Journal of Student Financial Aid

Volume 26 | Issue 2 Article 2

7-1-1996

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Recommended Citation

Saunders, Diane L. (1996) "Broken Partnership: The Impact of Increased Education Debt," *Journal of Student Financial Aid*: Vol. 26 : Iss. 2 , Article 2.
Available at: https://ir.library.louisville.edu/jsfa/vol26/iss2/2

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Broken Partnership: The Impact of Increased Education Debt

By Diane L. Saunders

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The high level of borrowing to pay the cost of higher education is a grave concern. This article is divided into four sections. The first will review the past and examine today's baseline. The second part examines college cost and aid trends. The third part explores the implications for the future if college students continue to borrow in greater and greater amounts, and partners continue to step back from their commitments to financing higher education. The fourth part of the article offers a proposal to create a new generation of loan forgiveness programs—through a public-private partnership—as one solution to help repair the broken partnership in higher education funding.

The involvement of business as a partner with the government to offer student loan repayment assistance as an employee benefit is only one solution to a serious issue. It is the hope of the author that readers approach this proposal with an open mind, and use it as a prompt for developing new solutions to the problem of growing student loan debt.

Over the last fifteen years the number of students borrowing money to pay college tuition has risen dramatically. About 50% of all U.S. students attending higher education institutions borrow during their undergraduate and/or graduate years[1] to pay for college. Not only has the number of borrowers increased, there has also been a dramatic rise in the amount of debt that students are accumulating during their college careers.

Reasons behind these increasing debt burdens among college graduates are well understood in the higher education community. College costs increased 150 to 200% at public and private institutions nationally between 1981 and 1994,[2] outpacing inflation by more than 250%. During the same period, grant and scholarship aid decreased as a percentage of financial aid awards, and a larger pool of needy applicants began to vie for a shrinking pool of "gift aid."

Introduction: Recognizing the Broken Partnership

Recent federal policy changes, largely driven by deficit concerns and shifting funding priorities, have served to weaken the government's partnership with American students seeking an education beyond high school.

As federal and state governments have decreased their support of grant and scholarship aid, and demographics have affected levels of parental assistance, an increased responsibility has been placed on young people to finance a larger percentage of their higher educations. This has occurred without the federal government providing new incentives or effectively encouraging other partners, such as business or families, to replace the losses from federal aid.

U.S. Workforce Affected by Students' Need to Borrow in Greater Amounts

Perhaps the most critical impact of increased student loan borrowing is on the business sector, which to a greater extent than in the past, is relying on employees with four-year degrees to meet growing demand for highly skilled, flexible workers. Once students have completed a higher education they are ready to enter the work force and provide businesses with a skilled pool of new recruits. Yet, with student loan debt a primary financial concern at this stage of their lives, the type of company and position that recent graduates accept is influenced by their ability to repay their loans, and handle other obligations.

Besides influencing the choices made after graduation, the necessity to borrow in greater amounts can defer or cancel a student's decision to attend college at all. It can also stifle parents' willingness to encourage a child in a pursuit that they feel is simply not attainable for someone in their economic position.

All told, a disturbing trend is threatening this country's ability to consistently produce a stable, skilled workforce. Currently, society and business are relying on 18 to 25 year olds to determine the strength—or weakness—of the emerging U.S. work force, depending on students' willingness to borrow in greater amounts to get a higher education, and their ability to make good on their increasing debts after graduation. Businesses and the government should be concerned about relying on a workforce feeder system determined not by the parties who will benefit from having skilled employees, but on high school graduates making education and career decisions based on their limited experience and understanding of both.

Part I: Brief History of Student Financial Aid

Over the last few decades the term "financial aid" has become so commonplace in discussions of college affordability and access that it seems hard to imagine a time when it did not exist.

The 1940s to 1960s: Birth to Toddler Stage of Financial Aid Programs

Prior to the creation of the Servicemen's Readjustment Act, or GI Bill of Rights in 1944, there was no broad-based financial aid program that supported college access to low- and middle-income students in the United States.[3] Although the GI Bill served veterans exclusively, it was the first federal effort that recognized the economic and social importance of expanding higher education access to a greater number of Americans. It was also a national defense strategy.

While some foreign powers had been disarmed at the end of W.W.II, new "aggressors," such as the Soviet Union, were considered a growing threat to U.S. security. What the GI Bill started in the 1940s, the National Defense Education Act (NDEA) continued after its passage by Congress in 1958.[4] Through the creation of low-interest loan programs for needy students, the NDEA was developed, in part, to ready American youths for the race to space—and other technological advances—between the Soviets and the United States.

The second generation of financial aid programs started in the 1960s when equal opportunity became the focus of education policy. With the creation of President Lyndon Johnson's "Great Society" pro-

grams, federal student aid again expanded higher education access, but this time the prime objective was increasing educational opportunity for all Americans, rather than defending national security.[5] Beginning with the College Work-Study Program in 1964, a number of new financial aid programs were launched over the next few years. As part of the Higher Education Act (HEA) of 1965, the Guaranteed Student Loan Program—currently the largest student aid program in usage and dollar volume—was created, along with several other grant and specialized loan programs.

The 1970s: From Assisting the Most Needy to Assisting the Middle Class

In 1972, the Basic Educational Opportunity Grant Program (BEOG)—renamed the Pell Grant in 1980 after Senator Claiborne Pell (D-RI), a long-time advocate for low income students—marked an even stronger commitment on the part of the Congress to provide lower-income and minority[6] students with expanded access to higher education through grants instead of loans.

Six years later, in 1978, the focus on low-income students became a secondary concern as Congress responded to pressure from middle-income voters who wanted student aid programs expanded to benefit families in their tax bracket.[7] As an alternative to providing tax credits, Congress passed the Middle Income Student Assistance Act (MISAA) which expanded eligibility to guaranteed student loans (GSLs) to families at any income level. Gary Orfield, a professor of Education and Social Policy at Harvard University, comments on the shift that occurred after the implementation of the 1978 legislation. By the 1980s, he notes, financial aid to the middle-class for tuition assistance "was widely seen as a right,"[8] making it all the more difficult for legislators to direct a greater percentage of student aid to the most needy.

The 1980s: Belt Tightening and Middle-Income Focus

Through its broad availability to families at any income level, MISAA supported a significant jump in loan volume in the early 1980s. In the 1978-79 academic year, federal student loan volume totaled $2.9 billion. A year later, volume climbed to $4.8 billion. Another surge in 1980-81 brought annual volume to $7.8 billion.[9] This was primarily the result of "Reaganomic" budget cuts that reduced other forms of aid such as grants, and the extension of the Parent Loan to Undergraduate Students, or PLUS program, to independent and graduate students.[10]

In 1981, low-income students again suffered the consequences of a student aid policy guided by politics when cuts in federal tax revenues left insufficient funds to continue providing the same levels of grant and other non-loan aid. It was politically dangerous for Congress to limit aid to middle-income taxpayers, so the only remaining targets were the low-income assistance programs, such as the Pell Grant.

By 1984-85, loan volume had increased 43%, reaching $8.9 billion; this was nearly five times the GSL volume seen only seven years earlier, in 1977-78. In less than ten years, the GSL program had jumped from 13% of all federal appropriations for student aid in 1978 to 43% of appropriations in 1986.[11]

It was in the mid-1980s that the growing loan volume and debt levels of student borrowers began to be more widely recognized and

publicized as an issue the higher education community should monitor carefully. While, ironically, in the early days of the federal loan programs the concern was that students would be skittish to borrow for college, and banks wary to lend to students, by the mid-1980s these were no longer issues. At this point the debate began to focus on whether students were borrowing too much.[12] As John B. Lee, then with the National Association of College Admissions Counselors, described in 1985, federal student loans presented a paradox: they were concurrently an asset in the form of a student subsidy for postsecondary education, and a liability on the future earnings of borrowers.[13]

Economic and political pressures to address the budget deficit and reduce expenditures again became a primary driver in federal financial aid policy. The Reagan Administration and the Republican majority in the Senate pointed to the supposed wastefulness of the grant and loan programs, which were deemed to have gone further than necessary in providing equal opportunity to higher education for needy families.[14] Even eligibility for middle-income families was tightened as part of the 1986 Reauthorization of the HEA.

