Bipartisan Policy Center

# A New Course for Higher Education

## STRENGTHENING ACCESS, AFFORDABILITY AND ACCOUNTABILITY

### Report of the Task Force on Higher Education Financing and Student Outcomes

## EXECUTIVE SUMMARY

America's higher education system has long been heralded as the best in the world, providing students with the skills and knowledge that empower economic growth and social mobility. While federal investments brought forth major gains in higher education access, the system is failing to meet the needs of too many students, as it is plagued with rising tuition prices, lackluster student outcomes, and swelling student loan balances. Students also lack clear information to guide their enrollment and financial decision-making, and higher education data systems are inadequate at providing granular insight into institutional performance.

Meanwhile, the Higher Education Act, which governs the federal role in higher education policy, has not been updated since 2008, hindering its effectiveness at meeting these growing challenges. HEA was designed for students leaving high school, but today's students are increasingly adult learners—many of whom work and have families, and therefore require additional flexibility and multiple pathways to degree attainment.

In response to these challenges, the Bipartisan Policy Center convened a Task Force on Higher Education Financing and Student Outcomes. Consisting of higher education leaders and experts from across the political spectrum, the group produced a package of recommendations aimed at boosting access and affordability, strengthening institutional capacity and accountability, and improving data and information for students.

## ACCESS AND AFFORDABILITY

Higher education is becoming increasingly expensive. Since the 1999–2000 academic year, the average price paid by students for tuition, fees, room, and board (adjusted for inflation) has increased by 70% at public four-year schools, 21% at private nonprofits, and 10% at public two-year institutions.[1] The Pell Grant, the federal government's largest source of need-based grant aid, has helped millions of Americans achieve a postsecondary education but has failed


**BPC STAFF**

**G. William Hoagland**
Senior Vice President

**Shai Akabas**
Director of Economic Policy

**Kenneth Megan**
Associate Director of Higher Education

**Jinann Bitar**
Senior Policy Analyst

**Kody Carmody**
Policy Analyst

**Elizabeth Middleton**
Research Analyst

**Mariette Aborn**
Project Associate



EDUCATION
JANUARY 2020

to keep pace with rising prices, placing strains on low- and middle-income families. At the same time, declining state funding for higher education has led public institutions to rely more heavily on tuition revenues. This has contributed to rising levels of unmet need, meaning the gap between out-of-pocket higher education costs and available student resources, which includes all grants, scholarships, loans, family support, and wages.

Rising unmet need has, in turn, led to a growing reliance on student debt, as evidenced by the roughly $1.5 trillion in outstanding federal student loans.[2] Conversely, the federal loan program itself has been criticized for putting upward pressure on tuition prices by providing a source of easy credit that leaves institutions with little incentive to cut costs. Parents are also increasingly taking out federal loans (called Parent PLUS Loans) on behalf of their children. These loans have minimal underwriting standards, and they pose a threat to financial security among parents who lack the resources to meet their obligations.

To make matters worse, federal programs designed to promote higher education access and affordability are often poorly designed and complex. For example, higher education tax expenditures flow primarily to high-income filers, and federal campus-based aid programs—which provide resources to schools to distribute to low-income enrollees—are allocated based on an outdated formula that disproportionately benefits wealthier campuses. Similarly, federal loan forgiveness options provide outsized benefits to borrowers with large balances, who tend to have high incomes. There are also numerous loan repayment options, each with varying terms, making it difficult for borrowers to determine which is in their best interest. For example, borrowers can choose from several income-driven repayment, or IDR, plans. These plans support struggling borrowers, as monthly payments are limited to a share of the borrower's income. Unfortunately, the enrollment and income verification process is cumbersome, which hampers uptake. The Free Application for Federal Student Aid, or FAFSA, which must be completed annually in order for students to receive financial aid, similarly suffers from complexities, and the annual submission requirement harms retention, particularly among low-income students.

Improving access and affordability is a critical component of higher education reform, and this report contains a comprehensive package of bipartisan recommendations that would primarily focus on reducing unmet need among low-income and middle-class students. Importantly, the task force's package of recommendations is roughly budget neutral, an outcome achieved by curtailing benefits enjoyed disproportionately by high-income families in favor of additional supports for students who struggle to afford college.

