THIRD WAY

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What You Should Know About Higher Education

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Given the recent upheavals experienced by both our country and our higher education system, it's no surprise that being able to access affordable and high-quality postsecondary options will remain a salient issue for American voters as they look to ensure that our rapidly changing economy doesn't leave them behind. To feel better equipped to discuss this important topic with voters, this primer lays out the following items: key things you need to know about our higher education system today; federal higher education policy priorities of the Biden Administration; and policy initiatives around student loans and loan repayment programs.

What You Should Know About Higher Education

Key Facts

- Today's **college students are more diverse than any previous generation**. More than one-third of students are 25 years or older, nearly one-quarter of students are parents, and two-thirds of students work while attending school. [1]

- For decades, we had a deal that if you worked a minimum wage job and got a Pell Grant, you could afford the cost of college, yet **that deal has fallen apart**. The Pell Grant used to cover 80% of college costs at a public four-year college, but today, it covers less than a third.

- **We have a leaky pipeline in higher education**, as only half of all students who start college earn a degree. This is a major problem since students who don't finish college are **three times as likely to default** on their loans.

- One-third of college students don't earn **more than an average high school graduate** while one in five don't earn enough to **repay their loans** after graduation.

- College should be a ladder out of poverty, but **the system is failing lower-income students**. Today, fewer than 15% of low-income students get a four-year degree, while more than 6 in 10 wealthy students do.

Shifting the Focus Beyond Affordability towards Value

Our higher education system receives billions of taxpayer dollars each year, but many institutions fail to provide a return on investment for students. To ensure students and taxpayers get a solid return on one of the largest investments they'll make, Congress needs to take substantial steps to make college more affordable and accessible for all students, as well as protect students from attending schools that leave them worse off. This should include:

- Setting new federal bottom lines that prohibit colleges with abysmal graduation rates, post-enrollment earnings, and/or repayment rates from having access to federal student aid. [2]

- Holding institutions accountable for how well they provide a return on investment for students and requiring those who fail to improve to pay back a portion of the federal funds they receive to the government, defrauded students, or other institutions doing their part to serve high-needs populations.

- Improving transparency around outcomes in our higher education system so that students and parents can better determine whether a school or program is worth its cost. Today, young people can easily pull up data to help them decide what movie is worth watching, but they don't have the data they need to make one of the most important financial decisions of their lives: which college to attend.

Higher Education Policy Priorities of the Biden Administration

Our higher education system is set up to disproportionately send students of color and students from low-income backgrounds to the most under-resourced institutions. The bold proposals in

President Biden's American Families Plan will work in tandem to direct critical new funding to students and institutions facing the starkest resource disparities. [3] Specifically:

- **Investment in Tuition-Free Community College:** Community colleges face a revenue gap of $78 billion compared to four-year public institutions. [4] Despite serving more than one-third of all undergraduate students, community colleges receive only about $8,700 per full-time student, roughly half of the $17,500 in revenue that four-year institutions take in to educate each student each year. [5] The American Families Plan will make community college tuition-free, sending a clear message to students that a college education is affordable and accessible for anyone who wants one. And it will do so through a federal-state partnership that will help stem the state disinvestment in higher education that has contributed to rising prices for students and families across the country.

- **Investment in Retention and Completion:** The $62 billion grant program in the American Families Plan focused on evidence-based programs to improve retention and completion at community colleges and four-year institutions with an above-average number of underserved students is a first-of-its-kind federal investment. It signals a major move to change the focus of federal higher education policy from simply getting students *into* college to making sure they successfully get *through* college and earn a degree -- a necessary shift given that about half of students who start higher education don't complete it. By including a grant component specifically focused on the schools that serve the most low-income students and students of color, the federal government will be acknowledging for the first time that these schools need additional resources to support student success.

- **Investment in Minority-Serving Institutions:** The American Families Plan also includes a $39 billion investment to subsidize tuition for students from families earning less than $125,000 who attend Historically Black Colleges and Universities (HBCUs), Tribal Colleges and Universities (TCUs), and other minority-serving institutions (MSIs). These institutions disproportionately serve students of color and those with fewer financial resources -- and they do so with less resources than other schools. [6] For example, HBCUs produce roughly 1 in 8 bachelor's degrees held by Black graduates but take in only about two-thirds the amount of per-student revenue of other public and private nonprofit colleges. [7] This new federal investment will help reverse these trends and empower MSIs to continue to deliver strong student outcomes.

- **Investments in the Pell Grant Program:** Pell Grants help over 7 million low- and middle-income students pay for college each year -- but while the maximum Pell Grant used to cover 80% of the costs of attending a four-year public college, now it covers just 30% of those costs. [8] The American Families Plan's substantial $1,400 increase to the maximum grant award ($1,800 when coupled with the $400 increase in President Biden's FY22 budget request) is a key first step in restoring the purchasing power of the federal government's primary student aid program and working towards the goal of doubling the Pell Grant during this administration.

