

**EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS**



**MAKING COLLEGE MORE AFFORDABLE:
IMPLICATIONS OF NEW DATA**

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Making College More Affordable: Implications of New Data

The economic strength and competitiveness of our nation depend on the quality of our workforce. Nearly two-thirds of the job openings forecast to be created by 2018 will require education beyond a high school diploma (Carnevale, Smith and Strohl, 2010). Further, individuals with advanced education benefit from higher wages, greater job security, and higher lifetime earnings.¹ The United States, however, is lagging behind other countries in college graduation rates. In just a generation, we have fallen from 1st in the world to 16th in the fraction of young people who have earned a college degree (OECD 2011, p. 30).

In recent years, published college tuitions have risen sharply. Rising college costs are a threat to our nation's ability to equip our workers with the advanced skills that the high-paying jobs of the future will require. In response to the growing need for college-educated workers in an era of rising tuitions, the Obama Administration has made college accessibility and affordability a top priority. **New data show that the Administration's efforts to hold down college costs have been successful. Despite large increases in the published price of college over the past four years, the average student has not seen commensurate increases in the net price of college, defined as the published price minus grants, scholarships and tax benefits. This is due primarily to increases in Federal aid.** According to data from the College Board that were released today, the estimated average net price for full-time students attending public 4-year institutions increased by only about \$60 between 2007-08 and 2011-12, and the estimated average net price for full-time students attending public 2-year and private nonprofit 4-year institutions actually fell.

While the average net price of college has changed little or fallen, **students and their families nonetheless still find it difficult to pay for college.** Student debt has been rising for years and this trend has continued despite higher federal tuition aid. According to the new College Board data, students graduating with a bachelor's degree in 2009-10 had significantly larger educational debts than students graduating two years earlier in 2007-08. The large debts owed by many recent college graduates reinforce the need for measures to ease the burden of student loan repayment.

Major Sources of Federal Education Assistance

By far the most significant source of Federal grant aid for college students is the Pell Grant program, which has provided need-based aid since 1965 and is the largest single source of aid at public colleges and universities. Through the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Care and Education Reconciliation Act of 2010 (HCERA), the Obama Administration raised the maximum Pell Grant award from \$4,731 in 2008 to \$5,550 in 2010. Some 8.1 million college students received an average of \$3,700 in Pell Grants in 2009-10. These numbers have continued to rise – the Administration has requested funds to support 9.6 million recipients in 2012-13. These figures are up sharply from the year before President Obama took office, when 5.5 million college students received an average of \$2,650 apiece in Pell aid.

¹ See, for example, Council of Economic Advisers (2011), Farber (2011) and Carnevale, Smith and Strohl (2010).

In addition, the American Opportunity Tax Credit (AOTC), established through the Recovery Act, provides up to \$2,500 a year for college tuition and related expenses for American families. Compared to the Hope Scholarship credit it replaced, the AOTC offers a higher maximum benefit; can be claimed for up to four years rather than only two years of undergraduate education; has a higher income eligibility cutoff, meaning that the credit is available to more middle class families; and is partially refundable, thereby also reaching lower-income families. This credit is expected to benefit 9.4 million students and their families in 2011. In December 2010, the President signed an extension of the AOTC through the end of 2012.

New Data Show Federal Education Assistance Has Held Down College Costs

Between 2007-08 and 2011-12, published tuition and fees at both public and private colleges rose sharply. While these increases in the “sticker price” of college have attracted considerable attention, they do not tell the whole story about the cost of attending college. The new data summarized in Table 1 show that net tuition and fees – the average amounts paid by full-time students after grants, scholarships and tax benefits are taken into account– have risen much less or even fallen. Further, these data make clear the important role that Federal aid has played in holding down the net cost of attending college.

As can be seen in the first panel of Table 1, published tuition and fees for in-state students at public 4-year institutions – the group of schools that enrolls the largest number of full-time students – increased by more than \$1,500 between 2007-08 and 2011-12. Increases in aid from other sources offset only about 15 percent (\$230) of this increase for the average student, but increases in Federal aid offset more than 80 percent (\$1,240) of the increase. More detailed data reported in Appendix Table 1 show that Pell Grants accounted for the largest share of the increase in Federal assistance (about \$780), but increases in the value of education tax credits (about \$350) also played a sizable role, with other Federal aid sources making a smaller contribution. The end result has been an estimated net price increase of only about \$60 for in-state students at public 4-year colleges over the four-year period ending in 2011-12.

