Dear Sirs and Madam:

The Institute for Higher Education Policy (IHEP) respectfully submits these public comments on the upcoming reauthorization of the Higher Education Act (HEA) to the House Committee on Education and the Workforce. Specifically, these comments will address various ways to improve design and delivery of the various financial aid programs housed in Title IV of the Higher Education Opportunity Act of 2008 (PL 110-315). Improvements to Title IV aid programs have the potential to: expand access to our nation’s higher education system; improve persistence and completion rates among students who enroll in college; improve institutional quality and student learning; and increase affordability by stemming the growth of student debt.

Celebrating its 20th year in 2013, IHEP is a non-profit, non-partisan research organization committed to promoting access to and success in higher education for all students, with a particular focus on populations that have been traditionally underserved by our system of postsecondary education. Based in Washington, D.C., IHEP develops innovative policy- and practice-oriented research to guide policymakers and education leaders, who develop high-impact policies that will address our nation’s most pressing education challenges.

Executive Summary: Suggested Reforms to Title IV Aid Programs

Programs authorized until Title IV of the Higher Education Act (as amended in 2008) include all federal grant, student loan, and work study programs, as well as the various eligibility and accountability criteria and authorizations for federal higher education data collection. Despite overall increases in recent years, financial aid has not kept pace with rising tuition, declining state support for higher education, and stagnating family incomes. Over two-thirds of federal financial aid also comes in the form of student loans, which must be repaid to the federal government upon students entering the workforce. Meanwhile, the process for receiving Title IV aid is often cumbersome and confusing, which in turn limits the overall effectiveness of financial aid in helping students access and afford college. Finally, despite this large federal expenditure – over $150 billion annually – we know relatively little about the outcomes for students who receive federal aid, as well as how well the institutions they attend are
serving them. The following series of reforms to Title IV aid could help make the financial aid process more equitable and efficient, while simultaneously providing a better understanding of how effective taxpayer funds are in helping achieving national higher education attainment goals.

1. **Empower students as consumers in higher education**
   - Create a new unit record data system to gain a better understanding of how students progress through college and beyond.
   - Mandate that institutions provide standardized award letters, based on the current financial aid shopping sheet or other standardized format.

2. **Simplify and improve the student aid and loan programs**
   - Implement the use of prior-prior year tax data to provide early aid award and information, and communicate potential financial aid awards in a social security-style statement to students beginning in middle school.
   - Make Income-Based Repayment the default option for federal borrowers in order to decrease or eliminate loan defaults and system complexity, and make the system more equitable for borrowers.

3. **Increase college accessibility, affordability, and completion**
   - Maintain the Pell Grant as the centerpiece of need-based aid, make it an entitlement, increase and index the maximum award to inflation.
   - Provide block grants to states to coordinate institutional student services and public benefits with financial aid awards.

4. **Encourage institutions to reduce costs**
   - Explore stronger accountability measures based on student debt repayment levels and debt-to-employment ratios.
   - Incentivize that spending be maintained on need-based aid for students by rewarding institutions who set aside a certain percentage of their aid budgets to need-based aid, in particular rewarding institutions that serve primarily high-need individuals.

5. **Promote innovation to improve access to and delivery of higher education**
   - Fund and expand “Early Pell Grant Demonstration Project” from HEOA 2008.
   - Explore a federal or state-based system of loan forgiveness for on-time completion for Pell-eligible students.

6. **Balance the need for accountability with the burden of federal requirements**
   - Explore new metrics for institutional accountability (beyond 3-year CDRs), strengthen and reintroducing gainful employment regulations, mandate standardized award letters, collect and provide better data on student outcomes.

