INVESTING in America's Future

Why Student Aid Pays Off for Society and Individuals

A Report from The Institute for Higher Education Policy and Scholarship America®

Funding for this project was made possible through the generous support of USA Funds®

The Institute for Higher Education Policy is a non-profit, non-partisan research organization whose mission is to foster access and success in postsecondary education through public policy research and other activities that inform and influence the policymaking process. These activities include policy reports and studies, seminars and meetings, and capacity building activities such as strategic planning. The primary audiences of the Institute are those who make or inform decisions about higher education: government policymakers, senior institutional leaders, researchers, funders, the media, and private sector leaders.

The Institute for Higher Education Policy
1320 19th Street, NW, Suite 400, Washington, DC 20036
Phone: 202-861-8223 • FAX: 202-861-9307 • Internet: www.ihep.org

Scholarship America® is the nation's largest private sector scholarship and educational support organization. Its mission is to expand access to educational opportunities by involving and assisting communities, corporations, foundations, organizations, and individuals to support students and to encourage educational achievement. Scholarship America programs include Dollars for Scholars®, Scholarship Management ServicesSM and ScholarShop®. Dollars for Scholars is a national network of more than 1,200 grassroots scholarship foundations that raise funds and provide financial and academic support to local students. Scholarship Management Services administers over 1000 primarily corporate-sponsored scholarship programs. ScholarShop is a curriculum and multi-media resource center that motivates and prepares young people to achieve their full potential as students and as productive members of society.

Scholarship America
One Scholarship Way, St. Peter, MN 56082
Phone: 800-537-4180 • FAX: 507-931-9168 • Internet: www.scholarshipamerica.org

USA Funds® is the nation's leading education-loan guarantor. A non-profit corporation, USA Funds enhances postsecondary-education preparedness, access and success by providing and supporting financial and other valued services. USA Funds links colleges, universities, proprietary schools, private lenders, students and parents to promote financial access to higher learning. During the past 43 years, the USA Funds guarantee has supported a total of nearly $99 billion in financial aid for higher education. USA Funds has served more than 12.3 million students and parents, as well as thousands of educational and financial institutions.

USA Funds
P.O. Box 6028 Indianapolis, IN 46206-6028
Phone: 317-806-1200 • FAX: 317-806-1203 • Internet: www.usafunds.org

INVESTING in America's Future

Why Student Aid Pays Off For Society And Individuals

MAY 2004

A Report from The Institute for Higher Education Policy and Scholarship America®

Funding for this project was made possible through the generous support of USA Funds®

Foreword

Recent national attention on higher education finance has focused overwhelmingly on rising tuitions and state and federal efforts to address the burgeoning "cost crisis." While rising prices are a serious and important concern for students and families, what has been missing from this discussion is an understanding of why the money spent on college by families, governments, and the private sector matters. In particular, the investment in student grants, scholarships, and other aid is a critical part of the equation to equalize educational opportunity and make college possible for a growing number of academically qualified but financially challenged Americans. Equally as important, the failure to invest could have serious negative consequences for the nation, far beyond the simple loss of educational opportunity for individuals.

This report reviews and synthesizes a vast array of studies and analyses conducted in recent years to paint a more complete portrait of the benefits that result from investment in student-based support. It has been commissioned to celebrate the launch of National Scholarship Month, May 2004, an annual event since 1998 that is designed to highlight the importance of access to college and to improve understanding of the need to invest in student financial support. We hope this report will serve as a valuable and timely resource to policymakers, the media, higher education leaders, and the general public about why the investment in student aid indeed pays off for both society and individuals.

Special thanks to Melissa Clinedinst, Senior Research Analyst at the Institute for Higher Education Policy, for her hard work and dedication in drafting the report. We also wish to thank the many other staff members from our respective organizations who have contributed to the report's success, particularly Alisa Cunningham, Director of Research, and Loretta Hardge, Director of Communications and Marketing at the Institute for Higher Education Policy, as well as Barbara Arnold, Vice President, Public Affairs and Communications, and Perrie Garland, Publications Manager at Scholarship America®.

Finally, we express our deep appreciation to Carl Dalstrom, President, Henry Fernandez, Executive Director of Scholarships, Outreach, and Philanthropy, and the entire team at USA Funds for their generous support in making this project possible. We acknowledge the assistance and support of USA Funds and other organizations that provided data and feedback and recognize that they are not responsible for any errors of omission or interpretation contained herein.

Jamie P. Merisotis
President
The Institute for Higher Education Policy

William C. Nelsen
President
Scholarship America®

List of Figures

Figure 1	Median Annual Earnings of Year-Round, Full-Time Workers, Age 25 and Over, by Educational Attainment: 2001
Figure 2a	Percentage of U.S. Population Ages 25 to 34 Who Received Income from Aid to Families with Dependent Children or Other Public Assistance Programs, by Years of Education Completed: 1996
Figure 2b	Unemployment Rate of U.S. Population 25 Years and Older by Educational Attainment: January 2004
Figure 2c	Registration and Voting Rates for U.S. Citizens Ages 18 and Older, by Educational Attainment: November 2000
Figure 3	The Array of Higher Education Benefits
Figure 4	Average Pell Grant as Share of Tuition, Fees, Room, and Board, 1976-77 to 2001-02
Figure 5	Percentage of High School Graduates Ages 16 to 24 Enrolled in College the October Following Graduation, by Race and Income
Figure 6	Average Annual Unmet Need Facing High School Graduates by Family Income and Type of College (Full-Time Dependent Students): 1999
Figure 7	Annual Percentage Change in Instructional Appropriations and Total Tuition at Public Four-Year Institutions in Current Dollars, 1980-81 to 2001-02
Figure 8a	Average Tuition and Fee Charges, in Constant (2003) Dollars, 1976-77 to 2003-04 (Enrollment Weighted)
Figure 8b	Average Tuition, Fees, Room, and Board Charges at Four-Year Institutions, in Constant (2003) Dollars, 1976-77 to 2003-04 (Enrollment Weighted)
Figure 9a	Median Annual Earnings of Year-Round, Full-Time Workers, Age 25 and Over, by Gender and Educational Attainment: 2001
Figure 9b	Median Annual Earnings of Year-Round, Full-Time Workers, Age 25 and Over, by Race and Educational Attainment: 2001
Figure 10	Percent Change in Number of Public High School Graduates by Race/Ethnicity, 2001-02 (Actual) and 2013-14 (Projected)

Table of Contents

Executive Summary 1

Introduction 3

Benefits to Individuals and Society 5

Public Investment in Access 9

Rising Tuition 13

Consequences of Declining Public Investment 15

What Can Be Done? 19

References 21

Executive Summary

A college education makes a big difference in our lives as Americans. This is true for individuals, but is especially true in terms of our shared economic, social, and cultural well-being as a nation. Student aid, particularly grants, is a critical part of the investment in higher education that leads to these public and private benefits.

