

Fulfilling the Commitment:

Summary of Principles and Recommendations for Reforming Federal Student Aid

*The Report from the Rethinking
Student Aid Study Group*



The Spencer Foundation



Lumina Foundation for Education

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The Rethinking Student Aid study group—policy experts, academic researchers, and higher education professionals brought together by the College Board with support from Lumina Foundation for Education, the Spencer Foundation, and the Andrew W. Mellon Foundation to develop proposals for improving the federal student aid system—makes the following recommendations. We hope these proposals will generate a new, more open conversation about federal approaches to increasing postsecondary education opportunities.

Our work has been motivated by two judgments, both grounded in evidence. First, helping more Americans to become college educated will improve our nation's economy and its civic life and make ours a fairer society. Second, a more coherent, comprehensible, and efficient federal student aid system can contribute significantly to making this happen. A more complete description of and rationale for the proposals outlined below is available in our policy report, "Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid in Brief." Full details are discussed in "Fulfilling the Commitment: Recommendations for Reforming Federal Student Aid." These reports are available at www.collegeboard.com/rethinkingstudentaid and in print from the College Board.

The Principles Underlying the Recommendations

We believe that the most important purpose of student aid is to expand the educational opportunities available to those young people and adults who face financial barriers to college enrollment and success. We believe that publicly funded aid to students should:

1. Have as its main purpose helping those who are unlikely to meet their educational goals without financial help;
2. Provide federal grant aid that, in combination with a reasonable amount of work and loans, is adequate to make completion of a four-year degree financially possible for all qualified students;
3. Be provided as clearly, transparently, and simply as possible; communication with families and students about college opportunity should be early, proactive, encouraging, sustained, and accurate;
4. Be predictable so that individuals and families in given economic circumstances can anticipate confidently the resources that will be available to meet their needs;
5. Be oriented first and foremost to helping students, with concerns about the impact of policy changes on particular institutions such as colleges, banks, or government agencies distinctly in second place;
6. Help students not only to begin postsecondary education but also to succeed after they arrive; and
7. Use taxpayer funds as efficiently as possible in advancing the principles set out above.

A summary of the Rethinking Student Aid study group's recommendations follows.

I. Simplify the Federal Student Aid System

- Eliminate the current application form for federal student aid. Obtain all needed financial information from the IRS.
 - Families receiving means-tested public benefits would be eligible for maximum Pell Grants without the use of IRS data.
- Base Pell Grant awards on family size and adjusted gross income and link the maximum Pell Grant annually to increases in the Consumer Price Index (CPI).
 - Use this information to create a look-up table and tell parents every year what Pell Grant amount their children could expect based on current circumstances if they were enrolled in college.
- Combine all education tax credits and deductions into a single tax credit and allow the credit to be applied to non-tuition expenses as well as tuition and fees.

II. Improve the Federal Loan Process

- Eliminate the distinction between subsidized and unsubsidized loans and redirect loan subsidies toward assisting students in repayment. Financial information will no longer be necessary to determine eligibility for federal student loans.
 - Expand and strengthen the income-based repayment program for student loans, basing the distribution of loan subsidy dollars primarily on post-schooling financial circumstances.
- Make the loan award system more flexible and better oriented to student needs and economic realities.
 - Link the maximum amount students can borrow through the Stafford Loan program to the federal poverty level for individuals, allowing it to rise with inflation. Part-time students would face a prorated loan maximum.
 - Replace the 10-year-mortgage-style repayment plan with a graduated repayment plan as the standard option, so payments will rise over time along with the incomes of most borrowers.
 - Maintain a strong parent loan program with interest rates low enough to discourage families from resorting to private student loans.

III. Develop a Federal Savings Program for Low-Income Families

- Create accounts for the children of tax filers and participants in federal means-tested income support programs whose children would be eligible for Pell Grants if they were of college age.
 - Make account deposits proportional to the Pell Grants for which children would be eligible.
 - Permit funds to earn tax-free interest analogous to the tax treatment of existing federal “529” programs that provide savings incentives to higher-income families.
 - Allow use of these funds only for postsecondary education and not for any other purpose.
 - Permit access to these funds for individuals even if they postpone their education well into adulthood.

IV. Reward States and Institutions That Support Student Success

- Create incentives for institutions through the development of campus-based funds that encourage retention and completion for low- and moderate-income students.
- Allow institutions wide discretion in how best to use these funds to encourage student success, so that they may provide mentoring, academic support, emergency funds, or other services in addition to need-based aid. Require a portion of the funds to support student employment.
 - Begin by introducing pilot programs based on this framework in a few states or institutions in order to test the program’s effectiveness and improve its operational efficiency.
- Complement this program with a strengthened program of matching grants for state grant aid, with the match declining as the recipient’s family income increases.
 - States should be rewarded for relying in their awards of aid solely on the financial information made available through the IRS, rather than requiring students to complete additional forms.

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