These suggested reforms, and the policy rationales and research undergirding them are discussed in detail below. We thank you for providing the opportunity to comment on our nation’s hallmark piece of higher education legislation, and hope you consider ways we can make Title IV aid programs work better for students that most need it to enter and complete college.
Section I: Background on Title IV Aid and its Effectiveness

Title IV Aid in Context

Programs authorized under Title IV of the Higher Education Act (as amended in 2008) include all federal grant, student loan, and work study programs, as well as various eligibility and accountability criteria and authorizations for federal higher education data collection. In 2011-2012, over $155 billion was provided in Title IV aid, representing nearly two-thirds (63.5 percent) of all funds – including federal tax benefits, state and institutional aid programs, and private loans – used to finance postsecondary education. Over the past decade, the federal government has increased total financial aid by 140 percent overall, resulting in a 79 percent increase in federal aid per full-time equivalent student.1

While this increase in federal student aid is noteworthy, it must be placed in the proper context. First, increases in federal aid have happened alongside increases in tuition, and decreases in real family incomes – particularly in low- and middle-income households. Over the past decade, published tuition, fees, room and board at public four-year institutions increased by 45 percent (adjusted for inflation). This trend has been primarily driven by decreased state support for higher education. Between 2000-2001 and 2010-2011 school years, state support for higher education per full-time equivalent student declined by 30 percent.2 Meanwhile, families in the bottom income quintile have seem their average family income decline by 5 percent over the past thirty years (while families in the middle income quintile and top five percent saw incomes rise by 14% and 95% respectively over this period, adjusted for inflation).3 These dynamics – particularly the increasing cost of college – help explain why federal aid (and in particular, federal grants) has covered less and less of college costs over time. The maximum Pell Grant, for example, will cover only 31 percent of the cost of attending the average four-year public institution in 2012–2013, despite an increase in the overall maximum award. This represents a decrease in purchasing power of 41 percent since 2002–2003, and more than 70 percent since the late 1970s.4

Second, in addition to the decreasing value (in real terms) of grant aid, grants make up less than one-third (31.7 percent) of total Title IV aid. The rest of the aid provided by the federal government must be earned via work while enrolled (as in federal work study) or eventually paid back with interest (as in federal loans). Indeed, over two-thirds (67.7 percent) of federal aid is disbursed in the form of loans.5 While federal loans often provide a better value to students relative to those found on the private market, they still represent a means of financing college through future earnings, rather than simply lowering the overall cost to the student. The result is that, after grant aid, low-income families must

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5 College Board 2012
spend the equivalent of 72 percent of annual income, and middle income families must spend 27 percent toward the cost of attendance at an average four-year college or university.\textsuperscript{6}

Simultaneously, the current landscape of higher education is different than the one that many Title IV programs were designed to serve. In the fall of 2011, only 15 percent of the students enrolled in college were attending a four-year school and living on-campus. Meanwhile, 42 percent of students attended two-year colleges. Over a third (37 percent) were enrolled part-time, and nearly a third (32 percent) of students worked full-time while enrolled.\textsuperscript{7}

**Effectiveness of Financial Aid**

Today’s students must choose not only from a complex array of institutions and programs across sectors, but are also confronted with a complex system of eligibility for financial assistance, and a variety of mechanisms to finance college and repay debt that is accrued during their course of study. These mechanisms vary in their effectiveness in increasing access and completion.

**Grants**

Several studies have shown that need-based grants, which effectively lower a student’s net cost of attendance, increase the likelihood that a student will attend college.\textsuperscript{8} Generally, grants have been shown to be more effective than loans in promoting college participation among low-income students.\textsuperscript{9} This finding is especially true for non-traditional students, for whom the impact of the Pell Grant has been particularly strong.\textsuperscript{10} Given that the majority of students currently attending postsecondary education are in some way “non-traditional” (defined as adult, independent, part-time, delaying enrollment, or not having received a high school diploma), the impact of need-based aid on these populations is critical. Finally, there is evidence that need-based grants reduce the likelihood that low- and moderate-income students will drop out of college, and a recent study also indicates that a $1,000 increase in grant aid increases receipt of a bachelor’s degree by 4.6 percent.\textsuperscript{11}

Of course, not all grants are need-based. Many state or institutional grants are awarded on the basis of academic merit or other non-need factors. Research has consistently shown that merit grants are awarded disproportionately to students from wealthier families, meaning that their impact on inducing college access for low-income populations is limited or at least compromised.\textsuperscript{12}

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\textsuperscript{12} Baum, Little, Ma, and Sturtevant 2008; Dynarski 2003a; Heller 2006; Long 2007
primarily distributed on the basis of need, more than half of all grants awarded by institutions and nearly one-third of all grants awarded at the state level are based on measures that do not take student need into account.  

