



1536 U Street NW | Washington, DC 20009 | 202-534-3560 | www.younginvincibles.org

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Testimony of Jennifer Mishory, Young Invincibles' Deputy Director, Before the House Education and the Workforce Committee

Chairman Kline and Senior Democratic Member Miller, I thank you for inviting me to testify before you today about issues central to improving access to postsecondary education: the student experience with federal financial aid.

My name is Jennifer Mishory and I am the deputy director of Young Invincibles, a non-profit organization dedicated to expanding economic opportunity for young adults. We are committed to ensuring that a quality postsecondary education is affordable and accessible for all. At Young Invincibles, we engage with students across the country on issues such as college affordability and access, elevate their stories, and ensure that our leaders in Washington truly understand the experience of today's student.

Our generation understands that getting a post-secondary degree is essential to our own success and to grow our economy. But we are concerned that declining public investment in higher education has fueled tuition hikes and made it harder for so many young people to go to college. For instance, states are spending 28 percent less per student on higher education nationwide this year than they were in 2008 when the Great Recession hit.¹ As a result, tuition at four-year public colleges rose 27 percent in the last five years, and in some states, it spiked more than 70 percent.²

While grant aid historically paid for a much larger share of tuition, that is no longer the case. In 1980, the Pell grant covered more than half the cost of a typical four-year public college, but now, Pell grants cover less than one-third of the cost, the lowest level since the start of the program.³ With grant aid falling and tuition rising, students across the country struggle to make up the difference by taking out loans. As a nation, we now hold over \$1 trillion in student debt. About two-thirds of all college students now graduate with loans.⁴ Thirty-nine million student loan borrowers have outstanding student loan balances.⁵ Over five million student debtors have at least one past due student loan

¹ The Center on Budget and Policy Priorities (CBPP), "Recent Deep State Higher Education Cuts May

² Ibid.

³ The Institute for College Access & Success (TICAS), "Pell Grants Help Keep College Affordable for Millions of Americans," http://www.ticas.org/files/pub//Overall_Pell_one-pager_FINAL_03-15-13.pdf (last visited July 29, 2013).

⁴ Young Invincibles, "College Affordability Facts," <http://younginvincibles.org/wp-content/uploads/2012/10/college-affordability-fact-sheet.jpg> (last visited August 2, 2013).

⁵ Federal Reserve Bank of New York, "Student Loan Debt by Age Group," <http://www.newyorkfed.org/studentloandebt/> (last visited September 30, 2013).

account, and of our total outstanding student loan debt, \$85 billion is past due.⁶ Reforms are now more important than ever. Federal financial aid must provide meaningful access to higher education for all students and families, and we urge this committee to explore how to urge colleges and universities to lower the rising cost of college.

As more students and families turn to loans to make up for state and federal disinvestment in higher education, we know that students struggle to navigate the complex maze that is federal financial aid, from applying for aid to repaying their loans.

I want to share one story with you that is particularly relevant to today's hearing. Last winter, a friend – a former teacher – reached out to me about his former student, whom he had taught years ago. This student was working hard as a freshman at a four-year public institution in Illinois toward a career as a physical therapist. She grew up in a low-income community in Chicago, and as the first member of her family to attend college, she strove to obtain an education to lift herself out of poverty.

Like most college students, she relied on a series of federal and state grants and loans to get to where she was. However, at the end of the semester, she found herself with an account that was overcharged, and nowhere to turn for help to fully understand the system. After working through a morass of information that I myself found confusing, I realized: she simply did not have enough financial aid to cover her costs. She faced a confusing yet very real aid gap. There were a variety of reasons why it took until January before her second semester for the unmet need to become clear, but by then it was too late. She could not find a way to fill the shortfall and clear her account for the second semester. Her mother was, understandably, hesitant to take out parent loans, and worried she would not qualify. Private loans were not an option. This college freshman, with so much potential, dropped out. I'm hopeful that she enrolled in a two-year school, but I don't know how her story will end.

I tell this story for two reasons. The first is to illustrate what an overly complex federal aid system can do to limit access and success. The second is to illustrate that simplification of that system cannot result in further cutting aid to students struggling to educate themselves into the middle class. Students that we talk to generally support making aid simpler and more functional, but students are overwhelmingly against cutting financial aid and protections for borrowers. In fact, in a 2011 poll, about 8 in 10 students opposed cutting Pell or loan subsidies to reduce the deficit.⁷

I urge this committee to keep that in mind as you consider steps to make this important system more transparent. Reforms are now more important than ever, as students face a dizzying array of challenges while trying to use federal financial aid to advance their careers and achieve economic security.

