

# STRUCTURAL CONSTRAINTS IN POSTSECONDARY EDUCATION: CAPACITY AND FINANCIAL AID

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# **Structural Constraints in Postsecondary Education: Capacity and Financial Aid**

Prepared for: Bill and  
Melinda Gates Foundation

January 11, 2006

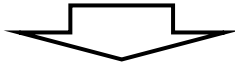
# Agenda

- Capacity

- Financial Aid

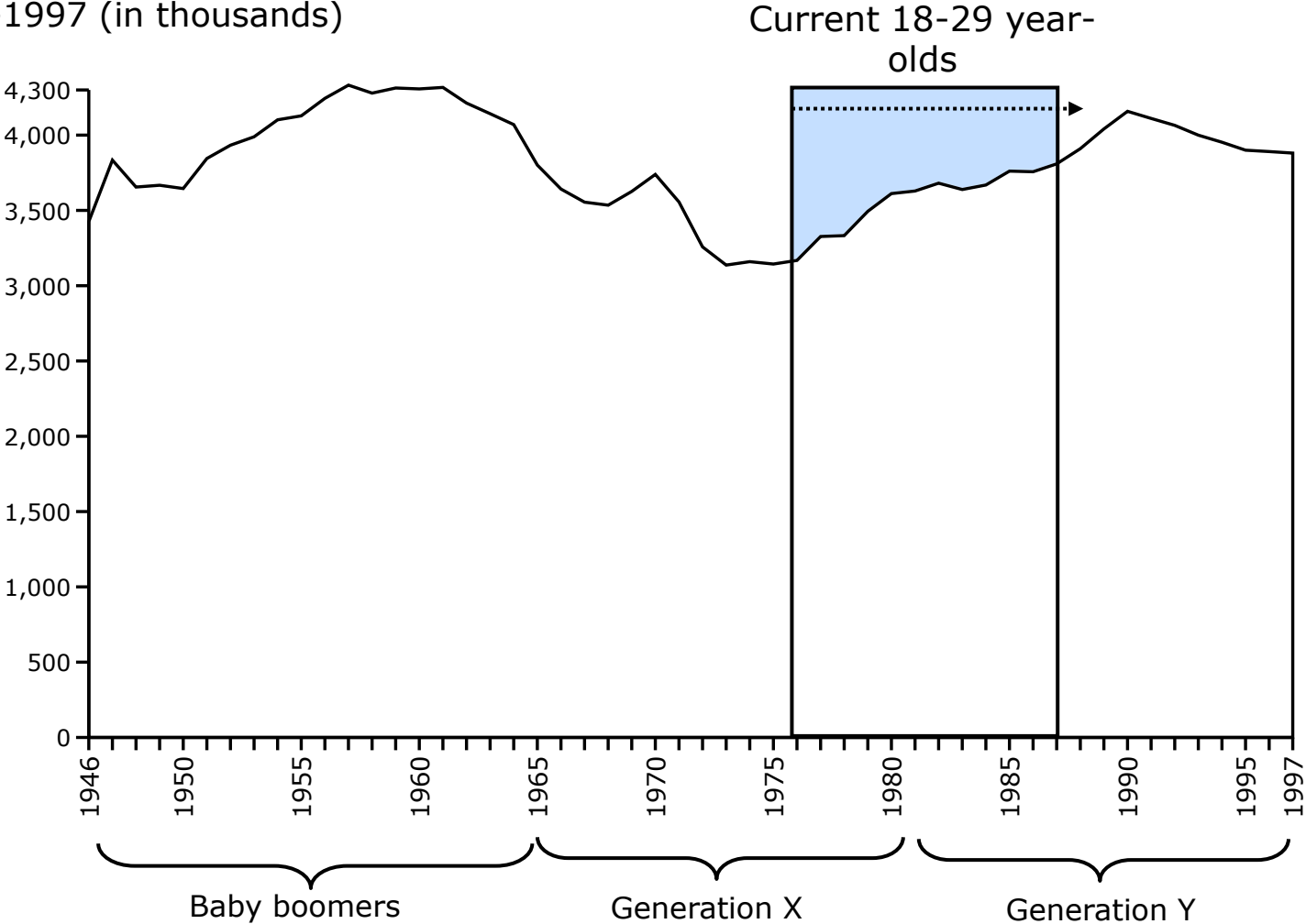
- Menu of interventions

# Executive summary - Capacity

- **4.5M additional undergraduate seats needed by 2015, because of Generation Y and increased college-ready graduation generated by BMGF investments**
    - Generation Y is expected to trigger a 2.5M increase in enrollment demand by 2015, based upon current graduation trends
    - 2.1M additional undergraduate seats will be needed by 2015 if BMGF successfully pushes HS graduation rates to 80% and college-ready graduation rates to 55%
  - **Traditional colleges will provide ~67% of the 4.5M seats required without dramatic changes in funding patterns; however, for-profit colleges could close (or nearly close) the gap**
    - If capacity of traditional not-for-profit colleges grows at historical rates (1989-'03), ~3M more seats will be available, leaving a gap of ~1.5M seats
    - For-profit seats are forecasted to grow 1.1M by 2015 and are likely to grow more if shortages in traditional college seats leave an unmet demand
- 
- **Targeted state advocacy is the tool to use, if BMGF does not want some college-ready graduates channeled into for-profit colleges**
    - Because public institutions provide the lowest-cost AA and BA options, advocacy must be state-by-state focused on public education capacity
    - Capacity in public institutions is driven by state appropriations
    - Targeted state advocacy in BMGF focus states is a potential high leverage approach

