The Individual Education Account (IEA)

Under the new Individual Education Account, proposed by President Clinton and enacted by Congress as the William D. Ford Direct Loan program, individuals can borrow money directly from the Federal government to pay for college and can tailor their loan repayments to best suit their personal financial circumstances. Borrowers will be able to choose from among four repayment plans—standard, extended, graduated and income contingent—to help ease the financial burden of student loan repayment. In addition, they will be able to switch plans as their needs change. The income contingent—or "Pay-As-You-Can"—plan will give people the chance to start businesses, work in their communities, or meet other family responsibilities by providing the opportunity to repay their loans over time as a percentage of their incomes.

In addition to the pay-as-you-can plan, the Administration is providing student borrowers with other flexible repayment options. The graduated repayment plan allows borrowers to repay their loans by making small payments at the beginning of their repayment periods, when their incomes are likely to be modest, and larger payments in later years. These borrowers will repay their loans in 12 to 30 years based on individual debt levels. The extended repayment plan provides for fixed but smaller monthly payments over a 12 to 30 year period, again based on individual debt levels. Nevertheless, borrowers will still be able to choose the fixed-payment, 10-year repayment plan that currently is the most commonly used plan. Irrespective of the plan selected, borrowers may prepay without penalty all or part of their loans at any time.

Illustrative Examples:

1. <u>Recent College Graduate</u>

   A recent bachelor degree recipient who graduates from a State-supported college typically earns $25,000 annually and owes $10,000 in student loans.

   - Under the standard (10-year, fixed payment) repayment plan, which essentially had been the lone option available before IEA, this borrower would repay approximately $120 each month.

   - However, with IEA he has several options in addition to the "standard" plan:
     - ✓ ***Pay-As-You-Can*** with monthly payments as low as $105 during a repayment period that would not exceed 12 years;

- ✓ ***Extended repayment*** with equal monthly payments of about $90 for a 15-year term; or
- ✓ ***Graduated payments*** with initial payments that are less than $70, but gradually increase to about $160 near the end of the 15-year repayment period.

2. High-income Professional with a Temporary Hardship

   A lawyer borrowed $60,000 to finance her undergraduate and law degrees. She easily managed her $700+ monthly payment obligation while working at a law firm. After several years she chooses to work part-time for approximately $20,000 annually in order to be able to care for an ailing relative.

   - Under IEA she has several repayment options. If she selects the ***Pay-As-You-Can*** plan she would repay about $250 each month. Her repayment obligation would change each year in the same proportion as any change in her income. When her personal circumstance was resolved, she might choose to switch to another plan that would better accommodate her situation.

3. Entrepreneur

   A recent graduate with a degree in computer sciences and $25,000 in Direct Loans wants to start her own business. She realizes that this will entail significant start-up costs for the first few years and, consequently, has decided to draw a minimal salary of $12,500.

   - With IEA she can chose:
     - ✓ ***Pay-As-You-Can*** with monthly payments around $85, which is a little more than 8 percent of her income;
     - ✓ ***Graduated payments*** with initial payments that are less than $160, but gradually increase to almost $300 near the end of the 20-year repayment period;
     - ✓ ***Extended repayment*** with monthly payments of about $200 for 20 years; or
     - ✓ ***Standard repayment*** with monthly payments of about $300 for 10 years.

- After five years her business has matured and she is able to increase her income to $50,000. If she continues in the ***Pay-As-You-Can*** plan and allows her monthly payments to increase automatically to about $370, she will fully repay her loan in another 7½ years for a total repayment period of 12½ years.

4. Teacher
A teacher graduates from a private university. He borrowed $35,000 to finance his undergraduate and graduate degrees. Because of his post-baccalaureate work, his starting salary is $30,000.

    - Under the standard, 10-year plan, his monthly payment would be $415, or almost 17 percent of his initial income.

    - However, with IEA he has several additional choices:
        - ✓ ***Pay-As-You-Can*** with initial monthly payments of about $270 (less than 11 percent of his initial income) would retire the loan in approximately 13 years;
        - ✓ ***Extended repayment*** with monthly payments of about $280 for a 20-year term; or
        - ✓ ***Graduated payments*** with initial payments of about $220 that gradually increase to a little more than $400 near the end of the 20-year term.

Note: All borrowers will pay more interest when they choose repayment plans with longer repayment periods.

Postsecondary Education

OPPORTUNITY

The Mortenson Research Letter on Public Policy Analysis of Opportunity for Postsecondary Education

Number 41 | Iowa City, Iowa | November 1995

Savage . . . . . . Inequalities

Educational Attainment by Family Income 1970 to 1994

Since 1965 the political concept of equality of opportunity has been the foundation of educational policy, particularly at the federal level, in postsecondary education and regarding financing of higher education through need-based student financial aid.

As recently as the 1992 reauthorization of the Higher Education Act of 1965, the committee reports of both the House of Representatives and the Senate to their respective chambers reasserted the national goal to equalize higher educational opportunities. Title IV, containing both federal student financial aid and outreach (TRIO) programs, targets federal investments on students from low and middle family income backgrounds.

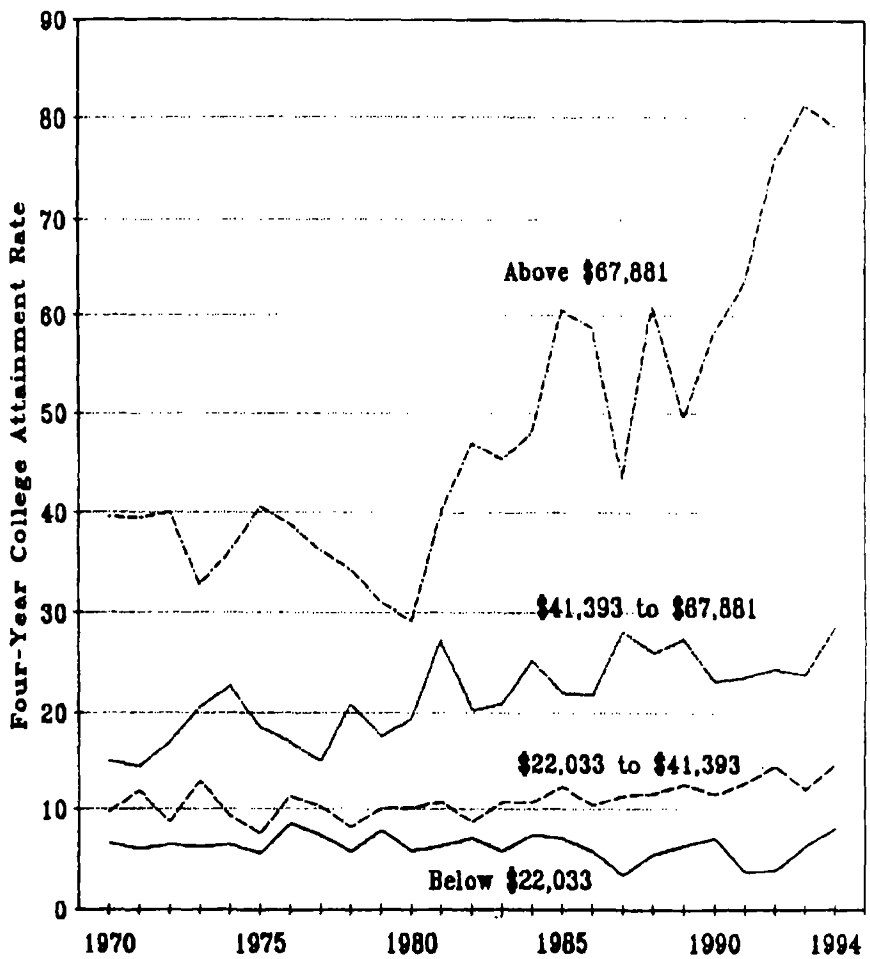
Here, then, we update and extend our previous analysis (OPPORTUNITY, June 1994) of educational attainment by the family income backgrounds of Americans between the ages of 18 and 24 using data from the October 1994 Current Population Survey to be soon published by the Census Bureau .

