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Chairman Harkin, Senator Alexander, Members of the Committee, I am honored to testify before you.

Summary

The goal of federal financial aid is to help Americans achieve their fullest potential not only by opening the doors to college, but also by providing them with the financial support necessary to complete their studies. Students and families are resoundingly clear—as a nation we are not meeting this goal. Research indicates that a lack of college affordability is frequently affecting educational decisions, and discouraging the most talented students from low-income families from even applying to great colleges and universities that match their abilities. Much of federal financial aid, including the Pell Grant and tax credits, arrives too late, comes with requirements that reduce its effectiveness, and makes a commitment to students that is too small and insufficiently matched by efforts from states and higher education institutions. Just as troubling, consumer confidence in the financial aid system is low. It is difficult to count on these resources when they are constantly threatened and ever changing; they give the appearance of a Congress unsure of what it is trying to accomplish. Your leadership is required to marshal and triage all available resources, direct them to where they can be most effective, and build a financial aid system that is worthy of our great nation.

Students and Families Agree: College is Unaffordable

Many higher education analysts put the concept of affordability in quotation marks. While they note that while the official definition is the costs paid today relative to the lifetime benefits, and on average benefits continue to outweigh the costs, perceptions of affordability vary widely.[1] Despite decades of investment in financial aid and numerous efforts to provide tools such as net price calculators, all indications are that now more than ever, families feel college is essential and at the same time unaffordable. Their feelings are understandable, given that nearly all Americans are experiencing annual declines in family income (see Figure 1), while the net price of attending public colleges and universities continues to rise by almost $500 per year.[2]

The Power of the Pell Grant is Diminishing

In theory, our system of financial aid is supposed to ensure that students whose decisions are most affected by tight family finances receive the most aid. In the past several decades, we have moved further and further away from this approach. The leading need-based aid program, the Pell Grant, has failed to withstand the tests of time and changing demographics. In the early 1970s, the maximum Pell Grant covered almost 80% of the costs of attending a public 4-year institution, and today that has eroded to barely 30%. The result is that even after taking all grant aid and tax credits into account, families have to find some way to pay more than $12,000 a

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[1] Baum, Sandy and Saul Schwartz, 2012. "Is College Affordable? In Search of a Meaningful Definition." Washington, DC: Institute for Higher Education Policy.

[2] Net price is the difference between the institutional cost of attendance (the sticker prices) and all grant aid awarded; it is the amount of money the student will actual pay to attend school. Author's calculations based on The College Board, *Trends in College Pricing: 2012* report. According to Table 7, annual growth in the net tuition, fees, room and board at public four-year institutions between 2009-2010 and 2012-2013 was $493.

year.[3] For a family in the bottom quintile of the income distribution, that amounts to more than 70% of their annual income.[4]

One reason we are in this situation is that when faced with some hard choices, most states quietly opted to shift the costs of funding their public colleges and universities onto the backs of students and families. In doing so, they contributed to the erosion of the Pell by withdrawing their efforts to keep costs down.[5] Rather than openly debating the tradeoffs between investing in colleges or prisons or healthcare, legislators simply cut appropriations and then attacked higher education institutions for responding with easily anticipated tuition hikes. In many states, the constituency of college graduates remains relatively small, and those most affected—children with great ambitions and displaced workers returning to get the training they need for economic stability—voice little resistance as the buck is passed to them. It is Congress that must act on their behalf, bringing states back to the table and ensuring that they do their part.

Students are already doing all they can. Americans are not afraid to work for what they need, and undergraduates are no exception. The problem is that today, it is no longer possible to cover all of the costs of college while working part-time. Covering those remaining costs at a public university would require a student to work at least 35 hours a week, 52 weeks a year at the federal minimum wage. The work penalty contained in the federal needs analysis means that those earnings would quickly diminish her access to aid, causing her to work even more. Such extensive work hours would almost certainly compromise her chances of completing college, particularly in a timely fashion, rendering all of that effort far less meaningful.[6] This makes the relative size of grants like the Pell more important than ever. But unfortunately, the trend has been away from grants and towards loans, a subtle move that has shifted societal responsibilities onto the backs of individuals.

