

Affordability

American families continue to identify college affordability as one of their biggest concerns. AASCU, representing more than 430 institutions and heads of systems on behalf of 3.5 million students who attend AASCU institutions, advocates for a higher education finance model that ensures every qualified student—no matter his or her financial need—can afford a college education.

Student grants, student loans and tax policies all contribute to college affordability. AASCU believes that while each is an important piece of financing a college education, limited public resources should be targeted to the neediest students in the form of direct grant aid. Student debt should be limited, student loan repayment options flexible and manageable for students in all income categories, work-study opportunities available and financially feasible for students, and education tax benefits transparent.

With the recent reauthorization of the Higher Education Act, several AASCU-supported policy provisions related to student financial aid and college affordability were implemented. These include a year-round Pell Grant, improvements to the SMART grant program that ensure all Pell-eligible students who pursue degrees in the math and sciences qualify for the program, improved student loan counseling, and more transparency and accountability in the private loan market.

There are more improvements to be made. While the Higher Education Act has also been amended to provide a variety of federal student loan repayment plans, many borrowers do not understand or have access to these options when they need them. This leads many to become “defaulters” with harsh financial penalties and no statute of limitations. AASCU believes that the legislative goal now should be to streamline and reform borrower repayment in federal student loan programs to

ensure that all borrowers are able to repay their loans using an appropriate repayment plan without incurring penalties.

Affordability Priorities

- ★ Amend the Higher Education Act to augment the maximum Pell award to benefit the lowest income students.
- ★ Clarify that the definition of “acceleration toward a degree,” for purposes of newly established year-round Pell Grants, includes enrollment in and completion of required remedial/developmental courses.
- ★ Advocate for a student aid financing model in which federal grant and loan resources cover approximately two-thirds of the total cost of attendance at a public four-year institution for the lowest-income student.
- ★ Secure sufficient appropriations to sustain the value of Pell Grant awards given the demand for awards driven by the statutory program structure, national economic trends and demographic trends of enrollment in postsecondary education.
- ★ Maintain current aggregate loan limits for undergraduate students in the federal loan programs.
- ★ Require that all Federal Family Education Loan (FFEL) loans that are past due for a specified period of time be immediately assigned by the lender to the Department of Education. The loans would be transferred at par—the lender would receive principal and accrued interest through the date of the assignment.
- ★ Support a change in federal student loan collection policy to collect only what is currently due and manageable instead of adhering to a practice of declaring the entire loan to be due and payable.
- ★ Support a legislative change to require mandatory use of institutional certification of private loans by lenders.

Federal Role in College Affordability— AASCU Policy Statements

Federal Grants

Pell Grants

- Amend the Higher Education Act to augment the maximum Pell Grant award to benefit the lowest income students.

Under current law, students whose family income equals the subsistence level set by the Bureau of Labor Statistics are expected to contribute zero dollars, also known

as “zero expected family contribution (EFC),” but students with even lower incomes—equivalent to “negative EFC”—receive no additional benefits. The proposed change would augment the maximum Pell award by up to \$750 for students with the lowest incomes.

Under the current structure, when the maximum award for the Pell Grant is increased, essentially all awards are increased by the same amount and the recipient pool expands to include more families with higher incomes. This occurs because most awards are calculated by subtracting the Expected Family Contribution (EFC) from the maximum award. If a negative EFC were to be implemented those who currently have a zero EFC would benefit relative to those with higher incomes, effectively targeting additional dollars to the neediest students.

The Pell Grant program contributes significantly to the nation’s economy and security by making it possible for low-income students to earn college degrees. The majority of Pell Grant recipients enter fields of study essential to national and state workforce needs, including 20 percent majoring in health-related fields, 18 percent business, 9 percent education, 6 percent computer/information science, 6 percent math and science and 5 percent engineering, according to Department of Education research.

- Clarify that the definition of “acceleration toward a degree,” for purposes of newly established year-round Pell Grants, includes enrollment in and completion of required remedial/developmental courses.

