

Providing Quality Postsecondary Education: Access and Accountability

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Testimony

Mr. Chairman, and Members of the Committee:

My name is Brian Bosworth. I am the President of FutureWorks, a consulting and policy R & D firm focusing on the strategies and institutions that promote sustainable, skill-based regional economic growth. I am grateful for this opportunity to discuss problems and opportunities in strengthening access and accountability in postsecondary education.

For the past few years, our firm has devoted an important part of our work to exploring the policies and practices that will promote training and education for millions of working adults who did not prepare for this economy when they were of traditional school age. I am pleased today to have this opportunity to summarize some of our findings and suggest their implications to the work of this committee. This testimony is further informed by our consulting work in regional economic and workforce development with business-civic institutions, workforce boards, and community colleges.

In the 21st century economy, skill has become the most critical determinant of economic success - for individuals, for businesses, and for regions. The economic returns to education and skill development are growing. The most obvious and the widest divide between those who are doing well and those who are not is education attainment. For the unprepared individuals, businesses, and regions, the increasing bias toward education and skill demands wrenching adjustments. However, the good news is that these are not fixed regional or personal endowments. Unlike natural resource and location advantage in the last century, the chief determinates of region economic success in the 21st century economy — education and skills advantage — are not immutable; they can be changed. With the right policies and with aggressive leadership, a region can increase its stock of skills and create flexible and responsive educational institutions that will attract new investment and make old investments more efficient.

Federal policy can make a big difference. I will focus the balance of my remarks on suggesting how this Committee might craft strategies that better support the skill attainment objectives of million of working adults. First, I want to explore the problem in more depth and, secondly, I want to offer four specific recommendations for attacking these problems. Those recommendations include:

1. modifying eligibility requirements for existing grant and loan programs;
2. developing a new federal-state partnership in higher education for working adults;
3. making education tax credits more meaningful to working adults; and,
4. reforming adult basic education.

Postsecondary Access and Success for Working Adults: What's the Problem?

In 2004 there were about 115 million full-time workers from age 25 to 64 in the U. S. civilian labor force. Only 40% of them have a college degree (associate's, bachelor's, or advanced). Another 19% went to college, but never got a degree. While some of this last category may have gained a one-year academic certificate or an industry-recognized certification, most probably dropped out of college before completing even one year.

We can reasonably conclude that there are at least 60 million adult workers in America who have no post-secondary credential of any kind. They were not prepared by their education for success in today's skills-biased economy and most are struggling. They don't make much money; they can't buy a home nor accumulate other assets to pass on to their children; and their own children are very unlikely to go to college. This isn't just their problem — America's lack of educated and skilled workers is the most significant drag on national economic growth.

There is no reason to believe this problem will abate over the next generation because more young people recently have completed or will attempt college. In fact, the college attainment rate of the workforce is increasing only very slowly. While the percentage of young adults age 25-35 with some college is much higher than those age 65 plus, it is not appreciably higher than those still in the active workforce. Nationally, the rate of increase in high school graduation has stalled. Only a large recent increase in the number of GEDs awarded has prevented an actual decrease in high school completion rates. The recent history of depressingly low attainment among the fastest growing demographic segments of those young people beginning high school over the next 10-20 years points to a further erosion of both high school and college completion.

Conservative projections by the Bureau of Labor Statistics about the number of net new jobs that will require some college and optimistic projections of net new workers with some college credentials suggest a shortfall of about 12 million educated workers over the next 15 years. The lack of educated workers in the U. S. already threatens the competitiveness of firms in technology, healthcare, manufacturing, and most other sectors paying average or above average wages. Barring a dramatic, and unlikely, change in U. S. immigration policy, the skills gap will get worse. We cannot stop this gap from widening, much less begin to close it, until we develop policies that will help millions of working adults without college get postsecondary credentials.

