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The Next Steps: Building a Reimagined System of Student Aid

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EXECUTIVE SUMMARY

As evidenced by the near-daily media coverage of the affordability crisis in higher education, our system of federal student aid is badly in need of reform. Students are borrowing more than ever before to pay the rapidly rising costs of higher education, while at the same time questioning the value of the degrees they are earning. There are real problems to be solved in our nation's system of higher education, including: limited access for students from low-income households; disappointing graduation rates; students defaulting on loans; and rapid tuition inflation across the industry. The first step in creating solutions to these problems is to reform the system of financial aid. Recent actions taken by both the Administration and Congress indicate that they may be prepared to do just that.

In preparation for the upcoming reauthorization of the Higher Education Act, the Bill and Melinda Gates Foundation funded a group of organizations, representing a diverse set of viewpoints, to draft reports that provide implementable policy recommendations for reimagining the design and delivery of student financial aid. This project generated a vast number of recommendations for policy makers to consider. Despite the diversity of the viewpoints represented, a number of points of consensus emerged among the reports. While implementation strategies often differed, objectives were aligned.

The implementable policy recommendations with widespread support include the following:

- Simplify every step of the system of student financial aid, including: the application process; aid delivery mechanisms; and loan repayment following graduation.
  - Eliminate the FAFSA and use the IRS to determine student aid eligibility.
  - Eliminate some channels of aid distribution and reallocate resources to the Pell grant program.
  - Enroll all borrowers in a single, income-based repayment program.
- Increase the information that is available to students, including their eligibility for financial aid and the information on institutions that is necessary to make good decisions regarding enrollment.
  - Deliver financial aid eligibility letters to students before they begin shopping for college.
  - Report institution-level employment outcomes by program of study in federal data systems.
- Develop a system of institutional accountability that will both protect students and ensure that tax dollars are being spent effectively.
  - Tie financial aid eligibility to population-adjusted measures of institution quality.
- Reform the system to meet the needs of non-traditional students by transforming the schedule of aid delivery and collecting the data that are relevant to their enrollment decisions.
  - Reinstate summer Pell grants.
  - Report outcomes for non-traditional students in federal data systems.

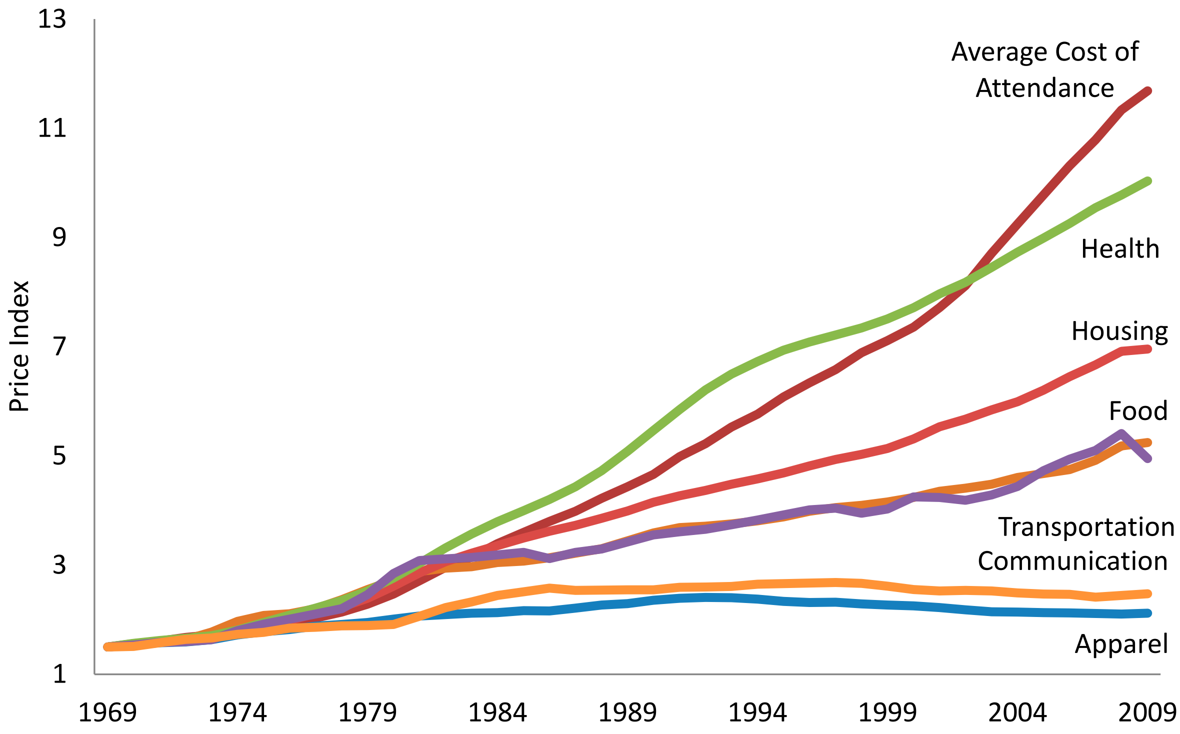
Despite the widespread agreement in many areas, some disputes remain. For instance, there is little agreement on how to implement a system of student accountability, or how much to emphasize and reward institutional focus on career readiness. The more fundamental disagreement, however, occurs on the issue of affordability and the role of debt. While some implicitly support the notion that debt is acceptable insofar as a degree is affordable in the long run, others argue that savings and current earnings should be sufficient to pay most of the bill for college. This is an area that will require further research and deliberation.