The middle panel of Table 1 displays the results for private nonprofit 4-year colleges. Federal aid has helped to bridge the gap at these schools as well – increases in published tuitions averaging about \$2,750 have been more than fully offset by roughly equal increases in the average amounts of Federal aid and aid from other sources, so that estimated average net tuition and fees in this sector actually has declined.

At public 2-year schools, as summarized in the bottom panel of Table 1, despite a sizable increase in average published tuition and a decrease in aid from non-Federal sources, the estimated net price of attendance for in-state students has fallen by more than \$800 since 2007-08. In fact, the net price shown in the table for 2011-12 is negative, though this does not include expenses such as room and board that students must meet while they are in school (and that Pell Grants may help to cover). This net price decline is due entirely to an increase in the level of Federal assistance. Federal aid for the average public 2-year college student rose from \$1,770 in 2007-08 to an estimated \$3,140 in 2011-12. Pell Grants again accounted for the largest share of the growth in Federal aid (rising by an average of about \$1,100 per student), with an increase in the value of education tax credits playing a secondary role for students at these schools (rising by an average of about \$220 per student).

Table 1: Average Published Price, Aid by Source and Net Price of College, by Type of College, 2007-08 and 2011-12

Public 4-year			
	2007-08	2011-12	4-year change
Average published tuition and fees	\$6,710	\$8,240	\$1,530
State, institutional, and private aid	<u>-\$2,550</u>	<u>-\$2,780</u>	<u>-\$230</u>
Price net of state, institutional, and private aid	\$4,160	\$5,460	\$1,300
Federal aid	<u>-\$1,730</u>	<u>-\$2,970</u>	<u>-\$1,240</u>
Price net of aid from all sources	\$2,430	\$2,490	\$60
Private Nonprofit 4-year			
	2007-08	2011-12	4-year change
Average published tuition and fees	\$25,750	\$28,500	\$2,750
State, institutional, and private aid	<u>-\$9,620</u>	<u>-\$11,550</u>	<u>-\$1,930</u>
Price net of state, institutional, and private aid	\$16,130	\$16,950	\$820
Federal aid	<u>-\$2,100</u>	<u>-\$3,980</u>	<u>-\$1,880</u>
Price net of aid from all sources	\$14,030	\$12,970	-\$1,060
Public 2-year			
	2007-08	2011-12	4-year change
Average published tuition and fees	\$2,490	\$2,960	\$470
State, institutional, and private aid	<u>-\$700</u>	<u>-\$630</u>	<u>\$70</u>
Price net of state, institutional, and private aid	\$1,790	\$2,330	\$540
Federal aid	<u>-\$1,770</u>	<u>-\$3,140</u>	<u>-\$1,370</u>
Price net of aid from all sources	\$20	-\$810	-\$830

Source: College Board.

Note: Estimates reported are per-student averages for full-time students who attend the indicated type of school, weighted by enrollments at different institutions, and expressed in 2011 dollars. In-state tuition and fees are assumed for public institutions. Costs of attending college other than tuition and fees, such as room and board, are not included. Aid figures for 2011-12 are projected based on currently-available information. Estimates are rounded to the nearest 10 dollars.

Debt Burden and Loan Repayment

While estimated net tuition and fees have risen far less than the sticker price of college over the last four years – and even have fallen for students at public 2-year colleges and private nonprofit 4-year colleges – many students and their families still find paying for college to be a significant burden. Things have not gotten easier over the past few years, as living costs for college students have continued to rise (College Board 2011a). Perhaps more importantly, the real incomes of many households have fallen. In 2007, median household income was \$52,823; by 2010, reflecting the severity of the recession and its aftermath, median household income had fallen to \$49,445 (U.S. Census Bureau 2011).

