

**“Keeping College Success Within Reach: Simplifying Federal Student Aid”**

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Hearing before the Committee on Education and the Workforce  
United States House of Representatives

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Written Testimony and Resources for the Record

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# HOW CAN FINANCIAL AID HELP MORE STUDENTS SUCCEED?



Extra money to help you get ready for college



Confidence that the college you choose to use your aid at has met certain minimal standards



Automatic eligibility for financial aid if you receive other kinds of federal support like free and reduced price lunch



Clear reports with the information you need to make decisions about where to go to college



Loans you can repay based on your income after graduation, which are forgiven after 25 years if not paid off



An instant notification of the grants and loans you can expect



A simple tax credit to reimburse you for individual courses you may need in your career



A financial aid application that pre-loads data for you



More money for enrolling in enough classes to graduate on-time



Aligns with the call to action of [American Dream 2.0](#)

Details on how these options can help more students succeed at [Doing Better for More Students](#)

In July 2012, HCM convened a small group of financial aid, tax and higher education policy experts. The technical panel was charged with examining the overall financial aid system and developing innovative policy ideas that respond to the fiscal, economic and demographic realities the nation faces today. This brief summarizes the results of their collaboration.

### WHY DOES THIS MATTER?

The nation's financial aid system was built for a different age. In 1965, when the first significant federal financial aid program began, 23 percent of Americans had a college degree. This attainment level was sufficient to support a vibrant middle class. That economy and those times are no more.

Today, the economy places a premium on postsecondary credentials and the skills these degrees represent. By 2018, 45 percent of all jobs will require some type of college degree, including certificates. Unfortunately, nearly half of all students start college but fail to earn any credential within 6 years; the outcomes are much worse for African Americans and Hispanics.

The financial aid system – its collective \$226 billion in investment – needs to be seen as part of the solution for a nation that needs many more skilled graduates, a stronger middle class and greater opportunity.

In size and scope, student financial aid is more important than ever. Nearly half of all undergraduates receive a Pell grant. Revenues from Pell grants pay almost \$.20 on every \$1.00 received by a college or university in this country, ranging from 43 percent at 2-year public colleges to 7 percent at 4-year private colleges. If current trends continue with public colleges in several states, the percentage share that federal financial aid pays of total operating costs soon will exceed what states pay.

It is time to modernize the financial aid system and align it with today's economic and fiscal realities. The level of aid matters, but so does its design and delivery, according to research. Known barriers in how financial aid dollars are distributed hinder innovation and the expansion of more cost-effective approaches to a quality postsecondary education. A new survey of engaged voters confirms Americans are ready for reform and open to conversations about ways financial aid can serve more students, better.

#### OUR NATION IS FACING A GROWING CRISIS



**46%** of college students do not earn any credential within 6 years.

**63%** of African American students do not graduate within six years.

**58%** of Hispanic students do not graduate within 6 years.

# A SIMPLER, MORE EFFECTIVE FEDERAL AID SYSTEM: One Grant, One Loan, One Tax Benefit

**FIRST**, simplify financial aid with a single federal grant program and a single loan program accessed by means of a simpler application. A new grant program would consolidate federal support into a grant designed to provide an open financial door to higher education and focus on applicants with genuine need. A simplified loan program, with universal income-based repayment, would be available for middle-income students who do not qualify for grants, as well as to supplement grant resources for low-income recipients.

For most students, application data for both the grant and loan program would be directly imported from federal income tax data, simplifying the process, making the total financial aid package and terms of repayment more transparent, and reducing opportunity for error or fraud.

## ONE GRANT PROGRAM

- Make the enduring commitment to affordable access with a simpler needs analysis and application process for all federal financial aid.  
*Projected 10-Year Savings: between \$37 billion and \$73 billion<sup>1</sup>*
  - Simplify the FAFSA, replacing much of the interface with a pre-filled interface so low-income students can qualify for the aid they need.
  - Offer a simple look-up table based on income and family size so students can plan early and choose wisely.
  - Eliminate federal campus-based aid.

## ONE LOAN PROGRAM

- Streamline the loan programs and reduce the complexity in loan terms and repayment rates.  
*Projected 10-Year Net Savings: \$38 billion*
  - Create common annual and aggregate loan limits for undergraduates and for graduates. Help mitigate price insensitivity by setting these levels at a midpoint between current levels for dependent and independent students.
  - Use a market-based interest rate.
  - Eliminate the subsidized loan program, which pays interest that accrues during school, and move that subsidy to a reformed income-contingent loan repayment that all students participate in.

**SECOND**, simplify federal tax benefits for higher education. The single grant and loan program, as proposed, provides generous but better-targeted financial benefits to all students. Making these changes reduces significantly the need for the current tax benefits for college tuition and fees. Further, there is little evidence that tax credits and deductions have significantly affected higher education outcomes, but their

effectiveness could improve if they were better targeted, better timed and better integrated into financial aid policy. A single Lifetime Learning Credit, available for education and including training that happens outside of a formal program (for example, an assessment for credit for prior learning or proficiency in a Massive Open Online Course, or MOOC), replaces the existing credits and deductions.

## ONE TAX BENEFIT

- Consolidate all household-based tuition and fee tax credits and deductions into one Lifetime Learning Credit.  
*Projected 10-Year Net Savings: \$97 billion<sup>2</sup>*
  - Make any tax benefits permanent to better serve students and families.



**THIRD,** promote **shared responsibility** for completion. For students, this means making smart choices about schools to attend and upgrading the definition of satisfactory academic progress—or what is required to receive and keep a maximum award. Promoting intensive enrollment for all students improves the odds of completion and focuses the size and scope of the federal aid investment in structured and accelerated pathways that can work better for students who juggle work, family and other commitments while attending school.

**FOURTH,** spend a portion of the federal aid budget on demonstration programs that spur **innovation and experimentation**.

This could include pilot programs such as: 1) a “Pell-ready Grant Demonstration” in which students with family incomes within 250 percent of the poverty level who need remediation would receive a flat award, for use at either traditional or nontraditional providers, with incentives to both the student and institution for timely completion; 2) a “Competency-based Demonstration”

A set of balanced metrics can be used to create stronger eligibility criteria for institutions receiving federal aid. An “Institutional Effectiveness Index” can integrate measures of access and equity, loan repayment and risk-adjusted completion rates. Institutions would not need to perform strongly on all components of the index to have a passing score. In fact, it would be unlikely that they could do well on all. But they also could not get by with weak performance in all or most components.

that would support students and institutions pursuing competency-based (as opposed to seat-time- or credit-hour-based) models of higher education; 3) a “Performance Contract Demonstration” that would maintain federal needs analysis and a guaranteed federal student award, but give institutions discretion over how to allocate their federal aid dollars in exchange for successfully graduating higher numbers of low-income students.

## INCENTIVES FOR ON-TIME COMPLETION

- Limit the number of credits *borrowers* can accumulate before aid eligibility ends.
- Provide incentives for students to make progress toward completion within 100 percent of the time.

**Projected 10-Year Net Savings: \$39 billion<sup>3</sup>**

OR

- Give students a \$7,000 maximum grant if they complete at least 27 credit hours in a 12-month academic year.
- Projected 10-Year Net Cost: \$86 billion<sup>4</sup>**
- Work to define a set of metrics that can be phased in over time to help determine institutional eligibility for federal financial aid. A sample Institutional Effectiveness Index could include:
    - a measure of access and equity
    - loan repayment; and
    - input-adjusted completion rate
  - Eliminate Parent PLUS and Grad PLUS loans, which have no time or borrowing limit.

# ENDING THE PARALYSIS: Statement Of The Technical Panel

The time for policymakers to consider fundamental improvements to the federal financial aid program is now. Forty-nine percent of engaged voters believe the higher education system needs major changes or a complete overhaul. When presented with arguments for and against providing financial aid based on completion, 73 percent of engaged voters surveyed believed this was a good idea.<sup>5</sup>

At the same time, statutory provisions that offer important benefits to borrowers and taxpayers will expire this year or shortly thereafter.<sup>6</sup> Most of the program authorities provided by the Higher Education Act expire within two years.<sup>7</sup> Policymakers must not let this opportunity pass.

Our knowledge of how financial aid works and how it affects higher education outcomes is imperfect, and the system as it stands has largely evolved based on politics, ideology and available budgets rather than evidence. The solutions we have outlined work from what imperfect information we have, while remaining open to continued improvement as our understanding advances. For that advance to occur, we support improvements in descriptive data collection about aid recipients and their results, as well as expanded experimentation with a portion of the federal aid budget to increase the knowledge base that policymakers can draw upon in future reforms.

**49%** of engaged voters believe the higher education system needs major changes or a complete overhaul.

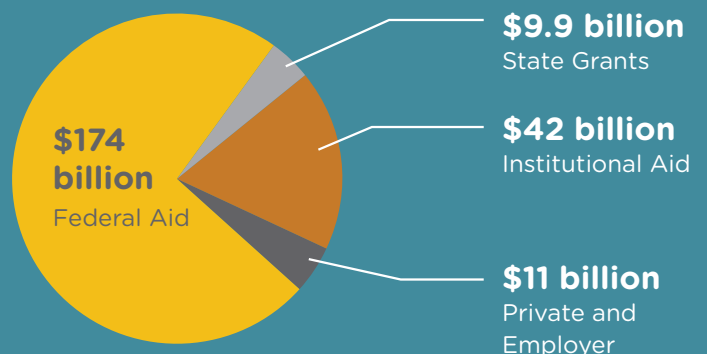


## THE BROAD REACH OF FEDERAL FINANCIAL AID



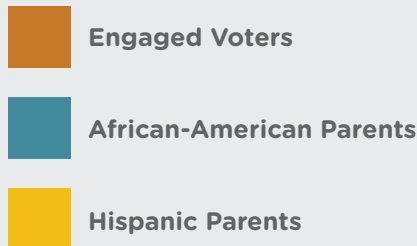
**47%**  
of undergraduates receive financial aid

Sources of Aid  
2011-12

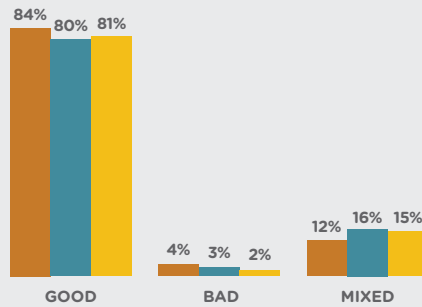


# REACTIONS TO SPECIFIC APPROACHES TO REFORMING FEDERAL AND STATE STUDENT FINANCIAL AID PROGRAMS

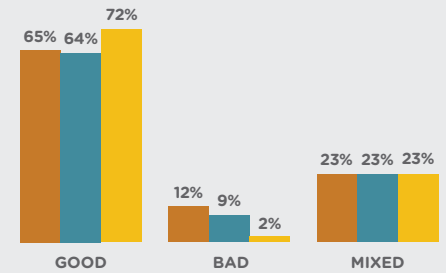
## KEY



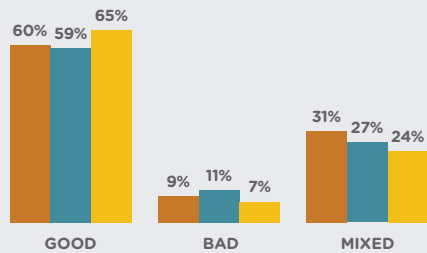
Require colleges make information about student outcomes accessible to students and parents



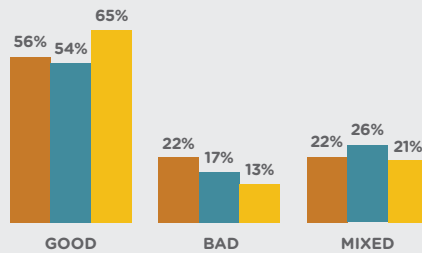
Simplify tax credits and use savings to expand grants and loans



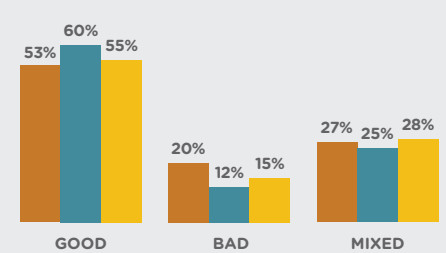
Spread payments of financial aid out as students advance through and complete a course



Require colleges graduate a minimum of 20% of all students to receive federal aid



Restrict financial aid to college-ready students, and fund remedial courses with other government aid.



The new College Score Card can help students, colleges and the public make better, informed decisions. It can be improved if all institutions receiving federal financial aid collect and publicly report for all students:

- enrollment data, including full-time and various measures of part-time and transfer;
- tuition prices and other costs of attendance;
- completion and graduation data, including student mobility-adjusted persistence rates, graduation rates that consider institutional mission, and time to degree by field of study; and
- financial aid data from state, institutional and third-party sources.



# HCM STRATEGISTS' EXPERT TECHNICAL PANEL

Dr. Steven E. Brooks, North Carolina State Education Assistance Authority

Kevin Carey, New America Foundation

Kristin Conklin, HCM Strategists (chair)

Jason Delisle, Federal Education Budget Project, New America Foundation

Dr. Tom Kane, Harvard University

Andrew Kelly, American Enterprise Institute

Daniel Madzellan, retired, U.S. Department of Education, Office of Postsecondary Education

Dr. Kim Rueben, The Urban Institute and the Urban-Brookings Tax Policy Center

The work of this Technical Panel was supported by a grant from the Bill & Melinda Gates Foundation to HCM Strategists (HCM) and the analysis, advice and management of Lauren Davies, Terrell Halaska, Dr. Kim Hunter-Reed and Dr. Nate Johnson.



<sup>1</sup> This assumes current take up rates, we eliminate campus based aid programs and it includes closing the current \$44 billion current projected shortfall. Our simplified formula saves \$37 billion even if we assume full take-up rate of eligible students.

<sup>2</sup> The technical panel proposes eliminating the AOTC and moving savings into an expanded grant program. For example, the savings from consolidating the tax credits could be used to expand the size of the maximum grant to \$7,000. If a tax credit aimed at undergraduate education is deemed essential, it should be non-refundable and be structured more like the Hope credit, which was replaced by the AOTC.

<sup>3</sup> This assumes using existing FAFSA aid system and that  $\frac{1}{4}$  of students taking 12 credits will increase their course load. The savings are higher and more targeted to lower income students if the simplified application is used.

<sup>4</sup> This assumes using existing FAFSA aid system and that  $\frac{1}{4}$  of students taking 12 credits will increase their course load. If the simplified application is used, the expanded grant will save about \$42 billion. Alternatively, it would cost \$11 billion if eligibility is expanded to 250% of poverty rate.

<sup>5</sup> Hart Research Associates in collaboration with HCM Strategists and contributing partner The Winston Group. 2013. *College Is Worth It*. <http://hcmstrategists.com/americandream2-0/report/FINALHartPublicOpinionResearch.pdf>.

<sup>6</sup> Higher Education Opportunity Act of 2008 authorizes the programs for five years (P.L. 110-315).

<sup>7</sup> Some programs authorized through HEA can continue to receive funds and operate one additional year after authorities expire through the authorities provided in the General Education Provisions Act. 20 USC 1226a (P.L. 112-123)





ALIGN. ADVOCATE. ADVANCE.

# DOING BETTER FOR MORE STUDENTS

*Putting Student Outcomes  
at the Center of Federal  
Financial Aid*



## About the Technical Panel

Between July 2012 and February 2013, HCM Strategists convened a small group of independent experts to review available research, trends in federal aid participation, spending and outcomes data. Their eight-month deliberations focused on offering a cohesive set of options that could put student outcomes at the center of the federal student aid programs, while putting critical aid programs on a more sustainable fiscal path.

This report reflects the analysis, experience, expertise and deliberations of a Technical Panel that included:

Dr. Steven E. Brooks, North Carolina State Education Assistance Authority

Kevin Carey, New America Foundation

Kristin D. Conklin, HCM Strategists (chair)

Jason Delisle, Federal Education Budget Project, New America Foundation

Dr. Tom Kane, Harvard University

Andrew Kelly, American Enterprise Institute

Daniel Madzelan, retired, U.S. Department of Education, Office of Postsecondary Education

Dr. Kim Rueben, Urban Institute and Urban-Brookings Tax Policy Center

HCM Strategists, a public policy and advocacy consulting firm specializing in health and education, led the development of this paper. HCM team members contributing to this project included Lauren Davies, Terrell Halaska, Dr. Kim Hunter Reed and Dr. Nate Johnson. Additional independent data and analyses and draft reviews were provided by the Urban-Brookings Tax Policy Center, Postsecondary Analytics, Hart Research Associates, the Winston Group, Dr. Sandy Baum, Dr. Sara Goldrick-Rab, Arthur Hauptman, Robert Kelchen, Dr. Michael McPherson, Travis Reindl, Kimrey W. Rhinehardt, Celia Simms, Bruce Vandal, and Jane Wellman.

The options contained herein align with the problem statement and guiding principles recommended in “[The American Dream 2.0: How Financial Aid Can Help Improve College Access, Affordability, and Completion](#)”, which this Technical Panel advised. That coalition of national leaders in civil rights, student activism, business, higher education and philanthropy called for financial aid policies in America today to reflect a new set of guiding principles:

- Build on our country’s historic investment in access by helping students not just enroll in higher education but also complete a credential with value to themselves and the economy.
- Focus federal resources on the neediest students.
- Innovate and evaluate new strategies to make a high-quality education more affordable and better suited for today’s students, including the adults enrolling in increasing numbers.

- Simplify aid and give students and parents a clear and complete picture of their college costs, repayment obligations, and career and earnings prospects.
- Hold institutions, states and students accountable for completion.

The work of this Technical Panel was supported by a grant from the Bill & Melinda Gates Foundation to HCM Strategists. The views expressed in this report are those of the Technical Panel's and not of any organizations or individuals referenced herein nor of any funders or clients supporting HCM Strategists.

## Executive Summary

The nation's financial aid system was built for a different age, when access and choice were sufficient programmatic objectives. In 1965, when the first significant federal financial aid program began, 23 percent of Americans had a college degree. This attainment level was sufficient to support a vibrant middle class. That economy and those times are no more.

Today, the economy places a premium on postsecondary credentials and the skills these degrees represent. By 2018, 45 percent of all jobs will require some type of college degree, including certificates. Unfortunately, nearly half of all students start college but fail to earn any credential within 6 years; the outcomes are much worse for African Americans and Hispanics.

**“The nation’s financial aid system was built for a different age, one when the nation was able to sustain a healthy middle class with a 23% higher education attainment rate.”**

The financial aid system needs to be seen as part of the solution for a nation that needs many more skilled graduates, a stronger middle class, and more opportunity. Each year, the federal government's investment in student financial aid supports nearly \$156 billion in grant, loan and work-study assistance to more than 10 million students and their families.<sup>1</sup> Investments in student aid are more than double spending for any other federal educational program, including Title I of the Elementary and Secondary Education Act (ESEA) and the Individuals with Disabilities in Education Act programs for K-12 schools.<sup>2</sup> Yet for all of the money it invests, the U.S. government has rarely, if ever, conceived of financial aid programs as a potential tool to encourage student success in college. It provides money to (mostly) needy students and hopes for the best.

In size and scope, student financial aid is more important than ever. Nearly 40 percent of all undergraduates receive a Pell grant. Five years ago – before significant increases in the Pell program – revenues from Pell Grants paid almost \$.20 on every \$1.00 received by a college or university in this country. Reliance on Pell funds ranged from 43 percent at 2-year public colleges to 7 percent at 4-year private colleges.<sup>3</sup> As student tuition has increased – now becoming the majority of institutional revenue in many cases – the federal subsidy share of tuition has also increased. If current trends continue, the indirect federal subsidy of public institutions via tuition subsidies will soon be greater than the direct state subsidy of operating revenues to the institutions.


1 College Board. 2012. “Trends in Student Aid 2012.”

2 Delisle, J. and McCann, C. (2012). “How the Pell Grant Program Overtook PreK-12 Educational Programs.” 11/14/2012. EdMoney Watch Blog. Washington, D.C: New America Foundation.

3 Internal U.S. Department of Education analysis of the 2007-08 National Postsecondary Student Aid Survey.


It is time to modernize the financial aid system and align it with the new economic and fiscal realities. The level of aid matters, but so does its design and delivery, according to research. Known barriers in how financial aid dollars are distributed hinder innovation and the expansion of more cost-effective approaches to a quality postsecondary education. A new survey of engaged voters confirms Americans are ready for reform and open to conversations about ways financial aid can serve more students, better.<sup>4</sup>

This report offers a brief summary of federal student aid policy. It then provides an overview of the obstacles that policymakers must address to put improved student outcomes at the center of the aid structure's design and delivery. Next are longer discussions of four broad policy options intended to work together as a comprehensive, more financially sustainable system:



**Nearly half**  
of all undergraduates  
receive a Pell Grant

**5 years ago...**  
Revenues from Pell  
Grants paid almost \$0.20  
on every \$1.00 received  
by a college or university



- **one federal grant and one federal loan program** with simpler terms to promote increased access, affordability and completion;
- **a single tax credit** to complement the new benefits in the single grant and loan programs;
- **new reporting and financial aid eligibility criteria** that holds institutions accountable for student access and success; and
- investments in **research and demonstrations** to evaluate cost-effective ways to finance more student success.

4 Hart Research Associates in collaboration with HCM Strategists and contributing partner The Winston Group. 2013. "College is Worth It." <http://hcmstrategists.com/americanream2-0/report/FINALHartPublicOpinionResearch.pdf>.