Our update with 1994 data confirms our previous conclusions. The disparities in educational attainment for young adults are:

- *Huge,*
- *Persistent,*
- *Growing, and*
- *Nearly as wide as these disparities have ever been.*

By age 24 a person whose family income falls in the top quartile is ten times more likely to have received a bachelor's degree than is another person whose family income falls in the bottom quartile. In 1979, before the redistribution of higher educational opportunity began, the difference was four times.

Estimated Chances for a Baccalaureate Degree by Age 24 by Family Income Quartile 1970 to 1994



We have not only failed to achieve equality of higher educational *opportunity but the gains made in the 1970s have been completely erased in the 1980s and 1990s and by the 1990s we have achieved greater inequality of higher educational attainment than has existed at any time in the last 25 years of reported Census data.*

In a labor market that reserves its best paying jobs for those with the highest levels of educational attainment, the redistribution of higher educational opportunity since 1979 also redistributes human welfare.

- Those from the highest income families have, since 1979, achieved the greatest success in baccalaureate degree attainment.
- Those from the lowest income families have achieved the least success in degree attainment.

Whereas higher education provides access to the best paying jobs in the economy, the redistribution of higher educational opportunity since 1979 has increasingly limited access to those jobs to students whose family incomes fall in the top quartile of the family income distribution, above about $68,000 in 1994.

Higher educational opportunity is a double-edged sword. Opportunity provides preparation for high incomes and affluent living standards. But the rationing of opportunity since 1979 has also become a device of socio-economic stratification, segregation, frustration, and increasingly desperate impoverishment for those unable to participate and succeed in higher education.

Higher educational opportunity is simultaneously the vehicle for socio-economic mobility, and has become--through neglect--the means by which society is fracturing.

- The affluent are clearly succeeding in higher education, and their absolute and relative living standards can be expected to continue to thrive as they have since the end of World War II.
- The poor are clearly failing in higher education, and their absolute and relative living standards can be expected to continue to deteriorate as they have since 1973.

Whereas higher education was clearly thought of as the means to socio-economic mobility, its rationing since 1979 has also become the means by which the rich become richer and the poor become poorer.

Data and Analysis

This analysis updates and extends a study originally prepared at The American College Testing Program, which is now out of print. The original study contains additional data on high school graduation and college participation by family income by gender and race/ ethnicity.

Mortenson, T. G., and Wu, Z. (1990). *High School Graduation and College Participation of Young Adults by Family Income Backgrounds, 1970 to 1989.* Iowa City, IA: American College Testing Program.

The primary source for the data used in this analysis is data collected each year by the Census Bureau in the October Current Population Survey. These data are published in a comprehensive statistical report in the Current Population Reports series P20. The most recent published report is:

Bruno, R. R., and Adams, A. (1994). *School Enrollment-Social and Economic Characteristics of Students: October 1993.* Current Population Reports, Population Characteristics, P20-479. Washington, DC: U.S. Government Printing Office.

Postsecondary Education OPPORTUNITY
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Mission Statement

This research letter is founded on two fundamental beliefs. First, sound public social policy requires accurate, current, independent, and focused information on the human condition. Second, education is essential to the development of human potential and resources for both private and public benefit. Therefore, the purpose of this research letter is to inform those who formulate, fund, and administer public policy and programs about the condition of and influences that affect postsecondary education opportunity for all Americans.

In this analysis we have also used unpublished data from the October 1994 Current Population Survey. These data are currently being prepared for publication by the Census Bureau and will become generally available in the next few months.

Data definitions and limitations are important in this analysis. We focus on 18 to 24 year olds here. We are concerned about parental family income in this analysis. We are not interested in married young adults, who have established new families and for whom parental income information is not available. The unmarried 18 to 24 year olds include both dependent family members as well as those in "other marital status" including divorced, separated and widowed. This population consists largely of very low income young females who are not dependent family members.

Our analysis of the data on unmarried 18 to 24 year olds adopts a three-stage model of educational attainment leading to the bachelor's degree. First a person must graduate from high school. Second, once graduated a student must "participate" in college. Third, once in college a student must earn a bachelor's degree by age 24. The product of each of these separate rates reflects the proportion of those 24 years old that have received a bachelor's degree from college.

College participation, as collected and reported by the Census Bureau, consists of 18 to 24 year olds currently enrolled in college, plus those not currently in college who have completed less than a bachelor's degree, plus those not currently in college who have completed a bachelor's degree or more from college.

