

# Recasting the Federal and State Roles in Higher Education

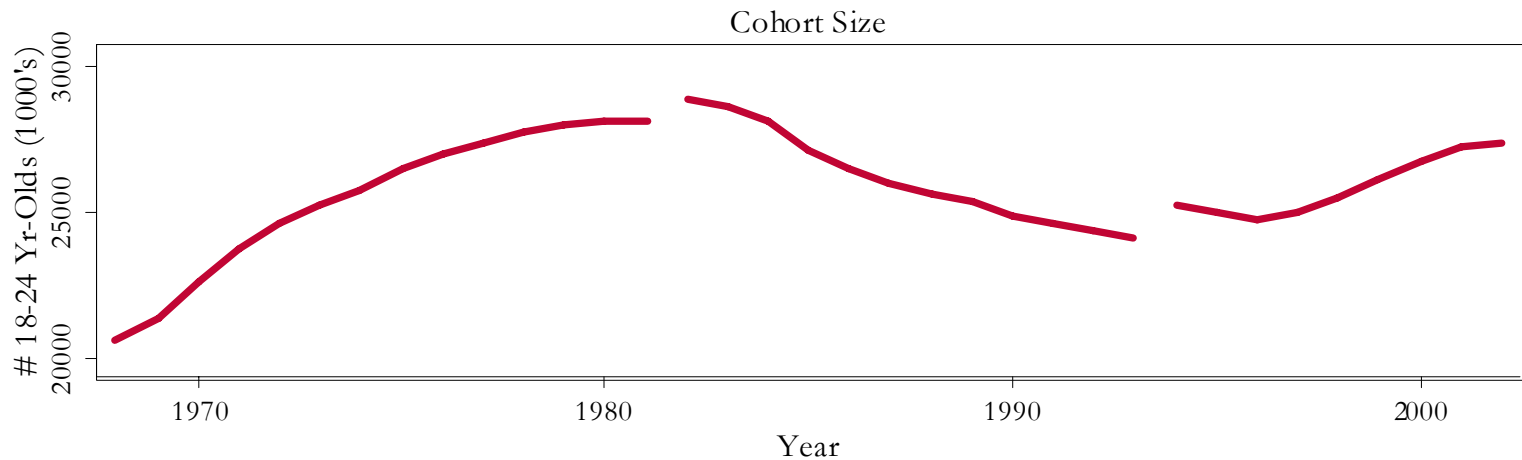
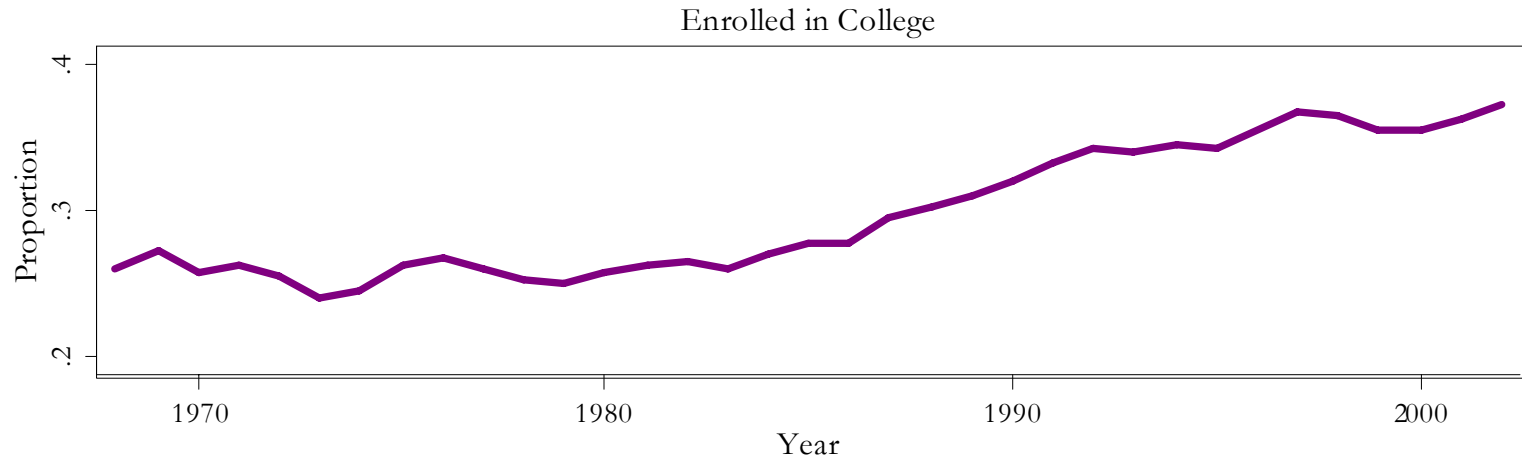
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# Forces Undermining Traditional Roles:

