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REAUTHORIZING THE HIGHER EDUCATION ACT: IMPROVING COLLEGE AFFORDABILITY

HEARING

OF THE

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

UNITED STATES SENATE

ONE HUNDRED FIFTEENTH CONGRESS

SECOND SESSION

ON

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

FEBRUARY 6, 2018

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REAUTHORIZING THE HIGHER EDUCATION ACT: IMPROVING COLLEGE AFFORDABILITY

Tuesday, February 6, 2018

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

The Committee met, pursuant to notice, at 10:08 a.m. in room SD–430, Dirksen Senate Office Building, Hon. Lamar Alexander, presiding.

Present: Senators Alexander [presiding], Isakson, Cassidy, Young, Scott, Murray, Casey, Bennet, Baldwin, Murphy, Warren, Kaine, Hassan, Smith, and Jones.

OPENING STATEMENT OF SENATOR ALEXANDER

The CHAIRMAN. The Senate Committee on Health, Education, Labor, and Pensions will please come to order.

This is another in a series of hearings reauthorizing the Higher Education Act. I look back, and this Committee has held 22 hearings over the last four and a half years, including five this year, in preparation for reaching a bipartisan result by early spring that we can recommend to the full Senate.

Senator Murray and I will each have an opening statement, and then we will introduce the witnesses. After the witnesses' testimony, Senators will each have 5 minutes of questions.

At the end of World War II, just 5 percent of Americans had bachelor's degrees. When Congress enacted the Higher Education Act in 1965, that number had increased to 10 percent; and today, 35 percent of Americans have bachelor's degrees. That is a remarkable story.

Today, there are over 20 million students that attend 6,000 colleges, universities, community colleges, and technical institutions.

This hearing is about the cost of going to college.

While it is never easy to pay for college, it is easier than many think, and it is unfair and untrue to suggest that for most students, college is out of reach financially.

Each year, 32 percent of students—those from low-income families—qualify for up to $5,920 in a Pell Grant that they do not pay back.

According to the College Board, the average tuition at a 2-year community college is about $3,600 for the 2017–2018 academic year. So a maximum Pell Grant would more than cover tuition. Almost 40 percent of undergraduates attend community colleges.

In 2015, Tennessee became the first state to offer 2 years of tuition-free education at community colleges and technical institutes to every high school graduate. According to "U.S. News and World Report," 12 states have now passed laws providing some free community college.

The average tuition at a 4-year public college is just under $10,000 for the 2017–2018 academic year, according to the College Board. So a maximum Pell Grant would cover about 60 percent of tuition. About 40 percent of undergraduates attend public 4-year colleges, which include many of the best universities in the world.

Federal aid does not take into account other scholarships a student may receive.

For example, at the University of Tennessee, Knoxville, one-third of students have a Pell Grant. In addition, 92 percent of in-state freshmen receive a State Hope Scholarship, which provides up to $3,500 annually for the first 2 years, and up to $4,500 annually for the next two. If a student receives both a Pell Grant and the Hope Scholarship, that would nearly cover the full cost of tuition.

On top of these scholarships that students do not pay back, last year taxpayers loaned students $92 billion that students must pay back, but on generous terms. For Federal loans, there is no credit check, and in some cases, students may elect to pay loans back based on their income, and after 20 to 25 years, the loans may be forgiven.

At one of our previous hearings, Dr. Susan Dynarski testified, "In the United States, typical undergraduate debt is less than $10,000 for those who do not complete a 4-year degree and about $30,000 for those who do."

For most students, an education at a public college or university is affordable.

Many Members of this Committee believe taxpayers should spend even more on Federal aid to college students. Whether there will be additional Federal dollars will be decided by the Appropriations Committee, where Senator Murray is the Ranking Member.

As we continue to consider the cost of college, I would suggest we also consider what is known as the "Bennett Hypothesis." In 1987, then U.S. Education Secretary Bill Bennett said, "If anything, increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuitions, confident that Federal loan subsidies would help cushion the increase. In 1978, subsidies became available to a greatly expanded number of students. In 1980, college tuitions began rising year after year at a rate that exceeded inflation. Federal student aid policies do not cause college price inflation," he said, "But there is little doubt that they help make it possible."

In 1987, 31 years ago when there were almost 13 million college students, taxpayers spent $3.7 billion on Pell Grants; today, there are 20 million college students and we spend $28 billion.

In 1987, taxpayers backed $11.3 billion in student loans; last year, taxpayers directly made $92 billion in new loans to students.

Thirty-one years ago, the average tuition at a 4-year college was $3,200; today it is $10,000.

To the extent that the Bennett Hypothesis is true, research suggests that the loans are more of a cause of tuition rising than the grants.

As Congress considers increasing Federal spending on grants, and especially loans, we should also consider whether those increases have an effect on rising tuition.

Despite this, there is no doubt college costs are rising and that a growing number of students are having trouble paying back their debt.

Our work over the last four and a half years has produced a number of proposals to reduce the cost of going to college and making it more affordable that do not necessarily include asking the taxpayer to spend more money on student aid.

First, simplifying the FAFSA, the burdensome Free Application for Federal Student Aid that 20 million families struggle each year to fill out. This would remove it as a barrier to college, and help students better understand the range of schools they can afford. Of course, to receive a Pell Grant, or any other Federal aid, a student must complete the FAFSA.

After hearing testimony at our November hearing, I believe Senator Bennet and I are now able to finalize a proposal to reduce the number of questions from 108 to 15 to 25.

The former president of Southwest Community College in Memphis told me he believes that he loses 1,500 students each semester because of the complexity of the FAFSA.

Our proposal would also mean that students are able to apply for financial aid earlier in their senior year, and can know about how much college aid they are eligible for, and which schools they could afford, as early as when they enter high school.

Simplifying the FAFSA would make it easier to apply for a Pell Grant, which in turn, should help more low-income students unlock money to pay for college.

A second way to make college more affordable, without appropriating additional dollars, is to simplify the existing two grant programs, five loan programs, and nine different repayment programs, and direct some of those dollars to higher priorities; for example, creating additional Pell Grants.

This complex system confuses students about aid and repayment options and makes it harder for them to receive the aid that can make college affordable.

At our hearing 3 weeks ago, Dr. Matthew Chingos testified that any money we save from simplifying the student loan system should be put into increasing the number or size of Pell Grants.

Third, more competency based education would allow students to more rapidly complete degrees based on knowledge and learning, not time in the classroom. Completing a degree faster saves the student money.

Finally, it makes no sense to spend taxpayer dollars helping students earn degrees that are not worth the time and money.

At our hearing last week, witnesses testified that accountability measures, that hold schools more accountable for their students' ability to repay their loans, would help make sure college programs are worthwhile and loans are repaid.

I believe these are all ways that Congress can make college more affordable.

The Appropriations Committee will consider whether Congress should appropriate more tax dollars for student aid, but in the meantime, Congress can also help students afford college by better spending the $28 billion in grants and $92 billion in loans that we now spend each year.

This would mean simplifying student aid, redirecting existing dollars for more Pell Grants, helping students complete their degrees more rapidly, and making colleges more accountable for students repaying loans.

Simplifying programs and regulations to make colleges more affordable, and make it easier for students to apply for financial aid and pay back their loans, will help higher education become more financially in reach for students.

Senator Murray.

OPENING STATEMENT OF SENATOR MURRAY

Senator MURRAY. Thank you, Chairman Alexander.

Before I begin, I do want to say I am pleased that we are having ongoing conversations about the concerns with the implementation of our education loans. I appreciate that and I want to keep working with you on that. So thank you for that.

Thank you to all of our witnesses for being here today. I look forward to your thoughts on what colleges, and states, and the Federal Government should be doing to lower the price of college for students nationwide.

As we now wrap up the first round of hearings on reauthorizing the Higher Education Act, these conversations have made it very clear, we have to address all of the challenges that students face. Not just making college more affordable, but we also have to increase access to higher education for underrepresented students.

We need to hold college accountable for student outcomes and success, and we need to make sure that every student is able to learn in a safe environment.

Last week, the Democratic Caucus released a set of principles going into each of these priorities in depth. We believe a comprehensive reauthorization has to include meaningful reforms in all of those areas. It is the only way to truly help students overcome the many barriers in higher education.

Now, I am very pleased that we are finally discussing an issue that is hurting so many people across the country, and that is the continuous growth of college costs with no end in sight.

With few students able to afford college out of pocket, we now have almost $1.5 trillion in student debt. That is more than auto loans and credit card debt combined.

Since 2007, 1 year before the last reauthorization of the Higher Education Act, student debt has tripled and the number of students with debt has grown from 28 million to 44 million.

Here is how fast our student debt problem is growing. Every second, student debt in this country grows by about $3,000. This is really taking a toll on our students.

A new study suggests up to 40 percent of students may eventually default on their loans and it is even worse for students of color.

When we talk about affordability, we have to look beyond averages. That same study showed that African American students who graduate with a bachelor's degree are five times more likely to default on their loans than their white peers.

There are many reasons why college has gotten so expensive, and I will get into those, but the results are the same. Many students are choosing to not even apply for college or are being forced to drop out before they can finish their degree.

A shocking number of our students are going hungry or do not have a safe place to sleep at night. Student debt stops people from buying houses, or starting families, or opening their own businesses, or continuing their education; and for some, the crushing burden of student debt never ends.

The way we finance higher education by asking everyone to take on debt is sending a very clear message that college is for the wealthy, not the students who have the most to gain.

We can, and we must, work to keep college within reach for all students.

Now, I briefly want to touch on some of the reasons why college has gotten so expensive.

First, colleges themselves are not doing enough to consider the burden of debt students have to take out and the challenges that they will face in landing a good paying job.

Second, states are investing less and less into higher education. That is not only bad for our students; it is bad for our states that have to rely on higher education to fuel their workforce and their economies.

Third, Federal student aid does not go as far as it used to. Pell Grants allowed me, and my siblings, to go to college, but today's students will tell you Pell Grants are not nearly enough to cover the total price they have to pay.

Since I graduated, tuition where I went to college has increased an astounding 338 percent when adjusted for inflation.

Chairman Alexander, you and I agreed that the reauthorization of HEA needs to be student-focused. So with that in mind, I hope we can discuss college affordability at all stages of a student's education.

Before students enroll, we need to make sure Federal investments are going farther for students. Students need to be able to cover the full cost of college; that is food, and housing, and textbooks, and childcare, and transportation, not just tuition and fees.

Once students are enrolled, we have to make sure the price of college does not increase unexpectedly during their education. And after students graduate, we must help the millions of student loan borrowers manage the burden of their debt.

Borrowers should be able to refinance their student loans and have affordable, monthly loan payments. There should be light at the end of the tunnel for borrowers including loan forgiveness, a cap in the number of years students have to pay back their loans, and full relief for those who have been cheated by their colleges.

Chairman Alexander, I look forward to working together on a comprehensive reauthorization that will address these and many other challenges.

I am sure there will be a number of issues we do not agree on, but I believe there is one question that should guide our negotiations. It is not, are we easing regulations to colleges and giving student loan companies carte blanche? It is not, are we reducing the role of the Federal Government in education?

The question we have to ask ourselves all the time is: will this reauthorization of the Higher Education Act leave students better off?

I am confident we can work together, and negotiate in good faith, and get to a yes answer on those.

Thank you.

The CHAIRMAN. Thank you, Senator Murray.

I look forward to doing that. We have before, and I appreciate your comments on our discussions about ESSA. The quicker we can deal with that, the better.

Now, let me welcome the witnesses.

Our first witness is Dr. Jenna Robinson, President of The James G. Martin Center for Academic Renewal. She previously worked at the John Locke Foundation. She serves as a member of the North Carolina Advisory Committee for the U.S. Commission on Civil Rights. She previously served as a member of the North Carolina Longitudinal Data System Board.

I will turn to Senator Young to introduce our second witness.

Senator YOUNG. Thank you, Chairman Alexander.

It is my pleasure to introduce Dr. Zakiya Smith. She comes to us from Indianapolis, where she serves as a Strategy Director for Finance and Federal Policy for the Lumina Foundation.

Dr. Smith previously served as a Senior Advisor for Education at the White House Domestic Policy Council, and she served as a Senior Advisor at the U.S. Department of Education. In this role, she focused on efforts to address affordability, completion, and college access.

In her early career, she was an intern with the Congressional Black Caucus Foundation and she worked closely with students and their families in roles at TEACH for America and the Federal Year Up Program.

Dr. Smith is very well-credentialed. She has a Bachelor's Degree from Vanderbilt University, a Master's Degree from the Harvard Graduate School of Education, and a Doctorate from the University of Pennsylvania.

The Lumina Foundation, which is headquartered in Indianapolis, is the largest private foundation focused on student access and success. Dr. Smith's work at the Lumina Foundation plays a critical role to advance Federal policy and increasing attainment and developing new post-secondary finance models.

Dr. Smith, I hope we can do some good together moving forward. I welcome her testimony before this Committee today.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Young.

Welcome, Dr. Smith. With a Vanderbilt degree, I can understand why you are so successful.

[Laughter.]

The CHAIRMAN. Dr. Sandy Baum, we welcome you, Senior Fellow at the Urban Institute.

Dr. Baum focuses on issues related to college access, college pricing, student aid policy, student debt, and affordability.

She has co-authored the College Board's annual "Trends in Student Aid," and "Trends in College Pricing" publications since 2002.

She is the author of "Student Debt: Rhetoric and Realities of Higher Education Financing," and co-author of, "Making College Work: Pathways to Success for Disadvantaged Students."

Welcome, Dr. Baum.

I turn to Senator Bennet for our next witness.

Senator BENNET. Thank you, Mr. Chairman. Thank you for holding this hearing. I thank the Ranking Member as well.

This morning, it is my pleasure to introduce Dr. Robert Anderson from my home State of Colorado.

For the last 6 months, Dr. Anderson has served as President of the State Higher Education Executive Officers Association. He is an expert on college affordability and financing.

The Association, which is based in Boulder, Colorado, works to advance policies that expand access to higher education and promote college completion.

Previously, Dr. Anderson served as a Senior Leader for the University of Georgia. At the University of Georgia, he worked on college completion initiatives and distance learning. He has also worked on the State Higher Education Commissions of Tennessee and West Virginia.

I thank him for being here, and I very much look forward to his testimony today.

I am sure that he does not think that his representation in the Senate has improved since the time he was in Tennessee.

The CHAIRMAN. Well, I am going to let that stand.

[Laughter.]

The CHAIRMAN. But welcome, Dr. Anderson.

Senator BENNET. That is the "Bennet Hypothesis" with only one "T".

The CHAIRMAN. Is that what it is? All right.

[Laughter.]

The CHAIRMAN. Welcome, Dr. Anderson.

Now, Dr. DeRionne Pollard is President of Montgomery College. At Montgomery College, Dr. Pollard spearheaded a new strategic plan and mission for the College. She worked with the public school system and local universities to create a support program to help disadvantaged students transition from high school to college.

She previously served as President of Las Positas College in Livermore, California. She is a member of the Community College Advisory Panel at the College Board and the Higher Education Research and Development Institute Advisory Board. Welcome.

Welcome to all of you.

Why do we not begin now with Dr. Robinson?

STATEMENT OF JENNA ROBINSON, PH.D., PRESIDENT, THE JAMES G. MARTIN CENTER FOR ACADEMIC RENEWAL, RALEIGH, NORTH CAROLINA

Dr. ROBINSON. Senator Alexander, Ranking Member Murray, Members of the Committee.

Thank you for inviting me here today to share my thoughts about college affordability.

As Senator Alexander said, and I will remind you, in 1987 then Secretary of Education, William J. Bennett, penned an article in *"The New York Times,"* entitled, "Our Greedy Colleges."

In it he wrote, "If anything, increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuitions confident that Federal loan subsidies would help cushion the increase."

Thirty years later, we have empirical research to answer the question: does the availability of financial aid to students enable the tuition increases that we see year after year?

But before I answer that question, I want to talk a little bit about the theory of university spending.

Before Bennett wrote his op-ed, another economist, Howard Bowen, was fleshing out an idea of how universities raise funds and spend money. In 1980, he laid out his now widely accepted rule.

He said, first, that the main goals of higher education institutions are excellence, prestige, and influence.

Second, that there is virtually no limit to the amount of money colleges and universities can spend to increase these qualitative and reputational improvements.

For example, the spending might go to more administrators, better buildings, hiring star scholars, impressive athletics programs, or even expensive branding efforts.

Third, each institution raises as much money as it can, including in the form of tuition.

Last, because there is no profit that is sent to shareholders, as there would be with private corporations, and therefore no need to hold down costs, the institution spends all the money it raises.

Bennett's theory fits into Bowen's third point; each institution raises as much money as it can. Without Federal student aid, "as much money as it can" has very clear limitations.

Students and parents have limited funds to spend on college. I think we all agree on that. The availability of aid increases those funds considerably. So when universities identify new needs or wants, like a shiny, new student center, they can raise tuition to cover it with student aid footing the bill.

I think you will agree that this makes sense in theory, but now we have evidence to support it.

Last year, I examined empirical findings from 25 articles published since 1987 on the topic of the Bennett Hypothesis. A few early studies seemed to find no relationship between Federal financial aid and rising tuition.

But in 2012, Andrew Gillen formulated an important refinement to Bennett's hypothesis. He explained that different types of aid affect tuition prices differently. That tuition caps and price discrimination sometimes weakens the link between aid and tuition, and that scholars must examine both dynamic and static considerations when quantifying the relationship between aid and tuition.

With those refinements in mind, let me summarize the results.

The 25 studies I surveyed, seven found no Bennett effect whatsoever. Three of the seven were among the earlier studies that I already mentioned, and thus relied on the smallest sample in terms of the years that were surveyed. They also treated all aid and all institution types monolithically.

Another one of the seven found no effect between increases in the maximum Pell Grant awarded and increases in tuition. That comports with the intuition that different types of aid affect tuition different.

This is to be expected since the maximum Pell Grant award is already considerably lower than tuition at most public and private 4-year institutions.

14 studies, a clear majority, found some positive effect of Federal subsidies on the price of higher education in at least one segment of the higher education market. Many of these found support for the Bennett Hypothesis across all segments of the market: public, private, non-profit, and for-profit. The effect ranged considerably in size and explanatory power.

For example, Frederick, et al., find very little evidence in support of an expanded Bennett Hypothesis in community colleges.

While Cellini and Goldin, in 2012, find that differences in tuition prices at for-profit colleges and institutions map very closely to the average amount of Federal grant aid received by students and institutions.

McPherson and Schapiro show that public colleges and universities increase tuition by $50 for every $100 in aid. Lucca, et al., in 2015 say it is more; $60 for every $100 in student aid.

Across all types of institutions, more studies found that loans correlated with increased intuition than did grants. The effect was more pronounced at expensive schools than at affordable ones, and the effect was stronger at for-profit institutions than at public and private non-profit institutions.

Solutions include limiting the total amount of loans available; targeting Pell Grants to the neediest students; insisting that universities bear some risk of the borrowing; and changing the eligibility formula to stop rewarding the most expensive institutions.

Thank you.

[The prepared statement of Dr. Robinson follows:]

PREPARED STATEMENT OF JENNA ROBINSON

For nearly half a century, the cost of higher education has risen faster than the pace of inflation. Between 1978 (the first year in which college tuition had its own CPI category) and the third quarter of 2017, the price of tuition and fees increased by 1,335 percent. [1] This rate of growth exceeded that of medical costs (704 percent) [2], new home construction (511 percent) [3] and the Consumer Price Index for all items (293 percent). [4]

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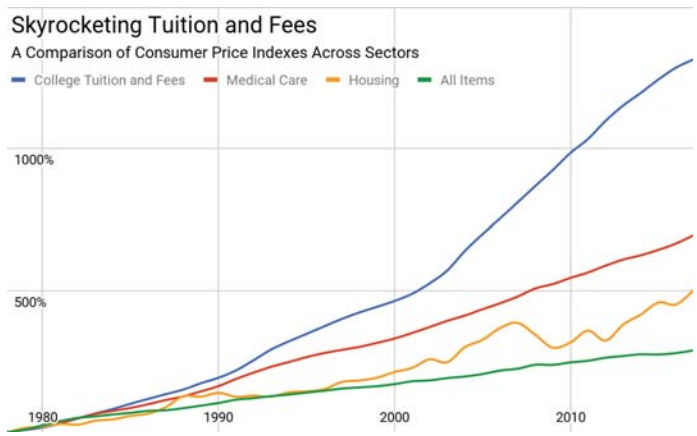
[1] United States Bureau of Labor Statistics. CPI-U: U.S. City Average; College Tuition and Fees; 1982—84=100; SA. Raw data. (Washington DC: U.S. Bureau of Labor Statistics, October 15, 2017).

[2] United States Bureau of Labor Statistics. CPI-U: U.S. City Average; Medical Care; 1982–84=100; SA. Raw data. (Washington DC: U.S. Bureau of Labor Statistics, October 15, 2017).

[3] United States Census Bureau. *"Median and Average Sales Prices of New Homes Sold in United States."* 2017.

[4] United States Bureau of Labor Statistics. CPI-U: U.S. City Average; All Items; 1982–84=100; SA. Raw data. (Washington DC: U.S. Bureau of Labor Statistics, October 15, 2017).



The number of student borrowers increases every year. In 2015, 68 percent of new graduates left college with student loan debt, up from 57 percent in 2007.[5]

A major contributing factor to this explosion of debt is that the bar to receive a Federal loan is exceedingly low. The Federal Government issues student loans to any student who attends a qualified and accredited institution and meets minimal criteria. Federal loans require no credit check and no collateral. In fact, it is even illegal for colleges to weigh factors such as a student's program of study, borrowing history, or high school academic record to determine loan amounts.

The steep increase in the cost of tuition has precipitated myriad downstream problems.

A significant number of students now graduate (or fail to graduate) with debt levels incommensurate with their earning potential. Many students at community colleges, for-profit institutions, and non-selective public and private universities default on their debt or otherwise fail to make progress toward loan repayment. Three years after leaving college, just 41 percent of borrowers have avoided default and paid at least one dollar on their principal balance. At 5 years, that statistic grows slightly—to 47 percent.[6]

The profligacy does not end when students reach the limit of their borrowing from the government. Almost one-fifth (19 percent) of the Class of 2015's debt nationally was comprised of non-federal loans.[7] Many students who use nonFederal loans do so because they have already borrowed the maximum Federal loans allowed. These loans often originate from private banks, where rates are higher to account for the significant risk of nonpayment.

This debt has consequences for individual debtors and the national economy. Some borrowers have accumulated very large balances; in 2014, 4 percent of borrowers had balances over $100,000 and 14 percent had balances over $50,000.[8] Many debtors, regardless of the size of their outstanding balances, report that they have postponed major life events—including marriage, children, and home ownership—because of their high levels of student debt.[9] Their delay, in turn, reduces overall consumption and contributes to the economic stagnation of recent years.

It is not just young people who are adversely impacted by the high borrowing levels. In 2012, senior citizens held $36 billion in student loan debt[10], for which the

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[5] The Institute for College Access and Success. *Student Debt and the Class of 2015,* 2016.

[6] Robert Kelchen, *"How Much Did A Coding Error Affect Student Loan Repayment Rates?"* Kelchen on Education (blog), January 13, 2017.

[7] The Institute for College Access and Success. *Student Debt and the Class of 2015,* 2016.

[8] Adam Looney and Constantine Yannelis. *A Crisis in Student Loans? How Changes in the Characteristics of Borrowers and in the Institutions They Attended Contributed to Rising Loan Defaults.* Washington, DC: Brookings Institution, 2015.

[9] AICPA, *"One-Third of College Students Say They'll Live at Home Post-Graduation Due to Loan Debt,"* 12 Nov. 2015.

[10] Meta Brown, Andrew Haughwout, Donghoon Lee, Maricar Mabutas and Wilbert van der Klaauw. *"Grading Student Loans."* Liberty Street Economics (blog), March 5, 2012.

Federal Government can garnish their Social Security payments. In 2015 alone, the government took $171 million in Social Security payments from older Americans who defaulted on student loans.[11] The majority of that debt (73 percent) is for a child or grandchild's education.

These problems were anticipated as far back as the 1980's. In 1987, then-Secretary of Education William J. Bennett wrote a prescient op-ed in New York Times, entitled, "Our Greedy Universities." In the article, he explained, "If anything, increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuition, confident that Federal loan subsidies would help cushion the increase."[12]

In other words, Federal student aid encourages tuition inflation. The mechanism is not hard to grasp. Private colleges, like all customer-oriented organizations, adjust their prices according to what the market will bear. In simple terms, if an institution's typical student has $1,000 to spend on education, the school will charge tuition of $1,000. If students gain access to another $1,000 for education from grants or loans, the school will raise tuition to $2,000 to capture the full amount.

At the time Bennett formulated his hypothesis, very little data existed about the effects of Federal spending on higher education. But Bennett's intuition was sound. Writing for the National Bureau of Economic Research in 2004, Bridget Terry Long examined evidence that states and institutions change their policies in response to spending on Federal financial aid:

> In fact, many states did react to the introduction of the tax credits by considering ways to capture the Federal resources available through the new tax credits. In a report from California's Legislative Analyst's Office, Turnage (1998) . . . suggests increasing fees at public colleges in California. He asserts that the tax credits would offset the increase for richer students while financial aid could be given to offset the effect for low-income students. According to his calculations, an increase from $360 to $1,000 at the community colleges would increase funding to these schools by over $100 million annually without affecting the California state budget.

It may be that state systems and private colleges indeed raised tuitions to capture Federal money through tax credits, as suggested by Turnage in the above passage. In the preceding chart, note how there was a sharp increase in the rate of growth of student debt in the early "aughts."

Economist Howard R. Bowen laid the foundation for Bennett's understanding of the relationship between aid and tuition in 1980. He explained his book, Costs of Higher Education, a revenue theory of cost for university spending.

He wrote:

> . . . at any given time, the unit cost of education is determined by the amount of revenues currently available for education relative to enrollment. The statement is more than a tautology, as it expresses the fundamental fact that unit cost i.e., the cost of education] is determined by hard dollars of revenue and only indirectly and distantly by considerations of need, technology, efficiency, and market wages and prices.[13]

His theory can be summarized into these four rules:

> 1. The main goals of higher education institutions are excellence, prestige, and influence.
>
> 2. There is virtually no limit to the amount of money colleges and universities can spend to increase these qualitative and reputational improvements. (e.g., the spending can go to more administrators, better buildings, employment of "star" scholars and researchers, impressive athletics programs, or even expensive marketing or "branding" efforts.)
>
> 3. Each institution raises as much money as it can—including in the form of tuition.

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[11] Government Accountability Office, *Social Security Offsets: Improvements to Program Design Could Better Assist Older Student Loan Borrowers with Obtaining Permitted Relief,* December 2016.

[12] William J. Bennett, "Our Greedy Colleges." *The New York Times,* February 18, 1987.

[13] Howard R. Bowen, *Costs of Higher Education: How Much Do Colleges and Universities Spend Per Student and How Much Should They Spend?* (San Francisco, CA: Jossey-Bass Inc., 1980), 19.

4. Because there is no profit that is disbursed to shareholders, as there would be with private corporations, and therefore no need to hold down costs, the institution spends all the money it raises.

In short, institutions have strong incentives to capture increases in Federal student aid in order to spend more on "prestige." Robert Martin further explored the relationship between Bennett's hypothesis and Bowen's observations in a paper for the Martin Center in 2009, "The Revenue-to-Cost Spiral in Higher Education." [14]

Despite the strong theoretical basis for Bennett's hypothesis, several current practices may complicate the relationship between loans and tuition. In 2012, Andrew Gillen proposed an updated version of the hypothesis, which incorporates Bowen's rule, in a paper for the Center for College Affordability and Productivity. He suggested three key refinements to Bennett's theory.

1. Different types of aid affect tuition prices differently.

2. Tuition caps and price discrimination weaken the link between aid and tuition.

3. Scholars must examine both dynamic and static considerations when quantifying the relationship between aid and tuition.

In the thirty years since Bennett's famous editorial, 25 empirical analyses have been performed examining his eponymous theory. This paper summarizes those findings and makes evidence-based policy recommendations to address the problem of tuition inflation.

TYPES OF AID (In a sidebar/box)

Loans must be repaid. Grants are free gifts.

Federal Grants

- **Pell Grant:** The most common grant program from the Federal Government. Pell Grants are awarded to undergraduates with a clear financial need. The amount awarded is contingent upon the extent of financial need, the cost of attendance, and status as a full-time or part-time student. The maximum award for the 2017–18 school year is $5,920. All students who demonstrate financial need and meet the eligibility requirements are awarded with Pell grants. Pell grants can be received for a maximum of 12 semesters. Approximately $29.9 billion in Pell Grants were awarded in fiscal year 2015.
- **Federal Supplemental Educational Opportunity Grant (FSEOG):** Only available for undergraduate students. Each school is awarded a specified amount of funds from the Federal Government to be spent on student aid. The schools awards the grants to students with significant financial need. FSEOGs are first-come, first-serve: when the funds run out, no more grants are available for the year. Awards vary between $100 and $4,000 annually. Approximately $730 million were appropriated as FSEOGs in fiscal year 2015.
- **TEACH Grant:** Undergraduates and graduate students are eligible for TEACH Grants if they pursue a career in teaching. Recipients can be awarded up to $4,000 a year if they agree to teach in a "high need field" and/or serve low-income students for 4 years within 8 years of graduating. Potential recipients must display financial need, and they must meet GPA and standardized test requirements. About $91 million awarded in fiscal year 2015.
- **Iraq and Afghanistan Service Grants:** Available for students whose parent or guardian died in military service in Iraq or Afghanistan and whose family income exceeds the limit to be eligible for Pell Grants. Students must meet remaining Pell Grant requirements, and the awarded amount is equivalent to that of a Pell Grant.