Key to this package is the establishment of a $5 billion annual federal matching grant aimed at incentivizing greater state higher education investment (Box 1), as well as a substantial expansion of the Pell program to reduce financial barriers for low-income and middle-class students (Box 2). Other reforms, such as making Pell funding available to incarcerated students, easing the process for low-income students without a high school diploma to access Pell funding, and extending Pell to short-term programs (initially on a pilot basis), would further promote affordability.

## BOX 1. ESTABLISH A $5 BILLION ANNUAL MATCHING GRANT TO HELP STATES ADDRESS UNMET NEED AND IMPROVE STUDENT OUTCOMES.

States have historically been the primary funders of public higher education, supporting institutions and students through direct appropriations and need-based aid. Since the mid-1970s, however, state and local support for higher education as a share of personal income has dropped from around 1.0% to 0.5% today.[3,4]

To counter declining state investment, the task force recommends a $5 billion annual matching grant program for states to improve student outcomes and promote affordability for low- and middle-income students. Participation in this program would be optional, and states would retain a high degree of flexibility, with the recognition that every state higher education system is unique.

Under the proposed system, states would only be eligible if they increased their higher education spending relative to a three-year rolling average of previous investment levels. For every additional dollar invested, the federal government would provide a $4-to-$1 match up to the state's maximum potential allocation, which would be tied to measures of affordability, tax effort, and efficiency. That is, a state would receive a higher maximum potential grant if it excelled at promoting postsecondary affordability for low- and middle-income students, invested more in higher education relative to the size of its tax base, and if its institutions were efficient in degree production.

States would have the option to spend this grant to reduce prices and/or improve outcomes for low- and middle-income students, such as by appropriating additional dollars to state higher education, investing additional resources in state need-based aid funds, or by investing in evidence-based interventions to improve retention or graduation rates. An important additional element of this proposal would recognize the impact that macroeconomic trends can have on a state's ability to invest in higher education. Specifically, a portion of the allocation for each state would be set aside in a rainy day fund, which would support state higher education spending in the event of a recession.

Ultimately, this system would incentivize states to increase targeted investments in higher education, with the goal of improving outcomes and reducing unmet need for low- and middle-income students.

## BOX 2. INCREASE MANDATORY PELL FUNDING BY $9 BILLION PER YEAR, WITH EXPANDED ELIGIBILITY FOR MIDDLE-INCOME HOUSEHOLDS AND CAPPED AT THE FOURTH INCOME QUARTILE.

The Pell Grant program has not kept pace with rising tuition and living costs. In the 2019-20 academic year, the maximum Pell Grant award accounted for only 28% of average tuition, fees, room, and board at public four-year schools.[5]

The task force recommends a $90 billion expansion in mandatory Pell funding over 10 years. These resources would be used to increase the maximum award, proportionally raise awards for other students who are currently eligible, and extend eligibility up the income distribution, with a hard cutoff at the fourth income quartile.

Expanding eligibility up the income distribution is important in the context of the task force's broader package of recommendations, given that it would provide support in a more effective way than subsidized loans and tax benefits, which are proposed for elimination. These provisions currently support middle-class students, but research suggests that they are ineffective at promoting completion and retention compared to need-based grant aid. This task force proposal would reform federal financial aid by boosting up-front support, with the goal of reducing unmet need and mitigating debt burdens among low- and middle-income students.

In order to pay for these increased benefits, the task force recommends eliminating several higher education tax benefits—namely, the American Opportunity Tax Credit, Lifetime Learning Credit, and the student loan interest deduction—that are claimed disproportionately by tax filers with higher incomes. The group also recommends eliminating subsidized student loans, under which interest payments are suspended while the student is enrolled. Research suggests that this is a less effective intervention at promoting access and retention compared to increasing need-based grant support.

Additionally, the task force recommends that campus-based aid be better targeted to institutions with significant populations of low- and moderate-income students. This should be achieved through reforms to the allocation formula, as well as by limiting Federal Work-Study, a component of campus-based aid which supports part-time employment, to undergraduates. The Department of Education should also update guidance on how best to allocate campus-based aid disbursements. Further, institutions should have the ability to use a portion of campus-based aid funding to assist students when unexpected costs arise, as these emergencies can derail a student's path to graduation.