The 1990s: Deficit Fears and Middle-Income Expansion

By 1990-91, GSL annual volume had reached $13.5 billion. In comparison, twenty years before, in 1970-71, GSL loan volume equaled $1.2 billion.[15] The Reauthorization of the Higher Education Act in 1992 once again returned to a MISAA-type expansion of eligibility for families by enabling students from any income background to borrow GSLs, now called Stafford Loans after Senator Stafford (D-VT), who was a consistent defender of the federal student aid programs.

Even though there had been talk prior to the 1992 Reauthorization of making Pell Grants an entitlement, or at the very least substantially expanding annual limits, budgetary and deficit pressures overrode all efforts to expand access to lower-income students. Instead, the policy focus shifted to addressing ways to cut federal costs, such as getting tougher on defaulters, reducing the federal commitment to minority scholarships, and raising loan limits.[16]

Just as the MISAA precipitated a sharp increase in student loan volume after 1978, the 1992 Reauthorization mirrored the jumps seen during that first wave of expanded middle-income access. Between 1992-93 and 1993-94, federal support to the student loan programs increased 34%, with the total number of loans growing from 5.3 million to 6.4 million in a single year.[17] Since 1990-91, loan volume has virtually doubled, from $13.5 billion to $24 billion in 1994-95![18]

Clinton Administration Pushes for More Federal Involvement in Loan Programs

More recently, the Student Loan Reform Act of 1993—part of the Omnibus Budget Reconciliation Act—brought more changes to the federal student loan programs, spurring another dramatic shift in education policy.

The Clinton Administration believes that providing student loans directly through Treasury borrowing—rather than through the private sector as it has been done since 1965—will make the student loan programs less expensive to run. Hence, the creation of the Federal Direct Loan Program. While some schools are giving direct loans good

marks for effort, many institutions, wary of a program fully administered and funded by the government, have hesitated to embrace Federal Direct Loans. About 75% of 4-year colleges and universities have remained with the guaranteed loan program, currently called the Federal Family Education Loan (FFEL) Program.

Aid Policies Driven by Deficit Reduction

As Congress works through budget cutting measures that attempt to yield a zero deficit by 2002, proposals have been introduced to cap direct loans at any where from 5% to 40%. Regardless of whether one or two education loan delivery systems remain, federal student aid policy is generally headed in the same direction. Deficit busting activity will continue to fuel the loan-grant imbalance, and greater levels of borrowing will continue unchecked by federal attention or policy.

Part II: College Cost and Aid Trends and Student Debt Levels

Rising student loan debt levels over the last decade are primarily the result of three synchronous occurrences:

1. Sharp increases in college costs;
2. The declining value of the Pell Grant in covering a percentage of tuition costs, and
3. The expanded use of education loans by a more economically and ethnically diverse population of students than has been seen in the past.

College Cost Hikes Spur New Era

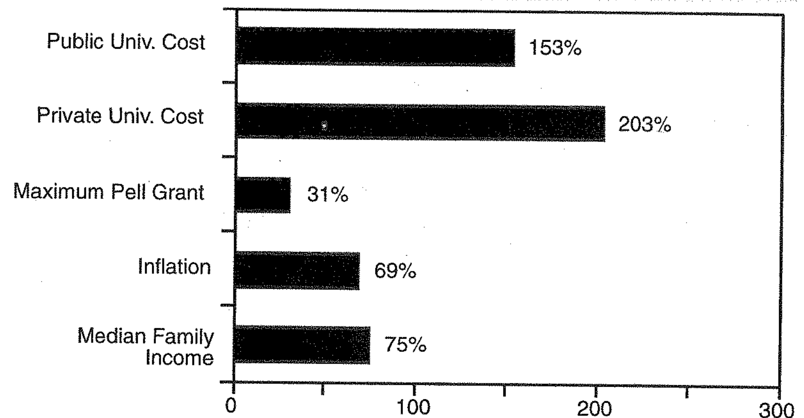
If there were a Golden Age of higher education access and affordability in the last 30 years it would have been in the 1970s, when college costs were moderate and grant aid was at its peak. In the 1980s a major shift in the composition and distribution of aid took place. College costs and federal financial aid broke from the parallel track they had been on and began moving in opposite directions.[19] Between 1981 and 1994, costs increased 153% at public universities and over 200% at private universities.[20] During this same 13-year period, the annual Pell Grant maximum rose only 31%, while median family income increased by 75%, half that of the public university cost increases during that time.[21] To make up the difference, loans became a larger percentage of financial aid packages.

A recessionary period in the early 1980s, and then again in the early 1990s, led to severe cutbacks in state financial aid, particularly grant and scholarship programs. Families and students continue to bear the brunt of these decreases, absorbed through greater levels of borrowing, as public higher education subsidies have declined.[22] The worse years by far for public college tuition increases were 1991-92 to 1993-94 when costs jumped between 10 and 13% each year. Private college increases had started much earlier than public institutions, with increases in the 8 to 9% range beginning in 1987-88 and tapering off to between 6 and 7% annually by 1993-94.[23]

Why Such Dramatic Increases in College Costs?

In surveying the available research, a number of factors have contributed to the large increases in college tuition since the beginning of the 1980s. Michael O'Keefe, then president of the Consortium for the

TABLE 1
Changes in Grant Aid, Cost of Attendance, Income and Inflation 1981–1994



Source: L. Gladieux, L. Greene Knapp, The College Board, Trends in Student Aid: 1980 to 1990 and Trends in Student Aid: 1984 to 1994, 1990 and 1994. From the study, "The Next Step, Student Aid for Student Success," by Jamie Merisotis, 1995, Washington, D.C.: The Institute for Higher Education Policy.

Advancement of Private Higher Education,[24] reasoned that colleges had to play catch up on salaries and capital improvements in the 1980s after several years of stagnation in the 1970s. Personnel costs are a large percentage of any college's budget, and faculty pay increases had not kept up with relatively high inflation rates in the 1970s. Budgets increased in the 1980s as required facilities maintenance, largely ignored in the 1970s, was undertaken.

Enrollment declines also ignited a new competition among colleges for a shrinking pool of students, and pressured administrations to spend money on "high appeal" equipment and facilities. This included purchasing computer equipment and building teaching and research labs as the demand for technology increased on campuses, and adding to outdated library collections, and converting card catalog systems into electronic databases. Some colleges anticipated enrollment declines and began diverting income to endowment or reserve funds.

Beyond those reasons, O'Keefe also contended that families and students were more willing to pay high prices in the 1980s, a trend that some college administrations took advantage of to offset declines in enrollment. The unstable economy of the late 1970s had spurred a strong desire for "upward mobility" among college-age students. Young people saw a very competitive job market and faced the fact that they would be hard pressed to meet, let alone exceed, the standard of living that their parents had achieved. This resulted in a growing demand for a "brand-name" college degree that both student and parent consumers felt would open doors to high paying, highly visible careers.

