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BUILDING ASSETS THROUGH POST-SECONDARY EDUCATION:
Policy Recommendations to Broaden Access to Higher Education for Low-Income Americans

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EXECUTIVE SUMMARY

College education is not only increasingly a necessity to secure a good job, but also often the first step to acquiring assets and creating greater opportunities. Each additional year of educational attainment yields increased earnings and makes the ownership of assets such as investments, retirement savings, a home, and other sources of wealth more likely. With the reauthorization of the Higher Education Act underway in 2004, an opportunity now exists to make a college education available to every qualified person.

While the educational attainment rates in the United States continue to rise across all race and income groups, persistent gaps remain between races and people of difference socio-economic backgrounds. Family wealth and income, as well as parental educational attainment, continue to be the best predictors of which students will enroll in college, regardless of a student's academic preparation.

Federal and state governments spend billions of dollars on financial aid each year to help students gain access to college. However, this aid has recently undergone a shift from its original intent of helping students who could not otherwise attend college to a greater emphasis on loans, merit awards, and tax credits which low-income families often cannot take advantage of because of their limited income tax liabilities.

The following table provides recommendations to increase access to college among low-income students:

Revise and Expand Pell Grants and Loan Structures	• Increase grant maximums and loan limits • "Front Load" Pell Grants to help students get more grant aid in first two-years of college
Expand Pre-College Programs	• More funding for TRIO and GEAR UP • Encourage pilot programs, such as Early College High School
Provide Accessible Financing and Help for Non-Traditional Students	• Streamline the financial aid application and increase outreach and education on the availability of financial aid • Ensure policies can be adapted to nontraditional students' needs (ex: year-round Pell Grants, greater income protection allowances)
Democratize Tax Incentives and Savings Plans	• Match contributions to 529s and other college savings plans • Reform the education tax credits so that they provide benefits to low-income students (ex: refundable credits) • Allow low-income families to save through IDAs • Create American Stakeholder Accounts

INTRODUCTION

Higher education is increasingly a necessity for individuals seeking the resources to build wealth and provide greater opportunities for their children and future generations. Because post-secondary education is often the first step to acquiring assets, it is critically important that all people—particularly those from families with few or no assets now—have access to higher education opportunities. With current discussions of the reauthorization of the Higher Education Act underway and the upcoming Presidential election, a unique opportunity now exists to make a post-secondary education accessible to every qualified person. This issue brief will provide a summary of the benefits of education; a snapshot of who earns a college degree; detail existing public policies; and recommend a series of proposals which would make post-secondary education more attainable for people of all backgrounds.[1]

BENEFITS OF A COLLEGE EDUCATION

Generally, each additional year of educational attainment yields an increase in annual earnings. In 1999, the average salary for a high school graduate was $30,400, while college graduates earned an average of $52,200 (Day & Newburger, 2002). This difference in earnings among workers with different levels of educational attainment has grown over the past 25 years. As shown in Table 1, this earning differential adds up substantially over a lifetime. Over their working lives, individuals with bachelor's degrees will earn $2.1 million on average, nearly twice what their high school-educated counterparts will make and a third more than workers who attended but did not graduate from college will earn (Day & Newburger, 2002).

Table 1: Average Earnings for Different Educational Attainment Levels (in 1999 dollars)

	Annual Earnings	Lifetime Earnings
High School Diploma	$30,400	$1.2 million
Two-Year College Degree (Associate's Degree)	$38,200	$1.6 million
Four-Year College Degree (Bachelor's Degree)	$52,200	$2.1 million

Source: U.S. Census Bureau, *The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings*

The better income and more steady employment opportunities (along with benefits such as health insurance and retirement plans), made possible because of a college education, can enable individuals to build assets. As Table 2 demonstrates, almost all individuals with a college education have a bank account—often the first stepping stone to building assets—and are more likely to build wealth through retirement accounts, investments, and homeownership. These resources will not only help them through every stage of their lives, but can also provide further opportunities for their children and following generations, thus creating an ongoing stream of wealth accumulation.

Table 2: Educational Attainment and Asset Ownership

	Bank Account	Investments*	Retirement Savings**	Home
No High School Diploma	72.6%	11.1%	17.1%	58.9%
High School Diploma	89.5%	32.3%	45.6%	65.4%
Some College	95.1%	39.6%	52.5%	63.4%
College Degree	98.1%	63.7%	74.8%	76.3%

*Mutual Funds, Stocks, Bonds

**Defined Contribution Plan, IRAs, KEOGHs

Source: 2001 Survey of Consumer Finances, data analysis by Craig Copeland of the Employee Benefits Research Institute

The advantages of a higher education not only accrue to individuals and their families, but also yield benefits on a much grander scale. Higher education attainment among the population overall leads to greater growth for the nation—with society, democracy, and the economy all benefiting. It is estimated that 15 to 20 percent of the annual average growth in output in for the U.S. is explained by increases in education levels (Saxton, 2000). For example, if education attainment remained at its 1959 level the GDP in 1997 would have been at 82.6 percent of its actual level for that year in real terms, with everything else held constant (Saxton, 2000). Benefits to society and democracy include less intolerance, more stable families, and a better understanding of current events and their consequences (Foster, 2002).

