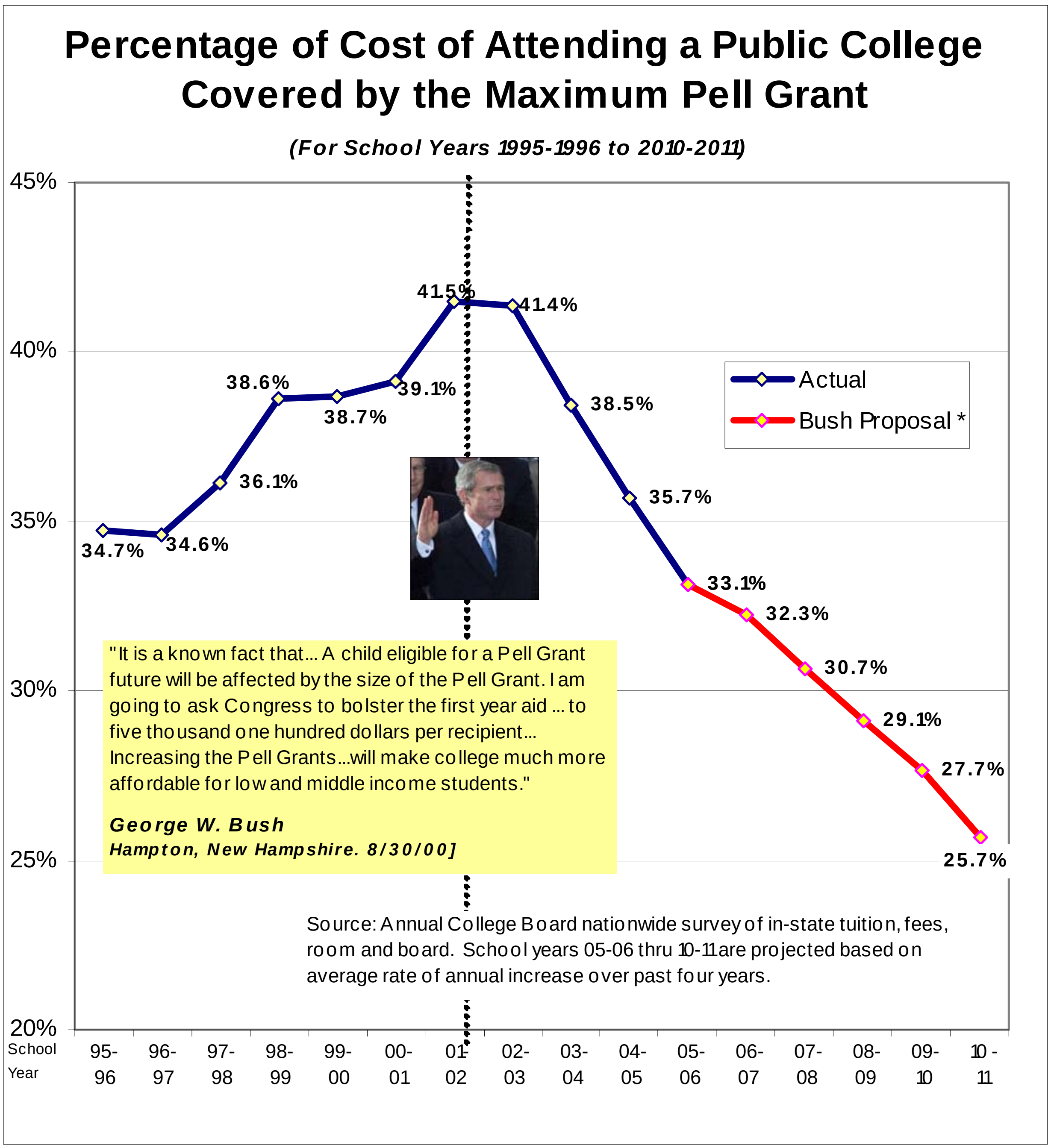
Center for American Progress

March 2005

A Closer Look at the President's Proposal for Changes in Student Assistance



By Scott Lilly, Senior Fellow

The Bush Plan for Student Assistance Will Transform Access to Higher Education

Since its creation in 1972, the Pell Grant program has played an important role in helping to ensure that hard work and talent can continue to bring opportunity to those without wealth or family connections. This fact was recognized in the late summer of 2000 by presidential candidate George W. Bush, who bolstered his credentials as a compassionate conservative by committing to a dramatic increase in the size of the grants awarded under the program.

