Dēmos

MILLIONS TO THE MIDDLE *SERIES*

THE CONTRACT FOR COLLEGE

INVESTMENTS IN HUMAN CAPITAL AND EDUCATION

Widely shared middle-class prosperity has made the United States the most hopeful and dynamic country on earth and is a foundation of strong democracy. Yet today, America's middle class is in trouble: the traditional routes into the middle class have become more difficult to travel and security has eroded for those already in the middle class. Major economic and policy changes over the past three decades have widened economic inequality and reduced mobility in ways that go far beyond the impact of the recent recession. Too many people who play by the rules and do everything right find that they cannot climb into the middle class—or stay there. To meet this challenge, Millions to the Middle offers dramatic public policy initiatives to rebuild and grow the nation's middle class.

POLICY IN FOCUS

THE CONTRACT FOR COLLEGE

Unify existing strands of federal financial aid – grants, loans and work-study – into a coherent, guaranteed financial aid package for students. The Contract also reorients federal aid to a grant-based system, invests in community colleges, and provides a pathway to citizenship for unauthorized immigrants who came to the U.S. as children and plan to attend college.

We aim to accomplish two broad interrelated goals: to ensure that all Americans have a chance to move into the middle class and, second, to ensure greater security for those in the middle class. The 14 policies we offer are rooted in mainstream American values and able to command strong public support over the long term. Together, they go beyond the confines of the current policy debates and are of sufficient scale to firmly establish a middle-class America.

Our policy agenda is based on the three broad pillars of middle-class opportunity and security: investments in human capital and education; support for growth, job creation, and career development; and helping Americans build assets. This policy is part of the **Investments in Human Capital and Education.**

POLICY: THE CONTRACT FOR COLLEGE

Reinvent the federal financial aid system to double the percentage of college-qualified students from low-and moderate-income families who enroll and complete college degrees.

POLICY RATIONALE

Education has long been recognized as a primary means of improving one's economic prospects. Today, a postsecondary degree or certificate has become increasingly necessary for earning a middle-class living. The last two decades have greatly heightened the demand for a highly educated workforce—and the earnings differential between those with and without college degrees has widened substantially. A worker with a bachelor's degree now earns about 66 percent more than a worker with only a high school diploma.[1] Over a lifetime, that wage gap will add up to over $1,000,000. At the same time, a college education has become more difficult for students from modest backgrounds to afford.

OPINION SNAPSHOT

- Ninety-four percent of American parents say they expect their own child to attend college.[11]
- A majority of Americans now believe that higher education is absolutely necessary for success—a proportion that has risen dramatically over the past decade.[12] Yet only 35 percent of parents earning less than $35,000 a year are confident that they will be able to save as much as they expected to for their child's college education.[13]
- 7 out of 10 Americans now say that there are many qualified people who do not have access to higher education because of the cost.[14]

The rising cost of higher education is a problem in and of itself – and colleges and universities must act to keep their tuition in check. But students are also hindered by the way student aid is allocated. Over the last 20 years, federal financial aid has steadily shifted away from grant-based aid to a predominantly loan-based system. As a result, borrowing has become the most common way for students to finance their education. In 2009, the average graduating college senior from a four-year institution was saddled with $24,000 in debt, a number that has been rising steadily.[2] This works out to a monthly payment of $276, or 9.5 percent of the typical graduate's income. Yet repaying student loans will be even more difficult for many graduates given that the unemployment rate for young degree-holders soared to 8.7 percent in 2009.[3] The picture is still darker for students who left school without completing a degree – of the students who entered college in 2003 (the most recent year for which data is available), 31 percent of those with student loan debt in excess of $22,000 had not earned a degree six years later.[4] The student loan burden is taking a toll on young adults' lives: almost 1 in 5 significantly changed their career plans because of student loans; nearly 40 percent delayed buying a home and just over 20 percent reported their debt burden caused them to delay having children.[5]

The major reason for lower enrollments in 4-year institutions among qualified students from low-income families is the level of unmet need they face in attending college. Unmet need is the amount needed to cover expenses after all loans, grants and work study wages are accounted for. On average, the annual unmet need of low-income families has reached historic levels. In academic year 2007-08, the average low-income family faced $6,480 in unmet need for a public 2-year institution; $9,030 for a public 4-year institution; and $10,400 for a private non-profit 4-year institution.[6] Unmet need has forced low- and moderate-income students to abandon the most successful recipe for obtaining a college degree: full-time, on-campus study.

As a result of unmet need, the highest achieving students from poor backgrounds attend college at the same rate as the lowest achieving students from wealthy backgrounds. Or to put it more coarsely: the least bright wealthy kids attend college at the same rate as the smartest poor kids.

A four-year college degree is not the only way to achieve a middle class standard of living: associates degrees and one- and two-year credentials, especially in high-demand fields like engineering and health care, can also represent a path to economic prosperity, in some cases opening the door to earnings that outpace the salaries of some bachelors degree holders.[7] The Contract for College would not only provide grant and loan assistance to community college students, but would strengthen the nation's network of open-enrollment community colleges by reviving President Obama's plan for the American Graduation Initiative, investing $12 billion in community colleges over the next decade with the aim of producing 5 million additional community college graduates.

Finally, the Contract for College expands college access for one particularly disadvantaged group of students: young people who have grown up in the United States and flourished academically at American high schools but do not have legal immigration status because of immigration decisions made by their parents, often when they were small children. An estimated 65,000 unauthorized immigrant students graduate from high school every year.[8] They are excluded from most scholarships, are barred from receiving federal financial aid, and cannot work legally to pay for college. Even a college degree will not guarantee them the opportunity to enter the legal workforce. Instead of making these young people a part of our future middle class, the nation squanders the talent and ability of unauthorized immigrant students by forcing them to remain in the shadows. The Contract for College includes provisions similar to the proposed federal DREAM Act which would offer a path to citizenship to unauthorized students who complete high school and agree to attend college.

