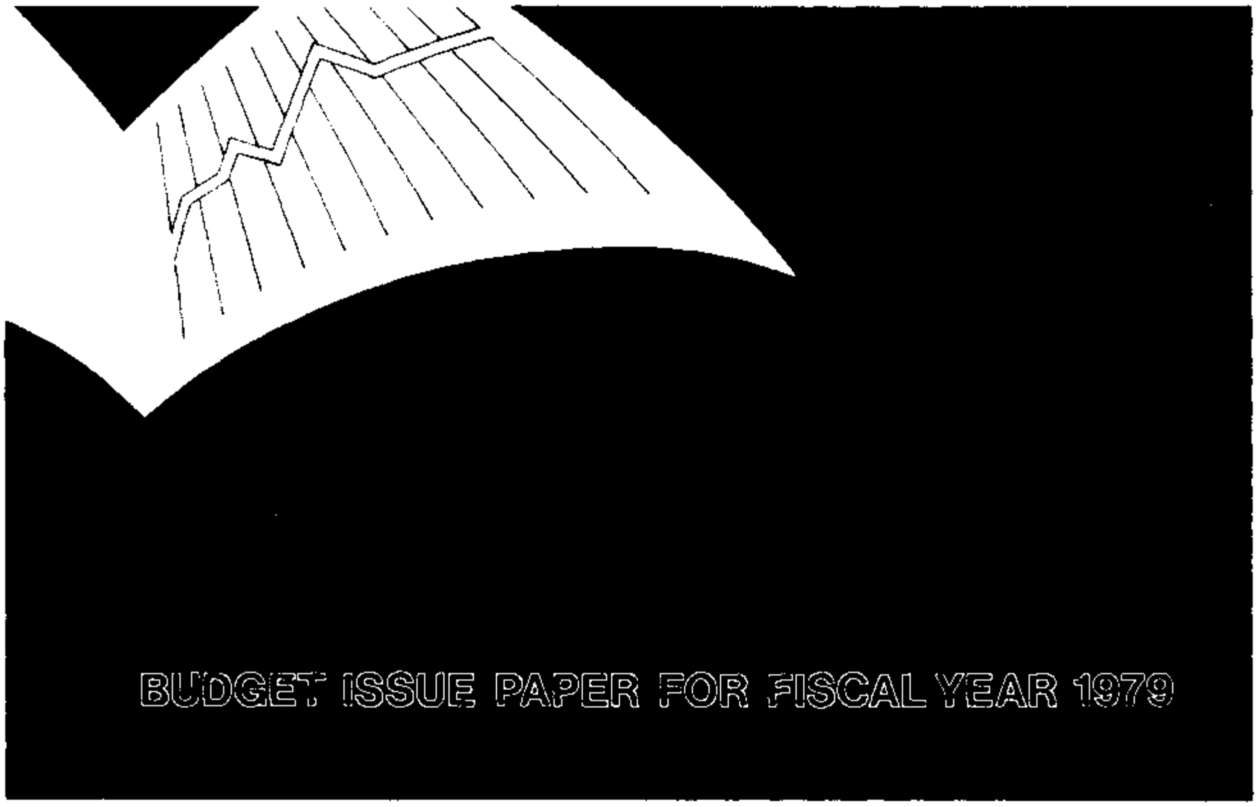
Federal Assistance for Postsecondary Education: Options for Fiscal Year 1979

May 1978



CONGRESSIONAL BUDGET OFFICE
CONGRESS OF THE UNITED STATES

FEDERAL ASSISTANCE FOR POSTSECONDARY EDUCATION: OPTIONS FOR FISCAL YEAR 1979

The Congress of the United States

CONGRESSIONAL BUDGET OFFICE

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Washington, D.C. 20402

PREFACE

In 1978, the Members of the 95th Congress are faced with a number of proposals that could alter significantly the federal role in postsecondary education. These proposals include modifications in student assistance programs and adoption of tuition tax credits that would not only increase substantially the amount of federal funding for postsecondary education, but also would broaden the focus of federal efforts to provide increased assistance to middle-income students and families in order to reduce the burden of college costs. This paper examines current federal funding for higher education and analyzes the probable impact of the various proposals under discussion within the Congress.

This report is provided in response to requests from the Senate Budget Committee, the Senate Finance Committee, and the Subcommittee on Postsecondary Education of the House Committee on Education and Labor. In accordance with the Congressional Budget Office's mandate to provide objective and impartial analyses of budget issues, the report contains no recommendations.

The report was prepared by David Longanecker, with the assistance of Steven Chadima, Richard Wabnick, and Larry Wilson, under the direction of Robert D. Reischauer and David S. Mundel. John Shiels developed the tax credit simulation model used in preparing estimates for this paper. Special thanks go to Martha Anne McIntosh for her clerical assistance throughout the preparation of this paper, and to Jill Bury, Janet Fain, Norma Leake, and Toni Wright. The author also wishes to thank the many reviewers, particularly Alfred Fitt, Deborah Kalcevic, and Cheryl Smith, who provided helpful guidance during the writing of this paper. The manuscript was edited by Patricia H. Johnston.

Alice M. Rivlin
Director

April 1978

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SUMMARY

This year may become the most important for postsecondary education in the past decade. Not only are large increases in the level of federal funding being considered, but the diverse proposals under consideration reflect quite different philosophies of how and to whom federal assistance should be provided. Since the late 1960s, the emphasis of the federal government in postsecondary education has been on the goal of enhancing equality of educational opportunity, and students from low- and moderate-income families have received substantial increases in aid. At present, however, a new focus appears to be evolving that would increase assistance to middle-income families (roughly $15,000-$25,000 in annual income) in order to reduce the burden of college costs. In addition to expansion of the current direct spending programs, tax credits for educational expenses have been proposed.

CURRENT POLICY FOR POSTSECONDARY EDUCATION

For fiscal year 1978, postsecondary educational institutions and students will receive $9.9 billion in federal support through direct spending programs and foregone tax revenues. Most of this, approximately 75 percent, will go into programs designed primarily to enhance equality of educational opportunity--enabling students from low- and moderate-income families to attend postsecondary educational institutions, an opportunity that they would otherwise not have. Another 15 percent will be directed to programs that primarily reduce the burden of attending college for students who generally would be able to attend without the assistance. About 10 percent of all federal funds will go directly to institutions of higher education.

The effect of the federal programs in achieving these objectives has been mixed. While a great amount of effort has been expended to enhance equality of educational opportunity, the disadvantaged and poor are only slightly more likely to be in college today than they were ten years ago and they are still less than half as likely to attend college as are children from higher-income families. There is no doubt, however, that federal student assistance programs make it possible for many students to attend college and to select institutions that meet their unique needs who otherwise would have been unable to afford higher education. Institutional aid has helped sustain such institutions as predominantly black colleges during financially troubled times, and has provided an effective incentive for other institutions to provide special services for disadvantaged students.

Different programs benefit different types of students. Need-based federal programs, such as Basic Educational Opportunity Grants (BEOG), Supplemental Educational Opportunity Grants (SEOG), and State Student Incentive Grants (SSIG), assist primarily students from lower-income families. In fiscal year 1978, 94 percent of BEOG and SEOG funds will be provided to students from families with incomes under $15,000. Student loan programs, on the other hand, are more available to middle-income students. Nearly one-third of the loans provided through Guaranteed Student Loans (GSL) and National Direct Student Loans (NDSL) in fiscal year 1978 will be borrowed by students from families with incomes between $15,000 and $25,000. Benefits from tax expenditures also are spread throughout the population, although relatively few of these benefits help lower-income families. Veterans' benefits and social security student benefits, though not based on need, assist primarily students from lower-income families because of the economic characteristics of the eligible populations.

THE SHIFTING FOCUS OF THE FEDERAL ROLE--MAJOR PROPOSALS FOR FUNDING POSTSECONDARY EDUCATION

The shift in emphasis toward students from middle-income families has resulted from the perception that these students are being squeezed out of higher education opportunities because of increasing college costs and the lack of middle-income student assistance. This perception of increasing burdens for middle-income students is not supported by the data. Enrollment rates among middle-income students declined somewhat in the mid-1970s, heightening concern that these youth were being forced out of higher education for financial reasons. More recently, however, enrollment rates of these students have increased. Furthermore, although the costs of college have risen faster than the cost of living, family incomes have continued to rise even faster. Student costs actually have declined slightly as a portion of family income. Appreciable increases in the level of federal assistance available to students from middle-income families have also occurred. Nevertheless, the concern for the plight of middle-income families is great and has led to a number of major proposals.

Two approaches--altered direct student assistance programs and tuition tax credits--are being proposed as mechanisms for directing increased federal support to middle-income families in an effort to reduce the burden these families face in meeting rising college costs.

Three direct assistance proposals--the Administration's proposal, S. 2539, and H.R. 11274--would extend eligibility for BEOG awards to students from middle-income families and also increase the proportion of families eligible for subsidized (guaranteed) student loans. The Administration's proposal would guarantee that students from families with incomes below $25,000 would receive at least a $250 Basic Grant. The House and Senate proposals would alter the BEOG grant allocation formula to provide middle-income students awards that decreased as incomes increase. Both the Administration and House proposals increase the awards for students who are not dependent on their parents (who generally have lower incomes). All three proposals would increase eligibility for Guaranteed Loans to students from families with incomes below $40,000 and would provide incentives to banks to increase participation in the Guaranteed Loan program.

Two proposals would provide tax credits for tuition and fee expenses. The tuition tax credit proposal reported out of the Senate Finance Committee (an amendment to H.R. 3946) would begin in 1978 by allowing refundable $250 maximum credits for undergraduate college students. By 1982 the program would expand to provide up to a $500 credit to all students in elementary, secondary, and postsecondary education. (An analysis of credits for elementary and secondary education is not included in this paper.) Currently there is a discrepency between the bill and the committee report with respect to how other student assistance should be considered in determining eligibility for the credit. The bill states that all student assistance must be applied toward tuition and only the remainder of the tuition costs can be claimed as a credit. The report states that other assistance could be applied to all educational costs.

The tax credit bill of the House Ways and Means Committee would allow student assistance to be applied to all educational expenses, similar to the Senate Finance report language. Unlike the Senate bill, however, the Ways and Means proposal is for a nonrefundable postsecondary tuition tax credit only, with a considerably lower maximum credit limit ($100 in calendar year 1978, $150 in 1979, and $250 in 1980).

A COMPARISON OF CURRENT PROPOSALS

Each of the five proposals aids different groups of students. Middle-income families and students would receive the largest increase in support from the House and Senate student aid proposals. Higher-income families would receive the largest increase in awards from the Senate Finance Committee tax credit proposal. Lower-income students would benefit most from the Administration and House student aid proposals, though a large portion of these increased benefits would be directed to independent students. Lower-income families with dependent students in college would receive very little additional aid from any of the Basic Grants proposals.

The Administration's proposal would increase slightly the BEOG awards to currently eligible students while providing a guaranteed grant of $250 to all students from families with incomes under $25,000. This proposal would provide the greatest number of grants, but in general they would also be the smallest. The effect of the Senate and the House BEOG proposals, which do not include a guaranteed minimum grant, is to provide larger grants to fewer students from middle-income families. The House proposal, like the Administration's, includes special provisions for independent students, and, thus, it would help more lower-income students than the Senate proposal. Though each of these proposals focuses the increased assistance on middle-income families, some additional aid would go to students from lower-income families, generally in the form of increased awards rather than more awards. Both the House and Senate proposals would cost more than the Administration's proposal, $1,292 million and $1,161 million compared to $947 million in fiscal year 1979 (all figures are increases above current law expenditures).

The extent to which lower-income families would benefit from the tax credit proposals depends upon a number of factors. If all other assistance must be applied toward reducing tuition prior to determining the credit, as currently stated in the language of the Senate Finance Committee bill, lower-income students would not benefit much from the Senate tax credit proposal. This would occur because lower-income students benefit most from other forms of student assistance that would reduce appreciably their eligibility for the credit. On the other hand, if student assistance can be applied to all educational expenses rather than tuition alone, as reflected in the language of the report that accompanies the Senate bill, the tax credit would

SUMMARY TABLE. DISTRIBUTION OF INCREMENTAL INCREASES OVER CURRENT LAW OF MAJOR STUDENT ASSISTANCE PROPOSALS, BY INCOME CLASS: FISCAL YEAR 1979 FOR DIRECT SPENDING PROGRAMS AND FISCAL YEAR 1980 FOR TAX EXPENDITURE PROGRAMS, BENEFITS IN MILLIONS OF DOLLARS

Income Class	Current Law BEOG Funding	Increments to Current Law					
		Admin. BEOG Proposal	Senate BEOG Proposal	House BEOG Proposal	Senate Finance Bill (Tax Credit)	Senate Finance Report (Tax Credit)	House Ways and Means Bill (Tax Credit)
$0-15,000							
Benefits	1,887	438	286	418	101	355	128
Percent	92	46	25	32	14	32	21
$15-25,000							
Benefits	167	509	750	749	222	323	200
Percent	8	54	64	58	31	29	33
$25,000+							
Benefits	0	0	125	125	394	433	284
Percent	0	0	11	10	55	39	46
Total							
Benefits	2,054	947	1,161	1,292	717	1,111	612
Percent	100	100	100	100	100	100	100

CHAPTER I INTRODUCTION

Establishing future federal policy in postsecondary education involves four steps. First, federal goals must be identified. Second, it must be determined to what extent each goal has been achieved and to what extent each remains a problem. Third, choices must be made among competing goals, determining which ones will receive the highest priority for action. Fourth, selections must be made among the various techniques or mechanisms for accomplishing the goals that are to receive federal attention.