Student Loans Are Too Often Required, Not Optional

When originally conceived, student loans were intended to facilitate choices. That is no longer the case—most students are left with no viable way to afford college without taking on debt. The result is a forced choice that pits students against their schools, with educators arguing that "debt is good" while students wish to at least have a genuine choice in the matter. Now that unmet need at public universities has reached $12,000 a year, current students are now faced with prospective debt of upwards of $48,000, and that is if they finish in four years. Or, they could both work <u>and</u> borrow, a scenario that was quite uncommon when their parents went to college, but now seems inevitable. Again, if they have to work too much, they are much less likely to complete and in turn are left with substantial debt and no degree.[7]

[3] Ibid.
[4] The median income in the bottom 20% is around $17,000.
[5] Weerts, D., Sanford, T., Reinert, L. 2012. *College Funding in Context: Understanding the Difference in Higher Education Appropriations Across the States.* Demos
[6] Perna, L.W.: *Understanding the working college student: New research and its implications for policy and practice*. Stylus Publishing. Stylus Publishing, LLC. 2010.
[7] Fry, Richard. 2012. "A Record One-in-Five Households Now Owe Student Loan Debt." Washington, DC: Pew Social & Demographic Trends; Goldrick-Rab, Sara, Douglas N. Harris, and Philip A. Trostel. 2009. "How and

Under these constraints, the Pell Grant has become a gateway to student loans. Student debt is the new normal, and threatens to reshape our national future the way several world wars changed the lives of prior generations. Today, 40% of households headed by an adult under the age of 35 hold educational debt.[8] When considering whether that is acceptable, it is important to note that it is far from the "manageable" rate of 8% of income—students with degrees owe as much as 24% of their take-home pay to the federal government. Many former students who left unable to complete their degrees owe even more.[9] Over the long haul, this points to a serious need to plan for a new era in which debt is done away with, and we should take initial steps to begin now.[10]

Affordability Affects Educational Decisions

Both common sense and research evidence tell us that when students feel that college is unaffordable it has real consequences for their educational decisions.[11] The students for whom the current financing system is working—those at the top of the income distribution—have increased their rates of bachelor's degree completion by 50% over the last forty years. That is the only group of students with a greater than 1 in 2 chance of completing a bachelor's degree. The odds range from 9 to 30 percent for everyone else.[12] While this is partly because of the tight relationship between family income and academic preparation, the k-12 experience alone does not explain why origins determine destinations so clearly. Recent randomized experiments indicate that the current system needlessly leaves even the most talented poor kids far, far behind in a multitude of ways. In addition to failing to meet their need with aid and pushing them into debt, government and educational institutions fail to engage in meaningful outreach, impose fees for college applications that create additional barriers, hinder access to aid by veiling it beneath

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Why Financial Aid Does (or Doesn't) Matter for College Success." In *Higher Education: Handbook of Theory and Research* (Vol. 24), ed. John C. Smart, 1-45.

8 Fry, Richard. 2012. "A Record One-in-Five Households Now Owe Student Loan Debt." Washington, DC: Pew Social & Demographic Trends

9 Wei, Christina Chang and Laura Horn. 2013. "Federal Student Loan Debt Burden of Noncompleters." NCES Report 2013-155.

10 For one smart approach, see Dannenberg, Michael and Mamie Voight. 2013. "Doing Away with Debt: Using Existing Resources to Ensure College Affordability for Low and Middle-Income Families." *Education Trust*, Washington DC.

