



## **STAFF REPORT**

### **Financing the Dream: Securing College Affordability for the Middle Class**

#### **Introduction**

A central goal of the White House Task Force on the Middle Class is to ensure that public policy is helping middle-class families to realize their aspirations. At the heart of those aspirations is the deep-seated desire of parents to ensure that their children have the opportunity to realize their potential. For many families, this means making sure their children can afford a college education. And for many of those same families, this challenge has been growing for years, such that today, paying for college strains many family budgets to the breaking point.

This staff report focuses on the challenges of paying for college in America today. The report briefly outlines the problem before turning to potential solutions. We focus only “briefly” on the challenges facing families because this problem is well understood: the growth of college tuition is far outpacing that of family income. Some of this difference can be made up through borrowing for college, which is an important and nearly universally pursued option that we discuss in detail below. But parents ought to be able to put their children through college without assuming crushing debt burdens or placing those burdens on their children. It is also the case that in recent years, various problems have surfaced in the student loan market; we have attempted to address these problems in the Obama administration’s budget, which is currently under debate in the United States Congress.

This report focuses mostly on solutions, exploring policy steps that have already been taken and new steps that should be considered in order to make college more affordable to all families who aspire to provide a college education for their children.

President Obama has set a goal that by 2020, America should once again lead the world in the proportion of adults with a college degree. This does not imply that every high school graduate should attain at least a bachelor's degree, but the President is committed to making sure that every student has the opportunity to earn a postsecondary credential or degree.

These goals are important on multiple levels. Not only does higher education return significant benefits to individuals themselves—in 1973, a college graduate earned 46% more per hour than a high school graduate, and by 2007, this difference had grown to 77%—it also has major benefits for society. America's ability to compete effectively in the global economy depends on a highly skilled workforce, and by expanding access to higher education, we will also reap further benefits due to the fact that more highly educated persons have better health outcomes and are more likely to practice civic engagement.

But these goals will be unattainable unless family incomes are sufficient to pay for higher education or sustainably to take on the necessary debt, whether we're talking about a two-year community college or a four-year private school. As a result, our staff report focuses on ideas to help close this gap between family incomes and college costs (including not only tuition and fees, but room and board, transportation, books, etc.). The discussion below refers to all types of postsecondary educational settings: two-year colleges, community college, and four-year colleges, both public and private.

While our focus is on affordability, we are mindful that this is but one dimension of college attainment. Two others, equally important, are access to college and the ability to *complete* a college education. Lower-income students face particularly steep barriers to college access, but even once students find their way into college, degree completion is increasingly elusive at all levels of postsecondary education, including associate's and bachelor's degrees as well as certificates. For example, about half of college students at bachelor's-granting institutions graduate within six years; for low-income students, the completion rate is closer to 25%. Of course, these barriers interact with affordability, but experts in this field recognize unique characteristics, and unique policy prescriptions, in these other areas.

Our focus for this staff report hones in on affordability. In this report, we will address the problem of a high school graduate who is fully capable of getting into and completing a college program, but for the financial constraints that she and her family face.

## **College Affordability: The Problem**

It is no secret that the cost of higher education has been rapidly increasing for decades. Since the 1978-79 academic year, the inflation-adjusted value of the average published college tuition has shot up from \$2,303 to \$6,585 for public four-year colleges and from \$9,903 to \$25,143 for private four-year colleges.<sup>1</sup> These increases represent annual real growth in college tuition of more than 3% a year for both of these classes of institutions.

In other words, over the span of three decades, the real, inflation-adjusted cost of tuition for private four-year colleges has more than doubled. Meanwhile, public four-year institutions, while still much cheaper than private colleges, have nearly tripled in “sticker” price over this period.

Of course, given various grants and adjustments that schools make based on individual circumstances, most students do not pay the “sticker” price of postsecondary education. Data from the College Board, a group that tracks college costs, indicates that the average actual cost paid by students for college in the 2008-2009 school year was \$14,930 at private four-year institutions and \$2,850 at public four-year institutions.<sup>2</sup> Even so, families are finding these costs increasingly difficult to meet.

