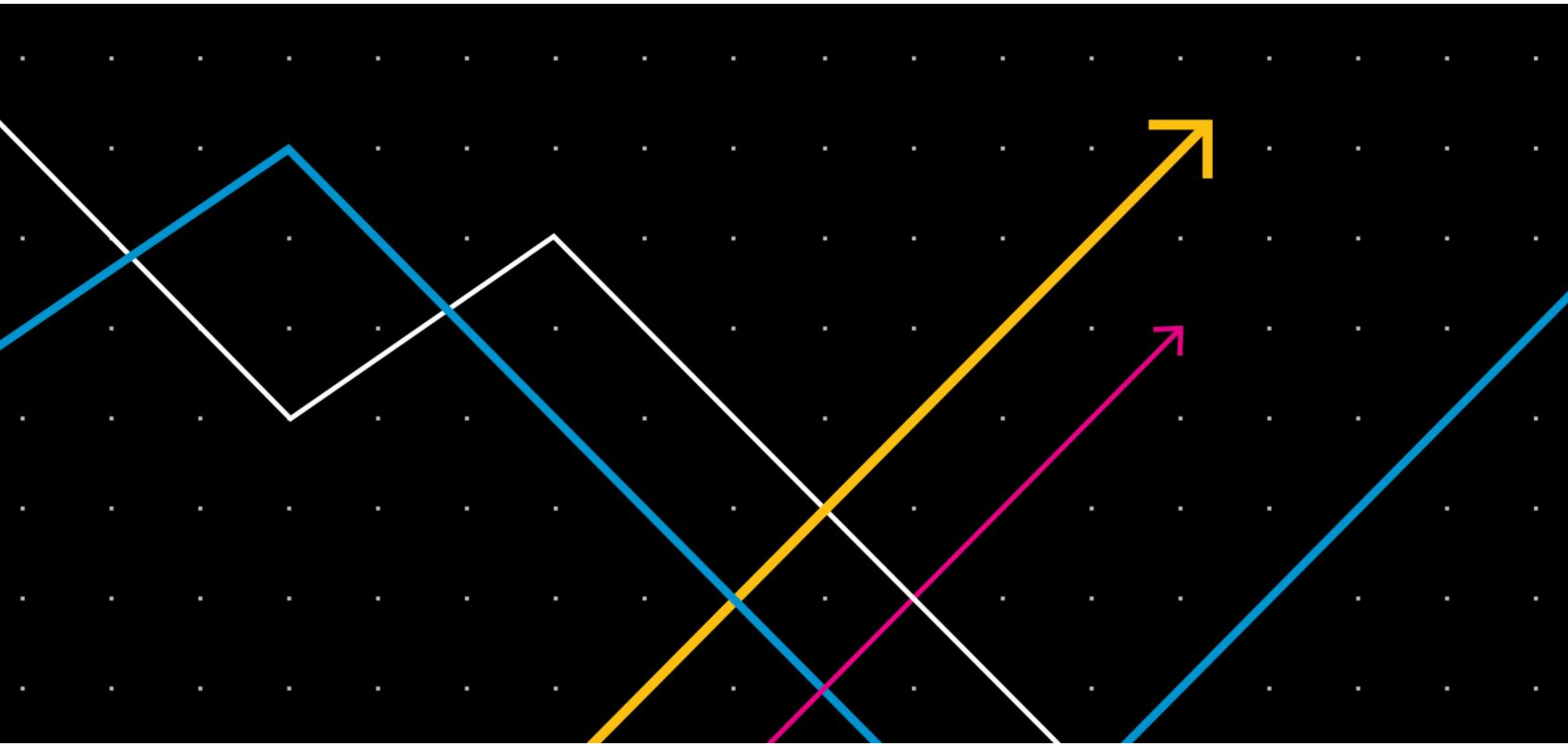

RESEARCH REPORT

Higher Education 2016

Evaluating Campaign Proposals

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October 2015

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Acknowledgments

This report was funded by the Urban Institute. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. We are grateful to Elizabeth Forney, Donald Marron, Matt Rogers, Marge Turner, and others at the Urban Institute for their review of this work.

Higher Education 2016: Evaluating Campaign Proposals

Americans will likely hear more about higher education between now and November 2016 than in any presidential election in history. Candidates for president are under intense pressure to respond to public concerns about college affordability and increasing student debt loads, as well as skepticism about the quality of higher education institutions.

Politicians of both parties agree with the 79 percent of Americans who think that college is not affordable to everyone "who needs it."[1] All candidates will propose ideas for making college less expensive for students and families. But, as early proposals and public statements show, the focus and details of the candidates' higher education plans will vary widely.

In this paper, we review policy ideas that are likely to receive significant attention over the course of the presidential campaign, including those that candidates have proposed as well as some embodied in legislation introduced in Congress or pushed by advocacy groups.

