Full Testimony

Chairman Harkin, Senator Alexander, and Members of the Committee:

My name is Judith Scott-Clayton. I am an assistant professor of economics and education at Teachers College, Columbia University, as well as a research fellow of the National Bureau of Economic Research and a senior research associate at the Community College Research Center. Over the past decade, I have conducted my own research on the impacts of financial aid policy, reviewed the evidence from others doing work in the field, and participated in policy working groups examining financial aid at both the state and federal level. Thank you for the opportunity to testify about the current landscape of college access and the role of federal financial aid, and to suggest promising directions for reform.

I. The Current Landscape of College Access

Nearly half a century ago, upon signing the Higher Education Act of 1965, President Lyndon Johnson stated his intent that the Act ensure that "the path of knowledge is open to all that have the determination to walk it."[1] Since then, great progress has been made in increasing college enrollment rates for qualified students across the income spectrum. Yet significant inequities remain, and while the levels of college enrollment are higher across the board, the *gaps* in enrollment between high and low income families are actually greater for recent cohorts than for those born in the early 1960s (Bailey & Dynarski, 2011).[2] Income inequality in college degree completion is even higher than for college entry, and these gaps cannot be completely explained away by differences in preparation.

These gaps are troubling because of the compelling evidence regarding the value of postsecondary education. Not only is the earnings premium for a college degree near historically high levels, but those with a college degree also have substantially higher employment rates—even in this soft economy—and also receive better benefits, are less likely to smoke, and are more likely to vote. The median college graduate also pays $5,000 per year more in taxes than the median high school graduate (Baum, Ma, & Payea, 2013).

Maintaining access to postsecondary education is thus a key ingredient in economic mobility. And while a bachelor's degree appears to offer the most substantial payoffs, it is important to note that two-year degrees, often in highly applied fields, also confer significant benefits, and even those who enter college but drop out without any degree do better than those who never enroll at all. So whenever we talk about access to college we should keep in mind the full spectrum of postsecondary experiences, from shorter career/technical programs to traditional baccalaureate degree programs.

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[1] Lyndon Baines Johnson, "Remarks at Southwest Texas State College Upon Signing the Higher Education Act of 1965," November 8, 1965. Archived online by Gerhard Peters and John T. Woolley, The American Presidency Project (www.presidency.ucsb.edu/ws/?pid=27356).

[2] The gap in college enrollment rates between the top and bottom quartiles of family income for cohorts born in the early 1960s was 39 percentage points, rising to 51 percentage points for cohorts born in the early 1980s. Controlling for differences in test scores reduces the gap to 14 percentage points in the earlier cohorts and 26 percentage points in the more recent cohorts.

At the federal, state, and institutional level, substantial amount of aid are available to help students finance a college education. Over a third of students receive Pell Grants, and two-thirds will receive some kind of grant assistance. In 2012-13, full-time undergraduates received an average of over $13,000 in aid, including over $7,190 in grants, nearly $5,000 in federal loans, and $1,280 in other assistance including education tax credits and Federal Work-Study (College Board, 2013b). For needy students, the current maximum Pell grant covers almost two-thirds of average tuition and fees at a public four-year institution, and a $3,500 Stafford loan would more than cover the remaining average tuition and fees (College Board, 2013a; using current Pell maximum of $5,536 and average public four-year tuition and fees of $8,722). For the 40% of Pell Grant recipients attending community colleges, the maximum Pell will more than cover tuition and fees, enabling students at the typical community college to use the remaining amount to cover books, supplies, transportation, or basic living expenses (College Board, 2013b).

Despite the large amount of aid available, there is strong evidence that qualified students are leaving money on the table – failing to apply for aid that might help them persist to a degree, and in some cases failing to apply for college at all because they assume they cannot afford it. The college application decision is complicated enough even for those who don't need financial aid—but for low-income and first generation college students, it can be overwhelming. And in all too many cases, students have little idea of what assistance they might receive until after they have been applied and accepted to college. This is like a car salesman only revealing a substantial discount after a customer has committed to buying the car—the result is that the discounts flow largely to those who were going to buy regardless, while those for whom the aid would matter most walk away before even learning the discounted price (Dynarski & Scott-Clayton, 2006).

