



2010  
Public Policy  
Agenda

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American Association of State  
Colleges and Universities

## **Affordability**

American families continue to identify college affordability as one of their biggest concerns. AASCU, representing more than 400 institutions and heads of systems on behalf of over 3.9 million students who attend AASCU institutions, advocates for a higher education finance model that ensures every student can afford a college education. This model emphasizes providing as much support as possible from all sources, using federal student support as its base, in order to meet the need of low-income individuals.

Student grants, student loans and tax policies all contribute to college affordability. AASCU believes that while each is an important piece of financing a college education, limited public resources should be targeted to the neediest students in the form of direct grant aid. Student debt should be limited, student loan repayment options flexible and manageable for students in all income categories, work-study opportunities available and financially feasible for students, and education tax benefits transparent.

The reauthorization of the Higher Education Act saw the realization of several AASCU-supported policy provisions related to student financial aid and college affordability. These included a year-round Pell Grant, improvements to the SMART grant program that ensure all Pell-eligible students who pursue degrees in math and science qualify for the program, improved student loan counseling, and more transparency and accountability in the private loan market.

Recent legislation has called for the complete transition to the Direct Loan Program. AASCU will be closely monitoring implementation in order to ensure that students experience a streamlined conversion, as well as informed servicing. In addition, the legislation provided for a steady and reliable increase in

the Pell Grant maximum each year; however, this reliability is predicated on continued base appropriations.

Moving forward, it is important to strengthen the improvements that have been made. Many borrowers are not aware of the new options and benefits available to them. This leads many to become “defaulters” with harsh financial penalties and no statute of limitations. AASCU believes that the goal now should be to streamline and reform borrower repayment in federal student loan programs to ensure that all borrowers are able to repay their loans using an appropriate repayment plan without incurring penalties.

## Federal Role in College Affordability—AASCU Policy Statements

### Federal Grants

#### Pell Grants

- ◆ Advocate for sufficient funding to sustain the value of Pell Grant awards by ensuring an appropriations base of \$4,860 given the escalating demand for awards. This amount will ensure the path of predictable and continuous growth laid out by President Obama as realized through the passage of the Student Aid and Fiscal Responsibility Act.

Under the current structure, when the maximum award for the Pell Grant is increased, essentially all awards are increased by the same amount and the recipient pool expands to include more families with higher incomes. This occurs because most awards are calculated by subtracting the Expected Family Contribution (EFC) from the maximum award. If a negative EFC were to be implemented, those who currently have a zero EFC would benefit relative to those with higher incomes, effectively targeting additional dollars to the neediest students.

The Pell Grant program contributes significantly to the nation's economy and security by making it possible for low-income students to earn college degrees. The majority of Pell Grant recipients enter fields of study essential to national and state workforce needs, with 8 percent majoring in health-related fields, 17 percent business, 11 percent education, 13 percent other professional/technical fields, 3 percent math and science and 6 percent engineering, according to recently published Department of Education research on successful Pell Grant recipients.

- ◆ Examine the impact and continue to advocate for policies that define “acceleration toward a degree,” with regard to year-round Pell Grants.

This includes helping low-income students reduce their time to degree by providing financial support beyond the current one award per year limit on

The FY2009 maximum Pell Grant award (\$5,350) covers approximately 35 percent of the 2009–2010 in-state cost of attendance at public four-year institutions (\$15,213) and approximately 76 percent of in-state tuition and fees (\$7,020).

Over half of all Pell Grant recipients are eligible for the maximum award amount, which includes family incomes up to \$30,000.

receipt of Pell Grant funds. The regulation implementing this new program should not inhibit the national effort to reduce the educational attainment gap between those from low-income circumstances and those from more economically fortunate situations.

- ◆ Explore augmenting the maximum Pell Grant award to benefit the lowest income students. AASCU will continue to advocate for proposals that advance additional monies to individuals with greater need among this group.
- ◆ Advocate for a student-aid financing model in which federal grant and loan resources cover a significant portion of the need for a low-income student attending a public institution. The remaining costs should be covered by a combination of state grants and institutional aid. This model is predicated on the premise that states and institutions should work to ensure affordable tuition and the provision of funds for grant aid to students.

### **Campus-Based Financial Aid Programs and Leveraging Educational Assistance Partnership (LEAP)**

- ◆ Increase funding for the Federal Supplemental Educational Opportunity Grant Program (FSEOG), Federal Work-Study Program (FWS) and Perkins Loan Program.
- ◆ Ensure that Leveraging Educational Assistance Partnership (LEAP) funds are used for need-based aid, particularly targeted toward Pell Grant recipients. Increased LEAP funds should be allocated only to states that do not reduce appropriations for need-based awards.

## **Federal Student Loans**

- ◆ As the Department of Education becomes the sole entity responsible for originating and servicing loans, ensure that the department delivers a high level of quality throughout the loan process, especially in loan servicing.

## **Student Debt Burden and Loan Limits**

- ◆ Maintain aggregate loan limits for undergraduate students in the federal loan programs at the current level of \$31,000 for dependent students and \$57,500 for independent students (in both cases, no more than \$23,000 can be subsidized) in the FFEL and Federal Direct Loan programs.