Lastly, O'Keefe argued that the greater availability of federal loans had also influenced colleges to raise costs, stating "The magic of 'buy

now, pay later' has come to higher education, making it almost painless to raise costs."[25]

Affordability and Enrollment

Despite the trend, identified by O'Keefe, that families were willing to pay more for college in the 1980s, concern about the affordability of a higher education has grown steadily since that time. A survey completed in 1986 found that 75% of the respondents felt that the cost of college was moving beyond the reach of the average American family.[26] Six years later in 1992, another survey found that 92% of Americans in the eastern part of the country felt that costs were rising so fast that most people wouldn't be able to afford college.[27]

A number of studies have shown that increases in college costs have a negative impact on the enrollment of lower-income students. Michael McPherson and Owen Morton Schapiro said in their 1991 book, *Keeping College Affordable: Government and Educational Opportunity,* that the enrollment of students from middle-income backgrounds, at both public and highly selective private institutions, was also affected by large increases in tuition.[28] Average enrollment rates for African-American students, across all types of institutions (community college, 4-year college, etc.), fell dramatically from a high of 35% in the period 1975-79, to 25% in the 1981-85 period.[29] Comparatively, average enrollment rates for white students moved from 33% in the 1975-79 period to 29% in the 1981-85 period. Although these rates also declined, they were not nearly as drastic as the rates for African-American students.

Decline in Pell Grant Value Spurs Greater Borrowing and Decreases Access

Over the last fifteen years, a number of studies have cited the importance of the Pell Grant program in addressing two key issues:

1. Expanding higher education access for low-income and minority[30] students; and
2. Improving "persistence" rates by decreasing the numbers of financially at-risk students who drop out.[31/32]

A 1991 study noted that, due to the Pell Grant Program, lower-income student enrollments were 21% higher than they would be without the availability of this type of aid.[33]

Once students are at college, Pell Grants positively affect their persistence. A Government Accounting Office (GAO) study concluded that providing an additional $1,000 in grant aid to African-American and Hispanic students reduced the likelihood of their dropping out by about 7 and 8%, respectively.[34] Loans have a neutral to negative affect on whether a student stays in school; although a GAO study found that the persistence rate of white students—but no other racial group—is positively affected by loans. Other research has concluded that providing a grant/loan combination to students positively affects persistence at a greater level than either a grant or a loan by itself.[35]

For all of its ability to increase low-income and disadvantaged student participation in college, the Pell Grant Program has not been able to survive as the primary financial aid vehicle for these groups. Since the late 1970s, the proportion of financial aid provided through the Pell Grant Program has steadily declined. In 1975-76 grants and

other gift aid still made up 76% of a financial aid package, with loans making up 21%. In a period of only 12 years, this proportion was virtually reversed: in 1987-88 grants and gift aid had declined to 29% of the student aid award, with loans making up 67%.[36] Recent figures (1994) from the American Council on Education put the loan to grant ratio for 1994-95 at 3.8 : 1, compared with 2.5 : 1 ten years earlier in 1984-85, and 1.2 : 1 seventeen years earlier in 1975-76.[37]

Student Debt Levels Likely to Increase

While no definitive studies have been completed recently, debt levels have been tracked from the 1970s to about 1993 and can begin to provide trend data. Unfortunately, debt levels have risen dramatically since 1992 when changes in eligibility and loan limits prompted greater levels of borrowing; thus, even the 1993 figures do not tell us what levels of debt students face who have just graduated, or are in school now. Financial aid administrators have offered anecdotal evidence that in the three year period from 1991-92 to 1994-95, debt for many students has practically doubled at some institutions.

Nationally, the median debt level for college graduates in 1990 was $7,000 (half of the borrowers have debt below this mark and half have debt above this mark), up from $2,000 in 1977, or $4,137 when using constant 1990 dollars, an increase of almost 70%.[38] The most recent data from the College Scholarship Service show that the average 4-year college student in 1993 graduated with $10,000 of education loan debt, while graduate students accrued an average of $35,000.[39]

Debt Levels Versus Debt Burden

In addition to looking at debt levels, it is also important to examine actual debt burden, that is, the ratio of a borrower's monthly salary used for repayment of student loans. If debt increases over time remain in line with salary increases, then the "burden" can remain relatively stable.

While determining what is a reasonable level of debt burden for a recent graduate is relatively subjective, researchers and financial aid organizations have offered some guidance over the years. Almost 20 years ago, in 1978, the Massachusetts Association of Student Financial Aid Administrators said that a 6% student loan debt-to-salary ratio was a conservative estimate of a manageable repayment burden.[40] In 1986 the Educational Testing Service advised students to keep loan debt levels at 5 to 7.5% of annual income during the first few years of repayment.[41] Also in 1986, the National Association of Student Financial Aid Administrators (NASFAA) determined that real debt burden occurs when the ratio of loan payments to salary equals or exceeds 8% of gross income;[42] that year NASFAA found that 10% of the borrowers in their survey had either reached or exceeded this ratio.

A Westat, Inc. study reported that, using constant loan repayment assumptions, median debt burden increased from 3.2% in 1977 to 4.7% in 1990.[43] Looking at student borrowers who have what is considered to be excessive debt burden—above 10%—the numbers show an increase from 6.5% of all borrowers in this circumstance in 1986 to 8.3% in 1990; this is an increase of over 25% in the number of students with very high debt in only 4 years. Another ten-state study of student loan

borrowers in 1991 by researchers Joseph Boyd and Carol Wennerdahl[44] showed that the mean percentage of student loan payments to monthly take-home income was 10.91% overall, almost 3 percentage points higher than what NASFAA had benchmarked as "excessive debt" a few years earlier.

Borrowers at higher debt levels also had a higher student loan debt-to-income ratio, equaling almost 29% of take-home pay for those with debt of $50,000 and higher. Borrowers with debt between $10,000 and $14,999 had a 9.82% student loan-debt-to-income ratio.[45] This last figure might be the most important in 1995, as students are currently graduating with average debt in this range; this again exceeds NASFAA's definition of "real debt burden."

Debt Burden Manageable Prior to the 1990s

For the most part, student borrowers have reflected positively in a number of surveys that without student loans, they would not have been able to attend college, get a degree, or work in their chosen profession.[46] Most of the largest student debt studies focused on the attitudes and behaviors of students who were in school in the mid-to-late 1980s, and either in repayment or in default when surveyed. At that time, research showed that student loan debt did not deter most borrowers from buying homes, cars, moving out of their parents' house, getting married, or having children.

The exception to these relatively comforting results was the more than 15% of borrowers who had not gained economically from their education.[47] Many in the burdened group had attended short-term technical programs without receiving a benefit from their education in terms of higher wages; they had dropped out prior to graduation; they were unemployed; or they had relatively high debt and worked in low-paying jobs. Not surprisingly, these characteristics match the profile of students who default on their loans.

The Boyd and Wennerdahl study of student loan borrowers in 1991[48] showed a higher number of students in the burdened category than was present six years before. They reported that 25% of respondents said that debt affected decisions on when or if to marry, and more than a third of those who were married said that their student loan debt influenced their decisions about starting a family. Over a quarter of respondents said that their debt had caused them to live with relatives rather than on their own, and 35% said that they had postponed needed health care because of education debt.

Higher Debt Levels Predicted for Future Students

Unfortunately, some analysts believe that the worse is yet to come given the large increases in borrowing in the last few years. Between 1992-93 and 1993-94, Stafford loan volume ballooned, primarily as a result of the eligibility and loan limit changes implemented after the Reauthorization of the Higher Education Act in 1992. At public 4-year colleges, overall Stafford loan volume swelled 53%, with the average loan size increasing by 23%—all in a single year![49] For graduate and professional students, average loan size increased by 31%. Unless starting salaries match such an increase, it is reasonable to assume that average student indebtedness for this cohort of borrowers will increase.