To reduce complexity in the federal student loan program, the task force favors converting to a single IDR plan, which would serve as the default option for borrowers when they enter repayment. Borrowers' incomes could be verified annually through data sharing between the Department of Education and the IRS. A repayment plan with these elements would help to reduce red tape and promote affordable monthly payments for borrowers, putting downward pressure on delinquency rates. Turning the Public Service Loan Forgiveness program into a flat monthly benefit would also advance simplicity and better support public servants at the beginning of their careers, when wages tend to be lowest (Box 3).

### BOX 3. RESTRUCTURE PUBLIC SERVICE LOAN FORGIVENESS TO PROVIDE A FLAT MONTHLY BENEFIT.

The Public Service Loan Forgiveness program, or PSLF, offers loan forgiveness on the remaining balance, after 10 years of payments, for borrowers who are employed by the government or eligible nonprofits. In its current form, the system provides a disproportionate subsidy to borrowers with large loan balances, who also tend to have higher earnings. Furthermore, the program does nothing to support struggling public service borrowers at the beginning of their careers, when incomes tend to be lowest. Additionally, complex requirements have led to a staggering 99% rejection rate among borrowers expecting to have their remaining balances forgiven.[6]

The task force recommends turning PSLF into a flat monthly benefit, which would provide $300 per month to eligible borrowers for up to five years. This would eliminate the blanket forgiveness element of the plan, which favors high-balance, high-earning borrowers, and would also provide critical support to workers at the beginning of their careers. If paired with adequate data sharing between the IRS and the Department of Education, eligible workers could be flagged on the back-end, which would allow the benefit to be transferred automatically from the department to the borrower's loan servicer. Streamlining the program in this way would reduce the program's outward-facing complexities and its rejection rate, and lead to an improved experience and better support for borrowers.

The task force also recommends that underwriting standards be strengthened for Parent PLUS Loans, to reduce financial insecurity among parents who borrow on behalf of their children. Such a change should be paired with increased Direct Loan limits for low-income students, so as to preserve higher education access among individuals whose parents no longer qualify. Finally, new research could set the stage for further loan reforms by directing the Department of Education to conduct two studies, one assessing the effects of capping loans for graduate students and the other gauging the prevalence of both under- and over-borrowing among students.

A precursor to all these other policies is the need to simplify the FAFSA. The task force recommends implementing automatic data sharing between the IRS and Department of Education, which would allow for the auto-population of many of the FAFSA's income-related questions, resulting in a shorter form for students. (Note that Congress recently passed a reform along these lines, though implementation is not yet underway.) Eventually, the Department of Education should transition to a one-time FAFSA, which the majority of students would only need to complete upon their initial enrollment.

## ACCOUNTABILITY AND INSTITUTIONAL CAPACITY

Although a postsecondary degree remains a worthwhile investment—the typical bachelor's degree recipient earns roughly $900,000 more over the course of their lifetime compared to the typical high school graduate—the sad truth is that too few students actually make it to graduation day.[7] Only two-fifths of first-time, full-time students complete a bachelor's degree within four years, with 60% completing in six.[8] Unsurprisingly, low graduation rates translate to a large number of student borrowers unable to meet their monthly loan obligations. Just around half of new borrowers are able to reduce their principal balance within three years of entering repayment, and 39% of loans in the federally managed portfolio are either delinquent or in default.[i,9,10]

Part of this problem can be attributed to a broken federal accountability system: the government allocates $156 billion annually in federal loans and grants with ineffective oversight and quality control.[11] A further problem is that many institutions—particularly community colleges and some Minority-Serving institutions, or MSIs—lack adequate financial resources, which hinders their ability to provide sufficient support to students.

i The federally managed portfolio includes Direct Loans and Department of Education-held Federal Family Education Loans. This figure is for quarter 3, ending September 30, 2019, and represents borrowers whose loans are more than 30 days delinquent, including those whose loans have gone into default. It does not include loans among borrowers in school or loans in deferment, forbearance, or in the six-month grace period. Recipient counts are based at the loan level. As a result, recipients may be counted multiple times across varying loan statuses. For more information, see: https://studentaid.ed.gov/sa/repay-loans/deferment-forbearance.

