

College Affordability Growth of An American Dilemma

A White Paper
by the Iowa Student Loan Research Department

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It is not particularly difficult to conceptually outline a model that describes the financial resources that America's families utilize to pay college expenses. The necessary resources utilized are closely related to a given family's socio-economic status but usually consist of some combination of funds accumulated before college (savings), acquired during college (earnings from work and student aid received) and paid back after college (loans). However, paying for college is much more than a concept. It is a reality that presents many families with the dilemma of needing to access the benefits of a postsecondary educational experience while not having adequate resources or having to take on unreasonable amounts of debt to do so. Stated more briefly, affording college is a real and growing dilemma for America's families.

This dilemma is national in scope. In December 2008 The National Center for Public Policy and Higher Education released *Measuring Up 2008: The National Report Card on Higher Education*. Released annually beginning in 2000, the *Measuring Up* report cards compare states on six key areas of higher education opportunity and effectiveness. College affordability is one of those areas and is evaluated by examining the relationship between family incomes, college costs, and the availability of financial aid at the state level. Sadly, in their 2008 report card, the Center reports that 49 of the 50 states received a failing grade on college affordability; California received the only passing grade with a "C-".

Specific to Iowa's "F", the Center reported: (1) an increase in the percentage of income that poor and working class families must contribute to the costs of attendance at a community college and (2) a decline in the percentage of aid that the state spends in comparison to aid that needy students receive from the federal Pell Grant program.

College access and success outcomes are clearly dependent upon more than a single factor or a set of closely related factors. However, it is clear based on numerous studies that college access and success are significantly impacted by factors related to college affordability and that this impact is disproportional and negative regarding students from families with the lowest incomes. From that context, this paper will focus on:

1. The factors that contribute to the affordability dilemma,
2. The means that families utilize to address this dilemma (that is how they pay for college), and
3. The sustainability of the efforts that families utilize.

From those discussions, observations and recommendations will be made.

Factors Influencing Affordability

Although the meaning of the term “affordable” varies based on the context in which it is used, even a cursory glance at recent news articles and commentaries about postsecondary education reveals a growing discontent with the affordability of a postsecondary education.

There are several methods available to measure the affordability of goods and services and this is the case when attempting to measure the affordability of a postsecondary education. By nature, consumers tend to measure affordability by comparing the current cost of a good or service to a point in the past. It is important when doing so to assure that other influences have been accounted for; in particular, the effect of inflation. Inflation erodes the purchasing power of the consumer and is measured in the United States by changes in the Consumer Price Index (CPI).

When discussing the affordability of postsecondary education, it is important to focus both on the published tuition, fees, room and board, and other costs as well as the net cost to the student and his family. For this paper, following the model used by the College Board, the net cost of college is defined as the published cost less grant aid and tax benefits received by students and their families. The exact relationship between gross costs and net costs is unclear but it appears that the purchasing power of grant aid available to students is not keeping up with the rise in costs.

In addition to student aid, the completion of a postsecondary education may require contributions by the student and possibly the student’s family. These contributions take the form of payment of expenses from various assets, current income, or possibly the responsibility of signing or cosigning for a student loan. In general, family incomes have not grown as fast as increases in college costs and the state of the current economy has magnified that difference.

As of March 2009 the United States has seen job losses at all-time high numbers and rates, frozen credit markets, large losses in mutual funds and common stocks, homeowners facing difficulties making their payments, and an economy that is shrinking at an alarming rate not seen in over 25 years. Times are challenging for most families in the United States. This convergence of events at a time when college costs are rising and the purchasing power of student aid is decreasing sets up a situation that makes a postsecondary education out of reach for a growing percentage of high school graduates and their families.

Although the multiple influences on college affordability need to be considered together, for clarity the following sections will individually detail the state and influence of college costs, the purchasing power of student aid, changes in family income and the current economic climate.

Costs

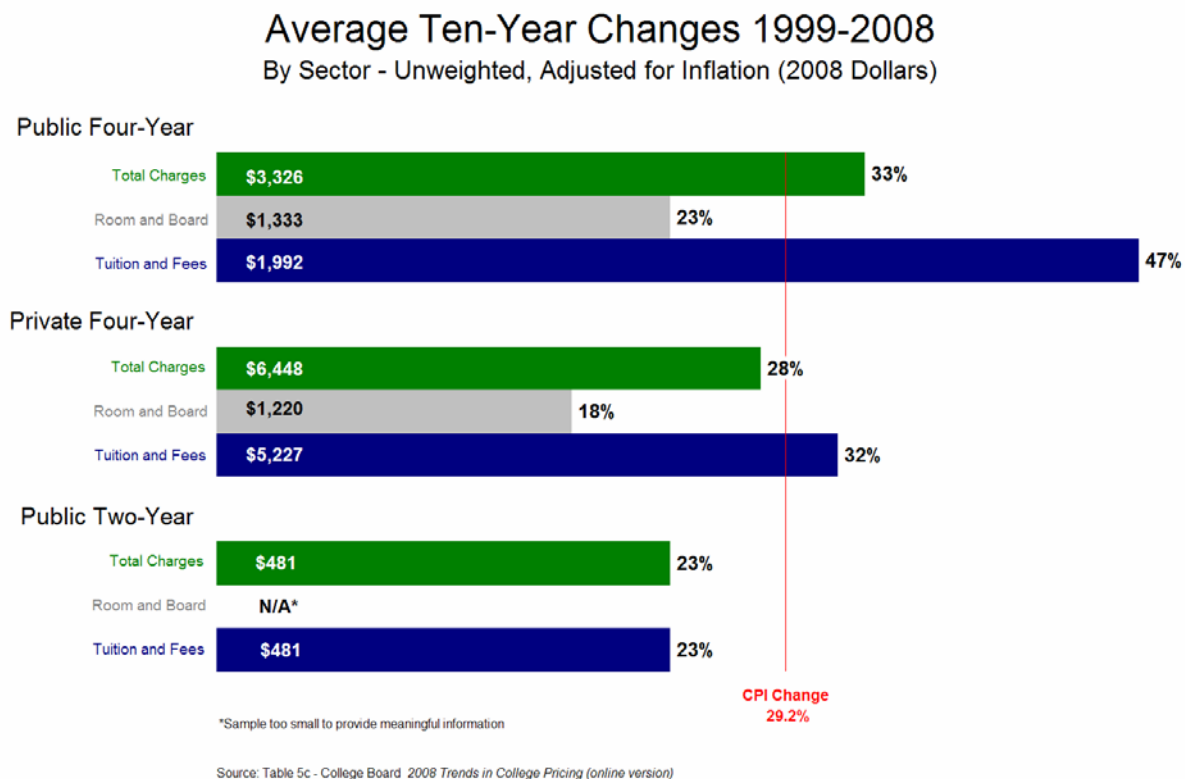
The most visible feature of the challenges in obtaining a postsecondary education in the United States is the cost of college. There are two often-cited sources for tracking trends in the cost of college¹ – the annual series of *Trends in Education* reports² produced by the College Board each September and the *Measuring Up* reports³ from The National Center for Public Policy and Higher Education.