Federal Loans

- **Direct/Stafford Loans:** Money loaned from the Federal Government to the student. Approximately $95.9 billion was awarded in loans for fiscal year 2015.

[14] Robert Martin, *"The Revenue to Cost Spiral in Higher Education,"* Raleigh, NC: The James G. Martin Center for Academic Renewal, 2009.

- **Subsidized Loans:** Loans available to undergraduate students at a favorable interest rate. The Federal Government pays the interest on payments while the student attends school and for a few months upon graduation. Only students with displayed financial need can qualify for subsidized loans, and loans can only be received for 150 percent of the time it should take to graduate from the academic program (e.g., 6 years of loans for attending a 4-year university). Students cannot accrue more than $23,000 in subsidized Stafford Loans throughout their undergraduate studies.
- **Unsubsidized Loans:** The Federal Government does not cover the interest on these loans for any grace period. Students do not need to demonstrate financial need and can receive these loans for as many years as they are enrolled. These loans are available to undergraduate and graduate students alike. In total, undergraduate and graduate Stafford Loans cannot exceed $138,500.

Direct PLUS Loans: Part B of Title IV of the Higher Education Act authorizes the $21 billion PLUS loan program, which provides Federal loans to graduate students and the parents of undergraduate students.

- **Parent PLUS Loans:** Parents of undergraduate students are able to borrow up to the cost of attendance at a given college. During the 2011—2012 academic year, the PLUS loan program provided 879,000 parents of undergraduate students with an average of $12,575. There is no limit (either in number of years or aggregate dollars) on how much a parent can borrow, and the loans are available in addition to Federal loans that are already available to the students themselves.
- **Graduate PLUS Loans:** The Graduate PLUS loan program, open to graduate students who take out loans to finance graduate school, enables students to borrow up to the full cost of attendance at a given school, less any other aid received. During the 2011—2012 academic year, the PLUS loan program provided 360,000 graduate students with an average loan of $19,958.

Federal Perkins Loans: Undergraduate students can borrow up to $5,500 per year ($27,000 total) directly from the university. Graduate students can borrow up to $8000 a year ($60,000 total). Money is only available to students with exceptional financial need. In fiscal year 2015, the Federal Government awarded approximately $1.2 billion to the universities to distribute as loans.

Findings

A previous review of available literature on the Bennett Hypothesis, conducted in 2003,[15] found that estimates of the impact of Federal aid on public tuition level range from negligible to as much as 50 percent of the increase in aid. Since then, further studies have analyzed 14 additional years of data and significantly enhanced our understanding of the effects of financial aid on tuition. A study by Donald Heller in 2013 for ACE reviewed eight studies on the Bennett Hypothesis published between 1991 and 2012 and concluded that the findings were limited and ambiguous.[16]

This Martin Center study adds to the literature by incorporating evidence both for and against the Bennett Hypothesis and weighing the evidence. It synthesizes findings from 25 articles published since 1987 in peer reviewed journals or respected economic research institutions or universities. The studies focus on the empirical evidence for Bennett's hypothesis that Federal financial aid drives up the price of college and university tuition. They are listed at the end of this paper.

Two important studies that came out earlier this year aided our efforts greatly. Mark J. Warshawsky and Ross Marchand,[17] writing for the Mercatus Center at George Mason University, did an extensive review of the literature in support of the Bennett Hypothesis. Additionally, the Heritage Foundation included a discussion of

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[15] Michael T. Rizzo and Ronald G. Ehrenberg. *"Resident and Nonresident Tuition and Enrollment at Flagship State Universities." In College Choices: The Economics of Where to Go, When to Go, and How to Pay for It.* Edited by Caroline Hoxby. A National Bureau of Economic Research Report (Chicago: University of Chicago Press, 2004).

[16] Donald Heller, *Does Federal Financial Aid Drive Up College Prices?* (Washington, DC: American Council on Education, April 2013).

[17] Mark J. Warshawsky and Ross Marchand, *Dysfunctions in the Federal Financing of Higher Education* (Washington, DC: Mercatus Center, 2017).

the hypothesis in its paper "Private Lending: The Way to Reduce Students' College Costs and Protect America's Taxpayers."[18]

Of the 25 studies surveyed, seven found no Bennett effect whatsoever. Three of the seven were among the earliest studies in the sample, and thus relied on the smallest sample sizes in terms of number of years analyzed. Another of the seven found no effect between increases in the maximum Pell grant awarded and increases in tuition. But this is to be expected since the maximum Pell grant award is already considerably lower than tuition and public and private 4-year institutions.

The most recent study to find no Bennett effect (Kelchen 2017) analyzed the relationship between increases in Federal student loan limits and law school tuition. The author suggests that the lack of correlation could be because students shifted from private loans to PLUS loans and thus already had access for loans up to the full cost of attendance.

Fourteen studies, a clear majority, found some effect of Federal subsidies on the price of higher education in at least one segment of the higher education market. Many of these found support for the Bennett Hypothesis across all segments of the market—public, private, and for-profit.

The effects range considerably in size and explanatory power. For example, Frederick, et al (2012) find "at most very limited evidence in support of an expanded Bennett hypothesis" in community colleges while Cellini and Goldin (2012) find that differences in tuition prices at for-profit institutions map very closely to the average amount of Federal grant aid received by students at the institutions.

In The Student Aid Game (1998), McPherson and Schapiro show that public colleges and universities increase tuition by $50 for every $100 in aid. Lucca et al (2015) say it's more. They find "a pass-through effect on tuition of changes in subsidized loan maximums of about 60 cents on the dollar."

One of the studies that found a positive effect, Curs and Dar (2010), also found a negative effect: between merit-based state financial aid and listed tuition prices at public and private institutions. They posited that this finding was a result of institutions competing to attract high-performers and academic superstars—an effect that is not generalizable to other types of aid.

The remaining four studies found negative effects.

In some cases, the findings were contradictory. For example, some studies found that tuition is more sensitive to Federal grant aid than Federal loan aid while others presented the opposite finding. But taken together, the research suggests that it is likely that Federal financial aid does enable or contribute to increases in tuition, probably to a large degree.

Across all types of institutions, more studies found that loans contributed to increases in tuition than did grants. This is likely because the maximum Pell grant is less than the published price of tuition at almost all public and private 4-year institutions. The effect was more pronounced at expensive schools (such as private 4-year institutions) than at affordable ones (such as public community colleges).

As Gillen noted in his 2012 paper, the effect was also more marked at for-profit institutions than at public and private non-profit institutions. At public institutions, this is due to tuition caps and strong political pressure to keep tuition low. At private non-profit institutions, it is due to the common practice of price discrimination. (Price discrimination is the practice of charging students different prices based on their ability and willingness to pay.)

Table 1 shows the correlations demonstrated by 24 recent scholarly investigations of the Bennett hypothesis. Results shaded in blue are positive evidence for a relationship between increasing Federal financial aid and tuition. (The citation count is indication of an article's academic influence.)

[18] Mary Clare Reim *Private Lending: The Way to Reduce Students' College Costs and Protect America's Taxpayers* (Washington, DC: Heritage Foundation, 2017).

Table 1: Results of recent studies

Study	Positive Correlation	No Correlation	Negative Correlation	Citations
Acosta 2001, working paper	Federal grant loan aid tuition at private four-year institutions. Federal grant aid, tuition prices at public four-year institutions.	Federal loan aid tuition at public four-year institutions		10
Archibald and Feldman 2011, Oxford University Press		Increases in the authorized maximum Pell award tuition at public universities	Increases in the authorized maximum Pell award tuition at private universities	270
Cellini and Goldin 2014, American Economic Journal	Grant and loan aid tuition prices at for-profit 2-and 4—year institutions			11
Cunningham et al 2001, National Center for Education Statistics		Federal grants and loans changes in tuition at public and private not-for profit sector		6
Curs and Dar 2010, working paper	Need-based state financial aid net tuition price at public and private institutions		Merit-based state financial aid listed tuition price at public and private institutions	7
Epple et al 2013, NBER working paper	Federal aid tuition revenue at private universities (by means of reduction in institutional aid)			32
Frederick et al 2012, Economics of Education Review		Federal funding for community colleges state appropriations		9
Gillen 2012, CCAP policy paper	Dollar limits on Federal loans tuition prices			18
Government Accountability Office 2011		Increase in the Federal student loan limit for first-and second-year students tuition prices		3
Gordon and Hedlund 2016, working paper	Federal loans tuition			13
Harvey et al 1998, National Commission on the Cost of Higher Education		Availability of Federal grants and loans tuition prices		18
Inglet 2016, doctoral dissertation	Federal financial aid spending public and private college sticker prices			0
Kargar and Mann 2017, working paper			Loan eligibility limitations tuition prices	1
Kelchen 2017, working paper		Federal PLUS loan limits law school tuition		

Table 1: Results of recent studies—Continued

Study	Positive Correlation	No Correlation	Negative Correlation	Citations
Lau 2014, job market paper	Federal grants and loans tuition at 4-year and 2-year institutions			9
Li 1999, doctoral dissertation	Pell grant awards tuition prices at public and private 4-year institutions			9
Long 2004, Journal of Human Resources	Georgia HOPE Scholarship tuition at public and private 4-year institutions			164
Long 2004, NBER		Federal Hope and Lifelong Learning Credits state appropriations for colleges and universities		146
Lucca et al 2015, Federal Reserve Bank of New York	Federal grants and loans tuition prices at public and private universities and vocational schools			37
McPherson and Schapiro 1991, Brookings Institution	Federal aid revenues tuition revenues at public universities	Federal aid revenues tuition revenues at private universities		326
Rizzo and Ehrenberg 2004, NBER	Maximum available Pell award in-state tuition prices at public universities	Maximum available Pell awards out-of-state tuition prices at public universities		165
Singell and Stone 2007, Economics of Education Review	Average size of Pell awards out-of-state tuition at public universities	Average size of Pell awards in-state tuition at public universities		79
Turner, L. 2017, working paper			Size of Pell grants amount of institutional aid	0
Turner, N. 2010, working paper			Tax-based Federal education aid amount of institutional aid	61
Welch 2015, doctoral dissertation		State-funded merit scholarships tuition prices		0

Implications

The evidence in favor of the Bennett Hypothesis is compelling. It is most likely that Federal financial aid significantly increases the cost of college, possibly across all sectors. Scholars should continue to study the issue to further refine Federal, state, and institutional policy.

In light of this evidence, the Federal Government and individual states should begin to alter their financial aid policies now in order to:

1. Put downward pressure on tuition prices;
2. Focus aid on universities and students where there is genuine need so that Federal money is not simply an addition or supplement to money that is already available, (e.g. lending to wealthy students or institutions);

3. End or minimize subsidies that are artificially increasing demand for higher education and/or tolerance for higher prices.

The specific policies that can accomplish these aims are:

- **Eliminate Graduate and Parent PLUS loans:** These are the types of loans most likely to drive tuition increases.

Undergraduate and graduate students already have access to up to $138,500 in Federal loans through the Stafford Loan program. Students enrolled in school to become healthcare professionals can borrow up to $224,000. The Federal Government should not encourage or enable borrowing above those already generous amounts.

Loans to parents are even less circumscribed. There is no limit on how much a parent can borrow. These loans are available to parents of students who have already maxed out their own Federal borrowing. The availability of such loans has resulted in families incurring substantial debt, while failing to ease the cost of college over time.

- **Focus on Pell grants (instead of loans)**

Going forward, the Department of Education's main focus should be on Pell grants to the Nation's neediest students. Such grants, which are limited in scope and size and meet a true need, are the least likely to encourage colleges and universities to raise tuition. Loans should be of secondary importance.

- **Change the student aid eligibility formula**

Use the Median Cost of College instead of the Cost of Attendance (COA) at individual institutions to calculate financial need. Using COA discourages students from choosing less expensive schools since the current "need" formula awards students more money when they attend institutions with higher tuition.

- **Make private student loans subject to bankruptcy laws**

Making private student loans dischargeable in bankruptcy would give private lenders incentives to tighten lending standards and lower maximum loan amounts.

- **Cap the growth of tuition and fees at public colleges and universities**

Public colleges and universities should limit the growth in tuition and fees to the rate of inflation.

- **End subsidies for Federal student loans**

Lucca et al (2015) found that subsidized loans drive up tuition to a far greater degree than other forms of student aid.

- **Improve students' understanding of student loan borrowing and debt obligations**

One possible solution is for other states to adopt a version of a 2015 Indiana law *(H. 1042)* requiring post-secondary educational institutions that enroll students who receive state financial aid to annually provide each student with certain information concerning the student's education loans.

- **Demand that institutions have "skin in the game"**

Institutions should have a share in the credit risk of every student who takes out a loan to attend the institution. This would put pressure on universities to keep tuition low and offset some of the artificial pressure on demand for higher education.

Conclusion

College tuition, student debt, and university spending have increased almost unchecked for almost half a century. Students, parents, faculty, and the American economy have suffered as a consequence.

The Bennett Hypothesis, with some modern nuances, explains at least part of the problem and directs decisionmakers at the state, university, and Federal levels to solutions that will work to slow tuition increases and stem the tide of runaway student debt and profligate university spending.

Congress, state legislators, and university administrators must act to make college affordable and accessible and to head off the looming student loan crisis.

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[SUMMARY STATEMENT OF JENNA ROBINSON]

- In 1987, then-secretary of education William J. Bennett penned an article in the New York Times entitled "Our Greedy Universities." In it, he wrote, "If anything, increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuition, confident that Federal loan subsidies would help cushion the increase."
- This study synthesizes empirical findings from 25 articles published since 1987 in peer-reviewed journals or by respected economic research institutions. The studies focus on the empirical evidence for Bennett's theory.
- Of the 25 studies surveyed, a majority found some effect of federal subsidies on the price of higher education in at least one segment of the higher education market.
- Based on these findings, we make policy recommendations to help slow the growth of university tuition and fees.

The CHAIRMAN. Thank you, Dr. Robinson.
Dr. Smith, welcome.

STATEMENT OF ZAKIYA SMITH, ED.D., STRATEGY DIRECTOR FOR FINANCE AND FEDERAL POLICY, LUMINA FOUNDATION, INDIANAPOLIS, INDIANA

Dr. SMITH. Chairman Alexander, Ranking Member Murray, and Members of the Committee.

Thank you for the opportunity to testify today on the important topic of improving college affordability.

As you heard, my name is Zakiya Smith, and I work on Finance and Federal Policy issues at the Lumina Foundation, the Nation's largest foundation focused specifically on increasing students' access to, and success in, post-secondary education.

As someone whose grandmother attended college as a nontraditional student in the 1950's in South Carolina, before there were integrated schools or even a Higher Education Act to consider, I know both the transformative power of higher education, and the pains that come from lack of equity within the system for students of color and for low income students.

I know from working with students as a college counselor at a federally funded GEAR UP program, that when talking to students directly, their concerns about college are clear. They think it is important, but they just do not know how they are going to pay for it.

We have talked about this issue at the national level for decades. We have tried to create measures of transparency, which I very vocally supported, with hopes that better information could create market pressure and direct students to more affordable options. Unfortunately, those efforts alone are not enough.

Today, students have responsibilities and commitments that extend far beyond the classroom. Students of color, in particular, are more likely to be balancing work and the responsibility of parenting with going to college, as over 40 percent of Black and Native American students are also parents.

Contrary to popular imagination, students today actually have to work far more than past generations did in order to pay for college.

In 1971, students could cover tuition at public colleges by working about 10 hours a week throughout the year. Students today would have to work about a 60 hour workweek in order to cover the full cost of attendance at a public college in-state.

These affordability concerns are not just in their heads. The challenge of paying for college today is greater than it was in the past.

Some might argue that expenses, like rent and food, are not really a cost of college, but general cost of living that every adult must face.

But very few people would argue with the notion that the traditional student going to college straight from high school, living on campus deserves to be able to use their financial aid to pay for room and board.

Take that same student off campus, and now they have to find an apartment. Room becomes “rent,” and food, whether purchased on or off campus, is the “board”.

Ensuring these non-tuition needs are covered in some way, which could include childcare for student parents, or transportation to and from campus, are integral to student success. If basic needs are not met, students are less likely to do well in school, further impeding completion.

As we think about how to address this concern, we must recognize that affordability means different things to different people. What is a bargain to one person may feel like an unattainable luxury to another.

For example, a $10,000 degree could sound great to a family making $150,000 yet unimaginable for someone making only $20,000 a year, near the poverty line.

That is why we cannot focus only on the overarching price or even the average net price because it alone does not capture what is reasonable for families at different income levels.

We have to start to frame affordability in terms that are tailored to individual and family needs, yet are transparent enough for most people to understand. In this vein, Lumina has developed the concept called the Affordability Benchmark in consultation with experts from inside and outside of higher education.

The benchmark is based on some key principles:

That those with the capacity to save should be encouraged to do so with clear guidelines that can be broken down into monthly amounts;

That students without the capacity to save should not be expected to, and;

That no student should have to work so much to pay for college that it impacts their ability to be successful in school.

Two interconnected recommendations could make this a reality.

First, is a Federal-state partnership for affordability, quality, and completion. A benchmark approach, or any other type of affordability guarantee, would require a new type of partnership between the Federal and state government in which colleges commit to lower prices and better outcomes for students over time in order to receive funding.

States should be encouraged to invest in post-secondary education in order to better leverage the Federal spend.

Because affordability cannot really be conceptually separated from value, it will require being more vigilant about quality, both to root our fraudulent practices and to ensure credentials are meaningful.

Second, we must strengthen and preserve the Pell Grant. Pell is the foundation of Federal student aid, the bedrock on which the Federal commitment to students is based. Unfortunately, the grant itself has not kept up with the rising price of education.

I urge the Committee to consider ways to strengthen Pell so it remains available for future generations and to encourage implementation of early awareness and information campaigns to ensure would-be students even know it exists.

I would be happy to answer any questions about these ideas or share additional details.

Thank you.

[The prepared statement of Dr. Smith follows:]

PREPARED STATEMENT OF ZAKIYA SMITH

Chairman ALEXANDER, RANKING MEMBER MURRAY, AND MEMBERS OF THE COMMITTEE:

I'm pleased and grateful to have the opportunity to testify before you this morning as you consider the reauthorization of the Higher Education Act.

My name is Zakiya Smith, Strategy Director for Finance and Federal Policy at Lumina Foundation. Lumina, based in Indianapolis, is the Nation's largest private foundation focused specifically on increasing students' access to and success in post-secondary education. I've been at Lumina since 2013; before that I advised President Obama on higher education policy, worked on budget and policy at the Department of Education, conducted research on college access for low income students at the Advisory Committee on Student Financial Assistance, and did a short stint as a Federal work study student advising high school juniors and seniors on their college options at East Boston High School. I actually started my career in education with student teaching at Franklin Middle School and Freedom High School just outside of Nashville, in middle Tennessee.

I share these details about my background by way of showing that I've been focused on helping ensure students successful transition to post-secondary education for my entire professional career. It's something that I care deeply about on a personal level. As someone whose grandmother attended college as a "nontraditional" student in the 50's in South Carolina before schools there were integrated and there was even a Higher Education Act to consider, I know both the transformative power of higher education and the pains that come from a lack of equity within the system for students of color and low-income students. So, I work today to close gaps by race and income and to consider how we might make college more affordable and equitable for all students.

Affordability as a Top Concern in Improving Access and Success

We know from research we've funded at Lumina Foundation that individuals of all ages and backgrounds, and particularly people of color, continue to believe that higher education is necessary in the 21st century economy. Increasingly, low-income adults, students of color, and their families aspire to attain a post-secondary credential. Unfortunately, at the same time, they believe these credentials are unaffordable, and see increasing prices and levels of debt as barriers to attainment.

When talking to students, would-be students, and their families directly, their concerns about college are clear—they think it's important but they just don't know how they will pay for it. And we have talked about this issue at the national level for decades. We've watched prices rise and tried to create measures of transparency—which I've supported—with the hopes that better information could create market pressure and direct students to more affordable options. Unfortunately, these efforts alone are not enough. And, as we heard in the hearing last week, we actually still lack the quality of information that would enable students to find affordable options tailored to their individual circumstances.

Nearly 40 percent of today's students are 25 years old or older. More than one-third attend part time, and nearly 20 percent are holding down full-time jobs as they attend college. And a growing number are students of color. From 1996 to 2010, Latino student enrollment grew by 240 percent, and black enrollment grew by 72 percent (while white student enrollment grew by only 11 percent). Students of color, in particular, are more likely to be balancing work and the responsibilities of parenting with going to college, as over 40 percent of black and Native American students are also parents [1].

Today's students, simply put, have responsibilities and commitments that extend far beyond the classroom. And these responsibilities in many cases are a real financial burden, which may help explain why students continue to list affordability as a top concern. And it's not just in their heads—contrary to popular imagination, students today actually have to work far more than past generations did in order to pay for college. Consider this-in 1971, Americans students could cover tuition at public colleges by working about 10 hours a week throughout the year. Today's student would have to work 27 hours a week at minimum wage to just pay public college tuition and fees alone, and they wouldn't have any money left over for non-tuition expenses that are necessary for success in college, like books and supplies, not to mention room and board—otherwise known as food and rent. Students today would have to work about 60-hour work week in order to cover the full cost of attendance at a public college. [2]

Some might argue that expenses like rent and food aren't really costs of college, but general costs of living that every adult must face. However, very few people would argue with the notion that the traditional student going to college straight from high school living on campus deserves to be able to use financial aid to pay for their room and board. Take that same student off campus, and now they must find an apartment. Room becomes rent and board is food whether purchased on or off campus. Ensuring these non-tuition needs are covered in some way—which could include child care for student parents and transportation to and from campus—is integral to student success. If basic needs aren't met, students are less likely to do well in school, further impeding academic progress.

Affordability is a Conceptually Vague Term: Affordability Benchmark

As we think about how to address this concern, we must recognize that affordability means different things to different people—what's a bargain to one person may feel like an unattainable luxury to another. That's why we can't focus only on the overarching price, or even the average net price, because it alone does not capture what is reasonable for families at different income levels. For example, a $10k price tag could sound great to a family making $150k, yet sound unattainable for a family making only $20k, near the poverty line. To this end, The Institute for College Access and Success recently found that "families earn[ing] less than $30,000 would need to spend 77 percent of their total income to cover the net price at public 4-year colleges, more than double the burden placed on any other income group" [3].

For this reason, it is important to frame affordability in terms that are tailored to individual and family needs, yet are transparent enough for most people to understand. Past policy efforts to address affordability have either focused on targeting to the point of obfuscating the process for those who most need the resources or on

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[1] Lumina Foundation (n.d.) Today's Student Statistics. Retrieved from: *https://www.luminafoundation.org/todays—student-statistics*

[2] Author's calculations derived from National Center for Education Statistics (NCES) data and US Department of Labor (DOL), Wage and Hour division data, assuming working 50 weeks per year. NCES: *https://nces.ed.gov/programs/digest/d12/tables/dt12—381.asp,https://nces.ed.gov/programs/coe/indicator—cua.asp* DOL: *https://www.dol.gov/whd/minwage/chart.htm*

[3] The Institute for College Access and Success. 2017. College Costs in Context: A state-by-state Look at College (Un)affordability. *https://ticas.org/sites/default/files/pub—files/ college—costs—in—context.pdf.*

simplicity and transparency without concern for the true underlying financial need. We need a new paradigm that addresses both concerns—a much clearer message about affordability to would-be students paired with a truly reasonable expectation of what those students might contribute to post-secondary education.

We at Lumina have spent a lot of time talking with experts in other fields about this conundrum and through those conversations have come up with the concept of an affordability benchmark. The premise underlying the problem is this—students from most low-income families just can't afford to save anything for post-secondary education, and they work too much once they get to school to try to cover their costs. Meanwhile, students from middle and upper income families are also struggling, but receive no guidance about how much to save for college—other than being told that they should save "a lot". Every financial expert who knows anything about consumer financial behavior can tell you that this is a recipe for disaster. Not having safety nets in place for low income students or clear attainable savings goals for other groups means that everyone is confused and even those with the capacity to save are unlikely to do so.

The benchmark is based on some key principles—that those with the capacity to save should be encouraged to do so with clear guidelines that can be broken down into monthly amounts, that students without the capacity to save for college shouldn't be expected to do so, and that no student should have to work so much to pay for college that it impacts their ability to be successful in school.

The benchmark also suggests that affordability should be gauged by the total costs of attendance-not just tuition and fees alone, that lower income students should be asked to contribute no more toward the costs of post-secondary education than what they can afford to contribute from working 10 hours per week, and that middle and upper income students (those from families making above 200 percent of the poverty level) should be expected save 10 percent of their income over 10 years to pay for post-secondary education. These numbers are based on sound evidence, for instance, that students working more than 10 hours per week are at greater risk of dropping out.

Using analyses based on this benchmark and currently available net price data, the Institute for Higher Education Policy (IHEP) recently published a report suggesting that the vast majority of colleges are unaffordable for all but the highest-income families. [4]

Still, the numbers outlined in this affordability benchmark are less important than the principles they represent. That is, that some students can't afford to pay anything, and shouldn't be expected to do so, that other students can afford to pay something and should be provided guidance about how to get there, and ultimately that programs focused on affordability should be clear about what that means from a student perspective (e.g. clearly answer the question "what will I have to pay") without requiring a maze of paperwork. These principles—of transparency, predictability, and reasonableness—could be met in a variety of ways, but the first step toward creating a meaningful system based on this outline would be to encourage states to develop their own benchmarks of reasonableness and incent them for meeting students' needs within these more transparent visions.

On Affordability and Student Loan Debt

The idea that affordability cannot really be disconnected from quality is especially important to consider when taking stock of the growth of our loan-financed education system. In 2011–12, average debt for those who completed an undergraduate program (of any type) was $11,400, up from $6,400 in 1995–96. Debt is not necessarily bad, but our current system is producing terribly inequitable outcomes by race and income. Recently unearthed data reveal that nearly one quarter of black bachelor's degree graduates have defaulted on student loans, and that over 50 percent have higher loan balances after 12 years than when they first left school. [5]

Though most people are able to repay their loans without trouble, these newly publicized trends suggest a persistent problem with a subset of students that must be addressed. We need both to consider ways to make college more affordable on the front end and ensure that the quality of education is sufficient to help students

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[4] Poutre, A, Rorison, J & Voight, M. (March 2017). Limited Means, Limited Options. Institute for Higher Education Policy. Retrieved from: *http://www.ihep.org/limited-means-limited-options*

[5] Miller, B. (October 2017). New Federal Data Show a Student Loan Crisis for African American Borrowers. Center for American Progress. Retrieved from: *https://www.americanprogress.org/issues/education—postsecondary/news/2017/10/16/440711/new-Federal-data-show-student-loan-crisis-african-american-borrowers/*

repay any loans on the back end, as well. The additional risk posed to students from the reality of student loan debt requires particular attention to labor market outcomes. At the same time, we must recognize that our system of student debt is layered on top of deep racial wealth gaps and a system that offers neither equal pay nor equal work. Individuals experience disparate outcomes in the labor market based on race and gender, so ensuring the affordability of repayment options is an important back-end safety net for many students, as well. I know this is a topic that the Committee is also considering, and it is critical that we link efforts to improve accountability and quality, particularly in connecting to loan repayment outcomes, with those designed to increase affordability.

Recommendations for Addressing Affordability

I would like to highlight here two key recommendations for addressing affordability aligned with the context I've shared.

(1) A Federal state partnership for affordability, quality, and completion. A benchmark approach, or any other type of affordability guarantee, would require a new type of partnership between the Federal and state government in which colleges also commit to lower prices and better outcomes for students over time. The Federal Government could encourage states to advance affordable options for low-and moderate-income students by providing matching dollars for states that can meet affordability and quality guarantees. Without this kind of partnership with states and institutions, the Federal Government in effect tolerates continued state disinvestment and tuition increases, reducing the efficacy of the Federal investment over time. States can pull back on their commitment to aid and low tuition, allowing for Federal grants and loans to fill the gap for students.

Inasmuch as a Federal state partnership promotes greater affordability by leveraging state investment, it should also ensure that states and institutions focus on increasing post-secondary enrollment and completion. Focusing on affordability without insisting on improved access for underrepresented groups could just mean that states would make college more affordable for those already attending, without actually working to open doors to new students who wouldn't have otherwise enrolled. This is an important point when considering the potential unintended consequences of fixating on affordability without connecting to a larger vision of increased student success and closing equity gaps. We might begin to see more affordable options across states, but constricted to serve only those with high GPAs, without providing access the very students who need it most.

Additionally, because affordability can't really be separated from value, this kind of partnership would also require being more vigilant about quality, both to root out fraudulent practices and ensure credentials are meaningful. The hearing the Committee hosted last week, on accountability, began to consider some of these concepts. I applaud the Committee's exploration of accountability and quality. A reauthorized HEA should guarantee that new investments will raise institutional quality and improve outcomes with a particular eye on equity.

