

Strengthening Higher Education Access & Affordability

Policies across the Lifespan of Student Saving, Spending, and Debt



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Citi Foundation



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Table of Contents

| | |
|-------------------------------------------------------------------------------------------------|-----------|
| Introduction | 1 |
| College Savings | 2 |
| Promoting the Use of Currently Available College Savings Products - 529 Plans | 3 |
| Alternative Means for Long-term College Savings Goals - Individual Retirement Accounts | 4 |
| Financial Aid | 4 |
| Financial Aid U Program - Simplifying the Financial Aid Process Beyond the FAFSA | 5 |
| Know Before you Owe Campaign - Efforts of the Consumer Financial Protection Bureau | 6 |
| Tax-Based Support for Qualified Spending | 7 |
| The American Opportunity Tax Credit - Breaking the Refundable Threshold | 8 |
| A Proposal for a New Higher Education Tax Credit | |
| Aid Repayment and Post-degree Financing Options | 9 |
| Improving the Worst-Case Scenario - Reforming Bankruptcy Options for Student Loans | 12 |
| Options for the Majority - Repayment, the Student Loan Interest Deduction, and Loan Forgiveness | 13 |
| Conclusion | 14 |



About the National Community Tax Coalition

The National Community Tax Coalition, LLC (NCTC) works to create a more accessible and equitable tax system for American workers. NCTC is a national network dedicated to strengthening economies, building communities and improving lives through tax assistance and asset building activities that produce financial security, protect families and promote economic justice.

Our national network of organizations provides critical, on-the-ground financial services for working families. NCTC represents more than 53,000 volunteers at 6,300 Community Volunteer Income Tax Assistance (VITA) sites that last year prepared an estimated 1.5 million federal tax returns for low- and moderate-income workers – about half of all returns filed with free tax preparation assistance programs. Community tax preparers offer a high-quality choice – one that's free, accessible, and well-equipped to help families claim their full tax refund and the tax credits for which they're eligible.

We actively seek to broaden the reach and impact of community tax preparers and are a leading voice in national discussions about how to help low-wage workers and curb unfair financial practices. We believe that, together, we can strengthen economies, build better communities and improve life for all American families.

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Introduction

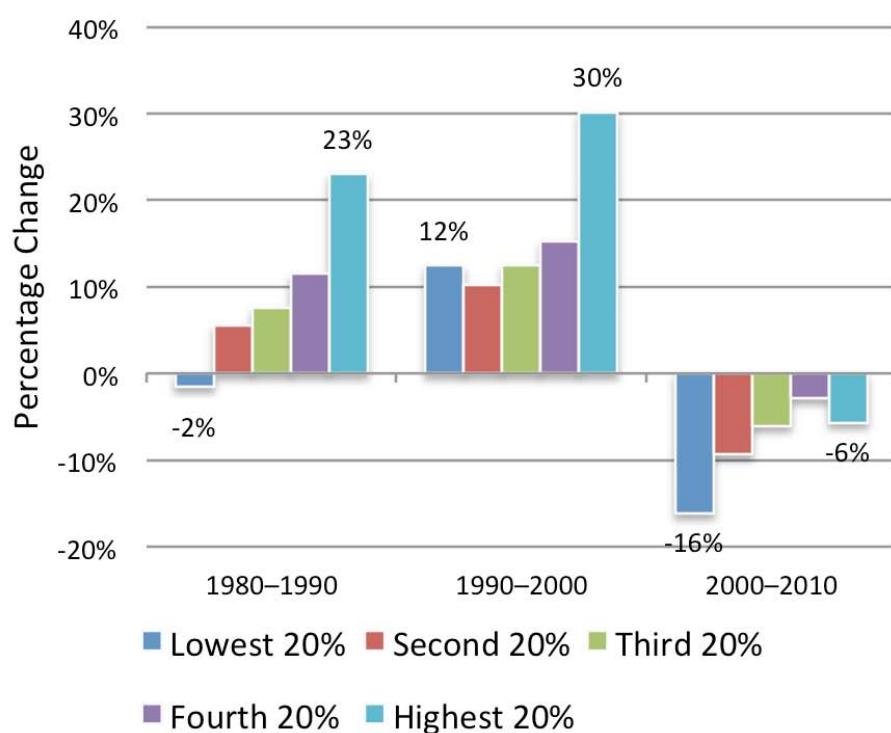
Americans often seek new opportunities for advancement through higher education. This is reflected in the findings of a Pew Research Center survey, in which nearly three out of every four individuals agreed that it's necessary to have a college education to get ahead these days.¹ Unfortunately, the primary barrier to accessing this opportunity is many students' inability to afford the ever-increasing costs of higher education.

Over the last decade, tuition and fees for in-state students at public, four-year institutions – among the cheapest four-year options – rose at an average rate of 5.6 percent annually after adjustments for inflation.² In the last year, these same costs increased an average 8.3 percent, with some states witnessing far more substantial increases.^{3,4} Meanwhile, over the same decade, average family incomes witnessed significant declines, with families in the bottom 20 percent of earners seeing the steepest drops - approximately 16 percent, shown in Figure 1.⁵

Low-income households, which have some of the lowest levels of degree attainment, stand to benefit the most from any improvements in college affordability. That's because families with wealthier parents already are more likely than others to see their children attain a college degree. The proportion of children from families with the highest incomes attaining a degree is approximately five times greater than that of children in the lowest family income quintile – reflecting the idea that wealthier parents are more able to pass their advantages on to their children than are their lower-income counterparts.⁶

Further, children in low-income households are unlikely to be able to depend on saved assets, with savings often raided in times of emergency needs, e.g. medical bills, car repairs, home repairs, etc. And when a deep recession does fall on us, it is likely already too late to begin saving or lay-out the necessary

Figure 1. Percentage Change in Inflation-Adjusted Mean Family Income by Quintile.



Source: College Board, *Trends in College Pricing 2011*, Oct. 2011, Data table for Figure 16a.

resources to finance such a costly pursuit from out-of-pocket resources.

This is not to say that avenues do not exist for low-income families to access higher education or the resources to pay for this pursuit. Low-income households can draw on a number of savings vehicles and support opportunities – some available to all households and some reserved exclusively for low- and moderate-income students and families.

The supports now available to students and families pursuing postsecondary education represent a pathway to degree attainment through four distinct stages: 1) pre-college savings, 2) financial aid applications and awards, 3) tax credits for qualified spending, and 4) repayment and long-term financing of postsecondary degree costs. Yet this pathway is certainly not free of potholes and pitfalls that slow low-income enrollment and degree attainment growth. These shortcomings are where we need to focus our policy initiatives and pursuits of change.

Access to the resources that make postsecondary education a real option for low- and moderate-income families is necessary to see real economic growth in our country.

As the nation's largest coalition of Volunteer Income Tax Assistance (VITA) programs serving the financial needs of low- and moderate-income working families, the National Community Tax Coalition (NCTC) maintains a vested interest in growing the economic well-being of the households we represent. It is our strong belief that – whether through a VITA site, a community organization, or local financial institutions – access to the resources that make postsecondary education a real option for low- and moderate-income families is necessary to see real economic growth in our country. This report highlights the barriers and choices that families face when pursuing higher educational advancement. It is an acknowledgement of successful programs as well as a call for change where status quo policies and services fail to match the realities of students' needs.

The remainder of this report highlights policies and initiatives along the pathway described above – from savings and aid before enrollment to making ends meet while completing a degree and, ultimately, to the repayment of borrowed support. The costs of postsecondary education are not borne solely during the time a student spends in the classroom. Thus, we should not expect our public policies to be so narrowly focused.

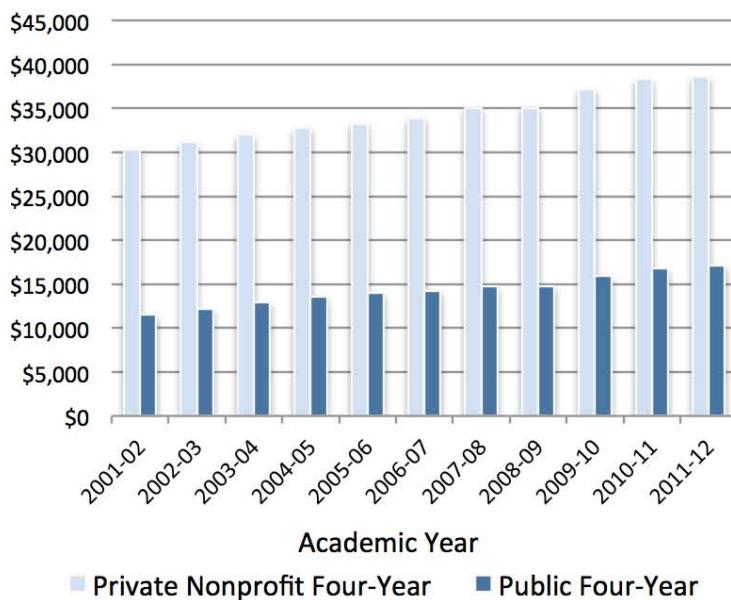
College Savings

The overwhelming majority of American parents continue to expect that their children will pursue a college education.⁷ Survey data reveal that upwards of eight in 10 parents of children under 18 believe that paying for their child's education is a very important goal and one that they consider just as important as being able to own a home or to live comfortably in retirement.⁸ Unfortunately, only half of these survey respondents reported that they started saving for this goal; not surprisingly, those with higher incomes were more likely to fall into the savers group. Only 33 percent of parents who expect their child will go to college responded that they have started to save for college.⁹

Interestingly, a 2009 study by Min Zhan and Michael Sherraden highlights the association between parental assets and college degree attainment, suggesting that the greater the parental assets, the greater the probability of their children's degree completion.¹⁰ Thus, an important implication of this study is that the facilitation of savings for children's higher education could significantly affect college success and long-term economic potential.