¹ This paper focuses on the undergraduate college experience.

² Available at <http://www.collegeboard.com/trends>

³ Available at <http://measuringup2008.highereducation.org/>

Table 5c of the 2008 *Trends in College Pricing*⁴ from the College Board shows tuition and fees, room and board, and total charges adjusted for inflation (2008 dollars). Tuition and fees have demonstrated levels of growth that outpace the rate of inflation in the past ten years. As a reference, the annual CPI increased 29.2% from 1999 through 2008. Looking at the data by sector in the graph below, public four-year colleges have seen the largest percentage growth of tuition and fees in the past decade, outpacing inflation. Students attending private four-year colleges have seen tuition and fee increase at a rate that also outpaces inflation over the past decade. Only two-year public college students have seen tuition and fees increase over the past ten years at a rate that is less than inflation.



The net cost of college is defined as the published cost less grant aid and tax benefits received by students and their families. Although the published charges (as seen in the graph above) have increased over the past decade in all three sectors analyzed, the same is not true of the net cost changes over the same period. Table 7 of the 2008 *Trends in College Pricing* shows that, when adjusted for inflation (2008 dollars), the four-year public and private sectors have seen increases in net tuition and fees over the past ten years (up 31.8% and 17.3%, respectively), but the two-year public schools have seen an 83.3% decrease in that time. Comparing the average tuition and fees at a two-year public school to the average amount of student aid available explains the decrease in that sector. This phenomenon will be analyzed in the section on financial aid below.

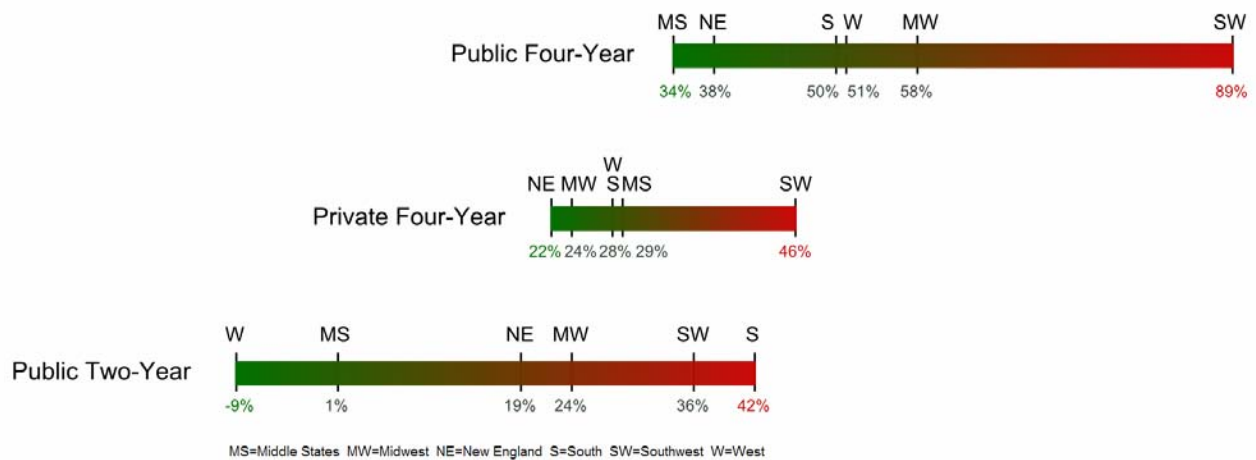
It is important to note that tuition and fees vary by state and region in the United States. Therefore, certain geographical areas may experience more or less extreme increases or decreases in costs over time.

⁴ All references to the College Board *Trends* reports refer to the online version.

The *2008 Trends in College Pricing* reports data for changes over a ten year period by region. The graphic below shows the variation in tuition and fees over the past decade by region. States included in each region are listed below the graphic.

Average Tuition and Fees Ten-Year Change 1999-2008

By Region and Sector - Enrollment-Weighted, Adjusted for Inflation (2008 Dollars)



Source: Table 6c - College Board 2008 Trends in College Pricing (online version)

- **Middle States:** DC, DE, MD, NJ, NY, PA, PR
- **Midwest:** IA, IL, IN, KS, MI, MN, MO, NE, ND, OH, SD, WI, WV
- **New England:** CT, MA, ME, NH, RI, VT
- **South:** AL, FL, GA, KY, LA, MS, NC, SC, TN, VA
- **Southwest:** AR, NM, OK, TX
- **West:** AK, AZ, CA, CO, HI, ID, MT, NV, OR, UT, WA, WY

The College Board only reports changes in costs by state (including Puerto Rico and District of Columbia) comparing the current year to the previous year. Looking at the change in the enrollment-weighted average tuition and fees from 2007-2008 to 2008-2009, Hawaii had the largest increase for in-state four-year public schools at 16.4%. Six other states had double-digit increases. Four states had increases below 1% with one, the District of Columbia, having no change. In Iowa (see table below), in-state students at four-year public schools saw costs rise a modest 3.5%, putting Iowa 45th on the list of increases.

Similar variation was noted for in-state two-year public schools, with the range extending from no change (New Hampshire and Ohio) to 12.4% (Florida). The change in Iowa was 5.6% or 16th in the nation. There was much less variation noted in the changes in tuition and fees for private four-year schools with 39 of the 51 states and territories with reportable data (76.5%) averaging increases between 5% and 7%. Iowa finds itself near the middle on the list of changes reporting an increase of 5.7%.