(2) Strengthen the Foundation of Pell. First, the Pell grant program has served as an important commitment to low-income students over the past several decades. Unfortunately, the grant itself has not kept up with the rising price of education. I urge the Committee to consider ways to strengthen the Pell grant so that it remains available for future generations, and to encourage implementation of early awareness and information campaigns to ensure would-be students are aware of its availability. Too often, students are not aware that they might be eligible for Pell grants, even as past reauthorizations tried to address this challenge by directing the Department of Education to implement early awareness campaigns. Those campaigns haven't materialized as concretely as Congress may have hoped, perhaps due to funding or the imposition of other priorities. Unfortunately, the challenge of student awareness of their eligibility for financial aid remains, limiting the power of Pell to act as an effective incentive, empowering student access.

Conclusion

The rising costs of a post-secondary education—and the growing portion of those costs being borne by students—represent a clear barrier to reaching the Nation's attainment goals. Federal policy must not only focus on students' ability to pay for post-secondary education, but should hold states and providers accountable for keeping prices at an affordable level and while maintaining quality so that ultimately financial aid is well spent on a quality education.

The success of today's students and the success of our Nation is one and the same. But that success is not possible without your help. We must work together to ensure a post-secondary education system that has affordable, high-quality options that recognize all types of learning.

I would be happy to share in more detail about any of the ideas raised here at your convenience.

Thank you and I look forward to your questions.

The CHAIRMAN. Thank you, Dr. Smith.

Dr. Baum, welcome.

STATEMENT OF SANDY BAUM, PH.D., SENIOR FELLOW, URBAN INSTITUTE, WASHINGTON, DC

Dr. BAUM. Thank you, Chairman Alexander, Ranking Member Murray, and Members of the Committee.

Thank you for hearing my testimony today. I commend your efforts to strengthen the Federal system that supports students' futures. I am grateful for the opportunity to share insights into these issues drawing on my many years as a higher education economist.

I am a Fellow at the Urban Institute. As you heard, I research student aid, higher education finance, college access and success, and the payoff of higher education. I am also a Professor Emerita of Economics at Skidmore College. And as you also heard, since 2002, I have co-authored the College Board's annual reports, "Trends in Student Aid," and "Trends in College Pricing," which Senator Alexander earlier cited.

I benefited greatly from the support of the organizations with which I have worked and my colleagues. That said, the views expressed in this testimony are my own.

My written testimony includes a lot of data on college prices, financial aid, and the expenses students face while enrolled. I hope these data will inform your efforts to reform the Federal aid system.

Beyond my statement today, I urge you to visit two websites, the Urban Institute's Understanding College Affordability site *[http://collegeaffordability.urban.org]* and the College Board's Trends in Higher Education site *[https://trends.collegeboard.org].*

I would like to use the few minutes I have today to focus on the concept of college affordability and outline what the available evidence suggests about the most constructive steps Congress can take to alleviate existing problems.

What does it mean for college to be affordable? College affordability depends on the value of the education in addition to prices and the resources available to students at the time of enrollment.

Making college cheaper will not, on its own, make it more affordable. No matter how low the price a program or an institution that does not support students in completing an education that serves them well, in terms of both life opportunities and labor market success, will prove unaffordable.

An education that provides a significant earnings premium and opens doors to opportunities for students may be affordable even if it requires borrowing and using some of the added earnings to repay student debt.

Our Nation has made a lot of progress in increasing access to college, but students from low income families are less likely than others to complete their programs. And when they do complete, too often their credentials are of limited value in the labor market.

High and rising tuition prices create a real challenge, but non-tuition expenses—including books and supplies, housing and food, et cetera—create the greatest financial hurdles for many students and families.

These expenses affect students differently depending on their financial circumstances. The incomes of low and middle income students have stagnated or declined in recent years.

Published prices have been rising faster than average prices in the economy for decades. And my read in that of many economists is that the reliable literature suggests that Federal aid is not a significant explanation for rising prices. Increases in both institutional grant aid and Federal aid have reduced the barriers to college education and lowered the net prices for many students.

Congress has made progress in supporting college affordability and has the opportunity to do even more.

What can Congress do?

The goal should be ensuring that more students can access and succeed in high quality programs. I would be happy to provide more details about the following evidence-based suggestions, strengthening the existing system.

First, Congress should ensure that aid programs are simple, predictable, and easy to apply for. Notices with information about Federal and state grants sent to families on the basis of tax returns could significantly boost preparation for college.

Pell Grant award levels should be indexed for inflation and the system designed to provide assurance that political and economic vicissitudes will not threaten the program from year to year.

Similar principles apply to loan repayment. There should be one income-based repayment plan, preferably with a well designed payroll withholding system. Payments should be manageable for all borrowers, and most borrowers should repay their entire debts with appropriate interest. The amount repaid should relate to the amount borrowed, possibly linking the length of time before balances are forgiven to the amount of debt.

Second, Congress should enact policies that help students make better choices by placing meaningful restrictions on institutional eligibility for participation in Federal student aid programs, and providing better guidance for students choosing where and what to study.

It should hold institutions receiving Federal funds accountable for outcomes. Students should not be able to take their Federal aid to schools that have little chance of serving them well. The aid system could also incorporate personalized guidance before students enroll.

Finally, Congress should design effective Federal incentives to increase state funding of need-based grant aid and of the public institutions that educate most low income students.

A stronger Federal-state partnership will make Federal dollars go farther in achieving their goals.

Thank you for the opportunity to participate today.

I would be happy to answer your questions and provide further data and resources that may be helpful to your deliberations.

[The prepared statement of Dr. Baum follows:]

PREPARED STATEMENT OF SANDY BAUM

CHAIRMAN ALEXANDER, RANKING MEMBER MURRAY, AND MEMBERS OF THE COMMITTEE:

Thank you for the opportunity to testify today about college affordability. I commend your efforts to strengthen the Federal system that supports students striving to invest in themselves and their futures. I am privileged to have the opportunity to share some insights into college affordability emerging from my long career as a higher education economist studying these issues.

I am a fellow at the Urban Institute, where I research student aid, higher education finance, college access and success, and the payoff of higher education for both students and society as a whole. In addition, I have co-authored the College Board's annual reports, Trends in College Pricing and Trends in Student Aid, every year since 2002. These reports are a trusted source of detailed data on college prices over time and on the history and distribution of student aid. I am also professor emerita of economics at Skidmore College.

The views expressed in this testimony are my own, not those of any organization with which I am affiliated, its trustees, or its funders.

My testimony begins with a discussion of the concept of college affordability, including the resources available to students and families and the economic value of college education. An overview of proposals for congressional action to ameliorate existing problems follows. I then provide critical data on issues central to college affordability including tuition prices, net prices, student aid, non-tuition expenses, and student debt. These data underlie my recommendations and I hope they will help inform the decisions facing Congress.

College Affordability: Understanding the Concept

High tuition and fees and living expenses, along with a shortage of grant aid to help students with limited means cover those expenses, obviously make college less "affordable" than it would be if the prices of all the things students have to pay for were lower. But knowing these prices is not enough to evaluate the financial hurdles students and families face.

As the comprehensive view on the Urban Institute's Understanding College Affordability website (collegeafforedability.urban.org) suggests, whether college is affordable for college and for society as a whole depends on how much it costs to deliver quality education; on the resources available to institutions, governments, students, and families to pay those costs; and on the value of the education. Making college cheaper won't make it more affordable unless sufficient resources are invested in providing the academic and personal supports students need to succeed and unless the degrees and certificates they earn serve them well in the labor market and throughout their lives.

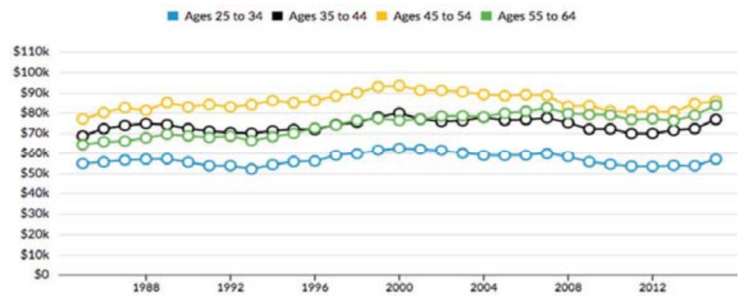
Rising prices certainly contribute to the financial strain of paying for college. But much of the hardship is caused by low completion rates of students who enroll; by stagnant family incomes and rising inequality; and by the reality that while, on average, college degrees pay off very well in the labor market, earnings vary widely among adults with similar levels of education. Post-college income is one important indicator of the value of education; for most students, it includes a premium over what they would otherwise have earned, some of which can reasonably be devoted to repaying student loans. Higher education improves life prospects for most students substantially, but some students, especially many of those who do not complete their degrees, end up worse off after paying for college than they would have been if they had never made the investment.

Student and Family Resources

The failure of real median pretax family income to grow measurably in recent years makes it more and more difficult to pay for college (figure 1).

FIGURE 1

Median Income of Families by Age Group, 1985–2015, in 2015 Dollars



Source: Urban Institute, "Understanding College Affordability," http://collegeaffordability.urban.org/covering-expenses/pre-college-income/#/income_over_time.

Moreover, the personal savings rate is too low to support most families in planning ahead and spreading the costs of college over the years before their children enroll. The personal savings rate in the United States fell from 8.0 percent of after-tax income in December 1987 to 5.8 percent in 1997, 3.0 percent in 2007, and 2.4 percent in 2017.[1]

Changes in median family income understate the problems families from the lower half of the income distribution face in paying for college. Students from low- and moderate-income families get more grant aid and pay lower net prices than more affluent students, but the differences are far from what would be required to compensate for the large and growing gaps in income across families. The share of total family income accruing to those in the bottom 40 percent fell from 13 percent in 1996 to 12 percent in 2006 and to 11 percent in 2016. Over the same period, the share of the top 20 percent rose from 49 percent to 50 percent to 52 percent.[2] In other words, low-and moderate-income families face increasing struggles relative to others.

[1] Federal Reserve Bank of St. Louis, FRED Economics Data, "Personal Savings Rate," February 3, 2018, *https://fred.stlouisfed.org/series/PSAVERT*.
[2] U.S. Census Bureau, Historical Tables: Income Inequality, Table H–2, 2017. within 8 years.

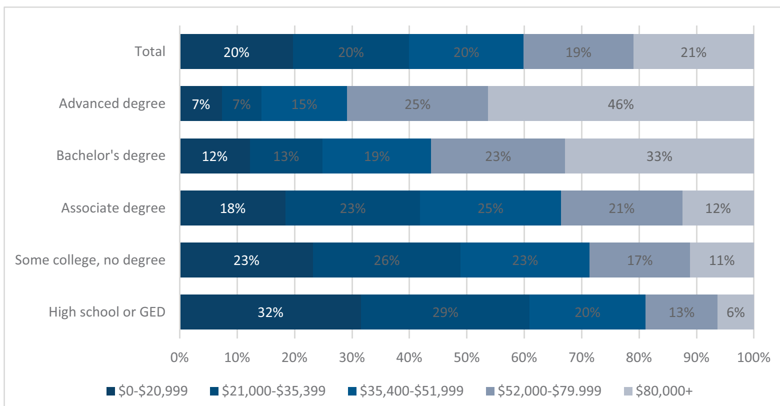
Access Versus Success

Our nation has done an admirable job of increasing access to college. Significant gaps in enrollment rates across socioeconomic groups persist, but more than 85 percent of high school graduates have some college experience within 8 years.[3] However, students from low-income families disproportionately enroll in public 2-year and for-profit institutions. They are less likely than others to complete their programs; and, when they do complete them, too often the credentials have limited value in the labor market.[4]

The average payoff to college degrees is quite high, but earnings vary considerably among adults with the same education level.

FIGURE 2

Earnings Distribution of Employed Workers Ages 35–44, by Educational Attainment



Source: Urban Institute, "Understanding College Affordability," http://collegeaffordability.urban.org/after-college/variation-in-earnings/#/variation_within_education_levels.

A third of 35-to 44-year-olds whose highest degree is a bachelor's degree had incomes of $80,000 or higher between 2009 and 2013, compared with just 6 percent of those with only a high school diploma. But a quarter of bachelor's degree recipients earned less than $35,400. Not all bachelor's degrees—or degrees of any other type—pay off equally well in the labor market. For those whose degrees do not pay off, college turns out not to have been affordable.[5]

The reality is that lowering college prices for students is an important strategy for helping them succeed. More generous grant aid can make a real difference in student success. But ensuring that students have the support they need to make good choices about where to enroll and what to study and to succeed in completing their programs is also critical. College is a very good investment but an uncertain on. Insurance against unexpected weak outcomes is an important part of the federal government's role in ensuring college affordability.

Seeking Solutions: The Federal Role

The Federal student aid system plays a significant role in reducing the barriers to college access and success. Federal grants and loans have allowed millions of Americans to earn college credentials that improve their lives and increase their contributions as citizens and as workers.

Many of the significant remaining barriers originate outside the higher education system. Largely because of extreme inequalities of income and wealth and limited

[3] American Academy of Arts and Sciences Commission on the Future of Undergraduate Education, 2017, *Top Ten Takeaways About Undergraduates* (based on data from NCES, Education Longitudinal Study), *https://www.amacad.org/multimedia/pdfs/publications/researchpapersmonographs/PRIMER-cfue/PRIMER-Top-Ten—Takeaways.pdf.*

[4] Harry Holzer and Sandy Baum, Making College Work: Pathways to Success for Disadvantaged Students (Washington, DC: Brookings Institution Press, 2017).

[5] Graduates who make the choice to follow career paths with low earnings are in very different situations from those who do not have viable choices.

access to high-quality early education and health care for many Americans, too many young adults are not prepared to succeed in college.[6]

The Federal Government is also limited by the reality that a great strength of our higher education system is the diversity of institutions and credentials it offers. The autonomy of states, and of colleges and universities, to innovate and meet the needs of differing populations is central to our success.

Reauthorization of the Higher Education Act cannot solve all the problems facing higher education and its students. But Congress does have the opportunity to create a more equitable society and a more efficient economy by making changes such as these to the existing system:

- 1. Simplify the application process for Federal student aid. Reducing the amount of information students must provide on the FAFSA and relying more on data the IRS already has would increase the number of students who successfully access Federal aid.[7]
- 2. Simplify the formula for calculating eligibility for Pell grants so prospective students can predict well in advance how much aid they will receive. The Federal Government could actively work to improve awareness of Pell grants and encourage young people to prepare for college both financially and academically. A good option would be to send out notices to school children and their parents, based on the families' tax returns, that would provide information about the Federal and state grant available to them if their circumstances stay the same.
- 3. Ensure that the Pell grant program is amply and securely funded. Award levels should be indexed for inflation and the system designed to provide assurance that political and economic vicissitudes will not threaten the program from year to year.
- 4. Place meaningful restrictions on institutional eligibility for participation in Federal student aid programs and better guide students making post-secondary choices. Students should not be able to use their aid at institutions with very low transfer and completion rates, low student loan repayments rates, or poor employment outcomes.[8]
- 5. Even with the least successful institutions eliminated from the system, students need better guidance about choosing where and what to study. Proposals to integrate personalized guidance into the Federal aid system, such as one from myself and Judith Scott-Clayton in Redesigning the Pell Grant Program for the Twenty-First Century could increase the value of students' investments in post-secondary education—thus increasing its affordability.[9]
- 6. Hold institutions that receive Federal student aid funds accountable for student outcomes. Developing ideas about holding institutions responsible for a share of the Federal loans their students do not repay deserve serious consideration. Most promising is a recent proposal from Tiffany Chou, Adam Looney, and Tara Watson that would base institutional obligations on the repayment rate—the amount each institution's students have repaid after 5 years—and use the recovered funds to provide support to institutions that serve low-income students well.[10]
- 7. Design effective incentives to increase state funding of need-based grant aid and of the public institutions that educate most low-income stu-

[6] See, for example Helen Ladd, "Education and Poverty: Confronting the Evidence," *Journal of Policy Analysis and Management* 31, no. 2 (2012): 203—27; and Phillip Oreopoulos, Mark Stabile, Leslie Roos, and Randy Walld, "The Short, Medium, and Long Term Effects of Poor Infant Health," *Journal of Human Resources* 43, no. 1 (2008): 88—138.

[7] For clear evidence of the role of easing the application process, see, for example, Eric Bettinger, Bridget Long, Philip Oreopoulos, and Lisa Sanbonmatsu, "The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment," *Quarterly Journal of Economics* 127, no. 3 (2012). A summary of the results is available from The National Bureau of Economic Research at *http://www.nber.org/digest/feb10/w15361.html.*

[8] For discussion of setting benchmarks for these measures of institutional success, see Sandy Baum and Saul Schwartz, For Which Institutions Should Students Borrow? Setting Benchmarks, Urban Institute, forthcoming

[9] Sandy Baum and Judith Scott-Clayton, Redesigning the Pell Grant Program for the *Twenty-First Century,* Hamilton Project Policy Brief 2013–04 (Washington, DC: Brookings Institution, 2013).

[10] Tiffany Chou, Adam Looney, and Tara Watson, *A Risk-Sharing Proposal for Student Loans,* Hamilton Project Policy Proposal 2017–04 (Washington, DC: Brookings Institution, 2017).

dents. Federal dollars can go farther toward increasing educational attainment if they support state efforts to subsidize students who do not have the resources they need to enroll and succeed in college.

- 8. Simplify and reform the Federal student loan repayment system. Income-driven student loan repayment is a critical component of college affordability. While it should be possible to diminish the number of students whose investments in higher education do not pay off by restricting institutional eligibility for participation in Federal student aid programs and providing better guidance for students, outcomes will always be variable. There will always be students for whom college does not pay off well financially, and even if they have borrowed responsibly, they will struggle to repay their loans. The Federal Government should provide reliable insurance against these unanticipated poor outcomes by linking loan repayment obligations to post-college incomes.

There should be one income-driven loan repayment plan, and Congress should authorize a pilot program to develop a system of collecting payments through payroll withholding. The system should be designed so payments are manageable for all borrowers and most borrowers repay their debts with appropriate interest. The amount repaid should relate to the amount borrowed, possibly by linking the length of time before balances are forgiven to the amount of debt. There is no solid evidence of the availability of Federal student aid contributing significantly to rising college prices outside the for-profit sector, but allowing students to borrow virtually unlimited amounts they are never likely to have to repay will surely diminish the incentive to hold tuition prices down. [11]

College Prices

Members of Congress, students and families, and everyone interested in ensuring broad access to higher education should be concerned about high levels of tuition and fees and the rapid rise in these prices. However, these prices constitute only one piece of the complex picture of college affordability in the United States.

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[11] For careful overviews of the evidence—or lack thereof—for the relationship between Federal aid and tuition prices, see Adam Stoll, David Bradley, and Shannon Mahan, *Overview of the Relationship between Federal Student Aid and Increases in College Prices,* 7–5700 (Washington, DC: Congressional Research Service, 2014), *http://c.ymcdn.com/sites/www.ncher.us/resource/collection/1CFB07FA–74C6–4F0A–8E79–3ADB2C453546/R43692.pdf;* U.S. Government Accountability Office, *Federal Student Loans: Patterns in Tuition, Enrollment, and Federal Stafford Loan Borrowing Up to the 2007–08 Loan Limit Increase* (Washington, DC: GAO, 2011), *https://www.gao.gov/assets/100/97510.pdf;* and Bridget Terry Long, "College Tuition Pricing and Federal Financial Aid: Is there a Connection?" testimony before the U.S. Senate Committee on Finance, December 5, 2006, *https://www.finance.senate.gov/imo/media/doc/120506bltest.pdf.*

Published Tuition and Fees Over Time

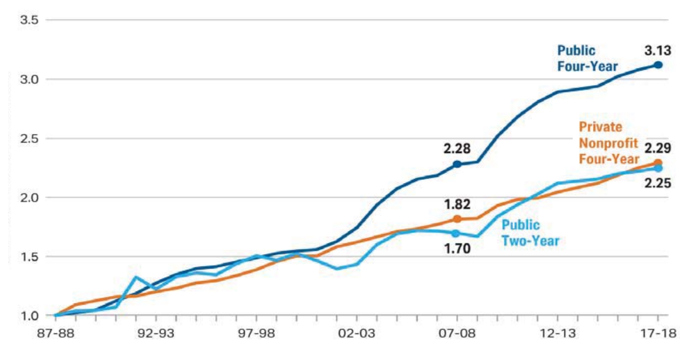
The prices colleges and universities list for tuition and fees do not represent what students actually pay. Many institutions, particularly private non-profit colleges and universities but also many public 4-year ones, provide considerable amounts of institutional grant aid. In other words, they discount the prices they charge many—and in some cases, all—students. But the published prices still matter. A significant number of students do pay these prices. In 2015—16, 63 percent of students received grant aid from some source and 27 percent did not. Among full-time students, 77 percent received grant aid and 23 percent did not.[12] Moreover, high sticker prices may discourage students, particularly low-income students whose parents lack college experience, from even applying to college.

What has happened to published tuition and fees over time? As the College Board's Trends in College Pricing 2017 report (of which I am a co-author) documents, in 2017—18, average tuition at public 4-year colleges and universities is more than three times as high, after adjusting for inflation, as it was 30 years ago. Prices in the public 2-year and private non-profit 4-year sectors are more than twice as high in real terms as they were in 1987—88 (figure 3).

FIGURE 3

Inflation-Adjusted Published Tuition and Fees Relative to 1987–88, 1987–88 to 2017–18

1987–88 = 1.0



Source: Jennifer Ma, Sandy Baum, Matea Pender, and Meredith Welch, *Trends in College Pricing 2017* (New York: The College Board, 2017), figure 4B.

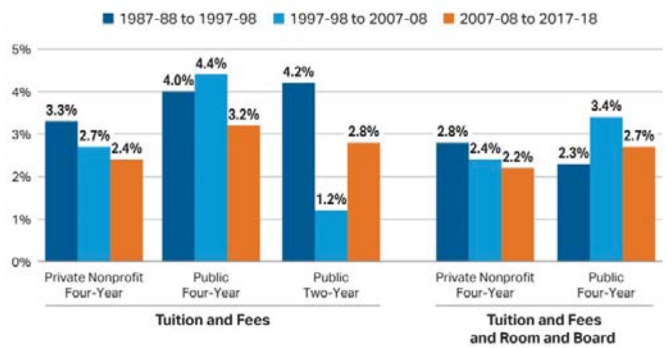
Tuition rising more rapidly than average prices in the economy (the consumer price index) is not a new development. In fact, between 2007—08 and 2017—18, average prices at private non-profit 4-year and public 4-year institutions rose at a slower rate than they had over the previous two decades. In the private non-profit sector, average published tuition and fees rose by 3.3 percent beyond inflation between 1987—88 and 1997—98, by 2.7 percent over the following decade, and by 2.4 percent over the most recent decade. These figures, reported in figure 4, compare percentage rates of growth. In dollar terms, the 3.2 percent average annual rate of increase in published in-state tuition and fees in the public 4-year sector between 2007—08 and 2017—18 corresponds to an average annual increase of $270 in 2017 dollars, compared with $160 per year between 1987—88 and 1997—98 and $250 per year between 1997—98 and 2007—08.[13]

[12] David Radwin et al., 2015—16 National Post-Secondary Student Aid Study (NPSAS:16) *Student Financial Aid Estimates for 2015—16: First Look,* National Center for Education Statistics, NCES 2018-466, table 1 (January 2018).

[13] Jennifer Ma, Sandy Baum, Matea Pender, and Meredith Welch, *Trends in College Pricing 2017* (New York: College Board, 2017), p. 13.

FIGURE 4

Average Annual Percentage Increase in Inflation-Adjusted Published Prices by Decade, 1987–88 to 2017–18



Source: Jennifer Ma, Sandy Baum, Matea Pender, and Meredith Welch, *Trends in College Pricing 2017* (New York: The College Board, 2017), figure 4A.

Variation in tuition and fees

Variation in Tuition and Fees

Elite private colleges frequently make the headlines with their tuition prices. It's true that published tuition and fee prices at the most expensive colleges exceed $50,000 and, when room and board are added in, the price tag for students not receiving aid can be about $65,000. But even at private non-profit colleges, only 13 percent of students are enrolled at institutions charging more than $50,000 in tuition and fees, and about a quarter face charges less than half that amount. [14]

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[14] Ma et al., *Trends in College Pricing 2017,* figure 2.

In 2017—18, average published tuition and fees were $3,570 for full-time students at community colleges. The average for full-time in-state undergraduates at public master's universities was $8,670, compared with $10,830 at public doctoral universities. In the private non-profit sector, average published tuition and fees ranged from $29,960 at master's institutions to $42,920 at doctoral universities (table 1).

TABLE 1

Average Published Charges (Enrollment-Weighted) for Full-Time Undergraduates, 2016–17 and 2017–18

	Sector					Carnegie Classification					
						Public Four-Year			Private Nonprofit Four-Year		
	Public Two-Year In-District	Public Four-Year In-State	Public Four-Year Out-of-State	Private Nonprofit Four-Year	For-Profit	Doctoral	Master's	Bachelor's	Doctoral	Master's	Bachelor's
Tuition and Fees											
2017-18	$3,570	$9,970	$25,620	$34,740	—	$10,830	$8,670	$8,230	$42,920	$29,960	$33,450
2016-17	$3,470	$9,670	$24,820	$33,520	$16,000	$10,510	$8,360	$7,980	$41,340	$28,930	$32,050
$ Change	$100	$300	$800	$1,220	—	$320	$310	$250	$1,580	$1,030	$1,400
% Change	2.9%	3.1%	3.2%	3.6%	—	3.0%	3.7%	3.1%	3.8%	3.6%	4.4%
Room and Board											
2017-18	$8,400	$10,800	$10,800	$12,210	—	$11,220	$10,020	$10,160	$13,800	$11,490	$11,370
2016-17	$8,170	$10,480	$10,480	$11,850	—	$10,900	$9,690	$9,970	$13,370	$11,170	$11,000
$ Change	$230	$320	$320	$360	—	$320	$330	$190	$430	$320	$370
% Change	2.8%	3.1%	3.1%	3.0%	—	2.9%	3.4%	1.9%	3.2%	2.9%	3.4%
Tuition and Fees and Room and Board											
2017-18	$11,970	$20,770	$36,420	$46,950	—	$22,050	$18,690	$18,390	$56,720	$41,450	$44,820
2016-17	$11,640	$20,150	$35,300	$45,370	—	$21,410	$18,050	$17,950	$54,710	$40,100	$43,050
$ Change	$330	$620	$1,120	$1,580	—	$640	$640	$440	$2,010	$1,350	$1,770
% Change	2.8%	3.1%	3.2%	3.5%	—	3.0%	3.5%	2.5%	3.7%	3.4%	4.1%

Source: Jennifer Ma, Sandy Baum, Matea Pender, and Meredith Welch, *Trends in College Pricing 2017* (New York: The College Board, 2017), table 1.

Charges also differ significantly within sectors. In 2017—18, average published tuition and fee prices for in—state students at public 4-year institutions range from $5,220 in Wyoming and $6,360 in Florida to $16,040 in Vermont and $16,070 in New Hampshire (table 2).

TABLE 2

Average 2017–18 Tuition and Fees and Public Four-Year Institutions and Five-Year Percentage Change in Inflation-Adjusted In-State Tuition and Fees, by State

State	2017-18 In-State Tuition and Fees	State	2017-18 In-State Tuition and Fees
Wyoming	$5,220	Maryland	$9,580
Florida	$6,360	California	$9,680
Utah	$6,790	Tennessee	$9,790
Montana	$6,910	Texas	$9,840
New Mexico	$6,920	Maine	$9,970
Idaho	$7,250	**United States**	**$9,970**
Nevada	$7,270	Kentucky	$10,300
North Carolina	$7,380	Oregon	$10,360
Alaska	$7,440	Ohio	$10,510
West Virginia	$7,890	Alabama	$10,530
New York	$7,940	Hawaii	$10,660
Mississippi	$7,990	Colorado	$10,800
North Dakota	$8,200	Arizona	$11,220
Nebraska	$8,270	Minnesota	$11,300
South Dakota	$8,450	Rhode Island	$12,230
Oklahoma	$8,460	Delaware	$12,270
Arkansas	$8,550	Connecticut	$12,390
Georgia	$8,570	South Carolina	$12,610
Iowa	$8,760	Massachusetts	$12,730
Missouri	$8,870	Virginia	$12,820
Wisconsin	$8,960	Michigan	$12,930
Kansas	$9,230	Illinois	$13,620
Louisiana	$9,300	New Jersey	$13,870
Indiana	$9,360	Pennsylvania	$14,440
Washington	$9,480	Vermont	$16,040
		New Hampshire	$16,070

Source: Jennifer Ma, Sandy Baum, Matea Pender, and Meredith Welch, *Trends in College Pricing 2017* (New York: The College Board, 2017), figure 6.

