Federal Student Aid: Access and Completion

Appendices

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Federal Pell Grants

By Patricia Steele, HigherEd Insight

[First paper in a series on Federal Financial Aid published by the Association of Public and Land-grant Universities with support from the Reimagining Aid Design and Delivery grant from the Bill and Melinda Gates Foundation. Published November 2012]

Pell Grants\(^1\) are the cornerstone of the federal financial aid investment in higher education. In the 2010-11 academic year, Pell expenditures totaled approximately $35.7 billion.\(^2\) The Pell Grant program provides direct grants to undergraduate students who are enrolled in degree or certificate programs and who demonstrate exceptional financial need. For Pell recipients, this grant provides a foundation upon which other types of financial aid may be added. In its conception, Congress designed Pell to cover most of the cost of attendance so needy students could pay for their education without excessive borrowing or work.\(^3\) However, the total cost of attendance has increased and until recent years the maximum Pell grant amount has not kept up.

Pell expenditures have increased rapidly in the last few years as a result of legislative changes that led to increased benefits for more students. At the same time, there has also been growth in the number of students enrolling in college and applying for Pell Grants, as well as a weakened economy. These factors, combined with inadequate discretionary and mandatory appropriations in some past years, and catch-up appropriations in others, have led both to funding shortfalls and surpluses in the program from FY2008 to FY2010 (See Table 1).\(^4\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Expenditures (in Billions)</th>
<th>Average Award</th>
<th>Number of Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>$12.7</td>
<td>$2,456</td>
<td>5,167,979</td>
</tr>
<tr>
<td>2006-07</td>
<td>$12.8</td>
<td>$2,482</td>
<td>5,164,959</td>
</tr>
<tr>
<td>2007-08</td>
<td>$14.7</td>
<td>$2,648</td>
<td>5,542,893</td>
</tr>
<tr>
<td>2008-09</td>
<td>$18.3</td>
<td>$2,971</td>
<td>6,156,750</td>
</tr>
<tr>
<td>2009-10</td>
<td>$30.0</td>
<td>$3,706</td>
<td>8,094,024</td>
</tr>
<tr>
<td>2010-11</td>
<td>$35.7</td>
<td>$3,833</td>
<td>9,308,234</td>
</tr>
</tbody>
</table>


Pell Grant Expenditures

\(^1\) Authorized by Title IV of the Higher Education Act of 1965, as amended (HEA; P.L. 89-329)
\(^2\) Based on the most recent published data from the U.S. Department of Education
\(^4\) Congressional Research Service (2011). Federal Pell Grant Program of the Higher Education Act: Background, Recent Changes, and Current Legislative
Appendix I: Federal Pell Grant Program

The Pell Grant program is the largest of the federal grant programs that helps financially needy undergraduate students pay for college, making up approximately 70 percent of all federal grant aid. If we consider Pell Grant expenditures as a share of grants from all sources, such as institutions, states, private entities or employers, Pell makes up about a third of grant aid from all sources (federal, state, institutional and private sources/employers). Pell constitutes 19 percent of all types of financial aid (e.g., loans, work-study, tax-credits and deductions, and all other grants) to undergraduate students (see Figure 1).

Figure 1: Total Undergraduate Student Aid by Source and Type (in Billions), 2011-2012

Source: Trends in Student Aid, 2012, The College Board

Note: Pell expenditure data for the College Board Trends report are estimated based on unpublished data provided by Federal Student Aid staff, therefore, total Pell expenditures vary from those figures published in the Federal Pell Grant End of Year Report.

Pell Grant Award Criteria and Eligibility

Students must file a Free Application for Federal Student Aid (FAFSA) to quality for Pell. Congress sets the minimum and maximum Pell Grant award. In the current academic year, as well as in the prior year, Congress set the maximum Pell at $5,550. Students' Pell award amounts are determined by a formula that takes into account their educational costs and their ability to contribute to those costs.
Appendix I: Federal Pell Grant Program

Figure 2: Maximum and Average Pell Grant in Constant 2011 Dollars, 2000-01 to 2011-12

Source: Trends in Student Aid, 2012, The College Board

Only students who have not completed their bachelor’s degree are eligible for Pell, but students may use the grant for multiple certificates and/or associates degrees. The program covers both traditional academic programs and vocational training leading to a degree or certificate at accredited postsecondary institutions.

Approximately one-third of all undergraduate students currently receive Pell Grants. In 2011-12, with a maximum award of $5,550, the average Pell Grant awarded was $3,685. Students receive less than the maximum either because they are enrolled part-time or because their Expected Family Contributions are greater than zero, diminishing their eligibility.

Maintaining a Pell Grant requires students to meet institutional standards for Satisfactory Academic Progress; this is generally a minimal requirement. Students who lose eligibility at one school can transfer to another school and receive funding. As of 2012-13, students can receive Pell Grants for as many as 12 full-time semesters of undergraduate study, or six full-time years. Previously, the maximum was nine years.

Pell Recipients

Among policymakers there is a common misperception of who receives the Pell grant. As a result, many policy discussion on financial aid focus on low-income traditional-aged college students, who are being supported by their family, attending a four-year college and living on campus. In reality, Pell recipients are made up of a very different set of students.

In 2010-11, 9.3 million undergraduates received Pell grants. The majority of those recipients were not dependent students but instead were independent and older students. In fact, about 60 percent of Pell recipients are independent students, some with children and spouses (see Table 2).
Appendix I: Federal Pell Grant Program

Table 2: Distribution of Pell Grant Recipients by Dependency Status, 2010-11

<table>
<thead>
<tr>
<th>Dependency Status</th>
<th>Recipients</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent</td>
<td>3,764,307</td>
<td>40.4%</td>
</tr>
<tr>
<td>Independent with dependents</td>
<td>1,969,839</td>
<td>21.2%</td>
</tr>
<tr>
<td>Independent without dependents</td>
<td>3,574,088</td>
<td>38.4%</td>
</tr>
<tr>
<td>Total</td>
<td>9,308,234</td>
<td>100.0%</td>
</tr>
</tbody>
</table>


Pell Grants are targeted toward very low income individuals. Three-quarters of all Pell recipients come from households with annual incomes below $40,000 (see Table 3). Among younger Pell recipients (less than 24 years old) who are financially dependent, 58 percent come from families with incomes below $20,000.

Pell recipients vary a great deal in age. A small share of Pell recipients (21 percent) are younger than 20 years of age; half of all Pell recipients are less than 24 years of age. Therefore, half of all Pell recipients are not traditional-aged students, and one quarter are over the age of 30 (see Tables 4).

Table 3: Distribution of Pell Grant Recipients by Family Income and Dependency Status, 2010-11

<table>
<thead>
<tr>
<th>Family Income</th>
<th>All Pell Recipients (Dependent &amp; Independent)</th>
<th>Dependent Pell Recipients (Less than 24 Years Old)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $20,000</td>
<td>39%</td>
<td>58%</td>
</tr>
<tr>
<td>$20,000 to $39,999</td>
<td>36%</td>
<td>27%</td>
</tr>
<tr>
<td>$40,000 or more</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 4: Distribution of Pell Grant Recipients by Age, 2010-11

<table>
<thead>
<tr>
<th>Age of Recipients</th>
<th>Number of Recipients</th>
<th>Percentage of Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 20</td>
<td>1,910,493</td>
<td>21%</td>
</tr>
<tr>
<td>20 to 23</td>
<td>2,804,692</td>
<td>30%</td>
</tr>
<tr>
<td>24 to 26</td>
<td>1,223,685</td>
<td>13%</td>
</tr>
<tr>
<td>27 to 30</td>
<td>1,052,563</td>
<td>11%</td>
</tr>
<tr>
<td>30 or older</td>
<td>2,316,801</td>
<td>25%</td>
</tr>
<tr>
<td>Total</td>
<td>9,308,234</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: Percentages may not sum to 100 due to rounding.
Appendix I: Federal Pell Grant Program

The majority of traditional-aged dependent Pell recipients attend public two- and four-year colleges (see Figure 4). The same is true for independent students receiving Pell. However, independent students receiving Pell are overrepresented in the for-profit education sector; one-third of independent Pell recipients are enrolled in for-profit two- and four-year institutions. This proportion is notable because for-profit institutions only enroll 12 percent of all undergraduates. Students in for-profit institutions received 22 percent of all Pell Grant dollars in 2011-12, compared with 14 percent a decade earlier.

