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ABSTRACT

Current federal student financial assistance programs are described, and their impact on access to and choice of postsecondary education are assessed. In addition, recommendations and policy options for promoting educational opportunity are offered. Findings of the following eight studies are analyzed: (1) changes in college attendance and student aid for 1969, 1974, and 1981; (2) the effects of inflation on student aid policy; work patterns of full-time college students in 1974 and 1981; (3) a national assessment of cooperative education; (4) the effects of phasing out social security student benefits; (5) the cost to borrowers of participating in the Guaranteed Student Loan program (GSL); (6) the cost and flows of capital in the GSL program; (7) restrictions imposed on GSL borrowing by guaranty agencies, lenders, and state secondary markets; (8) and contradictions of federal public assistance and college opportunity policies. In addition, testimonies from hearings on student financial assistance are presented. The difficulties that low income students encounter in obtaining a college education are addressed. Appendices include a paper on the eighth study listed above; a summary and commentary on the third study listed above; a discussion of income-contingent proposals; and an index of self-help effort required to pay for college. (SW)

National Commission on Student Financial Assistance

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ACCESS AND CHOICE

EQUITABLE FINANCING OF POSTSECONDARY EDUCATION

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Equitable Financing of Postsecondary Education

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NATIONAL COMMISSION ON STUDENT FINANCIAL ASSISTANCE

The National Commission on Student Financial Assistance was created by Public Law 96-374, the Education Amendments of 1980. During the congressional deliberations on those amendments, the Congress realized there was a general lack of reliable information and well-informed policy recommendations on many of the most fundamental and important federal student assistance policy issues in postsecondary education. The National Commission was established to correct this situation and to serve as a reliable policy agent for the President and the Congress.

Established in 1981, the National Commission is a bipartisan panel of members of Congress, leaders in the higher education community and representatives of the public. The panel is composed of twelve members, four appointed by the President of the United States, four by the House of Representatives and four by the United States Senate.

The final report of the National Commission is due on July 1, 1983.

COMMISSIONERS

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The Honorable John Erlenborn*
The Honorable William Ford
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*Replaced the Honorable Wendell Bailey on February 24, 1983.

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FOREWORD

Since 1958, when President Dwight Eisenhower firmly recognized higher education as a necessary right of every citizen, bipartisan support for federal student financial assistance has been reaffirmed many times over. Congress and past Administrations have recognized that higher education institutions produce social, technical and economic benefits for the entire society.

The success of a democratic society rests on the education of not merely the wealthy, but of the whole population. Higher education builds a well-informed and perceptive citizenry which serves the nation both through their employment and philanthropic contributions.

The many benefits of higher education research are obvious. Our high medical standards and advanced technology are directly related to such research. Furthermore, as we look to the future with an uncertain energy supply, higher education research will serve as the catalyst for finding alternative energy sources.

Economically, higher education serves as a capital investment that produces great returns to this nation.

As President Lyndon Johnson stated when he declared a national goal of Full Educational Opportunity:

> Every child must be encouraged to get as much education as he has the ability to take.
>
> We want this not only for his sake--but for the future of our nation's sake. Nothing matters more to the future of our country: not our military preparedness--for armed might is worthless if we lack the brainpower to build world peace; not our productive economy--for we cannot sustain

growth without trained manpower; not our democratic system of government--for freedom is fragile if citizens are ignorant.[1]

The essential purpose of federal student financial assistance is to ensure that the talents and abilities of our citizens are fully developed for the benefit of both the nation and the individual. In the mid-1960s, a study found that among students with high ability (top 40 percent in achievement), those from the top quarter of the income distribution had a 90 percent chance of going to college while those from the bottom quarter of the income distribution had only a 42 percent chance. A recent survey indicated that 62 percent of the high ability, low income students attended college compared to 87 percent of those with high ability and high income. Clearly we have made progress. But equally clearly, lack of financial resources continues to prevent many high ability students from developing their talents through attendance at postsecondary institutions.

Numerous studies have shown that increasing the educational level of our citizens is an important ingredient to improving our nation's economic productivity, our competitiveness in the international arena and our national security. There is a strong social benefit that derives from providing financial assistance to

[1]Charlie Saunders, "Sorry, This Commitment May Be Canceled," FORUM, January/February 1982, p. 8.

those students who lack the resources to obtain a postsecondary education. This is the basic justification for federal student financial assistance based on need. Obviously not all of the benefits of education beyond high school accrue to society. The individual receives some benefits as well. Therefore, it is appropriate that those students who recieve federal student financial assistance pay a portion of their educational costs through self-help (savings, work and loans) or from their families resources.

The studies which the Commission has conducted show clearly that the amount of federal student assistance has resulted in significant progress towards the goal of providing access to postsecondary education for all students, but that more remains to be done. In addition, projected demographic shifts threaten to exacerbate the imbalance that already exists.

This report examines in-depth the current federal student financial assistance programs; attempts to assess their impact on access and choice to postsecondary education and makes recommendations on how equal educational opportunity might be achieved.

EXECUTIVE SUMMARY

BACKGROUND

The federal government provides over $6 billion annually in direct and indirect education funds to provide access for students to attend a postsecondary institution of their choice. This student financial assistance is primarily authorized by the Title IV programs of the Higher Education Act of 1965.

To determine the effect of this financial aid, this report, by the Sources of Funds Subcommittee of the National Commission on Student Financial Assistance, addresses the impact student aid has had on access and choice, and thoroughly examines the current sources of student financial assistance. The findings offer important insights into student assistance and point to some interesting developing patterns.

FINDINGS

Research shows that the amount of federal student assistance has resulted in significant progress towards the goal of providing access to postsecondary education for all students, but that more remains to be done. Although the Middle Income Student Assistance Act (MISAA) was very successful in reaching its targeted population, inflation over the decade has effectively eliminated the increased resources to pay for college that the federal government intended to provide through student aid programs. Inflation coupled with inadequate funding of need-based programs has resulted in a real decrease in student and family purchasing power.

This situation was worsened by the government's failure to fund particular provisions of MISAA and the 1980 Higher Education Amendments which would have increased student aid to low income students in real terms.

Data show that low-income and minority students have been disproportionately affected by reductions in student financial assistance. This has occurred because funding for Pell Grants has been disproportionately lower than funding for the Guaranteed Student Loan (GSL) program.

The Sources of Funds Subcommittee discovered that although technically Pell Grants and campus-based awards are forward-funded, the reality has been that GSL funds are committed before funds are appropriated, usually resulting in these need-based programs losing anticipated funds.

Furthermore, the GSL program with its entitlement status has consumed an increasing share of federal funds for higher education, producing a budgetary trade-off with the major student aid programs that are more heavily targeted on needy students. Without stating so, this is resulting in a student aid policy which is moving away from the concept of using Pell Grants as the foundation for educational financing.

In addition, the subcommittee found the response to the reductions and elimination of social security student benefits has been grossly inadequate.

The subcommittee has concluded that without changes in stude aid policy, projected demographic changes will exacerbate the imbalance that already exists in current practices. In the next decade, there will be a rapid decline in the number of middle inc students and an increase in the number of low income students. Since trends show an increasing focus of aid toward middle income students, despite their declining numbers, the growing number of income students will continue to experience increasing inequity i obtaining funds if federal policy is not changed.

Equal Educational Opportunity

The subcommittee's studies and hearings show that student ai is only one factor in achieving the objective of equal educationa opportunity, though a very important one. In addition to directl assisting students to attend postsecondary institutions, student plays an important role in creating an environment of greater educational expectations and goals. The availability of student helps promote the benefits of a higher education and a national policy encouraging college attendance.

The subcommittee also found that in analyzing the impact of student aid on access and choice it is important to examine exist information barriers, particularly for low income students. Student aid is of itself necessary but not sufficient to assure equal educational opportunity.

A set of programs, known as TRIO, play an integral part of federal student financial assistance programs in achieving an equa education. These programs successfully help students overcome

Work Patterns

In examining work patterns of college students, the subcommittee found that work-study and cooperative education programs can contribute significantly to students' career preparation. These programs are cost-effective for students and employers alike. In addition, the work-study program provides the federal government a source of leverage unavailable in the grant programs.

In a comparison of student work patterns between 1974 and 1981, a period of increased federal support, the subcommittee found nothing to indicate a diminishing of the proportion of working students or a decline in the numbers of hours worked. On the contrary, the subcommittee found more students are working more hours in 1981 than they did in 1974. In 1981, 40 percent of all full-time students reported working. This is an increase from just over 37 percent of students who worked in 1974. Furthermore, an examination of the self-help effort required to pay for college between 1963 and 1983 shows an increase during this period in the number of hours of work that would be needed to pay for college.*

Private Sector

As a source of student financial assistance, the subcommittee found that the private sector is an overwhelmingly neglected

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*See Appendix A, "Index of Self-Help Effort Required to Pay for College."

resource. Over 80 percent of companies with 500 to 1,000 employees offer tuition aid. For larger companies the percentages are even greater, with 92 percent of companies with 1,000 to 10,000 and 95 percent of companies with more than 10,000 employees having such aid.

About $7 billion is available annually from the private sector for tuition assistance, but less than $400 million is actually used each year. For the last decade between 3 percent and 5 percent of eligible employees used their tuition aid plans. For blue collar employees the rate is between 1 percent and 2 percent. In other words, about 1.5 million employees use their tuition aid plans annually.

Despite the wide availability of employment-based tuition aid, the use rate has remained low. The reasons usually given for such a low rate are the lack of information and the lack of counseling. Most employees do not know they are eligible for tuition assistance because educational and career counseling is usually not available.

Student Loans

As a source of funds, the subcommittee found the Guaranteed Student Loan (GSL) program a very successful mechanism for delivering credit for student financial assistance. As a source of leverage for additional money for student financial assistance, the program generates approximately $2 for every $1 of cost to the federal government.

From the borrowers perspective, the program is very cost-effective, since they usually pay in real terms an effective interest rate of close to zero, or in many cases, less than zero.

Evaluating all student financial assistance programs at one time points up the discrepancies among them. As a result of high subsidies in the GSL program, benefits to the borrower are substantial, actually approaching a point at which an implicit grant is being made to the student to induce him or her to borrow under the program. As other Commission studies suggest, these benefits go, on average, to higher income families, and it is probable therefore that one effect of the GSL program is to negate the highly progressive distribution of federal subsidies under Pell Grants. It is likely that the growth of the GSL program skewed federal subsidies away from the disadvantaged, eroding the emphasis on equalizing educational opportunity. It should be noted, however, that these subsidies are very susceptible to economic conditions. For instance, every 1 percent increase in the treasury-bill increases the cost to the federal government between $250 million and $300 million.

Although the subcommittee found that middle income families need assistance to attend higher education institutions, they do not need larger effective subsidies than poorer students.

At subcommittee hearings a variety of options were presented for reducing costs in the Guaranteed Student Loan program as well as alternatives to the current student aid programs. These proposals are listed in the final chapter, Recommendations and Policy Options, of this paper.

Identifying Lender Restrictions

Part of the subcommittee's charge in the examination of the GSL program was to determine whether there are identifiable patterns of lender discrimination. The subcommittee used two approaches to make this determination.

The first approach, which did not produce any quantifiable data, was a survey by Touche Ross & Company of lenders of last resort. The study found that the information available from these lenders was inadequate to draw any conclusions. The second approach was a survey by the Commission of guaranty agency directors to assess the extent to which guaranty agencies, lenders and state secondary markets impose restrictions on GSL borrowing which go beyond federal regulations.

The survey was intended to learn the perspectives of guaranty agency directors as to the scope of this issue. Many of the questions asked for the best estimate by agency directors as to the proportion of certain restrictions imposed by lenders. The questions did not reflect agency volume.

Of the 56 questionaires sent to guaranty agencies, 53 were returned.

The 49 agency directors who reported using commercial lenders, believe the most common restriction imposed by lenders is the requirement of a previous customer relationship.

The second most common restriction by commercial lenders was their unwillingness to lend to out-of-state students attending schools in their state.

The third most commonly reported restriction by commercial lenders was imposed on students planning to enroll in less-than-two-year programs.

The 13 agencies that reported using direct lenders said that the most common restiction imposed on borrowers is the unwillingness of direct lenders to lend to out-of-state students attending schools in their state.

Of the 24 agencies that reported operating a secondary market, 7 reported imposing certain restrictions. These restrictions varied from minimum balance requirements to institutional default rates.

Of the 53 agencies that responded to the questionnaire, 17 reported that they impose restrictions on GSLs which go beyond federal regulations. Seven agencies will not loan to borrowers from correspondence schools, three will not loan to part-time students, two will only loan to state residents though one of these states has an agreement with an out-of-state lender to provide loans to out-of-state students, one will not loan to borrowers under 21 years of age, one will not loan to theological institutions, one will not loan to students with less than a "C" average, one requires the borrower to be from a certificate/degree awarding institution, and one requires a cosigner. One agency restricts less than full-time undergraduate and graduate students to one-half of the maximum loan amount of either $2,500 or $5,000 per grade level, allows only students who are enrolled in specific five-year programs to receive a "fifth year" loan, and requires that after initial borrowing a student must progress to a higher academic grade level for an additional loan.

In response to the question, "Do potential GSLP borrowers in your state have sufficient access to 'Lenders of Last Resort' so that the restrictions imposed by lender and/or secondary markets represent no major problem?" 29 agencies answered "Yes, definitely," 20 agencies answered "Yes, basically no significant problems in access in our state," 2 agencies answered "No, access to loans is restricted to some students," and 1 agency answered "No, access to loans is restricted to many types of students.

RECOMMENDATIONS

ACHIEVING EQUAL EDUCATIONAL OPPORTUNITY*

- o A LARGE FEDERAL GRANT PROGRAM SERVING LOW-INCOME STUDENTS, SUCH AS THE PELL GRANT PROGRAM SHOULD BE CONTINUED AND EXPANDED, CONSISTENT WITH THE FUNDING LEVELS FOR OTHER FEDERAL STUDENT AID PROGRAMS. FUNDING FOR THE PROGRAM SHOULD MORE ACCURATELY REFLECT THE CURRENT COST OF ATTENDANCE FACED BY STUDENTS. THE COMMISSION BELIEVES THAT THE CONTINUED EXISTENCE OF THE PELL GRANT PROGRAM IS ESSENTIAL IF LOW-INCOME AND MINORITY ACCESS TO POSTSECONDARY INSTITUTIONS IS TO BE MAINTAINED. THE COMMISSION ALSO RECOGNIZES THAT FUNDING FOR PELL GRANTS OVER THE PAST SEVERAL YEARS HAS NOT BEEN SUFFICIENT TO ACCOUNT FOR HIGH INFLATION AND REDUCTIONS IN OTHER STUDENT AID PROGRAMS.
- o CAMPUS-BASED GRANT AND WORK-STUDY PROGRAMS SHOULD BE CONTINUED AND EXPANDED, CONSISTENT WITH THE FUNDING LEVELS FOR OTHER FEDERAL STUDENT AID PROGRAMS. FUNDING FOR THESE PROGRAMS SHOULD MORE ACCURATELY REFLECT THE CURRENT COST OF ATTENDANCE FACED BY STUDENTS AND SHOULD CONTINUE TO BE TARGETED TO LOW-INCOME AND MINORITY STUDENTS TO HELP MEET UNMET NEED.

*The State Student Incentive Grant (SSIG) program is being examined by the Appropriate Balance subcommittee.

- MORE EMPHASIS SHOULD BE PUT ON WORK PROGRAMS LIKE COLLEGE WORK-STUDY AND COOPERATIVE EDUCATION AS SOURCES OF STUDENT FINANCIAL ASSISTANCE. SIMILIARLY, MORE EMPHASIS SHOULD BE PUT ON THE PRIVATE SECTOR. THE PRIVATE SECTOR CAN PLAY A PARTICULARLY IMPORTANT ROLE BY PROVIDING BOTH EMPLOYMENT FOR COOPERATIVE EDUCATION RECIPIENTS AND EMPLOYMENT-BASED TUITION AID. NON-FEDERAL ASSISTANCE IS WELCOMED AND FURTHER GROWTH OF THIS TREND IS ENCOURAGED.
- FUNDING FOR TRIO PROGRAMS SHOULD BE MADE AVAILABLE TO AN INCREASED PROPORTION OF ELIGIBLE STUDENTS AND THE ROLE OF HIGH SCHOOLS AND POSTSECONDARY INSTITUTIONS IN MEETING THE NEEDS OF TRIO RECIPIENTS SHOULD BE INCREASED.
- POSTSECONDARY FINANCIAL AID INFORMATION SHOULD BE CONVEYED TO STUDENTS BEGINNING IN THE NINTH GRADE.
- RULES GOVERNING THE TIMELY NOTIFICATION OF STUDENT FINANCIAL ASSISTANCE MUST BE OBSERVED. ESTABLISHING STABILITY IN STUDENT FINANCIAL ASSISTANCE PROGRAMS SHOULD BE A LEGISLATIVE GOAL AND THE ENACTMENT OF A MASTER CALENDAR WOULD BE A STEP IN THIS DIRECTION.

RESOLVING CONTRADICTIONS OF FEDERAL PUBLIC ASSISTANCE AND COLLEGE OPPORTUNITY POLICIES

- FEDERAL PUBLIC ASSISTANCE PROGRAMS, SUCH AS AFDC, FOOD STAMPS, MEDICAID, AND PUBLIC HOUSING SHOULD BE REVIEWED BY CONGRESS WITH AN EYE TO ELIMINATING VARIOUS EXISTING DISINCENTIVES FOR UNEMPL D AND POOR PERSONS TO RECEIVE RETRAINING AND EDUCATION

TO ASSIST THEM IN REENTERING THE WORKFORCE. BECAUSE OF THE FUNDAMENTAL CHANGES OCCURING IN THE STRUCTURE OF OUR ECONOMY THE REMOVAL OF SUCH DISINCENTIVES IS ALL THE MORE IMPORTANT. A STUDY UNDERTAKEN FOR THE COMMISSION AND INCLUDED IN APPENDIX B TO THIS REPORT SUGGESTS SOME OF THESE SPECIFIC DISINCENTIVES AND REMIDIES FOR THEM.

I. BACKGROUND

LEGISLATIVE CHARGE

The research of the Sources of Fund Subcommittee was undertaken in response to the legislative charge of the National Commission on Student Financial Assistance contained in Public Law 96-374, Section 491. The subjects that were assigned to the Sources of Funds Subcommittee for study included:

o an examination of the adequacy and availability of capital for student aid programs from current sources;

o an examination of existing and alternative sources of funds and the cost of providing such funds;

o an examination of the most cost efficient method of providing funds for college work-study, loans and grants; and

o a determination of the effect of federal student aid on access and choice in the selection of and attendance at postsecondary education institutions.

COMMISSION STUDIES

The Sources of Funds Subcommittee of the National Commission on Student Financial Assistance concentrated on the impact student aid has had on access and choice to attain a postsecondary education.

To accomplish its task, the subcommittee commissioned several studies and conducted public hearings. In the area of access and choice Applied Systems Institute completed three studies for the Commission. They were: "Changing Characteristics of Student Aid Recipients: 1974, 1981," "Changes in College Participation Rates and

Student Financial Assistance: 1969, 1974, 1981" (which included an analysis of the effects of inflation on aid) and "Work Patterns of Full-Time College Students in 1974 and 1981."

David Paul Rosen and Associates examined the effects of phasing out social security student benefits and examined existing contradictions of federal public assistance and college opportunity policies.

The subcommittee commissioned the accounting firm, Touche Ross & Company, to conduct a thorough analysis of the Guaranteed Student Loan program. This study included a breakdown of borrower and federal costs associated with the program as well as a description of the different flows of capital in the program.

The subcomittee also conducted a survey of guaranty agencies to determine whether identifiable patterns of lender discrimination exist.

SUBCOMMITTEE HEARINGS

The Sources of Funds Subcommittee conducted four hearings, which provided additional research and helped the subcommittee gauge the accuracy of their commissioned studies.

The first hearing was held on December 7, 1982 in Boston, Massachusetts. The subcommittee heard testimony from educators, students, financial aid officers, and guaranty agency representatives in an attempt to set its goals and research agenda.

The subcommittee's second hearing was held on February 7, 1983 in Chicago, Illinois. Testimony was based on a report by the

Applied Systems Institute on the impact of student financial assistance on access and choice. Witnesses included high school guidance counselors and students, college students, representatives from all sectors of the higher education community, financial aid administrators, educators and equal opportunity program administrators.

The subcommittee's third hearing was held on April 4, 1983 in Washington, D.C. Witnesses at this hearing discussed the Touche Ross & Company report which thoroughly examined the Guaranteed Student Loan program. Testimony was heard from guaranty agency representatives, Department of Education officials and loan analysts.

The final subcommittee hearing was held on April 25, 1983 in Washington, D.C. At this hearing alternative and supplemental loan and educational financing options were discussed.

DESCRIPTION OF CURRENT SOURCES OF FUNDS*

Pell Grant Program (formerly the Basic Education Opportunity Grant)

Prior to Guaranteed Student Loans becoming need-based, the Pell Grant Program was the largest of the federal student need-based aid programs in terms of both dollars appropriated and the number of students served. Authorized in 1972 under Subpart 1 of Part A of Title IV of the Higher Education Act of 1965, as amended, it is designed to assist needy students to continue their education beyond high school, and attempts to provide students with a "floor" of

*The appropriation figures and the estimates of recipients cited in this section were provided by Pat Smith, Director, Office of Legislative Analysis, American Council on Education.

financial aid to help defray the costs of postsecondary education. The amount of each grant, which need not be repaid, is determined by the student's need and the cost of attendance at a particular school. Previously limited to four years, eligibility for Pell Grants was extended by the Education Amendments of 1980 to the period required for completion of the first undergraduate baccalaureate course of study, including any periods of noncredit or remedial study required by the institution. Students must be enrolled at least half-time to receive a Pell Grant. Graduate students are not eligible for the program.

The authorizing legislation establishes maximum awards in the program and the percentage of cost of attendance that the grant may cover at an institution. The following chart describes this relationship. One should keep in mind that while the amounts indicated have been authorized by Congress, actual appropriations for each year may be substantially lower, which would affect the maximum award and the cost of attendance percentage. For instance, although the maximum award authorization for 1982 is $2,100 the actual maximum award for the 1982 academic school year was $1,800.

Authorized Maximum Pell Grant

Award Year	Maximum Award	Percent of Cost of Attendance
1981-82	$1,900	50%
1982-83	2,100	55
1983-84	2,300	60
1984-85	2,500	65
1985-86	2,600	70

In the event that appropriated funds are insufficient to pay full entitlements under the Pell Grant program, a reduction formula is used to reduce awards to accommodate the appropriation. This formula is intended to provide protection for low income students. In addition, the Secretary of Education has the authorization to waive certain provisions in the law to reduce costs.

The appropriation level of Pell Grants in fiscal year 1982 was approximately $2.5 billion. It is estimated that this served approximately 2.4 million students from families having incomes of approximately $25,000 and below.

Supplemental Educational Opportunity Grant Program (SEOG)

The SEOG Program is available to qualified undergraduate students with demonstrated financial need who meet the general eligibility requirements discussed under Pell Grants above. Along with the College Work Study and National Direct Student Loan (NDSL) programs, SEOG is one of the campus-based federal student assistance programs.

Eligible students may receive up to $2,000 for an academic year. Students may not, however, receive less than $200 unless they are enrolled for less than an academic year, in which case the minimum payment must be reduced proportionally. A student may receive supplemental grants during the period required for the completion of the first undergraduate baccalaureate course of study. The Education Amendments of 1980 eliminated the cumulative maximum of $4,000 and the matching provision which limited SEOG to one-half the amount of financial aid provided to a student.

Institutions are encouraged by law to use College Work-Study employment to complement student educational programs to the maximum extent possible.

Institutions may at their discretion use up to 10 percent of their College Work-Study allocation for less than half-time students. While working hours are generally limited to 20 hours per week while classes are in session and 40 hours per week during the summer and vacation periods, institutions are free to set their own limits on working hours. Up to 80 percent of the student's wages are paid by the institution's federal CWS allocation and the remaining 20 percent, plus additional employer costs, are paid by the school or the off-campus employer. Work-Study students may be paid at variable rates depending on the type of work performed and the skills and experience necessary to perform the job. However, since October 1, 1980, no student employed under the College Work-Study program can be paid any wage that is less than the current federal minimum wage as mandated by Section 6(a) of the Fair Labor Standards Act of 1938.

The Education Amendments of 1980 hold harmless institutions at their 1979 level of expenditures unless there has been a substantial decline in enrollment at the institution. Another one of the 1980 provisions allows institutions to carry forward or back up to 10 percent of their CWS allocation each year. Institutions may also transfer up to 10 percent of their CWS allocation for use in the SEOG Program without prior approval from the Department of Education.

The appropriation level of CWS in fiscal year 1982 was $528 million, which served approximately 880,000 students.

The National Direct Student Loan (NDSL)

The oldest of the major federal programs, the NDSL Program (formerly National Defense Student Loan) provides a long-term, low-interest loan with certain deferment and cancellation provisions available. The rate of interest on an NDSL was established by statute at 3 percent until July 1, 1981. Interest rates have been increased twice since this date to a current rate of 5 percent. As in other federal student aid programs, the funds must be used solely to meet educational and related expenses. Students must enroll at least half-time at an eligible school, and they must demonstrate financial need in order to receive the loan. Students may borrow up to $2,500 for the first two years of an undergraduate program, to a cumulative maximum of $5,000 for an undergraduate course of study. Graduate students may borrow a maximum of $10,000, less any amount borrowed as an undergraduate.

The maximum repayment period for the loan is ten years after a grace period of six months, except that low income individuals may have their repayment period extended up to an additional ten years if certain circumstances warrant the extension. There is a minimum monthly repayment of $50 required although deferments of up to three years are available with a six-month grace period after the deferment.

Participating institutions are responsible for making and in most instances collecting the loans and are required to match one-ninth of the federal share on most loans. Collected loans provide funds for the institution's revolving fund which are then used to make additional loans. Institutions are also required to provide certain loan information to borrowers.

The appropriation level of NDSL in fiscal year 1982 was $178.6 million, which, with the institution's revolving fund, served approximately 900,000 students.

State Student Incentive Grant Program (SSIG)

The State Student Incentive Grant Program was created to encourage the establishment and expansion of state scholarships to undergraduate postsecondary students with substantial financial need. SSIG operations vary from state to state according to the size and maturity of scholarship programs managed by the individual states. Because of the wide variations in state programs, student inquiries about SSIG and other state scholarships are normally directed to the state scholarship agency or to the financial aid office at the school the student plans to attend.

SSIG awards are available for both undergraduate and graduate students. The maximum award is $2,000 per academic year which is reduced for less than full-time attendance. Institutions may, with the approval of the state agency, use any proportion of the payments received in any fiscal year for less than half-time students who are otherwise eligible. While the same general eligibility criteria apply for SSIG that apply to other federal student aid programs, the states have the flexibility of determining eligibility standards and establishing lower maximum awards in view of their own fiscal and constitutional restraints.

The 1980 Education Amendments hold harmless states at their 1979 federal funding level under the SSIG program. The legislation also establishes a maintenance of effort requirement that requires states to maintain their programs at the annual aggregate level of the preceding three fiscal years for the average annual expenditure per full-time equivalent student for the preceding three years.

The appropriation level of SSIG in fiscal year 1982 was $73.7 million, which served approximately 300,000 students.

Guaranteed Student Loan Program (GSL)

The Guaranteed Student Loan Program is a federal program that assists students in securing loans to finance their postsecondary education. Under this program, no loans are actually made by the federal government. Instead, the loans are made by a variety of lenders, and in turn are guaranteed by the federal government. In addition, the federal government provides incentive payments to lenders to encourage their participation in the program, and it makes interest subsidy payments on behalf of students until those students begin repaying their loans.

Very little information on those who borrow under the Guaranteed Student Loan program is readily available. More than 3.5 million students secured Guaranteed Student Loans in fiscal year 1982. More than 90 percent of these loans were made by banking institutions and credit unions. The average size of these loans was $2,217. In fiscal year 1982, graduate students comprised an estimated 20 percent to 25 percent of borrowers; they borrowed more than 30 percent of the total GSL funds.