This paper recommends that policy makers move forward by implementing the recommendations that have widespread support. Insights regarding implementation are provided, but policy makers may also wish to consult the body of work generate by the RADD project for further analysis. While these reforms will be a step in the right direction, it is critical that policy makers continue work in this area in order to address the challenges that remain and the challenges that emerge as the system of higher education evolves.

I. Introduction

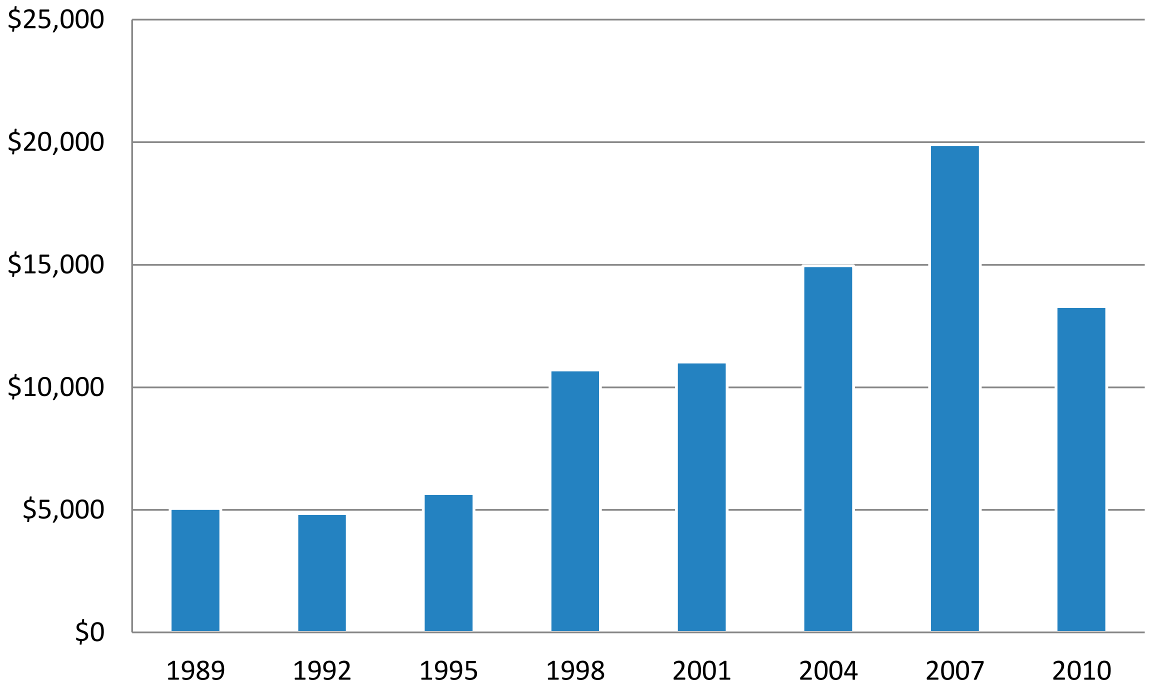
It is apparent to even the casual observer of higher education that our system of student aid is in need of reform. What was once an issue reserved for discussion among policy wonks is now covered daily in the mainstream press. Over the past decade we have observed several trends that generate concern. Tuition is rising more rapidly than almost all other prices in our economy and students are graduating with record amounts of student loan debt. Concerns about cost now pervade the conversation about higher education. In a recent survey it was reported that nearly eighty percent of enrolled students frequently worry about their debt.[1] To exacerbate these issues, questions are emerging about the quality of higher education. Contrary to the narrative that has defined the national discourse on education for decades, many have begun to ask whether investments in higher education will pay off in the long run.[2] Equally problematic are the issues of inadequate rates of completion and persistent barriers to access for low-income students. Among first-time, full-time freshmen students, a surprisingly small fraction, less than two-thirds[3], ultimately graduate. This coupled with continued barriers to access have caused the rate of degree attainment to slow relative to that of other nations.[4]

FIGURE 1. CONSUMER PRICES (1969-2009): Tuition is Rising More Quickly Than Other Prices



Source: U.S. Census Bureau 2012 Statistical report, Digest of Education Statistics