After decades of rising costs in college education (shown in Figure 2), a lack of personal savings to support postsecondary education will particularly place a growing strain on low-income students' ability to attain a degree. Reports continue to suggest a linkage between children's savings and persistence in college toward a degree. A recent series of reports from the New America Foundation, in particular, highlights the many connections between children's savings and their effects on college persistence and

Figure 2. Average Published Tuition and Fee and Room and Board Charges at Four-Year Institutions in Constant 2011 Dollars.



Source: College Board, *Trends in College Pricing 2011*, Oct. 2011, Table 5.

degree attainment. Making a strong case for public investment in a children's savings accounts program, this series further draws-out the distinction between the savings of low-income and high-income families. It highlights clear evidence that investments in educational savings for low-income families are likely to have substantial effects on college success, bringing the dreams of educational and economic advancement closer to reality.¹¹

In light of the connection between savings and college success, it is necessary for policymakers to explore the current incentives available to promote college savings – as well as proposals for reshaping the ways we encourage this path, with an eye toward repairing apparent deficiencies.

Promoting the Use of Currently Available College Savings Products – 529 Plans

Qualified Tuition Plans – also known as 529 plans – offer an opportunity to grow tax-free higher education savings to families or individuals who expect a beneficiary student to pursue postsecondary education. These account programs are established and maintained by the states and often include additional

state tax benefits for contributions to resident savers.¹² A key advantage to the beneficiaries of these accounts is the likelihood that any distributions used for qualifying educational expenses will reduce the amount that a student dependent on financial aid will need to take in the form of interest-accruing loans. Additionally, if a parent is the account holder of a 529 plan, assets accumulated in the account are calculated at a lower rate than they would be for an independent student when determining the expected family contribution (EFC) from a student's Free Application for Federal Student Aid (FAFSA).

Low-income savers, however, may find some disadvantages to 529 savings, primarily due to lower tax liabilities limiting the benefit of the tax savings such plans offer.¹³ Further, the inclusion of any assets such as these savings would likely raise a student's EFC, lowering the amount of federal grant aid offered versus loans or work-study.

Nonetheless, the expected benefits of asset growth and degree attainment should offset this concern, and policy innovations for 529 plans should focus on means for encouraging low- and moderate-income families to save through tax-advantaged means and growing the contributions made with a clear focus on asset growth.

Among the most promising proposals for encouraging account enrollments and asset growth, described by Zhan and Sherraden, are direct outreach to low- and moderate-income families, low-cost investment options, and the introduction of matched savings.¹⁴

Another proposal that builds off of the current 529 plan structure focuses on ensuring the tax benefits linked to such accounts are made more effective for low- and moderate-income savers. Introduced in a past session of Congress by U.S. Sen. Robert Menendez of New Jersey, the Saver's Bonus proposes a unique benefit to low- and moderate-income savers through the tax code. A portion of their savings would be matched by the federal government and deposited into the qualifying account. Coverdell Education Savings Accounts and 529 plans would both qualify for this bonus. By incentivizing these savings and automatically growing the accounts of families most in need of college savings help, the perceived ability for low-income students to fund their postsecondary education becomes far more of a reality.¹⁵

Alternative Means for Long-term College Savings Goals – Individual Retirement Accounts

Similar to a 529 plan, saving in a tax-advantaged individual retirement account (IRA) serves as a supplemental, if less efficient, route to college savings and household asset growth. While IRAs are not intended to be used as a primary means for college savings, contributions to IRAs offer the ability to make long-term, tax-advantaged savings contributions, coupled with exceptions to tax penalties for early withdrawals directed at qualified higher education expenses. Low-income households, in particular, have scarce resources to save and are more likely to have to choose among goals for which to save. Contributing to an IRA allows savers with more limited means to work toward accomplishing two goals while providing some tax benefits.

Moreover, the federal government, recognizing the importance of encouraging long-term savings among low- and moderate-income households, introduced in 2001 the income-restricted Saver's Credit (formally the Retirement Savings Contributions

In its current form, the Saver's Credit does not necessarily create a strong enough incentive among low- and moderate-income savers to open new tax-advantaged accounts, let alone grow assets in these accounts to support more than the primary goal of retirement savings. In an effort to reform the Saver's Credit and expand its use, the Savings for American Families' Future Act of 2009 was introduced in Congress. Similar to the Saver's Bonus described above, it would create a matched savings opportunity for low- and moderate-income savers to more rapidly grow long-term assets, thus putting in reach secondary goals for such savings, including the partial funding of higher education costs.¹⁶

In its current form, the Saver's Credit does not necessarily create a strong enough incentive among low- and moderate-income savers to open new tax-advantaged accounts, let alone grow assets in these accounts to support more than the primary goal of retirement savings.

It is important to reiterate that, unlike 529 plans or other specifically designated children's savings accounts, retirement savings should not be primarily considered for use to cover the costs of postsecondary education. Reflecting this caveat, early distributions from IRAs can only be excepted from additional tax penalties for unmet qualified education expenses not covered by other sources first, including federal Pell grants, tax-free scholarships, and other tax-free educational assistance. These more traditional forms of aid should remain the most significant sources of assistance for low- and moderate-income households prior to tapping alternative savings resources.

Financial Aid

More than three out of every four students enrolled in postsecondary education now require some form of student aid to cover the cost of attendance.¹⁷ (The geographic dispersal of student aid recipients is displayed in Appendix 1.) Federal student aid in the form of Pell grants, loans, and work-study are obtained

through a FAFSA. This application includes more than 100 questions and runs six pages long - not including four pages of instructions – and is used largely to determine a student's expected family contribution (EFC). The EFC is reported after the FAFSA is submitted on a Student Aid Report (SAR) sent to the student, and is calculated to represent the amount a family or independent student is likely to be able to contribute to financing their education expenses, i.e. identifying an amount of the cost of college attendance a student would be ineligible to receive through aid. While EFCs and SARs provide initial signals to families and students about the possibility of receiving aid, this information provides little real evidence about their ability to cover the student's higher education expenses.¹⁸ The bottom line is that, despite the high level of detail students provide on a FAFSA (more than 45 questions focus on income and assets alone), their real ability to pay remains largely a mystery for many potential students.

It is well known that the complexity of the financial aid process is considered a barrier to college access and persistence.

It is well known that the complexity of the financial aid process is considered a barrier to college access and persistence.¹⁹ In light of this, efforts to simplify the FAFSA and the financial aid process - particularly for low-income families who stand to benefit the most from aid resources - have been ongoing since at least 2005, with a mandate requiring action toward simplification approved in the Higher Education Opportunity Act of 2008.

Most of these efforts have been directed toward the types of information collected and the formulas used to calculate the EFC. More recently, the Department of Education focused on reducing the income and assets questions to two relatively simple pieces of information that would reduce the FAFSA to fewer than 30 questions: a family's IRS Adjusted Gross Income and its number of IRS exemptions.²⁰ Of course, such a revision would require this information to be readily available to both the family and the Department of Education.

As described in a Department of Education report,

among the biggest challenges with using family tax information for making aid-eligibility determinations is the divergence in tax- and aid application-filing calendars.²¹ The FAFSA, which students are permitted to file beginning on January 1 of every year under the current process, could not be completed until tax-filing information is received and a return is filed by the student or family, delaying the processing time of the application for some filers well into the spring. Such a delay is in many cases detrimental to students' decisions about enrollment, decisions that for many students come well before the April 15 tax-filing deadline.

Further, some recommend that the application period be moved to the fall prior to enrollment²² to be more in sync with the college application process. But that would be hampered by a lack of complete income or tax-reporting information for the year – requiring alternative methods to calculate prior-prior year²³ family data. No matter how these barriers are overcome, it is clear that tax-filing information is and will remain integral to the calculation of financial aid awards.