While many policymakers and education leaders cite the fact that a bachelor's degree has become worth more than $1 million in lifetime earnings, the other economic and social benefits of college are even more important, though often unrecognized. These include:

- increased tax revenues,
- decreased reliance on public assistance programs,
- lower unemployment rates, and
- increased voting, volunteering, and other civic activities.

For example, the unemployment rate for those with bachelor's degrees was 2.9% in January of 2004, compared to 4.9% for those with a high school diploma and 8.8% for those with less than a high school diploma. Similarly, in the 2000 national elections, 77% of Americans with a bachelor's degree voted, compared to 54% of high school graduates and 38% of those with less than a high school diploma.

Because a college education benefits both individuals and society, the cost of providing college access to all citizens is shared by students and families, taxpayers, colleges and universities, and the private sector. Unfortunately, over the last three decades the amount and type of support provided by these partners has shifted considerably, resulting in diminished access for low-income students. Examples of this shifting support include:

- By the mid-1990s, the maximum federal Pell Grant paid for only about 34% of the average cost of attendance (tuition, fees, room, and board) at a public four-year college, compared to 84% in the mid-1970s.
- Between 1980 and 2000, the proportion of income required for a low-income family to pay for one year at a public four-year college increased from 13% to 25%; high income families pay less than 5%.
- Student loans comprised nearly 70% of federal student assistance in 2002-03, and non-need-based aid comprised more than 40% of all financial aid – both sharp increases compared to just a decade ago.

The results of this shift can be seen most clearly in the fact that the gaps in college-going rates between low and high-income students, and between minorities and whites, have remained virtually unchanged in the last 20 years, despite increases in college enrollment overall. In fact, today only 48% of low-income students go to college, compared to 77% of high income students. Rising student loan debt – now approximately $18,000 for undergraduates – also is a serious concern. Debt can influence whether students go to college, where they go, and what they do upon graduating. Given projected dramatic increases in the number and proportion of high school graduates who are minority and first-generation students, the failure to invest now in college access for all students will result in sharply diminished returns for individuals and society.

To make college possible for current and future generations, the federal government and states must recommit to providing need-based grant aid in amounts that will allow low-income students to attend and complete college. This goal can be reached, in part, by:

- doubling the maximum Pell Grant award and fully funding the program,
- refocusing state student aid dollars on need-based grants, and
- acknowledging the private sector as a full partner in the college financing equation, particularly through scholarship aid.

The economic growth and social stability of the nation will depend upon our ability to capitalize on these opportunities and invest in America's future.

Introduction

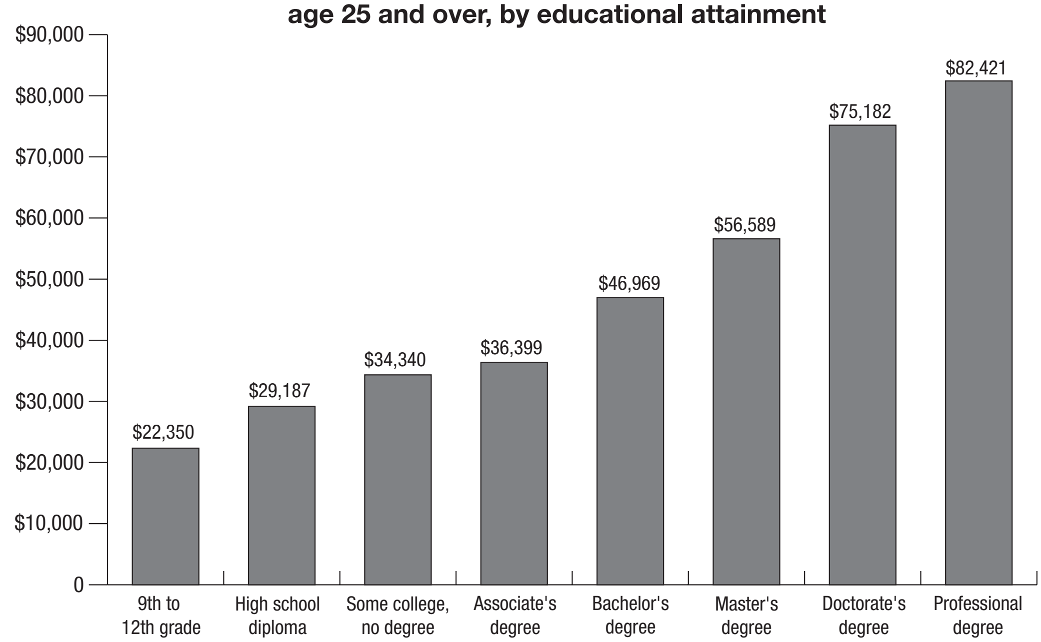
The opportunity to increase one's economic status and personal independence, to pursue any career, is the foundation of the American dream. Education, ingenuity, and perseverance have always been important components of reaching this dream. Today, a college degree is an increasingly critical milestone on the road to personal success. The individual gains of education are more obvious, but society also benefits from the skills and knowledge of college graduates. In other words, individuals benefit both from attaining a college degree and from living in a community composed primarily of college graduates. The reality of these dual benefits is the reason why taxpayer dollars are spent to help capable but economically disadvantaged students attain college degrees. However, the size of the public contribution has changed over time in response to shifting attitudes about the relative importance of individual and societal benefits. Maintaining the right balance between individuals' and society's contribution to the cost of college will be critical to ensuring that neither of those benefits are diminished.

Benefits to Individuals and Society

For today's high school students, a college education represents more than an opportunity for continued learning, a vehicle for personal growth, and an advantage in the labor market. A bachelor's degree has become the passkey to the middle class and beyond. As a result, the number of high school graduates who pursue postsecondary education continues to increase even as growth in tuition outpaces growth in family income. Nothing illustrates the perceived economic advantages conferred by a postsecondary credential more powerfully than students' willingness to borrow – more than half of all bachelor's degree recipients graduate with student loan debt averaging between about $15,000 and $17,000 (ACE, 2003a). Yet, no one can argue that the personal economic benefits of a college education are illusory. As shown in Figure 1, median annual salaries are strongly related to educational credentials (Census, 2002). A bachelor's degree has become worth more than $1,000,000 in total lifetime earnings (College Board, 2003a).