**Loans**

As mentioned, loans make up over two-thirds of federal financial aid to college students. Students often receive both subsidized loans—meaning that the government is responsible for paying interest while a student attends school—and unsubsidized loans, which may have lower rates than private loans but still accrue interest while students are enrolled. The Stafford loan is the most common federal loan, and students with unmet need after their grant aid can receive a limited amount of subsidized Stafford loans. Unsubsidized Stafford loans are available to students beyond this amount. Some institutions have a limited amount of Perkins loans to distribute to needy students; these loans have the greatest benefits, with subsidized interest, the lowest interest rate (5 percent), and the longest grace period (nine months). Unsubsidized Parent Loan for Undergraduate Students (PLUS) loans are available for graduate students and parents of dependent undergraduate students at a fixed interest rate.

Loans have increased as a share of individual student aid packages over the past several decades due in part to the introduction of unsubsidized loans, and this has coincided with the increase in overall cost of attendance. This shift in the cost burden to students is important and may affect low-income households disproportionately. Some students may be more averse to borrowing than others, which increases their chance of dropping from full- to part-time enrollment or avoiding enrollment altogether. Other students may choose to work rather than take out loans, which may have an adverse effect on academic progress.

Despite the proliferation of loans as a primary financing strategy, there is little evidence on their effect on college access and success, particularly for low-income households. Evidence suggests that increases in loan eligibility drives higher college enrollment rates, though effects are primarily seen for middle- and upper-income households. The shift in the cost burden over time, from grants to loans, may disproportionately hinder access low-income households. Some students are also more averse to borrowing than others, which increases their chance of dropping from full- to part-time enrollment or avoiding enrollment altogether. Still more students may choose to increase work hours rather than borrow, to a point that has an adverse effect on academic progress.

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13 Heller 2012
15 Cunningham and Santiago 2008; Johnson, Montmarquette, and Eckel 2003
Timing and Delivery

To be effective, financial aid must be provided to students when it is likely to be most beneficial, and designed in a manner that ensures that students utilize it. Substantial research indicates that the process of applying for and receiving financial aid is cumbersome, and the complexity of the federal application process has a disproportionate effect on low-income students who may be on the margins of enrollment. In addition, many students who otherwise would have been eligible for Pell Grants or subsidized loans do not apply for them because they lack knowledge of the financial aid process or are put off by its complexity. The effect of need-based aid overall is often maximized by simplifying the process, which can be done by pre-populating financial aid forms with requisite income and household wealth data. Simplifying the process seems to be more effective than providing families with more clear information on college costs and financial aid.

Research has also shown that many of the questions on the needs assessment for students are superfluous, and that a drastically simpler formula would yield nearly the same awards for students.

Finally, student success is predicated on more than financial aid. Research clearly connects student engagement and campus supports to college outcomes, particularly among non-traditional students and those attending two-year institutions. This finding indicates that financial aid may be necessary to support student success, but even well-designed programs require on-campus mechanisms to ensure that students are engaging beneficially with the financial aid system. While many institutions have limited dollars to spend on student support services, the efficacy of federal financial aid in particular may require a more integrated process in which financial aid is linked to on- or off-campus supports and benefits for students. In short, there are many ways to improve the current financial aid system, though policymakers would be wise to focus on what is working (or most likely to work) for students who most need financial and other support. This approach includes maintaining financial aid to keep pace with college costs, timing financial aid to enhance student expectations, and supplementing financial aid with campus and other supports to ensure that students take advantage of all available aid.

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20 Bettinger, Long, Oreopoulos, and Sanbonmatsu 2009
Section II: Higher Education Act Reauthorization: Recommendations for Reform of Title IV

HEA reauthorization represents a significant opportunity to reinvest in today’s student population, with programs that are most likely to increase access and persistence, and reduce complexities that prevent federal aid from reaching its intended recipients or realizing its full potential. Per the Committee’s announcement requesting public comments, the following will provide options for reform that could:

1. **Empower students as consumers in higher education,**
2. **Simplify and improve the student aid and loan programs,**
3. **Increase college accessibility, affordability, and completion,**
4. **Encourage institutions to reduce costs,**
5. **Promote innovation to improve access to and delivery of higher education,** and
6. **Balance the need for accountability with the burden of federal requirements.**

1. **Empower Students as Consumers in Higher Education**

Policy option 1.1: Create a new unit record system to gain a better understanding of how students progress through college and beyond.