## **Loan Repayment**

- ◆ Require the Department of Education to promptly contact borrowers in the Direct Loan Program, as well as borrowers whose loans were directly or indirectly purchased by the federal government, who cease making regular payments. The department should put these borrowers in an appropriate repayment plan, including Income Based Repayment (IBR) and Income Contingent Repayment (ICR), and set up special handling for those borrowers who have recurring repayment problems.
- ◆ Require that any federal Stafford Guaranteed Loan that is past due for a specified period of time be immediately assigned by the lender to the Department of Education. The department should immediately inform the borrower of the full range of repayment options and assist in selecting an option most appropriate to the financial circumstances of the borrower.
- ◆ Support a change in federal student loan collection policy to collect only what is currently due and manageable instead of

adhering to a practice of declaring the entire loan to be due and payable. Such a change in policy would facilitate borrowers curing their past due status and mitigating the accumulation of excessive collection charges and fees when collection agencies are able to assess penalty fees based on the entire loan rather than just the payments due to date.

- ◆ Fully reimburse institutions for loan cancellations for various service-related activity in the military, teaching, public service, law enforcement, corrections and firefighting.

## Private Loans

- ◆ Support a legislative change to require mandatory use of institutional certification of private loans by lenders. This will help ensure that students and families fully utilize state and federal grants and less expensive financing options such as subsidized and unsubsidized Stafford Loans and PLUS Loans before securing more costly private loans.
  - According to the College Board, private educational loan volume declined by about 50 percent in 2008–2009 to roughly \$11 billion dollars.
  - Twelve percent of students from families with annual incomes under \$35,000 and 17 percent of students from households with incomes between \$35,000 and \$50,000 did NOT complete the Free Application for Federal Student Aid (FAFSA), according to Sallie Mae's national study *How America Pays for College*. This means that they may be missing out on federal financial grants and loans to which they are entitled.
- ◆ Support legislation that provides government oversight over all private student loans, regardless of the institution offering the loan.
  - Private non-federal student loans (also known as “alternative loans”) are offered by private lenders, institutions and state guaranty agencies and are not backed by the federal government. These private loans often have much higher fees and interest rates than federal loans, and may lack many benefits such as cancellation provisions and alternative repayment plans offered to federal student loan borrowers.
  - When students who do not meet the eligibility criteria for federal student loans are excluded, one out of five undergraduate private loan borrowers did not first take advantage of federal student loans. Half of these students did not file the necessary application for federal student loans.

- ◆ Support revising the bankruptcy code to permit the discharge of private educational loans in bankruptcy proceedings to provide greater protection to borrowers enticed into unmanageable debt burden.

## Tax Policy

### Student-Related Tax Policy

- ◆ Support the extension or permanency of the American Opportunity Tax Credit as established in the American Recovery and Reinvestment Act in order to assist needy students. It expands the Hope tuition tax credit for 2009 and 2010, increasing the tax credit from \$1,800 to \$2,500 for those two years. Taxpayers will receive a tax credit based on 100 percent of the first \$2,000 of tuition, fees and course materials paid during the taxable year, plus 25 percent of the next \$2,000 of tuition, fees and course materials. Up to a maximum of 40 percent of the amount of the credit is “refundable.”
- According to the College Board, in 2009 only approximately 11 percent of taxpayers with incomes below \$50,000 benefited from tuition tax deductions. Tuition tax credit benefits went to about 41 percent of taxpayers with incomes below \$50,000.
- ◆ Support the establishment of a federal tax exemption for loan forgiveness proceeds for borrowers in the Income Contingent Repayment and Income Based Repayment programs.
  - ◆ Support the extension or permanency of the above-the-line tax deduction for up to \$4,000 in tuition and fee expenses, which expired in 2009.
  - ◆ Continue support for a refundable tax credit for student loan interest paid by low-income borrowers.

- ◆ Oppose any proposed modification of the Federal Insurance Contributions Act (FICA) exemption for students working on college and university campuses.

### **Institution-Related Tax Policy**

- ◆ Support legislation that would make permanent tax provisions that permit individuals 70½ and older to transfer up to \$100,000 from an Individual Retirement Account (IRA) tax-free to charitable and other nonprofit organizations. AASCU will explore the feasibility of lowering the eligibility requirement from age 70½ to 65.
- ◆ Support the extension of the Individual Retirement Account (IRA) Charitable Rollover, which expired in 2009. This will help colleges and universities generate new or increased contributions to maintain benefits to students, particularly financial aid.
- ◆ Oppose any proposal to restrict deductions for non-cash gifts to the amount paid for such property, rather than the current standard of fair market value.
- ◆ Support legislation that would allow taxpayers who do not itemize deductions on their federal income tax returns to claim a deduction for charitable contributions.
- ◆ Oppose a permanent extension of the federal estate tax repeal, and call on Congress to instead consider estate tax reforms that balance the needs of farms and small business owners with those of states and charitable organizations.
- ◆ Support the active enforcement of existing laws and regulations governing the tax-exempt status of nonprofit and charitable organizations over the expansion of these laws and regulations. Specifically, AASCU supports current law that places the burden

of proof for reasonable compensation under the intermediate sanctions law on the Internal Revenue Service.