Given the large amount of aid available, and the rapid increases in federal expenditures on Pell Grants in recent years, it is reasonable to ask what effects all of this aid has on college access, as well as how programs can be modified to work better. I would advocate strongly against efforts to reduce federal financial aid; now is hardly the time to reduce our investments in education as the U.S. falls behind other countries on measures of educational attainment and social mobility and leaps ahead on measures of inequality. But whatever the level of funding for federal aid, the stakes have never been higher to ensure that every dollar spent has the maximum impact—not just for the sake of taxpayers, but for the sake of students themselves, who make the biggest investments of all.

II. What do we know about the effectiveness of federal financial aid?[3]

I draw five lessons from the available research on the effects of financial aid:

- Money matters for college access.
- Program complexity undermines aid effectiveness.
- Students need more than just information, they need individualized help.

[3] This section of the testimony draws heavily upon a review of the literature I coauthored with Susan Dynarski of the University of Michigan, entitled, "Financial Aid Policy: Lessons from Research," and published in *The Future of Children*, *vol. 23, no. 1* (Spring 2013), Princeton, NJ: The Trustees of Princeton University.

- Every program has incentives, and these incentives affect outcomes.
- While loans are unpopular they may still be an important tool for access.

Lesson 1: Money Matters for College Access

The first and most fundamental lesson, grounded in more than thirty years of research, is that providing students with more money for college does improve college access. As predicted by economic theory, when students know that they will receive a discount, enrollment rates increase. In 1988, Larry Leslie and Paul Brinkman reviewed several dozen non-experimental studies and concluded that a $1,000 decrease in net price was associated with a 3- to 5-percentage-point increase in college attendance. Subsequent research using more rigorous empirical methods and across several different contexts have found effects of a similar magnitude, increasing our confidence that these effects are truly causal and not just describing statistical correlations. The grant programs that have been studied and found to have positive effects include the Social Security Survivors Benefit (which in some years, continued benefits for children beyond the age of 18 if they enrolled full time in college), some state merit-aid programs, Washington, DC's Tuition Assistance Program, and the mid-century G.I. Bills. Evidence on the impact of federal tax benefits is less conclusive, but one recent study suggests that the enrollment effects of tax-based aid may be of a similar magnitude. For more detailed reviews of this literature, see Long (2008), Deming & Dynarski (2009), and Dynarski & Scott-Clayton (2013).

Lesson 2: Program Complexity Undermines Aid Effectiveness

While financial aid clearly can influence college enrollment, this does not imply that all aid programs are equally effective. For example, the programs discussed above that have clearly demonstrated positive impacts on college enrollment tend to have simple, easy-to-understand eligibility rules and application procedures. The eligibility and application rules for Pell Grants—the nation's largest grant program—are comparatively complex, requiring students to submit to the lengthy and burdensome Free Application for Federal Student Aid (FAFSA) process for determining their eligibility. Though recent efforts at simplification have reduced the number of questions on the FAFSA from 127 to 116, the application remains longer than an income tax form for the majority of US households, and the eligibility calculation remains opaque. Research by myself and co-authors has shown that most of the data items in the aid application have little effect on the distribution of aid, and that aid amounts can be replicated with great accuracy using only a few pieces of information (such as adjusted gross earnings and family size) that are readily available from IRS records (Dynarski & Scott-Clayton, 2006; Dynarski, Scott-Clayton, & Wiederspan, 2013).

A recent experimental study by Bettinger, Long, Oreopoulos, and Sanbonmatsu (2012) provides dramatic evidence that the complexity of the financial aid application process can itself become a significant barrier to college access. In the experiment, some low-income families who visited a tax-preparation center were randomly assigned to receive personal assistance with completing and submitting the FAFSA. This intervention, which took less than ten minutes and cost less than $100 per participant, increased immediate college entry rates by 8 percentage points (24 percent) for high school seniors and 1.5 percentage points (16 percent) among independent participants with no previous college experience. After three years, participants in the full-treatment group had accumulated significantly more time in college than the control group. They also were much more likely to have received a Pell Grant.

This experimental evidence, which demonstrates the importance of program design and delivery, may help explain why studies have found somewhat mixed evidence regarding the enrollment impact of Pell Grants. Studies by Hansen (1983) and Kane (1996) finding little effect overall, while Seftor & Turner (2002) find positive impacts for adult students and Bettinger (2004) finds some evidence of positive effects on persistence for students who are already enrolled. While this evidence is not conclusive, complexity and confusion surrounding the Pell eligibility and application process may obscure its benefits and dampen its impact among the individuals who need it most—those who are on the fence about college for financial reasons.