Between 1987 and 1991 the real earnings of recent graduates actually decreased 2.6%.[50]

A 1995 study, *College Debt and the American Family,*[51] reports that over two-thirds of student loan borrowers surveyed said that they are at or close to their financial limit and worried about how they are going to pay back their education debt. While borrowing increased 22% between 1990 and 1994, disposable personal income only rose 4.7% according to the study.

For young people just starting out in the "real world" after graduation, high debt levels may now be commonplace, but that does not make them any easier to manage for the average young consumer. Although most students fulfill their "entrance counseling" requirement before they sign a loan promissory note, and attend "exit counseling" sessions or receive debt management information before they graduate, the reality of repayment often does not hit home until the borrower has to make that first loan payment.

Part III: Attitudes Toward Borrowing and the Implications of Debt

Besides the issues earlier identified—rising college costs, declining grant aid and increasing use of loans—as reasons behind growing student loan debt, there has also been a shift in the responsibility for paying for college.

Student Burden Grows as Government and Parent Help Declines

Over the last fifteen years or so, students have begun to bear a larger proportion of college costs as both governmental and parental support has tapered off.

The 1991 Boyd and Wennerdahl study of student loan repayers found a decrease of 6.3% in the number of borrowers who indicated major financial support from parents/relatives from the previous survey done in 1985.[52] Researchers and policy analysts have identified a number of trends over the last decade that have led to greater responsibility on the part of students for financing their education.

In 1986, Bruce D. Johnstone, a higher education analyst and author, hypothesized that three key factors had led to a decrease in taxpayer and parental support for paying for college:

1. An increase in the number of older, independent students to whom parents are no longer financially responsible; this is a trend that continues to an even greater extent today as the "traditional" 18 to 22 year old student population becomes less the norm;
2. A larger number of divorced or separated parents; this can make the government's analysis of how "needy" a family is less accurate, and make the question of who should and can pay more complicated, often ending in more costs being shifted to the student; and
3. A decrease in the willingness of parents to "sacrifice" for their children's education, possibly following the trend of declining savings, giving, and willingness to pay higher taxes that marked the 1980s.[53]

Additionally, the expanded availability of subsidized loans in the early 1980s encouraged students from middle and higher income families to borrow the allowable maximum, according to Johnstone. This, in some instances, led to a displacement of a portion or all of the parental contribution with funds borrowed and repaid by the student. A 1986 study by the National Association of Student Financial Aid Administrators (NASFAA) found that only 10% of all students responding to the survey said that their parents had helped in the past or were currently helping with the repayment of student loans.[54] Similar findings were cited by Boyd and Wennerdahl from a 1991 group of student loan repayers, where 10.5% of respondents said that their parents helped repay college loans.

An interesting paradox was described in a report by sociologists Lala Carr Steelman and Brian Powell[55] that paints a clear picture of our society's current confusion about who is responsible for financing higher education. Parents from different racial backgrounds often have a different perspective on the responsibility question. Overall, regardless of background, respondents said that parents have the primary responsibility for educational expenses. Asian-Americans were the most likely to place responsibility on parents. White parents were least likely to view the government as a main source of funding, but were also the least likely to see themselves as financially responsible for paying for their children's education. Among all racial groups, whites were more than twice as likely as others to see students as primarily accountable for educational costs. Yet, ironically, white parents were also more likely than minority parents to "reject the ideas" of federally-funded loans or campus job programs that happen to be the main ways students pay for college. Steelman and Powell also noted that the higher the parents' level of education the lower their acceptance of federal loan and work-study programs as ways to fund college costs.

Described by some as the "intergenerational shift" in responsibility for college costs,[56] this trend has also transferred other responsibilities besides who pays. Unwittingly, perhaps, we have put the primary responsibility for maintaining an educated and stable citizenry—and a skilled work force—in the hands of 18 to 25 year olds. If young people find this financial burden too great, due to fear of high indebtedness, they may not go to college at all. They may take longer to get through school and attend part-time while working in order to keep debt down. Or, they may keep borrowing, likely causing a higher number of students to default on their loans, or at the very least, having to defer other financial and life choices such as buying a home or starting a family.

Impact of Debt on Student Decisions

Concerns do exist in the higher education community that the necessity of borrowing in greater amounts may keep some lower- and middle-income students, and students from certain cultural backgrounds from attending college, or may cause them to drop out before graduation.[57]

Families from lower-income backgrounds in the U.S., and in some European countries, tend to have little or no experience with debt and actually have a "cultural fear" of indebtedness.[58] For example, rather

than borrowing, Asian-American and Hispanic students are more likely to either "make do" with their own income and/or contributions from family members, or not go to school at all.[59] While the majority of middle- and upper-income families have a home mortgage, and thus have experience with long-term debt, many low-income and three-fifths of minority families are not homeowners.[60] Gary Orfield of Harvard describes this response to debt by noting, "People who know that their furniture will be repossessed if they fail to make a payment on a $500 debt are not likely to sign up for a $5,000 debt. Low-income students are much less likely to think they can pay it back."[61] Consequently, low-income and some minority students are more reluctant to seize educational opportunity if it must be paid for with loans.

Debt Influences Student Decisions about College and Career

For those students in college who are shouldering a larger proportion of tuition costs, the necessity of having to incur greater debt could influence the choices they make regarding their educational and career paths. McPherson and Schapiro[62] hypothesized that the shift toward greater student responsibility in paying for college might guide decisions on what to major in and what occupation to choose based on the economic return, or what the authors called the "careerist orientation." This is where some voice concerns about the decreasing interest in public-interest jobs due to the low pay,[63] and a higher percentage of doctors choosing specialties rather than general practice (where we currently face shortages in the U.S.) because they earn more and can retire their student loan debt that much faster.

Another higher education expert, Theodore J. Marchese,[64] took this concept further, describing a complete "decision chain" created by the need to borrow, and borrow in greater amounts than in the past. He says that indebtedness affects the decision to attend higher education, the choice of institution, whether to remain in school, which major to choose, whether to go to graduate school or get a job, choice of specialty if a professional career is pursued, and choice of employer upon entering the workforce. As the student borrower moves up the "decision chain," the influence of potential or actual indebtedness becomes more significant.

A more philosophical, perhaps, but no less compelling argument against greater borrowing for college is Marchese's notion that the way something is paid for influences how one thinks about it. He provides the example of the "old days" and even today in rural societies where people build their own housing and call it "home," with all the associated cultural sentiment and attachment. Today in the United States, the majority of families live in heavily mortgaged houses, and thus often consider their home a financial investment, versus a cultural one, to be kept, rented, or sold depending on its potential for a monetary return and convenience for the families' employment and personal situations.

Just as a monthly mortgage payment can color one's perception of his or her "home," the expectation and then the reality of student loan payments can influence a borrower's perception of what education is for. Marchese says, "... the incentive of loans is to position yourself

through your course work, major, and degree for a higher paying job that more readily permits repayment of the loan."

Freshmen Surveys Show Change in Perception of Higher Education

Related to the concerns that debt will influence the perceptions of higher education, are some of the results from *The American Freshman: National Norms for Fall 1994,*[65] which has surveyed and tracked the freshman student cohort for the last 29 years. In one question—Reasons Noted as Very Important in Deciding to Go to College—two out of the three highest responses (from a list of 12 choices) were "get a better job," marked by 77.3% of all freshmen, and "make more money" marked by 72.4% of all freshmen. In contrast, results of the same freshman survey from earlier years show less of a focus on going to college to increase personal earnings. In 1971, only 49.9% of all freshman surveyed said that a very important reason for going to college was to make more money, 31% less than the 1994 results.

Similarly, the answers to another question in the same survey—Objectives Considered to Be Essential or Very Important in Going to College—also show changing attitudes over time about the reasons students go to college. Receiving the highest response out of 19 choices in 1994 was, again, "be very well off financially" marked by 73.7% of all freshmen. In 1971, only 40.1% of all freshmen responding to the survey said that being well off financially was essential or very important, 45% less than the 1994 cohort.

