Trends and Challenges in Financial Aid and College Affordability

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Decrease in College Affordability

- Need-based grants are failing to keep pace with increases in college costs
- Federal and state governments are cutting student aid spending to reduce budget deficits
- College costs continue to rise
  - Public college tuition inflation is driven by cuts in state appropriations (effectively taxing students)
  - College discount rates are increasing, putting pressure on college student aid budgets
- Family income is stagnant due to the economy
- More families are demonstrating financial need

Consequences of Drop in Affordability

- Families are more concerned about college costs and financial aid because of the increase in out-of-pocket costs
- Low and moderate income students shifting enrollments to lower-cost colleges, causing a decline in Bachelor's degree attainment
- Average debt at graduation is increasing by thousands of dollars
- There is an increased focus on improving the efficiency and effectiveness of student aid funds

Recent Cuts in Student Aid Funding

Cuts to Pell Grant Program Funding

- Department of Defense and Full-Year Continuing Appropriations Act, 2011 (P.L. 112-10) suspended the Year-Round Pell Grant program effective with the 2011-12 award year
  - The Year-Round Pell Grant program allowed students in accelerated degree programs to receive two Pell Grants in a single award year
  - This cuts $8 billion/year in Pell Grant program funding
- 2010-11 was also the last year of the Academic Competitiveness Grant (ACG) and National SMART Grant programs (SMART Grant)

Increases in Funding are Inadequate

- Scheduled increases in maximum Pell Grant will fall short of inflation through 2020
  - Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) provided funding for anemic increases in the maximum Pell Grant through 2019-2020
  - Five years of no increases, five years of CPI increases, the equivalent of CPI – 0.75%
- Budget Control Act of 2011 allocated $17 billion to the Pell Grant program for 2012-13 to address an existing funding shortfall, but left the program with a $1.3 billion funding shortfall

Recent Growth in Pell Grant Program

	2007-08	2008-09	2009-10	2010-11
Recipients	5.34 million	6.12 million	7.74 million	8.87 million
Max Pell	$4,310	$4,731	$5,350	$5,550
Average Pell	$2,620	$2,970	$3,646	$4,115
Minimum Pell	$400	$890	$976	$555
Minimum Pell Formula	$400	$400 plus $490 mandatory	10% of discretionary max plus $690 mandatory	10% of overall maximum
Appropriations	$13.7 billion	$16.26 billion	$25.3 billion	$32.9 billion

- Pell Grant appropriations doubled from 2008-09 to 2010-11
- Number of recipients increased 45% from 2008-09 to 2010-11
- Grew from a third of students in 2008-09 to almost half in 2010-11
- Average Grant increased 39% from 2008-09 to 2010-11

Most Likely Changes to the Pell Grant

- Priority is on maintaining maximum Pell Grant of $5,550, but there will be no increases
- Cut subsidized interest on undergraduate subsidized Stafford loans to yield funding for Pell Grant program
- Reduce the number of semesters of eligibility from 18 to 12 for Bachelor’s degree programs, with lower limits for Certificate and Associate’s degree programs
- Require a minimum of half-time enrollment
- Eliminate eligibility for students who qualify for less than 10% of the maximum Pell Grant
- Changes to federal need analysis, such as changes to income protection allowance or auto-zero-EFC threshold

Other Student Aid Cuts Are Likely

- Efficiency improvements from reallocating funds from one student aid program to another will be diverted toward deficit reduction
  - Budget Control Act of 2011 cut subsidized interest for graduate students and loan discounts, saving $21.6 billion, but redirected $4.6 billion to deficit reduction
- Budget Control Act of 2011 cut budget deficit, but did not specify what would be cut
  - Across-the-board budget cuts are likely
  - Extension of 3.4% subsidized Stafford loan interest rate for undergraduates is unlikely
  - Bush Administration tax cuts expire at end of 2012