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<sup>1</sup> Sandy Baum and Jennifer Ma. *Trends in College Pricing: 2008*. The College Board, 2008. Available at: <http://professionals.collegeboard.com/profdownload/trends-in-college-pricing-2008.pdf>. These figures are the published cost for tuition and fees (room and board not included), in constant (2008) dollars. These average costs are enrollment-weighted. The figure for public four-year colleges applies to in-state tuition.

<sup>2</sup> Baum and Ma, 2008. Figures are published tuition and fees net of average grant and education tax benefits. Figures do not include the cost of room and board, and attributes all grants and tax benefits to tuition and fees rather than room and board. This source shows 2-year public college costing only \$100 per year net of tax benefits, grants, etc., but this value is less representative of the costs students actually face compared to those in the text. It assumes full-time attendance—less often the case at two-year colleges—and heavily weights particularly low costs in California, where 25% of community college students reside.

In fact, polling data on college affordability shows growing concerns about college access. According to the National Center for Public Policy and Higher Education, the proportion of respondents who say that “there are many people who are qualified to go [to college] but don’t have the opportunity to do so” increased from 47% in 2000 to 57% in 2003.<sup>3</sup> This significant increase in concerns about access to college over the span of just three years suggests that the rising cost of higher education is having a real impact on the budgets of middle-class families, and that families are increasingly worried about their ability to afford higher education on behalf of their children.

This cost increase is a problem in and of itself, but it is especially problematic compared to the growth of the incomes of most families. In fact, the cost of college has significantly outpaced the growth of family incomes, greatly increasing pressures on family budgets and putting higher education out of reach for many families. The last three decades have generally been a period of weak income growth for typical American families, as the concentration of wealth at the top of the income scale has dramatically increased and hardworking middle-class families have not shared in economic growth. During that same period of time, from 1979 to 2007, the median income of American families with children grew *just 10%*, from \$53,760 to \$59,190.<sup>4</sup>

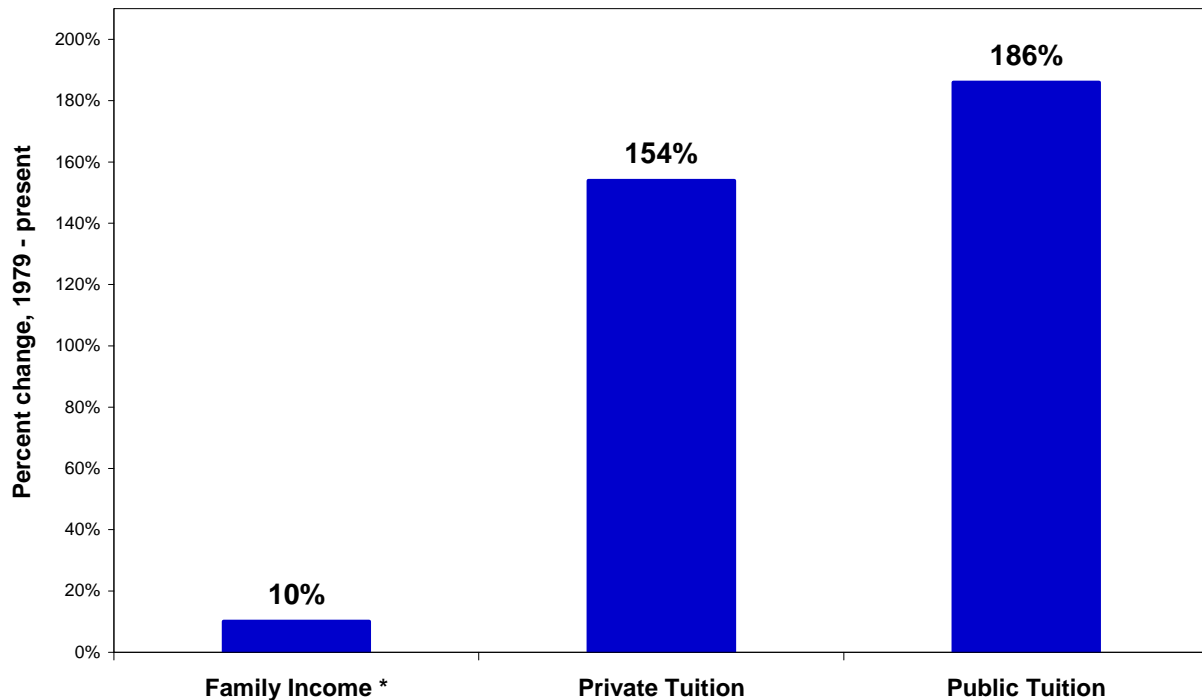
This 10% growth in the median family income since 1979 represents a 0.34% annual growth rate. Over that same span of time, the average published cost of college tuition and fees has grown at an annual rate of 3.15% for private four-year colleges and an annual rate of 3.56% for public four-year institutions, or about *ten times as fast* as real median incomes for families with children. **Figure 1**, below, illustrates the dramatic disparity in the growth of family income and the growth of college tuitions over the past three decades.