## A Synopsis of Federal Student Aid Policy Objectives

The student assistance programs authorized by Title IV of the Higher Education Act were created to equalize access to postsecondary education. In presenting Title IV in 1965, the chief House sponsor, Congresswoman Edith Green, stated: “All of the studies have indicated that financial need is one of the most important reasons why qualified students do not attend college. This is a loss that I think this Nation cannot afford. Higher education . . . should not be reserved for the wealthy but should be available to the qualified young man or woman whether the youth comes from a family that is rich or a family that is poor.”<sup>5</sup> Each successive reauthorization, as well as “off-cycle” legislation amending the authorizing statute, has reinforced this commitment to postsecondary education access, and arguably none more so than 1972’s creation of the first generally available portable grant program, now known as Pell Grants.

There is much to celebrate in this investment. Today, the number of Pell Grant recipients approaches half of all undergraduates. Since 1971, total college enrollment has increased by 134 percent.<sup>6</sup> However, the near-singular focus on postsecondary access has left little room to pursue financial aid policies that would contribute to program completion or credential attainment. Among students starting school in 2003, Pell recipients attained a bachelor’s degree six year later at about half the rate of their non-Pell counterparts (19.5 percent vs. 37 percent). Associate degree attainment was essentially the same for both groups, whereas certificate attainment by Pell recipients was better than two and one-half times that for non-recipients (15.9 percent vs. 5.9 percent).<sup>7</sup>

From time to time policymakers have called for a focus on “access to success,” but the design and delivery of financial aid was never aligned to promote access, affordability *and* completion. The equity impact is profound: Just 42 percent of Hispanic students complete any credential six years after beginning a program; only 37 percent of African American students do so in the same period of time.<sup>8</sup> Many would agree that financial aid awarded to a low-income student who did not attain a credential represents the cost of offering the opportunity. However, if current policy does too little to protect our most vulnerable students from entering the labor force with debt but no degree, then we are doing them a disservice.

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5 Cervantes, A. et al. 2005. “Opening the Doors to Higher Education: Perspectives on the Higher Education Act 40 Years Later.” TG Research and Analytic Services at [http://www.tgslc.org/pdf/hea\\_history.pdf](http://www.tgslc.org/pdf/hea_history.pdf).

6 National Center for Education Statistics. “Digest of Education Statistics: Advance Release of Selected 2012 Digest Tables.” Table 198: Total fall enrollment in degree-granting institutions by attendance status, sex of student, and control of institution: Selected Years, 1947 through 2011. [http://nces.ed.gov/programs/digest/d12/tables/dt12\\_198.asp](http://nces.ed.gov/programs/digest/d12/tables/dt12_198.asp).

7 U.S. Department of Education, National Center for Education Statistics, 2003-04 Beginning Postsecondary Students Longitudinal Study, Second Follow-up (BPS:04/09).

8 Radford, A.W.; Berkner, L.; Wheelless, S.C.; and Shepherd, B. 2010. “Persistence and Attainment of 2003–04 Beginning Postsecondary Students Six Years Later.” <http://nces.ed.gov/pubs2011/2011151.pdf>. NCES 2011-151, p. 8, Table 1.

# Obstacles to a More Effective, Sustainable Student Aid System

The size and scope of the total investment in student financial aid is significant. Federal, state, and institutional grant aid pays for approximately 46 percent of all instruction-related expenditures in higher education.<sup>9</sup> Together, the programs help structure the market in which students and institutions operate. Until now, though, these programs have not been well harmonized and improved student outcomes have not been at the center of program and policy objectives.<sup>10</sup> Application processes are complex and difficult to understand, particularly for the families that stand to gain the most. Policy discussions traditionally have centered on what it would take to attract and keep private lenders in the program. Student subsidies have been more a matter for program budget development. Even today, loan program subsidies are poorly targeted and cost taxpayers more than necessary to help students manage their repayment obligations and maintain a reasonable debt burden. Eligibility rules don't encourage students to attend full-time and finish promptly, and in fact may do the opposite. Participating institutions are held to low eligibility standards and only rarely lose access to federal aid.<sup>11</sup> This continued access provides little incentive to contain tuition prices; meanwhile, existing statutes and regulations tend to stunt new approaches and bar program participation by innovative postsecondary education providers.

The structures of various financial aid programs create incentives for both students and institutions to behave in certain ways, so they are potentially powerful levers to drive changes in those behaviors.<sup>12</sup> Many students need grants and loans to help pay the cost of attendance, and they will behave in ways that ensure they remain eligible. Because institutions rely on tuition dollars to operate, they have an incentive to abide by the policies that let them participate in the student aid program. Since most of that aid functions as a voucher that empowers student choice, institutions have an incentive to behave in ways that attract and retain students to generate revenue.<sup>13</sup>

**“The question for policymakers is how the incentives embedded in the design and delivery of aid programs can reward valued student and institutional behaviors.”**

9 Analysis by HCM Strategists using Delta Cost Project formulas for E&R with institutional expenditure data from the Digest of Education Statistics, 2011 Digest Tables, and financial aid expenditure data from College Board, 2012, “Trends in Student Aid”.

10 Other federal policies that help structure the market in which students and institutions operate include accreditation policies and tax benefits such as the tax-exempt status enjoyed by public and nonprofit institutions of higher education, and the tax-free municipal bonds that institutions can access to finance capital construction.

11 U.S. Department of Education. Sept. 28, 2012. Press Release: First Official Three-Year Student Loan Default Rates Published. and U.S. Department of Education. Office of Student Financial Aid. Postsecondary Education Participants System. 34 CFR 668.34.

12 Leslie, L., Brinkman, P. 1987. “Student Price Response in Higher Education: The Student Demand Studies” *Journal of Higher Education*. Vol. 58, No. 2 (Mar-Apr, 1987), pp. 181-204. Kahneman, D., Tversky, A. 2000. *Choices, Values, and Frames*. Cambridge University Press, Cambridge: MA.

13 One indicator is legislation enacted several years ago in response to the worldwide financial crisis that caused credit markets to seize both here and

The question for policymakers is how the incentives embedded in the design and delivery of aid programs can reward valued student and institutional behaviors. Recasting aid as a tool to drive student success and encourage effective programs requires that policymakers rethink current approaches to simplification, eligibility rules, and student and institutional responsibility.

Over the past 50 years, Congress has created a patchwork quilt of federal grant, loan and tax benefit policies. Before presenting options for rationalizing these programs and orienting them to be more effective for students and financially sustainable, it is helpful to summarize major obstacles that must be addressed. A more detailed discussion of obstacles and barriers is provided in Appendix B.

- *Despite recent improvements, the design and delivery of federal aid continues to be too complex for students and lags behind changes in higher education delivery.*
  - Complexity makes repayment of the loans more challenging, and does nothing to explain to students the income repayment options that can help re-label the loans and reduce measurably loan aversion.<sup>14</sup>
  - Allocation of financial aid is based on clock or credit hours, which makes it difficult to keep up with rapid transformation in postsecondary delivery models for an increasingly diverse student population.
- *Federal policymaking demonstrates a lack of long-term thinking and coherent planning.*
  - Policymakers have layered new grant, tax, loan and repayment programs on top of each subsequent reauthorization, budget reconciliation and even emergency spending bills, without stepping back to assess how the pieces work together to accomplish the outcomes currently needed from the programs.
  - Emergency funding measures, knee-jerk changes to eligibility rules, and redirected resources through elimination of other aid programs have caused financial uncertainty for students and institutions.
- *Federal policy lags behind what research says are promising ways to serve students more effectively.*
  - Information is inadequate for students, families and those who advise them about college costs and student outcomes. Research shows a “best college match” between student and institution helps that student complete a credential.<sup>15</sup>
  - The federal definition of “satisfactory academic progress” is neither standardized nor enforced.<sup>16</sup>

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abroad. ECASLA—the Ensuring Continued Access to Student Loans Act of 2008 (P.L. 110-227)—provided the Education Department with unprecedented authority to intervene in the federally backed student loan financial markets to ensure the uninterrupted flow of federal student loans. More than one college president expressed gratitude to Congress and the Administration for this effort.

14 Caetano, G., Palacios, M., and H.A. Patrinos, H.A. 2011. “Measuring Aversion to Student Debt: An Experiment Among Student Loan Candidates.” The World Bank. Policy Research Working Paper 5737. <http://elibrary.worldbank.org/>. Institute for Higher Education Policy. 2008. “Student Aversion to Borrowing: Who Borrows and Who Doesn’t.” Washington, D.C. <http://www.ihep.org/assets/files/publications/s-z/studentaversion-toborrowing.pdf>. Caetano, G., Palacios, M., and H.A. Patrinos, H.A. Measuring Aversion to Student Debt: An Experiment Among Student Loan Candidates. The World Bank. Policy Research Work

15 Bowen, W., M. Chignos, and M. McPherson. 2009. *Crossing the Finish Line: Completing College at America’s Public Universities*. (Princeton, NJ: Princeton University Press).

16 Adelman, C. 2006. “The Toolbox Revisited: Paths to Degree Completion From High School Through College.” Washington, D.C.: U.S. Department of Education.



- The federal government inadequately engages states, systems and colleges as partners in our collective completion challenge. Federal aid can play an outsize role by leveraging state and institutional expenditures and insisting that other stakeholders contribute to the highest-impact programs.

We know from economic theory and empirical evidence that financial aid affects student behaviors.<sup>17</sup> Without the federal government’s enormous investment in need-based aid, along with states’ even bigger investment in subsidies for both students and institutions, it seems implausible that nearly as many students would be attending postsecondary education.

Changes in aid amounts without additional conditions or targeting have yielded ambiguous results.<sup>18</sup> On the other hand, aid tied to clear expectations for progress, such as MDRC’s Performance-Based Scholarships, or aid tied to effective academic and student support, as in Canada’s Millennium Scholarships, appears to have some impact. Certain subgroups—low-income students, academically at-risk students, adults and women—also seem to respond more to financial incentives and support.<sup>19</sup>

## One Federal Grant and One Federal Loan Program with Simpler Terms to Promote Increased Access, Affordability and Completion

Expand eligibility and take up for the neediest first-time Pell Grant students through a simplified need analysis and application process, while increasing expectations for progress toward completion.

### Overview

The redesigned grant program would merge all existing federal postsecondary grant programs into the Pell Grant program. It would continue to be focused on the lowest-income students and maintain current initial eligibility standards.<sup>20</sup>

17 Bettinger, E. 2012. “Financial Aid: A Blunt Instrument for Increasing Degree Attainment” in *Getting to Graduation*. Edited by Andrew P. Kelly and Mark Schneider. (Baltimore, MD: Johns Hopkins University Press), pp. 157-174. Harris, D.N. & Goldrick-Rab, S. 2012. Improving the Productivity of Education Experiments: Lessons from a Randomized Study of Need-Based Financial Aid. *Education Finance and Policy*. p. 143-169.

18 Harris and Goldrick-Rab 2012. Rubin, R. 2011. “The Pell and the Poor: A Regression-Discontinuity Analysis of On-Time College Enrollment.” *Research in Higher Education*. Vol. 57, No. 7. pp. 675-692.

19 R.A. Malatest and Associates, Ltd. 2009. FINAL Impacts Report: Foundations for Success Project. Canada Millenium Scholarship Foundation: Toronto, Canada. and Patel, R. & Richburg-Hayes, L. 2012. Performance-Based Scholarships: Emerging Findings from a National Demonstration. MDRC. [http://www.mdrc.org/sites/default/files/policybrief\\_41.pdf](http://www.mdrc.org/sites/default/files/policybrief_41.pdf).

20 Eligibility standards include the ability to receive the award for an equivalent of 150 percent of program time and requiring a GED or high school diploma for receipt. As this standard was set in 2012, it does not seem appropriate to change standards further before the effects of these changes can be evaluated.

The need analysis and application process would be significantly simplified through a three-tiered FAFSA (Free Application for Federal Student Aid) filing system. Applicants in this means-tested program could verify their participation across agencies and access maximum benefits. For most applicants, data sharing with the Internal Revenue Service would pre-fill their application by allowing use of their tax information from two prior years. Students and families with more complex financial situations would submit additional IRS schedules, allowing for aid to be better targeted.

A simple app based on income and family size would let students plan early and choose wisely. The need analysis would be based mainly on Adjusted Gross Income (AGI) and family size. It would no longer provide additional aid for families with multiple members enrolled at one time. Together, these changes would encourage more low-income students to file a simplified FAFSA, while targeting federal aid dollars to the neediest students.

Expectations for student aid recipients need to increase. To receive the maximum award each year, students would have to enroll in enough credits to complete on time (e.g., an associate's degree in two years or less). This requires a minimum of 15 credits per semester or additional summer courses. The levels of grants for course-taking below 15 would be set on a pro-rata basis.

**“The eligibility criteria would be simplified dramatically, relying in most cases only on AGI as reported to the IRS, and a measure of family size (number of IRS income tax exemptions).”**

Savings from these changes, collectively, to a single grant program, are projected between \$86 billion and \$120 billion assuming current grant maximums. These savings could be reinvested by offering a larger financial incentive for increased course-taking.<sup>21</sup> For example, Table 1 in Appendix A estimates the cost of expanding the maximum grant amount to \$7,000, coupled with the other single grant recommendations contained herein, can be done on a revenue neutral basis.

### *More Details: A Simplified Need Analysis*

A single federal grant program for undergraduates would determine eligibility using a simplified need analysis formula. Students would qualify academically if they received a high school diploma or an equivalent credential and acceptance to a postsecondary institution under the redesigned program, matching current standards. Their financial situation would be subject to a means test to determine the amount of any federal grant aid. However, the eligibility criteria would be simplified dramatically, relying in most cases only on AGI as reported to the IRS, and a measure of family size (number of IRS income tax exemptions). The income and assets of the dependent student would not be considered, and the number of students in college would not be relevant for any one applicant. The Pell Grant would be awarded to the individual student and would not depend on the timing of his or her enrollment relative to any siblings' enrollment. Therefore, a student would not be considered more financially needy because another family member was in school in the same year, as currently is the case.

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21 Appendix: Tables 1 and 2: savings will depend on additional take-up rate of students from simpler application.

Rather than producing a specific value for each applicant's expected contribution, which would be used to establish the grant amount for that student for the academic year, the simplified formula would produce the actual grant amount for that student were she enrolled full-time for a full academic year. This contrasts with current practice in which the applicant is not immediately notified of the grant amount for which she is eligible, only that she is eligible for a grant based on the level of her expected family contribution (EFC).

The simplified formula would build on the successful partnership between the IRS and FSA that allows many FAFSA applicants to retrieve individual tax return income and other financial information directly from the IRS as part of the federal aid application process.

### *More Details: Streamlined Aid Application Process*

The application process and eligibility determinations would be streamlined. Essentially, current FAFSA applicants are directed to one of three paths for determining their aid eligibility: an "automatic zero EFC" for the lowest-income students, a "simplified need test" for many moderate-income applicants and a "full formula" for all other applicants, though focused on those with more complicated income sources. However, this three-tier approach can be improved upon, largely by means of better leveraging existing technology.

First, the FAFSA would collect personal identifying information such as name, address and Social Security number, and the names of colleges in which the student has an interest. The next questions should ascertain whether a student's family is already eligible for a means-tested federal income support program, such as TANF or SSI. For these students, the means test has already been performed, and they would qualify automatically for a maximum Pell Grant (subject to verification of their status). Ideally, this would be accomplished via an unobtrusive match with the relevant cognizant authorities.

**“Rather than producing a specific value for each applicant’s expected contribution, which would be used to establish the grant amount for that student for the academic year, the simplified formula would produce the actual grant amount for that student were she enrolled full-time for a full academic year.”**

Thus there would be a true "bypass" to full grant eligibility. Currently beneficiaries from other means-tested federal programs must still meet an income threshold. Additionally, the current automatic zero EFC approach states that otherwise-eligible applicants are not required to file a Form 1040 income tax return. This criterion causes confusion because many taxpayers who filed a Form 1040 did so to get other federal benefits administered through the tax system (i.e., the refundable Earned

Income Credit). The purpose of the current criterion is to filter those applicants who appear to be low-income but in fact have used legitimate income adjustments and deductions to reduce their AGI. It is estimated that 13 percent of all filers would fall into this first category, providing maximum simplicity and transparency.<sup>22</sup>

Next, for the majority of remaining filers, the FAFSA would use a data retrieval system with the IRS to ascertain the number of exemptions (which would represent current household size) and the AGI for the applicant (or the parents for dependent students). As this match was performed, IRS data should also reveal whether the relevant tax return (parental if under age 24; otherwise student) was a Form 1040 that included Schedule B, C, D, E or F. If no such schedules were part of the tax return, an eligibility result would be returned based solely on AGI and exemptions. As with the automatic zero EFC, the current system guards against applicants who appear to be lower-income by stipulating that they are not required to file a Form 1040. Again, as with the automatic zero EFC eligibility test, the purpose is to filter those applicants who have legitimately used aspects of the tax code to reduce their taxable incomes. It is estimated that 50-70 percent of all filers would fall into this category, providing a simpler, more transparent grant calculation than is possible today.<sup>23</sup>

Finally, for students whose relevant tax return does include one or more of the schedules listed above, more information would be required. While this is a relatively small proportion of all FAFSA filers (an estimated 17 percent), the inclusion of these schedules implies that AGI is not necessarily the best indicator of family financial circumstances.<sup>24</sup> The goal of equitable distribution of limited resources mandates a more rigorous analysis in these cases, to flag students from families

## REGULATORY RELIEF WITH A SIMPLER SINGLE GRANT PROGRAM

Colleges and universities would experience significant relief of regulatory and administrative burden with the adoption of the proposals for one grant and one loan that has consistent annual limits and a subsidy offered during repayment rather than during enrollment. No longer would they experience “split borrowers” who have both subsidized and unsubsidized student loans, which require changing proportions every time additional aid is received or canceled. Further, the use of one grant and one loan would eliminate the entire concept of “overaward” in federal aid, since both programs could now utilize the same rule the Pell Grant program employs: Total aid cannot exceed the total cost of attendance. With this same administrative process extended to a greatly simplified loan program, during the year there would be no reason for colleges to revise financial aid notices multiple times and no need for bursars to credit and debit student accounts multiple times because of reverberations from other aid programs. This would save real dollars for campuses and reduce confusion among students. Mark Kantrowitz provides an excellent explanation of “overaward” and federal regulations currently entailed by the concept at <http://www.finaid.org>.

22 Tax Policy Center calculation based on 2007-2008 NPSAS data. Note the number of students filling out FAFSA forms have already begun increasing in the last few years with the more streamlined process.

23 The percentage of students who can use the simplified look-up tables rises to 70 percent if students with some but limited nonwage income also are allowed to use the simpler calculator (i.e., move the cutoff from one to two schedules).

24 Tax Policy Center calculations based on IRS tax information.

whose complicated financial circumstances allow them to shelter significant resources behind low AGI levels. It should be standard practice to use more-robust tax data to calculate awards for these students.<sup>25</sup> The IRS Data Retrieval Tool (DRT) in these situations should be enhanced to populate data elements from the Form 1040 that match the data from the appropriate schedule. All negative numbers should be set to zero in the calculation, and a modified AGI used instead of AGI. Additionally, questions about family assets and other tax schedule-sensitive issues should be asked of these students and used in an eligibility calculation.

### *More Details: IRS Data Sharing*

When the aid application was a paper-based process, concerns about multiple forms and duplicating responses were not unreasonable. However, today the vast majority of federal aid applicants—at least 98 percent, according to recent public statements by FSA—file their FAFSAs electronically.<sup>26</sup> Thus concerns regarding the need for families to complete multiple applications in hard-copy formats—with much of the same household and financial information collected multiple times—are outdated. In fact, today’s FAFSA on the Web (FOTW) encourages applicants to complete a separate “form”—via the DRT—at the IRS website. While in that session, an applicant can initiate a second session at the IRS website. Today it is more appropriate to think about the aid application process as a series of concurrent online sessions instead of physically distinct paper application forms.

The IRS-DRT illustrates how technology can simplify the financial aid application process. It also can help policymakers think about ways to improve

program design and delivery. An application-programming interface (API) is a readily available and common way in which various software components (e.g., FOTW and the IRS-DRT, or the apps for tablets and smart phones) communicate with each other. It seems a similar solution could facilitate communication between the federal government and various third parties in the aid application context. Furthermore, the U.S. Department of Education-IRS partnership could provide information regarding the availability of financial aid to families with precollege-age children.

**“Today it is more appropriate to think about the aid application process as a series of concurrent online sessions instead of physically distinct paper application forms.”**

25 For example, net capital losses/gains might be added back to/subtracted from AGI before determining eligibility, since for purposes of recurring family income these are a change of asset position and not actually “income” at all. Depending on additional information from the forms, these taxpayers may also be required to submit additional information about asset values similar to the system currently in place. However, the number of students subject to this more complicated FAFSA would be much smaller.

26 U.S. Department of Education. 2012. Why Complete a FAFSA? Federal Student Aid. <http://studentaid.ed.gov/sites/default/files/2012-13-completing-the-fafsa.pdf>.

To ensure that tax return data are available from the IRS for most applicants, income and exemptions from two years prior to enrollment (“prior-prior” year income) could be used instead of from the year before (prior year), which is currently the basis for the aid eligibility formula (e.g., 2010 income for 2012-13 eligibility instead of 2011 income). Research indicates that using the “prior prior” income has a negligible impact on the distribution or award amount for most applicants. Specifically, for 77 percent of applicants, the Pell Grant remains within \$500 when using this year-older income data. For 67 percent of applicants, and 44 percent of recipients, the grant does not change at all.<sup>27</sup> Students who face a change in economic circumstances—because of a job loss or other changes—could be allowed to file updated forms with the assistance and professional judgment of a campus financial aid administrator, on a case-by-case basis.

### *More Details: Revising the Definition of Full-Time and Satisfactory Academic Progress*

Federal law defines full-time enrollment for financial aid as 12 credit hours, which is less than what generally is needed to complete a credential on time. Financial aid recipients must demonstrate “satisfactory academic progress” (SAP) toward degree/program completion beyond the initial year of aid receipt, but the federal government does not mandate specific standards. Schools establish their own SAP standards within rather broad federal guidelines.