Impact on College Affordability and Debt

Growth in Student Loan Debt

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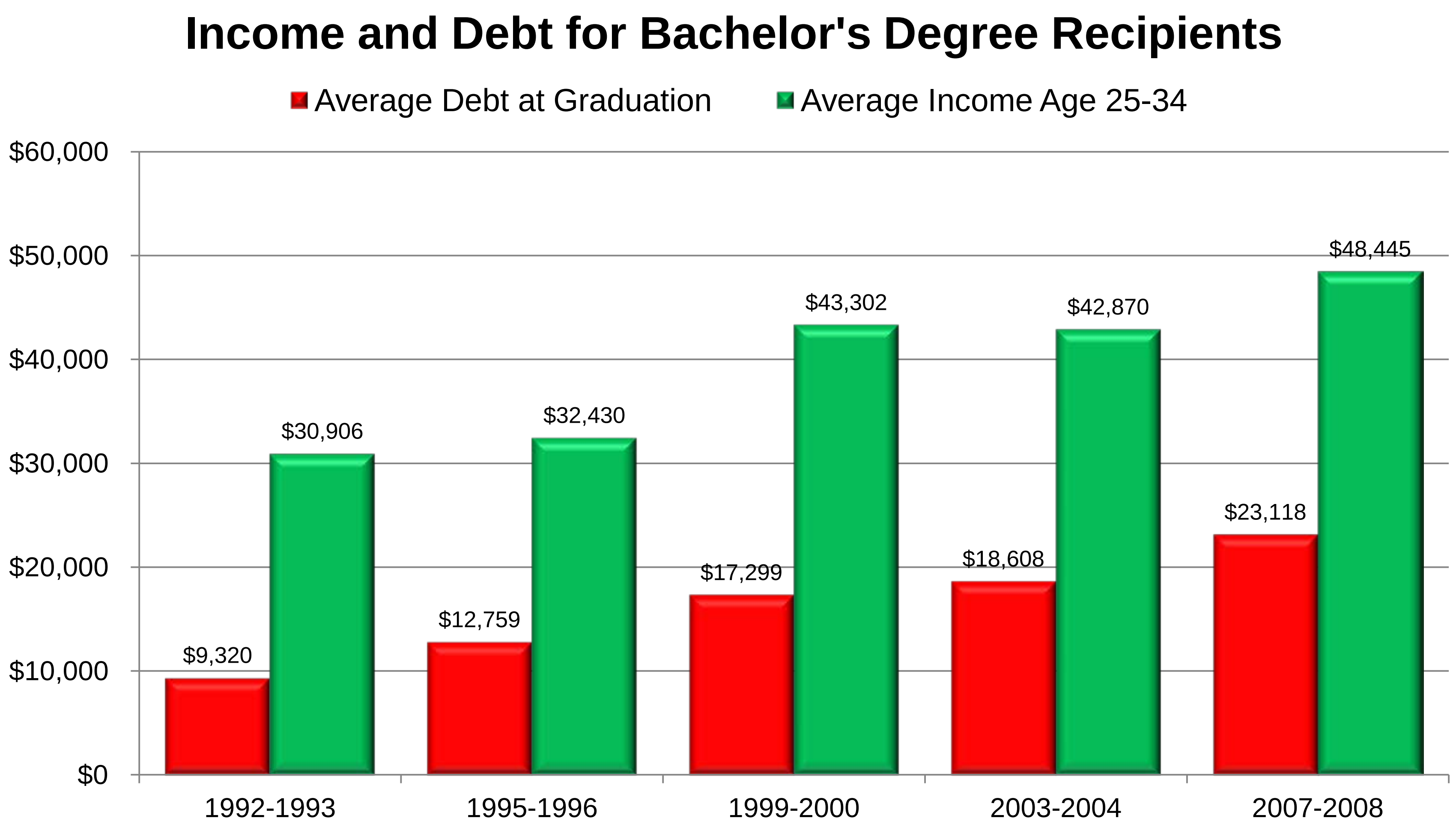
- Student loan debt continues to grow faster than income, driven by the failure of grants to keep pace with increases in college costs
- Total student loan debt outstanding exceeded credit card debt outstanding in June 2010
- Total student loan debt outstanding will reach the $1 trillion mark in late 2011
- One-third of students are graduating with more than $20,000 in debt, eligible for 20-year or longer repayment terms