FIGURE 2. MEDIAN STUDENT LOAN DEBT HELD BY YOUNG COLLEGE GRADUATES (1989-2010)



Note and Source: Individuals ages 20-40, Survey of Consumer Finance

Clearly, there is much to be done in the area of higher education. Creating a system of student aid that is more in-line with our collective objectives and the realities of the market will go far toward addressing these issues and improving the efficacy of the higher education system. Fortunately, policy makers seem ready to take steps toward creating a better system of student aid. The President recently announced an ambitious plan to develop a system of institutional accountability and Congress was successful in passing legislation that provided a permanent solution to the debate on student loan interest rates. Both of these actions indicate a renewed interest in solving the problems that plague our system of higher education and specifically the system of student financial aid. Even more encouraging is the fact that bipartisan cooperation on these issues is a possibility. Congress worked together across party lines to pass the bipartisan legislation that pegged student loan interest rates to the market. In a time when bipartisanship can't always be expected, this cooperation may indicate that the issues in higher education have not yet become as divisive as those in the politically gridlocked area of K-12 education. There is a clear opportunity to put in place reforms that create a better system of financial aid that will increase opportunities available to our nation's young people.

With the motivation in place and a political environment amenable to thoughtful policy changes, there is only one barrier to overcome. That is, can we all agree on what needs to be done? Surprisingly, there is a relatively broad set of issues on which the higher education policy community has found agreement. Over the past year, fifteen reports on the topic of federal financial aid reform were released, all with support from the Bill and Melinda Gates Foundation as part of the Reimagining Aid Design and Delivery (RADD) project. Each report detailed a plan for a reimagined system of federal student aid that solves the issues it identified as priorities. The reports were authored by a diverse set of institutions ranging from think tanks, associations of higher education institutions, and student advocacy groups. These reports provide a comprehensive set of views on this issue. Given the diversity of the group, it is fortuitous that a number of points of consensus emerged. While precise policy prescriptions often differed among reports, they were generally aiming to achieve common goals. There were far fewer areas for which the reports provided conflicting policy recommendations. If policy makers were to ignore the areas of disagreement and implement changes only in the areas of broad consensus, it would create a remarkable improvement in the system of student aid.

The following list identifies the organizations that contributed to the RADD project and whose policy recommendations were considered for this report.

Organization	Report
Alliance for Excellent Education	Repairing a Broken System: Fixing Federal Student Aid
America's Promise Alliance	Improving the Financial Aid System to Increase College Completion
Association of Public & Land-Grant Universities	Federal Student Aid: Access and Completion
Committee for Economic Development	A New Partnership: Reshaping the Federal and State Commitment to Need-Based Aid
Center for Law & Social Policy	Reforming Student Aid: How to Simplify Tax Aid and Use Performance Metrics to Improve College Choices and Completion

Organization	Report
The Education Trust	Doing Away with Debt: Using Existing Resources to Ensure College Affordability for Low and Middle-Income Families
Excelencia in Education	Using a Latino Lens to Reimagine Aid Design and Delivery
HCM Strategists, Inc.	American Dream 2.0: How Financial Aid Can Help Improve College Access, Affordability, and Completion
Institute for a Competitive Workforce	Redesigning Federal Financial Aid
Institute for Higher Education Policy	Making Sense of the System: Financial Aid Reform for the 21st Century Student
New America Foundation	Rebalancing Resources and Incentives in Federal Student Aid
National Association of Student Financial Aid Administrators	Reimagining Financial Aid To Improve Student Access and Outcomes
National College Access Network	Increasing Return on Investment from Federal Student Aid
National Urban League	Education Transforms Lives: Postsecondary Affordability Survey and Focus Groups
The Institute for College Access & Success	Aligning the Means and the Ends: How to Improve Federal Student Aid and Increase College Access and Success
Young Invincibles	The Student Perspective on Federal Financial Aid Reform

The remainder of this paper will discuss the recommendations found in this set of reports. The following section will identify the set of policy proposals that have widespread support. I will weigh merits of the options for implementing these proposals and provide a set of implementable recommendations that reflects the group's consensus as well as my own analysis. The next section will briefly discuss the areas in which the reports provided conflicting recommendations. This paper will conclude with a discussion of unanswered questions and identify areas of disagreement that merit further inquiry.

II. Areas of Agreement

Simplification

There is near unanimous support for the notion that the current system of financial aid is overly complex. The complexity of the system creates unnecessary administrative costs, but more importantly, has substantial impacts on the lives of students. College students face unnecessary challenges in navigating the application process, understanding the resources available to them and ultimately in repaying student loans. In addition to creating unnecessary costs, this complexity creates a barrier that discourages students from pursuing higher education. Research has shown that the complexity of the application process, which involves completing the FAFSA (Free Application for Federal Student Aid), deters a significant number of students from enrolling in post-secondary education.[5] This is especially true for students from low-income households that have little experience navigating the system of higher education. The unnecessary complexity also results in enrolled students underutilizing the aid that is available to them. A recent report[6] estimates that for the 2007-8 academic year, a staggering 2.3 million students would have qualified for a Pell grant, but did not complete a FAFSA to claim it. It is reported that students sometimes even take private loans simply because they do not understand that federal loans are available to them.[7] The complexity does not end once a student leaves school, unfortunately. It seems that borrowers underutilize the repayment and forgiveness plans that are available to them after they have graduated.[8] These mistakes, while understandable, can be costly for students.