Many proposals will focus on the prices colleges charge and on policies designed to help students pay those prices, including grants that do not have to be repaid and education loans. Others might focus more on institutional spending. Ideas in this area will include promoting alternative ways of delivering higher education and modifying the regulatory environment. Candidates can also garner support for proposing efforts to improve the information available to students making their postsecondary decisions.

All candidates are likely to address both how students and families pay for four-year colleges that award bachelor's degrees and how they finance two-year college and vocational education. Over half of all undergraduate college credentials are now from less-than-four-year programs, so this sort of preparation for the workforce is prominent in many discussions of paying for college.

Proposals that focus on lowering the prices students and their families pay—such as making tuition free or linking the price to family incomes in the state—are based on the underlying assumption that declines in state funding are primarily responsible for the rising prices in public institutions, so the solution is a combination of additional federal funding and incentives to increase state spending.

Student loans have also been an area of intense recent public interest. Proposals to ease the burden of repaying student loans include reducing the interest rates charged on new and existing loans and making it easier for borrowers to repay their loans based on their incomes. Other proposals aim to reduce the need for students to borrow in the first place.

There are several areas of broad political agreement among candidates and parties, such as the needs to simplify the federal aid application process, provide more information to students and families, maintain Pell grants for low-income students, and streamline the income-driven student loan repayment system. Unsurprisingly, there will be significant differences of opinion about how to accomplish these goals.

The areas of greatest fundamental disagreement will likely get the most attention over the course of the presidential campaign. Controversial proposals include making college tuition free, enabling students to graduate from college debt free, reducing interest rates on existing federal loans, increasing regulation of for-profit institutions, and promoting innovation in the delivery of postsecondary education.

In our review of these policy ideas, we raise relevant questions, supply data that elucidate the potential costs and benefits of alternative approaches, and suggest analytical perspectives that can inform judgments about the best approaches for changing both the perceptions and the realities of barriers to college affordability. In each area, we identify and discuss the important policy parameters that should be used to judge the strengths and weaknesses of specific proposals. We purposefully do not endorse or oppose specific proposals.

Plans for Free and Debt-Free College

The idea that access to postsecondary education should not depend on financial circumstances leads some candidates and their supporters to propose using federal and state funds to make public colleges tuition free for all students. Under such a policy, everyone would have the option to attend some college without paying tuition, just as they currently have the right to attend public primary and secondary school for free. Extending free public education beyond high school would be appropriate, supporters argue, given that postsecondary degrees have become requirements for most well-paying jobs.

Free college has particular appeal in the current environment, where state funding has not kept up with enrollment at public institutions. As a result, students and their families are bearing a larger fraction of the cost of their college education than they did in previous generations. The broader concern is that decreased public subsidies for postsecondary education are leading to high college prices that block educational opportunity. Students may be discouraged from enrolling at all, and those who do enroll are accruing more and more student debt.

Some proposals focus on enabling students to graduate from college debt free rather than simply eliminating tuition charges. These proposals allow for students with financial means to pay an affordable amount toward their tuition and other expenses associated with enrolling in college. The goal is to ensure that this affordable payment, combined with grant assistance and part-time jobs with reasonable hours, will be sufficient to cover tuition and fees or, under more ambitious debt-free proposals, to cover tuition, fees, room, board, and other expenses. As a result, students should not need to borrow at all. These proposals are less generous than those for tuition-free college in the sense that they allow for students and families to make affordable contributions to college tuition. On the other hand, debt-free proposals can be more ambitious than the free proposals if they incorporate the idea that all students should have the option of attending some institutions without borrowing to cover any expenses at all.

The details of free-college proposals differ quite a bit in terms of who is eligible, whether the new subsidy would be in addition to existing grant aid or just filling in the current gaps, and what the cost would be. Tennessee implemented a strategy to eliminate community college tuition, a few other states are following suit, and President Obama has proposed a national strategy for free community college. Other proposals go further, proposing that all public colleges be tuition free for all students.

Grant aid already covers tuition and fees for many community college students, particularly those low- income adults and young people from low-income families in states with relatively low published tuition prices (table 1). Students from more affluent families generally pay higher prices. For example, in 2011–12, 68 percent of community college students from families with annual incomes lower than $30,000 received grant aid that covered their tuition and fees. Another 18 percent paid something, but less than $1,000 after grants. For this 18 percent, it would not require much additional funding—or much of a decline in price—to promise free college.

In contrast, only 8 percent of community college students from families with incomes of $106,000 or higher had zero net prices, and 60 percent paid more than $1,000. To make college free for these students would require significant additional funding.