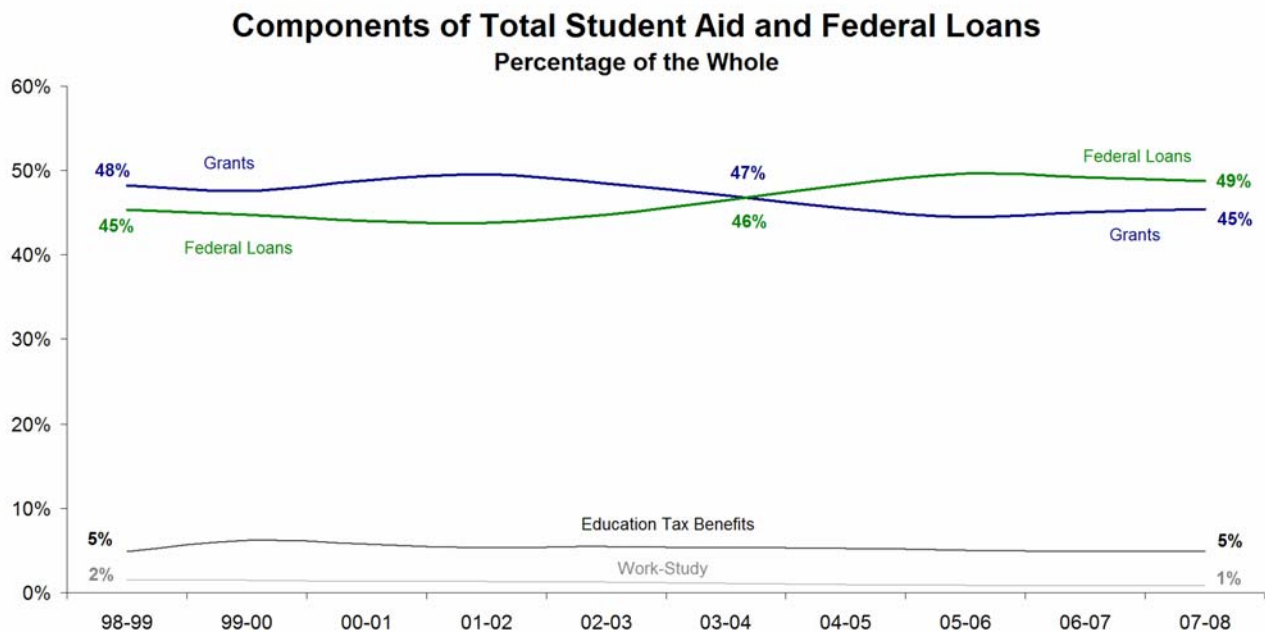
**Average Tuition and Fees Change in Iowa by Sector
2007-2008 to 2008-2009**

Sector	Change	Rank
Public Four-Year	3.5%	45 th highest
Private Four-Year	5.7%	32 nd highest
Public Two-Year	5.6%	16 th highest

Student Aid

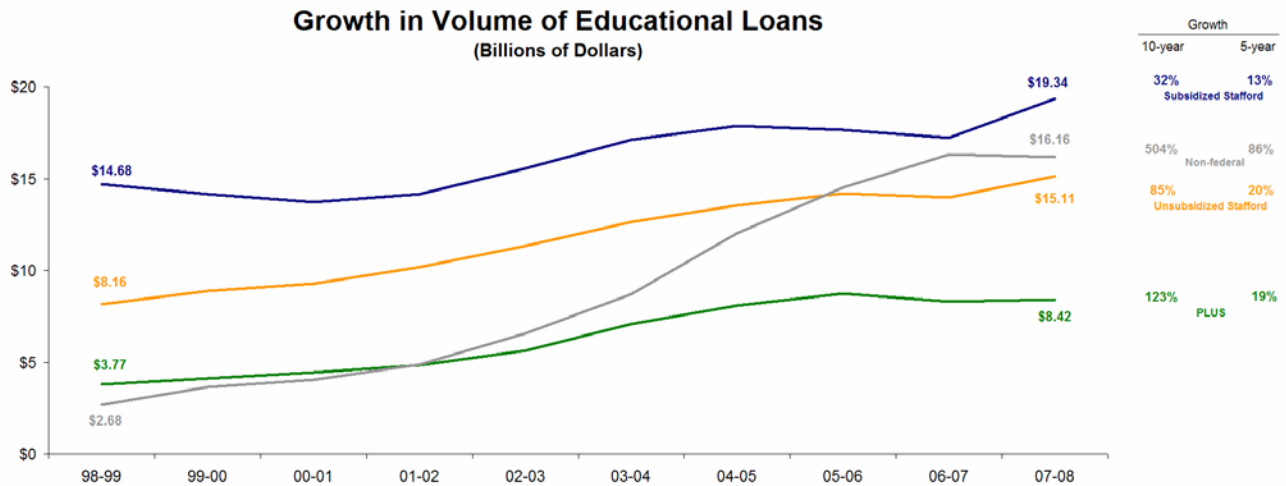
The net cost of college (published costs minus the sum of grants and tax credits) was mentioned briefly in the section on costs above. It is important to consider financial aid when discussing college affordability as the amount of aid received by a student affects the out-of-pocket expenses needed to attend the school of their choice.

A look at the relative size of the components of student financial aid over the past decade makes an appropriate introduction to the topic. The graph shown below reflects data from figure 10a of the College Board’s *2008 Trends in Student Aid* report. The most striking aspect of the graph is that the proportion of total student aid coming from the four components broken out in the report (grants, federal loans, education tax benefits and work-study) have remained relatively constant over the past decade with federal loans barely overtaking grants over the time period.



Source: Figure 10a - College Board 2008 Trends in Student Aid (online version)

Although the College Board does not include private student loans in their definition of student aid, they do acknowledge that private loans are being used as a form of funding by many students. The graph below from Figure 1a of the College Board report shows that growth of private student loan volume has leveled off recently after a large growth spurt. Portions of the growth in all loan types can be explained by increases in enrollment over the time period displayed. According to the National Center for Education Statistics’ *Digest of Education Statistics*, enrollment in degree-granting institutions increased by 23% between 1995 and 2005.