The solution to the problem of complexity in student aid begins with the application process. In the current system, students and their families are required to complete the FAFSA in order to learn about their eligibility for student aid. The FAFSA form collects detailed information about household finances. According to the Department of Education, it should take applicants just under one hour to complete, but at four times the length of a simple tax return it seems likely that this estimate understates the true burden for many applicants.[9] Among the RADD reports there was widespread support for simplifying this process. Reducing the number of questions on the FAFSA was a common proposal. Researchers have shown that the distribution of student aid can be replicated with minimal error using fewer data fields.[10]

While this seems like an effective solution, it has two drawbacks. First, a simplified FAFSA would invite gaming by applicants. With a more limited picture of a household's financial position, it would be easier for applicants to manipulate their assets and earnings in a way that would make them eligible for more aid. While impossible to predict with certainty, it is likely that the actual distribution of aid would not reflect the distribution achieved by the more complex model. Second, this approach does not go far enough. The complexity of the FAFSA creates a barrier for access, but even the existence an application creates a barrier for students unfamiliar with the process. Many students do not know that they need to complete a FAFSA and miss applications deadlines as a result.

An alternative proposal, endorsed by three reports representing diverse viewpoints[11], solves both of these issues. It would eliminate the FAFSA and have the IRS (Internal Revenue Service) compute aid eligibility based on historical tax returns. Since the IRS does not collect information about assets on tax returns, they would not be able to replicate the existing allocation of aid exactly. However, access to historical earnings records can serve as a substitute in determining a household's ability to pay. Rather than filing a FAFSA to learn about one's aid eligibility, a prospective student would need only to indicate on their tax return that they would like to receive a financial aid award letter. An advantage of this proposal is that it would even allow the IRS to send financial aid letters preemptively to households with children nearing college going age. A number of reports, including some that didn't recommend shifting aid determination to the IRS, identified the need to provide earlier information about financial aid as a priority.

Shifting the determination of aid eligibility to the IRS eliminates the need for student to be aware of a separate aid application process and facilitates a system by which students can learn about their eligibility for aid before they begin to shop for college. (In the current system, students learn about their aid eligibility only after they have applied.) One potential weakness of this proposal is that not all low-income households file tax returns. However, due to the eligibility of households with children to receive the Earned Income Tax Credit (EITC), filing rates are high among the target population. While it may be difficult to accomplish politically, Congress should prioritize implementing this change. The elimination of the FAFSA would create widespread benefits for students and would generate only small administrative costs in the short run.

In addition to simplifying the application process, many reports call for distributing aid through fewer channels. The current system of aid has numerous mechanisms for providing subsidies, including: Stafford loans (subsidized and unsubsidized); Perkins loans; plus loans; consolidation loans; Pell grants; work-study; tax credits; and multiple loan repayment and forgiveness programs. With all of these moving parts, it is no wonder that students lack the understanding necessary to make efficient use of these benefits. Results from a survey administered by the Young Invincibles showed that among student borrowers with private student loans, two-thirds did not understand the major differences between their largely dissimilar private and federal loans. In order for student aid to succeed in increasing enrollment, it is critical that the benefits be simple enough for students to easily comprehend their value.

While not every report proposed reducing the menu of benefits available to students, most acknowledged the importance of concentrating resources on those channels that were most likely to bring about changes in behavior. The policy recommendations in the RADD reports indicate a belief that subsidies delivered through Pell grants – rather than interest rates subsidies, tax credits, or loan forgiveness – go the farthest in lowering barriers to access. This reflects an understanding that individuals undervalue the promise of money in the future relative to having money in hand today, and that students may not comprehend the value of tax benefits or interest rates subsidies due to their inherent complexity.

While none of the reports provided new evidence on the effectiveness of different types of aid, it is possible to draw on academic literature to guide this discussion. Programs that deliver aid to students at the time of enrollment have been shown to be effective at increasing enrollment.[12] The evidence on the effectiveness of tax credits at increasing enrollment is less conclusive. A recent study indicates that tax credits increase enrollment as well as grants[13], but an earlier study found no effect[14]. There is no evidence that interest rates subsidies on student loans generate changes in enrollment behavior. The RADD reports often recommended eliminating the less effective (or proven) channels of aid delivery in order to increase funding for the Pell grant program.