Society also reaps many benefits from an educated citizenry, including increased tax revenues, decreased reliance on public assistance programs (NCES, 1998), lower unemployment rates (BLS, 2004), and increased civic participation (NCES, 2003) (Figure 2a, 2b, and 2c). Although the public and private benefits of higher education

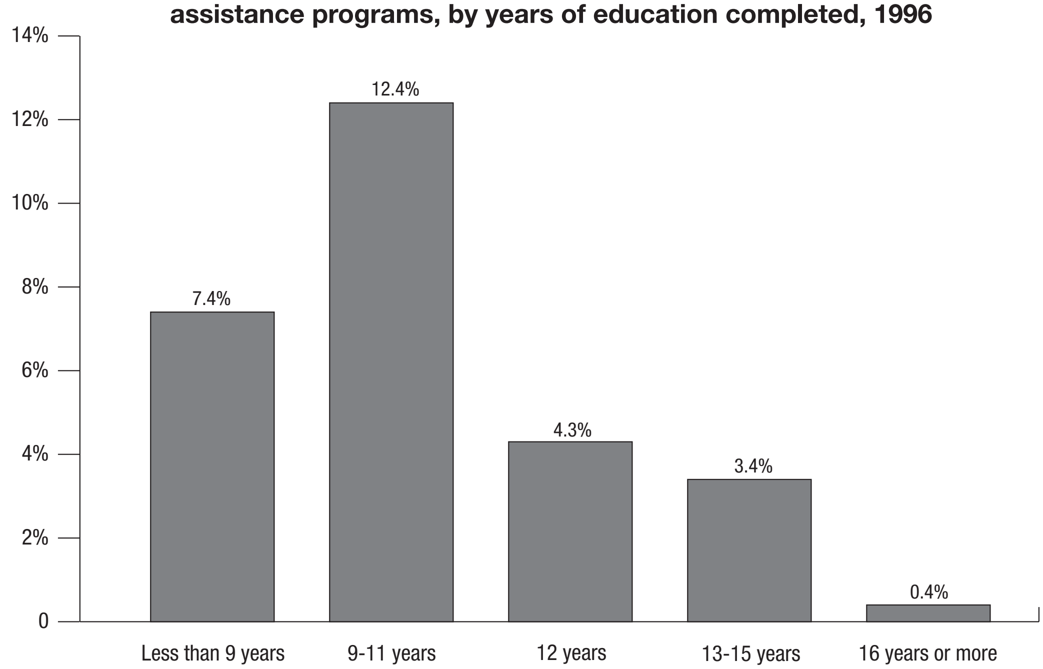
Figure 1: Median annual earnings of year-round, full-time workers age 25 and over, by educational attainment



SOURCE: CENSUS, 2002

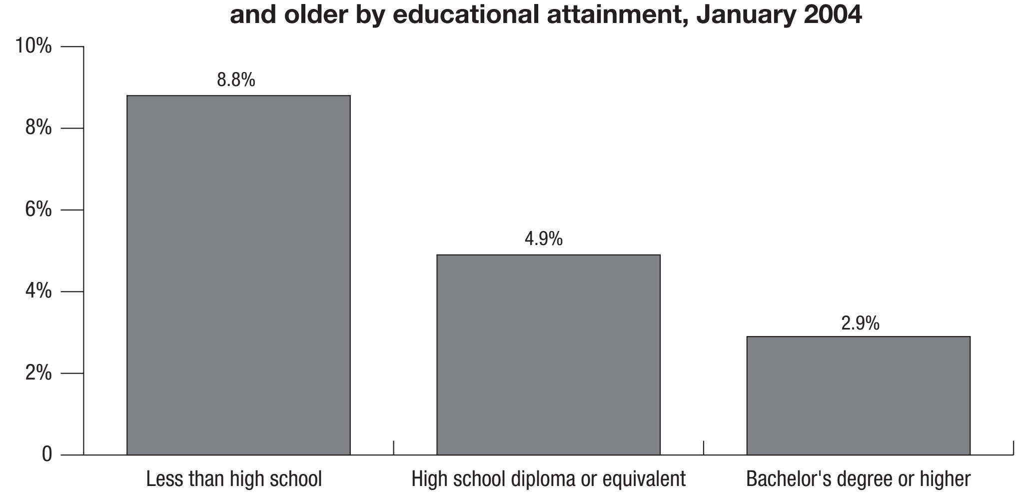
are often discussed separately, they are interrelated in important ways. For example, increased tax revenues are a direct result of the larger salaries of many college graduates. Decreased unemployment rates result from the greater number and variety of jobs available to college graduates (Barton, 2002). And, decreased reliance on public assistance programs results from both of these private benefits.

Figure 2a: Percentage of US population aged 25-34 who received income from Aid to Families with Dependant Children or other public assistance programs, by years of education completed, 1996



SOURCE: NCES, 1998

Figure 2b: Unemployment rate of US population 25 years and older by educational attainment, January 2004

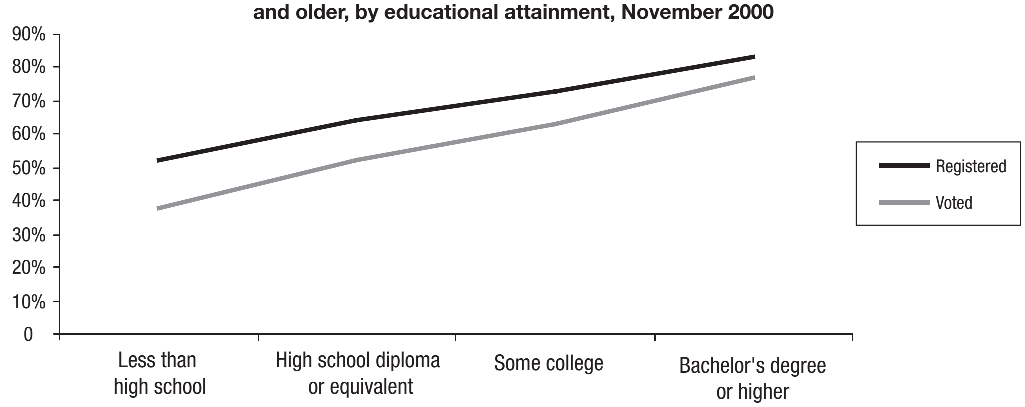


SOURCE: BLS, 2004

Many attempts have been made to accurately document and quantify the personal and private benefits of higher education. An array of the most commonly accepted public and private benefits are cataloged in Figure 3 according to their economic or social value (IHEP, 1998). As the proportion of jobs that require a bachelor's degree increases, the relative value of higher education will shift toward the public domain. According to the U.S. Department of Labor, job growth between 2000 and 2010 will overwhelmingly be in fields requiring a college education (BLS, 2001).

The variety of benefits to both individuals and society, as well as the interdependence of these benefits, makes clear why the investment of taxpayer dollars in higher education matters. The return on this investment is maximized when the expenditure of taxpayer dollars is focused on low-income students. Despite the future economic advantages conferred by a college degree, the financially neediest students simply cannot attend college without government intervention. The failure to invest in college access for all students not only results in diminished personal economic opportunities for low-income students but also weakens the fabric of society and risks costing the nation more in the long-term.