The vast majority of Guaranteed Student Loans are guaranteed by guaranty agencies that administer the GSL Program. These agencies are then reinsured by the federal government for loans made under their auspices. Guaranty agencies also play a major role in locating capital to finance new loans.

A major participant in the program has been the Student Loan Marketing Association (Sallie Mae). Created by Congress in 1972, Sallie Mae provides a secondary market for GSL lenders. This enables lenders to exchange their student loan holdings for cash or short-term assets. Sallie Mae has grown rapidly in terms of the size of its holdings.

The rules governing the Guaranteed Student Loan program have changed over the years. The current rules of the Guaranteed Student Loan program are described below:

Borrower Eligibility. All students with family incomes below $30,000 are eligible for Guaranteed Student Loans up to the maximum amount. Students with family incomes above $30,000 are eligible only to the extent of their "remaining need" based on a comparison of costs and resources available to the student--including an expected family contribution--as documented by the college financial aid officer. In short, under the new rules, families with incomes above $30,000 will no longer be able to substitute a GSL for what they are expected to contribute to the student's education cost.

Interest Rates. The interest rate for Guaranteed Student Loans is 9 percent. Those who borrowed prior to January 1981 are still eligible for the 7 percent rate charged previous to the passage of the 1980 Higher Education Amendments.

<u>Maximum Loan Amounts</u>. Undergraduates may borrow up to $2,500 annually, and $12,500 cumulatively. Borrowers enrolled in graduate or professional programs may borrow up to $5,000 annually, and their overall borrowing limit (for both undergraduate and graduate/ professional loans) is $25,000. At the discretion of the Secretary of Education, the $25,000 limit may be raised for groups of graduate or professional students with exceptionally high costs of attendance. Borrowing in other loan programs such as the National Direct Student Loan Program does not affect these limits. In order to reduce the number of small loans (generally less profitable and therefore less attractive to lenders) that might result from imposition of a needs test, the 1981 legislation also provided that students with financial need of more than $500 but less than $1,000 qualify for a minimum $1,000 GSL.

<u>Origination Fee</u>. To achieve additional cost savings, the 1981 budget reconciliation legislation also authorized an origination fee. Lenders must deduct 5 percent of the face value of a loan prior to disbursing the proceeds to the borrower. This discount serves as a direct offset against federal obligations to lenders under the program.

The GSL program is an entitlement program, which means the government is obligated to meet its share of payments on all loans made to all eligible borrowers.

The appropriation level of the GSL program in fiscal year 1982 was approximately $3 billion, the program enabled more than 3 million students to borrow approximately $7.7 billion in 1982.

Appropriations vary each year depending on interest rates, loan volume and default rates. More than 90 percent of this years program costs funded loans made in previous years.

Recently, a new federally sponsored loan program has been created. Established by Congress in 1980 and modified in 1981, the PLUS Loan Program (technically named Auxilary Loans to Assist Students) offers higher (12 percent) interest loans to parents, independent undergraduate students and graduate students. No in-school interest subsidy applies to these loans which are disbursed through nonfederal lenders. Repayment of PLUS loans begins 60-days after disbursement except for full-time students who must pay only the interest at that time. Currently, the PLUS Program offers loans in only a limited number of states.

TRIO

There are currently five TRIO programs, each of which serves as a mechanism to help low income and minority students advance. By law, two-thirds of the students served by these programs are required to be from families where neither parent has received a baccalaureate degree and where total taxable income is less than 150 percent of the poverty level. These programs provide eligible students with counseling, information and supportive services.

The appropriation level for the TRIO programs in fiscal year 1982 was $150.2 million, which served approximately 500,000 students. Only approximately 3 percent of all eligible recipients applied for the funds.

CHANGING CHARACTERISTICS OF STUDENT AID RECIPIENTS

A study conducted by Applied Systems Institute traced changing characteristics of student aid recipients from 1974 to 1981. The analysis of this study of freshmen students was based on parental income and educational attainment, race and ethnicity, and gender. Family income for 1974 was restated in 1981 dollars. Among the study's findings were:

The Middle Income Student Assistance Act of 1978 had a significant impact on the characteristics of students who were receiving aid in 1981 compared to those in 1974.

Black and Hispanic students gained less from legislated changes in the student aid programs than did white students.

Minority students were significantly less likely to participate in the Guaranteed Student Loan program than were white students. Minority students were more likely to participate in the Pell Grant program than were white students. Given inflation, awards made under Pell Grants declined in real terms between 1974 and 1981. Thus, higher income students (generally white students) gained more from the legislated changes than did lower income students (more often black or Hispanic students).

Specifically, the study found the following changes had occurred between 1974 and 1981:

o Student aid became more concentrated on freshmen from families with over $20,000 in income (all dollar amounts are in constant 1981 dollars).

The percentage of aided students from higher income families doubled (21 percent to 43 percent) from 1974 to 1981.

For white students, the proportion receiving aid rose from 20 percent to 42 percent (+113 percent).

For black students, the proportion aided went from 44 percent to 51 percent (+18 percent).

White student aid recipients were more likely to have family income over $20,000 than under $20,000.

In 1974, 59 percent of recipients had family incomes of over $20,000.

In 1981, 63 percent (+9 percent) of recipients had family incomes of over $20,000.

Black student aid recipients were more likely to have family income under $12,500 than over $12,500.

In 1974, 51 percent of recipients had under $12,500 in family income.

In 1981, 57 percent (+12.8 percent) of recipients had under $12,500 in family income.

o Guaranteed Student Loan participation increased 259 percent between 1974 and 1981.

Higher income students were more likely to participate in the GSL program than were lower income students.

Approximately 25 percent of all students received GSLs by 1981.

o Pell Grant freshman participation rates increased 48 percent between 1974 and 1981.

Lower income students were more likely to participate in the Pell program than were higher income.

Approximately 25 percent of all students received Pell grants by 1981.

o Campus-based student aid participation rates changed little between 1974 and 1981, except:

Higher income students received more of the moderate funding increases than did lower income students.

Black participation in the National Direct Student Loan program declined 19 percent.

White participation in the Supplemental Educational Opportunity Grant program declined 75 percent.

o Other student characteristics, such as gender and parental educational attainment, changed very little between 1974 and 1981.

The percentage of women receiving aid increased at a faster rate than did the rate for men.

The effect of parental education tended to be similiar to the effect of family income, but not as pronounced.

Limitations

The data are exclusively from freshmen. Other research indicates more borrowing from upper division students.

The examination of student aid recipients by their families' income is limited to dependent students. Dependent freshmen comprised 93 percent of all freshmen sampled in 1981.

All financial data are self-reported and provide the only information on the family, sex and race characteristics of individual students.

Although this study did not include proprietary students the Commission's recently completed student aid recipient survey of proprietary students examined this issue.*

Policy Implications

The Middle Income Student Assistance Act was very successful in reaching its targeted population.

Although authorization legislation has addressed the concerns of low income students, actual appropriations have focused on middle income students, often reducing the amount of aid available to low income students. Additional insight on this issue is gained through the study, "Changes In College Participation Rates and Student Financial Assistance 1969, 1974, 1981" (Applied Systems Institute) analyzed in the next chapter.

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*This study found that in 1981-1982 about half the aid recipients in proprietary schools were 21 years old or less; about seven in ten were under the age of 26. The great majority (83 percent) were not married. Most attended class for at least 5 hours each day. Over half the aid recipients at cosmetology, secretarial, and business schools were from ethnic minorities. Among dependent students, 38 percent reported family incomes of less than $8,000 per year; 58 percent reported family incomes of $14,000 or less. Among independent aid recipients,
77 percent had incomes of less than $8,000 a year. Women accounted for 60 percent of all aid recipients, though men were in the majority among recipients at trade and technical schools.

About 90 percent of the 1981-1982 aid recipients at proprietary schools received some form of need-based aid. Those receiving need-based aid were more likely than those receiving non-need-based aid to be single women from low-income backgrounds. In addition, 54 percent of need-based aid recipients, but only 21 percent of non-need-based aid recipients were minority students.

Further analysis of proprietary students is being conducted by the Commission's Appropriate Balance Subcommittee.

Reductions in student aid disproportionately affect low income and minority students.

Funding for Pell Grants has been disproportionately lower than funding for GSL.

Although technically Pell Grants and campus-based awards are forward-funded, the reality has been that GSL funds are committed before funds are appropriated, usually resulting in the need-based programs losing anticipated funds. The GSL with its entitlement status is consuming an increasing share of federal funds for higher education, producing a budgetary trade-off with the major student aid programs that are more heavily targeted on needy students.[2] De facto, current student aid policy is moving away from the concept of utilizing Pell Grants as the foundation for educational financing.

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2 Lawrence E. Gladieux, "Testimony before the National Commission on Student Financial Assistance," April 4, 1983, p. 3.

II. RESEARCH FINDINGS AND PUBLIC COMMENTS

RESEARCH FINDINGS

Changes in College Participation Rates and Student Financial Assistance 1969, 1974, 1981--This research was conducted by Applied Systems Institute.

This study traces changes in student participation in higher education and in the federal aid students receive. Its purpose was to determine the effect of federal student assistance on access and choice. The federal aid programs analyzed were:

Pell Grants

Supplemental Educational Opportunity Grants (SEOG)

Guaranteed Student Loans (GSL)

National Direct Student Loans (NDSL)

College Work Study (CWS)

Changes in the patterns of student enrollments in total, by income, dependency status, gender, race and age are related to the distribution of awards made under the federal aid programs. The analysis examines participation in postsecondary education for the years 1974 to 1981.

The major findings on changing participation rates between 1974 and 1981 are:

- o Participation rates for all students 18 to 24 had increased. The participation rates for older students had increased even more (see Figure 1).
- o The participation rates for dependent students aged 18 to 24 held steady as did the participation rates for independent students in the same age group (see Figure 2).
- o Participation rates for dependent students in the lowest income categories (under $7,500) fell more sharply than any other income group.

FIGURE 2

Participation Rates of Dependent and Independent Students
by Income
1974, 1981

Income Category	Dependent Students 1974	Dependent Students 1981	Dependent Students % Change	Independent Students 1974	Independent Students 1981	Independent Students % Change
0 - 6.0	27.3	24.4	-10.6	32.1	26.9	-16.2
6.0 - 7.5	30.7	26.5	-13.7	22.5	12.0	-46.7
7.5 - 10.0	30.2	35.2	+16.6	13.5	9.1	-32.6
10.0 - 12.5	29.7	33.5	+12.8	9.3	5.4	-40.9
12.5 - 15.0	31.1	29.9	-3.5	6.3	6.8	+6.3
15.0 - 20.0	33.3	34.1	+2.4	4.4	6.8	+54.5
20.0 - 25.0	36.2	38.2	+5.5	4.0	2.9	-27.5
25.0 - 50.0	43.5	44.6	+2.5	3.9	4.3	+7.7
50.0 +	61.9	63.0	+1.8	14.9	1.6	-89.3
Undefined	43.2	45.8	+6.3	15.8	8.7	-44.9
Total	41.3	41.0	-0.7	10.4	10.4	+1.0

Source: CPS, 1974, 1981.

o The participation rate of white students was up more than that of blacks, which still showed a modest improvement (see Figure 3).

o The participation rate of women was up, while that of men was about the same as in 1974 (see Figure 4).

Data collected from entering freshman indicate the following changes:

o The probability of the lowest income students receiving an award has not changed appreciably since 1974, but higher income groups showed an increase in their probability of receiving an award. The higher the income, the greater the increase in probability (see Figure 5).

o Low income students were more likely to receive a smaller award in 1981 than they were in 1974. Students in the $12,500 and above income categories were more likely to receive a total award exceeding $1,000 in 1981 than they were in 1974. Low-income students were also more likely to receive an award of less than $1,000 in 1981 than was the case in 1974. In 1981, the over-$40,000 family income group that received aid was likely to receive an award between $2,000 and $3,000 in 56.9 percent of the cases, primarily in self-help awards such as loans (see Figure 6).

o The proportion of students receiving a grant increased by 40 percent between 1974 and 1981 while the increase for self-help awards was up 126 percent.

o The number of white students receiving financial aid increased at a rate of 5.5 times the number of blacks. Still, blacks were more likely to receive an award in 1981.

o Blacks were more likely to receive a smaller award in 1981 than they were in 1974; whites were more likely to receive a larger award in 1981 than they did in 1974. One cause for this decline may be the significant increase in two-year college enrollments experienced in the 1970s, particularly among low-income and minority students. Between 1974 and 1980, enrollment at two-year schools increased 99 percent; during the same period, enrollment of undergraduates at four-year institutions increased only 12 percent. Accordingly, by 1978, a black college student was 20 percent more likely to be enrolled in a two-year college than a white student; a Hispanic student was about 60 percent more likely to attend a two-year college (see Figure 7).

o Men and women had the same shares of student aid in 1974. Women increased their share slightly in 1981.

FIGURE 3

Participation Rates of Dependents by Race
by Income
1974, 1981

Income Category	White 1974	White 1981	White % Change	Black 1974	Black 1981	Black % Change
0 - 6.0	22.1	28.0	+26.7	30.7	21.2	-30.9
6.0 - 7.5	23.0	30.9	+33.4	42.5	20.3	-52.2
7.5 - 10.0	26.0	35.9	+38.1	36.0	31.9	-11.4
10.0 - 12.0	26.7	35.7	+33.3	32.3	23.4	-27.6
12.0 - 15.0	28.9	27.8	-3.8	32.9	35.4	+7.6
15.0 - 20.0	31.7	32.9	+3.8	33.3	35.5	+6.6
20.0 - 25.0	36.8	37.7	+2.7	29.8	37.1	+24.5
25.0 - 50.0	43.6	45.0	+3.2	38.9	38.3	-0.3
50.0 +	61.7	63.6	+3.1	56.3	33.3	-40.9
Undefined	44.9	48.8	+8.7	17.5	26.3	+50.3
Total	41.8	42.5	+1.7	33.3	29.9	-10.2

Source: CPS, 1974, 1981.

FIGURE 4

Participation Rates of Dependent Males and Females
by Income
1974, 1981

Income Category	Males 1974	Males 1981	Males % Change	Females 1974	Females 1981	Females % Change
0 - 6.0	27.9	24.8	-11.1	26.9	24.1	-10.0
6.0 - 7.5	36.7	22.5	-39.0	25.2	30.6	+2.14
7.5 - 10.0	32.7	28.8	-11.9	27.4	40.3	+47.4
10.0 - 12.0	28.4	28.3	-0.4	31.1	38.3	+22.8
12.0 - 15.0	29.8	28.2	-5.0	32.6	31.8	-2.5
15.0 - 20.0	31.6	31.6	0.0	35.4	36.7	+4.0
20.0 - 25.0	33.9	36.0	+6.2	39.1	40.7	+4.1
25.0 - 50.0	42.5	41.9	-1.4	44.7	47.8	+7.2
50.0 +	60.9	57.3	-5.9	63.0	70.1	+11.3
Undefined	43.3	46.8	+8.3	43.1	44.8	+3.9
Total	40.6	38.6	-4.9	42.1	43.6	+3.6

Source: CPS, 1974, 1981.

FIGURE 5

Percent Aided by Income: Total Award
1974, 1981

Income Category	1974	1981	% Change
$ 0 - 6	69.8	67.30	-3.6
6.0 - 12.5	49.13	65.47	+33.3
12.5 - 20.0	42.34	58.05	+37.1
20.0 - 30.0	32.17	50.77	+57.8
30.0 - 40.0	22.73	42.77	+88.0
40.0+	10.24	31.53	+207.9
Independent	33.83	54.17	+60.1
No Reply	13.51	30.91	+123.5
Total	28.21	47.24	+67.5

Source: Freshman Norms: 1974, 1981.

FIGURE 6

Distribution of Total Award by Income and Size
1974, 1981

Income Category	Year	$1-999	1,000-1,999	2,000-2,999	3,000-4,999	5,000 Plus	Total
		Award Size					
$ 0-5,999	1981	30.8	30.7	17.9	17.9	2.7	100.0
	1974	18.1	35.4	19.9	17.3	9.3	100.0
6,000-12,499	1981	29.7	28.2	19.0	20.4	2.8	100.0
	1974	26.2	31.4	19.2	16.5	6.7	100.0
12,500-19,999	1981	28.4	25.4	23.9	19.8	2.5	100.0
	1974	30.2	29.4	18.8	16.1	5.6	100.0
20,000-29,999	1981	23.5	24.9	33.4	16.2	1.9	100.0
	1974	30.2	27.1	19.5	17.5	5.8	100.0
30,000-39,999	1981	17.4	24.6	44.8	11.7	1.5	100.0
	1974	29.2	24.4	20.6	19.8	6.1	100.0
40,000 Plus	1981	12.8	22.0	56.9	7.3	1.0	100.0
	1974	28.2	21.6	19.8	22.9	7.5	100.0
Independent	1981	28.2	26.8	24.2	18.3	2.4	100.0
	1974	26.2	29.6	18.6	17.6	8.1	100.0
No Reply	1981	26.1	25.7	34.4	12.3	1.5	100.0
	1974	28.1	29.8	19.1	16.9	6.1	100.0
Total	1981	24.1	25.6	32.5	15.7	2.0	100.0
	1974	27.7	28.5	19.2	17.7	6.8	100.0

Source: Freshman Norms: 1974, 1981.

FIGURE 7

Distribution of Total Awards to White and Black Students
by Award Size
1974, 1981

Award Size Category	White 1974	White 1981	White % Change	Black 1974	Black 1981	Black % Change
$ 1 - 999	29.4	23.02	-21.70	21.18	29.84	+40.89
1,000 - 1,999	24.77	27.33	+10.34	32.17	30.18	-6.19
2,000 - 2,999	19.62	35.24	+79.61	18.93	19.23	+1.58
3,000 - 4,999	15.17	17.98	+18.52	18.34	17.26	-5.89
5,000 +	5.93	1.79	-69.81	9.38	2.85	-69.62

Source: Freshman Norms: 1974, 1981.

o The number of two-year public college students increased more in the proportion aided than any other sector. They were closely followed by students in the four-year private sector. Students in the private sector were still more likely to receive assistance in 1981 than were public college students (see Figure 8).

The Effects of Inflation on Student Aid Policy--This research was conducted by Dr. Carol Frances.

Data collected for the Applied System Institute study examining the effects of inflation by Dr. Carol Frances show:

o Because inflationary increases in the cost of living have exceeded the value of monetary income since the early 1970s, the real purchasing power of family income in the United States has actually decreased.

o Inflation combined with recession in recent years has led to greater inequality in the distribution of family income, as measured in constant 1981 dollars. The number of low income families that needed student aid programs to send their children to college actually increased in the last ten years. From 1973--the year in which there were the fewest number below the poverty line--to 1981, the number of poor families increased by over two million or more than 40 percent.

o Tuition as a share of discretionary income has increased drastically. Tuition is estimated to have risen from under one-third to over two-thirds of discretionary income in the last decade for the median family income.

o The discretionary income available to black families is lower than the discretionary income available to white families.

o While the aggregate amount of student aid appears to have increased substantially from 1972 to 1982, the amount of the average award has not increased as fast as the tuition paid by each student. Consequently, inflation has wiped out almost all of the dollar value of student aid awarded and left students, particularly those without aid, with increasing difficulties in paying for college.

o Inflation and high interest have drawn a substantially increasing share of student aid dollars away from the actual educational process to pay for staggering increases in the cost to students of borrowing to finance their education.

FIGURE 8

Percent of Students Aided by
Institutional Type and Control
1974, 1981

Institutional Type and Control	1974	1981	% Change
2 Year Public	23.58	44.31	+87.9
2 Year Private	40.73	57.21	+40.5
4 Year Public	25.48	42.62	+67.3
4 Year Private	33.24	60.34	+81.5

Source: Freshman Norms: 1974, 1981

Conclusions

The findings from the ASI report and conclusions reached in the Frances inflation study suggest that federal financial assistance may indeed affect access and choice. The strongest relationship in the data is between the decline in college-going participation and in the number and size of student aid awards among lower income dependent students aged 18 to 24 between 1974 and 1981. This relationship is consistent with the fact that lower income families lost more purchasing power than did higher income families.

The complementary finding to this decrease in aid to lower income students is the increase in aid received by higher income students. Once again, this finding is consistent with the fact that, in general, the higher income groups sustained their participation rates somewhat better than did the lower income groups.

It is important to remember that the lowest income students were still more likely to receive aid than other income groups, but that the gap narrowed between 1974 and 1981. A large part of the increase in aid for middle income students and upper income students was in the form of self-help. Lower income students received more self-help aid, but still relied largely on grant aid.

There were more poor people in college in 1981 than in 1974. The enrolled population with family income under $7,500 increased from 3 percent to 5 percent of the total enrolled population. However, after proper adjustment for the inflationary erosion of income, low income families appear to have a declining college-going rate. This is because the total number of low income families has increased at a faster rate than the college-going rate.

The impact of increasing aid on student access is difficult to interpret. Overall participation rates of dependent students dropped between 1969 and 1974. The trend was reversed between 1974 and 1981. Much of the decline from 1969 to 1974 could be attributed to the decline in participation rates of males following the end of the draft. The continuing decline of low income student participation rates may be attributed to the erosion of awards going to the lowest income population, while awards to every other income group have increased.

Independent student participation rates (aged 18 to 24) showed a sharp increase between 1969 and 1974. The rates have been relatively stable since then, despite the fact that a smaller proportion of the population was financially independent in 1981 than was the case in 1974. It is possible that early student aid programs were important in helping independent students attend college, but we have no data with which to explore this possibility.

Limitations

Enrollment in college--who goes where and why--is a complex matter. It is influenced by shifting cultural values and changes in the labor market and in social policy. Some influences on enrollment which are not fully reflected in this analysis are:

o the increasing participation by women in postsecondary education;

o the age of the student population; and

o changing economic conditions.

Technical limitations include differences in definitions of income categories between the two major data sources. The participation rate and student aid analyses are based on overlapping income categories. All the data are self-reported.

Policy Implications

Student aid is only one factor in achieving the objective of educational equal opportunity, though a very important one.

The amount of federal student financial assistance has not been adequate to equalize the financial barriers for low income students. Inflation during the past decade has effectively eliminated the increased resources to pay for college the federal government intended to provide through the student aid programs. Although student financial assistance policy is progressive in concept, inflation coupled with inadequate funding of need-based programs is making it regressive.

The situation has been worsened by the government's failure to enact particular provisions of the Middle Income Student Assistance Act and the 1980 Higher Education Amendments which would have increased student aid to low income students in real terms.

Furthermore, without changes in student aid policy, projected demographic changes will exacerbate the imbalance that already exists in current practices. During the next decade, there will be a rapid decline in the number of middle income students and an increase in the number of low income students. Since trends show an increasing focus of aid towards middle income students, despite their declining numbers, the growing number of low income students will continue to experience increasing inequity in obtaining funds.

The data also suggests that student financial assistance has not led to an artificial increase in independent students, since the percentage of independent students has remained relatively constant since 1974.

In addition to directly assisting students to attend postsecondary institutions, student aid plays an important role in creating an environment of greater educational expectations and goals. The availability of student aid helps promote the benefits of a higher education and a national policy encouraging college attendance.

In analyzing the impact of student aid on access and choice it is also important to examine existing information barriers, particularly for low income students. As is discussed in the Public Comments section, student aid is of itself necessary but not sufficient to assure equal educational opportunity.

Another area worthy of examinination in the study of access and choice is the issue of existing contradictions in federal policy towards promoting educational opportunity. As will be reviewed later, analysis by David Rosen and Associates document contradictory public assistance and college opportunity policies.

Work Patterns of Full-Time College Students in 1974 and 1981-- This research was conducted by Applied Systems Institute.

> The purpose of this paper is to describe the variance in work patterns of college students between 1974 and 1981. This is an important period of time to examine because of the federal aid increases during this period. The issue has been raised that availability of grants and loans has diminished students' willingness to work. The results of this report, however, indicate otherwise.

Race. A greater proportion of white students (42 percent) report working than do members of other racial groups. Blacks report the lowest proportion of students working (28 percent). Working black students, however, worked more hours than white students did in both years. The "other" racial grouping shows a significant increase in the hours worked between the two time periods.

Grade Level. The higher the grade level, the more likely a student is to work. This is evident in both years. The proportion of students working in the first three academic years has increased since 1974 while the proportion of students working in the highest three academic levels has declined somewhat.

Assuming that years five and six are graduate level students, there is a peculiar variance. Year five shows a decrease relative to the years before and after. Year six indicates the highest proportion of students working. Year six students also work more hours a week.

Two-Year and Four-Year Schools. Students in two-year schools are much more likely to work than are students in four-year programs, although the gap has closed slightly since 1974. Students in two-year schools worked more hours than did those in four-year schools. The gap has narrowed since 1974.

Public or Private Control of Institutions. Students in public colleges work more than those in private schools. The difference was roughly the same in 1981 as 1974. Students in both sectors show an increase in the proportion working. Students in public colleges worked more hours in 1974 than did private school students. The difference had almost disappeared in 1981.

Urban and Non-Urban. The data is organized according to where one lives, and not necessarily to where one goes to school. There is very little difference reported for the proportion of students working or not working according to whether or not they live in a metropolitan area. There is no difference in the hours worked.

Region. In 1974 and 1981, students in the Northeast and South were less likely to work than were those in other regions. The proportion working in the Northeast, however, increased sharply between 1974 and 1981.

Sector. Working students were more likely to be employed in the private sector. Over 74 percent of the students reported working in the private sector while 23 percent worked for the government. The remaining 2.5 percent reported being self-employed.

Analysis of Work Patterns. Between 1974 and 1981 student work patterns, on an industry basis, appear to have been relatively stable, with a few notable exceptions. Only two industries altered their "market share" by more than two percentage points: retail (up 2.7 percent to 36 percent) and durable goods manufacturing down (2.6 percent to 2 percent). These shifts do not necessarily reflect any fundamental reorientation in student work patterns, rather the depressed state of the economy was probably responsible for the decrease in student work in durable goods manufacturing and construction.

Student employment was, and is, highly concentrated in two specific industries: retail trade and educ.tion. These two industries now account for approximately 62 percent of all student employment (up 3.5 percent since 1974). Far behind these industries are hospitals (5.08 percent of student employment) and the combined fields of finance, insurance and real estate (3.55 percent). Several small fields appear to have increased their student employment considerably: other utilities, medical and agriculture.

Conclusions

Students were more likely to work in 1981 than in 1974. This would support the position that student aid has not replaced students' efforts to finance their own education. There has been no reduction in the hours worked weekly. Work continues to be a central activity of 40 percent of all full-time students.

The results indicate that the increases are in part due to an increase in the rate of employment among those elements of the student population that were less likely to work in 1974. For example, there were increases among women, blacks, lower income students, four-year college students and private college students. Those population categories which had the highest proportion of students working in 1974 tended to remain roughly the same in 1981. For example, males, whites graduate students, two-year college students and public college students either wed a minimal gain or loss in the proportion of students working.

There are still large differences among the various populations in terms of patterns of work. Students from wealthy families are less likely to work than others. Working blacks are likely to work more hours than white students yet, as a whole, are less likely to work than are white students; and first year students are less likely to work than students in their later academic years.

In general, there are reasonably consistent patterns of work between 1974 and 1981, and among the different divisions described in this study. Work appears to be a constant source of income for full-time college students as well as a learning experience that supplements their more formal classroom education.

Cooperative Education--A National Assessment--Executive Summary and Commentary--This research was conducted by Applied Management Sciences for the National Commission for Cooperative Education.*

o Cooperative education contributes significantly to the career preparation of students.

The findings showed that cooperative education contributes to a more direct relationship between college major and full-time after-graduation employment, and a more direct relationship between current job and career plans.

o Cooperative education is a mechanism for student financial assistance.

The large majority of students enrolled in cooperative education programs are compensated for their work. Therefore, for them cooperative education is an income producing activity. For the majority of students and institutional personnel, however, the financial assistance aspect of cooperative education was secondary to its educational advantages.

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*See Appendix C, "Cooperative Education -- A National Assesment" Executive Summary and Commentary.

o Cooperative education is cost-effective for students.

The net effect over a long period of time showed that the financial returns in relation to the costs expended are greatest to an individual who goes to college, attends a four-year institution and participates in a cooperative education program. The greater cost-effectiveness of cooperative education was further substantiated by the taxable income received by cooperative students, the shorter periods of unemployment experienced by its graduates and the greater life-time earnings of its graduates.

o Cooperative education is cost-effective for emplc ers.