While it may seem like a dramatic change, eliminating educational tax credits, including the Lifetime Learning Credit and the American Opportunity Tax Credit, was explicitly supported by a number of the reports. Those reports that did not recommend the elimination of the tax credit generally agreed that it should at least be scaled back in generosity and possibly even delivered concurrently with enrollment[15], making it functionally equivalent to a grant. Eliminating the two tax credit programs and redirecting spending to Pell grants would have a dramatic impact on the generosity of the Pell grant program. In 2013, the American Opportunity Tax Credit alone is expected to cost the government 21 billion dollars.[16] If those funds had been spent on Pell grants instead, holding the number of recipients fixed, it could have increased the average award by over $2,200 to $5,800.[17] Alternatively, it could be used to provide Pell grants of $3,500, the average award, to an additional 5.8 million students.

A number of reports also recommended eliminating the multiple services available within the loan program and replacing them with a single, unsubsidized loan.[18] The proposal was based on the premise that the lending system is unnecessarily complex and that subsidies delivered through the lending program would be more effective elsewhere. Some may argue that removing loan subsidies disproportionately hurts low income students, but this need not be the case if savings are used to increase other forms of aid. Having a single loan replace the menu of options currently available will allow students to have a better understanding of their finances as they apply and enroll in college, but also after they graduate.

Additionally, many reports supported the creation of a single, income-based repayment system that all students would be enrolled in automatically. This would streamline the repayment process, easing the psychological burden of repayment; and ensure that borrowers are not unnecessarily struggling with loan payments they cannot afford. While it was not mentioned explicitly in the reports, eliminating unnecessary challenges to repayment could potentially increase enrollment. By making it clear to prospective students that they can rely on safety nets should they fail to find gainful employment after graduation, aversion to debt that keeps some students from enrolling may diminish.

Policy Recommendations:

- Create bureau within the IRS to determine student aid eligibility
- Send letters of financial aid eligibility to all households with children overage 15
- Create an option on the federal tax return for independent students to request a letter of financial aid eligibility

- Create single federal loan to replace existing system of loans
- Automatic enrollment in income based repayment

Information

The second strongest point of consensus in the discussion of reforming the system of financial aid is that students and their families need more information about college. There are two distinct areas in which more information would create better outcomes for students: early notification of financial aid eligibility and better data on institution quality.

In the current system, students learn about their eligibility for federal aid programs only after they have already applied to college. As a result, there may be a large group of students who never apply for college because they don't realize the benefits that are available to them. We still do not know how many more people would earn degrees if they were aware of the benefits available to them, but evidence does suggest that access to information can make a difference. In an experiment undertaken by researchers, it was shown that providing information about financial aid and the net cost of college to a select group of low-income students caused them to enroll in higher quality institutions.[19]

The solution is to provide students information about their eligibility for aid long before they even consider applying for college. This strategy has generated success for a number of small-scale college mentoring programs trying to increase college enrollment.[20] While a number of reports recommended creating large-scale college counseling programs, research has not yet shown that counseling would be effective if applied universally.[21] However, providing early information in a more passive manner may be an effective solution.

Two reports, authored by the National Association of Student Financial Aid Administrators and the Institute for Higher Education Policy, proposed a new way of thinking about aid awards that could help address this problem. They propose creating individual aid accounts that students can draw down over the course of their studies. Students would be made aware of their account balances before they even determine whether to pursue post-secondary education. Statements of aid availability could be modeled after the system currently used for Social Security. In order to implement this reform, Congress would need to alter the award formulas such that the total aid available to a student is not sensitive to year-to-year changes in eligibility criteria or institution specific cost of attendance. The downside of this strategy is that the snapshot of a student's financial position taken prior to enrollment may not reflect their circumstances later on, but measures can be taken to mitigate this shortcoming. Using a weighted average of earnings from previous years will decrease the likelihood that a student's aid award does not reflect their true financial position. An appeals process will also need to be put in place to accommodate those students who face dramatic changes in their financial position after their aid award has been calculated. Implementing student aid accounts will make students and their families better able to plan ahead for the expense of college. This reform will work best with a streamlined aid application process overseen by the IRS, but student accounts could be implemented even without this reform.

A less far-reaching proposal, suggested by the Alliance for Excellent Education, is to provide information on aid eligibility in a table such that families can easily calculate their own aid award. This proposal would also require some simplification of the aid eligibility formula. While both this and the creation of student accounts would likely succeed in making information available to students sooner, individual accounts are a superior option. Providing personalized aid information without requiring students and families to request it lowers the barriers to enrollment more so than a generic table.

Another problematic area for students is the lack of certainty around Pell grant funding. Because the Pell grant program is funded by discretionary rather than entitlement spending, it isn't necessarily funded completely each year. This creates additionally uncertainty for students and parents who are trying to plan ahead. Congress can fix this to create more certainly for students by designating the Pell grant program as an entitlement to reflect its critical role in the financial aid system. Earlier information about grant awards will enable students and their families to begin planning for college sooner, potentially increasing access for low-income students.