FEDERAL GOALS IN POSTSECONDARY EDUCATION

The role of the federal government in postsecondary education has never been clearly delineated by either the legislative or executive branch of government. The programs that have been enacted and their budgetary importance, however, do indicate that federal policy has been focused primarily on achieving three goals: promoting equality of educational opportunity, reducing the burden of college costs, and assuring a strong system of higher education.

Promoting Equality of Educational Opportunity

Equality of educational opportunity is a major goal of the federal government, reflecting a commitment to assure all Americans access to higher education. By helping to remove economic and social barriers, the government hopes to encourage students, who otherwise might not continue their schooling, to attend college. Many programs--including the Basic Educational Opportunity Grants Program (BEOGs), the Supplemental Educational Opportunity Grants Program (SEOGs), the National Direct Student Loan Program (NDSLs), and the College Work-Study Program (CWS)--focus on providing financial assistance to families and individuals who are needy. In addition to providing access to higher education, these programs also have been designed to provide individuals of differing financial status with the ability to select educational institutions that match their intellectual capabilities and their unique educational interests. In this way, these programs help to maintain the arena of diverse institutions that characterize American higher education.

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Reducing the Burden of College Costs

Whereas the first goal is to remove barriers for individuals who would not otherwise be able to attend postsecondary institutions, this second goal is to reduce the financial strain on families with students who most likely would continue their education even without government assistance. This federal role has most often found expression in the tax code or through student loan programs. For example, all families can claim a $750 deduction and a $35 credit from their federal income tax for college students whom they support, regardless of the student's earnings.

Recently, a number of proposals have been introduced that focus specifically on reducing the financial burden for middle-income families. 1/ These proposals include expanding the eligibility for federally subsidized and insured loans, providing a tax credit for tuition and fee costs, and altering eligiblity for existing direct student assistance programs (BEOGs, SEOGs, and CWS) to provide greater assistance to middle-income families.

Assuring a Strong System of Higher Education

Federal programs also assist in maintaining a strong and multifaceted system of higher education. By designing programs that allow individuals latitude in choosing the type of education they wish to pursue, the federal government helps sustain diversity in American higher education.

In addition to indirect aid to educational institutions through student aid programs, the federal government also assists

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1/ "Middle-income" is difficult to quantify precisely. For one thing, there are considerably divergent viewpoints on what portion of the population represents "the middle." Furthermore, income levels vary greatly throughout the United States, and incomes of equal size may have considerably different purchasing power in different regions of the country. For the purposes of this paper, middle-income is assumed to include families with incomes between $15,000 and $25,000 in 1979. This range includes approximately the middle one-third of families in the U.S.; thus, about one-third would fall below this middle-income range and one-third would be above this range.

institutions directly. Through programs such as Title III of the Higher Education Act of 1965 (Strengthening Developing Institutions), the federal government provides financial assistance to colleges and universities that provide unique contributions to higher education and that need financial assistance to ensure their continued financial stability. The federal government also provides financial assistance to institutions to encourage them to respond to federal priorities; to help defray the cost of complying with new federal requirements; and to help them respond to unanticipated crises. For example, the federal government provides assistance to institutions for the so-called TRIO Programs (including Upward Bound, Talent Search, Special Services for Disadvantaged Students, and Educational Opportunity Centers) in order to encourage institutions to attract and serve the special academic and social needs of students from disadvantaged backgrounds. Currently Title VII of the Higher Education Act (construction, reconstruction, and renovation of academic facilities) is being used to assist institutions respond to three national concerns: the need for energy efficiency, the need for greater occupational safety on campuses, and the need to make higher education facilities more accessible to handicapped individuals. 2/

RESULTS OF CURRENT EFFORTS IN MEETING FEDERAL GOALS

Promoting Equality of Educational Opportunity

For the past decade, the overriding objective of the federal government with respect to postsecondary education has been to enhance equality of educational opportunity. In the fiscal year 1978 budget, almost three-quarters of the $9.9 billion in federal expenditures for postsecondary education (excluding research support) is directed to accomplishing this goal. It is not clear, however, what specific measure would indicate that this goal had been achieved, although it is clear that poor and disadvantaged youth have not been able to reach their potential in the past because of financial barriers.

2/ Fiscal year 1978 is the first year in which funding ($4 million) has been appropriated for construction, reconstruction, and renovation.

Substantial research indicates that financial assistance ought to affect enrollment rates, 3/ but federal efforts have not been particularly successful in increasing the participation in postsecondary education of young adults from lower-income families. A recent Census study shows that the enrollment rate of dependent students from lower-income families (with incomes under $8,525) increased from 20.1 percent to 22.4 percent between 1973 and 1976. 4/ This increase followed six years during which enrollment rates for students from lower-income families fluctuated slightly but changed very little overall. During this same period of time, enrollment rates for students from all other income groups were declining slightly. Despite this increase in enrollment rates relative to the enrollment rates for other youth, young adults from lower-income families still are less than one-half as likely to attend college as students from higher income families. Other programs, that combine economic support with academic preparation (the Upward Bound program, for example) appear to have been relatively successful in encouraging disadvantaged youth to attend college and in heightening their educational aspirations. 5/ These programs, however, have received limited funding and thus reach only a small number of students. The Upward Bound Program, for example, reaches fewer than 5 percent of the persons in the target population that the program was designed to serve. 6/

3/ Stephen J. Carroll, Bryant M. Mori, Daniel A. Relles, and David J. Weinschrott, The Enrollment Effects of Federal Student Aid Policies (Santa Monica, Calif.: Rand Corporation, June 1977).

4/ U.S. Bureau of the Census, Population Characteristics: School Enrollment--Social and Economic Characteristics of Students (October 1976); Current Population Reports, Series P-20, No. 319 (1978).

5/ U.S. Department of Health, Education, and Welfare, Office of Education, Office of Planning, Budgeting, and Evaluation, Evaluation of the Upward Bound Program: A First Follow-Up (1977).

6/ U.S. Department of Health, Education, and Welfare, Office of Education, Office of Planning, Budgeting and Evaluation, Annual Evaluation Report on Programs Administered by the U.S. Office of Education, Fiscal Year 1976.

In sum, there appears to have been some progress in providing equality of educational opportunity. Existing federal programs have made it financially possible for many disadvantaged students to continue their education. But lack of more substantial success in attracting the poor and disadvantaged into higher education indicates that more effort will be required to achieve the goal of equality of educational opportunity.

Reducing the Financial Burden For Middle-Income Families

Currently, much concern is being expressed about the financial burden that increasing college costs are creating for parents of college students, particularly for middle-income families. Two questions, however, must be addressed in examining this goal. First, what is the evidence that the burden exists? Second, to what extent have current programs helped to alleviate the problem?

Financial burden is a relative concept: what is considered a reasonable financial obligation at one time may come to be considered an unreasonable financial burden at another time. It is difficult, therefore, to estimate what absolute measure reflects the achievement of a reduced or increased financial burden.

One reason for the heightened level of concern that college costs were creating an undue hardship was a noted decline in enrollment rates for middle-income students during the mid-1970s. Recent data, however, show that this trend has been reversed (see Table 1). 7/ The earlier downward trend may have been a result of other societal factors, including the end of the military draft and the effects of the recession, rather than the result of a decline in ability to afford postsecondary education.

Another reason for heightened concern has been the growth of college costs. In fact, the relative level of college costs has remained essentially constant rather than increasing during recent years. Though the costs of college attendance have risen faster than the cost of living (as measured by the Consumer Price Index [CPI]), this increase in costs has been offset by an even larger increase in family incomes. As a result, student

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7/ Census Bureau, op. cit.

TABLE 1. PERCENT OF 18- TO 24-YEAR-OLD DEPENDENT FAMILY MEMBERS a/ ENROLLED IN COLLEGE, BY FAMILY INCOME, b/ OCTOBER 1967 TO OCTOBER 1976

Family Income	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
$0-8,525	20.0	22.5	24.8	20.8	22.8	22.6	20.1	20.3	23.5	22.4
$8,525-17,050	37.9	38.5	38.8	36.6	35.4	34.2	31.2	31.7	35.1	36.3
$17,050-25,575	51.9	50.7	50.6	48.4	46.4	44.2	42.7	41.4	45.4	47.5
$25,575+	68.3	63.0	65.2	61.7	61.8	56.9	56.6	57.5	59.6	58.2
All Income Groups	39.1	39.7	41.3	39.1	38.9	37.8	36.6	36.2	38.7	38.8

SOURCE: CBO calculations based on data supplied by the Census Bureau.

a/ A dependent family member is a relative of the primary family head other than the wife.

b/ Family income in 1976 dollars, civilian noninstitutional population.

costs for both the public and private sectors of higher education have declined slightly as a proportion of family income (see Table 2). 8/

Concurrently, federal student assistance for middle-income students has continued to increase. Since its inception in 1965, the Guaranteed Student Loan Program (GSL), which has been the primary federal program designed to assist students from middle-income families, has continued to grow and assist increasing numbers of students. In 1976, this program was amended to extend eligibility to students from middle-income families with adjusted family incomes up to $25,000. The dollar amount of loans dispersed has increased 19 percent between 1976 and 1978, and most of the increase in volume has gone to newly eligible students from these middle-income families.

In sum, there is no evidence to indicate that the financial burden of sending children to college has been increasing. This should not be taken to mean, however, that the burden of sending a child to college is not significant. While the situation appears no worse than it was a decade ago, neither is it appreciably better. Therefore, to the extent to which college costs were a burden in the 1960s, they still present a financial strain. And there are certainly many middle-income families--especially families with students in expensive schools, families with more than one child in school and families in which the head of the household is the student--that find it difficult to pay the costs of postsecondary education.

Assuring A Strong System of Higher Education

In fiscal year 1978, approximately 10 percent of federal expenditures for postsecondary education (excluding research funding) will be directed to assuring a strong and diverse system of higher education. It is difficult, however, to judge the extent to which this goal has been achieved or to ascertain the success of existing programs.

8/ Congressional Budget Office, Federal Aid to Postsecondary Students: Tax Allowances and Alternative Subsidies, Background Paper (1978).

TABLE 2. FAMILY INCOME AND STUDENT CHARGES, CALENDAR YEARS 1967-1976

Year	Median Family Income a/			Total Student Charges		Student Charges as a Percent of Income of Families with 18-24 yr. Dependents		CPI
	All Families (1)	With 18-24 yr. Dependents (2)	With 18-24 yr. Dep. in College (3)	Public (4)	Private (5)	Public (4)÷(2)	Private (5)÷(2)	
1967	$ 6,811	$ 7,923	$ 9,816	$1,063	$2,205	12.9	26.8	100.0
1968	7,189	8,469	10,452	1,117	2,321	12.6	26.0	104.2
1969	7,770	9,123	11,295	1,204	2,531	12.2	25.4	109.8
1970	8,268	9,624	12,063	1,288	2,739	12.5	26.3	116.3
1971	8,681	10,095	12,727	1,357	2,917	12.8	27.1	121.3
1972	9,276	10,900	13,392	1,458	3,038	12.4	26.8	125.3
1973	10,273	11,897	14,679	1,517	3,164	12.3	25.5	133.1
1974	11,025	12,561	16,005	1,617	3,386	12.1	25.2	147.7
1975	11,505	13,199	16,784	1,748	3,667	12.3	25.7	161.2
1976	12,199	14,164	18,384	1,854	3,896	12.3	25.9	170.5
Percent Change 1967-1976	+79.1	+78.8	+87.3	+74.2	+76.7	-4.7	-3.4	70.5

SOURCE: U.S. Bureau of the Census, Current Population Reports and National Center for Education Statistics data; U.S. Department of Commerce, Survey of Current Business.

a/ Family incomes are those reported in the Bureau of the Census, October Current Population Survey, in which detailed questions about education are asked. The traditional and more comprehensive reporting of incomes is done in March of each year. The Bureau of the Census reports that, for the above period, October median family incomes ranged from 82 to 86 percent of the median family incomes reported in March.

A census family is two or more persons related by blood, marriage, or adoption, and residing together. All such persons are considered members of the same family. Columns (2) and (3) are incomes of primary families. A primary family includes a head of the household (family designated) as one of its members. Excluded from the sample of primary families here are those in which the 18-24-year-old dependent is either the designated head, the wife, or married. Only those in which the 18-24-year-old dependent is attending college full time are included in Column (3).

As with other federal educational goals, there is no absolute measure of success. What, for example, would be the ideal mix of public and private institutions to ensure a diverse system? Or, what share of its resources should the federal government provide in helping to address this need? These questions are not easily answered. The financial stability of postsecondary institutions is one indicator of how strong the system is, but there are conflicting reports on the financial health of postsecondary education. Some studies indicate that colleges and universities are in serious trouble and face a bleak future. Others contend that higher education is recovering well from the financial problems of the mid-1970s. 9/

In some instances federal assistance, which was a boon for higher education at one time, has become a liability in later years. For example, in the 1960s, considerable federal assistance was provided, both in the form of grants and low-interest loans, for the construction of educational facilities to meet the demand of a rapidly increasing college population. As enrollments have leveled off and declined on some campuses, the debt service to the federal government for facilities that no longer are being used to full capacity has become a financial burden for some institutions.