Figure 2c: Registration and voting rates for US citizens ages 18 and older, by educational attainment, November 2000



SOURCE: NCES, 2003

Figure 3. The array of higher education benefits

	PUBLIC	PRIVATE
Economic	○ Increased Tax Revenues ○ Greater Productivity ○ Increased Consumption ○ Increased Workforce Flexibility ○ Decreased Reliance on Government Financial Support	○ Higher Salaries and Benefits ○ Employment ○ Higher Savings Levels ○ Improved Working Conditions ○ Personal/Professional Mobility
Social	○ Reduced Crime Rates ○ Increased Charitable Giving/ Community Service ○ Increased Quality of Civic Life ○ Social Cohesion/Appreciation of Diversity ○ Improved Ability to Adapt to and Use Technology	○ Improved Health/Life Expectancy ○ Improved Quality of Life for Offspring ○ Better Consumer Decision making ○ Increased Personal Status ○ More Hobbies, Leisure Activities

SOURCE: IHEP, 1998

Public Investment in Access

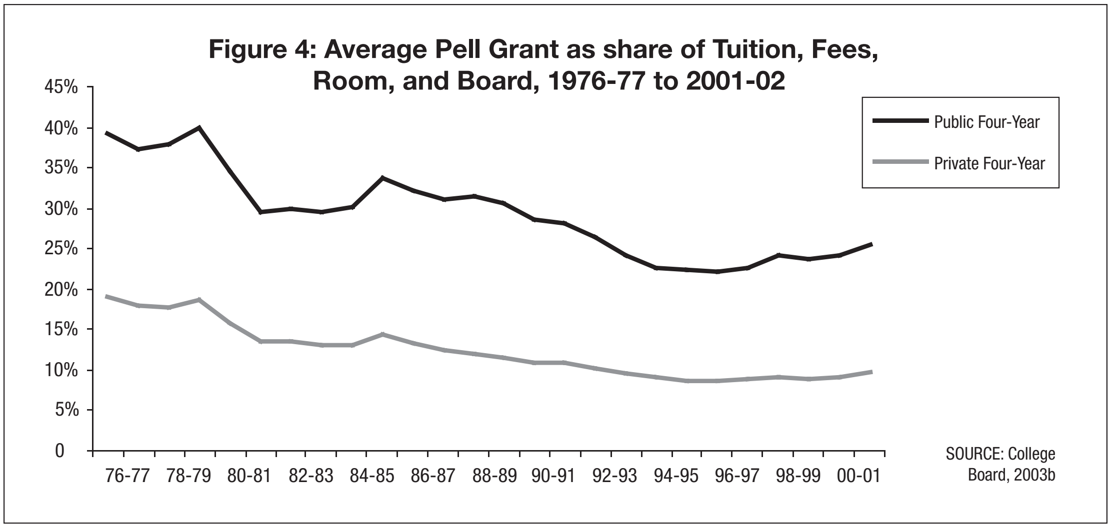
Because higher education confers both personal and societal benefits, the cost is shared among students and families, taxpayers, colleges and universities, and the private sector. Among society's financial investments are: 1) direct student financial aid, provided largely by the federal government and states; 2) financial support to colleges and universities in the form of state and local government appropriations; 3) funds raised by colleges and universities; and 4) private sector scholarships. This cost-sharing system supports the societal goal of access for low-income students and enhances both the personal and societal benefits of higher education.

However, the relative amount and type of support provided by these partners has shifted considerably over the last three decades, resulting in diminished college access for low-income students. In particular, two changes – declining support for grant aid in the federal student financial aid system and decreased state and local appropriations to colleges and universities – have shifted more of the cost of higher education to students and families. This dramatic shift in the cost-sharing system has disproportionately affected the ability of low-income students to finance their college education.

Role of the Federal Government

The federal government plays a large role in college access, providing two-thirds of the $105.1 billion of direct student financial aid disbursed in 2002-03. During the 1970s, the vast majority of federal student financial aid was distributed in the form of grants to low-income students and families. Grant aid that is based on financial need has been shown to have the most powerful effect on college access (Heller, 1996). As both the price of college and the number of people attending increased, the cost of need-based grant aid grew substantially during a time of economic recession and competing priorities. As a result, the federal commitment to need-based grant aid has decreased substantially since the early 1980s. By 2002-03, loans comprised nearly 70 percent of federal student financial aid. Aid that is not based on financial need – unsubsidized student loans, loans to parents, and tax credits – comprised more than 40 percent of the total. This decreased commitment to grant aid has substantially reduced the proportion of the total cost of college attendance that is covered by the average Pell Grant, which is the primary vehicle for supporting low-income students (College Board, 2003b) (Figure 4). During the mid-1990s, the purchasing power of the maximum Pell Grant reached a low of 34 percent, down from 84 percent in the mid-1970s (ACSFA, 2002).

During times of budgetary strain, loans are particularly attractive to policymakers who want to convey a commitment to higher education at a fraction of the cost of grant programs. Guaranteed student loans are a less expensive investment because the federal government generally only covers the costs of subsidized interest,



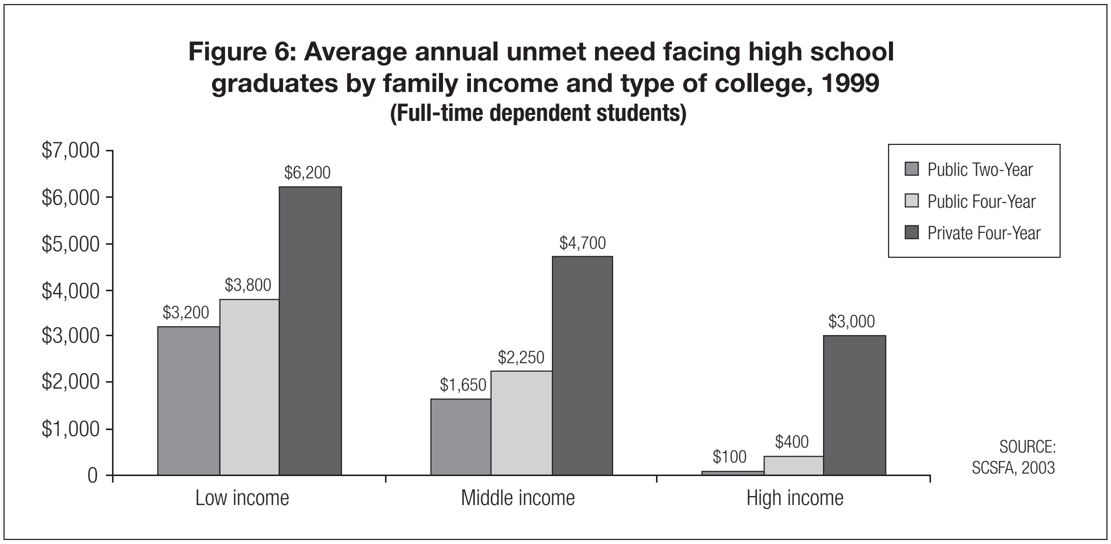
administrative requirements, and loan defaults (Price, 2004). In 2001-02, the federal government appropriated $11.9 billion in order to provide a like amount of grant aid to students. In the same year, only $3.9 billion was necessary to support the $26 billion in loan aid administered through the Federal Family Education Loan Program (Price, 2004). Student loans are an important part of the college access equation and should not be underestimated. But unfortunately, the limited investment in grant aid overall and the increasing focus on non-need-based aid have hindered progress toward the goal of equity in access to a college education. Between 1981 and 1996, the nation experienced dramatic growth in the percentage of high school graduates who enrolled in college at all income levels and among almost all racial/ethnic groups. However, gaps in college-going rates between minorities and whites and between high and low-income students have remained virtually unchanged. In fact, the most recent statistics on college-going rates show either negative or flat growth between 1996 and 2001 for all groups (NCES, 2003) (Figure 5).