Promoting more intensive enrollment can not only improve time to degree but also the odds of completion. To encourage on-time progression and completion, the redesigned Pell Grant program should be based on the intensity of students’ enrollment, with the maximum grant to first-time students set on the basis of at least 15 credits in each of the first two terms. Afterward, the student could receive the maximum by enrolling in at least 15 credits per term, or by having earned sufficient credit to demonstrate a clear path to on-time completion. For example, a student who earned 33 credits in her first year could be awarded a maximum grant if she enrolled in only 12 semester hours in one term her second year, as long as she earned at least 27 credits in that second year. Students could use summer and other nonstandard terms to increase credits and move toward graduation.

### *Suggested Pell Grant Award Schedules*

These tables illustrate what grant amounts would look like at different intensity levels for different grant amounts using our current application system.

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27 Dynarski, S. and Wiederspan, M. “Student Aid Simplification: Looking Back and Looking Ahead.” National Tax Journal, March 2012, 65 (1). 211-234. <http://ntj.tax.org/wwtax/ntjrec.nsf>

With Increased Grant Amounts: \$7,000 Maximum and \$700 Minimum<sup>28</sup>

Credits	0 EFC	1,000 EFC	2,000 EFC	3,000 EFC	4,000 EFC	5,000 EFC
15+	\$7,000	\$6,000	\$5,000	\$4,000	\$3,000	\$2,000
12-14	5,600	4,800	4,000	3,200	2,400	1,600
9-11	4,200	3,600	3,000	2,400	1,800	1,200
6-8	2,800	2,400	2,000	1,600	1,200	800

Using Current Pell Grant Maximum and Minimum Amounts

Credits	0 EFC	1,000 EFC	2,000 EFC	3,000 EFC	4,000 EFC	5,000 EFC
15+	\$5,550	\$4,550	\$3,550	\$2,550	\$1,550	\$550
12-14	4,440	3,640	2,840	2,040	1,240	
9-11	3,330	2,730	2,130	1,530	930	
6-8	2,220	1,820	1,420	1,020	620	

A redesigned Pell Grant program would maintain the current expectation that students complete programs within acceptable time limits, defined as a maximum of 12 full-time semesters or the equivalent.<sup>29</sup>

**Streamline the loan programs into a single, income-based repayment program.**

### Overview

The redesigned federal student loan program would collapse the numerous benefits, rules and restrictions under the current program into a single “foundational” loan program with uniform borrower benefits and one repayment plan. The loans would include annual and overall maximum amounts. All borrowers would have to repay under a hybrid version of the two existing Income-Based Repayment (IBR) programs. Borrowers with outstanding loan balances would have that balance forgiven after a certain number of years: 20 years for those with entering repayment amounts less than \$40,000 and 25 years for all other borrowers. The new loan program would end the 10 different annual and aggregate borrowing limits in the current program. The single loan program would end the various distinctions among the subsidized Stafford, unsubsidized Stafford and Grad PLUS loans, and it would end the Grad PLUS, Parent PLUS and Perkins Loan programs. The single program would set new borrowing limits: one for undergraduate students and one for graduate students. Collectively, a single loan program as proposed here would save nearly \$38 billion over ten years.

28 The tables presented in Appendix A are illustrative, in practice the student would be able to calculate their grant amount using a formula which subtracts EFC from the Max grant and then multiplies by the intensity of enrollment. We much prefer our simplified system, which would calculate grant amounts directly based on AGI, number of people in household and course intensity.

29 This policy is roughly equivalent to the 150 percent credit cap proposed for the single loan program.

### *More Details: A Reformed, Default Income-Based Repayment Program*

Income-based repayment can mitigate interest rate risk for both borrowers and taxpayers. A borrower's monthly payment would not be based on any particular interest rate or outstanding principal balance on the loan; it would be based solely on his or her income. The interest rate would serve only to determine the speed at which the loan balance was reduced or retired given a certain level of income. Lower incomes would have the same effect as higher interest rates: The reduction in outstanding principal decelerates. Borrowers may pay a bit longer, but they would never pay longer than 20 years (25 years for high debt borrowers), thus dampening interest rate risk, particularly for struggling borrowers. On the other hand, borrowers with higher incomes would pay back their loans faster under the new income-based plan than they do currently, which would mitigate the risk to taxpayers that the repayment program is overly generous. In essence, the program would be much more self-correcting than the current income-based repayment program, for both borrowers and taxpayers.

The new program would not include any special status features such as in-school interest subsidies, or routine deferment and forbearance options, but it would still allow borrowers to forgo monthly payments while enrolled at least half-time. The existing suite of benefits is complicated for borrowers to understand, and it requires considerable

time and effort for loan servicers and institutions to administer and track. Instead, borrowers would be charged interest while in school. The loss of the deferment and forbearance benefits would be offset by other new benefits. (Income-based repayment allows borrowers to exempt 150 percent of the federal poverty guidelines from their income, thereby providing a form of indefinite deferment or forbearance for borrowers with no or low incomes.) The Congressional Budget Office estimates this provision would save more than \$40 billion over the 10-year budget window.

A borrower's monthly payment would generally be calculated the same way as the current income-based repayment program in the federal loan system, with several modifications.

Under the current plan, a borrower pays 10 percent of his adjusted gross income toward his loan annually (divided by 12 months) after deducting from his income 150 percent of the federal poverty level based on household size. In other words,

**“The new, single loan program would end the 10 different annual and aggregate borrowing limits, end the various distinctions among the subsidized Stafford, unsubsidized Stafford and GradPLUS loans, and set new borrowing limits: one for undergraduate and one for graduate students.”**



discretionary income is defined as income in excess of this poverty level-based calculation, and the borrower pays 10 percent of this amount. Today, that deduction for an individual is about \$16,500. However, the borrower's monthly payments are also subject to a maximum; they cannot exceed the amount the borrower would pay under a straight-line 10-year amortization plan (the "standard repayment plan"), based on the borrower's loan balance at the time he entered repayment in the IBR plan. That cap makes the current program regressive and allocates benefits to borrowers with higher income in later years. The new IBR plan suggested here ends the cap and the regressivity it currently creates.

The new income-based repayment program would continue the income deduction based on federal poverty guidelines and maintain the repayment rate at 10 percent of discretionary income, but only for borrowers with incomes below 300 percent of the poverty level appropriate to family size. Borrowers earning more would pay at a rate of 15 percent of discretionary income. This is similar to the structure of the federal income tax: A portion of the taxpayer's income is exempt from taxation—i.e., a standard deduction—and income above that amount is taxed at progressively higher rates. However, in the case of the new IBR plan, there would be just two rates, and borrowers would be subject to one or the other, minus the exemption.<sup>30</sup>

Borrowers could always opt to pay more per month if they chose. Unpaid interest that was due would accrue, but it would be added to the principal (negative amortization) only after a borrower's debt-to-income ratio fell below a certain point, just like the existing program.

Borrowers who are married, but file separate federal income tax returns, would have to include combined income in the IBR calculation—though the poverty level deduction would be adjusted to account for household size per the federal guidelines. In cases where both spouses were repaying student loans, each could base his or her payment on one-half of the combined household income. As noted earlier, borrowers with loan balances below \$40,000 when they entered repayment would qualify for loan forgiveness after 20 years in repayment status. Borrowers with higher debt entering repayment would qualify after 25 years.

A federal loan system in which the only repayment option was Income-Based Repayment (IBR) would eliminate much borrower confusion. One loan with one annual maximum and one cumulative maximum would replace multiple possibilities, thus helping students focus on managing college costs, repaying with interest based on actual income, and considering examples of average incomes for their careers when making appropriate borrowing choices.

### *More Details: New Loan Limits*

Under the new approach, the current loan system would be replaced by one loan type with an annual limit of \$8,750 for all undergraduate borrowers and an aggregate limit of \$35,000, i.e. four years of the annual maximum. Graduate and professional students would be subject to an annual limit of \$30,000 and an aggregate of \$90,000. The total maximum undergraduate plus graduate aggregate limit would therefore be \$125,000.

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30 In our current modeling we are assuming the student pays either 10 or 15 percent of their income above the poverty line based on AGI. However, this may lead students to try and hide income to avoid the higher rate, an alternate way of implementing this program would be (like the tax system) to have the student pay 15 percent of AGI that is higher than 300 percent of the poverty level.

Students would be limited to borrow for the credit hour equivalent of 150 percent of program length to reduce the number of unneeded courses taken for program completion. The limit would prevent credit creep and encourage institutions and students to focus on clear paths to graduation.

The new loan program would have the same rules regarding maximum award eligibility as the redesigned grant in terms of enrollment intensity. Fifteen credits per semester would be considered full-time. First-time students would receive the maximum loan by taking at least 15 credits in both semesters their first year. Subsequently, students must enroll in 15 or more credits per term, or have enough credits to be on a path to on-time completion. For students enrolled less than full-time, loans would be issued on a pro-rata basis. As in the current system,

**“The new loan program would have the same rules regarding maximum award eligibility as the redesigned grant in terms of enrollment intensity.”**

students enrolled less than half-time per term would be ineligible for federal loans. Note that these limits are higher than under the current program in some cases (Stafford loans for dependent undergraduates) but lower for others (independent undergraduates, and graduate students because of the elimination of Grad PLUS loans).

Parent PLUS loans would be eliminated. The higher loan limits for dependent undergraduates suggested here would restore some of the borrowing authority for students whose parents would have used the Parent PLUS program. Many parents are also good candidates for obtaining private credit, whereas most students are not. Terminating Parent PLUS would help guard against imprudent borrowing and tuition inflation, given that it allowed parents to finance the entire cost of an education, regardless of the tuition.

Graduate students would be eligible for lower limits than the current program because the Grad PLUS program would be eliminated. The annual and aggregate limits, however, still would be higher than under the current Stafford limits for graduate students. In that regard, the program would end the unlimited borrowing feature of Grad PLUS but allow larger loans than Stafford.

### *More Details: Interest Rates*

Interest rates could become less relevant and less meaningful for borrowers in a program that offers payment based on income and loan forgiveness after 20 years of repayment and 25 years for high debt borrowers. Monthly payments would not be based on loan balance or interest rate, only income. That said, interest rates influence how long a borrower must repay (even if payments are based on income), and rates partially offset the government’s cost of funding and operating the program—which at a minimum includes time-value of money, risk and losses from loan forgiveness.

The interest rate in the single loan program would be fixed at 3 percent plus a markup equal to the interest rate on the 10-year U.S. Treasury note at a point certain during the year in which the loan was originated. Thus all loans issued in a given year

## NEW FEATURES IN THE COMPREHENSIVE SINGLE LOAN PROGRAM HELP MITIGATE POTENTIAL NEW RISKS TO BORROWERS OR TAXPAYERS, SUCH AS:

- an income-based repayment schedule to ensure that middle- and higher-income earners pay back their loans faster than under the current system, reducing the overall cost of the program;
- new institutional eligibility requirements to put downward pressure on the number of borrowers who would otherwise exhibit low rates of repayment and/or poor labor market outcomes;
- loans that would no longer carry an “in-school” and “in-deferment” interest-free benefit (i.e., Subsidized Stafford) or a routine forbearance option;
- a safety net of more-generous income-based repayment terms for borrowers who ultimately borrow more under the new, higher limits but experience economic hardship in repayment (and all borrowers are automatically enrolled in income-based repayment since it is the only repayment program available);
- the ability of institutions of higher education to restrict loan limits below the federal maximum (e.g., a community college could limit annual borrowing per student to \$2,000 if it chose for a particular program or the institution as a whole); and
- the consolidation of the programs into a single loan, making it much easier for students to understand their amount of debt and terms of repayment.

would carry the same rate. The markup would ensure that the interest rate on loans issued in a given year bore some relation to interest rates in the economy. For example, rates on newly issued loans this year would be about 4.9 percent. Unlike prior experience in the federal student loan program, the interest rate would not be capped. However, income-based repayment provides an implicit interest rate cap. For example, a borrower who earns a low income throughout his repayment term, but borrowed at a 9 percent interest rate, would be unlikely to make payments that would equate to such terms. His payments would be based on his income, and he would likely receive loan forgiveness before he was affected by the high interest rate.

### *More Details: Better Loan Counseling*

Good borrowing decisions by students would continue to be crucial. The current system of campus recommendation, if not actual specification, of loan amounts is not a shining example of a borrower-centered approach. Numerous press accounts and studies indicate the need for a more serious and rigorous approach in guiding good borrowing decisions.

High-quality student access and success programs help students explore careers, look at postsecondary options and find the college that is right for them. Local entities are best positioned for providing these programs. That help should be extended to students at the time they are deciding *whether* to borrow for higher education and, if so, *how much*. The use of an independent third party is also highly desirable during repayment and should be beneficial to borrowers and to taxpayers, since the economic interests of loan servicers will be to grant lower repayments and thus extend the life of servicing and their servicing fees. While this may be more immediately convenient for a borrower, a more reasoned approach considering long-term impact for the borrower could be more beneficial. Specific services that an independent third party should provide

include early education of the prospective student and borrower, loan counseling at the time of borrowing, and counseling and promoting borrower wellness during repayment. This information should be seen as part of a continuum of college access and success activities. It should be offered by entities with experience in college access and student loan issues that are independent of the current federal loan servicing activities. Better counseling before borrowing and during repayment should save more in defaulted loan expenses than it would likely cost.

## A Single Tax Credit to Complement the New Benefits in the Single Grant and Loan Programs

In addition to direct spending programs to help families pay for higher education, the federal government also provides assistance through the tax code. The 14 different tax benefit programs are designed to help make higher education affordable and provide relief for students before, during and after. These programs need to be understood in three dimensions: their cost relative to other financial aid investments; their complexity; and the evidence of their effectiveness at promoting access, affordability or completion.

First, it is important to understand the relative cost of postsecondary tax benefits. Today the nation spends a large share of its federal financial aid dollars on tax preferences. For example, it is estimated that higher education preferences will cost the federal government \$116 billion between 2011 and 2015, which approximates the three-year cost of the Pell Grant program as currently configured.<sup>31</sup> With the introduction of the American

“Today the nation spends a large share of its federal education dollars on tax preferences. For example, it is estimated that higher education preferences will cost the federal government \$116 billion between 2011 and 2015, which approximates the three-year cost of the Pell Grant program as currently configured.”

31 The \$116 billion represents the \$79 billion cost estimate as reported by the Joint Committee on Taxation in JCS-62-12 (July 23, 2012) and an additional \$37 billion passed as part of the American Taxpayer Relief Act of 2012 (JCS-1-13) on January 3, 2013.

Opportunity Tax Credit (AOTC), for example, federal spending on tax credits doubled from 2008 to 2009, from \$9 billion to \$18 billion.<sup>32</sup> These expanded costs reflect both more-generous programs and increases in eligibility.

Second, it is important to evaluate these programs' complexity since the evidence for simplification is well documented in traditional grant programs. The 14 existing programs fit into three classes: benefits prior to enrollment for education savings plans or qualified tuition programs, benefits during enrollment for tuition and related expenses, and benefits after enrollment for student loan repayment. Most occur while the student is enrolled. Among the benefits are excluding scholarships and grants as income, employer-provided education benefits, extended exemptions for children who are 19 to 23 and enrolled in school, and four different credits or deductions for paying tuition or the cost of attending postsecondary schools. While enrollment is a prerequisite to receiving these benefits, there is little evidence that families or students see them as part of higher education financial aid policy. Often taxpayers take the wrong credit or deductions. A 2012 GAO analysis of 2009 IRS data found that about 14 percent of filers failed to claim a credit or deduction for which they appeared eligible.<sup>33</sup> In an earlier report, GAO found taxpayers often claim the wrong deduction—or don't maximize the size of their tax benefit.

The timing of tax credits (up to 15 months after tuition is paid) also decreases the effectiveness of using them as a tool to help increase access and completion.<sup>34</sup> Timing is not the only issue these policies raise. They also add needless duplication and complexity to the financial aid application and delivery process. Last, it is difficult for families to save appropriately for college when the tax benefits are set to expire, and at different dates. Fundamentally, it would help if federal policy were passed on a permanent basis, rather than extended one or two years at a time.

### **Simplify four major tuition-related tax benefit programs into a single Lifetime Learning tax credit.**

To simplify the process and offer aid to a wider class of students, one option is to eliminate AOTC, Hope and the tuition and fees deduction and retain a single credit patterned on the Lifetime Learning Credit (LLC). This nonrefundable credit would let taxpayers deduct up to \$10,000 qualified tuition and related expenses incurred on behalf of the taxpayer, spouse or dependent. The credit would be available for an unlimited number of years, and be available to pay expenses associated with new delivery models (e.g., assessments to award credit for skills and knowledge obtained by completing MOOCs). Keeping a less generous credit (like the LLC) would benefit a larger number of students but with a smaller average benefit. While available for undergraduates, having a benefit available to more types of students would help play a different role in the process. Under the other reform proposals described herein, undergraduate students would be better served by student grants and loans—making the need for a tax credit less urgent.

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32 Rueben, K. July 27, 2012. Do Higher Education Tax Credits Make Sense? Tax Vox: The Tax Policy Center blog. Tax Policy Center.

33 U.S. Government Accountability Office. 2012. Report to the Committee on Finance, U.S. Senate: Higher Education: Improved Tax Information Could Help Pay for College. GAO-12-560.

34 Long, B.T; 2008; "What is Known About the Impact of Financial Aid? Implications for Policy." Working Paper. National Center for Postsecondary Research.

## More Details: Alternative Ways to Simplify Tax Benefits for Students

An alternative option would be to eliminate the LLC and tuition and fees deduction and limit the AOTC. This would focus the benefit on undergraduates early in their postsecondary education. Immediately, the costs of the AOTC could be restrained and savings reallocated to the single grant program and/or innovation and research in the aid program if the AOTC income limit were capped. The cost of extending the AOTC tax credit would be less if the benefit were capped for families with income below \$125,000 rather than the current \$180,000. This would concentrate the tax benefits in households lower down the income distribution. It should be recognized that under current tax policy the AOTC is scheduled to expire. Any benefit or cost of this change depends fundamentally on whether this benefit is expected to be provided on an ongoing basis and what other changes are made to the tax system (currently a complicated collection of temporary rules concerning both tax rates and credits).

### Integrate the tax benefits more fully into the financial aid system.

Leaving all tax benefits in place, more can be done to integrate their value into a redesigned financial aid system that is centered more around student success. The refundable portion of the AOTC (filers with no taxable income still receive a credit resulting in a tax refund) functions much like a grant program for lower-income students and families. It is a prime example of how complexity undermines the potential effectiveness of federal subsidies to influence student behavior. The federal budget records the refundable portion of the credit as spending, totaling about \$3 billion annually, but this aid is not delivered through institutions of higher education and financial aid offices like federal grant aid; it is delivered through the tax filing process.<sup>35</sup> Students and families, therefore, must complete two separate applications to receive their total federal aid—one with the help of a financial aid office and another requiring the assistance of a tax preparer. Thus a first step to making federal tax policy that affects higher education more effective would require simplification and better information about the distribution of these benefits.

For all AOTC beneficiaries, there are additional ways the federal education tax credit could be better integrated with financial aid policy. It would help if the timing of the credit could be changed to earlier in the year, when tuition is due (thus helping students use these funds directly for school expenses). If the timing cannot be changed, it would help if institutions could provide students a consolidated financial aid statement that clearly outlined current levels of grants, loans and also expected tax credits that students would be eligible for (based on current expenses, assuming income equal to prior year's). The U.S. Department of Education should provide a line-by-line template for institutions to use in creating this consolidated statement. In this way, students would be aware of this benefit. Again, this requirement is useful only if federal tax benefits for higher education are part of the permanent law—and thus their value is known.

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35 U.S. Department of the Treasury. Oct. 12, 2010. The American Opportunity Tax Credit. <http://www.treasury.gov/resource-center/tax-policy/Documents/American-Opportunity-Tax-Credit-10-12-2010.pdf>.

# New Reporting and Financial Aid Eligibility Criteria that Holds Institutions Accountable for Student Access and Success

Federal financial aid policy should promote shared responsibility for completion, which means higher expectations for everyone. For students, this means receiving maximum benefits in exchange for taking and completing more courses. For colleges, this means meeting minimum thresholds for performance on a variety of access and success metrics. These metrics would paint a more complete picture of student success than the current cohort default rates used for determining financial aid eligibility. An “Institutional Effectiveness Index” could integrate measures of access and equity, loan repayment and risk-adjusted completion rates. Institutions would not need to perform strongly on all components of the index to have a passing score, but neither could they get by with weak performance in all or most components.

## Collect and publicly report a common set of student outcome metrics.

A new set of common student outcome metrics should explicitly connect students’ postgraduation behaviors and labor market participation to their institutions of choice. This Institutional Effectiveness Index would expand the current Title IV oversight policy and use three basic measures to determine ongoing institutional eligibility in all federal student aid programs: protection of access and equity and completion rates, adjusted if possible for the characteristics of incoming students and federal student loan repayment.

### *More Details: A Protection of Access and Equity Measure*

Much is known from Federal Student Aid’s administrative files about the number of aid recipients attending each institution. But little is known about the share of an institution’s student body that its aid recipients represent. Some work has been reported in recent years, but those analyses largely focused on more-selective colleges and universities. A specific institution-by-institution accounting of federal aid recipients—especially Pell Grant recipients—is needed.

Ideally, an access and equity measure would be based on a percentile distribution of family incomes for each institution’s student body. However, such data are currently unavailable nationally. Pell Grants—the most income-targeted student aid—could provide a reasonable proxy: that is, the percentage of an institution’s undergraduate students who are Pell Grant recipients. The access and equity threshold need not be uniform across all institutions. Consideration could be given for mission, selectivity, sector and other factors. This specific measure would entail additional data collection.