The task force has developed a series of reforms designed to strengthen institutional accountability and boost institutional capacity, with the goal of holding every school to a uniform set of standards while simultaneously making targeted investments to improve student outcomes (Box 4). Specifically, the task force recommends investing $400 million in additional annual mandatory funding for MSIs, community colleges, and low-resource institutions in other sectors that enroll a high proportion of low-income students. As these supplemental funds are provided, an independent national commission should assess current federal allocations to MSIs (delivered through Titles III and V of HEA). To the extent that these funds are being allocated ineffectively for supporting students in need, the commission should make recommendations for improvement.

## BOX 4. KEY PRINCIPLES FOR FEDERAL ACCOUNTABILITY

**The task force's recommendations concerning federal accountability policies are guided by six principles:**

1. **The federal government has an obligation to protect student and taxpayer resources, both by disallowing the worst-performing institutions from accepting federal student aid dollars and by incentivizing continuous improvement among institutions that accept these dollars.**

2. **Robust protections are needed to preserve access and affordability for students of color, low-income students, adult learners, first-generation students, and veterans.**

3. **Federal accountability policies should be designed to support institutional capacity building and prevent downward spirals in which well-intended but under-resourced institutions are unable to meet performance metrics, and as a result, are further deprived of financial resources.**

4. **Federal accountability policies should provide students with improved opportunities for employment and help increase the likelihood that students will realize a positive return on their investment.**

5. **Federal accountability policies should be sector-neutral, meaning punitive measures should not be targeted at specific types of institutions.**

6. **Federal accountability policies must have clear and transparent goals and metrics that are simple to understand but difficult to game.**

To strengthen institutional accountability, the metric that determines whether a school is eligible to accept federal student aid dollars must be retooled. The current approach, known as the cohort default rate, or CDR, eliminates eligibility for institutions that exhibit consistently high default rates among student borrowers. This metric is weak because the bar is set too low. Only schools with default rates in excess of 30% for three consecutive cohorts or 40% for a single cohort are at risk. Furthermore, the CDR measures only outright default. Students who avail themselves of IDR plans because their earnings are too low to repay their loans under conventional terms aren't considered in this accountability metric. As a result, too many poor-performing institutions can continue accepting federal loan and grant dollars indefinitely, with minimal strings attached. For example, in 2016, only 15 institutions faced the loss of eligibility based on their CDR, 10 of which were cosmetology schools.[12]

The task force recommends reforming this system by including other measures in addition to the CDR. For example, policymakers should consider program-level repayment rates, which would measure the portion of students in a given program that are unable to reduce their principal balance within a specified number of years of entering repayment. Policymakers should also consider other data points besides those that focus on loan outcomes, such as completion rates and earnings among graduates. Schools that consistently score poorly on these measures should lose access to federal financial aid dollars.

The task force also emphasizes the importance of promoting continuous improvement throughout the higher education system with two new accountability tools. The first would require that every institution eligible to accept federal student aid pay a small premium tied to their negative exposure to the federal student loan system (Box 5). The second would put in place positive incentives for institutions to serve low-income students effectively (Box 6).

Another growing challenge the task force recommendations address is school closure. The recent trend has been driven by a proliferation of for-profit institutions with questionable finances, as well as the aging of the population, which has decreased demand for higher education and placed particular financial strains on nonprofit institutions in the Northeast. When colleges and universities unexpectedly close, the ripple effects for students can be disruptive and severe. Too often, students receive insufficient notice and have few viable options to finish their degree. Not only do their time and tuition dollars go to waste, but they are also unable to receive the wage gains associated with a postsecondary credential. School closures are also costly for taxpayers because the federal government forgives (or discharges) the debt of students at institutions that close, if the students do not continue their studies elsewhere.

## BOX 5. REQUIRE INSTITUTIONS PARTICIPATING IN THE FEDERAL LOAN PROGRAM TO PAY A PREMIUM TIED TO STUDENT LOAN OUTCOMES.

The federal student loan system places disproportionate risk on both students and taxpayers. Students take on the significant risk that their postsecondary investment will not pay off through no fault of their own, and taxpayers risk the possibility that federal revenues will be allocated towards low-quality institutions, with the government on the hook for poor-performing loans. Meanwhile, institutions are allowed to accept federal student aid dollars with minimal strings attached, regardless of the quality of service provided to students.

