

Seven

Provide more need-based grant aid while simplifying the financial aid system and making it more transparent

WE RECOMMEND that federal and state officials encourage increased access by providing more need-based grant aid, by making the process of applying for financial assistance more transparent and predictable, and by finding ways to inform families, as early as the middle school years, of aid amounts likely to be available to individual students.

It is important that sufficient need-based aid be available for low- and moderate-income students to enroll and succeed in college. First-generation students and underrepresented minorities are particularly vulnerable when our financial aid system is inadequate. In *Coming to Our Senses*, the commission called for an increase in need-based grant aid, for avoidance of excessive reliance on student debt, and for simplifying financial aid processes and making them more transparent. The commission also recommended providing institutions with incentives to enroll and graduate more low-income and first-generation students. Better information for students is vital as many students, particularly those whose parents did not go to college, are unaware of the available financial aid and do not know how to access it.⁵⁷ The nation must do more to simplify the financial aid process for all students and to make the process more transparent for all families. In many cases, social capital⁵⁸ is directly tied to the ability of students and families to gain access to higher education.⁵⁹ Simplifying the financial aid system and providing early information can improve access to higher education for low-income and first-generation students.

Indicators of progress on this recommendation include:

- Grant aid for students from low- and moderate-income families;
- Student debt levels;
- Changes in the federal student aid application process and financial aid programs; and
- Implementation of policies designed to provide incentives for institutions to promote enrollment and success of low-income and first-generation students.

57. College Board. (2010). *Cracking the Student Aid Code*. Retrieved May 13, 2010, from http://advocacy.collegeboard.org/sites/default/files/11b_3172_Cracking_Code_Update_WEB_110112.pdf

58. Social capital is a sociological concept, which refers to connections within and between social networks.

59. *Cracking the Student Aid Code*.

General Findings for This Recommendation

- As of 2008, the national total grant aid per low-income dependent student at public two-year institutions is \$3,252.
- As of 2008, the national total grant aid per low-income dependent student at public four-year institutions is \$7,364.
- As of 2008, the national total grant aid per low-income dependent student at private not-for-profit four-year institutions is \$14,215.
- As of 2008, the national total grant aid per low-income dependent student at private for-profit four-year institutions was \$3,745.
- From 2004 to 2008, average grant aid increased by 1.7 percent or \$54 per year from 1996 to 2008 (after adjusting for inflation) for low-income dependent students at public two-year colleges.
- From 2004 to 2008, average grant aid increased by 4.4 percent or \$292 per year from 1996 to 2008 (after adjusting for inflation) for low-income students at public four-year colleges.
- From 2004 to 2008, average grant aid increased by 5.7 percent or \$710 per year from 1996 to 2008 (after adjusting for inflation) for low-income dependent students at private four-year colleges.
- As of 2008, the median student loan debt for those who borrowed increased by 1.4 percent per year beyond inflation.
- As of 2010, average debt per bachelor's degree recipient spread across all public four-year college graduates who earned degrees from the institution at which they began their studies is \$12,300 in 2009-10.
- As of 2010, average debt per bachelor's degree recipient spread across all private nonprofit four-year college graduates who earned degrees from the institution at which they began their studies is \$18,300 in 2009-10.

\$3,252

As of 2008, the national total grant aid per low-income dependent student at public two-year institutions is \$3,252.

\$7,364

As of 2008, the national total grant aid per low-income dependent student at public four-year institutions is \$7,364.

\$14,215

As of 2008, the national total grant aid per low-income dependent student at private not-for-profit four-year institutions is \$14,215.

Grant Aid for Students from Low-Income Families

What is this measure, and why is this measure important? This indicator measures the amount of grant aid available to students by income level. This measure includes (1) the total grant aid per low-income dependent student; (2) the average percentage increase in total grant aid per dependent student; (3) the average dollar increase in total grant aid per low-income dependent student; and (4) the average amount of financial aid (grants or loans) used to finance postsecondary education expenses in the United States. These measures are important because sources of aid help to offset the advertised tuition and fees, which for many students are prohibitively high. Financial aid for postsecondary education takes many shapes and forms. Among the different types of aid, including federal loans, federal work-study, and federal education tax credits and deductions, grant aid is the most effective at relieving the burdens of college costs. These scholarships do not need to be repaid, they are not accompanied by work obligations, and they do not require an understanding of the tax code or regulations.

During the 2010-11 academic year, grant aid accounted for nearly 53 percent of the \$177.6 billion in financial aid awarded to undergraduate students. The origins of these grants include the federal government, states, employers and private entities, as well as the institutions at which the students enroll.

Two broad types of grant aid exist: (1) grant aid that is used to meet a student's financial need and (2) grant aid that exceeds a student's financial need. The latter category is commonly referred to as "merit aid," though the lines between merit aid and need-based aid are blurry. Institutions frequently package and refer to grant aid as merit aid, when this merit aid is actually being used to meet a student's financial need.

Diverting financial resources away from students with need toward students without need does not enhance college affordability. During the time period from 2007-08 through 2010-11, both public four-year and private not-for-profit four-year postsecondary institutions increased the fraction of total grant aid awarded that was used to meet the financial need of students.⁶⁰

What are the policy issues associated with this measure? Total grant aid awarded to postsecondary students, in current dollars, has increased each year over the past decade. During the 2000-01 academic year, nearly \$48 billion (in 2010 dollars) of grant aid was awarded, and by the 2010-11 academic year that amount had more than doubled and stood at \$107 billion. Postsecondary enrollment increased by 43 percent during this time period, but the growth in grant aid outpaced this growth in enrollment, generating a 58 percent increase in inflation-adjusted grant dollars per FTE student.

60. College Board. (2011). *Trends in Financial Aid*. Retrieved November 1, 2011, from http://trends.collegeboard.org/student_aid/

\$3,745

As of 2008, the national total grant aid per low-income dependent student at private, for-profit, four-year institutions was \$3,745.

1.7%

As of fall 2007, average grant aid has increased by 1.7 percent or \$54 per year from 1996 to 2008 (after adjusting for inflation) for low-income dependent students at public two-year colleges.

The change in grant aid awarded between the 2008-09 academic year and the 2010-11 academic year was dramatic, and much larger than any other two-year changes in grant aid over the past decade. In fact, the change in total grant aid awarded, in 2010 dollars, between the 2008-09 academic year and the 2010-11 academic year (\$30.9 billion) was actually larger than the change that occurred between the 2000-01 and the 2008-09 academic years (\$28.4 billion).

