earnings to debt repayments (Baum & Ma, 2014).[1] Thus, average levels of student loan debt are not particularly worrisome; what is worrisome is when students incur loans without earning a degree, or when they experience financial hardships that leave them unable to manage even relatively small repayments.

So what is the true affordability crisis we're facing?

1. Access to college is becoming increasingly unequal by family income. While levels of college enrollment have risen substantially over the past 30 years, the *gaps* in enrollment and completion between high- and low-income families are actually greater for recent cohorts than for those born in the early 1960s (Bailey & Dynarski, 2011).[2] Income inequality in college degree completion is even higher than for college entry, and these gaps cannot be completely explained away by differences in preparation.

[1] Note that current interest rates are lower than 6.8 percent.

[2] The gap in college enrollment rates between the top and bottom quartiles of family income for cohorts born in the early 1960s was 39 percentage points, rising to 51 percentage points for cohorts born in the early 1980s. Controlling for differences in test scores reduces the gap to 14 percentage points in the earlier cohorts and 26 percentage points in the more recent cohorts.

2. Students' college choices require tradeoffs between affordability and quality, but both of these can be difficult to assess in advance. Even among those who enter college, institutions are increasingly stratified in terms of resources, and these resources matter for student success. Meanwhile, college costs are increasingly individualized, varying dramatically across students within an institution, as well as across institutions for a given student. This complexity leads to suboptimal decisions: some qualified students fail to enroll anywhere, while others incur the costs of college but leave before ever earning a credential.

3. Student loans are structured to inflict maximum confusion and distress. Student loans are too confusing, which leads some students to take out too much while others take out too little, instead working so much that they have little time left for their studies. Student loan repayments are structured to be unnecessarily burdensome to recent graduates and those facing temporary economic hardship. Strikingly, default rates are not strongly related to the size of students' debts—those with the highest debt levels are typically students with graduate degrees and the best prospects for repayment, while those who default often do so on relatively small debts (Dynarski & Kreisman, 2013; Akers & Chingos, 2014a).

Thus, the true affordability crisis is not that we, as a Nation, are spending too much on college and saddling graduates with too much debt. The true crisis is that low- and moderate-income students are being left behind, either because they fail to enroll or because they enroll in under-resourced institutions that do not serve them well. The result is a waste of human capital, which in an era of global competitiveness, is what our Nation can afford least of all.

II. HIGH-TUITION, HIGH-AID VERSUS LOW-TUITION, LOW-AID: AN ECONOMIC PERSPECTIVE ON THE ROLE AND FORM OF PUBLIC SUBSIDIES FOR POSTSECONDARY EDUCATION

Before delving into the research evidence, it is worth stepping back to consider the role and form of government subsidies to higher education in the first place, as well as the role for private resources. The economic rationale for public intervention in higher education finance rests on three potential market failures (Barr, 2004):

1. First, the social returns to higher education may exceed the private returns, thus justifying broad-based public subsidies. To the extent social returns are particularly high for disadvantaged groups, targeted subsidies may be justified on both equity and efficiency grounds.
2. Second, private credit markets may not enable individuals to sufficiently borrow against future income to finance optimal educational investments, thus justifying public provision of (or at least public backing of) student loans.
3. Finally, young people—particularly those from disadvantaged backgrounds—may have incomplete information leading them to underestimate the benefits (or overestimate the cost) of higher education, thus justifying the provision of targeted grants to improve access.

Economic theory and decades of empirical evidence demonstrate that public subsidies for college work: when costs to students go down, enrollment goes up and vice versa (Long, 2008; Deming & Dynarski, 2009; Dynarski & Scott-Clayton, 2013).

But what form should these subsidies take? The advantage of a high-tuition, high-aid model is that it makes use of private resources from those students who can afford to pay, while enabling any given level of public subsidies to go further by better targeting to students who need assistance most. But as higher education has increasingly moved to a high-tuition, high aid model of finance rather than a low-tuition, low-aid one, the third type of market failure—information constraints—has become increasingly problematic and is undermining the impact of financial aid. Evidence suggests that aid programs that are most effective tend to have simple, easy-to-understand eligibility rules and application procedures (Dynarski & Scott-Clayton, 2006)

An alternative way to deal with information constraints is simply to return to a low-tuition, low-aid financing model that lowers prices for everyone. Lower sticker prices certainly simplify the marketing message, and indeed, many other countries offer free postsecondary education. But there are risks to reliance on public finance that ought to be acknowledged as well: in many countries, free higher education comes at the cost of limited enrollment slots, and/or lower quality. As the British economist Nicholas Barr (2010) explains:

> Countries typically pursue three efficiency goals in higher education: larger quantity, higher quality, and constant or falling public spending. Systems that rely on public finance can generally achieve any two, but only at the expense of the third: a system can be large and tax-financed, but with worries about quality (France, Germany, Greece, Italy); or high-quality and tax-financed, but

small (the UK until 1990); or large and high-quality, but fiscally expensive (as in Scandinavia) (Barr, 2010, pp. 3–4).

As the United States falls behind other countries on measures of educational attainment and social mobility and leaps ahead on measures of inequality, now is hardly the time to reduce our investments in education. I would advocate strongly against any efforts to reduce Federal student aid as well as against State trends toward disinvestment. But whatever the level of public funding, the stakes have never been higher to ensure that every dollar spent has the maximum impact—not just for the sake of taxpayers, but for the sake of students themselves, who make the biggest investments of all.

III. WHAT DOES RESEARCH SUGGEST ARE HIGH-IMPACT DIRECTIONS FOR FEDERAL POLICY REFORM?

Proposal 1: Dramatically simplify the aid application and renewal process and get rid of the FAFSA

- Base Pell awards for most students on a limited number of data elements that are available from the IRS so that aid is easily predictable and no separate application is needed.
- Eligibility should be based on prior-prior year tax information so that students know how much Federal aid they will get well in advance of college application deadlines.
- Ideally, Pell eligibility would be fixed for several years, eliminating the need to reapply each year during a course of study.

Any college student who wants a Federal loan or Pell grant has to file a Free Application for Federal Student Aid (FAFSA), the complexity of which is well-documented. With well over 100 questions about income, assets and expenses, the FAFSA approaches the IRS Form 1040 in length, and is longer and more complicated than the 1040A and 1040EZ, the tax forms filed by a majority of taxpayers. Research has documented that most of the information on the form is unnecessary; students' Pell eligibility can be determined with a high level of precision using just a handful of elements from the form (Dynarski & Scott-Clayton, 2006, 2007; Dynarski, Scott-Clayton & Wiederspan, 2013).

What sometimes gets lost in discussions about FAFSA simplification is that this is not a technocratic obsession with making a form shorter, this is about making sure that financial aid reaches the very students who need it most, before they conclude that college is out of reach. Of course, for well-off students and their families, the process is just an annoyance. But for lower income and first-generation students who are unsure about their ability to afford college, when the time comes to file a FAFSA it may already be too late. College preparation starts well before the end of high school, and expecting students to just "trust us" that college will be affordable when they get there is foolish policy. Students that assume college is out of reach may never seek out the information that would challenge that assumption, and may not take the steps they need academically to be prepared.

An influential experimental study by Bettinger, Long, Oreopoulos, and Sanbonmatsu (2012) provides dramatic supporting evidence. In the experiment, some low-income families who visited a tax-preparation center were randomly selected to receive personal assistance with completing and submitting the FAFSA. The intervention took less than 10 minutes and cost less than $100 per participant, but increased immediate college entry rates by 8 percentage points (24 percent) for high school seniors and 1.5 percentage points (16 percent) for independent participants with no prior college experience. After 3 years, participants in the full treatment group had accumulated significantly more time in college than the control group. Removing the FAFSA as a barrier to enrollment thus appears to be one of the most cost-effective strategies for reducing inequality in college attainment that researchers have identified.

While the U.S. Department of Education has made progress in recent years in reducing the number of questions on the FAFSA and enabling some students to automatically import tax information from the IRS, these improvements have had an arguably limited impact on the application experience overall. In particular, they do not enable students to easily discern their eligibility well in advance of application. Two specific reforms would achieve that goal: (1) basing eligibility for most students on a very limited set of factors, such as adjusted gross income and family size, so that prospective students could easily determine their eligibility without having to fill out lengthy calculators, and (2) basing eligibility only on prior prior-year income tax data (e.g., 2013 tax year information for students enrolling in 2015), so that all students could have a firm determination more than a year in advance of enrollment.

Various teams have articulated how this could work (including the Financial Aid Simplicity and Transparency [FAST] Act introduced by Senators Alexander and Bennet; as well as proposals by The Institute for College Access and Success, 2007; Dynarski & Scott-Clayton, 2007; Baum & Scott-Clayton, 2013). There may be more than one workable model, as long as the goals of communicating eligibility early and eliminating the need for a separate application are achieved. While some have expressed concern that States and institutions might require additional aid applications if the FAFSA is eliminated, this is a surmountable problem. A simplified formula can replicate State aid awards as well as Federal aid awards (Baum, Little, Ma & Sturvesant 2012); the most elite private institutions already use additional forms and will continue to do so. If necessary, the Federal Government could use inducements to encourage institutions not to add forms.

Proposal 2: Streamline student loan options and repayment plans.

- Remove repayment risk by automatically enrolling all students who take loans into an income-contingent repayment plan.
- Ensure that students understand the loan repayment process upfront, so that they are not afraid to take advantage of this important tool for access.

While student loans are unpopular, they are still an important tool for maintaining college access. Quasi-experimental evidence from the United States and other countries suggests that access to student loans does increase college enrollments (Dynarski, 2005; Solis, 2013; Wiederspan, 2015; Dunlop, 2013). While non-experimental evidence also suggests that loans are not as much of an inducement as grants (Heller, 2008), this is unsurprising given that loans are not worth as much to students. But since they also cost the government only a few cents on the dollar to provide, they are likely to remain a critical element in college financing. And in fact, the vast majority of borrowers are able to repay thanks to strong earnings prospects for those with higher education (Akers & Chingos, 2014a).

Nonetheless, students' discomfort with student loans as they are currently designed is understandable. Many students don't even know how much they have taken out in loans, let alone what their monthly repayments will be (Akers & Chingos, 2014b). Moreover, as Dynarski and Kreisman (2013) point out, the default loan repayment plan asks students to pay back their student debt over a 10-year period right after college, when earnings are lowest and most variable, creating non-trivial repayment risk. Moreover, the current provisions intended to protect students against default (including loan deferment, forbearance, and existing income-based, income-contingent, and extended loan repayment plans) are themselves so complex that many students at risk fail to take advantage of them before they get into repayment trouble.

Student loans need to be restructured to minimize students' repayment risks and to better communicate both risks and protections upfront. Dynarski and Kreisman (2013) have proposed defaulting all student borrowers into an income-contingent repayment system that would collect repayments as a proportion of income automatically through the tax system. The repayment period would extend up to 30 years, or until the loan is paid off, whichever comes first.

In the world of higher education policy, the issues of student loan repayment and ensuring college access upfront are too often separated. But this is precisely the problem with student loans—too many students (and policymakers) view them as a burden to be dealt with on the back end rather than as a potentially powerful tool for increasing access at the front end. Indeed, to many students, loans hardly feel like a form of college aid at all; counterintuitively, a loan which is meant to help students afford college may instead feel like a disincentive to enrollment. But with streamlined, income-contingent repayments and better guidance upfront, student loans might be much less scary and a much more effective tool for promoting access than they currently are.

IV. CONCLUDING THOUGHTS

Federal student aid, particularly the Pell Grant and Stafford Loan programs, are at the foundation of our Nation's efforts to increase college enrollment and attainment. Given the stakes involved—for both students and taxpayers—it is essential that every dollar of student aid have the maximum impact. The two sets of reforms suggested above are research-based and have the potential to substantially improve the effectiveness of Federal investments in postsecondary education.

As a concluding thought, in the ongoing policy deliberations around college affordability, it is important to keep in mind that affordability isn't just about what or how students pay for college, but also about value—the quality of education that students receive for their investment. There is tremendous variation in quality across institutions, and even across programs within institutions, and evidence suggests that this variation matters for students' future outcomes (Bowen, Chingos & McPherson 2009). The lower-cost option is not always better for either students or taxpayers; programs that appear more expensive in terms of costs per enrollee may actually be cheaper in terms of costs per graduate (Levin & Garcia 2013).

Thus, figuring out the cost side of the college cost-benefit equation only gets a student halfway to a good decision. While efforts to provide more accessible information on college quality—by providing comparisons of graduation rates, employment rates, and default rates are laudable, research suggests information alone isn't enough to help students make good college choices (Bettinger, et al. 2012; Núñez 2014).

Ultimately, making good college choices requires individualized, personalized guidance that has proven to be effective (Castleman, Page & Schooley 2013; Hoxby & Turner 2013; Bettinger & Baker 2011) but is difficult for the Federal Government to provide directly. But if Federal policymakers can simplify the cost calculus for students and their families, it could free up armies of high school counselors, aid administrators, college advisors, and volunteers nationwide that are currently devoted to helping students fill out FAFSAs and navigate the student loan system. Instead, these "boots on the ground" could redirect their valuable time and expertise to helping students identify a high-quality college option that not only fits their budget, but furthers their educational aspirations. And students themselves could worry a little less about money, and a little more about what they need to do academically to prepare for and succeed in college.

Thank you again for the opportunity to provide these comments to the committee. I look forward to your questions.

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The CHAIRMAN. Thank you, Dr. Scott-Clayton.

Dr. Akers, welcome.

STATEMENT OF ELIZABETH AKERS, Ph.D., FELLOW, BROWN CENTER ON EDUCATION POLICY, THE BROOKINGS INSTITUTION, WASHINGTON, DC

Dr. AKERS. Good morning, Chairman Alexander, Ranking Member Murray, and distinguished members of the committee. My name is Beth Akers. I'm an economist by training and presently a fellow at the Brookings Institution, where I carry out research on the economics of higher education. Thank you for giving me the opportunity to be here today to share my thoughts on this important issue.

I'd like to start by laying out three facts that are related to the issue of college affordability, none of which will be a surprise to anyone in this room, I'm sure.

No. 1, students and their families are spending very large sums of money in pursuit of college degrees. The average student earning a bachelor's degree at a 4-year private nonprofit institution will pay upwards of $94,000 in tuition, fees, and room and board over the course of their enrollment. This amount is almost twice the median household income in the United States in 2013.

No. 2, as a Nation, we're spending a tremendous amount of money on higher education, and we're relying heavily on debt to support that spending. U.S. households are now holding $1.2 trillion in education debt on their personal balance sheets.

And, last, No. 3, there are more households with student loan debt today than ever before, and the balances that they're holding are at the highest levels in history. Thirty-eight percent of young households are now holding some level of student debt. That's up from 11 percent in 1989. Their average balances have more than tripled during that time from about $5,800 to almost $20,000 today.

Discussions of college affordability often dwell on these three points. Unfortunately, without additional context, they tell us almost nothing about whether or not college is affordable. Rather, they simply tell us that college is expensive, and, unfortunately, that's not the same thing.

Let's consider the first point again. The price tag of our education is high. We know that. In order to know whether it's affordable, we need to know what that price tag is actually buying. Research tells us that education buys students access to higher earnings.

While the exact figures vary across different studies, it's been consistently found that the lifelong financial dividends of a college education exceed the up-front cost by a very wide margin. A recent report from the Federal Reserve Bank of New York indicated that the financial return on a college degree might be about 15 percent, which is a very generous return by pretty much any standards.

On the second point regarding the $1.2 trillion in outstanding student loan debt, as we consider the question of affordability in higher education, let's not make the mistake of thinking that these dollars were effectively thrown into some sort of black hole of the economy. Rather, this debt is simply a derivative of a significant national investment we've had in higher education, which is an asset we believe pays large dividends to individuals and, therefore, necessarily also to the broader economy.

Back to the third point on debt. It's important that we don't forget that debt is simply an instrument that allows borrowers to tap into their future earnings in order to make investments that they would not have otherwise been able to afford. It is not inherently good or bad.

What we should be asking ourselves is whether our current system of student lending sufficiently enables this transfer of wealth across stages of life, from a time when an individual is reaping the financial benefits of an education with higher earnings to an earlier period when the individual is facing the up-front cost of investing in higher education. My recent work on this question showed that despite the dramatic tuition inflation we've seen over the last two decades, the month-to-month burden of student loan repayment has not increased for the typical borrower.

I'll conclude with three final points. First, college is affordable for the average student in the sense that it will pay for itself in the long run. Second, student loans are a critical tool for ensuring that all potential students, regardless of their wealth, are able to access the benefits, financial and otherwise, that higher education affords.

And, third, college is affordable, on average, but it is inevitable that some students will not see a positive return on the dollars that they invest into higher education. Therefore, it's important that a streamlined system of income-driven repayment exists to ensure ex-post universal affordability.

Thank you for your attention. I look forward to your questions.

[The prepared statement of Dr. Akers follows:]

PREPARED STATEMENT OF ELIZABETH AKERS, PH.D.

INTRODUCTION

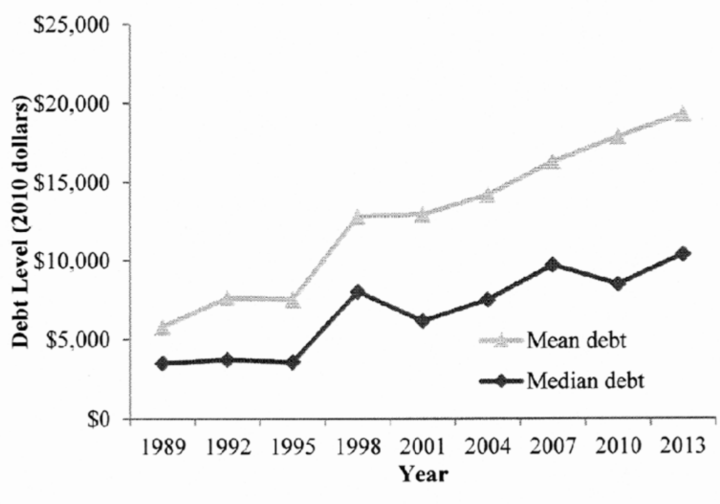
Good morning Chairman Alexander, Ranking Member Murray, and distinguished members of the committee. Thank you for giving me the opportunity to be here today to share my thoughts on this very important issue.

My name is Beth Akers. I am a fellow at the Brookings Institution where I carry out research on the topic of higher education, with a particular focus on student loans. I've been engaged in research related to higher education policy since 2008 when, in my role as staff economist at the Council of Economic Advisers, I assisted the Department of Education as they quickly implemented the Ensuring Continued Access to Student Loans Act. My testimony is informed by the time that I've spent engaged as a researcher in this field, first as a graduate student in the Economics Department at Columbia University and then as a Fellow at the Brookings Institution.

BACKGROUND

Over the past two decades there's been a dramatic increase in the share of young U.S. households with education debt. The incidence has more than doubled, from 14 percent in 1989 to 38 percent in 2013 (Table 1). Not only are more individuals taking out education loans, but they are also taking out larger loans. Among households with debt, the mean per-person debt more than tripled, from $5,810 to $19,341 during the same period (2010 dollars). Median debt grew somewhat less rapidly, from $3,517 to $10,390 (Figure 1, Table 1). Among all households, including those with no debt, mean debt increased eightfold, from $806 to $7,382 (Table 1).

Figure 1. Trends in Education Debt over Time, 1989-2013

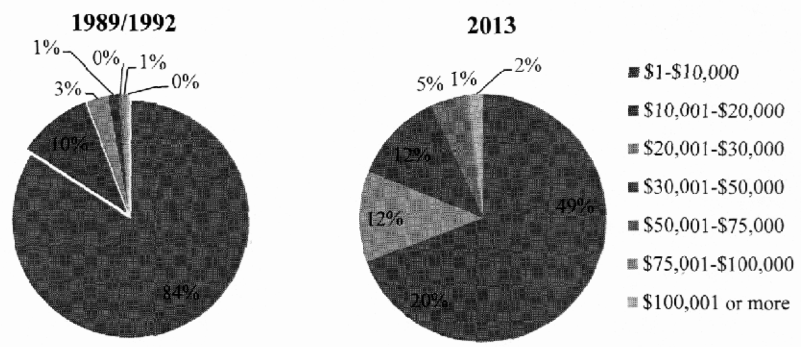


Notes: Based on households age 20-40 with education debt.