1. Demographics: College enrollment rates grew rapidly and size of college age population swelling again.

# College Enrollment and Cohort Size, 1968-2002

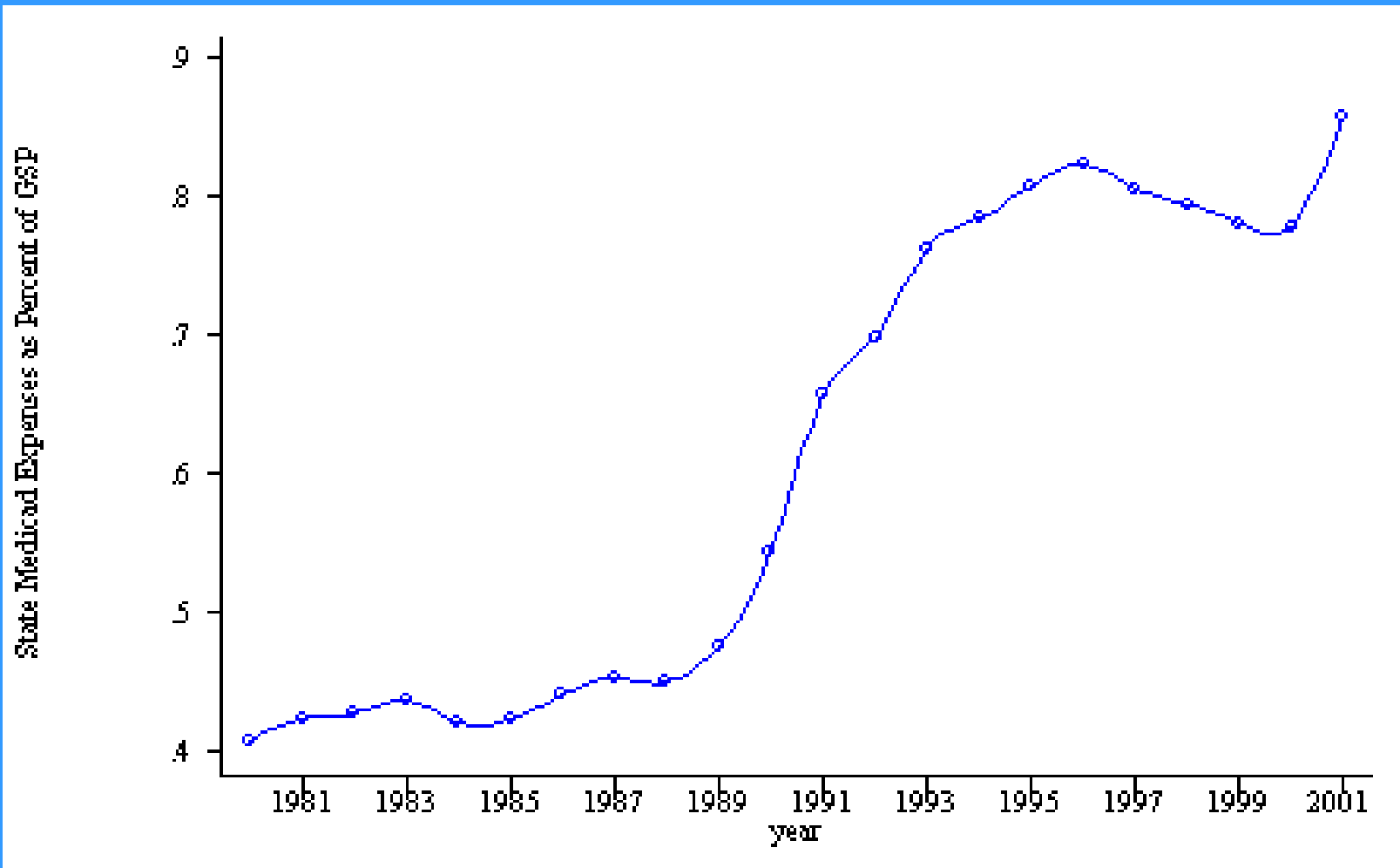


- Demographic trends were alleviating costs, now they're exacerbating costs!

# Forces Undermining Traditional Model:

1. Demographics: College enrollment rates grew rapidly and size of college age population swelling again.
2. State Medicaid Obligations: Medicaid program has stretched budgets *and* raised the relative “price” of higher education.

# Medicaid Spending as Share of GSP



# Medicaid Cost Pressures: Making States Poorer

- Rapid growth in SSI coverage for disabled.