Under the Tennessee policy, and according to some other proposals, the new subsidies fill the gap between zero and the current net tuition price. In other words, most of the new dollars would go to more affluent students who currently pay higher net tuition prices. In contrast, the Obama proposal, and others following the alternative model, would exclude Pell grants from the calculation. Under this model, the new funds would have to cover all or most of the published price, regardless of whether or not the student is a Pell grant recipient, allowing Pell grant funds to cover room, board, books, and other expenses.

TABLE 1

Net Tuition Paid at Public Two-Year and Four-Year Colleges, 2011–12

	Zero	< $1,000	$1,000 or more
Public two-year colleges	38%	32%	29%
Dependency status			
Independent (59%)	41%	36%	24%
Dependent (41%)	35%	28%	37%
Annual family income (dependent students)			
<$30,000 (32%)	68%	18%	13%
$30,000–$64,999 (27%)	37%	29%	34%
$65,000–$105,999 (24%)	11%	35%	54%
$106,000 or higher (17%)	8%	33%	60%
Pubic four-year colleges	22%	8%	69%
Dependency status			
Independent (32%)	22%	14%	64%
Dependent (68%)	22%	6%	72%
Annual family income (dependent students)			
<$30,000 (21%)	53%	12%	35%
$30,000–$64,999 (22%)	29%	7%	64%
$65,000–$105,999 (26%)	10%	4%	86%
$106,000 or higher (31%)	7%	3%	90%

Source: National Postsecondary Student Aid Study 2012, Power Stats calculations.
Note: Net tuition = tuition minus all grant aid. Family income categories include only dependent students and are based on parental income.

Making all public two-year and four-year colleges tuition free would remove a financial barrier for many students. But it would also require much more new funding than a similar policy aimed only at community college students. In 2013–14, there were 6.3 million full-time equivalent students enrolled in public four-year colleges and 4.4 million in public two-year colleges.[2] Published tuition and fees averaged $9,139 at public four-year colleges in 2014–15 compared with $3,347 at public two-year colleges (College Board 2014).

The main advantage of tuition-free college is that it sends a simple, clear message that anyone can go to college, in the same way that anyone can go to high school. Although college is already tuition free for many low-income students, many, if not most, are unaware of this fact. Both large-scale state merit grant programs, like those in Florida and Georgia, and local programs that make college tuition free, like the Kalamazoo Promise, have produced evidence that simple and clear messages can make a difference in college enrollment rates (Bartik, Hershbein, and Lachowska 2015).

Concerns about the idea of free college center on the source of funding, the targeting of benefits, and the real barriers to student success. Unless the states find significant new funds to devote to postsecondary education, under such a policy, institutions would end up with lower operating funds, creating potential threats to quality and capacity.

As noted, many low-income students receive a combination of federal and state grant aid that covers their tuition at most public two-year colleges and many public four-year institutions. The proposed policies would provide large benefits to students who can afford to pay tuition. Skeptics are concerned that tuition-free colleges would use limited available resources to subsidize an education that could and would be paid for without additional public assistance, rather than target aid in a way that increases college enrollment and success.

Another concern, particularly with the exclusive focus on free community college, is that less than 40 percent of students who enroll in this sector earn degrees or certificates within six years of enrolling.[3] Tuition-free community colleges might discourage enrollment at four-year colleges, diminishing the number of low-income students who succeed in earning bachelor's degrees. Moreover, since only in-state institutions would be tuition free, students would be less likely to cross state lines to attend colleges better suited to their goals (Cohodes and Goodman 2014).

Free college might get more students in the door and would remove some financial barriers to completion. But using additional funds to directly support student success might have a larger impact on educational attainment. Moreover, since tuition represents a relatively small share of the total expenses associated with taking time out of the labor market to go to college, some students would still face financing hurdles.

Another issue is that, though society reaps some of the benefits when more students enroll in and complete college, much of the benefit goes to the students, whose lifetime earnings are increased by their postsecondary education. In 2013, when median annual earnings were $37,332, the median for individuals with bachelor's degrees was $50,738; including those with graduate degrees raises the median to $56,235 (table 2). Only 2 percent of those with no education beyond high school earned

$100,000 or more compared with 16 percent of those with a bachelor's degree or higher. There is considerable evidence that, despite systematic differences between people who go to college and complete college degrees and those who do not, going to college actually substantially increases earnings (Card 1999; Rouse 2007). The question of who pays for college tuition and who receives the subsidies is critical to evaluating public policies in this area.

TABLE 2

Median Earnings, Individuals 25 Years of Age or Older, 2013

		Highest Level of Education				
2013 earnings	**All**	**High school**	**Some college no degree**	**Associate degree**	**Bachelor's degree**	**Bachelor's degree or higher**
Median	$37,332	$30,286	$32,453	$36,894	$50,738	$56,235
< $40,000	69%	80%	74%	66%	51%	47%
$40,000–$99,999	25%	18%	23%	30%	37%	37%
$100,000 or more	6%	2%	3%	4%	12%	16%

Source: Current Population Survey, "Annual Social and Economic Supplement," Table PIC-03, last modified September 16, 2014, accessed September 23, 2015, http://www.census.gov/hhes/www/cpstables/032014/perinc/pinc03_000.htm.