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<sup>3</sup> John Immerwahr. *Public Attitudes on Higher Education: A Trend Analysis, 1993 to 2003*. Public Agenda / National Center for Public Policy and Higher Education, 2004. Available at: [http://www.highereducation.org/reports/pubatt/Pub\\_Agenda\\_040210.pdf](http://www.highereducation.org/reports/pubatt/Pub_Agenda_040210.pdf)

<sup>4</sup> US Census Bureau data. Available at: <http://www.census.gov/hhes/www/income/histinc/f10AR.html>.

**Figure 1. Tuition growth dramatically outpaces family income growth, 1979 - present**



\* Real median family income for families with at least one child.

Source: US Census Bureau, The College Board. Family income figure applies to 2007, the most recent year of data available.

What explains the rapidly rising cost of education? There are generally two major reasons for increases in tuition. Rising tuition either funds increased spending or replaces lost revenue from other sources, a process referred to as “cost shifting.” Increases in tuition have been partly driven by each of these factors, but the majority of the rise in tuition in recent years is increasingly attributable to cost shifting.

The use of increased tuition to offset lost revenue from elsewhere is particularly pronounced in public higher education, as falling state and local appropriations have forced institutions to increase tuitions in order to maintain their revenue. State and local appropriations to public higher education have failed to keep pace with enrollment and inflation since the 1980s, meaning that appropriations for public higher education have fallen over the last twenty years on an

inflation-adjusted, per-student basis.<sup>5</sup> These decreasing public revenues have impelled public colleges and universities to steadily increase their tuitions.

As mentioned above, the past two decades have also seen the growing use of various forms of “tuition discounting,” in which many students receive grants or pay less than the full published tuition, as a tool for recruitment and student aid.<sup>6</sup> While the growing prevalence of arrangements in which students pay less than the full published tuition is an important development that has slightly offset rises in tuition, discounting has done little to change the major long-term trend towards reliance on tuition over other sources of revenue to fund higher education.

These trends have left students and their families paying for a larger and larger share of the cost of higher education, even as the income of those families fails to keep pace with economic growth. This dynamic of college tuition growth vastly outpacing family income growth has become a major part of the middle-class squeeze. The ability to afford a college education without being buried by debt is an important aspiration and a legitimate expectation, not just for middle-class families, but for any family in America. For this reason, our administration has made college affordability a priority, and in the rest of this report, we discuss ways in which affordability can be achieved.

## **Federal Government Programs: Grants and Loans**

Both the American Recovery and Reinvestment Act and the President’s 2010 budget make a historic commitment to increasing college access and success by dramatically expanding financial aid while making it simpler, more reliable, and more efficient. Together, they will invest almost \$225 billion in scholarships and tax credits for students over the next decade. The American Recovery and Reinvestment Act created the new American Opportunity Tax Credit and increased funding for Pell Grants. The President’s budget goes even further, providing

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<sup>5</sup> Jane V. Wellman, Donna M. Desrochers, and Collen M. Lenihan. *The Growing Imbalance: Recent trends in U.S. postsecondary education finance*. Delta Project on Postsecondary Education Costs, Productivity and Accountability, 2008. Available at: <http://deltacostproject.org/resources/pdf/imbalance20080423.pdf>.