11 Detailed reviews of the research on the effectiveness of different types of financial aid include: Bettinger, Eric.. 2012. "Financial Aid: A Blunt Instrument for Increasing Degree Attainment" in Andrew Kelly & Mark Schneider (Eds), *Getting to Graduation: The Completion Agenda in Higher Education,* John Hopkins Press; Castleman, Benjamin and Bridget Terry Long. 2012. "Looking Beyond Enrollment: The Causal Effect of Need-Based Grants on College Access, Persistence, and Graduation."; Scott-Clayton, Judith. 2012. "Information Constraints and Financial Aid Policy." National Bureau of Economic Research. Working Paper 17811. Deming, David and Susan Dynarski. 2009. "Into College, Out of Poverty? Policies to Increase the Postsecondary Attainment of the Poor." National Bureau of Economic Research. Working Paper 15387; Goldrick-Rab, Sara, Douglas N. Harris, and Philip A. Trostel. 2009. "How and Why Financial Aid Does (or Doesn't) Matter for College Success." In *Higher Education: Handbook of Theory and Research* (Vol. 24), ed. John C. Smart, 1-45;

12 Bailey, Martha J. and Susan Dynarski. 2011. "Inequality in Postsecondary Education." In *Whither Opportunity?*", ed. Greg Duncan and Richard Murnane, 117-132. New York, NY: Russell Sage Foundation.

masses of requirements that even college-educated, financially-literate adults have difficulty navigating.[13]

Our unwillingness to confront this affordability challenge is holding back students all over the nation. In communities such as Crockett County, Tennessee, where the college-going rate dropped 20 percentage points in recent years,[14] the pain is real. To tell you more about what it looks and feels like, I will turn next to students in the heartland of Wisconsin, where like so many in the country, only a small fraction of citizens who want to earn a college degree can afford to do so.

Since 2008, my research team has followed a group of 3,000 Pell Grant recipients as they pursue college degrees at Wisconsin's 42 public colleges and universities.[15] Our efforts have included a randomized experiment with a private financial aid scholarship, but even more importantly, we have repeatedly interviewed 50 students every six months whether or not they remained enrolled. I would like to introduce you to one of them, a woman I'll call Chloe, whom I first met when she enrolled in a Wisconsin technical college soon after completing high school in a small, rural Wisconsin town of just 1,800 people. Tall and blond with bright blue eyes, Chloe impressed me with her rapid-fire talk about a passion for animals. At school to become a veterinary technician, she was excited to be the first in her family to attempt college, and eager to get started. Since neither she nor her parents ever figured she'd make it to college, they had no savings. As a result, she made a reasoned decision to attend a less expensive two-year school, and qualified for a Pell Grant—and with that, she thought, she was ready to go. Almost. During that first interview together, in a near whisper, she confided that as a last-ditch effort to ensure that she had enough resources for books, she'd sold her family's horse, whom she'd raised on their farm as a teenager. It broke her heart to do it, she said, but she didn't have other ideas. The horse, it turned out, was a short-term fix: a month into school, Chloe was enjoying her classes but was regularly short of the gas money needed to commute to school. To cope, she took a job at a fast food restaurant, but they couldn't offer her enough hours, and so she found a second job at a fabric store, working at the first job in the morning and the other at night. She attended class in-between, getting home at midnight, and beginning her day again at 6 am. Working left little time for studying, but she feared loans, since she had seen credit card debt nearly destroy her mother's finances. Running from job to school to job, she looked like many of the nation's Pell recipients: exhausted, hungry, and stressed—hardly the conditions that promote learning.

Six months later, I went back to check in on Chloe, hoping to see that she'd acclimated to the hectic schedule and gotten some advising. But college was done—she'd dropped out. The two-job-plus-school routine led her to fall asleep in her classes, and she'd earned a 1.9 GPA—putting her on academic probation. Her program of study didn't allow for that, and kicked her out.

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[13] Bettinger, Eric P., Bridget T. Long, Philip Oreopoulos, and Lisa Sanbonmatsu. 2013. "The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment." *The Quarterly Journal of Economics,* 127(3), 1205-1242. Hoxby, Caroline M. and Christopher Avery. 2012. "The Missing 'One-Offs': The Hidden Supply of High-Achieving, Low-Income Students." National Bureau of Economic Research. Working Paper 18586.