Source: Figure 1a - College Board 2008 Trends in Student Aid (online version)

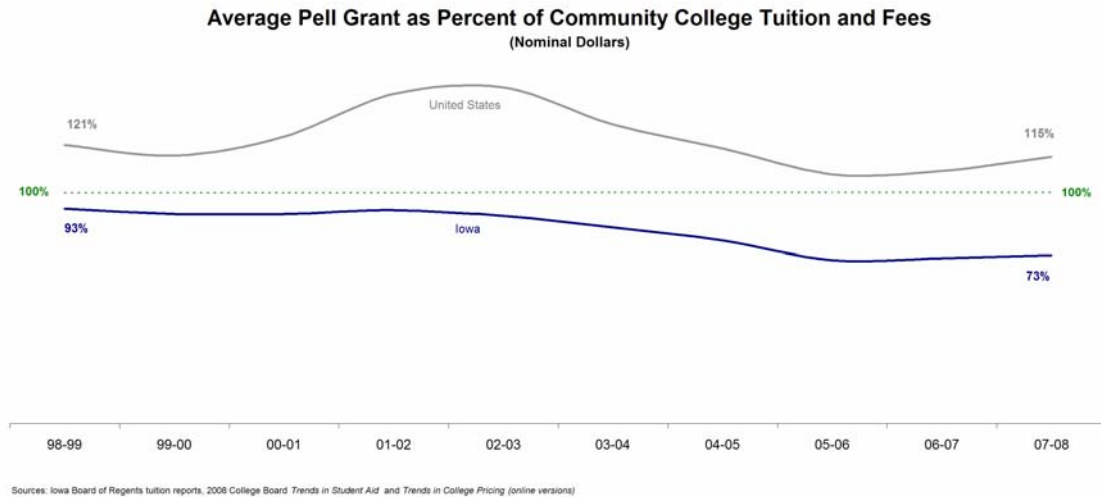
One of the possible contributors to the increase in the volume of private loans over the past ten years may be stagnant federal loan limits. Until recently, federal loan limits had remained unchanged for 15 years. Note the sharp increase in volume for federal loans in the 2007-2008 academic year, the year that loan limits were raised. The \$23,000 lifetime maximum for federal Stafford student loans for dependent, undergraduate students remained unchanged from 1992 until 2008. If it had increased with inflation over time, it would currently be \$36,000; the current limit is set at \$31,000 leaving a \$5,000 gap. Even the recent increases in loan limits do not make up for the differences between the limits and their current values.

Because grants do not need to be repaid, they are considered the most favorable form of student aid. In the past ten years, the total dollars appropriated toward grant aid has increased by more than 80% when adjusted for inflation. The proportions of funds coming from federal, state, institutional and private sources has remained relatively constant over the decade, although noticeable deviation from the average values can be seen in several individual years. In general, institutional grants account for the largest share of grant monies (~42%), followed by federal grants (~31%) and private sources (~15%). State grant monies have remained relatively constant at 12% over the ten measurement periods.

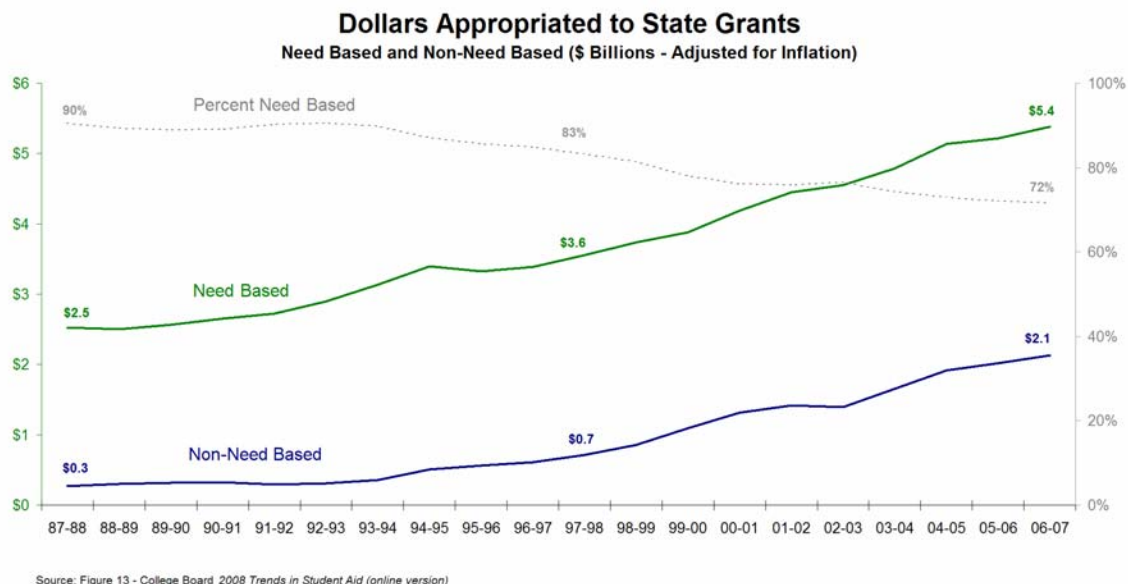
One typical “measuring stick” of college affordability for low and middle-income families is the purchasing power of the federal Pell grant. The maximum Pell Grant is currently \$4,731 and is scheduled to be increased to \$5,350 for the 2009-2010 award year. As a percentage of tuition, fees, room and board at a typical four-year public school, the 2007-2008 maximum Pell Grant (\$4,310) covered only 32% of the annual cost; ten years prior it covered 36% and twenty years prior it covered 50%. Although the change over time has not been as drastic at private four-year schools, the percentage of costs covered by the maximum Pell Grant are, as expected, significantly lower. The 2007-2008 maximum Pell Grant covers only 13% of the tuition, fees, room and board at a typical four-year private school, down from 20% in 1987-1988.

It is important to recall that only students with an expected family contribution (EFC) of zero as calculated by the federal government are eligible for the maximum Pell grant. The average Pell Grant can give a more realistic view of the assistance for the typical recipient. A graph

displaying the percentage of community college tuition and fees covered by the *average* Pell Grant can be telling in a state like Iowa. In order to understand the situation as it would have been experienced by a student in a given year, the average Pell Grant and tuition and fees have not been adjusted for inflation in the graph below. Note that due to the relatively low cost of tuition and fees at community colleges the average Pell Grant covers more than the typical cost of attendance at community college in the United States over the entire ten year period displayed. In Iowa, however, the percentage never gets to 100% and has been declining over the years.



There are two types of state grants – need based and non-need based. The need based grants are aimed at helping low and middle-class students attend college. Non-need based grants, typically based on merit, tend to favor upper middle-class and upper-class students; groups that many critics argue do not need grant assistance. Although non-need based grants are awarded to low and middle-income students that meet the established criteria, many non-need based dollars that are awarded reduce the available funds for need-based grants that target low or middle-class students. College Board data shows that the percentage of need based state grants has been declining over the past twenty years.



The proportion of students receiving state aid in Iowa is very low compared to the other states. Although the “per student” amount for those receiving it is reasonable (Iowa ranked 17th in the US in 2004), few students in Iowa are receiving the aid. Iowa has been in the top 20 states in state dollars per student receiving state grants from 2002-2004 but Iowa’s rank has been declining⁵.

According to data collected annually by The Grapevine Project at the University of Illinois, Iowa has not been keeping the level of state tax appropriations dedicated to operating expenses for higher education on par with the other states. The 10-year change in appropriations from FY1998 through FY2008 in Iowa has increased 17.7%, giving Iowa a rank of 47 out of 50 when listing the most improved states first⁶.

