

ACCESS TO COLLEGE

THE CLINTON/GORE RECORD ON STUDENT AID

January __, 2000

Since 1993, President Clinton has been dedicated to expanding access to education and training beyond high school. New and expanded programs provide over \$50 billion in student aid annually — compared to \$22 billion when he took office — and an additional \$7 billion is available through two college tax credits. Students have saved an estimated \$8.7 billion on loans over the last five years while taxpayers have saved over \$5 billion through managerial improvements. And program management has been strengthened and customer service has improved. In his 2001 budget request, President Clinton will seek to build upon these significant investments in American higher education.

MORE AFFORDABLE STUDENT LOANS

- **\$5 billion in interest savings for students.** Students who borrowed student loans since 1993 will save \$100 annually for each \$10,000 in outstanding loans — and a total of \$5 billion — due to a lower interest rate formula. Today's formula is 1.55 percentage points lower than the 1993 formula during school and 0.95 percentage points lower during repayment. The Administration also championed the lower maximum rate paid by students, reduced from 10 percent to 8.25 percent, to protect them against interest rate hikes.
- **\$3.7 billion in loan fee savings.** In 1993, the Administration reduced loan origination fees from a maximum of 7 percent of principal to a maximum of 4 percent, saving students nearly \$3.7 billion to date. In 1999, in recognition of widespread discounts available on guaranteed student loans, the Administration reduced direct loan fees to 3 percent.
- **More repayment options.** Since 1993, borrowers have more flexibility in managing their student loan debt. Repayment flexibility allows graduates to pursue jobs that pay lower salaries even though they may require an expensive education. The income-contingent repayment plan allows direct loan borrowers to repay their loans based upon their income; after 25 years, any remaining loan balance is discharged.

EXPANDED STUDENT AID OPPORTUNITIES

- **Larger Pell Grant awards for needy students.** When President Clinton took office in 1993, the Pell Grant maximum award was \$2,300, the same as it was when President Bush took office in 1989. The maximum award has since increased by ~~56~~ 43 percent to \$3,300 in FY 2000. The FY 2001 Budget would raise it to \$3,500. In 1995, the maximum Pell Grant paid for 86 percent of tuition and fees at a four-year public school; today [is that 2000?], it pays for 92 percent.
- **\$7 billion in tax credits for higher education.** In 1999, approximately 13 million American taxpayers are eligible for the Hope and Lifetime Learning tax credits for postsecondary training and education, totaling \$7 billion in aid. In addition, the restored tax deduction for student loan interest costs during the first five years of repayment — eliminated by the Reagan-Bush

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Administrations – will save borrowers \$245 million.

- **Early intervention to help low-income students succeed in college.** Based on an Administration proposal, the new GEAR UP program funds partnerships between colleges and high-poverty middle schools. This year's proposed budget of \$325 million would fund mentoring, tutoring, and college scholarships to an estimated 1.4 million low-income students.
- **More work-study opportunities.** Spending for Federal Work-Study increased by 41 percent from 1993 to 1999. The President has requested a \$77 million increase in fiscal 2000 to allow one million students to work their way through college.
- **AmeriCorps education awards.** Since 1994, over 150,000 AmeriCorps volunteers have earned up to \$4,725 for college while serving local communities.

STRENGTHENED STUDENT AID PROGRAMS

- **Creating the Direct Loan program.** Under the Direct Loan program, students receive loans directly from the Education Department rather than through government-guaranteed lenders. Because the Direct Loan program is substantially less expensive for taxpayers than the guaranteed loan program, taxpayers have saved over \$4 billion over the past five years. The program has pioneered the use of new technology, streamlined loan processing and disbursement, and improved customer service in both programs through competition.
- **Strengthening the guaranteed loan program.** Federal subsidies for banks and guaranty agencies have been pared down, saving taxpayers \$1.6 billion over the past five years. Improved financial management of the student loan programs helped the Department receive an unqualified opinion from its auditors on its fiscal 1997 financial statement, its first since the Department was founded in 1980. Further improvements were made for the FY 1998 audit, in which remaining student loan-related cost issues were resolved.
- **Reducing loan defaults.** The national cohort default rate has been reduced from 22.4 percent five years ago to a record-low 8.8 percent. At the same time, collections on defaulted loans have more than doubled, from \$1 billion in fiscal 1993 to \$2.2 billion in fiscal 1998.
- **Using technology to simplify aid.** Students can now apply for student aid through the Department's web site and sign just one "master" promissory note for their loans, rather than submitting a new note for each loan.