# Generation Y has triggered growth in the college-age population that will continue over the next 5 to 10 years

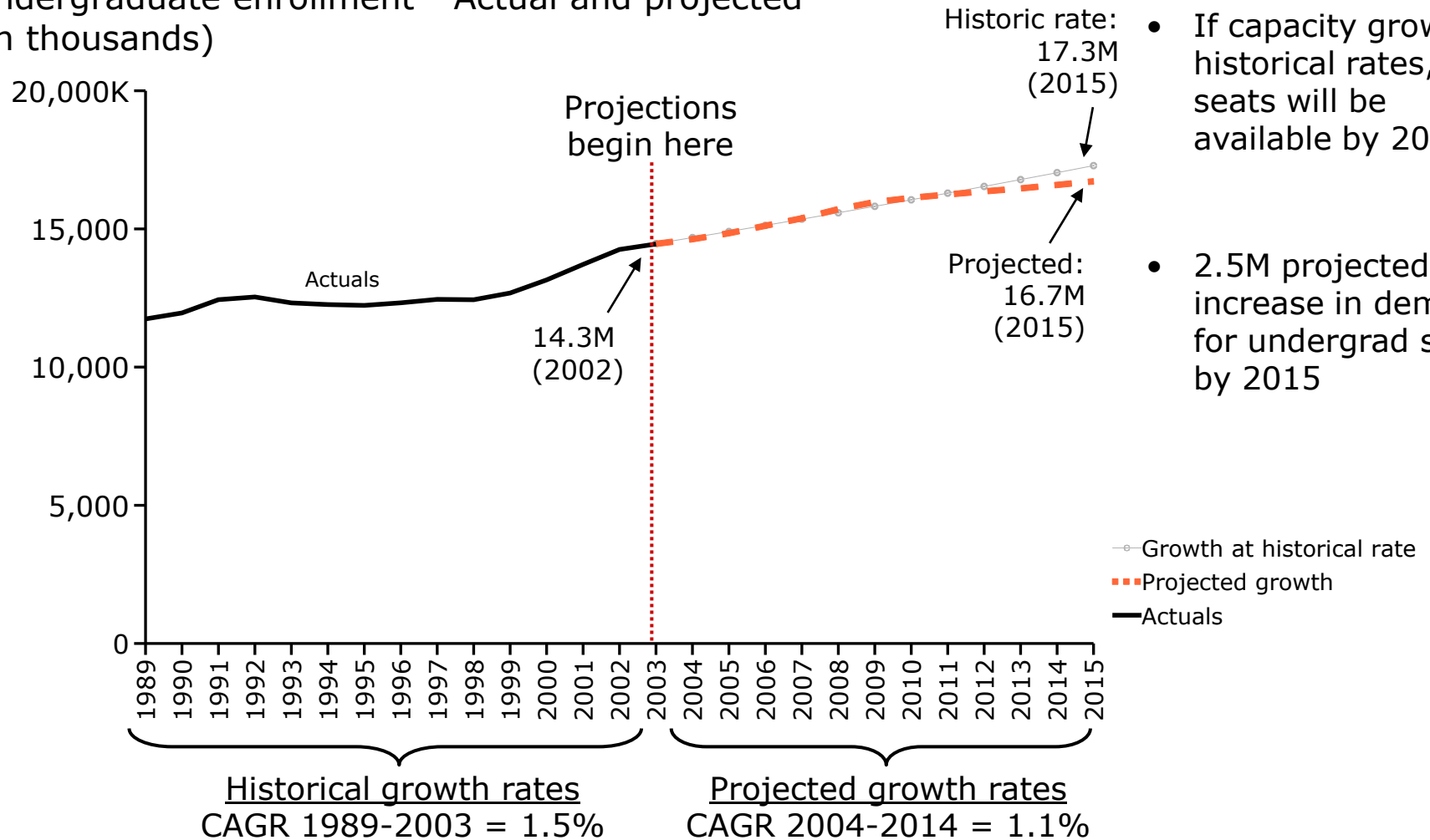
Annual Number of Live Births, 1946-1997 (in thousands)



SOURCE: U.S. Department of Health and Human Services, National Center for Health Statistics (NCHS), Annual Survey of Births, Marriages, Divorces, and Deaths: United States, various years, National Vital Statistics Reports. (This table was prepared October 2004.); Number of 18-29 year olds from Hussar. W.J. (2005). *Projections of Education Statistics to 2014* (NCES 2005-074). U.S. Department of Education

# This will drive an increase in demand for undergraduate seats of 2.5M by 2015, based on current HS graduation trends

Undergraduate enrollment - Actual and projected (in thousands)

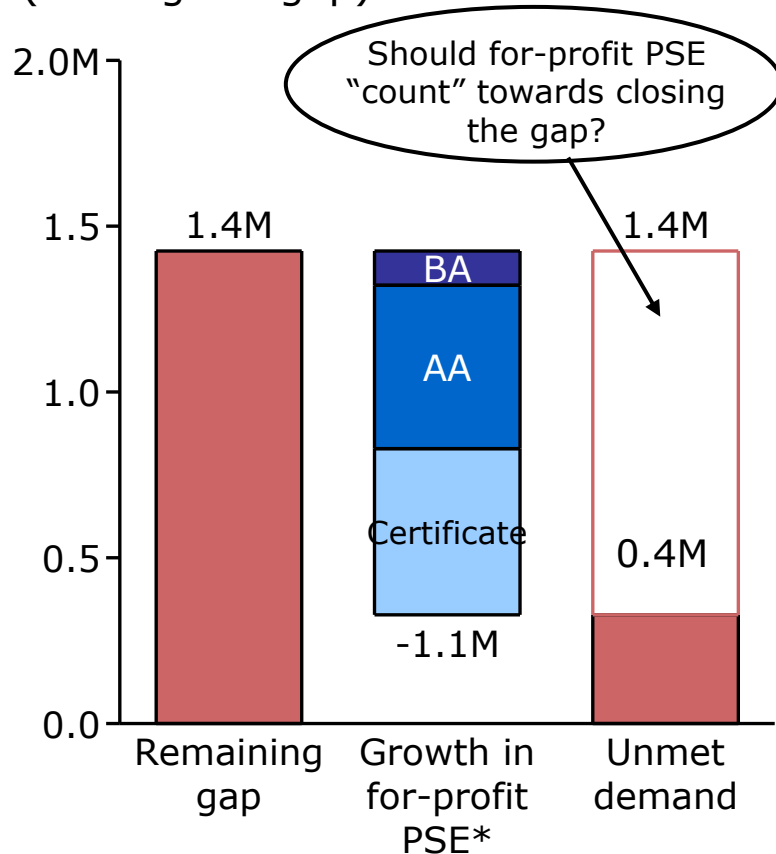


- If capacity grows at historical rates, 3.0M seats will be available by 2015
- 2.5M projected increase in demand for undergrad seats by 2015

**Colleges should be able to absorb this growth, because forecasted growth rates are comparable to historical growth rates**

# For-profit higher education could close the gap, but with what results?

Absorption of enrollment increases  
(Closing the gap)



- **For-profit growth could potentially close (or nearly close) the gap...**
  - For-profit share of higher education is expected to grow from 5 to 10% by 2015\*\* (which translates into roughly 1.1M seats)
    - Remaining gap would be ~400K
  - Because for-profit education is profitable (17% margins\*\*\*), for-profit capacity can be expected to further expand to meet demand created by a non-profit shortfall
- **...But do for-profit degrees produce adequate outcomes for students?**
  - What is the quality of for-profit PSE?
    - Mix of degrees – including certificates
    - Chiefly unselective institutions
    - Average income gains produced?
- **...And will recent HS graduates take advantage of for-profit options?**
  - Current focus on working adults

\*Type of degree breakdown based on 1998 breakdown – Source: NCES IPEDS database

\*\*Gary Bisbee - Lehman Brothers (Wallstreet Journal Roundtable, August 5, 2003), team analysis