Figure 5: Percentage of high school graduates ages 16 to 24 enrolled in college the October following graduation, by race and income

	Total	Low income	Middle income	High income	White	Black	Hispanic
1972	49.2%	26.1%	45.2%	63.8%	49.7%	44.6%	45.0%
1981	53.9%	33.6%	49.2%	67.6%	54.9%	42.7%	52.1%
1996	65.0%	48.6%	62.7%	78.0%	67.4%	56.0%	50.8%
2001	61.7%	43.8%	56.5%	79.8%	64.2%	54.6%	51.7%

SOURCE: NCES, 2003

Until new data become available, it remains unclear whether 2001 represents a temporary stagnation in college-going among high school graduates or forecasts the beginning of a reversal in the growth of previous years. However, some basic facts

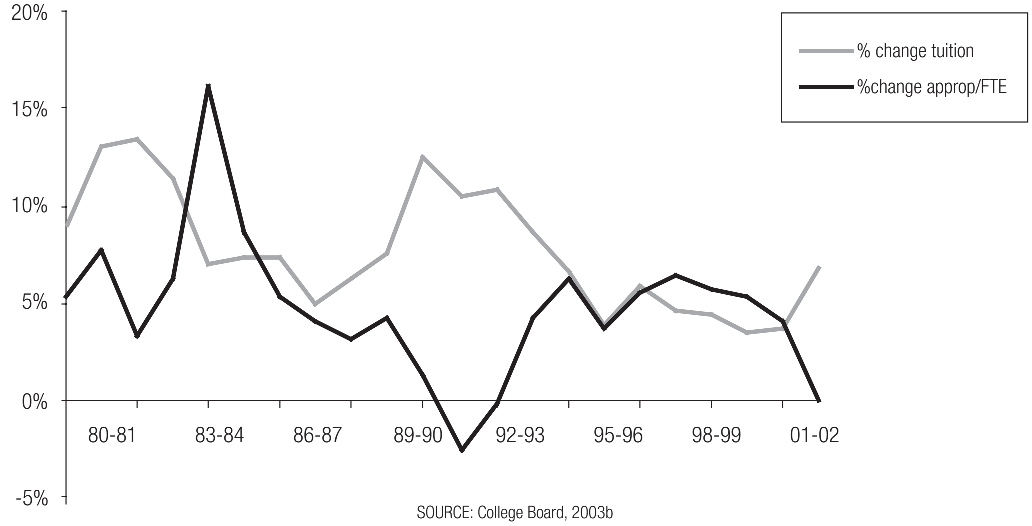


about the disproportionate and increasing burden faced by low-income students and families in financing college paint a grim picture. The percentage of family income required to pay for one year at a public four-year college doubled for low-income families – from 13 to 25 percent – between 1980 and 2000. During the same time period, the proportion of income necessary for high-income families to cover this expense remained steady at less than 5 percent (NCPPHE, 2002). In addition, low-income families face substantially higher levels of unmet need – the balance remaining after the expected family contribution and all available financial aid have been applied – in comparison to middle and high-income families (Figure 6). In order to cover this balance, students have turned to even further borrowing and/or increased their work hours, both of which add to the burden of paying for college (ACSFA, 2002). Experts estimate that in the first decade of the twenty-first century as many as two million college-qualified high school graduates from low and moderate income families will not attend college because of financial barriers (ACSFA, 2002).

Role of State Governments

The proportion of total revenues provided to public institutions through state and local appropriations decreased dramatically during the 1980s and never rebounded. During academic year 1980-81, appropriations from state and local governments comprised nearly half of total revenue for public institutions. By 1999-2000, however, only about one-third of public institutional revenues were provided by state and local governments (NCES, 2002). Because the revenue sources of public institutions are limited – tuition and fees, government appropriations, private gifts, endowment income, and income from sales and services – decreased state and local appropriations often result in some level of increase in tuition and fees (College Board, 2003a) (Figure 7). In fact, decreasing revenues from state appropriations seems to be the most important factor related to tuition increases at public four-year institutions (NCES, 2001).

Figure 7: Annual percentage change in instructional appropriations and total tuition at public four-year institutions in current dollars, 1980-81 to 2001-02



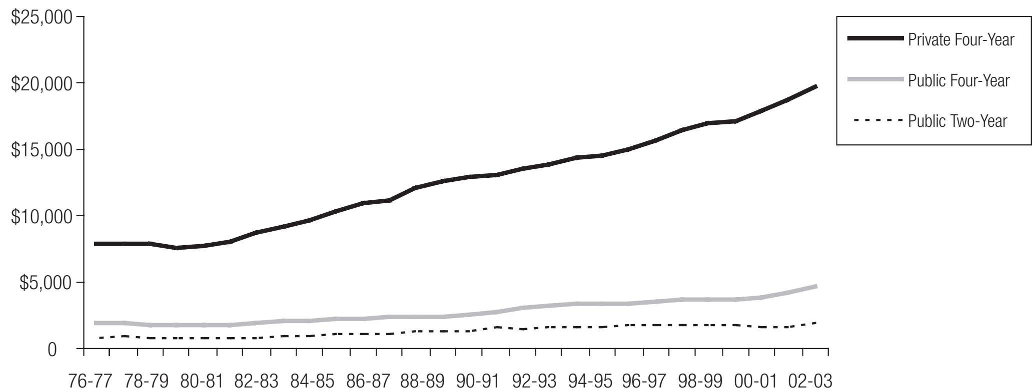
SOURCE: College Board, 2003b

Rising Tuition

Tuition increases have become the norm for today's aspiring and current college students and their parents. Beginning in the early to mid-eighties – when most current high school students were born – tuition and fee charges and total cost of attendance (tuition, fees, room, and board) have increased faster than inflation almost every year, with the most dramatic increases occurring at four-year institutions (Figure 8a and Figure 8b). For example, 2003-04 college students paid an average of $4,694 in tuition and fees for one year at a public four-year institution. In 1993-94, one year would have cost students $3,188 after adjusting for the ten-year inflation rate. In 1983-84, students would have paid less than half the price at $2,074 (College Board, 2003a).