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Mr. Chairman and Members of the Committee,

The Department of Education commends the Senate Governmental Affairs Committee for holding this important hearing on college costs and thanks the Committee for the opportunity to provide this written statement on behalf of the U.S. Department of Education.

The National Commission on the Cost of Higher Education recognized the importance of defining terms like "cost" and "price" to clarify the issues in financing postsecondary education. Any discussion of this important topic must begin with a discussion of these terms. First, the *cost* of higher education is the amount that colleges and universities pay to provide a quality education to the students, including physical plant and salaries.

Price is what students and parents face. Tuition and fees are the most significant and variable component of the *price* of higher education. Each college and university sets the tuition and fees they charge students based on their costs and other revenues. These prices are publicized (advertised, if you will) in their promotional literature. This represents the *sticker* price. For students who reside on-campus, the sticker price generally includes room and board. Books, transportation and other expenses associated with attending college would not generally be included in the sticker price.

Many students apply for and receive financial aid (either from the Federal or State government or the institution itself) that helps reduce the amount that families and

students must pay. The amount that students and families must pay after financial aid awards are subtracted from the sticker price is the *net* price.

The Strength of the U.S. Higher Education System -- Diversity

Higher education in the United States involves a unique partnership between the students and families, the States, the Federal Government, the private sector, individual philanthropists, and institutions. This partnership has created a higher education system that has long been recognized as a model of quality, diversity, and opportunity.

Size and Variety. Today there are more than more than 4,000 public and private colleges, universities, and community colleges in the United States. This includes 614 public four-year colleges and universities, 1,088 public two-year and community colleges, 1,653 private four-year colleges and universities, and 654 private two-year colleges. This year, these traditional colleges and universities enroll nearly 15 million students. In addition, more than 6,256 other non-collegiate postsecondary institutions offer specialized vocational and technical training. Institutions of higher education vary considerably in size that ranges from small private institutions with enrollments of only several hundred students to large State college and university systems with enrollments in the tens of thousands.

Any student seeking career-oriented vocational and technical training from a community college, a liberal arts education from a small private college, an undergraduate science degree from a prestigious research institution, or one of a variety

1998 Digest of Education Statistics, Table 242.

1998 Digest of Education Statistics, Table 358.

of programs offered by a multi-purpose university can find an appropriate program within the rich and diverse higher education system of the U.S. High-quality educational programs are offered in all types of institutions at prices that vary as much as the institutions themselves.

Price. The average tuition and fees (sticker price) at a community college in 1999-2000 is \$1,627. At public and private four-year institutions, the average is \$3,356 (for in-state students), and \$15,380, respectively. Tuition and fees at selective private institutions may range considerably above this average. Most students do not face the highest prices, however, since approximately 80 percent of all students attend public two- and four-year institutions. Today more than 50 percent of all undergraduates attend institutions that charge tuition and fees of \$4,000 or lower, and only 7 percent attend institutions charging tuition and fees of \$20,000 or higher.

Student Diversity. Our institutions of higher education serve student bodies that are themselves becoming increasingly diverse in terms of race, ethnicity, and age. Today over 27 percent of undergraduate college students are minorities: (11 percent African-Americans; 9 percent Hispanic; 6 percent Asian or Pacific Islander; 1 percent Native American and Alaska Native). Our colleges and universities now enroll close to 500,000 foreign students, thereby further enriching their campus environments and the educational experiences of American students. Our institutions today also serve an older student body with an average age of undergraduates of 27 compared to 25 just a decade ago.

The College Board. *Trends of College Pricing*. 1999.