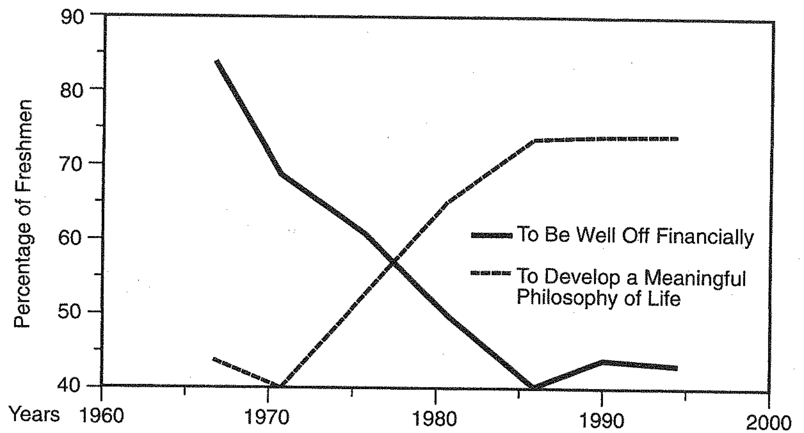
As students began placing more emphasis on going to college to increase their earning power, the purely educational reasons for attending college declined. For example, in 1967, the American Freshman survey reported that 82.9% of freshman felt that to Develop a Meaningful Philosophy of Life was an objective considered to be essential or very important in going to college. This objective slowly declined over the next 27 years, until in 1994 only 42.7% of students felt that developing a meaningful philosophy was an important reason for attending college, almost half the percentage seen in the late 1960s.

Impact of Student Loan Availability and Borrowing on Colleges and the Economy

Students and families are not the only recipients of the benefits, responsibilities and potential burden brought on by increased use of education loans to cover tuition costs. Almost 10 years ago, policy analysts Kramer and Van Dusen voiced concern that no one was worrying about colleges' increased reliance on tuition revenues received through student borrowing. They said, "... the arithmetic is simple: if half the revenues (of colleges) represent aid and half the aid is loans, then there is this degree of dependence (on student loans)."[66] Loan volume has almost tripled since this relationship was described by Kramer and Van Dusen.[67] Thus, the percentage of revenues dependent on student and parent loans has probably also grown far beyond the 25% level cited in 1986, potentially as much as double at some institutions.

Some higher education analysts have taken this further, saying that the presence of loans has enabled colleges to increase tuition without the risk of harming enrollments. Richard N. Ostling,[68] senior correspondent for *Time,* described it as the "law of unintended circumstances," wherein, if it is easier to get a loan for a broader population

TABLE 2
Objectives Considered to Be Essential or Very Important in Going to College; Annual Freshman Survey 1967 to 1994



Source: "The American Freshman: National Norms for Fall, 1994" (and earlier surveys).

of students and parents, colleges will feel at liberty to raise tuition levels higher than they might otherwise. Two years ago, federal aid was described as "a major source of institutional finance in the United States," by McPherson, Schapiro and Winston, who added that schools have a dependence on this aid for "financing their budgets."[69]

Impact of Debt on the U.S. Economy and Business

While students, families, and colleges have been affected by a greater dependence on federal student loans, rising education debt has also taken its toll on the U.S. economy. On the bright side, the investment in students' education through federal loans has expanded higher education access to a broader population of students, and has had a positive impact on unemployment levels and the U.S. tax base,[70] thus benefiting the economy. There have been consistent findings over the years that investments made in higher education through tuition subsidies for students are "economically justified" based on their financial and social returns to American communities.[71]

On the negative side, increasing levels of student debt present economic problems when they constrain spending or inhibit the ability of consumers to obtain credit. Currently, 25% of the U.S. population has a 4-year college degree. If these graduation rates continue into the next decade, and half of the 25% pool (a conservative figure) borrow to pay for college, at some point, 5 to 10% of the U.S. population will have had or will have student loan debt.

Whenever spending must be directed toward servicing debt rather than on consumption of goods and services, this affects the economy and thus business. Overall economic activity is generated by government, business, and consumer spending. Thus, one way of judging the impact of student loan debt on consumption overall, is to look at the increases in education debt as a proportion of all borrowing. Between

1978 and 1987, federal student and parent loans grew at almost 4-1/2 times the rate of other installment debt.[72]

The ten-year standard repayment on federal student loans, now being extended even further through income contingent options, has a much longer payoff than the typical one- to five-year consumer loan or revolving debt account. When young people apply for mortgages, those with a high student loan debt-to-income ratio may receive lower loan approval levels and amounts due to the length and size of their education debt.

As described above, the availability of student loans has had both positive and negative affects on access to higher education and the quality of life for borrowers after leaving school. If there are any watch words to guide student borrowing levels, they are probably these: there is no "one size fits all" when it comes to borrowing to pay for college. As John B. Lee of the National Association of College Admissions Counselors said so well in 1986, "There are differences in values, life objectives, and attitudes that will reflect the appropriate level of debt for any specific student,"[73] including one's income and family background, selection of a college, and choice of career.

Part IV: Approaching a Solution to Increasing Debt Burdens

For years higher education analysts, economists, college administrators, loan providers, and even students, have presented a number of potential "solutions" for keeping education loan debt at a reasonable level. Among these are:

- Increase the level of federal and state grant assistance so that loans do not compose such a high percentage of a financial aid package;
- Adjust the rate of college cost increases to more closely mirror other consumer cost indices, such as the rate of inflation or average increases in earnings;
- Expand and improve student debt counseling before, during, and after college so that students better understand that debt levels should be pegged to expected salaries after graduation as a way to keep debt-to-income ratios from becoming burdensome;
- Encourage families to save for college so as to lessen the amount of loans needed to cover higher education costs;
- Expand loan "forgiveness" programs that give student loan borrowers options for retiring their debt while working to solve social or community issues; and
- Identify the direct and indirect parties who benefit from having a higher number of educated citizens, i.e., the federal government and business, and educate these groups about the importance of sharing the responsibility of developing an educated work force.

While the solutions for helping students decrease college borrowing are easy to identify, the implementation of these is much more difficult.

For years the higher education community has sought an increase in grant assistance, but this has not occurred; the Congress' current

single-minded focus on deficit reduction does not bode well for a change in this direction any time soon. American families continue to question and decry the cost of college. Access to lower- and middle-income families continues to decline, primarily due to cost concerns and the necessity, in many cases, of having to borrow to help pay for tuition. College costs continue to increase at twice the rate of inflation with no mass movement of innovative solutions to stem this growth forthcoming from the higher education community.

Loan counseling efforts on campuses have improved over the last five years, but the importance of controlling debt levels is often overshadowed by other student priorities, such as staying in school and completing a degree. More early college awareness programs are focusing on the importance of saving for college, but Americans, notorious for our low savings rates and growing consumer debt, often feel overwhelmed with day-to-day expenses, making it less likely that any money is being put away for college. Loan forgiveness programs have assisted some students, but most of the programs developed by the federal government have not been funded.

This leaves us with the last solution, which is to enlist other beneficiaries of higher education to share the responsibility of increasing the number of educated citizens. One group, business, has an opportunity to benefit students and themselves by providing borrowers with student loan repayment assistance once they enter the workforce.

Enlisting Business to Help Alleviate Student Debt Burden

If U.S. companies want a diverse pool of well-educated young adults to help lead them into the 21st century, then they must join in as a contributing partner in the effort to develop a strong and flexible workforce. One way of achieving this is to help recent graduates manage their debt burden through the establishment of a loan forgiveness program as a new option in a company's flexible benefits package.