\*\*\*Parthenon analysis of 5 largest for-profit education providers

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- Menu of interventions



# Executive summary – Financial Aid

- **Over the past decade, real net cost of BAs and AAs increased, because the increase in total costs was greater than the increase in financial aid**
  - Real net cost of 4-year public education increased 29%, (4-year private increased 22%)
  - Real net cost of an AA increased 7% over the past decade
  - Real net cost of for-profit less-than 4-year institutions declined by 11% (same period)
- **Financial aid is shifting away from aid focused on low-income students**
  - Federal aid includes increasing proportions of non-need based loans
    - Federal grants are ~80% need based, but represent less than 20% of total aid
    - Federal loans (which account for 50% of total aid and most of recent aid growth) are decreasingly need-based due to rapid growth of unsubsidized loans
    - State need-based aid has declined from 90% to 80% of all state aid since 1993
  - Institutional aid is becoming increasingly merit-based, even for low-income students
  - At public colleges, flat state appropriations compound the trend away from need-based aid
- **Because financial aid does not meet the needs of low-income families, they face an unreasonable burden financing higher education and become concentrated in lesser institutions (2-year AAs and for-profit programs)**
  - Families earning less than \$20K must pay 4-6 times their expected family contribution
  - Low income families pay 40-70% of income to cover net college costs
  - Cost pushes BMGF target populations towards AAs, where they are 7x less likely to graduate and will earn 25% less than a BA if they do finish
    - 37% of low-income students in AA (vs. 25% of students in the top income quartile)
    - 57% of Black & Latino students in AA (vs. 38% of White students)

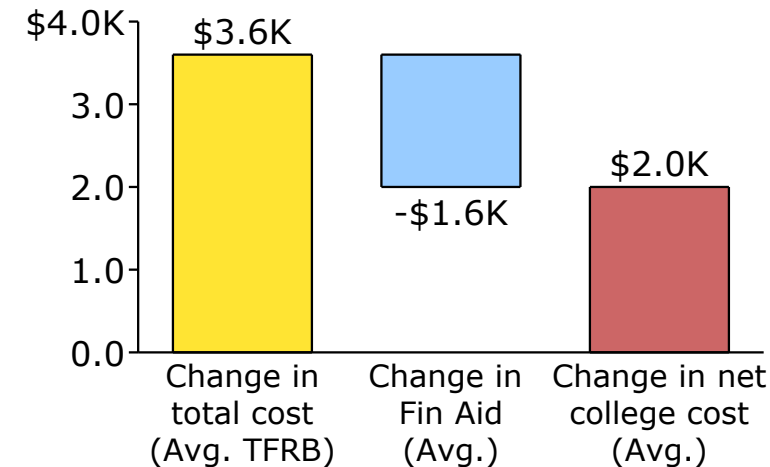


- **Federal and state advocacy solutions promoting need-based aid could best address the needs of low-income students underserved by current system**

# The real net cost of 4-year BA is increasing has increased by 20 – 30% over the past decade

## 4-Year Public

Growth in net college cost (1995 - 2005)  
(in constant 2005 \$)

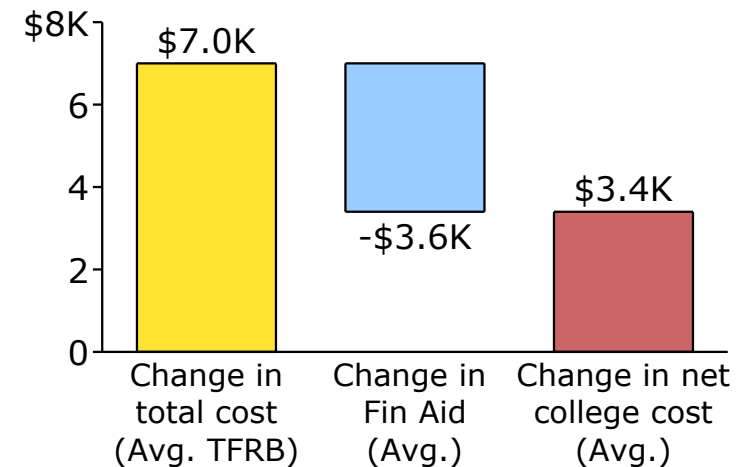


2005 Figures      \$12.1K      \$3.3K      \$8.8K

% Change in Net Cost                **+29%**

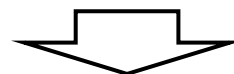
## 4-Year Private

Growth in net college cost (1995 - 2005)  
(in constant 2005 \$)



2005 Figures      \$29.0K      \$3.3K      \$19.4K

% Change in Net Cost                **+22%**

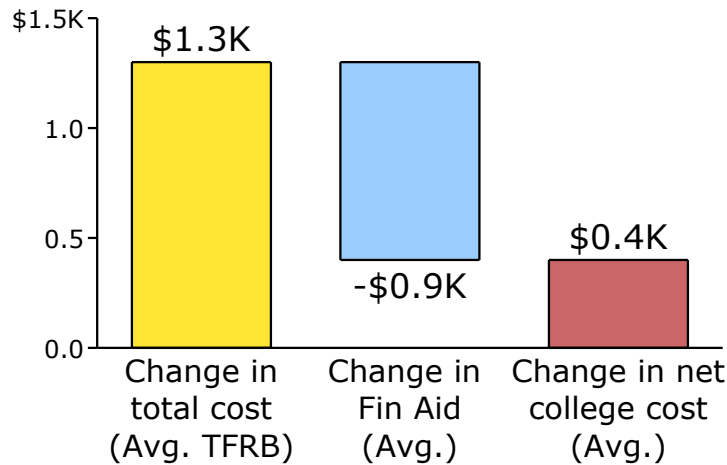


**These net cost increases are alarming, particularly given that cost growth has been greatest at public 4-years, which represent the low-cost 4-year option**

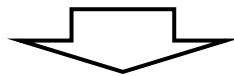
# The real net cost of AA degrees is increasing, but the real cost of for-profit degrees has declined

## 2-Year Public

Growth in net college cost (1995 - 2005)  
(in constant 2005 \$)