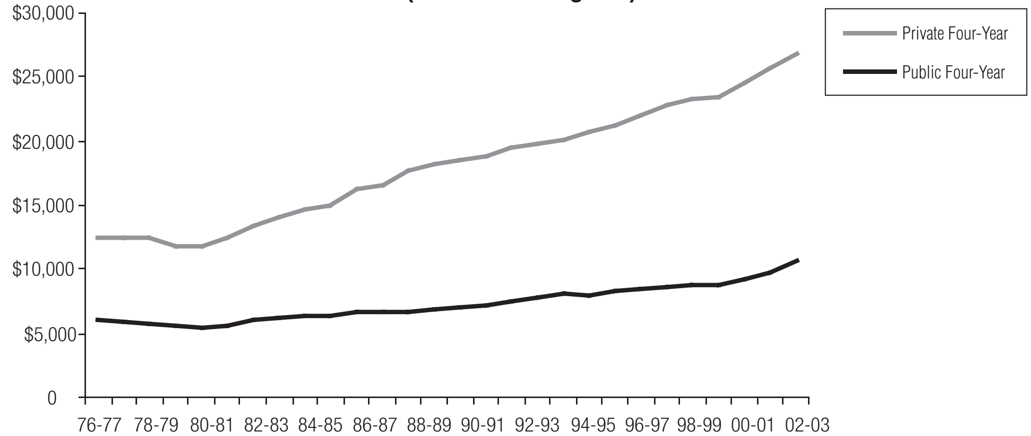
However, most students do not pay the published tuition and fee charges. Around 50 percent of college students receive grant aid that reduces their net price – the difference between published tuition and fees and what students actually pay out of pocket (College Board, 2003b). And, despite steady increases in tuition, very few students pay the exorbitant $20,000 to $30,000 per year tuition and fee charges that are often cited in newspaper articles. In fact, of the 3,600 American colleges and universities, only 200 had published tuition and fee charges of $20,000 or more in 2002-03 (ACE, 2003). And, nearly two-thirds of full-time undergraduates at four-year institutions attended colleges and universities that had published tuition and fee charges of less than $7,000 in 2003-04 (College Board, 2003a).

Figure 8a: Average tuition and fee charges, in constant (2003) dollars, 1976-77 to 2003-04 (enrollment weighted)



SOURCE: College Board, 2003a

Fibure 8b. Average tuition, fees, room, and board charges at four-year institutions, in constant (2003) dollars, 1976-77 to 2003-04 (enrollment weighted)



SOURCE: College Board, 2003a

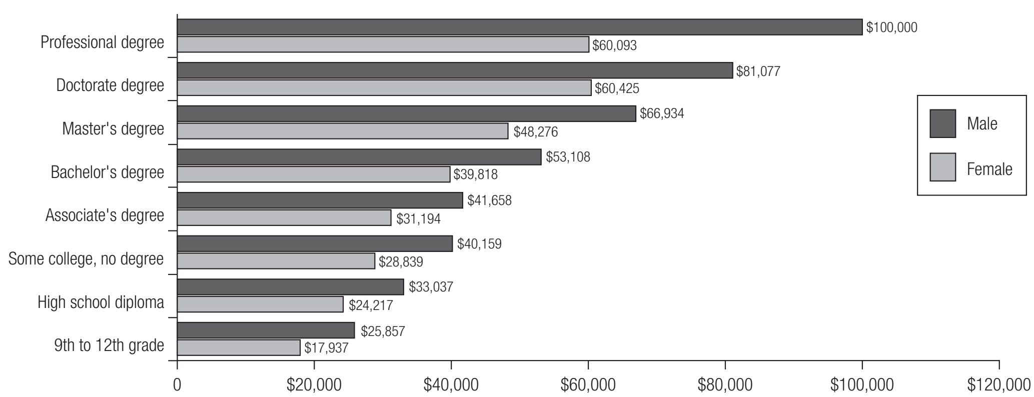
Consequences of Declining Public Investment

Students and families continue to find ways to finance higher education despite financial hardships because of the potentially large personal economic gains. However, not all college graduates benefit equally. Although college graduates do earn more on average than high school graduates, median salary figures obscure important differences in earnings. In fact, average salaries vary considerably by gender, race, economic background, and type of degree even among individuals with equivalent educational credentials. For example, women and minorities earn less on average than their counterparts. More importantly, as the level of education – and presumed financial investment – increases, these differential benefits become more pronounced (College Board, 2003a) (Figure 9a and Figure 9b). In other words, while getting a college education adds to one's personal financial status, it also exacerbates the differences among some groups. This reinforces the need to understand the broader public benefits that result from investing in higher education.

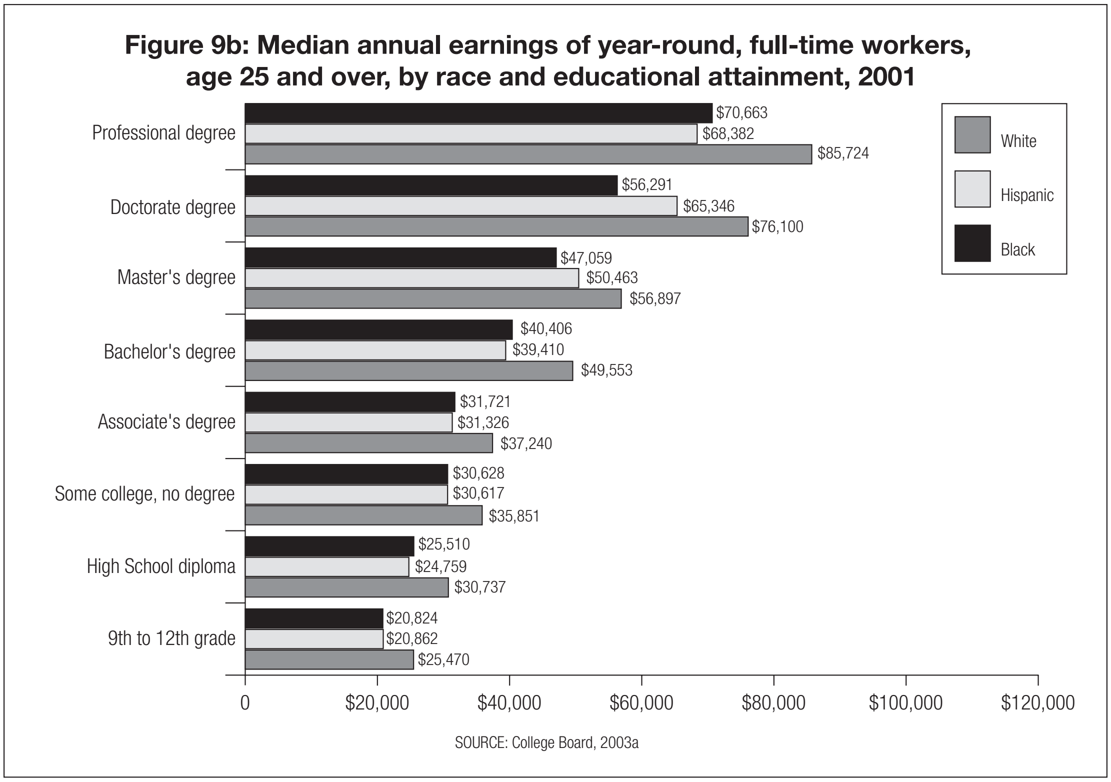
The Role of Debt

The relative personal economic benefits of higher education also are influenced by the increasing prevalence of student borrowing, particularly among low-income students. Students who borrow to cover the cost of attendance pay a 33 percent premium on the portion that is paid for with student loans (assuming a ten-year payback period at 7 percent interest) (Price, 2004). As of 2000, average cumulative educational debt

Figure 9a: Median annual earnings of year-round, full-time workers, age 25 and over, by gender and educational attainment, 2001



SOURCE: College Board, 2003a



for undergraduates was approximately $18,000 (GAO, 2003), which translates into a $6,000 borrowing premium. In other words, a student who borrowed $18,000 to finance the price of college will actually pay $24,000 over time (Price, 2004).