Figure 4: Distribution of Independent and Dependent Pell Recipients by Sector and Dependency Status, 2010-11


Key Policy Issues

The Pell program is designed to help low-income students who would not otherwise be able to attend and complete college without a foundation of significant financial assistance. While the maximum Pell and overall expenditures have fluctuated over time, in most years tuition has risen more rapidly, diminishing the purchasing power of Pell. Recent increases in Pell have been substantial, but further growth at this level is not likely or sustainable. Important questions about the future of the Pell Grants Program include:

- Is the program attempting to serve too many purposes by addressing both traditional students’ needs as well as the needs of the contemporary student who is older, working, retraining, returning, and/or seeking a flexible schedule? What was the intention of the program in its design versus the way it works and who it serves today?
- How should we deal with the increasing scrutiny concerning the impact of Pell dollars on degree outcomes? Though some groups of Pell recipients have high completion rates, Pell recipients are more likely to possess multiple characteristics correlated with low degree completion, including low incomes, delayed enrollment, attendance at multiple institutions, part-time enrollment, concurrent full-time employment, and having dependents. How do policymakers respond to accountability pressure around degree completion without sacrificing the federal government’s commitment to serving low-income students?

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5 Based on calculation of undergraduate full-time equivalent enrollment, defined as the sum of full-time enrollment and one-third of part-time enrollment (Trends in Student Aid, 2011).
6 Figure 8b, Trends in Student Aid, 2012, The College Board
Appendix I: Federal Pell Grant Program

- In light of the growth in the number of Pell recipients, it may be important to consider whether the growing proportion of undergraduates receiving Pell Grants is an indication that the program is no longer sufficiently well-targeted. What population is Pell serving? Is this the population it should be serving?
- Does it make sense to continue to use a pure voucher program to support students enrolled in college? While this approach is helpful for encouraging access to college, does it serve students well in encouraging completion and success?
Appendix II: The Federal Stafford Loan Program

The Federal Stafford Loan Program

By Patricia Steele, HigherEd Insight

[Second paper in a series on Federal Financial Aid published by the Association of Public and Land-grant Universities with support from the Reimagining Aid Design and Delivery grant from the Bill and Melinda Gates Foundation. Published November 2012]

The federal government provides loans to students and their families, primarily through the Stafford loan program and PLUS loans to parents and graduate students. Federal loans for college are a significant component of the student financial aid system, making up 44 percent of all aid to postsecondary students. Of the $105 billion in loans distributed in 2011-12, about $71 billion were distributed to undergraduate students.7

The Stafford loan program consists of unsubsidized loans for both undergraduate and graduate students, and subsidized loans for undergraduates. Stafford and PLUS loans make up 92 percent of all education loans (see Figure 1). The remainder of student loans are provided through Perkins and other small federal loan programs, as well as nonfederal loan sources (loans from institutions, states, banks and credit unions).

Figure 1: Growth of Federal and Nonfederal Loan Dollars, 1991-92 to 2011-12, Selected Years (in 2011 Dollars)

Source: Trends in Student Aid, 2012, The College Board

7 Before July 1, 2010, students and parents, under the Federal Family Education Loan (FFEL) Program, could borrow from the private and non-profit sectors, regulated by a system of federal guarantees and support. The FFEL Program was discontinued and the U.S. Department of Education now administers the federally-funded William D. Ford Direct Student Loan Program, including unsubsidized and subsidized Stafford loans and PLUS loans.
Appendix II: The Federal Stafford Loan Program

Loan Disbursement Trends

The total volume of education loans has increased by 104 percent in inflation-adjusted dollars in the last ten years. However, that trend varies among different types of loans. In the most recent five years, nonfederal loans declined dramatically (by 65 percent), along with Perkins and other federal loans (39 percent). While the expenditures for parent PLUS loans grew, the rate of growth was significantly greater in the earlier part of the decade (72 percent) than in the most recent five years (22 percent). Graduate PLUS loans, since they began in 2006, have increased by 209 percent as they are a new program, totaling $7.2 billion. Within the Stafford loan program, unsubsidized loans have increased rapidly in recent years (a 70 percent increase in five years), while subsidized loans have increased less dramatically (44 percent increase in five years). Nonfederal borrowing grew from $7.9 billion in 2001-02 to $25.2 billion in 2007-08, before falling back to its current level of $8.1 billion.

Table 1: Overview of Stafford Loan Programs

<table>
<thead>
<tr>
<th>Loan</th>
<th>Eligibility</th>
<th>Need-Based</th>
<th>Credit Check</th>
<th>Subsidized Interest</th>
<th>Loan Limits</th>
<th>Interest Rate</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stafford Subsidized</td>
<td>Undergraduate students</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Dependent: $31,000 ($23,000 maximum subsidized)</td>
<td>3.4%</td>
<td>Six months after student leaves school or attends school less than half time</td>
</tr>
<tr>
<td>Stafford Unsubsidized</td>
<td>Undergraduate and graduate students</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Independent undergraduate and dependent students whose parents cannot take Parent PLUS loans: $57,000 ($23,000 maximum subsidized) Graduate and professional students: $138,000 (including undergraduate loans) ($65,500 maximum subsidized borrowed prior to July 1, 2012)</td>
<td>6.8%</td>
<td></td>
</tr>
<tr>
<td>Parent PLUS</td>
<td>Parents of dependent undergraduates</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Up to student’s cost of attendance (determined by the school) minus any other financial aid received</td>
<td>7.9%</td>
<td>60 days after school makes last loan disbursement; can request deferment</td>
</tr>
<tr>
<td>Grad PLUS</td>
<td>Graduate and professional degree students</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Up to student’s cost of attendance (determined by the school) minus any other financial aid received</td>
<td>7.9%</td>
<td>Six months after student leaves school or attends school less than half time</td>
</tr>
</tbody>
</table>

Appendix II: The Federal Stafford Loan Program

Program Eligibility and Repayment

Any U.S. student can receive a Stafford loan, but undergraduates with documented financial need are eligible for a subsidized loan that charges no interest during school. Eligibility for the subsidy depends on both the student’s financial circumstances and the cost of attendance at the student’s institution, which means that students with relatively high incomes may qualify at expensive institutions. (See Table 1 for more detail on programs).

All undergraduate and graduate students are eligible for unsubsidized Stafford Loans. Interest accrues on these loans from the time they are issued. The interest rate is currently fixed at 6.8 percent. Until 2006-07, interest rates on all federal education loans were variable, changing annually over the life of the loans. Currently, new subsidized loans carry lower interest rates than new unsubsidized loans. Some recent subsidized loans to undergraduates have rates as low as 3.4 percent (all new loans are scheduled to revert to 6.8 percent starting July 1, 2013).