Any college matters some, but degrees and credentials matter most. According to the Census Bureau, full-time, year-around workers with at least one year of college and no degree can expect to earn 15-20% more than those with no college at all, but other research indicates the benefits of less than a year's worth of postsecondary courses may generally be too small to be significant. Full-time, year-around workers with associate's degrees can expect to earn 30% more than those with no college and those with bachelor's degrees, 50% more. These financial returns to postsecondary education are

growing every year and, over a lifetime, make a huge difference to workers, to their family assets, and to the likelihood of postsecondary education for their own children.

Many working adults understand the importance of further education but relatively few are finding success in gaining postsecondary credentials. The National Household Education Surveys (NHES) report stunning increases over the past decade in adult education enrollment, especially among those who have no previous post-secondary credential. However, the NHES also reports that few of these adults are enrolled in programs leading to degrees, certificates, or certification.

Unfortunately, efforts by working adults to gain those credentials are not well supported by their federal or state governments or by the institutions of higher education that ought to be encouraging them. Notwithstanding the rhetoric of "lifelong learning," higher education financing, programming, scheduling, and credentialing policies still are skewed narrowly toward traditional students coming directly out of high school into higher education. Working adults, because they have full-time job and family responsibilities, often lack the time, money, and flexibility of schedule to fit into the mode of higher education.

Many working adults away from school for many years have poor or at least very rusty basic skills. Our review of the research literature suggests that an astonishing 40% of the labor force probably lacks the basic literacy skills to be successful in higher education (and, of course, this means they also probably do not meet the basic skill demands of employers struggling to remain competitive in the global economy). In our work with community and technical colleges, we hear often that that 50-75% of their applicants fail the tests designed to predict success in the academic and occupational programs to which they seek admission. Some low literacy applicants with skills at, say, an eighth grade level are allowed to enroll in the colleges' remedial or developmental studies and, if they stick with it, can progress over several months to an acceptable level of proficiency. But, most of these adults have approached the postsecondary institution looking for technical or occupational credentials and they frequently lose all interest when diverted into basic skill courses. Few colleges have integrated basic skill building curricula into their for-credit, credential or degree-oriented courses. Those applicants with literacy skills below an eighth grade level are simply turned away or referred to adult basic education programs (and seldom are heard from again).

If they can get past the basic skill threshold problems, working adults still face major barriers to postsecondary study (especially time, program availability, schedule, and cost). Evidence shows that working adults do take courses outside of working hours, but usually on an intensive basis only for a short time – four to six weeks or so. Sometimes, they are able to take one course at a time for a whole 15-week semester. However, especially if they have a family (and of course most do), they very seldom are able to sustain education and training at what colleges and universities consider a half-time pace.

Less-than-half-time students get little financial support. Government direct or guaranteed loans (subsidized and unsubsidized) require half time or more attendance. Working adults

who must pursue college on a less-than-half-time basis receive almost no Pell grant money because several eligibility criteria (involving income and cost calculations, eligible programs and institutions, and the pace of attendance) effectively eliminate them from consideration. State programs generally mirror federal limits (although there are some innovative state-based practices).

Education tax credits are not helping. The more generous credit — the Hope Scholarship Credit — demands half-time or more attendance and goes mostly to the middle income parents of traditional students who are in their first two years of college. The Lifetime Learning Tax Credits available to less-than-half-time students are far less generous than Hope, they are poorly marketed, and they are not effectively targeted to modest income families.

Recall that the average annual earnings for full-time, full-year workers with only a high school degree were only \$30,400 in 2000. Even if a family has a second wage earner (probably not full-time, full-year), that family is hard pressed just to cover its basic living expenses. Educational expenses of \$1,500 to \$2,000 per year for a family struggling to cover these basic expenses can easily make post-secondary study seem out of reach.

The lack of student aid for working adults squashes demand for accessible programs and stifles experimentation and innovation, such as creating more digestible modularized programs and sequencing credentials. It increases the skepticism of working adults and their employers about the support they can get from their government or the higher education system.