### *More Details: Completion Rates*

Completion rates, as currently collected at the federal level, suffer from two critical measurement errors: the exclusion of part-time students and students who attend multiple institutions, colloquially referred to as “swirl,” and failure to account for the differences in incoming students. In April 2012, the U.S. Department of Education moved to implement the recommendations

of the Committee on Measures of Student Success to include in federal graduation rates part-time and transfer students. An input-adjusted completion rate could be used with the more-complete federal data collection.<sup>36</sup>

### *More Details: A Loan Repayment Measure*

A federal student loan repayment rate performance measure, such as that initiated by the department in the gainful employment regulations, would improve the current, annual cohort default rate (CDR) calculation. This measure is used to determine continued institutional eligibility, but aligns institutional and borrower incentives in the wrong direction. That is, institutions have a strong incentive to exclude their former students from the CDR calculation by encouraging them to take advantage of forbearance or deferment options on their loans. This is typically a short-term strategy for institutions, masking the poor financial situations of former students because the CDR calculation only covers the first two years in repayment (soon to be the first three years).

A repayment rate calculation, adjusted for the characteristics of students, ensures that an appropriate share of former students has sufficient income to service their educational debts, while incentivizing institutions to encourage former students to repay their loans rather than assisting them in postponing repayment.

**Protect students and taxpayers by limiting federal aid to institutions with a proven track record for graduating a minimum of students on time, particularly low-income students.**

Reducing financial barriers has long been—and continues to be—the hallmark of federal postsecondary education policy. The significant expansion of the federal student aid programs in the late 1970s (primarily the Middle Income Student Assistance Act) raised new concerns about waste, fraud and abuse in these programs.<sup>37</sup> The focus of these compliance efforts was to minimize institutions’ opportunities for taking financial advantage of their own or their students’ failures.

Initial institutional participation in federal aid programs is currently governed by interrelated statutory and regulatory provisions. Fundamentally, an institution must be duly accredited and authorized as a postsecondary institution by the state. In addition, the department certifies institutions as eligible participants, ensuring that they can administer the federal student aid programs properly and operate as ongoing business enterprises.

Institutions must be held accountable to ensure students’ success is a primary objective when receiving those students’ financial aid. Currently, the department annually evaluates a number of accountability measures—e.g., cohort default rates, financial responsibility standards and the “90-10” rule—to help ensure that federal funds are properly spent. Accountability is further examined via required annual audits and periodic program reviews. However, the accountability scheme does not adequately measure how and to what extent student financial aid recipients benefit from these programs.

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36 The *Context for Success* project offers several options for adjusting completion rates. See Harris, D. and Kelchen, R. 2012. *Can ‘Value-Added’ Methods Improve the Measurement of College Performance? Empirical Analyses and Policy Implications*. Washington, DC: HCM Strategists.

37 34 CFR 668.161-162.



The proposed Institutional Effectiveness Index would be evaluated periodically (less frequently than annually). It would be phased in over time, using the six-year cycle for the current recertification process. That is, the new index would be put in place for an institution as it came up for its certification renewal. However, sanctions would not be imposed until the institution had the chance—perhaps after four years—to effectively implement new requirements.

This phased-in approach is similar to the implementation of the cohort default rate (CDR) calculation and subsequent imposition of penalties a number of years ago. The department computed CDRs for each institution for several years before the results were used to rescind participation in the loan program. Initially the institutions thought the CDR-based approach to continued participation unfairly held them accountable for their former students' failure to repay federal loans. However, over time they learned, periodically with the help of Federal Student Aid, to manage their default rates.

## Investing in Research and Demonstrations to Evaluate Cost-Effective Ways to Finance More Student Success

Over the past decade or so, Pell Grant expenditures have nearly quintupled in real dollar terms and tripled in constant dollars.<sup>38</sup> Recipients have increased at about half that rate.<sup>39</sup> Over the same period, federal student loan volume (FFEL and Direct Loan programs) has more than tripled in real dollar terms and doubled in constant dollars.<sup>40</sup> Thus it is more important than ever to identify, develop and use data to ensure that the significant federal investment in student aid is well spent.

In its early days, the Department of Education had a broad programmatic interest in evaluation studies to help guide policy decisions. Many were accomplished in-house by the Institute for Education Sciences and the National Center for Education Statistics (as they are now known). Over the years, however, the traditional role of NCES—to collect and disseminate information relating to education at all levels in the United States—became predominant. To be sure, the department still conducts evaluation studies of its programs under the Government Performance and Results Act, but these studies have typically supported future appropriations requests more than tested program effectiveness.

Most studies related to financial aid have focused on the factors that shape enrollment decisions or on the overall impact of specific programs. But few have examined how the presence or absence of aid actually affects students' decisions about their education. The kinds of financial aid programs that work best, for which students and in what ways, are simply unknown.

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38 College Board. 2012. "Trends in Student Aid 2012." Table 1.

39 Office of Postsecondary Education. 2010-2011 Federal Pell Grant Program End-of Year Report. Table 1: Federal Pell Grant Program: Summary Statistics for Cross-Year Reference.

40 College Board. 2012. "Trends in Student Aid 2012." Table 1.

Without research and development on financial aid, federal policymakers have been limited in their ability to answer basic questions about the effect of existing programs on student success, let alone to propose promising changes in existing programs. The lack of research also sets up a Catch-22: Reformers have trouble making a case for policy change, while conducting such research requires experimenting with reforms that the advocates of programs may resist on the grounds that they are not research-based.

More large-scale, longitudinal studies in which students are randomly assigned to receive either their regular aid packages or variations would help. These variations could include additional aid, aid that is disbursed in different ways and different times, or aid that comes with additional counseling or alternative performance conditions. Studying differences in behavior between randomly selected groups of students who receive different levels of aid or aid with different conditions can allow researchers to distinguish the independent impact of that aid. Even the most thorough regression-based evaluations of aid are subject to potentially fatal self-selection error.

Other methods of quasi-experimental evaluation, such as regression discontinuity or the use of instrumental variables, should be strongly encouraged where possible and can also yield good results. These methods, however, often depend on accidents of history or quirks in policy (e.g., strict GPA cutoffs, short or nonexistent phase-in periods) that may not be present and, if present, may not be desirable. Rather than depend entirely on serendipitous research opportunities, federal policy should devote a small percentage of the aid budget (e.g., 1-2 percent), to structured experiments that can complement and expand the existing research base in a more intentional and targeted way.

### *Demonstrations to Test and Evaluate Innovation in Aid Design and Delivery*

The Department of Education has implemented several statutory demonstration programs in the past related to certain aspects of the financial aid programs. Typically, however, they have been limited in scope. One example is the Distance Education Demonstration program authorized by the 1998 HEA Amendments.

Such efforts are promising but insufficient. To make up for years of neglect, a sustained federal and philanthropic commitment to research and development on financial aid is needed. In the United States, the amount of funding spent on educational research and experimentation is dwarfed by spending for medical research. Spending on medical research and experimentation has been estimated to be as high as \$140 billion dollars in 2010, with private industry providing the bulk of this (54 percent) and the federal government funding in second place (32.7 percent). In contrast, less than \$700 million is budgeted toward education research by the federal government each year.<sup>41</sup> The least that can be done is to devote a fraction of that commitment to making sure financial aid works as well as it can.

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41 Research America. 2010. "Investment in Health Research" <http://www.researchamerica.org/uploads/healthdollar10.pdf>. The Department of Education's budget for 2013 <http://www2.ed.gov/about/overview/budget/budget13/13pbapt.pdf>. The NSF's website documenting awards for science of learning centers [http://www.nsf.gov/funding/pgm\\_summ.jsp?pims\\_id=5567](http://www.nsf.gov/funding/pgm_summ.jsp?pims_id=5567).

Three areas where this Technical Panel suggests experimentation and research is needed:

1. *finding more effective and less expensive ways to get students ready to succeed in college-level courses;*
2. *funding delivery models where progression and attainment are defined by competencies, not credit hours;*
3. *creating alternative regulatory frameworks for engaging states, systems and institutions. These frameworks should promote innovative and evidence-based approaches to using financial aid as part of a comprehensive completion management strategy.*

Suggested design and delivery features of three sample approaches – none of which is costly – are offered for discussion and improvement.

## The Pell-Ready Grant Demonstration Program

Over 1 in 3 Pell Grant recipients report they use their grant to support remedial education. Currently, Pell rules allow grant funds to be used for up to 30 credit hours of remediation. The Pell-Ready Demonstration Program would provide new grants, no larger than \$1,800, to academically underprepared students in a limited number of states. The objective of this demonstration is to test whether it is possible to finance remediation in more cost-effective ways than currently occurs in the Pell Grant program. A suggested initial investment of \$125 million in this demonstration program would serve 125,000 students, not including funds for evaluation.

In this demonstration program, students could use the new Pell Ready Grant to purchase instruction, tutoring and support services before they enroll, thus helping them avoid remediation. Participating states would be chosen by the Department of Education through a competitive grant process.

### *Eligible Students and Allowable Uses of Funds*

Eligible students would be lower income students on-track to receive a Pell Grant (family incomes below 250 percent of the poverty line) but demonstrating deficiencies in college readiness skills.<sup>42</sup> The majority of funds would be focused on low-income high school juniors who were on track at the end of their junior year to graduate. These juniors would use a new Pell Ready Grant to pay for accelerated remedial instruction during their senior year of high school. Twenty-five percent of funds set aside for lower-income adults that want to enroll in postsecondary education but lack college-ready skills.

A small portion of the funds would finance a low-stakes, online assessment of college readiness. Students would use provider services to prepare for the readiness assessments. The assessments would be administered by an organization independent of the provider of choice. Students could retake the necessary exams once every month for 18 months, not unlike a competency-based model.

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<sup>42</sup> The definition of low-income student could be determined through the Free or Reduced Lunch Program. It could also be determined through the low-income designation for students tracked by schools in the Elementary and Secondary Education Act.

Grant money could also be used to pay for co-requisite remedial coursework on campuses that had adopted such a model.

### *Eligible Providers*

Based on federally established criteria, the states would develop a list of approved remediation providers. Approved providers would include community colleges, for-profit colleges, online course providers, and tutoring firms. Approved providers must have established agreements with a Title IV-eligible institution that students who have passed the readiness assessment will be admitted into credit-bearing courses.

## **BEYOND FEDERAL FINANCIAL AID: TESTING ALTERNATIVE WAYS TO FINANCE HIGH-QUALITY CREDENTIALS**

Demonstration Programs, if effectively designed and rigorously evaluated, could set an evidence-based precedent for new investments in higher education.

Other nations with higher attainment rates and lower costs per degree than the United States offer options for financing that could be adapted and tested with available Pell Grant funds. Sweden and Norway, for instance, use performance contracts to pay for graduates produced by public colleges. An independent analysis of the Taximeter System in these countries, which includes completion bonuses, demonstrates that providers have implemented activities to reduce expenses per level of activity. Sweden's financing strategy is unique in that contracts starting in 2013 will be based on how the education is valued in a quality assessment.<sup>43</sup>

Further, Britain's early use of social impact bonds demonstrates an innovative, performance-based financing mechanism. Social impact bonds can generate new sources of private capital to support U.S. postsecondary education and training, among other socially valued services. In 2010, the British government raised approximately \$8 million from 17 British and U.S. investors through the sale of bonds to fund comprehensive services for prisoners released after serving short-term sentences. Investors will be repaid with interest if outcomes are met.<sup>44</sup>

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43 DAMVAD. 2011. "The Taximeter System: Executive Summary." DAMVAD.com: Copenhagen, Germany. [http://www.damvad.com/media/31738/taxameter\\_-\\_executive\\_summary.pdf](http://www.damvad.com/media/31738/taxameter_-_executive_summary.pdf).

44 As other governments around the world are experimenting with ways to structure performance contracts and new third-party payers to provide social services, the Department of Labor in Massachusetts is experimenting with social impact bonds by investing \$50 million to tackle two state priorities: improving transitions for juvenile offenders and reducing chronic homelessness. Related, Goldman Sachs invested \$10 million in August 2012 to improve recidivism outcomes in New York City. In a quote that demonstrates the parallelism with the structural deficit faced in the Pell Grant program, Jay Gonzales, Massachusetts secretary of administration and finance, says, "We have a new fiscal reality in government. We have to find innovative and new ways to get better results at less cost. We don't have a choice at this point." (Rosenberg, T. "The Promise of Social Impact Bonds," *New York Times*, June 20, 2012.)

## *A Performance-Based Payment System*

Students would use their grant dollars to purchase access to providers in three-month increments. Those who passed the competency-based remedial exams quickly could “roll over” half of the remaining dollars into a grant that could be used at Title IV-eligible institutions. The other half would be paid to the provider as a bonus for helping students over the finish line more quickly. The rollover feature would provide students with an incentive to choose providers who were low-cost or allowed for accelerated progress, or both. Providers would have an incentive to develop these kinds of programs to attract students. Students who transferred from one provider to another could take any remaining grant funds with them.

Providers’ eligibility would be performance-based and updated semiannually. They would be held accountable on two levels: successful pass rates in the remedial programs themselves, and whether program graduates could pass through to college-level work at a Title IV-eligible institution. Providers would be required to report regularly a variety of internal student success metrics: overall percentage of students who successfully passed, percentage who passed in less than the allotted time, and percentage who failed to pass after paying for the full 18 months. Providers who failed to reach benchmarks would be removed from the approved list. These metrics would be made public to help inform prospective students about their options.

Postsecondary institutions would report to the state on the proportion of students who were declared college-ready by a given provider and who successfully passed a college-level course. If completers from a particular provider consistently failed to complete a credit-bearing course, the provider would be barred from the approved list, thereby cutting off access to grant funds. Successful providers would maintain and expand their market share.

Students who passed the college-level skills exams within the 18-month window would receive a certificate of completion endorsed by the state and accepted by partnered institutions.

Those who used the grant but failed to pass the required assessments within the 18-month period would be eligible to pay for 15 credits of remediation with a traditional Pell Grant aid. Receipt of the Pell-Ready Grant would have no bearing on eligibility for any basic federal grant or federal student loans.

States interested in reducing remedial costs could offer matching grants to students who successfully completed the program. The matching state grants would be redeemable for tuition at in-state institutions.

## **A Competency-Based Higher Education Demonstration Program**

Competency-based higher education delivery models have the potential to offer high-quality postsecondary education at a lower cost to students and taxpayers. However, the current federal framework for allocating financial aid is based on the credit hour, a unit of measurement developed a century ago for standardizing high school transcripts and determining faculty workload for pension purposes. The purpose of this demonstration program is to allow alternative financial aid allocation systems and test their cost-effectiveness. This demonstration program could be revenue neutral, not including funds for evaluation.

### *Eligible Institutions*

Eligible institutions would not need to be currently Title IV eligible to participate. Rather, institutions in the Competency-Based Demonstration Program must agree to provide low-cost, high-quality programs leading to a credential that are transparent as to intended and actual student outcomes.

### *Allowable Uses of Funds*

The Competency-Based Higher Education Demonstration Program would encourage institutions or groups of institutions to develop modules for teaching specific knowledge and skills validated by scholarly and professional groups, wage and employment data, and other sources. Financial aid allocations would not be determined based on the demonstrations of competencies gained, rather than time-based credit hours attempted.<sup>45</sup> Further, annual maximum grant awards in this Program would be set at a lower level to encourage acceleration and use of lower-cost instructional models that blend high-quality on-line instruction and assessment with face-to-face teaching and student supports.

## **A Performance Contract Demonstration Program**

The current financial aid regulatory framework is focused on compliance of individual institutions that receive financial aid. The burdensome nature of this framework is well documented.<sup>46</sup> Meanwhile, the size and scope of federal financial aid could be more optimally integrated into a comprehensive completion management strategy that puts student success at the center of integrated academic, information technology, business, and student support services. The purpose of the Performance Contract Demonstration Program is to test and evaluate the cost-effectiveness of an alternative regulatory framework for federal financial aid. This demonstration program could be revenue neutral, not including funds for evaluation. Additional funds could be made available for a bonus scheme that rewarded entities that exceeded negotiated performance agreements.

### *Eligible Entities*

The Performance Contract Demonstration Program would allow the Department of Education to enter into performance-based contracts with up to 10 states, public college systems and/or large universities or university consortia.<sup>47</sup> In exchange for a commitment to graduate more Pell students in less time, the department would block-grant Pell funds—and potentially loans—to give participating entities maximum flexibility and financial incentives for meeting or exceeding contracted benchmarks.

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45 The U.S. Department of Education has regulatory authority to work with accrediting agencies to approve postsecondary programs that are grounded in competencies and learning. For a more detailed discussion of this authority, see Laitinen, A. 2012. “Cracking the Credit Hour.” New America Foundation: Washington, D.C. <http://newamerica.net/sites/newamerica.net/files/articles/>

46 Advisory Committee on Student Financial Assistance. 2011. “Higher Education Regulations Study: Final Report.” Advisory Committee on Student Financial Assistance: Washington, D.C. <http://chronicle.com/items/biz/pdf/HERS%20Final%20Report.pdf>

47 For reliable and robust measurement of effects, a minimum Pell Grant population should be determined as the basis for eligible institutions.

### *Allowable Uses of Funds*

Aggregating individual Pell Grant awards into a single, multi-year performance contract with public systems or large institutions represents a revenue-neutral source of new funds for innovative, completion-oriented policies and delivery models. Examples of innovation in aid design and delivery that can be tested voluntarily at scale with statewide systems and large, multi-campus systems or consortia include:

- modifying definitions of ability to benefit, to reach deeper into nontraditional student populations;
- varying the amounts of the awards, and allowing awards to be used for assessments of competencies, including prior learning or demonstrated knowledge attained through massive, open online courses;
- encouraging demand for and success in structured and/or accelerated programs;
- distributing aid incrementally and at times during the academic period that reward completion of learning units or courses;
- modifying financial aid packages when life circumstances change dramatically;
- varying the selectivity within the Pell-eligible pool; and
- creating different or additional standards for financial need and/or academic progress.

Eligible entities would receive a fixed amount for each year of the contracted performance period set at the level of the total amount of Pell aid received in the prior academic year, adjusted by the consumer price index and fixed for the contract period. Fines for not meeting contracted annual benchmarks would be levied. Bonuses would be explicitly written into each agreement, to be paid annually for attainment of performance benchmarks such as: increasing the number of students enrolled from the bottom two quintiles of household incomes; exceeding the contracted momentum and completion benchmarks; and reducing the net price for the same bottom two quintiles in the overall population.

### *Suggested Terms of a Multi-Year Performance Contract*

Each eligible entity would voluntarily enter into a performance agreement with the Department of Education to increase success for students from households with incomes in the bottom 40 percent of the national distribution, and graduate a predetermined, negotiated number of those students with undergraduate postsecondary credentials (including certificates, associate and bachelor's degrees).

Eligible entities would enter into five-year performance agreements with the Department in which they agreed to:

- use the same, simplified federal need analysis and application process described herein so every student eligible for a Pell Grant receives some federal financial award;
- maintain or increase the number of Pell Grant recipients enrolled over the term of the contract;
- increase the number of low-income aid recipients graduating with the agreed-upon types and levels of credentials;
- publicly report learning outcomes and evidence of learning (a normed assessment selected by the entity);
- monitor and report progress annually for entering cohorts of aided students and compare against agreed-upon “on-track” benchmarks;

- participate in a federally sponsored evaluation in which data are open and accessible for public analysis; and
- demonstrate financial integrity.

## Conclusion

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The time for policymakers to consider fundamental improvements to the federal financial aid program is now. Forty-nine percent of engaged voters believe the higher education system needs major changes or a complete overhaul. When presented with arguments for and against providing financial aid based on completion, 73 percent of engaged voters believed this was a good idea.<sup>48</sup> At the same time, statutory provisions that provide important benefits to borrowers and taxpayers will expire shortly. Most of the program authorities provided by the Higher Education Act expire within two years. Policymakers must not let this opportunity pass.

Knowledge about how financial aid works and how it affects higher education outcomes is imperfect, and the system as it currently stands has largely evolved based on politics, ideology and available budgets rather than evidence. The solutions outlined herein will work given the imperfect information available today, and they can be improved as the system is better understood. For that advance to occur, improvements in descriptive data collection about aid recipients and their results are crucial, as well as expanded experimentation to increase the knowledge base that policymakers can draw upon in future reforms.