What explains the recent surge in total grant aid? During the 2008-09 academic year, the maximum Pell grant was \$4,731 (\$4,689 in 2010 dollars). During the 2009-10 academic year, the maximum Pell grant jumped by 16 percent over the previous year in inflation adjusted dollars to \$5,350 (\$5,416 in 2010 dollars), and during the 2010-11 academic year, the maximum Pell grant value was \$5,550. The sizeable change in maximum Pell value in conjunction with a 31 percent increase in number of recipients between the 2008-09 academic year and the 2009-10 academic year is partially responsible for the increase in share of total grant aid originating from the federal government from 33 percent to 44 percent over these two academic years. In fact, Pell grants increased from 24 percent of total grant aid in 2008-09 to 30 percent in 2009-10. The other major source of increase between these two years in federal grant aid was the escalation of veterans' grants from 5 percent of total grant aid in 2008-09 to 10 percent of total grant aid in 2009-10.

In an era of economic downturn during which families' and students' ability to pay for college is diminished and state appropriations per student have decreased while tuition and fee sticker prices have increased, the role of federal grant aid is of tremendous importance. Furthermore, many college endowments dropped substantially in the wake of the 2008 stock market crash, and have not rebounded to their prerecession values. An increased reliance on institutional grant aid would put substantial pressure on postsecondary institutions, some of which are already in a precarious state financially.

Where are we now? Though total grant aid is estimable on a year-by-year basis, an examination of the types of students to whom this aid is awarded requires student-level data collected through large-scale national surveys of students like the National Center for Education Statistics administered NPSAS. The last administration of NPSAS occurred during the 2007-08 academic year, yet these NPSAS data can offer insight into where we are now in terms of how this aid is allocated by student or a student's family's income, and how grant aid has changed over time across the income strata. Figure 7.1a shows that the average total grant aid for full-time students from low-income families attending public two-year institutions has increased from \$1,844 in 1996 to \$3,252 in 2008. The average total grant aid for full-time, low-income students attending public four-year institutions rose from \$4,137 in 1996 to \$7,364 in 2008 and from \$9,203 in 1996 to \$14,215 in 2008 for those attending private, not-for-profit, four-year institutions. The average total grant aid for full-time, low-income students attending private, for-profit, four-year institutions rose from \$2,342 in 1996 to \$3,745 in 2008.

4.4%

As of fall 2007, average grant aid has increased by 4.4 percent or \$292 per year from 1996 to 2008 (after adjusting for inflation) for low-income dependent students at public four-year colleges.

5.7%

As of fall 2007, average grant aid has increased by 5.7 percent or \$710 per year from 1996 to 2008 (after adjusting for inflation) for low-income dependent students at private four-year colleges.

7.1a

National Total Grant Aid per Low-Income Dependent Student, 1996–2008 (in Constant 2008 Dollars)

Source: NCES, *National Postsecondary Student Aid Study*, calculations by the College Board
 Note: Constant 2008 dollars calculated through the CPI website <http://146.142.4.24/cgi-bin/cpicalc.pl>

- ▲ Private, 4-Year Not-for-Profit
- Private, 4-Year For-Profit
- Public, 4-Year
- ◆ Public, 2-Year



Figure 7.1b shows that the percentage increase in average total grant aid to low-income dependent students from 2004 to 2008 was 1.7 percent at public two-year institutions, 4.4 percent at public four-year institutions and 5.7 percent at private, not-for-profit, four-year institutions. The average total grant aid to low-income dependent students declined 5.0 percent from 2004 to 2008 at private, for-profit, institutions. Figure 7.1c shows the annual dollar increase in total grant aid to low-income dependent students from 2004 to 2008 was \$54 at public two-year institutions, \$292 at public four-year institutions and \$710 at private, not-for-profit, four-year institutions. The total grant aid to low-income dependent students from 2004 to 2008 was \$212 at private, for-profit, four-year institutions.

Figure 7.1d shows the average total aid, average grant aid and average federal loans awarded to all students (undergraduate and graduate) per FTE. Figure 7.1e shows the average grant aid and average federal loans awarded to all undergraduate students per FTE. Figure 7.1f shows the average grant aid and average federal loans awarded to all graduate students per FTE.

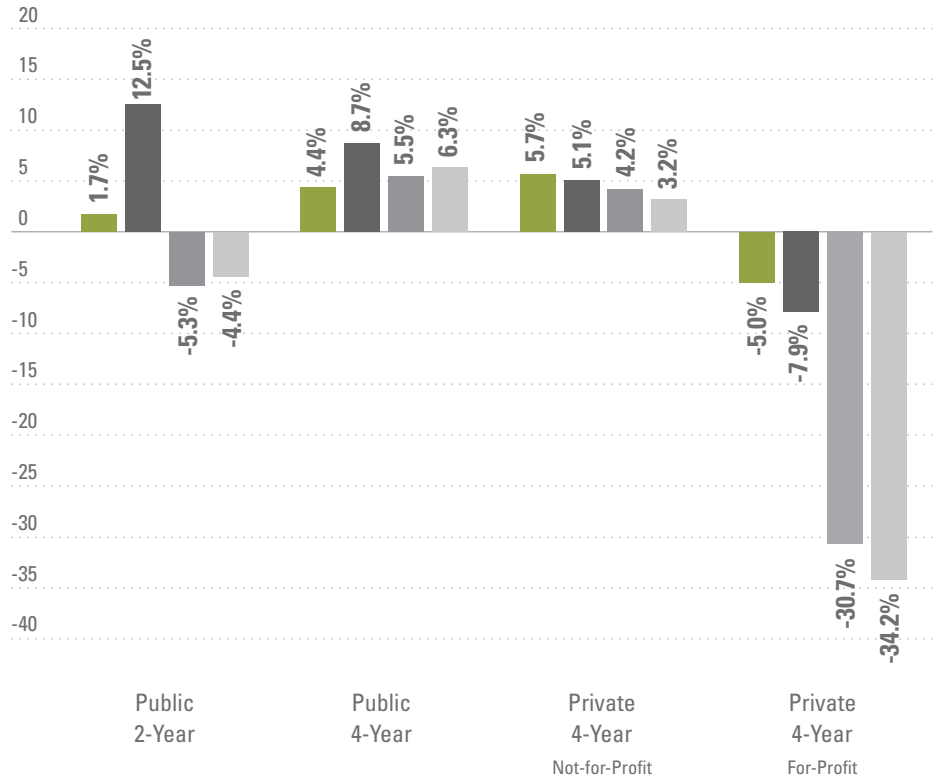
Figure 7.1g shows that total undergraduate student aid amounts to \$177.6 billion in 2010–11. Figure 7.1h shows that over 9 million Pell Grant recipients receive an average Pell award of \$3,828.

