the institute for
college access & success

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November 5, 2008

Dear President-Elect Obama,

Congratulations on your victory. Throughout your campaign, you called welcome attention to the critical importance of higher education to our economy and our society, and to the pressing need to make college more affordable for students and families.

As you now shift your focus from politics to policy, we encourage you to develop your specific plans and priorities with attention to the financial factors that really make a difference to college access and student success. Students and families need to know what resources are available to them before making important decisions about college. Those resources must cover more than just tuition and be available when bills come due, so that students can stay focused on their studies. For low- and moderate-income students, grant aid must cover a larger share of college costs. And when students have to borrow to get through college, investing in their future – and the nation's - must not ruin them for life.

To improve college affordability in meaningful ways, any new resources and reforms should:

- Increase the total amount of need-based grant aid available to low- and moderate-income students.
  - Despite recent increases, the maximum Pell Grant covers just 26% of the average in-state cost of attendance at a public four-year college.[1]
  - The proportion of state grant aid that is based on financial need has been declining for 25 years, from 91% in 1981-82 to 72% in 2006-07. The average need-based state grant for a full-time undergraduate was just $440 in 2006-07.[2]
  - At public four-year colleges, the proportion of institutional aid used to meet financial need was only 44% in 2006-07 (up from 35% in 2000-01), and the average need-based institutional grant for a full-time student was $458.[3]
  - As students and parents increasingly turn to loans to fill the gap left by inadequate grant aid, student debt levels are at an all-time high. Two-thirds of graduating seniors have loans, and we estimate that their student debt now averages $22,000. Pell grant recipients, most of whom have

[1] This percentage is based on Pell Grant and cost of attendance levels for 2008-09. Source: The College Board. 2008. *Trends in College Pricing 2008.*
[2] The College Board. 2008. *Trends in Student Aid 2008*.
[3] Ibid.

family incomes under $40,000, are more likely to borrow, and borrow more, than higher income students.
  - The complexity of the relatively new ACG and SMART Grant programs undercuts their intended purpose of helping lower income students afford college. The narrow eligibility criteria for students and administrative burdens for participating colleges have resulted in much lower participation rates than expected.
  - College-qualified students with family incomes below the national median are much less likely to attend and graduate from college than their wealthier peers. Any expansions or new forms of federal aid should increase the total resources available to these students. Federal policies should also incentivize states and colleges to focus more resources on enrolling and graduating students with below-median incomes. Currently, too many state grant programs and college financial aid policies respond to increases in federal grant aid by reducing their own grant levels, leaving lower income students no better off.

- Address the full range of costs that students face, not just tuition.
  - The real cost of going to college is not limited to tuition: it includes housing, food, books and supplies, transportation, and other education-related expenses. These costs add up quickly, especially at a time of rising inflation and shrinking family budgets.
  - The main federal financial aid programs rightly recognize that students and families need help covering the full range of college costs. Pell Grants and student loans are neither limited to nor determined by tuition and fees alone: they can be used for all college expenses.
  - The Hope Scholarship Tax Credit, Lifetime Learning Tax Credit, and Tuition and Fees Tax Deduction apply only to tuition and fees. Students at community colleges and low-tuition four-year institutions, where most low- and moderate-income students are enrolled, get little or no relief from these tax benefits. And because the tax credits are not refundable, low-income students rarely benefit even if they attend higher tuition institutions.
  - While there are legitimate costs and constraints that can lead colleges to raise tuition (e.g., declining state budgets), tuition-only aid policies can have the unintended effect of encouraging tuition inflation, which cancels out the benefit of such aid.

- Ensure that aid is available at the right time: when students and families have to pay the bills, not after.
  - Students and families have to pay college expenses when they come due, regardless of how little money they have in the bank or how much aid they qualify for. Uncertainty about whether or when they will receive a grant, loan, or tax benefit – and if they will be allowed to keep it - can deter students from going to college and staying in school.

- The current education tax benefits are only available *after* students and parents have to come up with the cash to cover college costs. This is a particular problem for lower income families because of their limited assets and access to credit, and it is increasingly a problem for all families because of the tight credit market and the declining values of homes, 401Ks, and other assets.
    - While it is possible to provide taxpayers with advance payments on tax credits, the two existing advance tax credits offer more warnings than encouragement. Advance Earned Income Tax Credit payments have been available via paycheck since 1979, but participation rates remain extremely low.[4] The Health Coverage Tax Credit is available in monthly advance payments, and participation rates are also very low, due at least in part to the complexity of the eligibility determination and enrollment processes.[5]
    - Economists disagree about the efficacy of these types of advance payments and the reasons for low utilization levels. It remains unclear what effect such advance payments have on spending or saving for the intended expense.
- The timing of Pell grants, Perkins loans, and other forms of aid that colleges disburse directly to students depends on each college's own processes and priorities. Some make funds available as soon as – or even before - classes start so students can buy the books they need and keep up with their classes, while others wait weeks into the semester to ensure that students are still taking enough classes to qualify
    - Federal policy should encourage colleges to make aid available at the start of the semester, so that students can study and stay in school without turning to high-interest credit cards and payday lenders, dropping classes, or working so many hours that they cannot keep up with their coursework.