- ◆ Oppose any attempt to repeal the existing exemption of tuition remission for college and university employees.
- ◆ Oppose any proposal to increase the federal tax liability of public college and university employees by changing the treatment of their contributions to state retirement plans.
- ◆ Oppose IRS attempts to create standardized definitions for early or normal retirement age with regard to governmental plans; rather, IRS should defer to applicable state or local laws, regulations and policies governing the plan.
- ◆ Oppose any proposal to make the Medicare Payroll Tax mandatory for all public sector employees, regardless of hire date or participation in another insurance plan.
- ◆ Oppose any proposal to eliminate the ability of issuers of government and tax-exempt bonds to do one advance refunding (i.e., refinancing of outstanding bonds before maturity or callability).
- ◆ Oppose any mandatory proposal requiring institutions of higher education to spend down their endowment assets.

According to the College Board, in 2008 the estimated median average amount of endowment assets per FTE student was about \$14,400 at public four-year doctorate-granting universities and about \$2,400 at public four-year master's universities, compared to an estimated median average of about \$72,300 at private four-year doctorate-granting universities and about \$11,100 at private four-year master's universities.

## **State Role in College Affordability—AASCU Policy Statements**

### **Public Colleges and Universities as a Critical Public Investment**

- ◆ Encourage state lawmakers to view their public colleges and universities as economic assets that provide critical competitive leverage, even in recessionary periods; thus, operating support for public postsecondary institutions and per-student appropriations should be elevated as a state policy priority.

Twenty-five years ago, tuition income represented 23 percent of public postsecondary institutions' operating revenues, with the balance covered by state and local appropriations. By fiscal year 2008 the figure had reached 36 percent.

### **State Financial Aid: Strengthened Investment in Need-Based Aid**

- ◆ Encourage states to reinvigorate their investment in need-based grant programs that promote increased access for low-income undergraduate students, especially those who are Pell-eligible.
- ◆ Advise states to support programs that facilitate the completion of postsecondary credentials for nontraditional student populations, such as those who are over the age of 25 and those who attend part-time.

### **Education Tax Credits**

- ◆ Support provision of state income tax credits for students' and parents' investment in higher education to include tuition, fees and related expenses.

- ◆ Support tax credits for employers who provide tuition reimbursement or other incentives to employees to promote postsecondary enrollment.

## College Savings Plans

- ◆ Support state efforts to provide and sustain fiscally sound state prepaid tuition plans. Encourage states to make every effort to keep enrollment open to future enrollees.
- ◆ Encourage state policy reforms of 529 savings plans to increase future savings for lower-income families. Consider “seed” funding initiatives that provide an initial contribution and/or matching monies up to a specified dollar amount. Provide greater individual protection of 529 savings plans from creditors. Urge states to offer tax benefits to families using any state’s 529 plan.

## Recognition of Inflationary Pressures Impacting Higher Education

- ◆ Encourage states to recognize the higher-than-average relative price level of the goods and services purchased by colleges and universities, and to choose appropriate inflation indexes when drafting state policy that affects tuition pricing, state operating support, and grant aid programs. Alternative indices include the Higher Education Price Index (HEPI), administered by the Commonfund Institute, and the Higher Education Cost Adjustment (HECA), administered by the State Higher Education Executive Officers (SHEEO) association.

According to the Commonfund Institute, inflationary costs for the typical market basket of goods purchased by higher education institutions rose by an average 4 percent annually between fiscal years 2000–2009. When compared to an average annual increase of 2.7 percent in the Consumer Price Index, it is evident that inflation has an above-average impact on college and university purchasing.

## Improved Transparency of Tuition Cost Changes

- ◆ Urge states, coordinating boards and other agencies to improve transparency and comparability by expressing tuition changes in dollar terms as opposed to percentage terms—especially as it may relate to formal policy affecting state institutions, such as the provision of state operating support.

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Reporting tuition cost changes in dollar figures rather than in percentages leads to greater transparency and clarity. For example, according to the College Board, in-state tuition and fees rose by an average of 6.5 percent in 2009–2010 at state public four-year colleges, above the 4.4 percent increase witnessed at the nation's private four-year not-for-profit colleges—yet, the actual dollar increases paid by students were \$429 and \$1,096, respectively.

## Mandated Tuition Caps

- ◆ Discourage mandated tuition caps on state colleges and universities that are set by state legislatures. Externally imposed tuition caps may lead to decreases in academic quality, reduced ability to respond to market opportunities, and reduced institutional student financial aid. Exceptions may exist in cases where state appropriations sufficiently offset losses in tuition revenues.

## Taxpayer Bill of Rights (TABOR)

- ◆ Discourage efforts to amend state constitutions to place arbitrary limits on revenues and expenditures through Taxpayer Bill of Rights (TABORs) or similar means. Inadequate funding of institutions of higher education penalizes students. The imposition of arbitrary limits on revenues and expenditures constrains the flexibility of state elected leaders to respond to changing needs and circumstances and to invest strategically in the state's economic future, and they have proven devastating to higher education funding.