9/ In September 1976, a research article in Change Magazine reported that approximately 50 percent of all institutions of higher education were in serious financial condition (either relatively unhealthy or unhealthy), with private institutions being in considerably worse financial shape than their public counterparts. (Andrew H. Upton, John Augenblick, and Joseph Heyison, "The Financial Change of Higher Education," Change Magazine, Vol. 8, #8, September 1976.) The Change article, however, has been refuted by the findings of other researchers. Bowen and Minter have indicated that "the phrase that best characterizes the current condition is stability without stagnation." They found little evidence of retrenchment in the form of program cuts, alterations in student-faculty ratios, or similar indexes. (Howard Bowen and John Minter, Annual Reports on Financial and Education Trends in The Private Sector of American Higher Education, Vol. 2, Washington, D.C.: Association of American Colleges, 1976.)

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THE SHIFTING FOCUS OF FEDERAL POSTSECONDARY EDUCATIONAL POLICY

From the period following World War II to the mid-1960s, higher education was expanding rapidly, and enhancing the growth of a strong system was a high national priority. In this milieu, institutional aid evolved as the dominant source of federal aid. Construction loans and grants assisted campuses in developing facilities with sufficient capacity to accommodate increasing enrollments. The Department of Housing and Urban Development provided low-interest loans for the construction of residence halls in which to house the influx of students.

By the late 1960s, however, the federal role in postsecondary education began to take on a new emphasis, one that focused on improving equality of educational opportunity. It had become increasingly apparent that many disadvantaged and minority Americans were unable to enjoy the benefits of postsecondary education. To accomplish this new goal, institutional aid was supplanted by student assistance. National Direct Student Loans, College Work-Study, and Educational Opportunity Grants (which later became Supplemental Educational Opportunity Grants) were established to assist students with financial need. The responsibility for administering these programs, however, remained with the individual campuses. The Guaranteed Student Loan program evolved somewhat differently. Its focus has been more on providing assistance to middle-income students, and it is administered by private lending institutions.

Over time, student assistance programs have become more directed toward helping only the most needy students. The two newest programs, enacted in 1972, are the Basic Educational Opportunity Grants Program (BEOGs) and the State Student Incentive Grants Program (SSIGs). The Basic Grants program is administered directly by the Office of Education, with much more strict regulation and oversight of the determination of student need than other older programs. SSIGs, though administered by the states and thus not as strictly regulated as the Basic Grants program, provide an incentive for states to increase their commitment to the goal of enhancing equality of opportunity.

With increased concern being directed to the goal of reducing the burden of college costs for middle-income families, two quite divergent approaches are being considered for providing this assistance. The first, educational tax credits, is an idea that, although discussed for more than two decades, has only recently been receiving increased support. Tax credit proponents believe their method of providing assistance is the most efficient, effective, and easily implemented alternative. The second approach, expanding directly appropriated education programs to provide educational benefits for middle-income families, is supported by the Administration as well as some members of the Congress. Proponents of this approach believe these programs represent the most equitable means of providing greater student assistance.

CHAPTER II. CURRENT FUNDING POLICIES FOR POSTSECONDARY EDUCATION

In the fiscal year 1978 budget, almost three-quarters of the $9.9 billion in direct and indirect federal expenditures for postsecondary education (excluding research support) is directed toward programs with the principal purpose of providing equality of educational opportunity, more than 15 percent is directed to easing the financial burden of higher education to the population in general, and approximately 10 percent is focused on programs designed to assure a strong and diverse system of higher education.

SOURCES OF FEDERAL AID FOR POSTSECONDARY EDUCATION

There are four general sources of federal aid for postsecondary education:

- o The Office of Education within the Department of Health, Education and Welfare which administers the postsecondary education programs authorized by the Higher Education Act;

- o Other agencies that provide educational benefits, such as the Veterans' Readjustment Benefits and social security student benefits;

- o Tax expenditures that provide assistance in the form of reduced tax liabilities; and

- o Science funding agencies that provide resources to higher education institutions.

Education Programs Authorized by the Higher Education Act

The Office of Education administers both student assistance and institutional aid under the Higher Education Act of 1965 and the Higher Education Amendments of 1976.

The major student assistance programs include:

- o Basic Educational Opportunity Grants (BEOGs), established in 1972, provide financial assistance to undergraduate students who are enrolled at least half-time in college or postsecondary vocational/technical schools. The grant amount is based on financial need. As currently authorized the maximum grant is $1,800, or up to 50 percent of educational costs, whichever is lower. Appropriations for the program in fiscal year 1978, however, have forced an effective maximum grant level of $1,600.

- Supplemental Educational Opportunity Grants (SEOGs), established in 1965 as Educational Opportunity Grants, provide assistance to undergraduate collegiate students enrolled at least half-time in a degree program. Eligibility is based on financial need as assessed by the institutional financial aid officer. The maximum grant is $1,500, but the grant must be at least equally matched by the institution with other forms of student financial aid.

- State Student Incentive Grants (SSIGs), established in 1972, provide state assistance to full-time undergraduate students. Eligibility is based on financial need as determined by the states. The grants, as authorized, can provide up to $1,500 per academic year. The federal government reimburses the states for 50 percent of the amount of these grants.

- College Work-Study (CWS), initiated in 1965, provides assistance in the form of part-time employment to undergraduate students enrolled at least half-time in a participating college or postsecondary vocational/technical school. Eligibility is based on financial need as assessed by the institution's financial aid officer. The federal government pays up to 80 percent of the costs.

- Guaranteed Student Loans (GSLs), established in 1965, help students borrow from private lenders. An undergraduate student is allowed to apply for up to $2,500 per year, though an undergraduate's total outstanding debt may not exceed $7,500. A graduate student may borrow up to $5,000 per year, but no more than $15,000 in total. All students are eligible to apply for these federally subsidized loans, but for students from families with adjusted family incomes of less than $25,000, the federal government pays all interest charges while the student is in school and for up to a year after termination of schooling. Interest of 7 percent is charged to the borrower thereafter. Loans made to students from families with incomes greater than $25,000 bear 7 percent interest to the student from the time they are issued. The federal government insures each loan. As an incentive to encourage lender participation, the government also pays a special allowance of up to 5 percent to lenders on all loans outstanding.

- <u>National Direct Student Loans</u> (NDSLs), established in 1958 under the National Defense Education Act, provide low-interest federal loans to students at participating institutions. Eligibility is based on financial need. The participating institution determines the size of the loan, but the total debt cannot exceed $5,000 for an undergraduate or $10,000 for a graduate student. The loan is interest free to the student while in school, but accrues interest at 3 percent per annum upon completion of schooling.

The major institutional assistance programs administered by the Office of Education include:

- <u>Special programs for the disadvantaged</u>--including Talent Search, Upward Bound, Special Services for Disadvantaged Students, and Educational Opportunity Centers--were created in 1972 to provide incentives for institutions to establish programs that meet the educational needs of disadvantaged students and that encourage disadvantaged students to attend college.

- <u>Strengthening developing institutions</u>, Title III of the Higher Education Act, was enacted in 1972 to provide assistance to strengthen the academic quality and management of developing institutions, particularly those serving primarily disadvantaged and minority students.

- <u>Construction, reconstruction, and renovation of academic facilities program</u> was originally included as part of the Higher Education Facilities Act of 1963, and is now Title VII of the Higher Education Act of 1965. This program provides grants and loans to help defray the costs of retrofitting facilities to accommodate handicapped students and to improve building safety and energy efficiency.

Postsecondary Education Programs Funded and Administered by Agencies Other Than The Office of Education

Both veterans' benefits and social security entitlements include educational assistance that contributes significant amounts of money to postsecondary students and institutions. While these entitlements are not subject to annual appropriations, both veterans' educational benefits and social security educational benefits currently are the suject of debate in the Congress.

- Veterans' Readjustment Benefits. The Veterans' Readjustment Benefits program, which currently provides virtually all veterans' educational benefits, was enacted in 1966. 1/ It provides up to 45 months of benefits to veterans who served prior to 1977. The monthly stipend is based on the size of the student veteran's family and whether the veteran is a full- or part-time student. The award is not adjusted for need or for varying institutional costs. The benefit is available to all veterans, but the education must be completed no more than ten years after discharge from active service.

- Social Security Benefits for Students. Enacted in 1965, these benefits provide continued social security benefits to full-time college students under 22 years of age. The size of the benefit depends upon the category of eligibility of the student's family. 2/

1/ A new veterans' program has been created for individuals entering the service after December 1976. Those wishing to participate in this program must contribute toward their future education while in the service. Their contribution is double matched by federal funds.

2/ Social Security Benefits for Students, a May 1977 CBO Background Paper, discusses social security student benefits and analyzes various options for the program.

Tax Expenditures for Postsecondary Education

Various tax expenditures provide benefits for postsecondary education in the form of reduced tax liabilities. 3/ These include a $750 personal exemption and a $35 tax credit for student dependents, the exclusion of fellowships and scholarships from taxable income, the exclusion of veterans' benefits and social security student benefits from taxable income, and the deduction of gifts and bequests to educational institutions.

Funding for Academic Science

Postsecondary education also benefits appreciably, though indirectly, from federal funding of research and development. In total, universities receive more than $3 billion annually in funds to conduct basic and applied research. This funding is channelled through a number of federal agencies to the receiving institutions. Because of the different nature and purposes of this funding, research and development is not discussed further in this paper.

FISCAL YEAR 1978 FUNDING OF MAJOR FEDERAL PROGRAMS FOR POSTSECONDARY EDUCATION

Major federal programs for postsecondary education are included in three areas, or subfunctions, of the budget. In addition to direct spending programs (see Table 3), there are tax expenditures, or revenue losses, associated with each of these areas. The three budget subfunctions are as follows:

- Subfunction 502, Higher Education, encompasses all programs included in the Higher Education Act of 1965 and the Higher Education Amendments of 1976.

3/ Tax expenditures are revenue losses from provisions of the tax law that provide special or selective tax relief. These revenue losses are called tax expenditures because they are very much like payments by the federal government, except that they are made through a reduction of taxes rather than by direct spending.

- o Subfunction 601, Social Security, includes the payment to full-time student dependents of eligible disabled, retired, or deceased workers.

- o Subfunction 702, Veterans' Readjustment Benefits, includes payments made under the G.I. Bill.

For fiscal year 1978 the projected direct funding and tax expenditures in these three subfunctions amount to $9.9 billion. Although this is less than was spent for the same areas in each of the preceding two years, the decline is fully attributable to a declining population of veterans using the G.I. Bill (see Table 3).

TABLE 3. SPENDING AND RECIPIENTS IN POSTSECONDARY STUDENT ASSISTANCE PROGRAMS: FUNDS IN MILLIONS OF DOLLARS, RECIPIENTS IN THOUSANDS, BY FISCAL YEARS

Budget Account	1976	1977	1978
Higher Education Account (502) a/			
Budget Authority	2,933	3,224	3,785
Outlays	2,213	2,632	3,304
Recipients b/	5,671	5,838	6,352
Social Security Account (601)			
Budget Authority	1,097	1,276	1,446
Outlays	1,097	1,276	1,446
Recipients	660	690	727
Veterans' Readjustment Benefits Account (702)			
Budget Authority	4,550	3,626	2,094
Outlays	4,151	2,930	2,596
Recipients	2,089	1,426	1,186

a/ Includes BEOG, SEOG, CWS, NDSL, GSL, and SSIG.

b/ Duplicated counts of recipients who receive more than one type of federal student assistance.

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Higher Education (Subfunction 502)

Funding has increased steadily for the major programs administered by the Office of Education. For student assistance programs, the budget authority increased 17 percent from fiscal year 1977 to fiscal year 1978. This was more than twice the increase of 8 percent in the total federal budget. Coincident with this increase in funding, the number of recipients of assistance from these programs increased by about 9 percent, which means the average benefit for each recipient increased approximately 8 percent. 4/ This is greater than the estimated increase of 6 percent in student costs between academic years 1977-1978 and 1978-1979. 5/

The growth in these programs results from a combination of legislative and administrative changes. The 1976 amendments to the Higher Education Act authorized an increase in the maximum Basic Grant award from $1,400 to $1,800 beginning with the 1978-79 school year, and increased funding in fiscal year 1978 appropriations for the BEOG program provided grants up to a maximum of $1,600.

Several changes increased the budget for the Guaranteed Student Loan program. The eligibility for subsidized loans was expanded to include students from families with adjusted family incomes under $25,000, up from a previous maximum of $15,000. A number of incentives also were provided to encourage lending institutions to increase their student loan portfolios.

4/ The number of recipients refers to the total number of awards from these programs. The actual number of students receiving federal aid is considerably smaller than the reported number of total awards. A survey by the American Council on Education indicates that more than 40 percent of the students receiving federal student assistance receive more than one form of federal assistance.