Overall, the additional costs experienced by employers in hiring cooperative students as against regular employees were modest. Wage, fringe benefits, supervisory and training costs, and union negotiating costs were essentially the same for both cooperative students and regular employees.

o Title IV-D of the Higher Education Act has made a significant contribution to the national expansion of cooperative education.

Since the first grants were awarded under Title IV-D in 1970, approximatrly 700 programs have been planned, implemented, strengthened or expanded as a result of Title IV-D, now Title VIII, grants.

The Effects of Phasing Out Social Security Student Benefits

This research was conducted by David Paul Rosen & Associates.

In August 1981, the Omnibus Budget Reconciliation Act was signed into law which, among other things, phased out the Old Age, Survivors and Disability Insurance (OASDI) student benefit program under the Social Security Act. OASDI program cost estimate for fiscal year 1981 ranged from $2 billion to $2.4 billion, enrolling as many as one million students. Pell Grants by comparison provided $2.4 billion in cash assistance to approximately 2.7 million students in 1980-81.

This paper attempts, with the available data and their limitations, to specify the consequences of phasing out the program.

> As of May 1, 1982, no new beneficiaries will be added to the program. Those receiving benefits prior to September 1981 may continue to do so until their twenty-second birthday, their graduation, or April 1985, whichever comes first. They must maintain full-time enrollment. Benefits for current recipients will be sharply reduced in four ways.
>
> This will mean that a student receiving the average 1980 annual benefit of $3,072 will lose $1,024 through loss of summer benefits and have his or her 1982 payment reduced by another $512 as a 25 percent reduction. This represents a total loss of at least $1,536 or 50 percent of the prior year's benefit.
>
> Heavy reductions will occur for students from families with one dependent beneficiary (about 400,000 families). Families with more than two dependent beneficiaries (about 250,000) are likely to maintain their overall grant, despite the loss of social security benefits to 18-to-22-year-old student members of the family.
>
> In addition, Pell Grant recipients will experience a reduction in their award as well by counting OASDI grants as student aid in 1982-83. Those attending lower cost schools will lose a higher proportion of their Pell Grant as a result of this change.
>
> One key issue of difference among analysts is the increase in Pell Grants needed to absorb increased demand for that program from the disinherited OASDI population. There exists substantial confusion over how much current OASDI/Pell Grant recipients will have their Pell Grants increased. For those students already at the maximum Pell Grant level, the loss of OASDI benefits cannot be replaced at all. However, the larger budget question is how much money will be needed to replace lost OASDI support for current and newly eligible Title IV recipients.
>
> While at least $1 billion in savings from eliminating OASDI student benefits was projected by the Reagan administration in fiscal year 1982, revised administration requests for an increase in Pell Grants to accommodate students formerly eligible for OASDI totaled $56 million for that year. The $2.225 billion in savings in fiscal 1985 projected by the administration was placed with a request to increase Pell Grants $100 million.

> While the U.S. General Accounting Office in August 1979 estimated the cost to student financial aid programs to have an increased demand of $288 million, they supplied no data to support this amount.
>
> Estimating true cost in Pell Grants to replace lost social security student benefits for low income students is complicated by poor available data, the complexity of the programs' interaction, and the recent change in the treatment of OASDI benefits in Pell Grants.

Conclusions

o Phasing out social security student benefits results in sharp reductions for current beneficiaries.

o For current OASDI/Pell Grant recipients, the loss of 50 percent to 83 percent of the social security benefit between 1982 and 1985 will qualify the student for a significantly higher Pell Grant.

o Low income OASDI student beneficiaries who formerly did not qualify for Pell Grants will become newly eligible for that program as they lose their social security support.

o Low income high school students who have lost the future support of OASDI student benefits will qualify for larger Pell Grants than they would have in combination with OASDI support.

Study of the Cost to Borrowers of Participating in the Guaranteed Student Loan Program--This research was conducted by Touche Ross & Company.

The objective of this study was to identify the cost to a typical borrower of participating in the Guaranteed Student Loan (GSL) program. The approach to this study included the development and analysis of several automated models that calculated total borrower costs under various scenarios.

The focus of this study was related to the actual costs of obtaining and repaying a student loan.

The major findings of the cost to a borrower to participate in the GSL program are:

o Student borrowers under the GSL program usually pay in real terms (adjusted for inflation) an effective interest rate of close to zero or, in many cases, less than zero. This occurs because:

--All payment of principal and interest is delayed until after the student leaves school; and
--When repayment begins, the interest rate paid by the borrower is below market rate.

The difference between what the student pays and what the lender demands for the capital is the total federal subsidy (for example, the in-school interest subsidy and special allowance).

o Borrowers who hold loans for longer periods of time before entering repayment are able to realize more of an advantage than borrowers who enter repayment more quickly.

o PLUS loans do not have the same advantages for borrowers as do student loans. This observation is based on the fact that PLUS loans usually enter repayment immediately and, as a result, do not enjoy any benefits from the federal interest subsidy.

o In the absence of inflation, two student loans for the same amount, with the same interest rate and the same repayment period, require the borrower to pay approximately the same amount in principal and interest, regardless of the length of their respective in-school, grace, and deferment periods.

o Borrowers who can delay the start of repayment while receiving the federal interest subsidy have a major incentive to borrow.

o This analysis assumes a relatively low rate of expected inflation in comparison to the average rate over the last several years. At higher rates of inflation the incentive to borrow to finance education is increased given that the interest rate to the borrower under the GSL program is fixed at below market rates (9% for students and 12% for parents) and subsidized by the federal government.

o The real cost to the federal government is higher for student loans than for PLUS loans. Furthermore, student loans with longer in-school, grace, and deferment (subsidized) periods cost the federal government more than student loans with shorter subsidized periods.

o The total federal subsidy (for example, interest subsidy and special allowance) is structured to provide the most benefit to student borrowers:

--Attending high cost institutions (requiring the maximum allowable amount to be borrowed);

--Attending four year institutions (as opposed to two year institutions); and

--Acquiring post-graduate educations (with associated deferments).

This occurs because the subsidy is highest when the maximum amount is borrowed and repayment is delayed as long as possible.

o PLUS loans are a much more costly method of financing postsecondary education than GSL student loans. The costliness of the PLUS loans is a result of the higher interest rate on the PLUS loans and the fact that PLUS loans are ineligible for federal interest subsidy.

o The in-school subsidy is the critical factor as to whether it is rational to borrow. While in-school subsidies are available, it is the borrower's advantage to borrow as much as possible, as early as possible.

o As structured, the GSL program for students presents a paradox in that student borrowers who undertake an extended education:

--Pay less in real terms for the borrowed capital;

--Cost the federal government more in subsidy payments; and yet

--Receive the greatest potential benefit (for instance, higher lifetime earnings) from their education.

Limitations. This study does not quantify the actual "burden" placed upon a typical borrower.

<u>Study of the Cost and Flows of Capital in the Guaranteed Student Loan Program</u>--This research was conducted by Touche Ross & Company.

The objectives of this study were to identify and analyze:

The flow of capital to and through the Guaranteed Student Loan (GSL) Program; and the cost of that capital to the federal government.

The approach to this study included the review and analysis of existing research on the subject of student loan capital, as well as original data collection and analysis. In addition, several automated cost models are developed to test assumptions and project future costs. The observations and conclusions of this study are divided into three areas:

Identification of capital flows;

Identification of federal costs; and

Analysis of federal costs.

<u>Identification of Capital Flows</u>

o Most of the available literature on the cost of the GSL program is short-term policy oriented. The focus is on the relationship of interest rates to current federal appropriations. The future federal cost implications of new current loan disbursements are generally not addressed.

o The major roles of the key institutions involved in the program are as follows:

Private lenders--primary source of capital; motivated by loan yield, security (for example, guarantee), and community service.

Federal government--funds the program; primary role is to pay interest subsidy and special allowance, as well as reinsure loans guaranteed by states.

State direct lenders and secondary markets--provide capital through issuance of tax-exempt bonds; role is to provide liquidity to the program and ensure that the full demand for student loan capital is met.

Private educational institutions--limited number function as direct lenders; provide limited administrative services to lenders and guarantee agencies.

Student Loan Marketing Association--provides liquidity to the program by purchasing loans; largest owner of student loans.

Underwriters--assist to raise public capital; receive a fee for providing this service.

o In the early 1980s, certain trends have become evident which affect the institutional roles and responsibilities in the GSL program.

--The role of the states has become predominant in program administration relative to the federal government.

--The GSL program is successful. The various institutions involved have appropriate incentives to participate.

Identification of Federal Costs

o The GSL program imposes substantial costs on the federal government. These costs include costs directly assignable to the GSL program (for example, direct costs) and those incurred because of the GSL program but not directly assignable to the program (for example, indirect costs).

o The direct costs (in order of FY 82 magnitude) are:

Special allowance;

Federal interest subsidy;

Federal reinsurance;

FISL insurance;

Administrative cost allowance;

Federal advances; and

Penalty interest.

o The indirect costs (in order of FY 82 magnitude) are:

Federal financing costs;

Tax-exempt bond subsidy; and

Program administration and overhead.

o Receipts from the GSL program which offset costs include: (in order of FY 82 magnitude)

Origination fees;

Collections on defaulted loans;

Special allowance reduction in loans financed with tax-exempt bonds; and

FISL insurance premiums.

Analysis of Federal Costs

o The federal government has committed itself to a significant stream of future payments as a result of the $6.2 billion of new GSL loans disbursed in FY 82.

[illegible]he cumulative future payments for the new FY 82 G[illegible] are estimated to be $2.9 to $3.6 billion ([illegible] for the time value of money). This is eq[illegible] to 47¢ to 59¢ of each dollar loaned. In other [illegible]pproximately $2 of capital is generated for every $1 [illegible]federal cost.

o The most significant components of the payment stream are: the special allowance and the in-school subsidy. These two combined amount to between 72% and 77[illegible] of the total program outlays.

o The next most significant component is reinsurance (16% to 19% of total payments). All other direct and indirect costs only account for 7% to 9% of the total program outlays.

o While there are revenues to offset payments (for example, collections, etc.), these offsets are not as significant (for example, the cumulative total of all offsets equals approximately 15% of total program outlays).

o The most significant unknowns affecting future payments are: (a) interest rates (for example, Treasury bill rates) and (b) the average loan lives in the portfolio. These factors have a major impact on special allowance and interest subsidy respectively.

o The future federal costs of the GSL program must be adjusted for inflation to estimate <u>real</u> costs (for example, expressed in current dollars). The effect of inflation is to reduce the real cost of the FY 82 loans to between $2.6 billion and $2.7 billion. This is equivalent to 42¢ to 44¢ for each dollar loaned.

This provides a real multiplier of 2.3 - 2.4:1 (for example, for every dollar of real federal cost, $2.30 to $2.40 of loans are made available).

o Because a major portion of federal expenditures for the GSL program are used to cover commitments on loans made in past years, it is extremely difficult to reduce program costs in the short term.

o Because a loan program provides leverage (for example, more than one dollar of capital is generated for each federal dollar spent), it delivers more capital to students than would a grant program. There is no doubt the GSL program provides more total student loan capital than would a grant program with equal annual outlays. However, this advantage can be overstated when only the current year is examined. This true multiplier effect in real terms and when all future obligations are taken into account is approximately 2:1.

o The GSL program provides a significant capability to provide capital now and pay later. Both the borrower and the federal government assume an obligation for future payments.

Conclusions

The GSL program is a very successful mechanism to deliver credit as a source of funds for student financial assistance. As a source of leverage for additional money for student financial assistance, the program generates approximately $2 for every $1 of cost to the federal government. Also, the various institutions involved have appropriate incentives to participate, though the price of the program's success has been paid by large federal expenditures.[3]

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[3]Touche Ross & Company, "Study of the Cost and Flows of Capital in the Guaranteed Student Loan Program" (Washington, D.C.: National Commission on Student Financial Assistance, 1983), p. 2.

The primary costs of the GSL program are very susceptible to economic conditions. Inflation greatly affects the benefit of the GSL to borrowers. Higher levels of inflation make borrowing through the GSL program more attractive.[4] Also, federal costs increase considerably with a higher treasury-bill rate. For instance, every one percent increase in the treasury-bill rate increases the cost to the federal government between $250 million and $300 million.[5]

Contrary to public perception, payments to cover defaults account for a relatively small share of federal obligations under the GSL program. By far the greatest cost variable (special allowance) goes to assure lenders something approximating a market return on the loans. In 1982, the special allowance paid to lenders plus the in-school interest subsidy the government paid on behalf of students accounted for about 75 percent of future outlays.[6]

Large-scale, short-term costs reductions are virtually ruled out by the fact that over 90 percent of current annual program costs are dictated by obligations on loans made in prior years.

The focus on any reform should be on achieving effective longer-term cost controls.[7]

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[4]David A. Longanecker, "Testimony before the National Commission on Student Financial Assistance," April 4, 1983, p. 5.

[5]Gladieux, "Testimony," p. 3.

[6]Ibid.

[7]Ibid.

This does not suggest that middle income families do not need assistance to attend postsecondary institutions. They do not need larger effective subsidies than do poorer students.

Guaranty Agency Questionnaire

Identifying Lender Restrictions

The Commission conducted a survey of guaranty agency directors to assess the extent to which guaranty agencies, lenders and state secondary markets impose restrictions on GSL borrowing which go beyond federal regulations.

The survey was conducted to learn the perspectives of guaranty agency directors on the scope of this issue. Agency directors' were asked for their best estimation of the proportion of certain restrictions imposed by lenders. The responses do not reflect the volume of loans in each state.

Findings

Of the 56 questionaires sent to guaranty agencies, 53 were returned.

Commercial Lenders (see Figure 9)

Forty-nine agencies reported using commercial lenders. The three most often-cited restrictions were:

o The most common restriction imposed by commercial lenders was the requirement of a previous customer relationship.

A large majority (37) of agencies reported having between 25 percent and 89 percent of their commercial lenders requiring a previous customer relationship before they would make a loan.

Six agencies reported having between 5 percent and 24 percent

FIGURE 9

COMMERCIAL LENDERS' RESTRICTIONS

		Percentages of restrictions					
		0-4%	5%-24%	25%-49%	50%-74%	75%-89%	90%-100%
A	Require a previous customer relationship before making a loan.	5	6	16	13	8	1
B	Require a cosigner before making a loan.	21	14	6	6	0	3
C	Require a minimum deposit on account before making a loan.	27	8	7	2	2	1
D	Limit aggregate loan amounts to undergraduates.	37	9	2	0	0	1
E	Limit aggregate loan amounts to graduate students.	39	7	2	0	0	11
F	Lend only to graduate/professional school students.	42	5	1	0	0	0
G	Restrict loans to borrowers in the second or a later year of their academic programs.	34	11	3	0	1	0
H	Restrict borrowing to "larger balance" ($2,000 and up) annual loans or won't make "small balance" loans.	26	14	1	3	0	0
I	Will not make loans to students planning to enroll in less-than-four-year programs.	35	8	5	1	0	0
J	Will not make loans to students planning to enroll in less-than-two-year programs.	30	14	5	5	1	1
K	Will not make loans to students who plan to enroll in schools in another state.	37	11	0	0	0	0
L	Will not make loans to students attending proprietary business, trade and technical schools.	26	14	7	0	2	0
M	Will not lend to out-of-state students attending schools in your state.	13	8	11	7	6	5
	Will act as "lender of last resort" for students.	22	15	4	6	0	1

of their commercial lenders imposing this restriction, while 5 agencies reported that virtually no commercial lenders required a previous relationship. One agency reported that nearly all commercial lenders require a previous customer relationship.

o The second most common restriction by commercial lenders was their unwillingness to lend to out-of-state students attending schools in their state.

Twenty-four agencies reported having between 25 percent and 89 percent of their commercial lenders imposing this restriction.

Thirteen agencies reported virtually no out-of-state student restrictions, while 8 agencies reported that a small minority, between 5 percent and 24 percent, of their commercial lenders imposed this restriction. Five agencies reported that virtually all of their commercial lenders imposed this restriction.

o The third most commonly reported restriction by commercial lenders was imposed on students planning to enroll in less-than-two-year programs.

While 30 agencies reported that almost no lenders imposed this restriction, 13 reported that between 5 percent and 24 percent of commercial lenders restricted borrowing, 10 reported that 25 percent to 74 percent of commercial lenders restricted borrowing and 2 agencies reported that between 75 percent and 100 percent of their commercial lenders imposed this restriction. One agency reported that lenders will not lend to borrowers attending trade and technical schools that offer a specific type of training.

Direct Lenders (see Figure 10)

Thirteen agencies reported using direct lenders. These agencies noted that the most common restiction imposed on borrowers was the unwillingness of direct lenders to lend to out-of-state students attending schools in their state.

Five agencies reported that virtually all of their direct lenders impose this restriction, one agency reported that between 75 percent and 89 percent of their direct lenders impose this restriction, one agency reported that between 25 percent and 49 percent of their direct lenders, and 6 agencies reported that virtually none of their direct lenders imposed this restriction.

Secondary Markets

Of the 24 agencies that reported operating a secondary market, 7 reported imposing certain restrictions. Of these, 2 require a minimum balance of $1,000 on loans they will purchase, 2 will not purchase loans made to students from out-of-state institutions, one will not purchase loans from borrowers from institutions with certain default rates, and one will not purchase loans made to out-of-state borrowers. One agency requires a $3,500 minimum average balance on loan portfolios, and will not purchase loans made to borrowers who have moved out of the market area, failed to respond to written inquiry, have deferments, and are graduate students.

Guaranty Agencies

Of the 53 agencies that responded to the questionnaire, 17 reported that they impose restrictions on GSLs which go beyond

FIGURE 10

DIRECT LENDERS' RESTRICTIONS

		Percentages of Restrictions					
		0-4%	5%-24%	25%-49%	50%-74%	75%-89%	90%-100%
A	Require a previous customer relationship before making a loan.	11	0	0	0	0	0
B	Require a cosigner before making a loan.	8	1	0	0	0	1
C	Require a minimum deposit on account before making a loan.	11	0	0	0	0	0
D	Limit aggregate loan amounts to undergraduates.	10	0	0	0	0	1
E	Limit aggregate loan amounts to graduate students.	10	0	0	0	0	1
F	Lend only to graduate/professional school students.	11	0	0	0	0	0
G	Restrict loans to borrowers in the second or a later year of their academic programs.	11	0	0	0	0	0
H	Restrict borrowing to "larger balance" ($2,000 and up) annual loans or won't make "small balance" loans.	11	0	0	0	0	0
I	Will not make loans to students planning to enroll in less-than-four-year programs.	11	0	0	0	0	0
J	Will not make loans to students planning to enroll in less-than-two-year programs.	11	0	0	0	0	0
K	Will not make loans to students who plan to enroll in schools in another state.	7	0	0	0	0	1
L	Will not make loans to students attending proprietary business, trade and technical schools.	10	0	1	0	0	2
M	Will not lend to out-of-state students attending schools in your state.	4	0	1	0	1	3
	...l act as "lender of last resort" for students.	5	0	1	0	0	6

federal regulations. Seven agencies will not loan to borrowers from correspondence schools, three will not loan to part-time students, two will loan only to state residents though one of these states has an agreement with an out-of-state lender to provide loans to out-of-state students, one will not loan to borrowers under 21 years of age, one will not loan to theological institutions, one will not loan to students with less than a "C" average, one requires the borrower to be from a certificate/degree awarding institution, and one requires a cosigner. One agency restricts less than full-time undergraduate and graduate students to one-half of the maximum loan amount of either $2,500 or $5,000 per grade level, allows only students who are enrolled in specific five-year programs to receive a "fifth year" loan, and requires that after initial borrowing a student must progress to a higher academic grade level before receiving an additional loan.

Lenders of Last Resort

In response to the question, "Do potential GSLP borrowers in your state have sufficient access to 'Lenders of Last Resort' so that the restrictions imposed by lender and/or secondary markets represent no major problem?", 29 agencies answered "Yes, definetely," 20 agencies answered "Yes, basically no significant problems in access in our state," 2 agencies answered "No, access to loans is restricted to some students," and one agency answered "No, access to loans is restricted to many types of students."

Feasibility of a Study to Determine Identifiable Patterns of Lender Discrimination--This research was conducted by Touche Ross & Company.

Current information available on lender discrimination, though anecdotal, suggests that the discrimination which exists, is primarily academic in nature rather than racial. In other words, those students having difficulty securing a GSL from a lending institution are usually freshmen or students who attend propriatary institutions. Another type of discrimination, though very difficult to quantify, is the subtle discrimination against low income students who have no prior experience or dealings with banks. Information from Commission hearings shows that low income students, often the least sophisticated in dealing with banking institutions, have the greatest difficulty in obtaining GSLs.

The purpose of this study was to determine if quantitative data on lender discrimination could be gathered by analysing existing borrower data from lenders of last resort. Unfortunately, as the findings from this study show, information available from lenders of last resort is inadequate to draw any conclusions. However, appropriate information could be collected, making it possible to gather this information at a later time.

This study was conducted by interviewing individuals from the Department of Education, guaranty agencies and lenders. Information was obtained on lender of last resort programs, the demographic data they collect and the reasons for the use of last resort lenders.

- States vary substantially in their approach to ensuring that there is always a source of capital (for example, lender of last resort) available for borrowers. Some states have:

  Separate organizations that function as lenders in addition to the commercial lenders (for example, Virginia, Minnesota, and Wyoming). These states provide loans to borrowers who are denied loans by commercial lenders. State agency or private non-profit organizations use this approach.

Commerical lenders exclusively in the state (for example, Massachusetts, California, and Illinois). In this instance, some of the lenders will have an "open door" policy.

Direct lenders in the state with commercial lenders serving as lenders of last resort (for example, North Carolina).

United Student Aid Fund, Inc. (USAF). USAF will serve as a guarantor of last resort and guarantee the loan and find lenders. In addition, USAF serves as guarantor for several states.

o The type of demographic data available on borrowers is limited in scope.

Some data items are commonly captured across all states. This information is needed for the guarantee and identifying and locating borrowers. Examples of the data collected are: address, state of residency, birth date, U.S. citizenship status, adjusted gross income, school, grade level, and others.

Although other key data items are not generally collected, the Equal Credit Opportunity Act prohibits lender discrimination on the basis of sex, marital status, and race. In addition, the Student Loan Marketing Association (SLMA) is prohibited from doing business with certain lenders who have restrictive regulations against student borrowers.

o Reasons for borrowers using lenders of last resort are seldom documented; however, the primary reason stated by respondents is that the borrower does not have an account relationship with a commercial lender.

Only the respondents from the New Jersey Higher Education Assistance Authority indicated that they maintain records on borrowers who use the lender of last resort. In order to receive a loan from the lender of last resort in New Jersey, the borrower must be denied a loan from three lenders. These denials are documented on a standard form. The reason cited most often for using a lender of last resort was lack of an account with a commercial lender; the second reason was default on a previous loan.

o It is feasible to identify borrowers who use lenders of last resort where there are separate organizations for this purpose; however, it is, for all practical purposes, impossible where commercial lenders are involved.

The files of a separate organization contain only borrowers who have used a lender of last resort. USAF files for borrowers who obtain their guarantee and use their lender could be used. Commercial lender files contain records of all types of borrowers, but lenders of last resort borrowers are not identified.

o In states that have set up lenders of last resort, analysis of demographic data may not show any striking patterns or there may not be enough data to analyze. This is because:

The volume of lending is either very large (for example, 50 percent) or extremely small (for example, .01 percent) or non-existent.

In the high volume states, an analysis may not show any striking patterns because borrowers have ready access to lenders of last resort. This usually occurs in states where a denial letter is required only for the first loan and denial letters for subsequent loans are not required.

In low volume states, there may not be enough data to analyze (approximately 11 out of [illegible]5,000 borrowers this year in New Jersey).

Conclusion

An analysis of the demographic data on borrowers who use lenders of last resort is feasible in a limited sense, but may not provide the Commission with useful insights into lender discrimination patterns.

The analysis is feasible in those states that have set up separate organizations that function as lenders of last resort. Currently, there are ten states (Arkansas, Colorado, Georgia, Kentucky, Michigan, Minnesota, Oklahoma, Texas, Virginia, and Wisconsin) and USAF who are candidates for such a study.

These ten states comprise approximately 18 percent of the national GSLP loan volume.

The analysis may not provide useful insights into lender discrimination because the e se of access to lenders of last resort may result in borrowers with same demographics as general borrower population.

Resolving the Contradictions of Federal Public Assistance and College Opportunity Policies--This research was conducted by David Paul Rosen & Associates.

This study explains how public assistance programs create barriers which prevent low income citizens from attending college and makes recommendations to resolve these contradictions. The study discusses how these barriers perpetuate dependence on benefit payments, discourage self-sufficiency and drain national resources. The federal public assistance programs analyzed are:

Aid to Families with Dependent Children (AFDC)

Social Security Student Benefits

Food Stamps

Medicaid

Public Housing

Unemployment Insurance

> Currently, complementary public-assistance and college-opportunity policies do not provide adequate financial resources to low income individuals for both subsistence expenses and expenses for attendance at a college of their choice. Public assistance policy, which in many ways reduces financial resources available to such citizens upon their enrollment in college, makes it financially near[1] impossible to attend.

A $100 net increase in the cost of college is accompanied by a 1 percent to 3 percent decline in enrollment rates of low income and moderate income individuals, with low income students harder hit.

There is a lack of coherent purpose in the wide variety of federal public assistance programs. Aid to Families with Dependent Children and Food Stamps are income transfer programs intended to provide the poor with a modicum of financial subsistence. Medicaid and public housing provide income transfer payments of another sort, in the form of subsidies for health care and shelter. Unemployment Insurance provides cash payments on premiums paid by workers when they experience involuntary unemployment. A host of employment and training programs, culminating most recently in the Comprehensive Employment and Training Act (CETA) and now replaced by the Job Training Partnership Act of 1982 provide alternative forms of income maintenance to low-income, unemployed citizens, subsidizing wages, training stipends and activities. Vocational rehabilitation programs provide education, training, medical and rehabilitative services to disabled citizens. And Social Security provides disability insurance payments to those unable to work, as well as benefits to the children of deceased, retired or disabled parents.

Each of these programs has different eligibility criteria, standards for determining financial need, methods and levels of payment or service delivery, and federal-state administrative partnerships and agencies. There exists no federal or state mechanism to assure coordination of benefits, to avoid duplication or to prevent under-awards. Furthermore, the integration of public assistance programs with student financial aid often contradicts the federal commitment to assuring the poor financial access to college.

Specifically, the study found the following facts and contradictions as they relate to college opportunity:

Aid to Families with Dependent Children AFDC. Eighteen-to-21 year-old recipients are no longer eligible for AFDC benefits. In 1979, the 193,000 student dependents had average losses of $1,195 per year.

Parents with children under six are required to be home except for "only brief and infrequent absences." They are otherwise required to register for work. Such a provision will prevent many welfare parents, mainly single mothers, from attending college. HEW [the Department of Health, Education and Welfare] reported that in 1977, 112,000 AFDC mothers were attending school or job training; 93,000 in 1979.

For example, the roughly 200,000 18-to-20-year-old students eliminated from AFDC support by the 1981 Omnibus Budget Reconciliation Act lost their Medicaid support as well. Some college students will retain their coverage if they maintain high medical costs and are in one of the 29 states, or the District of Columbia, that provide this care. Others with ordinary medical expenses, as well as those not residing in these states will not retain coverage.

Food Stamps. Food Stamps, a 100 percent federally fun ed program, have long excluded college students from eligibility, with few exceptions. As few as 47,000 students attending college may receive food stamps. Recipients who enroll in college stand to lose an annual food subsidy of $432.

Unemployment Insurance. Since October 1981, 20 states have limited unemployment insurance payments to otherwise eligible recipients who enrolled in college, making it difficult for unemployed citizens in need of retraining or reeducation to attain the schooling they need for a new skill.

Public Housing. Recent changes in public housing eligibility have adversely affected public housing residents attending college. The earnings-disregard and the $300 annual deduction for full-time students that had helped to determine rent payments for assisted housing programs was eliminated.

