



Chapter 4

Higher education

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The middle-class squeeze in higher education is real

- In 2002, a median-income family would have needed to spend 23 percent of its income to pay the tuition, fees, and room and board for one child in a four-year college. By 2012, a similar family would have needed to spend 33 percent of its income to pay those same expenses.¹
- Among undergraduates who earned a bachelor's degree in the 2011-12 school year, the median amount borrowed was \$26,500, up nearly 60 percent from \$16,700 in the 2003-04 school year.²
- Students who attended public universities, colleges, and career-training centers borrowed \$19.6 billion during the 2002-03 school year; that amount rose to \$48.5 billion by the 2011-12 school year—a 98 percent increase in real terms in less than 10 years.

Understanding how we got here

Since the mid-1960s, the federal government has responded to the need for a better-educated and better-prepared workforce by supporting the enrollment of low- and middle-income students in higher education through financial aid. This aid includes a combination of grants, loans, work-study assistance, and tax benefits. These efforts have led to increased college-going rates for every income group, especially for students from low- and middle-income families.

However, the price of higher education has outpaced earnings growth for nearly all American families, while grant support from the federal government has not kept up with college costs. This has resulted in an increasingly debt-dependent system because students and families must turn to student loans to cover the gap. The increase in tuition and fees has largely been driven by declines in state support to public colleges and universities, not the fact that these schools are spending more to educate students. State funding declined from 31 percent of total revenue at public institutions in 2003 to 22 percent in 2012.³



For an example middle-class family of four trying to save for two children's college educations, the annual amount required to save rose by 39 percent in 12 years. See figure 1.3



Policy recommendations

Rising higher education costs are a huge part of the middle-class squeeze. Parents can only afford to pay a smaller and smaller share of the tuition and fees charged by colleges, resulting in students taking on increasing levels of debt before heading into an uncertain job market. What's more, the costs of higher education affect who applies to and who goes to college. This in turn constrains economic mobility, which affects both individuals and the overall economy.

There are three things that can be done today to help alleviate the middle-class squeeze in higher education:

- Promote consumer choice and assessing value in order to hold down tuition and fees and to increase institutional performance
- Restore public investment in higher education
- Promote innovations that can bring down costs and improve quality

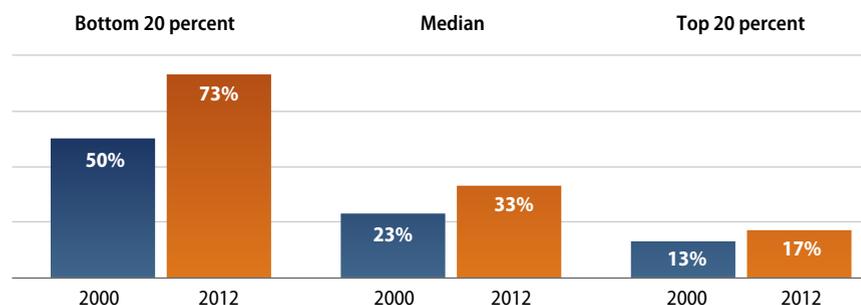


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Education beyond high school has long served as the pathway to the middle class. In recent years, however, college costs have skyrocketed, greatly contributing to the middle-class squeeze.

While the costs of higher education have perennially outpaced inflation, in the past few years, the costs have increased significantly while earnings have fallen for most American families. Consider the share of a family's income needed to meet postsecondary education expenses. In just the three years between academic years 2008-09 and 2011-12, the share of an average family's income that went to meet postsecondary education expenses—after accounting for any grants received—increased by a whopping 24 percent for public four-year colleges and universities, 21 percent for community colleges, and 10 percent for private, nonprofit colleges and universities.⁴ In part, this reflects the higher tuition and fees charged by colleges and universities but also the fact that median family income fell by 3 percent during this period.⁵

FIGURE 4.1
Percentage of income needed to meet annual average tuition, fees, and room and board expenses