New data released today by the College Board show that levels of debt for students earning Bachelor's degrees were higher in 2009-10 than two years earlier. The share of students graduating with Bachelor's degrees who borrowed to cover the costs of their college education changed little between 2007-08 and 2009-10, ticking up from 55 percent to 56 percent at public 4-year schools and holding steady at 65 percent at private nonprofit 4-year schools. The average amount of debt taken on by student borrowers, however, increased significantly. Among students graduating from public 4-year universities, the average amount of debt among those who borrowed rose by \$1,500 to \$22,000 (in 2010 dollars); for those graduating from private nonprofit 4-year universities, the amount owed by those who borrowed rose by \$1,600 to \$28,100 (in 2010 dollars) (College Board 2011b).²

Recognizing the difficulties that large amounts of debt may create for students and their families, the Administration today is announcing two important steps to ease the burden of repayment. First, building on the income-based repayment plan improvements proposed by the President in the 2010 State of the Union address and quickly enacted by the Congress, the Administration will begin a process to ensure that, beginning as soon as 2012, eligible student loan borrowers will be allowed to cap their student loan repayments at 10 percent of discretionary income. Income-based repayment capped at 15 percent of discretionary income will continue to be available to eligible recent graduates and others already in the workforce. Second, many borrowers with multiple outstanding loans will be allowed to consolidate all of their loans under the less-expensive Direct Loan program, reducing their interest costs and lowering monthly payments.

Conclusion

Providing Americans the opportunity to obtain post-secondary education is critical to our nation's continued economic success and to the well-being of American families. With state budgets suffering and Americans' incomes stagnating, investments in the education and skills of our future workforce could have been in danger. The Obama Administration recognizes the importance of keeping higher education affordable. The President has argued, consistently and successfully, that even in difficult economic times, investment in our most valuable asset, the American people, should not be neglected. Because of this, increased federal grants and tax credits have been able largely to offset increases in the sticker price of college. At all three types of colleges for which we have data – 4-year public schools, 4-year private nonprofit schools and 2-year public schools – the latest available information shows that, on average, Federal aid in the form of grants and tax credits has increased by more than \$1,000 per student since the beginning of the recession.

While this Federal aid has played an important role in holding down the net cost of college, many students nonetheless are graduating with substantial debt. The steps the Administration has announced today will make it significantly easier for new and recent graduates to meet the obligation of repaying their student loans.

² The College Board data on student debt are based on students who began their studies at the institution from which they graduated.

References

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Appendix Table 1: Average Published Price, Aid by Detailed Source, and Net Price of College, by Type of College, 2007-08 and 2011-12

Public 4-year		
	2007-08	2011-12
Published tuition and fees	\$6,710	\$8,240
State grants per student	\$880	\$940
Institutional grants per student	\$1,210	\$1,460
Other grants per student	\$460	\$370
Pell Grants per student	\$940	\$1,720
Other Federal grants per student	\$430	\$540
Federal tax benefits per student	\$360	\$710
Net tuition and fees	\$2,430	\$2,490
Private Nonprofit 4-year		
	2007-08	2011-12
Published tuition and fees	\$25,750	\$28,500
State grants per student	\$1,010	\$1,090
Institutional grants per student	\$7,670	\$9,670
Other grants per student	\$940	\$790
Pell Grants per student	\$970	\$1,710
Other Federal grants per student	\$570	\$1,130
Federal tax benefits per student	\$560	\$1,140
Net tuition and fees	\$14,030	\$12,970
Public 2-year		
	2007-08	2011-12
Published tuition and fees	\$2,490	\$2,960
State grants per student	\$330	\$300
Institutional grants per student	\$190	\$190
Other grants per student	\$180	\$140
Pell Grants per student	\$1,140	\$2,240
Other Federal grants per student	\$350	\$400
Federal tax benefits per student	\$280	\$500
Net tuition and fees	\$20	-\$810

Source: College Board.

Note: Estimates reported are per-student averages for full-time students who attend the indicated type of school, weighted by enrollments at different institutions, and expressed in 2011 dollars. In-state tuition and fees are assumed for public institutions. Costs of attending college other than tuition and fees, such as room and board, are not included. Aid figures for 2011-12 are projected based on currently-available information. Estimates are rounded to the nearest 10 dollars.