5/ The increase in educational expenses reported by the College Scholarship Service reflect only the increasing costs to the student (i.e., tuition, books, fees, travel, and room and board). The costs of providing higher education are increasing at a much higher rate than 6 percent. The Congressional Budget Office projects that the costs of providing this service will rise 9.1 percent in fiscal year 1978.

Even a quite substantial increase in the number of loans, however, results in relatively modest increases in federal costs. For example, in fiscal year 1977 $6.2 billion in loans were outstanding, requiring a federal subsidy of $325 million. 6/ But only $1 billion of this total was dispensed during fiscal year 1977. Even if banks expand their aggregate portfolios by 25 percent in response to the various incentives introduced in 1977, thus increasing the money available for loans in fiscal year 1978 to $1.25 billion, subsidy payments during this year would increase by only 7.4 percent, from $325 million to $349 million. 7/

Social Security Benefits (Subfunction 601)

Social security benefits for students are another growing sector of postsecondary funding. Expenditures will increase about 11 percent between fiscal years 1977 and 1978, from $1.3 billion to $1.4 billion. Automatic benefit increases and increases in the number of beneficiaries caused this increase.

Veterans' Readjustment Benefits (Subfunction 702)

During the past decade, veterans' benefits have provided more federal assistance to students than any other single program. At its peak in fiscal year 1976, the veterans' benefits program was providing more aid to students than were all the Office of Education student assistance programs combined.

Though the individual benefit package for veterans continues to increase, the number of eligible recipients is declining

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6/ Fifty-six percent of the guaranteed loans outstanding are to students in school, with family incomes under $25,000, and thus require the full subsidy of 7 percent plus the special allowance subsidy to the lending institutions. The remaining loans are in repayment status and require only special allowance subsidies to lenders. The $325 million refers only to the payment of subsidies on loans that are not in default.

7/ This increase is for a full year's subsidy on the additional loans. Loans, however, are dispersed throughout the year, thus some loans would not require payment of the full subsidy, and the resulting fiscal year increase would be less than the estimate provided in the text.

rapidly as Vietnam era veterans pass beyond the period for using their educational entitlements. Newly enacted revisions to veterans' benefits, which assist certain veterans beyond the ten-year period for using benefits and which may accelerate benefits for others, may slow but not halt this funding decline. Between fiscal years 1977 and 1978, expenditures for the veterans' program will fall approximately 11 percent and the number of recipients will decrease by 17 percent. 8/

Tax Expenditures

Another segment of postsecondary funding that is increasing is tax expenditures. The revenue lost through postsecondary tax allowances will increase from $2.1 billion in fiscal year 1977 to $2.2 billion in fiscal year 1978, an increase of 5 percent (see Table 4).

THE DISTRIBUTION OF STUDENT ASSISTANCE BENEFITS

In combination, the many programs that channel assistance to postsecondary students will provide $8.6 billion in benefits in fiscal year 1978 (see Table 5). This represents 87 percent of all federal expenditures for postsecondary education. The largest portion of the benefits in fiscal year 1978 will go to lower-income students, addressing the goal of enhancing equality of educational opportunity. But one-third of the benefits will go to students from families with incomes greater than $15,000, an indication that student assistance programs already are directing some attention toward decreasing the burden of college costs for middle-income families.

Higher Education (Subfunction 502)

Most federal higher education programs focus on meeting "student need," defined as the difference between the amount that the student and his family are expected to contribute to educational expenses and the costs of the education.

8/ The percent decrease in the number of recipients is greater than the percent decrease in expenditures for the veterans' program because of the benefit level increases each year that offset the decline in costs for the program.

TABLE 4. TAX EXPENDITURES FOR POSTSECONDARY EDUCATION, FISCAL YEARS 1977 AND 1978: IN MILLION DOLLARS

Tax Expenditure	1977	1978	Percent Change
Exclusion of Scholarships & Fellowships	245	295	20.4
Parental Personal Exemptions for Students	750	770	2.7
Deductibility of Contributions			
Individual	525	585	11.4
Corporations	235	255	8.5
Exclusion of GI Bill Benefits	260	200	-23.1
Exclusion of Social Security Student Benefits	100	107	7.0
Total	2,115	2,212	4.6

SOURCE: Budget of the United States Government, Fiscal Year 1979, Special Analyses, Table G-1, page 159.

Postsecondary institutions play an important role in determining how federal aid will be apportioned to eligible students. Most federal student assistance programs, excluding Basic Grants, are administered by the institution in which recipients are enrolled or by the lending institutions from which student loans are provided. Students with equivalent levels of financial need might be treated quite differently by different schools or banks. In the Basic Grants program there is more direct federal control; eligibility for a Basic Grant is determined by applying a standard federal needs analysis.

The nature of all of the major federal student aid programs has assured that a large share of these funds go to more needy,

TABLE 5. ESTIMATED DISTRIBUTION OF BENEFITS FOR STUDENT ASSISTANCE, BY INCOME CLASS, FISCAL YEAR 1978: IN MILLIONS OF DOLLARS AND PERCENTS

Expenditure	Income Class 0-15,000	15,000-25,000	25,000+	All Incomes
Higher Education Student Assistance a/				
Dollars	3086	473	78	3,637
Percent	85	13	2	100
Social Security Student Benefits				
Dollars	923	260	263	1,446
Percent	64	18	18	100
Veterans' Readjustment Benefits				
Dollars	1,129	804	161	2,094
Percent	54	38	8	100
Tax Expenditures b/				
Dollars	734	401	237	1,372
Percent	54	29	17	100
Total				
Dollars	5,872	1,938	739	8,549 c/
Percent	69	23	8	100

a/ Includes BEOGs, SEOGs, GSLs, NDSLs, and CWS but does not include SSIGs which would add an additional $64 million.

b/ Includes scholarship/fellowship exclusion, dependency exemption and credit, and veterans' and social security exclusions.

c/ With SSIG benefits would be $8,613 million.

lower-income students (see Table 6). In each of the HEW student assistance programs, between 60 and 95 percent of the funds go to these lower-income families. Even in the Guaranteed Loan program, devised as an assistance program for students from middle-income families, about 63 percent of the federal subsidy accrues to students from families with incomes under $15,000.

In fiscal year 1978, $0.5 billion (or 14 percent) of the total aid from the five major student assistance programs will be distributed to students from families with incomes in the $15,000 to $25,000 range. Students from these families are more likely to receive awards through the two loan programs and the college work-study program than through the federal student grant programs.

Although student aid programs are not aimed specifically at either public or private colleges, each program provides a different distribution of aid among types of schools (see Table 7). In the Basic Grants program, about 68 percent of the $2.1 billion in fiscal year 1978 funding will go to public institutions; 25 percent to nonprofit private schools; and 8 percent to private proprietary institutions. Average awards to public school students will be slightly more than $800, or approximately $250 less than their private school counterparts. In the campus-based programs, about 59 percent of the $1.0 billion in fiscal year 1978 funds will go to public institutions. Private, nonprofit schools will receive 37 percent, and the share going to private, proprietary schools will be about 4 percent.

Social Security (Subfunction 601)

In the 1977-1978 school year, approximately 727,000 post-secondary students will receive $1.4 billion in benefits from the social security system. Because these student beneficiaries are dependents of retired, disabled, or deceased wage earners, they are often from families with lower incomes. In fiscal year 1978, the median adjusted gross income of families with social security student beneficiaries will be approximately $15,155, about three-fourths of the median income for all families with children in college. Almost two-thirds of the social security student benefits will go to students from families with incomes below $15,000 per year (see Table 8).

TABLE 6. FAMILY INCOME DISTRIBUTION a/ OF BENEFITS FOR STUDENT ASSISTANCE FUNDING, FISCAL YEAR 1978: IN MILLIONS OF DOLLARS AND PERCENTS

Program	Family Income			All Incomes
	$0-15,000	$15,000-25,000	$25,000+	
Basic Grants				
Dollars	1,947	129	0	2,076 b/
Percent	94	6	0	100
Supplemental Grants				
Dollars	248	22	0	270
Percent	92	8	0	100
Direct Loans				
Dollars	212	98	16	326
Percent	65	30	5	100
College Work-Study				
Dollars	348	78	9	435
Percent	80	18	2	100
Guaranteed Loans				
Dollars	331	172	27	530
Percent	63	32	5	100
Total c/				
Dollars	3,086	499	52	3,637
Percent	85	14	1	100

a/ The distributions used in this table assume that independent students are distributed in proportions equivalent to dependent students. The distributions for Supplemental Grants, Direct Loans, College Work-Study, and Guaranteed Loans are derived from the 1975 Office of Education Fiscal Operations Report, adjusted to 1978 values.

b/ The total cost of the BEOG program would be $2.16 billion. The amount available to students would be $2.076 billion. Administrative costs account for $24 million of the difference and elementary and secondary offsets account for another $60 million.

c/ The SSIG program, which is appropriated $64 million for fiscal year 1978, is not reflected in this table. Including the funding for SSIGs and the additional BEOG costs from footnote b, the total amount available for student assistance through the Office of Education would be $3.8 billion.

TABLE 7. PERCENT DISTRIBUTION OF STUDENT ASSISTANCE FUNDING AND RECIPIENTS, BY INSTITUTIONAL TYPE AND CONTROL

Program	Public Univ.	Public 4-yr.	Public 2-yr.	Private Univ.	Private 4-yr.	Private 2-yr.	Proprietary
Basic Grants a/							
Benefits	37	7	24	9	13	3	8
Recipients	35	6	30	7	11	2	9
Supplemental Grants b/							
Benefits	38	8	14	14	19	2	5
Recipients	36	9	19	11	17	3	6
Direct Loans b/							
Benefits	41	6	6	22	18	2	6
Recipients	42	8	9	18	18	2	4
College Work-Study b/							
Benefits	40	8	19	13	15	3	1
Recipients	38	8	20	12	17	3	1
Guaranteed Loans c/							
Benefits	26	19	5	5	25	2	19
Recipients	27	12	7	10	22	2	19

NOTE: Rows may not add to 100 percent because of rounding.

a/ Percent distribution for academic year 1976-1977, from Division of Basic Grants, Office of Education.

b/ Fiscal Operations Division, Office of Education, fiscal year 1975.

c/ Unpublished data, Office of Guaranteed Student Loans, Office of Education.

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TABLE 8. PROJECTED DISTRIBUTION OF FUNDS FOR SOCIAL SECURITY EDUCATIONAL BENEFITS, BY INCOME CLASS, FISCAL YEAR 1978

Income Class	Percent	Funds (in millions of dollars)
$0 - 4,999	31.5	456
$5,000 - 9,999	16.5	239
$10,000 - 14,999	15.8	228
$15,000 - $19,999	13.9	201
$20,000 - $24,999	4.1	59
$25,000+	18.2	263
Total	100.0	1,446

SOURCE: Social Security Administration; U.S. Bureau of the Census, The Survey of Income and Education (1976).

Veterans' Benefits (Subfunction 702)

The Veterans' Readjustment Program will provide $2.6 billion in financial assistance to 1.2 million veterans attending college in fiscal year 1978. As with social security benefits, but in contrast to other student assistance programs, the veterans' educational benefit program is not "needs based;" that is, two student veterans with the same number of dependents but different incomes or attending differently priced schools receive the same award. Because many veterans are self-supporting students, 60 percent of the participating veterans have family incomes under $15,000 and more than 90 percent are from families earning less than $25,000 (see Table 9).

TABLE 9. DISTRIBUTION OF VETERANS IN POSTSECONDARY EDUCATION, THEIR BENEFITS, AND FAMILY SIZE, BY INCOME CLASS, FISCAL YEAR 1978: RECIPIENTS IN THOUSANDS, BENEFITS (OUTLAYS) IN MILLIONS OF DOLLARS

Income Class	Veterans		Benefits Paid		Number of Dependents
	Number	Percent	Dollars	Percent	
$0-15,000	707	59.6	1,399	53.9	1.5
$15,000-25,000	378	31.9	997	38.4	2.0
$25,000+	101	8.5	200	7.7	1.5
All Incomes	1,186	100.0	2,596	100.0	1.6

SOURCE: The distribution is derived from a Congressional Budget Office estimate, based on 1976 Survey of Income and Education, adjusted, U.S. Bureau of the Census.

Tax Expenditures

The existing set of tax expenditures will provide $2 billion in educational benefits in fiscal year 1978. For a number of reasons these various provisions of the tax law tend to benefit high-income families more than low-income families. For example, all current education-related tax expenditures are nonrefundable--that is, they are available only to people with taxes to pay. Therefore, very low-income families with no tax liability receive no benefit from these tax expenditures. Because they are deductions from income rather than credits against taxes, tax expenditures are also worth more (in terms of lowered tax payments) to higher-income taxpayers who have higher marginal tax rates.

Overall, the current set of tax expenditures will provide benefits for individuals in all income classes, but the distribution of benefits to higher-income students and families is appreciably greater than that of direct spending programs. About 41 percent of the benefits will go to taxpayers with incomes above $25,000. There is considerable variation in the distribution of benefits among the various tax expenditures. For example, only 10 percent of the implicit tax expenditure for scholarships (which are not taxed) goes to families with incomes above $25,000 while 23 percent of the dependency exemption expenditure goes to families in that income range (see Table 10).