The task force recommends that every institution accepting federal student loans pay a small premium tied to the risk those loans pose to the government's balance sheet. These premiums would be calculated based on the portion of an institution's outstanding loan balance that has not seen a principal reduction within three years of entering repayment. This "non-repayment balance" would be calculated as a three-year rolling average, to provide additional predictability and avoid abrupt swings in premium amounts.

The task force also recommends adjusting these premiums based on two risk factors:

- **Low-income enrollment**, as measured by the proportion of low-income students enrolled at the institution. Absent this adjustment, institutions might be incentivized to enroll fewer low-income students, thereby exacerbating current equity gaps.
- **Student-centered spending**, as measured by the portion of an institution's resources allocated towards improving student success. This would include not only instruction, but also wraparound supports such as career services and counseling and other interventions that promote positive student outcomes.

The premium system should be phased in over several years, to provide the Department of Education with sufficient time to establish guidelines and allow institutions time to evaluate their performance and begin to make changes to their processes.

This proposal would create a clear set of incentives for schools to restrain tuition increases, accept a larger share of low-income students, direct more spending toward student-centered activities, and better align curricula to labor market demand.

## BOX 6. PROVIDE ADDITIONAL PELL DOLLARS TO STUDENTS WHO ATTEND INSTITUTIONS THAT SUCCESSFULLY SERVE LARGE NUMBERS OF LOW-INCOME STUDENTS.

Low-income students are more than twice as likely as their high-income peers to drop out within two years of matriculation. Some institutions, however, excel at serving these students, empowering them to reach their goals and realize the benefit of a college degree or certificate. Public policy should provide incentives for these commendable outcomes.

As such, the task force recommends implementing a Performance Pell system in which low-income students at qualifying institutions would receive a 10% increase in their initially calculated Pell award.

To qualify as a Performance Pell institution, the school would be required to enroll a minimum percentage of students who receive the full Pell award. In addition, the school would need to demonstrate it is achieving positive outcomes among full Pell students, based on the following metrics:

- Completion rate for full Pell students.
- Three-year loan repayment rate for full Pell students.
- Retention rate for full Pell students.

A Performance Pell approach would encourage schools to improve outcomes for low-income students and help them overcome barriers to postsecondary completion and success. Perhaps most importantly, the system would give prospective low-income students a signal about which schools might serve them best.

The current system used to forecast closures, known as financial responsibility scores, is backwards-looking, relying on data that can be several years old. This hinders its effectiveness, given that a school's financial situation can deteriorate quickly. To better predict institutions at risk of closure, the task force recommends including real-time, forward-looking measures into financial responsibility scores. This adjustment could include examining changes in enrollment and tuition revenues, since most at-risk colleges are highly reliant on tuition dollars to fund their operations.

To help manage closures once they occur, the task force favors a requirement that every institution have a plan in place (known as a teach-out plan) to deal with potential closure. These plans should focus on ensuring that affected students are able to make it to graduation. Schools with large endowments would be exempt from this provision given that they would have the resources in place to make this assurance. The task force also recommends that the Department of Education work with experts and stakeholders to develop templates for teach-out plans, as well as reduce regulatory hurdles that hinder the acquisition of closing programs.

## DATA AND INFORMATION

The American public has a strong interest in understanding the higher education sector's performance, to ensure the system provides students and taxpayers with a sound return on investment. However, the Department of Education's data system, the Integrated Postsecondary Educational Data System, or IPEDS, leaves out large swathes of the student body, does not report on some important outcomes, and obscures school spending patterns.

Student borrowers also lack critical information needed to make fully informed decisions about their educational goals and repayment options. At a time when overall indebtedness is rising, along with the prevalence of loan default and delinquency, it is alarming that many borrowers lack detailed knowledge of their student loans.

To aid decision-making for students and inform public policy, the task force recommends expanding student-level data. This would provide students and policymakers with increasingly robust and granular information about earnings and employment outcomes for students, which would be disaggregated by demographic characteristics.

The task force also endorses several reforms to institutional data that would prioritize transparency and comparability. These changes include establishing standardized reporting periods for IPEDS surveys to improve cross-comparability; reforming institutional spending metrics to better reflect what institutions spend on student success versus spending designed to attract additional revenue; and additional proposals designed to promote data quality, such as an audit of IPEDS to assess data quality and a tightening of data definitions within IPEDS' various surveys.