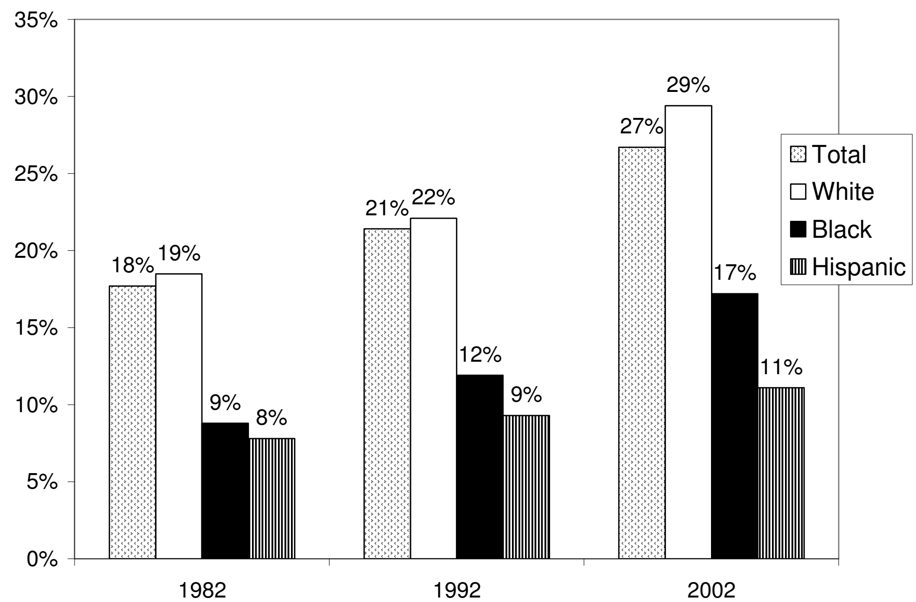
Benefits derived from higher educational attainment are only expected to grow in the coming years. The Bureau of Labor Statistics projects that most of the future job growth will be in sectors which require post-secondary education. Even in the next few years, jobs requiring a "fairly high skill level" could account for 3 out of every 5 new jobs created, and for the rest of this century 90 percent of new jobs will require a least some type of college-level training.[2] This trend will likely mean that the increasing returns to each additional year of schooling will continue throughout the next several decades, with increased demand for college-educated workers by businesses.

WHO RECEIVES A COLLEGE EDUCATION? A SNAPSHOT

In 2002, 84 percent of the population over age 25 had attained a high school diploma, 35 percent had attained at least an associate's degree from a two-year college and 27 percent had attained a bachelor's degree from a four-year college. Today, 60 percent of high school seniors go on to college the next fall and many more attend college or some other form of post-secondary education later in adulthood (Day & Newburger, 2002). About 47 percent of these students enroll in four-year colleges, 42 percent go to community colleges, and the rest enroll in classes at technical schools or other institutions (Choy, 2002).

Despite this progress, however, a notable enrollment rate gap persists between students of different economic and racial backgrounds. A 30 percentage point gap exists between low-income and high-income high school graduates who enroll in college directly after high school graduation. This gap has shrunk only ten percentage points in the last 30 years. Likewise, the gap between white and black students enrolling in college directly after high school is 11 percentage points and the gap between white and Hispanic students is 13 percentage points. These racial and ethnic gaps have actually widened over time. In 1972, for example, the gaps between whites and blacks and whites and Hispanics were both about five percentage points (Wolanin, 2003). Consequently, as illustrated in Figure 1 below, this enrollment gap has caused a persistent gap in educational attainment levels between whites and non-whites.

Figure 1: Adults 25 and Older with a Four-Year College Degree, by Race/Ethnicity



Source: U.S. Census Bureau

Several reasons exist for these gaps, including the quality of high schools available in some communities, parental educational attainment, and financial barriers. Table 3 shows that many minority students and those from low-income families are not academically prepared for college, as compared with their peers. Family wealth and income, as well as parental educational attainment, remain the best predictors of which students will enroll in college. These factors are even more important than the student's academic preparation. Financial barriers prevent 48 percent of college-qualified low-income students from attending four-year colleges and 22 percent from attending any college at all within a few years of graduating from high school (Milano, 2003). Even when low-income students can get some assistance in attending college, their level of unmet financial need averages $3,200 a year at two-year colleges and $3,800 a year at public four-year colleges (Wolanin, 2003).