TABLE 10. ESTIMATED DISTRIBUTION OF POSTSECONDARY TAX EXPENDITURES, BY INCOME CLASS, FISCAL YEAR 1978: IN MILLIONS OF DOLLARS AND PERCENTS

Expenditure	Income Class			All
	$0-15,000	$15,000-25,000	$25,000+	Incomes
Exclusion of Scholarships, Fellowships				
Dollars	197	68	30	295
Percent	67	23	10	100
Dependency Exemption				
Dollars	308	285	177	770
Percent	40	37	23	100
Contribution Deduction a/ (Individual)				
Dollars	6	18	561	585
Percent	1	3	96	100
G.I. Benefits Exclusion				
Dollars	158	30	12	200
Percent	79	15	6	100
Soc. Security Benefits Exclusion				
Dollars	71	18	18	107
Percent	66	17	17	100
All Tax Expenditures				
Dollars	740	419	798	1,957
Percent	38	21	41	100

SOURCE: Congressional Budget Office estimate based on Treasury Department data.

a/ Does not include corporate contributions.

These tax provisions have a mixed impact on educational institutions. The current provisions that provide relief for students and their families may improve the competitive position of less expensive public schools because they provide the same constant dollar reduction for all families that have the same marginal tax rate. The dollar reduction represents a larger percent reduction in the cost of a less expensive school and thus might make that school more attractive to the student. On the other hand, private institutions and larger, more prestigious, public schools garner most of the contributions made to colleges and universities; thus, the provision that allows deduction of contributions works clearly to the advantage of these schools and to the families who contribute to them.

THE EFFECT OF EXTENDING CURRENT POLICY TO FISCAL YEAR 1979

A total of $10.2 billion--an additional $0.3 billion over the fiscal year 1978 level--would be required to maintain the existing set of postsecondary education programs at the current policy level of commitment for fiscal year 1979 (see Table 11). 9/ The largest portion of this funding, more than $3.8 billion, would go into the major student assistance programs. Approximately 80 percent of these funds would be channelled to students

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9/ Current policy assumes sufficient funding is provided to maintain programs at their current real dollar value in future years. Current policy assumptions for the Basic Educational Opportunity Grants program maintains funding at the level appropriated in fiscal year 1978; thus the effective maximum award is $1,600, and the amount of assets excluded from consideration in determining family contribution is $17,000. Current policy assumptions for the Guaranteed Student Loan program hold the number of loans for fiscal year 1979 at fiscal year 1978 level. The size of an average loan is projected to increase slightly to compensate partially for projected increases in the costs of attending college. Current policy assumptions for all other postsecondary education programs included within the Higher Education Act (budget subfunction 502) increase spending by 9.1 percent, the CBO estimated increase in the costs of providing higher education services. Social security and veterans' benefits are increased by 6 percent based on the estimate of changes in the Consumer Price Index.

TABLE 11. DISTRIBUTION OF FUNDS AND RECIPIENTS FOR HIGHER EDUCATION, BY BUDGET SUBFUNCTION: BUDGET AUTHORITY IN MILLION DOLLARS, RECIPIENTS IN THOUSANDS, BY FISCAL YEARS

	1978	1979	Percent Change
Subfunction 502 (Higher Education)			
Student Assistance			
Budget authority	$3,785	3,864	2 1
Recipients	6,352	5,789	-8.9
Other Higher Education			
Budget authority	341	372	9.1
Subfunction 601 (Social Security)			
Budget authority	1,446	1,580	9.3
Recipients	727	749	3.0
Subfunction 702 (Veterans' Benefits)			
Budget authority	2,094	2,056	-1.8
Recipients	1,186	1,007	-15.1
Tax Expenditures--Expected Forgone Revenue (millions of dollars)	2,212	2,337	5.7
Total	9,878	10,209	3.4

from families with incomes under $15,000 (see Table 12). Thus, as in previous years, most of these funds would be applied to the goal of enhancing equal educational opportunity. Extending current policy to fiscal year 1979 would include $0.3 billion for institutional aid. Most of this would fund programs designed to aid the educationally disadvantaged.

The current policy costs of the postsecondary components of the social security program ($1.6 billion) and the veterans' readjustment program ($2.1 billion) reflect inflationary increases in benefits and the anticipated increases and decreases in the number of recipients. Tax expenditures would provide a benefit of $2.3 billion.

TABLE 12. INCOME DISTRIBUTION OF STUDENT ASSISTANCE FUNDING UNDER FISCAL YEAR 1979 CURRENT POLICY a/: BENEFITS IN MILLIONS OF DOLLARS, RECIPIENTS IN THOUSANDS

Program	Family Income			All Incomes
	$0-15,000	$15,000-25,000	$25,000+	
Basic Grants				
Recipients	1,898	272	0	2,170
Benefits	1,732	126	0	1,858 b/
Supplemental Grants				
Recipients	388	76	9	473
Benefits	242	49	4	295
Direct Loans				
Recipients	505	272	86	863
Benefits	204	105	46	355
College Work-Study				
Recipients	501	201	61	763
Benefits	324	116	41	481
Guaranteed Loans				
Recipients	515	438	83	1,036
Benefits	264	225	43	532 c/
SSIG				
Recipients	-	-	-	280
Benefits	-	-	-	70
All Programs Without SSIG				
Recipients d/	3,807	1,259	239	5,305
Benefits	2,766	621	134	3,521
All Programs				
Recipients	-	-	-	5,585
Benefits	-	-	-	3,591 e/

a/ Assuming independent students are distributed in proportions equivalent to dependent students.

b/ Total cost of the BEOG program would be $1.912 billion; amount available to students would be $1858. $24 million of total goes to administrative costs and $30 million goes to nonpostsecondary students.

c/ Total cost of the GSL program would be $529 million. Subsidy payments for current loans or loans in repayment would be $338 million; remainder covers default payments.

d/ Duplicated count of recipients who receive more than one type of federal assistance.

e/ With added costs reflected in footnotes b & c, total cost would be $3.9 billion.

CHAPTER III. MAJOR LEGISLATIVE PROPOSALS FOR FISCAL YEAR 1979

Five major proposals that would increase significantly federal student assistance have been proposed by the Congress and the Administration. While these proposals all have basically the same purpose--increasing student assistance to middle-income families--they differ in the strategies they embody for achieving this goal. The two different mechanisms for providing federal assistance are:

- <u>Providing Assistance Through Existing Student Assistance Programs</u>. The Administration, the Senate Human Resources Committee, and the House Education and Labor Committee all have presented proposals that would utilize existing student assistance programs, primarily Basic Grants and Guaranteed Loans, to provide aid to middle-income families.

- <u>Providing Assistance Through Tuition Tax Credits</u>. The Senate Finance and House Ways and Means Committees have proposed assisting middle-income families by allowing those with students to claim a tax credit for tuition expenses.

In this chapter each of these five proposals is discussed. The major components of each are presented, and the probable impact on the budgetary costs and distribution of benefits are analyzed. The proposals are compared with respect to how they address the federal goals of achieving equality of educational opportunity, reducing the burden of college costs, and assuring a strong and diverse educational system.

PROPOSALS PROVIDING ASSISTANCE THROUGH DIRECT SPENDING PROGRAMS

The Basic Grants program is the primary focus of all three of the proposals for providing assistance through direct spending programs. Each of the three proposals relies on a unique set of changes to provide greater assistance to students from middle-income families. There are two changes, however, that all three proposals share in common. Each would fund the Basic Grants program at its fully authorized level, thus increasing the maximum award from $1,600 to $1,800, and each would increase from $17,000 to $25,000 the amount of assets excluded from consideration in determining the family's contribution to the student's education. These two changes would cost $314 million more than extending current policy to fiscal year 1979 and would provide 40,000 more awards. The full-funding option of a maximum grant of $1,800 and an asset exclusion of $25,000 is used as the base in comparing the various Basic Grants proposals.

The Administration's Proposal

The Administration's proposal would increase the funding for Basic Grants and College Work-Study, plus raise the eligibility limit on Guaranteed Student Loans from $25,000 to $40,000 adjusted family income. 1/ The major component of the President's proposal is a modification of the Basic Grants program that would:

- o Increase the family living allowance considered nondiscretionary income by $750 for each family.
- o Change the treatment of self-supporting students by increasing from $1,100 to $3,400 the income recognized as needed to sustain a single student and by reducing the assessment on assets of self-supporting students with families from 33 percent to 5 percent in line with assessment rates for other families.
- o Provide a guaranteed award of $250 to full-time dependent students or independent students with dependents from families with incomes below $25,000.

With these changes, the cost of the Basic Grants program for fiscal year 1979 would be $3.1 billion, an increase of $1.0 billion over the fully funded current program for fiscal year

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1/ Adjusted family income represents the families' taxable income. $40,000 in adjusted family income is equivalent to an average gross income of $47,000.

1979. 2/ The revised program would reach 4.7 million students, an increase of 2.5 million, or more than 100 percent, over a fully funded current program. Roughly 2.3 million students would receive the $250 guaranteed grant.

Congressional Proposals

Senate. The Senate Human Resources Committee has approved a bill (S. 2539) that expands the Basic Grants program, extends eligibility for Guaranteed Loans to all students, and increases the authorization for Supplemental Grants and College Work-Study. As with the Administration proposal, the most significant changes are proposed for the Basic Grants program. In addition to fully funding the program at its authorized level ($1800 maximum grant) and increasing the asset exclusion to $25,000, the Senate proposal decreases the assessment rate on disposable income. Currently, families are expected to contribute toward a student's education 20 percent of the first $5,000 of disposable income (that amount above the basic family living allowance) and 30 percent of the remaining disposable income. The Senate proposal lowers this expected contribution to 10.5 percent for all disposable income. These alterations would result in a Basic Grants program costing $3.3 billion in fiscal year 1979, an increase of $1.2 billion over full funding for 1979. It would reach 3.7 million students, an increase of 1.5 million, or 66 percent.

House. The House Education and Labor Committee has reported the "Middle Income Student Assistance Act of 1978" (H.R. 11274). The proposed changes to the Basic Grants program in this bill are the same as those presented in the Senate (fully funding to $1800 award level, increasing the asset exclusion to $25,000, and reducing the assessment rate on discretionary income to 10.5 percent), 3/ except that the House bill includes the Administration's two provisions for self-supporting students. These

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2/ For the Basic Grants program, projected incomes and educational costs are altered to reflect estimated inflationary effects.

3/ The House proposal also includes a provision for funding Basic Grants if the program is not funded at the fully authorized level. In such a case, the assessment rate would be adjusted upward from 10.5 percent to 12 percent.

provisions would increase the income allowance for independent students without dependents to $3,400 and the assessment rate for independent students with dependents would be decreased to 5 percent. These two provisions add an additional cost of $131 million to the bill and increase the number of recipients by 46,000. The overall cost of the Basic Grants program with these changes would be $3.4 billion, an increase of $1.3 billion above full funding of the current programs. It would reach more than 3.7 million students.

The House version proposes slightly different alterations to the Supplemental Grants and Work-Study programs, and includes a proposed small increase in funding for the State Student Incentive Grants program. The House also would extend eligibility for Guaranteed Student Loans to all students.

PROPOSALS PROVIDING ASSISTANCE THROUGH TUITION TAX CREDIT

Both the Senate and the House have before them bills that would provide tuition tax credits to assist middle-income families.

Senate. The Senate Finance Committee has reported "the Tuition Tax Relief Act of 1978," an amendment to H.R. 3946. 4/ This bill would gradually introduce tuition tax credits over the span of five years. Beginning August 1, 1978, individuals could claim a credit equal to 50 percent of tuition and fees, with a maximum credit of $250 per student for expenses incurred in full-time undergraduate colleges or vocational schools. On August 1, 1980, the credit would be increased to a maximum of $500, and elementary and secondary school students would become eligible. On August 1, 1981, graduate students and part-time students would become eligible. The revenue loss associated with this bill increases appreciably as the size of the allowable credit is increased and the eligible population is expanded.

House. The House Ways and Means Committee has reported H.R. 12050, which would introduce a tuition tax credit gradually over a three-year span. This bill differs from the Senate Finance Committee tuition tax credit proposal in a number of

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4/ H.R. 3946 is an act to suspend the tariff duty on certain grades of wool.

ways. First, the Ways and Means bill is nonrefundable; that is, the taxpayer can receive a credit only up to the limit of his tax liability. Second, the bill applies only to undergraduate students who attend school more than half-time, and is limited to 25 percent of tuition and fees. And finally, the maximum credit allowed in H.R. 12050 would be much lower than the levels proposed in the Senate: $100 for calendar year 1978, $150 for 1979, and $250 for 1980, after which the program would be terminated unless renewed.

THE IMPACT OF CURRENT PROPOSALS

Impact of Proposed Changes to the Basic Grants Program

Each Basic Grants plan has a somewhat different impact. As Table 13 shows, the Administration's proposal would provide the greatest number of grants, but the average grant would be much smaller because most of the students would receive only the $250 minimum grant. The Senate and House bills, on the other hand, would provide fewer grants but those available would be much larger. Under these proposals, the average grant for a recipient in the $20,000 to $25,000 income class would be approximately $575. Unlike the President's proposal, however, less than fifty percent of the students from families in this income range would qualify for grants. The House bill provides larger average grants to lower-income families because most independent students fall in these lower-income categories, and H.R. 11274 includes the two provisions to assist independent students. For example, students in the lowest income group, $0 to $5,000, would benefit most from the House proposal which would increase each grant $188 on average, to $1,257.