College Graduates: How Flexible Benefits Can Retain Them

Before U.S. businesses will be willing to adopt student loan repayment assistance as part of a flexible benefits package, they must be assured that such an option will be consistent with their current benefits philosophy, and that it will help the organization's bottom line.

What College Graduates Want from Employers

Understanding what motivates the best employees, and hence, what will keep them at the company, has been examined by a number of organizations. Many top level CEOs and human resources professionals support the contention that today's young employees put their own well-being above the companies'. "Retention today is more about what's in it for the employee," according to Lincoln Norton, CEO and chairman of HRSoft, Inc.[74] Companies can no longer just hope that employees stay: they have to give employees a reason to stay.

Today's college graduates have different needs and values than the "Baby Boom" and Pre-World War II generations. They were raised on the high technology that continues to challenge some members of the previous generations. Instant gratification through technology—whether it be use of fax machines, ordering movies at home via the

telephone, or sending e-mail messages on the Internet to friends in Iceland and New Zealand simultaneously—is neither impressive nor futuristic for today's college graduates: it is the fare they grew up on.

These fast-paced communication methods define the way that today's youth participate in the workplace, where they are often frustrated with the slower, more traditional approach to advancing within the corporate hierarchy.[75] Recent college graduates want more timely incentives for good performance. Waiting around for five or ten years to get rewarded through a vested pension is not what keeps a young employee at a company. Having witnessed what their parents went through during the 1980s and 1990s, when mergers, acquisitions and regional recessions forced layoffs and downsizing, many of today's graduates view loyalty to a company as misplaced and naive.

"About 50% of all U.S. students attending higher education institutions borrow during their undergraduate and/or graduate years to pay for college."

The Reasoning of a Reluctant Generation

Glenn Wille, a human resources consultant, summarized this issue by saying, "The challenge employers face today is to provide a work environment that complements the reasoning of this reluctant generation."[76]

That "reasoning" could well include a different approach to rewarding young employees than has been practiced by organizations in the past. Incentives must be implemented that address both the employees' need for immediate rewards, and the companies' need for getting a return on their investment by keeping successful employees in their jobs, and retaining them at the company. An innovative benefit like student loan repayment assistance appeals directly to the immediate concerns of young, college-educated employees.

Before college graduates take on other responsibilities such as marriage, a family, or a home mortgage, student loan debt is probably the primary financial concern that they face. Having the ability to work in a job they like while also alleviating their largest financial debt could be a very attractive combination for recent graduates.

High Turnover Costs Companies in Dollars and Customers

Recruitment and training costs alone in the first year of employment point to the need to retain employees for several years just to recoup initial expenditures. Two recent studies, one from the Bureau of National Affairs, cite average costs to hire a non-exempt employee at just under $1,300, and an exempt employee at over $7,800.[77] The Employment Managers Association puts the average cost of hiring a new employee at $6,500, not including costs for the departing employee, such as severance, or the cost of training the new employee.[78]

A survey reported on in the *Journal of Career Planning & Employment* in 1992 asked graduating seniors at the University of North Carolina-Chapel Hill how long they expected to stay with their first employer. Almost 60% of the graduates said two to four years; 24% said four to ten years, and 3% said they would stay with their first employer until retirement.[79] Susan Richter, senior education consultant at Corning, said, "Employees decide when they join a new company within the first six or eight weeks whether they're going to stay at that

company."[80] The early period in a new employee's tenure is thus a critical time to nurture loyalty.

Cost of Benefits Push Employers to Seek Alternative Plans

Between June 1993 and June 1994, benefits costs rose 3.9%, while wages grew 3.1%, according to the U.S. Department of Labor.[81] The prior year, an annual survey conducted by the U.S. Chamber of Commerce reported that employee benefits costs had increased 8.6% in 1993, with an average per employee cost of $14,807.[82]

When health care costs increased annually in the double-digit range in the late 1980s and early 1990s, employers sought relief through a number of avenues. Some companies reduced the pressure of increased costs by self-funding insurance plans, increasing the percentage paid by employees, or increasing their health plan alternatives with the addition of Health Management Organizations (HMOs) and Preferred Provider Organizations (PPOs).[83]

Yet, other benefits costs continue to rise. Companies need to apply some of the same creativity that brought about lower health care expenditures to find ways of decreasing benefits costs overall. This has to be accomplished while still maintaining needed levels of employee satisfaction so that turnover rates do not increase and productivity is not negatively affected.

Advantages of Flexible Benefits

Research shows that today's employees have a lower regard for "traditional" benefits than did the prior generation.[84] Demographic, social, and economic shifts over the last two decades have dramatically changed the face and character of our work force. What once worked in a homogeneous work place is not adequate for one that is diverse in its color, gender, age, nationality, experience, economic background, and disabilities. Unless a company provides a benefits package that can more closely match the needs of its current employees, it will have a difficult time keeping the very best of that work force productive and stable.[85]

A Retrospective on Loan Forgiveness Programs

Loan Forgiveness Programs Limited

During the 30 years since students have been borrowing to pay for college, there have been a limited number of "loan forgiveness" programs to help graduates retire their debt. Loan forgiveness, in this sense, is used synonymously with loan repayment assistance, meaning any financial benefit from an institution, government or other agency or employer received after a student loan has come due to help in the repayment of the debt. "Forgiveness," in this case, does not mean that the lender who made the loan has forgiven or discharged the debt for the borrower; it refers to the action of an organization to aid in the repayment of student loan debt.

Unfortunately the research on the effectiveness of student loan forgiveness programs is sparse. Forgiveness programs have been offered primarily for a limited group of lawyers, teachers, health workers and doctors working either in public service or in so-called "shortage

areas." The National Health Service Corps offers loan forgiveness for health professionals in primary care who work in U.S. counties lacking an adequate number of skilled professionals.[86]

Law Schools Lead in Forgiveness Programs

About 50 law schools currently offer loan forgiveness programs to their graduates who choose to work in lower-paying public service jobs, a large increase from the 5 programs in operation 10 years ago[87]. In 1994, New York University School of Law announced a program that would repay all law school costs, up to $40,000 a year, for students who remain in public service jobs.[88] A recent article in the *ABA Journal* contended that the number of students entering public interest law would increase if there were a "comprehensive and nationally funded" loan forgiveness program.[89]

"Federal policy changes, largely driven by deficit concerns and shifting funding priorities, have served to weaken the government's partnership with American students."

Lack of Appropriations, Poor Regulations Hinder Federal Programs

Loan forgiveness programs have not moved far out of the legal profession, even though liberal arts and other degree majors can now graduate with almost as much debt as law students incur. As part of the Reauthorization of the Higher Education Act in 1992, the federal government tried to initiate loan forgiveness programs for teachers and nurses is shortage areas, Peace Corps or VISTA volunteers, or full-time volunteers in 501(c)(3) tax-exempt organizations who had borrowed Federal Stafford Loans (formerly Guaranteed Student Loans). These programs, however, have never received appropriations from Congress.

Even if appropriated, the way the law is written would make it difficult for borrowers to be forgiven for their loans. Borrowers have to apply each year *after* competing a year of qualifying service; there is no automatic renewal of the forgiveness, even if the borrower is in the same job during a second or later year. Since borrowers are provided with the loan forgiveness benefit on a first-come, first-served basis, even an individual who has successfully completed a year of service may not ultimately receive the benefit. This uncertainty would make it difficult for recent graduates to commit to volunteer or lower-paid service and still feel secure that their student loan obligations would be met.