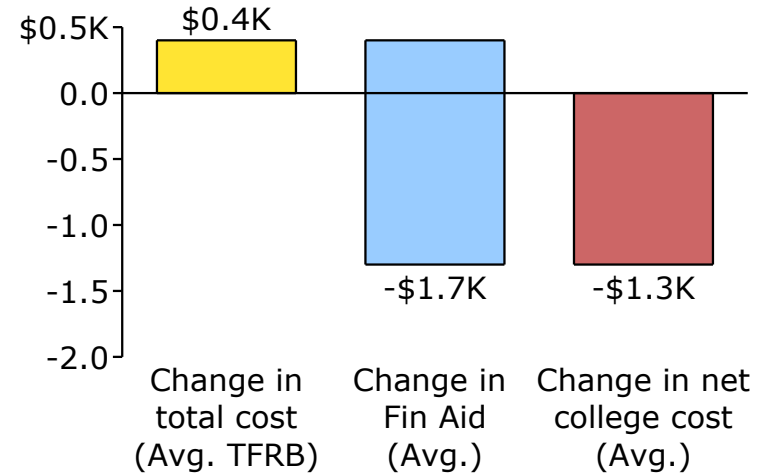
2005 Figures	\$8.0K	\$3.3K	\$6.3K
% Change in Net Cost			+7%



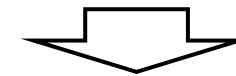
**Real cost of an AA degree is increasing, albeit only 1/3 as quickly as the net cost of a BA**

## For-profit, Less-than-4-year

Growth in net college cost (1995 - 2005)  
(in constant 2005 \$)



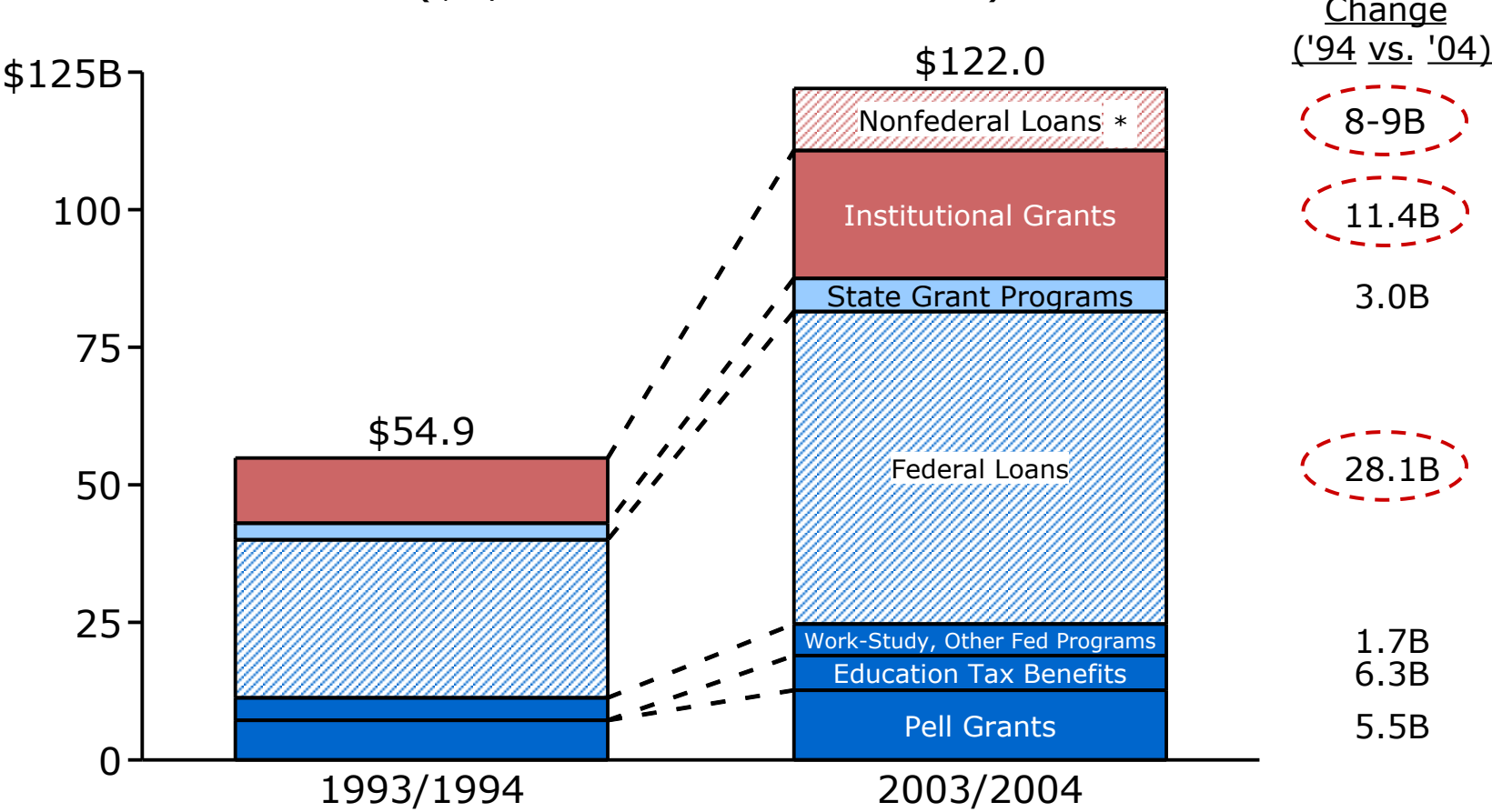
2005 Figures	\$15.9K	\$3.3K	\$8.9K
% Change in Net Cost			-11%



**Real cost of for-profit degrees has declined over the past decade due to steady prices and growing aid**

# Recent growth in financial aid has been driven by loans, Institutional Grants, Education Tax Benefits, and Pell Grants

Total Financial Aid (\$B, Constant 2003 Dollars)

