

# THE CONTRACT FOR COLLEGE

A POLICY PROPOSAL TO INCREASE  
COLLEGE ACCESS AND  
AFFORDABILITY



## POLICY RATIONALE

Fewer than one-half of all college-qualified high school graduates from low- and moderate-income households are expected to earn a bachelor's degree within eight years of graduation.<sup>1</sup> Rising college costs, combined with major policy changes in financial aid, have made college less affordable for today's generation of young people.

Over the course of a generation, our nation's financial aid structure has become a debt-for-diploma system as policy changes have shifted priorities away from grant-based aid toward loans, and from need-based student aid to merit-based aid. Of the \$96 billion of federal financial aid in the 2007-08 school year, only \$19.5 billion was in grants, while loan-based aid comprised \$66.8 billion<sup>2</sup>. At the same time, the skyrocketing pace of tuition increases and the surge in eligible students means that the available pool of grant aid gets spread more thinly across a greater number of students. Today the maximum Pell Grant award covers about one-third of the costs of a 4-year public college. It covered nearly three-quarters in the 1970s.<sup>3</sup> But the *average* award covers less than one-fifth of the costs of a 4-year college, and only 24 percent of Pell grant recipients received the maximum award in 2006-07.<sup>4</sup>

Moreover, in the 1970s and 1980s, most aid programs were designed to increase access among students who otherwise would be unable to afford to enroll. In recent years, aid

This table illustrates what a typical *Contract* would look like for students based on their family's household income, using the average cost of college at a 4-year public institution in the 2007-08 school year.

### THE CONTRACT FOR COLLEGE - SAMPLE BENEFIT PACKAGES

*Based on the average cost of attendance at 4-year public colleges (approx. \$14,000/year)\**

<b>Household Income: \$25,000</b>	
Grant to cover 75% of costs:	\$9,750
Work-study (12.5% of costs):	\$1,625
Subsidized loan:	\$1,625
<b>Household Income: \$45,000</b>	
Grant to cover 65% of costs:	\$8,450
Work-study:	\$1,625
Subsidized loan:	\$2,925
<b>Household Income: \$65,000</b>	
Grant to cover 55% of costs:	\$7,150
Work-study:	\$1,625
Subsidized loan:	\$4,225
<b>Household Income: \$85,000</b>	
Grant to cover 40% of costs:	\$5,200
Work-study:	\$1,625
Subsidized loan:	\$3,087
Unsubsidized loan:	\$3,087
<b>Household Income: \$100,000</b>	
Unsubsidized loan:	\$10,000

\*The College Board, *Trends in College Pricing 2008* (New York: The College Board, 2008), <http://professionals.collegeboard.com/profdownload/trends-in-college-pricing-2008.pdf>.

programs have increasingly focused on reducing the financial burden on middle-income families. Between 1994 and 2004, spending by the states on need-based scholarships for undergraduates increased by 95 percent, while spending on merit-based aid increased by 350 percent.<sup>5</sup> Similarly, universities have begun using more of their financial aid resources to attract the best and brightest students—allocating an ever-greater percentage of aid dollars to students who could afford college without financial assistance. Between 1995 and 2003, institutional grant aid for students from families with income below \$20,000 increased 50 percent, while awards to students from families above \$100,000 grew 227 percent.<sup>6</sup> As a result of unmet need, the highest achieving students from poor backgrounds attend college at the same rate as the lowest achieving students from wealthy backgrounds.<sup>7</sup> Or to put it more coarsely: the least bright wealthy kids attend college at the same rate as the smartest poor kids.

## POLICY DESIGN

The *Contract for College* would unify the existing three strands of federal financial aid—grants, loans and work-study—into a coherent, guaranteed financial aid package for students. Grants would make up the bulk of aid for students from low- and moderate-income families. The *Contract* would recognize the important value of reciprocity—so part of the *Contract* for every student would include some amount of student loan aid and work-study requirement. The *Contract* would re-orient federal aid back to a more grant-based system and ensure that students from all financial backgrounds have the upfront knowledge and understanding of the amount and type of financial aid that will be available during their entire course of study.

The key design elements to the *Contract for College* are featured below, including how existing federal policy and programs would be refashioned under the *Contract* system.