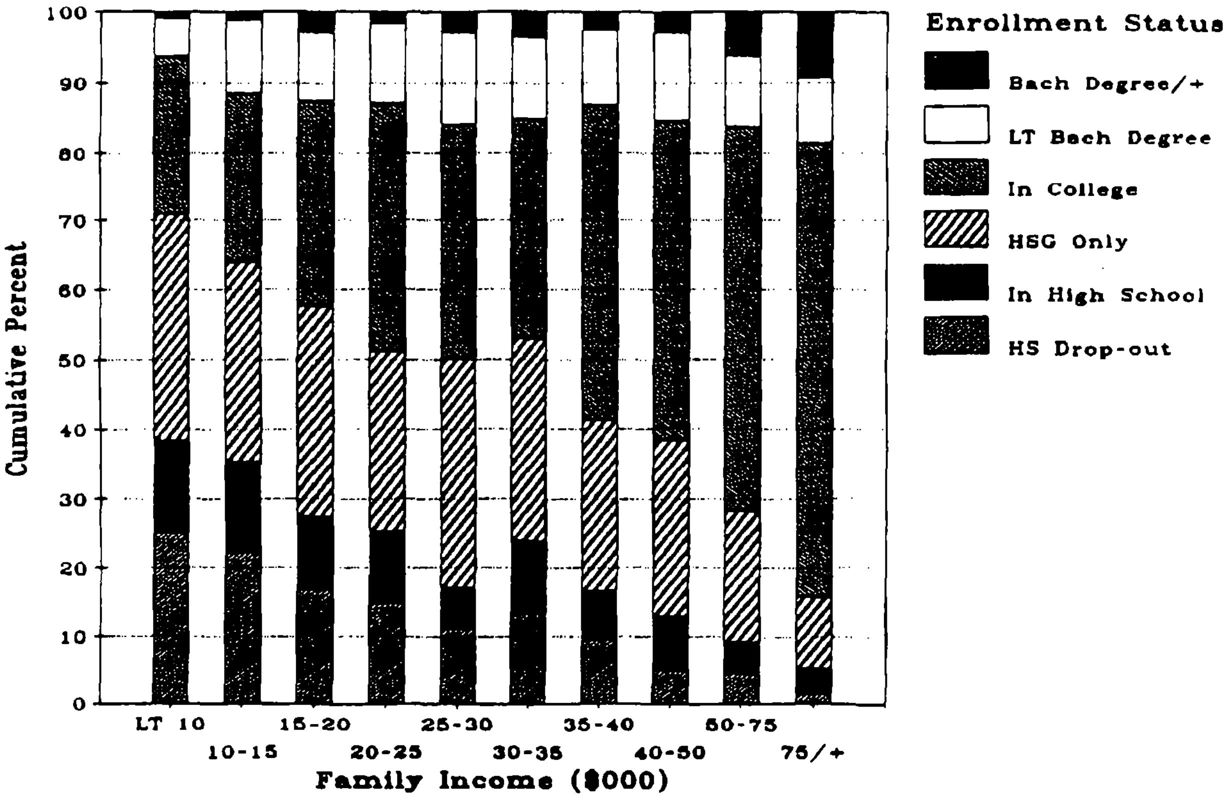
The quartiles of family income reported here have been calculated from the Census Bureau's tabulations. Those reported in this analysis refer to quartiles of family income collected in the October 1994 Current Population Survey. These are quartiles of families of high school graduates. In 1994 they are:

Q1:	$0 to $22,033
Q2:	$22,033 to $41,393
Q3:	$41,393 to $67,881
Q4:	greater than $67,881

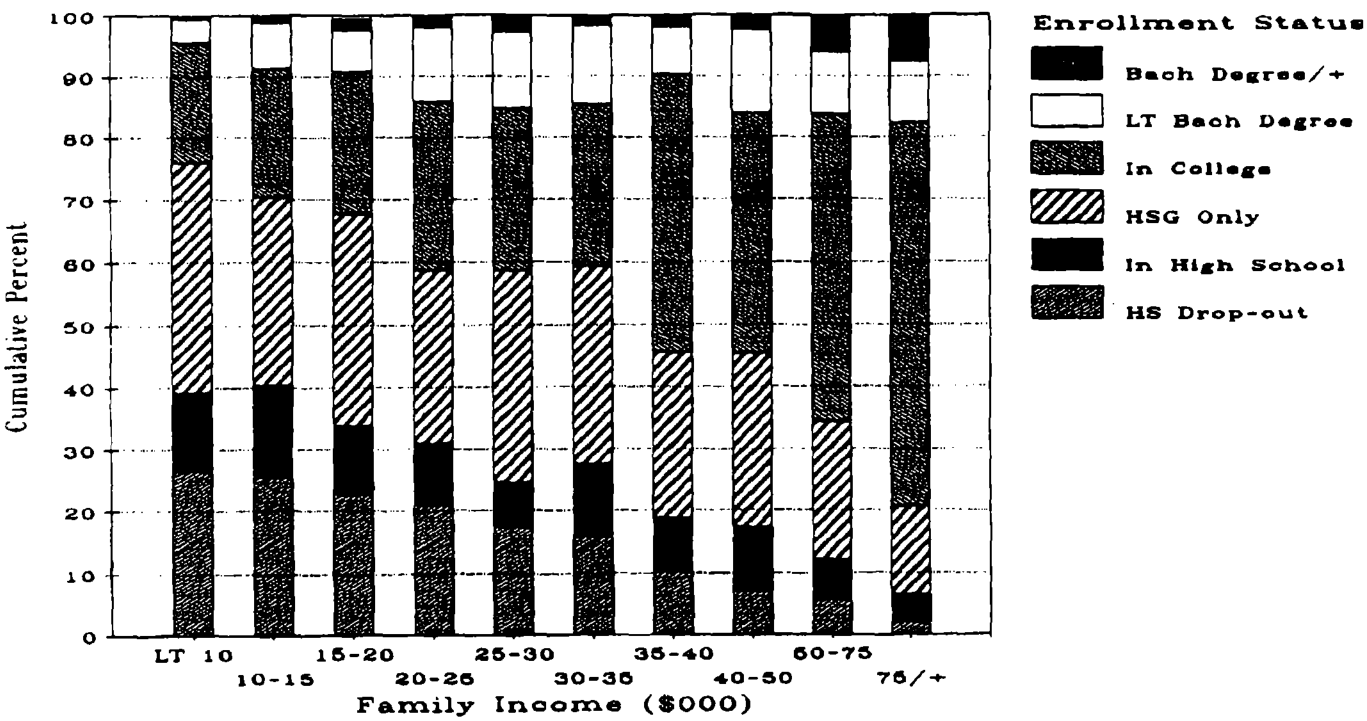
That is, exactly one quarter of all unmarried 18 to 24 year old high school graduates lived in families with incomes below $22,033; another quarter lived in families with incomes of between $22,033 and $41,393, etc.

Over the twenty-five year period between 1970 and 1994, family income has been redistributed: the