Source: Akers and Chingos 2014b

Only a trivial number of households had more than $20,000 in debt (per person) in 1989/1992, whereas in 2013, almost one-third of those with debt had balances exceeding $20,000 (the change in the distribution is illustrated in Figure 2). The incidence of very large debt balances is greater now than it was two decades ago, but it is still quite rare. In 2013, 7 percent of households with debt had balances in excess of $50,000 and 2 percent had balances over $100,000 (Akers and Chingos 2014b).

Figure 2. Distribution of Debt, 1989/1992 and 2013



Source: Akers and Chingos 2014b

The large increases in education debt levels over the last two decades are often attributed to the increases in tuition charged by colleges and universities. There is also evidence that college students are relying more on debt to finance college costs and paying less out-of-pocket (Greenstone and Looney 2013b), suggesting that student behavior is changing in ways that favor loans over other ways of paying for college. Furthermore, there have been shifts in the level of educational attainment and demographic characteristics of the U.S. college-age population that could impact observed student borrowing. Estimates suggest that roughly one-quarter of the increase in student debt since 1989 can be directly attributed to Americans obtaining more education (both through increased enrollment and increased levels of attainment) while increases in tuition can explain 51 percent of the increase in debt observed during this period (Akers and Chingos 2014a).

Recognizing that the increases in borrowing are driven by multiple factors, some of which are less concerning than others, highlights an important point. The growth in student loan debt is often discussed as a problem in and of itself. However, to the extent that borrowers are using debt as a tool to finance investments in human capital that pay off through higher wages in the future, increases in debt may simply be a benign symptom of increasing expenditure on higher education. On the contrary, if these expenditures were spent in ways that don't pay dividends in the future, then the observed growth in debt may indicate problems for the financial future of borrowers.

EVIDENCE ON AFFORDABILITY

Positive Return on Investment

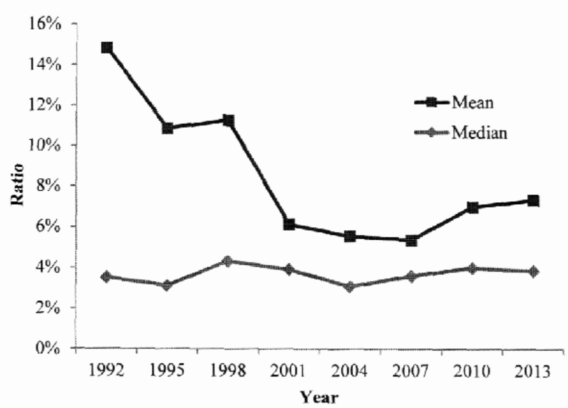
The most direct way to examine whether borrowers are using debt to finance investments that will pay off is to measure the financial return that their investment will yield in terms of lifetime earnings (relative to what they would have earned if they had not enrolled in a program of higher education) and compare it to the upfront cost of enrollment. Despite the recent recession, the significant economic return to college education continues to grow, implying that many of these loans are financing sound investments. In 2011, college graduates between the ages of 23 and 25 earned $12,000 more per year, on average, than high school graduates in the same age group, and had employment rates 20 percentage points higher. Over the last 30 years, the increase in lifetime earnings associated with earning a bachelor's degree has grown by 75 percent, while costs have grown by 50 percent (Greenstone and Looney 2010). There is also an earnings premium associated with attending college and earning an associate's degree or no degree at all, although it is not as large (Greenstone and Looney 2013a). These economic benefits accrue to individuals, but also to society, in the form of increased tax revenue, improved health, and higher levels of civic participation (Baum, Ma, and Payea 2013).

Studies that seek to identify the causal relationship between education and earnings draw similar conclusions. A recent study, published by researchers at the Federal Reserve Bank of New York in 2014, suggested that the financial return on a college degree, when expressed as a rate of return, was 15 percent and had held steady at that level (a historic high) for the previous decade. A valuable insight from this work is that the return on college has not fallen, despite the growing cost of attendance and stagnant earnings growth across the economy. This counterintuitive result is driven by the decline of earnings among workers without college degrees (Abel and Deitz, 2014). These statistics indicating large financial returns on investments in higher education suggest that, for the average student, college will pay for itself in the long run.

Month-to-Month Affordability of Student Debt

The long run financial return is an important indicator of affordability, but it could potentially obscure more transient challenges faced by households. For example, an increase in debt may be affordable in the long run but impose monthly payments that squeeze borrowers in the short run, especially early in their careers when earnings are low. However, month-to-month affordability of student debt does not seem to have declined in recent history. The ratio of monthly payments to monthly income has been flat over the last two decades (Figure 3, Table 2). Median monthly payments ranged between 3 and 4 percent of monthly earnings in every year from 1992 through 2013. Mean monthly payments, which are larger than median payments in each year due to the distribution being right-skewed, declined from 15 percent in 1992 to 7 percent in 2013 (Akers and Chingos 2014b).

Figure 3. Monthly Payment-to-Income Ratios, 1992-2013



Notes: Based on households age 20-40 with education debt, wage income of at least $1,000, and that were making positive monthly payments.

Source: Akers and Chingos 2014b

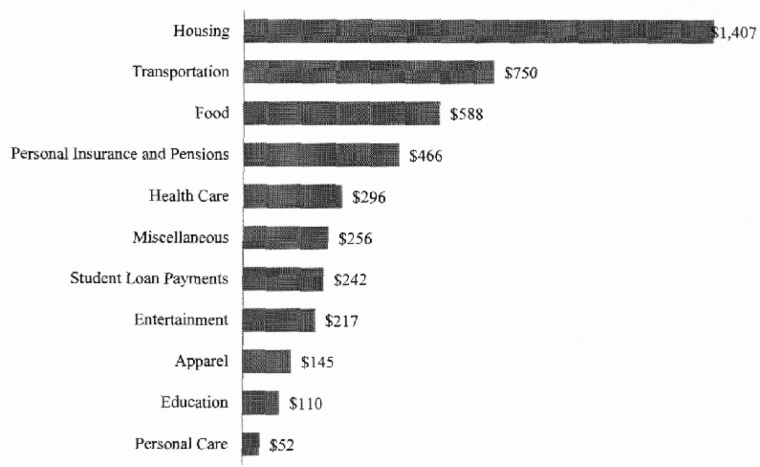
The ratio of monthly payments to monthly income stayed roughly the same over time, on average, at each percentile and for each education category. By this measure, the transitory burden of loan repayment is no greater for today's young workers than it was for young workers two decades ago. If anything, the monthly repayment burden has lessened.

This surprising finding can be explained in part by a lengthening of average repayment terms during the same period. In 1992, the mean term of repayment was 7.5 years, which increased to 12.5 years in 2013. This increase was likely due primarily to loan consolidation, which increased dramatically in the early 2000s (Department of Education 2014, S–16). Loans consolidated with the Federal Government are eligible for extended repayment terms based on the outstanding balance, with larger debts eligible for longer repayment terms. Average interest rates also declined during this period, which would also lower monthly payments (Table 3).

In order to appreciate how much of a burden monthly payments place on households, it's useful to compare student debt payments to other household expenses. In

Figure 4 average monthly student loan payment (based on data from 2010) is plotted together with the average monthly expenditure in each major consumption category (this data comes from the 2012 Consumer Expenditure Survey, which is administered by the Bureau of Labor Statistics). The largest categories of monthly consumption expenditure are housing ($1,407), transportation ($750) and food ($588). Monthly student loan payments are relatively small compared to these expenses, and at $242, are closer in scale to monthly spending on entertainment ($217), apparel ($145) and health care ($296). There is relatively little variation in monthly loan payments (due to consolidation with longer repayment terms for larger debts) (Akers 2014a).

Figure 4. Average Monthly Expenditures and Student Loan Payments



Data: 2010 Survey of Consumer Finances and 2012 Consumer Expenditure Survey

Source: Akers 2014a

Student Debt is a Poor Indicator of Economic Hardship

It might seem reasonable to be most concerned about the plight of individuals with large outstanding student loan balances, but evidence suggests that these individuals may not be faring any worse than households with smaller balances or no student debt at all. The highest rates of financial distress, as indicated by late payments on household financial obligations, are seen among households with the lowest levels of student loan debt. Households with large debts tend to have higher levels of educational attainment and earnings, on average, and miss bill payments less often. Among households with outstanding education debt in the lowest quartile of the debt distribution ($0–$3,386), 34 percent report having made a late payment on a financial obligation in the past year compared with 26 percent of households with education debt in the highest quartile (≥$18,930). Households with student loan debt do not show indications of financial distress more often than households without student loan debt (Akers 2014b).

CONCLUSIONS

This body of evidence contradicts the notion that a crisis of college affordability exists on a macro level. However, it is undeniable that many individuals and households are facing serious economic hardship that can be explained completely or in part by their spending on higher education. Like any other investment, the returns to higher education are not guaranteed. While the average student will see a large financial return on the dollars they spend on higher education, some students will find that their investment won't pay off. We can reduce the frequency of this occurrence by ensuring that students have the information and resources they need in order to make good decisions about college enrollment. For instance, a national level data base that reports earnings by institution would succeed in helping students to avoid enrolling at institutions that do not have a track record of success. This would succeed in creating more institutional accountability without additional government intervention.

An additional way to improve outcomes for students is to simplify the Federal lending program both on the front end, with the menu of services, and also on the backbend with a more streamlined system of repayment. Recent work on this issue has revealed that students have relatively little understanding of their financial circumstances while they are enrolled in college. About half of all first-year students in the United States seriously underestimate how much debt they've taken on. Even more concerning is the fact that among all first-year students with Federal student loans, 28 percent report having no Federal debt and 14 percent report that they have no debt at all (Akers and Chingos 2014c). Removing the complexity of the Federal aid system could potentially succeed in making it easier for students to comprehend their circumstances and to make better informed decisions.

However, some of the uncertainty about the payoff of college is unavoidable. For example, some students will invest in developing skills that will ultimately become obsolete due to unanticipated technological or policy innovation. It's important that the government provide insurance against these types of occurrences both for the sake of ensuring individual welfare and also to discourage debt aversion among potential students. Income-driven payment programs, like the ones currently in place for the Federal student lending program, are the appropriate tool for providing a safety net to borrowers.

In sum, college is affordable in the sense that on average it will pay for itself in the long run with heightened wages. However, to ensure that college is universally affordable ex-post, it's necessary to maintain a robust system of income-driven repayment such that students are insured against their investment not paying off. Last, we need to ensure that both the system of Federal lending and the safety nets that exist to support it are simple enough that the benefits of these policy innovations can be fully realized.

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Table 1.—Incidence and Amount of Debt Over Time, Age 20–40

Year	Incidence [In percent]	Mean Debt	Those with Debt		Cell size
			Mean	Median	
1989	14	$806	$5,810	$3,517	971
1992	20	$1,498	$7,623	$3,730	1,323
1995	20	$1,475	$7,521	$3,577	1,429
1998	20	$2,539	$12,826	$8,027	1,362
2001	22	$2,881	$12,939	$6,156	1,307
2004	24	$3,402	$14,204	$7,503	1,246
2007	28	$4,583	$16,322	$9,728	1,144
2010	36	$6,502	$17,916	$8,500	1,865
2013	38	$7,382	$19,341	$10,390	1,623

Notes: All amounts are in 2010 dollars.
Source: Akers and Chingos 2014b

Table 2.—Payment-to-Income Ratios

Year	Payment to Income						Monthly payment	Monthly payment
	Mean [In percent]	P10 [In percent]	P25 [In percent]	P50 [In percent]	P75 [In percent]	P90 [In percent]		
1992	15	1	2	4	10	20	$431	$4,367
1995	11	1	2	3	7	15	$226	$4,433
1998	11	1	2	4	10	22	$296	$4,694
2001	6	1	2	4	7	13	$266	$6,323
2004	6	1	2	3	6	11	$194	$5,247
2007	5	1	2	4	6	10	$218	$5,789
2010	7	1	2	4	7	15	$234	$5,424
2013	7	1	2	4	8	16	$254	$5,420

Notes: Includes households age 20–40 with education debt, wage income of at least $1,000, and that were making positive monthly payments.
Source: Akers and Chingos 2014b

Table 3.—Average Loan Terms and Interest Rates, Largest Loan

Year	Term	Interest Rate [In percent]
1992	7.5	8.3
1995	8.8	8.3
1998	10.5	8.4
2001	9.9	8.0
2004	13.7	4.7
2007	14.1	5.5
2010	13.4	5.5
2013	12.5	5.9

Notes: The average loan term and interest rate are calculated based on the largest education loan held by each household in the SCF.
Source: Akers and Chingos 2014b.

The CHAIRMAN. Thank you, Dr. Akers.
Dr. Alexander.

STATEMENT OF F. KING ALEXANDER, Ph.D., B.A., M.S., PRESIDENT AND CHANCELLOR, LOUISIANA STATE UNIVERSITY, BATON ROUGE, LA

Mr. ALEXANDER. Thank you, Chairman Alexander and members of the HELP committee, for this opportunity to share with you some of my thoughts regarding the important national issue of college and university affordability and access.

I'm president of Louisiana State University, which is a Land-Grant, Sea-Grant, and Space-Grant university with an enrollment of nearly 44,000 students. We take great pride in providing high-quality educational opportunities at a student cost well below the national average. Our State ranks third lowest in student indebtedness in the country, and we'd like to stay that way. That's why we're asking you for your help.

This morning, I'd like to focus my comments on the ongoing and greatest challenge facing public higher education today, which is the continual decline of State appropriations. I will also provide some policy recommendations and proven examples of how Federal Government can actually better utilize its leverage to ensure that there will be affordable public colleges and universities for students in every State for years to come.

What no one expected in 1972 was that States would get out of the higher education funding business. What no one expected in 1981 was that State—that's when State reduction started to occur, and a 3½ decade decline we've experienced in the State public funding decline. The result has been that State funding for higher education sits currently around 48 percent below where it was in State tax effort in 1981, which measures State spending by the percentage of per capita income by State.

In other words, States began getting out of the higher education business to the point that the Federal Government has now become the primary funding source through tuition and fee-based programs, which it wasn't intended to be in 1972. For example, if current State funding trends persist, Colorado will become the first State not to spend a penny on public higher education less than a decade from now.

This means that existing primary school children in Colorado will have no affordable public college or university options in less than a decade. States that will soon follow Colorado in abandoning their public commitments will be Louisiana, 2 years later; Massachusetts; Rhode Island, 2 years later; Arizona in 2030; South Carolina in 2031; Vermont, 1932; Oregon, 1934; and so on.

The interlocking relationship between student aid, public State funds, and student tuition increase is indisputable. If we do not look to new Federal policies to address this issue, we will continue to decline, watching our 25- to 34-year-olds rank 12th in the OECD standards in terms of college completion, compared to our older population ranking first—our 55- to 64-year-olds—in OECD standards.

To assist in addressing the college affordability issue, first, we need to review all Federal policies to ensure that price sensitivity is not incorporated into the formulas. Campus-based Federal funding, SEOG, and work-study actually provides additional funding to institutions that charge more, incentivizing institutions to charge more.

For example, the California State University, with over 230,000 Pell grant eligible students, receives the same amount of SEOG funding as the Ivy League institutions with only 10,000 Pell grant students. The Ivy League, with 10,000 Pell grant students, receives twice the work-study as California State University with 230,000 Pell grant students.

However, I would say the most important Federal policy recommendation that I would make today is to use Federal leverage to ensure that States maintain their public support of higher education. Today, the diversity of American higher education is, indeed, threatened by the elimination of public college and university student options.

The time has come for a new Federal partnership. Federal partnerships are not new to higher education. We are a Land-Grant university, which was a Federal partnership established in 1862. That was a Federal-State partnership using Federal leverage.

More recently, Federal leverage was used with the passage of the 1972 Higher Education Act, where we encouraged States through the SSIG program, of which only 19 had State student aid programs. Federal matching programs encouraged States with matching funds to adopt State student aid programs. Within 4 years, nearly 40 States had adopted those programs.

Further evidence was found with the stimulus packages. If the stimulus packages did not include the maintenance-of-effort provisions that said that States could not accept stimulus funds if they cut their budgets below 2006 funding levels, then those funds would not have been received by States. Nearly 20 States adopted the policies that cut their budgets nearly to the Federal limit of where they could go, but they would not cross the Federal leverage line.

Before we increase Federal spending awards and expand Federal loan caps, we need to make sure that States are staying in the game, making sure that States are not disinvesting. Before we put $200 more into a Pell grant, we need to ensure that the back door of these houses is closed so that—it doesn't do a Pell grant student any good if we increase it by $200 when our States are increasing their tuition and fees and $900.

Now is the time that we do need Federal leverage to make sure States do not abandon their responsibilities to public higher education.

Thank you very much.

[The prepared statement of Dr. Alexander follows:]

PREPARED STATEMENT OF F. KING ALEXANDER, PH.D., B.A., M.S.

Thank you, Mr. Chairman and members of the HELP (Health, Education, Labor, and Pensions) Committee, for this opportunity to share with you some of my thoughts regarding the important national issue of college and university affordability and access.

I am president of Louisiana State University, which is a Land-Grant, Sea-Grant, and Space-Grant university with a total enrollment of more than 44,000 students. We take great pride in providing high-quality educational opportunities at student costs well below the average of our “Flagship” and “High Research” public university peers.

Before making my comments, I wanted you to know that I have been very fortunate to represent public colleges and universities in 2003 and 2007 to the U.S. House Committee on Labor and Education on this very same topic of college affordability. Because this issue has clearly not been resolved in the intervening years and continues to demand congressional attention, the time has come to explore new and proven policy directives to address college affordability and access.

This morning I would like to focus my comments on the ongoing and greatest challenge facing public higher education today, which is the continual decline of State appropriations. I will also provide some policy recommendations and proven examples of how the Federal Government can better utilize its fiscal leverage to ensure that there will be affordable public college and university options for students in every State.

STATE APPROPRIATIONS DECLINE

At the inception of the Higher Education Act in 1965 and throughout subsequent Federal debates that culminated in 1972 with the creation of numerous Federal grant and loan programs, it was assumed that any new Federal funding policies would simply supplement State funding, not replace it. Many policymakers believed that States would always be the primary funding source for public higher education with the Federal Government playing only a small complementary role, which is not the case today. Another assumption that would prove to be a major miscalculation on the part of Federal policymakers was that States would of their own volition maintain or increase their current levels of fiscal commitment to public higher education. To the detriment of public higher education institutions and leaders, this presupposition would prove quite erroneous as State governments began to reduce funding less than 10 years later in 1981, resulting in a continual ballooning of student tuition and fees that we have steadily experienced in State colleges and universities to this day.

What no one could have anticipated in 1981 was that the State reductions experienced in the early 1980s were just the beginning of a 3½ decade decline in State support for public higher education. The result has been that State funding for higher education sits currently around 48 percent to 50 percent below where it was in 1981 in State tax effort, which measures State spending as a percentage of higher education support by State per capita income.

In other words, States essentially began getting out of the higher education funding business, to the point that the Federal Government has now become the primary funding source through tuition and fee-based programs. For example, if current State funding trends persist, Colorado will become the first State not to spend a single penny on public higher education in 2025. This means that existing primary school children in Colorado will have no affordable public college or university options in less than a decade. States that will soon follow Colorado in abandoning all their public higher education funding include my own State Louisiana in 2027, Massachusetts and Rhode Island in 2029, Arizona in 2030, South Carolina in 2031, Vermont in 2032, Oregon in 2034, and Wisconsin/Minnesota/New York/Montana in just a little more than 20 years from now.

As many recent reports have clearly indicated, while State appropriations continue to vanish from the higher education landscape, student tuition and fees for the vast majority of American students will continue to increase, forcing further growing reliance on Federal direct student aid grant and loan programs. In a report released earlier this year, "Pulling Up the Higher Ed Ladder: Myth and Reality in the Crisis of College Affordability" by Robert Hiltonsmith of the Demos organization, declining State support was responsible for almost 80 percent of net tuition increases from 2001–11. According to the report, as States withdraw from their responsibilities—as they have done since the early 1980s—tuition is raised to keep universities afloat.

The interlocking relationship between public institutions, tuition and fee policies, and State appropriations is an area that seems to be pervasively misunderstood by both taxpayers and policymakers. Over the last decade, other studies have highlighted the instability of State appropriations and the effects of State policy on public institution tuition changes. In a congressionally mandated NCES study on college costs and prices in 2006, it was shown that State general fund appropriations were by far the most significant factor in determining public college and university resident tuition rates.