<sup>6</sup> Jane V. Wellman, et al. *Trends in College Spending: Where does the money come from? Where does it go?* Delta Project on Postsecondary Education Costs, Productivity and Accountability, 2009. Available at: [http://deltacostproject.org/resources/pdf/trends\\_in\\_spending-report.pdf](http://deltacostproject.org/resources/pdf/trends_in_spending-report.pdf).

guaranteed funding for Pell Grants, indexing the grant above ordinary inflation, and extending the American Opportunity Tax Credit beyond the time period covered by the Recovery Act. The budget also takes action to insulate student loans from financial turmoil, modernizes and expands the Perkins Loan program, and simplifies access to student aid. These steps that the Obama administration and the Congress have already taken to tackle the problem of college affordability are outlined below.

***A Bigger Tuition Tax Break for Middle-Class Families from the American Opportunity Tax***

***Credit:*** Prior to the Obama administration, most undergrads or their parents – depending on who paid the bills – could claim one of three tax breaks: the Hope Scholarship credit, the Lifetime Learning credit, or the tuition and fees deduction, which have different income limits and program requirements. But these tax breaks have often provided too little help for middle-class families struggling to pay for college.

The American Recovery and Reinvestment Act replaced the Hope Scholarship credit with the more generous American Opportunity Tax Credit, and the President’s budget requests its extension beyond 2010. The American Opportunity Tax Credit can be claimed for four years of college rather than two, and while the Hope Scholarship had a maximum of \$1,800, the American Opportunity tax credit raises the maximum to \$2,500 per year. In addition, the American Opportunity Tax Credit makes this type of financing available to more students and their families. The American Opportunity Tax Credit is available to families making up to \$160,000, and the credit is partially refundable so that working-class and low-income families can take advantage of the credit as well. The new credit can be also claimed against tuition and fees as well as textbook expenses, making it more broadly applicable than the Hope Scholarship.

***Increase Pell Grants For Low Income Students:*** The Pell Grant program, which provided \$18 billion in need-based grants to more than 6 million students in academic year 2008-2009, is the foundation of federal student aid. Low- and moderate-income families, generally those making less than \$40,000 a year, use these grants to pay for college. However, Pell Grants have failed to keep pace with rising tuition costs. Thirty years ago, the maximum Pell Grant funded 77% of the cost of attending the average four-year public school and nearly the entire cost of the average

two-year public school. Today's maximum grant covers only 35% of the cost of attending a four-year school and 68% of comparable costs at a two-year school.

The American Recovery and Reinvestment Act significantly increased funding for the Pell Grant program, adding \$500 dollars for 2009-2010 and increasing the new maximum grant for that year to \$5,350.

But the funding for Pell Grants in the Recovery Act was just the first step, and the administration has made a broader commitment to making Pell grants more reliable. Most Pell Grant program funding is currently provided through annual appropriations. Beginning in fiscal year 2008, a small amount of mandatory funding was provided as an addition to the general discretionary Pell Grant award. Funding the majority of the Pell Grant program through the annual budget process requires appropriations to be based on estimated program costs. To the extent that these estimates differ from actual costs, funding shortfalls and surpluses must be accounted for in future years. Pell Grant award levels are regularly threatened by funding shortfalls in the program. Because the size of the grant is determined by the annual discretionary budget process, it often stagnates for years and then grows unpredictably, making it difficult for families to plan.

The Obama administration's budget would transform the grants so that money would automatically go into the program every year, according to a formula, instead of being partially dependent on annual appropriations from Congress. Moreover, Pell Grants would be indexed so the maximum grant would grow faster than inflation in future years. The maximum Pell Grant would start at \$5,500 in 2010-11 and increase each year by the consumer price index (CPI) plus one percentage point. Indexing the maximum award to increase faster than the CPI will address the steady erosion of the Pell Grant's purchasing power in recent decades.