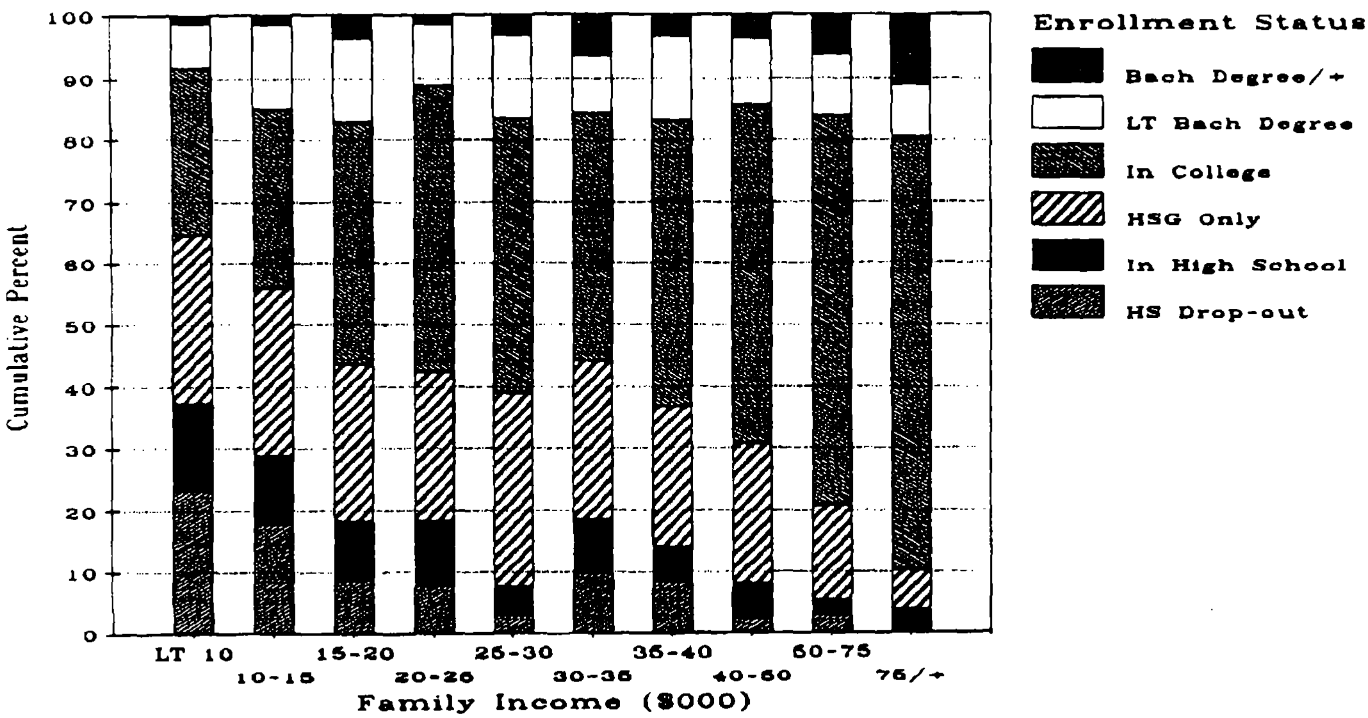
Enrollment Status of Dependent Family Members 18 to 24 Years Old by Family Income, 1994



Enrollment Status of Male Dependent Family Members 18 to 24 Years Old by Family Income, 1994



Enrollment Status of Female Dependent Family Members 18 to 24 Years Old by Family Income, 1994



most affluent families have more of it, and the poorest families have less of it. This growing inequality is reflected in the income data that defines family income quartiles used in this analysis.

Family Income Upper Limits in 1970 and 1994, Constant 1994 Dollars

Quartile	1970	1994
Q1:	$27,336	$22,033
Q2:	$41,538	$41,393
Q3:	$61,950	$67,881

While median family income remained about flat between 1970 and 1994, the bottom quartile of family income grew significantly poorer while the top quartile grew significantly more affluent during this period. Of the two middle income quartiles, the second quartile grew poorer while the third quartile became more affluent.

Enrollment Status in 1994

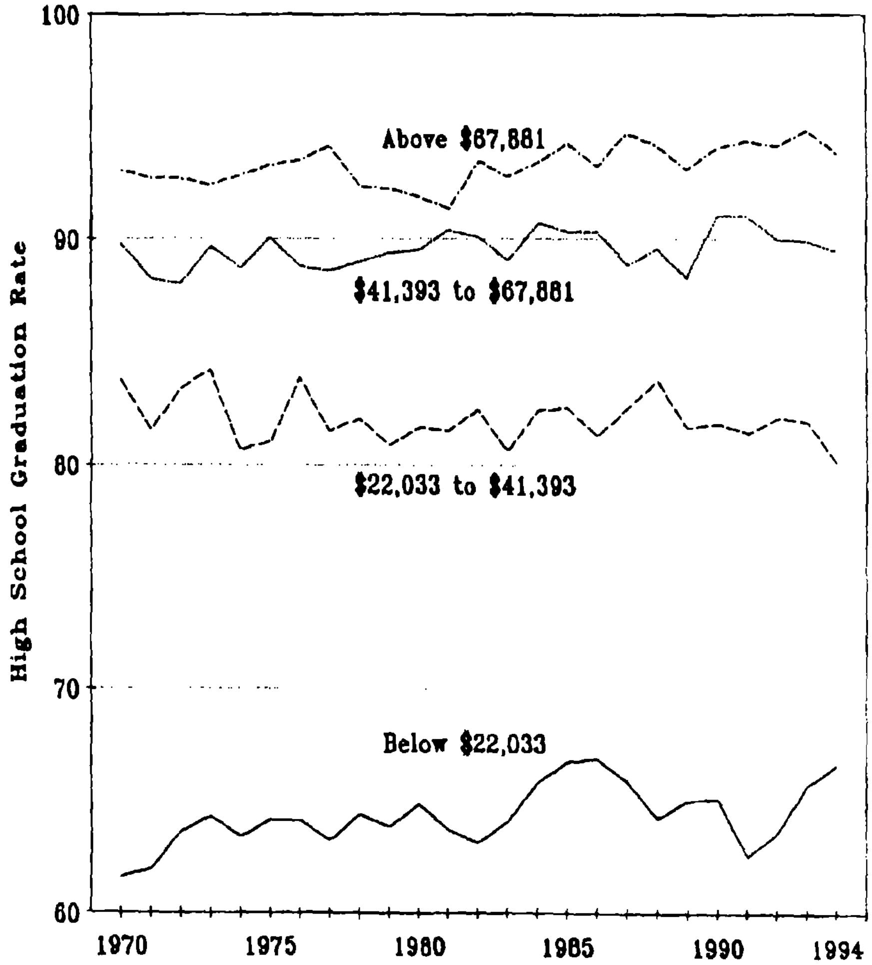
The chart on page 3 summarizes the enrollment status of dependent family members between the ages of 18 and 24 by family income ranges in October 1994. The charts on page 4 break these data down by gender.

The charts illustrate the powerful relationship between family income and educational status.

- Among those from families with incomes of less than $10,000 per year, 25.1 percent were high school dropouts, compared to 1.4 percent of those from families with incomes greater than $75,000.
- Those 18 to 24 still enrolled in high school comprised 13.3 percent of those from families with incomes below $10,000, but 3.8 percent of those from families with incomes above $75,000.
- At the other extreme, bachelor degree holders were 0.9 percent of those from families with incomes below $10,000, and 9.1 percent of those from families with incomes over $75,000.
- The college enrollment rate ranged from 22.8 percent of those from families with incomes of less than $10,000, to 65.5 percent for those from families with incomes greater than $75,000.

This general pattern holds for both males and females. The main difference is that at every level of family income, women are farther along in their educational attainment than are men. The differences are greatest in high school attrition where men are more likely to be dropouts than are women.

High School Graduation Rates by Family Income Quartiles for Unmarried 18 to 24 Year Olds 1970 to 1994



High School Graduation Rate Trends

The above chart shows the rates at which unmarried 18 to 24 year olds from each quartile of family income have graduated from high school between 1970 and 1994. In 1994 the high school graduation rate was 66.6 percent in the first quartile, 80.1 percent in the second, 89.4 percent in the third and 93.9 percent in the top quartile of family income.