**Policy Rationale:** In accordance with the Higher Education Opportunity Act of 2008, each postsecondary institution that participates in the Title IV federal student aid programs is required submit data to IPEDS, or the Integrated Postsecondary Education Data System, on indicators related to institutional characteristics and resources, cost of attendance and financial aid, and student enrollment and outcomes. Additionally, institutions are also required to disclose post-graduate outcome data on students in some programs as well as to post a net price calculator on its Web site that uses institutional data to provide estimated net price information to current and prospective students and their families based on a student’s individual circumstances. Despite the amount of data collected, however, the manner in which they data are collected (at the aggregate level and cross-sectionally instead of longitudinally) and the disconnectedness between data sources (such as IPEDS and NSLDS), we can’t answer some of the most basic questions about student transfer, graduation, job placement, loan repayment, earnings, or total costs for specific programs for students with specific financial circumstances. In order to empower students as consumers in higher education, the first step should be to create a data system and user interface that allows students to compare outcomes that are most important to them when selecting an institution in order to maximize their investment.

**Implementation:** The 2008 reauthorization banned the creation of a federal database that would allow student progress to be tracked over time. Currently, a plurality of states have implemented data systems that track student progress in some form or another from elementary through higher education, and many other states are engaged in building state-level education and workforce datasets along these lines with federal dollars under several grant programs, including Race to the Top, the Statewide Longitudinal Data Systems Grant Program,
and the Department of Labor’s Workforce Data Quality Initiative. However, state databases, by definition, apply to a single state and thus hinder comparisons on a national scale, which is especially problematic with today’s mobile student population. Congress should repeal the 2008 ban and follow the lead of the majority of states who have created systems to provide students with clearer, better, consumer information. Furthermore, since institutions also already track their students at the unit level, allowing institutions to report to states and the federal government with unit record data would actually reduce reporting burden since they would not have to perform as many transformations of the data to report at the aggregate level on multiple surveys as they do now. Additionally, Congress should break down barriers between existing federal databases such as IPEDS, NSLDS, SSA, and IRS, with necessary provisions to protect privacy, to allow maximal use of currently available data.

Policy Option 1.2: Mandate that institutions provide standardized award letters, based on the current financial aid shopping sheet or other standardized format.

Policy Rationale: When students apply for federal financial aid, their institutional award letters – which include the federal aid for which they are eligible – are often formatted very differently, with different terminology, abbreviations, and definitions that make it difficult for students to understand exactly what their financial obligations will be, especially beyond one year. The result is that students may inaccurately estimate the amount of aid for which they are actually eligible in grants, work study, or various subsidized and unsubsidized loans.

Implementation: In 2012, the U.S. Department of Education introduced its most recent version of a standardized award letter, the Financial Aid Shopping Sheet. The shopping sheet is currently a voluntary consumer tool that institutions may adopt to award students their package. Information on the shopping sheet includes the estimated cost of attendance, total “gift aid” that does not need to be repaid, loan options, institutional graduation rate, loan default rate, and the median amount borrowed at that institutions. As of January 2013, over 600 institutions have adopted the shopping sheet for the upcoming school year. However, it stands to reason that some schools hesitant to use a standardized shopping sheet may not do so because of information on loan defaults, net cost, graduation rate, or other measures that may invite less positive comparisons with other institutions. For this reason, Congress should consider – as it did in 2008 with net price calculators – mandating that schools adopt a standardized award letter. As the implementation of net price calculators was delayed for three years to accommodate institutions, the same could be done for the financial aid shopping sheet, in order to allow more time for consumer testing and to garner useful feedback from institutions across sectors.

2. Simplify and Improve Student Aid and Loan Programs

Policy Option 2.1: Implement the use of prior-prior year tax data to provide early aid award and information, and communicate potential financial aid awards in a social security-style statement to students beginning in middle school.