Students also lack sufficient information about institution quality. Unlike with financial aid, the deficiency is not simply in how information is delivered to students, but in the data that is collected. The Department of Education's data system that provides information on all institutions eligible to participate in the federal aid program does not contain information on the employment outcomes of students following graduation. Without information on the rate of employment and average earnings of previous graduates, it is nearly impossible for prospective students to evaluate colleges on the basis of long-run financial return. This makes shopping for college a difficult task even for students with the means and ambition to research their options.

This lack of information has two primary effects. First, it limits students' ability to identify the institution that will best suit their needs. Secondly, and perhaps with greater consequence, the inability of consumers to determine the quality of institutions creates an environment in which institutions have little incentive to be innovative or operate efficiently. This leads to unnecessary tuition inflation and enables low quality institutions to remain open, collecting subsidies, when they might have gone out of business otherwise.

In order to explain why it is necessary for the government to provide data on institution quality, it is helpful to highlight the ways in which higher education is different from other markets that operate efficiently without this intervention. Unlike with many other consumption expenditures, the average person chooses a program of post-secondary education only a few times in their lifetime, at the most. This means that they don't have the opportunity to learn from their mistakes. Since institutions do not necessarily rely on repeat customers, many can get away with providing a low quality service. Additionally, educational products are very complex. There are a number of ways in which institutions can create value, making it difficult for prospective student to effectively evaluate them.

The first step in solving this problem is to generate the data necessary to properly inform students shopping for college. A number of reports, representing the views of students, institutions and employers, agree that students and their parents needs information on post-graduation outcomes. The Obama Administration showed support for this in early 2013 with the creation of the College Scorecard, which is meant to provide user-friendly access to this information. Among the supporters of this objective, many have called for the creation of a unit record data system that would collect data on every student's employment outcomes and link it to their schooling record.[22] A longitudinal data system such as this would enable evaluation of institutions on a number of previously unobservable dimensions.

Despite the widespread support for this step, a serious roadblock stands in the way of creating a unit record data system. In 2008, a law was put in place to prohibit the creation of a unit record system like the one prescribed. At the time, it was argued that creation of a unit record system would enable serious violations of individual privacy. However, critics claim the impetus for law was actually to protect institutions from the increased government oversight that it would allow.

Regardless, it seems that the Obama Administration has found a way to satisfy the call for better information about student outcomes despite this constraint. Rather than creating a data system within the Department of Education, the Administration will populate the College Scorecard, and perhaps other data tools, with institution level earnings information that is generated by interagency cooperation that works around the restriction.

Some critics argue that reforms like these encourage students to select institutions based on financial returns rather than other, less quantifiable dimensions of quality.[23] However, the choices of students who have the luxury of ignoring financial considerations are unlikely to be affected by the availability of this new information. The government has a responsibility to provide this information in order to help students who don't have the luxury of ignoring financial considerations to make good financial decisions. While most proposals are not explicit about the granularity of the earnings data that should be available, some make the important point that student outcomes vary tremendously across programs of study. The ideal reform would make information available by program of study.

Several reports also called for institutions to report an additional piece of data: outcomes for students receiving Pell grants. Since low-income students likely face different challenges in both graduating and finding success in the labor market than wealthier students, it is worthwhile to provide information on how well institutions perform in serving this group. With this information, low-income students can identify schools that produce good outcomes for students similar to themselves. While institutions might object to this additional reporting burden, it is very likely that under the Obama Administration's plan for compiling earnings data, it will also be possible to report these metrics without the institutions playing a role.

Better data on educational outcomes will benefit individual students, allow the market for higher education to work better, and empower policy makers to make reforms that improve our system of post-secondary education. Supporting the initial steps that have been taken by the Obama Administration to make this data available to students should be a priority for Congress.

Policy Recommendations:

- Simplify award formulas to enable early notification of aid eligibility
- Create individual student aid accounts
- Make the Pell grant program an entitlement
- Provide data on employment outcomes in existing data systems (College Scorecard, College Navigator)
- Report employment outcomes by program of study
- Report employment outcomes for Pell grant recipients

Institutional Accountability

Another common theme in the reports was a call to provide incentives for institutions to provide a higher quality education for their students. Most recommended tying institutional aid to observable quality metrics including graduation rate and enrollment of low-income students. The Obama Administration has recently released a plan to do just that.[24] The plan is to create a system for rating institution value based on a combination of employment outcomes and price. Student aid will then be awarded based on these ratings, with more generous aid given to students who attend high quality institutions. This system, like the others proposed in the reports, steers taxpayer dollars into institutions that provide the greatest return, and also conveys information to students about the relative value of the different colleges they are considering.