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<sup>48</sup> Hart Research Associates. 2013



### Tables for Reform Options

- Table 1: Pell Grant Options, Default Take-up
- Table 2: Pell Grant Options, Full Take-up
- Notes regarding Revenue and Distribution of Pell Grant Options
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- Table 9: Shared Responsibility: Numbers of Students, Institutions and Cost of Pell Grants in Institutions That Scored in Bottom Decile of 2 out of 3 Categories
- Table 9A: Cutoffs Ranges for Calculations
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- Table 10: Pell Expenditures at Block Pell Grant Pilot Institutions (illustrative examples)
- Table 11: Pell Ready Grant Program

**Table 1:**

## Pell Grant Options, Default Take-up

Pell Grant Recipients (millions) and Value of Grants (billions of dollars), 2013-2022<sup>1</sup>

Baseline and Proposal		Calendar Year										Total	Total	Savings
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22	2013-22
<b>Current Pell Shortfall (\$billions)</b>		0	0	1.366	6.165	4.850	5.341	5.686	6.161	6.931	7.247	12.381	43.747	
<b>Cost of Campus-Based Aid<sup>2</sup> (\$billions)</b>		1.722	1.658	1.749	1.750	1.755	1.755	1.770	1.762	1.762	1.771	8.635	17.455	
<b>Option 1: Current Law</b>	Recipients (millions)	9.592	10.040	10.101	10.338	10.367	10.617	10.747	10.764	10.924	11.098	50.438	104.588	
	Value of Grants (\$billions)	33.194	35.053	36.012	38.398	39.149	40.018	40.380	40.551	40.918	41.416	181.806	385.089	
<b>Starting Cost<sup>3</sup></b>	Value of Grants (\$billions)	34.916	36.711	36.395	33.983	36.054	36.432	36.464	36.152	35.749	35.940	178.060	358.797	
<b>Option 2: Simplified Application Process with \$5,550 Pell Maximum</b>	Recipients (millions)	8.843	8.741	8.612	8.473	8.433	8.483	8.529	8.450	8.399	8.441	43.102	85.404	
	Value of Grants (\$billions)	28.459	28.616	28.675	28.667	29.037	29.035	29.038	28.506	28.010	27.800	143.454	285.843	72.954
<b>Options that Incentivize Higher Intensity</b>														
<b>Option 3: With \$5,550 Pell Maximum</b>	Recipients (millions)	8.379	8.715	8.764	8.935	9.016	9.222	9.308	9.313	9.420	9.614	43.809	90.686	
	Value of Grants (\$billions)	26.596	28.180	29.013	30.470	31.241	31.920	32.171	32.388	32.600	33.090	145.500	307.669	51.128
<b>Option 4: With \$5,550 Pell Maximum, with Increased Full-Time</b>	Recipients (millions)	8.450	8.779	8.819	8.991	9.086	9.278	9.368	9.371	9.473	9.676	44.125	91.291	
	Value of Grants (\$billions)	27.668	29.288	30.136	31.631	32.436	33.100	33.372	33.561	33.782	34.308	151.159	319.282	39.515
<b>Option 5: With \$7,000 Pell Maximum</b>	Recipients (millions)	9.697	10.132	10.188	10.301	10.389	10.560	10.643	10.599	10.681	10.829	50.707	104.019	
	Value of Grants (\$billions)	37.556	39.765	40.920	42.626	43.844	44.546	44.832	44.876	45.068	45.521	204.711	429.554	-70.757
<b>Option 6: With \$7,000 Pell Maximum, with Increased Full-Time</b>	Recipients (millions)	9.749	10.202	10.263	10.369	10.446	10.615	10.686	10.648	10.714	10.856	51.029	104.548	
	Value of Grants (\$billions)	38.880	41.217	42.406	44.183	45.381	46.076	46.310	46.361	46.548	47.005	212.067	444.367	-85.570
<b>Options that Simplify the Application Process and Incentivize Higher Intensity</b>														
<b>Option 7: With \$5,550 Pell Maximum</b>	Recipients (millions)	7.825	7.760	7.626	7.507	7.447	7.501	7.523	7.479	7.419	7.452	38.165	75.539	
	Value of Grants (\$billions)	22.924	23.078	23.072	23.069	23.329	23.362	23.348	23.019	22.630	22.472	115.472	230.303	128.494
<b>Option 8: With \$5,550 Pell Maximum, with Increased Full-Time</b>	Recipients (millions)	7.910	7.832	7.707	7.578	7.526	7.579	7.592	7.538	7.474	7.511	38.553	76.247	
	Value of Grants (\$billions)	23.868	23.992	23.997	23.980	24.249	24.276	24.235	23.869	23.469	23.320	120.086	239.255	119.542
<b>Option 9: With \$7,000 Pell Maximum</b>	Recipients (millions)	8.312	8.226	8.105	7.981	7.923	7.959	7.967	7.884	7.797	7.830	40.547	79.984	
	Value of Grants (\$billions)	30.643	30.821	30.839	30.824	31.175	31.101	30.966	30.382	29.762	29.539	154.302	306.052	52.745
<b>Option 10: With \$7,000 Pell Maximum, with Increased Full-Time</b>	Recipients (millions)	8.363	8.287	8.170	8.041	7.985	8.013	8.008	7.916	7.825	7.850	40.846	80.458	
	Value of Grants (\$billions)	31.707	31.920	31.963	31.923	32.256	32.149	31.966	31.343	30.702	30.456	159.769	316.385	42.412
<b>Option 11: With \$7,000 Pell Maximum phased out at 250% of poverty line, with Increased Full-Time</b>	Recipients (millions)	9.887	9.916	9.870	9.754	9.716	9.772	9.764	9.774	9.746	9.839	49.143	98.038	
	Value of Grants (\$billions)	36.215	36.720	36.903	37.122	37.656	37.615	37.432	36.966	36.445	36.359	184.616	369.433	-10.636

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-8ED), estimates of campus aid and Pell shortfall based on calculations by New America Foundation using CBO projections.

**Table 2:**

**Pell Grant Options, Full Take-up**

Pell Grant Recipients (millions) and Value of Grants (billions of dollars), 2013-2022 <sup>1</sup>

Baseline and Proposal		Calendar Year										Total	Total	Savings
		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22	2013-22
<b>Current Pell Shortfall (\$billions)</b>		0	0	1.366	6.165	4.850	5.341	5.686	6.161	6.931	7.247	12.381	43.747	
<b>Cost of Campus-Based Aid<sup>2</sup> (\$billions)</b>		1.722	1.658	1.749	1.750	1.755	1.755	1.770	1.762	1.762	1.771	8.635	17.455	
<b>Option 1: Current Law</b>	Recipients (millions)	9.592	10.040	10.101	10.338	10.367	10.617	10.747	10.764	10.924	11.098	50.438	104.588	
	Value of Grants (\$billions)	33.194	35.053	36.012	38.398	39.149	40.018	40.380	40.551	40.918	41.416	181.806	385.089	
<b>Starting Cost<sup>3</sup></b>	Value of Grants (\$billions)	34.916	36.711	36.395	33.983	36.054	36.432	36.464	36.152	35.749	35.940	178.060	358.797	
<b>Option 2: Simplified Application Process with \$5,550 Pell Maximum</b>	Recipients (millions)	11.235	11.104	10.937	10.745	10.645	10.566	10.472	10.288	10.151	10.142	54.666	106.285	
	Value of Grants (\$billions)	32.867	32.898	32.787	32.666	32.940	32.589	32.234	31.503	30.871	30.552	164.158	321.907	36.890
<b>Options that Incentivize Higher Intensity</b>														
<b>Option 3: With \$5,550 Pell Maximum</b>	Recipients (millions)	10.878	11.233	11.224	11.370	11.449	11.502	11.511	11.404	11.478	11.591	56.154	113.640	
	Value of Grants (\$billions)	31.889	33.441	34.221	35.574	36.449	36.754	36.717	36.599	36.748	37.041	171.574	355.433	3.364
<b>Option 4: With \$5,550 Pell Maximum, with Increased Full-Time</b>	Recipients (millions)	10.884	11.239	11.233	11.372	11.457	11.510	11.518	11.415	11.484	11.599	56.185	113.711	
	Value of Grants (\$billions)	32.805	34.421	35.214	36.609	37.490	37.807	37.771	37.657	37.818	38.117	176.539	365.709	-6.912
<b>Option 5: With \$7,000 Pell Maximum</b>	Recipients (millions)	11.603	11.992	12.026	12.130	12.163	12.204	12.185	12.079	12.141	12.229	59.914	120.752	
	Value of Grants (\$billions)	42.055	44.117	45.161	46.897	48.022	48.327	48.292	48.094	48.252	48.579	226.252	467.796	-108.999
<b>Option 6: With \$7,000 Pell Maximum, with Increased Full-Time</b>	Recipients (millions)	11.614	12.001	12.040	12.143	12.172	12.213	12.193	12.094	12.145	12.233	59.970	120.848	
	Value of Grants (\$billions)	43.266	45.408	46.473	48.262	49.396	49.713	49.678	49.487	49.653	49.993	232.805	481.329	-122.532
<b>Options that Simplify the Application Process and Incentivize Higher Intensity</b>														
<b>Option 7: With \$5,550 Pell Maximum</b>	Recipients (millions)	9.906	9.786	9.604	9.452	9.357	9.302	9.198	9.078	8.953	8.952	48.105	93.588	
	Value of Grants (\$billions)	27.064	27.067	26.966	26.878	27.113	26.836	26.522	25.946	25.403	25.146	135.088	264.941	93.856
<b>Option 8: With \$5,550 Pell Maximum, with Increased Full-Time</b>	Recipients (millions)	9.917	9.796	9.623	9.465	9.373	9.321	9.212	9.086	8.963	8.956	48.174	93.712	
	Value of Grants (\$billions)	27.837	27.841	27.744	27.649	27.878	27.599	27.272	26.676	26.128	25.864	138.949	272.488	86.309
<b>Option 9: With \$7,000 Pell Maximum</b>	Recipients (millions)	9.906	9.786	9.604	9.452	9.357	9.302	9.198	9.078	8.955	8.952	48.105	93.590	
	Value of Grants (\$billions)	34.116	34.127	34.000	33.906	34.184	33.835	33.439	32.713	32.029	31.704	170.333	334.053	24.744
<b>Option 10: With \$7,000 Pell Maximum, with Increased Full-Time</b>	Recipients (millions)	9.917	9.796	9.623	9.465	9.373	9.321	9.212	9.086	8.966	8.956	48.174	93.715	
	Value of Grants (\$billions)	35.091	35.103	34.981	34.878	35.148	34.797	34.385	33.633	32.944	32.610	175.201	343.570	15.227
<b>Option 11: With \$7,000 Pell Maximum phased out at 250% of poverty line, with Increased Full-Time</b>	Recipients (millions)	11.661	11.657	11.594	11.407	11.336	11.310	11.262	11.208	11.161	11.243	57.655	113.839	
	Value of Grants (\$billions)	40.043	40.395	40.467	40.543	40.987	40.720	40.390	39.760	39.140	38.987	202.435	401.432	-42.635

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-8ED), estimates of campus aid and Pell shortfall based on calculations by New America Foundation using CBO projections.

# Notes Regarding Revenue and Distribution of Pell Grant Options

## Description of Options

The simulations apply the alternative proposals to current-law Pell grant.

*Default Take-up:* The same percentage of Pell-eligible students in the model that currently receive actual Pell grants receive the proposals.

*Full Take-up:* All students that are eligible in the model to receive a Pell grant, receive one.

(1) The simulations apply the alternative proposals to current-law Pell grant

(2) Shortfall and estimates for campus based aid is based on estimates from Jason Delisile, New America Foundation and CBO baselines as of 2/07/2012

(3) Starting Cost is Current Law Cost minus the Current Pell Shortfall plus the Cost of Campus-Based Aid

### Option 2:

Simplified Application Process with \$5,550 Pell Maximum -- Under this proposal, undergraduate students pursuing a degree would be eligible for up to \$5,550 of Pell grant. The actual eligible amount depends on each student's attendance status, AGI and relevant Federal Poverty Level which depends on the size of the student's tax unit. Tax units' sizes for this purpose cannot exceed 6. The actual amount is \$0 for students eligible less than \$550. The eligible amount for full-time students is \$5,550 if students' AGI is less than or equal their relevant Poverty Level and phased out completely once their AGI reach 200% of the relevant Poverty Level. The eligible amount for half-time students and less-than-half-time students are 50% and 25% of the full-time amount, respectively.

### Option 3:

Incentivize Higher Intensity with \$5,550 Pell Maximum -- Under this proposal, undergraduate students pursuing a degree would be eligible for up to \$5,550 of Pell grant. The actual eligible amount depends on each student's number of credits taken and EFC. The eligible amount for full-time students with 15 credits or more ("the full-time amount") is \$5,550 less the students' EFC. The eligible amount for full-time students with 12 to 14 credits is 80% of the full-time amount. The eligible amount for 3/4 time and 1/2 time students are 60% and 40% of the full-time amount, respectively. Less-than-half-time students would be ineligible for Pell grant. The actual amount is \$0 for students eligible less than \$550.

### Option 4:

Incentivize Higher Intensity with \$5,550 Pell Maximum, with Increased Full-Time-- This proposal is the same as Option 3, except that we assume that 25 percent of students who are currently taking 12 credits will decide to take 15 credits.

### Option 5:

Incentivize Higher Intensity with \$7,000 Pell Maximum -- This proposal is similar to Option 3, except that the full-time amount is up to \$7,000 instead of \$5,550 and the actual amount is \$0 for students eligible less than \$700.

### Option 6:

Incentivize Higher Intensity with \$7,000 Pell Maximum, with Increased Full-Time -- This proposal is the same as Option 4, except that the maximum grant amount is increased to \$7,000.

### Option 7:

Simplified Application Process with \$5,550 Pell Maximum with Incentivize Higher Intensity -- This proposal is similar to Option 2 except that the eligible amount for full-time students with 15 credits or more ("the full-time amount") is \$5,550 less the students' EFC. The eligible amount for full-time students with 12 to 14 credits is 80% of the full-time amount. The eligible amount for 3/4 time and 1/2 time students are 60% and 40% of the full-time amount, respectively. Less-than-half-time students would be ineligible for Pell grant.

### Option 8:

Simplified Application Process with \$5,550 Pell Maximum with Incentivize Higher Intensity, with Increased Full-Time -- This proposal is the same as Option 7, except that we assume that 25 percent of students who are currently taking 12 credits will decide to take 15 credits.

### Option 9:

Simplified Application Process with \$7,000 Pell Maximum with Incentivize Higher Intensity -- This proposal is similar to Option 7, except that the full-time amount is up to \$7,000 instead of \$5,550 and the actual amount is \$0 for students eligible less than \$700.

### Option 10:

Simplified Application Process with \$7,000 Pell Maximum with Incentivize Higher Intensity, with Increased Full-Time -- This proposal is the same as Option 9, except that we assume that 25 percent of students who are currently taking 12 credits will decide to take 15 credits.

### Option 11:

Simplified Application Process with \$7,000 Pell Maximum phased out at 250% of poverty line, with Incentivize Higher Intensity, with Increased Full-Time -- This proposal is the same as Option 10, except that the Pell grant amount is fully phased out when AGI reaches 250% of the relevant poverty level.

**Table 3:**

**Distribution of Current Law Pell Grant and Alternative Proposals by Size of Adjusted Gross Income, Tax Year 2015: Assuming Baseline Take-up Behavioral Responses, All Undergraduate Students**

Assuming Baseline Take-up Behavioral Responses, All Undergraduate Students <sup>1</sup>

Size of Adjusted Gross Income (2012 dollars) <sup>2</sup>	Option 1: Current Law		Option 2: Simplified Application Process with \$5,550 Pell Maximum		Options that Incentivize Higher Intensity							
					Option 3: With \$5,550 Pell Maximum		Option 4: With \$5,550 Pell Maximum, with Increased Full-Time		Option 5: With \$7,000 Pell Maximum		Option 6: With \$7,000 Pell Maximum, with Increased Full-Time	
	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)
<b>\$0 or less</b>	\$3,979	\$1,829,317	\$4,009	\$1,877,345	\$3,604	\$1,446,954	\$3,741	\$1,519,355	\$4,548	\$1,997,679	\$4,694	\$2,064,040
<b>&gt; \$0 and &lt;= \$5K</b>	\$3,844	\$4,114,049	\$3,905	\$4,189,911	\$3,400	\$3,251,799	\$3,504	\$3,387,843	\$4,316	\$4,394,439	\$4,442	\$4,544,524
<b>5K-10K</b>	\$3,907	\$4,499,282	\$4,009	\$4,686,898	\$3,545	\$3,606,042	\$3,644	\$3,720,292	\$4,449	\$4,883,228	\$4,567	\$5,047,806
<b>10K-15K</b>	\$4,026	\$6,100,644	\$4,070	\$7,062,929	\$3,617	\$4,970,302	\$3,761	\$5,184,565	\$4,513	\$6,686,498	\$4,682	\$6,964,089
<b>15K-20K</b>	\$3,724	\$3,929,440	\$3,386	\$3,915,329	\$3,553	\$3,183,734	\$3,637	\$3,277,096	\$4,342	\$4,379,963	\$4,438	\$4,508,633
<b>20K-25K</b>	\$3,550	\$3,429,812	\$2,840	\$2,822,866	\$3,341	\$2,735,374	\$3,431	\$2,844,293	\$4,046	\$3,805,747	\$4,153	\$3,950,092
<b>25K-30K</b>	\$3,603	\$2,839,214	\$2,577	\$1,717,034	\$3,344	\$2,289,872	\$3,446	\$2,360,930	\$4,089	\$3,196,308	\$4,203	\$3,297,567
<b>30K-40K</b>	\$3,261	\$4,076,599	\$2,047	\$1,686,162	\$3,090	\$3,345,347	\$3,189	\$3,471,238	\$3,714	\$4,842,678	\$3,815	\$5,022,934
<b>40K-50K</b>	\$2,969	\$2,554,563	\$1,489	\$603,525	\$2,791	\$2,092,489	\$2,896	\$2,182,808	\$3,466	\$3,232,683	\$3,567	\$3,367,937
<b>50K-75K</b>	\$2,577	\$2,106,712	\$943	\$113,399	\$2,557	\$1,666,047	\$2,654	\$1,735,046	\$2,929	\$2,735,796	\$3,024	\$2,844,719
<b>75K-100K</b>	\$3,035	\$402,015	\$0	-	\$3,203	\$322,893	\$3,251	\$329,543	\$2,929	\$574,915	\$2,945	\$583,736
<b>100K-200K</b>	\$3,776	\$130,737	\$0	-	\$3,411	\$102,637	\$3,648	\$122,926	\$3,568	\$190,506	\$3,696	\$209,645
<b>200K+</b>	\$0	-	\$0	-	\$0	-	\$0	-	\$0	-	\$0	-
<b>All</b>	<b>\$3,565</b>	<b>\$36,012,384</b>	<b>\$3,330</b>	<b>\$28,675,399</b>	<b>\$3,311</b>	<b>\$29,013,490</b>	<b>\$3,417</b>	<b>\$30,135,935</b>	<b>\$4,016</b>	<b>\$40,920,439</b>	<b>\$4,132</b>	<b>\$42,405,720</b>

*Notes for Pell Distribution and Revenue Tables:*

(1) Preliminary estimates. The simulations apply the alternative proposals to current-law Pell grant.

(2) Adjusted Gross Income refers to income of the students' tax units in 2015, in 2012 dollars.

**Table 3 (cont.)**

Assuming Baseline Take-up Behavioral Responses, All Undergraduate Students <sup>1</sup>

Size of Adjusted Gross Income (2012 dollars) <sup>2</sup>	Options that Simplify the Application Process and Incentivize Higher Intensity									
	Option 7: With \$5,550 Pell Maximum		Option 8: With \$5,550 Pell Maximum, with Increased Full-Time		Option 9: With \$7,000 Pell Maximum		Option 10: With \$7,000 Pell Maximum, with Increased Full-Time		Option 11: With \$7,000 Pell Maximum phased out at 250% of poverty line, with Increased Full-Time	
	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)
<b>\$0 or less</b>	\$3,610	\$1,476,103	\$3,741	\$1,519,355	\$4,554	\$2,033,813	\$4,698	\$2,100,479	\$4,698	\$2,100,479
<b>&gt; \$0 and &lt;= \$5K</b>	\$3,436	\$3,290,871	\$3,504	\$3,387,843	\$4,349	\$4,439,554	\$4,476	\$4,591,171	\$4,476	\$4,591,171
<b>5K-10K</b>	\$3,614	\$3,749,675	\$3,644	\$3,720,292	\$4,521	\$5,029,788	\$4,644	\$5,201,553	\$4,644	\$5,201,553
<b>10K-15K</b>	\$3,657	\$5,746,785	\$3,761	\$5,184,565	\$4,563	\$7,597,384	\$4,733	\$7,908,728	\$4,782	\$8,033,122
<b>15K-20K</b>	\$3,126	\$3,166,109	\$3,637	\$3,277,096	\$3,952	\$4,230,744	\$4,044	\$4,376,998	\$4,248	\$4,795,455
<b>20K-25K</b>	\$2,667	\$2,279,912	\$3,431	\$2,844,293	\$3,355	\$3,041,968	\$3,426	\$3,145,070	\$3,338	\$4,075,538
<b>25K-30K</b>	\$2,399	\$1,380,909	\$3,446	\$2,360,930	\$2,979	\$1,857,555	\$3,051	\$1,947,370	\$3,142	\$2,718,473
<b>30K-40K</b>	\$1,863	\$1,393,780	\$3,189	\$3,471,238	\$2,338	\$1,837,475	\$2,403	\$1,897,078	\$2,595	\$3,228,832
<b>40K-50K</b>	\$1,384	\$499,198	\$2,896	\$2,182,808	\$1,755	\$654,625	\$1,788	\$673,685	\$2,118	\$1,469,908
<b>50K-75K</b>	\$901	\$88,537	\$2,654	\$1,735,046	\$1,162	\$116,373	\$1,192	\$120,739	\$1,552	\$688,217
<b>75K-100K</b>	\$0	-	\$3,251	\$329,543	\$0	-	\$0	-	\$0	-
<b>100K-200K</b>	\$0	-	\$3,648	\$122,926	\$0	-	\$0	-	\$0	-
<b>200K+</b>	\$0	-	\$0	-	\$0	-	\$0	-	\$0	-
<b>All</b>	<b>\$3,025</b>	<b>\$23,071,880</b>	<b>\$3,417</b>	<b>\$30,135,935</b>	<b>\$3,805</b>	<b>\$30,839,277</b>	<b>\$3,912</b>	<b>\$31,962,872</b>	<b>\$3,739</b>	<b>\$36,902,747</b>

Size of Adjusted Gross Income (2012 dollars) <sup>2</sup>	Number of All Students in the Group	Number of Recipients										
		Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8	Option 9	Option 10	Option 11
<b>\$0 or less</b>	602,114	459,769	468,331	401,488	406,174	439,231	439,722	408,897	413,583	446,643	447,134	447,134
<b>&gt; \$0 and &lt;= \$5K</b>	1,369,912	1,070,212	1,072,864	956,495	966,768	1,018,260	1,023,111	957,638	967,911	1,020,912	1,025,764	1,025,764
<b>5K-10K</b>	1,457,128	1,151,656	1,169,158	1,017,257	1,020,975	1,097,645	1,105,355	1,037,413	1,041,199	1,112,518	1,120,160	1,120,160
<b>10K-15K</b>	2,159,028	1,515,273	1,735,530	1,374,104	1,378,515	1,481,532	1,487,262	1,571,411	1,585,056	1,665,094	1,671,068	1,679,905
<b>15K-20K</b>	1,598,261	1,055,193	1,156,461	896,142	901,011	1,008,826	1,015,951	1,012,793	1,021,335	1,070,655	1,082,284	1,128,926
<b>20K-25K</b>	1,784,468	966,218	993,832	818,704	829,030	940,527	951,151	854,970	870,673	906,725	918,005	1,220,810
<b>25K-30K</b>	1,568,870	788,111	666,205	684,697	685,067	781,622	784,593	575,570	590,554	623,535	638,366	865,080
<b>30K-40K</b>	2,739,490	1,249,990	823,780	1,082,528	1,088,661	1,304,032	1,316,534	748,308	752,613	786,066	789,312	1,244,406
<b>40K-50K</b>	2,308,534	860,320	405,430	749,639	753,805	932,661	944,166	360,571	364,897	372,940	376,818	694,131
<b>50K-75K</b>	3,395,694	817,603	120,230	651,659	653,863	934,116	940,700	98,278	99,437	100,137	101,295	443,376
<b>75K-100K</b>	2,728,639	132,480	-	100,814	101,354	196,293	198,201	-	-	-	-	-
<b>100K-200K</b>	3,761,787	34,624	-	30,086	33,699	53,385	56,727	-	-	-	-	-
<b>200K+</b>	733,212	-	-	-	-	-	-	-	-	-	-	-
<b>All</b>	<b>26,207,136</b>	<b>10,101,447</b>	<b>8,611,820</b>	<b>8,763,613</b>	<b>8,818,922</b>	<b>10,188,129</b>	<b>10,263,474</b>	<b>7,625,850</b>	<b>7,707,258</b>	<b>8,105,226</b>	<b>8,170,206</b>	<b>9,869,693</b>

*Notes for Pell Distribution and Revenue Tables:*

(1) Preliminary estimates. The simulations apply the alternative proposals to current-law Pell grant.