After federal loans and federal and state grants, federal tax credits and deductions are the next largest component of student aid, accounting for roughly only 5% of such aid. Tax credits and tax deductions can help offset college expenses but they have several shortcomings. The most obvious restriction is that they come months after the bills for college expenses are due. This means that students and families need to obtain the money to make payments from some source before they receive their benefit. This may require borrowing, either through normal student loan channels or through utilization of credit cards, home equity loans or lines of credit. Even if money is removed from savings and then replaced at tax time, interest on the money is lost.

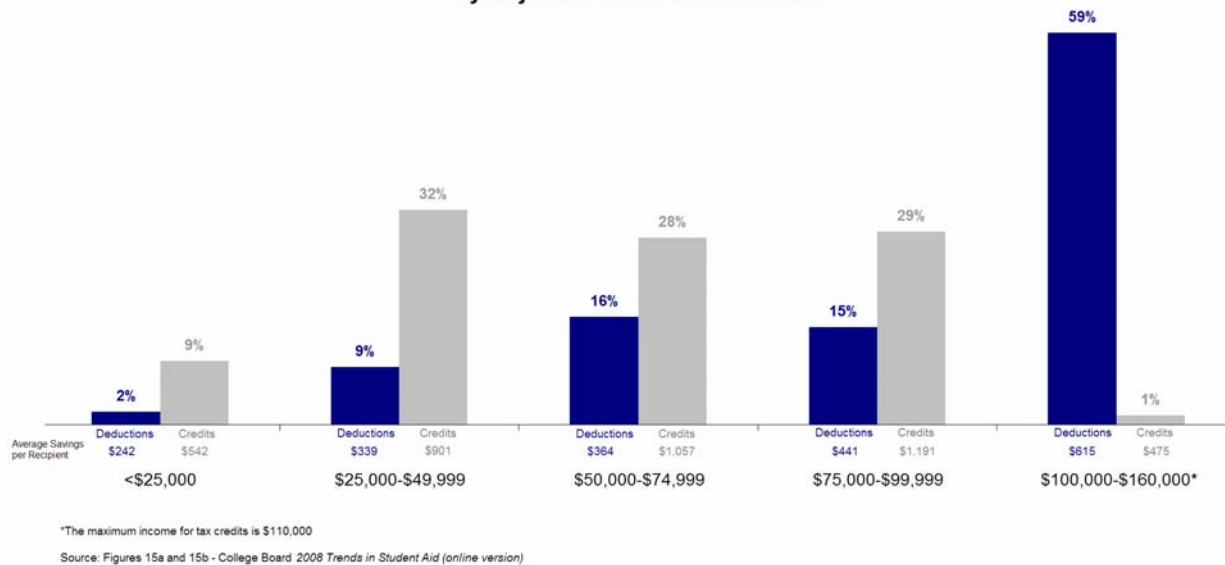
Although recent changes for the 2008 tax year allow inclusion of other expenses for students attending schools in Midwestern disaster areas, tax credits and deductions have historically been applicable only to tuition and fees. The difference between tuition and fees and total cost of attendance at a public school, for example, is rather substantial, with tuition and fees representing a small proportion of the cost of attendance. Families claiming a tax credit or deduction may not be assisting students with all additional school-related costs. In the end, the student generally do not benefit as much from tax credits and deductions as they do from other forms of student aid.

Another troubling aspect of tax credits and deductions is the fact that they may not provide full benefit to all students or families. In 2006, 27% of the credits claimed and 33% of the deductions claimed were on returns that owed no tax and therefore generated no benefit. Recent actions in Congress are moving toward making the tax credit partially refundable, which could help many low-income families benefit from it who may not be currently seeing a benefit. Although College Board data shows that federal education tax credits and deductions generated \$6.5 billion in savings for taxpayers in 2006, most of the savings went to higher income families (see the graph below). About 41% of the benefit of the tax credits went to taxpayers with incomes below \$50,000, while only about 11% of the benefit of the tuition tax deduction went to taxpayers with incomes below \$50,000. The data shows that 59% of the tax deduction benefits went to those with incomes between \$100,000 and \$160,000.

⁵ Source: *IPEDS DCT Online Tool – 2002, 2003 and 2004 data*

⁶ Source: http://www.grapevine.ilstu.edu/fifty_state_summary.htm

Distribution of Tax Deductions and Credits by Adjusted Gross Income Level



As seen in the graph above, the average savings per recipient is relatively small, especially when compared to the average tuition and fees charges in the United States across all sectors.

In 2007, only 792,000 students received federal work-study support; each receiving an average of approximately \$1,500 of support. The level of funding for that year accounted for less than 1% of the total federal, state, institutional, and private student aid dollars. Adjusted for inflation, the funding level of this federal program has not changed in the ten years since the 1997-1998 academic year. However, the most recent stimulus package approved by Congress included a \$200 million increase (approximately 18% of the 2007-2008 budget) in federal work-study funding for 2009-2010.

According to an Iowa College Student Aid Commission report from January 2008⁷, the state of Iowa allocated \$140,000 for 182 students to receive work-study support in 2007. The report also states that in 2005, the average combined federal and state award to a recipient of work-study funding was \$1,066, covering approximately 5% of the typical tuition and fees in the state. Slightly more than half of the awards (federal and state) during the 2007-2008 academic year went to students at Iowa's independent colleges and universities. Approximately 45% of students at Iowa's independent colleges and universities who applied received an award. The next highest acceptance rate was at the Regents universities where nearly 18% of applicants received an award.