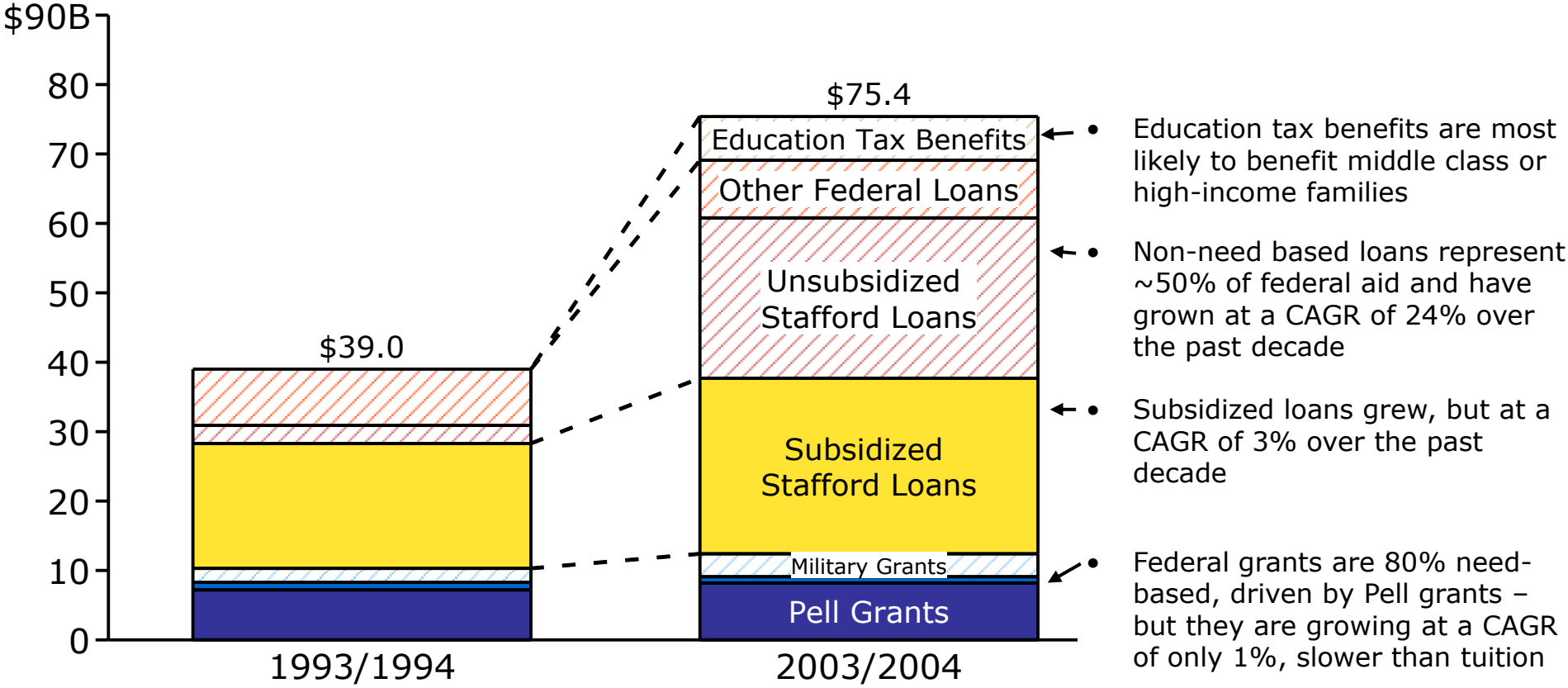


<b>Key to colors and patterns</b>				<b>Areas of greatest growth</b>	
<span style="color: blue;">■</span> Federal	<span style="color: lightblue;">■</span> State	<span style="color: red;">■</span> Non-governmental	<span style="border: 1px dashed gray;">■</span> Dashed = Loans	<span style="border: 2px dashed red; border-radius: 50%; padding: 5px;"> </span>	

\*Nonfederal loans are private, nonfederal loans estimated based on an annual College Board poll of largest lenders. 1<sup>st</sup> year of survey was 1996.  
 Source: "Trends in Student Aid," College Board, 2005

# Federal aid is shifting away from need-based aid as the growth from unsubsidized loans and education tax benefits outpaces the growth need-based loans and grants

Total Federal Aid (\$B, Constant 2003 Dollars)