Conclusions

Public policy goals have [illegible]edly called for less[illegible]ng the reliance of the poor on public assistance programs by de elop ng recipients' capacity for economic self- :fficiency. And while it would seem a natural strategy to ally public assistance with postsecondary education opportunities, no such coherent state or federal policy has yet emerged. On the contrary, conflicting purposes and procedures of public assistance programs produce disincentives for the poor who s k to achieve self-sufficiency through education. Such disincentives frustrate the efforts of low income citizens to achieve productive careers. They perpetuate dependence on public assistance payments.

They result in increased government spending on entitlement programs, while simultaneously depriving citizens of an earned income and the government of increased tax revenue. Barriers to college enrollment created by these disincentives penalize the poor by either reducing or categorically eliminating benefits upon college enrollment.

Further examination needs to be made to see to what extent student aid programs are meeting the needs discussed in this paper.

PUBLIC COMMENTS

The comments below are from witnesses' testimony at Sources of Funds Subcommittee hearings.

Mr. Charlie Saunders, Director, Government Relations, American Council on Education, subcommittee hearing, Chicago.

> In the mid-1950s only 45 percent of the top third of high school seniors planned to attend college. Only 13 percent of 18-to-24-year-olds attended college in those days. Women constituted 35 percent of college enrollments, blacks 6 percent, and only 20 percent of college enrollments were from other than the traditional 18-to-24-year-old age group.
>
> No federal student assistance was offered and very few scholarship programs were available. Many institutions had no student aid programs whatsoever; and with very few notable exceptions, there were almost no state financial aid programs.
>
> Today, higher education enrollments are much more representative of the general population. Fifty-two percent are women, 10 percent are blacks. Some 26 percent of 18-to-24-year-olds are enrolled, double the percentage of 25 years ago. And students over the traditional college ages now make up 35 percent of undergraduate enrollments.

Those high-ability, low income students who had a 42 percent chance of attending college in 1961 had seen the odds raised to 62 percent by 1972; and while accurate data is not yet available on the high school class of 1980, it is known that 73 percent of those high-ability, low income students in that class expected to attend college.

The national policy of encouraging college attendance has significantly helped create a perception that higher education is attainable to every person who is qualified.

Since 1980, although funding of the major student aid programs has held steady, inflation has actually decreased aid by about $150 million. In terms of constant dollars, federal aid for those programs has declined by 23 percent. If you factor in the decline of social security and veterans educational benefits--the actual decline amounts to 32 percent.

Dr. Arnold Mitchem, Executive Director, National Council of Educational Opportunity Associations, subcommittee hearing, Chicago.

With respect to access, financial aid in and of itself is necessary but not sufficient to assure equal educational opportunit [illegible] ability to expand educational opportuni [illegible] the current participation rates of certain groups in colleges is affected by "structural inequalities" not addressed by student financial aid. These "structural inequalities" are addressed by TRIO programs in relation to college retention and completion. For example, rural isolation, individuals who reside in an area where the dominant language is not English, poor academic preparation and lack of peer and family support.

More needs to be done in this whole area of giving greater attention to support services for disadvantaged populations.

There is an overrepresentation of lower income and minority students in two-year colleges. Between 1974 and 1980 the enrollment at two-year schools increased by 99 percent, whereas the enrollment of students at four-year institutions increased by about 12 percent. Accordingly, a black student is about 20 percent more likely and a Hispanic is about 60 percent more likely than a white student to enroll in a two-year college.

Thus, for low income populations and certain minority populations, it appears that financial aid has only been a marginal factor in choice, and that if we are to have more equal distribution of poor and minority students in all institutions, there is a need for more of the TRIO-type services of information, counseling, remedial work and so on.

The five TRIO programs are student assistance programs authorized under Title IV of the Higher Education Act of 1965. Since 1966 when the first of these programs, Talent Search, went into operation, they have served over 3 million students at a cost of slightly over one billion dollars. Presently 1,300 hundred TRIO programs are serving over 500,000 students.

The five TRIO programs serve as a mechanism to move the poor and mi[illegible]s into the middle class. Talent Search projects pro[illegible] youth the information they need to take advantage of, and choose among, college opportunities. Project staff encourage students during the admissions process and during the period while they await notification regarding financial aid awards. Talent Search counselors also assist students and their parents in completing financial aid forms. Talent Search works to minimize the problems which result from insufficient counselors in high schools. Educational Opportunity Centers (EOCs) provide the same type of service as does Talent Search, but focus on adults. Among their target populations are persons on welfare and persons who are unemployed or underemployed.

Upward Bound and Special Services projects, when compared to these two access programs, focus not only on providing information to students, but also upon improving the quality of the education which they receive. Upward Bound concentrates on the problem of academic underpreparedness at the high school level, by providing supplementary instruction and counseling to low-income high school students during summer sessions on college campuses and academic year classes. Its intent is to reduce disparities in high school graduation rates, to provide students realistic expectations regarding college and to prepare them to com[illegible] when they do enroll.

By law, two[illegible] of the students served by these programs are requir[illegible] from families where neither parent has received a b[illegible]aureate and their total taxable income is less than 150 percent of the poverty level.

The appropriation level for the TRIO programs in fiscal year 1982 was $150.2 million. It is estimated that this served approximately 500,000 students which represents approximately 3 percent of all eligible recipients.

Mr. Dan Hall, Dean of Admissions and Aid, University of Chicago, subcommittee hearing, Chicago.

> If student aid dollars are to serve their intended purpose (educational opportunity for all citizens) then two things are needed: information and timely notification.
>
> Students need to know early in their high school careers (and earlier than that if possible) that college is a possibility for them. Middle income students know it already; they have known it from childhood, although their families have increasing doubts about how to put the money together.
>
> If low income students also knew that college was possible for them from the time they were small children, the change in behavioral pattern for students from the ghetto could be extraordinary. We could break the horrible cycle of poverty. But low income students have more doubts today about their ability to go to college than they did a decade ago.
>
> Actual and rumored reductions in federal student aid programs, the increasingly late timetable on campus-based awards, application procedures and eligibility criteria are all contributing to a widespread misconception that there is no help available.
>
> But the federal government is unwilling to spend money for information to encourage students to seek a higher education.
>
> Timely notification has to become a key component of higher education policy.
>
> The timing of financial aid availability directly affects whether students have the choice of going to a private college or state supported institution; and the significant decrease in first-year students at private colleges this year is directly related to the problems of the financial aid delivery system.
>
> Even of more concern, are the students who are completely left out of the system. They are totally bewildered by the maze of regulations, have the least sophisticated parents and come from schools that have the least capability of college counseling. These students, if they have thought about college, settle for two-year colleges.
>
> The importance of early information is already recognized in the 1980 Higher Education Amendments; but the money to implement has been redirected to the goal of creating a perfectly efficient and thoroughly error-free system.

A national goal of conveying financial aid information to students a year earlier for the next seven years should be established, so by 1990 every student starting junior high school will be focused towards the idea of preparing for education or training after high school.

Special attention should be made to get this message across to low income and minority students.

The mechanisms for timely notification are already there. They do not need to be created. No laws are needed to implement them.

An Overview of Alternative Financing Mechanisms--presented by Arthur M. Hauptman, Education Consultant, subcommittee hearing, Washington, D.C.

In examining alternative financing approaches, the alternative plans are divided into the following three categories:

o Activities to supplement existing loan availability through the issuance of tax exempt bonds, the use of institutional or external funding sources such as corporations, or the expansion of several alternative programs already on the books.

o Proposals that would supplant the present loan programs with some form of a national student loan bank generally in tandem with income contingent or graduated loan repayment procedures.

o Creation of new tax incentives that would offset current expenses or would encourage saving for college to help students and their families meet the costs of a postsecondary education.

Ways to Supplement the Existing Loan Programs

The budget battles of the past several years, and the confusion and concerns they have engendered, have spurred the development of a number of supplemental loan plans that seek to minimize the impact of possible cutbacks in existing aid programs.

Advocates of supplemental loan plans begin with the premise that the existing loan structure is fundamentally sound and that it would be difficult if not impossible to replace it.

They note that recent federal legislation has trimmed GSL volume by approximately 20 percent from the peak year of 1981-82 and that proposed changes, if enacted, would crimp loan availability even further. The plans which are being developed to combat these cutbacks are aimed at students who either are no longer eligible because of revised standards in the existing programs or at those who find their current loan limits insufficient to meet their costs of attendance.

The supplemental plan which has received the most attention creates state-sponsored agencies that use tax exempt financing for the purpose of providing educational institutions with student loan capital at relatively low cost.

Student loan plans that incorporate the use of tax exempt financing face questions regarding the extent to which investors are willing to buy tax exempt bonds for this purpose and at what price. On the basis of the evidence thus far, it appears that the market is receptive to these bond issues. Moreover, borrowers can receive a very attractive interest rate, to the extent that the savings which accrue from tax exempt status are, in fact, passed on to the borrower in the form of lower-than-market rates.

Doubts remain, however, as to how much student loan financing over time is feasible through this route. As more and more states and institutions attempt to get into the act, supply may not be able to keep pace, or the interest rate which must be paid to investors may increase substantially from current levels. There is also the question, how many and what types of institutions can afford to participate in this type of plan since it generally requires a hefty institutional financial commitment in the form of dedicated endowment funds or lines of credit.

Another, more general concern about the use of tax exempt financing for student loans comes from those who object to the widespread and growing use of tax exempt bonds for a wide variety of purposes. They believe that many of these bond issues are used in ways that only minimally touch on the public purpose objective that must be part of any plan that utilizes tax exempt financing. They also point out that the heavy use of tax exempt bonds denies funds to the Treasury that could be used to reduce the deficit or to spend for other purposes. While it may be tempting to scoff at this concern, and to note that previous attempts to restrict the use of tax exempt financing have generally failed, it is nonetheless true that this is a strongly held sentiment which will continue to be raised in discussions of public policy, and it contributes to a sense of uncertainty about whether tax exempt bonds will be available for student loans in the future.

In addition to state plans that utilize tax exempt financing, a number of institutions, mostly in the independent sector, have decided to take steps on their own to insure loan availability for their students and to provide some modicum of financial stability for themselves. Some have simply placed a portion of their endowments aside for the purpose of making loans, others have negotiated with banks to set up programs tailored for their students, while still others are apparently dealing directly with investment bankers to establish their own direct source of tax exempt funds. Corporations or foundations are other possible sources of funding for institutions looking to initiate or augment their own lending activities.

One reason for the success of GSL in recent years has been its conduciveness to the use of secondary markets, which greatly value similarity in rates and terms when dealing with great masses of financial paper. This type of consistency will be difficult to achieve through a hodgepodge of institutionally-based programs, and this consideration substantially limits the growth potential of this type of student lending.

It may also turn out that the best insurance against precipitous drops in loan availability is the greater use of GSL alternatives already on the books. On the surface, it would appear that the new federal program for parents--generally called PLUS--should become a substantial and important part of the loan structure. Its rate is competitive, especially since it fell to 12 percent, and the presence of a federal guarantee should help to convince banks and other lenders that PLUS is a good investment. But so far, PLUS volume has fallen short of initial projections, and it is difficult to say whether further growth will materialize over the next several years.

No such confusion exists when discussing the provisions that allow graduate students and financially independent undergraduates to borrow federally guaranteed loans on the same terms as parents--the so-called ALAS program. This type of loan seems mired with little hope of movement unless the current rules are modified. Most lenders and institutional officials are uncomfortable with the notion of repayment obligations being placed on borrowers while they are still in school. While the Administration is enamored of moving students from the expensive GSL program to the less-subsidized ALAS version, it has failed to suggest changes which would allow this to happen. Until some modifications are made, it is highly unlikely that ALAS will become a viable lending option.

There are some steps, however, that states can now take which would help to spur the growth of these federally created alternatives for both parents and students. Growth could be stimulated through more active promotion by the state agencies responsible for program administration as has been demonstrated for PLUS by Massachusetts and New Jersey, among others. In addition, states could decide to subsidize PLUS and/or ALAS terms to make the loans more attractive to borrowers, as New York State is presently contemplating.

New Loan Plans

While many believe that the current system of student loans is basically sound and requires only minor modification and supplementation, others are convinced that the existing set of programs is fundamentally flawed and should be replaced with an entirely new structure. Those who believe this base their assessment on some combination of several factors. A major concern is that the default rate in student loan programs is excessive, and that the current procedure that relies on federal guarantees and private sector collection will never be able to reduce the default rate to acceptable levels, given the fact that student loans have no collateral requirements and that lenders always have the option of exchanging bad paper for cash.*

[Although contrary to the Administration's emphasis on private sector initiatives,] another fear is that reliance on the private sector as the source of capital for student loans is simply too expensive. The belief here is that the level of payments needed to persuade banks and other private lenders to participate in the GSL program--principally the payment of interest while borrowers remain in school and the special allowance arrangement that keeps GSL yields competitive with market rates--represents too great a drain on the Treasury, especially when interest rates are high.

*The actual 1981 net default rate in the GSL program is 5.8 percent (see Arthur M. Hauptman, "Student Loan Default Rates in Perspective," American Concil on Education Policy Brief, February 1983, p. 4). This compares to a default rate of 13.3 percent in Small Business Loans (see U.S. Small Business Administration, "Management Information Summary," April 1983, p. B-2).

Still another concern about the current set of loan programs is linked to possible future financing patterns for institutions of higher education, especially those in the public sector which receive state appropriations for the purpose of keeping tuitions low. There have also been a number of proposals over time to raise tuitions in the public sector so that price will more closely reflect the costs of providing the educational product. Often, advocates of heightened tuition levels also propose an increased usage of loans so that those individuals who wish to continue their participation in postsecondary education will be able to do so in the face of higher costs.

They further believe that the current loan programs could not accommodate this type of change, either because the cost to the federal government would be prohibitive or because lenders would not be willing to increase adequately the amount of funds they were willing to devote to student loans.

For those who voice these concerns, the solution is to revamp the student loan structure. Proposals along these lines would have the federal government serve as both the source of funds--thereby removing the vagaries of relying on private sector lenders, and as the loan collector through the use of the tax system--thereby insuring a substantial and permanent reduction in the default rate (unless more people decide not to pay their taxes). Advocates of this type of approach generally also propose tying loan repayment schedules to the income of borrowers once they leave school so that repayment obligations will not exceed ability of the borrower to repay.

Advocates of starting all over, however, face stiff institutional resistance on a number of fronts. First, all those parties involved in the current set of programs point with pride to their track record and believe that scrapping the working engine for a mystery machine is not the solution. Second, the Internal Revenue Seervice, which in most of these proposals would have the primary task of administering the new system, has steadfastly insisted that its job is to collect taxes, not loans, and has lodged considerable objections whenever the idea has been broached. Finally, and perhaps most telling, trying to free up many billions of federal dollars to begin the process of making loans, even if these funds will eventually be repaid with interest, is quite an undertaking when annual deficits are running above $100 billion. To avoid this budgetary conflict, some of these plans call for financing through federal borrowing which does not appear on the federal budget (except for the interest on the debt incurred). This route, however, runs into difficulties from those who want to establish federal credit limits to halt just this sort of budgetary end-run. In addition, the cost of paying off current GSL obligations must be considered in any new financing proposal.*

Creation of New Tax Incentives

The present tax code already contains a number of provisions that reduce tax liabilities to help families finance college costs. These provisions, which currently cost the Treasury about $2 billion in lost revenues every year, include the extension of exemptions for college age dependents who are students, the exclusion of scholarship and fellowship assistance from taxable income, and a wide range of devices that allow wealthy parents to shift income from themselves to their children, thereby reducing their tax liability.

A number of proposals have been made over the years that would expand the range of tax benefits available for the family financing of college costs. The three principal proposals now under consideration are the creation of tuition tax credits to offset partially the current expenses for students in postsecondary educational programs; deductions for contributions to special savings accounts that would be used to pay for the children's college costs; and tax-free income on investments in designated educational savings accounts, as recently proposed by the Reagan Administration.

Tax provisions, both those that exist now and those which have been proposed, can be judged in a number of ways. Three criteria that are frequently used to evaluate the merits of tax provisions in fields other than education are: 1) the amount of revenue lost to the Treasury because a tax provision is on the books; 2) the ability of a tax provision to affect economic behavior, for example, the bang for the buck; and 3) the degree to which tax savings are channeled to wealthier families, generally referred to as the fairness issue.

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*If no new loans are made in 1984, it would still cost the federal government approximately $9 billion in outlays over the next seven years (see Steve Leifman, "Memorandum to President Ryder on GSL Costs," National Commission on Student Financial Assistance, April 18, 1983, p. 1).

Interestingly enough, of the three types of proposed new tax breaks for family financing of college costs mentioned above, none does well on more than one of the three criteria used for evaluating the merits of tax provisions.

Tax credits for current educational expenses appear to be the fairest, particularly if the credit is refundable to families with little or no tax liability, but the amount of benefit offered is unlikely to affect behavior patterns and the revenue loss could be quite substantial--$1 billion or more per year. And if the amount of the credit is raised so as to have an impact on behavior, the costs in terms of lost revenues could be astronomical.

Tax deductions for savings would likely have a substantial impact on behavior--the bang for the buck would be impressive if parents flocked to such accounts in the same way the Individual Retirement Accounts have caught on in recent years. But the revenue loss could be enormous--as much revenue could be foregone through such a tax deduction as is currently sacrificed through all existing provisions. Moreover, the equity of a tax deduction plan is suspect since only wealthier families can afford to invest large amounts in such a plan and these are the families, because of their tax bracket, that reap the greatest tax savings. This equity obstacle can be lowered somewhat by requiring that a portion of the investment be used to establish a scholarship fund for needy students.*

The Administration's proposal to not tax income on investments in designated educational savings accounts might be acceptable from a fairness perspective if the maximum contribution were limited to families with incomes of $40,000 or less, as the Administration has proposed. But the tax loss could be substantial once the program was in full swing; and it seems that the Administration has underestimated the number of families who would put something aside in one of these accounts sometime before the child reaches college age. And as a number of observers have already noted in the press, there is likely to be very little bang for the buck resulting from enactment of the Administration's proposal. Despite the Administration's protestations to the contrary, the tax-free income approach is very little different in effect from what currently is available to parents in the form of gifts or trust arrangements that allow parents to shift assets to their children and thereby pay little or no tax on the income from those assets.

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*For this program to be successful, it would be necessary for parents to make long-term financial plans. The benefits of this program do not materialize for many years.

The following are synopses of existing or proposed alternative and supplemental financing mechanisms. Most of these plans were presented at Commission hearings and are categorized below by type. Additional information was provided by the U.S. Department of Education and the National Association of Independent Colleges and Universities.

Supplemental

Tax Exempt Financing of Educational Loan Programs--presented as testimony by several witnesses, subcommittee hearing, Washington, D.C.

Tax exempt bonds for student loans are used in three ways: to guarantee loan certainty to students eligible for the federal GSL program but unable to find a commercial lender willing to make a loan; to provide a secondary market for GSLs, which creates the investment liquidity necessary to encourage the continued participation of lenders in the states; and as a supplemental alternative to provide loans to students and parents who do not meet GSL restrictions and cannot obtain loans from other sources.

State authorities issue bonds at low, tax-exempt interest rates and use the proceeds to buy or make both federally guaranteed and nonguaranteed loans. The money is issued to the institution which has the obligation to repay the authority or bondholder.

More than 24 states issue bonds as a way of guaranteeing loans to students eligible for GSLs but unable to find commercial lenders willing to make loans. As a supplemental program, several states have loan authorities guaranteed by the institutions themselves.

ICLs may be described as providing a form of insurance--against high (in comparison to income) repayment burdens. The concept has also been compared to that of equity finance--the student may be seen as financing his or her education through the sale of participation shares in future income, much as a corporation financing operations through the sale of stock. The corporation analogy also applies to the characteristics of limited liability in the case of relatively unfruitful investments.

ICLs are a means of subsidizing (to the extent that governmental subsidy of loans continues) students on the basis of future income--their returns to education--rather than parental income. Although there is a positive correlation between (current) family and (future) student income, it is far from perfect, and current programs may be criticized as subsidizing students from lower income families who will themselves earn high incomes.

As described earlier, ICLs are viewed by their proponents as a means of increasing the attractiveness of student loans (to both borrowers and lenders) by perfecting the capital market, rather than providing subsidies. To the extent that this is true, ICLs could raise the efficiency of higher education finance. To the extent that loan funds become more widely available to students from families of all income levels, and "deferred grants" (through repayment foregiveness or reduced repayments due to low income) are provided on the basis of relatively low returns to education, equity might also be enhanced.

Relatively unsubsidized (i.e., market interest rate) ICLs might also avoid the problems of supply rationing experienced with the subsidized GSL program. With students paying more of the full costs of borrowing, "excess" demand for loan funds would diminish. There would also be no need for complex needs analysis systems or their attendant administrative costs.

It has also been argued that the ICL concept is in accord with increasingly popular notions of student independence and autonomy. The concept offers a means for students to become responsible directly for the financing of their education and reduce their dependence on parents. Further, the substantial difficulty in dealing with independent students under conventional aid or loan programs would be avoided.

ICLs could reduce the disincentive to entering relatively low-paying yet "socially beneficial" occupations such as elementary and secondary education, the clergy, social work, etc. Knowing that loan repayments would be commensurate with their income, more students might be willing to enter these fields.

The reduced repayment levels also might compensate for the lower average incomes of groups who may suffer from labor market discrimination--blacks, Hispanics, and women.

The concern about the long-term "burden" of ICLs may be said to be somewhat displaced. Those who focus on the total repayment amount over a period of 30 years or more generally overlook the appropriate discounting of those future payments (to account for a positive rate of time preference and probable inflation) to establish the much lower present discounted value of those totals. The portion of repayments constituting repayments could be deductible for federal income taxes (for those who itemize). Further, as delineated by Raymond and Sesnowitz, the level of repayments contemplated in any proposed ICL plan would not substantially reduce the net returns to higher education enjoyed by graduates.

Perhaps most significantly, extension of repayment periods and provision for low income insurance (in terms of repayment burden) would make feasible the removal of interest subsidies from governmentally guaranteed loans (although many ICL proposals would not remove interest subsidies). If this were done, governmental costs could be limited to those associated with ultimate risk bearing (in cases of death, disability or default) and--if desired--collection costs or costs of federal loan intermediary activities (as undertaken currently by the Student Loan Marketing Association) after a start-up period. The start-up period would involve costs for initial capitalization and in-school interest payments. (In-school interest need not be paid by the government; it could accrue while students are in school and be repaid by them, but it is generally assumed that the government would have to cover costs until repayments by students begin.) Thus, an ICL program could be largely self-sustaining after a number of years, potentially resolving the current "crisis" over federal costs of the GSL program.

Possible Disadvantages of Income Contingent Loans

As one might expect for a concept representing a radical departure from conventional practice, a concept considered and rejected by policymakers and legislators often in the past, income contingent loans have numerous possible disadvantages. Perhaps the most basic is the difficulty in attributing future income--either in the aggregate or specific increments thereto--specifically to educational investments. Several studies have found the overall correlation between education (considered as a homogeneous entity) plus age and income to be weak. If this is true, then ICLs might be considered appropriate only on an "ability-to-pay" but not on a "benefit" basis.

Even if earnings were considered to be substantially determined by education, it would be inappropriate to consider property or other income not derived from labor, yet it is very difficult to separate income by source, especially in the case of income from sole proprietorships. There also arises the problem of dealing with individuals who have no market income but are married to people who do; it would seem inequitable not to require payment from such people, yet it is difficult to argue that the income of their spouse is a return to the borrow's education (aside from the "negative dowry" aspect of such cases). Also, as with any income "tax," a negative effect on the labor supply of borrowers is probably (though of uncertain magnitude, especially if borrowers have "backward bending" labor supply functions, which could imply increased labor supplied in response to reduced net earnings over certain earnings ranges).

In terms of governmental costs, there is no guarantee that these would not be very substantial, either initially or in the long-run. Especially if no "arbitrary" limit is to be placed on loan amounts--except that they be no more than the costs of attendance--these governmental obligations could be quite large, though also quite uncertain. And the "break-even point" for the portion of costs to be covered by loan repayments could be many years away.

Only market, not "psychic" or other forms of non-market income, or fringe benefits, would be considered as the basis for repayments. Graduates would have an incentive to enter careers with low market but high non-market rewards--college teaching, for example. Employers would have an incentive to offer compensation in the form of fringe benefits rather than direct payments. This would reduce the financial health of the revolving repayment funds. Further, if one accepts the implication from economic theory that market incomes reflect the marginal productivity of the labor performed, this would have a negative effect on aggregate social product.

The negative effect on governmental, parental, and philanthropic contributions to higher education institutions is inestimable but could be very substantial. Students and their education might be perceived as needing no assistance from such sources, although they currently provide the majority of college revenues. (The specific issue of development of higher tuition policies is developed further below.)

The insurance analogy applies quite imperfectly to ICLs. This analogy would imply either that all students have identical "ex ante" incomes (i.e., same predictable future incomes as estimated at the beginning of the schooling period), or that students should be "risk rates" with payment of insurance (or interest) premiums commensurate with the level of risk (or low incomes). In practice, "ex ante" incomes vary substantially with student characteristics and choice of major/career field. Risk rating, since it would take into account such factors as race and sex, would be theoretically satisfying but politically unpalatable. As a result, ICLs would resemble less insurance than subsidy of those with lower "ex ante" incomes (e.g., minorities, women, less talented students, those choosing lower paying occupations) by those with higher (if a mutualized plan) or the tax-paying public (if externally subsidized). And with respect to the equity financing analogy, direct and explicit "share of profit" contracts are far from common in borrowing for investment in non-human capital.

A primary reason for the limited term of GSLs is concern for the adminstrative costs of loans made to mobile and financially inexperienced borrowers. ICLs, as frequently proposed, would compound administrative costs substantially. Unless federally administered and collected, either by or in cooperation with the Internal Revenue Service (which would arouse major political concerns, especially in the current anti-bureaucratic climate), the task of tracking borrowers over a much longer repayment period, continuously adjusting "market" payment rates, would be tremendous.

The intergeneration effects of ICL proposals have not been thoroughly considered by their proponents. Especially during the transition period to ICLs, when a generation which had its college costs largely paid by parental and governmental subsidies has substantially reduced responsibility for financing the education of their own children, these effects are likely to be substantial and of uncertain equity impact.

Because of their higher tuition levels, a disproportionate share (in comparison with their enrollment share) of ICLs would be used by students attending non-public colleges, unless the tuition-setting policies of public colleges were drastically revised. And, whether or not tuition were dramatically raised at public colleges, the cost advantage of public colleges would likely be reduced, unless the ICL program were somehow constructed to favor public colleges (i.e., by placing loan limits at full cost of attendance at public schools but below this for students attending private schools). This probable effect appears to be the primary reason for (often vehement) opposition of public college officials to ICLs. Certainly, the current balance between public and private institutions of higher education would be substantially upset.

Finally, it is not at all clear the ICLs would actually either perfect loan markets or make loans more attractive. The primary cost of higher education is a student's foregone earnings. No propsed ICL plan would provide loan funds to cover this cost, except for the portion thereof representing subsistence (room and board) costs. Further, even though acting in an "economically irrational" way, many students are likely to be repelled by the high cumulative, undiscounted total costs of ICL repayments. It has been argued (although the empirical data seem limited to a few surveys) that this is especially true of students from poor or minority families, who also are said to have a "cultural aversion to undertaking large, long-term loan obligations." This is particularly ironic (to the extent it actually would apply) since it is these groups who are the target beneficaries of most proposals to increase access to higher education.

Income-Dependent Education Assistance Act--presented by Congressman Thomas E. Petri, subcommittee hearing, Washington, D.C.

This proposal has recently been introduced as legislation in the House of Representatives (H.R. 3176 and S. 1386) by Congressman Petri as a supplementary loan program.*

Under this proposal:

Students may borrow up to $40,000 total ($2,500 per year for undergraduate borrowers and $10,000 per year for graduate borrowers), but any amounts borrowed under other Title IV federal loan programs are subtracted from these limits.

Borrowers' accounts are charged interest each year at the average 91-day Treasury-bill rate for the year plus 2 percent, but in no case more than 14 percent.

The annual repayment for a given year varies according to current income and the amount borrowed under the program. This amount is derived from income tax rates and is collected by the Internal Revenue Service.