If we don't look to new Federal policies to address this ongoing State funding dilemma, we will continue to witness an international (OECD) decline in the percentage of our 25–34-year-old population with college degrees, which has fallen to a ranking of 12th. This declining international ranking is even more problematic when you consider that our 55–64-year-old population ranks first in the same OECD category. If our young people can't afford college, particularly public higher education, we will continue to plummet in these metrics and lose our international competiveness on a variety of levels.

NEW FEDERAL POLICY DIRECTIVES

To assist in addressing the college affordability issue, a number of Federal initiatives should be considered. First, review all Federal student aid programs to eliminate or reduce "price sensitivity" formulaic factors. Many Federal student aid programs used price as an important financial component in qualifying for larger Federal assistance awards. Two of those programs are considered campus-based Federal assistance programs and include the Secondary Educational Opportunity Grant program and the Work-Study program. Evidence of the dramatic variations in award amounts exists throughout the United States. As just one primary example, in 2013–14, SEOG funds distributed to all eight high-cost Ivy League institutions totaled about the same Federal funding as the total amount received by all 23 California State Universities. In the Federal Work Study program in 2013–14, nearly twice as much funding was granted to Ivy League campuses than the entire California State University. This is particularly problematic when you consider that the eight Ivy League campuses have about 100,000 total students with only around 10,000 Pell Grant or lower income students combined, while the California State University has 430,000 students and nearly 200,000 Pell Grant or lower income students.

Second, create Federal pressure to have States review their State student aid programs to eliminate or reduce "price sensitivity" as a formulaic factor. One important challenge created by the success of the Federal SSIG and LEAP program is that many of these State-based programs are extremely price sensitive, which means award amounts and the ability to receive awards are based in part on what the institution charges. Programs such as these exist in many States and a few have even been named "tuition equalization" programs. This essentially incentivizes many private not-for-profit and for-profit institutions to inflate pricing. Perhaps the most egregious example of this problem resided in the State of California through their Cal Grant A program. Three years ago, it was discovered after many years of State student aid funding that the average student award from this program varied from around $5,000 for California State University students to an average of $10,000 to $13,000 to students attending high-priced private and for-profit institutions—with no regard for the quality of education these students were actually receiving. These figures are also problematic since for-profit institutions not only receive larger State student aid grants in some cases like California, but enroll only 11 percent of the Nation's student population while acquiring nearly 30 percent of all Pell Grants and registering approximately 47 percent of all student loan defaults.

Third, whenever feasible, maintain Federal direct student aid loan limits and caps. When Federal student aid loan limits are increased, many institutions are incentivized to also increase their student tuition and fees. One example was the Middle Income Assistance Act in 1978, which expanded loan availability to middle- and upper-income students eventually increasing loan caps years later. The result was that student loan debt increased rapidly, as did student tuition and fees. Many believe the combination of both State appropriation reductions in the early 1980s and the increased availability of Federal student loans at the same time dramatically fueled the student tuition and fee increases of that decade, creating the $1.3 trillion student loan problem we face today.

Finally, my most important Federal policy recommendation is to utilize Federal financial leverage to ensure that States maintain their public support of higher education. Today, the diversity of American higher education is threatened due to the elimination of affordable public college and university student options. The time has come for a Federal-State partnership or match to incentivize States to continue their public investments in their public colleges and universities.

Federal-State partnerships are not entirely new to higher education in the United States. Perhaps our greatest example of how effective such Federal-State partnerships have been is the Morrill Act or Land-Grant Act of 1862. In this case, Federal lands were given to State governments throughout the United States in exchange for the creation of new public colleges and universities primarily developed to educate more engineers, agricultural scientists, and military science graduates. This Federal-State partnership could arguably be considered the foundation of what led the United States to become the world's leader in higher education development a century later. The success of the Morrill Act also led to the creation of the second

Morrill Act in 1890, which required each State from the former Confederacy to designate a separate land-grant institution for persons of color.

More recently, Federal leverage was used again with the passage of the 1972 HEA reauthorization with the creation of the State Student Aid Incentive Grant (SSIG). This was a new Federal matching program designed to encourage States to create State student aid programs or increase funding to existing ones. In creating SSIG, the Federal Government sent a clear message to States to either reallocate funds to begin supporting these programs or match additional State funding to these grant programs. The Federal matching funds proved extremely effective and encouraged 20 additional States to adopt State student aid programs within 4 years. This is proof positive that Federal matching programs work when it comes to incentivizing State funding behavior.

Further evidence of the effectiveness of Federal leverage can be found in the reauthorization efforts of the Higher Education Act in 2007 when a first "maintenance of effort" (MOE) provision was added to protect higher education from dramatic cuts. Then in 2008 and 2009, the same MOE language was successfully transferred into the American Recovery and Reinvestment Act (ARRA), which allowed for the use of education stimulus funds only if States didn't cut their higher education budgets below 2006 State funding levels. Ironically, a few months after the MOE was passed by Congress, a critical mass of States began to cut their higher education budgets to the very edge of where Federal penalties would apply. The Federal leverage worked well and States remained very reluctant to cross the Federal line, ultimately stemming the mass State disinvestment trend across the Nation.

Before we further increase Federal student aid awards or expand Federal student loan caps, we need to ensure that States don't continue disinvesting in their public higher education institutions. It makes little sense to increase a Pell Grant award by $200 or $300 when State funding reductions force public institutions to increase tuition and fees by $900. In short, we need to close the back door before we continue putting money through the front door. None of my other recommendations will make a difference without Federal incentives for State higher education support.

Fifty years after the Higher Education Act was passed, the time has come for us to create a new Federal/State partnership that could incentivize States to maintain or even increase their levels of support. This could reverse the detrimental State funding trends that we continue to experience and perhaps save American public higher education by ensuring its accessibility and affordability for future generations to come.

The CHAIRMAN. Thank you, Dr. Alexander.

Mr. Mitchell.

STATEMENT OF MICHAEL MITCHELL, POLICY ANALYST, CENTER ON BUDGET AND POLICY PRIORITIES, WASHINGTON, DC

Mr. MITCHELL. Chairman Alexander, Ranking Member Murray, members of the committee, thank you very much for this opportunity to testify on college affordability. My name is Mike Mitchell. I'm a policy analyst with the Center on Budget and Policy Priorities, a policy institute which focuses on research and analysis on budget and tax policy issues at the State and Federal level. My research has focused on State investments in higher education.

My oral remarks today will hone in on three key points. First, States have made dramatic cuts to higher education funding since the onset of the 2008 recession. Over that same time period, second, we have seen significant increases in tuition at public 4-year colleges. Then, finally, as this shift from State investment to higher tuition has occurred, there is the potential for harm to students, particularly low-income and students of color, at public 4-year and 2-year colleges.

State and local tax revenues play a critical role in funding higher education. Unlike private institutions, which may rely upon private gifts or large endowments, public 2- and 4-year colleges typically rely on State and local appropriations to fund teaching and education purposes.

In 2014, State and local dollars constituted slightly more than half of educational revenues used directly for teaching and education. For public colleges and universities, State support today is well below what it was in 2008. In aggregate, States are spending $13.3 billion less on higher education today than they were in 2008. On a per-student basis, we see that this is about a 20 percent decline in higher education funding across 2- and 4-year public colleges. All but three States, as Senator Murray pointed out—Alaska, North Dakota, and Wyoming—are spending less per student today than they were before the recession.

Over that same time period, we have seen increases in tuition at public 4-year colleges, in some States, dramatically so. In six States, for example, we've seen tuition increases above 60 percent—average annual increases above 60 percent. Over that same time period, in Arizona, the No. 1 State in tuition increases, it rose by 84 percent.

Encouragingly, I will say that over the past few years, we have seen States start to put dollars back into their higher education systems. However, that reinvestment has not been enough to make up for the total amount of cuts. Again, over that same time period, as States have started to reinvest, we have seen tuition increases that have been much more moderate than they were over the worst years of the economic recession and major years of cuts.

Again, what does this mean for students? It's important to keep in mind that for low-income students and students of color, sticker shock is a very real phenomenon, and that, for these students, they are more likely to borrow and to take on higher levels of debt to fund their education, even at public 4-year institutions.

Student debt levels overall for all students are increasing, and the share of students taking on debt is also going up. This can present a host of challenges threatening college completion, which is another population of students we need to be very mindful of in terms of having debt but not necessarily the diploma to be able to pay this off, but then also for those who do graduate, what higher levels of debt can do in terms of pushing off major lifetime milestones and other important actions and activities.

Moving forward, strengthening State investments in higher education will play a huge role, at the very least, in ensuring that more students can enter higher education and complete. In order to make this happen, State policymakers will need to make the right tax and budget choices over the coming years and must avoid additional cuts to higher education that will make it much harder for students to enter and complete in college.

Thank you very much for your time, and I look forward to answering any questions you may have.

[The prepared statement of Mr. Mitchell follows:]

PREPARED STATEMENT OF MICHAEL MITCHELL

Thank you for the invitation to testify today. I am pleased to be able to speak to you about college affordability, State support for higher education, and how rising costs have affected students across the country. I am Michael Mitchell, Policy Analyst at the Center on Budget and Policy Priorities. We are a Washington, DC-based policy institute that conducts research and analysis on budget, tax, and economic policy, policies related to poverty, and a number of social programs at both the Federal and State levels. The Center has no government contracts and accepts no government funds.

My testimony today will focus on four key points: (1) States have made dramatic cuts to higher education funding since the onset of the Great Recession; (2) we've seen rapid growth in tuition costs at public 4-year institutions over the same time period; (3) higher costs have hurt students and families, especially those with low or moderate incomes and students of color; and (4) while States reduced higher education funding, the Federal Pell Grant program continued to provide important support to low-income students. I conclude with recommendations for Federal and State policymakers that would enable more students, particularly low-income students, to access and graduate from college.

I. STATES HAVE MADE DRAMATIC CUTS TO HIGHER EDUCATION SINCE 2008

State and local tax revenue is a major source of funding for public colleges and universities. Unlike private institutions, which may rely upon gifts and large endowments to help fund instruction, public 2- and 4-year colleges typically rely heavily on State and local appropriations. In 2014, State and local dollars constituted 53 percent of public institutions' education revenue—the funds used directly for teaching and instruction.[1]

While States have begun to restore funding, appropriations are well below what they were in 2008—20 percent per student lower—even as State revenues have returned to pre-recession levels. Compared with the 2007–08 school year, when the recession hit, adjusted for inflation:

- State spending on higher education nationwide is down an average of $1,805, or 20.3 percent, per student.
- Every State except Alaska, North Dakota, and Wyoming has cut per-student funding.
- Thirty-one States have cut per-student funding by more than 20 percent.
- Six States have cut per-student funding by more than one-third.
- Per-student funding in Arizona and Louisiana is down by more than 40 percent.[2] (See Figure 1.)

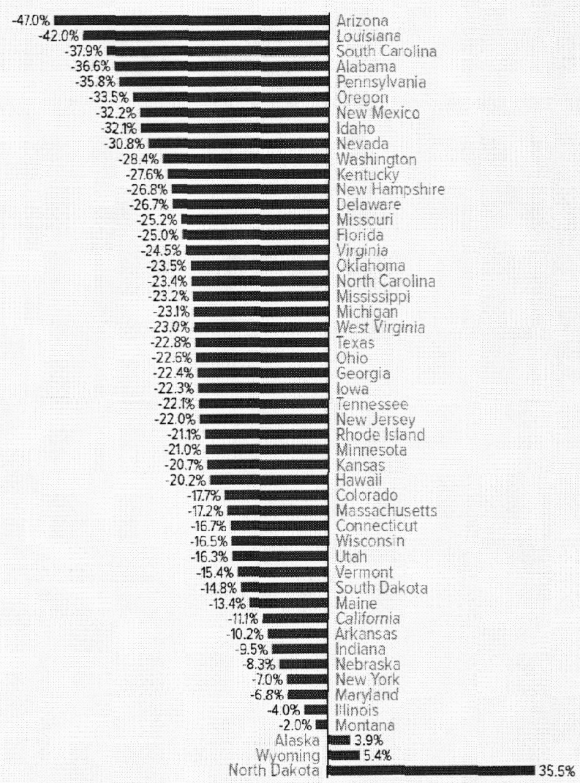
[1] State Higher Education Executive Officers Association, April 2015.

[2] CBPP calculation using the "Grapevine" higher education appropriations data from Illinois State University, enrollment and combined State and local funding data from the State Higher Education Executive Officers Association, and the Consumer Price Index, published by the Bureau of Labor Statistics. Since enrollment data are only available through the 2012–13 school year, enrollment for the 2013–14 school year is estimated using data from past years.

FIGURE 1

State Funding for Higher Education Remains Far Below Pre-Recession Levels in Most States

Percent change in state spending per student, inflation adjusted, 2008 - 2015



Source: CBPP calculations using data from Illinois State University's annual Grapevine Report and the State Higher Education Executive Officers Association. Illinois funding data is provided by the *Fiscal Policy Center at Voices for Illinois Children. Because enrollment data is only available* through the 2014 school year, enrollment for the 2014-15 school year is estimated using data from past years. Years are fiscal years.

Over the past year, States have moved to restore some of that lost funding. (See Figure 2.) Thirty-seven States are investing more per student in the 2014–15 school year than they did in 2013–14. Adjusted for inflation:

- Nationally, spending is up an average of $268, or 4 percent, per student.
- The funding increases vary from $16 per student in Louisiana to $1,090 in Connecticut.
- Eighteen States increased per-student funding by more than 5 percent.
- Four States—California, Colorado, New Hampshire, and Utah—increased funding by more than 10 percent.

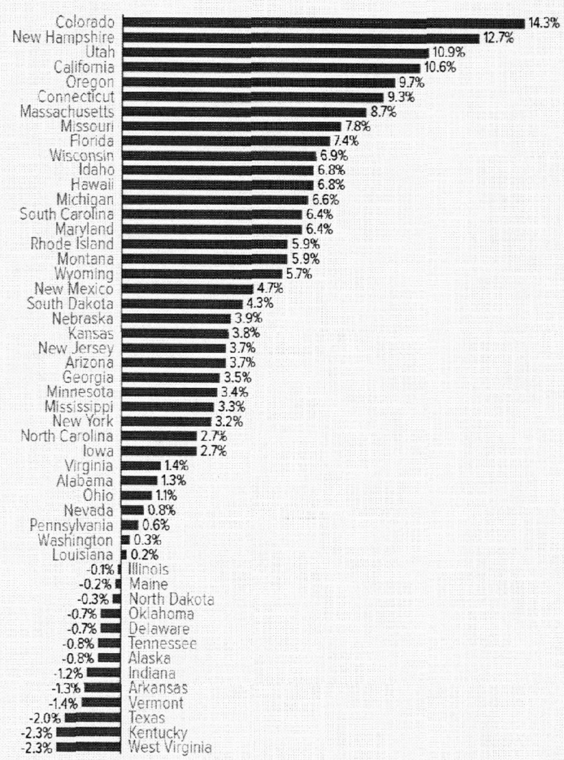
Still, in 13 States, per-student funding *fell* over the last year—declining, on average, by more than $50 per student. Adjusted for inflation:

- Funding cuts vary from $6 per student in Illinois to $179 in Kentucky.
- Five States—Alaska, Arkansas, Kentucky, Texas, and West Virginia—cut funding by more than $100 per student over the past year.
- Three States—Kentucky, Oklahoma, and West Virginia—have cut per-student higher education funding for the last 2 consecutive years.

FIGURE 2

Most States Increased Higher Education Funding Over Last School Year, but Some States Are Still Cutting

Percent change in state spending per student, inflation adjusted, 2014 - 2015



Source: CBPP calculations using data from Illinois State University's annual Grapevine Report and the State Higher Education Executive Officers Association. Illinois funding data is provided by the Fiscal Policy Center at Voices for Illinois Children. Because enrollment data is only available through the 2014 school year, enrollment for the 2014-15 school year is estimated using data from past years. Years are fiscal years.

WHY DID STATES CUT HIGHER EDUCATION FUNDING?

The cuts resulted from State responses to the deep recession and a slow recovery.

• **While Federal aid prevented even deeper cuts, State tax revenues fell very sharply and are only now returning to pre-recession levels.** The recession of 2007–09 hit State revenues hard, and the slow recovery continues to affect them. High unemployment and a slow recovery in housing values left people with less income and less purchasing power. As a result, States took in less income and sales tax revenue, their main sources of revenue for funding education and other services. By the fourth quarter of 2014, total State tax revenues were only 2 percent greater than they were at the onset of the recession after adjusting for inflation.[3]

States relied heavily on Federal assistance to stave off even deeper cuts to higher education in the early years of the economic downturn. The American Recovery and

[3] CBPP analysis of Census quarterly State and local tax revenue, *http://www.census.gov/govs/qtax/*.

Reinvestment Act provided States with roughly $140 billion to fund existing State spending—including funds intended to support higher education. Unfortunately, this additional Federal fiscal support dried up after only a few years, despite the fact that States continued to face sizable budget gaps.[4] Partially because of this, the most dramatic cuts to higher education occurred in fiscal year 2012, years after the recession's start.[5]

• **Limited revenues must support more students.** Public higher education institutions are educating more students, raising costs. In part due to the "baby boom echo" causing a surge in the 18- to 24-year-old population, enrollment in public higher education was up by nearly 900,000 full-time-equivalent students, or 8.6 percent, between the beginning of the recession and the 2013–14 academic year (the latest year for which there are actual data).[6]

The recession also played a large role in swelling enrollment numbers, particularly at community colleges, reflecting high school graduates choosing college over dim employment prospects and older workers entering classrooms in order to retool and gain new skills.[7]

Other areas of State budget also are under pressure. For example, an estimated 485,000 more K–12 students are enrolled in the current school year than in 2008.[8] Long-term growth in State prison populations—with State facilities now housing nearly 1.36 million inmates—also continues to put pressure on State spending.[9]

• **Many States chose sizable budget cuts over a balanced mix of spending reductions and targeted revenue increases.** States relied disproportionately on damaging cuts to close the large budget shortfalls they faced over the course of the recession. Between fiscal years 2008 and 2012, States closed 45 percent of their budget gaps through spending cuts but only 16 percent through taxes and fees (they used Federal aid, reserves, and various other measures to close the remainder of their shortfalls). States could have lessened the need for deep cuts to higher education funding if they had been more willing to raise additional revenue.

II. TUITION COSTS HAVE GROWN RAPIDLY AS STATE SUPPORT HAS DECLINED

Tuition costs in most States have climbed higher than they were before the recession. Since the 2007–08 school year, average annual published tuition has risen by $2,068 nationally, or 29 percent, above the rate of inflation.[10] Steep tuition increases have been widespread, and average tuition at public 4-year institutions, adjusted for inflation, has increased by:

- more than 60 percent in six States;
- more than 40 percent in 10 States; and
- more than 20 percent in 33 States. (See Figure 3.)

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[4] Nicholas Johnson, Phil Oliff, and Erica Williams, "An Update on State Budget Cuts," Center on Budget and Policy Priorities, February 9, 2011, *http://www.cbpp.org/research/an-update-on-state-budget-cuts*.

[5] CBPP calculation using the "Grapevine" higher education appropriations data from Illinois State University, enrollment and combined State and local funding data from the State Higher Education Executive Officers Association, and the Consumer Price Index, published by the Bureau of Labor Statistics.

[6] State Higher Education Executive Officers Association, April 2015. Note: while full-time-equivalent enrollment at public 2- and 4-year institutions is up since fiscal year 2008, between fiscal years 2012 and 2013 it fell by approximately 150,000 enrollees—a 1.3 percent decline.

[7] See, for example, "National Postsecondary Enrollment Trends: Before, During and After the Great Recession," National Student Clearinghouse Research Center, July 2011, p. 6, *http://pas.indiana.edu/pdf/National%20Postsecondary%20Enrollment%20Trends.pdf*. A survey conducted by the American Association of Community Colleges indicated that increases in Fall 2009 enrollment at community colleges were, in part, due to workforce training opportunities; see Christopher M. Mullin, "Community College Enrollment Surge: An Analysis of Estimated Fall 2009 Headcount Enrollments at Community Colleges," AACC, December 2009, *http://files.eric.ed.gov/fulltext/ED511056.pdf*.