He stated that he would "ask Congress" to bolster aid under the program to "**five thousand one hundred dollars per recipient**," and added that **"increasing Pell Grants…will make college much more affordable to low and middle income students**."[1]

At the time of his speech, the Pell Grant program was recovering its capacity to make college attendance more affordable. The $3,300 maximum grant for the 2000-2001 school year covered more than 39 percent of the cost attending a four-year public college, up from less than 35 percent just four years earlier.[2] The persistent budget cutting of the late 1980s and early 1990s had eroded the portion of college costs covered under the program from more than 50 percent in the mid 1980s.

By the time President Bush was sworn in in January 2001, the fiscal 2001 appropriation had become law, setting the maximum grant for the coming school year at $3,750—enough to cover nearly 42 percent of the cost of attending a four-year public college.

Contrary to Bush's campaign pledge, the momentum toward affordability did not continue. During his first year in office, President Bush did not send Congress the $5,100 proposal. He instead proposed only a $100 increase in the Pell Grant for the 2002-2003 school year (significantly less than the projected increase in cost of attending college). Congress succeeded in persuading him to accept a $250 increase, the amount

Shifting the Burden of College Education

School Year	Avg Cost of Public College	Max Pell Grant	% Covered by Pell
95-96	$6,743	$2,340	34.7%
96-97	$7,142	$2,470	34.6%
97-98	$7,469	$2,700	36.1%
98-99	$7,769	$3,000	38.6%
99-00	$8,080	$3,125	38.7%
00-01	$8,439	$3,300	39.1%
01-02	$9,032	$3,750	41.5%
02-03	$9,672	$4,000	41.4%
03-04	$10,530	$4,050	38.5%
04-05	$11,354	$4,050	35.7%
05-06	*$12,228*	$4,050	33.1%
06-07	*$13,170*	$4,150	32.3%
07-08	*$14,184*	$4,250	30.7%
08-09	*$15,276*	$4,350	29.1%
09-10	*$16,452*	$4,450	27.7%
10-11	*$17,719*	$4,550	25.7%

[1] Hampton New Hampshire, August 30, 2000

[2] Statistics on college costs are collected in an annual survey by the College Board. Statistics used here reflect the tuition, fees, room and board costs of attending a four-year public college or university and are weighted by the number of students attending each institution. They do not include books, travel or personal living expenses. The annual cost of attending two-year public institutions and private colleges are also collected by the College Board but are not used in this calculation.

needed to roughly keep pace with the rising cost of attending a public four-year college.

The following year, the maximum Pell Grant was raised only slightly to $4,050, far less than was needed to keep pace with rising tuition, fees, room and board. Worse still, no adjustment in the maximum Pell Grant has been made since then.

This failure to adjust the size of grants to account for the rising cost of attending college not only reversed five years of steady growth in both the size of Pell Grants and the share of college costs they covered, but it came during a period of accelerating tuition increases at state-sponsored institutions. As a result, college was much less rather than "much more affordable to low and middle income students."

The first Bush budget maintained the 41 percent coverage, but since then, the portion of costs covered by the maximum Pell Grant has fallen all the way back to 1995 levels. The Omnibus Appropriation which the president signed in December will provide a maximum grant that will cover only 33.1 percent of estimated annual costs at a four-year public college.[3]

One defense of the president's actions relative to the apparent commitment he made during his first campaign for office is that although he advocated a specific dollar amount for the maximum grant, he did not advocate a specific time frame in which that dollar amount would be reached. Some may have presumed that he was committing to a $5,100 maximum grant during his first year in office. Others may have presumed that he was intending to reach that level during his first term. Still, one could conceivably argue that he expected to serve two terms and that the $5,100 would be reached over a period of eight years.