The PLUS program provides loans both to parents of undergraduate students and to graduate students. Loans are available up to the cost of attendance less other aid received. PLUS loans have an interest rate of 7.9 percent.

The standard repayment plan for federal student loans involves equal monthly payments over ten years. Borrowers can postpone payments when studying or facing financial hardship. Some borrowers may be eligible for Income-Based Repayment (IBR). Under IBR, borrowers do not owe payments unless their incomes exceed 150 percent of the poverty level, and the required payments are limited to 15 percent (soon to be reduced to 10 percent) of incomes above that level. Any balance not paid off after 25 years (soon to be reduced to 20 years) is forgiven.

Number of Loan Borrowers and Total Debt Burden

The dollar amount of disbursed loans is not a very meaningful measure, because expenditures generally increase due to growing numbers of borrowers. It is important to understand how much individual students are borrowing for their education and whether they are then able to repay those loans.

Number of Borrowers. The number of students and their families borrowing Stafford and PLUS loans has continually increased over the last decade (see Table 2). Between 2001-02 and 2011-12, the number of undergraduate Stafford Loan borrowers increased by 93 percent, and the number of graduate Stafford borrowers increased by 109 percent. Since it’s a new program, the number of

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8 There are fixed limits on the amount a student can borrow through the Stafford Loan program. Dependent students can borrow up to $5,500 for the first year of study, $6,500 for the second year, and $7,500 in succeeding years, not to exceed a total of $31,000. Of these amounts, $3,500 can be subsidized the first year, $4,500 the second year, and $5,500 in later years. Independent students and dependent students whose parents are not eligible for federal parent loans can borrow $4,000 - $5,000 more each year than dependent students, up to a total maximum of $57,500. They are eligible for the same amounts of subsidized loans as dependent students.

9 Parents PLUS borrowers are not eligible for IBR. Stafford and graduate PLUS borrowers may qualify if they have a partial financial hardship—if the monthly amount required to pay on an IBR-eligible loan under a Standard Repayment Plan with a 10-year repayment period is higher than the monthly amount required to repay under IBR.
Graduate PLUS loan borrowers increased dramatically in the most recent five years (208 percent), while the number of Graduate Stafford borrowers increased by just 37 percent. PLUS parent loan borrowers increased by 77 percent over the last decade.

Table 2: Undergraduate & Graduate Students: Number of Borrowers, Number of Loans, and Average Amount Borrowed Through Federal Loan Programs in Current and Constant Dollars, 2001, 2006 to 2011

<table>
<thead>
<tr>
<th>Undergraduate Students (All Stafford Loans)</th>
<th>Preliminary</th>
<th>Ten Year</th>
<th>Five Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub+Unsub Total Borrowers</td>
<td>01-02</td>
<td>06-07</td>
<td>07-08</td>
</tr>
<tr>
<td># Student Borrowers (000)</td>
<td>4,582</td>
<td>6,111</td>
<td>6,473</td>
</tr>
<tr>
<td>Total $ Amount (Millions in 2011 Dollars)</td>
<td>$26,423</td>
<td>$33,646</td>
<td>$36,003</td>
</tr>
<tr>
<td>Avg. per Borrower (Constant)</td>
<td>$5,767</td>
<td>$5,538</td>
<td>$5,877</td>
</tr>
<tr>
<td>PLUS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td># Borrowers (000)</td>
<td>508</td>
<td>722</td>
<td>671</td>
</tr>
<tr>
<td># Loans (000)</td>
<td>559</td>
<td>817</td>
<td>748</td>
</tr>
<tr>
<td>$ Amount (Millions in 2011 Dollars)</td>
<td>$5,247</td>
<td>$9,027</td>
<td>$6,346</td>
</tr>
<tr>
<td>Avg. per Borrower (Constant)</td>
<td>$10,337</td>
<td>$12,508</td>
<td>$12,444</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Graduate Students (All Stafford Loans)</th>
<th>Preliminary</th>
<th>Ten Year</th>
<th>Five Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub+Unsub Total Borrowers</td>
<td>01-02</td>
<td>06-07</td>
<td>07-08</td>
</tr>
<tr>
<td># Student Borrowers (000)</td>
<td>7,771</td>
<td>1,177</td>
<td>1,272</td>
</tr>
<tr>
<td>Total $ Amount (Millions in 2011 Dollars)</td>
<td>$14,399</td>
<td>$20,956</td>
<td>$23,264</td>
</tr>
<tr>
<td>Avg. per Borrower (Constant)</td>
<td>$18,805</td>
<td>$17,805</td>
<td>$18,236</td>
</tr>
<tr>
<td>Grad PLUS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td># Borrowers (000)</td>
<td>-</td>
<td>127</td>
<td>181</td>
</tr>
<tr>
<td># Loans (000)</td>
<td>-</td>
<td>163</td>
<td>239</td>
</tr>
<tr>
<td>$ Amount (Millions in 2011 Dollars)</td>
<td>$2,321</td>
<td>$3,399</td>
<td>$4,444</td>
</tr>
<tr>
<td>Avg. per Borrower (Constant)</td>
<td>-</td>
<td>$18,221</td>
<td>$18,425</td>
</tr>
</tbody>
</table>

Note: The average Stafford Loan per borrower, reported here combines all loans issued to individual students. Average loan amounts in the subsidized Stafford, unsubsidized Stafford, and PLUS sections of the table reflect the size of individual loans.

Source: Table 6 online, Trends in Student Aid, 2012, The College Board, extracted from U.S. Department of Education, National Student Loan Data System

**Average Loan Debt.** There is a great deal of public attention and press given to increasing debt burden among students. While there is certainly a growing number of students with exceedingly high debt amounts, the typical borrower leaves college with reasonable amounts of debt, and many undergraduate students attend college without borrowing at all. In the 2011-12 academic year, 65 percent of undergraduates did not receive any Stafford loans (see Figure 2), though many will borrow over all the years of their education.
There has been an increase in the percent of students taking Stafford loans from five years earlier, when 77 percent of undergraduate students did not receive Stafford loans. The average amount borrowed by undergraduates from subsidized and unsubsidized Stafford Loans combined increased by 16 percent, from $5,630 (in 2011 dollars) to $6,680 over the recent decade. In the same period, average graduate Stafford loan amounts decreased by 10 percent, but increased by 10 percent in the Graduate PLUS program. Even with the increased borrowing, many students still do graduate from their undergraduate education without any college debt at all (see Figure 3).

It is challenging to get an accurate picture of the current debt situation of graduates as well as for those departing college with no degrees, because data are not readily available. Some federal sample surveys provide occasional detailed data on individual debt load; however, the data provide little information on how manageable that debt is for the student. Some students with higher than the average debt, may have income sufficient to manage that debt. Loan default rates are another source of information on how recent students and graduates are managing with their debt, though there are a number of critiques on the value of these figures.
Figure 4 shows the total debt load (from all sources, not just Stafford) among 2009 bachelor’s degree completers according to the *Beginning Postsecondary Students* study. Across all four-year colleges, more than a third of baccalaureate degree recipients completed college with no debt, and 19 percent completed with debt in excess of $27,980. At public four-year colleges among dependent students, 40 percent of graduates complete with no debt, and about one-third finish with debt greater than $17,290. For private four-year college dependent graduates, 32 percent complete with no debt, and one-quarter finished with debt greater than $27,980. The for-profit sector has a far higher share of graduates with high debt burden among dependent students. And if there were sufficient data to analyze debt loads for certificate and associate degree recipients by sector, that same pattern would be evident.