⁶ *What We Found: A Summary of Key Findings from Young Invincibles Youth Bus Tour* (Washington, DC: Young Invincibles, 2012), 13-18, accessed August 2, 2013, <http://younginvincibles.org/2012/06/june-1-2012-2/>.

⁷ Jen Mishory and Rory O'Sullivan, *The Student Perspective on Federal Financial Aid Reform*, 10.

First, students face unnecessary complexity in the federal financial aid system from the start. Applying for financial aid through FAFSA, a ten-page, 106-question form⁸, leaves many confused and deters some students from even applying for aid. An estimated 2.3 million students in 2007-2008 who would have qualified for financial aid failed to even file FAFSA.⁹ While there have been recent improvements, only 55 percent of high school seniors completed FAFSA in 2012.¹⁰ One out of four lower-income students who did not file FAFSA would have qualified for federal grant aid.¹¹

Next, students grapple with pages upon pages explaining the master promissory note, financial aid award letters with drastically different definitions of aid, numerous loan types, changing interest rates, and an 80-page explanation of education tax benefits.

In a recent Young Invincibles survey, 40 percent of high-debt borrower respondents reported that they did not receive federally mandated loan counseling.¹² It is perhaps unlikely that so many schools are out of compliance, but that statistic warns us that many young people benefit so little from loan counseling that they do not remember receiving it – or did not consider what they received to constitute counseling. About two-thirds of private loan borrowers in a recent survey, including those with private and federal loans, did not understand the major differences between their private and federal loan options.¹³

Finally, things get arguably even more complex when borrowers gear up for repayment. They face seven different student loan repayment plans of varying terms and benefits. Though each plan may have arisen from good intentions to help specific types of borrowers, together these plans create a system where borrowers frequently struggle to choose the repayment plan that's right for them. Many borrowers simply stay in standard repayment, even if they will struggle to afford the monthly payments. At the same time, we face a sky-high student loan default rate.

Challenges like these make it imperative that we create a streamlined, transparent federal financial aid system. Fortunately, there are several promising reform ideas.

First, we suggest that this committee consider how to reduce the burden on students and institutions when applying for aid. For example, one significant reform that has been discussed is transforming the FAFSA into a two-question form: family size and gross

⁸ Federal Student Aid, "FAFSA: Free Application for Federal Student Aid, July 1, 2013 – June 20, 2013," U.S. Department of Education, <http://www.fafsa.ed.gov/fotw1314/pdf/PdfFafsa13-14.pdf> (last accessed August 2, 2013).

⁹ Heather Novak and Lyle McKinney, "The Consequences of Leaving Money on the Table: Examining Persistence among Students Who Do Not File a FAFSA," *Journal of Student Financial Aid* 41, no. 3 (2011): 6, www.nasfaa.org/WorkArea/linkit.aspx?LinkIdentifier=ID&ItemID=10164.

¹⁰ Education Sector at American Institutes for Research, "FAFSA Completion Rates by State," *The Quick and the Ed*, <http://www.quickanded.com/2013/07/fafsa-completion-rates-vary-by-state.html> (last accessed September 26, 2013).

¹¹ *Ibid.*

¹² Jen Mishory and Rory O'Sullivan, *The Student Perspective on Federal Financial Aid Reform*, 11.

¹³ *What We Found: A Summary of Key Findings from Young Invincibles Youth Bus Tour* (Washington, DC: Young Invincibles, 2012), 13-18, accessed August 2, 2013, <http://younginvincibles.org/2012/06/june-1-2012-2/>.

income. Not only would this dramatically reduce administrative costs for the Department of Education and the taxpayer, but it would also be a major step forward for students. Now is the time to be exploring bold proposals like this one.