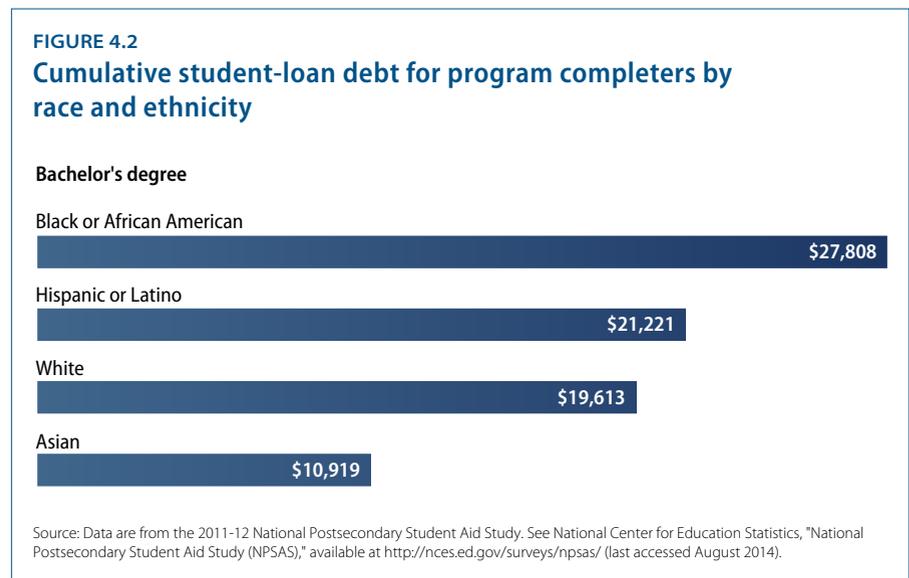


Source: CAP analysis of U.S. Census Bureau, "Table H-3. Mean Household Income Received by Each Fifth and Top 5 Percent, All Races: 1967 to 2012," available at <http://www.census.gov/hhes/www/income/data/historical/household/> (last accessed August 2014). For information on confidentiality protection, sampling error, nonsampling error, and definitions, see Bureau of the Census, *Current Population Survey, 2013 Annual Social and Economic Supplement* (U.S. Department of Commerce, 2013), available at www.census.gov/prod/techdoc/cps/cpsmar13.pdf.

In fact, by 2012, a family with the median income would be spending \$1 out of every \$3 in income just to pay the college costs of a single child. For families in the bottom 20 percent of income, that number approached \$3 out of every \$4 in income. Even the wealthiest families faced stiff increases over this period.

The tuition and fees that colleges and universities advertise are not transparent and do not factor in federal, state, and institutional grants. As a result, the advertised cost undoubtedly has discouraged some low- and middle-income families from considering enrollment and has likely led some of these same students to enroll in lower “sticker price” colleges. While less expensive programs can often be the best option—or even the only option, based on location—they can also lead to poorer outcomes and, ultimately, less return on investment. Steering students from low- and middle-income families to enroll in institutions that advertise lower tuition but from where a smaller percentage of students are likely to graduate is simply bad public policy.

Not surprisingly, the burden of tuition payments often translates into the burden of debt. This student debt has disproportionately affected communities of color. For students who graduated in the 2011-12 school year, for example, African American and Hispanic bachelor’s degree recipients borrowed 37 percent more and 5 percent more, respectively, than the median for bachelor’s degree recipients; white students borrowed 3 percent less.⁶