Table 3: College Preparedness, by Race and Income Level

	Percent of Students Academically Qualified for College				
	Total	Minimally	Somewhat	Highly	Very Highly
Race/Ethnicity					
White	68.2%	16.1%	16.6%	20.3%	15.2%
Black	46.9%	16.7%	14.0%	9.9%	6.3%
Hispanic	53.0%	20.7%	13.6%	10.8%	7.9%
Asian/Pacific Islander	72.7%	14.6%	15.0%	20.2%	23.0%
American Indian/Alaskan Native	44.8%	22.2%	15.8%	5.9%	1.0%
Family Income					
Less than $25,000	53%	19%	13%	14%	7%
$25,000 to $75,000	68%	16%	17%	20%	15%
More than $75,000	86%	12%	18%	27%	29%

Source: *The Condition of Education 2002*, National Center for Education Statistics

Despite these income and racial gap challenges, the college population today is very diverse. Minorities make up almost a third of the college population, one fifth of college students are first generation Americans, and 11 percent speak a language other than English at home (Choy, 2002). Today, three quarters of all undergraduates can be classified as what was once thought of as "nontraditional" (Wolanin, 2003). This means that they may not be a high school graduate[3], did not enroll directly out of high school, are attending school part-time, working full-time while attending school, or are financially independent, married, or have dependents. Because many low-income students do not start college directly after high school and many start families before attending college, they make up a significant portion of these "nontraditional" students. This change has profound implications on the utility of public policies which help students enroll and successfully complete college, since many of these programs were originally designed with traditional students in mind who, increasingly, are in the minority of college attendees.

PUBLIC POLICIES THAT PROMOTE HIGHER EDUCATION

Both the federal and state governments play a significant role in helping students prepare both academically and financially for college. The federal government plays the largest role, providing 70 percent of all student aid (Lundsford, 2003). Approximately 40 percent of all students receive some type of financial aid from the myriad of federal programs (Wolanin, 2003) and 90 percent of low-income students receive some form of assistance ("Getting Through College," 2001). Federal and state aid have both recently undergone a shift from a focus on need-based aid in the form of grants to a greater emphasis on loans, merit awards, and tax credits for middle income and upper middle-income families. In 1980, 52 percent of federal aid was grant-based, while 45 percent was loans. By 2000 this had switched to an aid system of 41 percent grants and 58 percent loans ("Losing Ground," 2002). Likewise, growth in state assistance programs has largely occurred in merit or special-purpose, rather than need-based, aid. In 1981, 91 percent of state financial aid was need-based. The need-based share of total state aid declined to 78 percent by 1999 ("Losing Ground," 2002).

The main types of public policies at the state and federal level are (1) pre-college programs; (2) grant aid; (3) loans; (4) tax-preferred savings plans; (5) tax credits and deductions; and (6) other, diverse programs such as work-study and state merit-based scholarships. Each of these public policies is summarized below.

Pre-College Programs

TRIO and GEAR UP are the primary federal pre-college programs which provide support and opportunities in obtaining a post-secondary education to low-income students. TRIO grants are awarded to institutions and agencies which help disadvantaged students apply to college and seek financial aid; offer career workshops; provide academic advice and mentoring; and other services such as Student Service Centers which further support students after they enroll in college. Two-thirds of TRIO participants must come from low-income families and be a prospective first-generation college student.

Started in 1998, GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) provides five-year discretionary grants to states and partnerships to provide services at low-income middle and high schools. Offering mentoring and scholarships, these grants benefit a specific cohort of students from 7th grade through high school. The program is modeled after the "I Have a Dream" projects, which have been developed in several localities. I Have a Dream projects adopt an entire class from an elementary school or an entire cohort of students from a housing project and provide continuous support throughout their educational careers. These projects demonstrated that youth who know that college is a possibility are far more likely to achieve in their K-12 education and go on to college.

In FY 2004, TRIO was appropriated approximately $833 million and GEAR UP received $298 million. TRIO and GEAR UP serve over two million people (approximately 872,000 and 1.2 million students, respectively). While both programs continue to make at least modest funding gains every year, it is estimated that only about 10% of the eligible population is served by these programs (Wolanin, 2003).

Grant Aid

Pell Grants are the primary means of financial support for low-income students, with one in five undergraduates in degree programs receiving this assistance. In the 2003-2004 school year, students could receive grants of up to $4,050 and a total of $12.7 billion is expected to be distributed. While the receipt of a Pell Grant is guaranteed for all qualified students, students may not receive an adequate amount funding to ensure access to higher education. The Pell Grant was originally supposed to help with about 75 percent of an eligible student's college expenses. In the 1975-1976 school year, the maximum grant paid about 85 percent of college expenses for students in four year public institutions (King, 2002). Despite these intentions, the percentage of college expenses paid by Pell Grants have shrunk dramatically to about 33 percent of the cost to attend a two-year college and 25 percent of the cost to attend a four-year college ("Trends in Student Aid," 2003) and the program was last appropriated the authorized maximum in the 1979-1980 school year (Wolanin, 2003a). While some increases to Pell Grant funding have bolstered the program in recent years, the rising number of eligible students and increased tuition costs continue to limit the effectiveness of this program in ensuring access to students of all income levels.

The Federal Supplemental Educational Opportunity Grant (FSEOG) provides additional financial assistance to those undergraduates with the greatest need, with priority given to those receiving Pell Grants. Unlike the Pell Grant, however, this assistance—which can range between $100 and $4,000--is not guaranteed to all eligible students. The average grant this year is expected to be $772, with 1,246,000 new awards anticipated.