Lesson 3: Students Need More Than Just Information, They Need Individualized Help

An interesting aspect of the FAFSA experiment described above is that it also randomized some individuals to receive an “information-only” intervention instead of the full FAFSA application assistance, but this information-only group experienced no increases in college enrollment relative to the control group. This suggests that students need more than information alone—they need assistance walking through the application process. But many high schools and colleges, particularly public institutions, are insufficiently staffed to provide such support, with student-to-counselor ratios at public colleges as high as 1,500-to-1 (Bettinger, Boatman, and Long 2013).

This lack of guidance has consequences for students’ decisions about whether and where to enroll. A substantial fraction of college-intending students—high school seniors who graduate on time, are accepted to college, and apply for financial aid—nonetheless fail to matriculate in the fall, a phenomenon known as “summer melt” (Castleman & Page, 2013). Among the prospective students likely to attend community colleges and for-profit colleges, evidence suggests institutional choices are made haphazardly and many students fail to investigate more than one option (Rosenbaum, Deil-Amen, and Person 2006). Studies have also found worrisome evidence of undermatching , in which high school students from low- and middle-income families often do not even apply to the most selective institutions for which they academically qualify (Avery and Turner 2009; Bowen, Chingos, and McPherson 2009; Hoxby and Avery 2012; Hoxby and Turner 2013; Roderick, Nagaoka, Coca, and Moeller 2009).

Evidence is mounting that simple, low-to-modest-cost coaching interventions that reach out to students during the summer after high school and throughout the first year of college can have substantial effects on enrollment and persistence. For example, in a series of randomized experiments, Castleman, Page, and Schooley (2013) found that text messaging, peer mentoring, and proactive outreach were all successful at reducing summer melt, with costs of no more than $200 per student served. In the Expanding College Opportunities (ECO) project, Hoxby and Turner (2013) use data on SAT scores from the College Board to target information packets and application fee waivers to a random sample of high-achieving, low-income students. Despite an average cost of just $6 per participant, the intervention had substantial impacts on the number of applications submitted and on the quality of institutions actually attended (in terms of instructional spending and peer achievement). Finally, a randomized study of a student coaching service provided by InsideTrack (a for-profit company that contracts with individual institutions) via phone, email, text message, and social media interactions found significant impacts on persistence for a cost of approximately $500 per student per semester (Bettinger and Baker 2011).

In addition to their modest cost, because these interventions are largely based on phone calls and/or text messages rather than relying on in-person meetings with a counselor they are more accessible for students and potentially easier to scale up.

Lesson 4: Every Program Has Incentives, and These Incentives Affect Outcomes

The available research gives reason to believe that students respond to the incentives embedded in program rules. One example includes a study I conducted of West Virginia's PROMISE scholarship, which at the time provided free tuition and fees for up to four years to academically eligible students as long as they maintained a minimum GPA and completed 30 credits per year while in college. Interestingly, I found that prior to the scholarship's implementation, a substantial proportion of enrollees—even those near the top of the high school achievement distribution—were taking only 12 credits per semester (24 credits per year), which corresponds to the federal definition of "full-time" status but does not enable students to graduate on-time. After implementation, the PROMISE scholarship increased five-year graduation rates by 4 percentage points and on-time graduation rates by nearly 7 percentage points. Moreover, the achievement incentives were an important mechanism driving these increases. The scholarship increased credits completed in the first three years of college, but in the fourth and final year of the scholarship—while students were still receiving the money but no longer faced the course load requirements—the program's effect disappeared.

These findings do *not* suggest that Pell should be a merit-based program like the West Virginia PROMISE. In fact, the success of some merit-based programs relies in part on the existence of a wholly need-based program like Pell that serves as the foundation of financial support. The fundamental mission of Pell Grants has been and should remain to provide financial access to higher education for disadvantaged students, not to reward achievement.