Net Prices

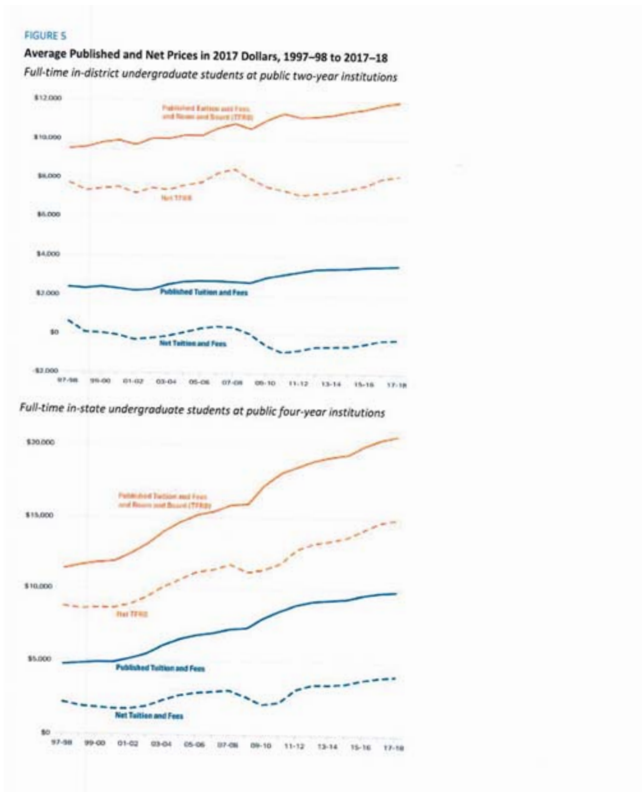
As noted above, most students receive grant aid to help them pay for college. Many students also benefit from Federal tuition tax credits. (In 2017—18, more than 13 million students—almost twice the number of Pell grant recipients—received education tax credits and deductions.)

Because of this aid, the average tuition prices students pay are much lower than the average published prices. Moreover, net prices have risen more slowly than published prices. Federal and institutional aid explain most of this difference. Figure 5 reveals a few key points about the difference between net prices and published prices:

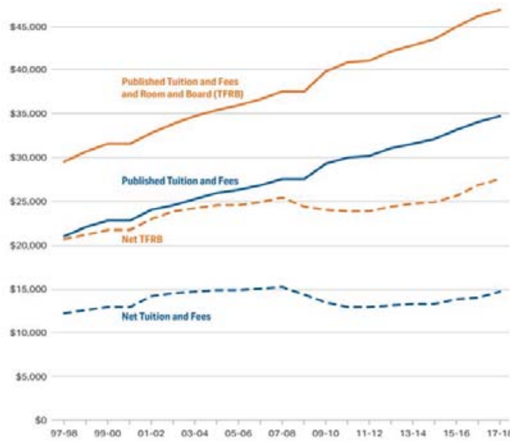
- At public 2-year colleges (community colleges), on average grant aid and tax benefits combined more than cover tuition and fees. However, the average net tuition and fee price reached a low of—$910 in 2010—11 and has risen every year since, as increases in grant aid have failed to keep pace with price increases. In 2017—18, the average full-time community college student has $330 of grant aid left to put toward books and other expenses after paying tuition and fees. Net tuition, fees, room, and board average over $8,000.
- At public 4-year colleges and universities, the average net price fell dramatically in 2008—09 and 2009— 10 as the Federal Government increased Pell grants and tax credits in the face of diminished state subsidies and rising tuition prices. The average net price has risen every

year since 2009—10 and is now about $4,100—less than half the published price. When room and board are added, the average net price for full-time, public 4-year college students is about $15,000 a year—expenses that have to be covered with a combination of parental support, work, and loans.

- The average full-time student at a private non-profit 4-year institution receives about $20,000 a year in a combination of grant aid and Federal tax benefits to help pay for college. About three-quarters of that aid comes from the institutions in which the students are enrolled. The average 2017—18 net tuition and fee price of $14,500 is lower (after adjusting for inflation) than the average net price in 2007—08, but it has risen every year since 2011—12. Average net tuition, fees, room and board is almost $27,000 per year.



Full-time in-state undergraduate students at private four-year institutions



Source: Jennifer Ma, Sandy Baum, Matea Pender, and Meredith Welch, *Trends in College Pricing 2017* (New York: The College Board, 2017), figures 8–10.

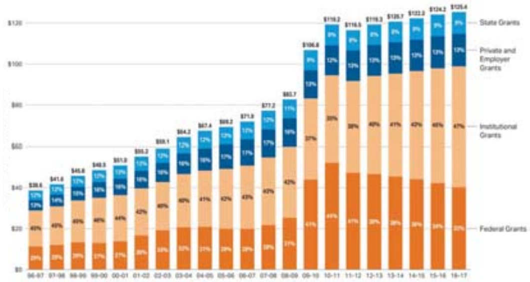
Student Aid

The difference between the published prices and the net prices students actually pay results from aid provided by Federal and state governments, colleges and universities, and employers and other private sources. In addition to this aid, Federal education loans help students and families spread their payments for college over time.

FIGURE 6

Total Grant Aid in 2016 Dollars by Source of Grant, 1996–97 to 2016–17

Billions of 2016 dollars

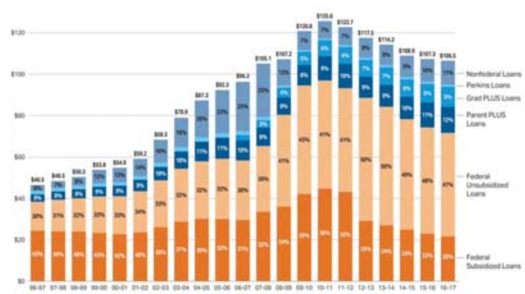


Source: Sandy Baum, Jennifer Ma, Matea Pender, and Meredith Welch, *Trends in College Aid 2017* (New York: The College Board, 2017), figure 3.

FIGURE 7

Total Federal and Nonfederal Loans, 1996–97 to 2016–17

Billions of 2016 dollars

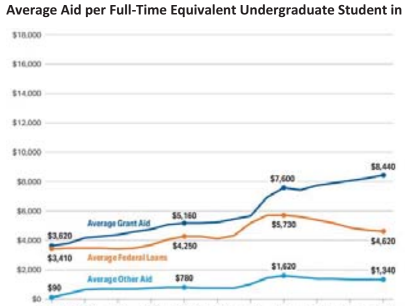


Source: Sandy Baum, Jennifer Ma, Matea Pender, and Meredith Welch, *Trends in College Aid 2017* (New York: The College Board, 2017), figure 4.

Since 2010—11, as the economy has been recovering from the Great Recession, total grant aid has risen (figure 6), but total education borrowing has declined year after year (figure 7). Part of the decline in borrowing is due to declining enrollments in the for-profit sector and, to a lesser extent, community colleges. But borrowing per students has also declined (figure 8).

FIGURE 8

Average Aid per Full-Time Equivalent Undergraduate Student in 2016 Dollars, 1996–97 to 2016–17



Source: Sandy Baum, Jennifer Ma, Matea Pender, and Meredith Welch, *Trends in College Aid 2017* (New York: The College Board, 2017), figure 1.

Understanding trends in the grant aid that helps students pay for college is complicated by the recession. The choice of beginning years can dramatically alter the picture that emerges. For example, the $26.6 billion in total Pell grant expenditures in 2016—17 represented a 75 percent increase in inflation-adjusted dollars over 10 years—but a 26 percent decline from 2011—12. Federal aid to veterans and active military has grown dramatically and now represents 30 percent of all Federal grant aid to undergraduate students.

TABLE 3

Aid to Undergraduate Students in Millions of 2016 Dollars

	2006–07	2011–12	2016–17	5 -year change	10-year change
Pell grants	$15,157	$35,763	$26,562	-26%	75%
Federal aid to veterans and military	$2,938	$9,575	$11,532	20%	293%
Total federal grants	$19,611	$46,122	$38,834	-16%	98%
Federal loans	$47,143	$75,941	$58,128	-23%	23%
Federal education tax benefits	$7,423	$19,551	$16,074	-18%	117%
State grants	$8,498	$9,700	$10,426	7%	23%
Institutional grants	$23,971	$34,881	$46,126	32%	92%
Private and employer grants	$7,903	$10,125	$10,753	6%	36%
Federal grants as a share of total grants	33%	46%	37%		

Source: Sandy Baum, Jennifer Ma, Matea Pender, and Meredith Welch, *Trends in Student Aid 2017* (New York: College Board, 2017), table 1A.

In 2011—12, institutional grant aid to undergraduates was similar to Pell grants—$34.9 billion versus $35.8 billion. But by 2016—17, institutional grant dollars for undergraduates were 75 percent higher than Pell grants—$46.1 billion versus $26.6 billion. Federal grants (including aid to veterans and active military) declined from 46 percent of total grant aid in 2011—12 to 37 percent in 2016—17 (table 3).

Federal Pell grants provided basic funding to more than 7 million low-and moderate-income students in 2016—17. More than half of those students were independent, not relying on parents for financial support. Among dependent recipients, three-quarters came from families with incomes of $40,000 or lower. In 2016—17, when the maximum Pell grant was $5,820, the average award was $3,740.[15] These funds do not come close to covering expenses for low-income students, but they do make it possible for many who would otherwise be unable to piece together the necessary funds to enroll in college.

Nontuition Expenses

Because it is difficult to combine successful engagement in college studies with full-time work, many students struggle to cover their living expenses while they are in school. These living expenses, especially when added to the cost of books and other necessary supplies, are considerably larger than published tuition and fees for most students.

In 2016—17, tuition and fees represented 20 percent of the total estimated expense budgets for full-time students at public 2-year colleges and 39 percent for those at public 4-year institutions. Published tuition and fees constitute more than half the budget only for public 4-year college students enrolled outside their state of residence and for private non-profit 4-year college students (figure 9).

FIGURE 9

Average Estimated Full-Time Undergraduate Budgets (Enrollment-Weighted) by Sector, 2017–18

Source: Sandy Baum, Jennifer Ma, Matea Pender, and Meredith Welch, *Trends in College Pricing 2017* (New York: The College Board, 2017), figure 1.

[15] Sandy Baum, Jennifer Ma, Matea Pender, and Meredith Welch, *Trends in Student Aid 2017* (New York: College Board, 2017), figures 16, 18B.

These total budgets are based on estimates of living expenses developed by financial aid offices. They include many expenses that people would incur even if they were not in school, such as food and rent. But even though most students work at least part time, few earn enough to cover these expenses.

Many low-income students do not actually pay tuition and fees. In fact, on average, low-income students at both 2-year and 4-year public institutions paid $0 in net tuition and fees in 2011—12, the latest year for which these detailed data are available (figure 10). Still, we know that many low-income students struggle financially while they are in school. Research from the Urban Institute has documented a significant amount of food insecurity, particularly among community college students.[16] While it is difficult to isolate the role of finances in students' dropping out without completing their programs, it is clear that many need assistance with meeting other expenses—not just tuition and fees—if they are to succeed.

FIGURE 10

Tuition and Fees and Living Expenses Divided into the Amount Covered by Grant Aid and the Amount Remaining, by Parental Income Quartile, 2011–12

Source: Urban Institute, "Understanding College Affordability," http://collegeaffordability.urban.org/prices-and-expenses/net-price/#/by_income.

Student Debt

Much of the current concern over college affordability relates to the attention to rising student debt levels. There is no question that an increasing share of undergraduates are borrowing to help finance their education and that average debt levels are growing. But there is a considerable amount of misunderstanding about where the real problems lie.

As noted above, investing in college pays off well on average and for most students. The 60 percent of those who completed bachelor's degrees at private non-profit and public institutions in 2015—16 who had taken students loans borrowed an average of $28,400.[17] Median annual income for 25-to 34-year-olds with bachelor's degrees is $19,500 higher than the median for high school graduates.[18] It doesn't require a large share of this earnings premium to repay the average debt in a few years.

[16] Kristin Blagg, Craig Gundersen, Diane Schanzenbac, and James Ziliak, "Assessing Food Insecurity on Campus, (Washington, DC: Urban Institute, 2017), *https://www.urban.org/sites/default/files/publication/92331/assessing—food—insecurity—on—campus—3.pdf.*

[17] Baum et al., *Trends in Student Aid 2017* (New York: College Board, 2017), figure 12.

[18] U.S. Census Bureau, Educational Attainment-People 25 Years Old and Over, by Total Money Earnings, Work Experience, Age, Race, Hispanic Origin, and Sex, PINC–03 (2017).

The debt levels of 4-year college graduates, however, vary considerably. Students who earn their degrees at for-profit institutions, independent students, and black students are particularly likely to borrow at high levels.[19]

The real problems lie with students who borrow relatively little but leave school without a degree or certificate or earn a credential with little labor market value. Among students who entered repayment in 2011—12, 24 percent of those who had not completed their programs had defaulted within 2 years, compared with 9 percent of completers.[20] Default rates are highest for those with the lowest levels of debt, and about two-thirds of defaulters owe less than $10,000.[21] Improving rates of program completion is an important policy goal in improving college affordability.

Households in the upper quartile of the income distribution hold most of the outstanding student debt.[22] They have advanced degrees or at least bachelor's degrees, and the vast majority will successfully repay their loans. The more serious student debt problem is too many students borrowing for programs in which they have a low chance of succeeding and accruing debts that will impede their abilities to support themselves and their families.

Conclusion

Many factors combine to create challenges for students and families paying for post-secondary education. The Federal Government has a responsibility to ensure that those with the most limited resources can overcome the multiple challenges they face in earning college credentials that will allow them to lead successful and productive lives and create opportunities for their children.

Congress should use the reauthorization of the Higher Education Act to strengthen the student aid system so it better supports student success and protects against unanticipated poor outcomes and to ensure that institutions provide high-quality educational opportunities to their students.

[SUMMARY STATEMENT OF SANDY BAUM]

High and rising tuition prices create a real challenge to many students and families attempting to finance a college education. But many other factors also contribute to college affordability. Incomes at the top of the income distribution have grown enough in recent years to keep up with the price of college, but the incomes of lower-and middle-income households have stagnated or declined. Low savings rates mean that few families successfully prepare in advance for college payments.

College affordability depends on more than tuition prices and other expenses students incur and the resources available at the time of enrollment. The value of the education helps determine its affordability over the long run. No matter how low the price, a program or an institution that does not support students in completing an education that will serve them well, both in life opportunities and labor market success, will turn out to be unaffordable. An education that provides a significant earnings premium and opens doors to opportunity for students is affordable, even if it requires borrowing and using some of the added earnings to repay student debt.

The Federal student aid system plays a critical role in increasing the number of Americans who can enroll and succeed in post-secondary education. Yet too many barriers remain, and Congress has an opportunity to address some of them with the impending reauthorization of the Higher Education Act.

Congress should help make college more affordable for students and families by simplifying the aid application process, making Pell grants more predictable and reliable, eliminating institutions with very poor outcomes from Federal aid programs and holding institutions accountable for student success, providing better information and guidance for students, and improving the income-driven system for student loan repayment.

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[19] Urban Institute, "Understanding College Affordability," *http://collegeaffordability.urban.org/after-college/student-debt/#/.*

[20] Urban Institute, "Understanding College Affordability," *http://collegeaffordability.urban.org/after-college/loan-repayment—and-default//delinquency—and—default.*

[21] Baum et al., *Trends in Student Aid 2017,* figure 12B.

[22] Sandy Baum and Victoria Lee, "Affluent households owe the most student debt," *Urban Wire,* January 22, 2018, *https://www.urban.org/urban-wire/affluent-households-owe-most-student-debt.*

The data required to understand trends in college affordability include information on

1. the net prices students actually pay in addition to published prices,
2. non-tuition expenses students must be able to meet in order to succeed in college,
3. institutional grant aid as well as the grants and loans available from the Federal Government, and
4. student debt.

Basing policies on reliable data and evidence about effectiveness is the best strategy for increasing college access and success.

The CHAIRMAN. Thank you, Dr. Baum.

Dr. Anderson, welcome.

STATEMENT OF ROBERT E. ANDERSON, PH.D., PRESIDENT, STATE HIGHER EDUCATION EXECUTIVE OFFICERS ASSOCIATION, BOULDER, COLORADO

Dr. ANDERSON. Chairman Alexander, Ranking Member Murray, and Members of the Committee.

Thank you for the opportunity to testify.

My name is Rob Anderson, and I am President of the State Higher Education Executive Officers Association.

For the first time in our Nation's history, we are at the cusp of college students and their families paying for the majority of college costs. In 2016, net tuition revenue accounted for 47.3 percent of total revenue in higher education, up from 36.7 percent 10 years earlier.

This increased reliance on tuition dollars most adversely impacts those students who can least afford it: our historically underserved populations.

The combination of increased costs and stagnant wage growth has resulted in an increasingly large gap between the cost of college and a family's ability to pay for college.

There are several noticeable trends during economic downturns.

First, state funding per student declines while enrollments increase as the newly unemployed enter higher education for upskilling and retraining. Consequently, institutional reliance on tuition revenue increases as do tuition rates.

During periods of economic recovery, state appropriations generally increase and increases in tuition tend to moderate.

Unfortunately, the most recent educational recovery has not been as robust as we have experienced in the past; state investment in higher education declined by 26 percent per student between 2008 and 2012. In constant dollars, this marked the lowest funding level per student since 1980. By 2016, funding had partially recovered, but remained 15 percent below pre-recession levels. Only four states reported in 2016 that their state and local funding exceeded 2008 levels.

While state funding per student has declined, we also know that the situation is worse in the institutions where the majority of our underserved students reside. These institutions receive fewer state resources.

A 2016 study by Bridget Terry Long notes that while holding other factors constant, public research institutions received $2,500 more per Full Time Equivalent student than other public 4-year institutions, and $5,200 more than public 2-year colleges.

However, there is good news in that reducing these funding inequities can result in meaningful gains. Recent research by David Deming and Christopher Walters found that at community colleges, a 10 percent rise in spending increases Associate's Degree completion by 10 percent and certificates by 23 percent, both within a 1-year period of time. Bachelor's Degree completion rose between 4 and 5 percent within 3 years.

Similarly, the researchers cleared that directing increased aid to low income students raises both enrollments and graduation rates.

With this context in mind, we must provide a targeted approach to address system inequities and inefficiencies. President Trump recently proposed a partnership that includes Federal, state, and local entities to address our Nation's infrastructure needs. I agree that this is a national imperative.

A similar post-secondary partnership that incentivizes increased investment in students and institutions, that are most in need, would benefit us all and is of similar national importance.

Funding should flow to keep tuition increases modest and predictable, while expanding system-wide strategies resulting in increased college completion and accountability.

Additional resources should be targeted and focused on outcomes. Forty-one states now have attainment goals, set at a level that matches workforce demands, and nine states have well-designed allocation models aligned to pay for outcomes, particularly the improved outcomes of underrepresented students.

States and systems are also developing plans informed by data with campus level completion goals and strategies to expand lower priced options.

Members of the Committee, yes, money matters and both the Federal Government and states will need to spend more if we want double digit improvements in the next decade. But this is not just a matter of resources, but also of leadership and system alignment.

This Committee, and the Nation you represent, should have assurances that state governments, higher education systems and their campuses are in lockstep regarding attainment goals, spending, and strategies.

Thank you, and I would be happy to answer any questions.

[The prepared statement of Dr. Anderson follows:]

PREPARED STATEMENT OF ROBERT ANDERSON

CHAIRMAN ALEXANDER, RANKING MEMBER MURRAY AND MEMBERS OF THE COMMITTEE:

Thanks you for the opportunity to testify today. My name is Rob Anderson, and I am the President of the State Higher Education Executive Officers (SHEEO) Association. SHEEO is the national association of the chief executives of statewide governing, policy, and coordinating boards of post-secondary education. We seek to advance public policies and educational practices to achieve more widespread access to and completion of higher education, more discoveries through research, and more applications of knowledge that improve the quality of human lives and enhance the public good.

I have been asked to address the issue of college affordability. As the only national membership organization representing the state perspective on higher education, I feel a special obligation to focus on the role of higher education finance and policy in either removing or raising barriers to college student success and to address how we might utilize the tools available to us to move our states and our country forward toward greater prosperity and equity. To do this, I will be addressing the following interrelated topics: 1) state higher education finance trends, 2) the implications of cost and affordability, 3) the implications of institutional resources, 4) aligning state appropriations and tuition policies with strategies for affordability, 5) the concept of a Federal/state partnership for affordability, and 6) recommendations moving forward.

State Higher Education Finance Trends

It is well known that the cost of attending college has been rising for students and families for decades. This steady increase in cost has constrained student choice and priced generations of potential students out of higher education. Every state and Federal higher education finance decision made moving forward ought to reflect this reality. In order to accurately understand and respond to the reality of this cost crisis, accurate data and relevant high-quality research are needed. In that regard, the State Higher Education Finance (SHEF) report brings important context and trend analysis to help inform policy decisions made in this arena. Since 2003, SHEEO's State Higher Education Finance report has been a leading national resource for tracking national and state-level trends in state and local funding, tuition revenue, and enrollment. These trend data go back to 1980, and depict the impact of the economic cycle on the balance between tuition and state appropriations.

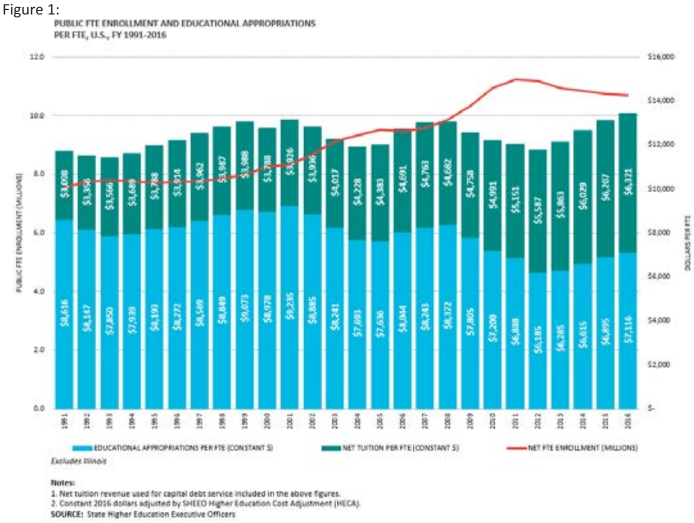
The SHEF report depicts educational appropriations from state and local sources and how these resources interact with tuition. In 2016, net tuition revenue accounted for 47.3 percent of total revenue in higher education, up from 36.7 percent 10 years earlier.[1] This increased reliance on tuition dollars most adversely impacts those students who can least afford it—our historically underserved populations.

There are several noticeable trends during economic downturns. First, per student funding declines as states struggle to maintain current levels of support for higher education. Concurrently, enrollments increase as the newly unemployed enter higher education for upskilling and retraining. Third, during downturns, institutional reliance on tuition revenue increases as do tuition rates in most cases. During periods of economic recovery, these trends reverse. Per student funding levels increase, enrollments decline, and reliance on tuition stabilizes.

[1] Carlson, A. and Laderman, S. (2016). State Higher Education Finance 2015, Figure 5. Retrieved from *http://sheeo.org/sites/default/files/project-files/SHEEO—SHEF—2016—Report.pdf*

Figure 1 indicates that the Great Recession had a profound impact on state funding for higher education. Immediately before the downturn, in 2008, educational appropriations per student in the United States were $8,372. By 2012, this amount declined to $6,185. In constant dollars this is the lowest per student funding level since 1980. By 2016, funding per student had recovered to $7,116, still 15 percent below pre-Recession levels. Only four states report 2016 state and local funding that exceeds 2008 levels.

Figure 1:

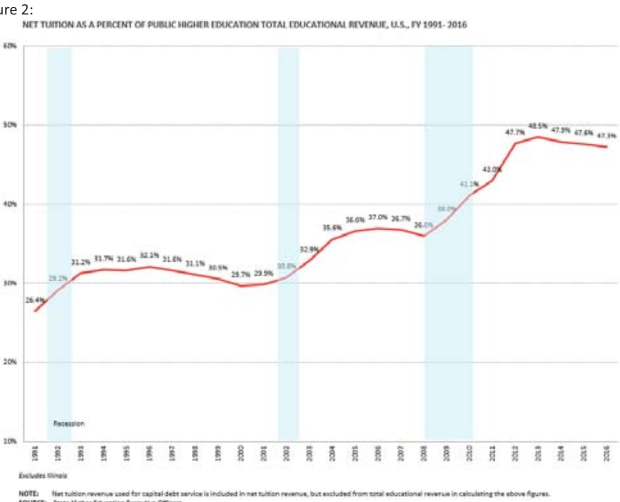


Of further concern is an easily missed downward trajectory in the data. Focusing on state educational appropriations per FTE (the light blue bars in Figure 1), reveals not only declines resulting from the recessions, but that each of the subsequent recoveries has been sequentially smaller, indicating a steady downward trend in state support.

It is evident why this matters for affordability when we look at the other side of the revenue equation, net tuition revenue. Over the same 8-year period, per student net tuition revenues increased 35 percent in constant dollars from $4,682 in 2008 to $6,321 in 2016. In other words, tuition rate increases helped institutions offset reductions in per student state funding, but at a significant cost to students.

Figure 2, below, clearly shows the trend toward greater reliance on tuition revenue. Before the Great Recession (in 2008), 35 percent of higher education revenue came from tuition. This share peaked in 2013 at 48.5 percent and declined only slightly to 47.3 percent by 2016. If history is any indication, the next downturn will result in tuition reliance that exceeds 50 percent, meaning students and families will be paying the majority of the cost. While this would be a significant development for the United States as a whole, it is worth noting that 24 states have already reached this point.

Figure 2:



Further recessions could accelerate these trends. It is impossible to make precise projections of what will happen to state funding for higher education in the future, but recent history portends an alarming outcome. One attempt at extending state support of higher education trends from the 1980's into the future projects that if trends persist into the future, states would reach zero support for higher education in 2056.[2] This represents the increasing privatization of public higher education. Read another way, if the Federal investment in higher education takes on a larger and larger percentage of overall revenue (in addition to student tuition and fees) this would also represent an increasing Federalization of higher education. While I do not believe that states will zero out public higher education, such projections highlight the serious dilemma facing state lawmakers, SHEEOs, and institutional leaders. Action needs to be taken now to correct current trends.

To compound these trends, the recently adopted Tax Cuts and Jobs Act (Public Law No: 115–97) will likely affect state decisions on funding for higher education. This legislation placed a $10,000 cap on the state and local income and property tax (SALT) deduction, which has significantly changed the revenue decisions that states and localities can make to support public investments through their income and sales taxes and is already a source of debate in many state legislatures. Limiting additional revenue sources could stagnate or further reduce state funding for higher education.

In considering the shift toward a majority tuition-financed public higher education system, it is important to recognize the factors driving a greater reliance on tuition. The need for institutions to raise tuition stems from many factors, including covering inflation costs, salary increases for faculty, rising health insurance expenses, expanded institutional financial aid and, in some cases, pension obligations.[3] Many public institutions have already made cuts in recent decades to trim costs and ex-

[2] Mortenson, T.G. (2017). State fiscal investment effort in higher education: fiscal year 1961 to fiscal year 2017. Post-Secondary Education Opportunity, 292.

[3] Carlson, A. and Laderman, S. (2016). State Higher Education Finance 2015, Figure 8. Retrieved from *http://sheeo.org/sites/default/files/project-files/SHEEO—SHEF—2016—Report.pdf*

penses in areas where efficiencies could be found, often in an effort to avoid raising tuition. This is particularly true for those institutions that are state appropriations dependent and enroll larger shares of low-income students However, the biggest factor in public institutions deciding what tuition rate is charged is the level of state funding support.

The empirical evidence in the peer-reviewed literature has established that state appropriations are related to the price institutions charge students. The exact scale of this relationship is still being analyzed, but the overwhelming consensus supports this finding of a causal impact. Most recently, in a peer reviewed study, Douglas Weber estimated an average pass-through rate from state appropriations to tuition and fee revenue of between 25 percent and 41 percent. Put differently, for every $1,000 per student cut in state appropriations, over time, the average student has paid $257 more in tuition.[4] That same research also showed that students are shouldering higher tuition increases from these cuts in recent years than in previous decades. Since 2008, the pass-through rate has been 41.2 percent.

Some other analyses of state fiscal support over time have shown a smaller and less causal relationship between state appropriations and tuition. However, many of these studies fail to properly account for the complexity of state laws in appropriation and tuition-setting authority; states vary in how and when institutions can increase tuition and fees—and these decisions often change over time and many years after a recession. Legislatures also do not make uniform appropriation decisions for each college, so it is important to measure the impact of this institution-specific state support to institution-specific net tuition and fee revenue. Additional research is needed to continue to monitor this question and add great clarity and specificity to the relationship.

Implications of Cost and Affordability

Student loan debt and the cost of higher education in the United States have received considerable attention in the popular media and in the academic literature. The price of higher education has grown faster than the cost of health insurance, prescription drugs, and family income.[5] According to the College Board, tuition and fees at public 4-year institutions have increased at an average annual rate of 3.2 percent above inflation over the last 10 years. Tuition and fees at public 2-year institutions have risen at an annual rate of 2.8 percent above inflation over the same period.[6] This growth in tuition prices has slowed since the peak of the Great Recession, but continues to outpace inflation.[7] Concurrent with the increasing price has been stagnant wage growth for the average worker. While, on average, top earners have experienced significant income growth over the last several decades, middle- and lower-income earners have not experienced comparable growth.[8] The combination of increased costs and stagnant wage growth has resulted in an increasingly large gap between the cost of college and a family's ability to pay for college.

