ISSUE BRIEF
No. 5020 | DECEMBER 19, 2019
CENTER FOR EDUCATION POLICY

The College Affordability Act Is Unaffordable

Mary Clare Amselem

KEY TAKEAWAYS

American students need relief from rising tuition costs, and a massive new spending bill would make the current situation even worse.

Lawmakers must address federal student loans that have caused tuition hikes, hold universities accountable for education quality, and promote better options.

Congress should cap, and then end, federal loans to spur competition, to pressure schools to reduce tuition, and to expand opportunity for all students.

The House Education and Labor Committee recently released its proposal to reauthorize the Higher Education Act of 1965—the College Affordability Act.[1] Much like the Affordable Care Act, the House Democrats' proposal is anything but affordable. The proposal calls for a massive uptick in federal spending on higher education and increased access to federal student aid (which has been shown to inflate tuition), while easing the criteria for federal loan forgiveness, leaving the bill to American taxpayers. The House has since passed a bipartisan proposal to fund historically black colleges and universities and simplify the Free Application for Federal Student Aid. However, the College Affordability Act reflects a growing sentiment that increased federal spending on higher education will fix many of the problems facing the American university system. Yet, federal spending has caused many more problems than it has solved.

Americans need solutions that will drive down the price of college, hold universities accountable for the quality of the education that they offer, and bolster career and technical education options. The College Affordability Act accomplishes none of these goals.

Regulations on For-Profit Colleges

The Obama Administration made a concerted effort to heavily regulate for-profit institutions, promulgating regulations that unfairly targeted these colleges based on their tax status. The Trump Administration made repealing such regulations, specifically "gainful employment," a top priority. However, the College Affordability Act proposes to reinstate this flawed policy. Gainful employment is a cumbersome regulation that can limit a school's ability to qualify for Title IV federal funding (student loans and grants) if it does not meet certain outcome measures for students, such as low default rates or debt-to-earnings ratios. While there are certainly many for-profit institutions that underserve students and should not qualify for federal funding, this has little to do with the schools' "for-profit" status. In fact, if the same regulatory standards were applied to public nonprofit community colleges and even some four-year universities, many would fail the same test. For example, career colleges and community colleges have comparable default rates, and nearly two-thirds of students who enroll in colleges with loan repayment rates below 25 percent attend traditional public and private colleges, not for-profit schools.[2]

In a free-market system, schools would be free to operate through private funding, and poor-quality schools would simply close down for lack of customers. Unfortunately, the current system is inflated with guaranteed money from the federal government, which makes bad actors difficult to identify. The gainful employment regulation is the wrong way to measure quality in higher education, particularly when it only applies to one small segment of the higher education sector.

Federal–State Partnership to Help Institute "Free" Community College

Although the College Affordability Act does not appear at first blush to give in to progressive calls for "free" public college tuition, the proposal would establish a massive federal–state partnership to institute "free" community college in the states. Hailed as a "historic investment in states that agree to waive community college and fees,"[3] this federal–state partnership would lay the groundwork for an entirely tuition-free four-year public university system in the future. The proposal is expected to cost $16.3 billion by 2030.

The justification for a massively expensive grant program operates under the premise that more money to the states will enable universities to cut tuition. States must agree to keep their funding constant in order to receive federal money under this new program. In order to eliminate tuition for students, the proposed America's College Promise grant program would provide federal funding to participating states amounting to at least 75 percent of the average in-state community college tuition. States would be required to fund the remaining 25 percent of the funding.

Policymakers believe that incentivizing states to keep higher education funding constant would lower tuition costs. However, cuts in state revenue have not been shown to be the leading driver of high tuition costs. As the Cato Institute's Neal McCluskey has pointed out, reduced state investment in higher education has not explained why tuition and fees have risen at private universities, almost in unison.[4] The common denominator is federal money. Unfortunately, the proposed federal–state partnership will likely only serve to fuel increases in tuition, along with the facilities arms race at American colleges and universities, rather than meaningfully lowering tuition costs.

Changes to Loan Repayments

The student loan repayment process is certainly convoluted and in need of significant reform. However, the proposed consolidation of repayment plans proposed in the College Affordability Act would leave students enrolled in either a standard repayment plan or an income-based repayment plan, which will result in a massive bill for American taxpayers. Students earning under $31,225 annually would not be required to make any payments on their loans until their earnings improve.

Students who enroll in the income-based repayment plan (in addition to current borrowers who would be able to refinance their loans) would make payments based on any income earned that is 250 percent above the federal poverty level (FPL). Notably, after 20 years, the remainder of students' loan balances would be completely forgiven. Current income-based repayment plans calculate payments based on any income above 150 percent of the FPL, and most would not be eligible for general forgiveness until 25 years later. Therefore, the borrowers would see their payments reduced significantly.[5] Capping monthly payments will inevitably leave a larger proportion of a student's debt balance unpaid, meaning that American taxpayers will have a massive bill coming to them once that 20-year mark hits.