7.1b

Average Percentage Change in Total Grant Aid per Dependent Student by Income, 2004–2008 (in Constant 2008 Dollars)

- Low-Income
- Mid-Low Income
- Mid-High Income
- High-Income

Source: NCES, *National Postsecondary Student Aid Study*, calculations by the College Board
 Note: Constant 2008 dollars calculated through the CPI website <http://146.142.4.24/cgi-bin/cpicalc.pl>

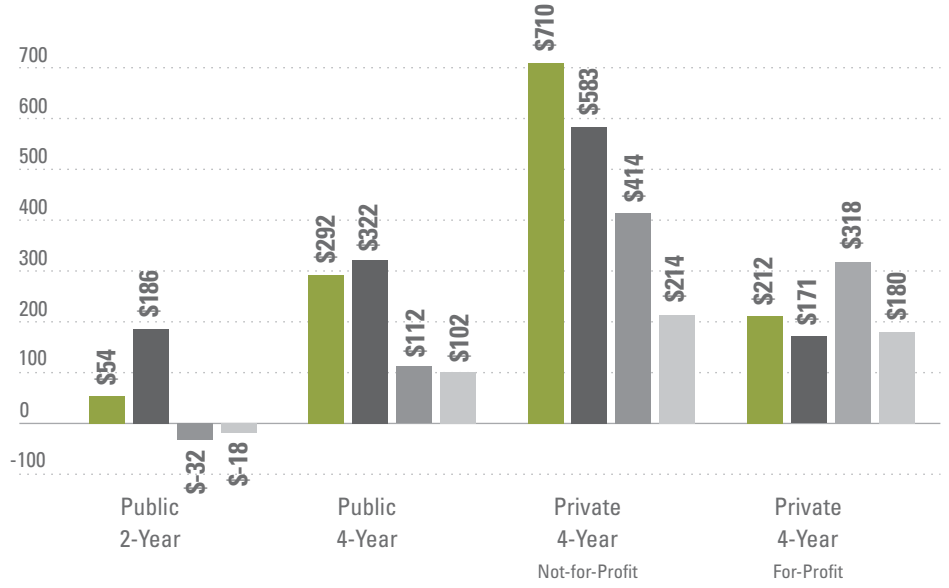


7.1c

National Average Dollar Increase in Total Grant Aid per Dependent Student by Income, 2004–2008 (in Constant 2008 Dollars)

- Low-Income
- Mid-Low Income
- Mid-High Income
- High-Income

Source: NCES, *National Postsecondary Student Aid Study*, calculations by the College Board
 Note: Constant 2008 dollars calculated through the CPI website <http://146.142.4.24/cgi-bin/cpicalc.pl>



7.1d

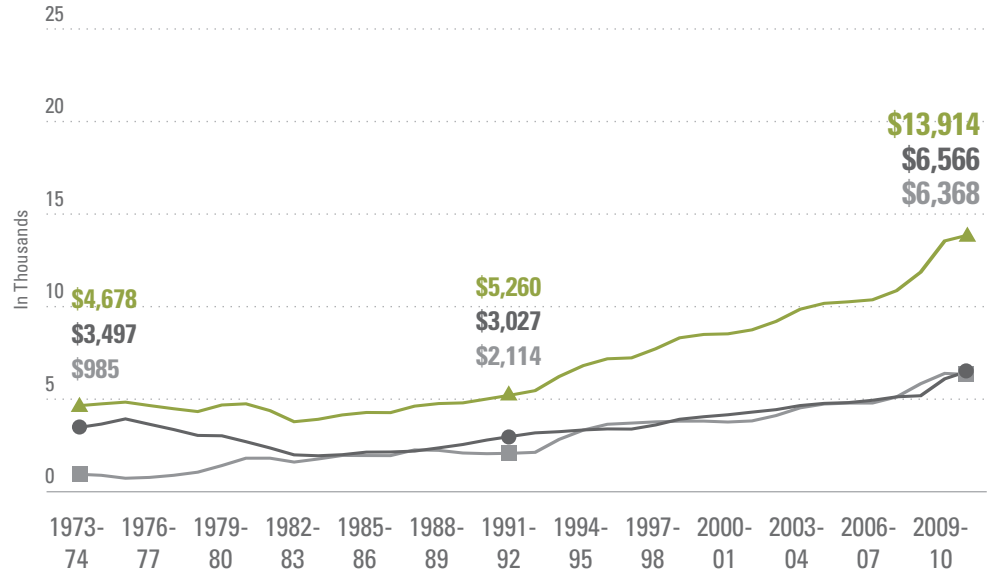
Average Aid (Federal Loans & Grant Aid) per Full-Time Equivalent (FTE) Student in Constant 2010 Dollars, 1973-74 to 2010-11

New figure +

Source: The College Board, *Trends in Student Aid*, 2011

Note: Loan numbers do not include nonfederal loans, which provide funding for students but do not involve subsidies. The figures reported here reflect total student aid amounts divided across all students, including those who did not receive aid. Federal Loan dollars reflect disbursements beginning 1995-96. Loan disbursements are estimated for years prior to 1995-96.

- ▲ Average Total Aid per FTE
- Average Grant Aid per FTE
- Average Federal Loans per FTE



7.1e

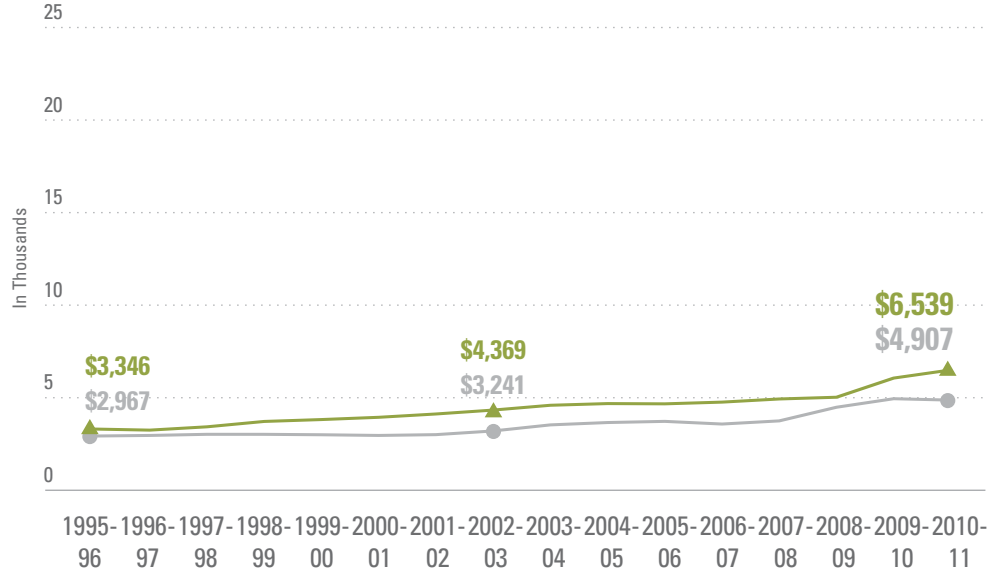
Average Aid (Federal Loans & Grant Aid) per Undergraduate FTE in Constant 2010 Dollars, 1995-96 to 2010-11

New figure +

Source: The College Board, *Trends in Student Aid*, 2011

Note: Loan numbers do not include nonfederal loans, which provide funding for students but do not involve subsidies. The figures reported here reflect total student aid amounts divided across all students, including those who did not receive aid. Federal Loan dollars reflect disbursements beginning 1995-96. Loan disbursements are estimated for years prior to 1995-96.

