CHAPTER 4

Higher Education

By Ben Miller

Higher Education

Obtaining a postsecondary education is the best guarantee for entering and staying in the middle class. The unemployment rate for college-educated adults—at 2.8 percent—is less than half the rate for those who never finished postsecondary education.[1] Someone who has completed a bachelor's degree earns double the median wages of a high school graduate; for individuals who have completed an associate degree, wages are 39 percent higher.[2] Importantly, college-educated people are also more likely to have health insurance and retirement benefits—two pillars of middle-class economic security.[3] Postsecondary options other than traditional, four-year degrees—such as associate degrees and many certificate programs, including in electronics and computers—can provide similar returns.[4] For many, higher education is the key to a middle-class life.

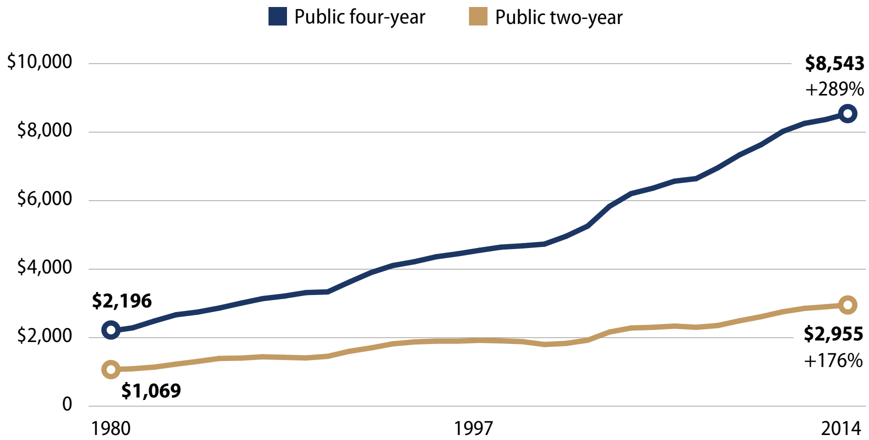
While higher education's importance has never been higher, families are struggling to cover the cost of college without taking on substantial amounts of student debt. Even at public, four-year colleges—traditionally high-quality, low-cost options for higher education—prices have risen substantially.

Second to buying a home, postsecondary education is now one of the most expensive purchases a family will ever choose to make. Tuition and required fees at a four-year public university averaged $8,543 per year during the 2014-15 academic year, reflecting a 289 percent increase in real terms since 1980.[5] But tuition and fees are just one part of the cost of higher education; students also have to pay for food, housing, transportation, books, and other living expenses. Including all of these factors, a student needed an average of more than $18,600 just to pay for one year at a public four-year institution during the 2014-15 school year—or a total of about $75,000 to earn a bachelor's degree over the course of four years.

FIGURE 4.1

Average tuition and required fees for in-state college students

Constant 2014-15 U.S. dollars based on the Consumer Price Index



Source: National Center for Education Statistics, *Table 330.10. Average undergraduate tuition and fees and room and board rates charged for full-time students in degree-granting postsecondary institutions, by level and control of institution: 1963-64 through 2014-15* (U.S. Department of Education, 2015), available at https://nces.ed.gov/programs/digest/d15/tables/dt15_330.10.asp?current=yes.

Institutions, states, and the federal government often offer grant aid to help families cope with published prices for college. Even with this assistance, however, students still face significant out-of-pocket costs. During the 2013-14 school year, full-time students receiving federal aid still had to pay $12,700 on average for one year at a public four-year college in their state.[6] Students from families making between $48,001 and $75,000, meanwhile, had to pay nearly $15,000 per year.[7]

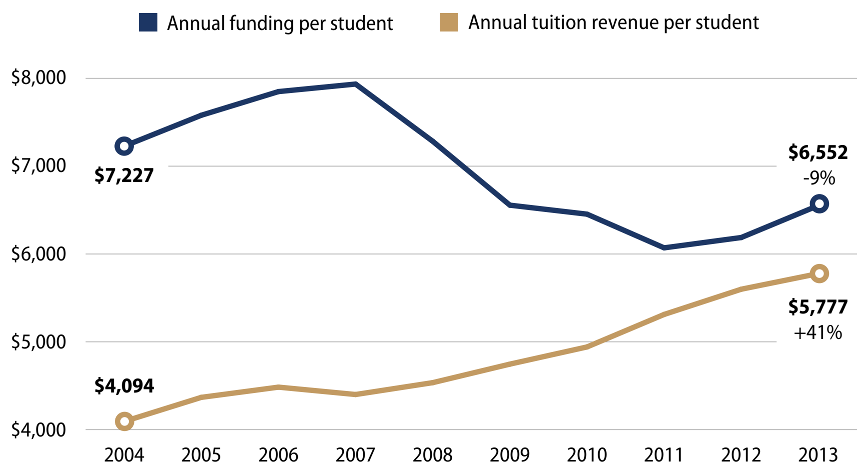
The increasing price of postsecondary education is partially due to drastic decreases in state funding for public higher education over the past three decades. Thirty years ago, public higher education was generally affordable thanks to state subsidies that kept prices low. Students and families paid modest tuition that accounted for only 25 percent of all spending on public postsecondary education.[8]