**Beginning Postsecondary Students Longitudinal Study (BPS) reports on a nationally representative sample of students who began their studies in 2003-04. Based on students whose last institution attended was a four-year college or university. Debt categories are based on quartiles of total debt for the 66% of students meeting this criterion who took out student loans. Debt amounts include both federal and nonfederal student loans. The "All" category includes both dependent and independent students. For independent bachelor's degree recipients, the sample size in the for-profit four-year sector is too small to obtain accurate estimates, and therefore was omitted here.**

Source: Figure 9a online, *Trends in Student Aid*, 2012, The College Board

**Cost of Loan Default and Management.** In addition to the concerns about the debt load of graduates, policymakers are concerned about the debt load of those who do not complete degrees because they are more likely to default on loans. In fall 2011, 9.1 percent of borrowers who entered repayment in 2009-10 defaulted on their federal student loans. This was the highest cohort default rate since 1996. The three-year cohort default rate on federal loans is highest in the for-profit sector (23 percent, compared to 18 percent in the two-year college sector and seven to eight percent in the four-year college sector). According to the recent presidential budget submitted to Congress, it is estimated that 23 percent of Stafford subsidized loans and 17 percent of unsubsidized loans will
eventually go into default. After the investment of time and money in collecting those debts, the recovery rate on those loans is estimated to be 82 percent of subsidized and 79 percent of unsubsidized loan amounts. Default is a significant cost to the federal government, in addition to being a lasting burden on former students who default.

In addition to costs associated with delinquency and default on loans, another significant cost to the federal government includes those associated with making the loans. The funds the government uses have to be borrowed and the loans to students and parents have to be managed (origination, servicing, collection). There is some debate on whether the government is losing money or earning money on student loans, and the outcome varies depending on what discount rates are used in the calculation. One estimate by the Congressional Budget Office (which uses a risk-adjusted discount rate) shows that a typical federal loan costs $12 for every $100 of loans.

Key Policy Issues

- Should policymakers consider limiting borrowing amounts so that graduate students and PLUS borrowers cannot borrow up to the cost of attendance without other sources of aid?
- What can be done to more efficiently support borrowers in repayment, particularly low-income graduates and borrowers? How can we provide appropriate protection to struggling borrowers without providing large subsidies to students with high debts and relatively high incomes?
- The focus of this brief is the Stafford and PLUS loan programs, however, should consideration be given to more strict regulation of private loans as they impact the overall debt of students?
- What solutions could be considered to limit excessive borrowing in the for-profit sector?

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Appendix III: Education Benefits for Military and Veterans

Education Benefits for the Military and Veterans

By Patricia Steele, HigherEd Insight

[Fourth paper in a series on Federal Financial Aid published by the Association of Public and Land-grant Universities with support from the Reimagining Aid Design and Delivery grant from the Bill and Melinda Gates Foundation. Published November 2012]

The GI Bill dates back to the end of World War II, with the goal then and now of helping veterans to attain middle class status, in part by providing education benefits that allow them to attend college and post-secondary vocational programs without amassing large amounts of debt. The Department of Defense (DoD) and the Veterans Administration (VA) support several programs that provide funding for service members, active and veteran, to attend college (see Table 1). Congress passed the Post 9/11 Veterans Educational Assistance Act of 200812 (Post 9/11 GI Bill) on June 30, 2008, the largest of the federal military and veterans’13 education programs.

Administered by the VA, the new bill supersedes and provides more aid than the 1985 Montgomery GI Bill. Post 9/11 GI bill funds are largely grants that do not require repayment and many are available to service members within a relatively short period of active duty. The bill also created a uniform method for sharing benefits with spouses and children, allowing service members with at least 10 years of active duty to share certain benefits with dependents and spouses. Under the 1985 legislation, benefits went mainly to service members and required them to contribute some of their own funds in their first two years of service, with benefits beginning in the third year of service. Congress has also passed the Post 9/11 Veterans Educational Assistance Improvements Act of 2010,14 which made changes Post 9/11 GI Bill, expanding it to include non-college degree programs, and allowing benefits to cover full in-state public school costs.

Congress expanded DoD education programs in the 2009 Defense Authorization Bill, particularly by increasing aid for active duty service members through the Tuition Assistance program and extending benefits to spouses of low ranking staff members through the Military Spouse Career Advancement Accounts program, (MyCAA).

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12 Chapter 33, PL 110-252
13 Programs may be called “military” or “veterans” by the government and other sources. Some include only veterans, some only active military, and some both. This brief uses both terms to refer to recipients of federal service member education benefits and provides specific data on recipients where possible.
14 Public Law 111-377
Appendix III: Education Benefits for Military and Veterans

Figure 1: Total Federal Grants to all Postsecondary Students by Source, 2011-12

Source: Trends in Student Aid, 2012, The College Board

Federal Military and Veterans Education Expenditures

Benefits to veterans\(^{15}\) and military\(^{16}\) personnel makes up six percent of all financial aid to postsecondary students, and just over a quarter of all federal grant aid. In 2011-2012, the federal government provided $12.2 billion in veterans’ education grants and $1.3 million in military grants out of $49.3 billion in total federal grants for postsecondary education. Military and veterans aid recently increased from 19 percent of total federal grants in 2000-2001 to 27 percent in 2011-2012. There were approximately 600,000 Post 9/11 GI Bill awards in the most recent academic year. Active military and veterans can receive benefits under multiple programs and unduplicated counts of benefit recipients and average benefit per recipient across all of the programs are not available.

Veterans’ grants have increased as a percentage of all federal aid at about the same rate as federal Pell grants. Veterans’ grants comprised seven percent and Pell grants about 20 percent of all federal financial aid in 2011-12. Each program grew by four percentage points as a percentage of all federal financial aid from 2000-2001, when Veterans grants comprised three percent and Pell grants 16 percent of all federal financial aid (see Table 3). Military grants as a percentage of all federal aid have not changed over the same decade, holding steady at about one percent.

Key Policy Issues

*For-Profit institutions receive a disproportionate share of veterans’ education benefits.* In 2009-2010, 40 percent of Post 9/11 GI Bill educational benefits went to two- and four-year public higher education institutions, 36 percent went to for-profit colleges, and 24 percent to private

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\(^{15}\) Trends in Student Aid 2012 includes in its “veterans” category payments for postsecondary education and training to veterans and their dependents. This includes the Post 9/11 Veterans Educational Assistance program of 2009-10 as well as all programs established prior to it. Some of the funds included cover living expenses and other education-related costs.

\(^{16}\) Trends in Student Aid 2012 includes in its “military” category education expenditures under the F. Edward Hebert Armed Forces Health Professions Scholarship Program, Reserve Officers’ Training Corps (ROTC) programs for the Army, Air Force, Army, Navy and Marines, and postsecondary education tuition assistance for active duty service members.
For-profit colleges put a large amount of resources into marketing to and recruiting veterans, service members, and their dependents, in part because they are a lucrative demographic. Government regulations mandate that no more than 90 percent of for-profits colleges’ revenues can come from federal educational aid funds. Education benefits administered by the VA and DoD do not originate under Title IV HEA benefits, and are therefore not counted as federal financial aid, allowing the for-profit schools to receive more federal funds.