Finally, students often lack the information needed to fully guide their decision-making in what is among the most consequential investments of their lifetime. To provide students with better information about financial aid and college costs, the task force recommends standardizing financial aid offers. These are communications that institutions send to accepted students and include information about the student's financial aid package relative to the school's cost of attendance. Standardizing these forms would aid student decision-making by promoting comparability across institutions.

The task force also favors evidence-based reforms to federal loan counseling, the development of personalized, easy-to-understand disclosure forms for student borrowers, and an annual notification of students' federal financial aid uptake relative to aggregate limits. Providing such information to students is crucial in order for them to have an accurate picture of their financial aid package, their out-of-pocket costs, and the costs associated with their student loans.

## CONCLUSION

High prices, lackluster student outcomes, and a lack of data transparency plague the U.S. higher education system. Students face rising levels of unmet need, which has led to ballooning debt levels within a financial aid system that is poorly targeted and difficult to navigate. Earning a college degree remains a worthwhile investment for most students, but too many fail to graduate and realize these gains. Despite the billions of dollars of taxpayer funding dispersed to schools annually, a lax federal accountability system fails to hold institutions accountable for subpar student outcomes and protect students from the impact of school closures. At the same time, higher education outcomes are opaque due to inadequate data systems, and students have insufficient information to inform their decision on where to enroll.

BPC's Task Force on Higher Education Financing and Student Outcomes has developed this comprehensive package of recommendations that Congress should consider as part of reauthorization of the Higher Education Act. If implemented, these reforms would put downward pressure on tuition prices, promote efficiency and improve the targeting of federal aid programs, boost quality assurance and institutional accountability, and enhance federal data systems while providing better information for students. Most importantly, these recommendations would measurably improve higher education access and affordability for low- and middle-income students, as well as promote positive student outcomes. Ultimately, this package of reforms would work to ensure every student shares in the benefits of America's higher education system.

# Endnotes

1 College Board, *Trends in College Pricing*, Figures 8-10, 2019. Available at: https://trends.collegeboard.org/college-pricing/figures-tables/average-net-price-over-time-full-time-students-sector.

2 U.S. Department of Education, "Federal Student Loan Portfolio," Federal Student Aid Portfolio Summary, 2019. Available at: https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

3 Illinois State University: College of Education, "Summary Tables, Fiscal Year (FY) 2018-19*," 2019. Available at: https://education.illinoisstate.edu/grapevine/tables/.

4 Illinois State University: College of Education, "Historical Data (Fiscal Year 1961 Through Fiscal Year 2006)," 2009. Available at: https://education.illinoisstate.edu/grapevine/historical/.

5 College Board, *Trends in Student Aid*, Figure 21B, 2019. Available at: https://research.collegeboard.org/trends/student-aid/figures-tables/pell-grants-recipients-maximum-pell-and-average-pell.

6 BPC staff calculation of U.S. Department of Education, "Public Service Loan Forgiveness Data," June 2019. Available at: https://studentaid.ed.gov/sa/about/data-center/student/loan-forgiveness/pslf-data.

7 D. Webber, "Is College Worth It? Going Beyond Averages," Third Way, September 18, 2018. Available at: https://www.thirdway.org/report/is-college-worth-it-going-beyond-averages.

8 National Center for Education Statistics, "Digest of Education Statistics," Table 326.10, 2018. Available at: https://nces.ed.gov/programs/digest/d18/tables/dt18_326.10.asp.

9 BPC staff calculation of U.S. Department of Education, *College Scorecard Data*, updated September 30, 2019. Available at: https://collegescorecard.ed.gov/data/.

10 BPC staff calculation of U.S. Department of Education, "Federal Student Loan Portfolio," Portfolio by Delinquency Status, 2019. Available at: https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

11 BPC staff calculation of College Board, *Trends in Student Aid*, Table 1, 2019. Available at: https://research.collegeboard.org/trends/student-aid/figures-tables/total-student-aid-and-nonfederal-loans-over-time.

12 U.S. Department of Education, "Official Cohort Default Rates for Schools," updated September 30, 2019. Available at: https://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html.