***Expand Low Interest Loans For Students and Ensure their Availability:***

- Lend Directly To Students: The President's budget would make student loans more reliable and cost-effective by having the federal government provide the capital for all new student loans, while continuing to use private sector companies to manage and collect on those loans. As explained below, consolidating the student loan program



would end entitlement subsidies to private student lenders who currently act as middlemen on many federal student loans, saving taxpayers about \$48 billion over ten years without changing loan terms for students. The administration would use these savings to expand student aid, especially the Pell Grant program.<sup>7</sup>

Federal student loans are processed and delivered in two ways, depending on whether a school has chosen to participate in the Federal Family Education Loan (FFEL) or the Direct Loan program. FFEL operates through entitlements for lenders: a lender is able to acquire funds from investors because the federal government guarantees student loans, eliminating most risk from these investments. The lender and intermediary agencies receive entitlement subsidies at levels set by Congress – subsidies that both the Clinton and Bush administrations recognized were excessive. Moreover, the turmoil in the financial markets has demonstrated the hazards of the FFEL program. Since the credit crunch, the FFEL program has continued to function only because of a Congressional intervention that allowed the federal government to buy loans from FFEL lenders.

In the Direct Loan program, the federal government uses competitive Treasury auctions to acquire capital for student loans from private investors. Schools then interact with the Department of Education through the same system used to distribute Pell Grants. The Department of Education utilizes private-sector companies (many of which also perform services in FFEL) through the competitive contracting process to disburse, service, and collect loans. Unlike the FFEL program, the Direct Loan program has suffered no disruptions during the recent credit crisis. Because the Direct Loan program uses competitively set payments, it saves taxpayers billions of dollars that can be used to support increased aid to students. In 2010, a \$5,000 Direct Loan will cost the government about \$200 less than a comparable loan in FFEL. By shifting entirely to direct lending, the President's budget will save more than \$4 billion a year, and will redirect those savings into the hands of college-bound students and their families, rather than let them be pocketed by lenders..

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<sup>7</sup> The \$94 billion estimate of savings from the program comes from the Congressional Budget Office: <http://www.cbo.gov/ftpdocs/100xx/doc10014/03-20-PresidentBudget.pdf>

- Modernize and Expand Perkins Loans: Current annual loan limits in the federal student loan programs are inadequate for some students. The 50-year-old Perkins Loan program is meant to provide these students with additional low-interest loans. However, the program is too small, and its current structure is inefficient and inequitable: loans are managed and serviced directly by institutions at considerable cost, and students at less wealthy institutions often have little or no access to the program.

The President's budget proposes an expanded, modernized Perkins Loan program with \$6 billion a year in new loan volume—six times the current Perkins volume, reaching up to 2.7 million new students at as many as 2,700 additional postsecondary education institutions. Instead of being serviced by colleges and universities, the loans would be serviced by the Department of Education along with other federal loans. The loans would retain the same low 5% interest rate and allowed loan amounts (both undergraduate and graduate) as in the current Perkins program. To make the loans available to more students and to help finance expanded grant and loan programs, interest on the loans would accrue while students are in school. Overall, this proposal will save \$3.2 billion over five years while at the same time reaching up to 2.7 million new students.

## **What Can Colleges Do to Address Affordability?**

Too often, the affordability discussion pays short shrift to a major stakeholder in the debate: colleges themselves. While the policies and ideas discussed thus far have focused on how families can pay for college, it is entirely relevant to involve schools themselves, especially public colleges, in doing what they can to hold down costs.

What steps can schools take to increase their productivity or lower their operating costs?

College administrators sometimes push back on this point, arguing that they work in an industry that faces different productivity constraints than most others. This is a reasonable point:

professors could presumably double their “output per hour” and their productivity by doubling their class size. But large class sizes can engender a quality sacrifice that could negatively affect students’ academic outcomes. Simply put, most of us do not view the production of educated citizens the way we view the production of widgets on an assembly line. As a result, the question of how schools could boost their efficiency and thus hold down costs is a difficult one.