Policy Rationale: Currently, students cannot apply for federal financial aid until January of the coming academic year, though in many cases they are applying to college earlier. When filling out the FAFSA, students and families are required to use data from the year that just ended, though in many cases families do not receive tax data until the end of January or later, further pushing out the time when they will know how much aid they may receive. The IRS and the Department of Education have increased the visibility of the IRS data retrieval tool, which allows students to pre-populate the FAFSA with tax information, thus simplifying the system. However, even with improved communication between agencies, students do not know their aid eligibility until a few months prior to the upcoming school year. If the FAFSA were populated with data from two years prior to the upcoming school year, students could be aware of aid eligibility much earlier in the process, thereby helping them prepare academically and financially. Studies have shown that using “prior-prior” year data is nearly as predictive of financial aid eligibility as “prior year,” and the use of the former would produce minimal differences in Pell eligibility and overall awards.\(^{24}\)

Implementation: In authorizing the use of prior-prior year data to populate the FAFSA form, Congress could simultaneously expand the ability of institutions to use “professional judgment” to target aid, and such a change – integrated fully with IRS information – would free up higher education institutions who currently must scramble to help students whose tax information changes at the last minute.

Policy Option 2.2: Make Income-Based Repayment the default option for federal borrowers in order to decrease or eliminate loan defaults and system complexity, and make the system more equitable for borrowers.

Policy Rationale: One of the purposes of income-based or income-contingent loan repayment programs is to provide subsidized loans to risk-averse students who otherwise would be reluctant to borrow funds (or enroll in school in the first place) out of fear that they will not earn enough upon graduation to repay their loans. Currently, the U.S. Department of Education provides seven different repayment options for federal loans – not including deferment and forbearance or loan forgiveness programs – with various eligibility criteria. The default plan is a standard 10-year repayment plan which may be too cumbersome for borrowers, particularly those with low incomes upon leaving school. Current income-based repayment (IBR) options, including the new Pay as You Earn (PAYE) option, allow students to pay loans as a percentage of

income for 20 or 25 years, rather than in lump sum monthly payments. Despite the fact that they inherently prevent loan default and protect against income shocks, these plans have been underutilized by students; around 1.1 million borrowers are enrolled in IBR, out of 37 million borrowers with outstanding loan balances. This is likely because borrowers are unaware they exist, are confused by the number of repayment plans available, and are simply defaulted into the standard repayment option. Research from behavioral economics has shown the power of using “opt-outs” that steer financial consumers to one option while retaining an array of choices from which they can choose.  

Implementation: In implementing a system of auto- or “opt-out” IBR, payments could simply be calculated using available IRS data, and automatically adjusted if a borrower’s salary or employment status changes. Students for whom IBR may not be as beneficial could be able to make larger payments. Alternatively, the federal government could create a series of mechanisms—or “triggers”—that would automatically enroll a student in the standard repayment plan once his or her financial circumstances would make that plan more beneficial. Opt-out IBR could be applied only to new borrowers going into repayment, extended to all borrowers currently in repayment, or automatically applied to current borrowers who get into trouble repaying their loans. For example, if a student is delinquent on loan payments after a certain amount of time (for example, 60 days), they could be automatically enrolled in income-based repayment if they had originally chosen another option.

3. Increase College Accessibility, Affordability, and Completion

Policy Option 3.1: Maintain the Pell Grant as the centerpiece of need-based aid, make it an entitlement, increase and index the maximum award to inflation.

Policy rationale: As mentioned, the maximum Pell Grant – despite being increased over the past several years – has failed to keep pace with tuition inflation and thus has less purchasing power than at any time since its inception. In addition, grants are the most effective means to ensure access to and completion in higher education. Currently, Pell Grants must be funded each year by Congress, and its existence on the discretionary side of the budgeting process has led Congress to consider funding cuts, eligibility cuts, or cuts to other programs to plug perceived but not realized – shortfalls in the program.

Implementation: In essence, making Pell an entitlement would be more of an accounting than an equity mechanism. Additionally, the maximum Pell Grant award could increase annually with inflation, using either the Consumer Price Index or state-level tuition inflation (which has been higher in recent years) as a guide. Some may argue that tying Pell to inflation would result in

price increases on an institutional level, but there is little evidence that this would occur at most institutions of higher education.26

Policy Option 3.2: Provide block grants to states to coordinate institutional student services and public benefits with financial aid awards.