[8] National Center for Education Statistics, Enrollment in public elementary and secondary schools, by level and grade: Selected years, fall 1980 through fall 2023, Table 203.10, *http://nces.ed.gov/programs/digest/d13/tables/dt13_203.10.asp?current=yes*.

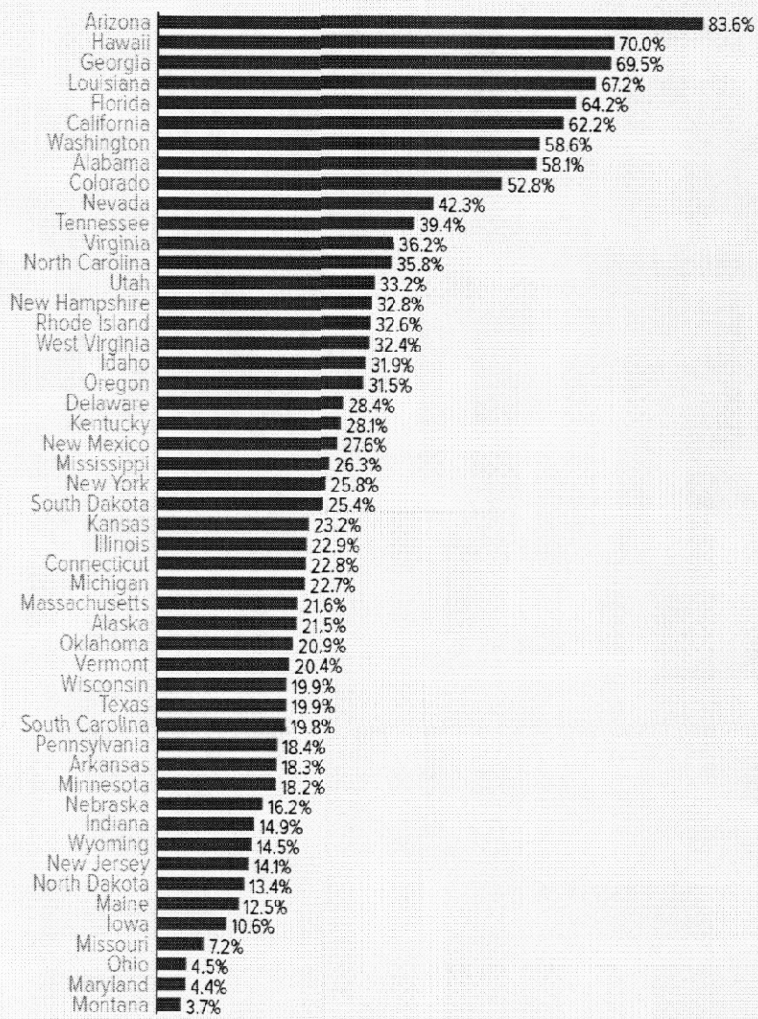
[9] CBPP analysis of data from U.S. Department of Justice, Bureau of Justice Statistics.

[10] CBPP analysis using the College Board's "Trends in College Pricing 2014," *http://trends.collegeboard.org/college-pricing/figures-tables/tuition-fees-room-board-time*. Note: in non-inflation-adjusted terms, average tuition is up $2,948 over this time period.

FIGURE 3

Tuition Has Increased Sharply at Public Colleges and Universities

Percent change in average tuition at public, four-year colleges, inflation adjusted, 2008 - 2015



Source: College Board, "Trends in College Pricing," 2014. Years are fiscal years.

In Arizona, the State with the greatest tuition increases since the start of the recession, tuition has risen 83.6 percent, or $4,734 per student, after adjusting for inflation. Average tuition at a 4-year Arizona public university is now $10,398 a year.[11]

As States have begun to reinvest in public higher education, tuition hikes in 2014–15 have been much smaller than in preceding years.[12] Published tuition—the "sticker price"—at public 4-year institutions increased in 34 States over the past year, but only modestly. Average tuition increased $107, or 1.2 percent, above inflation.[13] Between last year and this year, after adjusting for inflation:

- Louisiana increased average tuition across its 4-year institutions more than any other State, hiking it by nearly 9 percent, or roughly $600.
- Four States—Louisiana, Hawaii, West Virginia, and Tennessee—raised average tuition by more than 4 percent.
- In 16 States, tuition *fell* modestly, with declines ranging from $6 in Ohio to $182 in New Hampshire.[14]

III. COST SHIFT HARMS STUDENTS AND FAMILIES, ESPECIALLY THOSE WITH LOW INCOMES

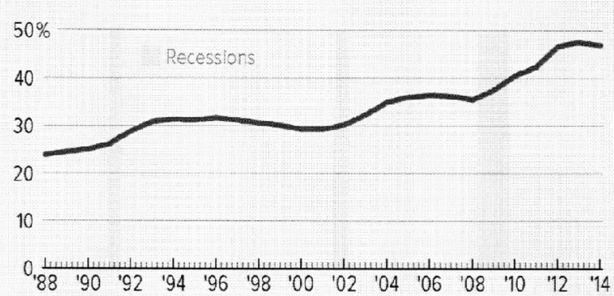
During and immediately following recessions, State and local funding for higher education has tended to plummet, while tuition has tended to spike. During periods of economic growth, funding has tended to recover somewhat while tuition has stabilized at a higher level as a share of total higher educational funding.[15] (See Figure 4.)

This trend has meant that over time, students have assumed much greater responsibility for paying for public higher education. In 1988, public colleges and universities received 3.2 times as much in revenue from State and local governments as they did from students. They now receive about 1.1 times as much from States and localities as from students.

FIGURE 4

Students Funding Larger Share of Education Funds After Recessions

Tuition as a percent of "total educational revenue," 1988 -2014



Source: State Higher Education Financing FY 2013. State Higher Education Executive Officers Association. Total education revenue measures the amount of revenue available to public institutions to support instruction (excluding medical students).

Nearly every State has shifted costs to students over the last 25 years—with the most drastic shifts occurring since the onset of the Great Recession. In 1988, average tuition costs were greater than per-student State expenditures in only two

[11] *Ibid.*

[12] Costs reported above include both published tuition and fees. Average tuition and fee prices are weighted by full-time enrollment.

[13] This paper uses CPI–U–RS inflation adjustments to measure real changes in costs. Over the past year the CPI–U–RS increased by 1.47 percent. We use the CPI–U–RS for the calendar year that begins the fiscal/academic year.

[14] CBPP calculation using the College Board's "Trends in College Pricing 2013," *http://trends.collegeboard.org/college-pricing. See appendix for fiscal year 2013–14 change in average tuition at public four-year colleges.*

[15] State Higher Education Executive Officers Association, "State Higher Education Finance: fiscal year 2013," 2014, p. 22, Figure 4, *http://www.sheeo.org/sites/default/files/publications/SHEF__FY13__04252014.pdf.*

States, New Hampshire and Vermont. By 2008, that number had grown to 10 States. Today, tuition revenue is greater than State and local government funding for higher education in half of the States, with seven—Colorado, Delaware, Michigan, New Hampshire, Pennsylvania, Rhode Island, and Vermont—requiring students and families to shoulder the lion's share of higher education costs by a ratio of at least 2 to 1.[16]

The Effects of Shifting Costs on Students, Families, and the Economy

The cost shift from States to students has happened over a period when absorbing additional expenses has been difficult for many families because their incomes have been stagnant or declining. In the 1970s and early to mid-1980s, tuition and incomes both grew modestly faster than inflation, but by the late 1980s, tuition began to rise much faster than incomes.

Rapidly rising tuition at a time of weak income growth has damaging consequences for families, students, and the national economy.

• **Tuition costs are deterring some students from enrolling in college.** While the recession encouraged many students to enroll in higher education, the large tuition increases of the past few years may have prevented further enrollment gains. Rapidly rising tuition makes it less likely that students will attend college. Research has consistently found that college price increases result in declining enrollment.[17] While many universities and the Federal Government provide financial aid to help students bear the cost, research suggests that a high sticker price can dissuade students from enrolling even if the net price, including aid, doesn't rise.

• **Tuition increases are likely deterring low-income students, in particular, from enrolling.** Research further suggests that college cost increases have the biggest impact on students from low-income families. For example, a 1995 study by Harvard University researcher Thomas Kane concluded that States that had the largest tuition increases during the 1980s and early 1990s "saw the greatest widening of the gaps in enrollment between high- and low-income youth."[18] These damaging effects may be exacerbated by the relative lack of knowledge among low-income families about the admissions and financial aid process. Low-income students tend to overestimate the true cost of higher education more than students from wealthier households, in part because they are less aware of financial aid for which they are eligible.[19]

These effects are particularly concerning because gaps in college enrollment between higher and lower income youth are *already* pronounced. In 2012 just over half of recent high school graduates from families in the bottom income quintile enrolled in some form of postsecondary education, as opposed to 82 percent of students from the highest income quintile.[20] Significant enrollment gaps based on income exist even among prospective students with similar academic records and test scores.[21] Rapidly rising costs at public colleges and universities may widen these gaps further.

• **Tuition increases may be pushing lower-income students toward less-selective institutions, reducing their future earnings.** Perhaps just as important as a student's decision to enroll in higher education is the choice of which college to attend. A 2013 study by the Brookings Institution revealed that a large proportion of high achieving, low-income students fail to apply to any selective colleges

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[16] State Higher Education Executive Officers Association, April 2015; government funding includes dollars from both State and local funding sources.

[17] See, for example, Steven W. Hemelt and Dave E. Marcotte, "The Impact of Tuition Increases on Enrollment at Public Colleges and Universities," *Educational Evaluation and Policy Analysis*, September 2011; Donald E. Heller, "Student Price Response in Higher Education: An Update to Leslie and Brinkman," *The Journal of Higher Education*, Volume 68, Number 6 (November–December 1997), pp. 624–59.

[18] Thomas J. Kane, "Rising Public College Tuition and College Entry: How Well Do Public Subsidies Promote Access to College?" National Bureau of Economic Research, 1995, *http://www.nber.org/papers/w5164.pdf?new_window=1*.

[19] Eric P. Bettinger, *et al.*, "The Role of Simplification and Information in College Decisions: Results from the H&R Block FAFSA Experiment," National Bureau of Economic Research, 2009, *http://www.nber.org/papers/w15361.pdf*.

[20] College Board, "Education Pays: 2013," *http://trends.collegeboard.org/sites/default/files/education-pays-2013-full-report–022714.pdf*.

[21] In a 2008 piece, Georgetown University scholar Anthony Carnavale pointed out that "among the most highly qualified students (the top testing 25 percent), the kids from the top socioeconomic group go to 4-year colleges at almost twice the rate of equally qualified kids from the bottom socioeconomic quartile." Anthony P. Carnavale, "A Real Analysis of Real Education," *Liberal Education*, Fall 2008, p. 57.

or universities.[22] Even here, research indicates financial constraints and concerns about cost push lower income students to narrow their list of potential schools and ultimately enroll in less-selective institutions.[23] In a different 2013 study, economists Eleanor Dillon and Jeffrey Smith found evidence that some high-achieving, low-income students are more likely to "undermatch" in their college choice in part due to financial constraints.[24]

Where a student decides to go to college has broad economic implications, especially for disadvantaged students and students of color. A 2011 study by Stanford University and Mathematica Policy Research found students who had parents with less education, as well as African American and Latino students, experienced higher postgraduate earnings by attending more elite colleges relative to similar students who attended less-selective universities.[25]

IV. FEDERAL FINANCIAL AID HELPS LOW-INCOME STUDENTS AFFORD HIGHER TUITION COSTS, BUT DEBT IS STILL GROWING

Federal financial aid has played a critical role in partially offsetting higher costs for students and families. Pell Grants are the signature form of Federal grant support, and help more than 8 million students afford college. Research shows that Pell Grants and other need-based aid help students attend and graduate from college. Students qualifying for Pell Grants are more likely than other students to face significant hurdles to completing college, such as single parenthood and lack of financial support from their own parents. Controlling for these risk factors, a Department of Education study found that Pell Grant recipients who graduate do so faster than other students.[26] Further, research on need-based grant aid more generally has shown that such aid increases college enrollment among low- and moderate-income students.[27]

As noted, college costs—even at 2-year and 4-year State institutions—have risen sharply. Congress increased the maximum value of Pell Grants and modestly increased eligibility between 2007 and 2010, though it later pared back some of these expansions. It also indexed the maximum Pell Grant to inflation from 2013 to 2017, though college costs have been increasing faster than inflation, a trend that is projected to continue. The increase in Pell Grants has partially offset reduced State support and the erosion of Pells' value as a share of total college costs over time. Still, Pell Grants now cover only about 30 percent of the cost of attendance at public 4-year colleges, the lowest share since 1974.[28]

While Federal financial aid has helped lessen the impact of tuition and fee increases on low-income students, the overall average cost of attending college has risen for these students. As a result, the net cost of attendance at 4-year public institutions for low-income students increased 12 percent from 2008 to 2012, after adjusting for inflation. For low-income students attending public community colleges, the increase over the same time period was 4 percent.[29]

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[22] Christopher Avery and Caroline M. Hoxby, "The Missing 'One Offs': The Hidden Supply of High-Achieving, Low-Income Students," National Bureau for Economic Research, Working Paper 18586, 2012, *http://www.brookings.edu//media/projects/bpea/spring-2013/2013a_hoxby.pdf*.

[23] Patrick T. Terenzini, Alberto F. Cabrera, and Elena M. Bernal, "Swimming Against the Tide," College Board, 2001, *http://www.collegeboard.com/research/pdf/rdreport200_3918.pdf*.

[24] Eleanor W. Dillon and Jeffrey A. Smith, "The Determinants of Mismatch Between Students and Colleges," National Bureau of Economic Research, August 2013, *http://www.nber.org/papers/w19286*. Additionally, other studies have found that undermatching is more likely to occur for students of color. In 2009 Bowen, Chingos, and McPherson found that undermatching was more prevalent for black students—especially black women—relative to comparable white students.

[25] Stacey Dale and Alan Krueger, "'Estimating the Return to College Selectivity Over the Career Using Administrative Earning Data," Mathematica Policy Research and Princeton University, February 2011, *http://www.mathematica-mpr.com/publications/PDFs/education/returntocollege.pdf*.

[26] Christina Chang Wei, Laura Horn, and Thomas Weko, "A Profile of Successful Pell Grant Recipients: Time to Bachelor's Degree and Early Graduate School Enrollment," National Center for Education Statistics, July 2009, *http://nces.ed.gov/pubs2009/2009156.pdf*.

[27] See Susan Dynarski and Judith Scott-Clayton, "Financial Aid Policy: Lessons from Research," The Future of Children, Spring 2013, *http://futureofchildren.org/futureofchildren/publications/docs/23_01_04.pdf*.

[28] Brandon DeBot, "House Budget Would Reduce College Access by Cutting Pell Grants," Center on Budget and Policy Priorities, March 25, 2015, *http://www.cbpp.org/blog/house-budget-would-reduce-college-access-by-cutting-pell-grants*.

[29] College Board, "Cumulative Debt of 2011–12 Bachelor's Degree Recipients by Dependency Status and Family Income," October 2014, *http://trends.collegeboard.org/college-pricing/figures-tables/net-prices-income-over-time-public-sector*.

Low-Income Students Still Face High Levels of Debt

Because grants rarely cover the full cost of college attendance, most students—and low-income students in particular—borrow money. In 2012, 79 percent of low-income students—from families in the bottom income quartile—graduating with a bachelor's degree had student loans (compared with 55 percent of graduating students from higher-income families).[30] Nearly 9 of 10 Pell Grant recipients who graduate from 4-year colleges have student loans, and their average debt is nearly $5,000 larger than their higher-income peers.[31]

Debt levels have risen since the start of the recession for college and university students collectively. By the fourth quarter of 2014, students held $1.16 trillion in student debt—eclipsing both car loans and credit card debt.[32] Further, the overall share of students graduating with debt has increased since the start of the recession. Between the 2007–08 and 2012–13 school years, the share of students graduating from a public 4-year institution with debt increased from 55 to 59 percent. At the same time, between the 2007–08 and 2012–13 school years, the average amount of debt incurred by the average bachelor's degree recipient with loans at a public 4-year institution grew from $22,000 to $25,600 (in 2013 dollars), an inflation-adjusted increase of $3,600, or roughly 16 percent. By contrast, the average level of debt incurred had risen only about 3.7 percent in the 8 years prior to the recession.[33] In short, at public 4-year institutions, a greater share of students are taking on larger amounts of debt.

V. CONCLUSION

States have cut higher education funding deeply since the start of the recession. These cuts were in part the result of a revenue collapse caused by the economic downturn, but they also resulted from misguided policy choices. State policymakers relied overwhelmingly on spending cuts to make up for lost revenues. They could have lessened the need for higher education funding cuts if they had used a more balanced mix of spending cuts and revenue increases to balance their budgets.

The impact of the funding cuts has been dramatic. Public colleges have both steeply increased tuition and pared back spending, often in ways that may compromise the quality of education and jeopardize student outcomes. Students are paying more through increased tuition and by taking on greater levels of debt.

Strengthening State investment in higher education will require State policymakers to make the right tax and budget choices over the coming years. A slow economic recovery and the need to reinvest in other services that also have been cut deeply mean that many States will need to raise revenue to rebuild their higher education systems. At the very least, States must avoid shortsighted tax cuts, which would make it much harder for them to invest in higher education, strengthen the skills of their workforce, and compete for—or even create—the jobs of the future.

At the Federal level, to enable low-income students to access and succeed in higher education, policymakers should ensure adequate support for the Pell Grant program and targeted refundable tax credits. My colleagues at the Center who specialize in Federal budget and tax policy have identified specific policy recommendations that Federal lawmakers could pursue to help students access higher education:

- **Protect and maintain the current assistance level of the Pell Grant program by continuing to index the maximum grant to inflation after 2017.** As the costs of college have increased over time, the value of the Pell Grant has fallen; the maximum grant now covers roughly 30 percent of the average cost of a 4-year public college, the lowest share in 40 years.[34] The maximum Pell Grant is currently

[30] College Board, "Trends in Student Aid, 2014: Median Debt Levels of 2007–08 Bachelor's Degree Recipients by Income Level," October 2014, Figure 2010_9, *http://trends.collegeboard.org/sites/default/files/2014-trends-student-aid-final-web.pdf.* Low-income dependent students are defined as students from families earning less than $30,000 annually, while high-income students come from families earning more than $106,000.

[31] The Institute for College Access and Success, "Pell Grants Help Keep College Affordable for Millions of Americans," March 13, 2015, *http://ticas.org/sites/default/files/pub_files/overall_pell_one-pager.pdf.*

[32] Federal Reserve Bank of New York, "Quarterly Report on Household Debt and Credit," February 2015, *http://www.newyorkfed.org/householdcredit/2014-q4/data/pdf/HHDC_2014Q4.pdf.*

[33] College Board "Trends in Student Aid," Figure 13A, 3http://trends.collegeboard.org/student-aid/figures-tables/average-cumulative-debt-bachelors-recipients-public-four-year-time.

[34] Brandon DeBot, "House Budget Would Reduce College Access by Cutting Pell Grants," Center on Budget and Policy Priorities, March 25, 2015, *http://www.cbpp.org/blog/house-budget-would-reduce-college-access-by-cutting-pell-grants*.

indexed to inflation through 2017, after which the grant's value will erode further as it is frozen and loses some of its real value each year.

• **Reach a bipartisan agreement that undoes and replaces sequestration to relieve the pressure on non-defense discretionary funding.** Under current law, this funding will continue to fall as a share of the economy, which will put further pressure on the discretionary portion of Pell Grant funding, as well as other student aid and education programs. While discretionary spending was not responsible for our long-term deficit/debt problems, the share of spending (as a percent of our economy) on non-defense discretionary programs is headed to the lowest levels ever since 1962 as a result of the 2011 Budget Control Act and other appropriations cuts.[35]

• **Make permanent the American Opportunity Tax Credit (AOTC) and key provisions of the Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) that are set to expire at the end of 2017.** The AOTC, which is refundable up to $1,000, reaches millions of low-income students who did not benefit from its predecessor, the Hope Credit (which is not refundable and to which the AOTC will revert if no action is taken). In addition, research suggests that income from the working family tax credits (EITC and CTC) may boost college enrollment and completion, both because of the skill gains made from better K–12 educational attainment, and by making college more affordable in the spring before enrollment (through increased tax refunds).[36]

A large and growing share of future jobs will require college-educated workers. Sufficient funding for higher education to keep tuition affordable and quality high at public colleges and universities, and to provide financial aid to those students who need it most, would help the Nation develop the skilled and diverse workforce that is critical to our economic future.