Financial Aid U Program – Simplifying the Financial Aid Process beyond the FAFSA

Simplification of the financial aid process is unlikely to be achieved only through reform of applications or reducing the number of questions on necessary forms. The process, as a whole, requires a significant degree of financial savvy and awareness of the connection between a family's tax filings and the costs of a desired postsecondary education. For low-income families, the sheer number of questions to answer and options to weigh can be very discouraging.

Additionally, low-income families are less likely than others to have a home computer with reliable internet access, forcing many such families to use paper applications and miss-out on computer-based logic designed to skip over questions irrelevant to these applicants. Building a better understanding of the complete financial aid application process – from the IRS Form 1040 to the FAFSA to actually receiving aid – will help demystify the costs of postsecondary education as well as the ability to fund such costs, particularly for first-generation college goers.

In recognition of the connections between the FAFSA and federal tax filings, as well as the importance of ensuring full access to financial aid for low-income families, NCTC developed its Financial Aid U (FAU) program to break-down these barriers. The nine programs participating in FAU working in close partnership with local high schools and youth groups – eight of them provide direct tax services as VITA programs, while the ninth connects participating families to partnering VITA programs. These services help shed light on the complicated financial aid application process by creating a seamless connection between tax filing and FAFSA completion.

FAU also aids students and families by educating them about the various federal and state-level options available to them to pay for postsecondary education. Many of these FAU students – approximately 92 percent of those served in 2011 – are eligible to receive the maximum Federal Pell grant. Unfortunately, due to recent budget changes, the proportion of students eligible to receive the maximum Pell grant is likely to decline in the coming academic year.²⁴

By focusing on relieving the complication created by duplicative tax filing and FAFSA completion processes and guiding students through the application, FAU lifts a veil of confusion.

By focusing on relieving some of the complication created by duplicative tax filing and FAFSA completion processes and by guiding students through the application and aid selection, FAU lifts a veil of confusion. It helps low- and moderate-income students enroll, finance, and persist in their postsecondary education to ultimately attain a college degree. Early evidence from this program suggests that this holistic approach to financial aid assistance could serve as a robust model for growing the pool of low- and moderate-income students pursuing and attaining postsecondary degrees.

Among the most interesting indicators of the success of this program is the persistence rate of stu-

dents served in 2010, showing 93 percent of these students returning for their second year of college in 2011.

Know Before Your Owe Campaign – Efforts of the Consumer Financial Protection Bureau

Not all students will seek or need the direct assistance of programs like FAU. However, all students and families could benefit from clearer and more concise information about exactly how much their education is expected to cost and the long-term financing of this investment. Moreover, standardizing this information across higher education institutions would ensure the greatest comprehensibility of the choices available to applicants, increasing the potential effectiveness of this information.

From its inception, the Consumer Financial Protection Bureau (CFPB) has prioritized greater awareness of the costs of postsecondary education, evidenced by its “Know Before You Owe” campaign.²⁵ Among the first efforts of this campaign is the creation of a recommended standard financial aid award letter that would be sent to students from all schools that offer them admission and aid.

As currently constructed, the standard award letter provides a clean and relatively easy-to-follow description of costs and awards, broken-down by grants and loans. More importantly and perhaps key to its effectiveness, the letter provides a simple box laying out the monthly, post-graduation costs of loans awarded from both federal and private sources.

The major goal of this standardization should be an assurance among students that they are able to bear the costs of college education without overwhelmingly leveraging their future earnings, i.e. that they are made fully aware of not only costs but their abilities and their families’ abilities to pay for their postsecondary education.

This is especially important to families of first-generation, college-going students who do not pos-

sess the anecdotal wherewithal to support their financial aid decision-making and are far more likely than others to come from a lower-income family.²⁶

To this end, NCTC in February 2012 provided aid award-letter recommendations to CFPB, attached as Appendix 2, to highlight, among other needs, the importance of ensuring the clarity of terms used, identification of interest rates attached to any awarded loans, more detailed information on the expected length of time to repay these loans, and a simple clarification of the link between a student's FAFSA, SAR and eventual award letters.

CFPB has gathered many such suggestions and is recommending changes on an ongoing basis.²⁷ Ultimately, the simpler we make the overall financial aid process, particularly for low-income, first-generation students, the greater the effect that student aid will have on increasing access to postsecondary education.²⁸

Tax-Based Support for Qualified Spending

Traditional student financial aid in the form of grants and loans only provides for part of the complete higher education cost equation for most lower-income families, experienced most often by families when they receive an SAR with a greater than zero EFC. While families of many of the lowest-income students find the cost of their postsecondary education largely met through grant aid from federal, state, and private sources, others find their students facing significant financial shortfalls. For some such families, this gap is met through assets saved through the mechanisms described above. These assets reduce the need for students to seek employment while enrolled, further allowing students to concentrate on their studies and increasing persistence in school, a trait highly correlated with degree completion.²⁹

Of course, these assets need not and do not come solely from long-term childhood or pre-college savings. Since 1998, the federal tax code has provided tax-based aid to many households with students enrolled in postsecondary education programs. This aid provides a means for supplementing and incentiviz-

ing their pursuits of degrees and personal economic advancement, particularly among lower-income households. This aid long took the form of two non-refundable tax credits, the Hope Credit and the Lifetime Learning Credit (LLC), and, alternatively, the above-the-line³⁰ Tuition and Fees Deduction, none of which could be claimed simultaneously. In a study examining whether these credits induce marginal low- and moderate-income students to enroll and persist in a postsecondary degree program, observations revealed that these tax-based aids did succeed.³¹

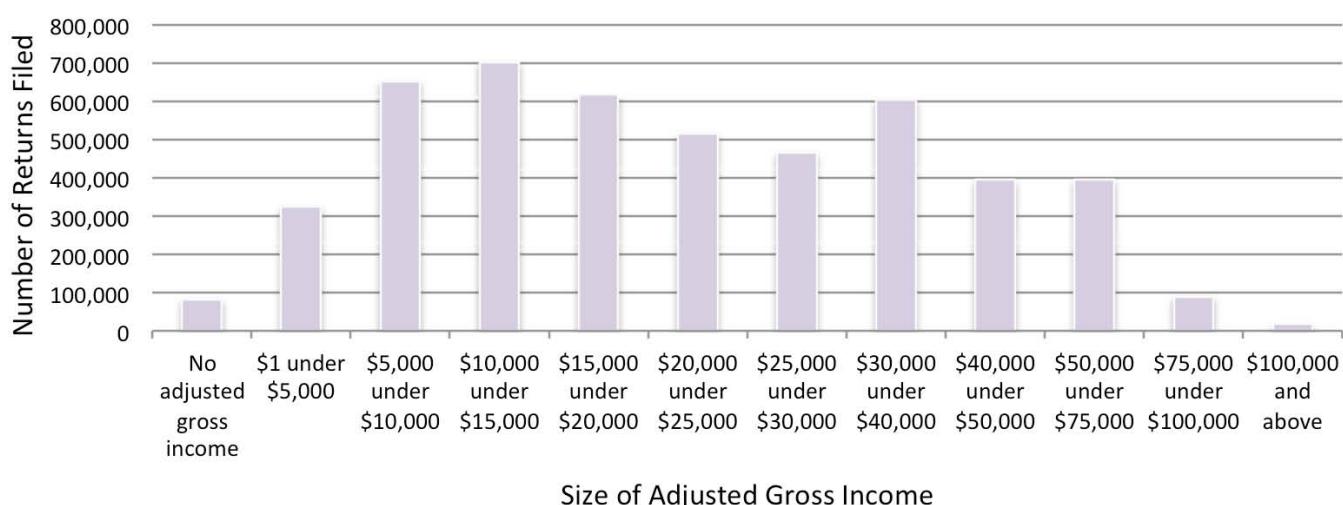
However, in the forms they took at the time of the study, these tax-based aids were more likely to serve as a financial transfer to middle-income students who would have likely enrolled regardless of receiving this assistance.³² In light of this evidence, an alternative that increases benefits to low- and moderate-income households or a more targeted approach to tax-based aid is necessary to ensure those who need the incentive most are the ones to whom it is actually directed.

The American Opportunity Tax Credit – Breaking the Refundable Threshold

One such alternative to the limited benefits of the Hope Credit and the LLC is the American Opportunity Tax Credit (AOTC), designed initially as a temporary replacement for the Hope Credit within the American Recovery and Reinvestment Act of 2009 (Recovery Act). As mentioned above, both the Hope Credit and LLC are nonrefundable, meaning these credits can only reduce a taxpayer's liability to zero.