Nevertheless, numerous ideas have surfaced in this regard, and many have been successfully applied.

Lower operating costs are one way schools can hold down tuition. A few years ago, the University of Maryland engaged in a number of these types of initiatives. For example, each of the various campuses of the university was purchasing energy individually, instead of combining their market clout as a single purchaser. Once they did so, they were able to cut energy expenditures by 10-15%, thereby saving \$5 million over the life of the three-year contract.<sup>8</sup> This idea of schools forming purchasing groups could be extended, even beyond the boundaries as a single school system. For example, when colleges are near each other, not every college has to offer every course, especially in the case of basic or remedial courses. Reducing duplication by sharing admissions for some courses can produce meaningful gains.

A 2007 joint report by the National Center for Public Policy and Higher Education and the National Center for Higher Education Management Systems presents some good examples of such practices. For instance, the state of Oklahoma has established regions known as “responsibility areas.” Colleges in each responsibility area “are expected to identify unmet needs and respond to them cost-effectively through collaborations with other institutions.” Similarly, two-year colleges in North Dakota collaborate on a nursing program. The participating schools all offer some courses in the program, so students can pursue a standardized course of study at multiple delivery sites. According to the authors, “this allows a needed

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<sup>8</sup> National CrossTalk, Vol. 14/No. 2, Spring 2006.

program to be offered on a periodic basis in sparsely populated parts of the state without the typical inefficiencies associated with providing expensive programs in rural communities.”<sup>9</sup>

A related strategy for reducing educational costs is to incorporate technology into instruction. The National Center for Academic Transformation (NCAT) suggests a variety of ways to employ information technology (IT) in ways that enhance learning while saving money.<sup>10</sup> Obviously, IT is a complement, not a substitute, for face-to-face classroom learning. But activities like interactive online tutorials, intensive student interactions through online forums, automated assessments of students’ progress, course management, and greater administrative efficiencies can all cut costs and facilitate marginal shifts from expensive faculty hours to much less expensive means of learning.

Finally, the Federal government can help here, too, by giving colleges an incentive to hold down tuition through the federally implemented Perkins Loan program (discussed above). Under the current distribution formula for Perkins Loans, schools with the steepest increases in tuition receive the most loan assistance from the federal government, clearly incentivizing higher tuition. Under the reforms to the Perkins program proposed in the Obama budget, the formula for distributing loan funds to institutions would reward institutions for providing more aid to lower-income families and for holding down tuition costs relative to comparable institutions.

## **Simplifying the Application Process for Aid**

Another obstacle to federal student aid is the unnecessarily complicated application process that is often intimidating to families and students seeking loans. In order to qualify for aid, students or their parents must first complete the Free Application for Federal Student Aid (FAFSA) form, which contains well over 100 questions on income, assets, family characteristics, personal characteristics, and other items. Completing the FAFSA requires families to sift through paperwork and transfer numbers from tax forms that they may or may not have readily available.

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<sup>9</sup> Patrick M. Callan, et al. *Good Policy, Good Practice: Improving Outcomes and Productivity in Higher Education*. National Center for Public Policy and Higher Education, 2007. Available at: [http://www.highereducation.org/reports/Policy\\_Practice/GPGP.pdf](http://www.highereducation.org/reports/Policy_Practice/GPGP.pdf).

<sup>10</sup> See NCAT publication by Carol Twigg, “Course redesign improves learning and reduces costs,” [http://www.highereducation.org/reports/pa\\_core/index.shtml](http://www.highereducation.org/reports/pa_core/index.shtml).

The fact that well over one million students who could qualify for aid went without it during the 2003-2004 school year is one indication that the application process is too complicated.<sup>11</sup> Furthermore, students who do not apply for aid due to the complexity of the process may be discouraged from applying to college at all, reducing college attendance rates. As a result, the complicated process works at cross-purposes with our goal of increasing college attendance and completion. Experts widely agree that the system is in need of change. There are two broad strategies to simplify the financial aid application process that are currently under discussion.