- Mandated expansion in Medicaid coverage for low-income mothers and children.
- Mandated expansion in coverage for Medicare beneficiaries.
- Increasing costs per enrollee.
- Aging of the population.

# Federal Match for Medicaid Raises the Relative Price of Higher Education!

- The federal matching rate for state Medicaid spending ranges from 50 percent in CT, NY and CA to 80 percent in MS.
- \$ 1 of Medicaid services only costs a state \$ .20 to \$ .50! (The rest is paid for with the federal match).
- The opposite is true of state higher ed: When the legislature cuts subsidies and raises tuition, they receive somewhat more federal subsidies.

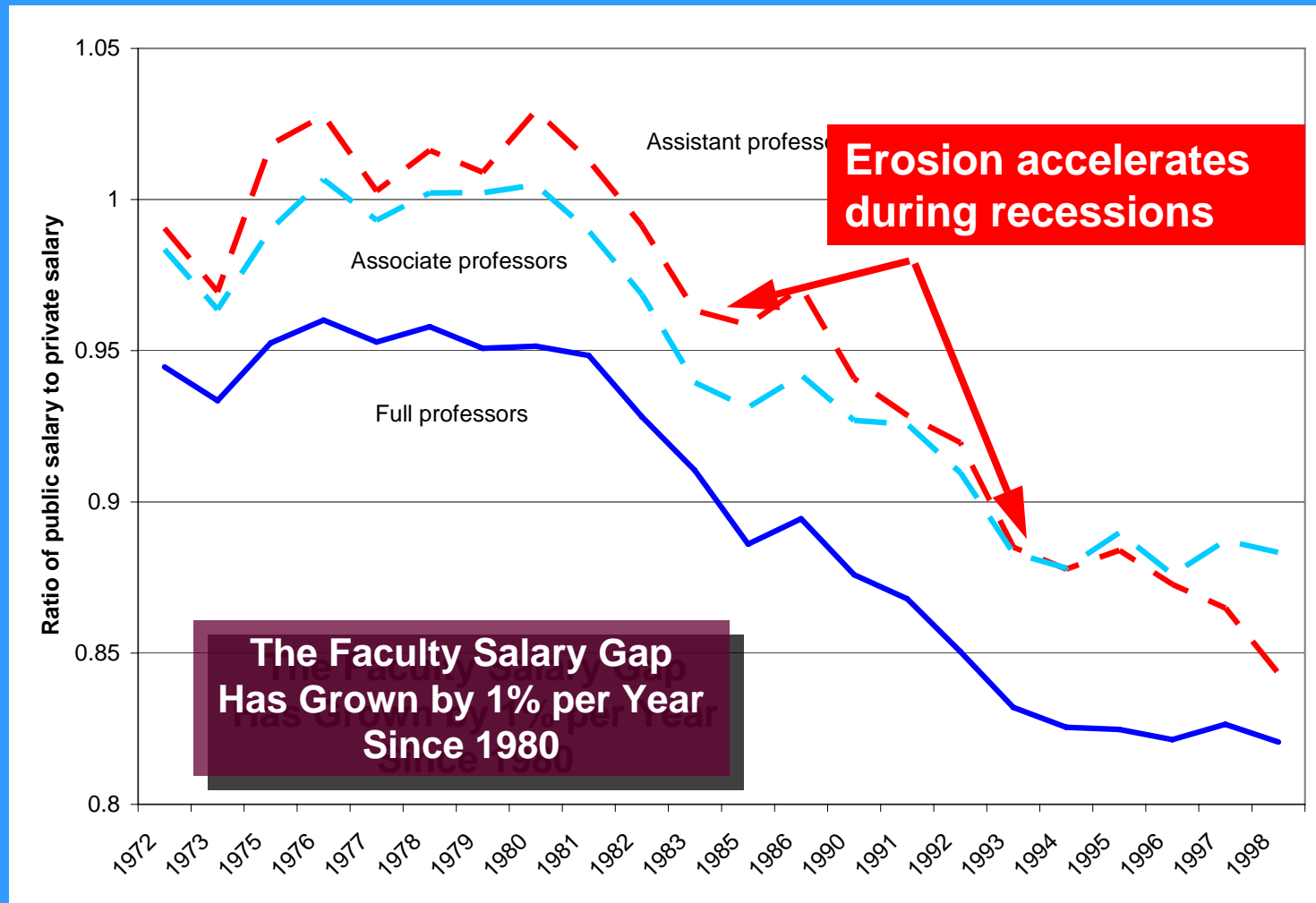
# Forces Undermining Traditional Model:

1. Demographics: College enrollment rates grew rapidly and size of college age population swelling again.
2. State Medicaid Obligations: Medicaid program has made states poorer *and* raised the relative “price” of higher education.
3. Rising Cost of Quality: With predominant classroom-based instruction, costs inevitably rise faster than inflation. Public institutions have not kept up with private universities.

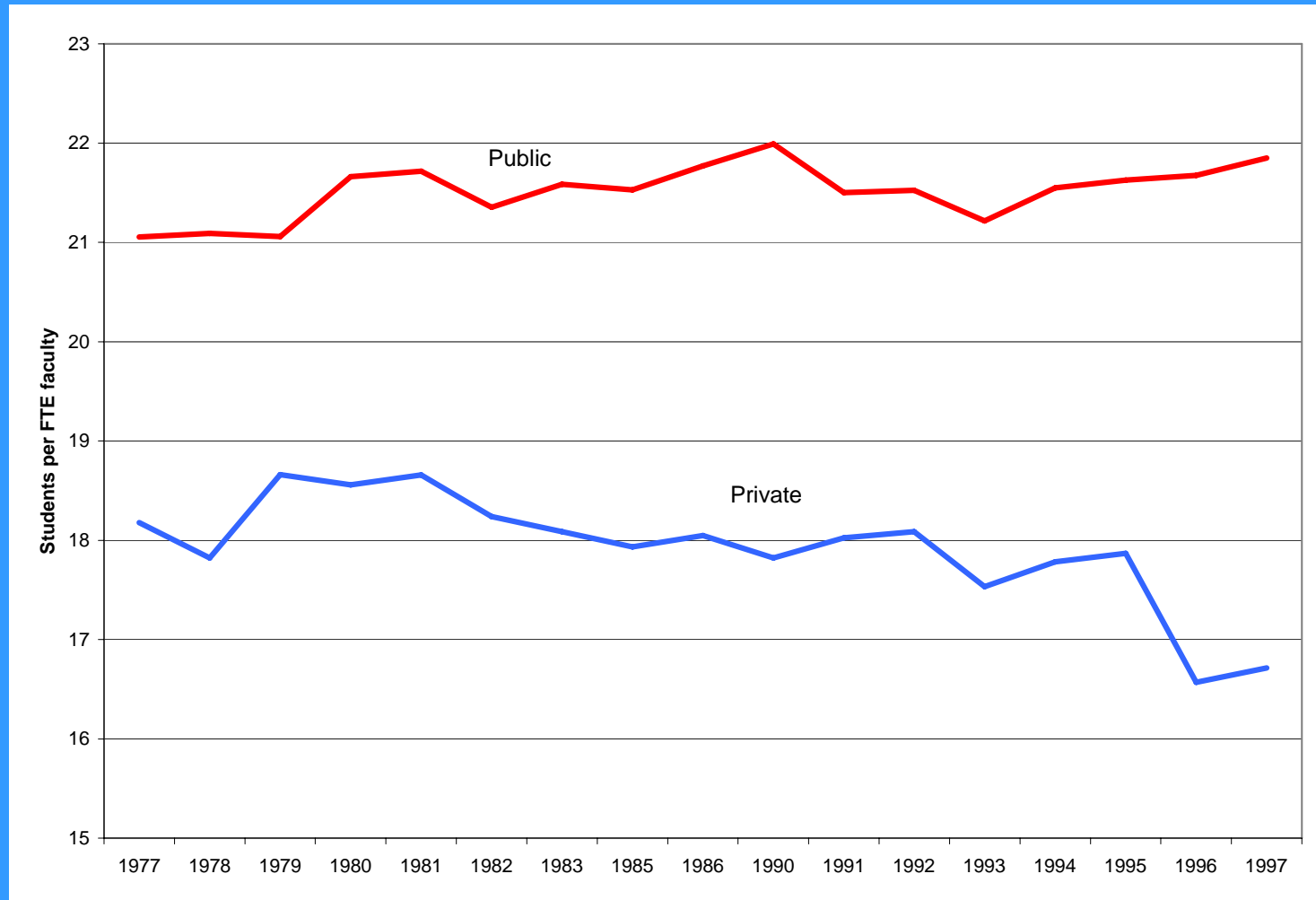
# Costs Per Student Rise Faster than Inflation ...Just to Keep Quality Constant