Not surprisingly, both college participation and attainment rates are considerably higher for students in the highest income quartile compared with those in the lowest income quartile.[9] Researchers further find that low-income students are less likely to enroll in college even when controlling for student achievement.[10] This is

[4] Webber, D. A. (2017). State divestment and tuition at public institutions. Economics of Education Review, 60, 1–4.

[5] College Board (2016). Trends in College Pricing (Trends in Higher Education series). Washington, DC: College Board. Bureau of Labor Statistics (2017). Consumer Price Index Summary. Washington, DC: Bureau of Labor Statistics.

[6] Ma, J., Baum, S., Pender, M., and Welch, M. (2017). Trends in College Pricing 2017. Retrieved from *https://trends.collegeboard.org/sites/default/files/2017-trends-in-college-pricing—0.pdf*

[7] Ibid.

[8] Stone, C., Trisi, D., Sherman, A., & Horton, E. (2016). A Guide to Statistics on Historical Trends in Income Inequality. Washington, DC: Center on Budget and Policy Priorities.

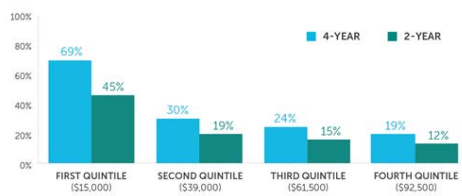
[9] Bailey, M. J., and Dynarski, S. (2011). Gains and Gaps: Changing Inequality in U.S. College Entry and Completion (University of Michigan Population Studies Center Report 11–746). Retrieved December 1, 2013, from *http://www.psc.isr.umich.edu/pubs/pdf/rr11–746.pdf.* Belley, P. & Lochner, L. (2007). The Changing Role of Family Income and Ability in Determining Educational Achievement. Journal of Human Capital. University of Chicago Press, vol 1(1). Pages 37–89

[10] Bowen, W.G., Chingos, M.M., and McPherson, M. (2009). Crossing the Finish Line: Completing College at America's Public Universities. Princeton, New Jersey: Princeton University Press. Hoxby, C.M. and Avery, C. (December 2012). The Missing "One-Offs": The Hidden Supply of High-Achieving, Low Income Students . NBER Working Paper No. w18586. Available at SSRN. *https://papers.ssrn.com/sol3/papers.cfm'abstract—id=2186316*

concerning for many reasons, including that future earnings are clearly associated with educational attainment. According to the Georgetown Center on Education and the Workforce, the average difference between a high school and college graduate's wages is $1 million over a lifetime.[11] And the impacts reverberate across generations as children from higher-income families, and those whose parents went to college, are significantly more likely to attend and graduate from college.[12]

Figure 3 shows average net price[1] as a percent of median income within each of the lowest four income quintiles. As this figure shows, those who come from families earning $15,000 (the median income of the bottom income quintile) experience a disproportionately larger burden in paying for college, with net price making up as much as 69 percent of their annual income. By comparison, net price at a 4-year institution makes up only 19 percent of annual income for families in the fourth income quintile.

Figure 3
AVERAGE U.S. NET PRICE AT PUBLIC 2- AND 4-YEAR INSTITUTIONS AS A PERCENT OF INCOME, FOR FAMILIES IN THE FIRST FOUR QUINTILES, 2014



Note: Based on the middle-point income for each of the lowest four income quintiles ($0-$30,000, $30,001-$48,000, $48,001-$75,000, $75,001-$110,000).
Source: IPEDS 2013-2014 average net price calculations in *Table A-1* in the *Appendix*

Issues related to affordability take on even more significance when one considers the changing makeup of college students in the United States. As the Center for Post-Secondary and Economic Success notes, "today's typical college student is no longer an 18-year-old recent high-school graduate."[13] Between 2004 and 2014, part-time student enrollments grew by 17 percent and enrollments of students age 25 and over increased by 16 percent.[14] Students over the age of 25 now comprise 40 percent of undergraduate students in post-secondary education. A majority of students work full-or part-time while enrolled, and over a quarter are parents.[15] These trends are expected to continue and are likely to increase. These formerly "nontraditional" students face significant cost barriers and unique and significant challenges in earning a post-secondary degree.

It is imperative for states to develop long-term strategies to address these concerns in order to meet the needs of their citizenry and workforce. If states are to achieve their post-secondary education attainment goals, they must take direct and immediate action to address the equity gaps between underserved populations and upper-income white and Asian students (who are succeeding at higher rates). As Steve Murdock, demographer and former director of the U.S. Census Bureau, has said, the economic prosperity of the entire nation hinges on reducing these gaps, since reducing them is the single greatest way for us to drive economic growth.[16]

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[11] Carnevale, A. P., Cheah, B., & Hanson, A. R. (2015). The Economic Value of College Majors. Washington, DC: Georgetown University Center on Education and the Workforce.

[12] Putnam, R. D. (2016). Our Kids: The American Dream in Crisis. New York, NY: Simon and Schuster.

[1] Net price is calculated by subtracting the average amount of Federal, state/local government, and/or institutional grant and scholarship aid from the total cost of attendance using IPEDS 2013–2014 Average Net Price by Income Quintile and Total Price for In-State Students (weighted by living situation).

[13] Center for Post-Secondary and Economic Success (2015). Yesterday's Non-Traditional Student is Today's Traditional Student. *https://www.clasp.org/sites/default/files/public/resources-and-publications/publication–1/CPES-Nontraditional-students-pdf.pdf*

[14] NCES (2016). Characteristics of Post-Secondary Students. Washington, DC.: National Center for Education Statistics.

[15] Taliaferro, W. and Duke-Benfield, A. (2016). Redesigning State Financial Aid to Better Serve Nontraditional Adult Students: Practical Policy Steps for Decisionmakers. Washington, DC: CLASP.

[16] Murdock, S. (2015). Population Change in the United States: Implications for Education and Socioeconomic Development. Presentation at SHEEO Higher Education Policy Conference, Newport Beach, CA.

One necessary step in closing these gaps is to make college affordable for low-income individuals.

Implications of Institutional Resources

Not only must we ensure that college is affordable for all students, we must also ensure that our colleges and universities have the resources to serve them properly. In her paper, State Support for Higher Education: How Changing the Distribution of Funds Could Improve College Completion Rates, Bridget Terry Long argues that increasing the resources committed to public institutions and addressing current funding inequities between institutions could help the country make significant progress toward increasing the number of adults with post-secondary credentials. [17]

Long gives particular attention to the unequal distribution of resources between different types of institutions and between institutions that serve students with varying levels of preparation. In her analysis, Long found that while holding other factors constant, public research institutions received $2,504 per full-time equivalent student more than other public 4-year schools and $5,227 more than public 2-year colleges. She further showed that institutions that enroll the students who are best prepared academically to succeed, and therefore may require the fewest resources, are receiving a disproportionate amount of state funding relative to institutions that enroll students who are less prepared academically. [18]

These differences in funding and institutional resources matter. Deming and Walters found that at appropriations-dependent institutions (community colleges and non-selective public 4-year universities), an institution's financial resources had a substantial impact on degree completion. [19] At community colleges, a 10 percent rise in spending increases associates degree completions by 10.6 percent and certificates by 23.2 percent (one year after the spending increase). For bachelor's degrees, a 10 percent rise in spending increases completions by between 4 and 5 percent (2 to 3 years after the spending increase). Further, Deming and Walters found that when the institutions in their study experienced revenue increases, the institutions directed those resources primarily toward student and academic support services. Increases in spending in such areas have been shown to directly and positively impact student success. [20] The authors conclude that institutional spending increases are more effective per-dollar than price cuts as a means of increasing post-secondary attainment. [21]

The research is clear—if the goal is to improve rates of degree completion and increase educational attainment, states and the Federal Government will need to get serious about increasing the resources at institutions that serve the largest share of students at risk of dropping out.

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[17] Long, B. T. (2016). State Support for Higher Education: How Changing the Distribution of Funds Could Improve College Completion Rates. The Miller Center. *http://web1.millercenter.org/commissions/higher-ed/Long—No9.pdf*

[18] Ibid.

[19] Deming, D. J., & Walters, C. R. (2017). The Impact of Price Caps and Spending Cuts on US Post-Secondary Attainment (No. w23736). National Bureau of Economic Research. *http://www.nber.org/papers/w23736*

[20] Ehrenberg, R. G., & Webber, D. A. (2010). Student Service Expenditures Matter. Change: The Magazine of Higher Learning, 42(3), 36–39.

[21] The relationship between state support, institutional resources, and student outcomes has been investigated in a number of other studies which likewise show that institutional resources, and state support in particular, matter for student outcomes. See, for example: Bound, J., Lovenheim, M. F., & Turner, S. (2012). Increasing Time to baccalaureate Degree in the United States. Education, 7(4), 375–424. Kane, T., & Orszag, P. (2003). Funding Restrictions at Public Universities: Effects and Policy Implications. Brookings Institution Working Paper. Koshal, R. K., & Koshal, M. (2000). State Appropriation and Higher Education Tuition: What is the Relationship?. Education Economics, 8(1), 81–89. Robst, J. (2001). Cost Efficiency in Public Higher Education Institutions. Journal of Higher Education, 730–750. Titus, M. A. (2009). The Production of Bachelor's Degrees and Financial Aspects of State Higher Education Policy: A Dynamic Analysis. The Journal of Higher Education, 80(4), 439–468. Toutkoushian, R. K., & Hillman, N. W. (2012). The Impact of State Appropriations and Grants on Access to Higher Education and Outmigration. The Review of Higher Education, 36(1), 51–90. Volkwein, J. F. (1989). Changes in Quality among Public Universities. The Journal of Higher Education, 136–151. Zhang, L. (2006). Does Public Funding for Higher Education Matter? Cornell University, School of Industrial and Labor Relations, Working Paper. Retrieved from: *http://digitalcommons.ilr.cornell.edu/workingpapers/149/*

The State Imperative: Aligning State Appropriations and Tuition Policies with Strategies for Affordability

As I have tried to establish, it is critical that we address the affordability crisis with the urgency it deserves. It is also critical that we ensure that our appropriations-dependent institutions, where the majority of our underserved populations are enrolled, have adequate institutional resources to foster student success. To do this, the states and the Federal Government will need a coordinated and strategic effort.

States need a more educated workforce to meet workforce demands and grow their economies. States also accrue benefits from an educated populace, including higher tax revenues, better civic engagement, and an overall higher quality of life.[22] Realizing this, 41 states have enacted state attainment goals to raise the percentage of their population with post-secondary credentials.[23] The combination of decreasing college affordability (driven in part by tuition rate increases), and the focus on increasing college attainment has resulted in some states enacting new policies designed to expand access to public institutions while removing financial barriers to college completion. Ideally, these policies have the support of state government, higher education system offices, and post-secondary institutions. Concerted alignment between these entities creates the greatest opportunity for a rational path forward. I will highlight a few examples of states that have developed coordinated approaches addressing college costs and helping students enroll and succeed in college.

Best Practice—Colorado

Colorado's legislature utilizes the Colorado Department of Higher Education (CDHE) to assist the legislature by estimating tuition changes based on an increase or decrease in the state general fund appropriation. CDHE develops an estimate of the additional revenue that each post-secondary institution will need to cover inflation and increases due to other cost drivers, (e.g., utilities, employee benefits). Once a total additional-revenue figure is developed, CDHE models how much the tuition rate would need to be increased if state funding is to be kept constant, and for each potential percentage point increase or decrease in state appropriations. This allows legislators to explore the hypothetical, "If we cut the appropriation to higher education by 2 percent, tuition will increase by this amount at each of our public institutions."[24]

Best Practice—Tennessee

Tennessee was the first state to implement a statewide "Free Community and Technical College" program. The first cohort of Tennessee Promise students enrolled in fall 2015. The program grew out of a local promise program in Knox County. Now in its fourth year, Tennessee Promise functions as a last-dollar scholarship for students enrolling in one of the 13 community colleges or 27 colleges of applied technology in the state. Eligible students must apply and complete specific tasks (fill out the Free Application for Federal Student Aid, meet with a volunteer mentor, and complete community service hours) during their senior year of high school.

Early results indicate that Tennessee Promise is proving effective, and that non-financial aspects of the program have contributed to its success. The mentorship component of Tennessee Promise is key to helping low-income and traditionally underserved populations navigate post-secondary education. Furthermore, the first years of the statewide program have clarified the importance of messaging. For many of the students enrolled in Tennessee Promise, community college would be "free" without the program (tuition and fee costs are covered by Federal aid). Many students may not realize this, however, and making it clear that Tennesseans can attend community and technical colleges with very little cost has boosted access significantly across the state. According to the Tennessee Higher Education Commission, enrollment at community colleges has increased by 25 percent in the first 2 years of the program, while retention rates have not changed from prior years. Approximately 30 percent of the additional students come from the lowest income quintiles.[25] Although many of these students may not receive additional funds, the

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[22] Li, J.(2009). How Taxpayers Benefit When Students Attain Higher Levels of Education. Retrieved from *https://www.rand.org/pubs/research—briefs/RB9461/index1.html*

[23] Lumina Foundation (2017). A Stronger Nation 2017. Retrieved from *https://www.luminafoundation.org/resources/a-stronger-nation–2017-report*

[24] Armstrong, J., Carlson, A., Laderman, S (2017). The State Imperative: Aligning Tuition Policies with Strategies for Affordability. Retrieved from *http://www.sheeo.org/sites/default/files/State—Tuition—Fees—Financial—Assistance—2017.pdf*

[25] E. House, phone call with John Armstrong, September 22, 2017.

Tennessee Promise program is proving effective in increasing access and success for low-income students.

Other states have implemented or proposed other promise programs similar to Tennessee. These programs often include structuring financial aid policies to make community college tuition-free or debt-free. Some of these proposals limit the benefits of "free" college to low-income students by enacting eligibility restrictions that have not always allowed all students to access the programs or in ways that do not reflect the student body of today, including requirements to remain in state after college or to pass drug tests. Further, programs have often restricted eligibility to students starting college right out of high school. Unfortunately, these restrictions may reduce the potential benefit and reach of the initiatives.

Most of these "last dollar" programs are structured only to cover tuition with state or local resources after other Federal aid has been applied. Other models include some stipends for other costs of attendance. In many cases, college affordability is addressed "at the margins," meaning that very specific categories of students who are likely to benefit from increased aid are targeted by these proposals and policies. Further research is needed to see how these programs are meeting students' total financial needs.

Best Practice—Washington State

The State of Washington provides a case study that demonstrates how state support and tuition rates are inextricably linked, and the key role of state policy in protecting affordability for students.

In the depths of the Great Recession, Washington policymakers granted their public colleges and universities additional flexibility in setting tuition rates. This meant that institutions could enact increases, sometimes double-digit percentage increases, to meet revenue needs and offset state funding reductions. However, in 2014, as the economy began to recover, Washington legislators reasserted their role in the tuition-setting process. Tuition rates were decreased in exchange for a large increase in state appropriations to institutions. Reductions in tuition rates are rare, and Washington's was made possible through a significant state reinvestment. Legislators in Washington clearly understood the relationship between state funding and tuition, and considered institutional revenue needs.

As these changes in tuition-setting authority were being made in Washington, the impact on state financial aid was on the minds of state policymakers. Washington has one of the best funded need-based financial aid programs in the country. [26] Washington's Need Grant program is a flexible award that is explicitly tied to tuition. A student's maximum award is determined by both her family's income (as a percentage of the state's median income) and the tuition rate charged at the public institution she attends. Students who attend high-tuition universities in Washington receive higher awards than those who attend less expensive institutions. Their impact on the state's need-based grant program was a key factor in deciding how to adjust the parameters for tuition setting. When tuition rates increased sharply, the appropriation for need-based aid also increased in the state. Washington has a long history of protecting need-based aid from changes in tuition levels brought about by changes in policy. [27]

Best Practice—Ohio

In Ohio, an annual report is due to the legislature and Governor to track progress on how efficiency gains made at the state's public universities benefit students. [0] The Ohio Board of Regents estimates that the savings from efficiency gains across its public institutions in 2016 totaled $250 million. In the most recent report, institutions outlined how their cost savings were redistributed to students, either in the form of decreased tuition or increased financial aid. Institution-level information for cost savings is available in the full report and this information is updated on an annual basis.

SHEEO Federal State Partnership for College Affordability

States alone may not be able to reach true college affordability. In 2014, Lumina Foundation organized an effort to generate innovative ideas for approaches to stu-

[26] See *http://www.nassgap.org/viewrepository.aspx—categoryID=421#*
[27] See *https://education.illinoisstate.edu/downloads/csep/stateprofiles.pdf*
[0] *https://www.ohiohighered.org/sites/ohiohighered.org/files/uploads/affordability-efficiency/2016-efficiency—advisory-committee-report—FINAL—011317.pdf*

dent financial aid. As a component of this effort, SHEEO proposed a Federal/state student financial aid partnership. Under the proposed SHEEO model, Federal funds would match any additional funding the states provided to support low-income students, with the goal of each state eventually meeting an affordability threshold of students devoting no more than 10 percent of their discretionary income toward student loan repayment. These matching funds would incentivize states to prioritize the increased investment of any higher education resources.

There are additional examples of Federal-state partnerships and proposed partnerships in other areas that lead us to believe such a model could prove fruitful to higher education. President Trump recently proposed an initiative to address our Nation's infrastructure needs that includes the framework of a Federal/state/local partnership where Federal funds would incentivize matches from the other two entities. Other areas of the Higher Education Act embrace the concept of institutions matching Federal funds to enhance the combined impact, including college access and campus-based aid programs. A similar incentive within core higher education investments to encourage state investment in our traditionally underserved populations would mitigate a portion of the price sensitivity that often prohibits college access and completion.

While we believe Federal involvement is needed to properly incent state action, we also realize that state and institutional action can and should be taken now. The primary responsibility is with the states, and each state needs to approach increasing student access and success in a manner that reflects state needs as well as innovative approaches and interventions that are proven to increase efficiency. The recent rise in performance funding models is indicative of a more widespread acknowledgment that student outcomes are of significant importance—and many states are working to refine these models to achieve the desired results. The investment of family, state, and Federal resources must result in a meaningful credential to prove worthwhile.

Policy Recommendations

Federal Policy

Given what we know about state best practices, and the long-term trends that risk further privatization or Federalization of higher education, **I recommend that the HEA reauthorization fund and implement a Federal-state partnership that includes incentives for states to bring down college prices for students, and in particular for lower-income students.** The Federal investment must be sufficiently large to adequately leverage new state commitments, given that states may need to seek new revenue sources or change existing budget allocations. The new Federal investment should reflect an intentional and rational balancing of shared roles between the Federal Government and the states.

State Policy

In regard to state higher education finance policy I recommend the following and further encourage that any Federal-state partnership should also recognize or promote the following components:

Link state financial support for higher education to long-term state goals: Cuts and inadequate support for higher education may limit its ability to support states in accomplishing their broader goals. For example, as indicated earlier, the financial resources of an institution directly impact the quality of education and student completions. Both factors, in turn, impact a state's economy and workforce. In this regard, state appropriations to higher education should be viewed as investments.

Focus financial aid on the students who need it the most: As states consider revising their existing financial aid programs or adopting new ones, the most efficient use of resources would be to focus their scarce state dollars on those students for whom cost is a limiting factor. Financial aid can be the deciding factor between whether they enroll and persist to graduation or not. The research on the impact and importance of need-based financial aid is overwhelming.[28]

[28] Goldrick-Rab, S., Harris, D., Kelchen, R., & Benson, J. (2012). Need-Based Financial Aid and College Persistence Experimental Evidence from Wisconsin. SSRN: *https://papers.ssrn.com/sol3/papers.cfm—abstract—id=1887826* Heller, D. E. (1999). The Effects of Tuition and State Financial Aid on Public College Enrollment. The Review of Higher Education, 23(1), 65–89. Alon, S. (2011). Who Benefits Most from Financial aid? The Heterogeneous Effect of Need-Based Grants on Students' College Persistence. Social Science Quarterly, 92(3), 807–

Ensure adequate resources at the institutions that serve underrepresented students: Intentional efforts are needed to ensure that institutions have the necessary resources to support their students to graduation. state policymakers should evaluate their institutions' current resources and the allocation of state dollars. If inequalities exist, states should take deliberate corrective action. Further, if a state has or decides to adopt a performance funding program, policymakers should ensure that the formula rewards institutions for enrolling and graduating underserved students. [29]

Evaluate tax and revenue structures to ensure an adequacy in capturing the appropriate level of state resources: The changing economy has made capturing sales tax and other resources much more difficult. States should evaluate their tax and revenue structures to ensure that they are receiving adequate resources to appropriately fund state obligations, including higher education.

Incorporate tuition policy into broader affordability and attainment strategies: Consider tuition policy within the broader context of affordability and attainment strategies so that tuition setting at the institution level does not undermine comprehensive strategies. Encouraging or requiring longer-term tuition setting that allows students and families to plan ahead may facilitate better planning and enrollment decisions. Further, tuition policy that facilitates progress toward completion should be considered.

Seek coordination of key institutional revenue sources: State policymakers, SHEEOS, and boards of higher education institutions should coordinate institutional revenues—including state appropriations, financial aid and tuition—toward meeting broader state college attainment goals. While the unique demographic, economic, and political circumstances of each state will influence the level of coordination, considering the primary revenue streams based on progress toward state attainment goals can help stakeholders make tough decisions. There are many ways that appropriations, tuition, and financial aid policies can be coordinated to ensure that changes in one or more revenue streams are linked with meeting the state educational attainment goal. For example, allowing for an increase in tuition but reserving a portion of the increase for need-based aid during a period of declining appropriations can mitigate tuition increases for the most price-sensitive students.

Consider the impact of tuition policy on state financial aid programs: State policymakers and SHEEOs should understand how tuition policy impacts state financial aid programs. In some states, state need-based grants cover the full cost of tuition and fees. When tuition rates increase in these states, unless there is a concomitant increase in the total amount of state aid, the number of students who receive grants is reduced. In other words, the tuition increase lessens the impact of the state's aid program. Care should be taken to understand how tuition policy and aid programs interact and make sure state needs are addressed along with institutional revenue needs.

Allow for longer-term, multiyear strategies around tuition rate setting: In many states, the limitations on how much tuition can increase vary from year to year. One year, the legislature may limit tuition increases to an inflationary adjustment; the next year they may freeze the allowable rate increase. In this environment, there is little incentive for governing boards to raise tuition to an amount below the allowed limit in a single year as there is no way to anticipate what the future will allow. A more rational approach would provide allowable increases for three to 5 years and be based on state revenue projections and policy direction from the state. This would allow for better planning by institutions, and create a more

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829. Heller, D. E. (2013). The Role of Finances in Post-Secondary Access and Success. The State of College Access and Completion: Improving College Success for Students from Underrepresented Groups, 96–114. Kim, J. (2010). The Effect of Prices on Post-Secondary Access: An Update to Heller. Higher Education in Review, 7.

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transparent environment for the students and families who ultimately must pay the tuition costs.

[SUMMARY STATEMENT OF ROBERT ANDERSON]

For the first time in our Nation's history, we are at the cusp of college students and their families paying the majority of college costs. In 2016, net tuition revenue accounted for 47.3 percent of total revenue in higher education, up from 36.7 percent ten years earlier. This increased reliance on tuition dollars most adversely impacts those students who can least afford it—our historically underserved populations. The combination of increased costs and stagnant wage growth has resulted in an increasingly large gap between the cost of college and a family's ability to pay for college.

Unfortunately, the most recent higher education recovery has not been as robust as we have experienced in the past. State investment in higher education declined by 26 percent per student between 2008 and 2012. In constant dollars, this marked the lowest funding level per student since 1980. By 2016, funding had partially recovered but remained 15 percent below pre-Recession levels. Only four states report 2016 state and local funding that exceeds 2008 levels.

Conversely, over the same eight-year period, per student net tuition revenues increased 35 percent in constant dollars from $4,682 in 2008 to $6,321 in 2016. In other words, tuition rate increases helped institutions offset reductions in per student state funding, but at a significant cost to students. The empirical evidence in the peer-reviewed literature has established that state appropriations are related to the price institutions charge students. The exact scale of this relationship is still being analyzed, but the overwhelming consensus supports this finding of a causal impact.

Concurrently, states realize they need a more educated workforce to meet workforce demands and grow their economies. Forty-one states have enacted state attainment goals to raise the percentage of their population with post-secondary credentials. The combination of decreasing college affordability (driven in part by tuition rate increases), and the focus on increasing college attainment has resulted in some states enacting new policies designed to expand access to public institutions while removing financial barriers to college completion.

Given what we know about state best practices, and the long-term trends that risk further privatization or federalization of higher education, I recommend that the HEA reauthorization fund and implement a federal-state partnership that includes incentives for states to bring down college prices. These additional resources should be targeted and focused on outcomes, particularly the outcomes of underrepresented students. This initiative is not just a matter of resources but also leadership and alignment. Our Nation should have confidence that state governments, higher education systems and campuses are working together to address this cost and affordability crisis.

The CHAIRMAN. Thank you, Dr. Anderson.

Dr. Pollard, welcome.

STATEMENT OF DERIONNE POLLARD, PH.D., PRESIDENT, MONTGOMERY COLLEGE, ROCKVILLE, MARYLAND

Dr. POLLARD. Good morning, Chairman Alexander, Ranking Member Murray, Members of the Committee.

Thank you for the opportunity to speak here this morning.

Affordability is the most significant challenge students face. I know this, because I am a community college President and I am also a person who lived that experience.

While I was in college, I worked three part-time jobs and I relied on food stamps to get through college. Growing up on the South Side of Chicago, I was the first in my family to complete college, and my father struggled mightily with the FAFSA application.

Ultimately, those Federal grants and loan programs got me through college, but they would not have gotten me across the finish line in today's economy.

This is the untold story of higher education today. Students who leave college without completing do so usually because of cost.

When I look at the 8,600 Pell Grant recipients at my college, two-thirds of them have an expected family contribution of zero dollars. Their incomes are so low that they could not afford to pay any of their tuition. This is at a college where full time tuition is less than half of that at the University of Maryland.

Pell Grants are invaluable to getting students through the door of college, but many recipients do not stay because they cannot afford their other expenses. Others, further on the margin, do not enroll at all.

The cost of living has risen. Workplace demands for post-secondary education have risen. But our national investment in a growing body of vulnerable students has not kept pace.

At Montgomery College, thousands of our students rely heavily on college-funded programs to help make ends meet. We have a food pantry in all three of our campuses because food insecurity is so commonplace.

We run free shuttle buses between our campuses because students struggle with the cost of public transportation. And textbooks can cost almost $1,500 a year, so our faculty strives to use open educational resources.

We set up a loaner laptop program because many students do not have computers, but many still do not have Internet service at home.

Many of these students already have Pell Grants. In fact, 26 percent of my credit students have Pell Grants and another 53 percent have some form of financial aid, but that is not enough.

These students are living on the edge. Poverty, not the lack of personal effort, is the biggest barrier to their degrees.

Federal support has not kept up with this need, in part, because our image of a typical college student needs updating. That 18-year-old living in a dorm at a 4-year college on his parents' bill is no longer the norm. While that student might be worrying about beer money or entertainment money, my students are budgeting for health insurance and childcare.

The typical community college student is 28 years old, works while she goes to school, and takes an average of five and a half years to attain a 2-year degree. nationwide, one-third of all community college students are the first in their family to go to college. More than half of them are women, and at my college, 72 percent of them are people of color. This is critically important to note when one considers the racial disparities and financial need, college, debt, and family wealth.

The provisions the Federal Government has made to support college students no longer match the demographics or the economies of our communities. At Montgomery College, the average income for our Pell Grant recipients is $24,800 a year in a county where a family of four needs $80,000 a year to subsist without help.

The Federal Government galvanized a generation of students in 1947 when it acted on the recommendations of the Truman Commission to expand community colleges. The educational needs of today's students are equally urgent and the Government can answer them with six steps in mind.

Raise the maximum amount of the Pell Grant awards to cover the true cost of college attendance.

Peg the Pell Grant to inflation and free us from the annual debate about funding.

Expand Pell Grant eligibility to those who are often forgotten when we think about today's student: ex-offenders, those without parents to verify their application, and Dreamers.

Provide Federal aid for short-term credentials that allow workers to fill middle skill jobs which change lives and strengthen the economy. My college's DOL TAACCT Grant is a great example of that dynamic in action and Congress should reauthorize it.

Simplify the overly complex FAFSA verification process and draw more students in who are first-generation.

Encourage Federal-state partnerships and incentivize state investments.

Let me end with what I know for sure; it benefits none of us if the family in which you were born remains the dominant determinant in how you are able to pursue and fund quality education.

The reauthorization of the Higher Education Act is a crucible moment for my students: the working poor, the American with or without a birth certificate, the displaced worker, the ex-offender, the disconnected youth, and many more.

I thank you in advance for what I know that you are going to do on behalf of those students.

Thank you.

[The prepared statement of Dr. Pollard follows:]

PREPARED STATEMENT OF DERIONNE POLLARD

Testimony on Reauthorizing the Higher Education Act: Improving College Affordability

Affordability is the biggest challenge facing community college students today. As a college student from a low-income household myself, I worked three part-time jobs and relied on food stamps while attending college. Growing up on the south side of Chicago, I was the first in my family to go to college, and my father struggled mightily with the Free Application for Federal Student Aid (FAFSA). Ultimately, those Federal loans and Pell grants got me through college, but they would not have enabled me to complete in today's economy.