But the problem is not just the absence of financing. Few institutions of higher education have developed programs and schedules that work for working adults. Even at community colleges, programs that will lead to degrees and academically recognized credentials are frequently campus-bound; even if not, they often have prerequisites that are tough to fit in the schedule of adults with full-time work and family responsibilities.

Degree and other credential requirements often seem too daunting for a working adult attending part-time. Associate degrees that require 60 to 75 credit hours can seem an almost insurmountable barrier to a student who can take only three or four credits at a time. Most programs continue to require seat time in lieu of competency demonstration as a chief criterion of credentialing. Extended use of evening and weekend programs often requires programming arrangements that can raise accreditation problems for the programs and institutions. Their response frequently has been to make those offerings "non-credit" and to deny students shunted off into those classes the opportunity to build a pathway of credentials to advance their career.

Few public colleges have successfully integrated preparation for industry-based certification into their for-credit, academically credentialed programs. Students who choose to pursue such credentials (as in information technology fields) are often required to pursue these programs in more flexible but also more expensive proprietary training schools where they sometimes sacrifice future ability to articulate their study into higher-

level programs in favor of short-term credentials. Workers seeking continuing credentialed education as they navigate toward higher paid positions in their occupation are often frustrated to discover that credentials earned in one institution cannot be applied to advanced study at another school.

Of course, there are important exceptions to this generally dismal picture of how higher education systems meet the needs of working adults. Notwithstanding a decade of increases in tuition and fees that exceed the rate of inflation, many two-year community colleges are still financially accessible for limited income families. There are several colleges, four-year as well as two-year, that have worked hard to develop programs that work well for working adults and are affordable. They have organized credentialed programs that generally require one or two years of full time study into shorter modules, each with distinct credentials that can be "stacked" together over time into more conventional degrees and certificates.

Some community colleges are making more extensive use of "career ladders" in high-growth occupations that enable students to earn basic, industry-recognized certification quickly to gain entry to higher wage occupations with the option to continue training for more advanced credentials. Some program offerings include open-entry/open-exit classes that allow students to progress at their own pace, classes that meet on weekends, and course offerings that combine distance-learning and on-campus support. Some colleges have created short-term intensive programs with curricula and scheduling formats that can better accommodate the schedule limitations of working adults.

Regrettably, however, these are exceptions – best practice, not common practice. In terms of cost and programs structure most institutions of higher education institutions are not easily accessible to working adults and they do not promote success.

In fact, this is not just a problem facing low-skilled working adults. A defining characteristic of the early 21st century economy is the emergence of high wage, high skill, occupational clusters not generally seen as professional or managerial and requiring sub-baccalaureate credentials at entry. Jobs in these clusters (like advanced manufacturing, biotechnology, logistics, health care) pay well and offer opportunities for career advancement. They provide careers that can support middle class expectations for producing family sustaining earnings and building inter-generationally transferable assets.

However, a central feature of these high performance occupations is that they require advanced and credentialed skills on a continuous basis. People in these occupations need post-secondary education not just to get ready for the job, but also to adapt to the job or occupation as skill requirements change and as they pursue better opportunities within the occupational cluster.

The implications of these labor market changes for education and training are far more significant than has been generally understood. We need demand-side oriented, postsecondary institutions that can help pull young people through high schools and pull

adult workers back into education to build a solid foundation to enter these high performance occupations. These market-based institutions then need to stay with the workers as they and their employers discover the need for new skills. Upwardly mobile workers developing a portfolio of credentialed skills must rely on local education and training institutions that can deliver programs in short, intensive, and credentialed packages that are accessible to people who have full-time jobs and usually full-time family responsibilities. The institutions must develop more systemic credentialing systems that certify both the strong foundation and the addition of new increments of knowledge and capability. In these high skills occupations, successful workers and their employers will need more comprehensive and more fine-grained credentialing pathways than those currently offered by our current system of one-year certificates and two and four-year degrees.

