Statement by

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on

Keeping College within Reach: The Role of Federal Student Aid Programs

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Thank you Chairwoman Foxx, Ranking Member Hinojosa and Members of the Committee for the opportunity to share my perspective on the appropriate role of the federal government in higher education. As a now-retired senior civil servant in the U.S. Department of Education, I had the privilege to serve nine secretaries of Education and participate in five reauthorizations of the Higher Education Act.

Over the past year, I have had the opportunity to advise a number of efforts focused on finding ways to serve more students, and serve them better, with federal financial aid. These include the American Dream 2.0 coalition, and Gates Foundation-supported Reimaging Aid Design and Delivery (RADD) reports produced by the National Association of Student Financial Aid Administrators and HCM Strategists. Today, however, I am sharing my own thoughts and ideas on this important topic.

Why are we hearing so much about financial aid reform and why does the federal government care? I think the higher education landscape has changed significantly since the last Higher Education Act (HEA) reauthorization. The performance of higher education—the outcomes institutions achieve on behalf of their students—is at the forefront of the public's mind. According to recent polling conducted by Hart Research, earning a college degree or credential is very important to 84 percent of engaged voters, 95 percent of African American parents, and 97 percent of Hispanic parents.

To meet these expectations, the federal government continues to spend billions of dollars on college aid and the results of our investments are simply inadequate. If today's economy requires valuable postsecondary credentials to attain and retain good, middle class jobs, we can imagine what tomorrow's economy will demand. The high premium on college completion is remarkably different today compared to nearly 50 years ago when federal college opportunity grants were first created. Graduation rates are too low and gaps between student who succeed and those who drop out are profound. More than half of Hispanic students—our country's fastest growing population—who enter postsecondary education have not earned any type of credential six years later. Just one-fourth of young adult Pell Grant recipients ever complete a bachelor's degree, and even fewer ever complete an associate's or certificate program. Among adult Pell recipients who complete college, only three percent earn a bachelor's degree, while nine percent earn an associate's and 25 percent complete a certificate program.

At the same time, students and families are finding college necessary but increasingly unaffordable. More students are accruing education debt but attaining no degree. The student loan default rate for students who did not attain their credential is four times higher than that for those with a bachelor's degree. We must ask ourselves—is this what we intended when we designed the federal financial aid system?

Financial aid can and I believe should be used more effectively to improve student success. The federal investment in financial aid is at an all-time record level. Over the past decade, the number of Pell Grant recipients has doubled to more than 9 million undergraduate students—nearly half of all such students. Today, nearly 75 cents of every financial aid dollar available in this country comes from the federal government. Revenues from Pell Grants pay an average of nearly 20 cents of every tuition dollar received by a college, university or other postsecondary institution in this country.

There are a number of excellent ideas percolating that will improve the federal financial aid system without generating new costs, nor increasing burden on students, their families, and institutions. I will briefly describe four such ideas.

First, the financial aid application process can be made simpler for students and families. For example, why do we ask them to figure out which federal income tax form they could have filed? And a simpler system can help us better focus resources on our neediest students. We can accomplish this with a three-tiered approach to aid application but simplified through better leveraging of existing technology to enhance the Department's electronic processes, including FASFA-on-the-Web.

The first tier in this approach would automatically make any student eligible for a full Pell grant if they, or their family, participated in another federal need-based program. However, this "bypass" approach unequivocally demands reliable, independent third-party verification of that participation. The second tier, for most other students, would ask for minimal income information, not unlike the current simplified needs test, but with all financial data provided automatically via agency-to-agency arrangement with the Internal Revenue Service, not unlike the current IRS data retrieval option available in FAFSA-on-the-Web. The third tier would seek additional income and asset information (also from the IRS) for families with more complicated financial circumstances as indicated by their filing of one or more of the several schedules associated with filing the long-form, i.e. 1040, tax return. By just simplifying the application process in this way, the Brookings and Urban Tax Policy Center estimates 10-year savings of at least $37billion.

Second, Congress faces an immediate opportunity to vastly simplify the student loan program and spend those federal resources more efficiently. It is time to end the multiple loan programs, with different eligibility requirements, interest rates and repayment terms. There is a growing chorus supporting the automatic enrollment of borrowers in a single, improved income-based repayment plan. The current system asks young adults—especially low-income individuals—to be managers of complicated loan portfolios for no good reason that I can see, other than policymakers continually responding to near-term budget pressures.