At the very first hurdle along the path toward a baccalaureate degree from college, the field gets sorted out. Those from the highest family income levels have the greatest chance of graduating from high school, while those from the lowest income backgrounds have the least chance.

Moreover, this basic pattern has persisted without interruption for every one of the last twenty-five years. Very modest increases in high school graduation rates in the bottom quartile have been at least partially offset by modest declines in the rate for those from the second quartile of family income.

This lack of significant progress has occurred during a political era characterized by a public policy professing commitment to equalizing educational opportunities and more recently to increasing high school graduation rates. The gains apparent here have been modest at best.

College Participation Rate Trends

The chart on this page shows the rates at which unmarried 18 to 24 year old high school graduates from the four family income quartiles have participated in college between 1970 and 1994. Participation rates include those currently enrolled and those who were enrolled but have left with or without bachelor's degrees.

In 1994 the college participation rate was 58.2 percent for those from the bottom quartile of family income, 68.3 percent in the second quartile, 77.2 percent in the third, and 87.8 percent in the top quartile.

The inequality in high school graduation rates for young adults from different family income backgrounds carries over into college participation as well. In fact, given that this chart is limited to high school graduates, the disparities have been magnified at this the second hurdle on the path toward a baccalaureate degree.

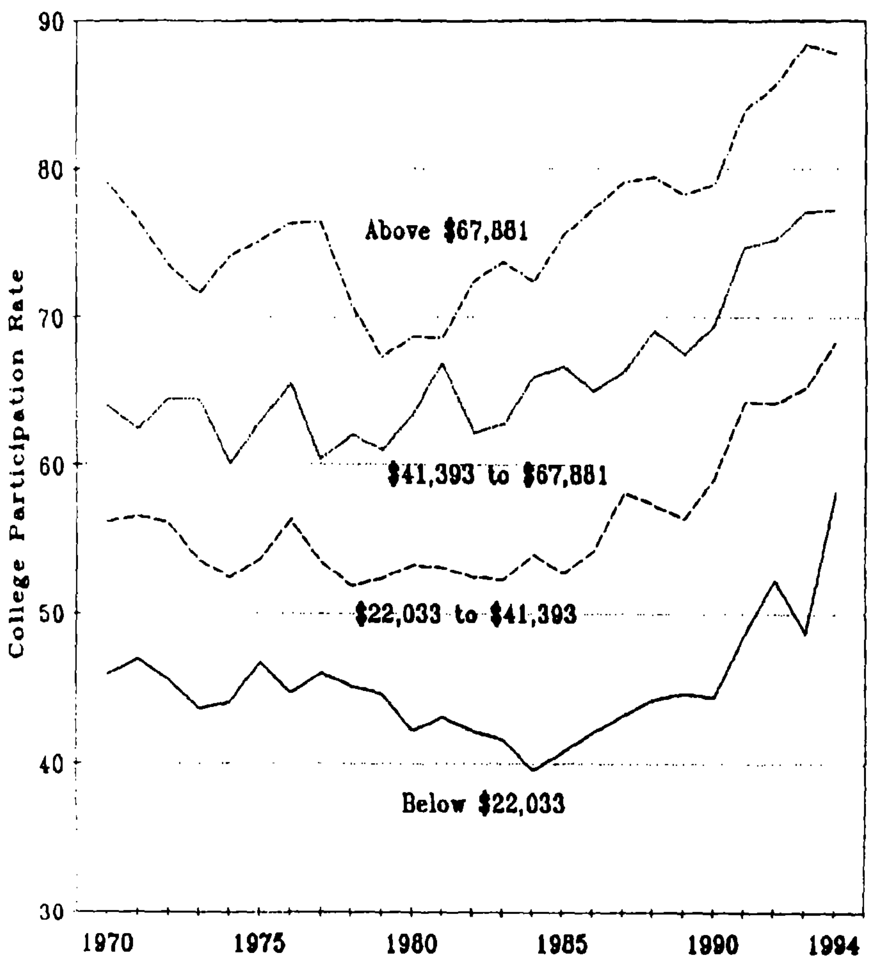
Here, some of the inequality that accumulated after rationing of higher educational opportunity was effectively imposed beginning in 1980 was reversed in the 1994 data. College participation rates appear to have declined slightly in the top quartile of family income, remained flat in the third quartile, and increased substantially in the two lowest family income quartiles.

However, since rationing began in 1979, the gains in college participation rates have been least among those from lowest income families, and greatest among those from highest income families:

Change in College Participation Rates between 1979 and 1994 by Family Income Quartiles

Quartile	Change
Q1:	+13.6%
Q2:	+16.2%
Q3:	+16.1%
Q4:	+20.5%

College Participation Rates by Family Income Quartiles for Unmarried 18 to 24 Year Old High School Graduates 1970 to 1994



Enrollment Distribution by Type and Control of Institution

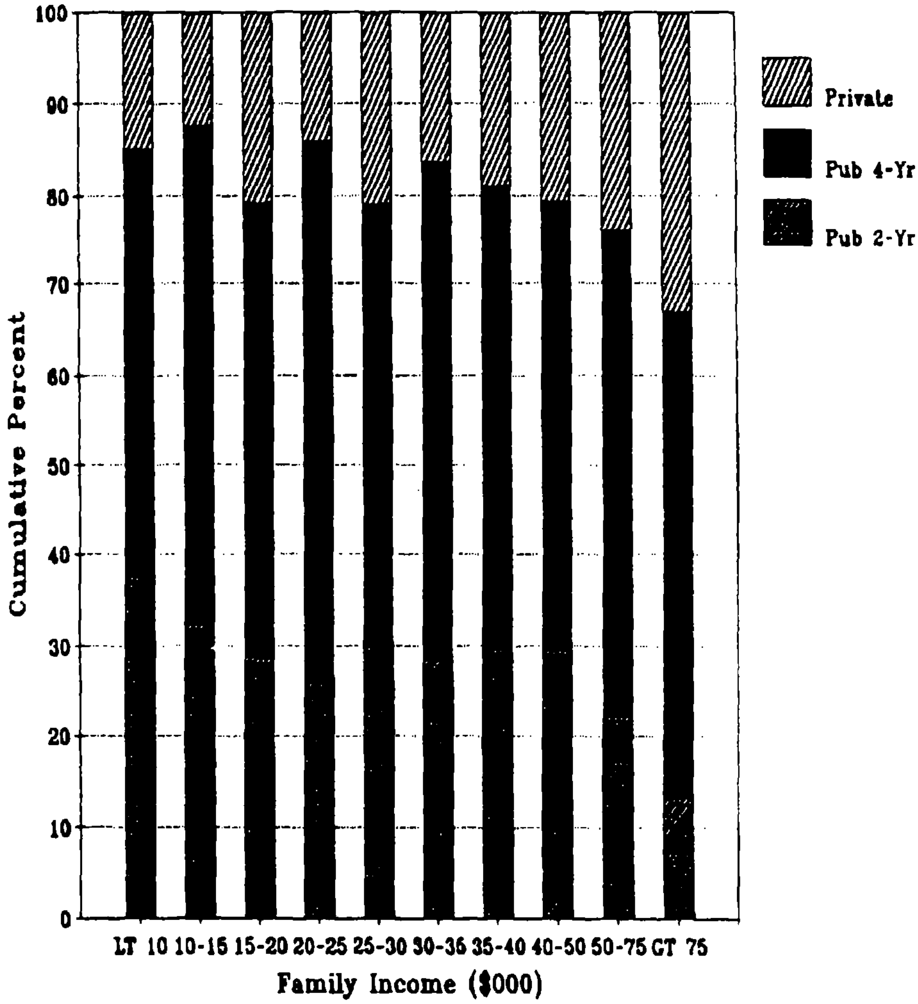
About half of all 18 to 24 year old dependent family members that were enrolled in college in October 1994 were enrolled in public 4-year colleges and universities. The balance were enrolled in either public 2-year colleges or private colleges and universities.

