NASFAA

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

Opening Doors of Educational Opportunity

Testimony
of The National Association
# of Student Financial Aid Administrators

The Cost of College: Student Centered Reforms to Bring Higher Education within Reach

Presented to the House Committee
On Education and Labor

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PHONE: 202.785.0453 FAX: 202.785.1487 WEB: www.nasfaa.org
1801 PENNSYLVANIA AVE., NW, SUITE 850, WASHINGTON, DC 20006

Chairman Scott, Ranking Member Foxx, and Members of the Committee:

On behalf of the National Association of Student Financial Aid Administrators (NASFAA), we submit the following statement for the record as the House Committee on Education and Labor explores "The Cost of College: Student Centered Reforms to Bring Higher Education Within Reach." NASFAA represents financial aid administrators at 3,000 public and private colleges, universities, and trade schools across our nation. Collectively, NASFAA members serve 90 percent of undergraduate students studying in the United States.

We commend the Committee for its continued interest in exploring some of the important policy areas surrounding the reauthorization of the Higher Education Act of 1965, as amended, through bipartisan hearings. It is fitting that the first hearing topic focuses on college costs, as college affordability remains one of the key issues facing students today.

As the Committee explores the cost of college, NASFAA presents considerations on the following topics, all central to a comprehensive conversation about college affordability:

1. Vital Role of Student Aid
2. Cost of College
3. Barriers to Accessing Aid
4. Financial Aid Information Provided to Students and Families
5. Improvements to Existing Aid Programs

Vital Role of Student Aid

Students access a variety of innovative and traditional postsecondary education options with the support of student aid programs offered by institutions, states, and the federal government. All of these sources of financial assistance have an important role to play in ensuring student access to and success in higher education, fulfilling the promise of the HEA that no qualified student will be denied a higher education due to lack of financial resources. Of these, institutions of higher education invest more in grant aid in students in their pursuit of higher education than any other source.[1]

Since the passage of the Higher Education Act of 1965, students and families increasingly rely on federal student aid to access postsecondary education. Pell Grants provide a foundation of support for the students with the most financial need. In award year 2019-2020, the maximum Pell Grant award is $6,195. In addition to the Pell Grant, the Federal Supplemental Educational Opportunity Grant (FSEOG), a campus-based aid program, supports students with financial

[1] "2018 Trends in Student Aid," College Board.

need and requires a match from institutions, stretching the federal dollar further in support of students. The Federal Work-Study (FWS) program, another campus-based aid program, offers part-time jobs to students in a variety of positions on- and off-campus to allow students to gain basic work experience and receive an additional funding stream to support their education. While students and financial aid administrators prefer grant and work-study programs, federal student loan options remain an important source of financial assistance for students and families.

At public 2-year and 4-year universities, state investment in higher education has dramatically reduced the out-of-pocket cost for students. State investment in higher education includes both direct subsidization of public institutions and a variety of state grant, loan, and work programs. Of all forms of aid, however, institutions of higher education invest more in students in their pursuit of higher education than any other financing source. Institutions willingly put their own money on the table to serve students from all economic backgrounds, demonstrating existing "skin-in-the-game."[2]

Taken together, the variety of student assistance programs at the institutional, state, and federal level work to make college possible for students across the country.

Cost of College

Conversations about college cost often confuse two important concepts in college pricing: published price (or sticker price) and net price. Published price is the price listed publicly by the institution, but net price is the amount students actually pay after accounting for financial aid offered by the institution, state, and/or federal government. In 2018-19, the net tuition and fees for in-state students at public four-year institutions was $3,740 contrasted with $10,230, published tuition and fees for in-state students at public four-year institutions.[3]

As we look forward to reauthorizing the Higher Education Act, we must rely on data and evidence to guide our student aid policy, which also requires an acknowledgement that any link between federal student aid and college price increases is unsubstantiated. For decades, the theory that increases in federal student aid lead colleges to increase their prices has permeated conversations about higher education cost and affordability. Unfortunately, that theory, often referred to as the "Bennett Hypothesis," is not supported by conclusive evidence, as pointed out in *Does Federal Financial Aid Drive Up College Prices* (Heller 2013).[4] NASFAA is concerned that we have reached a point where the perpetuation of this hypothesis has become harmful

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[2] Ibid

[3] "2018 Trends in College Pricing," College Board.