- ▲ Average Grant Aid per FTE
- Average Federal Loans per FTE



7.1f

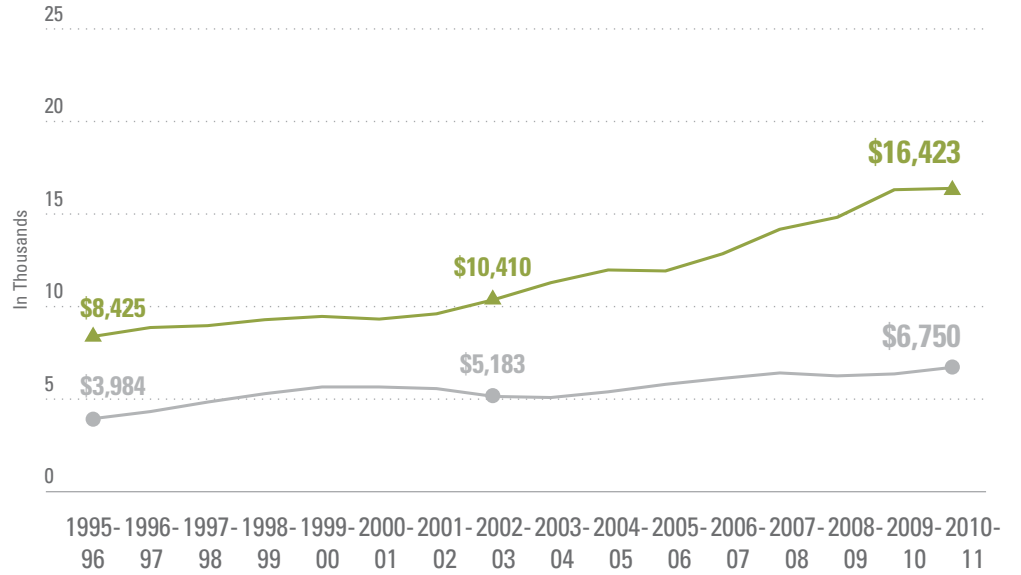
Average Aid (Federal Loans & Grant Aid) per Graduate FTE in Constant 2010 Dollars, 1995-96 to 2010-11

New figure +

Source: The College Board, *Trends in Student Aid*, 2011

Note: Loan numbers do not include nonfederal loans, which provide funding for students but do not involve subsidies. The figures reported here reflect total student aid amounts divided across all students, including those who did not receive aid. Federal Loan dollars reflect disbursements beginning 1995-96. Loan disbursements are estimated for years prior to 1995-96.