National Center for Education Statistics, 1998 Digest of Education Statistics,

Institute of International Education, *Open Doors 1997-98*, 1999.

Tabulations from 1987 & 1996 National Postsecondary Student Financial Aid Studies

The Economic Benefits of Higher Education

Our information-based economy and the high-tech, global economic environment of the 21st century make higher education essential both to individual economic success and to our Nation's productivity, competitiveness, and continued economic well-being. In this century, a high school education is no longer sufficient to provide Americans with the skills and knowledge required by the expanding domestic job market or needed to compete successfully in the global marketplace. In fact, as our economy continues to grow, the number of new jobs requiring a bachelor's degree will grow almost twice as fast as the average for all jobs.

Education is becoming the fault line between those who will prosper in the new economy, and those who will be left behind. On average, a bachelor's degree is worth some \$17,000 more a year in the workplace than a high school diploma. This difference equals an estimated \$600,000 over a lifetime and may be considerably higher for the new high tech jobs.

College Enrollment Rate Has Increased but Continues to Vary with Income

While the college enrollment rate is high, there are still significant differences across income groups in terms of participation and graduation rates. In 1997, 67 percent of high school graduates entered college immediately after high school up from 57 percent just a decade earlier. Gaps in opportunity based on income persist, however, in spite of the significant amount of need-based student financial aid programs available. In

1997, 57 percent of low-income high school graduates entered college immediately after high school, compared to 82 percent of high-income high school graduates. Also significant is the fact that low-income students are concentrated in two-year colleges.

Even if students from low-income families enroll in a 4-year college or university they are significantly more likely to leave without a baccalaureate degree than students from higher income families. Nearly half of all low-income students will have dropped out of their programs of study by the end of the second year, as compared to only 27 percent of higher income students. Even among students with above average grades, low-income students are still more likely to leave a 4-year institution of higher education without a baccalaureate degree than higher income students.

What Has Happened To the Price of Higher Education?

In spite of the economic benefits of a college education, the increasing price of attending college continues to be a serious concern for families and students. Over the past decade, public four-year college tuition and fees increased by 53 percent and private four-year college tuition and fees increased by 41 percent. During that same period, median family income increased by only 8 percent. As a result, the percentage of family income required to pay the cost of attending college has increased, with the greatest increase for those at the lowest income level.

Because of the substantial amount of student financial aid available, an institution's "sticker" price may be substantially higher than the charge a student actually

pays – the net price to the student and his or her family. In 1995-96 – the most recent year for which this data is available -- 80 percent of full-time and 70 percent of part-time undergraduates at private four-year institutions received some form of financial assistance. In public four-year institutions, these figures were 66 percent and 48 percent for full-time and part-time students, respectively. Indeed, financial aid accounted for 33 percent of the total amount charged full-time dependent undergraduate students to attend public 4-year colleges, 45 percent of the amount charged to attend private, non-profit 4-year colleges, and 17 percent of the amount charged to attend public 2-year institutions. Whether a student receives financial aid as well as the amount and type of aid varies by family income. At public 4-year colleges, financial aid accounted for 54 percent of the sticker price for students from low-income families compared to 17 percent for students from high-income families.

As a result, the net price of a higher education has increased at a more moderate rate than the sticker price. The total financial aid available to students has increased by 85 percent over the past decade, with loans accounting for two-thirds of this increase. During the past decade, the constant-dollar value of institutional aid more than doubled.

As recommended by the National Commission on the Cost of Higher Education, and as required by Congress in the Higher Education Amendments of 1998, the Department has undertaken a number of activities to provide better information on college costs and prices to students and families – the consumers of higher education. As a first step, the Department, working with the higher education community, developed a

consistent methodology for reporting the cost of providing education incurred by institutions of higher education, and redesigned of the Integrated Postsecondary Education Data System (IPEDS) to incorporate this methodology. The Department has also developed two web-based data dissemination systems:

- College Opportunities On-Line (COOL), which displays information on individual postsecondary institutions designed for use by parents and students; and
- Peer Analysis System (PAS), which enables individual postsecondary institutions to compare their IPEDS data with a group of their peer institutions.