Evaluating Free and Debt-Free Proposals

A well-designed proposal for free or debt-free college will balance multiple competing objectives, such as simplicity and targeting. The following are some questions to ask and issues to consider when evaluating proposals:

- Is the proposal to make some college free simple and easy to understand?

A great advantage of free college is the clear message it sends. Muddying that message with complicated rules about which students and which institutions are actually eligible will likely weaken the program's impact on college access and completion.

- Does the proposal target resources at students who most need the help?

With new funds, policymakers have to decide between adding to the need-based aid students already receive and targeting students not eligible for need-based aid who now pay tuition. Targeting limited public resources toward students most in need is likely to have the largest impact on student behavior, but targeting often leads to more complicated policies.

- What are the proposal's potential unintended consequences?

At least some students will respond to the incentives that a free-college policy creates. A well-designed policy will minimize the chances that students are directed into institutions that diminish their chances for success.

- How will the proposal pay for the reduction in the prices for students?

Policies that rely on increases in state funding that may or may not be forthcoming may end up doing little to reduce what students pay for college in many states.

Innovation, Regulation, and Accountability

Considerable discussion both on the campaign trail and in the higher education community centers on the extent to which regulation of higher education is too restrictive to allow for innovation that could reduce costs and improve outcomes. However, there are also widespread concerns about whether inadequate regulation allows students to be exploited by unscrupulous institutions that do not deliver the educational opportunities they claim to offer.

These two related but distinct concerns lead to different policy proposals. One approach is to eliminate federal regulations that some view as stifling market forces in higher education. For example, under current law, only accredited institutions offering degree and certificate programs for credit and meeting specific requirements about program length are eligible for federal student aid funds. Some proposals would loosen these restrictions in an effort to promote innovation in the delivery of postsecondary education.

Related efforts underway include reducing both the costs and the time it takes to earn credentials, particularly for adult students seeking specific labor market skills. Ideas like granting credit to people who pass tests, regardless of where and how they acquired the knowledge, and allowing students to piece together credits from multiple sources do not fit well in the current student aid system. Alternative credentials with labor market value are being developed outside of the traditional higher education system. And competition from new providers might make traditional institutions more efficient, lowering prices and improving outcomes for students.

In addition to—or as opposed to—promoting innovation, a focus on the role of regulation generates proposals for improving higher education by reducing the number of institutions eligible for federal student aid that are misleading students or where very few students succeed in completing credentials.

The recent demise of Corinthian Colleges, Inc. and the accompanying moves to forgive the student debt of those who borrowed to enroll there have increased the visibility of this issue. Over 200 four-year colleges have six-year graduation rates of 20 percent or lower. Almost 50 percent of these institutions are for profit and about 13 percent of four-year for-profit colleges are in this category. Only about 4 percent of private nonprofit and public four-year institutions have such low graduation rates, but they constitute about 33 and 15 percent, respectively, of the four-year colleges with the lowest completion rates.[4] Two-year colleges have even poorer records.

Students pay much higher prices at for-profit institutions than in the public sector. They incur more debt and have disappointing graduation rates. Both the for-profit sector and nongraduates overall account for a high percentage of the student debt problem. In 2011–12, the two-year default rate among nongraduates was 24 percent, compared with 9 percent among graduates.[5] Many view preventing students from using federal aid at institutions that will not serve them well is an important route to solving both the student success and the student debt problems.

The recently implemented federal "gainful employment" regulation, which applies to most for-profit programs and to certificate programs in public and private nonprofit institutions, requires that the average debt payments of graduates not be higher than specified percentages of their earnings. Programs that fail to meet this requirement lose eligibility for federal student aid. Some view this controversial regulation as an important step toward protecting students; some find it represents unjustified discrimination against for-profit institutions; and others see it as too weak to lead to the necessary changes.

In tackling the question of the standards institutions must meet to qualify for federal student aid, candidates will surely offer a variety of solutions. Attention to these issues will be elevated further if Congress takes up reauthorization of the Higher Education Act, which was due for renewal in 2014 and includes most of the regulations facing colleges and universities.

The barriers to entry government regulation creates are a double-edged sword. They shut out some bad actors but also some potentially good service providers. And they let in some bad actors as well, as the Corinthian Colleges case makes clear. Thus, the right question to ask about regulation is not how much regulation is necessary, but rather what kinds of regulation will best serve students.