[14] Tennessee Higher Education Commission. 2010. "College-going Rate of Tennessee Public High School Graduates." Nashville, TN: THEC.

[15] See www.finaidstudy.org.

Furious, confused, and unsure whom to talk to, Chloe bailed. Several weeks later, a bank began calling—the student loan she'd accepted during finals week, when she was trying to find another way forward, was now coming due. Unemployed, in debt, and disillusioned, Chloe was dodging their calls.

It is not supposed to be this hard to pursue further education, and it does not have to be. We do not need new resources—we need to put the ones that already exist to work where they are needed most. Ensuring that students from low-income families have more of their financial need covered without having to lean so heavily on work and loans is an effective strategy to increasing their chances of college completion. In an experiment that took place during the recent recession, my colleagues and I examined the privately funded Fund for Wisconsin Scholars grant, which is distributed by lottery among eligible first-year undergraduates attending Wisconsin's 13 public universities. Our analysis of that program produced evidence that need-based financial grants administered in the current system are effective at inducing students to remain enrolled, earn slightly more credits, and get somewhat better grades. Critically, these effects appear to be stronger when students receive more grant aid. For every $1,000 reduction in unmet need, we estimated a 2.8 to 4.1 percentage point increase in the likelihood that recipients of financial aid would persist into their second year of study.[16] Increased grant aid to low-income and working class students is a strategy that pays off.

But instead of targeting our investments in the Pell Grant to ensure that it is sizable enough to make a real difference, Congress, states, and institutions of higher education have been busily spreading the wealth. Those efforts may be politically popular, but they greatly diminish the effectiveness of the dollars spent.[17] Financial assistance provided based on merit without attention to need has been shown to be ineffective at changing educational outcomes.[18] Yet many states and large numbers of colleges and universities focus their resources on merit aid, and even pull back institutional aid from needy students when they gain outside scholarships. In effect, they match the federal commitment to the Pell Grant program by redirecting their own spending elsewhere, including spending on country-club amenities that further alienate working students from their campuses and diminish their chances of success.[19] This must stop.

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[16] Goldrick-Rab, Sara, Douglas N. Harris, Robert Kelchen, and James Benson. 2012. "Need-Based Financial Aid and College Persistence: Experimental Evidence from Wisconsin." Madison, WI: Institute for Research on Poverty Discussion Paper 1393-12.

[17] Schneider, M. and Sara Goldrick-Rab. 2011. "College Aid, The Right Way." *Chattanooga Times Free Press.* October 30.

[18] Bowen, William G., Matthew M. Chingos, and Michael S. McPherson. *Crossing the Finish Line: Completing College at America's Public Universities.* Princeton: Princeton University Press, 2009; Brookings Institution State Grant Aid Study Group. 2012. *Beyond Need and Merit: Strengthening State Grant Programs.* Washington, DC; Cornwell, Christopher M., Kyung Hee Lee, and David B. Mustard. 2005. "Student Responses to Merit Scholarship Retention Rules." The Journal of Human Resources 40, no. 4 : 895-917; Heller, Donald. 2001. The Effects of Tuition Prices and Financial Aid on Enrollment in Higher Education: California and the Nation. Ed Fund. ; Heller, Donald. 1997, "Student Price Response in Higher Education: An Update to Leslie and Brinkman." Journal of Higher Education 68, no. 6 (1997): 624-659.

[19] According to one estimate, about two-thirds of Pell dollars distributed to private not-for-profit institutions are simply used to displace institutional aid students would have otherwise received. Public institutions do not appear to engage in this behavior, and spend far less aid on non-needy students. Turner. Lesley J. 2013. "The Road to Pell is Paved with Good Intentions: The Economic Incidence of Federal Student Grant Aid." On

Focus, Trust, and Commitment Matter

The most effective public policies are sensible and dependable workhorses aimed at doing one job and doing it well. Congress needs to turn the Pell Grant into that program. To that end, I recommend the following:

1. Restore the power of the Pell Grant by doubling its effective amount and focusing it on the most needy students. Three actions should be taken immediately to accomplish this:
    a. Allow the expected family contribution (EFC) to go negative when a student's family income falls below the subsistence level as reflected by the income protection allowance. The current minimum EFC of zero caps financial need and need-based student aid at the cost of attendance, rendering college less affordable for students who need grant aid for their college education in order to stand a chance of succeeding and rising out of poverty.
    b. Offer states incentives to agree to maintenance-of-effort provisions that ensure the Pell Grant is supplemented not supplanted by state actions. More states should be encouraged to follow the lead of New York, where tuition is guaranteed not to increase more than $300 a year over the next five years, and regular investments in financial aid also will occur.[20]
    c. Experiment with giving higher education institutions with demonstrable success in moving Pell recipients towards degrees some incentives to devote more of their own resources to matching the federal investment in Pell. About $5 billion in funding for the Pell program could be raised with the assistance of private not-for-profit institutions that currently supplant rather than supplement the Pell Grant.[21]

2. Encourage more Pell recipients to become academically and financially prepared for college by letting students and their families know early and often that the Pell awaits them. Too many 8th graders have no idea they are college-bound and therefore do not get ready. Their families are not getting any wealthier as they wait, and an early commitment of financial aid could make a big difference. Fund the demonstration early commitment Pell program for 8th graders receiving free and reduced price lunch that was authorized in the Higher Education

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the use of institutional resources for amenities see Jacbob, Brian, Brian McCall, and Kevin M. Stange. 2013. "College as Country Club: Do Colleges Cater to Students' Preferences for Consumption?" National Bureau of Economic Research. Working Paper 18745.

[20] Alexander, King F., Thomas Harnisch, Daniel Hurley, and Robert Moran. April 2010. "Maintenance of Effort: An Evolving Federal-State Policy Approach to Ensuring College Affordability," American Association of State Colleges and Universities, A Higher Education Policy Brief. Also see Harnisch, Thomas L. July 2012. "Update on the Federal Maintenance of Effort Provision: Reinforcing the State Role in Public Higher Education Financing." American Association of State Colleges and Universities, A Higher Education Policy Brief.

[21] Turner. Lesley J. 2013. "The Road to Pell is Paved with Good Intentions: The Economic Incidence of Federal Student Grant Aid."

Act, and rigorously evaluate it.[22] The President's Budget includes a $67 million request for research innovative on financial aid programs that should be used for this purpose.[23]

3. Bring more resources to the most talented Pell recipients who earn private scholarships by ending award displacement so that they can gain the full monetary value of that philanthropic investment. Award displacement occurs when receipt of an outside scholarship, leads to a reduction in other forms of financial aid, especially grants. The consequence is that a student who has worked hard to gain the scholarship experiences no net financial gain, and therefore improvement in his or her ability to pay for college. This problem should be addressed with three actions:
    a. Expand the definition of cost of attendance in section 472 of the Higher Education Act to include other common living expenses, such as the cost of a computer and student health insurance.
    b. Increase the overaward tolerance from $300 to $2,500 in 34 CFR 673.5(d) and (e), 34 CFR 682.604(i), 34 CFR 685.303(e), and Section 443(b)(4) of the Higher Education Act of 1965 [42 USC 2753 (b)(4)]. Rather than help stretch federal funds further, overaward regulations simply let institutions off the hook for meeting the needs of their students.
    c. Strike references to scholarships and fellowships from the definition of estimated financial assistance and the coordinating restrictions in 34 CFR 673.5(c)(1)(vi) and (viii), 20 USC 1078(a)(2)(C)(ii)(II), 20 USC 1087vv(j)(1) and 26 USC 25A(g)(2) and by adding exclusions for scholarships and fellowships in 34 CFR 673.5(c)(2).[24]

4. Support students who work hard and keep their student debt low by expanding the income protection allowance and reducing the assessment rate on student earnings. Students work while attending school because they need the money; removing their financial aid based on those earnings creates perverse incentives and encourages them to take on more debt. This especially hurts single parents pursuing college degrees.[25] Raising the income protection allowance (IPA) by $2,000 will help ensure that more of their earnings are used to prevent additional debt, and lowering the assessment rate from 50% to 40% will further promote that goal.