The CHAIRMAN. Thank you, Mr. Mitchell.

Mr. Kennedy.

STATEMENT OF JAMES KENNEDY, ASSOCIATE VICE PRESIDENT FOR UNIVERSITY STUDENT SERVICES AND SYSTEMS, INDIANA UNIVERSITY, BLOOMINGTON, IN

Mr. KENNEDY. Chairman Alexander, Ranking Member Murray, and distinguished members of the committee, my name is James Kennedy. I'm the associate vice president of University Student Services and Systems at Indiana University. Thank you today for giving me the opportunity to discuss the initiatives underway at Indiana University that assist students to better manage student debt and cost of their college experience.

One of my primary responsibilities is working with all seven Indiana University campuses on financial aid issues. Indiana University consists of 110,000 students, of which 84,000 receive some type of financial assistance. Providing programming and advising for students regarding financial aid and debt management continues to be a high priority and is included in the Bicentennial Strategic Plan for Indiana University.

I'm here to discuss our success with three major initiatives in lowering student loan debt. Through our comprehensive financial literacy program started a little more than 2 years ago, a detailed review of financial aid processes, and the university's commitment to student success and degree completion, we have helped Indiana University undergraduate students lower their borrowing substan-

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[35] David Reich "Sequestration and Its Impact on Non-Defense Appropriations," Center on Budget and Policy Priorities, February 19, 2015, *http://www.cbpp.org/research/sequestration-and-its-impact-on-non-defense-appropriations*.

[36] Chuck Marr, Chye-Ching Huang, Arloc Sherman, and Brandon DeBot, "EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds," Center on Budget and Policy Priorities, April 3, 2015, *http://www.cbpp.org/research/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens-development?fa=view&id=3793*.

tially, approaching 16 percent over 2 years with savings of approximately $44 million.

Indiana University's Office of Financial Literacy and its IU MoneySmarts financial education program were established to assist students in making informed financial decisions before, during, and after college. The goal is to provide students with information that will increase the likelihood of them making smart personal finance choices. Initiatives include one-on-one appointments, classroom-setting education, interactive online material, and events and workshops.

A 60-minute online financial training module was initiated in 2013 for all new students. This module includes information on student loans and financial basics such as savings, budgeting, and credit. In the 2 years since implementation, we have averaged an 80 percent completion rate.

Moneysmarts.iu.edu is our main source of financial information for students. Included in this tool are weekly financial sessions and episodes of our "How Not to Move Back in With Your Parents" pod cast. This pod cast is averaging over 3,000 play requests per month. In addition, a group of undergraduate students from various disciplines constitute an IU MoneySmarts Team that provides one-on-one peer mentoring financial sessions and/or group presentations to students.

Starting in the 2012–13 academic year, Indiana University started sending annual debt letters to all student borrowers. In our discussions with students, we discovered that many did not have knowledge of their overall student loan debt until graduation or when they started repayment.

While students completed the required Department of Education entrance and exit loan counseling requirements, there was no information actively provided to the students while they attended. The annual debt letter gives students information on all Federal loans as well as the private loans processed though Indiana University and includes cumulative debt, estimated monthly repayment, estimated interest rate, and remaining eligibility based on dependency status. Other important information is also provided to students. The annual debt letter has been well-received and has resulted in many student inquiries about managing student loan debt.

In the fall of 2015, Indiana University will start sending to all new transfer students a debt letter before they start classes to assist with financial planning. Our analysis has shown that transfer students who have accumulated excessive student loan debt from previous institutions will need additional counseling to be successful in completing their degree.

Financial aid process changes have also been implemented, including the cost of attendance methodology, how information is presented on financial aid award letters, earlier interventions with students not meeting satisfactory academic progress requirements, limited aid appeals, and continuing touch points to counsel students with debt issues and more targeted institutional aid to keep the net cost down.

Under the direction of Indiana University President Michael McRobbie, we have implemented several completion initiatives, which have the secondary benefit of decreasing the amount of money students will need. The “15 to Finish” campaign promotes taking 15 credits per semester to graduate in 4 years and minimize debt. Interactive degree maps are used to provide students a clear pathway to finish their baccalaureate degree in 4 years.

Early alert systems allow professors to identify students with academic issues and direct them to their advisors for assistance. The financial aid staff and campus advisors work closely together to counsel students on credit completion standards and the impact of withdrawal on State and Federal aid eligibility requirements. These partnerships allow for improved counseling to students and have been strongly promoted through our student loan debt initiatives.

Together, the goal of these three major initiatives is for students to have manageable levels of debt once they achieve their goal of a college degree.

Thank you for the opportunity to share our student loan debt initiatives at Indiana University.

[The prepared statement of Mr. Kennedy follows:]

Prepared Statement of James Kennedy

Chairman Alexander, Ranking Member Murray, and distinguished members of the committee, My name is James Kennedy and I am the associate vice president of University Student Services and Systems. Thank you for giving me the opportunity to discuss the initiatives underway at Indiana University that assist students to better manage student debt and costs through their college experience.

One of my primary responsibilities is working with all seven Indiana University campuses on financial aid issues. Indiana University consists of 110,000 students. Over 84,000 students receive some form of financial assistance. Bloomington is our flagship campus with over 46,000 students, Indiana University Purdue University Indianapolis (IUPUI) is the urban and medical school campus with over 30,000 students and the Indiana University regional campuses with an additional 34,000 students. Providing programming and advising for students regarding financial aid and debt management continues to be a high priority and is included in the Bicentennial Strategic Plan for Indiana University.

I'm here to discuss our success with three major initiatives in lowering student loan debt. Through our comprehensive financial literacy program started a little more than 2 years ago, a detailed review of financial aid processes, and the university's commitment to student success and degree completion, we have helped Indiana University undergraduate students lower their borrowing substantially—approaching 16 percent over 2 years with savings of approximately $44 million.*

OFFICE OF FINANCIAL LITERACY

Indiana University's Office of Financial Literacy and its IU MoneySmarts financial education program were established to assist students in making informed financial decisions before, during, and after college. The goal is to provide students with information that will increase the likelihood of them making smart personal finance choices relevant to their goals. Initiatives include one-on-one appointments, classroom-setting education, interactive online material, and events and workshops. The program also provides tools, resources, and tips from experts to assist students in learning positive financial decisionmaking.

A 60-minute online financial training module was initiated in 2013 for all new students. This module includes information on student loans and financial basics such as savings, budgeting and credit. In the 2 years since implementation we have averaged an 80 percent completion rate. *Moneysmarts.iu.edu* is our main source of financial information for students. Included in this tool are weekly financial lessons and episodes of our “How Not to Move Back in With Your Parents” pod cast. This pod cast is averaging over 3,000 play requests per month. In addition, a group of undergraduate students from various disciplines constitute an IU MoneySmarts

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*Retrieved from Federal Student Aid Data Center *https://studentaid.ed.gov/sa/about/data-center/student/title-iv*.

Team that provides one-on-one peer mentoring financial sessions and/or group presentations to students.

FINANCIAL AID BUSINESS PROCESSES

Starting in the 2012–13 academic year, Indiana University started sending annual student loan debt letters to all student borrowers (attached). In our discussions with students, we discovered that many did not have knowledge of their overall student loan debt until graduation or when they started repayment. While students completed the required Department of Education entrance and exit loan counseling requirements, there was no information actively provided to the students while they attended. The annual debt letter gives students information on all Federal loans and private loans processed though Indiana University including cumulative debt, estimated monthly repayment (based on 10-year repayment), estimated interest rate, remaining eligibility based on dependency status, and other important information to assist students with understanding their student loan debt. The annual debt letter has been well-received and has resulted in many student inquiries about managing student loan debt.

In fall 2015, Indiana University will start sending to all new transfer students a debt letter before they start classes to assist with their financial planning. Our analysis has shown that transfer students who have accumulated excessive student loan debt from previous institutions will need additional counseling to be successful in completing a degree.

Based on student feedback, Indiana University has made several revisions to the financial aid award letter provided to students. Before these changes, combining aid types caused confusion for students. Now the letters separate gift aid (grants and scholarships) from self-help (loans, work-study). Indiana University uses the Department of Education Shopping sheet for all students, and, with additional steps in the student loan processes, has created more awareness about student loans and provided more opportunities for the student to reduce loans and ask questions.

Other financial aid process changes include the cost of attendance methodology (including options for reducing the cost of books), earlier interventions with students not meeting Federal aid satisfactory academic progress requirements, limited aid appeals, continued review of touch points to counsel students with debt issues, and more targeted institutional aid to keep the net cost down.

STUDENT SUCCESS AND COMPLETION

Under the direction of Indiana University President Michael McRobbie, we have implemented several completion initiatives, which have the secondary benefit of decreasing the amount of money students will need. The "15 to Finish" campaign promotes taking 15 credits per semester to graduate in 4 years and minimize debt.[2] Interactive degree maps are used to provide students a clear pathway to finish their baccalaureate degree in 4 years. Early alert systems allow professors to identify students with academic issues and direct them to their advisors for assistance. The financial aid staff and campus advisors work closely together to counsel students on credit completion standards and the impact of withdrawal on State and Federal aid programs eligibility requirements. These partnerships allow for improved counseling to students and have been strongly promoted through our student loan debt initiatives.

The Finish in Four Program freezes tuition and fees for those students on track to graduate in 4 years after their sophomore year. Summer discounts and targeted financial aid have also been implemented to encourage graduation in 4 years. Indiana University had 20,000 students receive an Indiana University degree in May. This is a new record for the university.

For assistance after a student has left, Indiana University has partnered with an outside firm to counsel all student loan borrowers at the Indiana University regional campuses to ensure borrowers understand the various student loan repayment options. Students are also contacted when they become past due. Indiana University is committed to taking all steps to ensure students understand loan obligations and avoid default. While it's too early to measure the overall impact of contacting students once they are no longer attending, Indiana University has seen a significant decrease in the campus 2012 draft cohort default rates released in February 2015.

While we would like to see students not have the need for loans, financing a college degree through debt is the only option for many students. As noted by many studies, the value of college degree continues to grow. Counseling students to grad-

[2] Indiana 15 to Finish-*http://www.in.gov/che/3126.htm*.

uate with a manageable amount of student loan debt is the goal of Indiana University student loan debt initiatives.

NEXT STEPS TO REDUCE STUDENT LOAN DEBT

Looking forward, with 2 or 3 years' experience and data, Indiana University will continue to measure the overall impact on our student loan debt initiatives. We will continue to find other ways to educate students on financial literacy. Upcoming initiatives include targeted, proactive financial literacy interventions with students with excessive yearly/cumulative debt. For the Indianapolis and regional campuses, the university is considering moving to a banded tuition model as currently in place at the Bloomington campus. This would promote on-time graduation by having a flat fee for taking 15 credits versus a per credit charge. Payment plan options to assist families with more flexible monthly options to reduce their reliance on loans are being reviewed. Financial aid 4-year maps to assist families with aid planning is another concept under review.

CONCLUSION

Our goal at Indiana University is to address student loan debt through the Office of Financial Literacy, the financial aid office business processes, and the focus from the entire university on student success and degree completion. With strong support from Michael McRobbie, Indiana University president, on addressing student debt issues, our initiatives are having an impact. Together, our goal is for students to have manageable levels of student loan debt once they achieve their goal of a college degree.

Attachment: Example—Indiana University Student Loan Debt Letter

JOHN DOE,
222 INDIANA STREET,
Elkhart, IN 46517–9999.

DEAR JOHN: This is a personalized summary of your estimated current student loan indebtedness. This information is being provided to you *before* you take on additional debt for the upcoming academic year. We encourage you to make use of the academic and financial planning resources suggested here (see other side) to minimize future borrowing while you complete your degree at Indiana University.

Estimate of Your Total Education Loans: $12,000[1]

Interest Rates

Student loan interest rates vary based on when you borrowed and the loan type. Calculations in this letter are estimated at <<Int__*Rate*>>.

Estimated Monthly Payment—All Loans

Total Education Loans: $12,000
Standard Repayment Term: 10 years
Assumed Interest Rate: 6.8 percent

Monthly Payment: $138.10

Cumulative Payments: $16,571.38
Projected Interest Paid: $ 4,571.38

Federal Stafford Loans

The Federal Stafford Loan program provides the majority of funds for IU students. The total you have borrowed from this program, including both subsidized and unsubsidized loans, is $12,000.

The maximum you may borrow for your dependency status and degree objective is $31,000.

You have borrowed 39 percent of your current limit.

Other Education Loans

The estimated total of your education loans includes amounts below, based on Indiana University's records about your borrowing history:

Federal Perkins Loans: $0
Private Loans Certified at IU: $0

[1] See the "Important Information" section on the other side of this letter regarding all loan estimates.

Other Loans Certified at IU: $0
(May include Grad PLUS and Federal Health Profession Loans)

Academic & Financial Planning Resources

Loans offered for the upcoming academic year are not included in the figures provided in this letter. There is still time for you to reduce future debt by planning your expenses carefully and borrowing only what you really need. Meet with your advisor and set a plan to expedite completing your degree, if possible. We encourage you to make use of these resources to find ways to balance your budget: *MoneySmarts: http://moneysmarts.iu.edu/index.shtml*.

You are also invited to make an appointment or drop by the Financial Aid Office to review your loan debt figures, talk about future borrowing and discuss repayment options with a counselor.

The standard 10-year repayment plan for Federal Stafford Loans is one of many options. To find out about alternatives, visit this site: *https://studentaid.ed.gov/repay-loans/understand/plans*.

To calculate payments on loans of all types; or to estimate your monthly obligation for your cumulative debt under various repayment options, visit this web site: *http://studentaid.gov/repayment-estimator*.

Loan Terms Glossary—*https://studentloans.gov/myDirectLoan/glossary.action*.

Important Information About These Loan Estimates[2]

The most accurate information about your Federal student loans (excluding Title VII and VIII Health Profession Loans) is available in the National Student Loan Data System (NSLDS). *http://www.nslds.ed.gov/nslds_SA/*.

Log in using your personal information and the 4-digit PIN you used to sign your FAFSA.

Please read this important information about why loan totals in this letter may be incomplete or inaccurate.

- Students who have borrowed at multiple institutions, who have consolidated loans, had loan debt discharged or forgiven, or who have repaid a portion of their debt may find that these estimates are inaccurate.
- Grad PLUS Loans, Federal Health Profession Loans, State or institutional loans and private loans from other institutions are not included in these estimates.
- Federal Health Profession Loans, institutional loans and private loans certified at IU before the 2004–05 academic year are not included in these estimates.
- Interest that accrues while you are enrolled, which must be paid first or capitalized (added to your debt), has not been projected here and therefore has not been included in these estimates.
- The Federal Stafford and Perkins Loan figures in this letter are based on the most recent information sent to Indiana University by NSLDS and should include loans from any institution. However, if you recently received Stafford or Perkins loans at another institution, these may not have been included in the information provided by NSLDS.
- State Teaching scholarships and Federal TEACH grants, which may be converted to loans if scholarship terms and conditions are not met by the recipient, are not included in these estimates.
- Education loans your parent took out on your behalf, and parent loans you may have taken for your children, are not included in these estimates.
- Loans included in this letter may have been discharged or forgiven.

The CHAIRMAN. Thank you very much. We'll now begin a 5-minute round of questioning.

Dr. Scott-Clayton, you know what this is, right? I wanted to do that before Senator Bennet did it.

[Laughter.]

This is the Federal student loan application, 108 questions long, correct?

Ms. SCOTT-CLAYTON. That's the FAFSA.

The CHAIRMAN. Would it surprise you if I told you that the president of Southwest Community College in Memphis says that he

[2] **IMPORTANT: Figures provided in this notice are NOT a complete and official record of your student loan debt.**

thinks he loses 1,500 students a semester because of the complexity?

Ms. SCOTT-CLAYTON. That would not surprise me.

The CHAIRMAN. Are you familiar with the FAST Act that Senator Bennet and Senators Burr and Isakson and Senator Booker and Senator King have introduced?

Ms. SCOTT-CLAYTON. Yes, I am.

The CHAIRMAN. It has these provisions. It would reduce this 108 questions to two. It would tell families that they could fill it out in their junior year of high school. It would combine two Federal grant programs into one Pell grant program and reduce the number of loan programs. It would provide for year-round Pell grants, discourage over-borrowing, and simplify repayment options. Are you familiar with the proposed FAST Act?

Ms. SCOTT-CLAYTON. Yes, I am.

The CHAIRMAN. Do you think it would address the testimony that you gave that the complexity of the Federal aid system is a significant barrier to a large number of students? I might ask you also before you answer: Would you be surprised to learn that a college president in Tennessee took 9 months to help his daughter pay off her student loan because they kept finding there was no way to fully pay it off, even though there is a very generous procedure for paying off loans?

Ms. SCOTT-CLAYTON. That does not surprise me. At community colleges, in particular, people may be surprised that the rate of Pell grant receipt at community colleges is about the same as at private 4-year institutions. The reason for that is because of low application rates, low FAFSA application rates. There are likely many more students at community colleges who could qualify for more aid than they're getting if they could get through the application process.

I do think that the FAST Act would be a significant improvement, a meaningful improvement, and would potentially bring more students into college. We should not be looking at that—we get into trouble when people think that this is just about a form and making a form easier for people who are already going to go to college and already have a parent or a counselor who can help them fill out this really annoying form.

It's not just about the form. It's about being able to communicate to students early, not just in 11th grade, but in ninth grade, in eighth grade, that there is money available to help them go to college. This is not a trivial reform. This is something that could make a real difference, and it has an unusual degree of consensus from across party lines. I think it would be a very helpful policy.

The CHAIRMAN. Let me ask you and Dr. Akers this question. I've been intrigued by the fact that the average car loan in the United States is about the same as the average student loan for an undergraduate. It's about $27,000. The total amount of student loans is about $1.2 trillion, and the total amount of auto loans is about $950 billion.

Why do we not hear anything about auto loans being a great burden for Americans? Why do we not hear anything about auto loans causing individuals to not be able to pay their other responsibilities when it's demonstrably true that a $27,000 student loan is a better investment than a $27,000 car loan? Are we exaggerating the difficulty of student loans?

Dr. Akers, do you want to try that? I mean, I was thinking as you testified if I could substitute car loan for every time you mentioned student loan, you could have made some of the same testimony.

Dr. AKERS. Sure. There's a tremendous amount of anxiety around student debt right now. Some of that might be driven by the fact that we have, really, a new population of borrowers in the Federal student lending system than we had——

The CHAIRMAN. Why aren't they worried about borrowing $27,000 for a car?

Dr. AKERS. I can't tell you that, to be honest. I do know that there is a lot of concern——

The CHAIRMAN. It seems to cause nobody any problem. I mean, I've yet to see one report that says that's about to bring down the American economy. Yet there are all these reports about the student loan bubble, and the student loan bubble is about the size of the car loan bubble, the way I can figure it.

Ms. SCOTT-CLAYTON. Can I just add two things to that? One is that people have a lot more experience with car loans than they do with student loans. Student loans are something that you do once in a lifetime, and, as Beth said, many students aren't—their parents didn't have to go through that themselves, so they're not able to advise students the way they might be able to about a car loan.

Second, a lot of the anxiety comes from the fact that people know that college is absolutely essential, that it's absolutely necessary, and that's what creates this high level of anxiety, whereas with a car loan, frankly, you might be able to get away without one, or you can borrow your brother's or your friend's.

The CHAIRMAN. My time is up.

Senator Murray.

Senator MURRAY. Or you can sell it if you need to.

[Laughter.]

Dr. Alexander, we have heard from today's witnesses that it will take increased investments from States to accomplish the goal of making college more affordable, especially at our public institutions which serve about three-quarters of our students, actually. In Louisiana, State support per student is down 43 percent since the recession began, and now you're facing more cuts, I understand.

In your testimony, you mentioned the importance of leveraging Federal resources in order to encourage States to invest more in their colleges and universities. In your experience, have Federal incentives or leverage been effective in the past?

Mr. ALEXANDER. From my experience and what I've studied, it has been very effective. Go back to SSIG and State student aid programs that I mentioned in 1972. Within 4 years, the number of States that adopted those programs for the Federal match had doubled.