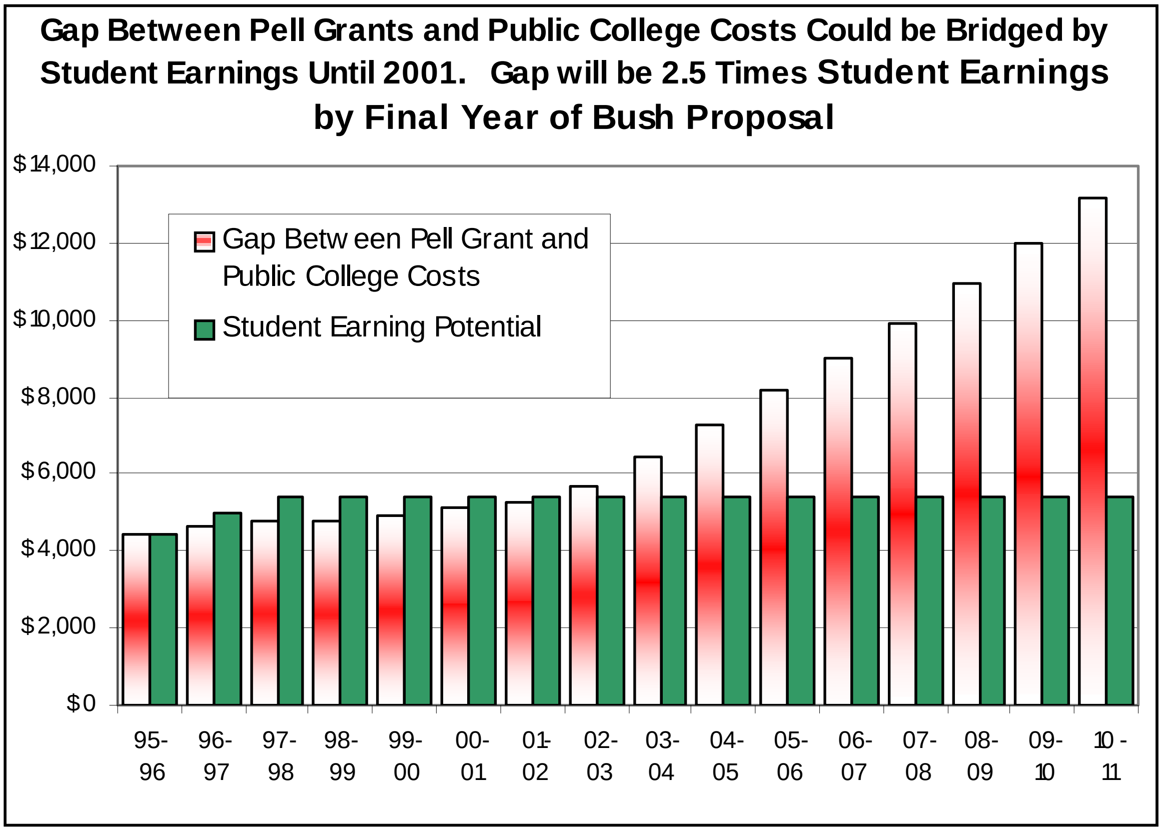
The president dashed even that interpretation on January 14th at a community college in Jacksonville, Florida, where he announced that he would support raising the maximum grant to $4,550 in $100 increments each year over the next five years. Not only is this plan less than half of the increase that one might have expected from his August 2000 campaign pledge, but it is phased in so slowly that it only slightly reduces the current rapid rate of decline in Pell Grant purchasing power. If one assumes that tuition, fees, room and board continue to increase over the next five years at the same rate that they have increased for the last four, <u>Pell Grants will cover only slightly more than one quarter (25.7 percent) of the cost of attending a four-year public college by the 2010-2011 school year.</u>

An Even More Dramatic Decline in College Affordability!

What the White House has attempted to sell as an initiative for making college "more affordable"[4] actually provides for

[3] This calculation is based on tuition, fees, room and board at such schools increasing at a rate of 7.7 percent a year, the average yearly rate of increase over the past four years. If the analysis had instead projected future increases based on the average rate of increase over the past twenty years, such costs would reach $16,070 in the 2010-2011 school year and the proposed maximum grant would equal 28.3 percent of that cost rather than 25.7 percent in the above calculation.

[4] January 15, 2005 "Press Gaggle." Mr. McClellan: *"He already has made some proposals regarding higher education. …he's been pursuing expanding the Pell Grants to help more low-income Americans go to college, and make college more affordable and accessible for all. And the President is strongly committed to working to make college*



grant increases below its own forecast for the rate of inflation. As a result, there will be a dramatic drop in the share of costs covered by the maximum grant (41.5 percent to 25.7 percent) during this president's tenure. But if college affordability is examined from the standpoint of a prospective student with limited financial resources, the picture is even more daunting.