The annual repayment schedules are derived from marginal income tax rates, and include a minimum and maximum payment amount for any combination of income level and past borrowing.

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*A cost analysis on this proposal is currently being conducted by the U.S. Department of Education. See Appendix D, excerpt from letter from Congressman Thomas E. Petri to Mr. Kenneth Ryder, Chairman Subcommittee on Sources of Funds.

Most borrowers would repay their loans with interest in 12 to 18 years.

Borrowers with high post-school incomes could pay higher effective interest rates up to a maximum of 1.5 times the standard T-bill plus 2 percent rate, the higher the past borrowing of an individual and the higher the average T-bill-plus-2 percent rate, the less likely that a high-income person would actually pay the "buy-out" rate of 1.5 times the standard rate prior to being in repayment for 12 years.

Low income borrowers who have not repaid their loans after 30 years would be excused from further obligation.

No borrower will owe more than 15 percent of his or her income as an individual taxpayer in any given year, and no couple filing jointly will owe more than 15 percent of their joint income on their joint IDEA debt.

No means test or loan origination fee is required.

Initial capital comes from federally (taxable) guaranteed bonds sold by guaranty agencies and repaid from borrowers' repayment amounts deposited in a trust fund set up under this proposal.

The IDEA program will be administered by the Department of Education. This includes information exchange with institutions and establishment of computerized obligation accounts. The sole role of the Treasury is to specify the general form of the federally-guaranteed taxable bonds issuable by state agencies to fund the program. The Internal Revenus Service also retains its role as a collector of IDEA repayments in conjunction with the collection of income taxes, with the Department of Education crediting the amounts reported by the IRS as received to borrowers' accounts.

IDEA provides for the voluntary conversion of Title IV loan obligations into consolidation IDEA obligations so that a borrower may apply the 15 percent of income cap on annual repayments to other federal loans.

Borrowing limits and repayment schedules are indexed for inflation.

<u>Private Sector Loan Program--submitted by the Center for Mediation in Higher Education</u>, subcommittee hearing, Washington, D.C.

This is a proposal to augment the GSL program by using corporations and foundations as guarantors, similiar to the way the federal government currently guarantees student loans. Like the GSL, such a proposal would offer leverage in the use of capital, providing more assistance per dollar invested than other assistance programs.

> Based on the current 5.8 percent net default rate on federally backed Guaranteed Student Loans, and allowing for a margin of safety, the proposed loan program would require a 10 percent reserve to cover defaults. That would mean a corporate or foundation guarantee of $10,000 could make available $100,000 in loan funds.
>
> Private sector willingness and national availabilty are two variables which need to be addressed.

Employment Based Tuition Aid--presented by the National Institute for Work and Learning, subcommittee hearing, Washington, D.C.

> Employment-based tuition aid has been an untapped resource for student financial assistance. An employment based tuition aid plan is any formal arrangement through which a company offers assistance to its employees to pursue education or training. A plan may be designed and administered by an employer as part of a human resource development program, as part of a regular benefits package, or as part of a collective bargaining agreement between union and management. There are three basic types of employment-based tuition aid plans: training funds, educational leaves, and tuition p yment. Under Training Fund Plans, the employer contributes a fixed amount of money per employee (based on an agreed formula) into a central fund. The fund is then used to finance educational and training programs for employees. The objectives of most training funds are to improve performance, upgrade skills and retrain employees.
>
> Educational Leave Plans offer employees time off for educational pursuits. The leave may be for an extended period of time (up to three years in some cases). Most employer-sponsored paid educational leave programs are limited to professional, technical, and management personnel.
>
> Tuition Payment Plans are by far the most common form of educational assistance made available to employees by their employers. Under these plans, all or part of the tuition and related expenses are paid for by the company.

Over eighty percent of companies with 500 to 1,000 employees offer tuition aid to their employees. For larger companies the percentages are even higher, with 92 percent of companies with 1,000-10,000 and 95 percent of companies with more than 10,000 employees having plans.

About $6 billion is committed annually for tuition assistance through unilaterally offered company plans. Another $100 million to $1 billion is committed annually through plans that are collectively bargained between unions and management. However, it is estimated that only $275 million is annually paid out under unilateral company plans with $20 million to $40 million used under negotiated plans. For the last decade between 3 percent and 5 percent of eligible employees used their tuition aid plans. For blue collar employees the rate is between 1 percent and 2 percent. In other words, about 1.5 million employees use their tuition aid plans annually.

Despite the wide availability of employment based tuition aid, the use rate has remained low. The reasons usually given for such a low rate are the lack of information and the lack of counseling. Most employees do not know they are eligible for tuition assistance and educational and career counseling is not available to most employees.

New Loan Programs

Direct Funding of Student Loans Through Tax-Exempt Paper--presented by Commissioner Richard E. Kavanagh, subcommittee hearing, Washington, D.C.

The Department of Education is currently conducting a cost analysis of this proposal. This proposal contains the following provisions:

Origination. The funds raised by this method would be lent by institutions to students or parents at a cost which reflects the cost of funds raised. The annual cost would be below 7 percent to students, with no federal subsidy other than the lost tax revenues. Two separate loan programs would continue (that is, student and parent loan programs).

Servicing. Students would be permitted to defer the payment of principal and interest while in school. The interest would accumulate until school attendance is terminated. Parents would begin repaying their loans, principal and interest within 60 days of borrowing the money.' All income limitations would be removed inasmuch as the cost of the funds the corporation raises would be passed on to the benefiting student or parent. The only cost to the federal government would be that associated with uncollected loans and even this cost might be removed.

Collection. The collection would be in the form of loan enforcement by the Internal Revenue Service after all other collection efforts have failed. This proposal for funding student loans with "educational paper" would be similar to the method used to raise money for public housing. In the case of public housing, short-term, government instruments ("Project Notes") are used. Project notes are the only "AAA" short-term tax-exempt direct obligation of the U.S. government in the market, and are the standard in terms of quality of risk by which all other short-term, tax-exempt obligations are priced. Another relatively new instrument gaining wide acceptance is tax-exempt commercial paper. The parallel between tax-exempt, commercial paper and educational paper is suggested because this kind of security, in its short history, has produced the lowest interest rate on a consistent basis.

Tax-exempt commercial paper could be federally guaranteed and issued for 30, 45, 60 or 90 days. Commercial paper can be taxable (if issued by a profit-making corporation) or tax-exempt if issued by a public body such as a municipality, state authority or the federal government. Currently, the taxable commercial paper debt is about $100 billion. In the $100+ billion market, some $10 billion rolls over--that is, is refinanced--daily. The tax-exempt market for commercial paper is between $2 and $3 billion.

Twenty-eight states in 1981 issued about $1 billion in tax-exempt securities to support state secondary markets for Guaranteed Student Loans. The educational paper drawn directly by the new issuer would obviate the need for this state activity.

The proposed educational paper method of financing student assistance could, over time, shift the approximately $30 billion in guaranteed loans held by investors (Sallie Mae, state secondary markets, commercial banks and others) to this new investment form. In other words, the present spectrum of taxable and tax-exempt security that supports student loans would gradually be converted to educational paper. The outstanding student loans held by commercial lenders or the Student Loan Marketing Association could be acquired. Students in school receiving the "in-school subsidy" would be given the option of participating in the new "direct loan program" in anticipation of paying a lower interest cost when they enter repayment status. The offset to this lower rate is that they would be required to pay annually the interest on their loans while in school (7 percent annually on $10,000 is only $700).

> The funds could be lent to students or parents at between 1/8 percent and 1/4 percent over the cost of the money raised. In today's money market, the corporation could borrow at around 4 percent (the fiscal year 1981 average would have been approximately 7 percent to 7 1/8 percent). Thus, students and their families could be offered loans for an entire year for approximately 7 1/4 percent to 7 1/2 percent. This extra 1/8 percent to 1/4 percent charge would cover administrative costs of the program.

Single Subsidized Need-Based Program--presented by Dr. Bruce Johnstone, President, State University of New York, Buffalo, subcommittee hearing, Washington, D.C.

This proposal contains the following provisions:

> A needs test would provide sufficient income for any student whose parents are meeting their determined responsibility. There would be a single set of terms, a single running account, for each borrower, and a single repayment schedule once the student enters repayment. Annual and aggregate loan limits could depend on the level of education and the kind of program or school. (Borrowing would presumably increase considerably at the graduate and advance professional level, when parental responsibility is thought legitimately to lessen.) The interest rate should be below market rate, but not so much as to distort borrowing behavior.
>
> The repayment schedules should provide longer terms for larger debts and shorter terms for smaller ones. Borrowers who wish to do so should be able to repay according to a graduated repayment schedule, with smallest payments in early years and larger payments later on, when earnings should be higher. Repayments should be fixed, but with provision for refinancing amounts due in excess of some maximum percent of current earnings.
>
> Supplemental loans, at approximately market rates, should be made available for parents and for certain students who require more loan assistance than is calculated to be their "need," but whose requirements are not such as to warrant the regular, subsidized student loan. The federal role in supplemental lending should be the provision of guarantees and policy guidelines; all other stages of supplemental lending should be left to the banks or other lenders.

Student loans should be obtained from the campus loan office, much as are the current NDSLs, or from some alternative local originator. Loan amount should be limited to demonstrated need. Campus lending would be subject to post audit, and campuses in violation would lose authority to originate loans.

Capital for the need-based student loans would be provided by the Student Loan Marketing Association (SLMA) or some similar agency that in turn secures its funds through the issuance of paper or access to the Federal Financing Bank. Custody of the loan agreement would remain with the college (or other originating lender) but ownership would pass to SLMA. SLMA (or whatever other agency performed such a role) would provide an advance on a certain portion of anticipated lending, the remainder to be sent when originating loan transactions had been received and post-audits performed.

Servicing and collecting would be the responsibility of SLMA or such other agency as the Congress may devise to serve as the lender of record during the repayment period. Colleges would not in general service the loans they originated.

Ideally, repayment should be correlated with IRS withholding and filing. This would provide both more rigorous monitoring and collection, but also a means to apply for refinancing of repayments that exceed a certain upper limit percent of income.

The role of the state agencies in connection with the need-based guaranteed student loans would include handling pre-purchase agreements, defaults, post audits, and monetary loan availability. The role of state agencies in connection with the bank-originated loans to parents (and to some students, in excess of their waiving subsidized loan amounts) would remain about what it is at present.

Tuition Advance Fund (TAF)--presented by Dr. John R. Silber, President, Boston University, subcommittee hearing, Washington, D.C.

A cost analysis on this proposal is currently being conducted by the Congressional Budget Office and the Department of Education. Under TAF, any undergraduate degree-candidate in an accredited institution could be advanced money to pay for tuition, to a limit of perhaps $7,000 a year for four years. After graduation, students would repay through a new payroll withholding tax, administered by the Internal Revenue Service, on a sliding scale that might reach 6 percent of gross income at maximum. There would be no repayment on incomes below a certain level--perhaps $10,000 a year. This repayment would continue until one-and-a-half times the original [amount] had been repaid. This excess of repayment over advance would insure the Fund against the unemployment and early death of some of those who had gotten advances. In 1977 the Bureau of the Census estimated that the average college graduate earned over a lifetime $232,000 more than the average high school graduate. That is approximately $375,000 in 1982 dollars. The maximum TAF repayment obligation--advance plus surcharge--would be about 12 percent of this amount. The average TAF repayment obligation would be no more than 4 percent. In 15 to 20 years, repayments to the Fund and its investment income should reach a level sufficient to meet future claims against it.

A student admitted to degree candidacy at an accredited college or university would be issued an account under his social security number. He would pay his tuition--or most of it--by presenting his account number to his bursar, who would bill the Fund. After graduation, when he was employed and filled out his W-4 form, he would check a box indicating that he had an outstanding obligation to the Tuition Advance Fund. His employer would then deduct from his salary at the appropriate rate and remit the TAF payment to the U.S. Treasury along with income and social security tax withholdings. Analagous procedures would cover the self-employed. Collections would be managed by the Internal Revenue Service.

Tax Incentives

Education Savings Account--presented by U.S. Department of Education, subcommittee hearing, Washington, D.C.

The Education Savings Account bill would permit parents to set aside up to $1,000 per year for each child in savings accounts similar to IRAs where the interest and dividends earned, but not the contribution, would be tax free. This tax treatment would be extended to families with adjusted gross incomes not in excess of $40,000 and partially extended, on a sliding scale basis, to families with adjusted incomes between $40,000 and $60,000. The other principal provisions of the bill are:

o Contributions can be made in any year the child is under 18 years of age.

o Withdrawals for eligible education expenses can be made up to the year in which the child attains age 26. Any retained earnings at this point lose their tax exempt status.

o Withdrawals that exceed the level of eligible expenses in any given year would also be taxable. Part-time students could only claim tuition charges.

o A student would have to be enrolled in a postsecondary degree or certificate program for withdrawals to qualify, and the institution the student attended would have to be one now eligible for participation in our Higher Education Act student aid programs. Graduate as well as undergraduate study could be financed in this way.

o ESA funds would be subject to many of the same investment restrictions as IRAs.

The Treasury Department has estimated the revenue loss associated with introduction of ESAs at $13 million in 1984, $69 million in 1985, and gradually rising to $392 million in 1988.

Tuition Tax Credits

The following analysis is excerpted from Tuition Tax Credits Issue Brief Number IB81075 by Robert F. Lyke of the Congressional Research Service:

A tax credit for postsecondary education tuition payments undoubtedly would benefit most students enrolled in postsecondary education. As with an elementary and secondary tuition tax credit, some postsecondary tuition tax credit money might be shifted to the schools themselves, perhaps in the form of higher tuition charges. However, in contrast to elementary and secondary education, where generally only families of students attending private schools could claim the credit, a postsecondary education tuition tax credit would benefit nearly all students since public as well as private postsecondary institutions typically charge tuition. (According to the College Board, the average annual tuition charges at public four-year colleges in the 1982-83 school year is $979; at private four-year colleges it is $4,021; at public two-year colleges it is $596; at private two-year colleges it is $2,486.) At the present time there are approximately 3,100 institutions of higher education in the United States (about 1,450 of them public and 1,650 private); together they have approximately 12.1 million students (about 9.5 million of them in public institutions and 2.6 million in private institutions). Reliable data are not available on how many other postsecondary educational institutions there are (such as proprietary and vocational schools), nor on how many students they have.

At present, the federal government provides more than $12 billion for postsecondary education in the United States. Most of these funds are made available through three large student assistance programs: Pell Grants (FY83 budget authority: $2.4 billion), Guaranteed Student Loans (FY83 budget authority for federal obligations: $3.1 billion, FY82 new loan volume based on funds generated from nonfederal sourses: $6.1 billion), and social security student benefits (FY81 outlays for postsecondary students: approximately $1.6 billion). In addition, there are various smaller student assistance programs like Supplemental Educational Opportunity Grants, National Direct Student Loans, and the College Work-Study Program. Funds for postsecondary education are also made available through grants from such agencies as the national Science Foundation and the Public Health Service.

Opponents of tuition tax credits argue that federal money for postsecondary student financial assistance should be channeled into existing programs, not new ones. They claim that this is particularly the case at the present time since Congress is reducing the overall funding for some of the existing programs and the assistance elibibility levels for others. Opponents also point out that with the exception of social security student benefits, existing federal postsecondary student financial assistance programs are need-based, that is, they typically limit the amount of money a student is eligible to receive to his unmet costs of attending school (legislation has been enacted to phase out social security student benefits for postsecondary students). Tuition tax credits would not be need-based: students or their families would be reimbursed for part of their tuition payments regardless of whether the money is needed to pay for schooling (and regardless of family income). Opponents might cite Congressional Budget Office figures showing that with a hypothetical $250 refundable credit covering 50 percent of postsecondary tuition cost, nearly 60 percent of the funds would go to families with incomes greater than $30,000, nearly 30 percent would go to families with incomes between $15,000 and $30,000 and only a little more than 10 percent would go to families with incomes less than $15,000.

Proponents of tuition tax credits argue that the credits should not be compared directly with existing federal student financial assistance programs. Their purpose is tax relief for families overburdened by educational expenses; they do not so much modify principles underlying existing programs as supplement them. According to proponents, families paying postsecondary education tuition charges are making an investment in education which the tax laws ought to encourage; the fact that the credit would benefit some kinds of families (in general, those that pay more taxes) more than others does not negate the need for giving them tax relief. It is sometimes pointed out that there are other provisions of the tax code that benefit high income families more than low income families, such as the deduction that is allowed for mortgage interest payments. Finally, proponents of tuition tax credits stress that the amount of the tax credit (at least of a refundable tax credit) does not increase with income, as the amount would with a tax deduction. As a result, the credit would represent a higher percentage of income for a low income family than it would for a high income family.

III. RECOMMENDATIONS AND POLICY OPTIONS

The following recommendations and policy options are based on the access and choice studies conducted for the Commission's Sources of Funds Subcommittee. Although the studies conclude that student aid may indeed affect access and choice, they also point out the growing difficulties of low income students in obtaining a higher education.

RECOMMENDATIONS

ACHIEVING EQUAL EDUCATIONAL OPPORTUNITY*

- A LARGE FEDERAL GRANT PROGRAM SERVING LOW-INCOME STUDENTS, SUCH AS THE PELL GRANT PROGRAM SHOULD BE CONTINUED AND EXPANDED, CONSISTENT WITH THE FUNDING LEVELS FOR OTHER FEDERAL STUDENT AID PROGRAMS. FUNDING FOR THE PROGRAM SHOULD MORE ACCURATELY REFLECT THE CURRENT COST OF ATTENDANCE FACED BY STUDENTS. THE COMMISSION BELIEVES THAT THE CONTINUED EXISTENCE OF THE PELL GRANT PROGRAM IS ESSENTIAL IF LOW-INCOME AND MINORITY ACCESS TO POSTSECONDARY INSTITUTIONS IS TO BE MAINTAINED. THE COMMISSION ALSO RECOGNIZES THAT FUNDING FOR PELL GRANTS OVER THE PAST SEVERAL YEARS HAS NOT BEEN SUFFICIENT TO ACCOUNT FOR HIGH INFLATION AND REDUCTIONS IN OTHER STUDENT AID PROGRAMS.

*The State Student Incentive Grant (SSIG) program is being examined by the Appropriate Balance subcommittee.

- CAMPUS-BASED GRANT AND WORK-STUDY PROGRAMS SHOULD BE CONTINUED AND EXPANDED, CONSISTENT WITH THE FUNDING LEVELS FOR OTHER FEDERAL STUDENT AID PROGRAMS. FUNDING FOR THESE PROGRAMS SHOULD MORE ACCURATELY REFLECT THE CURRENT COST OF ATTENDANCE FACED BY STUDENTS AND SHOULD CONTINUE TO BE TARGETED TO LOW-INCOME AND MINORITY STUDENTS TO HELP MEET UNMET NEED.
- MORE EMPHASIS SHOULD BE PUT ON WORK PROGRAMS LIKE COLLEGE WORK-STUDY AND COOPERATIVE EDUCATION AS SOURCES OF STUDENT FINANCIAL ASSISTANCE. SIMILIARLY, MORE EMPHASIS SHOULD BE PUT ON THE PRIVATE SECTOR. THE PRIVATE SECTOR CAN PLAY A PARTICULARLY IMPORTANT ROLE BY PROVIDING BOTH EMPLOYMENT FOR COOPERATIVE EDUCATION RECIPIENTS AND EMPLOYMENT-BASED TUITION AID. NON-FEDERAL ASSISTANCE IS WELCOMED AND FURTHER GROWTH OF THIS TREND IS ENCOURAGED.
- FUNDING FOR TRIO PROGRAMS SHOULD BE MADE AVAILABLE TO AN INCREASED PROPORTION OF ELIGIBLE STUDENTS AND THE ROLE OF HIGH SCHOOLS AND POSTSECONDARY INSTITUTIONS IN MEETING THE NEEDS OF TRIO RECIPIENTS SHOULD BE INCREASED.
- POSTSECONDARY FINANCIAL AID INFORMATION SHOULD BE CONVEYED TO STUDENTS BEGINNING IN THE NINTH GRADE.
- RULES GOVERNING THE TIMELY NOTIFICATION OF STUDENT FINANCIAL ASSISTANCE MUST BE OBSERVED. ESTABLISHING STABILITY IN STUDENT FINANCIAL ASSISTANCE PROGRAMS SHOULD BE A LEGISLATIVE GOAL AND THE ENACTMENT OF A MASTER CALENDAR WOULD BE A STEP IN THIS DIRECTION.

RESOLVING CONTRADICTIONS OF FEDERAL PUBLIC ASSISTANCE AND COLLEGE OPPORTUNITY POLICIES

- FEDERAL PUBLIC ASSISTANCE PROGRAMS, SUCH AS AFDC, FOOD STAMPS, MEDICAID, AND PUBLIC HOUSING SHOULD BE REVIEWED BY CONGRESS WITH AN EYE TO ELIMINATING VARIOUS EXISTING DISINCENTIVES FOR UNEMPLOYED AND POOR PERSONS TO RECEIVE RETRAINING AND EDUCATION TO ASSIST THEM IN REENTERING THE WORKFORCE. BECAUSE OF THE FUNDAMENTAL CHANGES OCCURING IN THE STRUCTURE OF OUR ECONOMY THE REMOVAL OF SUCH DISINCENTIVES IS ALL THE MORE IMPORTANT. A STUDY UNDERTAKEN FOR THE COMMISSION AND INCLUDED IN APPENDIX B TO THIS REPORT SUGGESTS SOME OF THESE SPECIFIC DISINCENTIVES AND REMIDIES FOR THEM.

OPTIONS

Student Loans

As a source of funds, the subcommittee found the Guaranteed Student Loan (GSL) program a very successful mechanism for delivering credit for student financial assistance. As a source of leverage for additional money for student financial assistance, the program generates approximately $2 for every $1 of cost to the federal government.

From the borrowers perspective, the program is very cost-effective, since they usually pay in real terms an effective interest rate of close to zero, or in many cases, less than zero.

Evaluating all student financial assistance programs at one time points up the discrepancies among them. As a result of high subsidies in the GSL program, benefits to the borrower are substantial, actually approaching a point at which an implicit grant is being made to the student to induce him or her to borrow under the program. As other Commission studies suggest, these benefits go, on average, to higher income families, and it is probable therefore that one effect of the GSL program is to negate the highly progressive distribution of federal subsidies under Pell Grants. It is likely that the growth of the GSL program skewed federal subsidies away from the disadvantaged, eroding the emphasis on equalizing educational opportunity. It should be noted, however, that these subsidies are very susceptible to economic conditions. For instance, every 1 percent increase in the treasury-bill increases the cost to the federal government between $250 million and $300 million.

Although the subcommittee found that middle income families need assistance to attend higher education institutions, they do not need larger effective subsidies than poorer students.

At subcommittee hearings a variety of options were presented for reducing costs in the Guaranteed Student Loan program. They include:

o Changing the current fixed interest rate of 9 percent to a variable rate tied to treasury bills.

o Sharing the risk of high-market interest rates during the repayment period by combining the interest rate now charged to the student with the special allowance now paid by the federal government and splitting the total between the borrower and the government.

o Sharing the risk between the lender and the borrower. Under this proposal borrowers would be required to pay more and lenders would receive a lower yield during times of high interest rates.

o Reducing the special allowance during the in-school period when the lender's servicing costs are minimal.

o Calculating the special allowance according to the size of the lender's student loan portfolio; payments to lenders holding a large volume of student loans might be reduced based on economies of scale.

o Calculating the borrower's repayment schedule contingent on his or her income.

Any change in the amount of the subsidy should be fair to the borrower and lender alike.

The subcommittee has also held hearings on alternative financing mechanisms. Any new alternative loan program must be considered in the context of paying off current GSL obligations and raising initial capital for a new plan. It is estimated, that if no new GSLs were made in 1984, it would still cost the federal government approximately $9 billion in outlays over the next seven years. In addition, approximately $7 billion each year for the first few years would be needed as start-up capital for the alternatives that were examined.

The Commission supports the concept of tax incentives to encourage savings for educational purposes. However, such a plan should contain adequate incentives to savers and must not be a substitute for need-based programs.

The following alternative and supplemental programs were examined by the subcommittee:

Direct Funding of Student Loans Through Tax-Exempt Paper--presented by Commissioner Richard E. Kavanagh.

The Department of Education is currently conducting a cost analysis of this proposal. This proposal contains the following provisions:

> Origination. The funds raised by this method would be lent by institutions to students or parents at a cost which reflects the cost of funds raised. The annual cost would be below 7 percent to students, with no federal subsidy other than the lost tax revenues. Two separate loan programs would continue (that is, student and parent loan programs).
>
> Servicing. Students would be permitted to defer the payment of principal and interest while in school. The interest would accumulate until school attendance is terminated. Parents would begin repaying their loans, principal and interest within 60 days of borrowing the money. All income limitations would be removed inasmuch as the cost of the funds the corporation raises would be passed on to the benefiting student or parent. The only cost to the federal government would be that associated with uncollected loans and even this cost might be removed.
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> Collection. The collection would be in the form of loan enforcement by the Internal Revenue Service after all other collection efforts have failed. This proposal for funding student loans with "educational paper" would be similar to the method used to raise money for public housing. In the case of public housing, short-term, government instruments
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> ("Project Notes") are used. Project notes are the only "AAA" short-term tax-exempt direct obligation of the U.S. government in the market, and are the standard in terms of quality of risk by which all other short-term, tax-exempt obligations are priced. Another relatively new instrument gaining wide acceptance is tax-exempt commercial paper. The parallel between tax-exempt, commercial paper and educational paper is suggested because this kind of security, in its short history, has produced the lowest interest rate on a consistent basis.

Tax-exempt commercial paper could be federally guaranteed and issued for 30, 45, 60 or 90 days. Commercial paper can be taxable (if issued by a profit-making corporation) or tax-exempt if issued by a public body such as a municipality, state authority or the federal government. Currently, the taxable commercial paper debt is about $100 billion. In the $100+ billion market, some $10 billion rolls over--that is, is refinanced--daily. The tax-exempt market for commercial paper is between $2 and $3 billion.

Twenty-eight states in 1981 issued about $1 billion in tax-exempt securities to support state secondary markets for Guaranteed Student Loans. The educational paper drawn directly by the new issuer would obviate the need for this state activity.

The proposed educational paper method of financing student assistance could, over time, shift the approximately $30 billion in guaranteed loans held by investors (Sallie Mae, state secondary markets, commercial banks and others) to this new investment form. In other words, the present spectrum of taxable and tax-exempt security that supports student loans would gradually be converted to educational paper. The outstanding student loans held by commercial lenders or the Student Loan Marketing Association could be acquired. Students in school receiving the "in-school subsidy" would be given the option of participating in the new "direct loan program" in anticipation of paying a lower interest cost when they enter repayment status. The offset to this lower rate is that they would be required to pay annually the interest on their loans while in school (7 percent annually on $10,000 is only $700).

The funds could be lent to students or parents at between 1/8 percent and 1/4 percent over the cost of the money raised. In today's money market, the corporation could borrow at around 4 percent (the fiscal year 1981 average would have been approximately 7 percent to 7 1/8 percent). Thus, students and their families could be offered loans for an entire year for approximately 7 1/4 percent to 7 1/2 percent. This extra 1/8 percent to 1/4 percent charge would cover administrative costs of the program.

<u>Single Subsidized Need-Based Program</u>--presented by Dr. Bruce Johnstone, President, State University of New York, Buffalo.

This proposal contains the following provisions:

A needs test would provide sufficient income for any student whose parents are meeting their determined responsibility. There would be a single set of terms, a single running account, for each borrower, and a single repayment schedule once the student enters repayment.

Annual and aggregate loan limits could depend on the level of education and the kind of program or school. (Borrowing would presumably increase considerably at the graduate and advance professional level, when parental responsibility is thought legitimately to lessen.) The interest rate should be below market rate, but not so much as to distort borrowing behavior.

The repayment schedules should provide longer terms for larger debts and shorter terms for smaller ones. Borrowers who wish to do so should be able to repay according to a graduated repayment schedule, with smallest payments in early years and larger payments later on, when earnings should be higher. Repayments should be fixed, but with provision for refinancing amounts due in excess of some maximum percent of current earnings.