More recently, with the stimulus packages, what most people don't realize about the stimulus packages is that they did have a floor, and that floor was the 2006 funding level. Many States, nearly 20 States, cut their budgets to where that floor was and did not cross that threshold during the stimulus era.

When the packages left, States such as California and others where I was at the time immediately dropped their budgets to 1994 and 1995 funding levels, because there was no more Federal leverage. Federal leverage works, and it works in many ways.

The latest is the fact that Tennessee does offer free community college education. Seventy-five percent of those funds were provided by the Federal Government to offset tuition and fees that the students paid. The big piece of the Tennessee leverage issue is that Tennessee must keep their 25 percent leverage, their 25 percent State appropriations, in place for 2- and 4-year institutions in order to receive those funds.

I wish we had that plan working for us in Louisiana right now, because we're looking at an 82 percent budget reduction that basically knocks us down to the lowest level that we have had in funding since we started measuring it before 1961.

Senator MURRAY. Any thoughts on how we could mirror some of those successful efforts when we reauthorize the Higher Education Act?

Mr. ALEXANDER. I think that we have $170 billion at the Federal level going into revenues for higher education, and we need to utilize as much of that as possible. Even incentivizing $10 billion of that to encourage States to reinvest, to continue investing, to reward States that are not cutting their budgets, to reward States that put money into public higher education—that could be the most affordable tactic that we take at the Federal level, to reward States for remaining affordable, keeping students out of debt, and keeping their effort at higher levels before they get out of the higher education business.

Senator MURRAY. Mr. Mitchell, let me turn to you. Your research shows that even while the economy is beginning to recover, 47 States are spending less per student than they did before the recession. In Washington State, cuts like these have led to a nearly 60 percent increase in tuition at our public universities in just 6 years.

The University of Washington's State funding has been cut in half since the recession. Students attending the UW in the fall of 2007 owed a little more than $6,000 in tuition and fees, and today that has almost doubled, more than $12,000. By the way, that doesn't include rent or food or transportation or all those other costs that a student has to pay. To me, this is really unacceptable.

I wanted to ask you, from your perspective as a State budget analyst, what is keeping States from making these important investments?

Mr. MITCHELL. First and foremost, I don't think you can overstate just how dramatic the decline in revenue was right after the recession. States cumulatively saw budget shortfalls above $100 billion for multiple years, and so cuts were deep in higher education. Many States at that time when they were facing these shortfalls chose dramatic budget cuts over looking at a balanced approach of revenue—targeted responsible revenue increases matched with some kind of budget restrictions.

As you said, revenues are starting to come back to pre-recession levels. However, when we look across the States, it's only at about 2 percent above revenues prior to the recession. In many States, it's still very difficult for them to put these resources back into higher education, especially across a larger population of students.

I did want to make one other point regarding the chairman's earlier question on why we care about debt. For low-income students and for students of color, we're seeing these students take on higher levels of debt, but not necessarily completing college. The question of is it a good investment—sure, if you complete the investment.

For students who are dropping out who do not necessarily have the diploma but do have the debt—because some of the $1.2 trillion in debt is held by those students as well. We need to keep that in mind.

Senator MURRAY. Is the debt that is growing for them part of the deterrent of why they don't finish college?

Mr. MITCHELL. Oh, there's absolutely concerns for students who are looking at college and questioning whether or not it is an investment, even though, as other panelists here have said, it absolutely is. However, because they do not have the information on the front end to make that decision, it becomes much more muddy for them.

Senator MURRAY. Thank you. My time is up.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Murray.

Senator Collins

STATEMENT OF SENATOR COLLINS

Senator COLLINS. Thank you very much, Mr. Chairman.

Prior to my election to the Senate, I worked at a college in Maine, Husson University, and at that time, some 85 percent of the students there were first-generation college students, and virtually all of that group received some sort of Federal financial aid. It was there that I learned that there was often a lot of pressure on the students to drop out of school, get a job, buy that car, because of the cost that they were bearing despite the financial aid that they were receiving.

That's the group that I am most concerned about. We know and we heard from Dr. Akers today that individuals who complete their college career are going to have lifetime earnings that are far higher than those with just a high school degree. There are those in the middle who have gone to college for a couple of years, amassed debt, and then dropped out, who are really in the worst situation.

That's why I'd like to ask the panel your opinion of programs like the TRIO program, which helps to provide counseling support, not only to students who are thinking of going to college, but throughout their college careers. I've also seen programs at Eastern Maine Community College in Maine called College Success programs that work with this vulnerable group to encourage them to hang in there and helps them deal with whatever issues that they have so that they complete their college degree.

If we could go down the list—because if you think about it, that's the group that really is most vulnerable. They amass debt, and yet they don't get the benefit of the higher earnings that come from college completion.

Ms. SCOTT-CLAYTON. Your concern is absolutely on target, and one way that the Federal policy reform can help here is—so these guidance and support services that you're talking about are absolutely critical in the current system. What if we could simplify student aid so that it didn't have to be so complicated, so it didn't require this army of support services?

If we could take that off the table so that students could borrow without that worry, without having a fear that they're going to go into default, and if they could get all the aid that they're entitled to—what if we could re-devote all of those guidance and support services to helping students figure out what classes they should take, what program they should be in, what do they need to do academically to get their degree so that they get that payoff.

Dr. AKERS. I absolutely agree that we could be doing more to help students make better decisions on the front end, whether it be first-generation or not. Simplification is important in achieving that objective. I also think additional counseling could potentially have a positive impact there.

We do have evidence that students in their initial years of school have very little information about their personal financial circumstances, and given that, it's difficult to imagine that they're really making the correct decisions or the decisions that are in their own best interest.

Last, I'll say that, given all of that, we can improve front end decisionmaking. We will never get rid of the inevitability that some students will make bad investments, and so I want to emphasize the importance that we do need to maintain safety nets for borrowers who don't see a positive return on their investments.

Mr. ALEXANDER. TRIO programs do work, but they only impact 1 of 20 eligible students that need them. I'd like us to revisit an idea the Federal Government could certainly do, and it's in 1972. Currently, there are no incentives to educate and enroll low-income students, particularly for private rankings for cost. Low-income students cost more money, and there are no incentives to enroll more Pell grant students.

I'd like us to revisit what happened in 1972. When we passed the Pell grant program in 1972, Congress also passed the cost of education allowances, which allocated $2,500 to every institution following the Pell grant student to those institutions, much like a Title I school gets extra Federal support.

We authorized it in 1972. That would incentivize institutions to take the $2,500 per Pell and put them in the programs that help the low-income students stay and graduate. With no incentives in place right now, there is no—we'll see a continual decline of low-income student success.

This is one way that we can do—it's already been authorized. We've just never put any money into the cost of education allowances to encourage institutions to succeed with low-income students.

Mr. MITCHELL. From a State perspective, I would want to point out that as State cuts have taken shape, higher education—institutions of higher education have had to make choices about where they're going to pare back their own budgets in the instances where tuition revenue wasn't able to make up the difference. One of those areas that we've seen cuts occur is student support services, and some of those services go toward helping students, especially those students most at risk of dropping out—preventing that from happening.

There are absolutely, as you said, things at the Federal level, but also States need to be mindful of this as well.

Mr. KENNEDY. Senator Collins, I would just add that I believe we need to keep track of these students and keep—if they're not doing well academically or if they're having financial issues. The key is really keeping on track. Nobody wants to see a student leave after a couple of years, and that does, unfortunately, happen, especially when they have student loan debt.

Having manageable amounts of debt and the students feeling like they're in control, really helps. If it gets to be too much, and they feel they have to go work too much, or take away from their studies, that really hinders their ability to move forward.

Senator COLLINS. Thank you.

The CHAIRMAN. Thank you, Senator Collins.

Senator Franken.

STATEMENT OF SENATOR FRANKEN

Senator FRANKEN. Thank you, Mr. Chairman.

Dr. Alexander, I have a bill that I plan to introduce this year called the College Access Act that would address the college affordability problem at the front end before students take on debt. Under my bill, as a condition for receiving Federal funds, States would agree to implement reforms to make college more affordable and increase the percentage of first-generation and low-income students attaining a postsecondary credential.

My question to you is how would you design such a program to encourage States to best support college access and affordability to first-generation and low-income college students?

Mr. ALEXANDER. The best design in this program would be to match States that maintain certain levels of per-student spending and to incentivize them by giving them a higher amount of support through the program if, indeed, they are succeeding in enrolling Pell grant and low-income student populations. Ten years ago, we finally got institutions to start admitting how many Pell grant students were at their institutions and how many were succeeding.

I know at California State University and at Louisiana State University, we make this information available to parents, taxpayers, students, consumers just to show how many of our Pell grant students or low-income students are on our campus so we don't move back away from low-income serving populations. The danger in having what we have had with the U.S. News and World Report and many of the current measures that have been in place is that they encourage institutions not to enroll low-income students.

In fact, with State appropriation reductions, what we've also seen is an increased interest and an increased attractiveness of out-of-State students, such as Colorado, Oregon, and others, that supplant the in-State low-income populations of those various States, because they come in with more revenues, they come in with greater test scores, and at the expense of the low-income population of those States. We've seen in many instances a supplanting of low-income students with out-of-State students because of State appropriation reductions.

Any bill that addresses that issue, that encourages us to attract, retain, and graduate more low-income students must be consistent with keeping our States—their tax effort and per-student spending at a certain level in order to receive those funds.

Senator FRANKEN. Exactly, and thank you for that answer.

Mr. Kennedy, right now, financial aid award letters are confusing. They often don't clearly indicate what a grant is versus what a loan is. Sometimes they're called award letters, and I don't know how many people consider a loan an award.

I have a bipartisan bill with Senator Chuck Grassley that would make sure that students and their families and counselors get clear and uniform information so that they can make apples to apples comparisons between what the different schools that the students have been accepted to are offering. I'm pleased that Indiana University has changed its financial aid award letter to separate grants and scholarships from loans.

Can you elaborate on how the initiatives you've introduced at Indiana, such as uniform financial aid award letters and additional funding aid to counseling, have affected student borrowing?

Mr. KENNEDY. Yes, Senator Franken. You know, we had some focus groups with students—that's where most of it started—just to find out what the confusing parts were for students. Like you mentioned, that was very confusing to students, having all the awards or how you want to categorize—all the aid types together, and we really wanted to separate that so students would really understand that this is a student loan and they have to repay it versus a grant or a scholarship.

Our experience has been that any touch point that we have with students, whether it's the financial aid notification, it's counseling, it's some of our financial literacy initiatives, it's working with advisers—anything that we can do as a touch point to talk to students about aid, because one of our pieces with our student loan debt letter was we realized that students—and I guess we were pretty much horrified by the fact that when talking to students, they would say, "I have $10,000 in student loan debt" when it was actually $25,000.

They didn't really have a clue at all as to how much they had accumulated up to a certain point. For planning purposes, we really wanted to make sure that throughout their whole experience, they understand exactly how much money they have out in student loan debt and what the repayment is going to be so they can plan accordingly once they leave the institution.

To answer your question, anything we can do, any touch point with students to talk about student loan debt is very important.

Senator FRANKEN. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Franken.

Senator Cassidy.

STATEMENT OF SENATOR CASSIDY

Senator CASSIDY. I enjoyed all of your testimonies. Thank you. As you spoke, I had this sense of the Greek myth of Tantalus, because we have incredible pressure to increase financial aid to students. But the more we offer—and Senator Warren, has offered good legislation—I don't like your tax position. The more we offer, the more the States received.

If the goal is to make tuition affordable, and we try and raise aid, again, like Tantalus, it just receives because the States pull away. By the way, I read this—or I heard it from you, from you, from you, from you, from the GAO, and from this report that States cutting aid is the principal reason tuition has increased. There is quite a consensus on this.

Dr. Alexander, you mentioned something that I heard Lamar say when I was in Congress. You mentioned that Tennessee's Medicaid has gone from 8 percent of its budget to 30 percent of the budget, implying concomitantly that Tennessee's support for higher ed, except in the community college where there's essentially a maintenance of effort requirement, has declined. One has risen. One has declined. Dollars are fungible, and States are moving it to where there's a maintenance of effort.

With that preamble, I'm against States being mandated to do something. It appears unless States are mandated to do something, they're not going to do so.

Let me ask you again, seeing that we have a maintenance effort for secondary education, and we have a maintenance of effort for Medicaid, please explore with me this maintenance of effort. I don't think the States should be told what to do. On the other hand, except where we tell them what to do, they're going to shift dollars to where we tell them what to do. Does that make sense?

Mr. ALEXANDER. It certainly does, and Senator Alexander's question is right about the Medicaid growth in all this. The challenge is that this cost isn't going away, and as States back out of their responsibilities, the cost is falling on the backs of students, and it's falling on the backs of the Federal Government.

The Federal Government was not supposed to be putting in 2½ times what States do in support of revenues for higher education. That will be 3½ times. That will be 4½ times, because the $80 billion that States are putting into it will diminish and this will quickly grow for the Federal Government's burden, whether it's Pell grants, SEOG grants, subsidized loans.

This burden will be transferred to the Federal Government, and we will have a Federal system of higher education, no longer State systems, but we'll have a Federal system of higher education unless we stop States from getting out of the higher education business. I think you're exactly right. ESEA actually is a great example of what States will do with certain incentives.

In 1965, when we decided that Title I schools should be in existence and the Federal Government should put extra money into poor schools, the first thing that States did was start backing their money out. They backed their money out in numerous States, and that led to numerous court cases culminating with *Bennet* v. *The Department of Education* in Kentucky in 1985 that said States can't supplant their money with Federal money. Currently, we've got a supplanting situation in higher education.

Senator CASSIDY. Let me stop you. Paradoxically, the only way we maintain a State role is if we mandate a State role.

Mr. ALEXANDER. That actually has worked in so many different areas, because the States are getting out and will continue to get out of the higher education business. We have States who have turned down Medicaid funding matches but still cut higher education at the same time.

Senator CASSIDY. I also understand, which I did not appreciate before. Dr. Akers, I was struck by what you said. This is actually a bargain. Most people are able to pay off their student loans, as Chairman Alexander said, because the people with $100,000 loans are, frankly, making a lot of money, and they're able to pay it off over time because their income befitted.

On the other hand, Mr. Mitchell, you make the point that it's going to be the poor person, the person of color, that is actually going to disproportionately suffer as States withdraw their contribution and the cost of tuition rises. If you will, if we're concerned about income inequality, this issue of States backing out of tuition support actually contributes to income inequality. Is that what I got from you?

Mr. MITCHELL. The concern there is that those students, those low-income students and students of color, who either never make it onto a college campus or don't complete to graduation, won't see the investment returns that some students do, especially higher income students. That is a problem, not only for those students, but also just for our broader economy and for a country that's becoming more diverse.

There was one other point, though, on State budgets and kind of the pressures on State budgets. There are a number of areas we look at with State priorities and what States need to spend on. One of those other areas that we've looked at is correction spending. This is not a place where there is an interaction with the Federal Government, but yet increases in cost at the State level have been rising over the past few years.

State policymakers do have to make decisions about whether or not to increase revenue, cut spending in other areas to make investments in higher education possible. It's important to note that at the State level as well.

Senator CASSIDY. I'm out of time. Thank you very much. I yield back.

The CHAIRMAN. Thank you, Senator Cassidy.

We'll have a second round of questions because Senator Cassidy got into my favorite subject, which is what is the true cause of the loss of State support for higher education. I'm not going to abuse my chairman's position to take up time to do it until my turn comes.

Senator Bennet.

STATEMENT OF SENATOR BENNET

Senator BENNET. Thank you, Mr. Chairman. Thank you for holding this hearing, and I won't dwell on the FAFSA or even unroll my FAFSA but just say that I hope with your leadership we're going to be able to get this across the finish line. It would make a difference to millions of people in the country.

I want to say how much I appreciated Senator Cassidy's preamble, because I don't disagree with it. The important part of this is to think about the practical effect of how our Federal system has conspired against young people in this country over decades. It has resulted—the polite way of saying it, I guess, is the way Dr. Scott-Clayton has said. College attainment is increasingly becoming less equal—was your testimony.

Another way of saying it, is that our system of higher education—and I would say combined with our system of K–12 education—is conspiring to compound income inequality in this country rather than relieve income inequality in this country, and it is certainly true. The evidence is absolutely clear.

While we can speak in averages about the average experience that people have in this country, the way people in poverty intersect with our system of K–12 and higher education bears no resemblance to the way people that are more affluent intersect with the system. It's very important for people to understand that on this committee and in this Senate.

Forty years ago, if you were 22 years old, your Pell grant covered 67 percent of the average cost of college. Today, it covers 27 percent of the average cost of college. Interestingly enough, the average age in the U.S. Senate is 62 years old. When we were in college, we were content with a system that provided 67 percent of aid. Today, it covers only 27 percent. That doesn't seem fair to me.

I know the reasons why, but we have to figure out as a country, working with States and local governments, how we're actually going to provide a deal that's different than the one people are getting today and looks more like the one people had when we had a rising middle class in this country. Otherwise, we're not going to have a rising middle class in this country.

In 2012, if you were in the bottom quartile of income earners in the United States, the net average cost of the average college to you after student aid is accounted for, after Pell grant is accounted for, was, I think, 85 percent of your annual income. If you were in the top quartile, it cost you 15 percent of your annual income.

I don't know what that is except a recipe for cementing income inequality in this country rather than relieving it. I wish that the—I'm sorry to go on so long, but I wonder if the panel—and I'll start with you, Dr. Scott-Clayton—can give us your best idea for how we can deal with this. Dr. Alexander has spoken to it a little bit, but why don't we just go down the list?

Or tell me that I'm wrong. Give me the evidence that actually our system of K–12 education and our system of higher education and the billions of dollars that we are spending on those are actually diminishing income inequality in the United States of America. If you've got that evidence, I'd love to see it.

Ms. SCOTT-CLAYTON. One thing I do want to say is that part of the anxiety that we're feeling, as you mentioned, is looking back on a prior era when it wasn't this hard. One of the reasons why it wasn't so hard in a prior era is because not as many people were going to college. I do think we need to be a little bit careful. If we look internationally at the places where college is free, they achieve that by restricting access.

Senator BENNET. That's a very fair point. I'd say in response that we are in a global economy today that is requiring that if you want to live in a middle class family, you need some attainment north of a high school education. It only means it's more challenging for us, because we have to do it.

The second thing I would say to that is from the perspective of the student, the individual, that's pretty cold comfort.

Ms. SCOTT-CLAYTON. Absolutely. What it means is that the role of financial aid is more important than ever.

Senator BENNET. Because while the purchasing power in this country for things like television sets and bicycles and other things has grown dramatically, the percent of your income that you're going to have to spend just to hang on in college is dramatically different than it was 30 years ago. Sorry to interrupt. I'll stop.

Ms. SCOTT-CLAYTON. I completely agree with you. Goal No. 1 should be to make sure that every dollar that is invested has a maximum impact, and then let's continue this conversation and not lead down the road of State disinvestment and Federal disinvestment in student support.

Dr. AKERS. One thing that's captured in your remarks is the fact that price has increased dramatically. Federal support for higher education hasn't kept pace with that, obviously. That's in regard to your comments about the Pell grants.

What this means is that in order to invest in higher education, students have to become more levered than they were historically, so essentially putting all of their eggs in one basket when that wasn't the case before. That just reflects a fundamental change in the market for higher education.

What I would add to that is what that really emphasizes is a critical need for safety nets, because, as I said before, there are investments that will not pay off despite the fact that they pay off on average. Those are going to be a part of the Federal loan system that's growing in importance over the coming years.

Mr. ALEXANDER. The richest institutions in this country, the ones that are most capable of serving larger low-income populations, have the smallest number of low-income students. We need to re-incentivize this and reward the institutions who are the most affordable and the ones that are keeping students out of debt and who are serving low-income populations and serving them well. That's where the funding should go. We should examine whether we should be giving money to industrial park universities that are leaving 50 percent of all their graduates in defaults.

Mr. MITCHELL. You raise a wonderful point around the Pell, and I wanted to say at the Federal level, one thing that could happen is just making sure that we protect and maintain the purchasing power of the Pell.

Currently, the maximum grant is indexed to inflation. However, after 2017, that will no longer be the case, and that maximum grant will be frozen, which will only accelerate kind of the decline in the ability of Pell to help low-income students afford higher education. That's another point to keep in mind.

Mr. KENNEDY. I'd say we have to continue our commitment to low-income students. We're very fortunate in Indiana to have a very good State aid program, and we also use a lot of our institutional aid because we want to have those low-income students be successful at our institution. We have to continue with that.