(2) Adjusted Gross Income refers to income of the students' tax units in 2015, in 2012 dollars.

**Table 4:**

**Distribution of Current Law Pell Grant and Alternative Proposals by Size of Adjusted Gross Income, Tax Year 2015:  
Assuming 100% Student Take-up for Alternative Proposals, All Undergraduate Students**

Assuming 100% Student Take-up for Alternative Proposals, All Undergraduate Students<sup>1</sup>

Size of Adjusted Gross Income (2012 dollars) <sup>2</sup>	Option 1: Current Law		Option 2: Simplified Application Process with \$5,550 Pell Maximum		Options that Incentivize Higher Intensity							
	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)	Option 3: With \$5,550 Pell Maximum		Option 4: With \$5,550 Pell Maximum, with Increased Full-Time		Option 5: With \$7,000 Pell Maximum		Option 6: With \$7,000 Pell Maximum, with Increased Full-Time	
					Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)
<b>\$0 or less</b>	\$3,979	\$1,829,317	\$3,601	\$2,111,450	\$3,395	\$1,706,092	\$3,497	\$1,757,504	\$4,282	\$2,151,747	\$4,411	\$2,216,584
<b>&gt; \$0 and &lt;= \$5K</b>	\$3,844	\$4,114,049	\$3,566	\$4,737,522	\$3,207	\$3,826,022	\$3,292	\$3,928,247	\$4,051	\$4,833,660	\$4,159	\$4,962,949
<b>5K-10K</b>	\$3,907	\$4,499,282	\$3,677	\$5,166,640	\$3,385	\$4,124,578	\$3,473	\$4,232,186	\$4,277	\$5,219,224	\$4,389	\$5,354,988
<b>10K-15K</b>	\$4,026	\$6,100,644	\$3,742	\$7,844,751	\$3,353	\$5,675,035	\$3,473	\$5,877,689	\$4,234	\$7,250,919	\$4,386	\$7,510,402
<b>15K-20K</b>	\$3,724	\$3,929,440	\$2,995	\$4,570,776	\$3,294	\$3,732,426	\$3,363	\$3,812,833	\$4,073	\$4,817,374	\$4,161	\$4,921,135
<b>20K-25K</b>	\$3,550	\$3,429,812	\$2,549	\$3,318,678	\$3,057	\$3,271,739	\$3,142	\$3,364,081	\$3,785	\$4,276,933	\$3,889	\$4,397,760
<b>25K-30K</b>	\$3,603	\$2,839,214	\$2,223	\$2,110,295	\$3,041	\$2,746,560	\$3,121	\$2,819,099	\$3,821	\$3,589,988	\$3,922	\$3,685,113
<b>30K-40K</b>	\$3,261	\$4,076,599	\$1,933	\$2,045,203	\$2,883	\$3,923,027	\$2,967	\$4,038,564	\$3,522	\$5,322,344	\$3,625	\$5,480,367
<b>40K-50K</b>	\$2,969	\$2,554,563	\$1,390	\$740,261	\$2,547	\$2,636,098	\$2,627	\$2,718,767	\$3,229	\$3,677,846	\$3,310	\$3,797,696
<b>50K-75K</b>	\$2,577	\$2,106,712	\$924	\$141,340	\$2,222	\$2,027,631	\$2,280	\$2,098,944	\$2,691	\$3,113,294	\$2,772	\$3,214,171
<b>75K-100K</b>	\$3,035	\$402,015	\$0	-	\$2,725	\$411,413	\$2,759	\$416,500	\$2,604	\$682,625	\$2,623	\$692,702
<b>100K-200K</b>	\$3,776	\$130,737	\$0	-	\$2,733	\$140,288	\$2,911	\$149,456	\$2,977	\$225,235	\$3,165	\$239,507
<b>200K+</b>	\$0	-	\$0	-	\$0	-	\$0	-	\$0	-	\$0	-
<b>All</b>	<b>\$3,565</b>	<b>\$36,012,384</b>	<b>\$2,998</b>	<b>\$32,786,917</b>	<b>\$3,049</b>	<b>\$34,220,908</b>	<b>\$3,135</b>	<b>\$35,213,872</b>	<b>\$3,755</b>	<b>\$45,161,189</b>	<b>\$3,860</b>	<b>\$46,473,373</b>

Notes for Pell Distribution and Revenue Tables:

(1) Preliminary estimates. The simulations apply the alternative proposals to current-law Pell grant.

(2) Adjusted Gross Income refers to income of the students' tax units in 2015, in 2012 dollars.

**Table 4 (cont.)**

Assuming 100% Student Take-up for Alternative Proposals, All Undergraduate Students<sup>1</sup>

Size of Adjusted Gross Income (2012 dollars) <sup>2</sup>	Options that Simplify the Application Process and Incentivize Higher Intensity									
	Option 7: With \$5,550 Pell Maximum		Option 8: With \$5,550 Pell Maximum, with Increased Full-Time		Option 9: With \$7,000 Pell Maximum		Option 10: With \$7,000 Pell Maximum, with Increased Full-Time		Option 11: With \$7,000 Pell Maximum phased out at 250% of poverty line, with Increased Full-Time	
	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)	Average per Recipient	Total Cost (in thousands)
<b>\$0 or less</b>	\$3,403	\$1,735,337	\$3,504	\$1,787,002	\$4,291	\$2,187,969	\$4,418	\$2,253,111	\$4,418	\$2,253,111
<b>&gt; \$0 and &lt;= \$5K</b>	\$3,239	\$3,868,536	\$3,326	\$3,972,293	\$4,084	\$4,877,576	\$4,194	\$5,008,397	\$4,194	\$5,008,397
<b>5K-10K</b>	\$3,448	\$4,255,861	\$3,540	\$4,369,364	\$4,347	\$5,365,928	\$4,463	\$5,509,036	\$4,463	\$5,509,036
<b>10K-15K</b>	\$3,420	\$6,486,126	\$3,541	\$6,716,380	\$4,312	\$8,177,919	\$4,465	\$8,468,230	\$4,523	\$8,578,688
<b>15K-20K</b>	\$2,866	\$3,744,953	\$2,934	\$3,833,988	\$3,614	\$4,721,759	\$3,700	\$4,834,018	\$3,926	\$5,276,011
<b>20K-25K</b>	\$2,493	\$2,706,813	\$2,545	\$2,778,003	\$3,144	\$3,412,838	\$3,209	\$3,502,597	\$3,099	\$4,539,663
<b>25K-30K</b>	\$2,119	\$1,738,032	\$2,169	\$1,787,166	\$2,672	\$2,191,367	\$2,735	\$2,253,317	\$2,901	\$3,093,544
<b>30K-40K</b>	\$1,771	\$1,712,216	\$1,816	\$1,759,027	\$2,232	\$2,158,817	\$2,290	\$2,217,839	\$2,475	\$3,697,680
<b>40K-50K</b>	\$1,301	\$610,255	\$1,326	\$629,150	\$1,640	\$769,429	\$1,672	\$793,252	\$2,006	\$1,704,646
<b>50K-75K</b>	\$894	\$108,106	\$911	\$111,884	\$1,128	\$136,303	\$1,149	\$141,067	\$1,493	\$806,140
<b>75K-100K</b>	\$0	-	\$0	-	\$0	-	\$0	-	\$0	-
<b>100K-200K</b>	\$0	-	\$0	-	\$0	-	\$0	-	\$0	-
<b>200K+</b>	\$0	-	\$0	-	\$0	-	\$0	-	\$0	-
<b>All</b>	<b>\$2,808</b>	<b>\$26,966,233</b>	<b>\$2,883</b>	<b>\$27,744,257</b>	<b>\$3,540</b>	<b>\$33,999,906</b>	<b>\$3,635</b>	<b>\$34,980,864</b>	<b>\$3,490</b>	<b>\$40,466,916</b>

Size of Adjusted Gross Income (2012 dollars) <sup>2</sup>	Number of All Students in the Group	Number of Recipients										
		Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7	Option 8	Option 9	Option 10	Option 11
<b>\$0 or less</b>	602,114	459,769	586,350	502,539	502,539	502,539	502,539	509,948	509,948	509,948	509,948	509,948
<b>&gt; \$0 and &lt;= \$5K</b>	1,369,912	1,070,212	1,328,492	1,193,167	1,193,167	1,193,167	1,193,167	1,194,310	1,194,310	1,194,310	1,194,310	1,194,310
<b>5K-10K</b>	1,457,128	1,151,656	1,405,192	1,218,437	1,218,437	1,220,191	1,220,191	1,234,353	1,234,353	1,234,353	1,234,353	1,234,353
<b>10K-15K</b>	2,159,028	1,515,273	2,096,600	1,692,594	1,692,594	1,712,381	1,712,381	1,896,594	1,896,594	1,896,594	1,896,594	1,896,594
<b>15K-20K</b>	1,598,261	1,055,193	1,526,212	1,133,193	1,133,761	1,182,763	1,182,763	1,306,593	1,306,593	1,306,593	1,306,593	1,343,810
<b>20K-25K</b>	1,784,468	966,218	1,301,721	1,070,355	1,070,676	1,129,917	1,130,840	1,085,587	1,091,600	1,085,587	1,091,600	1,465,076
<b>25K-30K</b>	1,568,870	788,111	949,186	903,219	903,219	939,526	939,526	820,089	824,019	820,089	824,019	1,066,345
<b>30K-40K</b>	2,739,490	1,249,990	1,058,058	1,360,642	1,361,159	1,511,287	1,511,626	967,061	968,552	967,061	968,552	1,494,074
<b>40K-50K</b>	2,308,534	860,320	532,488	1,034,878	1,034,878	1,139,000	1,147,325	469,048	474,308	469,048	474,308	849,737
<b>50K-75K</b>	3,395,694	817,603	152,992	912,635	920,579	1,157,069	1,159,521	120,887	122,824	120,887	122,824	539,958
<b>75K-100K</b>	2,728,639	132,480	-	150,985	150,985	262,152	264,060	-	-	-	-	-
<b>100K-200K</b>	3,761,787	34,624	-	51,333	51,333	75,662	75,662	-	-	-	-	-
<b>200K+</b>	733,212	-	-	-	-	-	-	-	-	-	-	-
<b>All</b>	<b>26,207,136</b>	<b>10,101,447</b>	<b>10,937,292</b>	<b>11,223,978</b>	<b>11,233,328</b>	<b>12,025,656</b>	<b>12,039,603</b>	<b>9,604,469</b>	<b>9,623,099</b>	<b>9,604,469</b>	<b>9,623,099</b>	<b>11,594,205</b>

Notes for Pell Distribution and Revenue Tables:

(1) Preliminary estimates. The simulations apply the alternative proposals to current-law Pell grant.

(2) Adjusted Gross Income refers to income of the students' tax units in 2015, in 2012 dollars.



**Table 5:****Cost Estimates for Higher Education Loan Reforms (in \$ Billions)**

(+) savings (-) cost in outlays, by fiscal year

Proposal	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022		2013-2017	2013-2022
<b>Subsidized Stafford eliminated (new loans)</b>	3.000	3.100	3.350	3.600	3.850	4.100	4.400	4.800	5.300	5.900		16.900	41.400
<b>Unsubsidized Stafford loan limit for dependent undergraduates increased (fair-value)</b>	0.524	0.066	-0.598	-1.229	-1.831	-2.203	-2.487	-2.594	-2.675	-2.759		-3.067	-15.785
<b>Unsubsidized Stafford limit for independent undergrads conformed to limit for dependents (fair value)</b>	-0.131	-0.017	0.149	0.307	0.458	0.551	0.622	0.648	0.669	0.690		0.767	3.946
<b>Grad PLUS loans eliminated (fair-value)</b>	-2.150	-1.772	-1.069	-0.327	0.454	0.944	1.332	1.463	1.560	1.658		-4.864	2.092
<b>Graduate Stafford loan limit increased to \$30,000</b>	0.393	0.050	-0.448	-0.922	-1.373	-1.652	-1.866	-1.945	-2.006	-2.069		-2.300	-11.839
<b>Parent PLUS loans eliminated (fair-value)</b>	-2.975	-2.482	-1.795	-1.131	-0.501	-0.151	0.087	0.121	0.125	0.129		-8.884	-8.573
<b>Interest rates on all new student loans pegged to 10-year T-note plus 3.0 percentage points</b>	-4.599	-7.671	-5.376	-1.377	2.754	5.886	7.790	8.798	9.214	9.503		-16.269	24.922
<b>TOTAL Net budget effect</b>	<b>-5.838</b>	<b>-8.576</b>	<b>-5.629</b>	<b>-0.913</b>	<b>3.985</b>	<b>7.657</b>	<b>10.069</b>	<b>11.492</b>	<b>12.398</b>	<b>13.274</b>		<b>-16.972</b>	<b>37.917</b>

Note: All budgetary effects are estimated relative to current law as of December 19th, 2012.

Source: New America Foundation

**Table 6:**

## Education Tax Options

Impact on Tax Revenue (billions of current dollars), 2013-2022<sup>1</sup>

Savings are positive, costs are negative

Baseline and Proposal	Fiscal Year										Total	Total
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-17	2013-22
<b>Option 1: Eliminate AOTC, Hope, Lifetime Learning Credit (LLC), and tuition and fees deduction</b>	17.7	23.7	23.9	24.2	24.7	15.8	13.3	14.1	14.9	15.6	114.2	187.8
<b>Option 2: Maintain and expand LLC, eliminate AOTC, Hope, and tuition and fees deduction</b>	12.0	15.8	15.7	15.7	15.9	6.6	3.5	3.9	4.1	4.2	75.0	97.3
<b>Option 3: Extend AOTC but end phaseout at \$125,000 for married taxpayers filing jointly (\$62,500 for single, head of household, and married filing separately)</b>	2.3	3.5	3.8	4.1	4.5	-4.7	-7.7	-7.1	-6.9	-6.7	18.2	-15.0
<b>Option 3a: Extend AOTC but end phaseout at \$125,000 for married taxpayers filing jointly (\$62,500 for single, head of household); eliminate tuition and fees deduction and LLC</b>	4.6	6.0	6.2	6.7	7.2	-1.7	-4.3	-3.4	-2.7	-2.0	30.7	16.7
<b>Option 3b: Extend AOTC as a nonrefundable credit but end phaseout at \$125,000 for married taxpayers filing jointly (\$62,500 for single, head of household); eliminate tuition and fees deduction and LLC</b>	7.6	10.0	10.1	10.5	11.0	2.1	-0.5	0.4	1.2	1.9	49.2	54.3
<b>Option 4: Extend AOTC as a nonrefundable credit; eliminate LLC and tuition and fees deduction</b>	4.9	6.4	6.3	6.3	6.4	-2.8	-5.7	-5.1	-4.7	-4.3	30.4	7.8
<b>Option 4a: Extend AOTC as a nonrefundable credit through 2017, then revert to Hope; eliminate LLC and tuition and fees deduction</b>	4.9	6.4	6.3	6.3	6.4	5.1	5.0	5.2	5.5	5.8	30.4	57.0
<b>Option 5: Eliminate the student loan interest deduction</b>	0.7	1.0	1.0	1.1	1.1	1.1	1.2	1.2	1.3	1.3	4.8	10.9

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0412-8ED).

(1) Fiscal years. Estimates assume a microdynamic behavioral response. Revenue amounts reported are TPC estimates and may differ from official revenue estimates from the Joint Committee on Taxation.

**Table 7:**

**Distribution of Pell Grant and Education Tax Incentives by Size of Adjusted Gross Income, Tax Year 2013 Current Law: All Students**

Adjusted Gross Income under the Current Law	Number of Undergraduate Students in the Group	Students with Pell Grant			Students with AOTC			Students with Either Pell Grant or AOTC <sup>2</sup>		
		Number of Students	Total Amount [thousands \$]	Average Per Student [\$]	Number of Students	Total Amount [thousands \$]	Average Per Student [\$]	Number of Students	Total Amount [thousands \$]	Average Per Student [\$]
<b>No adjusted gross income</b>	864,868	509,747	1,943,058	3,812	263,325	214,533	815	556,007	2,157,591	3,881
<b>\$1 under \$5,000</b>	1,724,780	1,065,570	3,933,229	3,691	512,713	430,580	840	1,180,518	4,363,809	3,697
<b>\$5,000 under \$10,000</b>	1,742,782	1,152,222	4,444,933	3,858	532,354	440,763	828	1,243,162	4,885,696	3,930
<b>\$10,000 under \$15,000</b>	2,537,186	1,530,595	5,917,412	3,866	810,286	658,492	813	1,856,793	6,575,903	3,542
<b>\$15,000 under \$20,000</b>	1,664,372	946,130	3,395,345	3,589	545,543	581,689	1,066	1,188,715	3,977,035	3,346
<b>\$20,000 under \$25,000</b>	2,218,271	1,027,790	3,519,466	3,424	824,054	1,207,759	1,466	1,515,197	4,727,225	3,120
<b>\$25,000 under \$30,000</b>	1,546,454	668,800	2,289,377	3,423	496,239	796,998	1,606	975,572	3,086,375	3,164
<b>\$30,000 under \$40,000</b>	2,951,113	1,141,585	3,594,769	3,149	1,218,074	2,152,584	1,767	1,909,998	5,747,353	3,009
<b>\$40,000 under \$50,000</b>	2,406,539	735,000	2,169,907	2,952	993,735	1,805,256	1,817	1,371,500	3,975,163	2,898
<b>\$50,000 under \$75,000</b>	3,900,073	714,718	1,681,815	2,353	1,928,688	3,910,008	2,027	2,237,524	5,591,823	2,499
<b>\$75,000 under \$100,000</b>	2,993,964	70,151	191,384	2,728	1,888,918	3,803,502	2,014	1,912,733	3,994,886	2,089
<b>\$100,000 under \$200,000</b>	4,171,390	29,605	111,952	3,782	2,554,364	5,337,194	2,089	2,565,631	5,449,146	2,124
<b>\$200,000 under \$500,000</b>	492,791	4,823	13,225	2,742	0	0	0	4,823	13,225	2,742
<b>\$500,000 under \$1,000,000</b>	75,608	0	0	0	0	0	0	0	0	0
<b>\$1,000,000 under \$1,500,000</b>	18,471	0	0	0	0	0	0	0	0	0
<b>\$1,500,000 under \$2,000,000</b>	8,775	0	0	0	0	0	0	0	0	0
<b>\$2,000,000 under \$5,000,000</b>	12,778	0	0	0	0	0	0	0	0	0
<b>\$5,000,000 under \$10,000,000</b>	3,411	0	0	0	0	0	0	0	0	0
<b>\$10,000,000 or more</b>	2,029	0	0	0	0	0	0	0	0	0
<b>All returns</b>	<b>29,335,656</b>	<b>9,596,736</b>	<b>33,205,872</b>	<b>3,460</b>	<b>12,568,292</b>	<b>21,339,357</b>	<b>1,698</b>	<b>18,518,173</b>	<b>54,545,230</b>	<b>2,945</b>

*Notes for Distribution of Pell Grant and Tax Incentives:*

(1) Preliminary estimates with the Tax Policy Center version 0412-8 with the 2012 education module. For the description of the current law baselines, see <http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=3131>. Also see Tax provisions in the American Taxpayer

Relief Act of 2012 (ATRA) <http://www.taxpolicycenter.org/UploadedPDF/412730-Tax-Provisions-in-ATRA.pdf>. In particular, ATRA extended the American Opportunity Tax Credit to the end of 2017 and tuition and fees deduction to the end of 2013.

- Students with Pell Grant are defined as students receiving some Pell Grant.
- Students with AOTC are defined as students whose eligible expenses were used for calculating AOTC.
- Students with Lifetime Learning Credit are defined as students whose eligible expenses were used for calculating the credit.
- Students with Tuition and Fees Deduction are defined as students whose eligible expenses were used as a basis for the deduction.
- Students with Lifetime Learning Credit or Tuition and Fees Deduction can be either undergraduate or graduate students.