Loans

One of the fastest growing forms of federal aid is loans, either to students or parents who are paying for their child's education. In the 2001-2002 school year, the federal government provided loans to approximately 10 million borrowers. This is a 61 percent increase from the 1993-1994 school year, when 6.3 million students took out loans ("Trends in Student Aid," 2003). These loans are either subsidized, with no interest charged until the loan has to be repaid if financial need is demonstrated, or unsubsidized, with interest charged as soon as borrowing begins. Some of the major loan programs include Perkins Loans for low-income students, Stafford Loans which come in subsidized and unsubsidized forms for all students, and PLUS Loans for parents who are assisting their children with their educational expenses. In the 2001-2002 school year, total federal expenditures for Perkins, Stafford, and PLUS loans totaled nearly $42.4 billion ("Trends in Student Aid", 2003)

Tax-Preferred Saving Plans

The two main savings vehicles for college are Coverdell Education Savings Accounts (formerly known as Education IRAs) and Qualified Tuition (Section 529) Plans. Coverdell Savings Accounts allow families to save money for a child's education expenses from elementary school through college on an after tax basis. Up to $2,000 per child can be contributed every year and the money grows on a tax free basis. Qualified Tuition Plans, commonly known as 529 plans, are state-operated plans that can be used for college education expenses. Like Coverdell accounts, money is deposited on an after tax basis and grows tax free. Because an individual can open an account in any state's plan, many states offer incentives such as matches and tax benefits to encourage residents to open accounts in their home state. The estimated federal tax expenditures for college savings plans will reach $800 million in 2004 (Joint Committee on Taxation, 2003).

Tax Credits and Deductions

In addition to the tax-advantaged savings plans described above, tax credits and deductions have also been created to help with college expenses. The HOPE Scholarship Tax Credit and the Lifetime Learning Credit were created in 1997 to help primarily middle class families afford college. The HOPE credit helps families finance the first two years of post-secondary education by allowing them to claim up to 100 percent of the first $1,000 of tuition and fees and a 50 percent credit on the second $1,000, totaling a potential credit of $1,500 a year. The Lifetime Learning Credit provides tax relief for undergraduates after their first two years of college education, graduate students, and those returning to school to acquire or improve job skills. This credit was recently expanded to allow families to receive up to a 20 percent tax credit for the first $10,000 of tuition and related expenses, or a maximum of $2,000 a year. In 2004, the estimated federal tax expenditures for the HOPE and Lifetime Learning Credits will be approximately $4.3 billion (Joint Committee on Taxation, 2003).

Due to eligibility limitations on the lower and upper ends of the income scale, these tax credits mainly support middle and upper-middle class families and individuals. Families who have low enough incomes to not have sufficient income tax liability do not receive these credits because it is non-refundable. In 2003, these credits start to phase out for taxpayers whose adjusted gross income is between $83,000 and $103,000 ($41,000 and $51,000 for single filers) ("Analytical Perspectives," 2004).

In addition to these tax credits, there are also deductions for tuition and fees and for student loan interest. In 2003, taxpayers can deduct up to $3,000 of their tuition and fees expenses and this will increase to $4,000 in 2004. This deduction phases out at incomes of $65,000 and $130,000 for single and joint filers, respectively. Additionally, people in their first five years of paying off their student loans can deduct up to $2,500 regardless of their income level. The estimated federal tax expenditure for these tax deductions will total $3.4 billion in 2004 (Joint Committee on Taxation, 2003).

Other College Assistance Policies

A great variety of other college assistance policies exist at the state and federal levels. At the federal level, the work-study program provides part-time employment for students. Other federal programs provide aid directly to institutions, including some which are earmarked specifically for those which serve a high proportion of low-income students; American Indian controlled colleges and universities; Alaska-Native and Native Hawaiian-serving institutions; historically Black colleges and universities; and Hispanic-serving institutions. In all, these colleges serve almost a third of minorities earning college degrees. Other than their 529 plans, states have a myriad of programs to help their residents obtain college educations.[4] Some states, such as Georgia, have elaborate merit based programs that provide scholarships regardless of need to all students who above a certain grade point average in high school. In addition, many states are either proposing or have at one point had tuition increase caps for their public colleges.

RECOMMENDATIONS

Since post-secondary education is such an important step to building assets for both current and future generations, policies that afford students from low-income families the opportunity to attend college are of primary importance. While states and the federal government expend large sums of money of various programs to help students afford college, improvements are needed to ensure that this money is effectively targeted to programs that help the most disadvantaged students and are designed to meet their changing needs.

Two guiding principles should be followed when determining what proposals would make a college education more accessible to a broad variety of students: (1) all students can obtain at least a two-year college degree, regardless of their financial ability and (2) all students should have the expectation throughout their primary and secondary school careers that it is possible for them to become a college graduate. Currently, only about half of federal expenditures for student aid are targeted specifically at low-income students, who—after all aid and loan opportunities are exhausted—still face an average of $3,800 of unmet need (Wolanin, 2003). It would cost approximately $9.3 billion additional dollars to make up this gap, which could be found by shifting some resources away from students who could finance college through other means. For example, if the $8.5 billion that the middle and upper-middle classes are estimated to receive in 2004 through tax deductions and credits was directed towards lower-income students, this would sharply reduce the level of unmet need.