One strategy is to make it easier to complete the current form. For example, according to The Institute for College Access and Success (TICAS),<sup>12</sup> about two-thirds of the questions on income and assets that are included in the FAFSA form can be automatically answered using IRS data. This means that the U.S. Department of Education could obtain this information directly from the IRS, and the student or family would only be required to answer the remaining questions. TICAS contends that a simplified process would have the added benefit of reducing errors among filers who erroneously transfer data by hand from their tax returns to the FAFSA form. It would also remove the burden of requiring colleges and universities to verify the income information on the FAFSA form using tax returns. The use of IRS data is also an attractive option because it can make the financial aid application process more efficient on its own or can be combined with other FAFSA simplification proposals. Importantly, compelling new research suggests that FAFSA simplification can substantially increase applications for student aid as well as subsequent college enrollment.<sup>13</sup>

While appealing, simplification of the application process may not substantially address the length and complexity of the FAFSA for some, such as those who do not file tax returns with the IRS. Furthermore, even after removing the 22 questions that could be completed with data

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<sup>11</sup> American Council on Education. "Missed Opportunities Revisited: New Information on Students Who Do Not Apply for Financial Aid," Issue Brief, February 2006. Available at: <http://www.acenet.edu/AM/Template.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=14244>.

<sup>12</sup> Lauren Asher. *Going to the Source: A Practical Way to Simplify the FAFSA*. The Institute for College Access and Success, 2007. Available at: [http://www.ticas.org/pub\\_view.php?idx=232](http://www.ticas.org/pub_view.php?idx=232).

<sup>13</sup> Eric Bettinger, Bridget Terry Long, Philip Oreopoulos, and Lisa Sanbonmatsu. "Would Simplifying the Aid Application Process Make a Difference? The Impact of the FAFSA Experiment on College Decisions: Policy Brief." March 2009.

directly from the IRS, the form still would include nearly 100 questions. As a result, a second strategy for simplifying the application process for student aid is to shorten the form by reducing the number of questions asked. The scope of such simplification could be small or large, depending on the number of questions eliminated. The advantages of a short form would include greater transparency and the ability to make earlier determinations of aid. As an extreme example, economists Susan Dynarski and Judith Scott-Clayton have advocated for a form based on adjusted gross income and family size alone.<sup>14</sup> Combined with IRS data, such an application would provide immediate, verifiable feedback on the amount of aid for which a student would be eligible. They argue that this would likely facilitate more timely decisions for families concerning higher education financing, and it would do so with only modest changes to the distribution of aid. This proposal represents just one possibility, but even a much less radical simplification would substantially ease the burden of filing the FAFSA on students and their families.

Strategies for simplifying the financial aid application process have potential merits, potential impacts on financial aid awards, and potential challenges in implementation. However, it is clear that simplification makes good policy sense, and that it would help families benefit from important resources available to help cover the cost of college.

## **Other Affordability Issues**

This report only skims the surface of the challenge of college affordability. The ideas we have discussed, from improved student grants and loans, to costs savings by colleges themselves, to simplifying applications, represent but a part of the thinking of policy experts in this area. In this section, we briefly note a few policies in other areas that we recognize are important, but that go beyond our current scope. The Obama administration does not officially endorse all of these ideas, but the task force views them as worthy of further analysis to determine how they can help families pay for college.

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<sup>14</sup> Susan Dynarski and Judith Scott-Clayton. "College Grants on a Postcard: A Proposal for Simple and Predictable Federal Student Aid." Hamilton Project Discussion Paper 2007-01; KSG Faculty Research Working Paper Series RWP07-014, March 2007.