[4] "Does Federal Financial Aid Drive Up College Prices?" Heller, 2013: http://www.acenet.edu/news-room/Documents/Heller-Monograph.pdf

and irresponsible and will lead to misguided policy decisions if not refuted.[5] The diverse structure of the higher education system in the United States, combined with the fact that institutions of higher education are complex, unique organizations, makes it very difficult to isolate cost increases.

Congress cannot ignore the vital role of state investment in higher education in ensuring affordable postsecondary education, yet according to the Center on Budget and Policy Priorities, nationally, state funding for public two- and four-year colleges in 2018 was more than $7 billion below its 2008 level, after adjusting for inflation.[6] Put another way, shouldering the cost of providing higher education has shifted away from the public — mostly at the state and community levels — to individual students and families. Similarly, when adjusting for inflation, federal support for education remains at funding levels below pre-sequester investment.[7]

Barriers to Accessing Aid

Institutional, state, and federal investment in students is irrelevant if students cannot access these programs. By removing barriers to financial aid programs, we can ensure students can access important financial assistance to mitigate the cost of college.

One way to do this is to leverage existing technology to ensure the Free Application for Federal Student Aid (FAFSA) and related verification processes are streamlined while maintaining program integrity. NASFAA has long been interested in ways to make the FAFSA and the overall application process more efficient and simpler for students and families. NASFAA has offered recommendations to simplify the form and has been generally pleased by the improvements over the past several years, including “smarter” skip-logic on the form and the implementation of the IRS Data Retrieval Tool (DRT), but there’s more work to do.

In response to calls for simplifying the federal aid application form, NASFAA developed a model that would simplify the FAFSA process while still ensuring program integrity and accurate targeting of federal funds.[8] By eliminating irrelevant and unnecessary questions, including those not related to student aid, and fully utilizing technology with existing federal and state systems,

[5] Letter to Sen. Alexander and Sen. Murray on Affordability, NASFAA, February 2018: https://www.nasfaa.org/uploads/documents/nasfaa_letter_on_affordability.pdf

[6] “Unkept Promises: State Cuts to Higher Education Threaten Access and Equity,” CBPP, 2018: https://www.cbpp.org/research/state-budget-and-tax/unkept-promises-state-cuts-to-higher-education-threaten-access-and.

[7] “Education Matters: Investing in America’s Future,” Committee for Education Funding, 2018: https://cef.org/cef-budget-book/

[8] “NASFAA FAFSA Working Group Report: FAFSA Simplification,” NASFAA, July 2015: https://www.nasfaa.org/fafsa-report

NASFAA's model makes the aid application process much easier for the neediest students. Under the proposal, students and families participating in a federal means-tested benefits program, such as Supplemental Nutrition Assistance Program (SNAP) and/or Supplemental Security Income (SSI), would not again have to prove they are poor. Instead, they would be automatically eligible for the maximum Pell Grant award. From there, the remaining applicants would enter additional financial information based on their predicted financial strength.

Generally speaking, the goals of "simplicity" and "program integrity" are at odds with each other, i.e., a highly accurate need analysis system is not simple. However, the use of more information obtained directly from the IRS would allow for a simpler application and reduced burden for applicants, while still retaining a high standard of accuracy. Using PPY income data instead of prior-year data also presents the opportunity to explore expanding IRS and Department of Education (ED) data-sharing. NASFAA strongly supports the bipartisan FAFSA Act, sponsored by Reps. DelBene and Walberg in the House and Sens. Alexander and Murray in the Senate.[9]

Unfortunately, the application process does not end after a student submits a FAFSA. Many applicants are then required to *verify* the information they've just submitted. One of the major benefits of the NASFAA proposal, taken together with the FAFSA Act, is the positive impact this approach would have on reducing verification burden for both students and schools. Verification of FAFSA information can be a confusing and tedious process for students, particularly for disadvantaged students who are unfamiliar with the process.[10] In some cases, the verification requirements can be cumbersome enough to deter some students from completing the process. Whether through direct data-sharing between ED and the IRS, or an expansion of the DRT, the need for verification will be greatly reduced because more information will be coming directly from the IRS. This eliminates hurdles for low-income students, and free up more time for financial aid administrators to counsel students, rather than push paperwork.