- ▲ Average Federal Loans per FTE
- Average Grant Aid per FTE

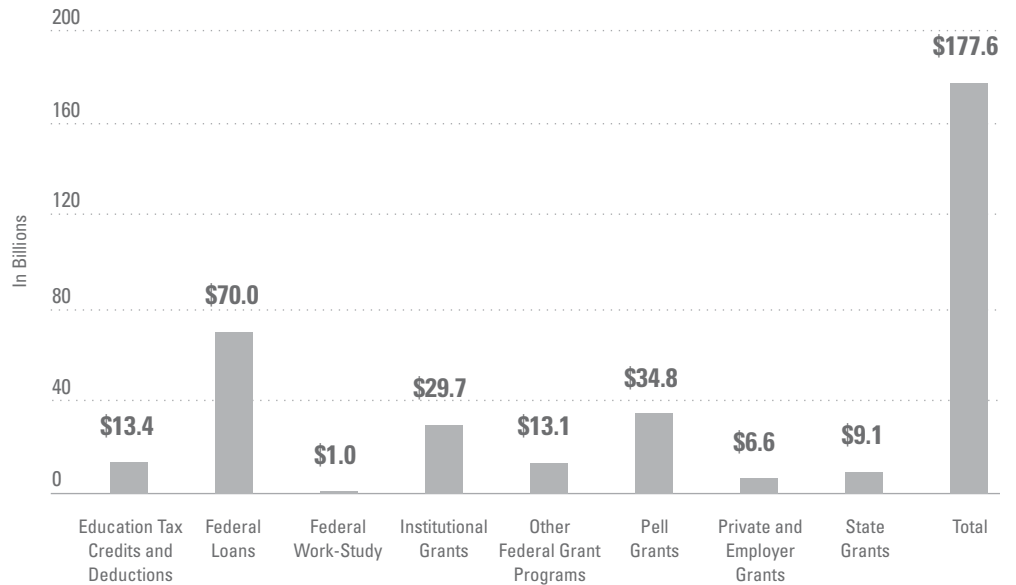


7.1g

Total Undergraduate Student Aid by Source (in Billions), 2010-11

New figure +

Source: The College Board, *Trends in Student Aid*, 2011



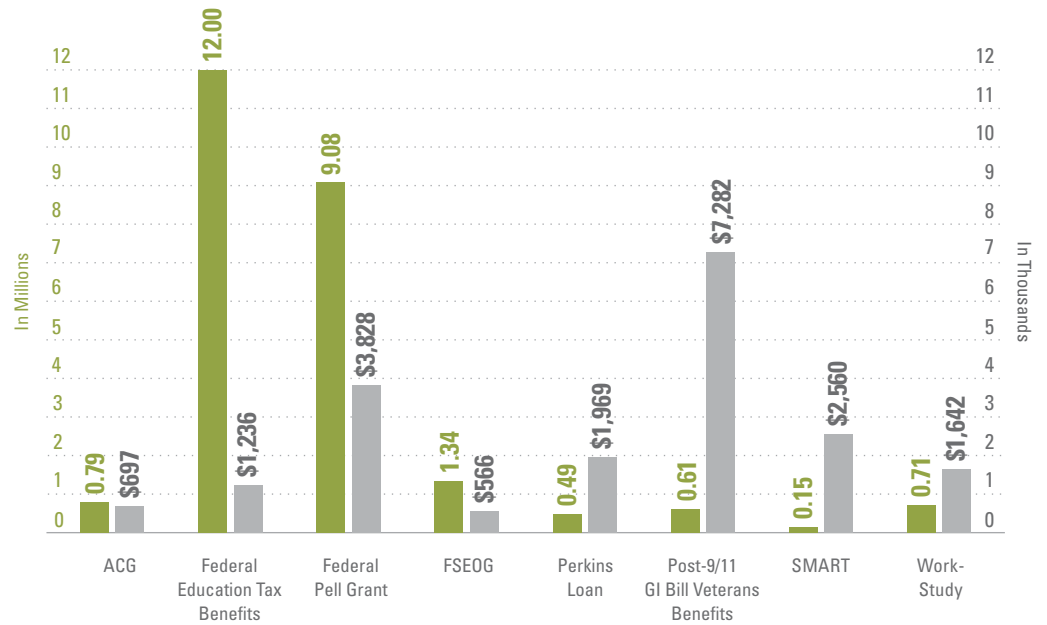
7.1h

Number of Recipients of Federal Aid by Program (with Average Aid Received), 2010-11

New figure +

Source: The College Board, *Trends in Student Aid*, 2011

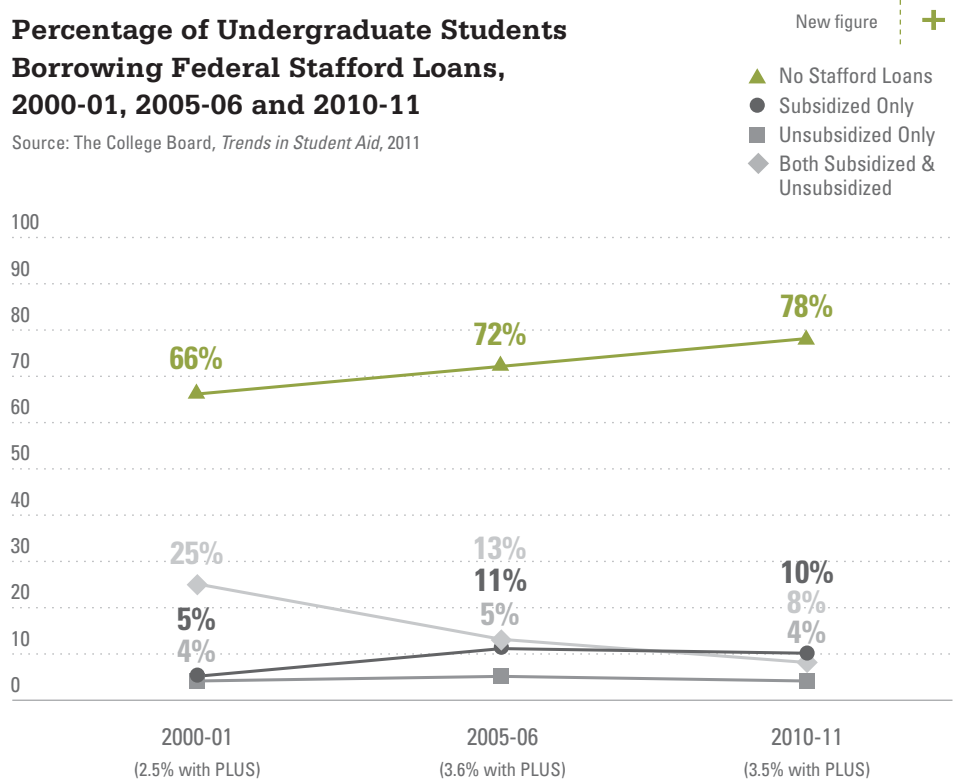
■ 2010-11 Recipients
■ 2010-11 Aid Per Recipient



7.1i

Percentage of Undergraduate Students Borrowing Federal Stafford Loans, 2000-01, 2005-06 and 2010-11

Source: The College Board, *Trends in Student Aid*, 2011



When interpreting this measure, what should be kept in mind?

The introduction of the American Opportunity Tax Credit (AOTC) in 2009 represented a significant commitment by the federal government to defray college tuition costs. In 2008, total federal tax benefits stood at \$6.6 billion and these benefits jumped to \$14.7 billion (in constant 2009 dollars) in 2009 — the last year for which data are available. Unlike Pell grants, the subsidies provided by the federal government, up to \$2,500 per student, are not based on ability to pay, though only taxpayers with incomes up to \$180,000 per year are eligible for the tax benefits. A major perk of the AOTC is partial refundability. Individuals with no tax liability are eligible for a refund not exceeding \$1,000.

The AOTC shifted the distribution of individuals receiving federal tax benefits. In 2008, only 5 percent of the federal tax benefit recipients had adjusted gross incomes less than \$25,000. In 2009, this percentage had risen to 17 percent. The percentage of tax benefits awarded to families with adjusted gross incomes between \$100,000 and \$180,000 increased from 18 percent in 2008 to 26 percent in 2009.

Functioning similarly to grant aid in the sense that it is not accompanied by any obligations on the part of the student, the AOTC differs from grant aid because its benefits can only be realized if taxpayers are aware of its existence. Moreover, unlike grant aid, which benefits students immediately upon their enrollment, the benefits of tax credits and deductions are delayed until taxes are filed. A widespread push to make sure eligible taxpayers are aware of this tuition assistance has the potential to ease financial strains associated with college attendance.

\$12,300

As of 2010, average debt per bachelor's degree recipient spread across all public four-year college graduates who earned degrees from the institution at which they began their studies is \$12,300.

\$18,300

As of 2010, average debt per bachelor's degree recipient spread across all private nonprofit four-year college graduates who earned degrees from the institution at which they began their studies is \$18,300 in 2009-10.

Student Loan Debt Levels

What is this measure, and why is this measure important? This indicator measures the student loan debt accumulated by students from the 1999-2000 academic year and the 2009-10 academic year. Postsecondary education is an investment with a high rate of return for most students. However, some students do not complete the programs they begin and, for others, the payoff in the labor market is less than they might have anticipated. Although most students can pay off their education debts without undue difficulty, debt burdens are unmanageable for a growing number of students. The need to borrow at high levels discourages some students from enrolling or persisting in college and, for others, it creates very difficult circumstances during the repayment period after college.

What are the policy issues associated with this measure? Many factors, including income inequality, rising college prices and lifestyle choices, contribute to the amount students borrow. However, more generous need-based federal, state and institutional grant programs can mitigate the need for students to rely on borrowed funds.