	<u>1976</u>	<u>2000</u>	<b>%Change</b>
Real Educational and General Expenditures per Student at Public 4-Year University	\$15,999	\$24,770	<b>55</b>
Real Productivity per Hour Worked in Non-Farm Business	79	116	<b>47</b>
Real Mean Income of a 25-34 Year Old Male with a Graduate Degree (Full-Time, All Year)	\$49,918	\$74,252	<b>49</b>
State Appropriations per FTE Student in Public Higher Education	\$6,040	\$6,845	<b>13</b>
Real Tuition at Public 4-Year University	\$1,992	\$3,796	<b>91</b>

# Faculty salaries at public research universities have fallen relative to private institutions.

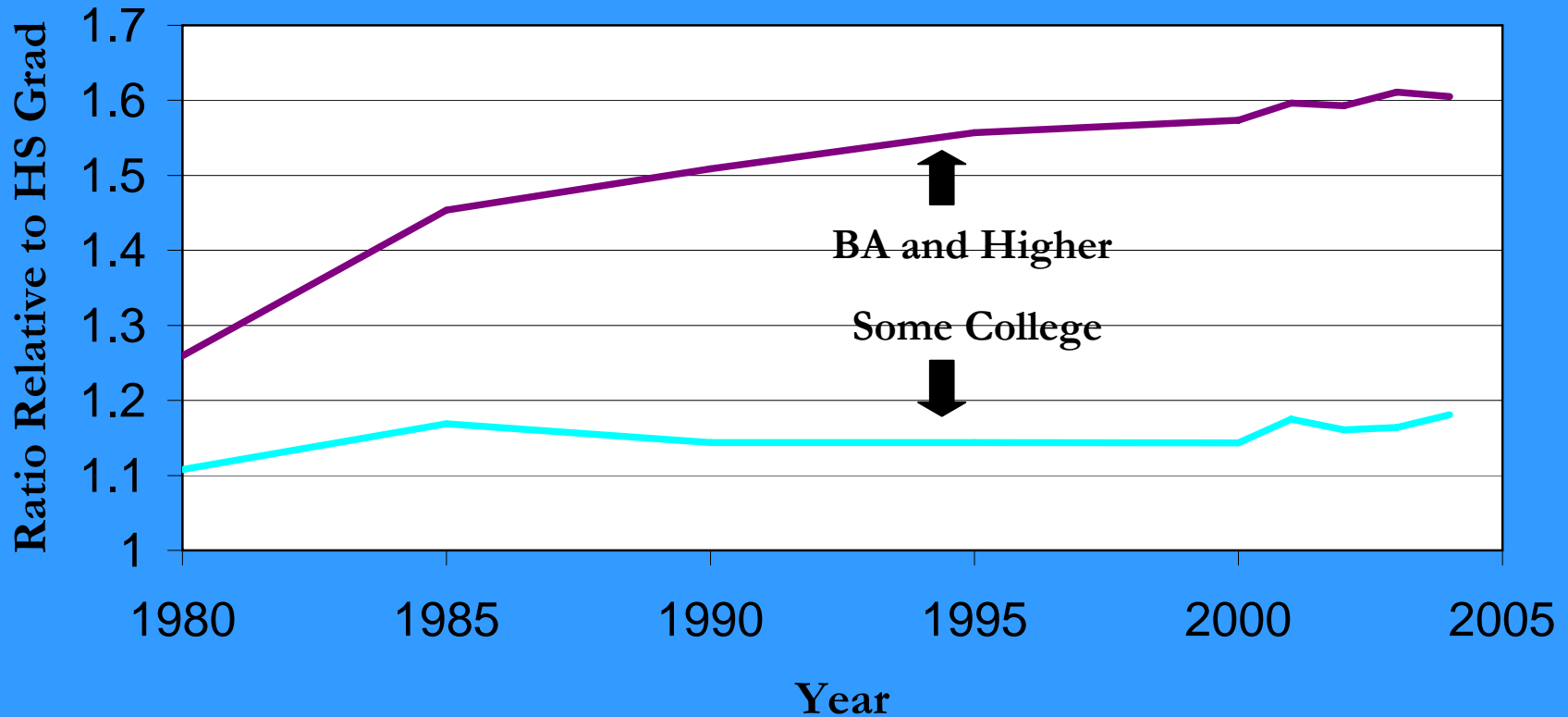


# Student per faculty ratios have risen at public universities and fallen at private institutions.



# Are college entry rates “too high”?

College Entrant Earnings Remain High Relative to High School Graduates



■ Employer demand has outpaced growing supply!

# Recasting the State Role

- Simplify Perceived Cost
  - Carolina Covenant, Cal Grants, Georgia Hope, DC Tuition Assistance Grant Program=> all have a simple, compelling story for parents.
- Facilitate Application Process
  - Use state/local funds to help residents apply for federal dollars.
  - In most other means-tested programs (Food Stamps, welfare, unemployment insurance) applicants receive help.

# Recasting the Federal Role

- Option 1: Simplify.
  - Limit factors to family income and family size.
  - May alleviate both middle class anxiety and lack of access due to complications of aid process.