The primary challenge to designing the optimal regulatory regime for publicly supported higher education is measuring the quality of programs, especially new ones. We are learning the hard way about awarding federal student aid to students who enroll in programs and institutions that do not perform as promised. The case of Corinthian Colleges should provide a warning about expanding the reach of federal aid programs. New modes of instruction and new types of credentials will bring new firms and institutions into the higher education market; it will be difficult to predict successes and failures. On the other hand, students should not have to enroll in traditional colleges that have been around for hundreds of years to get assistance. It should be possible to support innovation without opening the floodgates of student aid to untried organizations.

Evaluating Proposals to Reform Higher Education Regulation

Regardless of whether proposals are aimed at keeping out more bad actors or letting in promising innovators, they should be evaluated based on whether they balance the need for innovation with appropriate regulation around quality and accountability.

- Is experimentation supported? Are innovators held accountable for results to remain eligible for student aid?
- Do programs of study with consistently poor student outcomes lose or have reduced eligibility for student aid?
- Are all institutions held accountable, regardless of whether they are for profit or nonprofit?
- Do the proposed regulations avoid creating complex bureaucracies but also make it difficult for institutions to skirt the rules?

Market Improvement through Better Information

Both Democrats and Republicans have suggested that providing more transparent information could improve student choices and allow the market to reward institutions that provide good value to most students while eliminating those that do not serve students well. This was the basic principle behind the Obama administration's unsuccessful attempt to design a ratings system for colleges and universities. The bipartisan Student Right to Know Before You Go Act would provide information on earnings of graduates of different programs of study within individual colleges and universities.

Students and potential students often make decisions about what, when, and where to study without complete information and understanding of their options and the implications of their choices. For example, a 2014 Brookings study found that most first-year college students did not understand how much student loan debt they were taking on (Akers and Chingos 2014). Providing easily accessible information about outcomes at individual institutions should strengthen students' capacity to make good choices and strengthen incentives for institutions to improve their outcomes.

At the same time, there are many questions about the quality of outcome information currently available and about relying on this information to solve the problems students face in selecting postsecondary institutions and programs. Policy proposals in this area tend to focus on the earnings of graduates as the most important piece of information. But there are significant challenges to providing potential students with useful information based on earnings, and it is even more difficult to quantify other important postsecondary outcomes. Some proposed metrics risk ignoring learning, including the development of critical thinking and communication skills, as well as broad knowledge that builds better citizens and more flexible workers, Moreover, the data on which consumer information relies are incomplete, and the best environment for one student will not be optimal for others. Moreover, students do not appear to use the information that is already available.

Because student choices are limited even in the presence of good information—by geography, finances, academic preparation, and other factors—skeptics will question whether more information is an adequate solution to the problems in higher education. They will also emphasize that insights from behavioral economics and the cognitive sciences suggest that few people carefully weigh costs and benefits of alternatives in their decisionmaking. People have predictable responses to complex decisions that include procrastinating and taking the path of least resistance. Students may be more likely to follow the advice from an Internet pop-up advertisement than to carefully examine the details of alternative postsecondary programs available on a government website. Though other entities might take this information and make it more accessible to students, there is little evidence that the information that is already available transforms student decisions. Staying close to home, going to college with high school friends, or finding a school with a simple application process may matter more than knowing the school's graduation rate and the employment outcomes of its students.

It is hard to argue against better and more information about postsecondary institutions and programs. But counting on this information alone to solve the problem of students enrolling in institutions that do not serve them well or lead to the desired outcomes may be overly optimistic. Because students are financing their education with taxpayer funds (through grant aid and other types of subsidies), in addition to spending their own time and money, there is a strong argument for the federal government taking a more active role in influencing the choices they make about where to enroll.

Evaluating Proposals for Better Information

A strong policy proposal focused on the role of information to improve the market for higher education will couple the provision of relevant, high-quality information with other provisions aimed at strengthening the market.

- Does the proposal focus on the quality of the information and on tailoring information to students based on their individual characteristics?
- Are institutions evaluated based on more than just the earnings of their graduates?
- When possible, are data made available both for entire institutions and for individual programs of study?
- Is the information provision just one part of a comprehensive strategy to ensure institutions serve students well?

Automatic Enrollment in Income-Driven Repayment Plans

Concerns over the extent to which students are incurring debt to finance postsecondary education and the impact this debt may be having on their post-college lives is widespread, and candidates will inevitably have to address the issue. The idea of automatically enrolling students in a repayment plan that links their payments to their incomes is at the top of many agendas across the ideological spectrum.

Under the current system, students face many options when it comes to repayment of their student loans, including at least three plans in which payments are fixed and three others in which payments depend on the borrower's income. But the default option is to place borrowers in a 10-year fixed-payment plan unless they actively make another choice. A number of current proposals would automatically place borrowers in one consolidated income-driven repayment (IDR) plan and have payments collected through the income tax withholding system.[6]

Some proposals make IDR the only plan for federal student loans, but others allow borrowers to opt into an alternative, fixed-payment plan. Many proposals would involve the Internal Revenue Service in collecting loan payments through payroll withholding. Some proposals are limited to undergraduate loans or put other limits on the total amount of debt an individual borrower can enroll in IDR. Some proposed policies follow the existing IDR strategy of forgiving unpaid debt after a specified number of years, and others limit or eliminate this provision.