The distribution of college enrollments by institutional type and control varied by family income levels, as shown in the chart on this page. Looking only at dependent family members 18 to 24 years enrolled in college:

- Public 4-year colleges and universities enrolled as little as 47.4 percent of those from family incomes below $10,000, to as much as 59.9 percent of those from family incomes of between $20,000 and $25,000. Median family income was $53,046.
- Public 2-year colleges enrolled as much as 37.6 percent of those from families with incomes below $10,000 to as little as 13.4 percent of those from families with incomes of more than $75,000. Median family income was $42,909.
- Private colleges and universities enrolled as little as 12.4 percent of those from families with incomes of between $10,000 and $15,000, to as much as 33.1 percent of those from families with incomes greater than $75,000. Median family income was $63,095.

As these data suggest, the proportion of enrollment of dependent 18 to 24 year olds in 2-year institutions was highest among students from lowest income families, and lowest among students from highest income family backgrounds. The proportion of freshmen enrolled in 4-year colleges and universities was highest at the highest levels of family income, particularly above $50,000 per year.

Enrollment Distribution of Dependent Family Members Age 18 to 24 Years by Family Income and Institutional Type 1994



Enrollment by Attendance Status

In 1994 84.8 percent of all dependent 18 to 24 year olds enrolled in college were enrolled on a full-time basis. This proportion ranged from 73.4 percent among those from families with incomes of $10,000 to $15,000, to a high of 89.9 percent for those from family incomes above $75,000. Those at the extremes of the family income distribution were most likely to be enrolled full-time. Except for the lowest income range--below $10,000--full-time college enrollment increased with family income.

Among dependent family members 18 to 24 years old:

- Males were enrolled full-time at a rate of 85.4 percent, compared to 84.3 percent for females. Generally males and females had similar full-time rates across income levels except below $15,000 in family income where males were more likely to be enrolled full-time than females by about 10 percentage points.
- Students in public colleges were enrolled full-time at a rate of 82.8 percent, compared to 91.6 percent in private colleges.

- Of those enrolled in public colleges, 71.5 percent of those enrolled in 2-year colleges were attending full-time, compared to 87.8 percent of those in 4-year colleges and universities.

College Completion

We have constructed *estimates* of bachelor's degree completion by age 24 by family income quartile for those who enroll in college. These estimates combine Current Population Survey data with other data on graduation rates by family income level collected in the six-year follow-up to the 1980 cohort in High School and Beyond. Our *estimates* of bachelor degree completion by age 24 by family income quartile for the years between 1970 and 1994 are shown in the chart on this page.

In 1994, of the unmarried 18 to 24 year olds from the bottom quartile of family income who enrolled in college, 20.8 percent are estimated to have completed a bachelor's degree by age 24. This percentage increased to 26.7 percent in the second quartile, 41.7 percent in the third quartile, and 96.0 percent in the top quartile of family income.

At this, the final hurdle along the path to a baccalaureate degree by age 24, the very large disparities in educational progression across levels of family income that exist at the high school graduation and college participation level are magnified even further.

Baccalaureate Degree Attainment

We have constructed the high school graduation, college participation, and college completion rates such that their product measures the proportion of the unmarried 24 year old population that holds a bachelor's degree. This is shown on page 1 of this issue of OPPORTUNITY.

By 1994 our analysis indicates that 8.0 percent of those from the bottom quartile will have earned a bachelor's degree by age 24. This is the mathematical product of the following:

High school graduation	.6661
x College participation	.5820
x College completion	.2076
= College attainment	.0805

Similarly, in the second quartile of family income, the proportion earning a bachelor's degree by age 24 increases to 14.6 percent. In the third quartile the proportion increases to 28.8 percent. And in the top quartile of family income, 79.1 percent have a bachelor's degree by age 24.

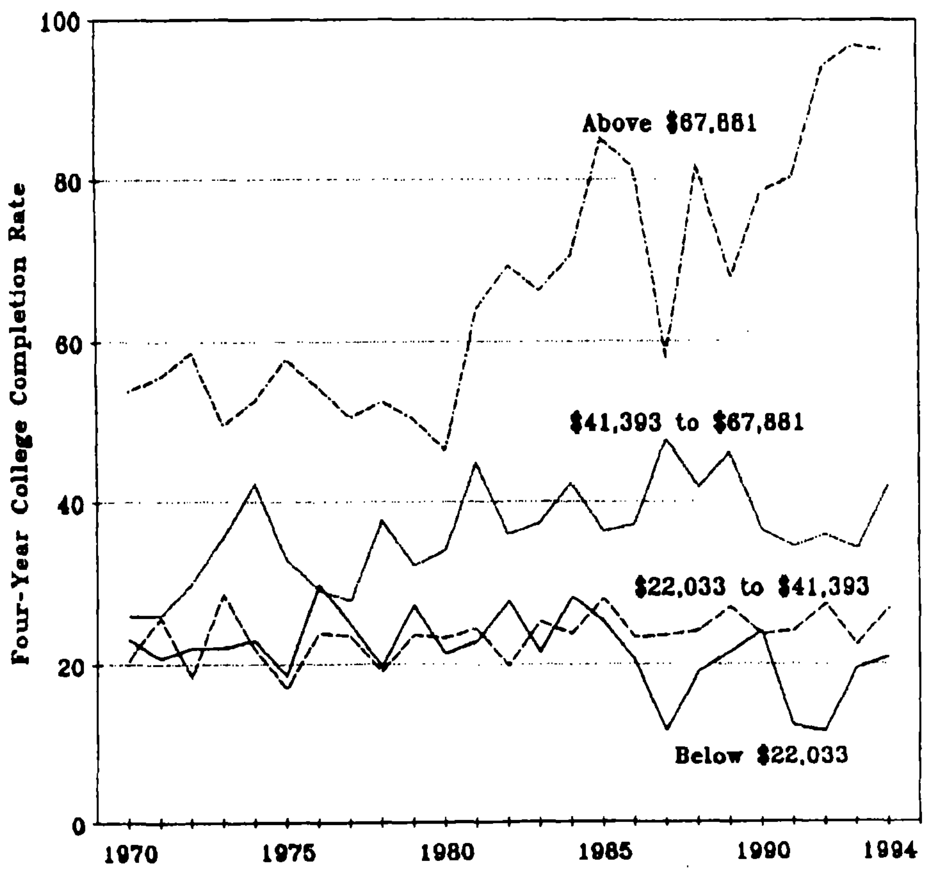
There are different ways to express the significance of these findings.