Robust public funding meant that a typical middle class family could pay for tuition at a public, four-year college using just 13 percent of their annual income.[9] Even those who had no familial support could still largely cover tuition at most institutions by working a full-time, minimum-wage job for just four months out of the year.[10] Today, working one's way through college is much less viable. Someone trying to finance their education through minimum-wage employment would need to work full-time for almost seven months to cover tuition and fees at a typical four-year public college.[11]

By slashing public funding, states have forced families to pick up the costs of public education that states once covered. Nationally, public postsecondary institutions' revenue is essentially split 50-50 between the state and families. Over the past 10 years, the amount public colleges collect from tuition has increased $1,683 per student, while state funding has declined $1,382 per student after reaching a high during fiscal year 2008.[12] Those figures are only the average. In some states, such as Vermont and New Hampshire, state subsidies for higher education are so meager that tuition makes up approximately 80 percent of schools' revenue.[13]

FIGURE 4.2

Average state funding and tuition revenue per student at public colleges



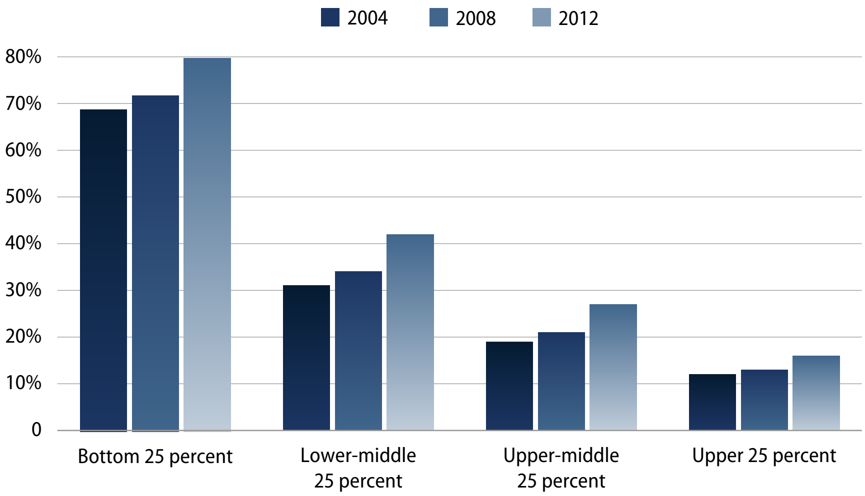
Source: CAP analysis of data from State Higher Education Executive Officers Association, "State Higher Education Finance: FY 2014" (2014), available at http://www.sheeo.org/resources/publications/shef-%E2%80%94-state-higher-education-finance-fy14.

Never-ending tuition increases in the midst of wage stagnation have caused the price of college to eat up an increasingly large share of middle-class family income. During the 2011-12 school year, families whose income fell between the 25th and 50th percentiles of people in higher education faced net college prices equal to 42 percent of their income. That is an 11 percentage point jump from 2004. Given the importance of higher education, the current trajectory of rising prices and public divestment is unsustainable for middle-class families.

FIGURE 4.3

Net price of public four-year colleges as a percent of income

By income quartile among college students



Note: Net price measures the full cost of attendance minus grant aid from any source. The income percentiles are calculated based on students' dependency status, meaning the income of those in the bottom 25 percent for independent students may be different than the income of those in the bottom 25 percent for dependent students.

Source: National Center for Education Statistics, *Table 330.10. Average undergraduate tuition and fees and room and board rates charged for full-time students in degree-granting postsecondary institutions, by level and control of institution: 1963-64 through 2014-15* (U.S. Department of Education, 2015), available at https://nces.ed.gov/programs/digest/d15/tables/dt15_330.10.asp?current=yes.