The FY 2008 maximum Pell Grant award (\$4,731) covers approximately 33 percent of the 2008–2009 cost of attendance at public four-year institutions (\$14,333) and approximately 72 percent of in-state tuition and fees (\$6,585).

■ Advocate for a student-aid financing model in which federal grant and loan resources

cover approximately

two-thirds of the total cost of attendance at a public four-year institution for the lowest income student. The Pell Grant maximum award should be funded to cover one-half the cost of attendance, with the remaining federal responsibility to be met through subsidized federal loans and federal campus-based aid. The remaining costs should be covered by a combination of state grants and institutional aid. This model is predicated on the premise that states and institutions should work to ensure affordable tuition and the provision of funds for grant aid to students.

For the lowest income students, assuming a \$15,000 annual total cost of attendance at a public university, this model assumes that \$7,500 would come from the Pell Grant, \$2,500 from federal subsidized loans and federal campus-based aid, and the remaining \$5,000 from state grants and institutional aid.

- Advocate for sufficient appropriations to sustain the value of Pell Grant awards given the demand for awards driven by the statutory program structure, national economic trends and demographic trends of enrollment in postsecondary education.

Academic Competitiveness and SMART Grants (ACG/SMART)

- Revise the academic requirements for continuance of ACG/SMART awards to be consistent with other Title IV awards for financial aid programs' satisfactory progress standards. The requirements should permit institutions to determine equivalencies for grades in grading structures such as Pass/Fail in determining student GPA performance.

Campus-Based Financial Aid Programs and Leveraging Educational Assistance Partnership (LEAP)

- Increase appropriations to Federal Supplemental Educational Opportunity Grant (FSEOG) and Federal Work-Study as well as the capital contribution to Perkins Loans.

- Increase the appropriation to fully reimburse institutions for loan cancellations for various service-related activity in the military, teaching, public service, law enforcement, corrections and firefighting.
- Revise the institutional allocation formulas to distribute funds based on institutional need by comprehensively measuring need and phasing out the conditional guarantee levels.
- Ensure that
 - Leveraging Educational Assistance Partnership (LEAP) funds are used for need-based aid, particularly targeted toward Pell Grant recipients. Increased LEAP funds should be allocated only to states that do not reduce appropriations for need-based awards.

According to the National Center for Education Statistics, about 75 percent of high school graduates expect to earn a four-year college degree, up from 50 percent in 1972. The greatest growth in aspirations has been among those in the middle and bottom socioeconomic status quartiles.

Federal Student Loans

Federal Family Education Loan (FFEL) and Direct Loan (DL) Programs

- Support the maintenance of both the FFEL and DL programs.
- Oppose all efforts to undermine either the FFEL or DL programs through legislative and regulatory provisions that would impose artificial disadvantages on the efficient operation of either program.

Student Debt Burden and Loan Limits

- Maintain aggregate loan limits for undergraduate students in the federal loan programs at the current level of \$31,000 for dependent students and \$57,500 for independent students (in both cases, no more than \$23,000 can be subsidized) in the FFEL and Federal Direct Loan programs.

Loan Repayment

- Require that all FFEL loans that are past due for a specified period of time be immediately assigned by the lender to the Department of Education. The Department of Education should immediately contact the borrower to inform the borrower of the full range of repayment options and assist in selecting an option most appropriate to the financial circumstances of the borrower.
- Require that the Department of Education promptly contact borrowers in the Direct Loan program who do not make regular payments. The department should put them in an appropriate repayment plan, including Income Based Repayment (IBR) and Income Contingent Repayment (ICR), and set up special handling for those borrowers who have recurring repayment problems.
- Support a change in federal student loan collection policy to collect only what is currently due and manageable instead of adhering to a practice of declaring the entire loan to be due and payable. Such a change in policy would facilitate borrowers addressing their past due status and mitigating the accumulation of excessive collection charges and fees when collection agencies are able to assess penalty fees based on the entire loan rather than just the payments due to date.