Finally, provisions unrelated to student aid and higher education stand in the way of student access to the federal student aid programs. NASFAA believes that financial aid should not be used to enforce social policies. NASFAA supports eliminating the student eligibility provisions related to drug convictions and Selective Service registration.

Financial Aid Information Provided to Students and Families

Because of the variety of federal financial aid programs students use to cover the cost of

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[9] "NASFAA Supports Bipartisan FAFSA Act," NASFAA, November 2018: https://www.nasfaa.org/nasfaa_supports_bipartisan_fafsa_act

[10] "Issue Brief: Verification," NASFAA, October 2018: https://www.nasfaa.org/issue_brief_verification

college, ensuring students and families understand financial aid decisions remains an important priority for financial aid administrators.

Financial aid administrators value the importance of clear, concise, accurate information for students and parents, and recognize there are ways to improve award notifications, often one of the first places students learn of the financial aid programs available to them. For this reason, NASFAA supports standardizing core terms and elements of award notifications.[11] Congress should provide institutions with flexibility to design their award notices in a way that best suits their particular student population to help maximize the effectiveness of award notifications and avoid unintended, negative consequences of overly prescriptive standardization. In fact, in 2014 NASFAA's Board of Directors adopted language in the association's Code of Conduct to require institutional members to comply with several award letter improvement provisions, including using standard terminology and definitions.[12]

Beyond award notifications, students encounter financial aid information about federal student loans in mandated entrance and exit counseling. With a complicated federal student aid system, Congress and the Department of Education should prioritize providing simple, consumer-tested information to students and families as they begin the federal student aid process and as they navigate the entire student aid lifecycle. This will require a thorough review of existing consumer information to identify what is duplicative, no longer necessary, or could be streamlined. While improved consumer information is not a silver bullet, better, more targeted information and counseling will improve decision-making.

Today, financial aid offices are prohibited from requiring students take time to consider their borrowing behavior by mandating additional loan counseling. The very fact that too many students do not realize they borrowed at all for their education necessitates the flexibility for schools to provide additional required counseling. Providing institutional authority to mandate additional counseling allows institutions to tailor counseling requirements to the unique characteristics of their students, instead of having to comply with a one-size-fits-all annual counseling federal mandate. By enhancing a school's authority to require additional counseling, schools can better serve their students and communicate the cost of college.

All of that said, financial aid offices and the federal government can continue to work to improve existing information and counseling for students and borrowers, but too many students have limited financial literacy competence to navigate a complex system of loans and repayment options that may have lasting consequences. The cost of college necessitates a wholesale look at financial literacy education, beginning at the K-12 level, for students and their

[11] "Issue Brief: Financial Aid Award Notifications," NASFAA, September 2018: https://www.nasfaa.org/issue_brief_award_notifications
[12] "Code of Conduct," NASFAA: https://www.nasfaa.org/Code_of_Conduct

families.

Improvements to Existing Aid Programs

The Federal Pell Grant Program

The Federal Pell Grant Program remains the foundational federal student aid program. Without it, thousands of students every year would miss out on the benefits of a college education. The program has benefited tremendously from small changes over the years, including the addition of a mandatory inflation-adjusted add-on to the maximum award and the temporary expansion to allow students to pursue their education year-round, but there's more to be done to improve the program designed for the nation's neediest students.

In 1972, the maximum Pell Grant covered 92% of the average tuition at a public four-year institution. Today, the maximum grant covers just 29%.[13] Sustained investment is necessary to ensure the Pell Grant maintains its purchasing power.