Throughout the 1980s, a student with a lot of energy and ability could earn enough during the school year and over the summer to bridge the difference between a maximum Pell Grant and the cost of attending a public, four-year college. This continued to be largely true in the 1990s. But it is no longer true, and the gap between college attendance costs and the combined value of a maximum Pell Grant and potential student earnings will virtually explode over the course of the next six years as the president's initiative is phased in.

The formula that is used to determine if a student will receive a maximum grant or some lesser amount is based on a calculation of how much a family can contribute toward the student's college costs. That formula has been widely criticized over the years by those who believe that it expects families to contribute more than is realistically possible given their financial condition. A student can qualify for the maximum grant only if the formula indicates that

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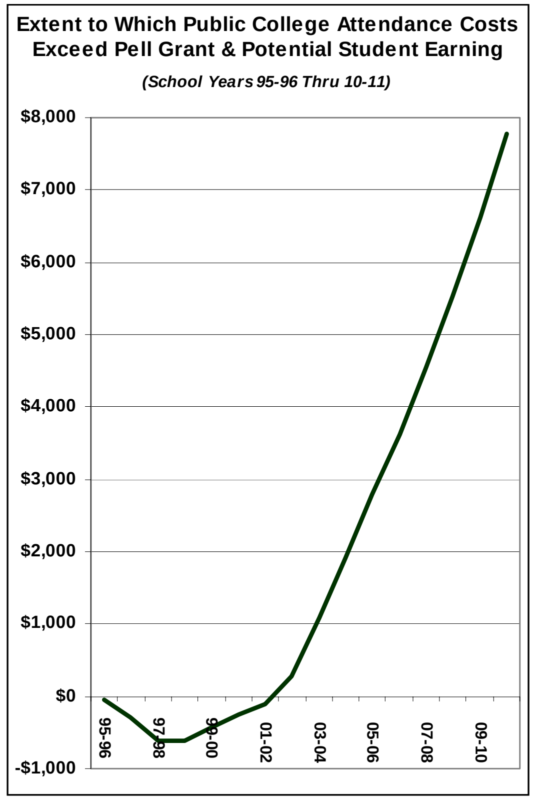
affordable and accessible. And that's one important initiative right there that he is pursuing."
http://www.whitehouse.gov/news/releases/2004/01/20040115-16.html

the family is unable to make <u>any</u> contribution.

During the 1995-1996 school year, the average cost of tuition, fees, room and board at a four-year public college was $6,743. The maximum Pell Grant covered $2,340 of that amount, leaving just over $4,400 to be covered by other sources.[5]

A student able to gain a position within his or her college under the federal Work Study Program can work on campus for up to 20 hours a week, usually at the minimum wage. During the 1995-1996 school year that would have provided about $2,550 a year in additional funds. Summer work (again assuming minimum wage pay) might have provided another $1,900 after payroll deductions. Altogether, the gap between college costs and the maximum Pell Grant might have been completely erased by an enterprising student.

During the first full school year of President Bush's tenure in the White House (the 2001-2002 school year), tuition, fees, room and board had jumped



to $9,032. Pell Grants, however, had grown to $3,750 and the increases in the minimum wage that occurred in 1996 and 1997 had pushed potential Work Study earnings during the school year to $3,090[6] and potential summer earnings to over $2,200. As a result, a student with a maximum grant who was able to work part time during the school year and full time over the summer could cover all tuition, fees, room and board and have about $100 left over to put toward books, personal expenses and transportation.

That is no longer true. For the school year that began last September, the gap

[5] Computations for determining the size of a Pell Grant have changed over time, and in particular the so-called earnings penalty computation has changed significantly. Following 1992, any student whose family had an annual income of less than $15,000 was exempted from the earnings penalty. After 1997, earnings from the Work Study program were excluded from the calculation. Dependent students (those with at least nominal economic ties to their parents) were able to earn up to $1,750 without impacting the size of their Pell Grant during the 1995-1996 school year and that rose to $2,250 by the 2001-2002 school year. This year it was adjusted to $2,420. For independent students the exemption was $3000 in 1995-1996, rising to $5,110 in 2001-2002. Some portion of the students eligible for the maximum Pell Grant could not have earned the amount in the example during school years 1995-96 and 1996-97 without a reduction in their grant equal to 50 percent of their excess earnings. During the 2001-2002 school year, virtually all students eligible for the maximum grant would have been able to earn the amounts projected in the example without a penalty.