Policy Rationale: Many students who are eligible for federal financial aid – including Pell Grants – also receive other federal or state public benefits (such as TANF, SNAP, WIC, or Medicaid). For example, nearly a quarter of all maximum-Pell recipients received food stamps in 2007-2008, and nearly (compared to 2 percent of non-Pell recipients) and 4.1 percent of maximum Pell recipients received TANF benefits (compared to 0.5 percent of non-Pell recipients).27 These programs often have different eligibility criteria, despite being targeted at very low-income households, leading to confusion about eligibility and delivery. Given that federal financial aid is provided to students through institutions, it should also come with requirements to provide students at public institutions with information and counseling about all benefits for which they may be eligible, including child care, food assistance, and other public benefits. This could help students maximize their benefits and reduce their risk of dropping out for financial reasons.

Implementation: The federal government could create a new block grant program that supplies money to states to support such efforts, or alternately require that institutions provide such services as a condition of receiving federal aid. This concept could apply to secondary education as well. The federal government could fund states to create programs in high schools that provide students with clear and useful information on the benefits—including financial aid—they are likely to receive upon matriculating to postsecondary education. There is an opportunity to provide an integrated academic and financial plan for college, not only while students are enrolled, but well before they reach postsecondary institutions.

4. Encourage Institutions to Reduce Costs

Policy Option 4.1: Explore stronger accountability measures based on student debt repayment levels and debt-to-employment ratios.

Policy Rationale: Current accountability measures, including cohort default rates (CDRs), track student borrowers from institutions who default on student loans after three years. CDRs are a crude and easily-manipulated measure of institutional quality, and may be irrelevant with the greater—and encouraged—use of income-based repayment options. Congress should explore accountability measures that include student outcomes beyond default rates. These measures should encourage, simultaneously, that institutions provide adequate access to targeted populations, reduce the cost to students, offer students the chance to complete their studies in a timely manner, as well as work to provide students with long-term employment and earnings beyond school. These options may include student debt repayment rates, debt-to-employment

27 Calculations from the U.S. Department of Education National Postsecondary Student Aid Survey 2008 (NPSAS:08)
and debt-to-earnings ratios, as well as risk indicies that take into account the percentage of students defaulting at an institution vis-à-vis the percentage of students who actually borrow for school.

Implementation: In 2011, the Department of Education released “Gainful Employment” regulations indicating that career-focused programs could lose eligibility for aid if they failed to meet all of the following metrics for three out of four consecutive years: A federal student loan repayment rate of at least 35 percent; a debt-to-income ratio (annual loan payments as a percentage of income) of less than 12 percent; and a debt-to-discretionary-income ratio (annual loan payments as a percentage of total income minus 150% of the poverty level) of less than 30 percent. The loan repayment rate was struck down in a subsequent court case and thus the regulations no longer apply, but the debt-to-income ratios likely pass legal muster, and could be reconsidered by Congress. Congress should also explore whether accountability measures should vary by institution sector. For example, two-year programs often have the mission of transferring students to four-year schools, and thus accountability measures may need to be tailored to meet their mission and the circumstances of the students they serve.

Policy Option 4.2: Incentivize that spending be maintained on need-based aid for students by rewarding institutions who set aside a certain percentage of their aid budgets to need-based aid, in particular rewarding institutions that serve primarily high-need individuals.

Policy Rationale: In recent years, institutions have been shifting resources away from need-based aid and toward merit-based scholarships in order to attract and retain students who may enhance institutional prestige.\(^{28}\) Merit-based aid disproportionately goes to high-income students who likely would have attended college anyway, and has no appreciable impact on their completion rates.\(^{29}\) To ensure that institutions—particularly those with public missions—provide aid to low-income and minority students, institutions should be rewarded for setting aside a certain percentage of their budgets for need-based aid. For universities with substantial endowments, rules could be created to ensure that a portion of those endowments is spent on need-based aid. These incentives could come in the form of providing increased federal campus-based aid, or alternately withholding campus-based aid for institutions that do not spend a certain percentage of their aid budgets on need-based aid.