Debt Catching Up with Income



More Graduating with Excessive Debt

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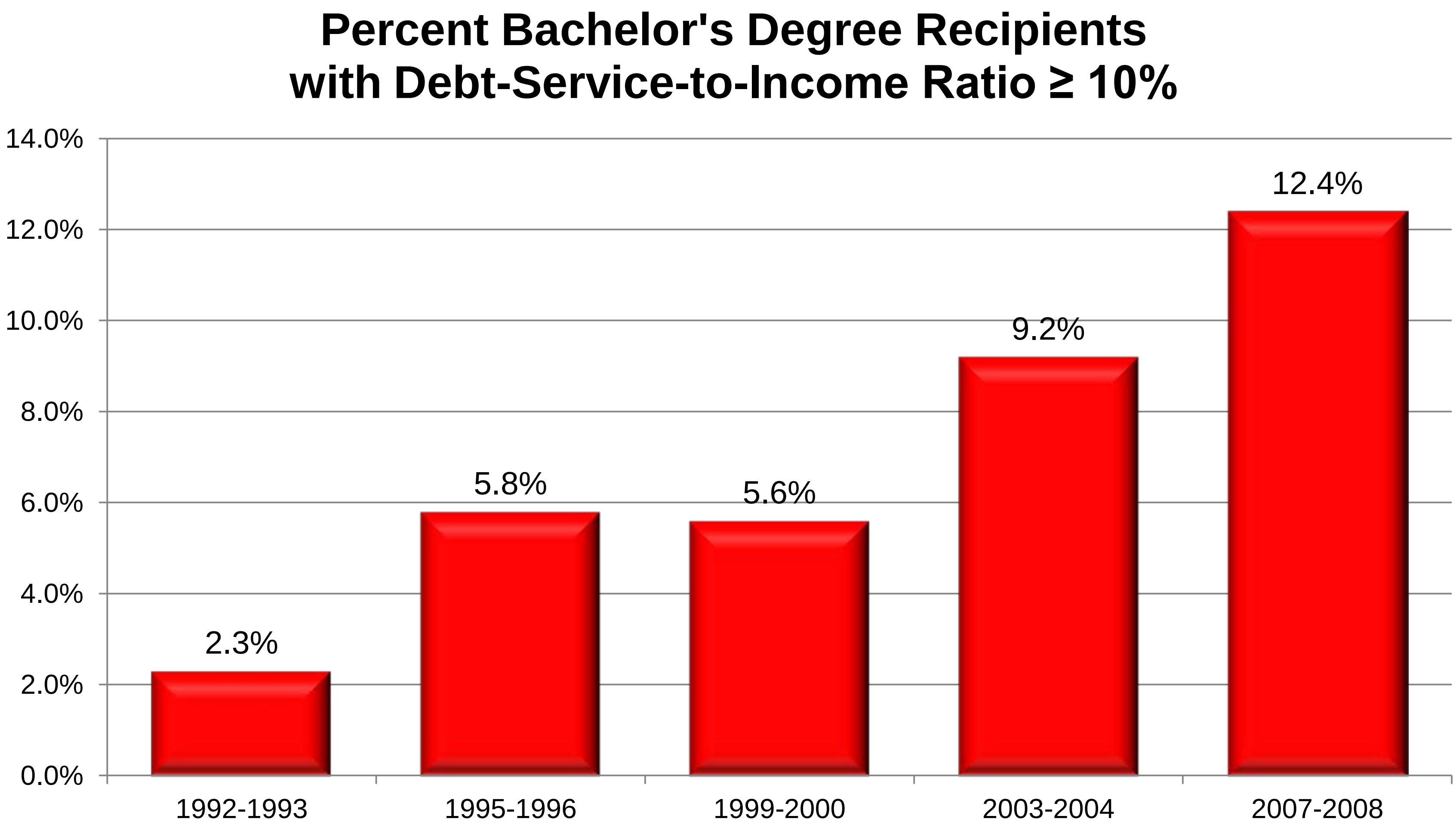
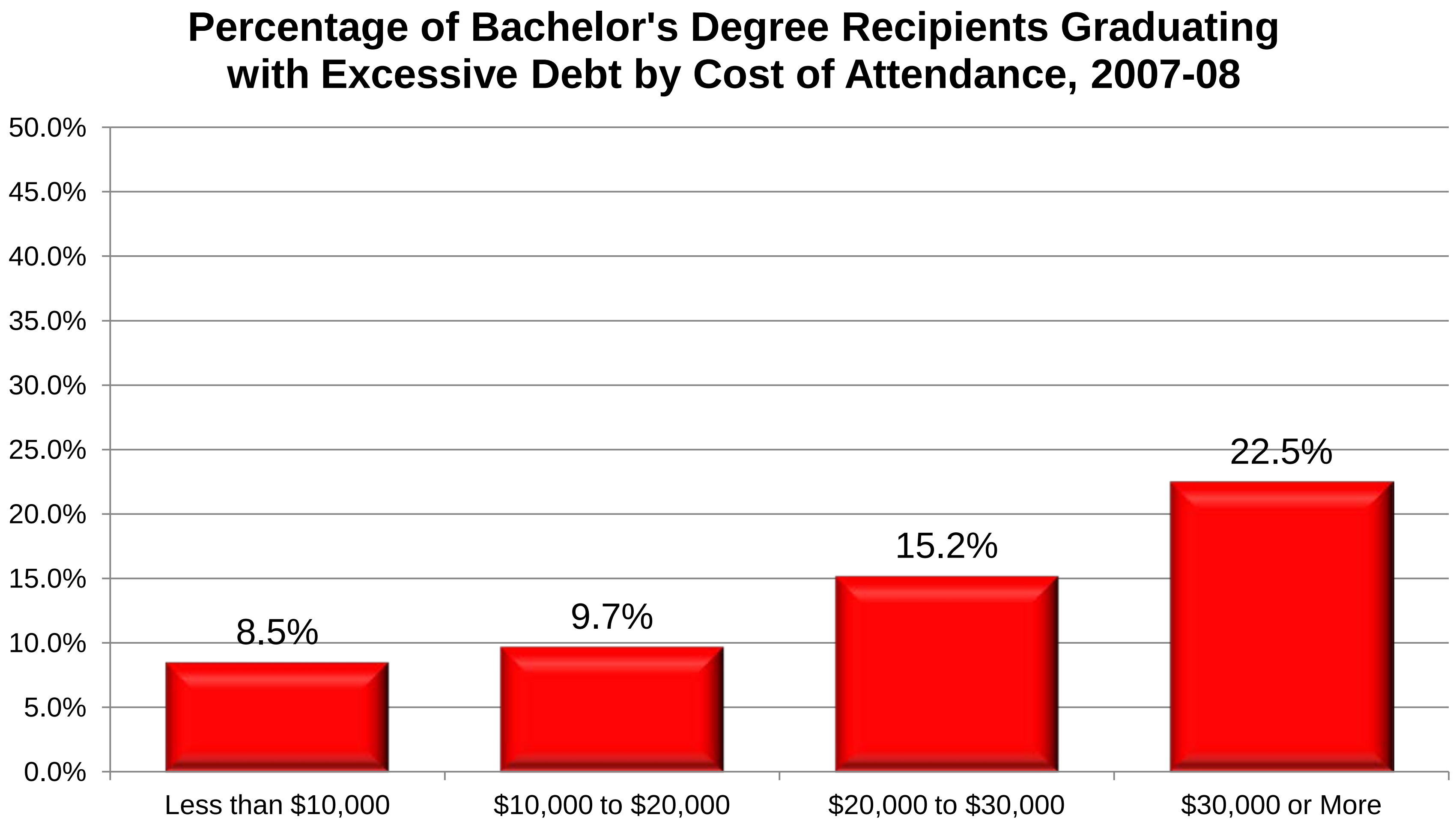
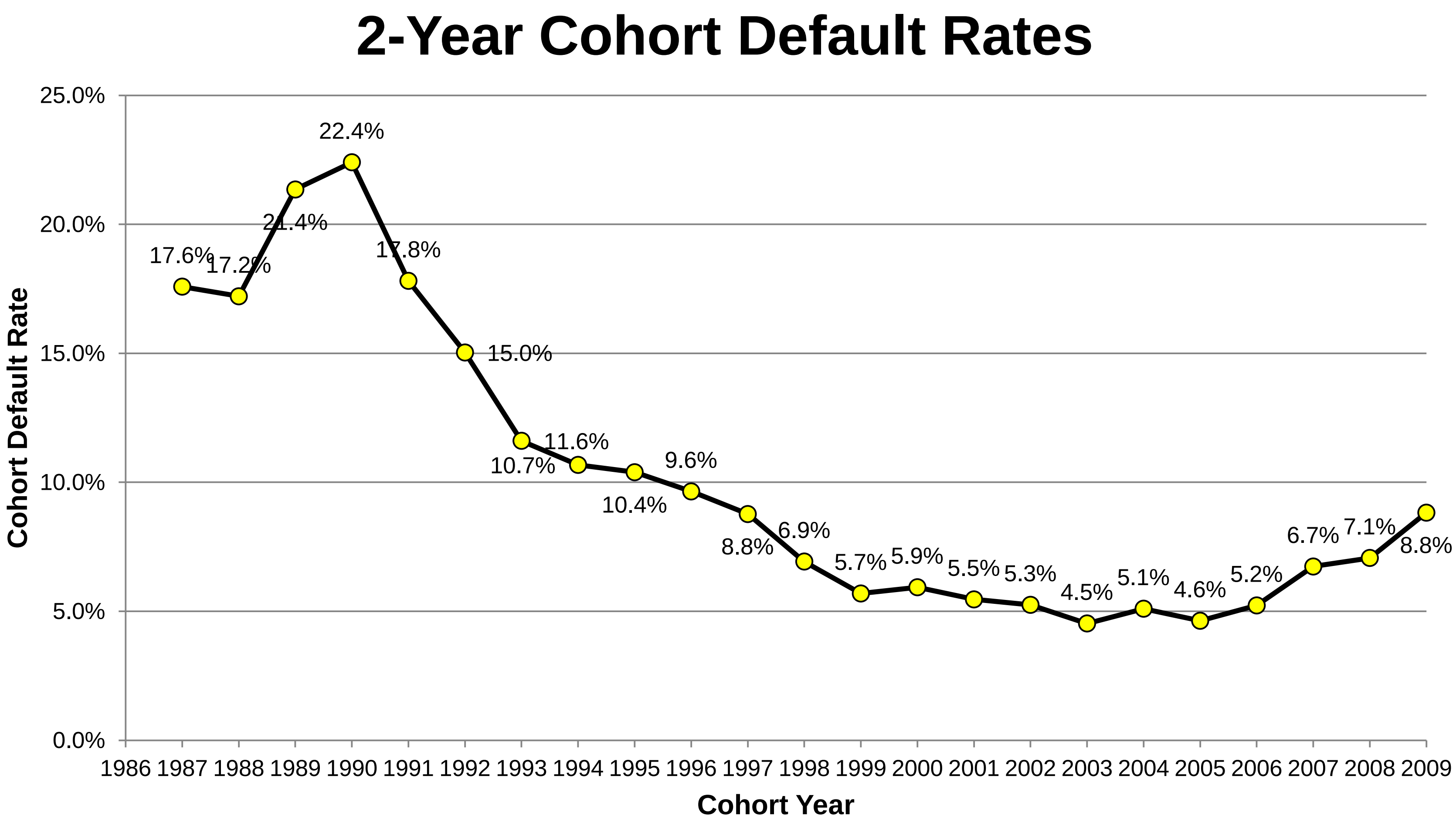