Private Loans

- Support a legislative change to require mandatory use of institutional certification of private loans by lenders. This will help ensure that students and families fully utilize

According to the College Board, the private loan industry now lends more than \$17 billion annually, but declined in 2007–2008 by about one percent in constant dollars.

One in 10 students from families with annual incomes under \$35,000 and one in four students from households with incomes between \$35,000 and \$50,000 did NOT complete the Free Application for Federal Student Aid (FAFSA), according to Sallie Mae's national study *How America Pays for College*. This means that they may be missing out on federal financial aid to which they are entitled.

state and federal grants and less expensive financing options, such as subsidized and unsubsidized Stafford Loans, and PLUS Loans before securing more costly private loans.

- Support revising the bankruptcy code to permit the discharge of private educational loans in bankruptcy proceedings to provide greater protection to borrowers enticed into unmanageable debt burden.

Tax Policy

HOPE Scholarship and Lifetime Learning Tax Credits

- Support changes in tax policy pertaining to the HOPE and Lifetime Learning Tax Credits and tax deductions that will make them more accessible to the most needy students. Strategies include consolidation, refundability, expansion to nontuition expenses, and removal of the offset against Pell and SEOG awards.

According to the College Board, in 2006 only approximately 11 percent of taxpayers with incomes below \$50,000 benefited from tuition tax deductions. Tuition tax credit benefits went to about 41 percent of taxpayers with incomes below \$50,000.

Student-Related Tax Policy

- Make permanent the deduction of education expenses of \$4,000 for taxpayers, due to expire in December 2009, that provides an “above the line” deduction for qualified tuition and other education expenses at higher education institutions.
- Continue support for a refundable tax credit for student loan interest paid by low-income borrowers.
- Support the establishment of a federal tax exemption for loan forgiveness proceeds for borrowers in the Income Contingent Repayment and Income Based Repayment programs.

- Oppose any proposed modification of the Federal Insurance Contributions Act (FICA) exemption for students working on college and university campuses.

Institution-Related Tax Policy

- Support legislation that would make permanent the tax provisions due to expire in 2009 that permit individuals 70½ and older to transfer up to \$100,000 from an Individual Retirement Account (IRA) tax-free to charitable and other nonprofit organizations. AASCU will explore the feasibility of lowering the eligibility requirement from age 70½ to 65.
- Oppose any proposal to restrict deductions for noncash gifts to the amount paid for such property, rather than the current standard of fair market value.
- Support legislation that would allow taxpayers that do not itemize deductions on their federal income tax returns to claim a deduction for charitable contributions.
- Oppose a permanent extension of the federal estate tax repeal, and call on Congress to instead consider estate tax reforms that balance the needs of farms and small business owners with those of states and charitable organizations.
- Support the active enforcement of existing laws and regulations governing the tax-exempt status of nonprofit and charitable organizations over the expansion of these laws and regulations. Specifically, AASCU supports current law that places the burden of proof for reasonable compensation under the intermediate sanctions law on the Internal Revenue Service (IRS).
- Oppose any attempt to repeal the existing exemption of tuition remission for college and university employees.
- Oppose any proposal to increase the federal tax liability of public college and university employees by changing the treatment of their contributions to state retirement plans.

- Oppose IRS attempts to create standardized definitions for early or normal retirement age with regard to governmental plans; rather, IRS should defer to applicable state or local laws, regulations and policies governing the plan.
- Oppose any proposal to make the Medicare Payroll Tax mandatory for all public sector employees, regardless of hire date or participation in another insurance plan.
- Oppose any proposal to eliminate the ability of issuers of government and tax-exempt bonds to do one advance refunding (i.e., refinancing of outstanding bonds before maturity or callability).
- Oppose any mandatory proposal requiring institutions of higher education to spend down their endowment assets. Currently, institutions voluntarily spend on average 4.6 percent of their endowments annually.

According to the College Board, in 2007 the estimated median average amount of endowment assets per FTE student was about \$15,400 at public four-year doctorate-granting universities and about \$2,100 at public four-year master's universities, compared to an estimated median average of about \$119,900 at private four-year doctorate-granting universities and about \$9,000 at private four-year master's universities.