- ***529 Savings Plans:*** With the sharp decline of financial and stock markets over the past year, many families are finding that their college savings in these plans have taken a huge hit. This is, of course, especially problematic for families whose children are close to college age, because they may not have a chance to wait for better market conditions to replenish their funds. Treasury Secretary Tim Geithner is a member of the task force, and we have asked him and the Treasury Department to study ways of making 529 accounts more effective and reliable. We plan to publish a paper with our findings before the next school year.
- ***The Importance of Community Colleges:*** For at least two reasons, community colleges play an important role in college affordability. First, while tuitions can be high at community colleges just as they can at four-year institutions, they remain significantly lower. According to the College Board, the enrollment-weighted average published tuition and fees for public two-year institutions were \$2,402 for the 2008-09 school year, compared to \$6,585 for in-state students at public four-year institutions, \$17,452 for out-of-state students, and \$25,143 for private four-year institutions.<sup>15</sup> Second, many four-year colleges have very productive “feeder” relationships with two year colleges, meaning families can achieve significant savings on the first two years of a four-year degree program. As a result, action to bolster the community college system has the potential to help reduce the cost of college for typical students without sacrificing educational outcomes.
- ***Counter-Cyclical Policies:*** Unlike the Federal government, most states must balance their budgets. As a result, when their revenues fall during recessions, they are often forced to make cuts even after drawing down “rainy day” funds to preserve programs. Some of these cuts typically affect their public colleges, and can show up either as cuts in services or as higher tuitions. It makes sense for policy makers to think about ways to get through economic downturns without making public colleges less affordable. These strategies could involve help from the Federal government, and the Obama administration

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<sup>15</sup> Sandy Baum and Jennifer Ma. Trends in College Pricing: 2008. The College Board, 2008. Available at: <http://professionals.collegeboard.com/profdownload/trends-in-college-pricing-2008.pdf>.

has provided precisely this type of help to states through the Recovery Act. But it might be worth considering automatic formulas that kick in to help preserve college affordability in recessions.

Another recent intervention by the Obama administration should also be helpful in dealing with the impact of the recession on families' ability to pay for college. College financial aid administrators wanting to increase students' access to federal aid in times like these have often found their hands tied. The administration recently changed its guidelines for administrators to make it clear that they have the flexibility to help students whose financial circumstances have worsened. In many cases, recession-related losses by the students' families will make them eligible for federal grants or low-interest loans, and these new guidelines should help more students get the help they need and deserve.<sup>16</sup>

- ***Income-Based Repayment:*** An interesting way to both help students pay for college and promote some useful goals for society as a whole is to condition the terms of loan repayments on developments that occur after students complete their schooling. For example, students could agree to pay back their loans at a fixed percentage of their income, so those ending up with lower-income jobs would have smaller monthly payments than those earning high salaries post-graduation. Such systems have been successful in Europe and Australia.

Variations on these types of programs currently exist here in the United States for those with federal loans, including a program that promotes loan forgiveness for college graduates who go into public service, like teaching. New income-based repayment programs for federal student loans made to students themselves will be taking effect this summer, helping to make college more affordable for current and future students.<sup>17</sup>

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<sup>16</sup> See the new guidelines here: <http://www.ifap.ed.gov/dpcletters/GEN0904.html>.

<sup>17</sup> See <http://www.ibrinformo.org/> for more information on how these programs work.



## **Conclusion**

Completing college is both an important personal goal for many children and their families, and, as President Obama has consistently stressed, a critical national goal. Yet the fact is that over the past few decades, the growth of college tuition has dramatically outpaced that of middle-class incomes. The White House Task Force on the Middle Class has examined this challenge through a variety of lenses and highlighted policy initiatives, both those already underway and those that could be pursued in the future, which will help secure affordable access to higher education for middle-class families.

The President's 2010 budget includes numerous historical changes targeted at the heart of the college affordability problem, including expanded Pell Grants, expanded low-interest loans, and significant taxpayer savings through direct lending—savings that we will direct right back into college grants. We have also discussed the importance of simplifying the federal student aid application process, as well as a set of ideas colleges themselves can pursue to hold down costs. These days, with the pressures in financial markets, many families are facing significant losses in their 529 college savings plans, and the task force has asked the Treasury Department to look into ways to make these plans more efficient and effective. We will release a paper based on the Treasury Department's findings before the beginning of the next school year.

President Obama and Vice President Biden deeply value education, and they know how important it is for families to achieve the educational aspirations they have for their children. Helping to make college more affordable is one important part of that goal, and our administration—and our task force—will continue to track this issue and the policies stressed in this report.