Clearly, these proposals would increase the emphasis of federal aid on the goal of reducing the burden of college costs for middle-income families. None of the proposals, however, would reduce the commitment to ensuring equality of opportunity. The Administration and House Basic Grants proposals, in fact, would increase the funding related to achieving equality of opportunity by channeling more benefits to one specific subgroup--independent students, many of whom have lower incomes. None of the Basic Grant components address directly the goal of assuring a strong system of higher education, but they would no doubt have some effect on this goal, too. Middle-income students

TABLE 13. DISTRIBUTION OF RECIPIENTS AND BENEFITS OF THREE CURRENT PROPOSALS FOR ALTERING THE BASIC EDUCATIONAL OPPORTUNITY GRANTS PROGRAM, BY INCOME CLASS, FISCAL YEAR 1979: RECIPIENTS IN THOUSANDS, BENEFITS IN MILLIONS OF DOLLARS, AVERAGE AWARD IN DOLLARS

Income Class	(1) Current Law, BEOG Full Funded	(2) Administration BEOG Proposal	(3) Senate BEOG Proposal	(4) House BEOG Proposal
$0-5,000				
Recipients	437	452	441	447
Benefits	467	562	469	562
Avg. Award	1,069	1,243	1,063	1,257
$5-10,000				
Recipients	777	959	775	804
Benefits	855	976	881	910
Avg. Award	1,100	1,018	1,137	1,132
$0-15,000				
Recipients	691	1,220	822	834
Benefits	565	787	823	833
Avg. Award	818	645	1,001	999
$15-20,000				
Recipients	269	957	676	677
Benefits	154	385	547	545
Avg. Award	572	402	809	805
$20-25,000				
Recipients	35	1,135	646	644
Benefits	13	291	370	371
Avg. Award	371	256	573	576
$25,000+				
Recipients	0	0	312	312
Benefits	0	0	125	125
Avg. Award	0	0	401	401
Subtotal				
Recipients	2,209	4,723	3,672	3,718
Benefits	2,054	3,001	3,215	3,346
Avg. Award	930	635	876	900
Administrative Offsets (millions of dollars)	54	81	71	71
Total Costs (millions of dollars)	2,108	3,082	3,286	3,417

are more likely to select more expensive institutions if more money is available to them. Therefore, the proposed increases in the Basic Grants program could result in some shift in enrollment from lower-cost public institutions to higher-cost public and private institutions.

Impact of Proposed Changes to the Guaranteed Student Loans Program

Each of the direct spending proposals also includes an expansion of the GSL program. But simply increasing the availability of federal funding for guaranteed loan subsidies will not ensure increases in loan volume because the loans are provided by private lending agencies that determine who receives the loans and how much they get.

For fiscal year 1979, the Administration has proposed increasing eligibility to students from families with adjusted family incomes up to $40,000. The Administration also proposes raising the special allowance subsidy paid to banks by one-half percent. The Administration projects that these changes would increase dramatically the size of the Guaranteed Student Loan Program--that not only would student loan portfolios increase sufficiently to absorb the newly eligible borrowers, but that the overall participation rate would rise from 11 percent to 13 percent of those eligible.

There is no adequate way to verify the Administration's assumptions; they are only one of several possible responses by banks to the proposed changes. The Administration's assumptions and two other possible response patterns are examined here.

Lenders Increase Significantly Loan Availability. If the lending institutions respond as expected by the Administration, there would be 1.6 million loans dispensed in fiscal year 1979, an increase of 400,000 over fiscal year 1978 (see Table 14). This increase includes about 200,000 newly eligible students from higher-income families and an increase in the participation rate of eligible students from 11 percent to 13 percent. Assuming the average size loan is $1,600, the total disbursement for loans in fiscal year 1979 would be $2.5 billion. The federal interest subsidy for this loan volume, including the proposed increase, would be $255 million.

TABLE 14. DISTRIBUTION OF NEW LOANS UNDER VARIOUS RESPONSE PATTERNS TO INCREASED ELIGIBILITY FOR GUARANTEED STUDENT LOANS, BY INCOME CLASS: NUMBER OF LOANS IN THOUSANDS

Income Class	Estimated Fiscal Year 1979, No Change In Eligibility	Increased Loan Volume, Increase in Participation Rate a/	Increased Loan Volume, No Increase in Participation Rate b/	No Increase In Loan Volume, Decrease in Participation Rate c/
$0-15,000				
No. of loans	572	685	572	538
Percent	49.7	44.1	46.8	46.8
$15-25,000				
No. of loans	486	582	486	458
Percent	42.3	37.5	39.8	39.8
$25,000+				
No. of loans	92	286	164	154
Percent	8.0	18.4	13.4	13.4
Total No. of Loans	1,150	1,553	1,222	1,150

SOURCE: Congressional Budget Office estimates based on Office of Education data.

a/ Lenders increase loan volume sufficiently to absorb newly eligible students and to increase participation rate to 13 percent.

b/ Lenders increase loan volume sufficiently to absorb newly eligible students and retain previous participation rate of 11 percent.

c/ Lenders maintain current level of funding student loans; portfolios are not increased.

Lender Response Only Increases Sufficiently to Retain Current Participation Rate. A somewhat less optimistic possible outcome of the Administration's proposal is that banks would respond favorably to the new incentives but only at a rate sufficient to absorb the newly eligible students at the old participation rate of 11 percent. This would add 164,000 new loans for a total of 1.3 million dispersals. Assuming these loans and only these loans would go to the newly eligible students, the previously eligible population would realize no change in the availability of loans. The federal subsidy for total dispersements in this situation would be $215 million for fiscal year 1979.

Lenders Maintain Current Level of Funding Student Loans. This response assumes that the aggregate size of student loan portfolios neither increases nor decreases as a result of the proposed changes. Thus, there would be no room for growth in the number of loans. Because of the increase in the size of the eligible population, the participation rate would decline to less than 10 percent. About 154,000 of the recipients would be newly eligible students from families with adjusted family incomes greater than $25,000. Thus, 154,000 fewer loans than before would be available to students from families with incomes below $25,000. The effect could be even more exaggerated. It is in the banks' best interest to loan to lower-risk, higher-income students. It is possible, therefore, that even fewer loans than projected in these estimates would remain available for lower-income students (see Table 14). Thus loans may no longer be available for students who need them the most, but rather may become used predominantly as a technique for supplementing the resources of students from relatively high-income families.

Responses to Senate and House Proposals. The same basic lender responses exist for the Senate and House GSL proposals, although each bill has unique features that alter the probable effects slightly. Both bills would make all students eligible rather than just those from families with adjusted family incomes under $40,000. This would add approximately 750,000 more students to the pool of eligible borrowers than would the Administration's proposal. At previous participation rates, approximately 83,000 of these students would apply for and receive loans.

The Senate bill removes the eligibility ceiling but includes no new incentives for lenders to increase loan volume. Under these circumstances, it would be unlikely that loan volume would increase appreciably to absorb the newly eligible population. This likely would result in a rather dramatic redistribution of GSL recipients among income groups, with lower-income students receiving fewer loans.

The House bill removes the eligiblity ceiling and includes a one-half percent increase in subsidy payments to banks as an intended stimulus to prompt lenders to provide more student loans. With the proposed increases, the federal government would pay banks an estimated 10.25 percent in fiscal year 1979 for all student loans in repayment. 5/ At this rate, student loans still would not be fully competitive with other consumer loans that assess higher levels of interest, have shorter repayment periods, and have lower default rates, even though these other consumer loans are not federally insured against loss. There is little doubt that increasing the loan subsidy as proposed would lead to some increase in the number of available student loans. Given the constraints enumerated above, however, it is difficult to estimate the magnitude of the increase or the effects on the distribution of loans to students from families of different income levels.

Impact of the Tuition Tax Credit Proposals

The distributional impact and revenue loss associated with a tax credit depend primarily on four conditions of the specific credit proposed:

- the maximum credit allowed;
- the number of families eligible to claim the credit;
- the way in which direct student assistance is considered in determining eligiblity for the credit; and
- whether the tax credit is nonrefundable or refundable to those families with taxes that are less than the size of the credit for which they are eligible.

5/ The estimated federal payment of 10.25 interest to banks for GSLs in repayment (7 percent for basic interest and 3.25 percent special allowance) is an increase from the approximate current rate of 9.75 percent.

Table 15 shows the revenue loss and distribution of benefits for fiscal year 1980 that are associated with the tuition tax credits currently proposed in the Senate and in the House. 6/

Senate. In the Senate, there is a discrepency between the language of the Senate Finance Committee bill itself and the language of the accompanying report with respect to the way in which other forms of student financial assistance (grants and scholarships) should be considered in determining how much tuition a family has to pay in a year. The bill (reflected in column A of Table 15) states that any student assistance not included in gross income must be used to reduce eligible educational expenses (tuitions and fees) prior to determining eligibility for the tax credit. The report (reflected in column B of Table 15) indicates that scholarships and grants should be designated for all educational expenses. Thus eligibility for the credit is reduced only by the the proportion of student aid applied toward tuition and fees. Analyses of the costs and distribution of benefits are provided for both interpretations of the Senate bill in Table 15.

The difference in total benefits and in the distribution of these benefits is quite substantial for these two interpretations. Allowing grants and scholarships to be applied to all educational expenses increases the benefit provided by 55 percent. Requiring student assistance to be applied only against tuition would provide 14 percent of the benefits to families with incomes under $15,000. Approximately 31 percent would accrue to families with incomes between $15,000 and $25,000, and 55 percent of the benefits would go to families with incomes above $25,000. This is in sharp contrast to assuming that student assistance is applied to all educational expenses. Under this interpretation, 32 percent of the benefits would accrue to families earning less than $15,000, 29 percent would go to those with incomes between $15,000 and $25,000, and 39 percent would go to families with incomes greater than $25,000.

6/ The Senate tuition tax credit proposal includes elementary, secondary and postsecondary education. The analysis provided in this paper, however, examines the costs and distributional effects associated only with the postsecondary education portion of the tax credit. Appendix A includes the costs and distribution of benefits for refundable and nonrefundable portions of the bill. Separate tables are provided for the total bill and for the postsecondary portion only.

TABLE 15. POSTSECONDARY TUITION TAX CREDIT PROPOSALS--DISTRIBUTION OF BENEFITS TO FAMILIES IN VARIOUS INCOME CLASSES FOR H.R. 3946, PROPOSED BY THE SENATE FINANCE COMMITTEE (LANGUAGE OF BOTH THE BILL AND THE REPORT) AND H.R. 12050, PROPOSED BY THE HOUSE WAYS AND MEANS COMMITTEE, FISCAL YEAR 1980 a/: NUMBER OF FAMILIES IN THOUSANDS, BENEFITS IN MILLIONS OF DOLLARS, AVERAGE FAMILY AWARDS IN DOLLARS

Income Class	A Senate Bill	B Senate Report	C House Bill
$0-5,000			
Families	174	762	147
Benefits	29	122	8
Avg. Award	167	160	54
$5-10,000			
Families	130	528	605
Benefits	22	89	41
Avg. Award	169	169	68
$10-15,000			
Families	224	660	898
Benefits	50	144	79
Avg. Award	223	218	88
$15-20,000			
Families	388	678	968
Benefits	79	156	99
Avg. Award	204	230	102
$20-25,000			
Families	571	631	892
Benefits	143	167	101
Avg. Award	250	265	113
$25,000+			
Families	1,530	1,599	2,195
Benefits	394	433	284
Avg. Award	258	271	129
Total			
Families	3,017	4,858	5,705
Benefits	717	1,111	612
Avg. Award	238	229	107

a/ Fiscal year 1980 is used rather than fiscal year 1979 for two reasons. First, tax credits claimed in fiscal year 1980 most closely approximate benefits received in academic year 1979-1980; and second, 1980 is the first fiscal year which reflects a full calendar year of eligibility for the tax credit.

House. The House Ways and Means proposal (H.R. 12050) would allow scholarships and grants to be designated for all educational expenses, similar to the language of the Senate Finance Committee report. The House bill would distribute 21 percent of the benefits to families with incomes under $15,000, 33 percent to middle-income families with incomes between $15,000 and $25,000, and 46 percent to families with incomes greater than $25,000.

In both the Senate and the House proposals, the average family tax credit would be greater for higher-income families than for lower-income families. This occurs because students from higher-income families are more lkely to attend higher-cost institutions, are less likely to receive other forms of student assistance that would be discounted from the tax credit, and are more likely to have more than one student in college at the same time. In 1975, over 20 percent of the higher-income families (over $25,000) with children in college had two or more in school at the same time, while only 3 percent of the lower-income families (under $6,000) with children in college had two or more students attending at the same time. 7/

Average family tax credit figures, however, may be misleading. In most cases the family unit is the nuclear family in which the student is the dependent member. Independent students, however, are reflected as families in these figures. Most independent students have incomes under $15,000; thus, many of the family units in the lower-income categories actually include independent students. 8/

7/ U.S. Bureau of the Census, 1975 Survey of Income and Education.