Supplemental loans, at approximately market rates, should be made available for parents and for certain students who require more loan assistance than is calculated to be their "need," but whose requirements are not such as to warrant the regular, subsidized student loan. The federal role in supplemental lending should be the provision of guarantees and policy guidelines; all other stages of supplemental lending should be left to the banks or other lenders.

Student loans should be obtained from the campus loan office, much as are the current NDSLs, or from some alternative local originator. Loan amount should be limited to demonstrated need. Campus lending would be subject to post audit, and campuses in violation would lose authority to originate loans.

Capital for the need-based student loans would be provided by the Student Loan Marketing Association (SLMA) or some similar agency that in turn secures its funds through the issuance of paper or access to the Federal Financing Bank. Custody of the loan agreement would remain with the college (or other originating lender) but ownership would pass to SLMA. SLMA (or whatever other agency performed such a role) would provide an advance on a certain portion of anticipated lending, the remainder to be sent when originating loan transactions had been received and post-audits performed.

Servicing and collecting would be the responsibility of SLMA or such other agency as the Congress may devise to serve as the lender of record during the repayment period. Colleges would not in general service the loans they originated.

Ideally, repayment should be correlated with IRS withholding and filing. This would provide both more rigorous monitoring and collection, but also a means to apply for refinancing of repayments that exceed a certain upper limit percent of income.

The role of the state agencies in connection with the need-based guaranteed student loans would include handling pre-purchase agreements, defaults, post audits, and monetary loan availability. The role of state agencies in connection with the bank-originated loans to parents (and to some students, in excess of their waiving subsidized loan amounts) would remain about what it is at present.

Income-Dependent Education Assistance Act--presented by Congressman Thomas E. Petri.

This proposal has recently been introduced as legislation in the House of Representatives (H.R. 3176 and S. 1386) by Congressman Petri as a supplementary loan program. A cost analysis on this proposal is currently being conducted by the U.S. Department of Education.

Under this proposal:

Students may borrow up to $40,000 total ($2,500 per year for undergraduate borrowers and $10,000 per year for graduate borrowers), but any amounts borrowed under other Title IV federal loan programs are subtracted from these limits.

Borrowers' accounts are charged interest each year at the average 91-day Treasury-bill rate for the year plus 2 percent, but in no case more than 14 percent.

The annual repayment for a given year varies according to current income and the amount borrowed under the program. This amount is derived from income tax rates and is collected by the Internal Revenue Service.

The annual repayment schedules are derived from marginal income tax rates, and include a minimum and maximum payment amount for any combination of income level and past borrowing.

Most borrowers would repay their loans with interest in 12 to 18 years.

Borrowers with high post-school incomes could pay higher effective interest rates up to a maximum of 1.5 times the standard T-bill plus 2 percent rate, the higher the past borrowing of an individual and the higher the average T-bill-plus-2 percent rate, the less likely that a high-income person would actually pay the "buy-out" rate of 1.5 times the standard rate prior to being in repayment for 12 years.

Low income borrowers who have not repaid their loans after 30 years would be excused from further obligation.

No borrower will owe more than 15 percent of his or her income as an individual taxpayer in any given year, and no couple filing jointly will owe more than 15 percent of their joint income on their joint IDEA debt.

No means test or loan origination fee is required.

Initial capital comes from federally (taxable) guaranteed bonds sold by guaranty agencies and repaid from borrowers' repayment amounts deposited in a trust fund set up under this proposal.

The IDEA program will be administered by the Department of Education. This includes information exchange with institutions and establishment of computerized obligation accounts. The sole role of the Treasury is to specify the general form of the federally-guaranteed taxable bonds issuable by state agencies to fund the program. The Internal Revenus Service also retains its role as a collector of IDEA repayments in conjunction with the collection of income taxes, with the Department of Education crediting the amounts reported by the IRS as received to borrowers' accounts.

IDEA provides for the voluntary conversion of Title IV loan obligations into consolidation IDEA obligations so that a borrower may apply the 15 percent of income cap on annual repayments to other federal loans.

Borrowing limits and repayment schedules are indexed for inflation.

Private Sector Loan Program--presented by the Center for Mediation in Higher Education.

This is a proposal to augment the GSL program by using corporations and foundations as guarantors, similiar to the way the federal government currently guarantees student loans. Like the GSL, such a proposal would offer leverage in the use of capital, providing more assistance per dollar invested than other assistance programs.

> Based on the current 5.8 percent net default rate on federally backed Guaranteed Student Loans, and allowing for a margin of safety, the proposed loan program would require a 10 percent reserve to cover defaults. That would mean a corporate or foundation guarantee of $10,000 could make available $100,000 in loan funds.
>
> Private sector willingness and national availabilty are two variables which need to be addressed.

Tax Exempt Financing of Educational Loan Programs--presented as testimony by several witnesses.

Tax exempt bonds for student loans are used in three ways: to guarantee loan certainty to students eligible for the federal GSL program but unable to find a commercial lender willing to make a loan; to provide a secondary market for GSLs, which creates the investment liquidity necessary to encourage the continued participation of lenders in the states; and as a supplemental alternative to provide loans to students and parents who do not meet GSL restrictions and cannot obtain loans from other sources.

State authorities issue bonds at low, tax-exempt interest rates and use the proceeds to buy or make both federally guaranteed and nonguaranteed loans. The money is issued to the institution which has the obligation to repay the authority or bondholder.

More than 24 states issue bonds as a way of guaranteeing loans to students eligible for GSLs but unable to find commercial lenders willing to make loans. As a supplemental program, several states have loan authorities guaranteed by the institutions themselves.

Among supplemental proposals, tax-exempt educational loans have become one of the most popular mechanisms for financing student loans. However, the limited number of institutions which have had early and successful experiences using the tax-exempt bond market to obtain supplemental loans have been high cost, independent, wealthy institutions with large endowments. These institutions have the financial strength needed to back bonds and guarantee loans issued at a rate low enough to make attractive, market-competitive student loans. Smaller, less well-endowed institutions are not as creditworthy, and even if they are willing to participate, may be unsuccessful because bonds issued on their behalf cannot be sold at a rate low enough to make subsequent loans attractive to their students.

Tuition Advance Fund (TAF)--presented by Dr. John R. Silber, President, Boston University.

> A cost analysis on this proposal is currently being conducted by the Congressional Budget Office and the Department of Education. Under TAF, any undergraduate degree-candidate in an accredited institution could be advanced money to pay for tuition, to a limit of perhaps $7,000 a year for four years. After graduation, students would repay through a new payroll withholding tax, administered by the Internal Revenue Service, on a sliding scale that might reach 6 percent of gross income at

maximum. There would be no repayment on incomes below a certain level--perhaps $10,000 a year. This repayment would continue until one-and-a-half times the original [amount] had been repaid. This excess of repayment over advance would insure the Fund against the unemployment and early death of some of those who had gotten advances. In 1977 the Bureau of the Census estimated that the average college graduate earned over a lifetime $232,000 more than the average high school graduate. That is approximately $375,000 in 1982 dollars. The maximum TAF repayment obligation--advance plus surcharge--would be about 12 percent of this amount. The average TAF repayment obligation would be no more than 4 percent. In 15 to 20 years, repayments to the Fund and its investment income should reach a level sufficient to meet future claims against it.

A student admitted to degree candidacy at an accredited college or university would be issued an account under his social security number. He would pay his tuition--or most of it--by presenting his account number to his bursar, who would bill the Fund. After graduation, when he was employed and filled out his W-4 form, he would check a box indicating that he had an outstanding obligation to the Tuition Advance Fund. His employer would then deduct from his salary at the appropriate rate and remit the TAF payment to the U.S. Treasury along with income and social security tax withholdings. Analagous procedures would cover the self-employed. Collections would be managed by the Internal Revenue Service.

INDEX OF SELF-HELP EFFORT REQUIRED TO PAY FOR COLLEGE*

		Private Institutions					
		Universities			Four-Year Colleges		
Year	Legal Minimum Wage	Tuition Room and Board	Hours of Work Required	Index of Self-Help Effort Required: 1963-1965 = 100	Tuition Room and Board	Hours of Work Required	Index of Self-Help Effort Required: 1963-1965 = 100
1963	$1.00	$2,105	2,105	108	$1,700	1,700	106
1964	1.15	2,202	1,915	98	1,810	1,574	98
1965	1.25	2,316	1,853	95	1,899	1,519	95
1966	1.25	2,456	1,965	100	2,007	1,606	101
1967	1.40	2,545	1,818	93	2,104	1,503	94
1968	1.60	2,673	1,671	85	2,287	1,429	89
1969	1.60	2,420	1,513	77	2,420	1,513	95
1970	1.60	3,163	1,977	101	2,599	1,624	102
1971	1.60	3,375	2,109	108	2,748	1,718	108
1972	1.60	3,512	2,195	112	2,934	1,834	115
1973	1.60	3,717	2,323	119	3,040	1,900	119
1974	2.00	**4,076	2,038	104	**3,156	1,578	99
1975	2.10	4,467	2,127	109	3,385	1,612	101
1976	2.30	4,847	2,107	108	3,562	1,549	97
1977	2.65	5,193	1,960	100	3,811	1,438	90
1978	2.65	5,604	2,115	108	4,123	1,556	97
1979	2.90	5,888	2,030	104	4,699	1,620	101
1980	3.10	6,566	2,118	108	5,249	1,693	106
1981	3.35	7,439	2,221	113	5,949	1,776	111
1982	3.35	8,183 e	2,443 e	125 e	6,544 e	1,953 e	122 e
1983	3.35	9,001 e	2,687 e	137 e	7,198 e	2,149 e	134 e

Note: e = estimate

* Based on the numbers of hours working at the legal minimum wage required to pay for college tuition, room, and board.

** New series.

Source: National Education Industry Group, Coopers & Lybrand, based on college cost data published by the National Center for Education Statistics.

INDEX OF SELF-HELP EFFORT REQUIRED TO PAY FOR COLLEGE*

		Public Institutions					
		Universities			Four-Year Colleges		
Year	Legal Minimum Wage	Tuition Room and Board	Hours of Work Required	Index of Self-Help Effort Required: 1963-1965 = 100	Tuition Room and Board	Hours of Work Required	Index of Self-Help Effort Required: 1963-1965 = 100
1963	$1.00	$1,026	1,026	111	$846	846	109
1964	1.15	1,051	914	99	867	754	97
1965	1.25	1,051	841	91	904	723	93
1966	1.25	1,171	937	101	947	758	98
1967	1.40	1,199	856	92	997	712	92
1968	1.60	1,245	778	84	1,063	664	86
1969	1.60	1,362	851	92	1,135	709	92
1970	1.60	1,477	923	100	1,206	754	97
1971	1.60	1,597	998	108	1,263	789	102
1972	1.60	1,668	1,043	113	1,460	913	118
1973	1.60	1,707	1,067	115	1,506	941	122
1974	2.00	**1,760	880	94	**1,558	779	101
1975	2.10	1,935	921	99	1,657	789	102
1976	2.30	2,055	893	96	1,797	781	101
1977	2.65	2,167	818	88	1,924	726	94
1978	2.65	2,286	863	93	2,025	764	99
1979	2.90	2,487	858	93	2,198	758	98
1980	3.10	2,711	875	94	2,420	781	101
1981	3.35	3,079	919	99	2,701	806	104
1982	3.35	3,387 e	1,011 e	109 e	2,971 e	887 e	115 e
1983	3.35	3,658 e	1,092 e	118 e	3,209 e	958 e	123 e

Note: e = estimate

* Based on the numbers of hours working at the legal minimum wage required to pay for college tuition, room, and board.

** New series.

Source: National Education Industry Group, Coopers & Lybrand, based on college cost data published by the National Center for Education Statistics.

David Paul Rosen & Associates
Education and Employment Development

3521 MIDVALE AVENUE
OAKLAND. CALIFORNIA 94602
(415) 530-5284

APPENDIX B

RESOLVING THE CONTRADICTIONS OF FEDERAL PUBLIC ASSISTANCE AND COLLEGE OPPORTUNITY POLICIES:

LEGISLATIVE RECOMMENDATIONS

DAVID PAUL ROSEN

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Presented to:

National Commission on Student
Financial Assistance
412 First Street S.E.
Washington, D.C. 20003
202-472-9023

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I. SHORT RANGE RECOMMENDATIONS

A. The Contradictions of Public Assistance and College Opportunity Policies: Background and Literature Review.

With the enactment of the Basic Educational Opportunity Grant program in the 1972 Education Amendments (Public Law 92-318), the federal government began a commitment to assuring low income citizens financial access to postsecondary education opportunities. Renamed Pell Grants -- after Senator Claiborne Pell (D., R.I.), chairman of the Senate Education Subcommittee and BEOG sponsor -- Basic Grants grew during the seventies, along with the campus-based student financial aid programs, loan and state student incentive grant programs. (These are: Supplemental Educational Opportunity Grants, National Direct Student Loans, College Work/Study grants, the State Student Incentive Grant Program, and the Guaranteed Student Loan Program.) More than $35 billion was spent through the Higher Education Amendments between 1972 and 1980, largely on student aid. (Source: Annual Evaluation Report, Volume II, Fiscal Year 1981, U.S. Department of Education, Office of Planning, Budget and Evaluation.) Even with expanded eligibility in these programs for middle income students and their families, the federal commitment to assuring financial access to some form of postsecondary education remained primarily targeted on low income students. College was established as a right for all, not for those who can afford it.

The wide variety of federal public assistance programs have no such coherent purpose. Aid to Families with Dependent

Children (AFDC) (Title IV, Part A, Social Security Act), and Food Stamps (Food Stamp Act of 1980) are income transfer programs intended to provide the poor with a modicum of financial subsistence. Medicaid (Title XIX of the Social Security Act) and public housing (Housing and Community Development Act of 1974; P.L. 93-383) provide income transfer payments of another sort, in the form of subsidies for health care and shelter. Unemployment Insurance (Title III of the Social Security Act; Federal Unemployment Tax Act) provides cash payments on premiums paid by workers when they experience involuntary unemployment. A host of employment and training programs, culminating most recently in the Comprehensive Employment and Training Act (CETA), and now replaced by the Job Training Partnership Act of 1982 (Conference Report 97-889), provide alternate forms of income maintenance to low income, unemployed citizens, subsidizing wages, training stipends and activities. Vocational rehabilitation programs (Rehabilitation Act of 1973) provide education, training, medical and rehabilitative services to disabled citizens. And Social Security provides disability insurance payments to those unable to work, as well as benefits to the children of deceased, retired or disabled parents (Old Age, Survivors and Disability Insurance Program, Social Security Act).

Each of these programs has different eligibility criteria, different standards for determining financial need, different methods and levels of payment or service delivery, and different federal-state administrative partnerships and agencies. There exists no federal or state mechanism to assure coordination of benefits, to avoid duplication or to prevent under-awards. Furthermore, the integration of public assistance programs with student financial aid often contradicts the federal commitment to assuring the poor financial access to college.

The Congress, successive state and presidential administrations have repeatedly called for lessening the reliance of the poor on public assistance programs by developing their capacity for such economic self-sufficiency. And while it would seem a natural strategy to ally public assistance with postsecondary education opportunities, no such coherent state or federal policy has yet emerged. On the contrary, conflicting purposes and procedures of public assistance programs produce disincentives for the poor who seek to achieve self-sufficiency through education. Such disincentives frustrate the efforts of low income citizens to achieve productive careers. They perpetuate dependence on public assistance payments. They result in increased government spending on entitlement programs, while simultaneously depriving citizens of an earned income, and government of increased tax revenue. Barriers to college enrollment created by these disincentives penalize the poor by either reducing or categorically eliminating benefits upon college enrollment.

The Omnibus Budget Reconciliation Act of 1981 (OBRA) (P.L. 97-35) contains numerous provisions, hastily agreed to, with limitations for low income citizens who are both financially dependent on public assistance programs and who seek to become self-sufficient through a college education. These provisions amount to a wave of sweeping changes which are likely to severely restrict access to higher education for the poor. They exacerbate a previously existing problem. Several examples of such provisions are described below as they affect college students and prospective college students.

AFDC

> OBRA eliminates federal support for dependent, 18-21 year old AFDC recipients. 193,000 AFDC dependents were enrolled in school in 1979. Dependents and their families may lose as much as $1,764 per year (losses will average $1,195 per year) as a result of this provision alone. (Source: Office of Research and Statistics, Social Security Administration, November, 1981).

> OBRA requires that parents with children under six be home except for only "very brief and infrequent absences." They are otherwise required to register for work. Such a provision will preclude many welfare parents, largely single mothers, from attending college. HEW reported that in 1977, 112,000 AFDC mothers were attending school or job training, 93,000 in 1979. (Source: Office of Research, SSA, HEW).

> OBRA creates a number of work disincentives, lowering work-related expense and child-care deductions, capping maximum income eligibility, and placing a four-month limit on the "30 and a third" formula for deducting earnings from grant calculation. The National Opinion Research Center of the University of Chicago found that the "working poor" are hard-hit by these provisions, and that many recipients and non-recipients who formally worked will be better off quitting their jobs for welfare. (Joe, 1982)

Social Security Student Benefits (OASDI Student:)

OBRA phases out the OASDI program over the next four years, eliminating $2 billion in student aid. The Social Security Administration reported that in March, 1981, 879,880 dependent children of deceased, retired or disabled parents received $199.0 million in student aid, an annualized total of $2.288 billion. No additional student aid has been appropriated by either the state legislature or the Congress to replace this amount. These 18-22 year olds received average monthly benefits of $256, or $3,072 per year. Significantly, 64% of OASDI recipients worked in addition to attending college. (Source: SSA.)

Medicaid

Combined state and federal cuts in the Medicaid program raise serious questions about the continued coverage of many indigent citizens. For example, the Center for the Study of Social Policy reports that California lost $385.5 million in federal Medicaid assistance from OBRA changes alone. The California Policy Seminar is currently studying the effects of the Medical reforms enacted by the state legislature last summer. The effects on medically needy students is extremely uncertain.

Food Stamps:

Food Stamps, a 100% federally-funded program, have long excluded college students from eligibility, with few exceptions. As few as 47,000 students attending college may receive Food Stamps. Recipients who enroll in college stand to lose an average annual food subsidy of $432. (Source: Rosen, 1981.)

Unemployment Insurance:

As of October, 1981, 19 states limited UI payments to otherwise eligible recipients who enrolled in college. Last year, California joined the ranks of these states, making it still more difficult for unemployed citizens in need of retraining or reeducation to attain the schooling they need for a new skill.

Public Housing:

Public housing residents in attendance at college are adversely affected by the provisions of OBRA. OBRA eliminates the earnings disregard for full-time students and the $300 annual deduction for full-time students which previously existed in determining rent payments for assisted housing programs.

Federal Requirements for Treatment of Student Aid for AFDC Grant Determination:

Federal rules for the treatment of student aid in determining eligibility for public assistance are embodied in P.L. 90-575, Sec. 507, 82 Stat. 1063 and 45 CFR Sec. 233.20(a)(4)(ii)(d). These rules have caused considerable confusion in the treatment of student aid as income and assets to welfare recipients. They have resulted in a rash of court cases with mixed results. However, Zwickel, Mudrick and Rosen have documented that the net effect on an AFDC family with a member enrolled in college is likely to be a reduction of benefits.

B. Federal Requirements for Treatment of Student Aid Benefits in Determining AFDC Eligibility.

1. Background

Existing federal rules for the treatment of student aid benefits in determining AFDC eligibility create financial hardships for low income students. They lead to unequal treatment of students with identical financial resources. Despite numerous court cases ruling on the equity of such provisions, court decisions on the whole are a limited response to the problem. Resolving these inequities will require congressional rather than judicial action, because they are rooted in federal statutes. The problems created by these rules fall under three categories, treatment of:

(1) Student financial aid benefits administered by the federal government.

(2) Grant, scholarship and loan assistance from state, institutional or private sources.

(3) Benefits from a combination of sources.

a. Treatment of Student Financial Aid Benefits Administered by the Secretary of Education

The 1968 Higher Education Amendments stipulated that:

> For the purpose of any program assisted under title . . . IV . . . of the Social Security Act (AFDC), no grant or loan to any undergraduate student for educational purposes made or insured under any program administered by the Commissioner of Education shall be considered to be income or resources.[1]

1. PL 90-575, Sec. 507, 82 Stat. 1063; with creation of the Department of Education in 1980, this provision now refers to programs administered by the Secretary of Education.

This provision in turn has been incorporated by the Department of Health and Human Services (HHS) into regulation for the AFDC program:

> . . . in determining eligibility for (AFDC) and the amount of the assistance payment, the following will be disregarded s income and resources: . . (d) any grant or loan to any undergraduate student for educational purposes made or insured under any programs administered by the Commissioner of Education . . .[2]

While the provision to disregard any grant or loan administered by the Secretary of Education as either "income or resources" seems prima facie self-evident, a number of problems have arisen with its interpretation in practice. First, HEW (now HHS) listed only four programs in 1977 which it considered to be "grant or loan programs administered by the Commissioner of Education": BEOG, SEOG, NDSL and GSL. College Work-Study and SSIG funds were considered either wages (i.e., not a grant or loan in the case of CWS), or not administered by the Commissioner of Eudcation (in the case of SSIG, a federal-state partnership program). Of the work-study program, Zwickel notes:

> HEW has taken the position that work-study is not a "grant" program within the terms of the law, although it recognizes that it has the same underlying objectives as student aid grants and that to disregard one and not the other could be viewed as inequitable. Its position is to provide states at their option, with a different basis for disregarding those monies in AFDC in full, as discussed below. However, two federal courts have held that work-study is a "grant" program and that work-study money is to be treated as exempt.

2. 45 CFR Sec. 233.20 (a)(4)(ii)(d); refers to Secretary of Education under current Department of Education.

In addition, the State of New York treats work-study monies as exempt . . .[3]

In the case of the SSIG program, a Utah court[4] struck down the Utah state welfare department practice of counting SSIG funds as income, claiming there was substantial involvement of the U.S. Commissioner of Education in administering the program.

Second, student aid funds from programs not covered by this exemption, e.g., state, institutional or private grants or loans, may not be excluded to the same extent as federally administered funds. Thus, low income students may have their student benefits treated differently depending upon the source of the benefit. While such a practice raises a question of equal protection under law, several court decisions have rejected this claim[5].

Third, problems are encountered in the definition of "student." Does this refer to full-time or part-time attendance? Can a graduate of a baccalaureate program return for another undergraduate degree? Can "graduate" students take "undergraduate" courses? Does the exclusion of graduate students constitute a violation of equal protection? These questions have not been satisfactorily answered.

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3. Howard Zwickel, "Treatment of Student Monies in Public Assistance Programs," Clearinghouse Review, June 1980, p. 104.

4. In re Jensen, Clearinghouse No. 24170A.

5. Richman v. Juras, Anthony v. Public Welfare Division, Department of Human Resources, Lumpkin v. Department of Social Services. (Cf. Zwickel for case citations.)

Finally, questions can arise over whether student aid funds are used for "educational purposes." Zwickel comments:

> HEW early stated that the monies are to be totally excluded "without regard as to their use . . ." Thus, in the rare case in which a portion of (these) funds are available and used to meet current needs, states could be precluded from treating such funds as income or a resource in AFDC. We assume that Congress believed that in most cases the grants or loans would be limited under the criteria of the educational programs to the student's educational needs and that there would be no overlap with the purposes for which the AFDC grant is provided, that is to meet current living needs.[6]

Zwickel's comment illuminates the perceptual differences in determining "living costs" and "educational costs" which pervades the welfare and student aid communities. College attendance significantly increases living costs for low income families. These increased living costs are recognized by student aid administrators as a legitimate part of "educational costs." Routinely, they are <u>not</u> so recognized by welfare case workers, whose perception of educational costs are limited to tuition and fees. They frequently do not even consider books to be an "educational cost." This problem is examined in section <u>d. The Penalties of Different Definitions</u> below.

b. <u>Treatment of Grant, Scholarship and Loan Assistance From State, Institutional and Private Sources</u>

HEW, prior to the creation of a separate Department of Education, encouraged states to disregard all non-federal grants, loans or scholarships as either income or resources. An HEW regulation permits states to exclude such benefits

6. Zwickel, op. cit., p. 105.

"provided(d) that no duplication shall exist between such other assistance and that provided by the public assistance agency."[7] While this represents a liberal policy toward the treatment of student financial aid benefits as "complementary assistance" to welfare payments, the option of employing it is left to the states. States which do not use this option are required to exempt some student aid benefits as income in AFDC: "(L)oans and grants, such as scholarships, obtained and used under conditions that preclude their use for current living costs will not be counted as income."[8] As in the case of federally administered student aid benefits, the regulatory language is unclear regarding the type of benefits and circumstances under which these are to be excluded. This results in a number of problems.

> (I)t is less clear how states are to treat monies that are provided directly to the individual. For example, if the terms of the grant require that it be used only for tuition, fees and other special school expenses, and the money is provided directly to the individuals with no further accounting by the grantor, is it exempt under this provision? Should it be exempt only to the extent the student can prove how he or she spends the funds? Should it matter that the terms of the grant or loan prohibit it from being used for current living costs and that any violations could result in loss of future monies or in other sanctions?[9]

Furthermore, by declining to require non-federal student aid benefits to be exempted as resources, HEW left open to the states the option of counting such aid as available financial

7. 45 CFR Sec. 233.20 (a)(3)(vii).

8. 45 CFR Sec. 233.20 (a)(3)(iv)(b).

9. Zwickel, op. cit., p. 105.

resources when determining AFDC eligibility, and subsequently reducing the student's AFDC grant.

c. Treatment of Benefits From a Combination of Sources

Some students receive aid from both federal and non-federal sources. In some cases, the total student assistance may exceed "educational costs" in the view of the welfare department. The question then arises whether or not to treat the "excess" as available income or resources in determining public assistance grants. If the "excess" comes from federal sources, then it should be totally disregarded. However, if it comes from state, private or institutional sources, the welfare agency may count it as income or resources. The student's fate hangs on which dollar is counted first.

For example, if a student receives $2,000 for a semester ($800 in BEOG money and $1,200 in a restricted loan for tuition from a nonprofit organization) and has school and school-related expenses of $1,500, there are at least two possible methods of allocating the funds.

"SCHOOL EXPENSES"	METHOD A	METHOD B
$1,500	$1,200 loan	$800 BEOG
	$ 300 BEOG	$700 loan
"LIVING EXPENSES" $500	$ 500 BEOG remains. (Under the (a)(4) exemption, this money should be exempt.)	$500 of the loan remains. (Under the (a)(3) exemption, this amount could be considered available income if all school and school-related expenses have been met.)[10]

9. Ibid., p. 106.

There have been a number of unsuccessful court appeals to overturn state practices using Method B above.[11] In Lumpkin v. Department of Social Services, the U.S. Supreme Court declined to hear an appeal of a New York court decision, thereby upholding that state's treatment of combined resources. The court stated it was reasonable for a state to prioritize student aid benefits in a manner designed to minimize state welfare costs, even if it penalized the student. The New York Court of Appeals further rejected the argument that student aid provided directly to the school, and therefore not available as income, would result in any different determination for the student.

d. The Penalties of Different Definitions for "Educational Cost" and "Living Allowance"

The most serious penalties for AFDC clients attending college result from two critical differences between the welfare and student aid communities in their treatment of AFDC and student aid:

1. Definitions of "educational costs."
2. Definitions of "living costs."

Welfare officials routinely limit their definition of "educational expenses" to tuition and fees (Schorr, Piven and Cloward, Rosen, Chu-Clewell, Benson-Walker and Downey). This limitation has serious consequences for AFDC students, whose grants are frequently reduced proportionately to any

11. See: Richman v. Juras, Tavarez v. Sipprel, Lumpkin.

non-federal student assistance received above the cost of tuition and fees.

By contrast, student aid administrators routinely include the following expenses in determining educational cost:

> tuition, fees, books, supplies, childcare, transportation, personal expenses, tutoring and counselling expenses, clothing, meals, the student's housing costs, medical expenses associated with attending college for ill or disabled students.

These costs are frequently substantial. For example, one Special Services director in Massachusetts estimates that a single head-of-household in school as a full-time student increases her personal costs alone with college attendance by $2,800 over a 32 week period. This estimate is based on the personal services (fast food, babysitting, cleaning, laundry) which the student must purchase, when prior to college enrollment she was able to perform these services for herself. In fact, as shown below, AFDC grant levels are based on the assumption that the parent has ample time to shop for thrifty food and other personal purchases, can subsist exclusively on inexpensive, home-cooked meals, and can perform all of her own personal services. This becomes impossible when the AFDC parent assumes responsibility for pursuing college study.