For low-income tax filers, many of whom have zero or near-zero tax liabilities, the benefits of this tax-based aid is severely limited. In recognition of this limitation, the AOTC not only increased the maximum benefit of the Hope Credit – from \$1,800 to \$2,500 per eligible student – but also converted it into a partially refundable credit, up to 40 percent of its value. For low-income families with minimal tax liabilities and unmet higher education costs, this could potentially put as much as \$1,000 back into the pockets of eligible students and help fill their financial gaps.

Figure 3. Number of Federal Returns Filed Claiming the Refundable Portion of the American Opportunity Tax Credit in Tax Year 2009.



Source: IRS, Statistics of Income Division, Jul. 2011, Table 3.3.

About 8.8 million of the tax returns filed in 2010 claimed the AOTC. Approximately 4.9 million of these returns claimed the refundable portion of the credit, totaling \$3.9 billion in refunds. That made the AOTC the fourth-largest refundable credit by number of returns and the fifth-largest by dollar amount.³³ Of the amount refunded, nearly 60 percent – approximately \$2.3 billion – went to households with Adjusted Gross Incomes (AGI) less than \$25,000.³⁴ The distribution of returns claiming the refundable portion of the AOTC by AGI is shown in Figure 3. Clearly, the lion's share of this credit is flowing back to the taxpayers who need it most. As more data accumulate, analyses should be conducted to revisit the AOTC's persistence effects on low-income students.

The lion's share of the American Opportunity Tax Credit is going to the taxpayers who need it the most.

Interestingly, nearly 12 percent – approximately \$450 million – of AOTC refunds went to households with AGIs greater than \$50,000, more than \$15 million of which went to households with AGIs greater than \$100,000.³⁵ While there are certainly families that fall in these income groups that have unmet need to finance higher education after personal assets and other aid are considered, the significant portion of the AOTC accounted here suggests a

substantial transfer to middle- or higher-income families continued beyond the reforms of the Recovery Act.³⁶

Despite the clear benefits the AOTC has already created, there are concerns for this credit that must be addressed in the near future. First and foremost, unless a better and more-targeted, refundable tax credit can be crafted and approved by then, the temporary AOTC should not be allowed to expire as scheduled in December 2012; it should be made permanent, or billions of dollars could be pulled out of the pockets of low-income students. Second, policymakers and advocates should indeed work toward developing an even more effective, tax-based aid to better-target support to students and families most in need.

A Proposal for a New Higher Education Tax Credit

In May 2011, NCTC released a paper titled *A Single Higher Education Tax Credit: Opportunities for Advancement through the Tax Code*. It proposed a consolidated higher education tax credit tentatively called the Postsecondary Educational Advancement Credit (PEAC). This credit was by no means a radical departure from the currently available slate of credits. However, in light of the early data on the use of the AOTC, pursuing the creation of such a credit could significantly improve upon the aforementioned shortcomings of the AOTC while furthering the general goals of tax-based aid.

Within the framework of encouraging students from low- and moderate-income households to enroll in college and persist toward obtaining a degree, tax-based aid should be more specifically and effectively targeted to these families. To achieve this end, the PEAC proposal reduced the eligibility limits to a maximum AGI of \$100,000 for married couples filing jointly and \$50,000 for single-filers while introducing a third eligibility tier of \$80,000 for heads of household. Of course, tightening eligibility standards only addresses a portion of the needs of low- and moderate-income students. Thus, the proposal also seeks to increase the refundability of the credit to a maximum of 50 percent of its value per eligible student while further extending its use beyond the first four years of education to a maximum of seven. These are several of the key enhancements proposed to reform and consolidate tax-based aid that build on the lessons learned from past credit offerings, with more complete details of the PEAC available in Table 1. They should be considered a strong means to further support low- and moderate-income students' endeavors toward higher education attainment.³⁷

Aid Repayment and Post-degree Financing Options

For most students receiving aid to attend college, the dilemma of paying their expenses obviously does not end when diplomas are placed in their hands. In the 2007-08 academic year, the proportion of undergraduates receiving loans from both federal and nonfederal sources reached nearly 39 percent.³⁸ The number of undergraduates taking out Stafford Loans alone reached 34 percent by the 2010-11 academic year, with the average amount borrowed reaching \$6,744 – up from an average of \$5,538 just five years prior.³⁹ By the time they graduate, upwards of two-thirds of bachelor's degree recipients will have amassed education debt; 25 percent of the graduates in this group will leave school with more than \$30,500 in debt.⁴⁰

Perhaps most concerning about this trend is that, at a time when our nation's ongoing economic weakness already hampers our abilities to count on future earnings and job security, students continue to

significantly leverage future earnings that are by no means secure. Even in the best of times, it is a challenge to make such hedges, and young people – who have limited abilities to fully grasp the complete impacts of their financial undertakings – find they are borrowing far more than they will be able to easily cover down the road.⁴¹ Already signs are appearing that – whether due solely to the economy, this lack of foresight, or some combination of both – students face growing challenges when the time comes to repay their loans.

(cont. on page 12)

Table 1. Overview of the Postsecondary Educational Advancement Credit (as Proposed)

| | |
|-------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Maximum credit/benefit | Up to \$2,500 credit per eligible student |
| Limit on modified adjusted gross income (MAGI) | \$100,000 if married filing jointly; \$80,000 if head of household; \$50,000 if single or qualifying widow(er) |
| Refundable or nonrefundable | 50% of the credit maybe refundable; the rest is nonrefundable |
| Number of years of postsecondary education | Available for 7 total years of postsecondary education |
| Number of tax years credit available | Available ONLY for 7 tax years per eligible student |
| Type of degree required | Student must be pursuing an undergraduate or graduate degree or other recognized education credential |
| Number of courses | Undergraduate students must be enrolled at least half-time. The PEAC is available for graduate students enrolled in at least one course. |
| Felony drug conviction | The student must maintain a clean criminal record for 3 years after the first felony drug conviction before becoming re-eligible. This requirement extends to 5 years after a second felony conviction. Students with 3 or more felony drug convictions are ineligible. |
| Qualified expenses | Tuition and fees required for enrollment. Course-related books, supplies, and equipment do not need to be purchased from the institution in order to qualify. |

Financial Aid U

The National Community Tax Coalition (NCTC), with support from the Citi Foundation, knows that college success in low- and moderate-income communities requires more than access to financial aid resources.



It also calls for helping students and families understand the options available to them and what works best for their specific needs. The Financial Aid U program (FAU) is the direct product of this recognition. NCTC and the Citi Foundation recruited VITA and community-service organizations throughout the country to focus on the intersection of tax preparation and college financial planning for individuals looking forward to their post-secondary education options.



Through FAU, students and families seeking opportunities for higher educational advancement receive assistance with the Free Application for Federal Student Aid (FAFSA) as they file their income taxes. They also receive financial aid education and help with making difficult college- and aid-selection choices. FAU helps pave the path to the American Dream, perhaps particularly for first-generation citizens.

"By helping me fill out the FAFSA, I'm proud and happy to say I am a freshman at a four-year college that's looking forward to her sophomore year and walking across the graduation stage."



One such student, Jennifer, shared with her FAU volunteers the nerves she felt when confronting even the idea of going to college as a first-generation citizen, let alone the struggle she'd face in learning how to pay for this opportunity. With the help of FAU volunteers from the Health and Welfare Council of Long Island in Hempstead, New York, Jennifer developed an affordable plan for attending and succeeding in college. "The Health and Welfare Council of Long Island came to my high school during my senior year and saved me not only from collecting debt, but probably from turning away from college. By helping

me fill out the FAFSA, I'm proud and happy to say I am a freshman at a four-year college that's looking forward to her sophomore year and walking across the graduation stage."

Jennifer is among the more than 3,000 students served by FAU volunteers last year and is hoping to move on to a second year of college. In fact, a robust 93 percent of FAU students attending college in 2010 persisted on to their second academic year in 2011-12. This high persistence rate is no surprise, given the aid to which students gain access with the assistance of FAU. In 2011, FAU students received nearly \$12 million in federal and state financial aid, including \$7.5 million in federal Pell Grants.

Sara opened an individual development account, received free tax preparation, and is now well on her way to her college savings goal of putting-away \$2,000 by early next year – and her dream of college success.

For other students, FAU is not only about the FAFSA and available aid. Students like Sara – a refugee foster care client of Catholic Charities of Santa Clara County in San Jose, California – often want not only to attend college but to do so through their own means. Sara came to Catholic Charities in her final year of high school with a dream of becoming a college graduate but a fear of never being able to afford it.

Sara opened an individual development account, received free tax preparation, and is now well on her way to her college savings goal of putting-away \$2,000 by early next year – and her dream of college success.