According to a 2010 report from the United States Senate Health, Education, Labor and Pensions Committee (HELP), eight of the top ten recipients of Post 9/11 GI Bill education benefits were for-profit higher education companies. According to the HELP report, for-profits school received 37 percent of all Post 9/11 GI bill funds but enrolled only 25 percent of veterans using such funds. The HELP report indicates that there has been enormous growth in the amount of military and veterans education benefits for-profit organizations receive—in 2006, they received at least $66.6 million and in 2010, they received at least $521.2 million, an increase of 683 percent. This sector, also known for high loan dropout and high loan default, may also cause challenges for veterans and military personnel.

Service members and veterans report significant problems with student loan servicing. According to a 2012 report by the Consumer Financial Protection Bureau (CFPB), many service members experience difficulties in managing their student debt, in part because of problems with loan servicing. This can lead to them paying interest and other excess debt that they should not have to pay. Service members are entitled to a number of loan-related benefits that civilians are not. Many of these benefits involve complicated eligibility and other technical details. These complexities are at least in part responsible for the servicing errors they may encounter. Benefits vary by loan program and source, both federal and private, for active-duty service members with student loans, such as reduced monthly payments, loan forgiveness, reduced interest rates, and deferment options.

Service members reported to the CFPB that they were misinformed by loan servicers about their options, not informed about interest accrual, and denied interest, forgiveness, payment reduction and deferral rights. These errors and misguidance can place significant financial burden on active duty military in both the immediate and long terms.

Questions that might be considered:

- What aspects of military/veteran programs need to be reformed?
- What college access goals should we consider for military/veterans programs?

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17 Trends in Student Aid, 2011, Figure 7 Data are not available broken out by two and four year; 2012 data not available
18 Benefiting whom? For-profit education companies and the growth of military educational benefits, December 8, 2010
19 For-profit education organizations provided information to the HELP committee on a voluntary basis, and not all for-profits chose to provide data, including the largest for-profit. Therefore, all such data reported here from the HELP committee are likely to be underreported and should be interpreted with caution.
Appendix III: Education Benefits for Military and Veterans

<table>
<thead>
<tr>
<th>Program</th>
<th>Administrator</th>
<th>Eligibility</th>
<th>Benefits</th>
<th>FY2012 Expenditures (Estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post 9/11 Veterans Educational Assistance Act of 2008 and the Veterans Educational Assistance Improvements Act of 2010</td>
<td>VA</td>
<td>Varies by length of active duty; 90+ days of active service for full benefits; Veterans, some spouses, and dependent children</td>
<td>Full tuition and fees for in-state public schools; up to $17,500 for nonpublic schools; Monthly housing allowance; $1,000 annual stipend for books and supplies; Non-college degree training and certificate programs</td>
<td>$9.4 Billion</td>
</tr>
<tr>
<td>Tuition Assistance Program</td>
<td>DoD</td>
<td>Active duty and reservists; some spouses</td>
<td>Up to $250/credit hour; maximum of $4,500 per year</td>
<td>$545 million in FY 2011</td>
</tr>
<tr>
<td>MyCAA (part of Tuition Assistance Program)</td>
<td>DoD</td>
<td>Spouses of low-ranking service members</td>
<td>$2,000 annually; maximum of $4,000 over three years; Cannot be used for bachelor’s or graduate degree credits</td>
<td>Included in Tuition Assistance Program funds</td>
</tr>
<tr>
<td>Educational Assistance for Members of the Selected Reserve²³</td>
<td>VA</td>
<td>Selected Reserve members</td>
<td>Up to 36 months of benefits for degree and other post-secondary education and training programs</td>
<td>$2 million</td>
</tr>
<tr>
<td>Armed Services Health Professional Financial Assistance Programs</td>
<td>DoD</td>
<td>Armed services personnel</td>
<td>Students qualified to become officers and interested in health-related degrees.</td>
<td>$260 million</td>
</tr>
<tr>
<td>Veterans Retraining Assistance Program (VRAP)²⁴</td>
<td>VA and Dept. of Labor</td>
<td>Unemployed veterans ages 35-60 who have used up all other education benefits</td>
<td>Twelve months of assistance for community college or technical school programs leading to degree or certification in high-demand occupations.</td>
<td>$197 million</td>
</tr>
<tr>
<td>Reserve Officers Training Corps (ROTC)</td>
<td>Each branch administers a program</td>
<td>Varies by service branch</td>
<td>Varies by service branch; generally, pays for education; Usually requires a commitment to serve after degree completion</td>
<td>By branch:²⁵</td>
</tr>
<tr>
<td>Montgomery GI Bill (Ch 30)</td>
<td>VA</td>
<td>Military members who served before the Post 9/11 GI bill</td>
<td>$1,473 per month for full-time students who served at least three years; $1,196 for those who served less than three years</td>
<td>$1.1 billion</td>
</tr>
<tr>
<td>Survivors’ and Dependents’ Educational Assistance²⁶</td>
<td>VA</td>
<td>Dependents of veterans who have died, were totally disabled, or were missing or detained in connection with military service</td>
<td>Up to 45 months of benefits for degree and nondegree post-secondary education programs</td>
<td>$443 million</td>
</tr>
<tr>
<td>Reserve Educational Assistance Program (REAP)²⁷</td>
<td>VA</td>
<td>Reserve members called to active duty for at least 90 days after September 11, 2001</td>
<td>Reserve members can contribute $600 to their Post 9/11 GI Bill benefits to receive up to an additional $5,400 in benefits</td>
<td>$100 million</td>
</tr>
<tr>
<td>Vocational Rehabilitation and Employment²⁸</td>
<td>VA</td>
<td>Veterans with a service-related employment handicap</td>
<td>Employment training for disabled veterans employment; May include a subsistence allowance</td>
<td>Books, tuition, supplies, fees, etc.: $516 million; Subsistence Allowance: $433 million</td>
</tr>
</tbody>
</table>

Source of table data, unless otherwise noted: President’s Budget, Veteran’s Administration, Volume III, Benefits and Burial Programs and Departmental Administration, Congressional Submission, FY 2013

²¹ Chapter 33; PL 111-377
²³ Chapter 1606
²⁴ PL 112-56 began operations 7/1/2012
²⁶ Chapter 35
²⁷ Chapter 1607
²⁸ Chapter 31
## Appendix III: Education Benefits for Military and Veterans

Table 2: Veterans, Military, and Total Federal Grants and Federal Aid Used to Finance Postsecondary Education Expenses in 2011 Dollars (in Millions), 2000-01 to 2011-12