Senator BENNET. Thank you, Mr. Chairman. I apologize for going over.

The CHAIRMAN. Thank you, Senator Bennet.

Senator Murkowski.

STATEMENT OF SENATOR MURKOWSKI

Senator MURKOWSKI. Thank you, Mr. Chairman.

Thank you to each of you. We have a very interesting panel here this morning.

I appreciate very much the comments by my colleague from Louisiana in talking about this supplanting of the State's dollars for Federal and the direction that we really take in that regard. In looking at some of the numbers, Alaska is out there as being one that's still in the winning category.

Not so much right now. The price of oil is down. We're looking at a $2 billion hole in our State's budget. The pressure then on the State and where dollars are going for education is, again, a consideration and a factor for us.

We are seeing, again, the same situation that you've seen with so many other States, where you're seeing State support for the University of Alaska system going down. The costs are going up for faculty, for maintenance, and so, as a consequence, our tuition costs also are rising.

This is a concern that I have, and I'm trying to understand—Dr. Alexander, you have mentioned several times now that we need to be utilizing the Federal leverage that we have. You mentioned, $170 billion to reward States.

Again, how we as policymakers here with a tough budget situation as well—you know, you've got the States that are saying, "We can't piece it together." They're looking to the feds to help do that. Do we really have $170 billion that we can provide for incentives to the States?

I understand what you're saying in terms of there must be a way to reward the States. Again, short of the actual appropriation dollars that we're looking at, what more do we need to be doing to leverage the Federal side?

Mr. ALEXANDER. The $170 billion is the aggregate. You need about $10 billion to incentivize States. The argument is we keep coming here over and over again to increase a Pell grant at a ratio that is much less than what our public universities are having to increase.

We're completely negating any increase in student aid each and every year, if we don't close the back door, the back door being States, and if we don't incentivize States to prioritize higher education, like we have highways, like we have Medicaid, like we've done other things.

I do think that we need to put a priority on the next generation of students, and that priority is that we need to rethink how we're using the $170 billion, because, as Senator Bennet pointed out, as

Chancellor Charlie Reed once said, if you're poor and you're smart, you have about a 10 percent chance still to graduate from college. If you're rich and you're stupid, you have a 90 percent chance—that's a quote that we gave here about 5 years ago—even despite the $170 billion that we're putting into this to change that around.

I'm hoping that we use those resources more effectively, encouraging States to remain affordable, encouraging States to——

Senator MURKOWSKI. How do you do that more effectively, then?

Mr. ALEXANDER. You put matching funds on the table for States that put money into higher education or at least, at this time, maintain the current funding levels in per-student funding for higher education. Those matching funds were utilized, certainly, in stimulus packages throughout the United States and could be utilized, and it could get our legislators to be more serious about not cutting higher education at a time when higher education is probably the easiest cut to make in every State in the country. We sit out there with no dedications, and that's one reason why we're declining at such a rapid pace.

Senator MURKOWSKI. We've had good discussion about just this issue a lot this morning. I don't want to belabor it more. Again, looking to those ways that we can encourage the States to make that commitment, is going to be huge.

Senator Collins mentioned a point, too, that as the States are making these decisions on where they find their cuts, the cuts so often come in the student services, the counseling, those services for those who most need that help in understanding what their debt burden is. Those are gone, and then the students are left hanging.

Mr. Kennedy, I appreciate the student loan debt letter that you have attached as part of your testimony. I looked through it. It looks readable. Hopefully, it's just on 1 page, two-sided, so that it's there for the student. It's transparent in terms of what it is that the student is then obligated for.

I don't know whether Indiana is on the cutting edge in terms of making something readable and understandable and other universities are following suit. I'm going to make sure that the University of Alaska system looks at it, because it's helpful for us. The more that we can do that, the more it's going to help as our students are trying to understand what they're facing and the burdens when we see these cuts and these reductions.

My time has expired, Mr. Chairman. Thank you.

The CHAIRMAN. Thank you, Senator Murkowski.

Senator Warren.

STATEMENT OF SENATOR WARREN

Senator WARREN. Thank you, Mr. Chairman.

We need to reduce the cost of going to college, but we can't do it until we get the facts straight on what is driving the cost of college and how student loan debt is affecting our families.

Dr. Akers, you've written several analyses of the impact of student loan debt, and you gave some summary of that here today. You used data from the Survey of Consumer Finances, which is conducted by the Federal Reserve Board. I noticed that your conclusion based on these data contradicts the Federal Reserve's analysis of its own data.

For example, you say that typical borrowers are, "no worse off now than they were a generation ago," while Federal Reserve Chair Janet Yellen seems to think that many borrowers are worse off. Chair Yellen analyzed Federal data about families in the lower half of the income spectrum, and data show that in less than two decades, outstanding student loan debt jumped from 26 percent of average income up to 58 percent of average income. That's more than double.

Do you dispute the Fed's analysis of their own data?

Dr. AKERS. Absolutely not. There's room here for both of us to be contributing valid points——

Senator WARREN. Let's start. You think the Federal Reserve got this part right?

Dr. AKERS. Sure, sure. I think they're right. There's truth in both of the claims.

Senator WARREN. Let me ask about that. This is a huge increase in the debt to income ratio, and yet you say in your published work that you believe borrowers are no worse off than their counterparts were 20 years ago, and I'm trying to understand that.

Dr. AKERS. Sure. The basis for that statement perhaps is what I can offer here. First of all, when we look at the long-run affordability of these student loan debts, we lean on the information that we have that the returns to college education are positive, on average. In a long-run sense——

Senator WARREN. So wait. The question is not whether or not it's still good to go get a college education. I think everyone in the room signs on to that proposition. The question is whether or not people who are trying to do it now are in a much tougher spot than people who were trying to do it a generation ago. You describe it as no worse off.

Yet, based on your numbers, borrowers' annual income over this time period has gone up by 17 percent. Their debt load is up by 150 percent. They have a little more money and a lot more debt over the last generation. How can you say they're not worse off?

Dr. AKERS. It's important to remember that when we're comparing income to debt accumulation, we need to be thinking about lifelong income and not just annual income.

Senator WARREN. That is what we're talking about.

Dr. AKERS. We don't need annual income to keep pace on a dollar-for-dollar basis with the amount of debt that's increased or the increase in price, essentially, in order to do the cost-benefit analysis for college, in general.

Senator WARREN. I'm sorry. We're back to the original point. The question is not does it make sense financially by the time you're 65 to have gotten a college diploma. It certainly does.

I'm looking at your published statement that today's generation is no worse off than 20 years ago. Yet all I can see is that income has gone up 17 percent. Debt has gone up 150 percent. It seems to me that means that people today are a whole lot worse off, on average, if they have to borrow money to go to school.

Dr. AKERS. I'll offer an additional statement to support that claim, and that's based on the transitive burden that student loan debt is imposing on these households. What we look at is what is the ratio of monthly payments to monthly income for these young households who are carrying student loan debt, and we see, surprisingly, that it has remained flat or even declined over the past 20 years.

Senator WARREN. In fact, I looked at that part of your research, and what that part of your research says is that families today are stretching it out—a much bigger debt burden, but they're stretching it out over decades longer than they used to. You say they are no worse off, even though they will be paying more interest, and they will be paying for a much longer period of time. They're no worse off because they can pay more, they can pay longer, they can pay when they should be working on helping their own children get an education, and when they should be saving money for retirement.

You know, a lot of people would think that being able to pay off your debt in 10 years versus being able to pay it off in 20 years or 30 years, you're worse off if you have to make those same payments over a much longer period of time.

Dr. AKERS. Yes, absolutely. That piece of evidence alone doesn't tell us anything about what's happening to the long-run well-being of these borrowers and how it's changed over time. There are two aspects of affordability. First is the long-run affordability. The best evidence we have on long-run affordability comes from our estimates of the financial return on the investment and then the transitive burden or the month-to-month affordability.

Senator WARREN. As I said, what we're trying to get is the intergenerational, because what I'm focused on is the question of whether or not kids are doing worse today. It just seems to me, based on your research and on the Fed's research, both of which show a substantial increase in debt loads, that it is a serious problem.

I don't think it's responsible to sit here and claim that borrowers are, "no worse off" while people are still struggling to make much higher student loan payments than ever before and carrying their debt for much longer than ever before. It seems clear to me that the Federal Reserve, the Consumer Financial Protection Bureau, the Treasury Department, and other experts who have been sounding the alarm on student debt got it right.

Rising student loan debt is hurting our families and it's hurting our economy. We need to make changes. We need to make them now. That means taking an objective look at our student loan program instead of trying to sweep this problem under the rug.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Warren.

Senator Isakson.

STATEMENT OF SENATOR ISAKSON

Senator ISAKSON. Thank you, Mr. Chairman. You know, I was thinking when I listened to Senator Bennet—I went to the University of Georgia in 1962, which was back when the earth was cooling a long time ago, and I know things aren't necessarily relevant, but we're all sitting here on a ham sandwich starving to death.

When I went to the University of Georgia in 1962, they admitted every applicant who was a graduate of a Georgia high school. Dean William Tate, who was the dean of students, would get you in the Fine Arts Auditorium on the first day—2,000 freshmen—and he would say, "Look to your left and look to your right, and one of you won't be here next quarter." They managed the cost of the university through attrition of academic achievement, but they took everybody who applied.

Today at the University of Georgia, they have 7½ applicants for every one person they accept, No. 1. No. 2, the graduation rate is probably not 100 percent, but it's certainly in the 1990s. Every one of those students enters the University of Georgia on some type of a scholarship because of the Hope Scholarship Program.

We have a lot to be thankful for in terms of what our education has done over the last 53 years. I remember my dad calling me in the living room when I graduated from high school, and he said,

> "Son, I'm going to make you two promises for higher ed. One is if you go to the University of Georgia, I'll pay for the cost of your education as long as you don't go 1 day longer than 4 years."

I went to the University of Georgia, and I went to summer school for three summers to make sure it was 4 years when I got out. Necessity is the mother of invention, and therein lies part of our problem.

We need to start educating students on what it's going to take them to pay the debt that they owe and give them enough relevant information early in the decisionmaking process so they borrow on a more reasonable basis, No. 1; and, No. 2, recognize our university system cost is in large measure because of the competitive nature of our university system.

Everybody is trying to have the best student personal fitness program, the best football team, the best library, the best everything else. We've got a lot of bricks and mortar costs and everything, and it's going to continue to go up.

The point I want to make is that you can't compare apples and oranges. You've got to compare apples and apples, and we're lucky to be where we are. We're at a break point. We're at a point where we may kind of invert because of the rising cost of higher education and because of the rising debt of students.

What you're doing at the University of Indiana system is really remarkable. I agree with Lisa in terms of what she said about the letter, but, more often, recognizing early that tracking students, making students aware of the cost of borrowing, and helping them and counseling them in borrowing makes all the difference in the world, and I commend you for doing that. We ought to be doing that at every institution in higher learning.

Second, there are lots of examples where students who have fallen through the cracks—minority students, poor students, people like that—are now being helped by universities—two in Georgia, for example. Georgia State University has developed a program called Panther Grants, where they track 24,000 students at Georgia State University, and if they see one falling through the cracks because of finances, they call them in. More often than not, a small amount of money at a critical time in their education can keep them in school versus dropping out to work.

Georgia State's average Panther Grant is $300, yet they've saved countless students from dropping out of school and going to work. Georgia Tech has a program now called the Wayne Clough Full Scholarship Program, where if you're academically qualified and economically not able to pay for tuition, you go to the Georgia Institute of Technology on a full boat as long as you do $2,500 in student work during the course of the year. That's the Wayne Clough Scholarship Program.

We have universities in Georgia that are creating ways to bring those students who might fall through the cracks or the shrinking middle class back into our university system. I know I'm supposed to ask a question and I'm not doing it.

[Laughter.]

The point I want to make is we've got a lot to be thankful for about where we are. I don't know how much the State of Georgia spends on the University of Georgia, but probably 75 percent of its revenues in 1962 when I went there. I think it's 23.5 percent. I don't know what Louisiana State is.

Mr. KENNEDY. Thirteen.

Senator ISAKSON. Thirteen? What is Indiana?

Mr. KENNEDY. A little bit higher than that. I think about 18 percent.

Senator ISAKSON. Most universities in the country are 25 percent or less—State universities. That's down from 75 percent or more 50 years ago. Look at what we have as a product.

The important lesson on the cost of higher education is that the university systems of the United States of America have an obligation to the potential students of those universities to give them the best debt education they can, the best timely information they can, and the best creative opportunities they can to continue to go to those universities, and recognize every brick and mortar that you put on that campus contributes to the higher cost of the university that you're running. Every now and then, when we look for alternatives to bricks and mortar, we're probably going to be a lot better off in terms of managing our cost.

You're welcome to comment on that if you want to. I just had to get that out. That's my story and I'm sticking to it.

The CHAIRMAN. Thank you, Senator Isakson.

Senator Casey is not here. Senator Whitehouse.

STATEMENT OF SENATOR WHITEHOUSE

Senator WHITEHOUSE. Thank you, Mr. Chairman. It seems fairly recently that we had the news that student loan debt in the country broke through a trillion dollars, and now it appears to be at $1.3 trillion. It's accelerating at an astounding rate.

Behind those big numbers are stories like my constituent, Ashley Kenihan from Riverside, who is a nurse at Miriam Hospital, one of our great hospitals. She loves her work. She's proud of what she does. She may be an expert nurse, but she wasn't an expert financier, and she's now carrying six different student loans, some of which have very high interest rates. She's estimating her payoff is over $200,000.

She's looking around for fairly simple measures, like is there a way to consolidate all those loans at a lower rate. Given that we're loaning the big banks money at virtually zero percent, why not help students like Ashley or, I should say, nurses like Ashley, because she's through her student years.

All of us are sympathetic to that problem, and we all want to help. We also want to make sure that it's really helping.

This business of flooding more student aid into the higher education system—if you're not backstopping to make sure that—you're actually really funding the State general assembly by allowing them to offset every additional dollar you get with State cuts and also taking the incentive out from the universities to meet any kind of basic cost or, at least, cost reporting standards, what—are there any good examples out there at the State level perhaps or even at the individual university level where somebody has addressed the danger of that kind of gamesmanship in the system and tried to hold both the university and the State alternative funding source accountable?

Do we have good models to work off, or are we in terra incognita here?

Mr. ALEXANDER. We have very good viable models. The key, is protecting those models and protecting the institutions that have done exactly what you said. Only 30-plus percent of the students that get out of Louisiana State University graduate with any debt whatsoever. The national average is almost 75 percent.

We need support to stay where we are. We need support to ensure that the States help keep us where we are. If this continuation of a shift from the State to the Federal student aid program moves forward as it's been going, and this trend continues, where States get out of higher ed and the Federal Government picks up through the programs, students will be in much, much greater debt each and every year as we go forward.

There are many institutions that could be supported through State support but also through Federal recognition of the institutions nationwide who are affordable, who are keeping students out of debt.

Senator WHITEHOUSE. Maintenance of effort is a doctrine that has a long history, often of rather squirrelly definition. Are there examples of how you can hold, for instance, a state's feet to the fire on this with terms that are more definite and more measurable and less amenable to gamesmanship than just the old maintenance of effort game?

Mr. ALEXANDER. I can say with regard to the stimulus package for higher education, it was the most important part of that stimulus package, because you had many States that even cut their budgets within half a percent of the line that they couldn't cross. And once that line was removed, those States cut their budgets back to 1994 and 1995 levels. They had nothing to maintain them at 2006 levels. In addition to that, I'll use ESEA and Title I schools.

Senator WHITEHOUSE. Is that because this is something as simple and measurable as a State appropriation, and so maintenance of effort doesn't get fogged into——

Mr. ALEXANDER. You cannot cut below a certain level if you accept Federal funds. This also applies to ESEA and Title I schools.

Senator WHITEHOUSE. Then what's the universities' commitment not to just take that extra funding both from the Federal Government and the State and give everybody a new uniform and everybody a——

Mr. ALEXANDER. I can speak on behalf of the public universities. The public universities' commitment is, we don't want to go up in tuition. We don't want to go up $900. If we get enough State support or maintain State support, we don't have to increase our cost. Therefore, our students do not have to incur greater debt upon graduation, and/or students will get into debt at graduation.

Senator WHITEHOUSE. My time has expired, Mr. Chairman. I just want to let you know that I appreciate the process that you and the Ranking Member have embarked on on the Higher Education Act. I thought we had a really great outcome on the Elementary and Secondary Education Act, and I appreciate how well the committee is working together on this set of problems.

The CHAIRMAN. Thank you, Senator Whitehouse. We all have enjoyed the quality of the witnesses and the opportunity to work together on such important issues. Thank you for your comment.

Senator Scott.

STATEMENT OF SENATOR SCOTT

Senator SCOTT. Thank you, Mr. Chairman, and thank you for holding such an important hearing on such an important issue.

Dr. Akers, I appreciate you putting the point on the core of the problem and talking through the cost and challenges that so many students face in obtaining what is a very important component to success in America, which is, of course, more education.

As I talked throughout the State of South Carolina with many of the presidents at colleges in South Carolina, I ran across a Dr. Miller, who is the president at Greenville Tech. He talked about the important role that technical schools can play in reducing the overall burden and cost of education for students. One point that he made was that if you compare Greenville Tech to other 4-year institutions, the cost savings per semester is around $4,500 per semester.

He also mentioned the fact that many schools, at least in South Carolina and other States, are moving to a model where you can allow—you have transfer agreements so you lose no credits whatsoever. Could you talk a little bit about—if you agree, can you talk a little bit about the opportunities of reducing the cost of college by using technical schools? In Senator Alexander's State of Tennessee, they're moving toward making technical schools virtually—or 2-year schools—free.

The CHAIRMAN. Yes. That's been done.

Senator SCOTT. If that is a fact, can you talk about, (a) many students want to go to the college of their choice and spend 4 years there, and (b) perhaps you can save 30 percent to 40 percent of the cost of education by going to a 2-year school and then transferring with those credits going forward to that alma mater of your choice?

Dr. AKERS. Sure. Thank you. Some of the sentiment that you're capturing in your remarks is we've placed a lot of emphasis on this dream of going to college, living on the campus, having this experience, which is, in fact, a great experience and a valuable experience. It has pushed consumers away from thinking critically about the cost that they're paying for college on the front end and really being critical consumers and demanding that their institution is providing a service to them that meets the dollars that they're contributing.

The use of community colleges or alternative non-bachelor granting institutions as a stepping stone to higher education is a reasonable approach that is probably under-utilized.

Senator SCOTT. Has anyone quantified the actual savings?

Dr. AKERS. I'm not familiar with work in that area, but it might exist.

Senator SCOTT. I spoke as well with some of our 4-year institutions—and this question and go to whoever wants to answer it. Dr. Pastides at the University of South Carolina and I talked yesterday about making Pell grants available during the summertime again.

He talked about the opportunity cost that is lost in the fifth and the sixth year of education. If I have the figures right, the opportunity cost for the extra time in school for those 2 years—the fifth and the sixth year—is about $77,738.

It seems like if you're spending more time in school, you're actually, (a) accumulating more debt because, typically, your 4 years are done with your financial aid and (b) you're missing the opportunity of working and paying taxes, which is an opportunity cost as well. If someone wants to comment on—Mr. Kennedy—on the opportunity cost as well as the savings if we were to make Pell grants available during the summertime.

Mr. KENNEDY. Thank you, Senator Scott. We really liked having the year-round Pell, because we could use it for our students who were not completing the 30 credits. We've been really focused on the 15 credits per semester so somebody will graduate in 4 years.

Senator SCOTT. Yes.

Mr. KENNEDY. We use the summer as kind of the make-up time. If somebody is not on track to graduate, they can use the summer. What we found is that the funding for summer is pretty limited. Most students have already used their Federal eligibility. There's a little bit of State eligibility. We feel that putting that back in place would be very helpful to keep students moving through and graduating in 4 years.

Senator SCOTT. One quick thought, Mr. Kennedy, while we're on that topic. Dr. Pastides mentioned the fact that many of the interns in accounting and other areas are going to focus during a semester. If you're a CPA or if you're an accounting major, the chances of you getting an internship January to April is far better than June to August. If you want to give that student the opportunity to get real skills at work, perhaps the summertime Pell actually allows that to happen more often than not, as well.