The untold story of American higher education today is how many students leave college without completing because of costs. At Montgomery College, where I am president, there are 8,600 Pell grant recipients. Two-thirds of them have an Expected Family Contribution of zero dollars. The Federal Pell formula has determined that their annual incomes—an average of $24,864 in 2018—would not enable them to pay any tuition. In fiscal year 2017, 65 percent of our Pell grant students had annual incomes below $30,000 and 78 percent had incomes below $40,000. These students live in one of the most expensive regions in the country, where a family of four is deemed sustainable on a minimum annual income of $80,000. As income inequality continues to grow, students who start out in low-income families are less likely to be able to afford college, and more likely to start their own families while in poverty.

Tuition for full-time, credit enrollment at Montgomery College (MC) is $5,000 a year, which is less than half of the tuition at the University of Maryland. So, while my college works hard to keep tuition increases to a minimum, this total still keeps some students from enrolling. For students who do enroll, usually with the help of Pell grants or other financial aid, many of them do not complete their education because they cannot afford their other academic and living expenses. Pell grants are invaluable to getting students in the door to college, but the grants' buying power has diminished so students must still work—many full time—to make ends meet. Twenty-two percent of full-time students at community colleges nationwide work full-time, while 40 work part-time, according to the American Association of Community Colleges data in 2017. Others, even further on the margin, decide not to enroll at all.

The cost of living has risen, workplace demand for post-secondary education has risen, but our national investment in a growing body of vulnerable students has not kept pace. At Montgomery College thousands of our students rely heavily on College-funded programs and partnerships to help them make ends meet: we have a food pantry on each of our three campuses because food insecurity is widespread. In addition, we have a partnership with the Capital Area Food Bank that has distributed 63,000 pounds of food on our campuses in the last 5 months. Two thousands students have visited these mobile markets for free food packages, which are sized according to the number of people in their households. The markets are staffed by College volunteers and travel to all three campuses.

We began running free shuttle buses among our campuses in 2015 because students struggle with the steep cost of commuting by local public transportation. The shuttle ridership increased 48 percent over 2 years, and we now transport about 2,000 students each week. The cost of textbooks is another barrier to affordability. Costs have risen three times faster than the rate of inflation and can reach $1,500 a year. To lessen the burden, our faculty strive to use Open Educational Resources, free online teaching materials. MC has begun offering courses with zero textbook costs. More than 330 sections of such courses benefited more than 6,000 students at MC in 2017.[1] The College has also set up a loaner laptop program, because many students do not have computers. They still struggle to submit assignments electronically, though, when they lack Internet service at home. At one campus, we have a "clothing library" where students who cannot afford clothes can come in and "shop" at no cost. This winter we had an extraordinary number of students looking for winter coats and boots because of the extreme cold. Many of these students already have Pellgrants—in fact, 26 percent of our credit students have Pell grants and 53 percent have some form of financial aid—but it is not enough. These students are living on the edge. Poverty—not lack of personal effort—is the biggest barrier to their degrees. The Montgomery College Foundation provided $2.4 million in scholarship that benefited 2,000 students last year. The foundation helps dozens of students each month with emergency aid for utility bills, rent, and childcare costs, when some unforeseen expense—like a health care need—derails their tight budgets.

Despite the burdens that college costs entail for students, most enroll because they understand it will increase their employment prospects and their earning potential. Countless studies have shown that workers are more competitive when they attain more education. Having an associate's degree, for example, can raise a worker's average annual income in Maryland by almost $17,000. A bachelor's degree, adds $30,000 to the average income in Maryland. Many fields that are predicted to grow significantly in the next decade, do not require a 4-year degree. An associate's degree or a technical certificate can move a person into an array of middle-skills job opportunities that can make a difference of $10,000 to $20,000 a year in income for a single worker.[2]

Federal support has not kept up with need, in part, because our image of a typical college student needs updating. That 18-year old living in a dorm at a 4-year college on his parents' bill, is no longer the norm. While that student might have been worrying about money for entertainment, my students are budgeting for health insurance and childcare. The typical community college student is 28 years old, works while she goes to school, and takes an average of 5.6 years to attain an associate's degree.[3] nationwide, a third of all community college students are the first in their family to go to college, and more than half are women. At my college, 72 percent are people of color. The provisions that the Federal Government has made to support college students no longer match the demographics or economics of our communities. At Montgomery College, the average income for our Pell grant recipients is $24,800 in one of the most expensive regions in the country. In Montgomery County, a family of four needs $80,000 a year to subsist without help. For students who are forced to take our loans because Pell grants are not available, default rates are high,

[1] A $100,000 grant from Achieving the Dream in August 2016 allowed the College to offer its General Studies degree free of textbook costs.

[2] Montgomery College: The Workforce Development Anchor, 2015

[3] Time to Degree: A National View of the Time Enrolled and Elapsed for Associate and Bachelor's Degree Earners, National Student Clearinghouse Research Center, 2016

according to a recent Brooking Institute study. Students' explanation for these defaults is telling: the earnings of students who do not complete their degrees do not allow them to make the required payments. The report concludes that several factors would improve these outcomes—address more fully the challenges faced by students of color; improve degree attainment; and promote loan repayment that is tied to income, so that students are able to cover other expenses while they work.[4]

Since the Federal Government promoted the expansion of community colleges through the Truman Commission, it has set the tone for the direction of higher education. Today it can do even more by increasing the maximum Pell grant award and pegging Pell grants to inflation. This would allow students to cover the true cost of living, stay in school, and continue making progress on their degrees. Research has shown that students who work too many hours while in school do not complete their degrees.[5] A recent study of alternate tuition pricing at Montgomery College found that discounting students' fifth class at 50 percent of tuition costs would incentivize full enrollment.[6] Students who enroll full time are more likely to complete.[7]

Making workforce development students eligible for Pell grants would help, too. Certificates are the fastest growing higher education credential. They are usually shorter and based on time in class rather than an industry exams required by certifications. They allow workers to fill gaps in our middle skills jobs and increase their earning potential, according to a study by the Georgetown University Center on Education and the Workforce.[8] Almost half of my college's students—roughly 27,000 students—are enrolled in these programs, where the average age is 35. These programs help students to get a good job at a good wage and to move up the career ladder. A home health care worker becomes a certified nursing assistant; an IT worker gets a Certified Information Systems Security Professional (CISSP) certification; a maintenance worker gets an HVAC certificate. Allowing Pell grants to be used for short-term trainings in high-demand areas would benefit students and our economy.[9]

Community college students form a rich tapestry of Americans working to advance themselves and contribute to their families and neighborhoods. They are workers who have been displaced by contractions in the economy. They are low-income students who are priced out of 4-year colleges. They are immigrants and refugees who are learning English while they train for entry-level jobs. Their circumstances are different, but they are all part of a diverse fabric that makes up our Nation. They are also essential parts of our labor force, filling critical gaps in middle skills job areas. In Maryland there are currently 20,000 unfilled jobs cybersecurity. Grants such as the Trade Adjustment Assistance Community College and Career Training grant are preparing students to fill them, among other jobs. Federal investments in community colleges shows that they already believe that community colleges are doing this work well.

Simplifying the overly complex FAFSA and certification processes, would draw in more students who are the first in their families to go to college. An in-depth analysis of MC enrollment patterns cited trouble with financial aid as a large barrier to students. It stressed more energy be invested in "assisting low-income prospective students to manage the financial aid application process. Many prospective students likely have demonstrated need, but do not finish the FAFSA or fail to send it to MC."[10] Once students get the FAFSA submitted, many face the hurdles of verifying the answers they gave on the FAFSA, most of which were already confirmed by a Federal agency. Verification is a process that has very little effect on the expected family contribution of most students, but further confuses students with additional paperwork. MC's financial aid staff spend over 80 percent of their time on

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[4] Scott-Clayton, Judith "The Looming Student Loan Default Crisis Is Worse Than We Thought," Brookings, January 11, 2018

[5] Carnevale, Smith, Melton and Price, Learning While Earning: The New Normal, Georgetown University, 2015

[6] Montgomery College: Strategic Enrollment Alignment & Tuition and Fee Pricing: Study prepared for the College Enrollment Management Advisory Team, 2015.

[7] Even One Semester: Full-Time Enrollment and Student Success, Center for Community College Student Engagement, University of Texas at Austin, 2017.

[8] Certificates: Gateway to Gainful Employment and College Degrees, Center on Education and the Workforce, Georgetown University, 2012

[9] Ibid.

[10] Montgomery College: Strategic Enrollment Alignment & Tuition and Fee Pricing: Study prepared for the College Enrollment Management Advisory Team, 2015.

verification processes, when they could be spending that time helping students through the aid process.

Lowering the barriers for students with special circumstances, such as a parent who is incarcerated or one who cannot be located, is another step forward. Giving Dreamers, like other Americans, the chance to advance themselves would also improve our Nation's strength. Montgomery College has over 6,000 students who were born outside the United States. Community colleges are often the places they start to improve their English in order to work. About 6,000 students a year take some form of English as a Second Language at our college.[11] A specialized program that combines job skills training with English language classes, the Maryland Integrated Basic Education and Skills Training (MI-BEST) initiative, helps move non-native English speakers into employment more quickly by teaching targeted job skills while they improve their language capabilities.

Immigrants are among the most vulnerable of our Nation's people. At MC, our Refugee Training Program offers language skills and acculturation to hundreds of refugees a year. The College also offers GED classes and other skills training in the Montgomery County Correctional Facility, so that inmate-learners will have at least the minimum needed to enter the workforce upon release.

Making college accessible is also about preparing at-risk students, who are almost always low-income, for post-secondary education. The Achieving Collegiate Excellence and Success (ACES) program, now in its fifth year, begins preparing high school juniors in 13 of our local public high schools, for college finances and academics. Since 70 percent of its students are the first in their families to attend college, ACES coaches assist students while still in high school, to apply for scholarships and understand their financial aid options. In addition to teaching students how to navigate the College, ACES helps students transition to our partner, the Universities at Shady Grove, a higher education center of the University System of Maryland, to complete a 4-year degree. Since the program's inception, ACES has served more than 3,500 students.

Helping Pell-grant students keep their eligibility is another challenge that our college is tackling. Students who lose their eligibility for Pell grants because they cannot maintain satisfactory academic performance (SAP) is another way that needy students miss opportunities to succeed. Montgomery College is now creating financial aid coaches, who will help monitor students in danger of losing their funding due to violations of SAP.

Accountability is a core tenet at Montgomery College. We track our students' success on an annual, public scorecard. Factors such as time-to-degree, progress on benchmarks, course pass rates, and completion data are disaggregated by race and gender. From there we can see trends emerge, and target certain populations for special attention. The College's the Boys to Men mentoring program, for example, is designed for African American males who need support, offering academic and personal mentoring, to foster greater overall success.

These are just some ways in which Montgomery College goes to extraordinary lengths to prepare students to plan for college, make college financially accessible, and keep students in school by helping to meet their living expenses. These strategies have evolved from years of working closely with ambitious, talented students who want to earn degrees and certificates. They understand the value of higher education and its potential to transform their lives. But they face multiple challenges: rising income inequality, ignorance about financial aid programs, and the disadvantages of households in which no one has ever gone to college. Lowering the barriers to a post-secondary education is critical. For those who want to earn a certification, their financial options are limited as Pell grants are largely unavailable. All of these students are striving for opportunity, one of the fundamental values of our Nation. As we invest in them, we are investing in our communal future.

When the Truman Commission on Higher Education produced its report in 1947, it realized that leadership was necessary to manage the significant changes in the economy and society in the post-war era. Expanding the reach of community colleges was its strategy for bringing more skilled workers into the labor market and building the middle class. At the crossroads of profound demographic and economic changes in the 21st century, our Nation needs leadership again. Affordable higher education that closes the skill gaps will fuel America's economy. Students who are given clear paths to and up the ladder of opportunity will return that investment to their families and their communities. It is time to move from a K to 12 model

[11] Montgomery College: The Workforce Development Anchor, 2015

of thinking to a K to J—from Kindergarten to Job paradigm. It's time to make college affordable for all.

[SUMMARY STATEMENT OF DERIONNE POLLARD]

Affordability is the biggest challenge facing community college students today. The American college student of 2018 is not the one that so many of us imagine: a recent high school graduate, at a 4-year school, living in a dorm, and relying on parental support. Community college students today are people who grew up in households without a college graduate; they are low income people; they are displaced workers, returning workers, and immigrants; they are women; they are often people of color.

Many of them are so daunted by the cost of higher education that they do not enroll. Others enroll, but do not complete their degrees because of the high cost of living. Two-thirds of the 8,600 Pell grant recipients at Montgomery College have an Expected Family Contribution of zero dollars. Their average income in 2018 is $24,864. Community colleges like Montgomery College in Maryland expend extraordinary energy and resources trying to support students' financial needs beyond tuition so that they can complete their studies.

Our college, like many others in the Nation, has food pantries, a clothing library, loaner laptops, and free shuttle buses. We know that any of these extra expenses could break the budget of a student living on the edge. The College is supported by a foundation that even provides emergency aid to students for utilities and rent. The Montgomery College Foundation distributed $2.4 million in scholarships in fiscal year 2017, July 1, 2016, through June 30, 2017.The College also offers special academic support programs, financial aid coaching, and personal mentoring to help students navigate college while working and caring for family members.

The reason that so many students leave college without completing their degrees is not complex—it comes down to finances. Several strategies by the Federal Government could provide support that would transform these outcomes that cripple people's job prospects, their earning potential, and their ability to contribute to our Nation's skilled workforce: increase the amount of Pell grants; tie Pell amounts to inflation; simplify the FAFSA and certification processes; and make workforce development training programs eligible for Pell. Increasing the buying potential of the Pell grant and making the FAFSA more accessible would work wonders in moving more students to degrees. As the Truman Commission on Higher Education saw so clearly in 1947 when it expanded the reach of community colleges, investments in higher education for more students benefit us all.

The CHAIRMAN. Thank you, Dr. Pollard.

Thanks to all of you.

We will now go to a round of 5 minute questions. I am going to try to keep the exchanges between Senators and witnesses to 5 minutes so everybody can participate.

Senator Cassidy has deferred to Senator Young.

Senator YOUNG. Thank you, Chairman, and I thank my colleague, as I head out to preside monetarily.

We know college is becoming increasingly unaffordable for far too many Americans, which is the reason we are having this series of hearings.

In fact, over the last 7 years, the amount of student loan debt has doubled while median household incomes has decreased for so many middle income Americans and people of more modest means.

When we look at how to address college affordability as a whole, there is no single entity, we are discovering, to blame. Real reform should encompass all aspects of the affordability conversation. Part of this conversation should include the opportunity that income share agreements provided to students.

I visited Purdue University last October, and I met with a student, Amy Wroblewski. She is a first generation college student who became increasingly worried about her student loans and her ability to pay them back.

By participating in Back a Boiler, their variant of an Income Share Agreement at Purdue, Amy can financially plan for the future and focus on excelling in her classes.

Dr. Smith, I would appreciate your insight.

What role do Income Share Agreements play in the broader conversation of college affordability?

Dr. SMITH. Certainly. Particularly for students who have maxed out their Federal student loans, and are relying on financial products in this private market, private student loan, Income Share Agreements could be a good alternative to those private student loans.

They have an inherent risk sharing in the way that Purdue has done them, and I think that is probably the best possible mechanism for the school itself to have some skin in the game and not just some kind of investor somewhere else; that the school itself is relying on the students to pay back. But first, the student should be maxing out their Federal student loan so that they are using those kinds of products to offset credit card debt and other things like that.

Senator YOUNG. Well, it sounds like you think they should play a role in the overall.

Dr. SMITH. I think they could play a role for many students that have that need.

Senator YOUNG. Well, I have legislation that would establish a framework so that these contracts will be legally recognized and instill consumer protection for income sharing.

Dr. SMITH. Yes. We need a framework for Income Share Agreements because right now, as you know, there is not one.

Senator YOUNG. Yes. Thank you, doctor.

For Dr. Anderson, there are several institutions in Indiana taking great strides to address college affordability. In fact, it is state law that all public higher education institutions must provide degree maps to all first time, full-time students.

Institutions have found clever ways to address affordability, like launching financial literacy programs, and switching from a credit hour system to a flat rate for tuition fees.

Other institutions have made pledges to freeze tuition or lower other student fees. I know we see these things occurring in other states as well.

Dr. Anderson, in your experience, what are some successful initiatives that institutions of higher education have launched to combat affordability concerns?

Dr. ANDERSON. Thank you very much for the question, Senator.

I think you have hit on some of the important ones that Indiana is moving in the direction of. They are a state that has gotten it, the connectivity between these completions and building out a robust economy. There are other states as well where we see similar types of developments.

But regarding these types of programs, there are certain reforms that we know are working. When I am speaking of a state and Federal partnership, these are the types of reforms they could incentivize and should incentivize.

One of the big ones, where we have seen tremendous strides where both work, I have seen in Tennessee and Georgia is the developmental education reform. This whole idea that if a student is not seen as prepared to go straight into credit bearing classes that they have a developmental experience. It can be a series of classes, one to maybe even three, where they have to get to square one in order to pass go.

To make these credit bearing, so that immediate supports are being added where students can get through these experiences, and they are already going down their career path, gaining less debt, finishing more quickly, is an important outcome to look for, for many states.

Senator YOUNG. Dr. Anderson, just to interject, is this to compensate for a lack of complete preparation as certain students enter the post-secondary education atmosphere?

Dr. ANDERSON. That is the concept there.

Senator YOUNG. Yes.

Dr. ANDERSON. We have seen better alignment between K through 12 and higher education trying to work in a lot of these shortfalls during their senior year, but there are still students who were assessed and seen as not being college ready.

Instead of going into a noncredit bearing format, what we have seen are students even with a 12, 13, 14 ACT have been successful in these credit bearing experiences if you add the right supports.

We have these interventions that are working. What they have to do is be scaled, though, nationwide, not just one state doing good work, this state doing good work. We have to build on these practices that work.

Senator YOUNG. My time is up. I just state the obvious here. I know this is about higher education and its affordability.

I do think it is lamentable that if someone spends 12 years in a classroom or more, they enter college not prepared to handle the basics.

Dr. ANDERSON. Yes.

Senator YOUNG. Thank you.

The CHAIRMAN. Thank you, Senator Young.

Senator Murray.

Senator MURRAY. Well, thank you, Mr. Chairman.

Before I begin my questions, I just want to note my concern with some of the framing that we just heard that Federal student aid is hurting college affordability. We have talked a lot about making this a student-centered reauthorization, which is why we have to increase investments and expand access for all students.

I have three letters. One from the American Council on Education, the National Student Financial Aid Administrators, and from noted Professor David Feldman on how Federal aid actually makes college more affordable, not less.

I would ask unanimous consent to put those in the record.

The CHAIRMAN. It will be.

Senator MURRAY. Thank you.

[The following information can be found on pages 81 through 84 in Additional Material:]

Senator MURRAY. Dr. Smith, I wanted to start with you.

I wanted to talk about the burden of student loan debt, something students and families across the country consistently say they want Congress to address this.

Right now, we have millions and millions of workers who scramble every month just to pay back their loans. We have millions and millions of families who are unable to take important life steps, like buying a home, because they have student debt. And we have millions and millions of students who are being deterred from actually pursuing higher education because they were worried about having to shoulder that debt. So my question is kind of simple.

How important is it that the reauthorization of the Higher Education Act take steps to help reduce their student debt?

Dr. SMITH. Extraordinarily expensive. Not all debt is bad, but we have a clear problem with some students, particularly low income students and students of color, who disproportionately rely on debt.

Recent reports have come out that one-quarter of black Bachelor's Degree graduates are defaulting on their student loan. So we clearly have to do something to address affordability on the front-end for students, but also to make sure that there are really great repayment options on the back-end. Default is the worst possible outcome.

That kind of masks the many more students who are struggling, as you mentioned. They may be making the payments, but who knows what other sacrifices they are making in life.

Senator MURRAY. Right.

Dr. SMITH. That message that it sends to would-be students that it can be really, really tough and life altering to go to college reduces their likelihood and their desire to take on debt. I think we are seeing that backlash now.

We really must have, in the next reauthorization, something to make sure that debt is truly affordable. I know that is something that you all discussed in previous hearings that students do not have to take on so much debt in the first place.

We know that debt is not, when we talk about averages, that masks some kind of clear and present issues within that debt bubble.

Senator MURRAY. Right.

In your testimony, you spoke to the need to strengthen Pell Grants to make college more affordable, and in particular, for working families. But not everyone has access to that important source of aid, and some students face challenges in keeping their grants.

I wanted to ask you, in addition to increasing the maximum Pell award, what are some of the policy changes that you would recommend for Federal grants to help more students afford college and stay on track?

Dr. SMITH. As it relates to Pell Grants in particular?

Senator MURRAY. Yes.

Dr. SMITH. One thing that has been talked about in many years past, and I do not know if it is possible now, but we have a Pell Grant program that effectively acts as an entitlement, but we do not fund it that way.

We fund it as if it is a discretionary program year after year, and it would be really great to kind of see if we could bring that conversation about mandatory Pell back.

Another thing is just the cost of living increases. Many other Federal programs have those. Instinctively year after year, we recognize that there is going to be inflation, and we have a cost of living increase added to them. Pell does not have that; so inflationary increases in the Pell Grant are also very, very important.

Then there is the prospect of even expanding Pell to students that do not get it now. The drug question is part of Pell Grants. Really, we do a lot of work at Lumina with incarcerated populations. And even if they actually do not meet the definition of not being eligible for Federal student aid, the fact that the question is there really deters many students.

Senator MURRAY. Deters them from even applying, yes.

Dr. Pollard, let me ask you. The data is clear that a college degree or credential, including an Associate's Degree, is necessary to compete in today's economy. For many low income students, it provides them just a path to middle class.

But as the cost of college continues to climb, many students have increasing concerns about whether college will pay off for them personally, whether they will be able to land a good paying job, and whether they will be able to even manage their debt.

What are some of the ways we can address those challenges?

Dr. POLLARD. Thank you, Senator.

I think a couple of things become paramount in this.

One is that I think we have to actually talk about the impact of not being educated in today's economy. We know the Georgetown Center for Workforce Education recently released a study that indicated that 60 percent of all jobs in the future will require some form of post-secondary education.

The idea that someone should not have a path to education to ultimately increase the quality of life is a struggle for me to understand that.

Our economy demands post-secondary education. We are in a knowledge economy and to ignore that, and to assume that some people can and should be left behind, while others are not, is a problem for me as well.

College and job training is a must. That is something we specialize in, in community colleges. We know the lifetime earnings of an individual by having an Associate's Degree is over $600,000 increase. Baccalaureate Degree is over $1,000,000.

If, indeed, we are to make sure that everyone who is in the room is educated, we also think about the folks who are not in the room, and work deeply to form partnerships to have that happen.

Senator MURRAY. Thank you very much.

Dr. POLLARD. Thank you.

Senator MURRAY. I am out of time.

Thank you, Mr. Chairman.

The CHAIRMAN. Thanks, Senator Murray.

Senator Cassidy.

Senator CASSIDY. Let me put some things in context, then I will make a statement trying to get colleagues onboard with some legislation, and then I have some questions in particular.

College tuition is going up, programs are going up, and programs which are not sustainable. Students are being burdened with debt for decades, and oftentimes have no information about their likelihood of paying off that debt, and taxpayers will be burdened paying $36 billion in shortfalls related to student loan default.

We have a College Transparency Act which is Senators Hatch, Cassidy, Warren, and Whitehouse, which creates a student level data network to have more complete, accurate information on all students and outcomes.

Dr. Baum spoke about how students do not have the ability to pay off depending on what curriculum they are in.

It streamlines reporting requirements for colleges—this will be dear to Senator Alexander's heart—saving colleges time and money, and decreasing burdens on currently reporting.

It is a better system that allows students to compare similar situations—ma'am, you are going to love this—low income, black male, first time college student taking engineering; what is his potential to earn? Would that not be good? I like that.

Last, it is a better system which allows students to better know their return on investment. I think that is what we heard.

We need the student o have the information that he or she needs to know for the return on investment. So anyway, I say that with Senator Warren over there wearing her good Republican red.

Dr. Anderson, and Dr. Baum, I think, or maybe Dr. Smith, alluded to this, but Dr. Anderson, I am going to shoot the question at you.

We have spoken about the Federalization, and Dr. Robinson's testimony, the Federalization of how we pay for colleges. The more student loan dollars, the less states are putting out toward colleges. Dr. Smith is nodding her head.

People have spoken of maintenance of effort. How do we get the states to continue to put up the funds that they previously have so that it is not falling upon students and upon Federal aid programs?

But what is different is that if we have a maintenance of effort for primary and secondary schools that is institution-based, or state-based loans, or grants, or money, whereas for colleges it is student-based.

The issue is if the money is going to the student, how do you get maintenance of effort from the state because, really, the state is the bystander as the student pulls down the money?

I hope that question is not too convoluted, but I think you know what I am speaking of. Dr. Anderson first and then perhaps Dr. Smith.

Dr. ANDERSON. Thank you so much for the question, Senator.

When I spoke to the opportunity for a Federal-state partnership on post-secondary education, this is what I had in mind, a way for the Federal Government to incentivize greater state participation. This incentivizing would need to be around completion, accountability, and transparency. Those would all need to be key to this process.

I mentioned that 41 states have attainment goals, but what we need is a drill-down to completion goals in each of these.

Senator CASSIDY. But I am sorry, unless you have a hook on that, unless you say, "State, you get more money for more completion."

Dr. ANDERSON. Right.

Senator CASSIDY. "Or your children cannot borrow money if you do not." You have to have a hook.

Dr. ANDERSON. My recommendation would be to create a program similar to what we had with LEAP and SLEAP, which were focused funding toward low income students. And at that time with LEAP and SLEAP, it was also toward community service oriented types of projects.

Senator CASSIDY. I do not comprehend how you can actually leverage the states. "State, you do not get or you do get unless you keep putting state general fund money toward public universities."

Dr. ANDERSON. It would have to be that type of relationship.

Senator CASSIDY. Dr. Smith, your comments.

Dr. SMITH. You would have to really create a new program that is not available currently. There was maintenance of effort, kind of, in the last reauthorization that was going to a very small pot of funding.

But in order to really leverage state spending, you have to create a really new paradigm that does not exist.

Senator CASSIDY. What is that paradigm? Do you know what that paradigm is?

Dr. SMITH. You would have to have someone from the state—it could be a state higher education executive officer, it could be a Governor—agree, someone with the authority, to actually make some guarantees.

Actually, the maintenance of effort was included in the American Recovery and Reinvestment Act, in ARRA——

Senator CASSIDY. Yes, but that was direct funding that you only got if you maintained.

Dr. SMITH. Yes.

Senator CASSIDY. Now, are you suggesting that is what we need to do if we are going to have the leverage?

Dr. SMITH. Yes, we are going to have to create something new that does not currently exist in the law.

Senator CASSIDY. Does that take dollars away that are currently being loaned to students and, instead, giving it to?

Dr. SMITH. I would not say that. I think you really need to have a substantial amount of new funding to be available for this. And right now, this is not leveraging any of the Federal money at all in this way, as you know——

Senator CASSIDY. We are totally not leveraging.

Dr. SMITH ——as you expertly outlined the challenges. I know we are over time, so we can talk more about specific ways that you could do that.

Senator CASSIDY. Thank you.

I yield back.

The CHAIRMAN. Did you notice how disciplined Vanderbilt graduates are in staying within the time?

[Laughter.]

The CHAIRMAN. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

At this point, anyone who denies we have a college affordability and debt crisis problem in this country has their heads buried pretty deep in the sand.

We know the basic facts and we have talked a lot about them in multiple hearings here, but I wanted to zoom in on one particularly alarming statistic.

The Education Department recently released data showing that almost half of all black students who took out loans in 2003–2004 have defaulted on their Federal student loans. Black college students default at five times the rate of white college graduates. In fact, black college graduates are more likely to default than white college dropouts.

Now, Dr. Baum, you have argued that the student debt problem is not really a problem for most people. So let me just focus in on these data that I just talked about.

Do you believe that student debt has reached a crisis for African Americans?

Dr. BAUM. Student debt has reached a crisis for a number of subsets of students. Black students are notable in this. I think we need to understand much more about why.

There are some obvious reasons even such as given income levels. Wealth levels among African American families are much lower than they are among others with similar incomes.

We know that black students are more likely to wait longer, and be older, and have other responsibilities when they go to college. They borrow more and we know that their incomes afterwards are not as high for various reasons, including discrimination in the labor market.

We clearly need to focus on the circumstances facing these students, on the circumstances facing older students, and in particular, on students who are attending for-profit institutions borrowing more than other students and not necessarily getting degrees of value.

Notably, the questions about quantity of debt for individual students do not get at the real issues because many of the students struggling most are those who do not complete their degrees. They have low levels of debt and they cannot pay them because their education investment has not paid off.

Senator WARREN. This is what one of the subsets in the data looks at that most people are better off because they go to college, but this was not true for nearly half of all black students.

What I want to think about is how we solve that problem? There are a lot of pieces to understand the data, but how do we fix the problem?

Dr. Smith, let me ask you. Do you think that more financial aid counseling alone will fix this problem?

Dr. SMITH. No.

Senator WARREN. What about FAFSA simplification? Will that fix the problem?