8/ It is difficult to estimate how many independent students attend college or what the demographic characteristics of independent students are because there is not uniform agreement on who constitutes an independent student. For tax purposes, a student would be independent if he claimed himself as an exemption. But the Basic Grants program has more rigorous standards, requiring that a student be financially independent for at least one full year before being classified as independent. In addition to this definitional problem, it is difficult to determine much about independent students. Some data are available, however, (continued)

One significant difference between the bills is that the Senate bill would provide for a refundable credit, whereas the House version is nonrefundable. The Senate bill would assure a family the total amount of credit for which it qualifies--if the family's total taxes were less than the credit, the family would receive a refund from the government. The House version, on the other hand, would allow a credit only up to the level of a family's total tax liability. For this reason, the Ways and Means bill would provide very little benefit to families with incomes under $10,000 because their tax liabilities are typically quite low.

In general, tax credits provide some benefit to individuals in all income ranges, but they tend to provide a greater amount of benefits to higher-income families. Because of the distributional impact, a tuition tax credit, like all existing tax expenditures related to education, would address most directly the federal goal of reducing the burden of college costs.

A COMPARISON OF THE PROPOSED BASIC GRANT PROGRAM CHANGES AND THE TUITION TAX CREDIT PROPOSALS

Students from families with incomes between $15,000 and $25,000 would receive appreciably more benefits from any of the direct assistance proposals than from the proposed tax credits. Obviously, higher-income families benefit most directly from a tuition tax credit.

Lower-income families would benefit most from either the Administration Basic Grants plan or the House Basic Grants plan. Much of this benefit, however, would be directed to independent students and not to students who are dependent members of a family unit. Lower-income families also would

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from the Basic Grants program. In 1977, 1.3 million independent students applied for assistance, an increase of 8 percent over 1976. The majority of these students, were atypical undergraduates in that they were older than a normally progressing undergraduate. A large proportion, 61 percent, were either married or single parents. Only 17 percent were typical single undergraduates under the age of 23.

benefit quite substantially from a tax credit if the credit were refundable and did not require that all other forms of financial aid be deducted solely from tuition in determining eligibility for the tax credit. The Senate Human Resources Committee Basic Grants proposal would provide less benefit to low-income families, primarily because it does not include the special provisions for increasing benefits for independent students, most of whom have low incomes.

In sum, all of the proposals would shift the emphasis of federal funding toward achieving the goal of reducing the burden of college costs for middle-income families and students. None of the proposals, however, would reduce the level of commitment to the goal of achieving equality of educational opportunity. In fact, most of the proposals would include at least a modest increase in benefits for lower-income families. The direct spending proposals would focus the new emphasis on middle-income families. Tax credits would help middle-income families somewhat, but would also channel considerable assistance to higher-income families.

TABLE 16. DISTRIBUTION OF INCREMENTAL INCREASES OVER CURRENT LAW OF MAJOR STUDENT ASSISTANCE PROPOSALS BY INCOME CLASS: BENEFITS IN MILLIONS OF DOLLARS, FISCAL YEAR 1979 FOR DIRECT SPENDING PROGRAMS AND FISCAL YEAR 1980 FOR TAX EXPENDITURE PROGRAMS

Income Class	Admin. BEOG Proposal	Senate BEOG Proposal	House BEOG Proposal	Senate Finance Bill	Senate Finance Report	House Ways and Means Bill
$0-15,000						
Benefits	438	286	418	101	355	128
Percent	46	25	32	14	32	21
$15-25,000						
Benefits	509	750	749	222	323	200
Percent	54	64	58	31	29	33
$25,000+						
Benefits	0	125	125	394	433	284
Percent	0	11	10	55	39	46
Total						
Benefits	947	1,161	1,292	717	1,111	612
Percent	100	100	100	100	100	100

CHAPTER IV. OTHER BUDGET OPTIONS FOR FISCAL YEAR 1979

The Congress can choose between making major changes or incremental alterations in federal funding patterns for postsecondary education. The major changes, discussed in Chapter III, would redirect the emphasis of federal programs to reducing the burden of postsecondary education for middle-income families. This chapter examines several other budget options to illustrate the impact that relatively small but targeted incremental changes could have on achieving specific objectives. The options analyzed include:

- options that alter funding for direct higher education student assistance programs, and

- options that change funding for institutional aid.

OPTIONS THAT ALTER FUNDING FOR DIRECT HIGHER EDUCATION STUDENT ASSISTANCE

Changing the Basic Grants Program

The primary role of the Basic Grants program has been to enhance equality of educational opportunity by providing the necessary financial resources for the most needy students to obtain postsecondary education. Reducing the burden of college costs, however, always has been a secondary goal of the Basic Grants program. Various incremental changes to the Basic Grants program would have different effects on who benefits and by how much.

If the Congress wished to continue to focus on the goal of enhancing equality of educational opportunity, one effective change would be to increase the amount of money considered necessary to sustain a family (and thus exempted from consideration in determining the family contribution to college expenses). One approach of this type, which has received attention in the past, would be to use the Bureau of Labor Statistics (BLS) lower-living standard budget rather than the so-called Orshansky poverty guideline that is used currently. Shifting to the BLS index would increase the number of recipients of Basic Grants by 19 percent (see Table 17). Students from families with incomes under $15,000 would receive 29 percent more benefits. The average award in this income group would rise by $140, or 14 percent.

As with most incremental options, however, changing the family living allowance affects more than just the population to which aid is being targeted. In this case, increased benefits would also be provided to students from middle-income families. Benefits would increase more than 2.5 times current levels for students from families with incomes over $15,000, and average awards for this group would increase 17 percent. Thus, incrementally increasing the level of income considered necessary to sustain a family (nondiscretionary income) would not only reinforce the federal commitment to equality of educational opportunity, but also would help reduce the burden of college costs for middle-income families. As might be expected, though, this single incremental change drives up appreciably the costs of the Basic Grants program. It alone would add an additional $809 million to the program in fiscal year 1979, an increase of approximately 40 percent.

On the other hand, if the Congress desired to focus more directly on reducing the burden for middle-income students without providing additional assistance to students from lower-income families, there are a number of incremental changes to the Basic Grants program that could be made. One particularly effective alteration for focusing new aid solely on middle-income students involves reducing the assessment rate on income above the family living allowance. At present, 20 percent of the first $5,000 of discretionary income and 30 percent of any amount over $5,000 is added to the expected family contribution to a student's college costs. Reducing this rate to a 15 percent assessment of all discretionary income would increase the number of beneficiaries by 33 percent. Virtually all of the increases in awards would go to students from families with incomes greater than $10,000, and the increased benefit actually would grow as incomes go up; thus, students from families with incomes between $20,000 and $30,000 would benefit much more from this change than they would from most other incremental changes. This alteration would increase the costs of the program $528 million in fiscal year 1979.

TABLE 17. DISTRIBUTION OF RECIPIENTS AND BENEFITS RESULTING FROM INCREMENTAL BASIC GRANTS ALTERATIONS, BY INCOME CLASS, FISCAL YEAR 1979: RECIPIENTS IN THOUSANDS, BENEFITS IN MILLIONS OF DOLLARS

Income Class	$1,800 Maximum Award, $25,000 Asset Exclusion a/	Using BLS Lower-Living Index	Using 15% Assessment of Discretionary Income
$0-5,000			
Recipients	437	446	438
Benefits	467	561	467
$5-10,000			
Recipients	777	818	779
Benefits	855	976	873
$10-15,000			
Recipients	691	884	800
Benefits	565	888	718
$15-20,000			
Recipients	269	537	559
Benefits	154	378	361
$20-25,000			
Recipients	35	148	321
Benefits	13	60	147
$25-30,000			
Recipients	0	0	44
Benefits	0	0	15
Total			
Recipients	2,209	2,842	2,941
Benefits	2,054	2,863	2,582

a/ This Base Plan assumes the program is funded at the full authorization level with a maximum award of $1,800 and an increase in the asset exclusion from $17,000 to $25,000. These are the only two differences between this Base Plan and current policy. It assumes the Orshansky poverty index and a current assessment of 20 percent on the first $5,000 of discretionary income and 30 percent on all discretionary income above $5,000.

Changes in Funding of Other Student Assistance Programs

Support of other student assistance programs could be changed incrementally to alter the emphasis of federal programs on achieving the current mix of goals. The two student loan programs--guaranteed loans (discussed in Chapter III) and direct loans--are an important source of student assistance funding that recently have received considerable attention. In addition, changes have been proposed to the State Student Incentive Grant program.

National Direct Student Loan Program (NDSL). The Ford Administration requested no funds for this program in the fiscal year 1977 budget; funding, however, was restored by the Congress. President Carter has requested no increase in funding for this program for fiscal year 1979. The major argument against this program is that it is an expensive duplication of an effort better accomplished by the GSL program, and it has been suggested that the programs be merged. Proponents of the NDSL program, however, point out that it provides assurance of a loan program for the most needy students--an assurance that cannot be incorporated into the present GSL program that relies on the good faith and willingness of banks and other lending institutions to provide loans to low-income, high-risk student borrowers.

Despite the fact that NDSLs are based on need, they have not been particularly effective in providing assistance to the most needy students. In fiscal year 1978, it is anticipated that 65 percent of the NDSL recipients will come from families with incomes under $15,000. This is only marginally higher than the 63 percent provided in the GSL program to students in this low-income category. So it appears that, though the NDSL program was designed primarily to enhance equality of opportunity, it is not much more effective in channelling aid to the most needy than the GSL program, which was designed primarily to help middle-income families.

If federal funding for the National Direct Student Loan program were diminished, it is unclear how severe the overall effect would be. Any reduction in the number of loans would be concentrated among students from lower-income families, since they comprise 65 percent of the recipients of direct loans. But participation in the program might not be curtailed sharply by a reduction in federal funding. Direct loans are made from revolving loan funds maintained by colleges and universities.

Currently, of the more than 3,400 revolving funds at educational institutions, over 700 are totally self-sustaining, requiring no continued federal capital contribution. Thus, a reduction in federal funding would not alter the lending patterns of the 700 self-sustaining funds at all. Many of the other 2,700 institutions have sizable revolving funds so any reduction in federal capital contributions would not significantly alter the availability of direct loans at these institions either.

State Student Incentive Grants (SSIG). These grants offer a mechanism through which the federal government could provide incentives to states that would increase the amount of available student aid for relatively little additional federal investment. As with the GSL program, the SSIG program is dependent upon cooperation from other entities--in this case the states--so simply increasing the level of federal funding would not ensure program expansion.

OPTIONS THAT ALTER INSTITUTIONAL AID PROGRAMS

Incremental changes could also be made that would address directly the federal goal of assuring a strong system of higher education. Approximately 10 percent of the funding for postsecondary education is designed to help educational institutions. Among the programs of this type are those authorized by Title VII of the Higher Education Act of 1965, which, as amended in 1976, authorizes the appropriation of "such sums as may be necessary" to help institutions with the costs of campus renovation and reconstruction undertaken (1) to conserve energy, (2) to meet environmental protection standards and health and safety requirements, or (3) to remove architectural barriers to the handicapped. Under this Title, $4 million was appropriated for institutional loans in fiscal year 1978. But there is mounting pressure from colleges and universities to increase this funding because unanticipated increases in energy costs are forcing institutions to renovate their facilities on a faster timetable than originally planned, and because institutions are expending considerable amounts of money to accommodate handicapped persons.

Compared to the $4 million that has been appropriated for construction loans, the American Council on Education (ACE) projects that approximately $10 billion is needed for the types of construction and renovation covered by Title VII. The ACE further suggests that $380 million be authorized in grants and an additional $200 million be authorized in loan subsidies. 1/

The President originally requested $50 million in loan funds for fiscal year 1979 to begin a federal effort in this area. Subsequently this request was changed to $50 million in grants. This change was made because the Administration believes that sufficient incentives are not available to entice institutions to borrow money to retrofit buildings to accommodate the handicapped.

Either loans or grants would cost the federal government about the same in the short run, though a loan program costs less over time because loans are repaid. In addition, it is not clear that insufficient incentives are available to make loans attractive. The retrofitting of physical facilities to accommodate the handicapped is mandated by law and must be undertaken if institutions are to retain federal funding. It seems as though this mandate does provide the incentive for institutions to pursue such projects, and low-interest loans would provide substantive relief.

Another form of institutional aid is delivered through the Special Programs for the Disadvantaged. These programs have been appropriated $115 million in fiscal year 1978. A recent evaluation of one of these programs, Upward Bound, with an annual appropriation of $4 million, shows that it has been effective in preparing and encouraging students from disadvantaged backgrounds to enter and remain in college. 2/ Thus, incremental changes in these programs may represent an effective approach to enhancing equality of educational opportunity.

Also, $120 million has been appropriated for developing institutions in fiscal year 1978. These funds traditionally have been channelled to a select group of institutions, many of which serve predominantly disadvantaged minority students and

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1/ Higher Education Expenditure Targets for FY79, a memorandum from the American Council on Education to staff members of House and Senate Budget Committees and Congressional Budget Office.