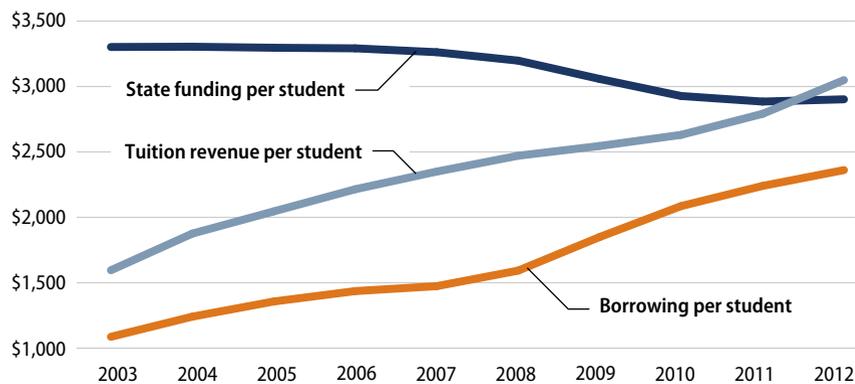
Increased reliance on tuition and fee revenues

One of the main contributors to rising tuition fees has been the decline in state support for public colleges and universities. In fiscal year 2003, state funding accounted for 31 percent of total revenue at public institutions, the high point over the 10-year period we examined. This level has declined steadily since, with state investment reaching 22 percent of revenues in FY 2012.⁷

This has resulted in institutions' increased reliance on tuition dollars. Many students and families lack savings and other assets that can be used to pay increased tuition bills. Without adequate grant support from the federal and state governments and institutions, students' increased borrowing to pay tuition bills has been inevitable. In total, students who attended public universities, colleges, and career-training centers borrowed \$19.6 billion during the 2002-03 school year; that amount rose to \$48.5 billion by the 2011-12 school year—a whopping 98 percent increase in real terms in less than 10 years.⁸

FIGURE 4.3
State funding, tuition revenues, and student borrowing per student at public institutions

Dollars per student, 2003–2012



Source: CAP analysis of U.S. Department of Education data. See endnote 3. See also Office of Federal Student Aid, "Title IV Program Volume Reports," available at <http://studentaid.ed.gov/about/data-center/student/title-iv> (last accessed January 2014).

Examining the combined effects of the increase in public institutions' reliance on tuition and fee revenue and the increase in student borrowing illustrates that the share of tuition financed with federal loans is also growing. In 2003, 68 percent of tuition dollars at public institutions were funded through federal student-loan borrowing; by 2012, that share rose to 77 percent.⁹

Policy recommendations

The rising cost of higher education that is squeezing middle-class families is not inescapable. At the same time, it is possible to improve the performance of our nation's colleges and universities.

There is ample evidence to suggest that colleges can increase their graduation rates while becoming more economically and racially diverse. To do so, however, will require concerted action on the part of students and families, institutions, states, and the federal government. Among the steps that must be taken are:

- Promote consumer choice and assessing value in order to hold down tuition and fees and to increase institutional performance
- Restore public investment in higher education
- Promote innovations that can bring down costs and improve quality

Promote consumer choice and assessing value

Consumers need better tools to determine which institutions offer the best value for the price. These tools should provide greater transparency, creating a lever to drive institutions to keep tuition and fees down while boosting institutional performance.

The U.S. Department of Education recently has taken significant steps to keep college prices in reach for all Americans and to encourage institutions to make the prices they charge more transparent. Since 2011, the department has released lists that identify the institutions with the highest and lowest tuition and net prices—called “the high and low list.”¹⁰ More recently, the Obama administration has added new consumer tools, such as the College Scorecard¹¹—a web-based tool that provides a clear and concise view of key metrics such as net price, graduation

rate, and student-loan default rate—and the Financial Aid Shopping Sheet, which allows students to compare aid offers from each institution that has accepted them by presenting the aid package and net price in a consistent format.¹²

All three consumer-choice tools were developed using data that institutions of higher education already report or data that are available to the Department of Education and are designed to help potential college students at different points in the college-search process.¹³ However, data limitations hamper these transparency efforts, since some vital information—such as graduation rates for those enrolled part time or those who transfer, graduate-education enrollment rates, and labor-market outcomes—is unavailable.