Higher-Cost Colleges Drive Excessive Debt



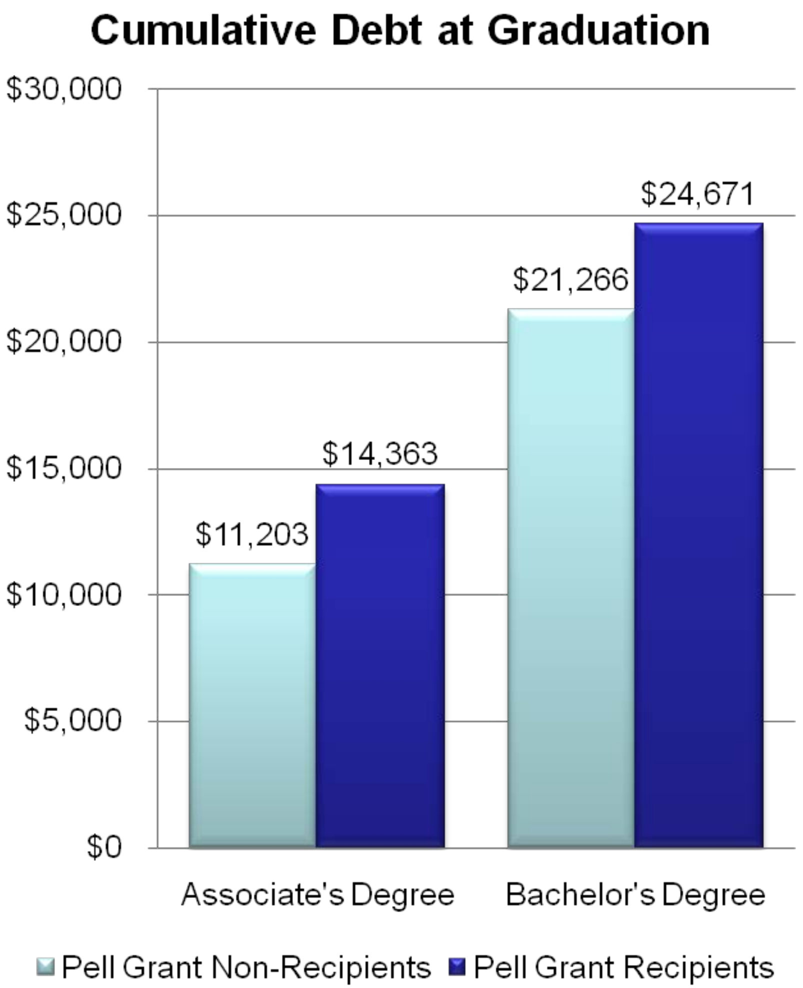
Cohort Default Rates Rising Again

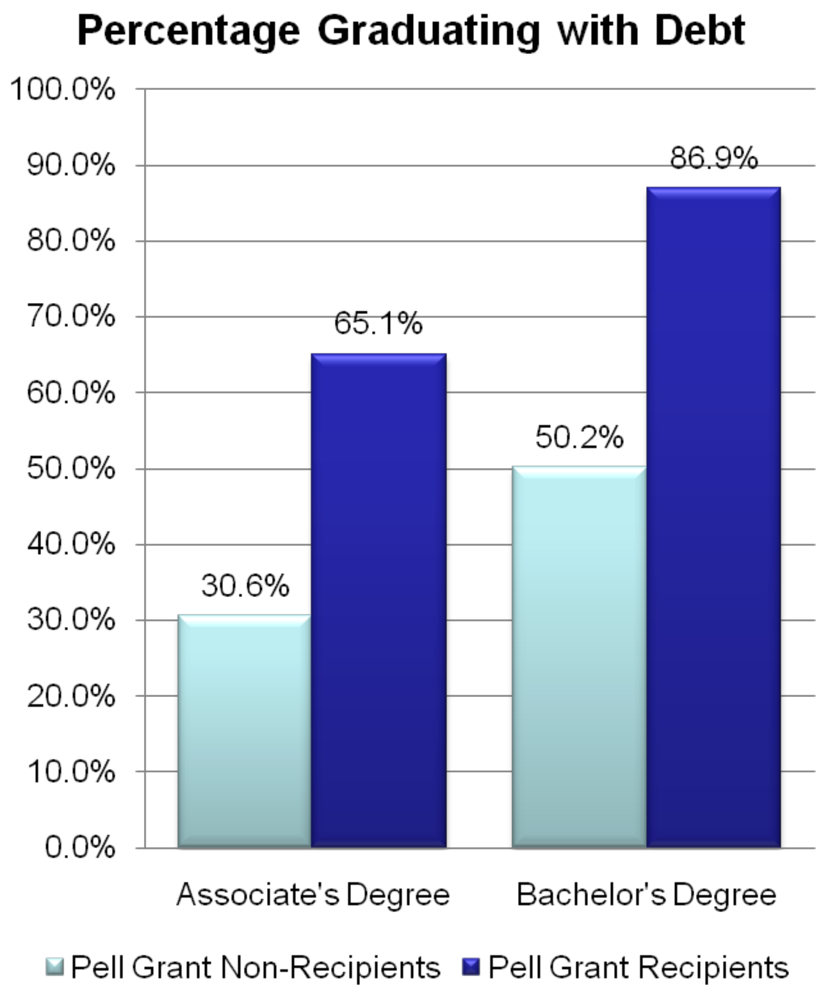


Debt Hurts Low-Income Enrollment

- The high cost/high aid model is pricing low-income students out of a college education, especially when the aid includes loans and work
- Debt has a chilling effect on college enrollment by low-income students
- Low-income income students fear debt, causing them to enroll and graduate at 1/6 the rate of equally capable high-income students
- Imagine being asked to borrow more for your education than your parents earn in a year