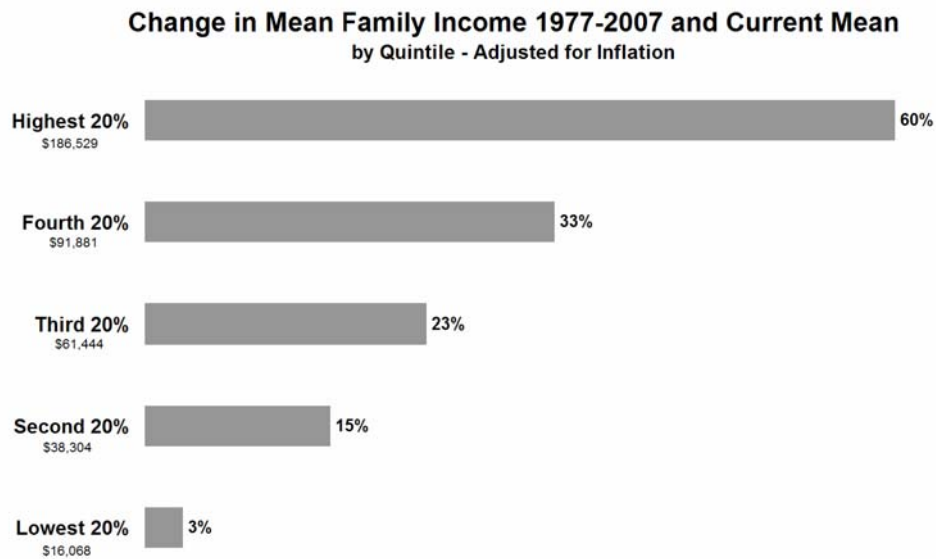
Income

In addition to costs and the availability of student aid, income levels of families in the United States are a factor in the college affordability equation. The College Board *2008 Trends in Student Aid* report presents data on the trend in mean family income. The source data from the U.S. Census Bureau⁸ allows additional calculations to be made. The graph below shows the 30

⁷ http://www.legis.state.ia.us/Isadocs/SC_MaterialsDist/2008/SDMDF031.PDF

⁸ <http://www.census.gov/hhes/www/income/histinc/f03AR.html>

year change in mean family income (adjusted for inflation) from 1977 through 2007 by quintile along with the current mean incomes for each quintile.



Source: US Census Bureau Table F-3

The graph illustrates the increased burden placed on low-income families trying to pay for college compared to those in higher income brackets. The mean family income for low-income families has increased at a significantly smaller rate than for upper-income families. As the cost of college increases and available student aid does not keep pace with inflation, it becomes more difficult for low to middle-income families to send students to the college of their choice.

In Iowa, low family incomes relative to the rest of the United States causes families at most income levels to face a challenge coming up with funding for college expenses. Family incomes in Iowa trail the national average by approximately \$8,000 in each of the past ten years, meaning less family resources (also known as expected family contribution) are available for college education expenses. Adjusted gross income (AGI) is used in determining the expected family contribution (EFC) when calculating available federal aid. Using 2006 AGI figures⁹, Iowa ranked 39th in the US with an average AGI of \$48,032; the US average AGI in 2006 was \$57,067.

The 2008 *Measuring Up* report provides data for a standard metric used to measure the burden placed on families when paying for college: the percent of income needed to pay for college after financial aid is applied. The data (shown in the table below) supports the issue identified in the graph above – the burden has been increasing for low-income families in the United States.

⁹ <http://www.irs.gov/taxstats/article/0,,id=171535,00.html>

**Net College Costs* as a Percent of Median Family Income
(US)**

	Public Four-Year		
	1999-2000	2007-2008	% Points Increased
Lowest 20%	39%	55%	16%
Second 20%	23%	33%	10%
Third 20%	18%	25%	7%
Fourth 20%	12%	16%	4%
Highest 20%	7%	9%	3%

	Public Two-Year		
	1999-2000	2007-2008	% Points Increased
Lowest 20%	40%	49%	9%
Second 20%	22%	29%	7%
Third 20%	15%	20%	5%
Fourth 20%	10%	13%	3%
Highest 20%	6%	7%	2%

*Net college costs equal tuition plus room and board minus financial aid.

Looking at the 2008 data for Iowa, the burden on the lower income quintiles is even higher than in the United States. The table below compares the percentage of median family income needed to cover net college costs for the lowest three quintiles in Iowa compared to the United States.

**Net College Costs* as a Percent of Median Family Income
2007-2008
(Iowa Compared to the US)**

	Public Four-Year		
	IA	US	% Difference (IA-US)
Lowest 20%	73%	55%	18%
Second 20%	36%	33%	3%
Third 20%	26%	25%	1%

	Public Two-Year		
	IA	US	% Difference (IA-US)
Lowest 20%	59%	49%	10%
Second 20%	33%	29%	4%
Third 20%	23%	20%	3%

*Net college costs equal tuition plus room and board minus financial aid.

In the 2008 *Measuring Up* report, all states except California received an “F” grade for affordability. This represents a major decline in affordability since the first *Measuring Up* report in 2000 where 5 states received an “A”, 11 states (including Iowa) received a “B” and only three states received an “F”. By 2004, only 14 states had passing grades in affordability, with 11 of those scoring a grade of “D”. Iowa received an “F” in 2004. The table below compares the data on percentage of income needed to pay for college in Iowa, the United States and the top 5 states from the 2008 report with data from the 2000 report.

**Percent of Income Needed to Pay for College
(Iowa)**

Public Two-Year		
	1999-2000	2007-2008
Iowa	20%	28%
US	19%	24%
Top 5 States (median)	13%	19%

Public Four-Year		
	1999-2000	2007-2008
Iowa	19%	33%
US	20%	28%
Top 5 States (median)	10%	15%

Private Four-Year		
	1999-2000	2007-2008
Iowa	49%	57%
US	65%	76%
Top 5 States (median)	30%	33%

Student Debt Upon Graduation

One consequence of the increased cost of college, stagnation of student aid funding, and minimal increases in family income is the recent increases in student debt upon graduation. The Project on Student Debt has released a series of reports on student debt for the classes of 2005, 2006, and 2007. The overall debt level of the students graduating has risen from \$18,259 in 2005 to \$20,098 in 2007, an increase of 10%. For comparison, the Project on Student Debt reports the 1993 debt upon graduation level at \$9,250; less than half the current amount. In Iowa, the debt upon graduation level has gone from \$22,722 in 2005 to \$26,208 in 2007, when Iowa was ranked as having the highest student debt upon graduation in the country.

Student debt upon graduation paints only a partial picture of the total family educational debt incurred for college expenses. For example, PLUS loans are not included in the reported average student debt burden reported by colleges and other reporting agencies. NPSAS 2003-2004 data shows that the average student debt increases from \$17,036 to an average total family educational debt of \$21,899 when PLUS loans are included; a 28.5% increase¹⁰. Applying this to current figures, total family educational debt in the United States may be as high as \$25,826.

There are many other additional sources of credit utilized by families to pay for college that are not included in the reported debt figures. These include debt put on credit cards or funded through home equity loans, lines of credit or other non-educational loans. The section on how families pay for college below gives additional detail on the utilization rates of these other sources.

All reported student debt figures report only the amount of indebtedness incurred by the borrower. What is missing from the picture is the cost of borrowing over time. Many private student loans are based on variable interest rates; the utilization of deferment and forbearance time allows interest to capitalize; missed payments cause late fees to be assessed. These factors,

¹⁰ <http://www.finaid.org/loans/>

in combination with the fact that borrowers pay back more than they borrowed due to interest charges, cause the true cost of a postsecondary education to escalate beyond the reported numbers. Effects of the debt burden caused by borrowing large amounts of student loans on other aspects of life are not easily quantifiable.