Beginning in award year 2013-14, the annual inflation-adjusted add-on to the Pell Grant maximum award represented a valuable increase to the Pell Grant, which has seen its purchasing power erode over the years. However, the inflation adjustment expired after award year 2017-18. Predictable, set increases to the Pell Grant maximum award assist financial aid offices, and students and families, in determining a student's ability to pursue higher education. Right now, particularly in the context of the shift to "Early FAFSA" and student and family use of prior-prior year (PPY) income information, the annual congressional appropriations process often does not align with the financial aid award notification timeline.[14]
The annual federal budget and appropriations process adds unnecessary uncertainty to a program that plays a vital role in the lives of thousands of students every year. Pell Grants should be protected from the annual appropriations process by moving the funding stream from the discretionary year-to-year allocation to full mandatory funding.

We know the biggest cost increase students face is not small annual fluctuations in tuition, but instead needing extra semesters to finish their program. One innovative way to encourage students to enroll in additional credits without penalizing those students unable to accelerate their coursework is by providing a "bonus" amount on top of a Pell Grant for students enrolled in 15 credits or more to incentivize completion.[15]

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[13] "Reforming Pell Grants," John Kroger, Inside Higher Ed, November 2018: https://www.insidehighered.com/blogs/leadership-higher-education/reforming-pell-grants

[14] Letter to Joint Select Committee on Budget and Appropriations Process Reform, NASFAA, June 2018: https://www.nasfaa.org/uploads/documents/20180619NASFAABudgetandAppropsProcessReformLetter.pdf

[15] "Reimagining Financial Aid to Improve Access and Outcomes," NASFAA, 2013:

Federal Campus-Based Aid Programs

The Federal Campus-Based Aid Programs include the Federal Supplemental Educational Opportunity Grant (FSEOG) Program, the Federal Work-Study (FWS) Program, and the Federal Perkins Loan Program. All three of these programs require an institutional match of federal funds and are administered at the institutional level. FSEOG provides additional grant aid to low-income undergraduate students, oftentimes on top of a Pell Grant award. Federal Work-Study provides aid to both undergraduate and graduate/professional students with need in the form of wages from on- or off-campus employment. Finally, the Federal Perkins Loan Program provided loans out of institutionally-based revolving funds to needy students.

Congress can work to better target limited campus-based aid dollars by ensuring all campus-based aid funds are allocated based on institutional need. Due to the antiquated design of the funding formula, today's allocation of campus-based aid largely reflects a 40-year-old distribution of funds, where institutions receive a "base guarantee," based on their allocation from FY 1999. Growing schools that are serving needier student populations cannot increase their funding because other institutions' funding levels are largely protected, regardless of institutional need. NASFAA recommends phasing out the base guarantee portion of the allocation formula over 10 years; thus, allocations would be based only on a "fair share" formula.[16]

While revising the funding formula will make some difference for students and institutions. Ultimately, the federal government should invest more in these programs. In AY 2013-14, the average FSEOG award stood at $598, a steady decline from $778 in AY 2001-02.[17] After adjusting for inflation, average FSEOG award amounts have declined by approximately 47% since award year 1993-94.[18] FSEOG stands as a worthy use of federal dollars, as the program requires contributions from institutions to leverage federal support, an existing and effective form of institutional risk-sharing. In a period of financial austerity, FSEOG stretches the federal dollar further in support of the neediest students. The FWS Program enjoys broad, bipartisan support—and rightly so. Work-study supports needy students while also providing valuable work experience. With that said, however, federal support for FWS remains relatively flat with annual appropriations still hovering around FY 2001 levels. Like FSEOG, FWS stretches federal

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https://www.nasfaa.org/uploads/documents/Reimagining_Financial_Aid_to_Improve_Student_Access_and_Outcomes.pdf

[16] "NASFAA Task Force Report: The Campus-Based Formula," NASFAA, June 2014: https://www.nasfaa.org/The_Campus_Based_Aid_Allocation_Formula_Task_Force_Report

[17] "Campus-Based Student Financial Aid Programs Under the Higher Education Act," Congressional Research Service.

[18] Ibid

investments further by requiring matching funds from institutions and work-study employers.