The United States needs a better data system at the federal level that includes graduation rates, graduate-education enrollment rates, the ability of graduates to repay loans, and labor-market outcomes. Such a robust student-record system would allow transfer students to be included in a school's completion rate. It would also allow for the development of detailed data on labor-market outcomes—for example, how many students in a particular program end up with jobs and how much those jobs pay after 1 year, 5 years, and 10 years. This data gathering by the federal government could be accomplished in a way that protects student privacy by removing all personally identifiable information from the system, producing only summary-level statistics that are made public. In order to create such a system, however, federal law must be amended; in 2008, Congress prohibited the establishment of a student-record system when the Higher Education Act of 1965 was last extended.¹⁴

The improved data on postsecondary education could also be used to develop or enhance a college-rating system. We recommend the creation of a federal accountability system with institutions placed in broad categories, rather than rankings, that indicate their performance against key metrics.¹⁵ Among the key measures should be:

- Whether the institution provides access to underserved populations
- Whether the institution is affordable—after the consideration of federal, state, and institutional grants—to students from low- and middle-income families
- Whether the institution retains and graduates students from low- and middle-income families on time—two years for an associate's degree and four years for a bachelor's degree

- Whether graduates successfully go on to graduate school, other professional education, or enter the workforce—and whether they earn an adequate amount to meet the needs of their families while being able to comfortably repay their student loans

Under the proposed accountability system, institutions would be evaluated and categorized based on performance against all four measures. Students attending the best-performing institutions would gain access to additional student financial aid, while institutions with poor performance outcomes could lose eligibility to participate in the aid programs entirely. Ultimately, such a system could drive institutions of higher education to reduce costs while improving outcomes. It would also provide critical feedback to institutions to help them improve performance. Finally, the system would provide powerful consumer-choice tools to help guide low- and middle-income students to the schools that provide the better value.

Restore public investment

The Obama administration has worked with Congress to increase support for the Pell Grant program, which forms the basis for federal support to low- and middle-income students enrolled in higher education. Funding for Pell Grants has increased from \$18 billion in 2008 to \$34 billion in 2014, with the award amounts automatically increasing each year to reflect the higher cost of living.¹⁶ Despite these increases, the maximum Pell Grant this year will cover the smallest share ever of the cost of public colleges and universities. In the 1980s, the maximum Pell Grant covered more than half the cost of attending a four-year public college. In the 2014-15 school year, the \$5,730 maximum Pell Grant will cover less than one-third of the cost. In the 2011-12 school year, the median income of Pell Grant recipients was \$17,200, and 41 percent of undergraduates received a Pell Grant, up from 28 percent just four years earlier.¹⁷

Given the pressure on tuition and fees at public colleges and universities due to cuts in state support, we recommend that the federal government create a new, competitive grant program¹⁸ to encourage states to reinvest in postsecondary education. States would be required to match the federal grants. To be eligible, states would need to agree to implement reforms and innovations that increase the value of public colleges, universities, and training centers for students through a Public College Quality Compact. The compact would require states to:

- **Make college affordable** by guaranteeing that low-income students who pursue an associate's or bachelor's degree will receive grant aid from the compact to cover their enrollment at public institutions
- **Create sustainable funding** by developing a plan to create reliable funding streams for public institutions, ensuring that students and prospective students can prepare for and enroll in postsecondary education with certainty
- **Improve performance** by setting outcome goals for institutions, such as increased graduation rates, and by implementing proven, successful strategies that improve student performance at the institutional level
- **Remove barriers** and state and institutional policies that stand in the way of college completion by standardizing transfer-credit and admissions requirements, and by raising high school learning standards to conform to postsecondary institutions' academic material

A number of states are already implementing these kinds of reforms. Washington, California, Minnesota, and Massachusetts are implementing plans to provide sustainable funding streams for higher education. These states have raised revenues by increasing taxes, reinvesting in public higher education, and constraining tuition increases.¹⁹ Twenty-five states have implemented and six other states are in the process of implementing performance-based funding systems that use a formula to allocate a portion of funding based on performance indicators, such as course completion, time to degree, transfer rates, the number of degrees awarded, and the number of low-income and minority graduates.²⁰

Promote innovations that can bring down costs and improve quality

Driving down fees, increasing performance, and reinvesting in higher education are all necessary, but they are not sufficient. The education sector also must innovate in order to provide graduates with quality programs at affordable prices. Institutions need to invest more heavily in new programs and methods of instruction that better leverage research and the promise of new technology.