<table>
<thead>
<tr>
<th>Federal Grants</th>
<th>00-01</th>
<th>01-02</th>
<th>02-03</th>
<th>03-04</th>
<th>04-05</th>
<th>05-06</th>
<th>06-07</th>
<th>07-08</th>
<th>08-09</th>
<th>09-10</th>
<th>10-11</th>
<th>11-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Veterans</td>
<td>$2,150</td>
<td>$2,397</td>
<td>$2,901</td>
<td>$3,264</td>
<td>$3,593</td>
<td>$3,673</td>
<td>$3,658</td>
<td>$3,771</td>
<td>$4,297</td>
<td>$8,934</td>
<td>$10,986</td>
<td>$12,177</td>
</tr>
<tr>
<td>Military</td>
<td>$711</td>
<td>$823</td>
<td>$886</td>
<td>$1,110</td>
<td>$1,275</td>
<td>$1,243</td>
<td>$1,294</td>
<td>$1,367</td>
<td>$1,357</td>
<td>$1,307</td>
<td>$1,324</td>
<td>$1,292</td>
</tr>
<tr>
<td><strong>Total Federal Grants Used</strong></td>
<td><strong>$14,561</strong></td>
<td><strong>$17,307</strong></td>
<td><strong>$19,814</strong></td>
<td><strong>$21,461</strong></td>
<td><strong>$22,022</strong></td>
<td><strong>$21,059</strong></td>
<td><strong>$21,103</strong></td>
<td><strong>$23,007</strong></td>
<td><strong>$26,320</strong></td>
<td><strong>$43,971</strong></td>
<td><strong>$51,696</strong></td>
<td><strong>$49,321</strong></td>
</tr>
<tr>
<td><strong>Total Federal Aid</strong></td>
<td><strong>$66,317</strong></td>
<td><strong>$72,269</strong></td>
<td><strong>$81,586</strong></td>
<td><strong>$90,777</strong></td>
<td><strong>$95,916</strong></td>
<td><strong>$96,636</strong></td>
<td><strong>$97,618</strong></td>
<td><strong>$105,891</strong></td>
<td><strong>$127,213</strong></td>
<td><strong>$167,254</strong></td>
<td><strong>$181,955</strong></td>
<td><strong>$173,755</strong></td>
</tr>
</tbody>
</table>

Source: *Trends in Student Aid, 2012*, The College Board

Note: This table does not include other federal grant and other aid programs, so the total of Veterans and Military Grants does not add to the Total Federal Grants Used or Total Federal Aid.
Appendix IV: Education Tax Credits and Deductions

Education Tax Credits and Deductions

By Patricia Steele, HigherEd Insight

[Fourth paper in a series on Federal Financial Aid published by the Association of Public and Land-grant Universities with support from the Reimagining Aid Design and Delivery grant from the Bill and Melinda Gates Foundation. Published November 2012]

The federal government provides a number of tax benefits to students and their families to help reduce the overall cost of education. According to the Federal Education Budget Project, six benefits come from the Internal Revenue Service Code, including: American Opportunity Credit; Lifetime Learning Credit; Tuition and Fee Deduction; Student Loan Interest Deduction; Coverdell Education Savings Accounts; and Qualified Tuition Program (529 Plans). Other federal education tax benefits for college include: tax-free status of scholarships, fellowships, grants, and tuition discounts for degree candidates; tax-free value of student loan cancellations; education exception to taxation on early withdrawals from individual retirement accounts; Education Savings Bond Program; tax-free value of employer-provided education assistance; and business deductions for work-related education expenses.29

The two most commonly known tax credit programs are the Lifetime Learning Credit and the American Opportunity Credit. Along with the tax deduction program for college tuition and student loan interest, these benefits make up eight percent of all student financial aid, at just over $18 billion (see Figure 1). Due to the recent introduction of the American Opportunity Credit, with higher income maximums for eligibility and refunds for those without tax liability, the total dollar amount of tuition tax credits and deductions grew from $7 billion in 2008 to $19 billion in 2010.30

Figure 1: Total Student Aid to Undergraduate and Graduate Students by Source and Type (in Billions), 2011-12

Source: Trends in Student Aid (2012), The College Board

30 Data adjusted to 2011 constant dollars, Figure 16a, Trends in Student Aid (2012), The College Board
Appendix IV: Education Tax Credits and Deduction

Tax Credits – Program Eligibility

The Lifetime Learning Credit was created as part of the Taxpayer Relief Act of 1997. Students enrolled in any postsecondary course qualify for this credit regardless of whether they are pursuing a degree. For the current tax year, an individual may claim a credit up to $2,000 for qualified education expenses per tax filer. There is no limit on the number of years the credit can be claimed for each student, and those filing jointly qualify with adjusted gross incomes of $122,000, or $61,000 for individuals. Low-income filers with little tax liability are less likely to benefit from the Lifetime Learning because it is a nonrefundable credit. For example, if the tax credit reduces the amount of income tax that must be paid to zero, then credit amount will not be refunded and the low-income individual receives zero benefit.

Table 1: Overview of the Two Major Tax Credit Programs in Higher Education

<table>
<thead>
<tr>
<th>Lifetime Learning Credit</th>
<th>Maximum credit</th>
<th>Up to $2,000 credit per return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limit on modified adjusted gross income</td>
<td>$122,000 if married filing jointly; $61,000 if single, head of household, or qualifying widow(er)</td>
<td></td>
</tr>
<tr>
<td>Refundable or nonrefundable</td>
<td>Nonrefundable—credit limited to the amount of tax you must pay on your taxable income</td>
<td></td>
</tr>
<tr>
<td>Number of years of postsecondary education</td>
<td>Available for all years of postsecondary education and for courses to acquire or improve job skills</td>
<td></td>
</tr>
<tr>
<td>Number of tax years credit available</td>
<td>Available for an unlimited number of years</td>
<td></td>
</tr>
<tr>
<td>Type of degree required</td>
<td>Student does not need to be pursuing a degree or other recognized education credential</td>
<td></td>
</tr>
<tr>
<td>Number of courses</td>
<td>Available for one or more courses</td>
<td></td>
</tr>
<tr>
<td>Felony drug conviction</td>
<td>Felony drug convictions are permitted</td>
<td></td>
</tr>
<tr>
<td>Qualified expenses</td>
<td>Tuition and fees required for enrollment or attendance (including amounts required to be paid to the institution for course-related books, supplies, and equipment)</td>
<td></td>
</tr>
<tr>
<td>Payments for academic periods</td>
<td>Payments made in 2011 for academic periods beginning in 2011 or beginning in the first 3 months of 2012</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>American Opportunity Credit</th>
<th>Maximum credit</th>
<th>Up to $2,500 credit per eligible student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limit on modified adjusted gross income</td>
<td>$180,000 if married filing jointly; $90,000 if single, head of household, or qualifying widow(er)</td>
<td></td>
</tr>
<tr>
<td>Refundable or nonrefundable</td>
<td>40% of credit may be refundable; the rest is nonrefundable</td>
<td></td>
</tr>
<tr>
<td>Number of years of postsecondary education</td>
<td>Available ONLY for the first four years of postsecondary education</td>
<td></td>
</tr>
<tr>
<td>Number of tax years credit available</td>
<td>Available ONLY for four tax years per eligible student (including any year(s) Hope credit was claimed)</td>
<td></td>
</tr>
<tr>
<td>Type of degree required</td>
<td>Student must be pursuing a degree or other recognized education credential</td>
<td></td>
</tr>
<tr>
<td>Number of courses</td>
<td>Student must be enrolled at least half time for at least one academic period that begins during the tax year</td>
<td></td>
</tr>
<tr>
<td>Felony drug conviction</td>
<td>As of the end of 2011, the student had not been convicted of a felony for possessing or distributing a controlled substance</td>
<td></td>
</tr>
<tr>
<td>Qualified expenses</td>
<td>Tuition, required enrollment fees, and course materials that the student needs for a course of study whether or not the materials are bought at the educational institution as a condition of enrollment or attendance</td>
<td></td>
</tr>
<tr>
<td>Payments for academic periods</td>
<td>Payments made in 2011 for academic periods beginning in 2011 or beginning in the first three months of 2012</td>
<td></td>
</tr>
</tbody>
</table>
Appendix IV: Education Tax Credits and Deduction


The American Opportunity Credit was created by the American Recovery and Reinvestment Act of 2009. The maximum allowable credit is $2,500, with up to $1,000 refundable. The credit may be claimed for four years of postsecondary education in a degree-seeking program. Families are eligible at $180,000 of annual income for those filing jointly and $80,000 for single filers. The American Opportunity Credit is an important benefit to families with several children enrolled at the same time because the credit may be claimed for each eligible child, as opposed to a family or filer maximum.