(2) See Table X2s for more information regarding students who received both Pell Grant and AOTC.

(3) A tax unit's deduction value is the product of its statutory marginal tax rate and the effective deduction amount, where the effective amount is the amount of claimed deduction that can be used to reduce taxable income. For example, a tax unit with \$1,000 deduction but -\$400 in taxable income after accounting for such deduction would be deemed to have only \$600 effective deduction since the other \$400 would not reduce taxable income beyond \$0.

**Table 7 (cont.)**

Adjusted Gross Income under the Current Law	Students with Lifetime Learning Credit			Students with Tuition and Fee Deductions				
	Number of Students	Total Amount [thousands \$]	Average Per Student [\$]	Number of Students	Total Amount <sup>3</sup> [thousands \$]	Average Per Student [\$]	Total Value <sup>3</sup> [thousands \$]	Average Value Per Student [\$]
<b>No adjusted gross income</b>	66	35	538	38,675	76,428	1,976	0	0
<b>\$1 under \$5,000</b>	0	0	0	182,121	574,650	3,155	0	0
<b>\$5,000 under \$10,000</b>	0	0	0	201,866	656,370	3,252	112	1
<b>\$10,000 under \$15,000</b>	212,986	51,617	242	77,348	160,752	2,078	11,086	143
<b>\$15,000 under \$20,000</b>	153,925	83,229	541	66,605	163,789	2,459	10,067	151
<b>\$20,000 under \$25,000</b>	167,741	108,666	648	102,628	220,019	2,144	18,274	178
<b>\$25,000 under \$30,000</b>	151,760	107,954	711	56,972	124,706	2,189	13,674	240
<b>\$30,000 under \$40,000</b>	333,623	218,653	655	132,258	260,938	1,973	29,134	220
<b>\$40,000 under \$50,000</b>	340,271	231,982	682	160,688	318,373	1,981	49,049	305
<b>\$50,000 under \$75,000</b>	583,856	402,234	689	445,061	910,869	2,047	178,352	401
<b>\$75,000 under \$100,000</b>	506,155	363,353	718	232,087	356,048	1,534	57,012	246
<b>\$100,000 under \$200,000</b>	128,210	113,536	886	723,650	1,560,380	2,156	356,952	493
<b>\$200,000 under \$500,000</b>	0	0	0	0	0	0	0	0
<b>\$500,000 under \$1,000,000</b>	0	0	0	0	0	0	0	0
<b>\$1,000,000 under \$1,500,000</b>	0	0	0	0	0	0	0	0
<b>\$1,500,000 under \$2,000,000</b>	0	0	0	0	0	0	0	0
<b>\$2,000,000 under \$5,000,000</b>	0	0	0	0	0	0	0	0
<b>\$5,000,000 under \$10,000,000</b>	0	0	0	0	0	0	0	0
<b>\$10,000,000 or more</b>	0	0	0	0	0	0	0	0
<b>All returns</b>	<b>2,578,592</b>	<b>1,681,259</b>	<b>652</b>	<b>2,419,959</b>	<b>5,383,323</b>	<b>2,225</b>	<b>723,713</b>	<b>299</b>

*Notes for Distribution of Pell Grant and Tax Incentives:*

(1) Preliminary estimates with the Tax Policy Center version 0412-8 with the 2012 education module. For the description of the current law baselines, see <http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=3131>. Also see Tax provisions in the American Taxpayer

Relief Act of 2012 (ATRA) <http://www.taxpolicycenter.org/UploadedPDF/412730-Tax-Provisions-in-ATRA.pdf>. In particular, ATRA extended the American Opportunity Tax Credit to the end of 2017 and tuition and fees deduction to the end of 2013.

- Students with Pell Grant are defined as students receiving some Pell Grant.
- Students with AOTC are defined as students whose eligible expenses were used for calculating AOTC.
- Students with Lifetime Learning Credit are defined as students whose eligible expenses were used for calculating the credit.
- Students with Tuition and Fees Deduction are defined as students whose eligible expenses were used as a basis for the deduction.
- Students with Lifetime Learning Credit or Tuition and Fees Deduction can be either undergraduate or graduate students.

(2) See Table X2s for more information regarding students who received both Pell Grant and AOTC.

(3) A tax unit's deduction value is the product of its statutory marginal tax rate and the effective deduction amount, where the effective amount is the amount of claimed deduction that can be used to reduce taxable income. For example, a tax unit with \$1,000 deduction but -\$400 in taxable income after accounting for such deduction would be deemed to have only \$600 effective deduction since the other \$400 would not reduce taxable income beyond \$0.

**Table 8:****Distribution of Pell Grant and Education Tax Incentives by Size of Adjusted Gross Income, Tax Year 2013 Current Law: All Students with Both Pell Grant and AOTC**All Students with Both Pell Grant and AOTC <sup>1</sup>

Adjusted Gross Income under the Current Law	Number of Students	Pell Grant		AOTC		Pell Grant and AOTC	
		Total Amount [thousands \$]	Average Per Student [\$]	Total Amount [thousands \$]	Average Per Student [\$]	Total Amount [thousands \$]	Average Per Student [\$]
<b>No adjusted gross income</b>	217,065	907,885	4,183	187,019.8	862	1,094,905	5,044
<b>\$1 under \$5,000</b>	397,766	1,551,077	3,899	337,126.3	848	1,888,203	4,747
<b>\$5,000 under \$10,000</b>	441,413	1,846,502	4,183	369,234.9	836	2,215,737	5,020
<b>\$10,000 under \$15,000</b>	484,087	1,894,874	3,914	383,871.8	793	2,278,745	4,707
<b>\$15,000 under \$20,000</b>	302,958	1,154,201	3,810	310,417.2	1,025	1,464,618	4,834
<b>\$20,000 under \$25,000</b>	336,648	1,233,160	3,663	430,656.5	1,279	1,663,816	4,942
<b>\$25,000 under \$30,000</b>	189,466	687,622	3,629	275,353.8	1,453	962,976	5,083
<b>\$30,000 under \$40,000</b>	449,661	1,423,753	3,166	730,062.5	1,624	2,153,815	4,790
<b>\$40,000 under \$50,000</b>	357,235	1,107,055	3,099	641,240.1	1,795	1,748,295	4,894
<b>\$50,000 under \$75,000</b>	405,882	957,299	2,359	877,402.6	2,162	1,834,702	4,520
<b>\$75,000 under \$100,000</b>	46,336	107,778	2,326	92,900.3	2,005	200,678	4,331
<b>\$100,000 under \$200,000</b>	18,338	65,610	3,578	42,210.7	2,302	107,821	5,880
<b>\$200,000 under \$500,000</b>	0	0	0	0	0	0	0
<b>\$500,000 under \$1,000,000</b>	0	0	0	0	0	0	0
<b>\$1,000,000 under \$1,500,000</b>	0	0	0	0	0	0	0
<b>\$1,500,000 under \$2,000,000</b>	0	0	0	0	0	0	0
<b>\$2,000,000 under \$5,000,000</b>	0	0	0	0	0	0	0
<b>\$5,000,000 under \$10,000,000</b>	0	0	0	0	0	0	0
<b>\$10,000,000 or more</b>	0	0	0	0	0	0	0
<b>All returns</b>	<b>3,646,854</b>	<b>12,936,814</b>	<b>3,547</b>	<b>4,677,496.4</b>	<b>1,283</b>	<b>17,614,311</b>	<b>4,830</b>

(1) Preliminary estimates with the Tax Policy Center version 0412-8 with the 2012 education module. For the description of the current law baselines, see <http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=3131>. Also see Tax provisions in the American Taxpayer Relief Act of 2012 (ATRA) <http://www.taxpolicycenter.org/UploadedPDF/412730-Tax-Provisions-in-ATRA.pdf>. In particular, ATRA extended the American Opportunity Tax Credit to the end of 2017 and tuition and fees deduction to the end of 2013.

- Students with Pell Grant are defined as students receiving some Pell Grant.
- Students with AOTC are defined as students whose eligible expenses were used for calculating AOTC.

**Table 8 (cont.)**

Adjusted Gross Income under the Current Law	Number of All Students in the Group	Number of Students with Both Pell and AOTC	Number of Students with Pell	Number of Students w AOTC	Share of Students with both AOTC and Pell	Share of Pell Students with AOTC	Share of AOTC Students with Pell
<b>No adjusted gross income</b>	864,868	217,065	509,747	263,325	25%	43%	82%
<b>\$1 under \$5,000</b>	1,724,780	397,766	1,065,570	512,713	23%	37%	78%
<b>\$5,000 under \$10,000</b>	1,742,782	441,413	1,152,222	532,354	25%	38%	83%
<b>\$10,000 under \$15,000</b>	2,537,186	484,087	1,530,595	810,286	19%	32%	60%
<b>\$15,000 under \$20,000</b>	1,664,372	302,958	946,130	545,543	18%	32%	56%
<b>\$20,000 under \$25,000</b>	2,218,271	336,648	1,027,790	824,054	15%	33%	41%
<b>\$25,000 under \$30,000</b>	1,546,454	189,466	668,800	496,239	12%	28%	38%
<b>\$30,000 under \$40,000</b>	2,951,113	449,661	1,141,585	1,218,074	15%	39%	37%
<b>\$40,000 under \$50,000</b>	2,406,539	357,235	735,000	993,735	15%	49%	36%
<b>\$50,000 under \$75,000</b>	3,900,073	405,882	714,718	1,928,688	10%	57%	21%
<b>\$75,000 under \$100,000</b>	2,993,964	46,336	70,151	1,888,918	2%	66%	2%
<b>\$100,000 under \$200,000</b>	4,171,390	18,338	29,605	2,554,364	0%	62%	1%
<b>\$200,000 under \$500,000</b>	492,791	0	4,823	0	0%	0%	
<b>\$500,000 under \$1,000,000</b>	75,608	0	0	0	0%		
<b>\$1,000,000 under \$1,500,000</b>	18,471	0	0	0	0%		
<b>\$1,500,000 under \$2,000,000</b>	8,775	0	0	0	0%		
<b>\$2,000,000 under \$5,000,000</b>	12,778	0	0	0	0%		
<b>\$5,000,000 under \$10,000,000</b>	3,411	0	0	0	0%		
<b>\$10,000,000 or more</b>	2,029	0	0	0	0%		
<b>All returns</b>	<b>29,335,656</b>	<b>3,646,854</b>	<b>9,596,736</b>	<b>12,568,292</b>	<b>12%</b>	<b>38%</b>	<b>29%</b>

**Table 9:**

## Shared Responsibility: Numbers of Students, Institutions and Cost of Pell Grants in Institutions That Scored in Bottom Decile of 2 out of 3 Categories

School Type	Institutions that Failed at Least Two of Three Categories by Institutional Type, Standard Varies by Category of Institution			Institutions that Failed at Least Two of Three Categories by Institutional Type, Uniform Criterion		
	Number of Students Affected (thousands)	Number of Institutions Affected	Total Pell (\$ millions)	Number of Students Affected (thousands)	Number of Institutions Affected	Total Pell (\$ millions)
<b>Non-Profit</b>	62	54	\$254	7	15	\$26
<b>For-Profit</b>	65	34	\$253	31	10	\$113
<b>Public 2 Year</b>	125	30	\$500	204	67	\$782
<b>Public 4 Year</b>	47	18	\$189	33	10	\$133
<b>Total</b>	299	136	\$1,196	274	102	\$1,054

Notes: The three categories are A) percent of students receiving Pell grants in 2010-11 (from IPEDS data) B) percent of first time full time students who completed their credential within 150% of normal time in 2010 (from IPEDS data) and C) Repayment Rate for 2009 from the New America Foundation. Failing a category was defined as being in the bottom decile in that category. For uniform failure levels, all institution types were treated the same. For varying standards, failing a category was defined as being in the bottom decile in that category for that institution type. Sample includes the 4344 institutions which report all three measures and represent 7.2 million Pell students and \$29 billion of Pell grants.

**Table 9A:**

## Cutoffs Ranges for Calculations

School Type	Percent Pell	Percent Completers	Repayment Rate
<b>Uniform Failure Levels</b>	22.9%	18.1%	24.5%
<b>Non-Profit</b>	17.8%	29.1%	35.1%
<b>For-Profit</b>	41.1%	38.8%	19.8%
<b>Public 2 Year</b>	21.1%	10.2%	27.3%
<b>Public 4 Year</b>	22.9%	23.3%	32.2%

**Table 9B:**

**Alternative Shared Responsibility Measure: Number of Institutions and Cost of Pell Awards in Institutions, by Number of Credentials Awarded Per Full Time Equivalent Student**

School Type	Institutions Issue Less than 6 2/3 Credentials per 100 Full Time Equivalent Students		Institutions Issue Less Than 12.5 Credentials per 100 Full Time Equivalent Students	
	Number of Institutions Affected	Total Pell (\$ millions)	Number of Institutions Affected	Total Pell (\$ millions)
<b>Non-Profit</b>	32	\$16	89	\$215
<b>For-Profit</b>	72	\$124	219	\$813
<b>Public 2 Year</b>	6	\$75	125	\$1,884
<b>Public 4 Year</b>	7	\$44	50	\$344
<b>Total</b>	119	\$258	492	\$3,267

Notes: Sample include 7,469 institutions which report credentials per full time equivalent \$31.6 billion of Pell grants.



**Table 10:**

**Pell Expenditures at Block Pell Grant Pilot Institutions (illustrative examples)**

Ope ID	School/System of Schools	State	2011-12 Pell Grants		0.02	Five-Year Contract Amounts
			Recipients	Awards		
00108100	Arizona State University	AZ	26,129	\$100,029,068		\$520,555,287
00113900	California State University, Long Beach	CA	14,492	\$59,684,302		\$310,599,505
N/A	Total -- Miami Dade College	FL	47,746	\$172,014,272		\$895,169,177
00157400	Georgia State College	GA	14,071	\$53,479,729		\$278,310,657
N/A	Total -- University of Hawaii System	HI	18,889	\$65,610,687		\$341,440,650
00991700	Ivy Tech Community College of Indiana	IN	80,896	\$239,815,164		\$1,248,007,747
N/A	Total -- Purdue University	IN	12,894	\$47,970,410		\$249,639,941
N/A	Total -- Kentucky Community College System	KY	61,520	\$199,853,901		\$1,040,047,727
N/A	Total -- University of North Carolina System	NC	69,429	\$276,304,521		\$1,437,899,824
N/A	Total -- City University of New York	NY	147,073	\$561,829,629		\$2,923,783,951
<b>Total</b>			493,139	\$1,776,591,683		\$9,245,454,464

Note: The net cost of program is expected to be zero. Schools will be penalized or expelled from the program if low-income student enrollment falls below certain criterion (current performance). If the program is effective at increasing enrollment and completion of low-income students, schools will keep the ability to participate in the program for the remainder of the period and an additional five years. The above schools and programs are sampled for illustrative purposes only.

**Table 11:**

**Pell Ready Grant Program**

College ready grant program. Create a college-ready exam that juniors will take and that is available to continuing education students. For example, \$125 Million program, can serve 1/3 of students attending high poverty schools, and includes funding for returning students at or below 250 percent of the poverty line.

	Serving Low-Income Schools	Serving 100,000 Students
Current Cohort of Juniors	3,541,891	100,000
Assume open to 9.3% of schools with 75-100% student populations on free/reduced price lunch	329,396	N/A
Assume \$50 testing cost	\$16,469,793	\$5,000,000
\$1750 Grant for on-line course open to those who not ready (if use NAEP basic 55% need help if use NAEP proficient 90%) (assumes 55%)	\$317,043,518	\$96,250,000
<b>Total Cost</b>	<b>\$333,513,311</b>	<b>\$101,250,000</b>

# Obstacles to a More Effective, Sustainable Student Aid System

Over the last 50 years, Congress has created a patchwork quilt of federal grant, loan, and tax benefit policies. The Technical Panel's financial aid program and higher education policy expertise contributed to this synopsis of perceived obstacles in the current student aid system. Specifically, four overarching obstacles hinder the efficiency and long-term sustainability of the aid programs, as well as make it difficult to improve outcomes among aid recipients.

*1. Despite recent improvements, the design and delivery of federal aid continues to be too complex for students.*

- Complexity in the loan program harms affordability in repayment and inefficiently targets scarce subsidy.
- The way financial aid is allocated is not keeping up with rapid transformation in the college student population and disruption in higher education delivery.<sup>1</sup> This disruption is needed to help find ways to reduce the cost of delivering a postsecondary credential and the prices students face as well as maintain the value of financial aid invested.

*2. Federal policymaking demonstrates a lack of long-term thinking and coherent planning.*

*3. Federal policy lags behind what research says are promising ways to more effectively serve students.*

- Inadequate information for students, families and those who advise students about how much college costs and student outcomes. Research shows the value of a “best college match” between student and institution to completing a credential.<sup>2</sup>
- The federal definition of “satisfactory academic progress” does not align with the research showing the value of continuous enrollment intensity, which increases the likelihood a student completes a certificate or degree, and completes on-time.<sup>3</sup>
- The federal government inadequately engages states, systems and colleges as partners in our collective completion challenge.

Each of these obstacles is examined in further detail.

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1 Laitinen, A. 2012. *Cracking the Credit Hour*. New America Foundation: Washington, D.C.

2 Bowen, W., M. Chignos, & M. McPherson. 2009. “*Crossing the Finishing Line: Completing College at America’s Public Universities*.” Princeton University Press: Princeton, N.J.

3 Adelman, C. 2006. “The Toolbox Revisited: Paths to Degree Completion From High School Through College.” U.S. Department of Education: Washington, D.C.

## *Complexity in the loan programs harm affordability in repayment and inefficiently target subsidy*

Differing program structures add to aid complexity and likely confuse students and their parents, which can contribute to the matching errors affecting college completion. For example, the availability of Federal Supplemental Educational Opportunity Grants (FSEOG) depends on the institution attended by the financial aid applicant. Unlike Pell Grants, FSEOG awards are not portable. The statutory formula that allocates FSEOG funds among colleges and universities embeds a basic horizontal inequity in the program.<sup>4</sup> Institutions well served by the formula can provide their low-income students with more grant funds than like students at other institutions.

Historically, the federal student loan program was characterized by many private lenders aggressively competing for student borrowers. As a result, by the time they completed their schooling, many borrowers had loans held by various lenders. Congress' continued propensity to change terms and conditions frequently, especially with regard to borrower interest rates, has done little to help reduce complexity. The same could be said about the department's regulatory activities in recent years. The inconsistent way of reporting costs and aid packages has also added to the complexity, with students often not distinguishing between loans and grants and instead focusing on the out-of-pocket costs.

The program complexity and resulting borrower confusion are not conducive to the efficient operation of the loan program. More important, however, failure to repay is an awful outcome for the student borrower. For all practicable purposes, federal student loans are not dischargeable in bankruptcy. While perhaps harsh, it might not be unreasonable given that federal student loans have no underwriting standards and thus the price of the loan charged to the borrower does not reflect any risk of nonpayment. Consequently, the federal government will pursue collection from a defaulted borrower through wage garnishment, offsetting income tax refunds and attaching other federal benefits. And the department will not cease those efforts until the defaulted loan is paid in full.<sup>5</sup> Thus, students should have a more thorough understanding of debt and the consequences of default when they assume student loans.

Throughout the evolution of the federal student loan program, policymakers have never settled on how broad its benefits should be. At various times beginning in 1966, the program provided the same interest benefits to all of its borrowers, and at other times borrowers received different levels of benefits. Finally, in 1992 they decided it was both: Stafford loans with in-school interest subsidies for needy borrowers, and Stafford loans lacking such interest subsidies for all borrowers.<sup>6</sup> In practice, the term "subsidized" has been understood to refer to Stafford loans wherein the government pays the interest due while the borrower is in school. So there are two loans—not distinctly branded—that are identical in terms and conditions save for borrowing limits and who pays the interest due while the borrower is a student. Stafford loan limits are dollar-based. There is no time limit—students may borrow for an unlimited number of years. Students enrolled at least half-time, even if they are not currently borrowing, are not required to pay the interest due on their Stafford loans.

Two additional loan programs for parents of undergraduate students and graduate and first professional students, PLUS and Grad PLUS respectively, allow parents of undergraduates and graduate students themselves to borrow annually up to the full cost of attendance at institutions. Borrowers in both programs are themselves responsible for all interest that accrues on their

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4 Higher Education Act of 1965, as amended, Title IV, Part A, Subpart 3; 20 U.S.C. 1070b to 1070b-4.

5 U.S. Department of Education. Federal Student Aid. 2012-13 Federal Student Aid Handbook. Vol. 6 Ch. 5.

6 Higher Education Amendments of 1992, (P.L. 102-325).

loans. However, there is no absolute (dollar-based) annual limit, nor is there an aggregate (lifetime) limit for borrowers.<sup>7</sup> There is no limit to the number of years they can borrow as well.<sup>8</sup> Such program features do not encourage timely degree completion and may even encourage growth in tuition prices. Furthermore, they can reduce the value of a degree to the extent that students are able, and perhaps encouraged, to overpay for their educations. For parent borrowers, they can reduce the value of the credential for first-generation/low-income students to the extent that a family overpays and over-borrows to finance a student's education, or that institutions charge higher prices than they otherwise could.