Where are we now? Student debt levels in the United States continue to rise each year for students who persist to bachelor's degree completion. Figure 7.2a shows that from 1999–2000 to 2009-10, the average debt per borrower among public college bachelor's degree recipients increased at an average annual rate of 1.1 percent beyond inflation. The percentage of nontransfer graduates with debt increased from 54 to 56 percent. Average debt grew by 1.4 percent per year over the most recent five years of the decade. Figure 7.2b shows that from 1999–2000 to 2009-10, the average debt per borrower among private nonprofit bachelor's degree recipients increased at an average annual rate of 2.2 percent beyond inflation. The percentage of nontransfer graduates with debt increased from 63 to 65 percent. Average debt grew by 1.5 percent per year over the most recent five years of the decade.

Figure 7.2c shows the distribution of total undergraduate debt by sector and type of degree or certificate in 2007-08. Figures 7.2d, 7.2e and 7.2f show that among dependent students graduating from public and private nonprofit four-year institutions in 2007-08, those from low-income families borrowed only slightly more than those from middle-income families.

When interpreting this measure, what should be kept in mind?

Median student loan debt levels conceal the range of borrowing levels. About a third of bachelor's degree recipients graduate with no education debt. In any given academic year, only about half of all full-time students take education loans. However, increases in median debt levels for those who do borrow, combined with information on the proportion of students with debt, provide an important indicator of reliance on debt.

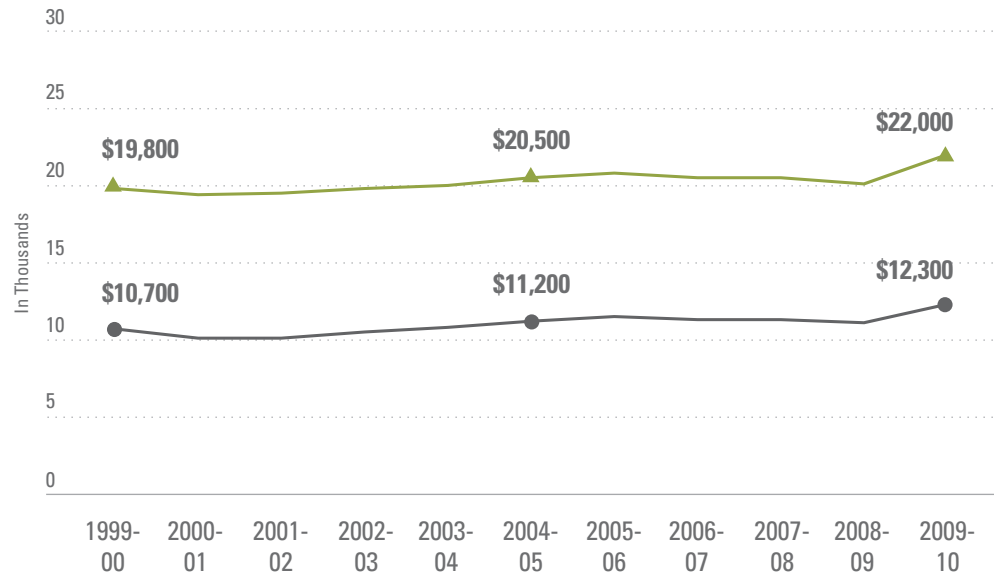
7.2a

Public Four Year: Average Total Debt Levels of Bachelor's Degree Recipients in Constant 2010 Dollars, 1999–2000 to 2009-10

▲ Per Borrower
● Per Bachelor's Degree Recipient

Source: The College Board, *Trends in Student Aid*, 2011

Note: Debt figures include both federal loans and loans from nonfederal sources that have been reported to the institutions, based on institutional reporting of aggregate debt figures. The data are not adequate to allow comparable calculations for-profit institutions.



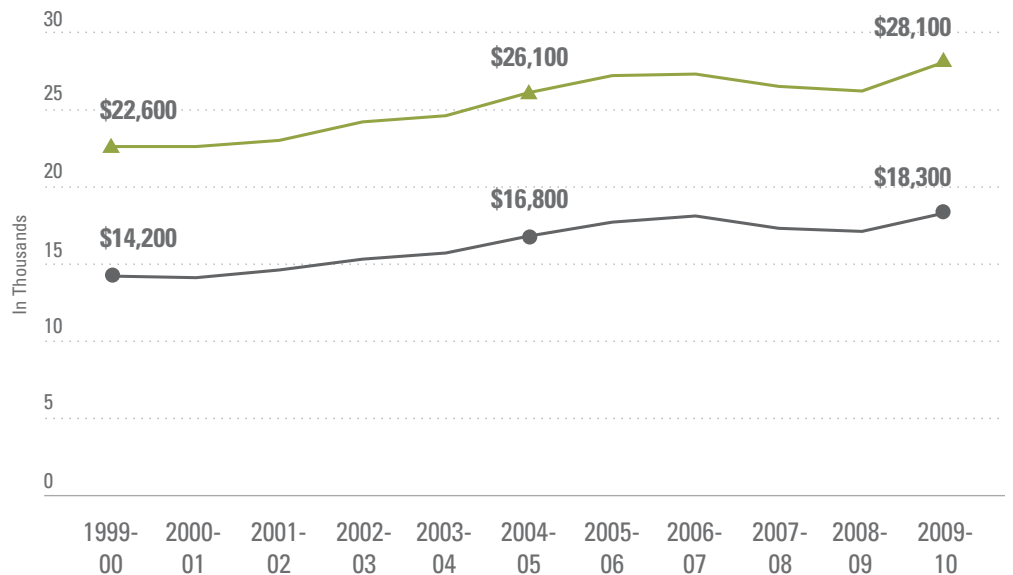
7.2b

Private Nonprofit Four Year: Average Total Debt Levels of Bachelor's Degree Recipients in Constant 2010 Dollars, 1999–2000 to 2009-10

▲ Per Borrower
● Per Bachelor's Degree Recipient

Source: The College Board, *Trends in Student Aid*, 2011

Note: Debt figures include both federal loans and loans from nonfederal sources that have been reported to the institutions, based on institutional reporting of aggregate debt figures.