In the 10 years from 1989-90 to 1999-2000, the percentage of students at all income levels who borrowed for college increased as did the amount borrowed. However, the amount borrowed varied little among income groups (NCPPHE, 2002). In addition, women, racial minorities, and students from low-income families all were more likely to borrow than their counterparts. Given the lower average salaries earned by these groups of graduates, it is not surprising that they are more likely to struggle with an excessive student loan debt after graduation (Price, 2004).

In addition, many borrowers begin post-college life at a disadvantage to their non-borrower counterparts in other ways that affect quality of life. A 1998 survey of student borrowers found that for those who finished their degree programs, 40 percent delayed purchasing a home, 31 percent delayed purchasing a car, and 22 percent delayed having children due to student loan debt (Baum and Saunders, 1998). In a more recent survey, 39 percent of low-income borrowers reported that loan repayments caused more hardship than anticipated (Baum and O'Malley, 2003).

Despite these difficulties, most people agree that a college degree is ultimately worth the individual investment in one's economic future, given the potential for increased earnings over the long-term. However, excessive student loan debt threatens to disrupt the delicate balance between private and public benefits. If policymakers and education leaders continue to emphasize the personal economic returns of higher education, how can society reasonably expect recent college graduates to forgo economic prosperity to fill shortages in critical but low-wage careers, such as teaching and social work? Under our current financial aid structure, this decision would be economically unsound for the vast majority of low-income and minority graduates. For instance, the nation continues to suffer from a shortage of elementary and secondary teachers, particularly minority teachers (Alliance, 2000). Yet how can the teaching profession successfully recruit and retain new teachers when employing them in this low-paying profession is tantamount to resigning many of them to years of excessive educational debt burden, as well as delaying home ownership and families? The continued policy focus on the individual benefits of higher education risks diminished returns both for individuals and society.

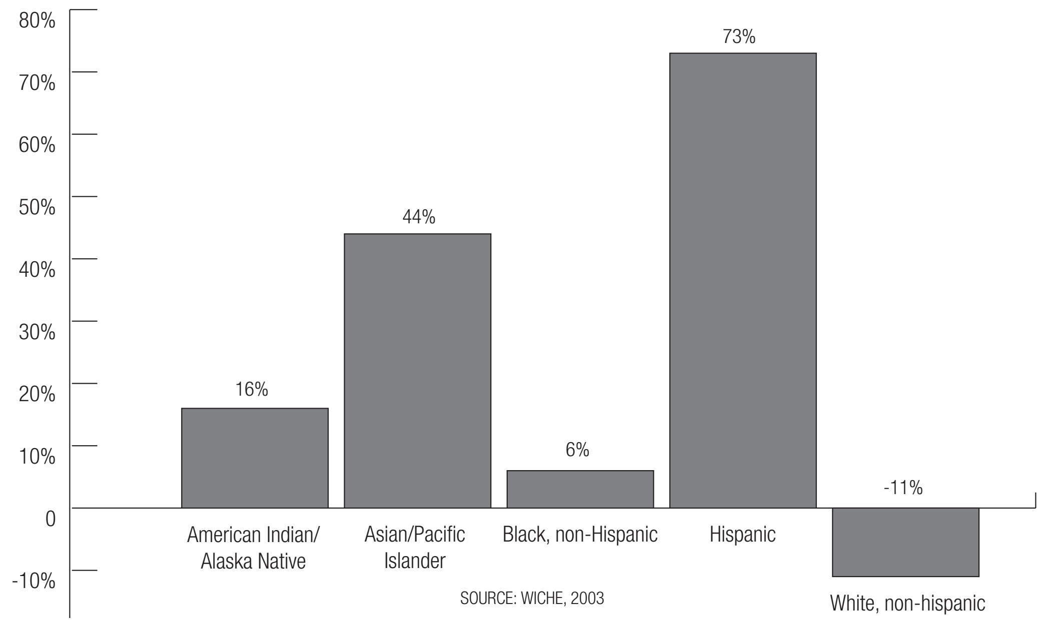
Loans certainly have an important place in the college financing system, given rising tuitions and the personal economic benefits that a college degree confers. The personal economic benefits justify the expectation that students and families will contribute to the cost of higher education, and student loans prove to be a good investment for most individuals. However, the growing reality is that borrowing serves as the main mechanism for increasing access. This poses the danger of creating yet another aspect of educational inequality – between those who have to borrow and those who can pay up front. Not surprisingly, college students who have to borrow in order to gain access to a four-year institution are more likely to have the same racial and economic background as high school graduates who still lag behind in college-going rates. In order to ensure that both low-income students and society as a whole can continue to reap the benefits of higher education, a greater proportion of financial aid must be awarded on the basis of need and in the form of grants.

The Role of Demographic Changes

The window of opportunity to regain an appropriate balance between individual and societal responsibility for financing higher education is already closing. The nation is about to experience a surge in the number of high school graduates that will peak at nearly 3 million in 2008 (WICHE, 2003). If the promise of No Child Left Behind is fulfilled, an increasing percentage of these new high school graduates will be college qualified. In addition, most of this growth in college-qualified high school graduates will occur among groups who are most in need of grant aid – minority, low-income, and first-generation students. For example, the number of Hispanic high school graduates will increase by nearly 80 percent, while the number of whites will decline (WICHE, 2003) (Figure 10). In addition, these "minority" populations will compose more than 50 percent of the total U.S. population within the lifetime of today's high school students (Census, 2002b). As this demographic shift progresses, the economic success and social progress of today's minority populations will become inextricably bound to that of the nation.

While the current financial aid system clearly has improved access for students overall, it has proven less effective in reducing the racial and income gaps in access to higher education due to the inadequate investment in need-based aid. As the need for more college educated workers continues to increase, the economic growth and social progress of the nation will become increasingly dependent upon providing educational opportunity to all Americans who are willing and able to learn.

Figure 10: Percent change in number of public high school graduates by race/ethnicity, 2001-02 (actual) and 2013-14 (projected)



What Can Be Done?