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[22] Kelchen, Robert and Sara Goldrick-Rab. 2013. "Accelerating College Knowledge: Examining the Feasibility of a Targeted Early Commitment Pell Grant Program." Madison, WI: Institute for Research on Poverty Discussion Paper 1405-13.

[23] For additional details on the research needed to better inform future policymaking regarding financial aid, see Harris, D.N. & Sara Goldrick-Rab (2012). "Improving the Productivity of Education Experiments: Lessons from a Randomized Study of Need-Based Financial Aid." *Educational Finance and Policy*, 7(2); 143-169.

[24] The details of these proposals originate with the authors of a forthcoming white paper from the National Scholarship Providers Association, to be released in May 2013. Details can be obtained from NSPA executive director Amy Weinstein, at aweinstein@scholarshipproviders.org

[25] Goldrick-Rab, S. & Kia Sorensen (2010). "Unmarried Parents in College." *Future of Children,* v20(2): 179-203; Shaw, K., Goldrick-Rab, S., Mazzeo, C., & Jacobs, J. (2006). *Putting Poor People to Work: How the Work-First Idea Eroded College Access for the Poor.* New York: Russell Sage Foundation.

5. Further focus the Pell on college completion by reducing complexities and requirements that prevent the students who receive it from keeping it until they complete degrees. Eliminate the need to re-file the FAFSA for recipients who are continuously enrolled at the same institution. Require students to file only for a change in circumstances that increases their need, nudging them to maintain their financial aid and keeping their net price more stable from year to year.

In addition, given that most students in the nation mainly experience financial aid in the form of student loans, it is important that their costs be stabilized. We cannot expose American families who are experiencing no growth in family income to the full brunt of the market. Students deserve the same protections provided to home-buyers and small business owners; a cap on interest rates is required to ensure that interest rates do not skyrocket.

Immediate Action is Required

To summarize, I hope you take away these three things from my remarks today.

First, need-based grants matter for students' educational success. Most students in this country, particularly working class and low-income students, will not earn a college degree without them. If you want to increase college access, affordability, and completion, the Pell Grant must be restored to its full capacity. It has been neglected and reconstituted in ways that make it harder, not easier, for America's working poor families to obtain. We should be doing the opposite.

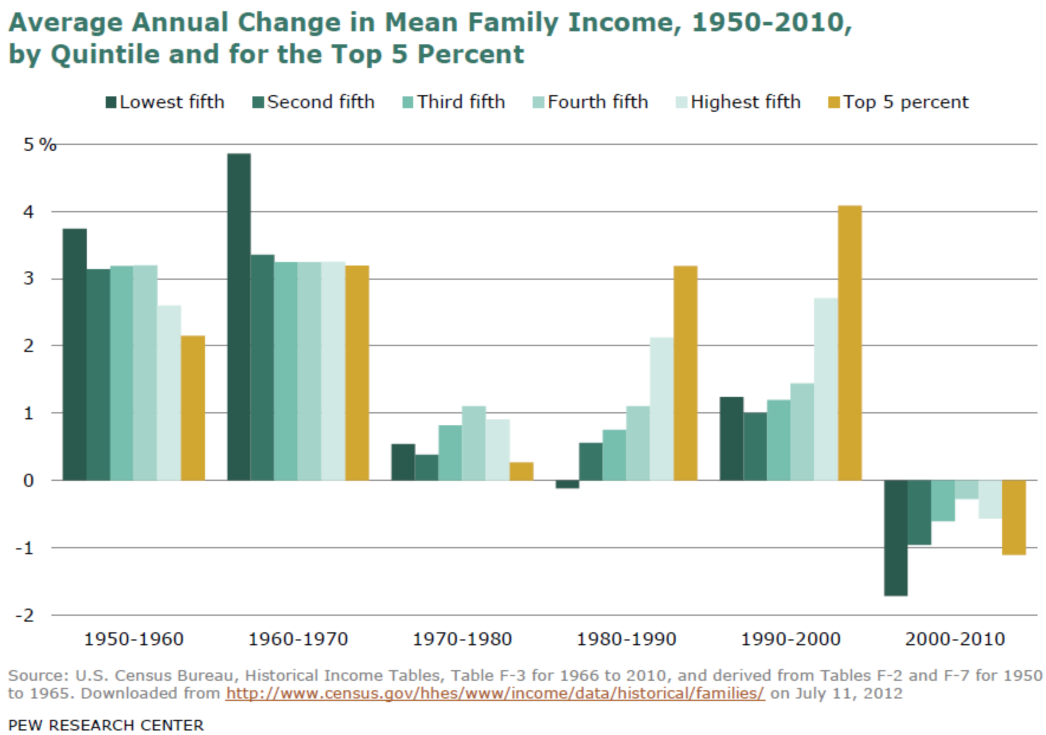
Second, the student loan program should not used as a piggy bank to finance other aid. We all reap the benefits of a democratic nation full of talented, college-educated neighbors and friends; we must all therefore bear the collective responsibility of properly funding it.