Given the federal aid to equalize higher educational opportunity:

- In 1994 a student from the top quartile of family income was about ten times more likely to earn a bachelor's degree by age 24 than was a student from the bottom quartile.
- In 1979, at the end of the equity era and just before the beginning of rationing of higher educational opportunity, a student from the top quartile was four times more likely to have the degree by age 24 than was the student in the bottom quartile.

This measures how far we have fallen away from the federal goal to equalize higher educational opportunity in the last 15 years.

Estimated Four-Year College Completion Rates by Age 24 by Family Income Quartiles for Unmarried College Students 1970 to 1994



American Student
Association of
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4401 Newdale Drive
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703/425-6907

ASACC

January 27, 1997

Dear Susan,

Thank you for joining the lineup for our March 8-11 Conference. Brochure/program attached. Please note that your presentations are on Sunday morning.

Also attached is the concept paper we discussed briefly on our last visit. You mentioned someone in the Department that is a strong booster of Section 127. I would appreciate your comments (and his). Please give me a call.

Many thanks,

Frank

Frank Mensel
National Policy Advisor

phone 301/933-7268
fax 301/946-5477

America's Hope Scholarship and Tax Deduction Proposals

The Department has continued to work with OMB and Treasury in finalizing these major tax proposals designed to ease the burden of financing a college education for working families and to make at least two years of college the expected standard of education for all Americans.

There has been only one recent policy change: the America's Hope Scholarship will not be proposed as a "refundable" tax credit. Thus, non-taxpayers will not benefit from this proposal. Meanwhile, however, the Administration's FY 1998 Budget will include a significant increase in the Pell Grant maximum award and a liberalization in the student aid need analysis rules that will increase the Pell Grant and other ED need-based student aid funds for which needy students , including non-tax filers will qualify.

OMB expects that this legislation amending the tax code will be transmitted to Congress by the end of January.

Hope Scholarship: A tax credit of up to $1,500 to meet tuition and fees of full-time, first and second year postsecondary students. Second year students must have earned a "B average" in their first year. Students attending at least half-time eligible for up to $750 tax credit. Eligibility reduced by the amount of Pell Grant and other Federal grant aid received, and potentially by State and institutional grant aid. Eligibility phased out for individual filers with incomes between $50,000 and $70,000 for joint filers, and for joint filers with incomes between $80,000 and $100,000.

Postsecondary Education Tax Deduction: A tax deduction of up to $10,000 (beginning in fiscal year 1999; $5,000 in 1998) to meet tuition and fees for any year of postsecondary education. Eligibility reduced by both Federal and non-Federal grant aid. Same income eligibility rules as tax credit. Students eligible for both the tax credit and the deduction would choose between the two.

CLINTON ADMINISTRATION HIGHER EDUCATION INITIATIVES

INITIATIVE	DESCRIPTION	AMOUNT	IMPACT
Pell Grant Increase and Expansion	Largest increase in two decades -- from $2700 to $3000. Combined with the FY97 increase, the scholarship has increased $530 -- from $2,470 in FY 96.	$1.7 billion more than the FY97 appropriation. -- a 25% increase in aid.	Over 3.6 million students now eligible will receive an increase up to $300. This increase will also make an additional 130,000 families eligible for the grant.
Pell Grant Expansion for Older, Low-Income Students	Increases eligibility so any student from a low-income family can receive a Pell Grant.	$3.9 billion over five years.	An additional 218,000 low-income students generally aged 24 or over will be newly eligible for Pell Grants. 891,000 students will receive an average increase of over $800.
Cut in Student Loan Fees	Cuts loan fees from 4% to 2% on need-based Stafford loans -- and to 3% on other loans for students and parents.	$2.6 billion over five years.	Loan fees will be cut in half for 4 million low- and middle-income students, and by a quarter for 2.5 million other loans.
Hope Scholarship Tax Credits	Up to $1500 per-student tax credit for tuition in student's first year and another $1500 in the second year if student earns at least a B average.	$18.6 billion from 1997-2002.	Expected to help 4.2 million middle-income students in 1998.
$10,000 Tax Deduction for Higher Education and Training	Phases up to a $10,000 maximum deduction Also available for training.	$17.6 billion from 1997-2002.	Expected to help 8.1 million middle-income students in 1998.
Tax-Free Education Savings	Families with incomes up to $100,000 would be eligible for IRAs, and could make penalty-free withdrawals for higher education.	Education specific estimates not available.	Combined with tax deduction, the IRA savings for higher education for middle-income families will never be taxed. Will make over 20 million families eligible for such a benefit.
Community Service: Work Study	President has called on colleges to commit half of the increased funding for work study to support community service jobs.	$240 million increase over FY96; $120 million for work-study community service in FY98	1 million College Work-Study slots by the year 2000, including 100,000, reading tutors.
Community Service: Loan Forgiveness	The President's budget provides tax relief for community service loan forgiveness.	$15 million between 1997-2002.	Not available.
Presidential Honors Scholarships	One-year, $1,000 scholarships for the top 5% of all high school graduates in the country.	$132 million in FY98.	Benefits 132,000 students who graduate from high school next year.
...cational ...nce from ...yers	Extends tax exclusion from employer-provided education assistance through 2000, for both undergraduate & graduate education. Also provides a tax credit to encourage small businesses to offer educational assistance to employees.	$2.4 billion between 1997-2001.	Benefits 1.7 million employees a year.

HOPE and Opportunity:
Making college affordable for all Americans

More than ever, today's employers look for job applicants with more than a high school diploma. Since the success of the post-World War II GI Bill, the Federal Government has expanded college aid, making it possible for more Americans to attend college. But for too many, the financial strains are still severe. The President's HOPE and Opportunity plan ensures that these barriers to higher education continue to fall for all Americans.

What's *new* in the plan being announced today?

- ✓ Largest Pell Grant increase in 20 years -- a funding boost of 25%.
- ✓ Nearly $4 billion in new help for Older Students over five years.
- ✓ Student loan fees slashed and interest rates reduced.
- ✓ Community service loan forgiveness excluded from taxation.
- ✓ New details and changes in the HOPE Scholarship tax credit and the $10,000 tax deduction.
- ✓ Extend tax benefits for educational assistance from employers, and provide new tax incentive for small businesses to provide assistance.