I ask your indulgence and allow me to digress for a moment. The 1986 HEA Amendments authorized a five-year Income Contingent Loan demonstration program for ten college and university participants. The Department ended the demonstration after four years because by that time we learned one critical piece of information—individuals are extremely reluctant to disclose their personal income information. Consequently, several years later when developing the income-contingent repayment plan for the new direct loan program, the Department required IRS verification of a borrower's income as a condition of participation in that repayment plan.

Ideally, then, a single, income-based repayment program would be implemented in a way that ensures reliable income reporting by borrowers. One way would be a payroll-based payment system, that is, employer withholding not unlike federal payroll taxes. This approach would also have the advantage of "real time" income reporting rather than relying on the after-the-fact approach necessitated by income verification based on previously filed income tax returns. Loan payments for borrowers not subject to wage withholding could be tied to their required quarterly self-employment tax reporting.

The borrower's interest rate for these loans should be market-based. Many of the reform proposals issued recently recommend establishing the 10-year Treasury note as the reference rate and then adding a few percentage points to set the borrower's interest rate. Congress would set the value of the add-on percentage as a way to specify the overall level of federal budget support for the student loan program.

Moving to a market-based rate would save money that could be invested in Pell Grants. The New America Foundation, using fair value accounting, estimates this proposal would cost $17 billion in the first five years, chiefly because the gap between borrower interest and Treasury borrowing rates is historically wide. This proposal would save $25 billion over a 10-year budget window because that gap is expected to narrow considerably in the future, reflecting historic trends. In 2011, CBO estimated that a similar proposal would save $52 billion over 10 years.

Third, there should also be accountability for ***all*** federal aid dollars spent. This can be achieved through a multi-pronged assessment of institutional eligibility for Title IV financial aid that considers measures of access and equity, loan repayment, and risk-adjusted completion rates. Today, the Department essentially uses a check-off box approach—cohort default rate, financial responsibility, 90-10 rule, and the like—to ensure federal funds are appropriately spent. It terms of institutional accountability, it simply does not look at student outcomes.

In the late 1980s when policymakers first advanced the notion of using student loan default rates as an institutional accountability measure for federal student loans, institutions objected, largely on the grounds that the Department did not have reliable school-level data. But the enacted provision included a transition period, which allowed most schools to respond positively to the new measure while the bad actors were removed. Institutional and government data systems continue to improve, so a more balanced set of metrics that measure access, completion and value are more feasible than ever. These metrics can protect the taxpayers and students from the most egregious cases of debt with no degree while also promoting overall transparency for consumers.

Fourth, we know we face significant challenges in higher education. In my view, we need to experiment to find the best solutions. Congress has periodically authorized focused demonstration programs. The Department has ongoing authority through experimental sites to test and rigorously evaluate new approaches to delivering financial aid on campus in the most cost-effective manner possible. However, this authority precludes waiving award rules, maximum grant and loan amounts, and need analysis requirements. I completely agree with this prohibition. I would never want to see a Pell recipient lose her grant because the federal government was sponsoring an experiment of some sort at her school.

The current experimental sites authority provides for waivers—it does not authorize funding. Perhaps the experimental sites authority could be expanded to allow for additional waivers as long as individual students were held harmless in terms of federal financial support received.

Today, one in three Pell Grant recipients reports using their grant to pay for remedial education. Across the country, states, colleges and nontraditional providers like Straighterline are showing us that there are likely more cost-effective ways to customize and accelerate remedial education. A small-scale experimental site might test eliminating funding for remedial education through Pell Grants while providing alternative funding to students for their remediation needs.

In terms of a larger scale, programmatic approach, a modest level of savings redirected from changes in federal needs analysis or the loan program, a college readiness demonstration could be funded. Perhaps a $100 million investment could finance a limited number of participating states that would enter into competency-based performance agreements with remedial education providers and serve an agreed-upon number of students in high-poverty high schools. These agreements could also cover young adults just out of high school as well as low-income working adults returning to college seeking to acquire new job skills. These agreements would have built-in bonuses for early attainment of college readiness so we can test and evaluate ways to provide incentives to students to gain competencies at an accelerated pace.

In closing, I think we are seeing a remarkable convergence. The general public and employers agree that the most effective jobs program is one that ensures that more students graduate with a post-secondary credential—whether a certificate, 2-year or 4-year degree. At the same time a number of organizations have been thinking creatively about ways to increase the number of well-educated graduates by improving the way the federal government spends the dollars *it already invests* in higher education.

Thank you for the opportunity to testify today. I am happy to answer any questions that Members of the Committee may have.