Current policy solutions are insufficient

With prices rising and incomes stagnating, middle-class families increasingly rely upon federal student loans to finance higher education. Today, nearly 70 percent of students earning a four-year degree borrow for college, and those with debt owe nearly $29,000 on average.[14] Cumulatively, Americans owe approximately $1.3 trillion in student loans—more than credit card debt—making student loans the second largest source of individual debt in the United States after mortgages.[15]

Student debt hits lower- and middle-income borrowers particularly hard. According to U.S. Department of Education data, these individuals are far more likely to borrow for college than their more affluent peers, and their debt levels are as much as 37 percent higher than the wealthiest graduates.[16] Using student loans to finance education that does not sufficiently increase future earnings can leave the borrower in significant financial distress. Individuals who manage to stay current on their debts may still struggle as loan payments compete against other necessary expenditures such as rent, transportation, and health care. Borrowers who default on a federal student loan, meanwhile, can have their wages garnished, tax refunds seized, and their credit ruined.[17]

Even as student debt has mounted, financial aid products have helped avoid devastating consequences in terms of postsecondary access for American families. In the wake of continued state cuts, the availability of federal loans have provided families with a critical source of financing to cover the ever-increasing costs of higher education.

Student loans, however, only treat the symptoms of rising tuition and unaffordability; they cannot fix the underlying disease. To do that will require policy solutions that change the dynamics between states, the federal government, institutions of higher education, and students. These changes should arrest state disinvestment in higher education and provide more guarantees for families that they can and will be able to afford college through a combination of out-of-pocket contributions, grant aid, and loans with reasonable terms that are easy to repay.

FIGURE 4.4

Low- and middle-income students borrow the most to pay for college

Average cumulative amount borrowed by graduates of public four-year colleges and share of students who borrow by poverty level, 2011-12

Income by percent of federal poverty level	Average cumulative amount borrowed	Share who borrow
0 to 133	$17,568	66%
134 to 200	$15,566	63%
201 to 400	$14,714	60%
401 to 600	$13,400	55%
601 and above	$12,858	43%

Source: CAP analysis of National Center for Education Statistics, *2011-12 National Postsecondary Student Aid Study* (U.S. Department of Education, 2013), available at http://nces.ed.gov/surveys/npsas/.

Policy recommendations

Increasing higher education affordability for the middle class needs to start with reshaping the federal financial-aid system. It also requires encouraging state investment in public universities and improving accountability so that students know their education provides a good value.

Reshape the financial aid system through College for All

An improved financial aid system must guarantee that families will receive enough assistance such that they can afford postsecondary education with nothing beyond a reasonable family contribution determined by income. It must recognize the importance of covering all of the costs associated with higher education—not just those for direct academic expenses—and ensure that loans have generous terms and sufficient protections.

Ensure that students have high-quality options

Even an affordable education may not be worthwhile if it lacks quality. Strong accountability is necessary to ensure that student and taxpayer dollars will be spent at institutions that justify the investment, providing graduates with the ability to enter and stay in the middle class. To improve postsecondary accountability, Congress or the Department of Education should create better measures to judge loan outcomes, such as a repayment rate and a stronger measure of student loan default rates. This information can be used to empower students and hold schools accountable, especially ones that are heavily dependent on federal financial aid.

College for All

In 2015, the Center for American Progress released College for All—a proposal to reshape the federal financial aid system.[18] To fully implement this plan, Congress should make the following changes to the federal student aid system.

Simplify the federal financial aid application to make it easier to apply for grants and loans from the U.S. Department of Education. The current application for federal financial aid contains more than 100 questions and requires students and their parents to provide complicated data on income and assets that can be hard to track down.[19] To make the aid application process easier, Congress should eliminate unnecessary questions and experiment with allowing students to apply as early and infrequently as possible. This includes testing the effectiveness of giving ninth graders promises of future federal aid to see if early aid commitments increases the likelihood of a student applying to and enrolling in college. College for All would also include a trial that allows low-income students to fill out the application only once instead of every year to see if this would reduce the odds of students losing their financial aid because they forgot to resubmit an application. This can have an important impact on costs because failure to obtain financial aid can be devastating for a lower-income family. Should a student leave before they have secured a degree, the debt burden remains, saddling the family with even greater costs. Finally, reform should make it easier for students who already receive other means-tested federal benefits to get financial aid. Someone who receives an Earned Income Tax Credit, for example, should automatically qualify for the maximum Pell Grant.[20]

Make the expected family contributions binding. When students and families apply for federal financial aid, the U.S. Department of Education gives them an estimate of how much they are likely to contribute out of pocket. Currently, this estimate is nonbinding—families can and do end up paying substantially more. College for All would make this expected contribution number binding for attendance at public colleges in families' home states. To make this work, the federal government would increase grant aid to cover the gap between a family's expected contribution and a student's living expenses. The federal government would then require states to meet spending targets for providing sufficient funding to keep tuition prices low enough that middle-income students could afford tuition with a reasonable amount of debt.