There are compelling arguments in favor of making IDR the default plan. Higher education has a high average payoff, but there is considerable variation in outcomes and limited predictability. No matter how much we improve student choices or succeed in eliminating unscrupulous providers, some students will find that their earnings are lower than anticipated and will struggle to repay their debt. Since it is not possible to anticipate all outcomes, an insurance policy against unforeseen hardship is a logical approach. Income-driven repayment provides this sort of insurance.

Making IDR automatic would eliminate the informational and bureaucratic hurdles borrowers face under the current system and would have the potential to eliminate, or at least greatly reduce, the student loan default problem. It would be easy to say that no one would have unaffordable student loan payments.

But IDR is not without its potential drawbacks and unintended consequences. If the universal IDR plan involved forgiving unpaid balances after 20 or 25 years, as the existing programs do, many students would have little incentive to limit their borrowing and institutions would have less incentive to control tuition prices. The IDR plans have become much more generous under the Obama administration and the costs are projected to rise rapidly. Forgiving unpaid balances after a fixed period of time is particularly problematic in this regard.

Evaluating Proposals for Automatic IDR

A well-designed IDR policy will provide an important safety net for borrowers, keep the costs to taxpayers reasonable, and limit the potential for accelerating tuition inflation. The following are key questions to ask in examining related proposals:

- Is the program designed to prevent institutions from raising their tuition rapidly, encouraging students to borrow to fund those increases to benefit from generous loan-forgiveness provisions?
- Is there a limit on how much debt is eligible for IDR, to avoid students borrowing very large amounts of money and having it forgiven even if they can afford to continue making payments?
- Is the program limited to undergraduate students, or are graduate students included as well?

- Is there a loan forgiveness provision and, if so, after how many years are loans forgiven?
- What percentage of income is required for monthly payments, and is there an income below which no payments are required?
- Are payments capped, as under the current system, at the monthly amount required under a fixed 10-year plan, or will higher-income borrowers have larger payments under the new plan than they currently do?

Student Loan Refinancing

Many outstanding student loans have fixed interest rates that are higher than current market rates. Some policymakers and advocacy groups are concerned that the government is making a profit off those loans and argue that the interest rates should be lowered for all borrowers.

A number of details vary in proposals to facilitate refinancing of student loans. For example, borrowers could be required to apply for refinancing or the interest rate on all outstanding loans could automatically be lowered. Refinancing could include transforming private student loans into federal loans, or could be limited to existing federal student loans. All loans could be eligible or the program could be limited to undergraduate loans, loans below a specified total amount, or loans in good standing.

Lowering interest rates would benefit students who are currently locked into loans with rates that are much higher than the rates students borrowing today are paying. Borrowers who are struggling to repay their loans would surely appreciate a lower payment. But refinancing proposals can also give large benefits to borrowers who are not struggling to make their payments.

Consider how different borrowers would be affected by an interest rate reduction from 6.8 percent, which prevailed on at least some federal loans from 2006 to 2011, to the current undergraduate rate of 4.3 percent.[7] The average household in the bottom fifth of the income distribution, with about $10,000 in debt, would see a $13 reduction in their monthly payment, from $119 to $106.[8] But the average household in this group makes less than $13,000 in income and probably struggles to make any payment on its student loans. Households in an income-driven repayment plan do not make any payments at this income level, so the change in interest rate will have no impact (except on the length of payments or amount forgiven).

A family in the top fifth of the income distribution, with an average debt of more than $15,000, will see their monthly payment fall by $20. This will add up to more than $2,000 saved over the life of the loan, but will probably not make much of a difference to the average family in this group in light of their average income of $173,000. The largest benefits will go to borrowers who are not in an IDR plan and have large debt balances. For example, a lawyer with $100,000 in debt will see monthly payments fall by $125, adding up to nearly $15,000 over the life of the loan.[9]

The bottom line is that although it would relieve a perceived inequity, a universal refinancing policy would primarily benefit students with large loan balances, most of whom have relatively high incomes. In 2013, the top fifth of US households in terms of income held 44 percent of all outstanding education debt (table 3).

TABLE 3

Share of Student Debt by Quintile

Income quintile	Share of student debt
Bottom	12%
Second	11%
Middle	14%
Fourth	20%
Top	44%

Source: Survey of Consumer Finances, calculations by the authors.

Evaluating Proposals for Refinancing

Refinancing proposals should be evaluated on the extent to which they help struggling borrowers and avoid providing benefits to high-income borrowers who do not need the help.