In the old economy, postsecondary education helped people prepare for their first jobs and the beginning of their careers. In the new economy, postsecondary education must help people prepare for lots of jobs over their lifetime, building career competencies through continuous education and skill development.

In summary then, there are big economic returns for workers, their employers and the national economy to postsecondary education for working adults, especially for those with no previous after high school credentials. However, there are even bigger barriers to postsecondary access and success for working adults. The obvious question is, “What do we do about it?” Or, more to the point, “What does this Committee do about it?”

This Committee can begin now the task of helping postsecondary education in America organize itself to deal more effectively with the on-going education and skill development needs imposed by the 21st century economy. It will take time but there are some things that can be done now in re-authorizing the Higher Education Act and some things that can be done in the near term through the strategic adjustments of closely related federal policies affecting higher education.

What Can This Committee Do in Re-Authorizing the Higher Education Act?

1. **Modify Eligibility Requirements for Existing Grant and Loan Programs:** This Committee might consider some relatively low-cost modifications to Title IV of the Higher Education Act that would help working adults and promote lifetime learning. Very low-income adults could be helped by changing the way that “Expected Family Contribution” and “Cost of Attendance” are calculated to better reflect living costs, by permitting Pell Grants for summer school to allow for year-around attendance, by simplifying access to Pell grants, and by more aggressive marketing of their potential eligibility.

For other working adults who are able to incur education debt, it certainly seems

appropriate to reconsider the limitation on federal direct and insured loans to less-than half-time students. In fact, working adults (because they have a credit history and income) are probably more able to manage education debt than young people coming out of college and looking for their first career job. The returns to credentialed learning are dramatic enough to justify this investment. I further encourage the Committee to investigate how employers might be asked to play a supportive role in new adult loan programs, perhaps through financial incentives for helping repay worker debt.

I understand that the President's 2006 budget has proposed a small, new loan program, jointly administered by the Departments of Education and Labor, to help dislocated, unemployed, transitioning, or older workers and students. I have very few details of this budget initiative, but to the extent it seems to have merit, this committee may wish to consider its inclusion in the reauthorization of the Higher Education Act.

However, beyond these modest changes, I don't see much enthusiasm among post-secondary institutions themselves for major changes in Pell grant or student loan eligibility that might better accommodate the financial needs of working adults. Most see Title IV of the HEA as a "zero sum game" where allocating more federal support to non-traditional students, like working adults, means diverting it from traditional students. Certainly, federal resources are tight; this hardly seems to be the right climate to consider new government entitlements for higher education. And it doesn't help low-income working adults to set their needs in opposition to the needs of low-income young people.

Even more importantly, we are increasingly convinced that squeezing a little more money out of Title IV will not help much. The problems that discourage access and success for working adults seeking post-secondary credentials also discourage the continuous learning that is required by the new economy. These are historic problems that go very deep into the governance and financing of higher education and adult education. Solutions must come through broad reforms in how the states manage their postsecondary education responsibilities.

The current Title IV programs for traditional students pretty much ignore the state role in favor of direct entitlements and institutional aid programs. Perhaps the more appropriate federal role for such non-traditional students as working adults might be to work directly with the states, helping them promote institutional change for student access and success.

2. Develop a New Federal-State Partnership in Higher Education for Working Adults: We suggest inclusion in the re-authorization of the HEA of a modestly-funded, temporary program of grants to states to promote postsecondary access and success for working adults. These grants would help states develop and implement a plan to reform higher education governance, formula financing, student aid, curricula and program development, accreditation, credentialing, and faculty development in ways that would promote access and success for working adults seeking their first post-secondary credentials as well as those seeking the new skills and additional credentials of career advancement.

This would not create new federal student financing programs. Nor would it seek to divert existing program like the Pell Grants and the direct and guaranteed student loans away from traditional students toward working adults. Rather, this new approach would be focused on helping the states – the biggest financial stakeholder in higher education – explore how changes in the way they govern and finance higher education can create better opportunities for access and success for working adults.