Second, I urge the committee to consider consumer testing financial literacy materials and student loan counseling to create a simple counseling system that helps borrowers make smart financial decisions. For example, students receive financial aid award letters with inconsistent language. Often, the language makes it hard for students to understand the amount of grants and loans they will receive. Over 90 percent of students agree that financial aid award letters should be standardized.¹⁴ We know that we need to find out from students themselves what information borrowers need and how to convey it. Websites, navigators, and other tools that are tailored to contain the best information in the easiest-to-digest way could help students make better, more informed choices about schools and financing their education. We further suggest updating federal financial aid systems by simplifying the interface through student feedback.

However, student feedback also consistently tells us that policymakers must not assume that students will be able to translate data and information into good decisions without accompanying investment in better counseling and financial literacy. We strongly urge the committee to explore ways to increase access to counselors for students who desperately need guidance.

Third, it is also worth noting that our current system of providing higher education tax benefits is overly complicated and flawed. While I recognize that it is outside this committee's jurisdiction, I urge the committee to rethink and simplify tax incentives for higher education while better targeting tax expenditures to students striving to lift themselves and their families out of poverty. There are more than 18 higher education-related tax benefits, and they often come too late and are too complex. One suggestion is to consolidate credits into the American Opportunity Tax Credit that better targets the neediest students. Another option is to redirect expenditures for tax-exempt qualified 501(c)(3) bonds that help private institutions and high-income investors to bolster the Pell grant program, so that we serve the students who need assistance the most.

Finally, simplifying repayment could make a big difference for borrowers. Income-based repayment has gone a long way to help borrowers with unmanageable monthly payments. It was implemented with bipartisan support in 2007, and we thank the members of Congress in this committee for their support for the policy.

But, too many borrowers who could benefit from income-based repayment don't know about the option. Uptake of income-based repayment has been low, leading to financial stress and defaults in difficult economic times. Many people report that they were unaware of income-based repayment until they were already struggling to repay their loans, or had already defaulted. Others report difficulty actually enrolling into the system. Yet this much-needed relief could be key to lowering default rates. We are

¹⁴ Jen Mishory and Rory O'Sullivan, *The Student Perspective on Federal Financial Aid Reform*, 15.

pleased that the Department of Education will begin proactively reaching out to students who may be eligible for plans like IBR.

This committee could build on that effort with bold changes. As part of an improved system, we recommend either automatically enrolling all borrowers in income-based repayment or allowing them to opt out of income-based repayment and into standard repayment if they deem it a better repayment plan for their individual needs. Students support this shift: a survey conducted by Young Invincibles found that 89 percent of respondents agreed or strongly agreed with being automatically enrolled in an income-based repayment plan.¹⁵ We should also revisit the current IBR system to explore how to incentivize borrowers who can afford to pay their loans off faster to do so. Repayment should be as easy as possible, and we suggest exploring ways to collect debt payments through the payroll tax system, or allow automatic deferments to kick in if a borrower is earning too little or is unemployed.

Under our vision of a reformed income-based repayment plan, the typical borrower would still pay off their loans in similar monthly payments to the current standard plan. But income-based repayment would serve as a cushion for the many borrowers who find themselves in periods of unplanned financial distress. That would lower default rates and give borrowers the relief that they need with minimal burden to the federal government or servicers. It would also reduce the number of repayment plans, making repayment simpler and less confusing for borrowers as a whole.

We are encouraged that this committee has expressed an interest in simplifying student aid, and specifically by using a single repayment plan to reduce confusion. We have concerns, however, about some aspects of the income-based repayment proposals that have come out in the past, in that they lack many necessary protections for struggling student loan debtors. Caps on interest rates, student loan forgiveness for public service employees or debtors who have been paying for decades, are vital elements in the current system. Again, we should not throw out important policies in the name of simplicity. There are plenty of opportunities that simplify federal financial aid *and* preserve the best parts of the system for our nation's hardworking students.

As we discuss reforms that we know we must make to create a simpler, more efficient federal financial aid system, we cannot ignore the institution's role in improving higher education. Schools should also strive to do their part to keep tuition low, particularly if increasing numbers of student loan borrowers repay their loans based on their income. Servicers must also focus on creating borrower-friendly policies to support struggling students and families.

We know that students struggle to navigate the complicated federal financial aid systems that we have in place, and I am encouraged that this committee is devoting this hearing to exploring how to make it better. We can make a lot of progress if we use student-centric mindset to improve our policies. I thank this committee for considering the student perspective as you work to explore much-needed reforms.

¹⁵ Ibid.