Current Economic Climate

The United States, along with many other countries, has been in economic turmoil during 2008 and the first quarter of 2009. This unsettled environment has affected the credit markets, the consumer, and families and students looking to fund a postsecondary education.

It is difficult to imagine what future affordability data will show about the 2008 and 2009 school years, but it may be worse than the recent data seen in the 2008 *Measuring Up* report. Numerous articles on the difficulties students now face when trying to locate funds to pay for college have appeared in the media recently. On top of the usual challenges of rising costs, stagnant financial aid support, and the slow growth of family income, the current economic times will challenge most families' ability to pay for college. States are slashing their budgets and sharp rises in tuition face students in the fall of 2009, compounding the existing challenges.

A 2009 report released by The National Center for Public Policy and Higher Education titled *Squeeze Play 2009: The Public's Views on College Costs Today*, cites Americans' beliefs that despite the increasing importance of a college education, such achievement is becoming more and more out of reach for most. The study reports that the public is concerned over the increasing cost of college and whether the cost increases are justified. The public has begun expressing more concern over the availability of financial aid; an increased proportion (39% now compared to 29% in 2007) are concerned that it will not be easily obtained when they need it.

Although the financial aid community did experience a loss of funding sources with many lenders dropping out of both federal and private student loan programs, federal Stafford loans remained readily available to students for the fall of 2008. However, lenders that remained in the private student loan arena have implemented tighter credit criteria and other restrictions on who they will lend money. Some private student loan lenders are unable to raise capital due to the lack of functionality in the credit markets. A September 2008 survey of Iowa borrowers, discussed in the section on how families pay for college below, reported that nearly 65% of the respondents found it more difficult to get a private student loan in the fall of 2008 than in previous years due to tighter restrictions imposed by lenders.

All of the factors described in the section above help paint a picture of the current landscape of college affordability. The next section provides information on how families pay for college using information from an Iowa Student Loan survey of previous private loan borrowers and a national study conducted by Gallup.

How Families Pay for College

In September 2008, the Iowa Student Loan (ISL) research team executed a survey of previous private loan borrowers (who did not borrow from ISL in the fall of 2008) to foster an understanding of the challenges possibly faced by borrowers when seeking a private student loan and to understand how they paid for college in the fall of 2008.

The survey asked respondents to indicate what percentage of their college costs were paid by their parents and what percentage were paid by them in the 2008-2009 academic year. If the contribution by parents or student was non-zero they are asked to identify the sources of those funds. The data discussed below are based on 1,068 returned surveys with an estimated error measurement of $\pm 3.0\%$.

Nearly 60% of the 1,068 respondents indicated that their parents contributed 0% to their college expenses in the current year, with 81.7% indicating that parents paid 20% or less of their expenses. Only 2.1%, or 21 respondents, indicated that their parents paid for 100% of their college expenses.

The 419 respondents who indicated that their parents contributed some money to their 2008-2009 college expenses were asked to indicate the sources of the funds. Respondents were allowed to select more than one response. Nearly two-thirds of the respondents (63.2%) indicated that their parents' contribution came from their earnings. A PLUS loan was the next frequently cited source (24.6%), followed by a private parent educational loan (15.3%) and a personal loan other than a federal or private parent educational loan (12.4%).

A look at some explanatory variables compared to the percentage of expenses paid for by parents reveals:

- As would be expected, a larger proportion of independent students (78.5%) reported a 0% contribution to expenses by their parents than dependent students (56.5%). This difference is statistically significant¹¹.
- Although classified as "independent" for financial aid purposes, 21.5% of independent students report some level of support from their parents, with 5 respondents (3.7%) reporting that their parents contributed more than 80% of the costs; 2 respondents (1.5%) reported that their parents paid for 100% of their expenses.
- A larger proportion of students who received Pell Grants (69.5%) reported a 0% contribution to expenses by their parents than students who did not receive a Pell Grant (56.3%). This difference is statistically significant.
- Students attending four-year public and four-year private schools reported a 0% contribution by their parents at a lower rate than those attending other schools. Small sample sizes in the two-year and technical schools make any observed differences not statistically significant.

When asked about their own contribution to their expenses, 44.6% of the borrowers indicated that they paid 100% of the expenses. This response category and the partner category of 0% contributed by parents have some measurement error associated with them, indicated by the fact that the two measures did not yield equal proportions. Some of the error may be due to the fact that other sources of funds (relatives, friends, etc.) were not available for selection.

The 962 respondents who indicated that they contributed some money to their 2008-2009 college expenses were asked to indicate the sources of the funds. Respondents were allowed to select more than one response. More than three-fourths of the respondents (78.0%) indicated that their contribution came from federal student loans. Student earnings were the next frequently cited

¹¹ All significance tests in this report are computed at the $p=0.05$ confidence level.

source (68.7%), followed by grants, scholarships and other aid that does not need to be repaid (63.9%) and a private student loan (58.9%). Other suggested sources were mentioned infrequently (less than 15% of the time).

Overall, it did not appear that more parents or students than expected were forced to go to non-traditional sources (such as mortgages, personal loans or liquidation of assets) in the fall of 2008 than any other year even though the credit crisis may have made it more difficult to get private student loans.

Gallup/Sallie Mae Survey

The Sallie Mae Corporation partnered with Gallup to commission a study that examines how Americans pay for their college education. The resulting report, called *How America Pays for College*, was released in August 2008¹². Unlike similar previous surveys by other groups, this survey asks about actual mechanisms used to fund college instead of asking about future intentions. In this way, the survey was similar to the ISL survey.

Some of the questions on the ISL survey directly correlate to questions on the Gallup survey and are roughly comparable. The tables below show a comparison of the proportion of respondents indicating the source of funding in each survey.

Parents

	Gallup Survey	ISL Survey	
	Percent	Count	Percent
Earnings	87%	265	65%
PLUS loan	36%	103	25%
Parent private education loan	22%	64	15%
Mortgage/home equity	20%	11	3%
Personal loan (non-educational)	33%	52	12%
Used savings	26%	37	9%
Put expenses on credit cards	19%	52	12%

Students

	Gallup Survey	ISL Survey	
	Percent	Count	Percent
Scholarships, grants, etc.	51%	615	64%
Earnings	50%	661	69%
Federal student loan	77%	750	78%
Private student loan	23%	567	59%
Personal loan (non-educational)	23%	86	9%
Used savings	56%	36	4%
Put expenses on credit cards	8%	143	15%

Looking at parent contributions, both surveys reveal earnings as the most frequently cited source of funds. PLUS loans were the second most-frequently cited source of parental contributions in both surveys and the use of a mortgage or home equity loan was one of the least frequent.