POLICY DESIGN

The Contract for College would unify existing strands of federal financial aid – grants, loans and work-study – into a coherent, guaranteed financial aid package for students.[9] Grants would make up the bulk of aid for students from low- and moderate-income families. The Contract will recognize the important value of reciprocity – so part of the Contract for every student will include some amount of student loan aid and/or work-study requirement. The Contract is designed to reorient federal aid back to a more grant-based system and ensure that students from all financial backgrounds have upfront knowledge and understanding of the amount and type of financial aid that will be available during their entire course of study. The Contract also provides direct federal investment in community colleges to fund the President's American Graduation Initiative and offers temporary legal immigration status and path to citizenship for unauthorized immigrants who came to the U.S. as children and plan to attend college.

The key design elements to the Contract for College are featured below, including how existing federal policy and programs will be refashioned under the Contract system.

- The grants provided under the Contract would modernize the current Pell Grant system and would operate in much the same manner, with two exceptions. The first is that the Contract for College should be funded as an entitlement. One of the major deficiencies of the Pell Grant program is that it has been consistently underfunded, resulting in lower grant amounts than the maximum allowed by the law. The second is that the grants will be more flexible than the current Pell Grant system. The amount of the grant will be based on the cost of attendance at the public institution in which the student chooses to enroll, with students at private institutions receiving grants equivalent to the average costs at a 4-year public university.
- The amount a student can borrow through the federal student loan program will be determined by the cost of attendance minus the grant and work-study aid available to the student. Of course, with the enhanced level of grant aid, many families will no longer need their children to take out loans to help pay for college. For students from families whose income is high enough to make them ineligible for grant or work-study aid, the annual maximum loan amount will be $10,000 in unsubsidized loans.
- Students will be awarded aid for enrollment in any two- or four-year public institution. The amount of the total aid package will be based on the tuition, fees, room and board and book costs provided by the college in which the student plans to enroll. Students who choose to live off-campus will receive the equivalent to those choosing to live on-campus. Students wishing to enroll in private institutions will be provided a financial aid package equivalent to the average costs at a 4-year public university. Dependent and independent students will be treated the same under the Contract.
- To encourage private and nonprofit entities to help low-income Americans with the full costs of higher education, the new system will match gifts or grants by private or nonprofit entities up to $2,000 annually. For example, if a private college offers a scholarship of $1,500 a year, the government will match the college's investment. Or, if a business sets up a fund to help local high school graduates attend college, the recipients of such gifts would also receive a match for gifts up to $2,000. To further advance the goal of catalyzing new investments in higher education by businesses and philanthropies, we also propose creating the Contract for College Fund, a national trust that would actively seek out and match such investments.
- An important component in designing this program is to ensure that families have early knowledge of the financial resources available to their children to attend college. At the start of the program, all households with students in the 8th grade and above will receive their Contract for College that estimates their aid package using the average cost of attendance at public 4-year institutions. Alerting students and parents about the amount of student aid available will help increase the expectation that attending and completing college is a realistic goal.
- Invest $12 billion in community colleges over ten years to create a challenge fund for colleges to modernize their facilities; innovate and expand education and administrative reforms, including efforts to increase community college graduation rates; and assess colleges' effectiveness, with the goal of producing 5 million new community college graduates by 2020.

- In order to remove barriers to opportunity for young people who grew up in the U.S., unauthorized immigrant students who came to the U.S. at age 15 or younger and have lived in the country for at least five years will become qualified for conditional permanent resident status if they are accepted to college, graduate from a U.S. high school, or are awarded a GED in the U.S. Qualified students would be fully eligible for other higher education benefits under the Contract for Education. Students would not qualify for this relief if they have committed crimes or are judged a security risk. If these students then attend college or serve in the U.S. military, they will become eligible for permanent legal status and ultimately citizenship. These provisions mirror one version of the federal DREAM Act.

While each student's final Contract will be based on the institution costs where the student chooses to enroll, we can use the average cost of attendance for 4-year colleges to model the type of aid students at different income levels will receive under the Contract. According to the College Board, the average total cost of attendance for one year at a public 4-year university was $16,140 for the 2010-2011 school year.[10] This cost includes tuition, room and board, books and transportation.

The model below is for illustrative purposes. An actual plan would include more gradual phase-outs between each successive income level. It would also incorporate the likely grants by employers or NGOs and government matches, which are difficult to anticipate at this point.

THE CONTRACT FOR COLLEGE

Based on the average annual cost of attendance at 4-year public colleges (approximately $16,000/year)

HOUSEHOLD INCOME BELOW $25,000	
Grant to cover 75% of costs	$12,000
Work-study	1,500
Subsidized loan	2,500
HOUSEHOLD INCOME $25,000-$49,999	
Grant to cover 65% of costs	$10,400
Work-study	1,500
Subsidized loan	4,100
HOUSEHOLD INCOME $50,000-$74,999	
Grant to cover 55% of costs	$8,800
Work-study	1,500
Subsidized loan	5,700
HOUSEHOLD INCOME $75,000-$99,999	
Grant to cover 40% of costs	$6,400
Work-study	1,500
Subsidized loan	4,050
Unsubsidized loan	4,050
HOUSEHOLD INCOME ABOVE $100,000	
Unsubsidized loan	$10,000

ENDNOTES

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