The Federal Perkins Loan Program, now expired, provided low-interest loans to undergraduate and graduate students. Its expiration has left current and future students with an average $2,000 gap in their aid packages. In many ways the original risk-sharing program, Perkins Loans operated through self-sustaining revolving funds with no federal contribution to the revolving funds since FY 2006. As Congress looks to address the cost of college with constrained federal resources, Perkins, like all of the campus-based aid programs, represented an existing skin-in-the-game program that worked to meet student need.

<u>The Federal Direct Loan Program</u>

While media depictions of the nation's "student debt crisis" center on graduates of elite institutions with six-figure debt loads, borrowers with small amounts of debt without a college degree reflect the real student debt crisis today. Pursuing higher education while amassing some student debt can be an important and responsible investment because the consequences of not pursuing a degree or credential can be striking. The federal government offers several loan programs with a variety of repayment and debt forgiveness options through the Direct Loan Program.

One simple way to immediately decrease the cost of college is to eliminate federal student loan origination fees. A student loan tax, loan origination fees are a relic of the 1980s, when additional revenue was necessary to offset loan subsidies in the now-defunct Federal Family Education Loan (FFEL) Program.[19] Though FFEL no longer exists, origination fees remain. Origination fees withhold a portion of a student's proceeds while still requiring repayment with accrued interest of the full loan amount before the deduction of fees, thereby masking the borrower's true cost and adding unnecessary confusion. Under sequestration, loan fees are increased based on an annual adjustment percentage determined by the Office of Management and Budget (OMB). Though origination fees serve as a revenue generator for the federal government, the federal budget should not be balanced on the backs of students and families. The average undergraduate borrower in a four-year program will pay an estimated $235 in origination fees and associated interest if enrolled in a standard 10-year repayment plan, while the average graduate student in a two-year program pays about $1,145 in fees and interest on those fees if repaying over 10 years.

Undergraduate students with demonstrated financial need are eligible for Federal Subsidized Stafford Loans. Eligible students do not have to pay the accrued interest on subsidized loans while they are enrolled at their institutions at least half-time, but the Budget Control Act of 2011 eliminated graduate and professional student eligibility for the in-school interest subsidy

[19] "Issue Brief: Origination Fees," NASFAA, November 2017: https://www.nasfaa.org/issue_brief_origination_fees

as a means of reducing the federal budget deficit. With no access to federal grants, the elimination of the in-school interest subsidy harms needy students in their pursuit of an advanced degree and leads to increased debt. Benefits for graduate and professional students are often the first targeted in the federal budget process, which leads to higher debt loads. Proposals to eliminate the in-school interest subsidy for undergraduate students without increasing available aid elsewhere would serve to increase the cost of college by increasing student loan debt. According to an analysis by the Institute for College Access and Success (TICAS), a student starting school in 2018-19 who borrows the maximum aggregate subsidized loan amount ($23,000) and graduates in five years would enter repayment with $3,400 in additional student loan debt without the in-school interest subsidy.[20]

As it stands now, institutions have little control over the borrowing behavior of their students. Financial aid administrators want to be good stewards of federal funds, but more importantly, they want to ensure their students avoid accruing unnecessary or excessive debt and are able to repay their loans. Because of the entitlement nature of the Direct Loan program, a school cannot impose across-the-board restrictions on borrowing institution-wide or even by program, enrollment status, dependency status, or any other parameters.[21]

Conclusion

We appreciate the Committee's interest in addressing the cost of college. As those who work with students on a daily basis, financial aid administrators nationwide continue to believe there are many opportunities to improve the federal student aid system to ensure success for all stakeholders in all stages of the process. NASFAA looks forward to continued collaboration with Congress on college affordability.

[20] "Trump Proposal to Eliminate Subsidized Loans Would Increase the Cost of College by Thousands of Dollars," TICAS, May 2017: http://ticas.org/blog/trump-proposal-eliminate-subsidized-loans-would-increase-cost-college-thousands-dollars

[21] "Issue Brief: Loan Limits," NASFAA, February 2018: https://www.nasfaa.org/issue_brief_loan_limits