[6] The Work Study program allows a student to avoid payroll tax deductions if he claims himself as a dependent on his 1040. Since the personal exemption is of little benefit to most families that qualify for the maximum Pell Grant it is reasonable to assume that such students would not be required to make payroll tax payments.

between college costs and the maximum grant had jumped to more than $7,300 while the earning potential of students had remained basically unchanged, leaving a gap of more than $1,900.

By the 2010-2011 school year, when the maximum Pell Grant will be fully phased in at $4,550, it is estimated that public college costs will have risen to $17,700 and student earning potential will have remained relatively constant (unless the White House reverses itself on raising the minimum wage). That leaves a gap of more than $7,700 between public college costs and the combined funds a potential student might get from the Pell Grant and his own work effort.

Increasing Reliance on Student Loans

Some may argue that this problem can be rectified by simply requiring low-income students to borrow the money needed to close the growing gap between college costs and funds available to students from Pell Grants and earnings. There are a number of reasons why education policymakers have resisted that course in the past.

One is that lower-income families are for various reasons more reluctant to take the risk of borrowing. They may have had problems with creditors in the past. They may be skeptical that a college education will really provide the additional income needed to pay off the loan. Research has documented that a significant portion of low-income students who are capable of doing college level work will not attend college if they are forced to borrow money.

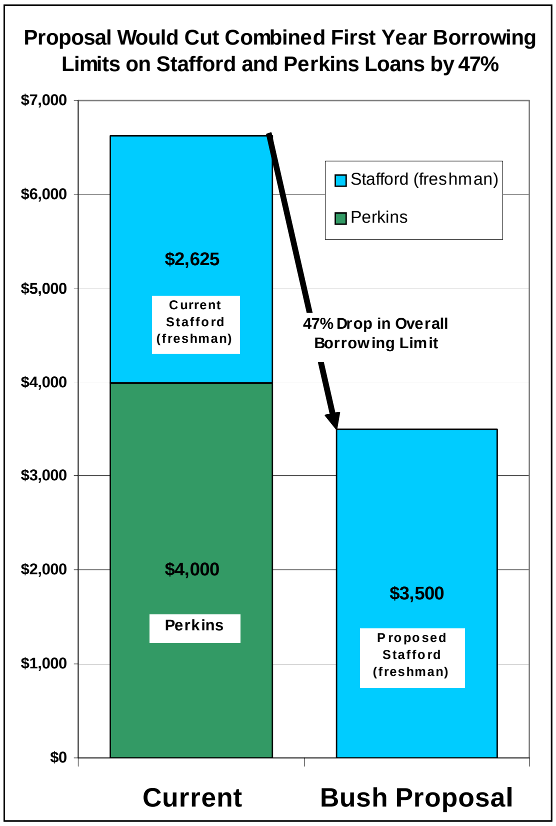
But even for those middle and lower-income families willing to borrow in order to gain a college education for their children, the new Bush proposal makes that option much more difficult.

First of all, the amounts that must be borrowed and repaid will grow rapidly more daunting as the proposal is phased in. The student in the example above (maximum Pell Grant, attending a public college and working part time during the school year and full time during the summer) who enters school in the fall of 2007 could expect to face at least a $25,000 debt upon graduation, even if he or she is able to complete all degree requirements in eight semesters while maintaining a heavy work load.

But beyond the issue of how much debt a young person starting out in the workforce is willing to assume is the question of whether the prospective student can even qualify for the loans that will be needed. Besides the president's proposal for funding Pell Grants, there are several other proposals dealing with college loans that make a positive answer to that question very doubtful for large numbers of students from low and middle-income families.

The president's Pell Grant increases are financed within an overall budget for education that is below prior levels even in nominal dollars. After adjusting for inflation, the funding level is more than a billion dollars below fiscal year 2005 levels. That was accomplished in part by offsetting the proposed increase in Pell Grants with an elimination of one of the two major federal lending programs for students, the long standing Perkins Loan Program.

Perkins Loans currently cost the federal government almost nothing to maintain.