In theory, institutional accountability designed in this manner makes sense. Since government dollars make up such a large fraction of the market for higher education, it is important for the government to oversee institutions to ensure that tax dollars are not being wasted. Students will be far less prudent when spending government dollars than they will be spending their own. However, implementation of a system of accountability is going to be a difficult task. If the government were able to develop a metric that perfectly captured all dimensions on which they wanted colleges to be productive, then a system such as this would work well. However, this is not the case. It is never possible to evaluate such a diverse group of schools on all of the dimensions of quality that are important. For instance, many have opposed the Administration's proposal on the grounds that financial returns do not capture the benefits provided by programs of study that are more academically-oriented. A greater concern, however, is that tying aid to institutional outcomes may give institutions incentive to admit fewer low-achieving students. This is not an insurmountable hurdle, but it must be considered when designing the way institution ratings impact aid. Institution ratings should be adjusted using regression to account for the differences in student populations. This is not a complex task, but it must be done carefully to ensure that it does not create the unintended consequence of reducing access for low-achieving students.[25]

In contrast to the Administrations proposal, the RADD reports recommended creating institutional accountability by tying campus based funds (rather than individual student aid) to institutional performance. This has the advantage of not creating additional complexity for students. However, these systems must also be designed elegantly in order to not discourage institutions from enrolling low-achieving students. Many recommend rewarding institutions for enrolling and graduating Pell grant recipients. However, the system of regression adjustment proposed above would be more effective.

Policy Recommendations:

- Develop population adjusted measures of institution quality
- Tie financial aid eligibility to institution performance

Non-Traditional Students

Another point of consensus in this discussion is that our system needs to adjust to meet the needs of non-traditional students, who now make up the majority of enrolled students. Among the 18 million students enrolled in undergraduate programs during the 2011-12 academic year, only 5.2 million were traditional students.[26] The others were adult learners, attended private institutions, enrolled in private institutions, took classes part-time, or represented some combination of these traits. Existing policy, however, was crafted with a "traditional" student in mind. The system was not designed to meet the needs of those students who now make up the majority of enrollment in undergraduate higher education.

One way in which the system can better accommodate non-traditional students is to revise financial aid distribution. A number of reports recommended restoring summer Pell grants to enable year-round enrollment. Pell grants are currently distributed according to the traditional academic calendar. That is, award amounts are determined on a semester basis and, following budget cuts in 2011, are not available for coursework taken during the summer. This discourages students from accelerating their studies and poorly accommodates students that don't take coursework on a traditional schedule. Analysis from the National Association of Financial Aid Administrators[27] even showed that the current system might be causing some students to take longer to graduate. Restoration of the summer Pell grant is an easy way to make the system work better for students without necessarily generating any additional cost.

Another way our system fails to acknowledge non-traditional students is with data collection. The majority of data available on institutional outcomes is based on students who enrolled on a full-time basis and do not take breaks or transfer between institutions. Graduation rates, for instance, are based entirely on students who enroll as first-time full-time freshman. Given the prevalence of non-traditional enrollments, this reveals a serious deficiency in our system of accounting for institutional outcomes. This was highlighted by several reports. With the innovations in data collection discussed above, the Department of Education can also report outcomes for non-traditional students, which will give prospective students a more accurate picture of what their experience will be like at a given institution. Some existing metrics, such as 4- or 6-year graduation rates, are inappropriate for measuring the success of non-traditional students. However, little has been said about how non-traditional student outcomes should be measured. Since non-traditional students often attend multiple institutions, methods will need to be developed for allocating the credit for an individual's outcomes to the set of institutions they attended. It would be unfair to attribute credit only to the institution that granted an individual a diploma. Instead, a more complex system will need to be developed, such as allocating credit based on number of credits completed at each institution.

Policy Recommendations:

- Restore summer Pell Grants
- Report employment outcomes for the non-traditional student population on the College Scorecard and other federal data systems.

III. Areas of Disagreement

While the reports found consensus in a number of important areas, some disagreements remain. Policy makers should prioritize the reforms presented in the first section of this paper, and support a continued dialogue on these remaining issues. Legislative action attempting to address any of these unresolved areas will likely stall the policy process due to the lack of widespread agreement.

The Role of Loans

The federal loan program currently serves as the centerpiece of the system of financial aid. Without access to government loans, subsidized or not, far fewer students would be able to obtain a college degree. While loans provide access to education that is not achievable through any other means, they also create financial hardships for borrowers who use loans to pay for degrees that don't pay off in the long run.

There are two schools of thought about loans. In the first are those who believe that loans are a valuable tool for giving low-income students access to an education they would not otherwise be able to afford. This group acknowledges that some borrowers experience financial hardship as a result of a low quality educational experience or other idiosyncratic events that make them unable to earn an adequate wage after graduation. However, they also believe that this problem can be solved with generous safety nets like income-based repayment and loan forgiveness in certain circumstances.