- Does the refinancing plan exclude high-income, high-debt borrowers who do not need an increased government subsidy?
- Does the refinancing plan offer any relief to borrowers of private loans, who do not have access to the safety net provided by IDR plans?
- If the plan covers private loans, does it prevent borrowers from circumventing federal loan limits by refinancing private loans and turning them into federal loans?

- Is the proposal for a one-time refinancing or would it promise low interest rates on all future student loans?

Terms for Future Student Loans

Solving the problems facing borrowers now struggling to repay their student loans is, to date, getting more attention from candidates than designing strategies to increase the equity and efficiency of student loan policies in the future. In part, the idea of making income-driven repayment the automatic option may be a solution. What the interest rate is on the loans and whether or not the government has covered the interest rate while the student is in school makes much less difference if all monthly payments are capped at a percentage of the borrowers' incomes and particularly if there is loan forgiveness after a specified period of time.

However, the question of whether the government makes money off of the student loan program, as current accounting rules suggest, or whether the program is expensive for the government because of the risks involved and the alternative potential uses of federal funds, is also the subject of debate. A one-time option for refinancing outstanding student loans will not solve the problem of the appropriate terms for future loans, and some candidates will surely address this issue by proposing changes to interest rates on future loans.

Candidates may suggest eliminating or modifying programs that currently allow both graduate students and parents of dependent students to borrow essentially without limit, changing the loan limits for undergraduate students, or modifying the way interest rates are set. Some proposals will suggest that students be able to borrow at the low rate at which the government can borrow; others will propose that interest rates be set with a specified margin over the government borrowing rate either with or without a cap on how high the rate could go. It is also possible to shift from the current system under which interest rates vary over time but are fixed for the life of the loan to a system under which the interest rate on each loan varies with market rates, diminishing the importance of the particular date on which the loan originated.

A related issue is the subsidy provided when the government pays the interest on some student loans while students are in school. Currently, about one-third of federal student loans are "subsidized," while interest accrues on the other two-thirds during the years of enrollment (College Board 2014). Some will argue that it is inappropriate for students to owe more than they borrowed at the time they enter repayment. Others will argue that this subsidy is poorly targeted and ineffective, since it is related to pre-college circumstances rather than to later repayment capacity and since students are unlikely to understand it or to base their enrollment decisions on this provision.

Despite the fact that these interest rate questions may sound quite technical, they can have a significant impact on how much students repay over time and how burdensome their debts seem. As a result, such questions may capture the attention of some campaigns.

Evaluating Proposals for Restructuring Interest Rates

- How would the proposed interest rate structure affect students who borrow different amounts and who borrow in different years?
- Does the proposal allow future interest rates to vary with the market, eliminating the need for refinancing in the future?
- What will the impact of the terms of student loans be on the federal budget?

Simplification of the Federal Student Aid Application Process

There is broad consensus that the form students have to fill out to apply for federal aid is too complicated and too difficult for them to predict in advance how much aid they will receive. No one is likely to argue that we should preserve the application process exactly as it is, but there are significant differences of opinion about how far we should go with simplification.

A fundamental question is how to evaluate the tradeoff between simplicity and targeting. The more information students and families have to provide about their personal and financial circumstances, the more feasible it is to allocate funds in accord with differences in circumstances. On the other hand, requiring so much information deters many of the neediest families from even applying for aid. Moreover, the bureaucratic costs and the time involved increase with the complexity of the system.

One idea recently enacted by the Obama administration is to let families learn their aid awards earlier by basing eligibility for federal financial aid on income two years before enrollment instead of one year before. This change will allow applicants to file without waiting for information from their tax forms that is not available until April of the year in which they intend to enroll. This is an important change that has garnered considerable support for many years. But moving the aid application process forward a few months and making it possible for more applicants to import some of the necessary information from their tax forms will not take complexity and lack of predictability off the table.

Many proposals call for significantly reducing the number of questions on the federal aid application form. Some argue that just knowing family size and adjusted gross income should be enough to allocate federal Pell grants. Others would ask more questions, either of all applicants or of those with complicated financial circumstances.

A central issue is whether federal aid eligibility should be dependent only on financial information available from the Internal Revenue Service, potentially allowing for the elimination of the aid application form. It might even be possible for Pell eligibility to be determined for all high school students automatically.

The politics of such proposals will likely turn on whether they are budget neutral or entail increased costs, as well as on how they change the allocation of federal aid—who the winners and losers might be. Further, how candidates prioritize the interests of low-income students, other students, institutions, and state governments might influence the specific components of proposals they put forward.