Pell Grant increase and expansion

- Largest increase in two decades: $300 boost in the Pell Grant maximum, for a $3,000 maximum award. Since FY 1996, the maximum award will increase $530, or 21 percent.
- A 25 percent funding increase over last year -- $1.7 billion more than the FY 1997 appropriation.
- 3.6 million students now eligible will receive an increase of up to $300. The increase will make 130,000 more moderate-income families eligible for the grant.
- Older student provision will make Pell Grants available to additional 218,000 low-income students generally aged 24 or over, at a cost of $3.9 billion over five years.
- After these changes, the number of Pell Grant recipients will exceed 4 million.

Pell Grants are the foundation of student aid for low- and moderate-income families. Increasing the maximum award to $3,000 provides more aid to currently eligible students, and makes an additional 130,000 students eligible for the grants. In addition, the budget would increase the eligibility of older, low-income students. With this change, any student from a low-income family can receive a Pell Grant, eliminating the need for the HOPE tuition tax credit to be refundable (i.e., available to those without tax liability). Poor students -- those who have little or no tax liability -- benefit more from the Pell Grant program than they would from HOPE, because of the higher award level and its availability for all four years of undergraduate education.

Cut student loan fees and interest

- Borrower-paid loan fees cut in half for 4 million low- and middle-income students, and by a quarter for 2.5 million other loans to student and parent borrowers.

- $2.6 billion in borrower savings over five years produced by the fee cut alone.

- Interest rate during in-school period cut for 2 million students.

Before 1993, borrowers lost up to 8 percent of their student loans in required fees before the money ever reached them. In 1993, the President's aggressive student loan reforms spurred a 50 percent cut in allowable fees that has already saved families nearly $2 billion. The 1998 budget proposes -- for both the Direct and guaranteed loan programs -- to cut loan fees from 4 percent to just 2 percent on need-based Stafford loans, and to 3 percent on other loans for students and parents.

The Congressional Budget Office and other analysts have noted that lender costs during the in-school period -- when students are not required to make payments on their loans -- are very low. The budget reduces the interest rate during that period by one percentage point.

HOPE Scholarship tax credits.

- Up to $1,500 per-student tuition credit for course work beginning on or after July 1 of this year.

- Non-refundable.

- Credit can be claimed in 2 taxable years.

- Credit can be claimed for any students who have not finished 13th and 14th years of education.

- The tax credit is expected to help 4.2 million students (1998), and would save families $18.6 billion from 1997-2002.

The tax credit is available for students enrolled on at least a half-time basis during the first two years of postsecondary education. The credit may be claimed in no more than 2 taxable years. To receive the credit for the second time, the student must have at least a B- grade point average in course work completed before that year. Federal grants (but not loans or work-study) would reduce the allowable tax credit. No credit would be available for any student convicted of a drug-related felony. Refundability was eliminated because the needs of the poorest students are better addressed in the Pell Grant program discussed above (the proposed changes in Pell Grants for older students, described above, cost the same as refundability would have cost over five years).

The credit would be phased out for taxpayers filing a joint return with adjusted gross income between $80,000 and 100,000. For single and head-of-household returns, the credit would be phased out between $50,000 and 70,000. (The phase-out ranges and the amount of the credit would be indexed).

Tax deduction for higher education and training

- $10,000 maximum deduction.
- Available for job training and re-training, in addition to traditional higher education.
- Deduction is "above the line" -- available even if the taxpayer does not itemize.
- Expected to help 8.1 million students (1998), and would save families $17.6 billion in taxes between 1997-2002.

The deduction could be claimed for out-of-pocket tuition and fees paid for any student enrolled at least half-time in a degree or certificate program at an eligible school beyond high school, including graduate school. In addition, the deduction would be available for the cost of training -- whether or not it leads to a degree -- that helps the student, older worker, or job-seeker improve or acquire job skills. A student in the first two years of postsecondary education could choose either the credit or the deduction, but not both. The deduction phases in, beginning with a $5,000 maximum per-family for course work beginning on or after July 1, 1997, and increasing to a $10,000 maximum deduction beginning in 1999. The deduction would be phased out at the same income levels as the credit.

Tax-free Education Savings

- Families with incomes up to $100,000 would be eligible for IRAs, and could make penalty-free withdrawals for higher education.

- Combined with tax deduction (above), the IRA savings for higher education for middle-income families would be never be taxed.

The President's budget would allow Individual Retirement Accounts to be used for postsecondary education expenses free from early withdrawal tax penalties, and would make over 20 million families eligible to make tax-deductible IRA contributions. Currently, if an individual (or spouse) already participates in an employer's retirement plan, eligibility is phased out for taxpayers filing a joint return with adjusted gross income between $40,000 and $50,000 (between $25,000 and $35,000 for single taxpayers). The proposal would expand the phase-out ranges for 1997 through 1999 to $70,000 to $90,000 for joint filers ($45,000 to $65,000 for single). Beginning in 2000, the phase-out range would match the ranges described for the higher education tax credit. The budget would also create a special IRA that could be used to save for education and other needs, subject to the same income limits.

Community Service: Work-Study and loan forgiveness

- Budget funds 1 million College Work-Study slots by the year 2000.

- Incentives to reach the goal of 100,000 work-study reading tutors by 1999.

- Tax-free loan cancellation for public service.

The College Work-Study program provides students with additional aid through subsidized jobs. The President has called on colleges to commit half of the increased funding since FY 1996, $120 million for FY 1998, to supporting community service jobs. The Secretary of Education recently waived the institution's required portion of the awards for students that participate as reading tutors -- part of America's Reading Challenge, helping to ensure that every child can read independently and well by the end of third grade. The budget's three percent increase over 1997 continues the President's commitment to raise the number of Work-Study recipients to a million by the year 2000, and 100,000 reading tutors by 1999.

Under current law, a charity or private educational institutions that forgives a loan as part of a program that enables graduates working in certain professions (such as rural medicine or teaching) to pay off their student loans through community service must report the loan forgiveness as income to the graduate. The budget would exclude the loan forgiveness from income.

Presidential Honors Scholarships

- One-year, $1,000 scholarships for at least 132,000 students constituting the top five-percent of all high school graduates in the country.

- The budget provides $132 million in FY 1998.

The President proposes an achievement-based scholarship program, rewarding the best and the brightest of high school students. It would grant $1,000 honors awards to the top five percent of graduating students in every secondary school in the Nation, making clear the Federal government's commitment to academic excellence.

Educational assistance from employers

- Extend tax exclusion for employer-provided education assistance (Section 127) through the year 2000, for both undergraduate and graduate education.

- Tax credit to encourage small businesses to offer educational assistance to employees.

- Benefit 1.7 million employees a year.

The current exclusion from an employee's income of up to $5,250 per year of postsecondary educational assistance provided by an employer expires this year, and expired for graduate-level assistance last year. The President would extend the exclusion, and reinstate the graduate-level component, through the year 2000. In addition, for 1998-2000, small businesses would be given a new incentive to provide educational assistance to their employees through a ten-percent tax credit for amounts paid under an employer-provided educational assistance program for education provided by a third party.