For example, research and development has shown that it is possible to improve significantly the quality of remediation and, thus, improve the outcomes of

underprepared students.²¹ At California State University, Northridge, students who participated in blended-learning programs—which integrate robust, online learning activities with in-person classes—achieved course mastery and a deeper understanding of mathematical concepts. These students were more likely to persist in their programs of study and less likely to repeat subsequent related courses, resulting in substantial cost savings for students.²²

In order to encourage these types of innovations, we recommend:

- **Increased support for the First in the World Fund.** This program provides funding to enable institutions of higher education, consortia, and other organizations to reduce costs and improve outcomes for students, particularly Pell Grant recipients. These grants will support the implementation of sustainable strategies, processes, and tools, including through the use of technology, to improve outcomes.
- **Use of experimental site authority.** The secretary of education should use his existing authority to conduct experiments to give institutions flexibility from existing federal requirements in exchange for a commitment to implement innovative programs that reduce costs for students. For example, aid is provided on the basis of the time that a student is supposed to be sitting in a classroom. The secretary could permit institutions to allow students to progress based on demonstration of competency. Another potential experiment to consider is using federal student-aid funds specifically for apprenticeships. Traditionally, apprenticeships do not lead to degrees or other postsecondary credentials; for this and other reasons, federal financial aid is not available for apprenticeship programs.²³ We have written a great deal lately about the need to grow apprenticeships²⁴ and believe it would be possible to provide federal aid through a well-crafted experiment to move students more quickly through apprenticeships and into the labor market. Doing so would reduce the opportunity cost associated with the time a student is out of the labor market. It would also reduce the living expenses of and any tuition and fees paid by students. When appropriately structured, such an approach could also be combined with other education and training to provide the apprentice a degree or other recognized credential.²⁵
- **Creating an alternative to accreditation.** One of the most basic rules that govern the federal student-aid programs is that students are eligible to receive aid only if the institution of higher education in which they are enrolling is accredited by an agency recognized by the secretary of education.²⁶ Accreditors

assess each institution by consistently applying standards related to both inputs and outputs, such as the number of books in the library and the job-placement rate of graduates.²⁷ One promising idea would be to permit institutions with strong student-learning outcomes to participate in an alternative to accreditation.²⁸ Under this alternative approach, institutions could choose to focus exclusively on improving the learning outcomes of their students.

- **Increasing investment in research and development.** If we are going to see significant improvements in outcomes for our nation's colleges and universities, we must increase investments in research and development focused on improving the system. We must also carefully design evaluations of the investments that are being made under the new First in the World Fund and under the programs that the federal government uses to support low-income and minority students.²⁹ Federal research and development spending on education is less than 2 percent of all federal research and development spending.³⁰ Successful research and development efforts in higher education can help improve program quality and reduce costs.³¹ We recommend reserving a small share—for example, 2 percent—of the federal support provided to postsecondary education institutions for research and development activities.

Conclusion

The ongoing rise in tuition and fees faced by students and families is not inevitable, nor are poor outcomes from some of our nation's colleges and universities. There are significant steps we can take to improve performance and constrain costs, but everyone will need to move aggressively to make this happen.

Students and families will need to make better choices among postsecondary education programs. Institutions will need to invest in strategies that have been demonstrated effective and find cost savings by eliminating unproductive spending; they will then need to pass those savings on to students by reducing tuition and fees. States must reinvest wisely. Finally, the federal government needs to stop providing support for programs and institutions that perform poorly. If everyone moves together, we will see tuition and fees stabilize and perhaps begin to see an improvement in institutional performance.

Endnotes

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