Pell Grant Recipients Graduate with More Debt





Out-of-Pocket Costs vs. Total Income

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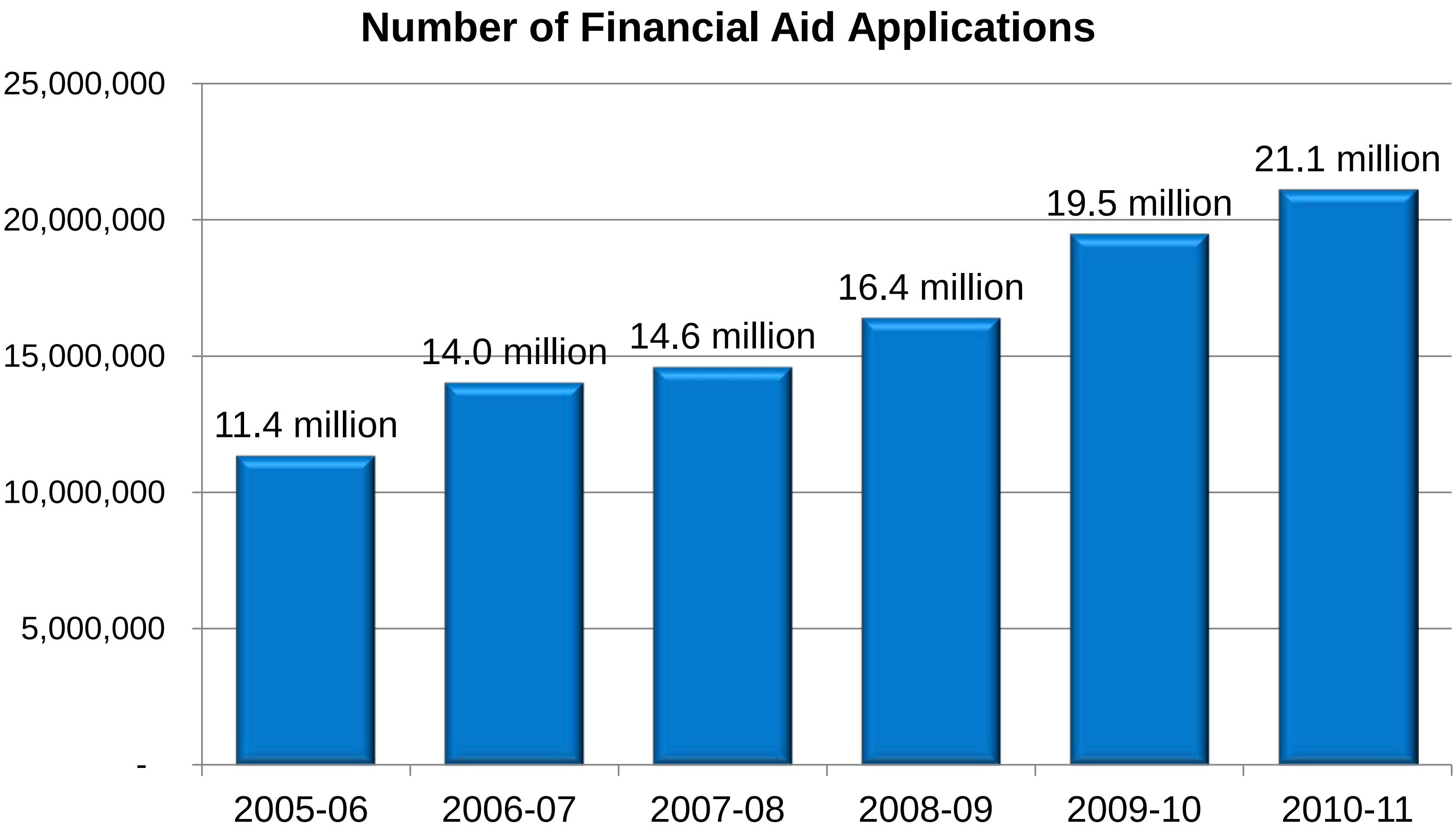
Institution Type	< $50,000		$50,000 to $100,000		> $100,000	
	2003-04	2007-08	2003-04	2007-08	2003-04	2007-08
Public 2-Year	35.4%	38.5%	8.4%	9.9%	4.3%	5.3%
Public 4-Year	47.6%	53.8%	16.3%	19.0%	9.6%	11.6%