We suggest a time-limited approach (the six years of the new re-authorization) under which each state would receive a planning grant in year one followed by annual, formula-based implementation grants in years 2 through 6. There would be monitoring, assessment, and enforcement mechanisms to keep states on track of the plans they develop with incentives for outstanding work and sanctions for poor performance. Alternatively, the entire process could be made competitive, with grants going only to those states prepared up front to make a strong commitment to the post-secondary education of working adults. Under any approach, it seems important to make the federal grants annually renewable, subject to performance, rather than allocating each state full funding in one large grant.

Use of the federal grants would vary from state to state depending on their particular diagnosis of problems and opportunities. Some states might place a special emphasis on developing new financial aid instruments aimed at working adults. Others might choose to focus their efforts around the development of new program and credentials that fit the scheduling barriers facing many working adults. Some states might look chiefly at their community colleges to implement this initiative while others might ask their four-year state colleges to play a major role. This diversity of approach would provide a rich learning environment and state teams working on these issues could be brought together regularly to exchange information and experience.

This does not have to be a costly program for the federal government. Giving the states modest discretionary funding to help their institutions with careful research and with the design, testing, and piloting of new programs will be enormously important to states facing serious fiscal constraints. Consider a six-year federal authorization of just \$500 million or \$85 million per year, providing the states an average of \$10 million for this multi-year initiative.

A scaled-down version of this idea could be piloted with just some states (perhaps 10-15 selected through a national competition) who commit to assess and improve their state postsecondary education policies to increase the number of working adults with postsecondary credentials. The participating states would assemble planning teams representing the Governor's office, the state higher education commission, the postsecondary student aid agency, the state department of workforce development, the state human services agency, the state finance or budget officer, the community/technical colleges, key legislators, and major business associations. With some sort of careful annual review, federal funds would support a one-year planning process and perhaps three or four years of funding for project implementation. Federal resources would also support national technical assistance and dissemination.

We have been working on a small project using this model for the past two years. With grant support from the Lumina Foundation, we have partnered with the National Governors' Association in what we have termed the Pathways to Advancement project. Several of the eight participating states have made important progress toward improving their state's higher education for working adults; however, there is much more work to be done. Under this project, there has been no funding to support program development and piloting at the state level and, in these days of severe fiscal constraints, it is very hard for states to change institutional behavior with no new money. However, our experience is that states are serious about making these changes. They have had strong support from their Governors. They work together and learn from each other. Federal leadership and a little federal money could make the difference.

This new federal-state program, even at a pilot scale, would be both good economics and good politics. This strategy would find enthusiastic support from business and labor groups. It does not require a large or open-ended financial commitment from the federal government. It would build a partnership with states and their institutions of higher education around the target of working adults as a huge new market segment. It would kick-start the systemic re-positioning toward lifelong learning that is important for postsecondary education.

What Other, Closely Related Change Might This Committee Consider?

In the re-authorization of the HEA, this Committee can begin to promote changes and reforms in the regulatory and policy frameworks of higher education that will help those institutions respond better to the needs of the millions of working adults who lack any post-secondary credentials and who will fall further behind in this economy.

However, changing institutional behavior is only one part of the challenge. We also have to think of how to change the behavior of individual workers and their employers. Adult workers need better information about the returns to postsecondary and greater incentives to invest their own energy, time, and money into earning post-secondary credentials. Employers need more information about the productivity returns to investments in workforce skills and how to help their workers understand the importance of these investments.