- » The grants provided under the *Contract* would adapt the current Pell Grant system to be funded as an entitlement. One of the major weaknesses of the Pell Grant program is that it has been consistently under-funded, resulting in lower grant amounts than the maximum allowed by the law.
- » The *Contract* would provide a work-study allotment for each student to help cover one-eighth of the costs of college if they accept the other forms of financial aid. Under the present policy many eligible students can not participate in the program because their institution received insufficient funds to cover everyone who qualified.<sup>8</sup> A goal of this program should be to pay students wages that will allow them to earn their allotted work-study funds by working 15 hours per week or less, a threshold that has been found to not affect their academic performance.<sup>9</sup> As articulated by President Obama, institutions should ensure that at least 25 percent of the college work-study funds they receive are dedicated to public service jobs.<sup>10</sup> These jobs would allow students to contribute to their communities and give them the opportunity to explore academic interests or career options.

- » The amount of loan aid available to students through the federal loan program would be based on the remaining cost of college after grant- and work-study aid is taken into account. For students from families whose income is high enough to make them ineligible for grant or work-study aid, the annual maximum loan amount will be \$10,000 in unsubsidized loans.
- » The *Contract for College* would significantly reduce the amount of debt students incur to fund their education. However, students would still accumulate considerable debt over four years, which can negatively impact their ability to save for the future or to choose a career in the public or non-profit sector. The *Contract* would incorporate a loan forgiveness plan that would eliminate \$5,000 of federal loans for each year that a graduate works at a non-profit or public sector job, up to a lifetime maximum of \$20,000. This program would effectively serve to offset the lower salaries, relative to the private sector.
- » Students would be awarded aid for enrollment in any 2- or 4-year public institution. The amount of the total aid package would be based on national average tuition, fees, and room and board costs at those public institutions. Students wishing to enroll in private institutions would be provided a financial aid package equivalent to the average costs at a 4-year public university. Dependent and independent students would be treated the same under the *Contract*.
- » An important component of the *Contract for College* would be to ensure that families have early knowledge of the financial resources available to their children to attend college. Using information collected by the IRS on tax returns, the Department of Education would send all households with students in the 7<sup>th</sup> grade and above a notice of their *Contract for College* that estimates their aid package using the average cost of attendance at public 4-year institutions and their household income. Alerting students and parents about the amount of student aid available would help ensure all families understand that college is affordable and within their reach from an early age.
- » To hold down the long-term costs of the *Contract for College*, this plan assumes that in return for the increased federal investment in higher education, states will agree to maintain their current spending on higher education and hold tuition increases to the overall rate of inflation or less.

## ENDNOTES

1. Mortgaging Our Future: How Financial Barriers to College Undercut America's Global Competitiveness (Washington, D.C.: Advisory Committee on Student Financial Assistance, September 2006)
2. The College Board, *Trends in Student Aid 2008* (New York: The College Board, 2008), <http://professionals.collegeboard.com/profdownload/trends-in-student-aid-2008.pdf>
3. Lawrence E. Gladieux, "Low-Income Students and the Affordability of Higher Education" in *America's Untapped Resource: Low-Income Students in Higher Education* eds. Richard D. Kahlenberg, Century Foundation Press, 2004 p. 29
4. "2006-2007 Federal Pell Grant Program End-of-Year Report." U.S. Department of Education, Office of Post-Secondary Education. Table 9-A and Table 18, <http://www.ed.gov/finaid/prof/resources/data/pell-2006-07/pell-eoy-2006-07.html>
5. Kati Haycock, "Promises Abandoned: How Policy Choices and Institutional Practices Restrict College Opportunities," The Education Trust, <http://www2.edtrust.org/NR/rdonlyres/B6772F1A-116D-4827-A326-F8CFAD33975A/0/PromiseAbandonedHigherEd.pdf>
6. Ibid.
7. *Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity*, (Washington, D.C.: Advisory Committee on Student Financial Aid Assistance, February 2001).
8. Sara Lipka, Jan. 26, 2007 The Chronicle of Higher Education, "More Students Seek Campus Jobs as Work-Study Positions Dwindle"
9. Sandy Baum, Michael McPherson, Patricia Steele, "The Effectiveness of Student Aid Policies: What the Research Tells Us" 2008 p. 104 College Board <http://professionals.collegeboard.com/profdownload/rethinking-stu-aid-effectiveness-of-stu-aid-policies.pdf>
10. Blueprint for Change: Obama and Biden's Plan for America, available online at <http://www.barackobama.com/pdf/ObamaBlueprintForChange.pdf> p. 31

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