Tax Deductions – Who Benefits?

Tax deductions, such as those for tuition and fees or student loan interest, reduce the amount of income subject to tax (different from a tax credit which directly reduces the tax itself). Tuition and fee deductions can reduce a filer's taxable income subject by up to $4,000. Those qualifying for deductions must not have income exceeding $160,000 for joint filers and $80,000 for single filers. The deduction is taken as an adjustment to income up to the total tuition and fees required for enrollment, excluding personal, living or family expenses. In 2010, 7.6 million taxpayers with taxable returns deducted $7.0 billion in student loan interest, generating over $1 billion in tax savings for those individuals.

Tax deductions for tuition and fees generally provide a benefit to those with relatively high incomes. One analysis showed that more than half of the $11 billion dollars in savings that tax filers qualified for through deductions between the years 2002 and 2009 all went to families making more than $100,000, while just 12 percent went to those making less than $50,000. Only three percent of the tax deduction benefits went to households with incomes below $25,000.

Tax Credits – Recent Growth and a Shift in Recipients

Tax credits have rapidly increased in recent years in terms of both the total credits and the average amount per recipient (Figure 2), due to the introduction of the American Opportunity Credit. Ten years ago, the average tax credit was $911, and in the most recent year for which data are available the average credit was $1,545 (in 2011 dollars).

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31 This program replaced the Hope Scholarship Credit program.
32 The refundable portion of the credit is important for those with no tax liability who instead receive a payment from the federal government of up to $1,000.
33 http://www.irs.gov/publications/p970/ch06
34 Trends in Student Aid, 2012
Appendix IV: Education Tax Credits and Deduction

Figure 2: Total Education Tax Credits and Tuition Deductions in 2011 Dollars, 1998 to 2010 (and Average Tax Savings per Recipient)

Source: Trends in Student Aid, 2012, The College Board

Figure 3 shows the income distribution of tax credits. Twenty-three percent go to those with incomes between $100,000 and $180,000 (See Figure 3). More than half of the beneficiaries have incomes above $50,000. Because the newer American Opportunity credit is partially refundable, 24 percent of the savings went to those with income below $25,000 in the most recent year. This shift is notable as just three years earlier, only five percent of these low income families received the benefit (Table 3).

Figure 3: Distribution of Education Tax Credits by Adjusted Gross Income, 2010

Source: Trends in Student Aid, 2012, The College Board
Appendix IV: Education Tax Credits and Deduction

Table 2: Distribution of Total Tax Savings from Education Tax Credits and Tuition Deductions by Adjusted Gross Income, 2008, 2009, and 2010 (and Average Tax Savings per Recipient in 2011 Dollars)

<table>
<thead>
<tr>
<th>Adjusted Gross Income</th>
<th>Distribution of Savings 2008</th>
<th>Average Tax Savings in 2008</th>
<th>Distribution of Savings 2009</th>
<th>Average Tax Savings in 2009</th>
<th>Distribution of Savings 2010</th>
<th>Average Tax Savings in 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $25,000</td>
<td>5%</td>
<td>$427</td>
<td>17%</td>
<td>$1,078</td>
<td>23%</td>
<td>$1,468</td>
</tr>
<tr>
<td>$25,000-$49,999</td>
<td>28%</td>
<td>$912</td>
<td>20%</td>
<td>$908</td>
<td>21%</td>
<td>$1,020</td>
</tr>
<tr>
<td>$50,000-$74,999</td>
<td>23%</td>
<td>$909</td>
<td>18%</td>
<td>$1,221</td>
<td>17%</td>
<td>$1,346</td>
</tr>
<tr>
<td>$75,000-$99,999</td>
<td>26%</td>
<td>$1,157</td>
<td>18%</td>
<td>$1,649</td>
<td>15%</td>
<td>$1,781</td>
</tr>
<tr>
<td>$100,000-$180,000</td>
<td>18%</td>
<td>$663</td>
<td>26%</td>
<td>$1,860</td>
<td>24%</td>
<td>$1,951</td>
</tr>
</tbody>
</table>

NOTE: Refundable tax credits claimed on all returns are included. For nonrefundable credits and deductions, only amounts claimed on taxable income tax returns are included. The value of tax deductions is estimated based on applicable marginal tax rates. Available data do not allow separation of independent students from parents of dependent students claiming tax credits and deductions. Percentages may not sum to 100 because of rounding.


Key Policy Issues

Tax credits are costly because they impact the overall federal budget in the same way as any other direct expenditure. These programs predominantly benefit wealthier segments of the population. Policymakers have put a great deal of energy into ensuring a particular distribution of Pell Grants and other means-tested aid programs, yet the allocation of tax credit and deduction subsidies occurs without regard to income, making the overall distribution of subsidies much less progressive and unbalanced. Many advocates, researchers and policymakers are concerned that the tuition deduction breaks are increasingly going to more well off families. Some of the questions that might be considered:

- To what extent are tax credits or deductions important to expanding college access and facilitating greater success in degree completion?
- Is the existence of multiple programs overly complex? What benefits/disadvantages are there to focusing on just tax credits and eliminating or phasing out the deductions?
- Should we lower the income limit on these programs so that the expenditures are more targeted toward low-income students?
Appendix V: Student Risk Index

Risk Adjusted Metrics
A Model for Assessing Institutional Effectiveness for Federal Financial Aid Eligibility

I. BACKGROUND AND FRAMEWORK

Federal student aid is an important investment in the educational attainment and development of U.S. citizens and benefits individuals, society, and the economy. Few would disagree the United States is under increasing pressure to expand the reach and improve the outcomes of postsecondary education. In the current time of fiscal constraint it is essential scarce resources be allocated to institutions that are the most effective at educating students and encourage all institutions to improve. To accomplish this task, policymakers must be able to identify which institutions are most effective in achieving educational outcomes. Appropriate measures must be devised to determine which institutions are producing the desired outcomes while accounting for the fact that students enter postsecondary education with different levels of preparation or educational “inputs.”

Some students have a higher risk of leaving an institution without accomplishing their goals than others. A number of characteristics contribute to a student being characterized as high-risk including first-generation, part-time, working part- or full-time, high school preparation single parent, low-income, and so forth. To accurately and fairly assess the educational effectiveness of an institution, it is necessary to correct for differences in student risk factors.

The concept of adjustments based on incoming student characteristics is not new. Controlling for incoming student characteristics is standard practice for educational researchers who examine differences in outcomes. Alexander Astin, the founder of the Higher Education Research Institute at the University of California, Los Angeles, pioneered a methodology for evaluating graduation rates across institutions while taking into account student inputs nearly two decades ago. More recently, a collaborative effort in 2011-12 termed “Context for Success” gathered ideas and practices from scholars and policymakers to identify best practices to account for differences in college inputs when evaluating postsecondary outcomes.

The application of a risk adjusted model to federal aid eligibility guidelines, however, is a novel use of the concept on a much larger scale. Presently, there is no consideration of student-risk factors, and it is impossible to fairly judge institutional performance for the distribution of federal financial aid. Even an imperfect risk-adjustment could improve the accuracy of assessment.