Additionally, the College Affordability Act makes it much easier for students to qualify for the Public Service Loan Forgiveness (PSLF) program, in which eligible government and other public-sector workers can see their loans forgiven after just 10 years of payments. Eligibility for the PSLF would be based on a student's line of work rather than the eligibility of his employer. Borrowers who work for non-501c(3) organizations, for example, but who engage in public service work that is deemed eligible, would qualify for the PSLF.[6]

With American taxpayers already underwriting much of the massive $1.6 trillion in outstanding student loan debt, policymakers should not ask for even more of an investment in this faulty system.

Changes to the Pell Grant Program

The College Affordability Act calls for significant changes to the Pell Grant system, which provides federal grant money to low-income students to attend an accredited college or university. This proposal would extend the number of Pell-eligible semesters to 14, making it possible for graduate students to qualify for Pell Grants, while also increasing federal spending for the Pell Grant program.

Providing student loans to graduate students is not an appropriate use of federal funds, as graduate students are typically high earners,[7] and those pursuing graduate degrees in medicine or law, for example, would likely have little trouble securing a loan through private sources. Providing *grants* to graduate students that do not have to be repaid is far more inappropriate. Since Pell Grants are grants that do not have to be repaid, this "free money" to attend graduate school will likely encourage many more to attend graduate school who would not have otherwise, thus fueling degree inflation. The proposal would increase the maximum Pell Grant award by $500 and would permanently index Pell Grant spending to inflation. This would increase the maximum annual Pell award to $6,695 in 2021, and would reach $8,305 by 2029.

Funding for the Pell Grant program should constantly be re-evaluated based on the needs of low-income students, rather than becoming a middle-class entitlement. Over the years, more middle-income students have qualified for Pell Grant funding due to expanded student eligibility.[8] The College Affordability Act would also lift the ban on incarcerated individuals, likely increasing the amount that would need to be spent on the program over time. Instead of pouring more money and limited taxpayer resources into the Pell Grant program and furthering price inflation, policymakers should focus on accreditation reform and other structural changes that would make it possible for a variety of higher education options to compete in the marketplace, offering more options for low-income students.

The Wrong Direction for Higher Education Act Reauthorization

Americans are already in a $1.6 trillion student loan debt hole. The College Affordability act digs it even deeper. The proposed policies for alleviating student debt indicate a lack of appreciation for the damage that federal loans and grants have had on the American economy, as well as the enormous cost of higher education. Congress should cap and ultimately eliminate federal loans in order to spur competition that will pressure schools to lower their tuition prices and expand opportunity for all students.

Mary Clare Amselem is a Policy Analyst in the Center for Education Policy, of the Institute for Family, Community, and Opportunity, at The Heritage Foundation.

Endnotes

1. The College Affordability Act, H.R. 4674, House Education and Labor Committee, October 15, 2019, https://www.congress.gov/bill/116th-congress/house-bill/4674/text (accessed December 12, 2019).
2. Lindsey M. Burke, "Examining For-Profit College Oversight and Student Debt," testimony before the Subcommittee on Economic and Consumer Policy, Committee on Oversight and Reform, U.S. House of Representatives, May 22, 2019, https://docs.house.gov/meetings/GO/GO05/20190522/109532/HHRG-116-GO05-Wstate-BurkeL-20190522.pdf (accessed December 12, 2019).
3. House Education and Labor Committee, "College Affordability Act: Title by Title," https://edlabor.house.gov/imo/media/doc/The%20College%20Affordability%20Act%20-%20Title%20by%20Title.pdf (accessed December 16, 2019).
4. Neal McCluskey, "Not Just Treading Water: In Higher Education, Tuition Often Does More than Replace Lost Appropriations," The Cato Institute *Policy Analysis* No. 810, February 15, 2017, https://www.cato.org/sites/cato.org/files/pubs/pdf/pa_810.pdf (accessed December 16, 2019).
5. Jill Desjean, "NASFAA Policy and Federal Relations Staff, "Analyzing the College Affordability Act: Changes to the Direct Loan Program," National Association of Student Financial Aid Administrators, November 6, 2019, https://www.nasfaa.org/news-item/19893/Analyzing_the_College_Affordability_Act_Changes_to_Direct_Loan_Program (accessed December 16, 2019).
6. Ibid.
7. Bureau of Labor Statistics, "Measuring the Value of Education," April 2018, https://www.bls.gov/careeroutlook/2018/data-on-display/education-pays.htm (accessed December 18, 2019).
8. Preston Cooper, "Pell Grants Are Now a Middle-Class Benefit," *Forbes*, February 2, 2018, https://www.forbes.com/sites/prestoncooper2/2018/02/02/pell-grants-are-now-a-middle-class-benefit/#6d56cff84a1f (accessed December 12, 2019).