Table 3: Cost of Meeting Current Unmet Need

UNMET NEED AMONG LOW-INCOME FULL-TIME UNDERGRADS	
Average Unmet Need	$ 3,800
Number of Low-Income Full-Time Undergrads	2,461,444
Total Cost to Meet Needs	$ 9,353,000

Note: Low-income, full-time undergraduate enrollment figure is derived from the National Center for Education Statistics' estimate that 26% percent of undergraduates can be classified as low-income.

Before considering recommendations is it also important that the factors that make students more likely to obtain a college degree are taken into account. The persistence—or completion—rate of low-income students is only 59 percent, compared with 71 percent for their peers. The most important factors in determining whether students will persist in college and earn a degree—other than family history and income which students cannot control—are working less than 15 hours per week during the school year and taking rigorous high school programs to prepare for a college curriculum (Choy, 2002). Students who limit their work hours are able to manage their time more effectively, establish better connections with their college, and are more focused on their academic work. As a result, they usually attend college full time and are more likely to complete their degree. Likewise, rigorous high school courses have been found to be more effective indicators of success in college than grades or test scores. Unfortunately, the largest group of freshman (45 percent) chose to work more than 15 hours a week, which puts them at risk for dropping out (King, 2002). Low-income students are likely to be part of this group and are further disadvantaged by the likelihood that they attend substandard high schools which do not have rigorous course offerings.[5]

1. Expand pre-college programs, especially TRIO and GEAR UP

One of the most important parts of making college more accessible is ensuring that every child receives a quality K-12 education so that they are prepared to succeed in college. They also must begin their school career with the expectation that college is within their reach. To this end, it is important to increase awareness and financial support of pre-college programs which have shown that they are successful. The TRIO and GEAR UP programs should be dramatically expanded so that far more than the current 10 percent of eligible students are able to take advantage of these programs. This expansion could be implemented through a variety of funding mechanisms which could be shared by federal, state, local, and nonprofit community groups. Innovative new ideas, such as the Early College High School Initiative demonstration conducted by Jobs for the Future and its partners, should also be explored as other possible parts of a comprehensive pre-college strategy. This initiative, which will be implemented in 19 high schools this year, will allow students to take college courses for credit during their junior and senior years. They can earn up to two years of college credit this way without paying any college tuition while being in a more intimate high school environment.

2. Revise the Pell Grant and student loan structure

Currently, many students have to take out loans from the beginning of their college careers to afford college. Many low-income students are reluctant to take out loans—even when they are under subsidized terms—and instead work while attending school, increasing their risk for failure. Though working more hours is risky, it is likely a more attractive alternative to low-income students who are not completely confident in their ability to complete their degree and may have little and/or negative experiences with financial institutions and debt management.

A more effective policy would be to change the current Pell Grant program so that aid is concentrated into the first two years of college. This "front-loaded" grant would cover a much larger percentage of students' expenses and greatly reduce their need for a loan in the first two years. While students would then have to finance their remaining years of school with a federal loan, they would likely view this as a less risky proposition, since they have gained confidence in their ability over the first two years of college and have developed a good academic track record. They may then have enough confidence in their abilities to be comfortable with taking out a loan to finish up their education.

For this "front-loaded" Pell Grant/"back-loaded" loan strategy to work, it is imperative that grant maximums and loan limits increase over time to address tuition increases. Since federal loan programs have shown to pay for themselves over time, loan limits in particular should be raised so that students do not have to turn to far costlier alternatives, such as credit cards, to finance their education.

3. "Democratize" tax incentives and savings plans so they work for low-income families

In their present form, most tax-preferred savings vehicles provide little or no incentive for low-income families to save for college because of these families' low tax liability. However, some savings vehicles are being designed to specifically help low-income families meet their financial goals.

One of the most promising of these savings vehicles is the Individual Development Account, which is a savings account that can be used for an asset such as a home, business, or an education. Every dollar contributed into an IDA by an accountholder is matched, usually on a 1:1 or 2:1 basis. Currently, these accounts are only available on a limited basis through some states and localities, a privately funded demonstration program called the American Dream Demonstration, or a federal pilot project authorized by the Assets for Independence Act.[6] Evaluations of these programs have shown that low-income people can save towards these goals and that many have successfully saved for an education. The Savings for Working Families Act, which has been proposed in Congress, would allow for the creation of an additional 300,000 accounts.[7] Ideally, this cap on the number of accounts should be removed so that all eligible families can receive incentives to save.

Another proposal, which is in the initial implementation stages in the United Kingdom[8], is to provide every child with an account at birth, with the government depositing an initial sum when the account is created and subsequent sums with certain milestones such as a graduation from elementary school. Family members, friends, and others could make contributions into accounts as well, and when the child reaches age 18, the savings are theirs to invest, use for post-secondary education, spend as they wish. A similar proposal has been introduced in the U.S. Congress for KIDS Accounts. Like the U.K., an account would be established for each child with an initial deposit. With a KIDS Account, however, low- and moderate-income children would receive government matches for contributions made into their account, and the savings could only be used for an education, a home, or for retirement savings.