Student participation in FAU grew more than 150 percent in its first two years



Seamless integration of free tax preparation, FAFSA assistance, and counseling are a highly beneficial means for promoting college access and affordability. Student participation in FAU grew more than 150 percent in its first two years. Nearly two-thirds of the students assisted in 2010 and over half of those assisted in 2011 have enrolled in higher education programs with these numbers still rising as applicants meet their savings goals. FAU is a proven route to college affordability and completion.

More Information

To learn more about NCTC's Financial Aid U program, visit our FAU information page at tinyurl.com/FinancialAidU.

1 For more information on the Health and Welfare Council of Long Island and its FAU program please visit their website: <http://www.hwcli.com>.

2 For more information on Catholic Charities of Santa Clara County and its FAU program, please visit their website: <http://www.catholiccharitiesscc.org/>.

(continued from page 9)

As of 2009, the National Student Loan Default Rate, shown in Figure 4 and by state for Fiscal Year 2009 in Map 1, reached 8.8 percent, the highest this rate has been since 1997.⁴²

This news is not terribly surprising given the substantial challenge new graduates face – especially in our current economic situation – of trying to find gainful employment that matches the expectations established by their new degrees. Not only have median salaries been falling for recent graduates, but many are finding the length of time necessary to find employment increasing. This was highlighted in a recent study which identified only 56 percent of spring 2010 graduates holding at least one job within the following year.⁴³ Such difficulties could significantly contribute to the rise in default rates, and may foreshadow difficult times ahead for many borrowers.

Improving the Worst-Case Scenario – Reforming Bankruptcy Options for Student Loans

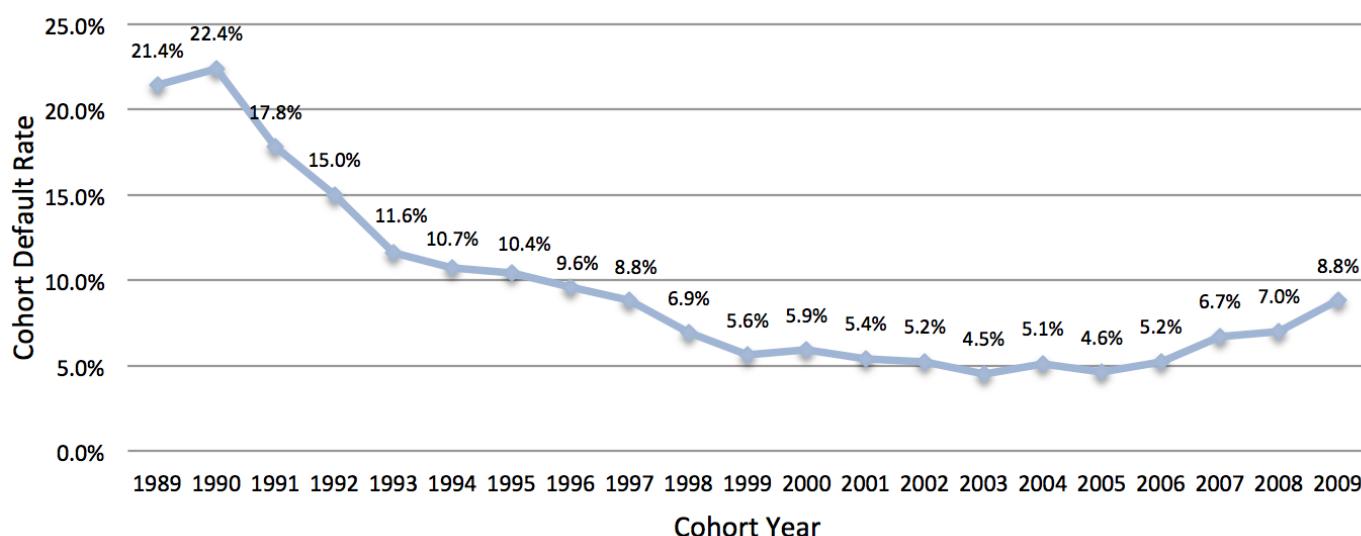
This rise is quite troubling given the very serious consequences student loan borrowers face after defaulting, including the right of the federal government to garnish future wages – potentially embarrassing

employees – or to intercept much-needed tax refunds. Moreover, unlike other forms of debt, student loans – regardless of whether they are public or private loans – are nondischargeable in the course of bankruptcy filings, leaving the most distressed borrowers with little relief from a substantial source of debt.

Student debt in the U.S. now exceeds the total debt Americans owe on their credit cards.

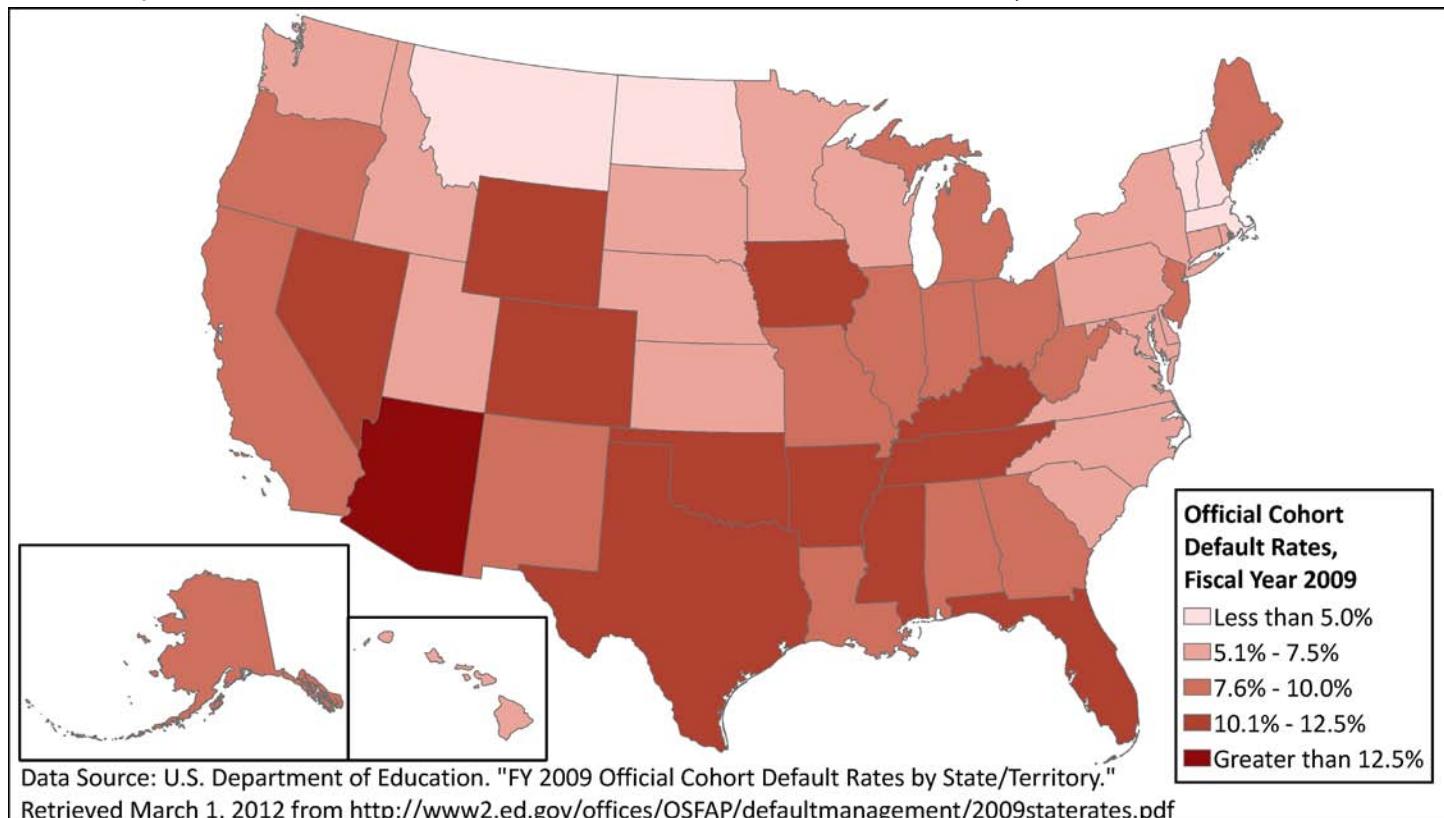
Student debt in the U.S. now exceeds the total debt Americans owe on their credit cards. Perhaps not surprisingly, a February 2012 report of the National Association of Consumer Bankruptcy Attorneys (NACBA) calls for serious changes to be made to the bankruptcy code, allowing our economy to avoid an even greater debt crisis.⁴⁴ NACBA's most beneficial recommendations include eliminating the nondischargeability of private student loans, which only came about from pressure from private lenders through reforms enacted in 2005. Another sound suggestion is to restore the right of all student lenders to discharge federal student loans in bankruptcy after five years of repayment.

Figure 4. National Student Loan Default Rates for Cohort Years 1989-2009.