Implementation: Any requirement for institutions should be coupled with maintenance-of-effort provisions to ensure that institutions are not merely shifting internal resources to comply as well as indicators that demonstrate maintaining or lowering the net price of attendance for low-income students. Rewarding institutions that target aid at students who need it most could also be coupled with additional incentives if those same low-income students exhibit high graduation rates or other outcomes.

\(^{28}\) Heller 2012

5. Promote Innovation to Improve Access to and Delivery of Higher Education

Policy Option 5.1: Fund and expand “Early Pell Grant Demonstration Project” from HEOA 2008

**Policy Rationale:** The primary federal financial aid policy mechanisms target students at the time they decide to enter college, or by mitigating the costs of attendance once they have enrolled. However, most students form higher education expectations well before the application process for federal student aid begins. Research indicates that early and clear communication of financial aid and other information is likely to help students conceptualize and plan for the cost of higher education. Additionally, financial literacy and education is likely to be more effective if students receiving it also gain early access to actual financial services and products. Therefore, where possible, students should be given clear information about how much aid to expect well before college enrollment, and possibly provided with actual funding before college enrollment. Several organizations and high-level commissions have recommended that a portion of need-based aid, possibly even a portion of the Pell Grant, be provided to students several years before they access college, and even as early as birth. The structure of such a proposal could vary, and family income data could be used to determine eligibility and awards. New federal money would likely be needed to create the account infrastructure and delivery, though the amount required to seed the accounts would depend on the structure. For example, Pell-eligible students could simply receive a portion of their eventual award as a way to seed accounts, or new money could be appropriated.

**Implementation:** There is currently an Early Federal Pell Grant Demonstration Project in Title VIII, Part Y of the Higher Education Opportunity Act, based on several state grant programs and pilot projects that communicate and deliver financial aid to students as early as middle school (Heller 2012). This demonstration project should be funded and expanded to gain a better understanding of the effectiveness of providing tangible Pell money early in a student’s life.

Policy Option 5.2: Explore a federal or state-based system of loan forgiveness for on-time completion for Pell-eligible students.

**Policy Rationale:** Currently, Pell Grant recipients are more than twice as likely as non-recipients to take out student loans, and those who graduate have higher debt levels than non-Pell graduates. The federal government currently provides loan forgiveness for students who enter certain professions or commit to public service; similarly, it could forgive a portion of loan balances for Pell-eligible students—or students just above the Pell-eligibility line—that complete

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32 Calculations based on U.S. Department of Education National Postsecondary Student Aid Study, 2007-08 (NPSAS:08)
degrees on time (i.e., four years for four-year degrees and two years for two-year degrees). This would serve as an incentive, rather than a penalty, for Pell-eligible students who may need to take on loans to initially cover the cost of college, while increasing the likelihood that low-income students graduate and enter the workforce, rather than spending more years on campus and conceivably taking on more debt.

**Implementation:** Eligibility requirements and definitions of “on-time completion” would need to be determined under such a program, as would any interim measures to identify student progress towards a degree (such as the completion of full course loads or retention from year to year). Additionally, Congress should consider which institutions could be eligible for such a program.

### 6. Balance the Need for Accountability with the Burden of Federal Requirements

Several of the recommendations above – including instituting new metrics for institutional accountability (beyond 3-year CDRs), strengthening and reintroducing gainful employment regulations, mandating standardized award letters – go hand in hand with the need for institutional accountability and consumer choice in higher education. Additionally, if done right, the creation of a student unit record system would allow for better understanding of student outcomes, while possibly reducing the reporting burden on institutions. The federal government – and by extension, taxpayers – could easily understand how well students are repaying their loans, who is enrolling in graduate school, which jobs students are getting, and other outcomes measures, by institution, by program, and various student characteristics. Given that students deserve to know as much as possible about their potential financial obligations and financial outcomes, the first step should be collecting this information in order to provide them with such information.

We thank you for this opportunity to provide comments on our nation’s hallmark higher education legislation, and we hope you consider these principles and suggestions in determining how to make college more affordable, accessible, and valuable to our students, while protecting and improving our federal investment in higher education. Please do not hesitate to contact me with any questions about these comments.

Sincerely,

Michelle Asha Cooper, Ph.D.
President, Institute for Higher Education Policy