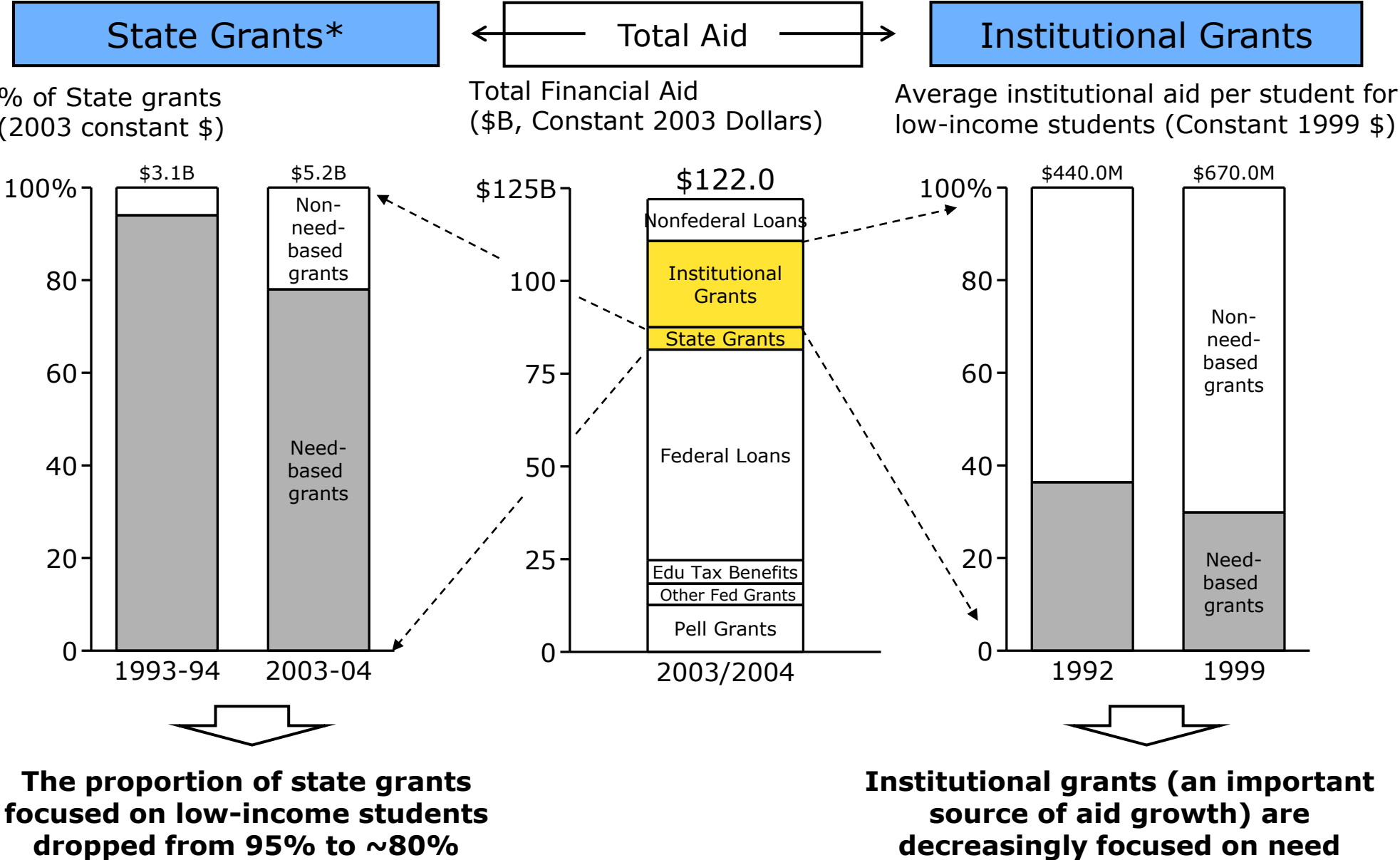


**Key to patterns**

■ Solid = Need-based      ▨ Dashed = Non-need based

Source: "Trends in Student Aid," College Board, 2005

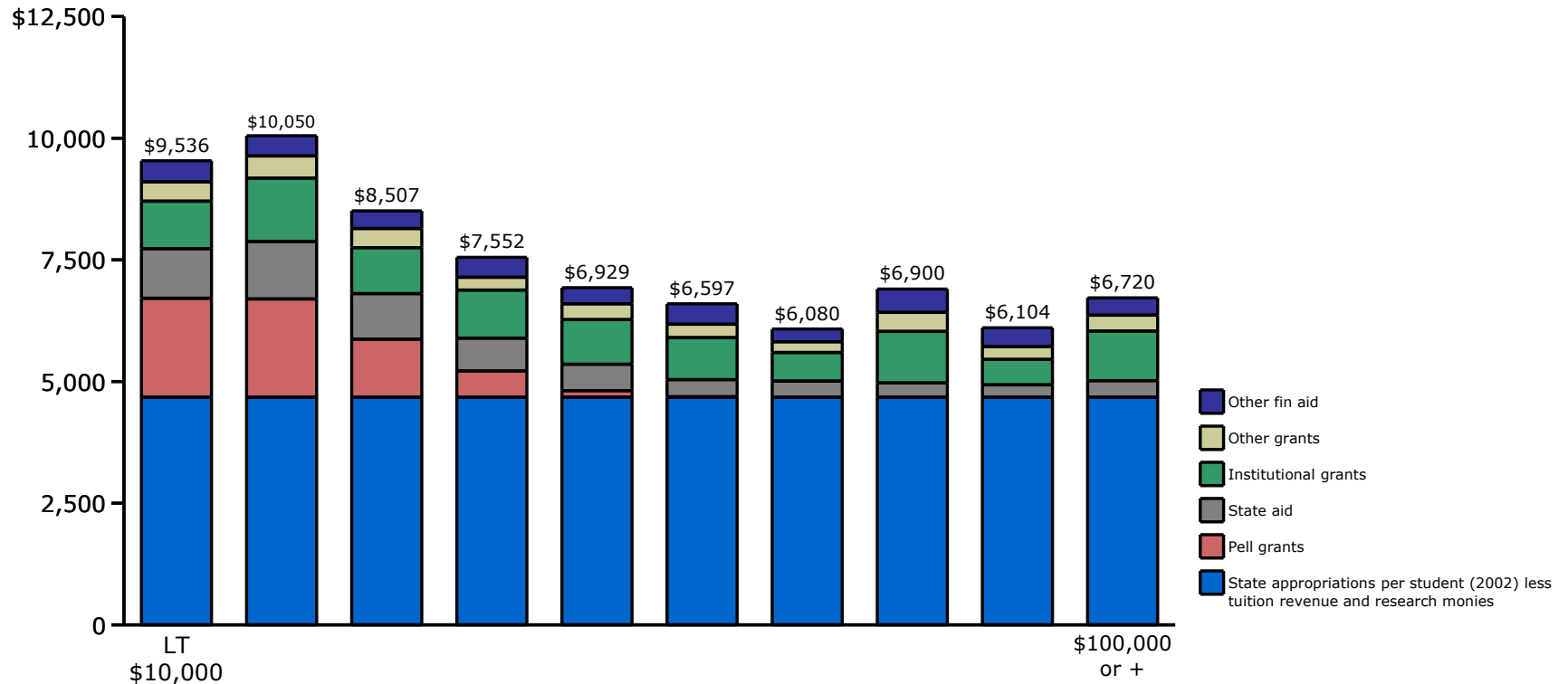
# Meanwhile, State Grants and Institutional Aid have been trending towards merit-based aid



\*Total Financial Aid figures underestimate importance of state aid, because they don't include appropriations  
 SOURCE: Trends in Student Aid 2004 from McKinsey Scholarship Pipeline, 2004 and 2005

# The current trend away from need-based aid is compounded by flat state appropriations

Dollars per Public 4-year financially-aided full-time, full-year same institution dependent undergraduate



Family income level



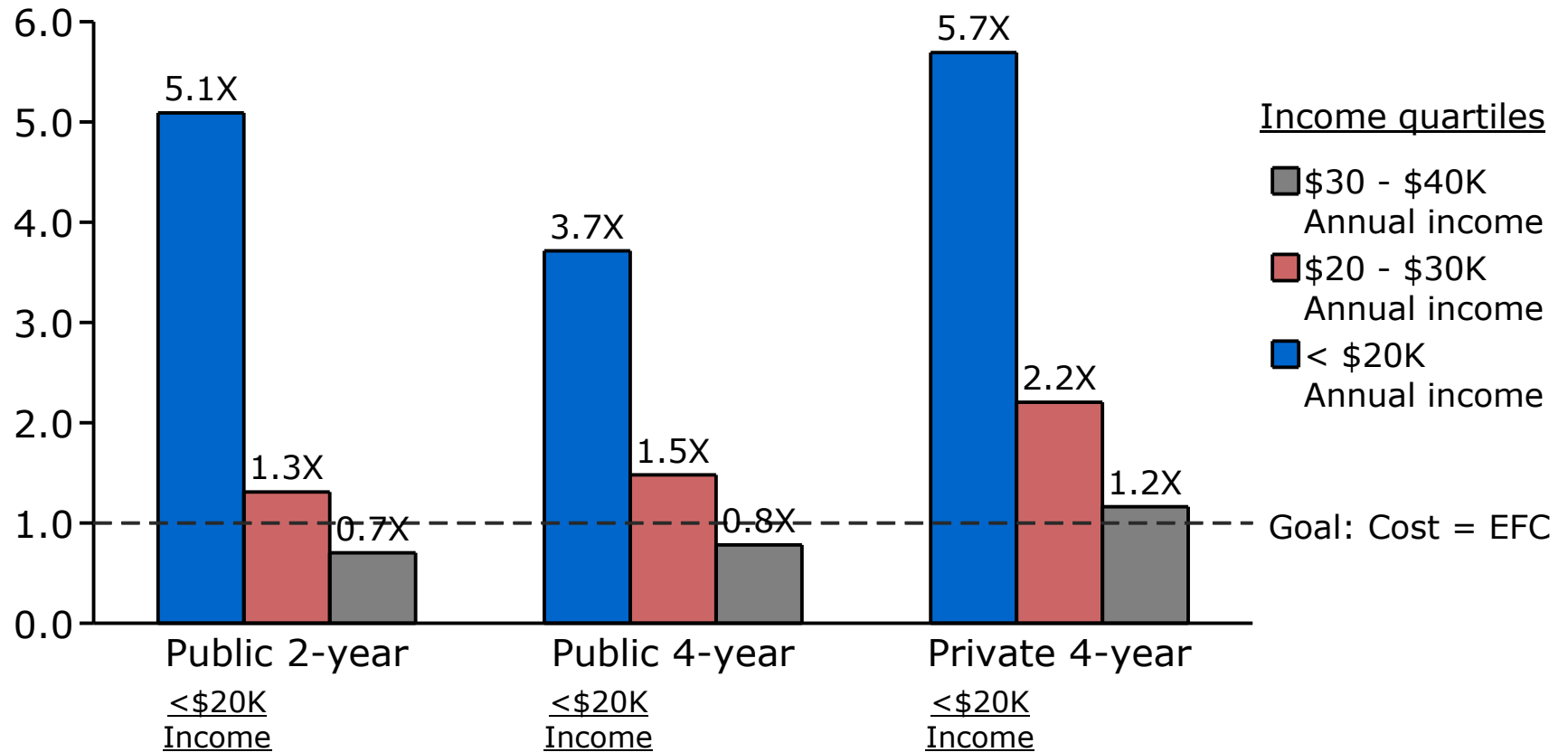
Public post-secondary aid does not dramatically discriminate by income level