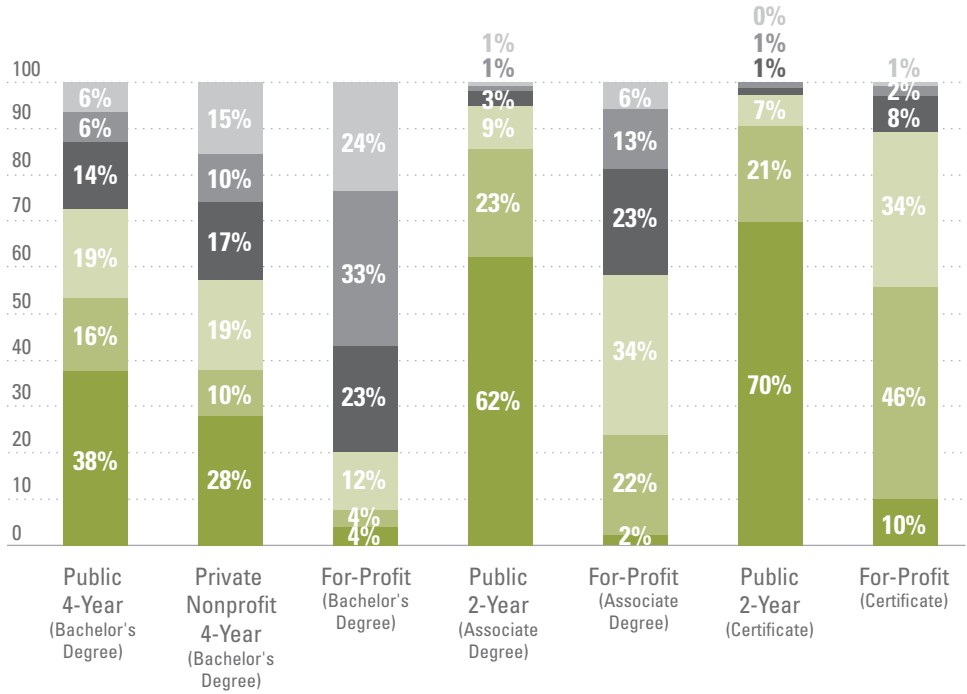
7.2c

Distribution of Total Undergraduate Debt by Sector and Type of Degree or Certificate, 2007-08

New figure +

Source: The College Board, *Trends in Student Aid*, 2011

- No Debt
- Less than \$10,000
- \$10,000 to \$19,999
- \$20,000 to \$29,999
- \$30,000 to \$39,999
- \$40,000 or more



7.2d

Median Debt Levels of 2007-08 Bachelor's Degree Recipients at Public Four-Year Institutions Who Borrowed and Percentage with Debt, by Dependency Status and Family Income

New figure +

Source: The College Board, *Trends in Student Aid*, 2011

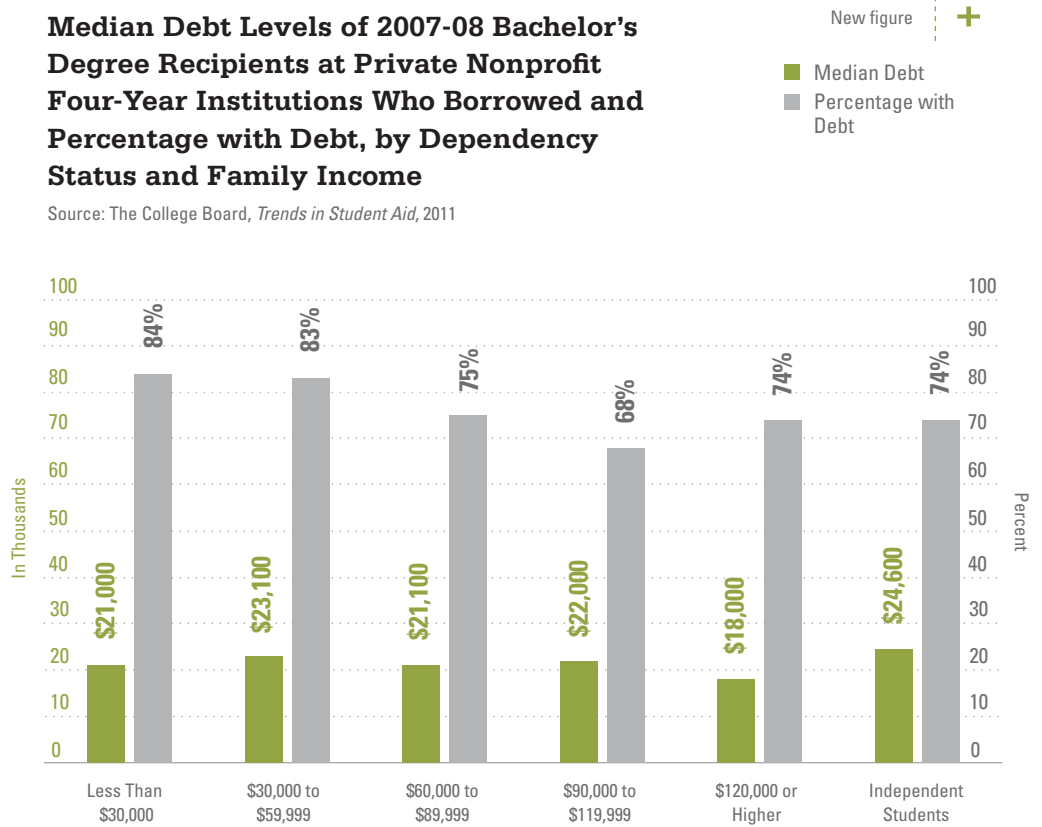
- Median Debt
- Percentage with Debt



7.2e

Median Debt Levels of 2007-08 Bachelor's Degree Recipients at Private Nonprofit Four-Year Institutions Who Borrowed and Percentage with Debt, by Dependency Status and Family Income