¹² <http://www.salliemae.com/content/dreams/pdf/AP-Report.pdf>

Relatively large proportions of parents put expenses on their credit cards in both groups (19% in the Gallup group and 12% in the ISL group).

Students in the ISL group listed grants, scholarships and other non-repayable aid along with earnings as a frequently cited source of funding (64%), as did the group in the Gallup survey (51%). The ISL group, however, had higher proportions of students utilizing these sources. The two groups took out federal student loans at the same rate. Respondents to the ISL survey also relied on earnings (69%) in a larger proportion than those in the Gallup survey (50%). The ISL group put expenses on their credit cards in a proportion (15%) that is twice that observed in the Gallup survey (8%), but liquidated assets such as a savings account infrequently (4%) compared to the Gallup group (56%). ISL survey respondents were also less likely to take out a personal, non-educational loan (9%) than the Gallup respondents (23%).

The Gallup survey results indicate that the average student has 48% of their expenses covered by their parents' use of borrowed and non-borrowed funds and 33% covered by the student. The remaining percentage is picked up by grants and scholarships and the contribution of friends or relatives. These proportions do not seem to be reflected in the group of previous ISL borrowers; a majority (81%) indicated that their parents contributed less than 20%. This indicates a distinct difference between the sources of funds between the two groups.

Increases in Unpaid Bills

It appears that a crisis was averted regarding financing of college for the fall of 2008 due to actions of many groups, including Congressional intervention to assure the continued availability of federal student loans despite the frozen credit markets. Very few reports have surfaced indicating that students were unable to continue their postsecondary education due to a lack of funding. However, mid-year reports indicate an increase over previous years in the number of students with outstanding bills. A survey of 43 registrars across the country, released in January 2009 by the American Association of Collegiate Registrars and Admissions Officers (AACRAO), indicated that more than 65% have noticed an increase in unpaid bills this year¹³. The registrars told AACRAO that schools have seen the proportion of students having trouble paying bills rise to unprecedented levels along with higher than usual amounts left unpaid; one school was averaging \$3,000 per student with an unpaid bill.

The increased rate of unpaid bills leads to the important question of sustainability of funds. The next section will describe the potential lack of sustainability of the funding sources that were used in the fall of 2008 to avert a crisis in funding for America's college students.

Sustainability

One key question in the ISL survey attempts to gather information on the sustainability of the funding sources used for the 2008-2009 school year. Although it appears that most families were able to get enough funds together to keep students in college despite the credit crisis, the question of sustainability is an important one for future planning.

The results of the ISL survey show that 41.8% of respondents indicated that they know the funding sources they used in the fall of 2008 would not be available the following year and 42.4% were not sure if their funding sources would be available in the future.

¹³ Reported January 9, 2009, in an article posted at www.usnews.com.

It may be too soon for some to be able to make a decision about future funding; some may not have given it a thought until they saw this question. It would not be out of line to suggest that some percentage of those who responded “I do not know” will not have the same funding sources available in the future. If only one in five eventually realized that their funding sources will not be available, the overall percentage would be more than 50%. Only 15.8% know that their current funding sources will certainly be available in the future; this is a very low level of certainty within the group. This lack of sustainability points to a possible college funding problem in the near future.

	Count	Percent
Know current funding will not available in the future	428	41.8%
Know current funding will be available in the future	162	15.8%
Don't know if current funding will be available in the future	435	42.4%

Looking at responses by various characteristics, those having a Pell Grant had a response distribution almost identical to those without a Pell Grant. However, of those indicating that they knew their funding would run out, only 25.7% indicated that they were Pell Grant recipients, while 64.3% indicated they did not receive a Pell Grant; the remaining respondents did not know if they received a Pell Grant.

Differences across type of school were also limited. Of those indicating that they knew their funds would run out, a majority (59.1%) were attending four-year private schools.

Conclusions

The near future does not seem to present any large-scale relief plans to help lower the financial burden of getting a postsecondary education. Tuition and fees are increasing at alarming rates and given budget reductions in nearly every state, public school tuitions may see the largest increases in costs in recent memory. State funding of grants and scholarships will continue to decline as the money is funneled toward other areas of the government.

Federal student aid may be getting boosts from recent Congressional actions, but most increases in aid are still not enough to cover the increase in college costs in combination with the stagnation of family income levels.

Many students and families have dipped into available one-time funding sources. It is too soon to understand the effects this will have on the ability to pay for college in the near future. Those who have depleted savings accounts, borrowed from relatives, maximized home equity or otherwise reached their maximum borrowing capacity in the current school year may find it difficult to obtain funds to cover costs of college not covered by student aid in the fall of 2009.

Many students and families may find that they are unable to borrow additional funds from private student loan programs to help cover the difference between costs and student aid due to increasingly stricter credit criteria or lack of lender liquidity to fund such loans.

Student debt continues to increase as job prospects decrease and salaries remain stagnant amidst the economic turmoil gripping the country. As more Americans lose jobs and seek continuing education to boost their employability, the entire educational system will be taxed to its limits.

The economy in the United States will eventually cycle out of the current recessionary period. However, the other three factors detailed in this paper that keep the average American family from being able to provide funding for postsecondary education – increasing college costs, lack of substantial increases in federal and state student aid, and stagnation of family income levels – will continue to keep such an education out of reach for many families until sweeping reforms are enacted.

Recommendations

Based on the topics described in this paper, there are several areas that need attention if college is to be more affordable for the typical American family. The list below gives eight important areas that need to be addressed.

1. Participants in the higher education process – from colleges and universities to lawmakers – need to find ways to keep tuition and fees from rising faster than inflation.
2. The federal loan limits need to be raised to be more in line with the total cost of attendance at a typical public four-year institution.
3. The federal government and states need to find additional monies to fund more need based grants and scholarships.
4. Students and families need to be encouraged to reduce their reliance on private student loans by utilizing them only as a last resort loan.
5. Given the documented benefits, funding for work-study programs needs to be increased, especially in Iowa.
6. Tax credits for postsecondary education expenses need to become refundable in order to benefit more people, especially low-income families.
7. Students and families need to be encouraged to put away money for college and to borrow less for college expenses – increased implementation of financial literacy programs can help accomplish this goal.