Evaluating Proposals for Simplification

- Would the proposal significantly reduce the burden on potential students?
- If the proposal would increase costs, would the increase be the result of awarding larger sums to current aid recipients or of bringing eligible students who currently fail to apply into the system?
- Would the proposed changes significantly alter the distribution of federal aid among students in different personal and financial circumstances?

Other Higher Education Proposals

We have covered only a handful of the major higher education issues that are likely to be discussed over the course of the campaign. Additional proposals that do not fit into the buckets of issues discussed above will surely be debated on the campaign trail. Even issues that currently enjoy bipartisan support may become more divisive if a particular candidate tries to take on an issue as his or her own.

One set of ideas revolves around reforming the Pell grant program for low-income students. Allowing students to receive additional funds for summer courses even if they have received a full annual Pell grant for other semesters may allow some students to complete their degrees more quickly and efficiently. A variation on this idea is to provide students with Pell funding they can use at their own pace over the course of their programs. This would increase flexibility in the timing of enrollment for both full- and part-time students.

Candidates may also debate the right level of funding for the Pell grant program. One way to make college free for low-income students without additional state support would be to raise the maximum Pell grant to cover full tuition at public four-year colleges. This would be most likely to affect student behavior if Pell eligibility were based on a simple formula so students and their families could easily look up their aid in advance. Once again, political divides over such proposals are likely to come down to how much they cost and how they will be funded.

Many proposals discussed above focus on student loans. They largely tinker with the existing system by changing interest rates or repayment plans. But we may also see proposals for bigger changes to the current system. One proposed step in that direction is to reform or eliminate programs that allow essentially unlimited borrowing by graduate students and the parents of undergraduate students. Both the Parent PLUS and the Grad PLUS programs allows borrowing up to the full costs of attendance (including tuition, fees, room, board, books, and other living expenses), and Grad PLUS loans are eligible for income-driven repayment. Some proposals would eliminate one or both of these programs. Others would cap the amount of borrowing allowed.

Some proposals will go even further toward radically changing the way students pay for higher education. Income-share agreements, through which students pay for college by promising a share of their future income for a fixed number of years, are basically IDR plans without the loan balance. This approach could be financed by the government or by private investors, but the involvement of the private sector would require a regulatory structure. A related idea is a “graduate tax,” under which graduates who earn the most after college would pay the most for their degrees.

Many of the same principles embodied in the grading rubrics for the specific proposal categories discussed above can be articulated for the purpose of evaluating higher education policy proposals more generally.

- Does the proposal efficiently distribute limited public dollars to students whose behavior is most likely to be modified by the program? In other words, does it avoid spending more money on students who would have gone to and completed college or repaid their loans in the absence of the public assistance?
- Is the policy simple enough for prospective students to easily understand, especially those from families without much college experience?
- Would the policy work to reduce the inequality of educational opportunity facing prospective students?
- Does the policy address issues of college success in addition to access?
- Is the policy likely to contribute to rising college prices?
- Is the policy financially sustainable for taxpayers?

Much of the political debate on the presidential campaign trail will be driven by differences in political philosophy, such as the appropriate role of government regulation, market competition, and individual choice in higher education. But for a given set of political preferences, we think there are opportunities to develop policies that best serve students and taxpayers while avoiding unintended consequences that even the policy's proponents would find objectionable.

Notes

1. Brandon Busteed and Stephanie Kafka, "Most Americans Say College Not Affordable," *Gallup*, April 16, 2015, http://www.gallup.com/poll/182441/americans-say-higher-education-not-affordable.aspx.
2. Calculations from the Integrated Postsecondary Education Data System, based on definition of four-year institutions as those where more than 50 percent of degrees awarded are bachelor's degrees or higher.
3. Among students who began at a public two-year college in 2008, 39 percent had earned a degree or certificate six years later compared with 63 percent of those who began at public four-year institutions (Shapiro et al. 2014, 24).
4. Education Trust, College Results Online, accessed September 24, 2015, http://www.collegeresults.org/search2a.aspx?y=2013; NCES, Digest of Education Statistics 2014, Table 317.10.
5. Unpublished data compiled by the US Treasury Department from the National Student Loan Data System.
6. The three existing plans that make required payments a function of the borrower's income are titled Income-Contingent Repayment (ICR), Income-Based Repayment (IBR), and Pay-as-You-Earn (PAYE). To distinguish between the specific IBR plan currently in effect and this general class of repayment plans, we use the broad term income-driven repayment (IDR) to encompass both the existing plans and future variations of them.
7. "Historical Interest Rates," FinAid, accessed July 7, 2015, http://www.finaid.org/loans/historicalrates.phtml.
8. These numbers are based on the authors' calculations from the 2013 Survey of Consumer Finances and assume a 10-year repayment schedule. In reality, households in the survey are at various stages of repayment (and have various repayment terms), so this calculation is only illustrative.
9. All interest savings totals over the life of the loan are raw totals and not discounted to the present.

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