As the required by Congress, the Department will also be undertaking a cost study to identify cost drivers and their relation to prices; to explain postsecondary institutions' practices; to examine the impact of technology and construction costs on educational expenses; and to analyze the relationship of student financial aid to price.

How Much Does It Cost to Provide A Postsecondary Education?

The cost of providing a higher education has increased significantly. Between 1987 and 1996, expenditures per full-time-equivalent student rose, after controlling for inflation, by 9 percent. The cost of providing an education at a 2-year college rose by only 6 percent, while the cost of providing an education at a 4-year rose by 10 percent over the period, again, after controlling for inflation. Thus, part of the increase in price -- tuition and fees-- is the result of the increase in the cost of providing a higher education. Some of the increase, however, has resulted from shifting more of the cost to students and families.

It is important to remember that families and students are not buying the same higher education they were 20, or even 10, years ago. The value of higher education today has been considerably enhanced by the availability of computers and internet access, smart classrooms, modern science laboratories, new academic programs, more extensive international programs, counseling centers, remedial services, and physical education facilities. Changing expectations about the quality of campus life have also driven up the costs for some institutions. Arguably, students and families are buying a different product, and they have a wide range of institutions and prices from which to choose. In addition, as previously mentioned, institutional financial aid has increased dramatically, but this increase has come with the consequence of some institutions having raised tuition to generate revenues to support additional financial aid.

The tuition and fees that students pay do not cover the full cost of instruction at either public or private colleges. At public colleges, tuition and fee revenue accounted for only 19 percent of total revenues in 1995-96. At private, non-profit colleges, tuition and fee revenues accounted for 41 percent of total revenues in 1995-96. Therefore, each student's education is "subsidized" to a great degree by other sources of revenue. Changes in these revenues are typically reflected in changes in tuitions. For example, State appropriations to public colleges declined as a share of total revenues for public colleges from 43 percent in 1985-86 to 33 percent in 1995-96. During this period, public institutions of higher education raised their tuitions and increased the share of revenues from tuition and fees from 15 percent to 19 percent. However, with recent increases in

State higher education appropriations, tuitions at public colleges, at which 80 percent of all undergraduates enroll, have begun to stabilize.

The Federal Role

A primary Federal responsibility in higher education is to eliminate differences in college enrollment rates by income level and socio-economic status. Federal student financial assistance has played a significant role in opening the doors of college to low-and moderate- income Americans, and has doubled since 1993 -- from \$22 billion to \$50 billion a year. Investment in student financial aid yields significant returns to the Federal government and taxpayers. The Department estimates that the student aid programs return well over \$3 to federal tax payers in terms of increased tax revenue for every \$1 spent on the student aid programs. To complement the significant Federal investment in student financial aid, both States and higher education institutions have significantly increased the amount of grant assistance over the last decade.

Expanding access to higher education has been a continuing priority of this Administration. To expand access, we have:

- increased Pell Grants for economically disadvantaged students from a maximum award of \$2,300 in 1993 to \$3,300 in 2000 and will propose to further increase the maximum award to \$3,500 in the fiscal year 2001 budget;
- increased Federal Work-Study funds by 40 percent between 1993 and 2000, helping one million students work their way through college;
- reformed the student loan program, including authorizing the direct loan program

that has made it easier and cheaper to get student loans, saving student borrowers an overall \$8 billion in interest payments and fees, and saving taxpayers, an additional \$5 billion since 1993.

- provided students with additional repayment options, including income contingency repayment, that will not limit their education plans or restrict their career choices; and
- enabled 4.7 million families to benefit from the President's Hope Scholarship and Lifelong Learning tax credit in the first year these credits were available, tax year 1998. More than half the families who claimed the credit earned less than \$50,000 a year and four out of five families who claimed the credit earned less than \$75,000. The number of families will increase significantly in future years.