Source: U.S. Department of Education, Federal Student Aid. "National Student Loan Default Rates," Sep. 2011, Retrieved March 1, 2012 from <http://www2.ed.gov/offices/OSFAP/defaultmanagement/defaultrates.html>.

Map 1. National Student Loan Official Student Cohort Default Rates by State in Fiscal Year 2009.



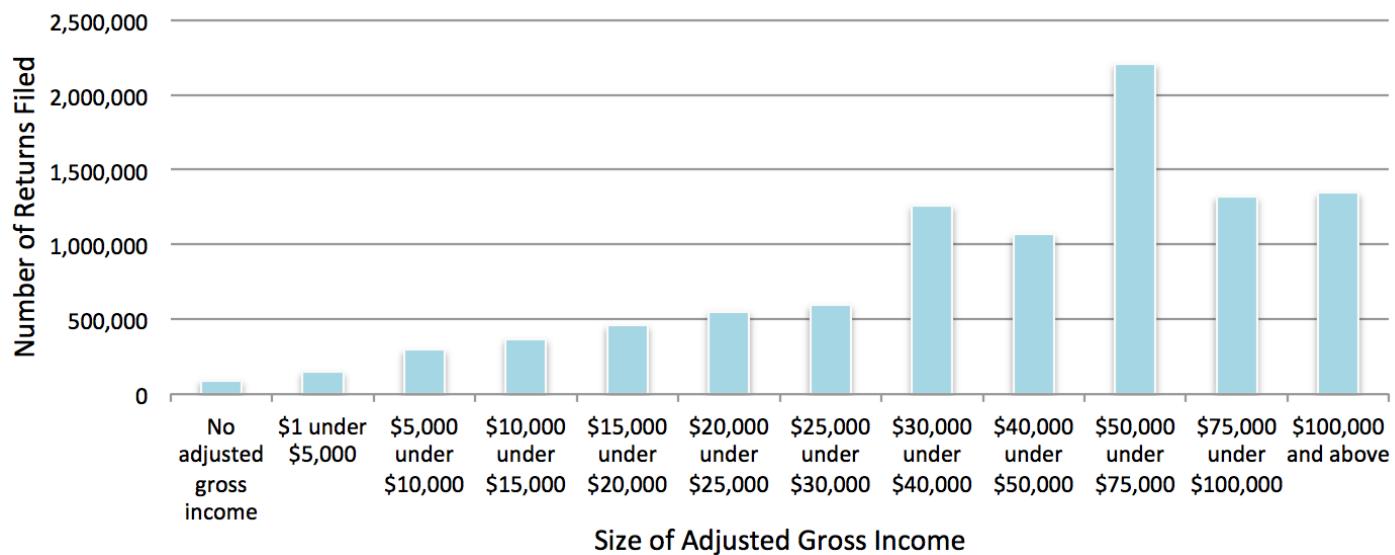
Options for the Majority – Repayment, the Student Loan Interest Deduction, and Loan Forgiveness

Though we should be concerned that the default rate is on the rise, the vast majority of student loan borrowers are repaying their loans. To assist these borrowers with meeting their obligations, several options currently help ease their burdens on at least the federal level. One of the first such options students encounter after beginning repayment is the above-the-line Student Loan Interest Deduction. Unlike interest payments on other forms of debt, this deduction permits taxpayers to reduce their annual taxable incomes by the amount of interest they paid on their student loans during the previous year, up to \$2,500. While this deduction is certainly popular – over 9.7 million returns claimed this deduction during the 2010 tax filing season – its specific usefulness to low-income borrowers and the unemployed is severely limited, with more than half of its claims filed by taxpayers with AGIs above \$50,000, as displayed in Figure 5.⁴⁵

Lower-income taxpayers and the unemployed will find little comfort in an income adjustment for interest payments when they struggle to make actual payments regardless of the tax benefits for doing so. Developing a potential fix to increase benefits for these borrowers should be a priority for future reform, particularly for reforms considered in response to economic downturns.

As both an inducement to and benefit of seeking employment in public-service fields – employment that is often lower paying than comparable private-sector positions – the federal government in 2007 created the Public Service Loan Forgiveness Program. This program permits the full cancelation of federal student loan debt for those borrowers making 120 monthly payments while working in a qualified public-service position. While certainly not all student borrowers will be induced to take advantage of this program, it does serve as a highly beneficial option for workers in many fields to repay their public borrowing in more ways than solely cutting a check.⁴⁶

Figure 5. Number of Federal Returns Filed Claiming the Student Loan Interest Deduction in Tax Year 2009.



Source: IRS, Statistics of Income Division, Aug. 2011, Table 1.

These two options – the Student Loan Interest Deduction and Loan Forgiveness – are simple supports for students who paid their way through school and now find they need a little help to make their way down the long path to repayment. Of course, the best way to support repayment is through a strong economy that rewards it workers with gainful incomes that continue to promote the importance of hard work and proper compensation. The more we ensure students' ability to make good choices in advancing their careers and well-being through higher education, the stronger our economy will be overall.

that support higher education endeavors and target support in ways that create the largest returns on investment. This commitment is necessary to restore education's role as the true great equalizer of our society.

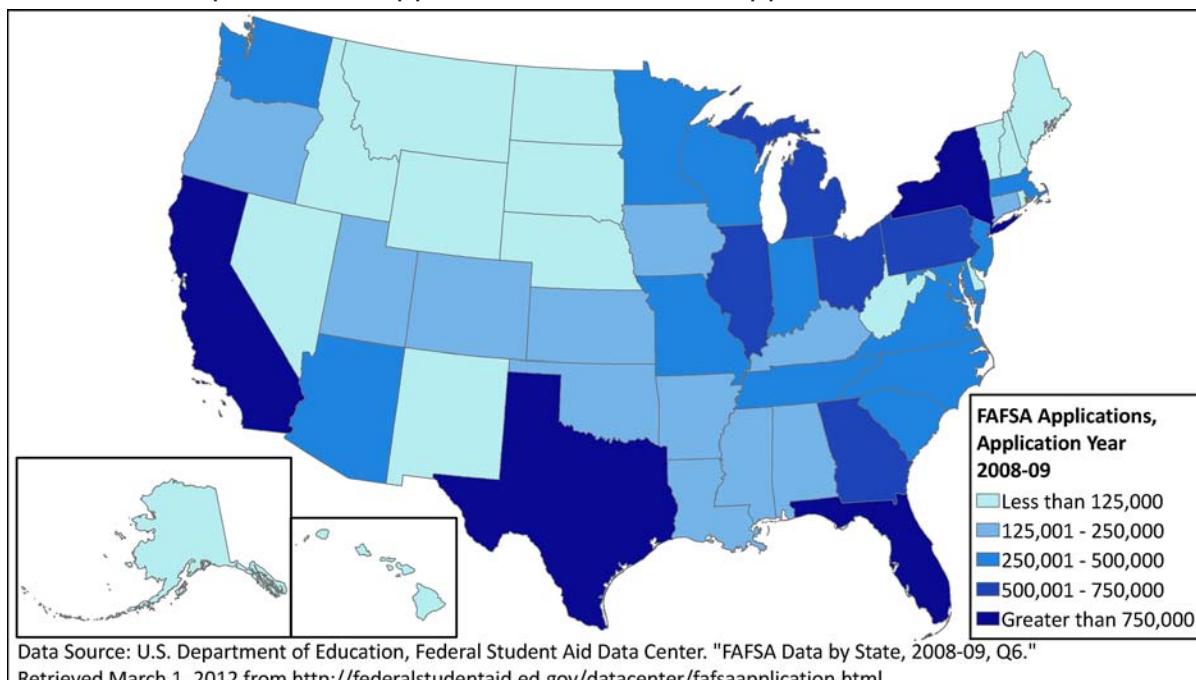
Conclusion

There is no shortage of options for strengthening our approach to growing our nation's pool of postsecondary degree holders. When considering these options or seeking new policies, we must keep in mind, first and foremost, the goal of growing opportunities for advancement in the labor population where it is most needed: among our low- and moderate-income households. This will require a commitment from our policymakers to focus on easing access to resources

Appendix 1 – FAFSAs and Student Aid by State for the 2008-09 Application and Academic Year