2/ U.S. Department of Health, Education, and Welfare, Office of Education, Office of Planning, Budgeting, and Evaluation, Evaluation of the Upward Bound Program: A First Follow-Up, 1977.

that face more acute financial problems because of their unique missions. These funds help preserve a strong and diverse system of higher education. Because these funds are designated for developing institutions, it has been suggested that a more broad definition of what constitutes a developing institution be adopted so that other non-traditional educational institutions that serve other disenfranchised segments of society could be included. Incorporating such a change, however, could confound the assessment of what segments of the population are being assisted. The long-range impact could be to dilute the focus for assisting these unique types of institutions.

The array of alternative budget options presented in this chapter illustrates the extent to which incremental changes can be used to effect change. Obviously, major program alterations, such as those discussed in Chapter III, are most appropriate for redirecting the major emphasis of federal programs. Incremental changes are effective for channelling funds to specific areas or in making marginal changes in the emphasis on various goals.

APPENDIXES

APPENDIX A. THE COSTS AND DISTRIBUTIONAL IMPACT OF H.R. 3946, THE TUITION TAX RELIEF ACT OF 1978, REPORTED BY THE SENATE FINANCE COMMITTEE

The estimates in this appendix are based on H.R. 3946, which provides for a refundable tuition tax credit that would provide up to 50 percent of tuition paid by a family in any year up to the following maximum credits:

- From August, 1978 to July 31, 1980: $250 to full-time undergraduate collegiate and postsecondary vocational education tuition expenses and fees.

- From August, 1980 through July, 1981: $500 to full-time undergraduate collegiate and postsecondary vocational education tuition expenses and fees, and to elementary and secondary tuition expenses and fees.

- From August, 1981: $500 to all elementary, secondary, and postsecondary students for tuition expenses and fees.

As reported from the Senate Finance Committee, there is a discrepency between the language of the bill and the language of the accompanying report on how other forms of student financial assistance (grants and scholarships) should be considered in determining how much tuition a family has to pay in any year. Two complete sets of data are provided to reflect the costs and distributions associated with each interpretation. Tables A-1 and A-2 reflect the language of the bill, which states that all other forms of financial assistance must be deducted directly from qualifying expenses (tuition and fees). Tables A-3 and A-4 are based on the language of the report, which states that all other forms of financial assistance can be distributed at the discretion of donor to all educational expenses. To approximate the effect of this provision, other forms of student assistance have been distributed to all educational expenses, based on the proportion that each type of expense represents of the total student budget. The estimate has been adjusted to account for the flow of students into and out of school.

TABLE A-1. TOTAL COSTS OF H.R. 3946, BY REFUNDED AND NONREFUNDED COMPONENTS IN MILLIONS OF DOLLARS, AND PERCENT DISTRIBUTION OF BENEFITS BY INCOME CLASS, ASSUMING THAT ALL STUDENT AID GRANTS MUST BE USED TO REDUCE ELIGIBLE EXPENSES (TUITION AND FEES) PRIOR TO DETERMINING ELIGIBILITY FOR THE TAX CREDIT

Fiscal Year	Total Cost	Refunded Component	Nonrefunded Component
1978	19	--	19
1979	505	76	429
1980	837	114	723
1981	2,283	255	2,028
1982	4,019	476	3,543
1983	4,790	552	4,238

Income Class	Percent of Total Benefits for Tuition Expenses in Calendar Years					
Family Income	1978	1979	1980	1981	1982	1983
$0-5,000	4	4	3	5	5	5
$5-10,000	3	3	3	4	5	5
$10-15,000	7	7	8	9	9	9
$15-20,000	11	11	14	15	14	14
$20-25,000	19	20	19	18	18	18
$25-30,000	16	17	16	15	15	17
$30-40,000	20	20	19	17	17	17
$40-50,000	9	8	8	8	8	8
$50,000+	11	11	10	9	9	9

TABLE A-2. COSTS OF THE POSTSECONDARY COMPONENT OF H.R. 3946, BY REFUNDED AND NONREFUNDED COMPONENTS (IN MILLIONS OF DOLLARS), AND PERCENT DISTRIBUTION OF BENEFITS BY INCOME CLASS, ASSUMING THAT ALL STUDENT AID GRANTS MUST BE USED TO REDUCE ELIGIBLE EXPENSES (TUITION AND FEES) PRIOR TO DETERMINING ELIGIBILITY FOR THE TAX CREDIT

Fiscal Year	Total Cost	Refunded Component	Nonrefunded Component
1978	19	--	19
1979	505	76	429
1980	717	114	603
1981	1,301	202	1,099
1982	2,226	352	1,874
1983	2,914	442	2,472

	Percent of Total Benefits for Tuition Expenses in Calendar Years					
Income Class	1978	1979	1980	1981	1982	1983
$0-5,000	4	4	4	7	7	7
$5-10,000	3	3	3	5	5	5
$10-15,000	7	7	7	8	9	9
$15-20,000	11	11	10	11	12	12
$20-25,000	19	20	19	18	18	17
$25-30,000	16	17	16	15	14	14
$30-40,000	20	20	20	18	17	18
$40-50,000	9	8	9	8	8	8
$50,000+	11	10	12	10	10	10

TABLE A-3. TOTAL COSTS OF H.R. 3946, BY REFUNDED AND NONREFUNDED COMPONENTS (IN MILLIONS OF DOLLARS), AND PERCENT DISTRIBUTION OF BENEFITS BY INCOME CLASS, ASSUMING THAT OTHER FORMS OF STUDENT AID (GRANTS AND SCHOLARSHIPS) CAN BE APPLIED TO ALL EDUCATIONAL EXPENSES, THUS REDUCING ELIGIBILITY FOR THE CREDIT ONLY BY THE PROPORTION OF STUDENT AID APPLIED TOWARD QUALIFYING EXPENSES

Fiscal Year	Total Cost	Refunded Component	Nonrefunded Component
1978	25	--	25
1979	751	153	598
1980	1,231	241	990
1981	2,883	452	2,431
1982	4,789	727	4,062
1983	5,751	853	4,898

Income Class	Percent of Total Benefits for Tuition Expenses in Calendar Years					
	1978	1979	1980	1981	1982	1983
$0-5,000	11	11	7	8	8	8
$5-10,000	8	8	6	7	7	7
$10-15,000	12	13	11	11	11	11
$15-20,000	14	14	15	15	16	15
$20-25,000	14	15	16	16	16	16
$25-30,000	12	12	13	13	13	13
$30-40,000	15	14	16	15	15	15
$40-50,000	6	6	7	7	7	7
$50,000+	8	7	9	8	8	8

TABLE A-4. COSTS OF THE POSTSECONDARY COMPONENT OF H.R. 3946, BY REFUNDED AND NONREFUNDED COMPONENTS (IN MILLIONS OF DOLLARS), AND PERCENT DISTRIBUTION OF BENEFITS BY INCOME CLASS, ASSUMING THAT OTHER FORMS OF STUDENT AID (GRANTS AND SCHOLARSHIPS) CAN BE APPLIED TO ALL EDUCATIONAL EXPENSES, THUS REDUCING ELIGIBILITY FOR THE CREDIT ONLY BY THE PROPORTION OF STUDENT AID APPLIED TOWARD QUALIFYING EXPENSES

Fiscal Year	Total Cost	Refunded Component	Nonrefunded Component
1978	25	--	25
1979	751	153	598
1980	1,111	241	870
1981	1,900	398	1,502
1982	2,998	602	2,396
1983	3,886	749	3,137

	Percent of Total Benefits for Tuition Expenses in Calendar Years					
Income Class	1978	1979	1980	1981	1982	1983
$0-5,000	11	11	10	11	11	11
$5-10,000	8	8	8	8	8	8
$10-15,000	12	13	12	12	12	12
$15-20,000	14	14	13	14	14	14
$20-25,000	14	15	14	14	14	14
$25-30,000	12	12	12	12	12	12
$30-40,000	15	14	15	15	15	15
$40-50,000	6	6	7	6	6	6
$50,000+	8	7	9	8	8	8

APPENDIX B. THE COSTS AND DISTRIBUTIONAL IMPACT OF H.R. 12050, A TUITION TAX CREDIT, REPORTED BY THE HOUSE WAYS AND MEANS COMMITTEE

The estimates in this appendix are based on H.R. 12050, which provides for a nonrefundable tuition tax credit that would cover up to 25 percent of tuition paid by a family in any year for undergraduate students or postsecondary vocational education students. The credit could be claimed only for students enrolled full-time during at least four months of a qualifying calendar year or enrolled part-time, but at least half-time, during at least eight months of a calendar year. The credit would apply to tuition and course fees in calendar years 1978 through 1980, but not thereafter, with the following maximum credit levels: $100 for calendar year 1978, $150 for calendar year 1979, and $250 for calendar year 1980.

Under this bill, other student grants and scholarships would be distributed to all educational costs in determining how much tuition a family has paid in the year. To approximate this provision, the CBO estimate assumes that all grants and scholarships are distributed proportionally to qualifying expenses (tuition) and other expenses (room and board, etc.).

The bill would provide a new tax expenditure in the following amounts:

- o $15 million in fiscal year 1978,
- o $374 million in fiscal year 1979,
- o $612 million in fiscal year 1980,
- o $657 million in fiscal year 1981, and
- o $0 in fiscal year 1982.

These estimates were derived from the Congressional Budget Office's tuition tax credit simulation model. Adjustments have been made to account for the proportion of part-time undergraduate students who attend at least half-time and the proportion of these students who are in school for at least eight months of a calendar year. Another adjustment has been made for the flow of students into and out of school.

APPENDIX C. A TECHNICAL DISCUSSION OF THE BASIS FOR THE TAX CREDIT ESTIMATES

To estimate the costs and distributional effects of various tuition tax credit proposals, the Human Resources and Community Development (HRCD) Division of the Congressional Budget Office has developed a computer simulation model.

Recent Refinements. The modeling technique used for this cost estimate includes the following three refinements over previous preliminary CBO efforts to estimate the impact of tuition tax credits:

- o Improving the way in which the veterans' subpopulation of students is approximated. The effect of this revision is to diminish the number of low-income students and slightly increase the benefits to families from higher-income classes.

- o Incorporating the 1977 tax law into the tax credit cost simulation. This revision reduces slightly the average family tax liability and thus reduces slightly the costs of the nonrefundable portion of a tax credit plan. In the case of H.R. 12050, this has an appreciable effect because the credit is nonrefundable.

- o Previous CBO estimates of tuition tax credits calculated the credit on a family unit basis. This somewhat overestimated the cost of nonrefundable tax credits because tax returns may be filed by more than one member of a family. The new data base permits the credit to be calculated on a tax filing unit basis. Thus, the incomes and subsequent tax liabilities of the economic units (family units with one or more filing units) are smaller in the new data base than in previous estimates.

Data Sources. The Survey of Income and Education (SIE), a large sample survey of the population taken in the spring of 1976 by the Census Bureau, is used as the core data base for the model. The SIE includes a distribution of students and family units in various income classes by the type and level of schooling (private/public, postsecondary/elementary-secondary, etc.).

The federal tax module of the Math model (developed by Mathematica Incorporated) was modified to simulate 1977 tax law on the SIE data. This model calculates the earned income tax credits, the personal credits, and the tax liabilities of the individual tax filing units in the data base. The child care tax credit and the proposed education tax credits have been simulated using data in the CBO model.

Since the SIE does not report the educational expenses incurred by students, it was necessary to merge expenses and benefit data from other sources with the SIE. These sources include:

- The National Center for Education Statistics--data on postsecondary and elementary-secondary enrollments, tuition and total cost in postsecondary education, public/private distribution of students, and nonfederal levels of student assistance.

- The Office of Education--a model for estimating Basic Grants costs which provides the number and size of Basic Grants awards by income class and data on the size and distribution of Supplemental Grants.

- The American Council on Education (Cooperative Institutional Research Program)--data on the overlap between federal and nonfederal student assistance.

- The Ninth Annual Survey of the National Association of State Scholarship and Grant Programs--data on the number of awards and amount of funding provided for state scholarships.

- The Council of Graduate Schools and the National Science Foundation--data on the number and size of awards to graduate students.

All variables were adjusted for projected annual changes.

Limits of the Cost Estimating Procedure. Computer-based simulation models only approximate the actual conditions that will affect the costs and effects of proposed changes. Limitations of the model CBO has developed include the following:

- The model assumes a static student population. It does not include entries to or exits from schools during the academic year. Thus, the model assumes there are four undergraduate classes eligibile for the credit; whereas, in fact, there are slightly more than four. Students who only attend during the spring semester of a calendar year would be eligible for a full credit, depending upon their tuition costs, and entering students for the fall semester also would be eligible for the full credit if their fall tuition costs were high enough. In effect, therefore, five undergraduate classes a year would generate tax credits, rather than the four incorporated into the model. The effect of this phenomenon is to underestimate costs from 8 to 15 percent.

- Fall enrollment figures are used to represent the student population. This, however, does not reflect the attrition that occurs throughout the academic year. To the extent that attrition is not captured in the CBO model, the cost estimate will be too high.

- The CBO estimate is based on the assumption that other student assistance programs remain at current levels. If federal aid increases appreciably, as currently proposed by committees of both the House and the Senate, the cost of tax credits would decline. The new recipients of other forms of federal assistance would be contributing less toward their tuition costs, and, therefore, they would qualify for less tax credit.

U.S. GOVERNMENT PRINTING OFFICE: 1978 O—26-995