In addition to IDAs and children's savings accounts, savings accounts which are already available on a large scale basis can be modified to help low-income families save for college. Five states are providing matching grants to residents who contribute to 529 accounts to encourage families who are not yet investing—especially those with lower incomes—to open accounts (Clancy, 2003). Some states only match families up to a certain income level, or provide a more generous match to those with lower incomes. Other states are taking a less targeted approach and offering the same match to all residents regardless of their income level. These matches are funded by either through user fees from non-residents, revenue generated from the plan's assets, or from the state's general funds. This idea would be best implemented in a targeted way to help low-income families who currently do not have an incentive to save. While only a handful of states currently offer this match, other states can follow their lead and design matching plans that best suit their residents' needs. Additionally, the federal government can also play a role in the matching of 529 plans through options such as providing federal matching funds to states or indirectly matching contributors' funds when a lower-income student applies for student aid by reducing the Expected Family Contribution by the 529 account balance and thus increasing the amount of financial aid for which that student would qualify.

Margaret Clancy of the Center for Social Development at Washington University has proposed a similar idea which would link IDAs to a 529 plan. This proposal would allow a person to take their savings and all accumulated matching funds from an IDA and transfer them into a 529 account. Since the savings period for IDA programs is often only for a limited time, this option would allow people to save for a longer period of time.

Perhaps most importantly, since most low-income households that could save for college through these vehicles will also qualify for student aid, it is critical that they are not penalized for any savings they accumulate through a reduction in student aid. Currently, households making under $50,000 a year do not have their assets taken into account for student aid eligibility purposes if they are eligible to file a 1040A or 1040EZ tax form. Alternatively, it they are not eligible to use these tax forms, their college savings can be assessed in financial aid calculations. To ensure that low-income families who are trying to help themselves by saving are not penalized, this rule should be revised to enable all families making under $50,000—regardless of their tax filing status—eligible for this exemption.[9]

In addition, current tax incentives—such as the HOPE and Lifetime Learning credits—also offer little or no benefits to lower-income families trying to finance a college education. These credits would have to be made at least partially refundable—similar to the Earned Income Tax Credit and Child Tax Credit—to benefit this segment of students. While moves to make tax credits refundable have not been politically popular in recent years, options exist that could be feasible. For example, access to the refundable portion of these credits could be restricted so that it must be reinvested into a special purpose account such as a Coverdell Education Savings Account or 529 Plan, which would limit the risk of fraud. This would allow a person who qualifies for a refundable education tax credit to receive it only if they designate a restricted account into which these funds would be automatically transferred.

4. Provide predictable and accessible financing options

Regardless of how comprehensive aid programs are in making college accessible to all students, they will only succeed if they are predictable so that students can plan for the future and comprehensible to students and their families who must now wade through often complex forms and information to make the best choices about a college education. One example of the unpredictable nature of student aid is the Pell Grant program which is subject to an annual appropriation by Congress. As of December 2003, the Pell Grant appropriation for the 2003-2004 school year which began in August has not been finalized. Therefore, students depending on this important funding are unable to effectively plan their finances and may be dissuaded from attending college or may reduce their course load. This could be remedied by making the Pell Grant appropriation mandatory rather than discretionary or putting a provision in place that the grant would automatically increase by a certain percentage each year if Congressional action is not taken by a certain date.

Another challenge students and their families face is the complex Free Application for Federal Student Aid (FAFSA) form which must be completed to determine eligibility for financial assistance. Since families who are already eligible for other programs such as Temporary Assistance to Needy Families (TANF), Social Security Insurance, or food stamps have met stringent income requirements, they should automatically qualify for student aid. Instead of having to go through the process of proving their income and asset levels again, these families should have the option of merely checking a box on a shortened application form, perhaps called a "FAFSA EZ." This may encourage low-income families and students to apply for aid and make college a possibility for those who were intimidated by the financial aid application process.

In addition to these recommendations, all grant, loan, and other assistance programs must be adapted to the new and growing majority of students who are currently classified as "nontraditional." Policies should not categorically exclude the large number of students who attend part-time or less while working, have parental responsibilities, or choose from new innovations in education such as web-based classes. These students may face additional costs such as child care, earn a salary over the very low threshold which disqualifies them for needed aid, or may need to take breaks from their schooling. All programs should be designed with enough flexibility to adapt quickly to students' changing circumstances and needs.

Table 4: Summary of Recommendations

Recommendation	Summary
Expand Pre-College Programs	• More funding for TRIO and GEAR UP • Encourage pilot programs, such as Early College High School
Revise Pell Grants and loan structures	• "Front Load" Pell Grants • More reliance on loans in later college years • Increase grant maximums and loan limits
Democratize Tax Incentives and Savings Plans	• Allow low-income families to save through IDAs • Match contributions to 529 plans • Make HOPE and Lifetime Learning tax credits refundable
Provide predictable and accessible financing	• Make Pell Grant appropriation mandatory • Create a "FAFSA EZ" application form • Ensure policies can be adapted to nontraditional students' needs

PROPOSALS FROM THE ADMINISTRATION, CONGRESS, AND THE 2004 ELECTION CAMPAIGN

A range of higher education bills have been proposed in the 108th Congress to date, and more are expected in the months ahead. The Higher Education Act—which includes funding for pre-college programs as well as grants and loans—is up for reauthorization, and several bills have been proposed dealing with different titles of this Act. In addition, several Members of Congress have proposed other post-secondary education bills dealing with college savings and tax credits. The table below summarizes these legislative proposals in the context of the recommendations from this issue brief.