The introduction of a calculated “student risk index” could be applied to a cohort of students for purposes such as rewarding schools for well-above-average performance, or for curtailing institutional eligibility for Title IV monies for well-below-average performance. Data is already used to measure outcomes and assess performance, and making the appropriate adjustments for inputs to better determine the contributions of institutions is essential. The task is similar to the analyses conducted by insurance companies in deciding what premiums are justified based on multiple characteristics of the applicant for insurance. Large-scale empirical studies of students’ entering profiles and their outcomes at a large range of institutions would need to be completed.
Appendix V: Student Risk Index

While no risk-adjustment methodology will be without flaws, the key purpose is to achieve a balance: institutions doing well educating their student population can be recognized and affirmed and those institutions doing poorly can be identified and not be allowed to use the risk-factors of their populations as a cover for underperformance.

Extensive access to large amounts of data will be necessary, but the analysis itself is well within present capabilities of “big data” processing. It is a worthwhile endeavor to develop an "aspirational model" and the associated data elements and definitions—whether or not building such an ideal or complete model in the short term is possible.

II. EXPLORATION OF A POTENTIAL MODEL FOR RISK-ADJUSTMENT

Building on previous work, this section outlines key concepts and elements that should be considered when creating a national risk-adjusted model to evaluate institutional effectiveness for federal financial aid eligibility. Issues of data availability, burden, and cost are discussed as well as potential starting points and related applications at the regional and local level.

The outline of the model is intended as a starting point for further discussion, modification, and refinement. It is a “work in progress” and not a final proposal. Clearly any model created would require extensive testing using data from a range of institution types and student demographics to determine its reliability and accuracy.

Overview of a Model and its Application

The objective is to create a national, statistical model to predict outcomes while taking into account entering student characteristics. The actual outcomes of a student cohort (not individual students) at an institution would then be compared to the outcomes predicted by the national model to evaluate educational effectiveness of an institution. In other words, are the aggregate outcomes of students what would be predicted at an institution with a similar profile of students?

The results of comparing “actual outcomes” to “predicted outcomes” could be classified in categories such as the following.

1. **At or Near** what would be predicted: actual within +/- 1 standard errors of predicted.
2. **Above** what would be predicted: actual between 1 and 2 standard errors of predicted.
3. **Well Above** what would be predicted: actual greater than 2 standard errors of predicted.
4. **Below** what would be predicted: actual between -1 and -2 standard errors of predicted.
5. **Well Below** what would be predicted: actual greater than -2 standard errors of predicted.

Model Inputs

Ideally, the inputs used to develop the national prediction model should primarily include data typically found in administrative databases on campuses, with demonstrated correlations to the student outcome measured. The costs and benefits of including more variables must be carefully considered. Including a large number of input variables allows for more variation to be accounted for in the prediction model, but the collection of additional data can be costly and there is some evidence that a fairly robust model can be constructed with basic administrative data.iii
Appendix V: Student Risk Index

Listed below are student input variables previous research and practice have shown contribute to student outcomes and are therefore prime candidates for inclusion in the model.

- Student academic background: high school GPA, ACT/SAT, college GPA
- Student/family financial background: family income level
- Student demographics: gender, race/ethnicity, age, parents' educational attainment
- Student status: full-time/part-time, transfer/native, [area of study, program level]

Outcomes Measured
Outcomes are typically measured in three areas: 1) student progress/completion, 2) post-graduation/labor market outcomes, and 3) direct tests of learning. Another relevant outcome for financial aid purposes is student-cohort-default rates on loans, which could reasonably be grouped within #2.

Student progress and completion metrics are the most familiar and straightforward, while the direct assessment of student learning is much more complex and it is not included in the discussion. Research has consistently shown the correlation between student inputs and student retention and graduation (category #1). Less work has been done on the relationship between post-graduation outcomes and student inputs.

Listed below are a set of outcome measures that could be used to assess an institution’s educational effectiveness—after controlling for student inputs. As noted above, some of the metrics would require further study to better understand the impact of student inputs.

- Potential student progress/completion outcomes: year-to-year retention, documented transfer, achievement of benchmarks/milestones, program completion
- Potential post-graduation metrics: student loan repayment rates, student loan default rates, employment rates, wages rates, enrollment in graduate programs

Ideally outcomes would be broken down by degree/certificate/credential program. For example, institutions that offer four-year science, technology, engineering and mathematics (STEM) majors would likely have lower net graduation rates than institutions that primarily offer one-year technical certificates.

Framework for Implementing Model
Below is one scenario for how a risk-adjusted metric could be used to measure the educational effectiveness of institutions and the institution’s eligibility to participate in federal financial aid programs.

The criteria for continuing institutional eligibility could be that the outcomes for an institution’s entering student cohorts at a minimum be “at, near or above predicted” on three of the following four measures over a four-year period for a particular degree/certificate/credential program.

- first-year retention
- completion of program or documented transfer after X years
- employment or entry into graduate program X months after completion of program
Appendix V: Student Risk Index

- student loan repayment rates

Institutions whose performance did not meet the eligibility requirement could be subject to additional scrutiny to determine the reason for the underperformances, whereas institutions performing “above expected” could be rewarded with access to additional funding for students or student programs.

III. QUESTIONS, CHALLENGES, AND STARTING POINTS

Absent from the risk-adjusted model are institutional characteristics. The omission is deliberate and based on the initial premise that the overriding concern of federal policy makers is how well an institution does in educating students using federal funds, not the Carnegie classification or sector of the institution. Differences in educational programming and program array, quality of facilities, or faculty qualifications and the like are choices institutions make in the pursuit of effectiveness. This approach depends in part on the ability of the model to compare outcomes by degree/certificate program. If the application of model at the program level is not feasible, the model would need to take into account the mix of programs offered at the institution—both level and area of study.

A significant challenge to the application of risk-adjusted model is the absence of a national student unit record database. Many states have or are in the process of assembling longitudinal student level data that could be used to build a reasonable model—e.g., student demographics, academic preparation, completion/transfer status, and even job placement. However, the Higher Education Opportunity Act of 2008 specifically prohibits the federal government from collecting student level data.

Nevertheless, the lack of a national student unit record system does not preclude the development and testing of the parameters, feasibility and utility of a risk-adjusted model. Below are a list of potential starting points for further exploration and discussion.

- The National Center for Education Statistics (NCES) within the U.S. Department of Education collects student level data through a range of nationally representative, longitudinal sample surveys. Potentially, data from one of these sources could be used to develop the specifications and application of a model.

- The National Student Clearinghouse, a non-profit organization that offers education verification services, collects a limited set of data on 93 percent of the postsecondary enrollments in the United States. Their Research Center has conducted several national analyses and produced aggregate report on student migration and completion. A (limited) model to predict student progress and completion outcomes could potentially be developed and tested using the Clearinghouse data.

- The California Community College Chancellor’s office developed indices that utilize zip codes in combination with education attainment data from the U.S. Census to predict completion/transfer rates for each of their 112 institutions based on the zip code profile of the institution’s students. By adjusting the graduation/transfer rates by this index, the Chancellor’s office is able to determine with good accuracy which institutions are...
Appendix V: Student Risk Index

doing the best job with the populations they serve. It is a simple but useful model that explains 70 percent of the variation in student outcomes and could be tested for its applicability within other sectors and within a wider geographic area.

Clearly the development of a reliable method to model the relationships between risk factors and the likelihood of student completing a credential, transferring successfully, repaying a student loan or working in an appropriate career on a national scale is a significant undertaking.

Despite the data challenges, the potential refinement in accuracy and setting of appropriate expectations based on the statistical predictors for an institution’s student population warrant the effort. The present one-size-fits-all approach is a poor match for institutions and the students they serve.

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iv Clotfleter, C. (2012)


vi Ibid