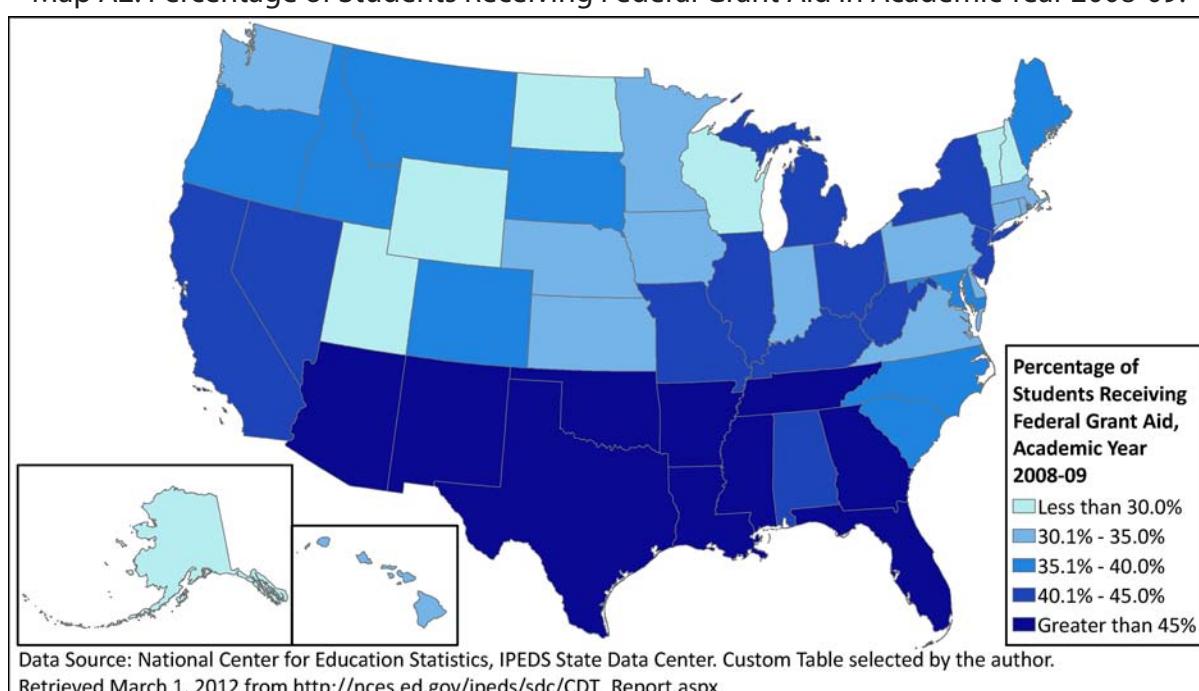
The data displayed in the following maps geographically represent the dispersal of FAFSA applicants and student aid recipients by state. FAFSA applicants, displayed in Map A1, are not surprisingly concentrated in the most populous states.

Map A1. FAFSA Applications Submitted in Application Year 2008-09.



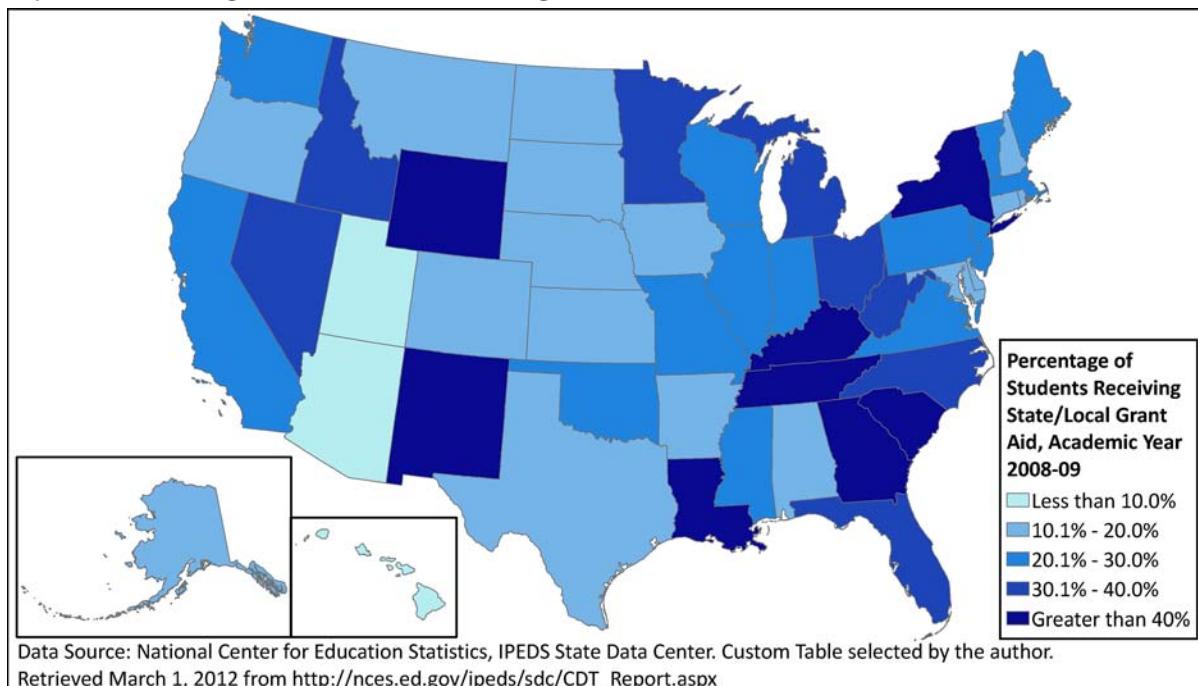
The states with the highest percentages of students who received federal grant aid, displayed in Map A2, are heavily concentrated across the Southern United States.

Map A2. Percentage of Students Receiving Federal Grant Aid in Academic Year 2008-09.



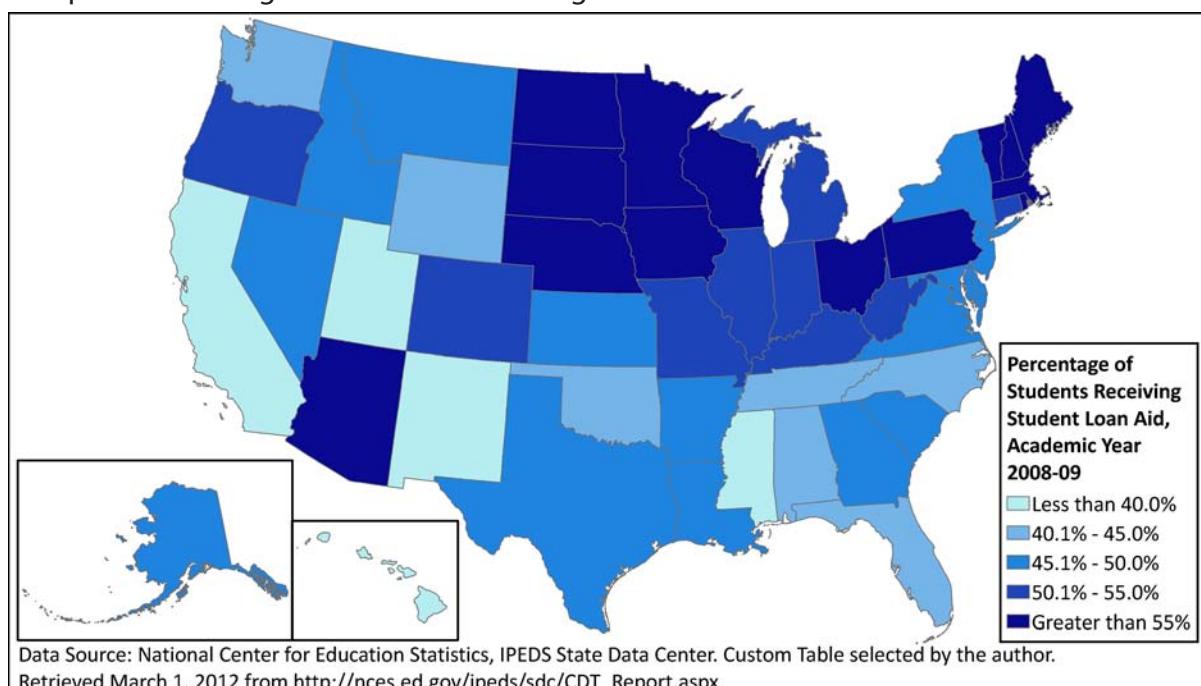
The highest percentages of students who received state and local grant aid (Map A3) are far more dispersed.

Map A3. Percentage of Students Receiving State or Local Grant Aid in Academic Year 2008-09.



Interestingly, and in contrast to federal grant recipients, the states with the highest percentages of students who received loan aid are found mainly in the Midwest and Northeast, as displayed in Map A4.

Map A4. Percentage of Students Receiving Student Loan Aid in Academic Year 2008-09.



Appendix 2 – Comments on the Proposed Standard Financial Aid Award of the Consumer Financial Protection Bureau, Submitted by the National Community Tax Coalition on March 1, 2012

The National Community Tax Coalition is the nation's largest network of Volunteer Income Tax Assistance programs, and our Financial Aid U initiative provides free tax preparation and FAFSA completion assistance. We commend CFPB on its recommended standard federal financial aid award letter, and - to improve upon this form - we suggest the following changes be considered.