Table 5: Legislative Proposals from the 108th Congress

Recommendation	Prospects
Expand Pre-College Programs (TRIO/GEAR UP)	Both parties have legislation to increase Trio and Gear Up funding—the difference is in the funding level. The House Republicans propose funding Trio at \$835 million and Gear Up at \$300 million (HR 4283). The House and Senate Democrats propose funding Trio at \$1.25 billion and Gear Up at \$500 million (HR 3180, HR 4283, and S 1793).
Front-Loaded Pell Grant	This has been discussed in a hearing in the House, but has not been proposed formally in legislation.
Make the Pell Grant an Entitlement Program	No legislation has been proposed or discussed on this issue. Instead, Democrats and Republicans have proposed increasing grant maximum per student (although the Democratic version is more generous than the Republican version) and Senate and House Republicans have proposed a Pell Grant Plus demonstration program, which would provide \$1,000 in additional aid for 36,000 students a year who have completed rigorous high school coursework (HR 4283 and S 2206).
Increase Funding for Pell Grants and Other Need-Based Aid	The House Democrats have proposed to gradually increase the Pell Grant to \$11,600 by 2011 (HR 3180). This is similar to a Democratic proposal in the Senate which would raise the maximum Pell Grant to \$4,500 in 2004-2005, increasing gradually to the \$11,600 by 2009-2010. Alternatively, the House Republicans would maintain the grant maximum at \$5,800 (HR 4283).
KIDS Accounts	These universal children's savings accounts have been introduced in both Houses of Congress in the bi-partisan ASPIRE Act (HR 4939 and S 2751). The government would make a \$500 deposit into a the account once a Social Security number is issued. Children from households below the national median income would receive a supplemental deposit at birth and would be eligible to receive dollar-for-dollar matching funds up to \$500 per year for voluntary contributions to the account, which cannot exceed \$1,000 per year. The accounts could then be used for post-secondary education, a home purchase, or saved for retirement.
Match 529 and other College Saving Accounts	Matching 529 plans or other savings accounts has not been proposed at the federal level. However, proposals to expand IDAs, make the Savers credit refundable, and create American Stakeholder Accounts could achieve these goals.

Recommendation	Prospects
Reform Asset Tests for Financial Aid Eligibility	There has been limited discussion on how saving in an account such as 529 plans or a Coverdell Education Savings Accounts can impact the financial aid a family can receive. HR 3619 and S 2477, both Democrat-sponsored bills, would revise the asset calculation in the financial aid needs analysis so that savings in 529 plans are not considered. In addition, another Democrat-sponsored bill in the House, HR 3180, would exclude the first $9,000 of income earned by a student from the financial aid needs analysis.
Expand IDAs and Allow Rollover to 529 or Other College Savings Plans	The Assets for Independence Act IDA demonstration project is up for reauthorization this year. The Senate bill (S 1786) allows for savings to be used for a child, but the House bill (HR 7) does not. The Savings for Working Families Act (part of S 4) would move IDAs beyond a demonstration project and thus allow families to use them for a dependent's education as well. However, this proposal would only create a maximum of 300,000 accounts and would thus need to be expanded to ensure all eligible families who desire to open an IDA or similar account could do so.
Expand Use of Tax Credits (Hope Scholarship, Lifetime Learning)	Two Democratic bills in the Senate seek to expand existing education tax credits in a way that would benefit low- and moderate-income families who are ineligible now due to their low or nonexistent income tax liability. S 1793 would increase the Hope Scholarship tax credit to $3000 a year and make it available for four years. This tax credit would be refundable so that families could qualify regardless of their income tax liability. Similarly, S 2087 would make both the Hope and Lifetime Learning tax credits refundable and would increase the Hope tax credit to $2500 a year. This proposal also includes an advance payment program which would transfer the benefits on this tax credit directly to a tax filer's college, so that they would not have to pay for college and then wait over a year to receive their refund.
Streamline the Financial Aid Application	The House Republicans have proposed the streamlining of the financial need analysis for families who do not have to file a tax return or that qualify for a federal benefit program. Additionally, this bill would conduct outreach efforts for families eligible for other federal benefit programs (HR 4283). The House Democrats have proposed a new streamlined "FAFSA EZ" in HR 3180 which could simplify the application for eligible families.
Make Aid Applicable to 'Nontraditional' Students (ie: less than part-time, year round, etc.)	The House Republicans have stated that removing barriers for non-traditional students is one of their top four priorities for HEA reauthorization. The House Democrats have proposed a pilot program of year-round Pell Grants (HR 3180) and House Republicans have also introduced a bill calling for year-round grants (HR 4283). Similarly, another Democratic House bill (HR 3618), also calls for year-round Pell Grants. HR 3180 would exclude more of a student's income from the financial aid needs analysis. S 1793, a Democratic bill in the Senate, would make the first $9000 earned by traditional students and the first $18,000 earned by nontraditional students exempt from taxation.