Policy Initiatives Around Student Loans and Loan Repayment

Voter concerns about increasing college tuition and rising student debt have escalated over the last few years, catapulting issues surrounding higher education directly into the national spotlight. That's why numerous candidates have already started to champion much-needed efforts to reduce college costs and protect students from predatory institutions who convince them to take out substantial federal loans and leave them with little to show for it. Yet cost is only half of the conversation, especially when many of the most popular reforms on the table today—universal debt cancellation—would disproportionately benefit students who come from wealthier backgrounds and do little for the ones who need help the most.

The Upcoming End to the Student Loan Payment Pause is a Pressing Issue.

In March 2020, Congress passed the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) which suspended student loan payments for several months and set the interest rate at 0%. The payment pause was meant to ease the financial burden on borrowers as they responded to the pandemic and economic recession and prioritized other critical expenditures. The payment pause was subsequently extended to September 30, 2021, when the pandemic showed few signs of slowing down, and payments will now resume on that date. [9] There has been growing pressure on President Biden from Members of Congress and over 120 organizations to extend the payment pause beyond September but it's unclear if he'll do so. [10] This is one of the most pressing student loan issues on the horizon given that loan payments will resume in a few months and there are concerns that borrowers are unprepared to begin making those payments. This will likely need to be addressed before other major loan reforms get taken up by Congress and the administration.

Use Caution Before Jumping on the "Universal Debt Cancellation" Bandwagon.

The promise of wiping away the entire $1.6 trillion student loan portfolio might be a good soundbite to attract the attention of young voters, but a closer look reveals that it does little to address some of the more pressing systemic issues plaguing higher education today. Specifically:

- **Universal debt cancellation plans are expensive and are not an efficient use of limited funds.** The estimated costs of debt cancellation proposals currently on the table in Congress range anywhere from $640 billion to the entire $1.6 trillion, over 20 times more than what the federal government spends on Pell Grants targeted to low- and moderate-income students each year. Further, these large price tags offer only a short-term solution as a massive debt cancellation proposal that went into effect today would do nothing to address the loans students would begin accumulating again tomorrow, resulting in a band-aid fix.

- **Universal debt cancellation plans are regressive and benefit upper-income students missing the low-income students they intend to serve**. Universal debt cancellation proposals tend to benefit upper-income borrowers more than they do low-income borrowers. A 2019 analysis by the Urban Institute found that if Congress cancelled all student loan debt, 26% of the benefits, or $416 billion of forgiven student loan dollars, would go to the top income quintile, with another 25%, or $400 billion, going to the fourth-highest income quintile. [11] In contrast, only 12% of forgiven loan dollars would go to the bottom income quintile leaving our most vulnerable students with no relief.

- **Voters are wary of universal debt cancellation.** Public opinion research has found that most voters do not think universal debt cancellation should be the top priority of the Biden Administration. A recent Third Way poll found that only 45% of likely Democratic voters strongly support the federal government cancelling all student loan debt when compared to other more targeted policy options like allowing students who have been defrauded by predatory schools to cancel their loans (64%). [12]

Focus on Reforms to Income-Driven Repayment Programs (IDR).

Income-driven repayment (IDR) plans already allow borrowers to repay their loans over an extended period (20 to 25 years) and cap monthly payments at a certain percentage of their discretionary income, leaving low- and middle-income students with more manageable payments. [13] We could improve IDR in a number of ways, including by lowering payments for those at the bottom of the income scale, making sure payment calculations better take into account families' financial realities, and automatically enrolling eligible students into this payment plan at the outset (a huge change, given that only 6% of the lowest-income borrowers are currently enrolled). Debt cancellation is a band-aid solution, as the day after it happens new borrowers will start to rack up debt once again. But a strong IDR plan that includes auto-enrollment, a shorter timeline to forgiveness, and a more generous payment calculation could have sustained benefits for borrowers. Research shows that IDR enrollees have better loan repayment outcomes, higher credit scores, and greater spending on other expenses than borrowers who do not enroll in IDR. [14] A recent study also found that IDR is among the most progressive debt relief policies, providing more of the benefits to low-income and Black households. [15] The Congressional Budget Office has projected that among undergraduate borrowers, IDR plans will provide substantial forgiveness to those in the lowest income quintiles, while debt cancellation would flow disproportionately to those in the top income brackets. [16] Congress has recently taken up the mantle of improving IDR, passing the *Fostering Undergraduate Talent by Unlocking Resources for Education Act* (FUTURE Act) which will allow borrowers to remain enrolled without annual paperwork requirements. [17] But there is much more to do here which would be both good policy and good politics.

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