Some educational opportunity practitioners report open hostility from welfare case workers when asked to discount these comprehensive educational costs. They frequently view the educational cost budgets determined by student aid administrators to be "giveaways" and overly generous.

The facts do not support such a belief. For example, the living allowance for non-residential students in the Pell Grant program has been frozen at $1,100 since 1974. Students in residence at their college may charge their actual living costs. The National Association of Student Financial Aid Administrators (NASFAA) reports that the Pell Grant "commuter allowance," as it is termed, falls $1,200 to $1,600 short of actual room and board costs for non-residential students. In addition to being far below actual costs, the Pell Grant program further limits what it will pay for educational costs to half of the student's budget, up to a maximum grant of $1,800. Even the Reagan Administration, which has been less than generous in its budget requests for student assistance, recently acknowledged this perversely low living allowance by calling for an increase to $3,000 in the Pell Grant living allowance for dependent students.

Regardless of the reasons for welfare case worker intrangience in defining educational costs (e.g., racial, sex or class prejudice, misinformation, anti-education bias, unfamiliarity with college attendance and student assistance programs), an aggressive training and cooperation program will be needed to overcome the problem. Without such reform, AFDC parents will continue to have their benefits cut when they endeavor to achieve economic self-sufficiency through a college education. It is important to remember that not only does the parent/student have her grant cut, but her entire family suffers from a reduction in benefits as a result of this widespread practice.

AFDC students are further penalized by a second, perhaps more serious, inequity. AFDC standards for allowable living costs are notoriously low. So low, in fact, they lead one to wonder how recipients manage to provide for their families, even when they recieve <u>both</u> AFDC and Food Stamps. Table 1 shows that in 1979 <u>no</u> state provided combined AFDC/Food Stamp benefits above the poverty line ($7,160 for a family of four in 1979). In thirty states these combined benefits totalled no more than 75 percent of poverty. Eleven states offered combined benefits no greater than 60 percent of poverty ($4,308 <u>annual</u> income for a family of four).

TABLE I

CURRENT AFDC AND FOOD STAMP BENEFIT LEVELS FOR A FAMILY OF FOUR, 1979
(poverty level, family of four equals $7,150)

State	AFDC	Food Stamps[1]	Total	As Percent of Poverty Level
Hawaii	$6,552	$1,332	$7,884	96%
Vermont	5,724	816	6,540	91
New York	5,712	816	6,528	91
Michigan	5,640	840	6,480	91
Wisconsin	5,496	888	6,384	89
Washington	5,268	948	6,216	87
Oregon	5,124	996	6,120	85
Minnesota	5,088	1,008	6,096	85
Connecticut	5,100	996	6,096	85
California	5,076	1,008	6,084	85
Massachusetts	4,752	1,104	5,856	82
Iowa	4,740	1,104	5,844	82
Alaska	5,400	1,896	7,296	82
New Jersey	4,488	1,188	5,676	79
Utah	4,488	1,188	5,676	79
North Dakota	4,440	1,200	5,640	79
Nebraska	4,440	1,200	5,640	79
Idaho	4,392	1,212	5,604	78
Pennsylvania	4,320	1,236	5,556	78
Rhode Island	4,308	1,236	5,544	77
New Hampshire	4,152	1,284	5,436	76
South Dakota	4,080	1,308	5,388	75
Illinois	3,996	1,332	5,328	74
Montana	3,972	1,344	5,316	74
Maine	3,768	1,404	5,172	72
District of Columbia	3,768	1,404	5,172	72
Oklahoma	3,708	1,416	5,124	72
Colorado	3,684	1,428	5,112	71
Kansas	3,672	1,428	5,100	71
Wyoming	3,660	1,428	5,088	71
Ohio	3,492	1,488	4,980	70
Delaware	3,444	1,500	4,944	69
Virginia	3,408	1,512	4,920	69
Nevada	3,312	1,536	4,848	68
Indiana	3,300	1,536	[illegible]	68
Maryland	3,204	1,572	4,776	67
Missouri	3,072	1,608	4,680	65
West Virginia	2,988	1,632	4,620	65
Kentucky	2,820	1,680	4,500	63
New Mexico	2,748	1,704	[illegible]	62
Arizona	2,544	1,764	[illegible]	60
North Carolina	2,400	1,812	4,212	59
Florida	2,352	1,824	[illegible]	58
Arkansas	2,256	1,860	[illegible]	57
Louisiana	2,064	1,908	3,972	55
Alabama	1,776	2,004	[illegible]	53
Georgia	1,776	2,004	[illegible]	53
Tennessee	1,776	2,004	[illegible]	53
Texas	1,680	2,028	3,708	52
South Carolina	1,488	2,088	3,576	50
Mississippi	1,440	2,100	3,540	49

[1] Food stamp bonus benefits are based on the *Food Stamp Act of 1977* and are the allotment values in effect from January to June 1979. The bonus values also assume the use of the standard deduction ($65 per month in the 48 states and District of Columbia) and no excess shelter deduction.

SOURCE: Prepared by the Department of Health, Education and Welfare. Cited in U.S. House of Representatives, Committee on Ways and Means, *Report together with Dissenting and Additional Dissenting Views to accompany H.R. 4904, Social Welfare Reform Amendments of 1979*, Report 96-451, 96th Cong., 1st Sess., September 20, 1979.

An even more startling indicator of the inadequacy of current public assistance payments is the average monthly Food Stamp benefit per person. This figure in 1975 was $25.06 per person. This amounts to a subsidy of about 28 cents per person per meal (Rosen, 1982).

These allotment levels are established based on a single variable: family composition. They vary based on a Department of Agriculture (USDA) estimate of the cost of a "nutritionally adequate diet" for different family sizes. The Thrifty Food Plan was established by USDA as a national standard of need, or allotment level. It varies a family's food budget based on the number and age of the family members. The Thrifty Food Plan was established by USDA after numerous court suits challenged the Department's prior standard as insufficient to provide a nutritionally adequate diet. However, the Department itself recognizes that even the "liberalized" Thrifty Food Plan represents an inadequate diet:

> The Department recognizes that a number of factors make it difficult . . . to obtain an adequate diet on . . . the Thrifty Food Plan. In fact, fewer than one in ten families spending an . . . equivalent to the cost of the Thrifty Food Plan received 100% of the Recommended Daily Allowances. Less than half received even two-thirds of the Daily Allowances. . . . The average food purchaser, without specific nutritional skills and training, would find it difficult to make the food choices which provide an adequate diet on . . . the cost of the plan. (Source: Robert Hill, 1980.)

Again, student aid guidelines for determining living costs are more adequate in meeting actual costs than those used in public assistance programs. Title IV student aid programs use the Social Security lower living standard, rather than the poverty standard employed in AFDC. However, NASFAA has argued that even the Social Security lower living standard is inadequate. NASFAA recommends that student aid programs employ the moderate lower living standard defined by the Bureau of Labor Statistics.

As a result of the widely varying standards for determining living costs and educational costs employed by the welfare and student aid communities, it is imperative in assuring college access for welfare recipients that the student aid standards prevail. Even these standards require additional adjustment to meet actual, rather than arbitrarily low, educational and living costs.

Lastly, welfare recipients and their families are penalized by the separate consideration given to the student's "budget" and the family's "budget." For such low income families, who as we have seen are already living at the edge of subsistence, any reduction in any grant of any amount will restrict college access for a family member. The practice of counting one set of benefits against another must end if the subsistence survival, let alone college opportunity, of families living in poverty is to be assured.

e. Other Inequities

While AFDC rules are neutral with respect to the level and control of postsecondary institution attended, they do discriminate among (1) commuter and residential schools; (2)

postsecondary programs attended as part of an AFDC-approved "training" program and those not so approved; (3) and institutions in different states.

The living allowance provided by student financial aid administrators for commuting students as part of college costs is likely to be counted as income to the AFDC family. The result will be a dollar-for-dollar reduction in the family's AFDC grant. Local welfare officials will be more inclined to disregard the living allowances for students residing at their college

AFDC- or WIN-approved postsecondary training will make allowances for child care and other costs of college attendance. Even so, payment of childcare costs is rarely available for AFDC recipients. Those attending college without WIN support will find few if any resources available for childcare. This problem is compounded by the prevailing practice of local welfare officers of actively discouraging college attendance for AFDC recipients.[12] Finally, rules with respect to the treatment of non-federal student assistance differ from state to state. This results in inequities based solely on where a family resides, and the benefit level provided by that state.

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12. Beatriz Chu Clewell, "Barriers to Higher Education for Welfare Recipients," Draft paper, 1982, Washington, D.C.; Alvin Schorr, Project Fair Play, Findings, Case Western Reserve University, 1981; Sylvia Law, "Women, Work, Welfare and the Preservation of Patriarchy," New York University Law School, December, 1982; Gwen Benson-Walker, a survey of participants in the Motivation to Education for Jobs Program, National Student Educational Fund, Washington, D.C., 1982.

In her examination of AFDC-Pell Grant interactions, and after a telephone survey of welfare practices in seven states, Mudrick concludes:

> (T)he net impact on an AFDC family that has a member enrolled in college is likely to be a reduction in the resources available to support the family, even when the student receives enough student aid to cover all direct and indirect educational expenses.[13]

2. Recommendations

Until federal law provides unequivocal, mandated exemptions of student financial assistance as either income or resources to a poor family, low income students and their families will continue to suffer from a double penalty. First, student aid required to pay the costs of college will be used to reduce the family's AFDC grant. Second, students with identical resources and costs will be treated differently by state welfare offices with widely differing rules. Legislation will be required to remove this double penalty. Extensive litigation has failed to resolve the problems created by vague federal law and conflicting state practices in this area. The Commission should carefully consider the following issues in its efforts to recommend legislation which will resolve the problems created by this difficult area of welfare/student assistance law.

The following recommendations are intended to avoid the duplication of AFDC and student assistance benefits by relying

13. Nancy Mudrick, "The Interaction of Public Assistance and Student Financial Aid," September, 1980, The Washington Office of the College Board.

on common definitions of "undergraduate student," "educational cost," "living allowance." They further intend to require common definitions of satisfactory academic progress and "independent student" in an effort to assure that AFDC students are adequately pursuing a college degree program which will help lead to economic self-sufficiency.

1. Definition of "undergraduate student" shall be identical to that used for the Pell Grant program for purposes of AFDC grant determinations under Section 484 of the 1980 Higher Education Amendments.

2. All grant, loan, and work/study sources of student financial assistance -- federal, state, institutional, private -- shall be disregarded as either income or resources to the student and his or her family in determining AFDC grant levels by all states, the District of Columbia and the trust territories. A common, and comprehensive, definition of "student financial assistance" should be adopted.

3. The following categories of costs, normally included in educational budgets, shall be considered educational expenses to be paid for by available student aid:

   tuition, fees, books, supplies, clothes and other personal expenses, transportation, meals, the student's housing, childcare, tutorial services, medical expenses associated with attending college for ill or disabled students

4. All forms of student financial assistance received from any source to pay for the costs of attending college, as budgeted by the postsecondary institutions financial aid officer, shall be disregarded as income or resources to the student and to his or her family in determining AFDC grant levels by all states, the District of Columbia and the trust territories.

5. Recipients of all forms of student financial aid from all sources shall not be responsible

for accounting, other record-keeping, verification or fraud and abuse sanctions other than those required by recipients of Title IV student financial assistance under current law.

6. All AFDC assistance shall not be counted as income or student aid in determining federal and non-federal grant, loan or work-study student assistance, except when explicitly provided as a supplement to the family's grant for an identifiable component of educational cost, e.g., transportation or childcare.

The Commission should further consider effective mechanisms to assure cooperation among HHS, ED and state welfare and student assistance agencies in conforming to these requirements. Any provision allowing state option in treatment of any form of student assistance for AFDC grant determination will continue inequitable practices. The memorandum of agreement between the Office of Student Financial Assistance and the Rehabilitive Services Administration of the U.S. Department of Education can serve as a useful model in assuring such inter-agency support. A copy of this agreement is appended.[14] Damons and Associates of Rockville, Maryland is completing an evaluation of the effectiveness of the OSFA/RSA agreement in those states which have adopted it. The Commissioners may wish to review the materials currently available from Damons in applying this experience to the problems of coordinating public assistance and student aid.

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14. For a full discussion of RSA/OSFA cooperation in awarding student aid to disabled students, see David Rosen, No One Should Be Denied: The Effects of Public Assistance on College Opportunity, March 1982, pp. 248-271. NCSFA has a copy of this manuscript in its offices.

C. Other AFDC Recommendations.

1. Reinstitute 18-21 year old dependent eligibility if enrolled in postsecondary education, high school equivalency or training program.

2. Replace work requirements for parents with incentives to enroll in postsecondary education, high school equivalency or training programs.

3. Adjust expense allowances to meet real costs for work, training and education expenses in AFDC grant determination.

4. The definition for undergraduate student in Sec. 484 of the 1980 Higher Education Amendments should be used to identify AFDC and all other public assistance program recipients who enroll in college.

   AFDC students, as well as all other student aid recipients, should pursue a course of study that will be of both material and personal benefit to them. A standard of "satisfactory academic progress" may be employed, as in §484, to help assure this. However, such a standard should not penalize low income students for academic skill deficiencies they may have developed from their prior schooling. At the same time, this standard should acknowledge the importance of pursuing a coherent degree program.

   The satisfactory progress standard should be developed in consultation with both higher education and educational opportunity representatives.

   In applying a satisfactory progress standard which is sensitive to these issues for welfare clients, the Commission will help avoid potential abuse of the proposed college incentives.

5. Eliminate workfare requirements and state options for workfare.

6. Eliminate limits on application of earnings disregard formula (30 and 1/3) for working AFDC recipients enrolled in postsecondary education, high school equivalency or job training.

7. Revise AFDC treatment of all student aid from all sources as recommended in Part I B. above.

8. Target available federal job training resources on AFDC recipients; remove financial disincentives to participate in such job training programs; encourage coordinated education and job training programs at postsecondary institutions for recipients who qualify for admission to college. (Despite numerous incentives for CETA enrollees to participate in college programs as part of coordinated education and work programs (see Rosen and Sunderland 1979), a mere 2.4 percent of all non-summer 1978 CETA participants enrolled in college. (Source: Continuous Longitudinal Manpower Survey, U.S. Department of Labor.)

9. Institute a complete information service to AFDC recipients and prospective recipients regarding available aid, available education and training opportunities, and rights and responsibilities of recipients in the programs. This recommendation has also been forwarded by the National Student Educational Fund (Benson-Walker and Downey, undated).

D. <u>Food Stamps</u>

1. Disregard all student aid from any source as income or resources available to Food Stamp recipients and their families in determining Food Stamp purchase requirements, consistent with recommendations in Part I B. for AFDC.

2. Remove all work requirements for Food Stamp recipients enrolled in postsecondary education.

3. Remove categorical prohibitions against college student eligibility for Food Stamps for the following beneficiaries enrolled in college under the definition of Sec. 484 of the 1980 Higher Education Amendments for eligible students:

   - all heads of household.
   - all Food Stamp beneficiaries who meet the Pell Grant definition for independent student (CFR 690.42).
   - all dependent family members of eligible Food Stamp family units.

4. Assure eligibility for both Food Stamp and student assistance based on financial need.

5. Reinstitute information and outreach services regarding Food Stamp benefits and opportunities for college enrollment to current and prospective Food Stamp beneficiaries.

E. Medicaid

The direct effects of Medicaid policies on college opportunities are impossible to gauge. HHS maintains no data on the number of students or the educational attainment of Medicaid recipients. Since Medicaid eligibility is directly tied to AFDC eligibility, however, those AFDC policies which disqualify recipients for aid simultaneously result in loss of Medicaid benefits in most cases. For example, the roughly 200,000 18-20 year old students eliminated from AFDC support by the 1981 Omnibus Budget Reconciliation Act lost their Medicaid support as well. State Medicaid eligibility and coverage policies duplicate the inequities found in state AFDC rules.[15]

As of 1982, 29 states and the District of Columbia provided Medicaid coverage to "medically needy" individuals. These are people with low incomes and high medical expenses. Some college students who lost their Medicaid coverage through loss of AFDC eligibility may retain it in these states if they have routinely high medical costs. Others with ordinary medical expenses, as well as those not residing in these states, will not retain coverage.

15. For a complete discussion of Medicaid and its effects on college opportunity, see Rosen, op. cit. pp. 157-176.

The following recommendations will assist in protecting low income postsecondary students from loss of needed health care services.

1. Any low income postsecondary student who, by virtue of student financial aid received to pay for educational costs, loses his or her eligibility for AFDC shall remain eligible for full Medicaid coverage.

2. Postsecondary institutions shall provide either student health care services or student health insurance plans adequate to meet the needs of Title IV student assistance recipients.

   The cost of any student health insurance premium should be included in the calculation of the student's educational expenses when determining student aid awards.

   Statewide or regional group health plans should be developed for smaller colleges incapable of supporting their own health plan.

3. Congress should study current health plans available for low income college students, and enact programs to fill the needs in this area.

F. Public Housing

1. Disregard all student aid from all sources for all educational costs as income or resources available to the low income families supporting family members in postsecondary study and residing in any federally-assisted housing unit.

2. Deduct all child-care costs from rental subsidy determinations for low income parents in federally-assisted housing units who are enrolled in postsecondary education.

3. Reinstate $300 deduction from income in determining rental subsidies for each family member attending a postsecondary institution and residing in federal-assisted housing.

4. Adjust housing costs in computing student budgets to reflect increase in rent requirements in federal-assisted housing programs for family members attending a postsecondary institution.

G. Unemployment Insurance

1. Exempt unemployed workers otherwise eligible for UI benefits from state limitations or prohibitions of their eligibility and benefits levels when enrolled in postsecondary education.

2. Clarify the distinction in "student intern" prohibitions to UI eligibility between students employed in a College Work/Study job which is "an integral part of their studies" (e.g., in a cooperative education program), and that College Work/Study employment which is not so related to their studies. Where postsecondary students are employed in wage labor, with no program educational benefit associated with the work, UI eligibility should apply as it would for any other worker.

3. Remove prohibitions against UI eligibility for student workers employed at the institutions they attend if otherwise eligible, and if not employed in a College Work/Study job integrally related to their education.

H. Other Short Term Recommendations

1. Develop comprehensive information services to recipients and prospective recipients of federal public assistance programs regarding (a) available benefits; (b) available postsecondary educational opportunities; (c) available student financial aid from all sources. These informational requirements shall apply equally to all agencies administering federal public assistance programs: HHS and state and local welfare offices; USDA, state UI and employment development agencies, HUD, ED. The information requirements may be modelled after the Student Consumer Information Amendments to the 1976 Higher Education Amendments (Section 493). The authority and activities of Education Opportunity Centers (Section 417(E) of the 1980 Higher Education Amendments) may serve as a useful model for information and advocacy services. For student financial aid administrators, the existing training authority (Section 486 of the 1980 Higher Education Amendments) may be effectively used, as can the existing Trio training authority (Section 417(F)) for educational opportunity professionals.
It is important that the training and dissemination activities of the student aid, welfare and educational opportunity communities complement each other, avoid contradicting each other, and adequately inform one another about their respective programs, services and benefits. The Commission is also advised to consider the information recommendation prepared by the National Student Educational Fund to improve college opportunities for welfare recipients.

3. A federal commitment of adequate appropriations will be required to make such training authorities and information services effective.

4. Support for Special Programs for Students from Disadvantaged Backgrounds (Trio), especially the Special Services and Educational Opportunity Center programs, will provide additional advocacy, counseling and information and supportive services needed by public assistance recipients to negotiate complex public assistance and student aid rules in their efforts to attend college. The proven effectiveness of these programs warrants an expansion to adequately serve their eligible client population. Current funding allows Trio programs to serve approximately 10% of their eligible clientele.

II. LONG RANGE RECOMMENDATIONS

While the short range recommendations presented above will help alleviate the inequities created by the interaction of public assistance and college opportunity policies, they will not eliminate them. The following discussion and recommendations provide a guide to the development of a comprehensive public assistance and college opportunity policy which will help lead to the achievement of equal educational opportunity, rather than perpetuate the current system of contradictory policies and disincentives to self-improvement. These recommendations of necessity call for a fundamental restructuring of welfare policy in the United States. Such reform is required to eliminate the barriers to self-sufficiency endemic in our current welfare policies. This debate may be outside the charge of the Commission. However, the issues and recommendations presented below must be addressed if these problems are to be ultimately resolved. They are offered, therefore, for the Commission's consideration, and for appropriate referral to further action. Five principles for complementary public assistance and college opportunity policies are discussed below.

A. Financial Resources

Going to college costs money. Not only must tuition and fees be paid, but books, supplies, equipment, transportation, meals, clothing, health care, child care are all expenses incurred in the process of attending college. For low income citizens, both heads of households and their dependents, these expenses simply cannot be paid for from family resources. Subsistence costs take precedence simply as a matter of survival: rent, food, clothing, utilities, health care. The 24 million Americans living below the poverty line[1] do not have sufficient funds to pay even these subsistence costs. College for them remains an unattainable goal.

Consequently, complementary public assistance and college opportunity policies must provide adequate financial resources to low income individuals for <u>both</u> subsistence expenses <u>and</u> expenses for attendance at the college of choice. Public assistance policy which in any way reduces financial resources available to such citizens upon their enrollment in college makes it financially almost impossible to attend. This assertion is supported by a broad research literature which documents demand for college to be directly related to available financial resources to pay for it. A $100 net increase in the cost of college is accompanied by a 1 percent

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1. Bureau of the Census, U.S. Department of Commerce, Current Population Reports, Population Characteristics: Demographic, Social and Economic Profile of States: Spring, 1976.

to 3 percent decline in enrollment rates of low and moderate income individuals.[2]

1. Recommendation

-- Provide a federally guaranteed annual income equivalent to at least the federal poverty level to individuals and families, free from categorical distinctions. Such a standard should be adequate to support subsistence needs for food, housing, clothing, utilities, health care.

B. Freedom from Workfare Requirements: Incentives for Employment, Training and Education

Public assistance workfare requirements are based on the belief that recipients must "earn" their benefits, rationalized by the assertion that such requirements "provide (work) experience and training . . . to ass[illegible] to move into regular employment."[3] The reality of [illegible] differs from

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2. See Gregory Jackson and George Weathersby, "Individual Demand for Higher Education," Journal of Higher Education, Nov./Dec., 1975; Gregory Jackson, Financial Aid and Student Enrollment, Harvard Graduate School of Education, January 1977; Michael McPherson, "The Demand for Higher Education," in David Beneman and Chester Finn, eds., Public Policy and Private Higher Education, Brookings, 1978, pp. 180-182; P. Feldman and S. Hoenack, "Private Demand for Higher Education in the U.S.," The Economics and Financing of Higher Education in the U.S., Joint Economic Committee, 1969; R. Radner and L. Miller, "Demand and Supply in U.S. Higher Education: A Progress Report," American Economic Review, May 1970; F. Sloan, "The Demand for Higher Education: The Case of Medical School Applicants," Journal of Human Resources, Fall 1971, pp. 466-89; R. Spies, The Future of Private Colleges, The Effect of Rising Costs on College Choices, Princeton University, 1973.

3. Community Work Experience Program, 1981 Omnibus Budget Reconciliation Act, PL 97-35, Section 409.

the rationale. The General Accounting Office (GAO) found in a review of one such "workfare demonstration project" that jobs were low-level, unskilled, unsupervised, poorly administered, and offered no opportunities for evaluation, training or transfer to regular employment.[4] Furthermore, the U.S. Civil Rights Commission heard testimony that workfare requirements were used to support low wage farm labor for blacks.[5] The findings of numerous workfare project evaluations confirm that the strategy is punitive in nature, non-productive, and ineffective in reducing welfare costs.[6] Moreover, workfare as a transitional program to unsubsidized employment has been found ineffective (Friedman, et al, and Goodwin). Contrary to the expectations of the Reagan Administration for workfare to reduce public assistance costs, it has been found to produce "no significant reductions in welfare payments" (Friedman, et al .tate of California). Additionally, workfare on a large scale could undermine prevailing wage structures. Joe concludes:

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4. GAO, Insights Gained in Workfare Demonstration Projects, July 32, 1981, pp. 4-5.

5. U.S. Civil Rights Commission hearing, Cairo, Illinois, June 10, 1966; Staff Report on Public Assistance in Alabama, updated.

6. Tom Joe, et al., National Opinion Research Center, University of Chicago, The Poor: Profiles of Families in Poverty, March 20, 1981, pp. S-5, 19-21, 57. See: State of California, Third Year and Final Report on the Community Work Experience Program, Employment Development Department, April 1976; James Koppel et al., Final Report: A Study of General Assistance Workfare Programs, National Association of Counties, 1978; Barry Friedman et al., An Evaluation of the Massachusetts Work Experience Program, Brandeis, 1980; Leonard Goodwin, "The Case Against Work Requirements," Public Welfare, 36, 2, Spring 1978.

> Given what is known about workfare programs from several demonstration projects, and from the existing work requirements of other programs such as AFDC and Food Stamps, the (Reagan) Administration's workfare plan is likely to be an administrative failure -- and financially wasteful . . . Requiring recipients to work in makeshift jobs is not compatible with the work ethic. Instead, workfare can be a punitive measure that can undermine the value of work and thus have an effect opposi-e what it is intended to achieve. Mandatory work in menial jobs also does not provide job skills to welfare recipients that they can use in market-supported employment, and therefore will not lessen their dependency.[7]

Workfare is founded on a penal system of work-for-no-pay. It serves to deprive low income citizens of opportunities to either pursue higher paying, more productive employment or educational opportunities intended to increase their employability for such positions. Citizens required to submit to workfare programs, who must also care for their children, have little if any time available to pursue an education designed to make them economically self-sufficient. In order to take advantage of available college opportunities, public assistance recipients must be freed from workfare requirements. They must have the freedom to pursue a college education which will help prepare them for productive employment and available job opportunities.

7. Ibid., pp. 24-25.

i. Recommendations:

-- Abolish workfare requirements and program options in all federal public assistance programs. No public assistance recipient shall be required to work to earn their entitled benefits.

-- Reinstitute and strengthen incentives for work, training and education of public assistance recipients.

-- Target federal employment and training program benefits and services on public assistance recipients.

-- Provide incentives for coordinated education and work training programs based in postsecondary institutions for public assistance recipients.

-- Develop appropriate work, training and education program options for public assistance recipients with differing needs, abilities and aspirations.

C. Information

Schorr, Piven and Cloward have documented the need for adequate information about the availability of public assistance. The Student Advisory Committee of the College Scholarship Service and the National Student Educational Fund have documented the need of students and prospective students for information about postsecondary education opportunities and the availability of student financial aid. Benson-Walker and Chu-Clewell have shown the information needs of public assistance recipients who wish to attend college. In the past, information -- or lack of it -- has been used as an administrative tool to deny people benefits to which they are legally entitled. For example, under Mayor John Lindsay in New York City, a memorandum prepared for him by the Budget Bureau proposed "the elimination of seven outreach centers and at least seven of the regular welfare centers through consolidation . . . in order to . . . build up and maintain the maximum legal backlog between intake and final determination of eligibility."[8] These proposals were indeed enacted, and did result in reduced awareness and demand for welfare benefits.

Both public assistance and college opportunity programs should assure the aggressive dissemination of accurate, complete and timely information regarding available benefits and programs under each to all beneficiaries and prospective participants. Policies which inhibit the flow of such information constitute a barrier to equal educational opportunity.

1. Recommendation

-- The short-term recommendations for information services presented on pages 15-16 apply here.

D. <u>Simplicity</u>

Much of the need for services, e.g., outreach workers, eligibility technicians, case workers, and the resulting costs, paperwork and excessive bureaucracy of public assistance programs result from their complexity. Public assistance programs are, at bottom, intended to redistribute income as a partial remedy for inequities found in the economic order. That goal may be achieved through a greatly simplified system of cash transer administered, for example, by the IRS. If administrative costs of the eight public assistance programs

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8. New York City Budget Bureau, Recommendations for Savings in the Welfare Budget, March 24, 1969, quoted in Piven, op. cit., p. 161.

reviewed by Rosen[9] are assumed to be 15 percent of total costs, then about $9 billion could be saved by instituting a simple cash transer system. A similarly large amount would be saved by eliminating the need for litigation, counseling, paperwork and a myriad of secondary costs associated with the bewildering complexity of current public assistance programs.