Mr. KENNEDY. Very much.

Senator SCOTT. My time is up. Did you have a—Dr. Scott-Clayton?

Ms. SCOTT-CLAYTON. Yes. I was just going to jump in with a couple of points there. First, in terms of the student loan debt and the tradeoffs between a 4-year versus a 2-year technical degree, when we hear about the $30,000 typical debt, that's referring to bachelor's degree graduates who borrow.

If we look instead at 2-year institutions, the rates of borrowing overall are far, far lower, and the amounts that students borrow, conditional on borrowing, are also lower. Students at those institutions, if they're receiving a Pell grant, are probably going to have their tuition fully covered and even get some help paying for their other expenses.

Senator SCOTT. It certainly would then reduce the cost of a 4-year education for those students who transfer without any debt at all.

Ms. SCOTT-CLAYTON. Yes.

Senator SCOTT. Mr. Chairman, my time is up, unfortunately. Thank you.

The CHAIRMAN. Thank you, Senator Scott.

Senator Casey.

STATEMENT OF SENATOR CASEY

Senator CASEY. Mr. Chairman, thank you. I want to thank you and the Ranking Member for the hearing.

One of the issues that so many of us in both parties have been focused on is the issue of the middle class or the inability for folks at a more regular rate to get into the middle class. Some of that is what I would call a 40-year wage growth problem. If we're not talking about higher education when trying to solve the lack of wage growth over the last 40 years, we're probably not getting to part of the solution. This is a timely hearing in so many ways.

I wanted to focus more narrowly on the Perkins program and, in particular, the value of it but also the particular impact in my home State of Pennsylvania. We have over 50,000 students impacted by Perkins and more than 100 institutions. It has a huge impact. We know that it's going to expire at the end of this fiscal year, September 30 of this year.

I wanted to start with Dr. Alexander. In your testimony, you stated—and I'm quoting in part on the first page—you were referring to recommendations you would make of,

> "how the Federal Government can better utilize its fiscal leverage to ensure that there will be affordable public college and university options for students in every State."

I would just ask you if you would include Perkins as one of those.

Mr. ALEXANDER. I would certainly—I think you can use any of the $170 billion—Perkins is in that $170 billion—in support of encouraging States to do the right things and remaining affordable. Perkins will grow if tuition grows, and the need for Perkins will grow.

Other campus-based programs that we're aware of—SEOG, as I mentioned, and work-study—also need to be carefully examined, because, currently, they're more price-based than they are student-based or institutional-based. We need to examine the fair share of which institutions are providing the best opportunities.

All of that can be looked at and can be incentivized to States so that States are also keeping their costs low, but also keeping student indebtedness lower as well as they go forward.

Senator CASEY. In terms of your own institution, LSU, can you put a metric or a description of what Perkins means at LSU?

Mr. ALEXANDER. Perkins is very important. Because we're lower cost, Perkins is vital to most of our institutions, primarily because we're a poor State. We need revenues, and we need support from the Federal programs to offset what our States are unable to do.

My worry is that we don't remain the affordable State that keeps students out of debt, and two-thirds of our students don't graduate with any debt whatsoever. That's the goal at the end of the day, to keep our students out of debt as they go forward.

If they choose to have debt, we want to make sure that they understand the low-interest rate debt, and we want to encourage them to take as little as possible but enough to keep them on track to finish. So Perkins is very important.

Senator CASEY. The low interest rate connected to Perkins, of course, is an important feature.

Mr. Kennedy, for Indiana, can you speak to Perkins in terms of the impact or the value of it?

Mr. KENNEDY. Yes, I can, Senator Casey. We have roughly about $10 million a year we give out in Perkins loans to our low-income students. We feel it's a very vital program because it gives us some flexibility with the low-income students.

We really like that program, and we've used it a lot just to help students, especially getting over—that have some issues financially. That extra little amount can really help them stay in school and finish their degree. We really like the Perkins program, and we have strongly worked on that program at Indiana University.

Senator CASEY. That's great. Before I wrap—I've got about a minute. Anyone else on Perkins? Any comments?

Ms. SCOTT-CLAYTON. I would just make the comment that a concern is that students probably don't know about Perkins until they're already on campus, and it can be very confusing not only to have two different types of Stafford loans, but also to have Perkins loans. If there's some way to get the benefits of the institutional flexibility while reducing the confusion and complexity that students face, That's something to keep in mind.

The second piece is that campus-based aid programs are extremely unequal in their allocation, and particularly with respect to Federal work-study, which has been shown to be effective. It's shown to be effective for the students who are least likely to be getting it right now because their institutions aren't getting sufficient funds.

Senator CASEY. Thanks very much.

The CHAIRMAN. Thank you, Senator Casey.

Senator Baldwin.

STATEMENT OF SENATOR BALDWIN

Senator BALDWIN. Thank you, Mr. Chairman and Ranking Member, for continuing in this series of important hearings. As we take a deeper look at the investment that our States are making in public university systems, I would make some observations about my home State of Wisconsin.

Unfortunately, we are seeing my home State as an example of this trend of disinvestment. Just by way of example, at our flagship university, the University of Wisconsin Madison, State funds today account for only 17 percent of total revenue. This is down from 43 percent in the year 1974.

Earlier this year, our Governor proposed further slashing of State support for the University of Wisconsin system, cutting another $300 million in the next biennial budget. Last week, a key legislative committee approved an ever so slightly more modest cut of $250 million.

If approved by the full legislature, this will mark the sixth budget in the last 7 years that cuts State support for higher education. I fear this cut and others like it will limit opportunities for more Wisconsinites, it will saddle more families with student debt, and it will dim the job prospects of the next generation and harm our Wisconsin economy.

I regret that I was unable to join this hearing during some of the earlier opening remarks. At the risk of having you repeat some of your earlier answers to questions and testimony, I guess I want to start with you, Dr. Alexander.

You've noted that this trend is sadly not unique to my home State of Wisconsin. Can you talk about the impacts that State disinvestment has had and could continue to have on students and families and the future vibrancy of our State economies, and, frankly, just tell us what's likely in store for the students and families in my State facing this massive additional cut?

Dr. KENNEDY. We've watched Wisconsin very closely——

Senator BALDWIN. I'll bet you have.

Dr. KENNEDY [continuing]. Because I think you're second in the budget reduction right behind us. I'm very concerned about the cuts that are going on in Wisconsin because I'm the father of a daughter that goes to Wisconsin, and I know my tuition and fees will be jumping rather rapidly. In addition to that, I'm a graduate of the University of Wisconsin.

Without any utilization of Federal leverage to encourage States and our State legislatures to keep their investments in public higher education, the consequences will be that this will shift onto the backs of students and families. The societal gain or the societal support of our neighbor's child will go away. It will become simply an individual benefit paid for by the families and the individuals who receive it.

That will become a sad day in this country when we do not have societal support on behalf of other State citizens to support other children who may not be our own. That's the direction we're going, and that's why I do think Federal leverage is needed to encourage States to stay in the game and not abandon these commitments.

Senator BALDWIN. Mr. Mitchell.

Mr. MITCHELL. If I could, just to make two other observations, specifically to Wisconsin, over the past few years, there have been significant tax cuts in the State of Wisconsin that have made it very difficult for policymakers within the State to put money toward higher education, cumulative cuts that are around $2 billion over the past few years, largely in property tax and certain income tax reductions that haven't actually even been targeted toward low-income households in the State. That's very important to keep in mind, especially for potential budget cuts coming up in Wisconsin.

I also just want to point out that this shift that we're talking about is not as long-term as we sometimes communicate it to be. When we look at education revenues right now in the States, tuition is now about 50 percent of educational revenues. Even 12 to 15 years ago, it was only at around 30 percent.

For lawmakers at the State level and at the Federal level, It's very important to keep in mind that it's not so long ago that we had made a commitment to higher education funding.

Senator BALDWIN. Thank you.

The CHAIRMAN. Thank you, Senator Baldwin.

Senator Murphy.

STATEMENT OF SENATOR MURPHY

Senator MURPHY. Thank you very much, Mr. Chairman.

Thank you for sticking around for the last series of rounds of questions from those of us who had other committee meetings to attend. Let me add my thanks to the Chair and the Ranking Member for the way in which we've conducted this discussion.

I wanted to continue to talk about this question of accountability. I'm totally on board, Dr. Alexander, with the idea that we should look at higher education funding in somewhat the same way we look at transportation funding, whereby we require a minimum State contribution; Medicaid funding, for which we require a minimum State contribution. As the numbers go up from the Federal Government, it just seems like we should expect something from the State governments other than cuts after cuts after cuts.

Your testimony also talks about this idea of return on investment for a student, which is not just about the amount of money they're spending, but it's about the outcome that they receive as well. When you talk about accountability and affordability, it is all relative to the benefit that they get once they graduate and the amount of money that they're making and whether that lives up to their expectations when they made the decision to take out all of these loans in the first place.

It strikes me that as part of this conversation—and I'd love to get the range of thoughts from the table—that we should be talking about a couple of additional things. One is making sure that students have really good information when they decide to take out loans as to what the predictability is going to be of their ability to repay it.

Today, we just don't have that data. We just don't have the ability—in part because of a ban in our statutes on something called the student union record—to actually tell students what the average graduate of a particular institution is making, how many of them are employed.

The second thing we can do is have a little bit tougher accountability for schools, at least to catch the outliers who aren't delivering results. Right now, the only hammer we have is this default rate, this cohort default rate. If 30 percent of your graduates aren't paying back their—no, are defaulting on their loans, not paying back their loans, then you'll get cutoff from student aid. That's it. We have no other way to try to push schools toward accountability.

Should this be part of our conversation about affordability, giving students some more information about the return on investment that they're going to make, and perhaps talking about some—you know, maybe even, at the outset, light touch tools that the Federal Government can use to try to ratchet up the accountability for results that schools are getting?

Ms. SCOTT-CLAYTON. Thank you so much for this question and comment. The first thing I want to respond to is the need for better data on student outcomes, as well as better data about student loan repayment and default.

There are critical holes in researchers' ability to figure out what's going on, let alone students and their families. There are movements afoot to make the problem even worse by limiting a researcher's ability to use student record data to look at things like what are the outcomes of students who enroll in and complete different degree programs. That's a very important point.

The second is that going back to this discussion about affordability, affordability of the cost is just one-half of the cost-benefit equation, and it's pretty complicated enough, just to figure that piece out. Besides that, students also have to make complicated tradeoffs about which program is right for them and what their outcomes are likely to be if they go. Providing better information, as there have been movements to do, is helpful.

Students do need more than just information. They need guidance, they need individualized and proactive assistance to make these decisions, and there may be some light touch things the Federal Government could do, just pushing out information on where students can turn to for support with these decisions.

If the Feds could simplify the Federal financial aid piece of it, again, that would free up resources, community organizations, volunteers, college counselors, high school counselors to help students with the even more difficult question of where they should go.

Senator MURPHY. My time is running down, but there's a couple of other people who want to jump in.

Mr. ALEXANDER. You ought to take a look at the institutions that are fighting against this type of information. I'd love to have a blue book where parents can walk in and assess what the value of that institution is, because there are many institutions that are overcharging in this Nation, and we had to get—in the last reauthorization act legislated, they had to admit how much student indebtedness they had.

We post what our starting salaries are. We post what our midcareer earnings are, age 42 to 45. We post what our student indebtedness is upon graduation. That's what parents want to hear. That's the information that they can't get through private news sources. This value-based discussion needs to be pushed forward from the Federal Government to force every institution to admit outcomes.

Senator MURPHY. Dr. Akers, I'm a little over my time, but I'd like to hear your——

Dr. AKERS. Sure. Thank you. I appreciate it. I couldn't agree more that we need more data available on institution-level and program-level outcomes that students can use to make better decisions about where to go to college, where to invest their dollars.

We talk about creating a system of accountability, but we're sort of ignoring the most fundamental system of accountability, which is the consumers choosing where to spend their dollars in higher education. Improving access to that data through potentially the creation of a record system or other means, would go a long way in creating the appropriate incentives for institutions to be serving their students well.

Senator MURPHY. I just remember an incredibly sophisticated young man at a preparatory school in Hartford, CT, public school, saying that he was taking out a boat load of loans to go to MIT because he had made a decision that it was going to pay off for him. The other kids around the table were just glazed over. They had no idea what he was talking about because they had really no information about how to make that choice and no information given to them about the ways in which they would go about doing that.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Murphy.

This has been a terrific discussion, and you can see from the interest of the Senators that we all feel that way. Let me ask Senator Murray if she has any further questions or comments that she'd like to make.

Senator MURRAY. I do have one more.

Dr. Scott-Clayton, I wanted to come back to you. You noted that the Pell grant can cover tuition and fees for some students like those who enroll at community colleges, and more students ought to recognize just how affordable college really is.

Students and families in my State tell me that tuition isn't their only expense. It's, in fact, less than half of what they have to pay just to survive. The Federal data that I see shows that students from the lowest income families have to pay almost $12,000 a year for college after the grant aid.

I wanted to ask you do you think we have done enough to make college more affordable, or should we be providing additional support for low-income students?

Ms. SCOTT-CLAYTON. I don't think we've done enough. I do think we can do better. I do think, absolutely, for community college students, tuition is not usually even the biggest barrier.

There's been programs such as the ASAP program at CUNY that make tuition completely free. The designers of that program were actually surprised that that was not the expensive part of the intervention. The expensive part was the metro cards and the student advisers. I do think we can do more. Let's also make sure that students know about the aid that's out there.

Senator MURRAY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Murray. I have just a couple of questions.

Mr. Kennedy, we had testimony at a March 2014 hearing from two financial aid directors who said that Federal laws and regulations prevented colleges from requiring financial counseling. One said institutions are not allowed to require additional counseling for disbursement. "We can offer it, but we're not allowed to require it. Without the ability to require it, there's no teeth in it."

Do you agree with that? Do you find the rules and regulations in your way as you try to step up your counseling efforts?

Mr. KENNEDY. Mr. Chairman, I feel what we've done with financial literacy, kind of adding onto it—we haven't made it required, but we've had great participation in that. We haven't been hindered in our efforts with those regulations. It should be strongly encouraged, with our success, that any type of additional counseling is very much needed.

The CHAIRMAN. Do you think you should be prohibited from requiring it?

Mr. KENNEDY. I would say, no. Whatever we can do, I would strongly encourage.

The CHAIRMAN. Thank you. Among the things I heard today—the importance of counseling, the importance of clear information, the importance of reducing complexity as a way of releasing this army of people who could advise on other things. I thought I heard general approval of the year-round Pell to help speed students through more rapidly and, in fact, hopefully, reduce the cost of college, if you get in the workforce more rapidly.

One Senator mentioned we loan money to big banks at zero and to students at 4.29. That's not exactly right. The Federal Reserve loans money to banks overnight at near zero. We loan money to students for about 10 years at 4.29.

It's also important to go back to where I started. The message that always comes through at these discussions is how much more we'd like to do, because it's never easy to pay for college. It never comes through quite as clearly how affordable things are.

I mean, if you're a low-income student in Tennessee, community college is—or if you're any kind of high school graduate in Tennessee, community college is free. If you're a low-income student in any State, community college is free or nearly free.

If you're a 4-year student at the University of Tennessee Knoxville, 75 percent of your tuition is typically covered by student aid. The president of Georgetown pointed out that even if you want to go to one of the so-called elite universities and you're willing to borrow $4,500 a year and work 10 to 15 hours a week, the university will pay for whatever your family can't, and that the average student loan is about the same as the average car loan. All that information suggests to most students that there's a way to go to college.

The last thing I'd want to discuss a little bit before we conclude is that we have Alexanders going in different directions here. Dr. Alexander would have the Federal Government require States to spend money on higher education. I'd go just the opposite direction. I would say the Federal Government ought to stop requiring States to spend money on Medicaid.

I know anecdotal evidence isn't sometimes as good as research, but I've had a vantage point that's pretty unique. I've been a Governor in the 1980s and a university president and a secretary of education, and now I'm here.

I've watched Medicaid spending in Tennessee go from 8 percent to as high as 33 percent of the State budget, and I've made up those State budgets, and what we did was we took money from higher education and put it into Medicaid. I resisted that, and during the time I was there, we increased funding for higher education more than any other State for 3 years. It was a struggle even in the 1980s.

This isn't anything very recent. The reason for it is very simple. The Federal Government defines what the Medicaid benefits are. It mandates what States should do about them. The States have to pick up 30, 40, 50 percent of the cost, and the percent goes from 8 percent to 30 percent in Tennessee.

It's exactly true that as State support for the University of Tennessee or LSU goes down, or California, tuitions go up. I believe it's exactly true that as Medicaid mandates get stiffer, tuition goes up.

If I were the Governor of Tennessee still, I would be saying the reverse, Dr. Alexander. I'd be saying,

> "Give us more flexibility, give us fewer Federal definitions and fewer maintenance of efforts, and let us put the money where the priorities are."

My priority was on higher education. Our current Governor's is on higher education. He's the one who made community college free in Tennessee, which really doesn't cost very much money, actually, because it's almost already free for every low-income student.

Dr. Alexander, I'll ask you this. Why would you adopt a policy of more Federal mandates when it's Federal Medicaid mandates, in my opinion, that have basically caused the higher tuition fees at LSU, Tennessee, University of California, and every other State institution in the country?

Mr. ALEXANDER. There are two points I'd like to make with regards to that. By the time you get that behemoth turned around and get that tackled, we'll have 15 States that will be out of the public higher education business, that will not be funding a single penny of higher education from Colorado to South Carolina to Louisiana to Iowa.

The second point is that we did have 48 Governors against us 10 years ago when we proposed the maintenance of effort provision through the—the National Governors Association was completely against it. We got Governor Schwarzenegger to be neutral on it. As that went forward, within 6 months to a year, those maintenance of effort provisions mattered to 20 States immediately.

Our response to the National Governors Association was,

> "If this was such a bad idea, why did it work so well, and why did our States only cut their budgets to where the Federal penalty kicks in?"

The effectiveness—that period is the only time of fiscal stability we've had with our State governments.

Without some kind of Federal support, without a redesign of how we're using Federal funds to at least encourage States to stay in the game, I think it will be well too late at the end of the day for our States. They will bow out. It's my responsibility to do everything I can to fight for the next generation of students as others have done for an aging population in healthcare.

The CHAIRMAN. I'm completely opposed to a Federal maintenance of effort for higher education. If you have that, you might as well just have the Federal Government take over all the States. There wouldn't be anything left for Governors or legislators to decide.

Mr. ALEXANDER. I know you are.

The CHAIRMAN. I would respectfully disagree and say that my goal would be to increase flexibility in the spending of Medicaid funds and allow States to take that money and put it into higher education, because for 30 years, I've watched it go the other way.

We've had a lively debate in this committee about that ever since I've been here with very different opinions about it. We've had a good one from the panel today. It's been very helpful. If any of you have additional—Senator Murray?

Senator MURRAY. I just want to make one comment. We won't debate Medicaid right now, although I would say that many of the students who are trying to pay their tuition don't want to have their parents who are in nursing homes all of a sudden be living at home with them. That's an additional cost. That's a debate for another day.

I will just say that this panel has been excellent, and I really do appreciate all of your input. The cost of college is a roadblock to many young people today as well as the long-time burden that student debt puts on them. It's a complicated question, and I really think our committee needs to tackle it in a bipartisan way.

I appreciate the Chairman's emphasis on the FAFSA form, and that's an important area that we can look at. The whole issue of college affordability is very complex and one that does need to be tackled comprehensively.

Thank you very much.

The CHAIRMAN. Thank you, Senator Murray. We've made good progress. As most people know, we were able to deal with the Elementary and Secondary Education Act in a good way after 7 years of failure, really. We're trying to apply the same sort of bipartisan participation to the Higher Education Act and getting very good participation by both Democrats and Republicans, thanks to Senator Murray's leadership.

Our hope is to be able to have a markup for the Higher Education bill in the early fall. We'll see. We've got some more hearings to have and a lot of work to do between now and then. This has been very helpful.

I'd like to invite the witnesses—if they have something to say, but they didn't get to say it today, we'd like to hear it.

The hearing record will remain open for 10 days to submit additional comments and any questions the Senators may have of you to followup. We plan to hold the next HELP hearing on Reauthorizing the Higher Education Act on Wednesday, June 17.

Thank you for being here. The committee will stand adjourned.

[Whereupon, at 12:18 p.m., the hearing was adjourned.]

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