

**Senate Committee on Health, Education, Labor and Pensions
Hearing on Innovations in College Affordability**

**Testimony of Martha Kanter,
Under Secretary of the U. S. Department of Education
February 2, 2012**

Mr. Chairman and Members of the Committee:

Thank you for inviting me to testify on the issue of college affordability—an issue that is critical to creating an America that is built to last.

Recognizing that an affordable, high-quality college education is fundamental to America's future, President Obama established a bold goal for our Nation: for the United States to have the highest proportion of college graduates in the world by 2020. The President, the Secretary, and I deeply believe that achieving this goal is vital if our Nation is to prosper in a global economy that is predicated on knowledge and innovation.

Achieving the President's goal is essential to ensuring that all our citizens share in the economic and social prosperity of our Nation. Earning a college degree is the clearest path to the American dream and the benefits and security of the middle class. The facts are indisputable. College graduates not only earn substantially higher salaries than those without degrees, but they are much less likely to experience unemployment. The unemployment rate for college graduates is half that of those with only a high school diploma. And the difference in earnings is growing. Bureau of Labor Statistics data show that high school graduates in 1979 earned about 72 cents for every dollar that bachelor's degree holders did; today they earn just 55 cents. In fact, the disparity today between weekly earnings for bachelor's degree holders and high school graduates is greater than both the gender and racial pay gaps.¹

The challenge before us is great. Estimates from the Georgetown Center on Education and the Workforce show that we are projected to produce 3 million fewer college graduates than are needed by our economy within the next decade—a gap that could make it hard for American employers to fill high-skill positions. Worse yet, this gap will hamper innovations and advancements that could open up new industries and sources of future jobs. But we can change this if we act now. By adding an additional 20 million postsecondary-educated workers over the next 15 years, our national level of educational attainment would be comparable to the best-educated nations, help us meet the economy's need for innovation, and reverse the growth of income inequality, according to the Center.

In his recent State of the Union address, the President called for a comprehensive approach to tackling rising college costs. He believes that we have a shared

responsibility to confront the college affordability challenge head on, and that college affordability has never been more important than it is now at this critical make or break moment for the middle class. What's at stake here, he emphasized, is the very survival of the basic American promise that if you work hard, you can do well enough to raise a family, own a home, and put enough away for retirement.

President Obama is calling for new reforms that will promote shared responsibility to address the college affordability challenge. States need to do their part to prioritize higher education funding, and colleges should tighten their belts too. If these proposals are passed, this will be the first time in history that the Federal government has tied Federal campus aid to colleges to responsible campus tuition policies.

That is why this Administration has worked with Congress and taken a number of steps over the last three years to address the challenge of helping to keep college affordable and accessible:

- We have invested more than \$40 billion in Pell Grants, extending aid to 3 million more college students (over 9 million total) and raising the maximum award to an estimated \$5,635 for the 2013 – 2014 academic year – a \$905 increase since 2008. As you know, most of that investment was paid for by increasing efficiency in our student loan program.
- We are working to make college loans more affordable through the “Pay as You Earn” proposal, which enables an additional 1.6 million students to take advantage of a new option to cap student loan payments at 10% of a borrower's monthly income starting as early as this year.
- We have created the American Opportunity Tax Credit, which provides up to \$10,000 for up to four years of education. Over nine million middle class and low-income families claimed the credit last year.

This historic investment in student aid has kept the price that families actually pay for college — the net price—essentially flat over the last few years. Thanks to our Federal investments, the net price of four-year public institutions has increased by just \$170 since the 2006-07 academic year, while the net price of attending a community college has actually decreased by \$840 over the same period.

But this path is not fiscally sustainable. The Federal Government cannot single-handedly ensure college affordability while ensuring quality and promoting college access and success. The Administration, Congress, postsecondary institutions, and, most importantly, States must all work together to keep building on our momentum in recent years to make an affordable college education available to all students who want one. That is why the President laid out a framework to address college affordability last Friday, one that recognizes this shared responsibility.

The Obama Administration will fight to preserve student access and increase student aid, especially the maximum Federal Pell Grant award, which will be \$5,635 for the 2013-2014 academic year. We urge Congress to take action this year to keep

the Pell program on firm financial footing going forward. Working with stakeholders, we can and must make the difficult choices needed to ensure the long term stability of this vital program.

We have also called on Congress to make permanent the American Opportunity Tax Credit; double the number of work-study jobs available within five years; and prevent a statutory doubling of the interest rate on subsidized Stafford student loans for 7.4 million borrowers at a time when the economy is slowly recovering from the recession and students are taking on increasing amounts of debt to earn their college degrees.

States need to do their part in this shared responsibility as well. Last year, based on total State support, including one-time Federal stimulus dollars, 41 States cut their funding for higher education.ⁱⁱ At a time when higher education is more important than ever for our shared future, States should not turn to higher education as a major source for cuts whenever times get tough. Such cuts lead to tuition spikes and higher drop out rates. Neither Federal nor State budget challenges should be borne on the backs of students and families in the form of higher college costs.