President Clinton's Americorps program offers student loan forgiveness up to $4,800 a year for its volunteers. Unfortunately this program can only assist 1% of all student loan borrowers due to its limited scope and appropriations level. Americorps will likely be repealed or seriously reduced in the next budget process due to lack of philosophical support in the Congress, and the high cost of over $26,000 per year for each volunteer.[90]

Established Federal Loan Forgiveness Programs Have Mixed Results

Other dampers on loan forgiveness programs have been bad timing, inadequate program information, and low repayment levels. Some state and even national programs—such as the Perkins Loan Forgiveness Program—were created to attract students to the teaching profession during a period when shortages were anticipated. Yet often shortages

were often not critical enough to warrant the forgiveness programs, and thus they were underutilized, cut, or eliminated. Poor communication in a number of loan forgiveness programs has also led to low enrollment numbers. Almost 30% of Health Professions Student Loan (HPSL) borrowers between 1973 and 1977 were not aware that they were eligible for loan forgiveness if employed in a designated shortage area.[91]

Another reason for the low utilization of loan forgiveness in the HPSL program—only 1.7% of eligible borrowers took advantage of the program in that period—was the low amount of loan principal forgiven each year. The $2,500 annual forgiveness maximum, when compared with a doctor's yearly income, was not large enough to provide an incentive for physicians to work in urban or isolated rural communities for low wages. A *Wall Street Journal* article recently illustrated how law schools are now providing greater amounts of loan forgiveness than in the past to attract greater numbers of students to work in public service jobs.[92] In one example, a law student who graduated from the University of Pennsylvania in January of 1995 with monthly student loan payments of $700 was receiving forgiveness in the amount $558 each month, almost 80% of her payment. At those levels, a recent law school graduate has the ability to take a lower paying public service position without worrying about defaulting on student loan obligations.

Other forgiveness programs, such as the National Direct Student Loan (NDSL) and Perkins Loan Teacher Cancellation Program, have recently gained more attention, probably also due to the larger amounts forgiven. In the 1994-95 academic year, borrowers who were full-time teachers in designated low income schools could qualify for 15% loan "cancellation" in their first and second years of teaching; 20% in their third and fourth years; and 30% loan forgiveness in their fifth year.[93] Yet, levels were not always this high. In 1986, NDSL/Perkins borrowers received only a 10% cancellation benefit per year, up to a maximum of 50% of their loans forgiven. Again, the low level of forgiveness, only $425 on average over a five year period, when teacher's salaries were $8,500 a year,[94] had little impact on addressing teacher shortages.

Loan Forgiveness One Viable Solution to Increasing Debt Levels

Now that more students are experiencing debt levels in the "burdensome" range, loan forgiveness programs—if they are better targeted and not only for borrowers in teacher or doctor shortage areas—will become a more attractive mechanism to assist students in successfully completing their degrees, and successfully repaying their loans.

Student Loan Repayment: A New Role for The Federal Government and Business

Sharing in the responsibility for financing higher education has been somewhat limited to those parties considered to be the primary beneficiaries of the system: students, families, schools, and state and federal governments. What is called for now is an expansion of this shared responsibility to include a beneficiary who has not been fully recognized as a key partner in providing higher education financing to postsecondary students: business.

Federal Provision Could Revolutionize Student Loan Repayment
Before outlining the advantages to business in developing a corporate-based loan forgiveness program, it is important to review current federal legislation that could spur the implementation of this benefit.

A largely overlooked law in the 1992 Amendments to the Higher Education Act is a section that encourages both the private and public sectors to offer innovative programs to help their employees repay federal student loans, such as Stafford and Perkins. The provision reads as follows:

> Higher Education Act of 1965, as amended, Title IV, Part B
> SEC. 432.
> (k) PROGRAM OF ASSISTANCE FOR BORROWERS.-
> (1) IN GENERAL.—The Secretary shall undertake a program to encourage corporations and other private and public employers, including the Federal Government, to assist borrowers in repaying loans received under this title, including providing employers with options for payroll deduction of loan payments and offering loan repayment matching provisions as part of employee benefit packages.
> (2) PUBLICATION.—The Secretary shall publicize models for providing the repayment assistance described in paragraph (1) and each year select entities that deserve recognition, through means devised by the Secretary, for the development of innovative plans for providing such assistance to employees.
> (3) RECOMMENDATION.—Within 1 year after the date of enactment of the Higher Education Amendments of 1992, the Secretary shall recommend to the appropriate committees in the Senate and House of Representatives changes to statutes that could be made in order to further encourage such efforts.

"If there were a Golden Age of higher education access and affordability in the last 30 years it would have been in the 1970s, when college costs were moderate and grant aid was at its peak."

To date, none of the provisions in Section 432(k), 1-3, to encourage corporations and other institutions to assist with student loan repayment, have been acted on in any way by the Department of Education or by Congress.

Proposed Legislation Would Assist Companies in Offering Student Loan Repayment Assistance
A proposal developed by Lawrence O'Toole, president of the nonprofit student loan organization NELLIE MAE, that addresses Section 432(k) was submitted in 1995 to both of the authorizing committees and the tax committees in the House and the Senate. In short, the proposed bill would expand the cafeteria-type benefits plans that are offered by a number of employers to allow student loan repayment to be one of the eligible benefits covered by a benefit plan. In this way, it would allow a recent graduate who has no dependents, and thus no need for family life insurance or family health coverage, to redirect part of the available employee benefit credits to reduction of student loan indebtedness.

Employers could offer to provide a portion of an employee's wages for education loan repayment as a tax-free fringe benefit, or permit employees to pay back education loans on a pre-tax basis under a salary reduction plan. Employers could also choose to match the student loan repayment assistance dollars at levels similar to 401(k) plan matches, often provided at 50 cents on the dollar.

Overall there is no added cost to the federal government if the loan forgiveness benefit remains within the confines of the overall cafeteria benefit funding program. It is essentially a redirection of the dollars in the fund, versus an additional pre-tax benefit for which the federal government would experience a reduction in tax revenues, or a so-called "tax expenditure."

"A number of studies have shown that increases in college costs have a negative impact on the enrollment of lower income students."

Currently, there are tax provisions that allow an employer to pay up to $5,000 or so a year for current employees to go back to school—called tuition reimbursement—to retrain themselves, and sometimes to gain new skills to get another position. The NELLIE MAE proposal presents another way for students to meet college costs after graduation by allowing use of the tax code, the employee benefit dollars, and potentially the company-match, as partners in meeting training costs incurred during college and paid for with student loans. As it stands in draft form, the proposal provides for a $5,000 annual exclusion for employer-provided amounts that are used to repay federal education loans. There is an exclusion phase-out for employees with adjusted gross incomes of between $100,000 and $150,000.

Today, the tax code encourages business to invest in employee training. This proposal would allow companies and other organizations to help new employees—recent college graduates—to repay the investment they have made in themselves through student loans.

Win-Win Legislation Can Benefit All Partners

If, as the law allows, Congress acted through legislation to make it easier for businesses to help their employees repay education loan debt, it would be a very effective low-cost way for the government to help alleviate some of the increased burden the system has placed on college students. In the simplest of terms, it is a win-win approach for everyone.

By supporting businesses who provide student loan forgiveness, Congress would demonstrate that:

1. It recognizes the problems of increased, unchecked borrowing;
2. It is providing creative yet budget-conscious ways to expand the number of partners sharing the cost of training college graduates for the work force; and
3. It is investing in American's economic future. Congress can help ease the college financing burden caused by decreases in grant assistance—which the government has not been able to provide due to the focus on deficit reduction—with a creative way for student loan borrowers to retire their debt.

Additionally, the integrity and stability of the federal loan programs would be improved through lower delinquency and default rates by

giving borrowers an attractive, accessible alternative to pay down their debt. Currently, Congress has addressed the problems of high-debt borrowers only with repayment benefits—loan consolidation and income contingent/sensitive options—that extend repayment periods and lower monthly payments. While these options provide high-debt-low-income borrowers with a way to better manage monthly cash flow problems, they also increase borrowing costs substantially.