Third, Congress and the states must reverse the unconscionable trend of pushing people to take on levels of debt they are uncomfortable with, simply because they wish to become better educated. Income-based repayment is a safety net. It should not be used as an excuse for bigger, more expensive student loans.

Debt aversion is real for real students. The prospect and reality of high levels of student loan debt have multiple negative consequences for students like Chloe.

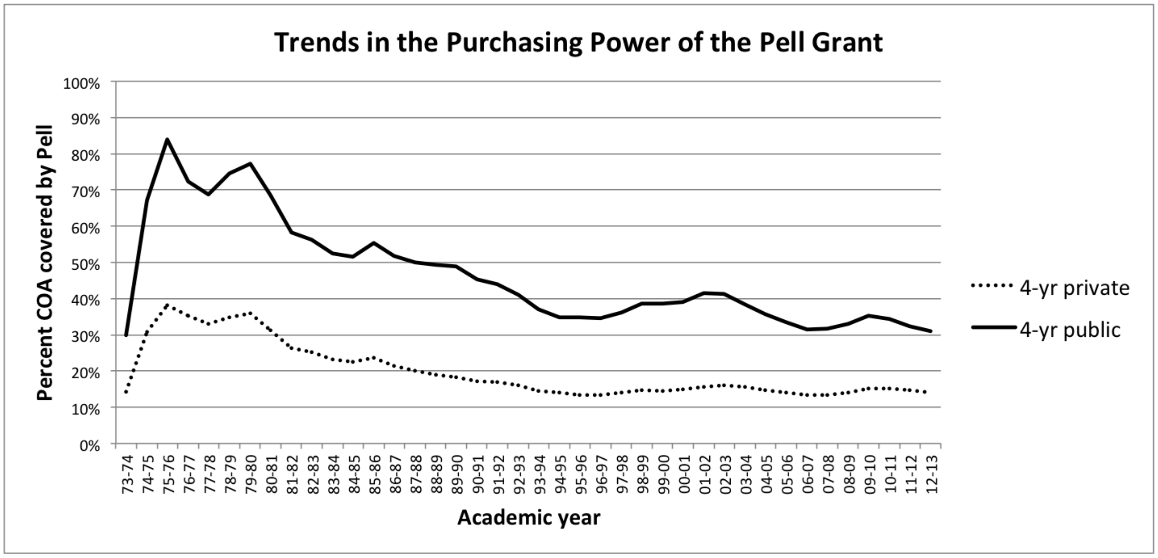
We can do better by her and millions like her.

Figure 1.



Pew Research Center, 2012, “Fewer, Poorer, Gloomier: The Lost Decade of the Middle Class.” www.pewresearch.org

Figure 2.



Note: COA= Cost of attendance including tuition, fees, room and board
Sources: U.S. Department of Education and College Board, 2012