Race to the Top – College Affordability and Completion

States play a much larger role in college affordability and quality than just providing funds. State policies – or the lack of those policies – on high school graduation and admission standards, credit transfer, articulation and tuition setting—can contribute to rising costs. Today, the median bachelor’s degree recipient completes his or her postsecondary education program in five years, instead of four. If we could get more college graduates to complete their degree programs on time, if not early, we could reduce college costs by one-fifth.

The good news is that a number of States are addressing these issues. They are revisiting how they allocate funds to better recognize quality and results; they are developing data systems to better track outcomes; and they are taking the tough steps to address the high rates of remediation due to students arriving at college who are underprepared to succeed.

However, we have yet to see activities on a national scale that encourage States to pursue foundational reforms that address the issues of affordability and quality over the long term.

That is why we are proposing a **Race to the Top - College Affordability and Completion** framework that will spur State reforms to reduce costs for students and promote success in higher education. This program would provide incentives for States to make commitments to higher education and pursue policies with long-term payoffs, such as:

- Revamping the structure of State financing for higher education to recognize and reward quality and student success.

- Aligning entry and exit standards with K-12 education, community colleges, and universities to facilitate on-time completion.
- Maintaining consistent financial support for higher education.

Establish a First in the World Competition

All institutions of higher education—even those that don't set their tuition levels independently—have an important role to play in keeping college affordable and providing greater value. To do this, they must embrace the same culture of experimentation and innovation that they bring to their research and apply it to student learning and success. They need to recognize that there are ways to increase quality while reducing costs.

But we recognize that innovations are tough to implement and evaluate. That is why we are proposing \$55 million for a First in the World fund. This program will improve higher education by investing \$55 million in applied research to enable institutions of higher education and nonprofit organizations to develop, validate, or scale up innovative and effective strategies that boost completion rates of students and enhance quality education on campuses. This initiative would provide start-up funding for individual colleges, including private colleges, for applied research projects that could lead to long-term innovations – such as course redesign through the improved use of technology, early college preparation activities to lessen the need for remediation, competency-based approaches to gaining college credit, and other ideas aimed at better student outcomes. A portion of this funding would go toward Minority Serving Institutions (MSIs). MSIs educate a significant share of our nation's minority students; making sure these students are able to access and complete degrees is critical to our nation's ability to reach the 2020 college completion goal.

Reforming Campus-Based Student Aid

At the same time, we need to be smarter about the dollars that we invest directly in institutions. That is why we are proposing to reform the campus-based aid programs to recognize colleges that are succeeding in doing their part in keeping costs low, while providing good value to students, especially those from low-income backgrounds.

The campus-based aid that the Federal Government provides to colleges through Federal Supplemental Educational Opportunity Grants (SEOG), Federal Perkins Loans, and Federal Work Study, is distributed under an antiquated formula that rewards colleges for longevity, and provides perverse incentive to raise tuition, because it results in higher levels of financial need among students, a factor considered in allocations. The President is proposing to change how those funds are distributed by implementing an improved formula that shifts aid from schools with rising tuition to those who are focused on setting responsible tuition policy, providing good value in educating their students, and ensuring that higher numbers

of low-income students complete their degrees and certificates. The President is also proposing to increase the amount of campus-based aid to \$10 billion annually. The increase is primarily driven by an expansion of loans in a revamped Federal Perkins Loan program – which is expected to come at no net taxpayer cost.

Better Information for Students and Families

Finally, we need to empower families and students with better, clearer information to help them make good decisions when searching for, and selecting a college. To do this, we will create a **College Scorecard** for all degree-granting institutions that will make it easier for students and families to choose a college that is best suited to their financial needs, and consistent with their educational goals and career aspirations. A draft of the Scorecard is available for public comment on the White House website.ⁱⁱⁱ

Conclusion

If we can incentivize State support; reduce inefficiencies in our K-12 and higher education pipeline in aligning education standards; promote applied research that expands capacity or supply while also improving student outcomes; direct campus-based aid to colleges providing the best value; and empower consumers to channel their demand toward the most valuable options for them, we can slow the growth in college costs. Mr. Chairman, and members of the Committee, more students and families than ever are relying on student aid, and if we are to reach the President's goal of leading the world in college attainment, we need to continue our investment in these students. But to keep the American promise alive, we must also embark on a more comprehensive approach to share responsibility and ensure that everyone—States and schools, as well as Congress and the Administration—are doing their part to rein in college costs and drive forward college completion. As the President has said, in today's global economy, a college education is no longer just a luxury for some, but rather an economic imperative for all. The Federal Government, States, and colleges and universities, must all work to promote access and affordability by reining in college costs, providing value for American families, and ensuring that America's students and workers can obtain and complete the education and training they need. America must have a workforce prepared for the jobs of the 21st century and a society that will strengthen and preserve our democracy. Our Administration stands ready to work with Members of this Committee on legislation that will implement the President's proposals discussed this morning. We also look forward to working with States, colleges, and stakeholders on this important agenda.

I would be happy to answer any questions you might have. Thank you.

ⁱ <http://www.bls.gov/news.release/wkyeng.t09.htm>

ⁱⁱ <http://grapevine.illinoisstate.edu/tables/FY12/Table%201.xlsx>

ⁱⁱⁱ <http://www.whitehouse.gov/issues/education/scorecard>