Non-Profit 4-Year	58.8%	65.0%	24.2%	29.4%	17.0%	19.0%
For-Profit	64.4%	76.3%	21.7%	33.0%	11.9%	21.3%

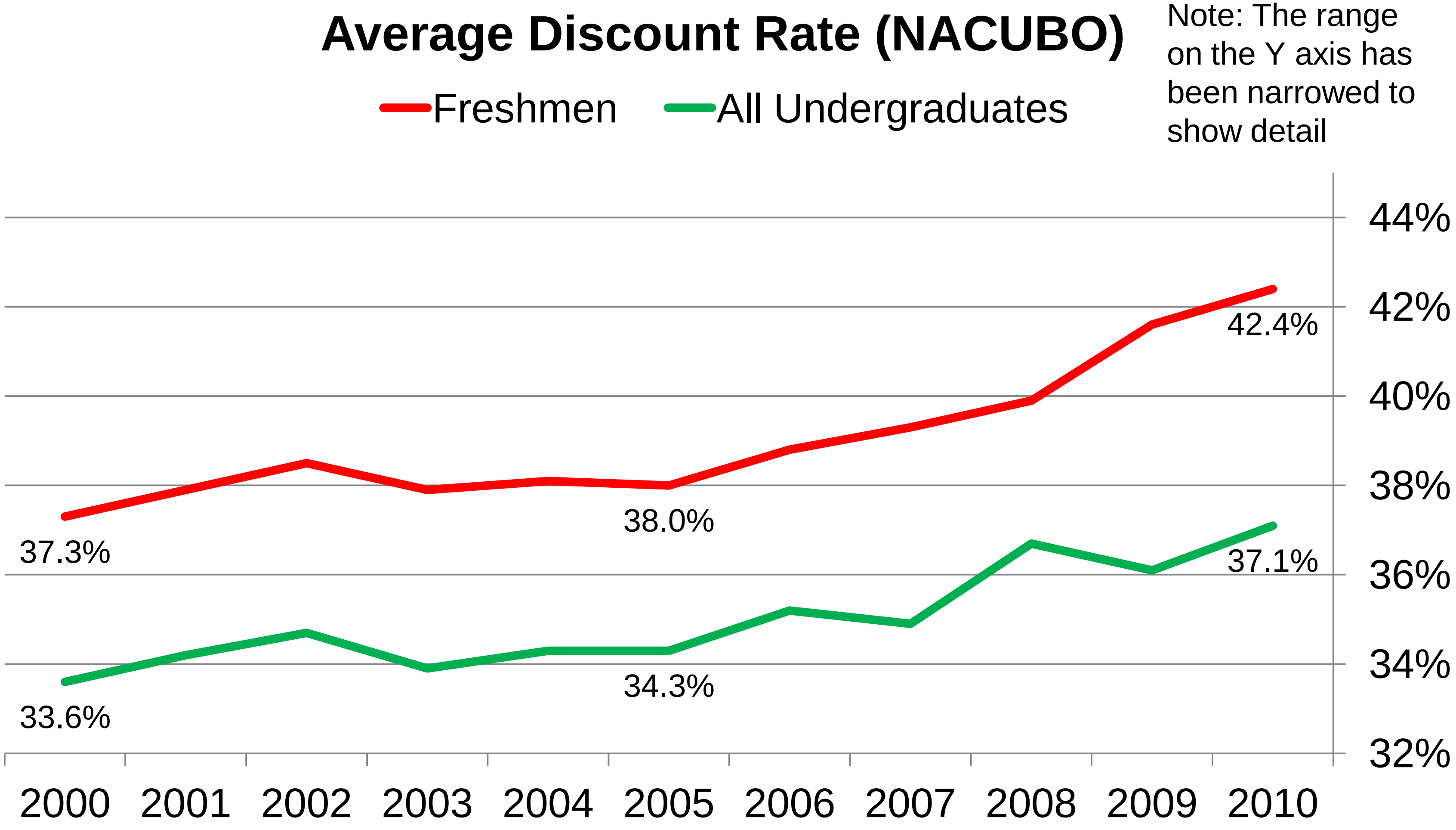
Source: Analysis of data from the 2003-04 and 2007-08 National Postsecondary Student Aid Study (NPSAS)
Out-of-Pocket = College Costs – Grants. Limited to families with positive out-of-pocket cost.