Nevertheless, the Pell Grant program should not—and cannot—avoid incorporating incentives in its design and these incentives should be structured to align with program goals. The current design actually provides disincentives for timely completion by providing more assistance for the same number of credits to students who take longer to finish, essentially penalizing those who would prefer to finish faster. This occurs because students are considered full-time, qualifying for a full Pell Grant, if they enroll for at least twelve credit hours credits a semester. Those who enroll for fifteen credits hours—the average number necessary to complete an associate degree in two years or a bachelor's degree in four years—do not receive additional funding. A student who takes an average of twelve credits a semester over five years of full-time study to complete 120 credit hours credits receives five full Pell Grants. A similar student who graduates in four years by taking fifteen credit hours credits per semester receives only four full Pell Grants.

Lesson 5: While Loans Are Unpopular, They May Still Be An Important Tool For Access

A final lesson is that even though loans are unpopular, they are a critical element in college financing, and their design might be significantly improved to minimize students' repayment risks and better communicate both risks and protections upfront. Very little rigorous research has examined how the availability of student loans affects college enrollment, performance, or completion. Susan Dynarski (2005) found suggestive, but ultimately inconclusive evidence that student loan expansions in the United States in the early 1990s led to increased college attendance. Donald Heller (2008) reviewed the non-experimental literature on whether loans increase college access and concluded that college enrollments are not as sensitive to loans as to grants. This is unsurprising given that loans are not worth as much to students. Nonetheless, since they also cost the government only a few cents on the dollar to provide, it remains an open question whether loans provide bigger, smaller, or the same "bang for the buck" as grant aid does.

Debt aversion may be one important explanation for why loans do not appear to affect access as much as grants do: some students simply dislike being in debt, even when that debt enables an investment with high average returns (Field, 2009). Given the widespread reliance on student loans, a more interesting question than whether they increase college enrollment and completion at all is whether some types of loans are more effective than others. Are there ways to make loans more attractive and less risky for students, without drastically increasing costs? This is an open question, but unless it is answered, student loans may remain primarily a financing tool for students who have already decided to go to college, rather than a tool to promote college access for students who are on the fence.

III. High Priority Directions for Reform[4]

I suggest four main directions for reform:

- Simplify the eligibility calculation, as well as the application and renewal process
- Augment Pell Grants with basic "navigation" support services for program participants
- Align program rules to support college success, not just access
- Restructure student loan repayments to make the enrollment decision easier, not harder

Proposal 1: Simplify the eligibility calculation, as well as the application and renewal process

- Pell awards for most students should be based on two data elements that are available from the IRS: adjusted gross income and family size, so that aid is easily predictable.
- Pell eligibility should be automatically determined using tax data, eliminating the need for a separate application.
- Pell eligibility should be fixed for several years, eliminating the need to reapply each year during a course of study.

[4] The first three proposals in this section draw heavily from a recent white paper I co-authored with Sandy Baum, "Redesigning the Pell Grant Program for the Twenty-First Century," Hamilton Project Discussion Paper 2013-04 (October 2013), Washington, DC: The Brookings Institution.

Research cited above demonstrates that the complexity of the federal aid application process has significant costs, while providing few benefits in terms of the targeting of aid. All of the complex calculations that go into the determination of Pell Grant awards are unnecessary – research has shown that award sizes can be accurately predicted using only a few pieces of information already available from tax data. Thus, for most students, Pell awards should be based only on adjusted gross income and family size, as measured by number of federal income tax exemptions. Neither students' income and assets nor the timing of siblings' enrollment in college would affect the amount of aid awarded.

Simplifying the aid formula would enable the system to take advantage of IRS data that the federal government already has, eliminating the need for most students to submit a separate application. I would further recommend basing eligibility on three years of prior income data, rather than on just one year. Using average income over a three-year period serves two purposes: it provides a more reliable estimate of a household's financial strength, and it limits the scope for gaming by shifting income from one year to another. Finally, fixing students' Pell eligibility for multiple years would greatly the financial uncertainty students face when beginning a postsecondary program. It also eliminates the problem that many students simply fail to reapply for aid each year.

How could all of this work? Dynarski & Scott-Clayton (2007), Baum & Scott-Clayton (2013), and other groups have provided possible roadmaps for simplification along these lines. For example, when young people reach the age of seventeen, Pell Grant eligibility could be automatically calculated based on their parents' tax returns for the prior three years. This automatic calculation and notification could be authorized by including a check-off box on income tax return forms that would give the IRS permission to forward the relevant tax information to the U.S. Department of Education (ED). This would enable families to be informed of Pell Grant eligibility approximately a year before students graduate from high school.