For fiscal year 2001, the President is proposing a new College Opportunity tax cut that would expand on the Lifetime Learning tax credit. This new tax cut would provide tax relief for millions of families struggling to make college more affordable. When fully phased in for tax year 2003, the President's proposal would give families the option to claim a tax deduction or a tax credit on up to \$10,000 of tuition and fees – providing up to \$2,800 annually in tax relief per family -- for any postsecondary education including college, graduate study, or training courses. In order to expand this tax cut to more families, the College Opportunity tax cut would raise the phase out for married filers from \$80,000 and \$100,000 to \$100,000 and \$120,000.

The Department is confident that expanding financial assistance to students and

families through tax deductions and credits will not result in tuition increases. Students and families must pay the tuition before they can claim the tax credit thus reducing the likelihood that the credits will cause tuitions to increase. Tuition actually increased less after the implementation of HOPE and Lifetime Learning Tax Credits than it did in previous years. Indeed, tuition and fee increases this past year were the lowest in the last four years. States like California and Massachusetts have even cut tuition for their colleges.

The Department is also optimistic that colleges and universities will not reduce their financial aid programs because of the expansion of tax credits and deductions. Secretary Riley has written college presidents asking them to ensure that the tax benefits Congress and the Administration intend for students and families are not offset by higher expected family contributions in institutions' financial aid formulas.

In addition to providing student financial aid, the Department supports programs to help low-income students prepare for college, and to increase retention and success rates among these students. The Federal TRIO programs (Upward Bound, Talent Search, and Educational Opportunity Centers) have long played an important role in helping low-income students plan and prepare for college, and has helped these students successfully complete higher education through the Student Support Services and the Ronald E. McNair Postbaccalaureate Achievement Programs. The new Federal initiative, GEAR UP, expands early college preparation to serve whole classes of middle and high school students in low-income areas. As we raise the hopes and expectations of these students,

we must continue to ensure that opportunities exist for them, and for all Americans, to continue their education beyond high school.

A proposed new College Completion Challenge Grant initiative within the TRIO program is designed to increase retention and success rates through a comprehensive approach including pre-freshman summer programs, support services, and increased aid to students during their first two years of study. The Department's ongoing evaluation of the TRIO Student Support Services program shows that at-risk students who receive targeted support services persist to degree completion at higher rates than at-risk students who do not receive such services. It also indicates that support services make a significant difference on three separate student outcomes—grades, credits earned, and retention. Through additional grant assistance, complemented by a strong Student Support Services component, the Department could help reduce the educational attainment gap between upper- and lower- income groups.

Under the leadership of Secretary of Education Richard Riley, the Department has established the Think College web site to help fulfill its mission. The site provides information about Department offices and programs, ED news, reports and publications, and education initiatives of the President and the Secretary, which include the *Think College* initiative.

The Department's Fund for the Improvement of Postsecondary Education (FIPSE) works with institutions of higher education to stabilize or reduce costs. Most recently, FIPSE provided grants to institutions to explore and adopt innovative approaches to cost containment, while maintaining high quality education. Successful projects will serve as

best practice models for other higher education institutions. We expect that these innovations will yield long-term benefits in holding down the cost of higher education, and ultimately, the price students pay to attend college.

Finally, the Department is working with colleges and universities to identify federal regulations that are overly burdensome and that may increase college costs. These regulations will be rewritten or eliminated. This effort was initiated pursuant to the Higher Education Amendments of 1998. Several meetings have been held around the country to solicit suggestions on how to reduce colleges' regulatory burdens and costs.

Conclusion

One of the important challenges we face as a Nation is helping to keep college affordable for all Americans. In the future, institutions of higher education may be able to control their costs to a greater extent than they have in recent years. However, in their efforts to improve quality and meet the expectations of today's college students, it may be inevitable that costs will continue to rise. Whether institutions will be able to increase revenues from sources other than tuition and fees will determine whether the price charged students will rise.

In light of the continued increase in the price of higher education, student financial assistance will continue to be critical to maintaining college affordability for all students. It is, therefore, important for the Federal government to provide an appropriate combination of grants, loans, work-study opportunities, and tax credits to ensure that all students can afford the net price of higher education.