Dr. SMITH. Very good, but will not fix it.

Senator WARREN. Okay.

How about risk sharing or accreditation reform?

Dr. SMITH. Also really, really great things; will not fix this particular problem.

Senator WARREN. How about college deregulation?

Dr. SMITH. No.

Senator WARREN. No, not going to fix this problem. Okay.

Recently, the Chair of the House Education Committee argued, quote, "There is not any more money out there to spend on students in higher education."

Can we solve this problem without investing more money in our college students?

Dr. SMITH. I think it is really difficult, especially when Congress passes billions of dollars of tax cuts and things like that, which I know is not the purview of this Committee.

But when I talk to people every single day, they do not understand the rhetoric that there is not money to better themselves through education, but there is for these other types of things.

Senator WARREN. Dr. Smith, actually, I think you put it exactly the right way.

That we just learned that Congressional Republicans could find $1.5 trillion to give away to rich people in corporations, but suddenly there is no money left to invest in people who are trying to get a college education; an investment that not only pays off for the individual, but pays off for the whole economy and for the whole country.

The higher education law that we write in this Committee could be the law of the land for the next decade.

It would be unconscionable for us to write a law without making college more affordable and without dealing with the 40 million Americans who are struggling to pay off $1.4 trillion in student loan debt. I think that should be our first job.

Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Well-disciplined as well. Thank you, Senator Warren.

Senator Isakson.

Senator ISAKSON. Thank you, Mr. Chairman.

Mr. Chairman, I apologize to our panelists. I had another Committee meeting and did not hear your testimony. I deeply apologize.

Dr. Anderson, you are a native of Augusta.

Dr. ANDERSON. Yes, sir.

Senator ISAKSON. Worked for the University System of Georgia, as I understand; vice chancellor, if I am not mistaken.

Dr. ANDERSON. Yes, sir.

Senator ISAKSON. I appreciate your comments on developmental programs and students. In fact, the University of Georgia, when they accepted my son, they did not accept my daughter, but they did accept my son.

He got in on developmental studies, which was an entry level program where he had to accomplish passing certain courses at the University of Georgia before he could earn credits at the University of Georgia.

They changed him from a mediocre student performance-wise, to a student that graduated with honors at the University of Georgia. It taught him how to study. It also gave him a goal at the beginning of his college career to shoot for in achievement and attainment, which helped him be responsible in how he handled it. And also responsible in how he handled the money that he had to go to college, some of which was mine, some of which was borrowed.

I appreciate your comment on the programs that you had to develop for students.

Interestingly enough, that program was developed for athletes who were recruited to come, but were not passing the SAT scores with as high scores as they need to, and they built them back up to get it so they could play football.

Now they do it for all students regardless of their athletic talents. It has had a measurable help in terms of doing that. So I appreciate you mentioning that.

I just want to say two things. This morning I watched CNN and heard the testimony of two people in Cincinnati who took the bonus their company gave them, because of the tax law, and are paying tuition for their children going to college. So there was a reference about what would we do with our money from the tax cuts.

I wanted to reference that some people, like the two I saw from Cincinnati this morning on T.V., took the money their company gave them based on the tax cut and are sending their two children to college, that they could not have done had they not gotten it. That was just their testimony.

Economic policy does make a difference and every time we can put money in the pockets of parents through better management of the government, better management of the tax system, the more money is going to be available for children to become educated.

Last, on the statement about African American students, which I appreciate so much Senator Warren bringing up, Georgia State University in Atlanta has done a remarkable job in meeting the needs of the African American community, No. 1.

Two, providing access to financing that was affordable and repayable at the right time in their career. So good, that now Georgia State University graduates the highest number of baccalaureate degrees for African Americans of any university in the United States.

That is because they focused on the affordability issue and because they did a little bit of the reverse of the performance base. They tracked the students from the day they went to the university and they looked for certain benchmarks that would be indicators they might be falling behind economically or sliding behind on their payments.

They brought in what they called Panther Grants, which were mini micro loans to get them through a difficult time so they stayed on course, and did not end up dropping out of school at the end because they did not see that they could afford and pay for it.

I think there are innovative ideas going on being applied in the universities around the country today that make a huge difference.

But it is our responsibility to see to it that we do everything we can to move everybody toward the best education they can afford and achieve. A better educated America is a more productive America, and it is a safer America for our country, and I am glad to be a part of this hearing.

I appreciate the time, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Isakson.

Senator Kaine.

Senator KAINE. Thank you, Mr. Chair.

Thanks to the witnesses for great testimony.

I am interested, Dr. Robinson, in some of your testimony about the Bennett effect. Senator Murray introduced a letter from a William and Mary professor. I am from Virginia, so I cannot resist quoting from it, because I think there are some similarities. I think he has some different conclusions than yours, but there are some similar points.

Just to quote from the letter that she has introduced in the record.

"There is serious social science research on the interaction between Federal higher education support and college access and affordability, and a number of conclusions from that literature are increasingly supported by strong evidence.

"One, public universities and private colleges that serve large numbers of the Nation's lower income and first generation students pass most, or all, of any increase in Federal aid back to students as a lower net tuition.

"Net tuition is the list price minus any government aid the student receives and any institutional discount the schools offers."

In other words, extra Federal support creates more access.

"Two, highly selective private colleges do not pass all of an extra dollar of Federal aid to students. They tax an extra dollar made by reducing their own need-based discount, but some of the aid does pass through as a lower net price.

"Third, the best evidence of a causal link between Federal education and list price tuition comes from the Nation's for-profit higher education institutions."

You make a similar point on Page 10 of your testimony, "As Gillen noted in his 2012 paper, the effect," the Bennett effect, "Was also more marked at for-profit institutions than at public and private non-profit institutions. At public institutions, this is due to tuition caps and strong political pressure to keep tuition low. At private non-profit institutions, it is due to the common practice of price discrimination. (Price discrimination is the practice of charging students different prices based on their ability and willingness to pay.)"

I think this is an important aspect of studying the effect as to segregate the kinds of institutions and not just use averages. And it sounds like both from the Feldman letter and your own testimony, you recognize that the inability to pass on student aid completely to students is more marked in the for-profit institutions.

I got to Page 14 of your recommendations, and I was interested in the recommendations.

You have a recommendation about capping the growth of tuition and fees at public colleges and universities. But if this effect is more marked at the for-profit institutions, I did not necessarily see a recommendation that was really geared at the for-profit institutions that may be the more egregious examples of this Bennett effect.

Do you have thoughts about what we might do as we approach the Higher Education rewrite to the for-profit institutions?

Dr. ROBINSON. I think the question of for-profit institutions is a difficult one because they, as you know, rely on tuition more than any other type of institution.

They do not have endowments. They do not have a state that is contributing. And so, they are faced with different kinds of pressures.

I think it is definitely in keeping with Bennett's ideas, and with everything that we have seen, that a tuition-dependent institution is not going to see better effects, but more stronger effects from increases in aid.

I think that having more transparency and accountability for every type of institution will affect those for-profit institutions.

I think, as I said, any of the recommendations that have to do with targeting our aid better specifically focusing on Pell Grants for the neediest of students essentially reduces the amount that will flow through just to the bottom line for any type of institution, including for-profit schools.

Senator KAINE. I think it is important because the original Bennett Hypothesis as articulated in an article, I think it was called "America's Greedy Colleges," and painting a broad brush of our colleges as greedy when they are still the gold standard in the world for colleges for so many.

But then you get into actually what the data shows after 20 years and where is the greed in the institution? Where is there evidence that financial aid does not make it more affordable for students, but it is just padding the pocket of the institution?

There is a suggestion that there might be greedy colleges, but it is unfair to paint everybody with that broad brush.

I notice another recommendation you make that, I think, is interesting on Page 14. One way to deal with some of this issue is to make private student loan debt subject to bankruptcy laws.

Explain why you think that would be a good idea and do other members of the panel also agree with that as a recommendation?

Dr. ROBINSON. The reason I recommend that is all of the recommendations stem from the idea that we have to effect demand for higher education. We have to end artificial demand for education and, in particular, artificial demand for loans. I believe that students will not demand loans if they know that the loans are less available.

But the idea is to make private student loans subject to bankruptcy, as every other type of loan is in the United States.

Senator KAINE. A loan for a yacht, and a loan for a vacation home.

Dr. ROBINSON. Right. The idea behind that is it will incentivize lenders to lend more widely and to lend less. And ultimately, it will decrease the number of private student loans going to students who ultimately cannot pay them back.

Senator KAINE. I am out of time, but I am going to ask for, in writing, for other panel members to comment on that.

Thank you, Mr. Chair.

The CHAIRMAN. Thanks, Senator Kaine.

Dr. Baum, you have studied every trend in higher education. Normally in this Committee, we have a price problem. Many Members of the Committee, not all, would say, "Let us get some more competition in. That will lower the price of drugs. That will lower the price of computers. That will lower the price." And often, it does.

[Showing smart phone.]

The CHAIRMAN. These things do not get cheaper apparently.

[Laughter.]

The CHAIRMAN. But almost every other thing does.

Now, you look at the higher education market, and for something so involved with government, it is a pretty remarkable market; 6,000 reasonably autonomous institutions, vouchers, really, for 20 million students to help them choose among those colleges.

Why does the market not lower prices more? I mean, why do we have a situation where over 30 years, we do not have even twice as many students? We have gone from 13 to 20 million, yet we are spending 7 times as much on Pell Grants and 8 times as much on student loans.

Dr. BAUM. You get the aggregate spending, it can be a little bit misleading because, in fact, one of the things that the student aid system is designed to do is to increase demand for higher education. Right?

This is not artificial demand for education. This is creating opportunities for people who do not have the resources on their own to actually enroll and succeed in college.

Now competition, if you look at the way different markets work, of course, competition can sometimes reduce prices, but there is a lot of product differentiation. So colleges tend to compete based on their characteristics, and if you look for——

The CHAIRMAN. Well, let me interrupt for just a minute.

Why do not more people look at this market and say, "Here is a high quality, lower priced degree," and you do not have to borrow to do this?

Dr. BAUM. That is a good question about why, for example, students choose to enroll in more expensive for-profit institutions than in public universities. But one problem is that there is a high correlation between the cost of educating students and the quality.

There is a lot of evidence that if you add resources to public institutions or private institutions, they do a better job of educating students.

The CHAIRMAN. Well then, if that is true, we should just turn the whole Federal budget over to the colleges and universities and let everybody go for free. Then we would have the best educated country in the world. Right? I mean, that is not the way we usually work.

We usually leave opportunities for people to come in and say, "I can offer you higher quality at a lower price."

Dr. BAUM. Unfortunately, we have not been very successful at doing that.

The CHAIRMAN. Yes. Well, let me ask this of any of you.

Assuming we were to spend more taxpayer dollars, where would you put it?

Now, it is nice to say, "We will put it everywhere." But we never have that choice usually, and rarely have that choice as legislators.

Would you put it on lowering rates for loans? Would you put it on forgiving more loans? Would you put it on larger Pell Grants? Would you put it on more Pell Grants?

What would you do, Dr. Baum?

Dr. BAUM. I would put more money into low income students directly through the Pell Grant program and into the institutions in which they enroll. So we want to be very careful not to——

The CHAIRMAN. Well, the money goes to the students, not to the institution.

Dr. BAUM. Well, the money goes to the students.

The CHAIRMAN. Do you want more Pell Grants or higher Pell Grants, if you had a choice? Or if you put a priority on the available money, what would you put first priority?

Dr. BAUM. Higher Pell Grants for the students who need them most. This is a critical issue that the low income students who are enrolling in college do not have the money to both pay their tuition—they can cover tuition—but not to cover their living expenses. Need-based aid is critical.

The CHAIRMAN. Wait a minute. Does that mean more Pell Grants or Pell Grants more generous?

Dr. BAUM. Pell Grants with higher dollars per student.

The CHAIRMAN. Okay. So your choice would be to raise the Pell Grant limit from $5,920 instead of more Pell Grants.

Dr. BAUM. Well, of course, if you raise the limit the way the program is currently structured, you also increase the number of students who are eligible by raising the income limit on eligibility.

The CHAIRMAN. Well, but you do not have that luxury, if you have X billion dollars here.

Dr. BAUM. Right. So you have to change the structure.

I would say fund Pell Grants up to a certain percentage of, say, the poverty level and make sure the students——

The CHAIRMAN. Even though that will reduce the number of Pell Grants, you would do that?

Dr. BAUM. It would not necessarily reduce the number.

The CHAIRMAN. Well, you have to make a choice.

Dr. BAUM. The fixed number of dollars?

The CHAIRMAN. Do you want more Pell Grants or do you want more generous Pell Grants?

Dr. BAUM. Yes, I would give more money. I would put more money to the neediest students and reduce somewhat the number of Pell Grant recipients. There are certain students receiving Pell Grants who do not need them nearly as much.

The CHAIRMAN. Would you put money into Pell Grants before you would reduce the interest rate on student loans or forgive more student loans?

Dr. BAUM. Absolutely. The loan program needs to be better structured. The interest rate, if people are in income driven repayment plans, the interest rate matters less. It will affect how long it takes them to repay their loans, not their monthly payments.

The CHAIRMAN. My time is up, but we had a good deal of testimony last week that would seem to get a number of Senators interested.

Did I hear you say that you favor, you would prefer pay your loan back, but pay it based on your income with an automatic payment out of your salary? Did I hear that too?

Dr. BAUM. Yes, you did hear that.

The CHAIRMAN. Okay. Thank you very much.

Senator SMITH. No, I am sorry.

Senator Hassan.

Senator HASSAN. Thank you, Mr. Chair.

The CHAIRMAN. Excuse me. I looked over there.

Senator HASSAN. I am always delighted to be confused with Senator Smith.

I am very, very happy to see such a distinguished panel this morning. It is very hard to figure out how to find my way through just 5 minutes with you because you all have so much experience and expertise.

I will say that the issue of affordability of higher education is something I hear about from constituents just all the time. In an economy where we know that 80 percent of jobs are going to require post-secondary credential or degree of some kind, it is even more imperative that we find a way to make sure that people can afford to continue to improve and get those credentials.

I want to start, Dr. Anderson, with a question for you. I am from New Hampshire. So I have seen firsthand how state investment in public higher education can impact whether or not students are able to access an affordable education.

Like many states, New Hampshire's investment in higher education declined during the recession. It has since struggled to get back up to where it needs to be.

As you have just heard from the Chairman, as policymakers, we have to make tough decisions about where to invest finite funds and a large part of our discretionary budgets can take hits.

What is clear, though, is that there is a far reaching return on investment when we support higher education.

When I became Governor of New Hampshire, one of the first things I did was to work to freeze tuition for 2 years at our university system and to lower it at our community colleges. I have also seen how important things like TAACCT Grants and Federal aid are in our community college system.

Dr. Anderson, can you talk some more? You have referenced it. How could we develop Federal-state partnerships that would incentivize states to invest more in higher education at all levels?

Dr. ANDERSON. Thank you for the question.

Tying into what was said by Senator Alexander regarding some of these investments into Pell. I think an increased Pell amount, I think looking at negative EFC on that front, will help fund more of those students who are most in need.

Senator HASSAN. Yes.

Dr. ANDERSON. I think that will free up institutions and systems to put a little bit more of their aid more toward those institutions that serve these students.

I referred to a study earlier in my comments regarding a 10 percent investment upfront into these types of institutions—community colleges and 2 year programs—resulting in a 10 percent increase within a year for Associate's Degrees and 26 percent for certification programs.

What we found in that also, and what that research discovered is that increased money is put into academic supports and student supports. That is what is key.

When an institution is having to cutback to what they would consider barebones, that is what leaves, and that is what students who are underserved need the most. They need the academic supports and the student supports.

Senator HASSAN. Well, thank you very much for that. I appreciate it.

Dr. Smith, I wanted to drilldown on the concept of affordability goals with you.

Last year, the University of New Hampshire launched a program called Granite Guarantee. Under this program, first year Pell Grant eligible New Hampshire students will receive free tuition for 4 years.

Over 400 students have been served under the Granite Guarantee program, and the Tuition Assistance Program is expanding to our entire university system.

In an effort to make college more affordable and expand access to low income students, institutions and state university systems are implementing these kinds of programs across the country.

We also know that we need to be thinking about how to help students beyond tuition, because the entire panel has made this point. It is not just tuition; it is the cost of living.

As we look at ways to leverage Federal aid to expand access to college, how do you think states and institutions of higher education should be using an affordability goal to inform their policies and funding?

Dr. SMITH. First, I think that is fantastic. I think more states need to have an affordability goal. Right now, we talk about affordability, but we do not tell people what that means.

The average person does not know when you say, "I want to make college more affordable," without something specific that resonates with them. They do not understand what you are trying to accomplish and what that requires of them. So I think having that goal is important.

Then, second, having goals complementary around completion; you cannot just get people in. You also have to make sure that you are helping them through.

You could, I want to make sure we say this, could actually have affordability just for people who are already going, and that would be terrible for us to just say, "We are not going to use this to get more people in. We are going to just use this to make it less expensive for those who are already going."

Those things have to pair together.

Senator HASSAN. Well, thank you very much.

I see I am out of time. Dr. Pollard, I will follow-up with you because you are not the first community college president who we have heard from in the last month or so to talk about the need for additional supports, financial and other kinds of assistance, for students on community college campuses to help them succeed.

I will follow-up in writing with you about that.

Thank you.

The CHAIRMAN. Thank you, Senator Hassan.

Senator Murphy.

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

I wanted to broaden out the conversation that Senator Hassan started about how you build affordability into regulatory accountability measures to the panel here because I think this is an incredibly important conversation to have; in large part because we spend so much time and energy regulating colleges between state-based regulatory systems, Federal regulatory systems, and accreditation that have nothing to do with accountability. It has nothing to do with affordability. Has lots to do with the number of professors, and the number of books you have in the library, and what your financials look like. But in the end, it does not translate to a cheaper product.

I want to just present a little out of the box way to think about this, and this is maybe also to Senator Alexander's point about why the market does not work.

I get it that when thinking about the way that the government spends money, department to department, it is apples to oranges.

But when we buy a submarine from Electric Boat in Connecticut we, at the outset, set expectations for the quality of that submarine and say, "If you cannot meet these qualifications, then we are not going to buy it from you."

But then after that, we look to cost and we essentially try to buy the cheapest product for the specs that we set out. I understand we are not going to revolutionize the way that we spend Federal student aid dollars.

Why do we not look at higher education in somewhat of the same way? In that we set an expectation that every degree has a quality metric attached to it. That we are not going to fund schools in which 40 percent of their students cannot pay back their loans.

But that we are also going to have an affordability expectation that, "We are not going to pay more than X for a degree. And if you cannot produce these results for a certain amount of money, then you are no longer in the game."

Give us a little bit more on what we should build-in to an accountability system when it comes affordability.

Dr. SMITH. I actually think what you have just described would revolutionize the way we spend Federal student aid and we should do it.

We are at a breaking point. I think the statistic that we have referenced, the fact that so many African American students are struggling, and not just African American students, but so many students are struggling to pay, and they are struggling with loans. We have reached a point where there is a crisis in college affordability. And so, that crisis requires some kind of revolutionizing of the system.

The amount of money that is currently spent on Federal student aid without any kind of clear guarantees—and we have a baseline default rate, and we all talked about that before and how that is in position, et cetera—but along with those quality criteria, some guarantees around affordability which could include about how many people repay their loans or how easy it is, recognizing the limits of that. There needs to be also some front-end. limitations that would revolutionize the system and is absolutely necessary.

Senator MURPHY. Dr. Baum, we spend all this time. Speak to my concern that we spend all this time regulating colleges on things that do not have to do with the price of college when, to most families, that combined with whether they get a job afterwards is the mot important thing to them.

Am I wrong?

Dr. BAUM. Well, first of all, it is very reasonable to put a floor on quality and to say, "We are not going to support institutions that do not meet that floor," but to suggest that beyond that, it does not matter.

I mean, the reality is that people are willing to pay more for different kinds of education and different quality. If you look at where people who can afford to spend whatever they want to on college to send their kids, they pick the most expensive colleges.

We have a very complicated situation here.

What we really need to be looking at is what the Federal Government is willing to subsidize and where the Federal Government can create added opportunities, not worry about if there is some other, more expensive option out there. That is fine, if people want to pay for it.

But the Federal Government needs to make sure that it provides reasonable subsidies for students to attend high quality institutions and it does not. And it does not now pay for students to pay the full tuition at the most expensive colleges in the country, and it should not.

Senator MURPHY. Dr. Robinson, talk to me. A lot of the focus of your work is around how to get students thinking more about affordability, but you referenced accountability for institutions as well.

What do you think of my idea?

Dr. ROBINSON. I think that the easiest way for the Federal Government, without doing anything revolutionary to go to exactly that point, is to change the aid eligibility formula.

Right now, say you apply to go to Duke and UNC Chapel Hill, both in my home State of North Carolina. You fill out your FAFSA and as part of the formula the Federal Government uses to decide how much money you will get, it uses the cost to attend at each institution.

Duke costs a lot more than UNC Chapel Hill. So when you get your loan information back from the Federal Government about how much you will be lent, you will get more to go to Duke than to Carolina.

This is sending students, or at least stopping them from having an incentive to go to the less expensive schools. And so, I think we should change that formula.

Instead of using the cost of attendance at a particular school, we use the median cost of college. That means you are no longer incentivizing students to choose a more expensive college. You are actually incentivizing colleges to compete more on price because they know that they are not going to be able to use those loans for the most expensive schools and to pad the bottom line at the most expensive schools.

I think that without creating a new system, we are operating in this system that exists now where student loans are the main vehicle for Federal funding for higher education. Changing that eligibility formula would be the easiest and most direct way to do it.

Senator MURPHY. Thank you, Mr. Chairman.

The CHAIRMAN. Thanks, Senator Murphy. Very, very interesting. Senator Murray.

Senator MURRAY. I want to thank all of you. I have some questions I will submit for the record.

But Dr. Pollard, I did want to ask you about community colleges because there are some unique challenges. There are some who have suggested that community college is already affordable or even already free for some students.

But I know that data shows that students are borrowing or paying more than $7,000 a year out of pocket for community colleges in Maryland, even after their grants and scholarships.

I think it is clear that we need to redefine how we talk about the total cost of college and I wanted to ask you what additional costs should be considered when we look at making college affordable for all of our students?

Dr. POLLARD. Thank you, Senator Murray.

I would offer a couple of points in here. Students in community colleges are typically low and averse. Our students are typically first generation. More often than not, they come from families where the idea of taking on debt is highly irregular for them, and they also know over the long term, they are concerned about their ability to pay that back.

As a result of that, this idea of looking at the total cost of education becomes a barrier for many of them: childcare, healthcare, transportation, food, living expenses, all of those things.

I loved the reference earlier about the room and board. Room and board exists even if you are in a resident situation or you are not. So how are you going to live?

If you have to make a choice oftentimes between providing for your children and your family versus you going to school—even if you know the long term implications for your family are better if you go to school—you will not make that choice to go to college. You will, instead, invest it in things you need to do or you will be looking at social services in order to be able to meet that gap.

It is a critical issue for the students that I work with each and every day.

Senator MURRAY. Okay. Thank you.

Dr. POLLARD. Thank you.

Senator MURRAY. I really appreciate you talking about that.

Thank you, Mr. Chairman. I think this has been an excellent panel and I think this issue is one that we really need to address so all students can feel that they have access to higher education.

The CHAIRMAN. Thank you, Senator Murray.

I think we had this hearing because you suggested to me that we should have this hearing.

[Laughter.]

The CHAIRMAN. I think it has been very good too. If I could ask a couple of questions.

Does anyone have any comment on Dr. Robinson's point about using the median cost of college rather than getting more money to go to Duke than North Carolina or Vanderbilt in Tennessee?

Dr. BAUM. I agree that giving students more aid because they go to more expensive institutions, more Federal aid, is problematic.

That said, the current loan limits—particularly for dependent students as most of the students attending schools like Duke are—are not high enough for this issue to solve many of these problems for many students. There are just not very many people whose amount of loan is affected by anything that Duke might do to change its price.

But it is certainly true that what we do for graduate students, however, we give them as much money as cost of attendance. We should not do that.

Dr. SMITH. I would concur with most of what Dr. Baum just said.

Vanderbilt and colleges, I will just talk about Vanderbilt and not about Duke, but they actually offer very generous financial aid. So no student at Vanderbilt has to take out a loan to attend college at all because they offer financial aid and donors are able to pay for that. That comes out of Vanderbilt's endowment, actually.

Not every college does that. More colleges that have the resources like Vanderbilt should be encouraged to do that and it would be "shame on them" if they have the resources and they are not doing what Vanderbilt does.

But the specific challenge that she raised, I think that is the wrinkle. That, one, the current loan limits do not actually jump up against what even the tuition and fees are. I would venture to guess UNC is very inexpensive, but with the full cost of attendance, you cannot meet it just with Federal student aid, which is part of the challenge that we are faced with today.

In theory, I think it makes sense, but in practice, I think where we are with college prices has unfortunately already outstripped what the Federal aid is that is available.

The CHAIRMAN. Anyone else have a comment on that?

I was thinking, though, that our conversation about simplifying the FAFSA, one of the advantages of it is that you would apply. You would fill out in the first semester of your senior year, when you still could shop around a little bit. You would not just receive your admission at the same time you knew how much money you had.

In addition, given these things, and a simplified FAFSA, you could find out when you are a freshman in high school how much Federal aid you are able to get, and you could plan ahead with, hopefully, some counseling and make more decisions about what you could afford for college.

My last question is explore this problem of state support for higher education. I have been around long enough to see it from both ends.

In the 1980's, when I was Governor of Tennessee, $2 out every $3 was paid for by the taxpayer, mostly the state taxpayer. And if we raised tuition 2 percent, we raised the state contribution 2 percent. Now it is $1 out of $3; it is reversed and the reason is pretty obvious and none of you mentioned it. Nobody ever does. It is the cost of Medicaid.

When I was Governor, 8 percent of the state budget was Medicaid costs, and today it is more than 30 percent and most of the money for that has come out of higher education. So from my vantage as a former Governor, that is the reason for it.

Now, how you get back into the business of more state support for higher education, it seems to me that one way might be this growing movement as Tennessee has done of recognizing that the Pell Grant pays for most of the tuition for community college. And saying, "To the extent it does it, we will pay the rest," and so, it is free; tuition free in any event. Along with mentoring services, most of the time spent filling out the FAFSA, and community service, and other things.

Does the growing interest in tuition free 2 years of post-secondary education present an opportunity for states to renew their funding support for higher education? And if so, what is a way for the Federal Government to encourage that without a bunch of Federal mandates on states that will boomerang, and backfire, and which I generally do not like?

Who has a comment on that?

Dr. BAUM. I would like to comment on that. I wrote a paper, actually, last year about what the Federal role in free community college programs should be.

The consensus of a diverse group of experts involved in this was the Federal Government should continue to use student aid programs to target low income students and a real concern about the state programs that are last dollar programs.

The Federal Government has gone to great lengths to make sure that its largest subsidies go to the neediest students.

If you have a program that just fills in the gaps left by Pell Grants, what you are saying is, "Everybody gets the same subsidy." So the state should be encouraged to devote their extra dollars to students who need them most, not just the students who were not poor enough to get Pell Grants.

The CHAIRMAN. Well, maybe the state thinks that is not its primary goal. That the Federal Government's primary goal is equity, and the state's primary goal is the largest number of well educated citizens and that it puts its dollar in at the last dollar in order to encourage that.

I do not know as most of the people at the community college being——

The average median income in Tennessee is $50,000. So there are not a lot of rich people at the community colleges.

Dr. POLLARD. No, there are not.

I think the part that I appreciate about your comment, Mr. Chairman, is the fact that the issue stems back from the disinvestment, or the lack of investment, by states in public education, particularly at the community college level, but also across the board.

In the State of Maryland, for instance, the master plan had been one-third, one-third, one-third; one-third from the local, one-third from the state, one-third from the student.

At this particular point, about 50 percent of my budget actually comes from the county. The students pay about 33 percent; 15 to 16 percent will come from the state, and that number has not changed in the last decade. In fact, it has continued to precipitously go down.

This idea of figuring out a way to help states understand that the investment in higher education is not just one simply about ensuring equity, which we all should be working toward. It is also about the economy. Let us be very serious about that.

There are 20,000 vacant jobs in Maryland right now in cyber security. We know that, contrary to popular opinion, there are not a lot of coal jobs coming back in our region. What is going to come back: cyber security, technology, and HVAC.

How do we start to invest those dollars to create the economy that we want to see? That idea of a public-Federal-state opportunity for collaboration, I think, is essential. Otherwise, we will continue leaving people behind in an economy where we do not have the luxury of that occurring.

The CHAIRMAN. Well, thanks to each of you.

Now, if when you leave you think, “Well, here is one more thing I wish I had said,” please know that we would be interested in it. And if you want to write us a letter, or a memo, or anything and say, “Enlarging on the point I made or the one I did not get a chance to make,” we would welcome that.

This has been a very interesting hearing. I thank Senator Murray for working with me on it.

The hearing record will remain open for 10 business days. Members may submit additional information and questions to our witness for the record within that time, if they would like.

The next meeting of the full Committee will be on Thursday, February 8, 2018 at 10 a.m. on, “The Opioid Crisis: Impact on Children and Families.”

Thank you for being here.