The Pell eligibility set at age seventeen would be valid until the student automatically becomes an independent student at the age of twenty-four. An appeals process would allow the program to adjust awards based on unusual changes in family circumstances. Young independents—those who are twenty-three or younger but classified as independent, most commonly because they have children or are married—would under this proposal automatically retain any eligibility they would have as dependent students until age twenty-four, but could choose to apply instead as independent students.

Students enrolling at age twenty-four or older would submit a brief application allowing the IRS to forward data to determine eligibility. Students would be eligible if their average income over the past three years was lower than an amount set in relation to the poverty level. If eligible, they could receive adequate funding to complete their degrees for five years or until they left school and/or completed the program in which they enrolled, whichever comes first.

Those not required to file taxes would provide simple income information to ED on a one-page form to show eligibility when they are ready to apply to a postsecondary institution.

Proposal 2: Augment Pell Grants with basic "navigation" support services for program participants

- Provide dependent Pell Grant recipients with a basic college coaching service from the time of initial FAFSA application through the first year of enrollment.
- Encourage, and eventually require independent Pell Grant recipients to meet with a third-party "navigator" before enrolling in a program.
- Experiment with voluntary pilot programs before scaling up.

The evidence discussed above demonstrates that students need more than just better information about financial aid and the college application process more generally: they need pro-active and personalized assistance. Providing information about college quality and costs on a website is insufficient because many students will never visit it, and those that do may be unable to interpret how generalized information applies to their specific case.

The importance of providing program participants with access to "navigators" is already recognized by other complex federal programs. For example, several states run State Health Insurance Assistance Programs (SHIPs) to provide personalized guidance to Medicare beneficiaries to ensure that they receive "accurate, understandable, and objective information, counseling, and assistance…on a wide range of health insurance issues" (HAPNetwork.org, 2010).[5] More recently, the Centers for Medicare & Medicaid Services (CMS) awarded $65 million in "navigator cooperative agreements" to entities that will help consumers in new federal and state health insurance marketplaces "prepare electronic and paper applications…provide outreach and education to raise awareness…and refer consumers to health insurance ombudsman and consumer assistance programs when necessary" (CMS, 2013).[6] Deciding where to go to college and how to pay for it are equally complex decisions, and Pell Grant recipients should not be left on their own to figure it all out.

A recent proposal coauthored with Sandy Baum (Baum & Scott-Clayton, 2013) recommends using a portion of the funding for the Pell Grant program to fund proactive outreach and basic guidance services for Pell Grant recipients. An investment on the order of 5–10 percent of current Pell funding ($2 billion–$4 billion) could support meaningful and effective additional services for new recipients. Research evidence described above has found that relatively low-cost outreach and coaching services, ranging from $200 to $1,000 per student, can have substantial impacts on the actual enrollment of students who apply to college, as well as persistence through the first year.

What might these services look like? I suggest some options here, but it is essential that the federal government support the evaluation of test programs and sites before implementing detailed program provisions. One simple and low-cost reform would be to use the phone numbers and email addresses provided on the simplified Pell application form to send automatic messages with timely information and links to additional sources of support. The simplified Pell form could include an opt-out box for individuals who decline these communications. Since eligibility would be determined automatically at age seventeen and fixed until age twenty-four, ED could reach out even earlier by mail to individuals to

[5] http://www.hapnetwork.org/about/about-ships.html
[6] http://www.cms.gov/CCIIO/Programs-and-Initiatives/Health-Insurance-Marketplaces/assistance.html

notify them of their eligibility (much as the Social Security Administration periodically mails estimates of Social Security payments), and to remind them of this eligibility periodically if they decline to enroll immediately.

Services that are more sophisticated and personalized could be contracted out by ED. Adult students, for example, are harder to easily reach out to in advance because they often do not apply for financial aid until at or even after the point of enrollment; unlike younger students they may not be able to rely upon family or high school support staff for advice. They may have the most to gain from talking with a third-party guidance counselor one-on-one, either on the phone or in person, before and after the enrollment decision. Baum & Scott-Clayton (2013) suggest that existing One-Stop Career Centers might be a place to provide such services. But a number of private organizations, both nonprofit and for-profit, have also emerged nationwide to provide similar services either directly to students or through contracts with institutions; these organizations could apply to provide services to Pell recipients.