The contrasting view indicates that radical steps should be taken to eliminate the use of loans as the primary mechanism for financing post-secondary education. Education Trust, a student advocacy group, has been among the most outspoken on this side of the debate. In their report, entitled "Doing Away with Debt," they propose that students from households in the bottom 40 percent of the income distribution should be given grants to fill their unmet need such that no student graduates with any student loan debt.

Obviously many engaged in this discussion also fall somewhere in between these two extreme positions. In order to find consensus on this issue, we need to engage in research that will help us to better understand how debt impacts borrowers' lives after college. Additionally, it is critical that a robust system of safety nets exist for borrowers that face financial hardship either due to their own choices or circumstances beyond their control. With these two things in place we will be able to move ahead with a productive debate on the appropriate role of student loan debt in our system of student aid.

Student Accountability

A number of reports suggest that we need to increase student accountability as well as institution accountability. However, unlike the discourse surrounding institution accountability, the path forward in creating a system of student accountability remains unclear. Just like with institution accountability, a system of student accountability would ensure that students have an incentive to make good decisions when investing federal dollars in their own educations. Even without any government intervention, students already have an incentive to succeed. In many cases, students are picking up a large portion of the tuition bill themselves, and all students will collect the financial benefits of their education after they graduate. However, the recommendations from the reports suggest that this isn't enough. Many argue that an additional system of accountability is necessary. If properly designed, a system of student accountability could reinforce the incentives that are already on the table and potentially make them more salient to young students who might not recognize the tradeoffs they are facing. While unproven, this has the potential to decrease dropout rates and increase on-time graduation. Proposals include turning loans into grants upon graduation, eliminating Pell grants for students enrolled less than half-time, decreasing Pell grant generosity for part-time enrollment, and increasing the requirements for demonstrating the adequate progress toward a degree required for continued access to aid. Student accountability should certainly be incorporated in the future, but we will need to think more carefully to come to a consensus about how to build appropriate incentives without doing further harm to students who are already facing hardship.

Emphasis on Career Readiness

According to a survey of students, carried out by the Young Invincibles, job placement was among the most important factors students considered when selecting an institution. This reflects a view that higher education is a means to achieving greater earnings and economic prosperity. Many of the reports reflected this position and proposed reforms that would build a greater connection between institutions and labor markets. These reforms include: evaluating schools based on financial returns; aligning coursework with real-world career opportunities; and decreasing subsidies for programs of study that do not focus on job readiness. While these seem like practical reforms, they are offensive to some who believe that the value of education is far greater than the financial reward it brings. These groups emphasize that access to education is critical for the functioning of a democracy and that education that doesn't provide a financial return may still provide a valuable return in students' well being and overall satisfaction with life. As we proceed in this discussion, we need to begin to think about how to spend our limited resources on supporting higher education.

IV. Looking Ahead

As we begin to move forward in reforming the system of financial aid, policy makers should focus on those issues for which the policy community has generally found consensus. Doing so will minimize the chance that legislation containing important reforms will fail to pass due to arguments over underdeveloped, or unresolved areas of policy.

While Congress is busy making the changes set out in this report, the policy community has work of its own to do. The collection of RADD reports makes it apparent that a few foundational questions remain unanswered.

First, it remains unclear what college affordability really means. Some implicitly assume that affordability means that a household can reasonably afford to pay for their children to attend college out of personal savings and present earnings. Under this notion of affordability, a student would not need to incur debt in order to go to college. Alternatively, affordability can refer to long run outcomes. In this framework, an education would be considered affordable as long as the degree provides a positive financial return in the long run. Student loan debt is acceptable since the positive financial return indicates that loan repayment does not create an unreasonable financial burden. Obviously many will fall somewhere in between these extremes in their conception of affordability. While it may be optimistic to think that we could come to a complete consensus on this issue, clarifying the disagreement may allow for a more productive dialogue in the future.

Not entirely separate from the issue of affordability is the role of student loans. While some believe that students should not be saddled with debt after graduation, others recognize that debt can be a valuable tool for gaining access to higher education. We will need to think deeply about how loans can be used in ways that enhance the opportunities that are available to young people, and develop mechanisms for ensuring that loans do not worsen the financial hardship faced by borrowers who experience bad circumstances after graduation. While it wasn't addressed by many of the reports, we'll need to consider regulations for the private student lending industry that protect students but do not cripple the market. Development of robust safety nets may be the first step in building compromise between these two camps. Creating a consensus, or at least a thoughtful dialogue, on these issues will provide a foundation for thinking about the next steps in reforming the system of federal student aid. The proposals identified above will go a long way in bringing greater opportunities to our nation's young people, but policy makers will need to continue to improve the system of aid to meet the challenges before us today as well as to tackle the challenges that will emerge as higher education changes in the years to come.

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