  - Requires making trade-off between simplification and horizontal equity.
- Option 2: Use Loan Dollars to Bring Federal Limits back Closer to State Tuition Levels.
  - Is a dollar of grants 8 x more effective than a dollar in loans?
  - Income Contingent Loan Forgiveness Tax Credits

# Income Contingent Loan Forgiveness Tax Credits

- Borrowers continue to make payments on their loans (direct *or* guaranteed). No need to create new loan origination or repayment system.
- Borrower receives a refundable tax credit for loan payments exceeding 10% of income above \$10,000.
- Lenders report total principal and interest payments to the borrower and to the IRS.

# Estimated Cost

- Preliminary estimate:
  - \$7.3 billion
  - Estimated 87% of benefit goes to tax filers with incomes below \$40,000.
- Current higher education tax provisions (Hope, Lifetime Learning, Loan Interest, and Tuition Deduction):  
\$8.8 billion in 2005

# Potential benefits

- Current loan programs and repayment options remain largely unchanged.
- Lessens debt aversion by reducing risk.
- Broadens tax base for means-testing federal education benefits: Forward-looking rather than backward-looking at student/parent income.
- Universal benefit: Valued by middle and higher income parents concerned about their child's ability to pay.

# A New State-Federal Partnership in Higher Education

- Federal government provides bundle of Pell Grants and Loans, with a larger income-contingent subsidy.
- States add their own grant dollars and institutional subsidies and provide the marketing.