Note: Does not include loans and family contributions

Source: State Higher Education Executive Officers (SHEEO): <http://www.sheeo.org>. *Financing Public Higher Education*, TPC 06/11/NFPC/CA Capacity Financial Aid Final 15  
*Rankings*, Kent Halstead; Postsecondary.org - WEF National Financial Aid Loop

# The net result is that financial aid fails very low-income families: Families earning less than \$20K pay 4-6 times expected family contribution on average

Avg. Net Cost / Avg. Expected Family Contribution (EFC)  
(Dependent students, 2000)



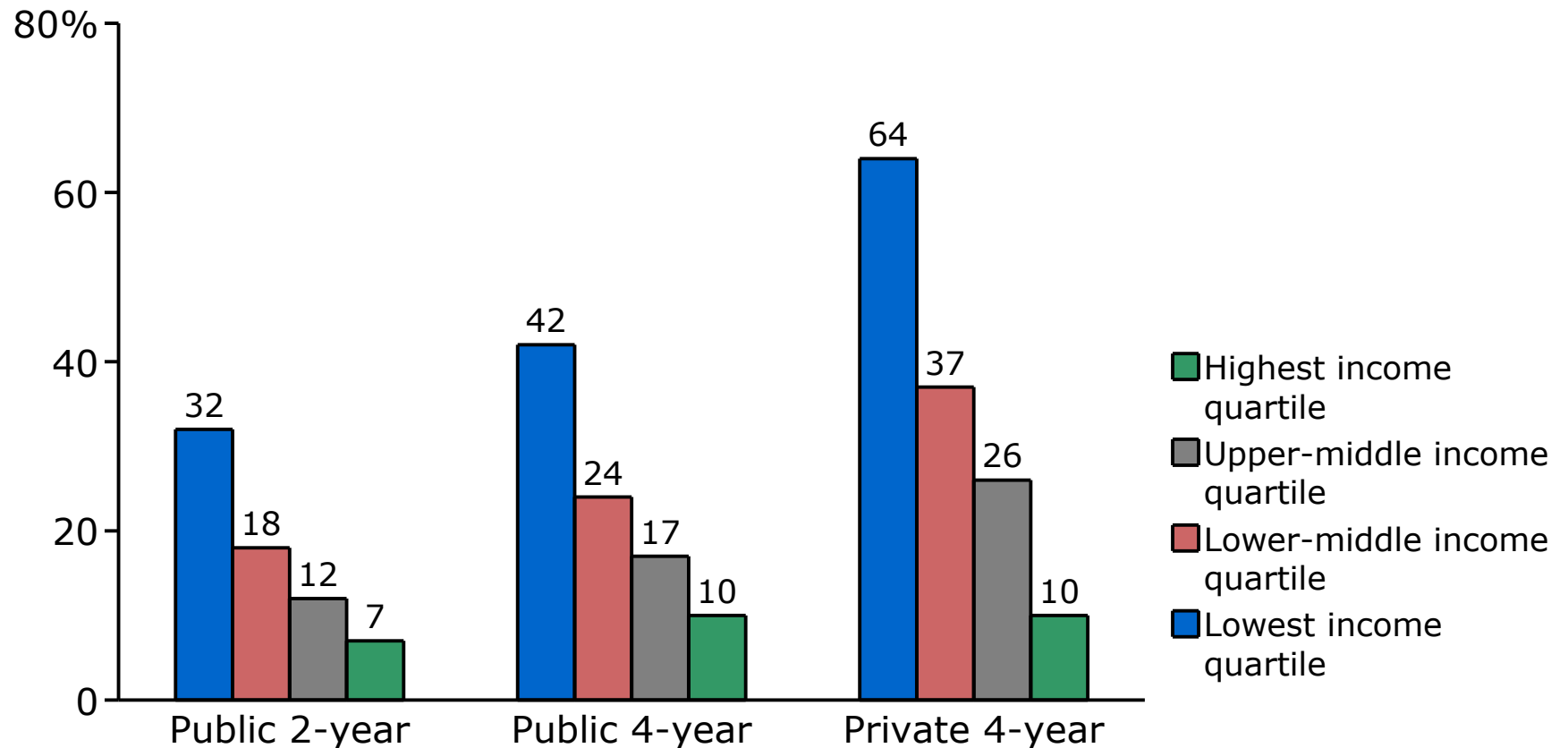
	Public 2-year <u>&lt;\$20K Income</u>	Public 4-year <u>&lt;\$20K Income</u>	Private 4-year <u>&lt;\$20K Income</u>
Avg. Net Cost	\$5.6K	\$5.2K	\$7.4K
Avg. EFC	\$1.1K	\$1.4K	\$1.3K

Note: EFC is based upon FAFSA definition as reported in source below.  
SOURCE: A Decade of Undergraduate Aid, 2004