The Internal Revenue Code provides additional benefits to federal student loan borrowers. Within certain income limits, interest paid on college education loans is a deductible expense for individual taxpayers. Though not as generous as the tax credits provided for college tuition payments, this deduction is nonetheless regressive in nature, as it tends to benefit disproportionately higher-income taxpayers. According to the Joint Committee on Taxation, taxpayers with incomes above \$75,000 receive between 47 and 53 percent of the total amount of the benefit, depending on which benefit is claimed.<sup>9</sup>

Programs currently allow for unlimited forgiveness on all federal student loans (except Parent PLUS) through the Income-Based Repayment (IBR) plan. There is no doubt that IBR can be a very helpful tool for borrowers managing their student loan debt and ensuring their financial resources are not overwhelmed by required debt service. Yet IBR, if not designed properly, can weaken the incentive borrowers normally face to borrow and spend prudently. It can also disrupt optimal enrollment patterns because it may strengthen the incentives that institutions already face, including consumer price sensitivities and value calculations, to raise tuitions and thus prolong enrollment times.<sup>10</sup>

### *The way financial aid is allocated is not keeping up with rapid transformation and disruption in higher education delivery.*

Federal, state and institutional aid programs are designed for a traditional-age student at a brick-and-mortar campus. At no level does student aid support an unbundled (less than a course worth of learning), course-by-course or portfolio approach to postsecondary learning.<sup>11</sup> Currently, federal student aid can be used for eligible educational *programs*. Part of the determination is based on credit hours. This “seat time” credit hour, a measure of time spent in class, is not an adequate measure of student learning. Innovative and potentially lower-cost delivery models such as competency-based or modular programs are difficult to quantify under the credit hour measure.

The Kentucky Community and Technical College System, for instance, launched its Learn on Demand (LoD) initiative after the most recent reauthorization of the Higher Education Act in 2008. LoD is an innovative, accelerated and less expensive statewide associate degree program that allows adults to work at their own pace and demonstrate mastery of knowledge as the measure of progress in their degree program. Unfortunately, LoD is constrained in its growth and in serving more nontraditional students because federal regulations require a college to set specific definitions such as academic year, term,

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7 Originally, Congress placed borrowing limits on the PLUS loans. These limits were removed in Higher Education Amendments of 1992. (P.L. 102-325).

8 U.S. Department of Education. Federal Student Aid. 2012-13 Federal Student Aid Handbook. Vol. 3 Ch. 5.

9 Joint Committee on Taxation. January 17, 2012. Estimates of Federal Tax Expenditures for Fiscal Years 2011-2015. Government Printing Office JCS-1-12, p. 52. (Distribution Based on 2010 rates and Income Levels)

10 Kelly, A. Dec. 2012. “A Student Debt Cure Worse Than the Disease.” *The American*. American Enterprise Institute: Washington, D.C.

11 Laitinen, A. 2012. 34 CFR 600.2 and 34 CFR 602.24 and 34 CFR 66.8 <http://ifap.ed.gov/dpclatters/attachments/GEN1106.pdf>

payment periods and enrollment status consistent with federal guidelines when determining how to disburse federal aid to their students. Competencies gained are then assigned credit hours, so students can receive federal aid.

While regulations have been tweaked in recent years to better accommodate competency-based and modular programs that are often provided online through distance education programs, these aid programs are not currently designed for students to take full advantage of new instructional models. Thus, while a few innovators go through the administrative process at the institution to quantify learning in terms of credit hours and justify earned aid to the Department of Education, most institutions can cite the complex and labor-intensive process of quantifying learning in terms of traditional constructs as an impediment to trying innovative programs.

*Recent federal financial aid policy debates and funding approaches demonstrate a lack of long-term thinking and coherent planning.*

Over sixty years, policymakers have layered new grant, loan, repayment programs with each subsequent reauthorization, budget reconciliation and even emergency spending bills. With each modification, made to satisfy a particular need or interest group, subsidy and policy work at cross purposes, resulting in sub-optimal outcomes for students and taxpayers. Further, federal student aid programs have fallen victim to the same policymaking approach that now plagues most federal tax and spending policies: lack of a coherent plan or framework to ensure long-term financial stability. As a result, annual funding for the Pell Grant program is now provided through not one but three budget streams. Worse, one-fifth of that funding expires each year, creating a “funding cliff” that Congress has addressed with emergency funding, knee-jerk changes to eligibility rules, and redirected resources through elimination of other aid programs. Policymakers must contemplate major reductions to program funding, or find an additional \$32 billion between 2014 and 2023.<sup>12</sup>

This dysfunctional dynamic affects federal student loan programs as well. Policymakers spent three months in 2012 debating the merits of providing lower interest rates on a subset of loans that may make up a portion of an undergraduate’s loans, but only for one year.<sup>13</sup> The issue arose because in 2007 Congress enacted a series of temporary borrower interest rate reductions on these loans.<sup>14</sup> The reductions were too expensive to make permanent, so that policy expired in 2012. Under a one-year extension of that policy enacted in 2012, at a cost to taxpayers of \$6 billion, the maximum savings to any one borrower is about \$9 a month.<sup>15</sup> This policy expires again in July 2013.

Add to this patchwork of student loan policy and expiring provisions a new, more-generous Income-Based Repayment (IBR) plan that took effect in 2012.<sup>16</sup> If borrowers pay based on a small share of their income under IBR (not more than 10 percent), how much do interest rates matter, and for whom do they matter? What interest rates do borrowers really pay when they use IBR? These are all complicated questions that few policymakers or stakeholders have thought to ask. But answering those questions is the key to better policy.

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12 Based on calculations by Jason Delisle, New America Foundation.

13 Moving Ahead for Progress in the 21<sup>st</sup> Century Act of 2012. P.L. 112-141.

14 College Cost Reduction and Access Act of 2007. P.L. 110-84

15 Moving Ahead for Progress in the 21<sup>st</sup> Century Act of 2012. P.L. 112-141. Based on calculations by Jason Delisle, New America Foundation.

16 U.S. Department of Higher Education. Office of Federal Student Aid. <http://studentaid.ed.gov/repay-loans/understand/plans/pay-as-you-earn>.

No discussion of this incongruous and temporary federal aid policy would be complete absent a mention of income tax benefits. Students and families can qualify for one of several tax benefits to offset the cost of college tuition. In recent years, those benefits have become vastly more generous. The American Opportunity Tax Credit expanded an existing \$5 billion tax credit to provide nearly \$14 billion in benefits annually.<sup>17</sup> Due to its expense, this program was originally set to expire after 2010, but lawmakers extended it through 2012.<sup>18</sup> Then, in December 2012, Congress extended the AOTC till 2017 in the American Taxpayer Relief Act of 2012, at a cost of \$67 billion.<sup>19</sup> This policy, then, would continue to compete for resources with the other federal student aid programs.

### *Federal policy lags what recent research says are promising ways to more effectively serve students.*

Recent research on the effects of financial aid on student outcomes identify some ways that the design and delivery of current federal financial aid policy lag emerging evidence.

### *The role of simplification in promoting access and affordability*

No barrier is perhaps as well substantiated by research as the role that simplifying the application process could play in promoting access, affordability and completion.<sup>20</sup> Needy students who never apply for federal financial aid lack foundational resources to enroll, and preferably enroll full-time, in college.

The federal need analysis formula creates application barriers and hinders otherwise eligible students from receiving aid. The Free Application for Federal Student Aid (FAFSA) is complex, though perhaps unintentionally so. Prior to the 1986 Amendments to the Higher Education Act (HEA), Congress specified the broad outline of the need analysis formula, and the department—via regulation—established the detailed methodology and parameters. In 1986, however, Congress took complete responsibility for need analysis policy as well as the formula details.<sup>21</sup> Family and applicant income—both taxable and untaxed—as well as liquid and non-liquid assets were explicitly defined in the statute, along with the various offsets that shielded portions of income and assets from consideration in the formula. The statute also defined the composition and members of the applicant’s household. Congress also provided for a “simplified need test” using a reduced set of income and household information for applicants who met certain income and federal income tax filing requirements.

In response to widespread concern about the actual and possible proliferation of need analysis application forms and the associated family/student burden in filing multiple forms, Congress mandated in the 1992 HEA Amendments a single

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17 This refers to the expansion of the Hope Credit to the American Opportunity Education Tax Credit under the American Recovery and Reinvestment Act of 2009 PL 111-5.

18 Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010. P.L. 111-312.

19 American Taxpayer Relief Act of 2012. PL 112-240. Calculations regarding the Hope and American Opportunity Tax Credit by Jason Delisle, Advisory Panel member and Director of the Education Budget Project at New America Foundation.

20 Dynarksi, S. and Scott-Clayton, J. 2007. College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid. Brookings Institution; Washington, D.C. Bettinger, E. 2012. “Financial Aid: A Blunt Instrument for Increasing Degree Attainment” in *Getting to Graduation*. Edited by Kelly, A. and Schneider, M. (Johns Hopkins University Press: Baltimore, MC), pp. 157-17. College Board. 2008. “Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid: The Report from the Rethinking Student Aid Study Group”. Bettinger, E., Long, B., Oreopoulos, P. & Sanbonmatsu, L. 2012. “The role of simplification and information in college decisions: Results from the H&R Block FAFSA experiment” (*Working Paper No. 15361*). National Bureau of Economic Research.

21 The Higher Education Amendments of 1986 (P.L. 99-498)

methodology as well as a single, no-charge application form (FAFSA) for determining Title IV eligibility. Congress also authorized the department secretary to include a limited number of data elements to serve as an incentive for states and institutions to use the FAFSA and federal methodology for awarding their own aid.<sup>22</sup>

Owing to a federal need analysis formula specified in statute, prior—and largely unsuccessful—efforts to simplify the financial aid application process have taken a “form follows formula” approach. That is, the financial aid application form can be simplified, but only if the federal formula is modified, which, of course, requires congressional action.

Three years ago, the department took a different tack: Approach aid simplification from the user’s perspective by leveraging available technology. The department, and in particular Federal Student Aid, has greatly improved the electronic products—most notably FAFSA on the Web—with improved skip logic and response times. Current estimates are that at least 98 percent of all FAFSAs are submitted electronically.<sup>23</sup> What is not known is the number of students, and prospective students, who would otherwise be eligible for aid but who do not apply. To be sure, there is evidence that this number is in decline. After all, the number of FAFSAs processed by FSA each year is approaching the total postsecondary enrollment.<sup>24</sup>

As of 2010 certain online applicants for federal student aid could retrieve information needed to establish student aid program eligibility from Internal Revenue Service income tax files. Not all FAFSA filers can utilize this feature because of the mismatched timing of filing individual income tax returns and applying for financial aid. But for the 24 percent of applicants who can use it, required verification of FAFSA applicant information is greatly simplified.<sup>25</sup> Better coordination between the timing of aid application and income tax filing would allow many more aid applicants and their families to take advantage of this simplification feature.

### *The role of better consumer information in guiding a “best college match”*

The choice of institution can have a significant effect on student success, over and above students’ academic and socioeconomic background. For instance, in Bowen, Chingos and McPherson’s analysis of six-year graduation rates from 21 public flagship universities and four statewide systems, the authors argue that “broadly speaking, education attainment suffers, and students (and higher education in general) are harmed, whenever two types of sorting errors occur: (a) students are “overmatched” by enrolling in programs for which they are not qualified or (b) students are “undermatched” by failing to attend colleges and universities at which they will be appropriately challenged.<sup>26</sup> Undermatching primarily occurs during the admissions process, which is linked to the financial aid process.<sup>27</sup>

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22 The Higher Education Amendments of 1992 (P.L. 102-325)

23 U.S. Department of Education. 2012. Why Complete a FAFSA. Federal Student Aid. <http://studentaid.ed.gov/sites/default/files/2012-13-completing-the-fafsa.pdf>

24 2012 Federal Student Aid Conference Presentations. Session 26: FAFSA & Application Processing Update. [PowerPoint Presentation]. (November 2012) Parkinson, S. & Sears, J. U.S. Department of Education.

25 U.S. Department of Education, 2011. Federal Student Aid Application: Facts and Figures. U.S. Department of Education: Washington, D.C.

26 Bowen, W., M. Chingos, & M. McPherson. 2009.

27 Researchers have also found that an approach to learning that holds incoming students to high standards while providing them with support services—both academic and social—and supportive environments leads to improved outcomes, including higher completion rates.

The federal financial aid system does not exert adequate consumer protection by providing information to prospective students and their families or by protecting them from investing their aid dollars in low-quality institutions. Such information can assist students and their families to think about the range of available postsecondary options in terms of what are the likely financial and personal returns on their prospective college investment.

To start, students applying for college and financial aid do not always have clear information about whether the colleges they are considering have a track record of graduating students on time, and low-income students have little clue which campuses serve needy students best. While the U.S. Department of Education has begun providing institution-specific six-year graduation rates to federal financial aid applicants, institutional eligibility to participate in the Title IV programs still does not provide sufficient consumer information and protection to help students and families make good college choices.<sup>28</sup>

To be sure, the regulations are full of required disclosures, notifications, reporting and the like. But there is no focused determination of what prospective students and their parents need to know. These “consumerism” requirements have essentially become a set of check-off boxes for the department to determine institutional eligibility, rather than a proactive tool with which regulators can help inform consumer choice and aid in consumer and taxpayer protection. Instead of conducting research and a thorough *ex post facto* review of their efficacy and utility, policymakers have simply layered one required disclosure on top of another, leading to a product of little use to the average consumer. Simple performance metrics and thresholds, tied to institutional eligibility for federal financial aid, could be a much more powerful way to protect students, particularly first-generation college students, while providing the comparative information they need to make a “best college match.”

### *The role of targeting aid in improving student outcomes*

A recent meta analysis, conducted by Drs. Doug Harris and Sara Goldrick-Rab, summarizes findings of financial aid experiments in the United States and Canada. Similar findings emerge about the relationships between how financial aid is targeted and student outcomes:

- Aid often does help improve student outcomes.
- Effects can be small if the aid is not targeted.
- Some groups respond (positively) more than others:
  - low-income students (e.g. Pell-eligible);
  - lowest-income students within low-income groups (e.g., the lowest-income Pell students);
  - students without strong academic backgrounds (though not necessarily the weakest);
  - older students (e.g., 25 years and older); and
  - women (a consistent finding, but probably not relevant for policy).<sup>29</sup>

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28 34 CFR 668.41-.48; College Navigator, Net Price Calculators required by the 2008 HEOA and the institutional performance measures sent to students from the Office of Federal Student Aid only after choosing to send their financial information to an institution are examples of current consumer information provided or required by the federal government.

29 Harris, D.N. & Goldrick-Rab, S. 2012.



## Studies Finding Behavioral Effects of Student Financial Aid by Subgroup and Treatment Type

Type of Aid Provided (Treatment Type)	Sub-Groups	Smaller/ Negative Effect	No Difference/ No Effect	Larger/ Positive Effect
<b>Need only (Pell, Social Security)</b>	Women			1
	Minorities		1	
	Low-income/SES		1	1
	Older/ nontraditional			1
	Low ACT/GPA			
<b>Merit within need (GMS, Opening Doors, state programs)</b>	Women	1	1	2
	Minorities		1	
	Low-income/SES		1	3
	Older/ nontraditional			2
	Low ACT/GPA			
<b>Merit only (Canada STAR, state programs)</b>	Women		1	1
	Minorities	1	1	1
	Low-income/SES	1		1
	Older/ nontraditional			
	Low ACT/GPA			2
<b>General (GI Bill, tuition changes)</b>	Women			
	Minorities		1	
	Low-income/SES	0.5*		1
	Older/ nontraditional			
	Low ACT/GPA			

Reprinted from Harris, D.N. & Goldrick-Rab, S. 2012. *Improving the Productivity of Education Experiments: Lessons from a Randomized Study of Need-Based Financial Aid. Education Finance and Policy*. p. 143-169. \*Study listed as 0.5 because authors felt the study was dated and occurred in a higher education system with significantly different conditions.

Some studies show early evidence that there are better results when the aid is provided as an incentive to help the student progress toward a degree, such as taking more courses or participating in support services. Most of the experiments structured with those elements have found positive results.<sup>30</sup>

30 Johnson, N. & Yanagiura, T. 2012. "Evaluation of Indiana's Financial Aid Programs and Policies." HCM Strategists. HCM Strategists: Washington, D.C.. Observed from studies such as: R.A. Malatest and Associates, Ltd. 2009. "FINAL Impacts Report: Foundations for Success Project." Toronto: Canada Millennium Scholarship Foundation. Patel, R. & Richburg-Hayes, L. 2012. Performance-Based Scholarships: Emerging Findings from a National Demonstration. MDRC. [http://www.mdrc.org/sites/default/files/policybrief\\_41.pdf](http://www.mdrc.org/sites/default/files/policybrief_41.pdf). Scott-Clayton, J. 2011. "On Money and Motivation: A Quasi-experimental Analysis of Financial Incentives for College Achievement." *The Journal of Human Resources*. Vol. 46 no. 3. University of

A major, statewide experiment under way in Wisconsin, on the other hand, has found that simply adding dollars to low-income students' aid packages with minimal communication, targeting or strings attached has little significant effect on student outcomes for recipients.<sup>31</sup> However, the same study is finding improvements for the most at-risk students and students at the least selective four-year institutions (who are often the same students). Thus, there is some evidence that additional funds could benefit the neediest students.

### *The role of intensity of enrollment in completion*

Research has shown that a student's attendance pattern is highly correlated with the likelihood he or she will attain a credential. The recent research conducted by the Community College Research Center contributes multiple studies on the role of credit accumulation and the attainment of certain credit "milestones" in predicting college completion.<sup>32</sup> Cliff Adelman's earlier longitudinal transcript study on the factors affecting college completion found continuous enrollment was one of the strongest predictors of attainment, increasing the likelihood of degree completion by 43 percent.<sup>33</sup> This research has informed the development of performance metrics used to guide program and institutional improvement in top-performing community colleges, in performance funding systems for public colleges in Indiana, Ohio, Tennessee and Washington, and in a common set of metrics 32 states voluntarily collect through participation in the Complete College America Alliance of States.

This is not to say the federal government has historically ignored student progress. But the program characteristics intended to address such goals and concerns have been indirect until recently. In 2012, Congress reduced the lifetime limit for Pell from 18 to 12 semesters (or equivalent).<sup>34</sup>

With respect to determining a student's enrollment intensity, regulations governing Title IV defer to institutional policy, but with one overarching standard: A student must be enrolled for a minimum of 12 credit hours (or equivalent) to be eligible for a financial aid award available to full-time students. Assuming a 120-credit standard for a bachelor's degree, federal policy does not provide an incentive for students to complete a bachelor's program within four years. At 12 credit hours per semester, it would take a student five years, assuming all classes were passed. While the federal standard is derived from the statutory definition of an academic year, it nonetheless provides no incentive for students to complete their program of study promptly – or for colleges to minimize credit creep in programs, offer core courses when needed, or put structured degree pathways in place.

More recent research has examined the effect of using financial aid to create incentives for students to accumulate credits and strive for higher grade point averages (GPAs). The results provide early lessons that policymakers might consider to enhance individual students' academic progression. In the small number of randomized financial aid experiments findings have generally confirmed that financial aid can improve student success, especially if it is appropriately used. Several controlled experiments with "performance-based scholarships" have found that additional aid, presented as an incentive for course

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Wisconsin Press.

31 Harris, D.N. & Goldrick-Rab, S. 2012.

32 Bailey, T., Jeong, D.W., & Cho, S.W. (2010). "Student progression through developmental sequences in community college," 45, Community College Research Center: Columbia University. Jenkins, D. & Cho, S. (2012). "Get with the Program: Accelerating Community College Students' Entry into and Completion of Programs of Study," 32, Community College Research Center: Columbia University.

33 Adelman, C. 2006.

34 Budget Control Act of 2011. (P.L. 112-25).

completion, increases the progression rates of low-income students.<sup>35</sup> A significant Canadian study of aid at two-year technical and community colleges found improvements in outcomes when additional aid was given to randomly selected students in connection with enhanced advising and student services (compared with students who got nothing, or just the additional services).<sup>36</sup>

*The federal government inadequately engages states, systems and colleges in our collective completion challenge.*

The federal effort to work cooperatively with states and institutions to address common policy objectives has been superficial at best. The Higher Education Act authorizes the education secretary to include data elements on the FAFSA that are not needed to determine eligibility for federal aid but that states and institutions would find helpful for allocating their own resources. Regrettably, this essentially is the extent of federal-state cooperation with regard to coordinating common policy goals.

Though federal student aid is critically important in accelerating desired outcomes for higher education, states and institutions must engage as well. State and local government spending on higher education still far exceeds the federal contribution. In addition to some \$9.9 billion in grant aid to students, state and local governments spend more almost \$70 billion each year in directed appropriations to institutions that help keep tuition costs well below the actual cost of instruction.<sup>37</sup>

In recent years Congress has eliminated funding for a long-standing federal-state partnership—the Leveraging Educational Assistance Partnership program (LEAP)—on the grounds that the program achieved its objective to establish in each state a publicly funded, need-based grant program.<sup>38</sup> However, a similar matching program the College Access Challenge Grant program continues to be funded with a maintenance of effort provision aiming to increase the number of low-income students entering college.<sup>39</sup> All that remains to align and incentivize investment in need-based aid at the state and institutional levels is the blunt maintenance of effort definition, which requires a state to financially support higher education in an amount equal to or greater than the average amount provided over the past five fiscal years for both (a) public colleges and universities (excluding capital expenses and research and development costs) and (b) private higher education (as measured by financial aid for students attending private colleges).<sup>40</sup> Given that a Pell Grant can not be expected to cover the full cost of postsecondary education, new approaches to strengthening the federal/state/institutional partnership need be tested and evaluated.

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35 Patel, R. & Richburg-Hayes, L. 2012. Scott-Clayton, J. 2011.

36 R.A. Malatest and Associates, Ltd. 2009. FINAL Impacts Report: Foundations for Success Project. Toronto: Canada Millennium Scholarship Foundation.

37 College Board. 2012. “Trends in Student Aid 2012.” College Board: New York, NY. State Higher Education Executive Officers. 2012. “State Higher Education Finance FY 2011.” SHEEO: Boulder, CO.

38 Office of Management and the Budget. 2010. The President’s Budget for FY 2011.

39 20 U.S.C. Section 1141

40 U.S. Department of Education. April 13, 2012. College Access Challenge Grants Maintenance of Effort: Technical Assistance Webinar.