The Committee will stand adjourned.

ADDITIONAL MATERIAL

AMERICAN COUNCIL ON EDUCATION
February 5, 2018

Hon. Lamar Alexander, Chairman
Hon. Patty Murray, Ranking Member
U.S. Senate Committee on Health, Education,
Labor, and Pensions,
428 Senate Dirksen Office Building,
Washington, DC.

DEAR CHAIRMAN ALEXANDER, RANKING MEMBER MURRAY, AND HONORABLE MEMBERS OF THE COMMITTEE:

As your Committee continues its hearings into reauthorizing the Higher Education Act to explore the topic of college affordability, we would like to address claims that Federal student aid is responsible for tuition increases. Over many years, some individuals have asserted that there is a causal link between college tuition and Federal student financial aid. This claim is at least as long-standing as any proof of the connection is elusive. This concept has been rigorously explored and the full body of available research data does not support this theory.

A number of methodologically sophisticated studies have concluded that there is no relationship between Federal student aid and tuition. In 2014 the congressional Research Service (CRS), in response to numerous requests from Members of Congress, examined the possible relationship between student aid and college prices and found no consensus or consistent set of findings across multiple studies on any causal relationship between student aid and tuition and fees.

Several years earlier, in response to a congressional mandate, the U.S. Department of Education also examined the relationship between tuition prices and various general and targeted subsidies, including financial aid. Indeed, the department identified a single tuition price driver: reductions in direct state support for public 4-year colleges and universities. That is, when state support for higher education goes down, public sector tuition increases.

A significant number of economists—including Don Heller, David Feldman, and Robert Archibald, among many others—have also evaluated this theory and concluded that there is no relationship between Federal aid and college prices.

In any form of rigorous research, proving causation requires that the evidence demonstrates a clear and unambiguous relationship. Absent such results, it is simply wrong to contend that such a causal relationship exists or to state in any way that the research is conclusive.

Colleges and universities are extraordinarily complex organizations that rely on many revenue sources to advance their missions of instruction, research, and community service. Numerous authors and researchers have examined the relationship between college tuition and Federal student aid programs,

and as yet there is no consensus on the existence of any generalizable or causal link between the two. To claim otherwise is to misrepresent the state of the extensive existing research on this question.

We hope to continue collaborating with you as the Committee on Health, Education, Labor and Pensions works to update and reauthorize the Higher Education Act, and that an increased Federal commitment to student financial aid will be seriously considered.

Sincerely,

TED MITCHELL
President

NATIONAL ASSOCIATION OF STUDENT
FINANCIAL AID ADMINISTRATORS
February 5, 2018

Hon. Lamar Alexander, Chairman
Hon. Patty Murray, Ranking Member
U.S. Senate Committee on Health, Education,
Labor, and Pensions,
428 Senate Dirksen Office Building,
Washington, DC.

DEAR CHAIRMAN ALEXANDER, RANKING MEMBER MURRAY, AND HONORABLE MEMBERS OF THE COMMITTEE:

On behalf of the National Association of Student Financial Aid Administrators (NASFAA), I respectfully submit the following letter for the record on the Senate Health, Education, Labor and Pensions (HELP) Committee hearing entitled Reauthorizing the Higher Education Act: Improving College Affordability.

For decades, the theory that increases in Federal student aid lead colleges to increase their prices has permeated conversations about higher education cost and affordability. Unfortunately, that theory, often referred to as the "Bennett Hypothesis" is not supported by conclusive evidence, and yet frustratingly, still tends to drive higher education policy discussions. NASFAA is concerned that we have reached a point where the perpetuation of this hypothesis has become harmful, irresponsible, and will lead to misguided policy decisions if not refuted.

On its surface, the idea that Federal, state, or other public subsidies would lead to higher, inflated prices resonates. But the higher education funding landscape is far too complex to attribute price increases to any single factor or source of funding. The diverse structure of the higher education system in the United States, combined with the fact that institutions of higher education are complex, unique organizations, makes it very difficult to isolate cost increases.

In a 2013 issue brief, "Does Federal Financial Aid Drive Up College Prices?"[1] Dr. Donald E. Heller stated that "While the Bennett Hypothesis may be intriguing, there is little compelling evidence that it holds true with respect to the price-setting behavior of colleges and universities in the United States. This complex process in-

[1] "Does Federal Financial Aid Drive Up College Prices?" Heller, 2013: *http://www.acenet.edu/news—room/Documents/Heller-Monograph.pdf*

volves far too many variables for it to be essentially explained by the simplistic notion that tuition-setting boards sit around and say, 'Well, Pell grants are going up $200 next year, so we can raise tuition $100.' While any change in Federal aid may be a very small piece of the puzzle that leads to year-to-year tuition increases, there is scant evidence that it is a major contributing factor."[2]

Professors of economics at the College of William and Mary, David Feldman and Bob Archibald, have also researched this topic extensively, finding that there are a variety of reasons that lead to increases in college prices. In their book, "Why Does College Cost So Much?"[3] Feldman and Archibald discuss the myriad reasons institutions must charge what they do.

For example, they argue that while technology has played a role in decreasing output costs in other industries, the same has not held true in higher education.[4] Colleges and universities are expected to keep up with the latest technological infrastructure—a costly endeavor—but purposefully try to keep student-to-instructor ratios reasonable in order to provide quality learning environments. Feldman and Archibald, as well as several other renowned researchers, have also pointed to how the interplay of different subsidies, and in particular subsidies at the state level, can positively or negatively impact costs and prices. As public state appropriations decrease, more of the costs of providing higher education are passed along to students and families.

In the 2015–16 year, public appropriations per full-time equivalent (FTE) students were 11 percent lower in inflation-adjusted dollars than they were a decade earlier, and 13 percent lower than they were 30 years earlier, according to the College Board.[5] Put another way, shouldering the cost of providing higher education has shifted away from the public—mostly at the state and community levels—to individual students and families. In 1975, for example, the states covered 60 percent of the tab for a year in college while families shouldered 33 percent, according to Feldman.

"Today," Feldman states, "the states pay only 34 percent while families bear 50 percent of the cost," and the Federal Government's share—through grants and tax credits—has risen to around 16 percent.[6]

The theory that financial aid inflates college prices is also weakened by the fact that the net price, the amount students actually pay, has been decreasing over many years. At the same period of time, Federal investment in the student aid programs has only grown modestly, on a student-by-student basis. There has not been an increase in loan limits in nearly 10 years, and in recent years the Pell Grant received only nominal annual increases. Yet over the last decade the average net tuition and fee price paid by full-time students at public 2-year schools and private, not-for-profit 4-year schools has actually decreased.[7]

It is tempting to try to reduce the complexities of college pricing to some of the simplest, corollary variables available, such as Federal student aid. Yet to do so would require us to ignore the complicated intricacies of cross-subsidization, the myriad variables of college costs, and net prices associated with college funding. As we look forward to reauthorizing the Higher Education Act, we must rely on data and evidence to guide our student aid policy, which also requires an acknowledgement that any link between Federal student aid and college price increases is unsubstantiated.

NASFAA members support conversations to modify the student aid programs to work for today's students. Modifying existing programs and funding—using evidenced-based research is vital. But NASFAA opposes any proposal that seeks to decrease student aid under the faulty notion that those decreases will in some vague, unsupported, and counterintuitive way result in lower college prices.

Regards,

JUSTIN DRAEGER
President & CEO

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[2] Ibid
[3] "Why Does College Cost So Much?" Robert B. Archibald and David H. Feldman, 2010.
[4] Ibid
[5] "Trends in College Pricing 2017." The College Board, 2017: *https://trends.collegeboard.org/sites/default/files/2017-trends-in-college-pricing—1.pdf*
[6] "Myths and Realities about Rising College Tuition." David H. Feldman, 2012: *https://www.nasfaa.org/news—item/4565/Myths—and—Realities—about—Rising—College—Tuition*
[7] "Trends in College Pricing 2017." The College Board, 2017: *https://trends.collegeboard.org/sites/default/files/2017—trends—in—college—pricing—1.pdf*

COLLEGE OF WILLIAM & MARY
February 4, 2018

Hon. Lamar Alexander, Chairman
Hon. Patty Murray, Ranking Member
U.S. Senate Committee on Health, Education,
Labor, and Pensions,
428 Senate Dirksen Office Building,
Washington, DC.

DEAR CHAIRMAN ALEXANDER, RANKING MEMBER MURRAY, AND HONORABLE MEMBERS OF THE COMMITTEE:

I am writing to offer my views on the contentious "Bennett Hypothesis" that will no doubt make an appearance at Tuesday's hearing. The Bennett Hypothesis is the supposed link between increases in Federal higher education support and subsequent college tuition increases.

The literature on the Bennett Hypothesis offers no firm conclusions or consensus. One can find support for any position, so appeals to the Bennett Hypothesis often derail efforts to find a sensible middle ground where facts are agreed. This alone should lead you to steer clear of altering Federal student support policies on the basis of any particular study that purports to show a link between Federal student aid and list price tuition.

Finding a correlation between Federal student aid and list price tuition is easy. Over time the consumer price index, the level of Federal aid spending, college operating costs, and list price tuition all have moved in the same direction. The many strands of causality that tie all of these things together are tangled and not well understood. As a result, statistical correlations often are spurious accidents even when researchers have tried to identify and control for various confounding factors.

The current literature on links between Federal student aid and list price also suffers from many methodological flaws. The schools that make up the American higher education system are very diverse. Elite private colleges, non-selective public branch campuses, and for-profit institutions face different constraints and have differing decision-making processes. Yet much of the work on the Bennett Hypothesis ignores these differences in how institutions behave, and many studies do not seriously explore college price-setting behavior at all.

We should get away from the Bennett Hypothesis and its narrow focus on list price tuition. Most undergraduates in the United States don't pay the list price. Public and private non-profits offer need-based and merit-based discounts. According to the College Board's "Trends in Student Pricing, 2017" over half the students at the Nation's major public research universities pay less than the listed in-state tuition, and the average discount is 34 percent. At smaller private colleges fewer than 20 percent of students pay the list price, and the average discount is over 50 percent. List price tuition is a very poor measure of the cost of attendance for most students.

The most important questions we face are about how Federal aid policy affects access to the higher education system. There is a serious social science research literature on the interaction between Federal higher education support and college access and affordability, and a number of conclusions from that literature are increasingly supported by strong evidence.

- Public universities and private colleges that serve large numbers of the Nation's lower-income and 1st generation students pass most or all of any increase in Federal aid back to students as a lower net tuition. Net tuition is the list price minus any government aid the student receives and any institutional discount the school offers. In other words, extra Federal support creates more access.
- Highly selective private colleges do not pass all of an extra dollar of Federal aid to students. They "tax" an extra dollar of aid by reducing their own need-based discount. But some of the aid does pass through as a lower net price.
- The best evidence of a causal link between Federal aid and list price tuition comes from the Nation's for-profit higher education institutions.

These conclusions from the literature make sense if you think about how non-profit and for-profit colleges actually behave.

Non-profits use tuition discounting, and part of the motive is a mission-driven commitment to access. If Congress raises the maximum size of a Pell grant, lower-income students bring that larger aid package with them to any school that accepts them.

At a non-profit college or university, the school can claim some of the extra Federal aid by cutting its own discount. The less it cuts its own discount, the more the student's net price falls. But "taxing" the aid isn't all bad. By decreasing the discount, schools have extra operating funds that they can use to build student support programs that improve retention and graduation or build better programming that benefits all students. They could also use the extra revenues to cut the list price for higher-income students. They have no incentive to raise it.

The evidence suggests that state universities and less-selective private colleges choose to pass most or all of any increase in Federal aid to students as a lower net price. These are schools that often do not fully meet need because they are resource poor. The extra Federal aid helps them to meet a greater percentage of student need. Doing this would enlarge the pool of students who could afford to go. It would also improve retention and graduation rates by reducing students' financial stress. And public university tuition often is set by state legislatures, so schools do not respond with tuition hikes when the Pell maximum, for instance, is raised.

Highly selective schools already meet much or all of their students' demonstrated need, so they have an incentive to allow a portion of extra Federal aid to displace some of their own institutional grant aid. Taxing the extra Federal aid in this way frees up resources to improve programming.

The nation's for-profit colleges are different. There is more than a touch of irony in the evidence that higher Federal tuition support is linked to rising list price tuition in this sector of the higher education market. But the causal pathway is clear. These schools often receive eighty to one hundred percent of their revenues from Federal student loans, Pell grants, and GI benefits. Almost all of their students receive large amounts of Federal support. And these colleges do not use need-based discounts to build and diversify an incoming class of students. Like highly selective private universities, for-profits can tax any increase in the package of Federal aid their students bring to the table. But since they have little institutional aid to reduce, they claim much of the Federal aid as revenue by raising the list price that virtually all of their students face. Yet even at for-profit colleges, a dollar of extra Federal support does not lead to a dollar of tuition increase. Extra Federal aid creates access here too.

I urge you to keep your eye on the real prize. The substantive issues before you are about creating access to higher education for more families, and enabling success by helping a greater fraction of students move expeditiously through the higher education system. Of the two, your greatest leverage is over access.

Improved access and greater success are needed if we are to help more young Americans earn the skills and credentials that will add value over their entire working lifetimes. This is how we fulfill the promise of our higher education system as an engine of social mobility.

Sincerely,

DAVID H. FELDMAN
Professor of Economics

QUESTIONS AND ANSWERS

RESPONSE BY JENNA ROBINSON TO QUESTIONS FROM SENATOR SANDERS, SENATOR WARREN, AND SENATOR KAINE

SENATOR SANDERS

Question 1. What is the role of career and college counselors to help students determine which college program of study and financial aid package will help them graduate college sooner and with less student debt?

Answer 1. College advising should be an essential part of ensuring that students take the right number of credits to graduate on time and the right courses to earn the credits they need for their degree. In order for advising to be useful, it must also be proactive in identifying and aiding students who are in need of assistance.

Financial aid advisors fulfill a separate role than academic advisors. In most cases, they simply serve as a contact point between students and their financial aid benefits. One way to improve communications about financial information is to change financial aid award letters. A recent study by New America found award letters to be almost uniformly confusing and opaque. Colleges and universities should change award letters so they are clear, transparent, and make obvious distinctions between different types of aid.

Question 2. Post-Secondary education in the United States has traditionally been funded through a mixture of Federal and state government appropriations, institutional endowments, and student payments of tuitions and fees. However, state investments in public higher education paid for 83 percent of public college education costs in 1980 but only paid for 23 percent of costs by 2012. This massive reduction in state investment in public colleges has left students bearing a larger proportion of the price of college. What has been the impact of state divestment in public colleges on the affordability of higher education and the ability of students to finance their education with less student debt? Additionally, what role should state governments serve in ensuring that students are guaranteed a high-quality, college education with less student debt?

Answer 2. The limited research that exists on the effects of state divestment on tuition prices (summarized here by the Brookings Institution) show that between 6 and 28 percent of tuition changes can be attributed to changes in state funding. Moreover, most students who attend public colleges and universities leave with manageable debt: the average debt per borrower at public schools from the Class of 2016 was $26,828. Students who attend private institutions owe more: $30,281 for the Class of 2016. Average debt is not the problem. Non-completion is. A large proportion of students who default on their student loan debt never completed a degree.

SENATOR WARREN

Question 1. We heard many policy recommendations to make college more affordable for future students, including strengthening the Pell grant and establishing state-Federal financial partnerships. However, we must not forget the approximately 44 million people who are currently struggling with student loan debt. From your perspective, what should Congress do to support these former students who have been saddled with debt and ensure that their student loans do not prevent them from saving for a down payment on a home, saving for retirement, saving for their own kids' college education, or making other critical financial decisions and purchases that help our economy?

Answer 1. Many students who have large amounts of student loan debt never completed their degrees. Students who are close to completion in terms of credit hours should be encouraged to return to college to complete their coursework. Repayment plans should be simplified so students can easily navigate their options. Private student loans should be subject to bankruptcy laws.

Question 2. Multiple witnesses discussed that borrowers of color are disproportionately impacted by student loan debt and student loan default. What should Congress do to specifically address this fact and specifically support these traditionally underserved populations? How can Congress reduce the student debt burden of all students of color?

Answer 2. Successful college completion is the key to helping students avoid default. Solutions to improve completion, including better advising and instituting evidence-based teaching practices, are institution-level rather than Federal-level reforms. At most, Congress can improve colleges' incentives to help students avoid default. Congress can give colleges skin in the game in student loans or begin using repayment rates instead of default rates when measuring universities' success and determining access to Federal financial aid.

Question 3. Authors at the Levy Economics Institute of Bard College released a report in February 2018 that found huge economic benefits if the Federal Government would make a one-time policy decision to forgive all existing student debt. They found canceling all student debt would increase U.S. GDP, increases job production, decreases unemployment, and improves state budget deficits, with modest effects on interest rates and a host of additional positive spillover effects. Please respond to this report.

Answer 3. Canceling student loans would be extremely expensive; there are more than $1.25 trillion of outstanding Federal loans right now. It would also fail to target debtors who need help the most. In 2010, the median borrower would have had to spend about 6 percent of his or her income after leaving school to pay back loans. Most borrowers are not at risk of default or financial hardship. The highest earning 20 percent of borrowers carry roughly 36 percent of outstanding debt. Canceling these loans would be a hand-out to the wealthy. Overall, canceling student loans would be a popular, but deeply regressive, solution to the problems of student loan non-repayment and default.

SENATOR KAINE

Question 1. Private student loans tend to lack some of the critical protections built into the Federal direct loan program for borrowers. This can leave struggling borrowers in the private student loan market in financial distress with few options.

Question 1(a). Do you think private students loans should be subject to bankruptcy laws? Please explain.

Answer 1. Yes, private student loans should be subject to bankruptcy laws. Doing so would create the proper long-term incentives for lenders, i.e. lenders would be more prudent in their lending. However, I believe bankruptcy protection should only be available after a certain time limit, perhaps 5 years after finishing a degree. (This would encourage students to work toward repayment first and view bankruptcy as a last resort.) I described my position on bankruptcy in Inside Higher Ed, here.

Question 2. What can Congress do to drive more students toward affordable options and help Federal student aid go further for at-risk students?

Answer 2. Difficulty comparing options is one source of students making sub-optimal decisions about college and university attendance. One solution would be to improve student aid award letters so they are clear, transparent, and uniform. A recent study showed that more than one-third of student financial aid award letters omitted the total cost of attendance. Others failed to differentiate between grants and loans. This is an understandable source of confusion that can lead students to choose less affordable options. Ideally, student aid letters would also be uniform so that students could easily compare offers from different institutions. The FAFSA should also be improved. More students should be able to file the simple version and FAFSA should be available via mobile app.

RESPONSE BY SANDY BAUM TO QUESTIONS FROM SENATOR SANDERS, SENATOR WARREN, AND SENATOR KAINE

SENATOR SANDERS

Question 1. What is the role of career and college counselors to help students determine which college program of study and financial aid package will help them graduate college sooner and with less student debt?

Answer 1. Unfortunately, the current infrastructure for career and college counselors is inadequate. Ideally, every student considering post-secondary options would have access to a knowledgeable counselor who could provide personalized information about available programs, costs of attendance, financial aid, probabilities of success, and career paths. But only students graduating from well-resourced high schools now have this access. As Judith-Scott Clayton and I argued in our 2013 Hamilton Project paper, Redesigning the Pell Grant Program for the 21st Century, integrating federally funded services into the Pell Grant program has the potential to increase success rates and make investments in college more productive for both taxpayers and students.

Question 2. Post-Secondary education in the United States has traditionally been funded through a mixture of Federal and state government appropriations, institutional endowments, and student payments of tuitions and fees. However, state investments in public higher education paid for 83 percent of public college education costs in 1980 but only paid for 23 percent of costs by 2012. This massive reduction in state investment in public colleges has left students bearing a larger proportion of the price of college. What has been the impact of state divestment in public colleges on the affordability of higher education and the ability of students to finance their education with less student debt? Additionally, what role should state governments serve in ensuring that students are guaranteed a high-quality, college education with less student debt?

Answer 2. The failure of state appropriations for public higher education to keep up with rising enrollments has contributed both to rising tuition and fees and to a reduction in the resources available to public institutions to provide high quality educational and support services to their students. The results include both higher debt levels and lower completion rates. Low completion rates at community colleges and broad-access public institutions are among the most serious problems related to the under-funding of higher education. The states and the Federal Government share responsibility for ensuring access to high quality post-secondary education to all who can benefit. Federal incentives for increased and better-targeted state funding have the potential to mitigate these problems.

SENATOR WARREN

Question 1. We heard many policy recommendations to make college more affordable for future students, including strengthening the Pell grant and establishing state-Federal financial partnerships. However, we must not forget the approximately 44 million people who are currently struggling with student loan debt. From your perspective, what should Congress do to support these former students who have been saddled with debt and ensure that their student loans do not prevent them from saving for a down payment on a home, saving for retirement, saving for their own kids' college education, or making other critical financial decisions and purchases that help our economy?

Answer 1. The problems with existing student debt are mounting as the Department of Education stalls the processes designed to forgive the debt of students who are the victims of fraud and abuse and of institution closings that prevented them from completing their studies. The former students struggling most with debt are not those who have borrowed the largest amounts, but those who have left school without a credential. Default rates are inversely related to amounts of debt and are more than twice as high for non-completers as for completers within each sector.

Some groups of students borrow much more than others for similar degrees: older students, those who attend for-profit institutions, and African-American students are particularly vulnerable. Efforts to relieve existing debt burdens should focus on these groups, not on borrowers with high levels of debt, the majority of whom have completed bachelor's degrees and many of whom have professional degrees or other credentials that are likely to generate high levels of earnings.

Question 2. Multiple witnesses discussed that borrowers of color are disproportionately impacted by student loan debt and student loan default. What should Congress do to specifically address this fact and specifically support these traditionally underserved populations? How can Congress reduce the student debt burden of all students of color?

Answer 2. African American students borrow more than others for a variety of reasons. Hispanic students do not have the same borrowing patterns. There is no doubt that the lower income and asset levels of African American families explain much of this problem. But these students also disproportionately enroll in for-profit institutions, come to college with low levels of academic preparation, begin college at older ages, and take longer to complete their credentials-if they do complete them. African Americans also earn less in the labor market than others with the same credentials.

All of these circumstances need to be addressed. It is probably not reasonable to target debt relief at specific racial and ethnic groups, but it is vital that we work to change the circumstances that create these problems.

Question 3. Authors at the Levy Economics Institute of Bard College released a report in February 2018 that found huge economic benefits if the Federal Government would make a one-time policy decision to forgive all existing student debt. They found canceling all student debt would increase U.S. GDP, increases job production, decreases unemployment, and improves state budget deficits, with modest effects on interest rates and a host of additional positive spillover effects. Please respond to this report.

Answer 3. This report basically asks what would happen if there were an influx of money into the economy, targeted specifically at people who borrowed for education and have not yet repaid their loans. There is no doubt that these individuals would spend more on other things if they did not have loan payments. But it does not address the real questions. Why forgive student debt and not, for example, medical debt? Would there be some compensation for people who recently completed their loan payments? How would this cost to the Federal Government be financed? Would there be a tax increase and how would the distribution of that tax increase compare to the distribution of the benefits to borrowers? About half of all education debt is held by households in the top quarter of the income distribution, so this would not be a progressive policy. And many of the loans causing problems are non-Federal loans. Would these loans be included, using Federal funds to make private lenders whole?

The expansionary impact of expanded government spending is well established. This does not make the idea of forgiving the loans of people with high levels of education a wise policy.

Question 4. In your testimony, you suggested the value of developing a state-Federal Government partnership to make higher education more affordable. How should Congress structure such a partnership? What factors should Congress consider when developing these partnerships and what should be avoided?

Answer 4. Designing a fair and effective policy would be challenging, but there are strong arguments for the Federal Government providing incentives for states to increase their investments in higher education and reducing the inequities in educational opportunities across the Nation. The goals should include both lowering the prices students pay and increasing the resources available to institutions to provide high quality education and support student success.

An exclusive focus on price-whether that price is zero or not-risks reducing quality. Moreover, it is important to recognize that the financial barriers facing low-income students are frequently associated with living expenses rather than tuition and fees, which are often covered by need-based state and Federal aid. Free tuition policies that build on existing aid programs do not address this problem and instead provide incremental funds to students whose resources prevent them from being eligible for need-based aid. The Federal Government has successfully built and maintained a Pell Grant program that diminishes the inequality of resources available to students. Last-dollar free tuition programs move in the opposite direction, providing identical subsidies to students attending the same institution regardless of their financial circumstances. Because low-income students tend to enroll in lower-cost institutions and to stay in school for a shorter time than their more affluent peers, low-income students actually end up with the smallest public subsidies under this type of policy.

Debt-free tuition is a more reasonable target than "free" or "debt free." Such a policy would use Federal funds to motivate and supplement state funding, ensuring that all students can cover public 4-year college tuition with a combination of expected family contribution and grant aid.

Question 5. You have argued that, "We should worry a lot less about 18-year-olds going off to college and borrowing $20,000, $25,000, for a bachelor's degree" because the investment pays off, and because the median earnings for young bachelor's degree recipients is higher than the median earnings for high school graduates.

Question (a). In an economy with stagnant wages, should Congress care only about borrowers who are in economic distress?

Answer 5. The Federal Government should care about everyone who is not able to find a job that supports a reasonable standard of living whether or not they went to college and however they financed their education. A stronger safety net would reduce food and housing insecurity for all Americans.

Targeting subsidies at everyone with student debt does not help the least well-off members of society, who do not have a college education. It also penalizes people who worked more and borrowed less in college and people who focused on quickly paying off their debts after colleges.

Answer (a). The problem is inadequate wages. Tackling this problem directly makes more sense than just alleviating one expense faced by a segment of the population that actually includes many of those in the upper segment of the income distribution.

Question (b). Should Congress also consider borrowers who can afford their monthly payments, but don't have any money left over to save for a down payment on a home, save for retirement, save for a medical emergency, save for their own kids' college education, or make other critical financial decisions and purchases that help our economy grow?

Answer (b). Congress has taken important steps by implementing income-driven repayment for Federal student loans. Allowing people to repay their loans through a program that requires payments that are a low percentage of discretionary income should ensure that only borrowers in unusual circumstances face the choice between loan payments and other critical expenses.

Congress should focus on strengthening this program. Simplifying and consolidating the system and making enrollment automatic for all borrowers would solve the problem of borrowers being unable to access the program and being thrown out because of failure to verify income annually. Using the payroll deduction system, as other nations do, would allow payments to adjust immediately when borrowers lose their jobs or suffer earnings declines. It would also greatly reduce default, which carries severe negative consequences for borrowers.

Question (c). As long as a borrowers is able to afford her monthly payments, and is able to earn marginally more than if she had never attended college, is that borrower a success?

Answer (c). In order for education to pay off-and to be affordable in retrospect-students should be able to live at a higher standard of living than they would have if they had not gone to college, even after both repaying their debts and making up for wages forgone because of time spent in school. Much of the apparent student loan "crisis" is attributable to students borrowing to enroll in programs in which they have little chance of success and that are unlikely to lead to good job prospects even for students who do graduate. Better Federal oversight of the programs and institutions for which students are allowed to take out Federal loans (and to which they are allowed to bring their Pell Grants) would go a long way toward ameliorating this problem in the future. No amount of assistance with loan repayment can compensate a student for the lost time and resources dedicated to a fruitless education.

A borrower doesn't just have to be able to repay her debts out of her earnings premium. She also has to be able to cover forgone earnings and other funds invested in her education.

Money is, of course, not the only measure of a valuable education. Fortunately, many successful students do not focus on maximizing their incomes, but on having satisfying and socially useful careers.

SENATOR KAINE

Question 1. Private student loans tend to lack some of the critical protections built into the Federal direct loan program for borrowers. This can leave struggling borrowers in the private student loan market in financial distress with few options.

Question (a). Do you think private students loans should be subject to bankruptcy laws? Please explain.

Answer 1. Private student loans are really just unsecured loans from private lenders. There is no reason why lenders should be privileged just because they put the word "student" on a loan. In fact, having a legally recognized category of private student loans confuses students, who do not understand the difference between Federal student loans and these loans that do not have the same protections. It encourages students to take loans that are likely to cause them problems.

Answer (a). Borrowers should be able to discharge private loans in bankruptcy as easily as they can discharge other loans. The whole question would disappear if these loans were recognized as what they really are-not a form of student financial aid.

Question 2. What can Congress do to drive more students toward affordable options and help Federal student aid go further for at-risk students?

Answer 2. The goal should not be just to help students choose cheaper options, but to help them choose more promising options. No matter how low the price, an education is not affordable if it is not productive for a student. Congress should implement stricter rules about which institutions and programs can participate in Federal student aid programs. The Federal Government should not be supporting students to enroll in programs that have a very small chance of helping them achieve their goals. Allowing Federal aid to go to an institution is essentially a Federal stamp of approval.

In addition to stronger regulation and thresholds for participation, the government could increase access to high quality counseling and personalized advice for disadvantaged students. As Judith-Scott Clayton and I argued in our 2013 Hamilton Project paper, Redesigning the Pell Grant Program for the 21st Century, integrating federally funded services into the Pell Grant program has the potential to increase success rates and make investments in college more productive for both taxpayers and students.

[Whereupon, at 11:50 a.m., the hearing was adjourned.]

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