Proposal 3: Align Program Rules To Support College Success, Not Just Access

- Extend the prorating of Pell Grants so that "more-than-full time" students receive larger grants, allowing students to progress at their own pace and to be funded for more than two full-time terms over an academic year.
- Cap the number of credits that can be covered over the lifetime, instead of capping the years of full-time funding provided

While the focus of the current hearing is on college access, it is difficult to separate issues of access and success, and it is clear that achieving the former goal may not always guarantee the latter. Supporting student success does *not* mean changing the fundamental nature or purpose of Pell as a need-based rather than merit-based grant. It simply means we need to acknowledge that program rules always create incentives of one kind or another, so we ought to ensure at a minimum that those incentives don't work against important program goals.

Along with Sandy Baum, I have proposed that Pell Grants that for all recipients should be based on the number of credits attempted (Baum & Scott-Clayton, 2013) rather than fixing the maximum award for students completing 12 or more credits per term. Pell Grants are already prorated according to credit load for students attending less than full-time (fewer than twelve credits per semester) but not for students attending more than "full-time" (more than twelve credits), even though the federal definition of full-time does not enable students to graduate on time. This aspect of Pell design essentially penalizes students who would like to complete a bachelor's degree in four years or an associate degree in two years. For example, a student who completes 24 credits per year could receive five full Pell Grants to cover their college degree, while a similar student who completes 30 credits per year and thus graduates in four years will receive only four full Pell Grants.

A system that funds students according to the number of credits for which they are enrolled would provide additional dollars to students whose schedules are designed with this goal in mind. Moreover, this proposal would reinstate the benefits of the short-lived summer Pell —which was introduced in 2010 and then discontinued in 2012 due to federal budget constraints and the notion that students were “overloading” on courses and ballooning program costs— with an important additional protection against overuse. Capping lifetime Pell awards at a fixed number of credits means that students who accelerate will have fewer credits available in future years, so there is no incentive for institutions to simply inflate credits or for students to take more credits than are necessary for the degree.

Proposal 4: Restructure student loan repayments to make the enrollment decision easier, not harder

- Remove repayment risk by defaulting all students who take loans into an income-contingent loan repayment plan.
- Ensure that students understand the loan repayment process upfront, so that they are not afraid to take advantage of this important tool for access.

The focus of today’s committee hearing is on the “front end” of college access, and we often think of student loans as being an issue at the other end of the process, as students leave college with increasing levels of debt. But this is precisely the problem with student loans—too many students (and policymakers) view them as a burden to be dealt with on the back end rather than as a potentially powerful tool for increasing access at the front end. Indeed, to many students, loans hardly feel like a form of college aid at all; counter-intuitively, a loan which is meant to help students afford college may instead feel like a *disincentive* to enrollment.

Students’ discomfort with student loans, as they are currently designed, is understandable. As Dynarski and Kreisman (2013) point out, the default loan repayment plan asks students to pay back their student debt over a ten-year period right after college, when earnings are lowest and most variable, creating non-trivial repayment risk. Moreover, the current provisions intended to protect students against default (including loan deferment, forbearance, and existing income-based, income-contingent, and extended loan repayment plans) are themselves so complex that many students at risk fail to take advantage of them before they get into repayment trouble.

Dynarski and Kreisman (2013) have proposed defaulting all student borrowers into an income-contingent repayment system that would collect repayments as a proportion of income automatically through the tax system. The repayment period would extend up to 30 years, or until the loan is paid off, whichever comes first. If students knew *before enrolling in college* that they could take a student loan without having to worry about crippling loan payments after graduation, student loans might be a much more effective tool for promoting access than they currently are.

IV. <u>Conclusion</u>

Federal student aid, particularly the Pell Grant program, are at the foundation of our nation’s efforts to increase college enrollment and attainment. Given the stakes involved—for both students and taxpayers—it is essential that every dollar of student aid be used as effectively as possible. The reforms suggested above are research-based and have the potential to substantially improve the impact of federal investments in postsecondary education. Thank you again for the opportunity to provide these comments to the committee. I look forward to your questions.

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