Growth in Number of FAFSAs



Steady Increases in Discount Rate

Note: The range on the Y axis has been narrowed to show detail



2011 College Decision Impact Survey

- Greater emphasis on bottom line costs and ROI
- Three most important reasons chose college
  - Quality of major (44.6%)
  - Scholarship or financial assistance (43.2%)
  - Total costs (40.8%)
  - Academic reputation (38.4%)
  - Campus setting/environment (35.6%)
  - Close to home (34.5%)
- Students who are concerned about the economy are much more likely to enroll at public colleges

"Switchers" Influenced by Money

- More likely to switch preference from non-profit to public (24%) than public to non-profit (9%)
- 37.3% of high school seniors did not enroll at their first-choice college. Main reasons:
  - A third (31.2%) said they could not afford 1st choice
  - A tenth (11.4%) got a better aid offer elsewhere
  - Among switchers from public to non-profit, a fifth (20.3%) said got a better aid offer
  - Among switches from public to non-profit, a third (33.0%) appealed for more aid and almost half (44.7%) got an increase in the financial aid offer

More Emphasis on Improving Efficiency

Potential for Greater Efficiency

- Given limited funding increases, there will be more emphasis on improving efficiency
  - Eliminate waste and abuse
  - Focus funding on the most effective programs
  - Target financial literacy training, debt counseling and job placement assistance at highest-risk borrowers
- Unfortunately, savings from efficiency improvements may be applied to deficit reduction instead of student aid
- Affordable debt restrictions (gainful employment rules) may be extended to all colleges

Funding Constraints → Infighting

- Funding for student aid will be flat or decrease, leading to a zero-sum game
- Improvements in the efficiency and effectiveness of student aid funding are not enough, and may be redirected at deficit reduction
- Public and non-profit colleges will attack the for-profit sector, which accounts for 1/4 to 1/3 of growth in federal grant and loan volume
- Politicians will blame the colleges for tuition inflation and declines in college affordability

Colleges Need to Cut Costs

- Use technology such as online education to improve productivity and reduce costs
- Leverage economies of scale and centralization for greater efficiency
- Adopt a year-round class schedule for more efficient use of facilities 24/7/365
- Increase student-faculty and student-staff ratios
- Eliminate underutilized and inessential services
- Improve retention and graduation rates
- Focus funding on the college's core mission

We Will Miss College Attainment Goal

- Growth in net price will hurt Bachelor's degree attainment, making it more difficult to achieve President Obama's 2020 goal to regain top slot in the OECD statistics
- Must have increases in student aid and improvements in student preparation
- Targeted counseling and services can help, but are not the complete solution
- Improvements in efficiency and effectiveness of existing student aid funding are not enough

Thank You!

Mark Kantrowitz’s student aid policy analysis papers may be found at www.finaid.org/studentaidpolicy