Administrative simplicity is not a new idea. Past proposals for streamlining public assistance payments, however, have used such action as a screen intended to lower cash benefits, e.g., President Nixon's Family Assistance Plan and the income portion of President Carter's Better Jobs and Income Plan. Proposals for administrative simplicity must:

-- assure low income citizens a decent financial standard for subsistence

-- not reproduce the profusion of 50 state and 3,000 local welfare offices, each with their own policies and practices

-- not reproduce the array of nine federal departments and 21 Congressional committees.

This will be a great step not only in enhancing the complementarity of public assistance and college opportunity, but also in reducing inequity, inefficiency and unworkability of the current public assistance system.

Beyond administrative savings, however, the simplification of federal public assistance programs is proposed to eliminate

9. Rosen, 1982, op. cit. These programs include AFDC, Food Stamps, Medicaid, Public Housing, Social Security, Student Benefits, CETA, Unemployment Insurance, Vocational Rehabilitation.

discrimination among categories of deserving and undeserving low income citizens. Current federal law makes such distinctions, preserving in the process a system which inequitably treats citizens with identical financial resources but different family, health or residence characteristics. However, these proposals for simplifying public assistance will not on their own correct other inequities which occur in the marketplace, in housing, health care and education for example. Still more fundamental reforms outside the scope of this paper will be required to redress these problems.

1. Recommendations

-- The simplification of federal public assistance payments will require the end of categorical distinctions among different types of low income citizens (e.g., elderly, disabled, single parents). A single income-test would be required for eligibility and grant level determination.

-- Programs like AFDC, Food Stamps, assisted housing and SSI would be replaced with a simple cash transfer.

-- Such a transfer payment system might be managed by the Social Security Administration or the IRS, subject to the reporting and verification requirements of all citizens by such systems.

-- Work, training and education incentives should be significantly strengthened to assure the self-sufficiency of recipients wherever possible.

E. Support Services

Until the dream of administrative simplicity is achieved, and in order to meet those needs which will continue to present obstacles to college attendance, a wide range of support services are needed to assist low income citizens maneuver through the thicket of public assistance programs in their educational pursuits. These services include assistance in applying for student financial aid and for college admission, basic skills instruction, tutoring, counseling, outreach and recruitment, child care, as well as advocacy to assist in the myriad administrative procedures required by the interaction of public assistance and student financial assistance programs. One chief problem is that no one agency or service exists to assure that all the necessary steps proceed as required. Student aid administrators remain responsible for their programs, welfare case workers for theirs. A consensus must be reached among policy makers and practitioners alike as to how this array of needed services can be most effectively provided.

Finally, though outside the scope of this inquiry, one last "service" must be mentioned. The public schools must be strengthened to adequately prepare all students with the talent and desire to attend college. Until the inequities of the elementary and secondard school systems for poor students are corrected, many of these students will never realize their full intellectual, personal and productive potential.

1. Recommendations

-- Expand appropriations to the Trio program sufficient to meet client need and within the capacity of the educational opportunity community to provide quality services.

-- Provide incentives to postsecondary institutions to enroll and support low income students. These should be developed in consultation with higher education and educational opportunity representatives.

-- Strengthen professional training for welfare, student aid and educational opportunity professionals to better serve the needs of low income students created by the interaction of their programs.

APPENDIX C

"Cooperative Education — A National Assessment" Executive Summary & Commentary

A Study Conducted By
Applied Management Sciences
of Silver Spring, Maryland

NATIONAL COMMISSION
FOR
COOPERATIVE EDUCATION
360 Huntington Avenue
Boston, Massachusetts 02115
(617) 437-3778

FOREWORD

In this report, the National Commission for Cooperative Education is presenting the U.S. Office of Education's Executive Summary of a major research effort sponsored by the federal government entitled, "Cooperative Education — A National Assessment." The final report of the study fills two large volumes and supplemental data.

The Commission has also excerpted material from a detailed commentary prepared by Dr. James W. Wilson, Director of the Cooperative Education Research Center at Northeastern University.

The study, "Cooperative Education — A National Assessment," was conducted by Applied Management Sciences of Silver Spring, Maryland, under a merit contract with the Office of Planning, Budgeting, and Evaluation of the U.S. Office of Education. It was begun in July, 1975, and was completed in November, 1977. The project director for AMS was Dr. Steven Frankel, and supervising the activity for the Office of Planning, Budgeting, and Evaluation was Mrs. Ann D. Hershner.

The study was mandated by Congress in the appropriations act for fiscal year 1975 in a determination to produce "hard data" as a guideline for future Congressional decisions.

INTRODUCTION

Cooperative education has been warmly endorsed and supported by Congress as a work/learning strategy capable of serving national needs. Under Title IV-D of the Higher Education Act, 1,054 grants totaling $34,687,278 were made to postsecondary institutions to develop, implement, strengthen, or expand cooperative education programs. This federal government support has, in fact, catalyzed the growth of cooperative education so that today there are almost 1,000 institutions offering programs. (Title IV-D has been supplanted by Title VIII).

Periodically, committees of the Senate and House of Representatives have heard testimony from private and public sector employers, educators, students, and professional organizations attesting to the cost benefits, educational values, and social gains produced by cooperative education. In most — perhaps all instances — those who appeared before Congressional committees, including leading industrialists, college presidents, and social scientists, urged that greater financial support be provided by the federal government to institutions as well as to ancillary research and training activities.

How much should Congress appropriate for cooperative education? With a current enrollment in cooperative education of only 2 percent of the nation's total post-secondary student body, is there an enrollment saturation point? What is the real employment potential for cooperative education students and graduates? What, in fact, are the benefits to students, employers, and institutions?

It was not unusual that answers to these and other questions should be sought, nor was it unusual that after a federal program has operated a number of years, it undergo a systematic evaluation.

The quest for this information was reflected in a speech delivered by U.S. Senator Ted Stevens (R. Alaska), a member of the Senate Appropriations Committee and an outspoken advocate of cooperative education. Addressing an Employer Institute convened May 2, 1974, in Detroit by the National Commission for Cooperative Education, Senator Stevens said: "To increase the funding, we need hard data — from the schools, the employers, and the students to present the case before Congress. I, for one, believe in cooperative education and would willingly lend my support to furthering its goals in Washington."

The National Commission believes that the objective data presented in "Cooperative Education — A National Assessment" provide the justification for continued, expanded, and creative federal government support of cooperative education.

For professionals in the field, as well as those prospectively interested in cooperative education — students, parents, employers, and faculties and administrators of postsecondary institutions — the summary of the National Assessment and the excerpts from the Wilson commentary should be a source of enlightenment and confidence.

Excerpts From The Executive Summary

U.S. Department of
Health, Education, and Welfare
Office of Education
Office of Planning, Budgeting and Evaluation

Excerpts From The Commentary

By

James W. Wilson
The Asa S. Knowles Professor of Cooperative Education and Director
Cooperative Education Research Center
Northeastern University
Boston, Massachusetts

Findings

The findings of the study have led to the following conclusions regarding cooperative education —

1. *Those who participate in cooperative education support it.*

Institutions with programs of cooperative education and employers who hire cooperative education students expressed strong support and indicated their intention to increase the number of students who would participate. Students who were currently enrolled in programs of cooperative education and graduates who had participated in cooperative education as students assessed their experiences as valuable.

2. *Cooperative education contributes significantly to the career preparation of students.*

More students enrolled in cooperative education programs, as compared to their non cooperative education counterparts, perceived that their job skills improved as they advanced through their undergraduate program. In a similar comparison, as they approached graduation, more cooperative students had a clearer and more specific sense of their career objectives than did non cooperative students. The findings also showed that cooperative education contributes to after graduation employment, to a more direct relationship between college major and full-time after-graduation employment, and a more direct relationship between current job and career plans.

3. *Cooperative education is a mechanism for student financial assistance.*

The large majority of students enrolled in cooperative education programs are compensated for their work and, therefore, for them cooperative education is an income producing activity. This income legitimately may be viewed as one kind of student financial assistance. This was found to be of paramount importance for approximately one-third of the students and was particularly true for large proportions of certain subgroups within the student sample, specifically minority and economically disadvantaged students. For the majority of students and institutional personnel, however, the financial assistance aspect of cooperative education was secondary to its educational advantages.

4. *Cooperative education is cost effective for students.*

Analyses were performed comparing the costs and benefits resulting from the following decisions: to go to college or not; to attend a baccalaureate degree or an associate degree granting institution; to participate in cooperative education or not. The net effective over a long period of time showed that the financial returns in relation to the costs expended are greatest to an individual who goes to college, attends a four-year institution, and participates in a cooperative education program.

The superiority of cooperative education was especially pronounced in the baccalaureate degree programs. In addition, it was found that a five-year cooperative program was more cost effective than a non cooperative four-year program. The cost effective dominance of cooperative education was less clear and consistent in associate degree programs. The data further showed that cooperative education in professionally directed curricula, such as business and engineering, were more cost effective than programs in liberal arts curricula. The greater cost effectiveness of cooperative education was further substantiated by the taxable income received by cooperative students, the shorter periods of unemployment experienced by its graduates, and the greater life-time earnings of its graduates.

5. *Cooperative education is cost effective for employers.*

Employers identified a number of potential values for them by their participation in cooperative education. It offers them the opportunity to fill regular and important jobs in the sub-professional categories. They observed that cooperative education students are as productive and often more highly motivated than regular employees. Through cooperative education they can identify and recruit future full-time employees from student ranks. Those recruited in this way are found to be good employees and are often regarded more highly than other full-time employees recruited by different means. Cooperative education offers employers the additional advantage of relating in a positive manner to the community and to the institutions of higher education within that community.

In a qualitative sense it was possible to compare the costs and benefits of cooperative education to employers. Overall, the additional costs experienced by employers in hiring cooperative students as against regular employees were modest. The only appreciably greater cost were the one time start-up costs and those costs associated with evaluating cooperative students. Wages, fringe benefits, supervisory and training costs, and union negotiating costs were essentially the same for both cooperative students and regular employees. On the other hand, benefits, as expressed in terms of student productivity, identification and recruitment of future full-time employees, and community relations, were great. Hence, although the data are not quantitative, they make a clear case for cooperative education being generally a cost effective investment for employers. Of the employers surveyed, 96 percent indicated that they planned to continue their cooperative arrangements with the institutions.

6. *Cooperative education constitutes a program cost for institutions of higher education.*

The study showed that the most important reasons for supporting cooperative education within the institutional community were because of its potential for integrating academic development and career development and because cooperative education has the potential for enhancing student motivation. Other identified values to the institutions include the opportunity to expand senior placement, update curriculum, expand enrollments, [illegible] other sources of funding, and utilize space and [illegible] more efficiently. It is clear from the findings that the [illegible] that cooperative education holds for institutional [illegible] is its potential for serving students and not in providing support to the institution.

The average net institutional per student cost was estimated at approximately $220 per year for the institutions sampled. As programs approached an enrollment of 2[illegible]0 students, they became a net financial benefit to the institutions. Since estimates indicate that 80 percent of all cooperative programs are smaller than this, it is concluded that for most institutions cooperative programs are not currently self-supporting.

7. *Title IV-D of the Higher Education Act has made a significant contribution to the national expansion of cooperative education.*

Since the first grants were awarded under Title IV-D in 1970, approximately 700 programs have been planned, implemented, strengthened or expanded as a direct result of Title IV-D, now Title VIII, grants.

8. *It was a sound legislative decision to support cooperative education through direct grants to institutions rather than as additional scholarship or loan monies to students or as subsidies to cooperative education employers.*

The financial rewards to students for participation in cooperative education begin immediately. Institutions, on the other hand, experience an immediate and reasonably long term net cost and are in need of support to offset the drain on their limited resources. By July, 1976, $34,687,278 had been awarded to institutions for the administration of their cooperative education programs. The average grant was $34,063, while the average request was $41,617. Title IV-D grants absorbed approximately 55 percent of the total cooperative education program costs.

9. *The federal investment in Title IV-D, and now Title VIII, is more cost effective than the federal student loan program.*

An analysis was presented which showed that the interest cost and loan default cost to the federal government for the student loan program are substantially greater than the cost of supporting cooperative education through annual appropriations.

10. *Federally funded and non-federally funded cooperative education programs exhibit similar program characteristics.*

Comparisons between programs that have received Title IV-D funding and those that have not showed no statistically significant differences with regard to a large number of program characteristics. Although federal funds have had a significant impact upon the expansion of cooperative education, particularly in the areas of liberal arts and two-year programs, Title IV-D funds have not significantly impacted upon program structure and mode of operation. It would be untrue to conclude, however, that no changes have occurred in cooperative education since the beginning of Title IV-D legislation, but rather that both federally funded and non-federally funded programs look very much alike. The significance of Title IV-D funds can be appreciated more in light of the findings on institutional costs and benefits rather than in terms of program characteristics.

11. *Students and employers assessed federally funded and non-federally funded programs to be alike.*

On several evaluation considerations, such as the counseling received, the relevance of the cooperative education assignment to college major, the quality of employer training, and employer ratings of student productivity, assessments were positive and similar for Title IV-D and non Title IV-D supported programs.

12. *The future prospects for the national expansion of cooperative education are good.*

The saturation point of student, institution, or employer participation in cooperative education has not been reached. Two percent of students enrolled in higher education, less than one-third of all higher education institutions, and approximately 30,000 employers are involved in cooperative education. Except for the lack of adequate and fully persuasive information about cooperative education and its values as applied to each of the constituent members, the stimulants to expand are far greater than the deterrents.

Conclusions

The potential for continued expansion of cooperative education is great because, as the study argues, the saturation point has not yet been achieved and the incentives for expansion far outdistance any of the hindrances.

There are three principal lines of evidence to support the contention that there is room for additional institutional participation in cooperative education. First, the theoretic maximum of participating institutions has not been reached since only approximately one-third of the institutions of higher education in the United States have programs of cooperative education. Second, the population of institutions with cooperative education has increased annually since 1961, and though now increasing at a slower rate than in previous years, it, nonetheless, continues to increase. Third, student enrollments in cooperative education have increased annually over the past number of years, and 77 percent of the sample institutions reported plans to continue increasing their cooperative education enrollments in the future.

In terms of student saturation, all students in institutions of higher education constitute the theoretic maximum of potential cooperative education students. Only about two percent, however, of all students are enrolled in programs of cooperative education. Although the number of cooperative education students has increased over the past several years, they still constitute a small minority of the potential numbers.

Two items of information were collected in the course of the study to support the position that the employment sector is not yet saturated with cooperative education students. Forty-one percent of the sample of current cooperative employers reported plans to expand the number of cooperative students they currently employ over the next several years, and sixty-two percent of the sample of employers not currently hiring cooperative students reported a desire and the possibility of hiring them in the future.

The study provided ample evidence of the existence of potential incentives for the adoption and expansion of cooperative education at institutions of higher learning. The data showed that cooperative education has particular merit as a strategy of career education, institutions with cooperative education have a higher rate of graduate placements than institutions without cooperative education, and cooperative education enhances the total financial aid efforts of the institution. The fact that cooperative education is not immediately cost effective is the single greatest deterrent to institutions embarking on such a program. Cost effectiveness is related to both the size and age of the program. Newer programs are more costly, which in turn is probably related to their size. As programs become larger, they have a greater chance of becoming cost effective. Although the potential exists for external assistance in the development of programs of cooperative education througth Title VII of the Higher Education Amendments of 1976, it appears, however, that the majority of the cooperative education programs are not currently financially self-sustaining.

There is overwhelming evidence that cooperative education has considerable value for students. It provides relevant career related education and financial assistance. Graduates of cooperative education programs have higher after graduation starting salaries and fewer and shorter periods of unemployment. In [illegible] students found cooperative education to be an extremely valuable strategy of education and a cost effective investment. The principal deterrent to student participation uncovered by this study was the lack of knowledge about cooperative education and its potential value for them.

This study showed that most participating employers find that cooperative education students are productive employees, earning their way. Additional employer costs required to participate in a cooperative program are modest, while the benefits, in terms of productivity, identification and recruitment of full-time graduates, and strengthened community relations, are great. Hence, cooperative education participation is cost effective for employers.

The findings of this study indicate that the incentives to expand are far greater than the deterrents, and, therefore, the prospects are good for the immediate and long term expansion of cooperative education.

APPENDIX D

Excerpt from letter from Congressman Thomas E. Petri to Mr. Kenneth G. Ryder, Chairman Subcommittee on Sources of Funds July 6, 1983.

ADVANTAGES OF INCOME-CONTINGENT PROPOSALS FOUND IN IDEA

Like most income-contingent loan (ICL) proposals, IDEA does provide protection against loan payments that are excessively large relative to income. Annual payments are limited to 15 percent of household income. Additionally, below the 15 percent cap, those at lower income levels pay less per year on a given amount of debt in absolute dollar terms. 1/

IDEA does seek a "participation interest" in a borrower's return on his educational investment. While the vast majority of IDEA borrowers would pay interest of average 91-day Treasury bill rates plus 2 percent, those with long-term low incomes would be charged an effective rate lower than this (due to forgiveness of debt remaining after 30 years of repayment). Similarly, the high income borrower would pay an interest rate of up to 150 percent of the standard T-bill + 2 percent rate, depending upon how much had been borrowed and how many years of high income the borrower experienced during the first 12 years of repayment.

IDEA does view as inappropriate the subsidy of high earners from low income families (and the failure to subsidize low earners from high income families) once basic financial assistance has been used to equalize access to higher education. That is why IDEA is offered as a supplement to current need-based grant and loan programs.

IDEA should raise the efficiency of higher education finance. The T-bill + 2 percent interest rate covers the cost of funds and administration of the program (and is therefore unsubsidized), yet gives borrowers the benefits of lower interest rates through federal loan guarantees and administrative efficiencies due to IRS collection of payments and Department of Education account maintenance. This below-market interest charge (compared to commercial unsecured loan charges--which even highest-income borrowers under IDEA do not pay) is economically efficient because it represents the pooled risks and expected returns to all IDEA borrowers. The program is designed to be actuarially self-sufficient. Even though no individual borrowers will be able to predict with certainty their future income streams, demographic data suggests that long-term solvency of IDEA is not in doubt.

IDEA contains no means test because rationing of unsubsidized loans is not necessary. Additionally, as Dr. Riddle notes, there is a positive correlation between the income levels of a student borrower's family and her own eventual income. Therefore, the more participation from students who fail GSL, NDSL, and Pell Grant means tests, the more likely IDEA will be serving borrowers who will not require eventual forgiveness of their loans due to long-term low income.

IDEA is not offered to facilitate a shift to more independent or financially autonomous students. Unlike most loan bank proposals, the unsubsidized rate of IDEA is not "easy money" enco[illegible]ging over-borrowing or even reinvestment of educational loans f[illegible] monetary gain. IDEA does, however, offer the independent student money at lower average interest rates than the ALAS program. Moreover, with parental incomes increasing at a slower rate than educational expenses for the foreseeable future, IDEA is much less a vehicle for reducing parental contributions than an incremental source of funds to bridge the growing gap between parental contributions,, student-supplied funds (savings or work-study), and current aid programs on the one hand, and the costs of attending school on the other. The gap exists, especially at the graduate school level. There is no guarantee that a subsidized loan program will be expanded to meet the need, and, as the Commission notes, subsidized loans can divert funding from grant programs, skewing assistance toward higher income families. IDEA protects funding for those currently eligible for need-based programs.

IDEA would increase the incentives to enter professions that are low-paying yet require large educational investments. As Dr. Riddle notes, lower payment levels might compensate for lower average incomes due to labor market discrimination against women and minorities. Perhaps more importantly, IDEA would remove the risk-aversion that lower-income groups may experience when considering whether to incur educational debt or not pursue further education out of fear of unmanageable debt. For those students who have received grants and subsidized loans yet need to borrow more, the 15 percent-of-income ceiling on IDEA payments and option to convert other loans into IDEA debt subject to that ceiling might encourage or enable students from lower-income families to enter graduate and professional degree programs.

As Dr. Riddle notes, lengthy repayment periods are offset by the deductibility of interest payments, and in any case generally would not significantly reduce the return on one's education received by a borrower. Under IDEA, most borrowers would repay loans over 12 to 18 years--not unlike the current period for repayment of loans concolidated by SLMA. The present value of the repayments would, in any case, be no greater than the value of the original loan, given the T-bill + 2 percent interest charge that reflects the cost to the IDEA program of lending money.

IDEA not only allows unsubsidized interest rates to co-exist with manageable debt payments, it reduces administrative costs and risks due to default through collection of payments by the IRS. n these costs would be paid through the interest charges.

Although Dr. Riddle mentions costs (with IDEA, really appropriations loaned to the program, not expenses that are not recoverable like the current GSL special allowance or in-school interest subsidy) of initial capitalization and payment of in-interest required by ICL schemes, IDEA seeks to avoid even these. The IDEA legislation authorizes the issuance of 15-year + "zero-coupon" bonds by state guaranty agencies that would require no in-school interest payments at all. The IDEA Loan Trust Fund would repay the bonds with interest at a time when repayments had accumulated in the Trust Fund--avoiding current appropriations except for administrative costs.

AVOIDANCE OF POTENTIAL DISADVANTAGES OF ICL'S BY IDEA

Because the theoretical attractiveness of income-contingent loans had fa[illegible] o receive the endorsement of large numbers of policymakers in the past, the IDEA program was explicitly shaped to mitigate or avoid the negative attributes of past proposals.

IDEA does not attempt to directly attribute future income to investment in education. Rather, it accepts post-school income as evidence of ability to pay for in school borrowing. Educational loans represent a future obligation of borrowers. It is logical and appropriate that the price of such loans should reflect future (rather than family) income of borrowers. This is particularly true given the status of IDEA as a supplement to need-based programs that is targeted to graduate study where parental contributions are less available and costs of attendance are often higher.

IDEA takes positions on issues of equity raised by Dr. Riddle, using current student aid and tax policy precedents for guidance. Borrowers do not [illegible]id their loans by marrying and leaving the workforce; however, the joint income of a couple is considered in setting the repayment due from spouses on their joint debt. This is consistent with current tax policy, which does not consider the amount of income earned by individual spouses within a taxpayer unit when taxing the income of the couple. It is true that a spouse who works but has not borrowed may have to pay off the loans of a spouse who has borrowed but has no market income; nevertheless, non-working spouses effectively must resort to household income (or wealth) to pay current federally-insured loans. Moreover, basing IDEA payments on borrowers' households' income is no less legitimate than establishing need for subsidized loans or grants according to students' families' income--the household unit is the measure.

Dr. Riddle raises the question of negative effects on labor supply if loan payments that increase with income are disincentives to work and earnings. IDEA is distinctively different from earlier income-sensitive repayment schemes in that the payment on a given amount of debt decreases as a percentage of income as incomes rise, even though the absolute dollar amount of repayment increases as income increases. Thus, higher earners find that a larger fraction of their incomes remain after payment of IDEA loans and any negative effect on labor supply should be inconsequential. Much more significant should be the positive effect on the choice of employment for students qualified to be research engineers, math and science teachers, community practice physicians, and public interest lawyers (to name a few of the high-cost, low-wage professions beneficial to society).

The costs of IDEA will be covered by the borrower repayments. Annual limits are set on annual and lifetime borrowing so that debts are manageable, even at unsubsidized rates of interest. The repayment schedules and conservative demographic estimates essentially guarantee that the bond obligations issued to fund IDEA can be repaid at maturity without any general revenue subsidy. While repayment of the IDEA loans will be over an extended period of time, the maturity date of the bonds is also set in the future.

Employers might have an incentive to offer compensation in the form of tax-exempt benefits rather than taxable income, reducing the size of IDEA repayments. The IDEA program reduces this risk in several ways. First, the income measure used, "Modified Adjusted Gross Income," adds to the Adjusted Gross Income measure presently used certain preference ("loophole") items. This prevents sheltered income from reducing IDEA payments from high income borrowers. Second, because all but the lowest income borrowers [illegible] their IDEA loans at the T-bill + 2 perc[illegible] interest rate, for almost all borrowers who might receive some tax-exempt income in lieu of significant amounts of wage income, such substitution will simply extend repayment rather than reduce the cost of the loan (in present value terms) to the borrower. Because the IDEA interest rate i[illegible] unsubsidized, borrowers have no automatic incentive to extend repayment from (say) 15 to 20 years based upon the economic cost to them. Third, at the highest income levels, the size of IDEA payments per dollar borrowed do not increase much per each dollar of additional income; hence, there is little incentive to seek non-taxable employment benefits beyond what would otherwise exist to avoid basic income taxes. In short, taxable income avoidance is not a threat to either the equity or the solvency [illegible]

Dr. Riddle raises the possible negative effe[illegible] vernmental, parental, and philanthropic contributions of income-sensitive repayment of loans. Again, IDEA is not designed to supplant current sources of financial supp[illegible]t (as most loan banks have been); it is designed as a second tier _after_ current subsidized loan programs and _after_ parental contributions that cannot grow as fast as educational costs or that are not available to graduate students. Philanthropy will still be necessary to meet the basic needs of lower-income students. It is my understanding, moreover, that Yale University has not seen a decrease in alumni contributions from students who elected its income-contingent repayment option in the 1970s.

IDEA does not attempt to stretch too far the analogy of insurance against unanticipated low income. Rather, its 15 percent of income cap on annual payments is a protection against temporary or long-term incomes that are disproportionately low relative to borrowing. Only if 15 percent of income has been paid for 30 years _or_ income has been chronically very low will any IDEA borrowers receive a subsidized interest rate. This is a sufficient disincentive against needless borrowing by those who choose lower-paying occupations.

Although ICLs as frequently proposed might incur substatial costs to follow mobile borrowers over the term of a loan, IDEA does not. IDEA is federally administered and collected by the IRS. Tracking borrowers is not a problem so long as they are part of ataxpayer unit liable for income taxes. Moreover, the income tax liability that would result from "hiding" a non-working spouse (lost personal exemption and higher single head of household tax rates) would be likely to exceed the savings from IDEA payment avoidance. This does not even consider IRS enforcement authority and the threat of discovery by random audit. As for the resistance of the IRS bureaucracy to collection of loan payments, the IDEA bill makes such collection no more complex than the current collection of Social Security payroll taxes from the self-employed--a current IRS duty.

The intergenerational effects of IDEA are difficult to estimate. Again, IDEA does not replace other student aid mechanisms, so any intergenerational effects are substantially less than under some loan bank proposals. Furthermore, most IDEA loans are repaid in 12 to 18 years, i.e., prior to the time IDEA borrowers would be contributing to their own children's education expenses. Moreover, for lower income IDEA borrowers whose payment extends up to 30 years, the family income of the children of the IDEA borrower will qualify the child for current subsidized loans and grants.

It is likely that IDEA would be utilized more by students at higher-cost institutions. Nevertheless, no more money is made available to undergraduate students under IDEA than under GSL (i.e., $2,500 per year), although IDEA will be available to those who fail the GSL means test and currently must use the more expensive (than GSL and IDEA) ALAS program. Public institutions would have a higher proportion of costs covered for undergraduates who fail the GSL means test than would private institutions; private institutions would have more money available to students who fail the GSL means test. Students would have the right to borrow at an unsubsidized rate that would not mask the real costs of their education.

Finally, Dr. Riddle questions whether income-contingent loan proposals could make borrowing more attractive to students. It is agina relevant that IDEA does not seek to make borrowing *articicially* attractive by subsidizing interest rates. Poor and minority students who might now be adverse to borrowing would still have access to current grant and loan programs. Yet IDEA *does* attempt to make unsubsidized loans *manageable*, whether the borrower comes from high or low income parents, and whether the borrower expects to earn or actually does earn a high or low income. Its income-dependent payment scheme does, I believe, achieve that goal. And there is no question in my mind that 15 percent of income limit on loan repayments would relieve a substantial amount of concern on the part of students from *all* backgrounds that their debts might prove unbearable. That doubt can now prevent qualified students with limited fina[illegible] sources from prusuing an advanced degree altogether.