Increasing Businesses' Investment in Work Force Preparation

U.S. companies need a diverse pool of well-educated young adults to maintain a strong and flexible workforce. To this end, they must share in the responsibility of paying for the training and the use of these valuable human resources. One way of achieving this is to help recent graduates manage their debt burden through the establishment of student loan repayment assistance—sometime referred to as loan forgiveness—as a new option in a company's flexible benefit package.

"Families from lower income backgrounds in the U.S., and in some European countries, tend to have little or no experience with debt and actually have a 'cultural fear' of indebtedness."

By partnering with employees to repay the cost of their education and training, a business can:

1. Save money by lowering hiring costs through replacement of a more expensive benefit choice;
2. Strengthen employee relations, decrease turnover rates and lower hiring costs;
3. Make gains in achieving a diversified workforce; and,
4. Improve the company's image with its customers, community and college partners with whom it may currently cooperate in research and development efforts.

Business Wins with Employee Readiness, Retention, and an Improved Image

As noted earlier, students in recent years necessarily have a more career-directed college program due both to the increased cost of college and the necessity to borrow in larger amounts to pay for it. Businesses have inadvertently benefited from this trend by hiring more workplace-ready graduates than in the past. Internships are becoming commonplace and almost a prerequisite for juniors and seniors who hope for any kind of challenging position in their chosen field.

Companies benefit from career-directed higher education by not having to spend as much on training new recruits on computers and in other skill areas, as they often come into a company with more up-to-date technical knowledge and savvy than longer-term employees. New employees fresh from college end up training colleagues who have been stagnating in companies for years possibly without the time or management support to seek training on the latest software programs, other technical knowledge or industry trends. Students who have borrowed heavily to attend top institutions may be primed with the latest technology, trends and policy issues, but can also carry a heavy debt burden.

A corporate offer to help repay student loan debt can solidify an employee's commitment to a company. Valuable, young employees

will be less likely to seek employment elsewhere as they gain more experience—and take a company's investment in training with them—if they are receiving a certain amount of student loan forgiveness for every year of service and/or as part of a bonus incentive program. Loan forgiveness can be a much more attractive benefit to single or childless twenty or thirty-something employees than potentially more expensive choices like supplemental life insurance or dependent benefits.

"As students began placing more emphasis on going to college to increase their earning power, the purely educational reasons for attending college declined."

Loan Forgiveness Programs Help "Grow" a Diverse Workforce. Developing a diversified workforce is a priority for many organizations in the 1990s, but attracting African-American, Hispanic, Asian-American and Native American employees continues to challenge and frustrate some companies. Recent benefits trends show that employees in today's diverse work force are attracted to companies that offer flexible and personalized benefits packages versus the "one-size-fits-all" offerings which are becoming less prevalent.

Research has shown that loan forgiveness programs are more attractive to African-American, Hispanic, Asian-American, and Native American student loan recipients who, in many cases, have had to borrow in greater amounts than their non-minority counterparts. In a survey of Pennsylvania students—including minorities, white, and other—who received federal loans in 1990-91 and were majoring in health care fields, 74% said they would be willing to work for one year in a medically under-served area in the state in exchange for loan forgiveness.[95] African-American students were even more likely than others—91% versus 72%—to be willing to do this, pointing to their concern about accumulating student loan debt, and their willingness to forego other benefits, such as a larger salary, in exchange for loan repayment assistance.

Loan Repayment Programs Improve Public's Image of Business
Loan repayment assistance programs can also benefit companies by improving their external image. Offering such assistance to employees can become a valuable asset in projecting a community-friendly image by directly responding to a key concern: maintaining an educated and well trained community. As businesses experienced with both the environmental "green revolution" and with the massive downsizing efforts in recent years, the image a company projects through its acts, such as the causes it supports and the way it treats its employees, has a great impact on the behavior of consumers.

A company's investment in education through a loan repayment assistance program offers an added impetus for high school students in the community to pursue higher education. Having an understanding before college that loan forgiveness is broadly available through expanded federal programs and through employers would provide assurance to low and middle income students—and to students in majors which anticipate high debt—that they can afford to go to college, and that they will have the ability to repay their student loan debt.

Students and Recent Graduates Also Win

Recent college graduates can focus more attention on their job and their career path if they do not have the worry of meeting the monthly student loan payment, often a primary monthly expense along with rent/mortgage and other larger monthly bills. In a recent study by The Education Resources Institute, *College Debt and the American Family,*[96] 19% of student loan borrowers surveyed said that their student loans represent the highest portion of their household debt; 12% of respondents said that student loans were more than 75% of their household debt; 17% said that their monthly student loans payment is higher than the rent/mortgage payment. The desire or need for a larger salary to meet monthly debt obligations is often a motivating factor behind an employee moving to another job.

Conclusion: Mending the Broken Partnership

Business, the federal government and all those involved in higher education must consider that access to college for lower and middle income students is becoming more restrictive. College attendance is simply not as affordable as in years past, both in terms of tuition cost and in the more expensive and risky method of borrowing to pay for it. Young people—especially those who have not grown up in affluent families and/or are "first generation" college students—do not feel safe borrowing the equivalent of a home mortgage to go to college. These students have neither the family experience that ensures them of the ability to repay the loans, nor the empirical knowledge of what a college degree can garner in terms of consistent future employment.

By partnering with employees to repay the cost of their education and training, a business—with the help of the federal government—can share in the responsibility of paying for the training of their current and future employees while fortifying their own organization. Providing student loan repayment assistance will bring recent college graduates back to their communities. They will find a greater level of satisfaction working for employers who are not only providing them with a critical loan forgiveness benefit, but who are also partners in expanding access to higher education for the community at large.

Businesses can no longer rely on the chance of nature and other fates to supply their workforce. The strength, or weakness, of our workforce should not be determined by the willingness of young people to borrow in greater amounts to afford a college education, or their ability to repay that debt after leaving school. Today, a workforce must be cultivated and nurtured within a company's own community or communities, depending on the scope of operations. This means supporting education and training in creative, thoughtful ways that address the needs of the community while at the same time helping the business meet its financial and other corporate objectives.

The notion of sharing the responsibility of higher education costs and workforce training through company-assisted student loan repayment is certainly new and unchartered terrritory. Yet the times call for innovative strategies to help continue the American tradition of equal educational opportunity for all members of society. Enlisting the federal government and business to provide loan forgiveness is only one option

of many more that should be explored by the higher education community. Waiting for increases in federal funding for larger Pell Grants, while optimistic, is not very realistic. Hoping colleges will not increase tuition falls into this same category of wishful thinking. Federal policy is now driven by the need for deficit reduction. Grants do not thrive in this environment, but loans do.

If Congress is restricted by budget limitations and must legislate financial assistance primarily through loans, it should use its law-making authority to enlist a new partner, business, in helping borrowers better manage their repayment after graduation. Without such programs to help alleviate a portion of the increased burden the system has placed on students, U.S. communities, businesses, and higher education institutions will bear the consequencies of a less educated society. The social consequences follow: unemployment, increases in crime, lower tax base, less money for community development, and on and on.

It does take an entire community to educate a child. And how sensible that is since the entire community benefits from each and every investment it makes in our young people. ✦

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[6]The term "minority" is no longer a universally accepted term. Other terms currently used include "people of color"; AHANA, which stands for people of African-American, Hispanic, Asian and Native American heritage; and non-majority. For purposes of consistency with the current research terminology, the term "minority" will be used throughout this document. While recognizing that this is not a preferable term for some individuals, currently there is no single term accepted as appropriate by all members of non-majority backgrounds.

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