Money that was provided on a matching basis to colleges and universities over the past 45 years (schools were required to add 33 percent to the federal contribution) has been recycled with the interest that has been collected to new generations of students as older loans are repaid. The federal government has contributed very little new money to the program in recent years.

Nonetheless, 673,000 students have received Perkins Loans during the current school year. The maximum annual amount of a Perkins Loan is $4,000 and this year the average loan was $1,875.

The other major source of lending for students is the Stafford Loan Program. But those loans are capped at $2,625 a year for freshmen, $3,500 for sophomores and $5,500 for juniors and seniors.

Even if those caps are raised as the president's 2006 budget also proposes, the aggregate reduction in lending capacity would be huge. The White House is recommending increasing the maximum Stafford Loan for freshmen by $825 to $3,500 and the maximum loan for sophomores by $1,000 to $4,500. The net effect of the proposed increase in Stafford Loans and elimination of Perkins Loans is a 47 percent reduction in borrowing limits for freshmen and about a 40 percent cut for upperclassmen.

The proposed elimination of the Perkins Loan program offsets increased outlays for Pell Grants by virtue of the fact that higher education institutions that operate these lending programs would be required to return the lending capital provided by the federal government over previous decades to the U.S. Treasury as existing loans are repaid.

Why Are Tuition and Other College Costs Rising So Rapidly?

There are a number of reasons why college costs are rising faster than other living costs. One is simply the fact that while productivity gains are helping to hold down price increases in most other sectors of the economy, activities that require personalized interaction, such as education and health care, provide less opportunity for significant productivity gains.

But in recent years, tuition in public colleges has been rising at a significantly faster pace than in private colleges. That is because of shortfalls in state revenues and accelerating demands for state services in areas other than higher education. Both problems are at least partially attributable to federal budget policies.

Amendments to the federal revenue code over the past four years have not only reduced federal revenue collections but have also changed the definitions of income upon which most state tax codes are based. As a result, states were not only struggling with slower economic growth through much of that period but federally imposed reductions in state revenues as well. An analysis of the 2003 tax bill by the Center on Budget and Policy Priorities found three separate business tax breaks that affected revenue collections in 44 of the 50 states. These tax breaks alone, according to the analysis, will reduce revenue collections in those states by $18.4 billion over ten years.

Also affecting state budgets has been a series of new federal mandates for which adequate funding has not been provided. These include the "No Child Left Behind" and "Individuals with Disabilities Education" acts. In addition, the federal government has picked up a very small portion of the expenses required to modernize and equip first responders to deal with potential terrorist threats.

The fiscal problems facing most states are likely to continue in the coming years as revenues continue to lag well behind the demand for funds. According to the most recent update on State Fiscal Conditions by the Center on Budget and Policy Priorities:

> *States' revenue problems are likely to persist even after the economy fully recovers. In coming years, state costs will increase for such services as education, corrections, and health care (the last a reflection of the ageing of the population). In most states, though, tax revenues are not expected to keep pace with those costs because of widely recognized flaws in state tax systems. These flaws include an inability to tax Internet purchases fully, excessive reliance on excise-tax revenues, expanded use of tax loopholes by corporations, and a failure to apply sales taxes to most purchases of services, which are becoming an increasing share of all economic activity.*

In addition, a major portion of the proposed federal budget cuts contained in the president's fiscal 2006 budget are directed at state and local governments. These range from cutbacks in aid to local school districts to dramatic reductions in assistance to local police departments, state public health services, aid to airports and funding for state land and water conservation programs.

The most devastating development in federal budgeting with regard to the growth in public college tuition, however, would be a Medicaid agreement between the governors and the White House that forces states to shoulder a larger share of the growth in Medicaid costs.

The Type of Society We Want to Be

We live in a society in which social and economic mobility is directly linked to educational attainment. We also live in a society which has in the past greatly prided itself on the opportunity that it could provide to even its poorest citizens to move up the social and economic ladder. The president's higher education policies will take critical rungs out of that ladder, and many young people who might have gained a higher education will enter the job market with inadequate skills and little prospect of competing for a good paying job.

The tax cuts that have been so generously afforded to some Americans are being offset by what are in effect tax increases on others in this society. The proposed Pell Grant/Perkins Loan policy of this administration is in effect a ***"tax on learning"*** for our nation's least affluent young people.

Amanda Sharkey of the Center for American Progress assisted in the preparation of this report.

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