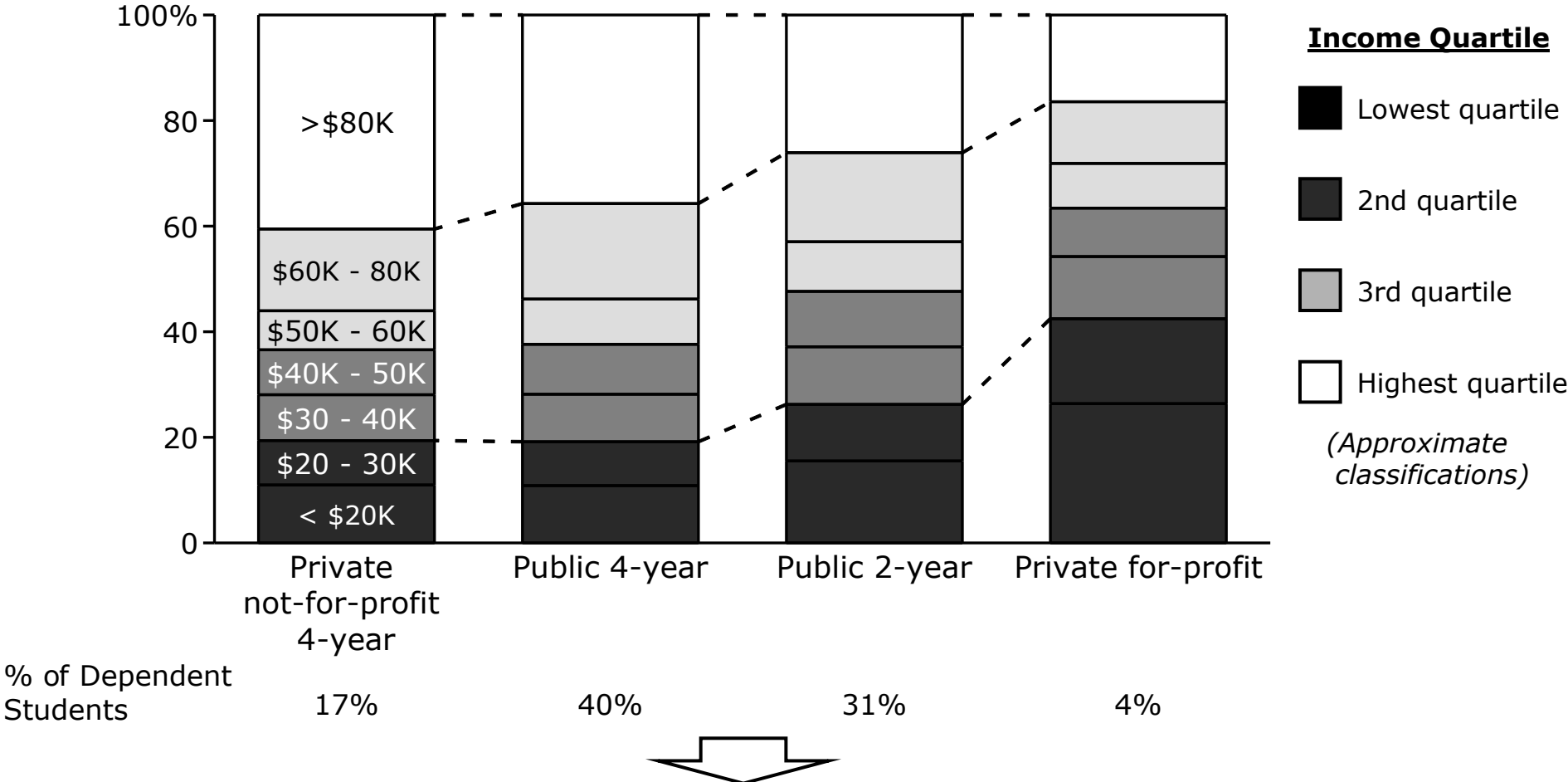
In order to meet the costs that remain after aid, families in the lowest income quartile pay 30 - 60% of their income for higher education

Net cost of attendance as a percent of family income (1999/2000)



# Costs push low-income students into lower-cost options, such as AAs and For-profit degrees

Income distribution of students\* by type of institution (2004)



**For-profit degrees probably attract low-income students because of they accommodate working students and offer some short-duration options, such as Technical degrees**

**Note:** Data includes financially dependent students and excludes financially independent students. SOURCE: US. Dept. of Education, National Postsecondary Student Aid Studies 2004 (NPSAS:04)

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- Menu of interventions

# Specific advocacy options exist for addressing the FA and capacity issues

Level	Financial Aid interventions	Capacity interventions
<b>Federal</b>	<ul style="list-style-type: none"> <li>•<b>Pell grant reform</b> <ul style="list-style-type: none"> <li>-<b>Pell Plus:</b> Higher amount of Pell grant money if you complete college-prep curriculum and pass</li> <li>-<b>Increase the size of the grant:</b> Should cover xx% of fees at public four year universities</li> <li>-<b>Index to inflation for higher education:</b> Index Pell grant amounts so their purchasing power does not decline</li> <li>-<b>Repackaging of the Pell:</b> Increase awareness and restructure benefits in order to encourage low-income students to apply and attend PSE</li> </ul> </li> <li>•<b>Creative new need-based aid programs, e.g.:</b> <ul style="list-style-type: none"> <li>-<b>Loan Forgiveness Incentives:</b> Loans targeting low-income students with clauses for partial or full loan forgiveness dependent upon degree completion                             <ul style="list-style-type: none"> <li>▸ Complement w/ financial literacy education</li> </ul> </li> <li>-<b>Reform Remedial Funding:</b> Transform funding for remedial work to shift from debt-based model towards federally or state grant funded program model</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>•<b>Limited opportunity</b> <ul style="list-style-type: none"> <li>-Public higher education is run and funded at a state level</li> </ul> </li> </ul>
<b>State</b>	<ul style="list-style-type: none"> <li>•<b>Reverse the trend towards merit aid in through expanding need based and incentive aid targeting low income students</b> <ul style="list-style-type: none"> <li>-Advocate for new need-based aid programs</li> <li>-In states with non-targeted merit scholarships, advocate to change to "merit by need" or "college curriculum by need."</li> <li>-Replicate Indiana 21<sup>st</sup> Century Scholars program in other states or state forms of "Pell Plus" that offer incentives to low income students to take college prep curriculum</li> </ul> </li> <li>•<b>Appropriations reform</b> <ul style="list-style-type: none"> <li>-Push for high tuition/high aid policies in key geographies as a way to counteract the impact of flat subsidies</li> <li>-To change the impact of the "flat subsidy," advocate tying tuition to actual cost of college, then redirected appropriations funding towards need-based aid programs (Non-starter?)</li> </ul> </li> </ul>	<p><i>If for-profit colleges are unsuitable....</i></p> <ul style="list-style-type: none"> <li>•<b>Execute targeted state by state advocacy programs aimed at public PSE in BMGF focus states</b> <ul style="list-style-type: none"> <li>-State institutions provide low-cost BA, AA options State appropriations drive public edu capacity</li> <li>-Because advocacy must be state by state, efforts must be channeled to priority states</li> <li>- BMGF already focuses on states critical to target populations</li> <li>-Efforts more likely to succeed were BMGF has knowledge, credibility, and influence</li> </ul> </li> </ul>