During the Democratic primary, several candidates proposed further ideas for access to higher education, including the presumptive nominee, Senator Kerry.[10] Recently, Kerry toured colleges around the country to promote his "Service for College" plan, which would provide an opportunity to obtain a four-year college degree in return for volunteer service to the community. Under this proposal, a person who volunteers for two years would earn the equivalent of their state's four-year public college tuition. A person volunteering for one year would earn two years of college tuition. For those who wish to serve but do not want to go to college, this money could be used for job training, business capitalization, or a downpayment on a home. Volunteers who have already attended college could put the award towards the repayment of a college loan. Senator Kerry aims to have 500,000 participants in this program each year. Kerry's other proposals include a refundable College Opportunity Tax Credit, which would provide up to $4,000 for every year of college, and an "I Have a Dream" Scholarship, which would provide $1,000 for students to participate in early intervention programs before attending college in order to increase their chances of success.

President Bush has also proposed a variety of measures to broaden access to college, including proposals to provide additional funding for community colleges to train workers for jobs which are currently in demand in their local areas; help low-income children with the cost of Advanced Placement exams so they can earn college credit while in high school; and create $5,000 grant for low-income students studying math and science in college. Additionally, his proposal for additional

Pell Grant aid for students completing rigorous high school courses has already been introduced in Congress as the Pell Grants Plus Act, described in table 5 above.

CONCLUSION

With the Higher Education Act reauthorization and Presidential elections occurring this year, a significant opportunity exists to make meaningful reforms to the student aid and pre-college programs that help students prepare and pay for a college education. With college students facing ever rising tuitions while higher education becomes more and more indispensable, this problem will only grow more apparent in the future. Through these recommendations and others that target assistance to students for which college would not otherwise be an option, even individuals who start life with few resources will be able to obtain quality jobs and have the means to build their wealth for themselves and future generations.

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[1] While higher education is a broad subject which can encompass workforce development, skills training, college, or other pursuits, this issue brief will primarily focus on issues related to obtaining a two- or four-year college degree.

[2] For more information on this skill-level discussion, please see "The Education/Skill Distribution of Jobs: How is it Changing?" by Linda Levine (2000). Available at http://www.pennyhill.com/labor/97-764e.html.

[3] Students without high school diplomas that are pursuing a college education generally have earned a GED or have taken placement tests to demonstrate that they are capable of performing college-level work.

[4] For a summary of each state's aid policies read Losing Ground: A National Status Report on the Affordability of American Higher Education from the National Center for Public Policy and Education (available online at http://www.highereducation.org/reports/losing_ground/ar.shtml) and Accounting for State Student Aid: How State Policy and Student Aid Connect from the Institute for Higher Education Policy (available online at http://www.ihep.org/Pubs/PDF/StateAidRptFINAL.pdf).

[5] While beyond the scope of this issue brief, it is also important to note that K-12 educational quality and affirmative action policies play critical roles in higher educational access. These issues are addressed by Ted Halstead and Michael Lind's proposal to overhaul the K-12 educational system that would ensure local choice and control of schools while equalizing school funding across jurisdictions in their book, *The Radical Center* and William Bowen and Derek Bok's overview of the consequences of affirmative action policies in *The Shape of the River: Long-Term Consequences of Considering Race in College and University Admissions*.

[6] For more information on IDA programs at the state level, see a summary provided by the Center for Social Development at Washington University at http://gwbweb.wustl.edu/csd/policy/index.htm. Information on the American Dream Demonstration is available from the Corporation for Enterprise Development at http://www.idanetwork.org/index.php?section=initiatives&page=add_sites.html. Information on the implementation of the Assets for Independence Act is available from the Department of Health and Human Services at http://www.acf.hhs.gov/assetbuilding/.

[7] The Savings for Working Families Act is included in the Senate's Care, Aid, Recovery and Empowerment (CARE) Act (S. 476), which passed in April 2003. The House version of this bill, HR 7, the Charitable Giving Act, did not include the Savings for Working Families provisions. HR 7 passed in September 2003 and will be reconciled with S 476 in a conference committee.

[8] The United Kingdom is currently implementing its Child Trust Fund program, which will give each child born after September 1, 2002 a trust fund of at least $400 and up to $800 for the poorest one-third of children. The government will make additional deposits when the child reaches age 5, 11, and 16. More information on this program is available at http://www.hm-treasury.gov.uk/topics/topics_savings/topics_savings_trustfund.cfm?. More information on the KIDS Accounts proposal, which is currently under consideration in Congress, can be found at http://www.kidsaccounts.org.

[9] For more details on the interplay between savings and financial aid eligibility, see *The Potential for Inclusion in 529 Savings Plans: Report on a Survey of States*, by Margaret Clancy and Michael Sherraden at the Center for Social

Development at Washington University.

[10] For a detailed summary of all of the Democratic primary candidates' proposals, please see http://www.assetbuilding.org/AssetBuilding/Download_Docs/Doc_File_916_1.pdf.