Policy changes at the federal and state levels can ensure postsecondary access for the coming wave of college-ready high school graduates. The future state of college access rests primarily on a recommitment to need-based grant aid. The shift to an emphasis on loan aid and non-need-based aid has addressed the needs of affordability and choice for middle and high income students, but it has not addressed the most important and original goal of student financial aid – improving access for low-income students. Given projected demographic changes that could result in a loss of as many as two million college-qualified high school students by the end of the decade, the nation simply cannot afford to under-invest in college access for low-income students. Some specific recommendations to invest in America's future are:

- **The federal government should double the maximum Pell Grant and fully fund the program.** Doubling the maximum Pell grant would restore the program's lost purchasing power and pay for an average of 75 percent of the price of attendance at public four-year colleges, thereby significantly reducing the financial obstacles that low-income students face. Although increases in grant aid are more expensive than equivalent increases in loan aid, grant aid is a more efficient use of taxpayer dollars because it has a far more powerful effect on students' ability to attend college.
- **State governments must refocus student aid dollars on need-based grants.** The recent state-level trend of awarding student aid based on academic merit alone reduces funds for low-income, minority, and first-generation students. Given the societal benefits of higher education, state governments also must ensure that higher education's share of general revenues does not continue to decline. At the same time, state policymakers must reevaluate their tuition policies for public colleges and universities. Policies must be set and resources allocated so that tuition increases can be reasonably consistent with general indicators of economic capacity in the state, such as per capita personal income. State leaders also should link funding for state financial aid programs directly with tuition or fee decisions to make sure that needy students are not shortchanged in times of rising student charges.
- **The private sector must be recognized as an important partner in the national goal of improving access to higher education.** The private sector needs to be acknowledged as a full partner in the college financing equation and should play a major role in our national dialogue about investing in America's future. The financial resources of the private sector have had an increasingly powerful influence on college access as many students face unmet need even after federal, state, and institutional financial aid is applied. Scholarship aid can bridge this gap, decrease the amount students must borrow or work, and increase the likelihood of degree attainment. Many private sector corporations already are making

valuable contributions. Given the potential lack of qualified workers if the promise of college access remains unfilled, more corporations should consider providing tuition reimbursement plans for their employees and dependents as a minimum investment for the future.

In the coming decade, the nation will reach a critical crossroads in its commitment to educational equity. The past 30 years have proven the importance of need-based grant aid in ensuring access for low-income students. Though the landscape of financing options has changed considerably, grant aid will continue to be essential. The coming wave of high school graduates presents an invaluable opportunity to make significant strides in decreasing the gaps in college-going rates among racial and income groups. All of the partners in the college financing process – the federal government, states, institutions, and the private sector – must commit to this investment. The economic growth and social stability of the nation will depend upon our ability to capitalize on this opportunity.

References

ACE. See: American Council on Education.

ACSFA. See: Advisory Committee on Student Financial Assistance.

Alliance. See: Alliance for Equity in Higher Education

Advisory Committee on Student Financial Assistance (ACSFA). 2002. *Empty Promises: The Myth of College Access in America.* Washington, DC: ACSFA, June.

Alliance for Equity in Higher Education. 2000. *Educating the Emerging Majority: The Role of Minority-Serving Colleges & Universities in Confronting America's Teacher Crisis.* Washington, DC: The Institute for Higher Education Policy, September.

American Council on Education (ACE). 2003a. From website (http://www.collegeispossible.org/index.php?module=ContentExpress&func=display&ceid=17&meid=14).

____________. 2003b. From website (http://www.collegeispossible.org/index.php?module=ContentExpress& func=display&ceid=18&meid=14).

BLS. See: U.S. Department of Labor. Bureau of Labor Statistics.

Barton, Paul E. 2002. T*he Closing of the Educational Frontier?* Princeton, NJ: Educational Testing Service, September.

Baum, S., and M. O'Malley. 2003. *College on Credit: How Borrowers Perceive Their Education Debt*. Braintree, MA: Nellie Mae

Baum, S., and D. Saunders. 1998. *Life after Debt: Results of the National Student Loan Survey*. Braintree, MA: Nellie Mae.

Census. See: U.S. Bureau of the Census.

College Board. 2003a. *Trends in College Pricing 2003*. Washington, DC: College Board.

____________. 2003b. *Trends in Student Aid 2003*. Washington, DC: College Board.

GAO. See: U.S. Government Accounting Office.

Heller, D. E. 1996. "Tuition , Financial Aid, and Access to Public Higher Education." Unpublished diss. Cambridge, MA: Harvard University, Graduate School of Education.

IHEP. See: Institute for Higher Education Policy.

Institute for Higher Education Policy (IHEP). 1998. *Reaping the Benefits: Defining the Public and Private Value of Going to College*. Washington, DC: IHEP, March.

NCES. See: U.S. Department of Education. National Center for Education Statistics.

NCPPHE. See: National Center for Public Policy and Higher Education.

National Center for Public Policy and Higher Education (NCPPHE). 2002. *Losing Ground: A National Status Report on the Affordability of American Higher Education*. San Jose, CA: NCPPHE.

Price, Derek V. 2004. *Borrowing Inequality: Race, Class, and Student Loans*. Boulder, CO: Lynne Rienner Publishers.

U.S. Bureau of the Census. 2002a. "(PINC-03) Educational Attainment – People 25 Years Old and Over, by Total Money Earnings in 2001, Work Experience in 2001, Age, Race, Hispanic Origin, and Sex." From census website (http://ferret.bls.census.gov/macro/032002/perinc/new03_006.htm).

____________. 2002b. "(NP–T4) Projections of the Total Resident Population by 5–Year Age Groups, Race, and Hispanic Origin with Special Age Categories: Middle Series, 1999 to 2100." Population Projections Branch, Population Division. From website (http://www.census.gov/population/www/projections/natsum–T3.html).

U.S. Department of Education. National Center for Education Statistics (NCES). 1998. *The Condition of Education 1998*. NCES 98–013. Washington, DC: U.S. Government Printing Office, October.

____________. 2001. *Study of College Costs and Prices, 1988–89 to 1997–98, Volume 1*. NCES 2002–157. By Alisa F. Cunningham, Jane V. Wellman, Melissa E. Clinedinst, and Jamie P. Merisotis. Project Officer: C. Dennis Carroll. Washington, DC: U.S. Government Printing Office, December.

____________. 2002. *Digest of Education Statistics 2002*. 2003–060. Washington, DC: U.S. Government Printing Office, June.

____________. 2003. *The Condition of Education 2003*. 2003–067. Washington, DC: U.S. Government Printing Office, June.

U.S. Department of Labor. Bureau of Labor Statistics (BLS). 2004. From website (http://data.bls.gov/servlet/SurveyOutputServlet?jrunsessionid=1080102784989191140).

____________. 2001. "Occupational Employment Projections to 2010." *Monthly Labor Review*. Washington, DC: U.S. Government Printing Office, November.

U.S. Government Accounting Office (GAO). 2003. *Student Financial Aid: Monitoring Aid Greater Than Federally Defined Need Could Help Address Student Loan Indebtedness*. GAO–03–508. Washington, DC: U.S. Government Printing Office.

WICHE. See: Western Interstate Commission for Higher Education

Western Interstate Commission for Higher Education (WICHE). 2003. *Knocking at the College Door: Projections of High School Graduates by State, Income, and Race/Ethnicity, 1988 to 2018*. Boulder, CO: WICHE, December.