Guarantee affordable debt and increase loan generosity. While loans can be a useful financing tool that increases access to higher education, Congress should enact two legislative changes to increase benefits and protections for borrowers. First, borrowers should have a guarantee that their loans will be sufficient to cover direct academic charges that remain after subtracting all nonfederal grant aid. Second, loan terms should be made more generous by reducing interest rates to the rate charged on U.S. Treasury debts and allowing them to be repaid over a similar timeframe, as well as by eliminating origination fees.

In addition to congressional action, College for All would require the U.S. Treasury and the U.S. Social Security Administration to make changes that help borrowers pay their loans back based on their income. In particular, borrowers should be able to automatically reenroll in an income-driven repayment plan for several years in a row. This change would reduce the odds that borrowers might be locked out of these plans due to paperwork issues.

Endnotes

1 Bureau of Labor Statistics, "Employment status of the civilian noninstitutional population 25 years and over by educational attainment, sex, race, and Hispanic or Latino ethnicity," available at http://www.bls.gov/cps/cpsaat07.htm.(last accessed April 2016).

2 Bureau of Labor Statistics, *2014 employment, wages, and projected 2014-24 change in employment by typical 2014 entry-level education* (U.S. Department of Labor, 2014), available at http://www.bls.gov/emp/ind-occ-matrix/education.xlsx.

3 Sandy Baum, Jennifer Ma, and Kathleen Payea, "Education Pays 2013: The Benefits of Higher Education for Individuals and Society" (New York: College Board, 2013), available at http://trends.collegeboard.org/sites/default/files/education-pays-2013-full-report-022714.pdf.

4 Ibid; Anthony Carnevale, Stephen Rose, and Andrew Hanson, "Certificates: Gateway to Gainful Employment and College Degrees" (Washington: Georgetown University Center on Education and the Workforce, 2012), available at https://cew.georgetown.edu/wp-content/uploads/2014/11/Certificates.FullReport.061812.pdf.

5 National Center for Education Statistics, "Table 330.10. Average undergraduate tuition and fees and room and board rates charged for full-time students in degree-granting postsecondary institutions, by level and control of institution: 1963-64 through 2014-15,"available at https://nces.ed.gov/programs/digest/d15/tables/dt15_330.10.asp?current=yes (last accessed May 2016).

6 Ibid.

7 Ibid.

8 U.S. Department of Education and U.S. Department of the Treasury, *The Economics of Higher Education* (2012), available at https://www.treasury.gov/connect/blog/Documents/20121212_Economics%20of%20Higher%20Ed_vFINAL.pdf; State Higher Education Executive Officers Association, "State Higher Education Finance, FY 2015" (2016), available at http://sheeo.org/sites/default/files/project-files/SHEEO_FY15_Report_051816.pdf.

9 The National Center for Public Policy and Higher Education, "A National Status Report on the Affordability of American Higher Education" (2002), available at http://www.highereducation.org/reports/losing_ground/affordability_report_final.pdf.

10 Jarrett Moreno, "How Much You Need to Work to Cover Tuition in 1978 vs. 2014," attn:, October 27, 2014, available at http://www.attn.com/stories/197/how-much-you-need-work-cover-tuition-1978-vs-2014.

11 Figure assumes earning $7.90 per hour for 40 hours per week—or $316 per week. With the average public four-year tuition and fees at $8,543, that means that approximately 27 weeks of full-time work is necessary in order to earn enough pretax for higher education expenses.

12 Author's analysis of National Center for Education Statistics, *2011-12 National Postsecondary Student Aid Study* (U.S. Department of Education, 2016), available at http://nces.ed.gov/surveys/npsas/.

13 Authors' analysis of data from State Higher Education Executive Officers Association, "State Higher Education Finance FY15" (2016), available at http://www.sheeo.org/sites/default/files/SHEEO_SHEF_FY2015.pdf.

14 The Institute for College Access and Success, "Student Loan Debt Averages $28,950 for Class of 2014 Debt Levels Rose More than Twice as Fast as Inflation Over Last Decade," Press release, October 27, 2015, available at http://ticas.org/sites/default/files/pub_files/student_debt_and_the_class_of_2014_nr_0.pdf.

15 Federal Reserve Bank of New York, "Household Debt and Credit Report," available at https://www.newyorkfed.org/microeconomics/hhdc.html (last accessed August 2016).

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17 Federal Student Aid, "Don't ignore your student loan payments or you'll risk going into default," available at https://studentaid.ed.gov/sa/repay-loans/default (last accessed May 2016).

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