Strengthening employer commitment to the credentialed postsecondary education of their workers is a difficult challenge and the potentially effective federal role is not clear. Employers may need more financial incentives as they step up to a higher standard of responsibility for helping their employees gain credentialed and portable skills. Employers spend a lot now, but most of their spending goes to support further education for already highly educated workers in professional and managerial occupations. Very little information is available about employer education assistance programs permitted under IRC Section 127. Anecdotally, tuition reimbursement programs for lower skilled workers don't seem to be very effective as employers report extremely low take-up rates

among their employees and colleges report very little tuition and fee income from employers. Perhaps this Committee might encourage more research and pilot experiments with employers and employer associations to help determine how best to encourage a stronger employer role in promoting postsecondary access and success for adult workers.

While I understand the Committee is focusing this hearing on the Higher Education Act, I would like to take this opportunity to encourage two very closely related policy initiatives or opportunities that could have a big impact on the postsecondary education achievement of working adults. The first opportunity lies in changing the Lifetime Learning Tax Credit and the second lies in a reform of adult basic education as currently promoted through Title II of the Workforce Improvement Act.

1. Making Education Tax Credits More Accessible to Working Adults: The Hope Scholarship (Hope) and Lifetime Learning Tax Credits (LLTC) were initiated by The Taxpayer Relief Act of 1997 to increase college affordability and to encourage lifelong learning. The two credits were designed to complement each other by targeting different groups of students. While the Hope may be used only for a student's first two years of post-secondary education, the LLTC is available for unlimited years to those taking classes beyond their first two years of college, including college juniors and seniors, graduate students, and working adults pursuing lifelong learning.

Eligible expenses for each credit include only tuition and required fees at an educational institution eligible for aid administered by the federal Department of Education (DOE). Tax filers may claim tuition and fee amounts after subtracting grants, scholarships, and other tax-free educational assistance including Pell Grants, employer-provided education assistance, and Veteran's educational assistance. The Hope provides a credit equal to 100% of the first \$1,000 plus 50% of the next \$1,000 of net tuition and fees paid during the tax year, for a maximum credit of \$1,500. The student must be enrolled at least half-time (at least six credit hours per semester, which typically is two classes) and be pursuing a degree or other recognized educational credential in order to be eligible.

In contrast, individuals are not required to enroll at least half-time or pursue an educational credential in order to be eligible for the LLTC. This makes the LLTC available to adults taking an occasional college course or to those enrolled in any course aimed at acquiring or improving job skills. Note that this could include adult basic education, including remediation of basic literacy skills in a college setting. Currently, the LLTC is equal to 20% of the first \$10,000 of net tuition and fees, for a maximum credit of \$2,000.

Both credits reduce the amount of taxes filers owe. The Hope credit can be claimed for multiple eligible students in a family while the LLTC is capped at \$2,000 per tax return, no matter the number of students in the family or the amount of their combined educational expenses. Families are allowed to claim the LLTC for some members and the Hope credit for others in the same year. However, the same student cannot take both credits.

The benefits of the tax credits phase out for higher-income taxpayers. The phase out begins at an adjusted gross income (AGI) of \$83,000 for a joint return (\$41,000 for single filers) with no benefit for families with incomes above \$103,000 (\$51,000 for single). With these relatively high thresholds, tax credits for higher education expenses have the most extensive eligibility of any federal program. (In comparison, Pell Grants are strictly limited to families with incomes below \$40,000. Nearly 90 percent of Pell Grant funds are awarded to families with incomes under \$30,000 and 54 percent of those families has incomes under \$10,000.)

In 2003-04, FutureWorks investigated the use of the Hope and LLTC using three primary data sources: Internal Revenue Service's Statistics of Income, the National Household Education Survey, and the National Postsecondary Student Aid Survey. We were limited then to 2001 tax information (and have not been able to update our research since). Some quick highlights from our research include:

- 7.2 million filers received \$5.2 billion in credits;
- Only 21 percent of adults in the general population had heard of the credits;
- 44 percent of the filers received a Hope credit only and they received 60 percent of the total benefits, 52 percent received a LLTC only and they received 31 percent of the benefits, and 5 percent received both credits and 9 percent of the benefits;
- The mean credit for Hope recipients was \$969 and the mean for LLTC was \$432.