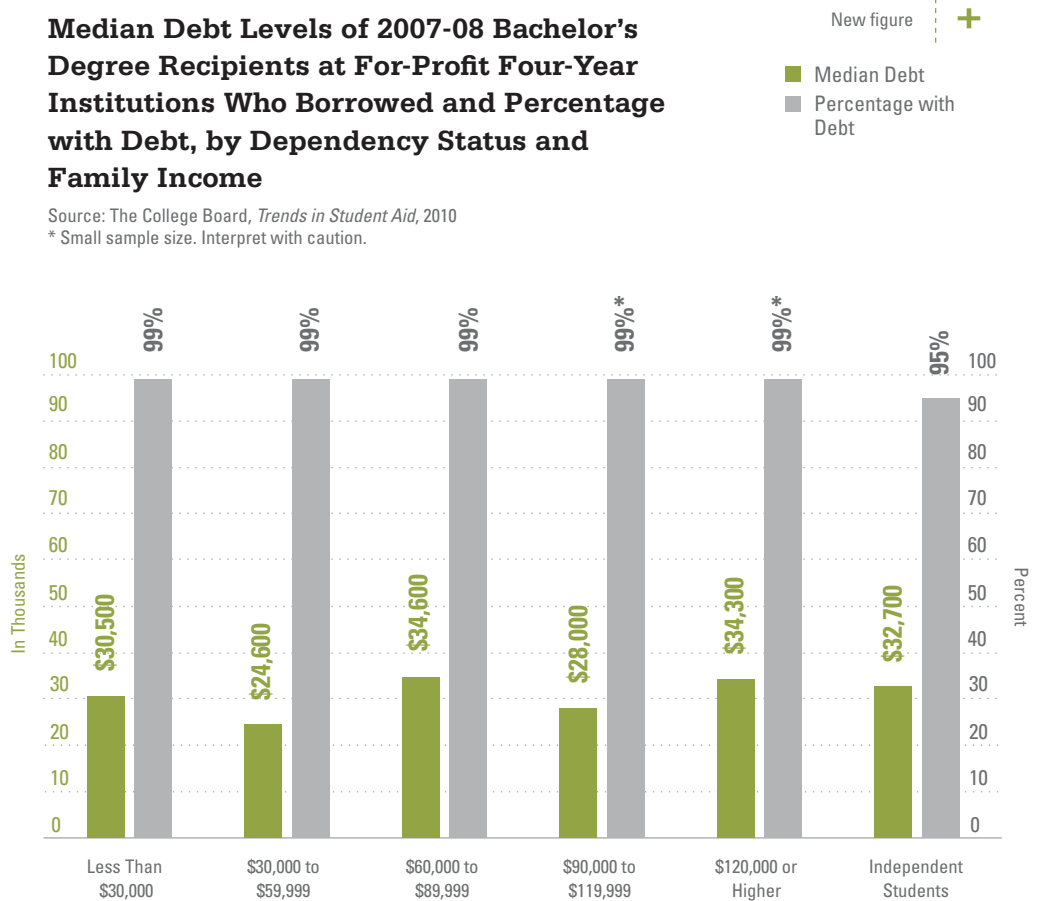
Source: The College Board, *Trends in Student Aid*, 2011



7.2f

Median Debt Levels of 2007-08 Bachelor's Degree Recipients at For-Profit Four-Year Institutions Who Borrowed and Percentage with Debt, by Dependency Status and Family Income

Source: The College Board, *Trends in Student Aid*, 2010
 * Small sample size. Interpret with caution.



Simplifying the Federal Student Aid System and the Application Process

What is this measure, and why is this measure important? Even when sufficient financial aid funds are available, many students have difficulty accessing those funds. Navigating the financial aid process is especially difficult for low-income and first-generation college students.⁶¹ A simpler application process and financial aid programs that are more predictable and transparent have the potential to increase educational opportunities for all students, especially for those students from families with low and moderate incomes and for first-generation students.

What are the policy issues associated with this measure?

The Department of Education has the authority to modify the student aid application process in significant ways. Other measures, including removing questions from the application, modifying the formula used to calculate aid eligibility and consolidating programs, require congressional action. States can also integrate state financial aid systems into federal systems to allow students to understand their full aid eligibility after completing the FAFSA. With greater coordination of both federal and state aid, students can more easily obtain the student aid needed to access and complete their higher education.⁶² The federal and state governments should also do more to make financial aid eligibility simpler and clearer so that students can determine their full financial aid eligibility. If these systems are made easier and more transparent, then low- and moderate-income and first-generation students will see that entering and completing college is a realistic option.

61. *Cracking the Student Aid Code*. Retrieved May 12, 2010 from http://www.advocacy.collegeboard.org/sites/default/files/11b_3172_Cracking_Code_Update_WEB_110112.pdf

62. See <http://www2.ed.gov/finaid/info/apply/afsa-project.html>

Where are we now? Many students who would be eligible for federal aid do not complete the FAFSA, and many students forgo state dollars that they are eligible to receive. Some of these students would likely apply if the application processes for the FAFSA and state aid were simpler or if students and parents were less intimidated by the application. Others might apply if they had better information about the aid for which they could qualify. In 2009, the Department of Education made considerable strides toward improving the application process by implementing the following changes:

- Applicants can populate the FAFSA with data supplied directly from the tax forms they have filed with the IRS.
- The online FAFSA has been modified to incorporate increased use of “skip logic,” reducing the number of questions many applicants must answer.
- Applicants who complete the FAFSA immediately receive information about the types and amounts of aid they are likely to receive, as well as information about the colleges to which they are applying, including tuition and graduation rates.

Congress should consider removing from the FAFSA all financial questions that cannot be answered with IRS data. This change could allow for the creation of a formula that would simplify the eligibility formula, making it possible for students to predict in advance the Pell Grants for which they would be eligible, and all financial data would come directly from the IRS. However, these changes to the FAFSA have yet to be enacted by Congress.

Although there has been some movement in simplifying the FAFSA, there have been some changes that are required of institutions that may go a long way toward helping students and families. In accordance with the Higher Education Opportunity Act of 2008, by Oct. 29, 2011, each postsecondary institution that participates in Title IV federal student aid programs must post a net price calculator on its website that uses institutional data to provide estimated net price information to current and prospective students and their families based on a student’s individual circumstances.⁶³ Though institutions are required to have net price calculators on their websites for students and their families, institutions must market this new resource to current and prospective students and their families if it is to serve as an effective tool.

63. See <http://nces.ed.gov/ipeds/resource/>

Implementation of Policies Designed to Provide Incentives for Institutions to Promote Enrollment and Success of Low-Income and First-Generation Students

What is this measure, and why is this measure important? Existing student-aid programs were designed primarily to promote access to postsecondary education. The nation has done a good job of increasing enrollment rates, yet there is more that needs to be done in promoting college success and completion. Too many students — particularly low-income and first-generation students — are beginning postsecondary education but never earning a credential.⁶⁴

What are the policy issues associated with this measure? The federal government provides funds directly to students and provides some student-aid funds to campuses to distribute to their students in the form of grants, loans and work-study programs. The allocation of these funds is unrelated to institutional success rates.

Where are we now? Our understanding of the best ways to use financial incentives to promote student success is limited. Any program designed to further this goal should involve sound evaluation plans to assure that the use of funds is as productive as possible. The Health Care Reconciliation Act of 2010 passed by Congress in March 2010 includes the Student Aid and Fiscal Responsibility Act that includes College Access and Completion funds.⁶⁵ These funds will allocate \$2.5 billion, over the course of five years, in supporting state efforts to boost the college completion rates of low-income students. An evaluative component will be created to assess these many efforts in order to pinpoint the most successful ones. This step that Congress has taken will allow valuable data to be created that will inform states about effective promotion of success for low-income students.

64. Choy, Susan P. (2001). *Students Whose Parents Did Not Go To College: Postsecondary Access, Persistence, and Attainment* (NCES 2001-126). (Washington, DC: U.S. Department of Education, National Center for Education).

65. Health Care Reconciliation Act, 2010.