❖ Make it easier to find out about and apply for available aid.

- Making more aid available does not automatically improve college access or affordability. Students and families still have to know about, apply for, and receive it. All families need easier and earlier ways to find out what

[4] The most recent analysis from the Government Accountability Office found that between 2002 and 2004, only three percent of eligible taxpayers used the advance payment option. This report also found that nearly half (49 percent) of all participants who filed tax returns missed the final step of reporting the advance payments on their returns, leading to significant administrative burdens for the IRS. Source: Government Accountability Office. 2007. *Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance*. Washington, DC: United States Congress. See also: Government Accountability Office. 1992. *Earned Income Tax Credit: Advance Payment Option is Not Widely Known or Understood by the Public*. Washington, DC: United States Congress.

[5] Less than six percent of potentially eligible individuals used the advance payment option in 2004 Source: Government Accountability Office. 2004. *Health Coverage Tax Credit: Simplified and More Timely Enrollment Process Could Increase Participation.* Washington, DC: United States Congress.

types and amounts of aid they can expect to qualify for, and a much more user-friendly aid process for getting it.
    - Knowing early on what kind of aid to expect and how far it will go can help students and families make choices that increase the odds of college success: enrolling right after high school, attending full time (or at least half time), going to a four-year school if they are qualified, and limiting work hours so they have time to study. Early aid awareness can affect expectations and important decisions starting as early as middle school.
    - The current Free Application for Federal Student Aid (FAFSA) is so long, complex, and intimidating that it can be more of a barrier than a gateway to college opportunity. The extensive data requirements, including a great deal of family financial information, pose particular challenges for lower income and first-generation college students.[6] The process would be much easier and more efficient if students and parents simply checked a box giving the Department of Education permission to pre-populate the FAFSA with data the IRS already has. This practical approach to simplification would also make it easier to provide customized aid estimates for students of any age, and to let people apply for aid before, rather than after, they decide where to apply to college.
    - Improving the timing, accessibility, and accuracy of information about financial aid and college costs – for all families - must be an essential element of any aid reform. Adequate counseling resources are also critical for families with limited exposure to the college process. Research consistently finds that lower income families tend to underestimate their eligibility for aid and overestimate college costs.[7]

- Reduce the burden of student debt.
    - Increasing the amount of need-based grant aid, as described above, will help limit how much students of modest means have to borrow to get through school. But federal student loans will remain an essential resource for preserving and expanding college opportunity at all income levels, as long as students can access affordable repayment options and available loan forgiveness programs.
    - The new Income-Based Repayment program (IBR), which becomes available in July 2009, will cap federal loan payments at an affordable level – less than 10% of income for most borrowers. IBR sends an important message of affordability and fairness to students who might otherwise be discouraged from pursuing their college goals: if you borrow for college, your payments will be fair and manageable even if you hit

[6] Dynarski, Susan M. and Judith E. Scott-Clayton. 2006. *The Cost of Complexity in Federal Student Aid: Lessons from Optimal Tax Theory and Behavioral Economics.* Cambridge: Harvard University John F. Kennedy School of Government Faculty Working Paper Series, Number RWP06-013.
[7] Mundel, David S. 2008. "What Do We Know About the Impact of Grants to College Students?" *The Effectiveness of Student Aid Policies: What the Research Tells Us*. Eds. Baum, McPherson, and Steele. Washington, DC:The College Board.

hard times, and they won't go on forever. After 25 years of responsible payments, any remaining debt will be forgiven.

    - This message will only be effective if people know that IBR exists, how it can help them, and how to apply. The U.S. Department of Education and federal loan providers should make every effort to inform prospective and current borrowers about IBR and make the application process as easy and efficient as possible.

- There is also a new Public Service Loan Forgiveness program, which, when combined with IBR, can help college graduates serve their country and communities without putting their own financial futures in jeopardy. However, qualifying for this type of loan forgiveness involves more than holding a government or nonprofit job for 10 years. Eligible borrowers also have to make the right kind of payments on the right kind of loans. It will take active outreach and user-friendly processes for this program to fulfill its potential.

Congratulations again, and thank you for your commitment to making college more affordable. We stand ready to assist you and your administration as you address these important issues.

Sincerely,

Lauren Asher
Vice President, The Institute for College Access & Success