



The Case for Federal Higher Education Affordability Standards

Lessons from Other Sectors

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Introduction and summary

In 2010, Congress enacted two major expansions to the social safety net. First, it passed the Patient Protection and Affordable Care Act, more commonly known as the ACA.¹ This bill brought sweeping changes to the American system of health care. In particular, it provided new money for states to expand health care coverage to extremely low-income people and tax credits to help individuals purchase insurance plans. A week later, President Barack Obama signed the Health Care and Education Reconciliation Act of 2010.² That legislation included more than \$36 billion in new money for the federal Pell Grant program, which helps low-income students afford college.³ It also indexed the maximum Pell Grant award to inflation, guaranteeing benefits would increase each year.

The ultimate goals of both the health care and education expansions were similar: make an important set of benefits—health insurance in one case, college in the other—affordable for vulnerable populations. More than five years later, the effects of both changes are clear.

Thanks to the ACA, the share of Americans who lack health insurance has dropped by about one-third and is now at a historic low.⁴ This includes decreases in the uninsured rate in every state in the country and the District of Columbia.⁵ Millions more still need coverage, but the numbers appear to be headed in the right direction.

The legislation accomplished this by setting clear expectations that Americans should have health insurance and that it should be affordable. It set a goal for states to expand Medicaid—the program that provides coverage for low-income families—to everyone at or below a set threshold tied to the poverty level. It also created a new set of tax credits that established clear benchmarks for both how much people should have to pay out of pocket for health care coverage and what type of insurance they should be able to afford. These benefit structures provided a degree of certainty for families in what had previously been a chaotic market.

Meanwhile, the investments made in Pell Grants significantly raised the maximum award and number of recipients. This year, students can receive up to \$5,775 through the program, an increase from \$4,731 in 2008.⁶ Similarly, the number of recipients grew from slightly more than 6 million to more than 8 million.⁷

While the Pell Grant increases have meant a lot for students, they have only held the line on college affordability for low-income individuals, not made it better. Today, the Pell Grant covers 30 percent of the total cost of attending a four-year public college.⁸ In 2008, it covered 32 percent.⁹ Similarly, the borrowing rate of Pell Grant recipients stayed unchanged at 70 percent from 2008 to 2012.¹⁰

The differing federal approaches to affordability partially explain why the expansion of Pell Grants was less successful in helping low-income students than the ACA was in raising the share of Americans with health care. Unlike with the ACA, the increase in Pell Grants did not come with guarantees that recipients would not pay more than a set percentage of their income or borrow no more than a set amount of money. The increased Pell Grant benefits boosted the maximum possible award by about \$1,000, giving students more money to spend on college expenses.

The result of an expectation-light approach to college affordability is that the ability of federal postsecondary benefits to achieve their desired aims is completely dependent upon the choices made by schools, governors, and legislatures across the country. In California community colleges, for example, where prices are low or nonexistent for most attendees, the federal benefits are more than enough to cover tuition and can also put a dent in living expenses. But in a more expensive state such as New Hampshire, federal grants and loans combined may not be enough to even pay for direct academic costs. And there is no guarantee the places where federal aid currently is sufficient will stay that way—a few lean years could easily result in California community colleges becoming much less affordable.

Such a situation is simply unsustainable. The federal government is making too large an investment in postsecondary education to see its dollars not guarantee affordability, simplicity, and certainty for students. To combat this, we need to flip the concept of federal postsecondary assistance to focus on what it buys, not how much it pays.

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As this report shows, changing federal financial aid benefits to guarantee recipients can purchase a specific set of goods, not just receive a set amount of money, will better conform these programs to the rest of the U.S. social safety net.

Drawing on examples from the health care and housing sectors, this report analyzes how the federal government addresses the question of affordability through the benefits provided to consumers. In particular, it focuses on two programs within each area: Medicaid and the ACA in health care and rental housing assistance and federally insured mortgages in housing. Importantly, this emphasis on the benefits to consumers intentionally excludes other questions about how the federal government could contain costs, such as through innovation. That is an important area for future research.

Examining how the federal government addresses affordability in other key policy areas shows five lessons for how the government could rethink its higher education benefits to better meet its goals. The most important of these findings is that benefits should be tied to specific purchasing goals for consumers. By benchmarking benefits to a stated end goal—such as affording a postsecondary education—federal assistance would provide greater assurance that those who are getting help will be able to afford at least a basic level of education.

Other lessons from health care and housing provide important information for restructuring federal aid for postsecondary education. These include:

- Minimizing expenses for the lowest-income individuals
- Setting limits for what level of goods the federal government will make affordable
- Creating separate affordability standards for debt
- Sharing the cost of achieving affordability beyond the federal government

While there is much to be learned about college affordability from other sectors, these health care and housing programs are not perfect. They may not serve enough eligible individuals; they may use a benchmark that does not feel sufficiently affordable to consumers; or they may have other challenges. To that end, these programs highlight four other lessons about the challenges in addressing affordability:

- Unavailability undermines affordability
- Affordability must tackle all cost elements
- Benchmarks must have face validity
- Providers that meet affordability standards may change

Based on these lessons, this report suggests a new framework for postsecondary affordability. It starts with guaranteeing a low- to no-cost education for the most vulnerable individuals. As students move higher up the income spectrum, the guarantee shifts to ensure they can afford at least an in-state public option without paying more than a reasonable share of their income. To make the math work, states and institutions would have to provide enough assistance to fill in any gaps that exist between family contributions and federal funds. Recognizing that such clear-cut affordability aims may not be feasible at private institutions, these schools would instead have to keep students' debts below certain levels that are tied to postgraduate earnings.

Setting explicit goals and guarantees for federal student aid recipients highlights that these investments are the most credible tools for addressing affordability. As the largest single funder of college education in the country, the federal government could and should use its aid to demand that the beneficiaries of its assistance are guaranteed access to affordable educations. This vision of a student aid program actively engaged in requiring affordability is also an explicit rejection of the theory first articulated by former U.S. Secretary of Education William J. Bennett that these programs are to blame for never-ending price increases.¹¹ Rather than enabling colleges to raise prices to capture more money, as the Bennett Hypothesis articulates, this vision allows the federal government to exert its leverage to keep prices affordable and in check.

While this paper represents its own vision for achieving postsecondary affordability through federal action, it builds upon other thinking about the need for greater clarity about what families should pay for college. In particular, it draws on concepts first discussed by the Lumina Foundation—a funder of the Center for American Progress Postsecondary Education team—in its 2015 benchmark for higher education affordability.¹² Though nonbinding, the benchmark argues that families should be able to afford college through contributions from savings, income, and student work. This paper takes such a concept even further by proposing how the federal government could create a binding affordability requirement.

The need for a new approach to higher education benefits is clear. Today, more than 41 million Americans currently hold a combined \$1.2 trillion in federal student debt, including 7.5 million borrowers in default.¹³ States continue to reduce spending on their public institutions of higher education, driving up tuition and debt. Additionally, family incomes simply cannot keep up with prices that grow faster than inflation year after year. And this does not even begin to address the persistent access and completion gaps by race and income. Only by taking a new approach to these benefits—one that builds on lessons learned from other policy areas—can the federal government hope to guarantee that all students, regardless of background, can access and afford postsecondary education.

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