State Role in College Affordability— AASCU Policy Statements

Viewing State Operating Support for Public Colleges and Universities as a Critical Public Investment

- Encourage states to view their public colleges and universities as economic assets that provide critical competitive leverage and to align state tax policy in a manner that will facilitate greater access to, and investment in, these institutions.
- State operating support for public postsecondary education generates significant long-term economic return to states, and as such, should be viewed as a critical public investment.

State Financial Aid: Strengthened Investment in Need-Based Aid

- Encourage states to reinvigorate their investment in need-based grant programs that promote increased access for low-income undergraduate students, especially those who are Pell-eligible.
- Advise states to earmark grants that facilitate the completion of postsecondary credentials for nontraditional student populations, such as those who are over the age of 25 and those who attend part-time.

Student Loan Forgiveness Programs that Facilitate Access, Boost Competitiveness

- Support state-coordinated loan forgiveness programs that offer incentives to individuals to seek postsecondary training in preparation for high-demand occupations such as engineering, sciences and health care, and critical public sector occupations such as teaching.

Education Tax Credits

- Support provision of state income tax credits for students' and parents' investment in higher education, to include tuition, fees and related expenses.
- Support tax credits for employers who provide tuition reimbursement or other incentives to employees to promote postsecondary enrollment.

College Savings Plans

- Support state efforts to provide and sustain fiscally sound state prepaid tuition plans. Encourage states to make every effort to keep enrollment open to future enrollees.
- Encourage state policy reforms of 529 savings plans to increase future savings for lower-income families. Consider “seed” funding initiatives that provide an initial contribution and/or matching monies up to a specified dollar amount. Provide greater individual protection of 529 savings plans from creditors. Urge states to offer tax benefits to families using any state’s 529 plan.

Recognition of Inflationary Pressures Impacting Higher Education

- Encourage states to recognize the higher-than-average relative price level of the goods and services purchased by colleges and universities, and to

According to the Commonfund Institute, inflationary costs for the typical market basket of goods purchased by higher education institutions rose by an average of 4 percent annually between 2002–2008. When compared to an average annual increase of 2.8 percent in the Consumer Price Index, it is evident that inflation has an above-average impact on college and university purchasing power.

choose appropriate inflation indexes when drafting state policy that affects tuition pricing, state operating support, and grant aid programs. Alternative indices include the Higher Education Price Index (HEPI), administered by the Commonfund

Institute, and the Higher Education Cost Adjustment (HECA), administered by the State Higher Education Executive Officers (SHEEO) association.

Improved Transparency of Tuition Cost Changes

- Urge states, coordinating boards and other agencies to improve transparency and comparability by expressing tuition changes in dollar terms as opposed to percentage terms—especially as it may relate to formal policy impacting state institutions, such as the provision of state operating support.
- Reporting tuition cost changes in dollar figures rather than in percentages leads to greater transparency and clarity. For example, according to the College Board, tuition and fees rose by an average of 6.4 percent in 2008–2009 at state public four-year colleges, a rate slightly above the 5.9 percent increase witnessed at the nation’s private four-year not-for-profit colleges—yet, the actual dollar increases paid by students were \$394 and \$1,398, respectively.

Mandated Tuition Caps

- Discourage mandated tuition caps on state colleges and universities that are set by state legislatures. Artificially set tuition caps may lead to decreases in academic quality, reduced ability to respond to market opportunities that will boost state competitiveness, and a reduction in the availability of institutional student financial aid. Exceptions may exist in cases where state appropriations sufficiently offset losses in tuition revenues.

Taxpayer Bill of Rights (TABOR)

- Discourage efforts to amend state constitutions to place arbitrary limits on revenues and expenditures through Taxpayer Bill of Rights (TABORs) or similar means. Inadequate funding of institutions of higher education penalizes students. The imposition of arbitrary limits on revenues and expenditures constrains the flexibility of state elected leaders to respond to changing needs and circumstances and to invest strategically in the state’s economic future, and they have proven devastating to higher education funding.