Due to the complex nature of lending and the financial aid process, it is necessary that all students accepting aid be provided with a concise, supplemental form explaining terms and items included. This supplement should clarify the difference between subsidized and unsubsidized loans, explain the requirements of federal work study, and highlight the significant differences in accepting federal loans and private loans, to name only a few key concepts.

Absent from CFPB's recommended form is detail on interest rates. While the inclusion of interest rates for private loans would be difficult, especially if they carry variable rates, any such information could provide a signal about the affordability of the potential loan. This will become increasingly effective as other regulations for credit cards and lending disclosures come into play, producing a more understandable borrowing environment.

Currently listed loan repayment information is understandably simple but lacks key items. We recommend the inclusion of standard-expected and average lengths of time to full repayment for students at the awarding school. Information should be provided about the repayment process itself including any grace periods before repayment is required.

Students could also benefit from an introduction to currently available loan-forgiveness programs, especially those providing incentives for students to seek degrees in high demand or public service fields. Limited space could dictate that a simple note directs students to a Department of Education website detailing this information.

Further acknowledging that this form could lose effectiveness with an overabundance of information, we question the inclusion of loan default, graduation and retention rates. And in their current form, students could fail to understand these data as a proxy for repayment ability, becoming confused or ignoring them entirely. We recommend removing these charts. This information is often available from school administrative offices. An alternative is to direct students to a required page hosted on the awarding school's website.

Lastly, it's important to consider this form holistically with other financial aid documents students receive. Most importantly, this form should draw a clear link between award letters and the Student Aid Report (SAR) a student receives after completing a FAFSA. At the very least, it's necessary to explain how the SAR was used to determine the award offered - and where to seek further clarification.

For questions on or clarification of these comments, please contact Holden Weisman at hweisman@tax-coalition.org.

To see the Proposed Standard Financial Aid Award these comments refer to, visit tinyurl.com/3ve57mt.

Notes

1 Pew Research Center. "Is College Worth It? College Presidents, Public Assess Value, Quality and Mission of Higher Education." Pew Social & Demographic Trends. 2011. <http://www.pewsocialtrends.org/2011/05/15/is-college-worth-it/>.

2 College Board. Trends in College Pricing 2011. 2011. http://trends.collegeboard.org/college_pricing/.

3 According to the College Board's 2011 Trends in College Pricing Report, there is substantial variation in price changes across states, making these averages less reflective of the entire field of institutions than in past years. For example, California raised in-state tuition and fees at its four-year universities by 21 percent, while in Connecticut and South Carolina these same costs only rose about 2.5 percent.

4 College Board. Trends in College Pricing 2011. 2011. http://trends.collegeboard.org/college_pricing/.

5 Ibid.

6 Haskins, Ron. "Education and Economic Mobility." In Economic Mobility: Is the American Dream Alive and Well? Economic Mobility Project: An Initiative of

7 The Pew Charitable Trusts. May, 2007.

8 Ibid.

9 Ibid.

10 Zhan, Min, and Michael Sherraden. "Assets and Liabilities, Educational Expectations, and Children's College Degree Attainment." CSD Working Papers No. 09-60, Washington University, Center for Social Development, St. Louis, MO, 2009.

11 Elliott, William, III. Creating a Financial Stake in College. New American Foundation and George Warren Brown School of Social Work Center for Social Development. January 2012. Report I, "Why Policy-makers Should Care about Children's Savings," and Report III, "We Save, We Go to College," of this series were emphasized in this paper.

12 Contributions can be made to some state 529 plans by nonresidents.

13 Dynarski, Susan M. "Who Benefits from the Education Savings Incentives? Income, Educational Expectations, and the Value of the 529 and Coverdell." Working Paper 10470, National Bureau of Economic Research, Cambridge, MA, May 2004.

14 For a complete list of policy options and sources for improving upon the 529 plan structure, see Zhan and Sherraden, 2009.

15 For more information on the Saver's Bonus, please visit the New America Foundation at http://assets.newamerica.net/publications/policy/the_savers_bonus.

16 For more information on Saver's Credit Reform, please visit CFED at http://cfed.org/assets/pdfs/Savers_Credit_One_Pager.pdf.

17 U.S. Department of Education, National Center for Education Statistics, 1992-93, 1999-2000, 2003-04, and 2007-08 National Postsecondary Student Aid Studies (NPSAS:93, NPSAS:2000, NPSAS:04, and NPSAS:08), November 2009.

18 U.S. Department of Education (DOE). "Report to Congress on Efforts to Simplify the Free Application for Federal Student Aid (FAFSA)." January 2009.

19 DOE Advisory Committee on Student Financial Assistance. "The Student Aid Gauntlet: Making Access to College Simple and Certain." Final Report of the Special Study of Simplification of Need Analysis and Application for Title IV Aid. January 2005.

20 See DOE, 2009.

21 Ibid.

22 The Institute for College Access & Success. "Going to the Source: A Practical Way to Simplify the FAFSA." March 2007.

23 Prior-prior year refers to data from the period two years in advance of college matriculation.

24 While the final approved budget for the 2012 Fiscal Year (FY2012) will allow the maximum Pell Grant to remain \$5,500, changes in this budget for federal grant aid will reduce the number of students eligible for the maximum award. The FY2012 budget retains a minimum award of 10 percent of the maximum but eliminates the “bump-up” to the minimum for students who are calculated to be eligible for an award of at least five but less than 10 percent. The duration of eligibility for Pell Grant funds was also reduced from the equivalent of 18 full-time semesters to the equivalent of 12 full-time semesters, regardless of when a student first began receiving grant aid (i.e. no students are grandfathered out of this reduction).

25 Further details on the “Know Before You Owe” campaign for students is available on the website of the Consumer Financial Protection Bureau at <http://www.consumerfinance.gov/students/>.

26 DOE National Center for Education Statistics. “First-Generation Students in Postsecondary Education: A Look at Their College Transcripts.” 2005.

27 A summary of comments received thus far is available at http://files.consumerfinance.gov/f/2012/01/Memorandum_KBYOStudentLoans_FeedbackSummary_Jan2012.pdf.

28 See DOE Advisory Committee on Student Financial Assistance, 2005.

29 See Zhan and Sherraden, 2009.

30 Above-the-line tax deductions are deductions available to taxpayers regardless of whether or not they choose to itemize their deductions. Above-the-line deductions reduce taxable income prior to reductions from standard or itemized deductions.

31 Turner, Nicholas. “The Effect of Tax-Based Federal Student Aid on College Enrollment.” University of California, San Diego, Department of Economics, March 2010.

32 Ibid.

33 Bryan, Justin. “Individual Income Tax Returns, 2009.” Statistics of Income Bulletin, Fall 2011. Internal Revenue Service (IRS), Statistics of Income Division, 2011.

34 IRS Statistics of Income Division. “Statistics of Income, Tax Year 2009.” August 2011. Additional calculation by the author.

35 Ibid.

36 Much of this transfer is likely the result of the dramatically increased income eligibility rules from the Hope Credit, from \$58,000 to \$90,000 for single filers and from \$116,000 to \$180,000 for married filers.

37 The complete report outlining the proposal for the Postsecondary Educational Advancement Credit is available from NCTC at <http://tinyurl.com/ASingle-HigherEdCredit>.

38 DOE National Center for Education Statistics, 2007-08 National Postsecondary Student Aid Study (NPSAS:08), August 2009.

39 College Board. Trends in Student Aid 2011. 2011. http://trends.collegeboard.org/student_aid/.

40 Baum, Sandy, and Steele, Patricia. “Who Borrows Most? Bachelor’s Degree Recipients with High Levels of Student Debt.” Trends in Higher Education Series. College Board Advocacy & Policy Center. 2010.

41 Ibid.

42 DOE Federal Student Aid. “National Student Loan Default Rates,” September 2011. Retrieved March 1, 2012 from <http://www2.ed.gov/offices/OSFAP/defaultmanagement/defaultrates.html>.

43 Godofsky, Jessica, Zukin, Cliff, and Van Horn, Carl. “Unfulfilled Expectations: Recent College Graduates Struggle in a Troubled Economy.” Work Trends: Americans’ Attitudes about Work, Employers, and Government. Rutgers University, John J. Heldrich Center for Workplace Development, Edward J. Bloustein School of Planning and Public Policy, May 2011.

44 National Association of Consumer Bankruptcy Attorneys. "The Student Loan 'Debt Bomb': America's Next Mortgage-Style Economic Crisis?" February 2012.

45 See IRS, Statistics of Income Division, August 2011. Table 1.

46 Additional information on the Public Service Loan Forgiveness Program, including a list of what kinds of employment qualify, is available from the Department of Education at <http://studentaid.ed.gov/POR-TALSWebApp/students/english/PSF.jsp#content>.



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