

## The Future of Student Financial Aid

May 26, 2009

The Brookings Institution  
Falk Auditorium  
1775 Massachusetts Ave., NW  
Washington DC

### Summary

President Obama has committed the nation to the goal of having the world's highest rate of college graduates by 2020. The funding and delivery of student financial aid will be critical to the chances of reaching that goal. To that end, the president has announced plans for an overhaul of the federal college loan system.

On May 26, the Brown Center on Education Policy at Brookings hosted an event to explore ways of improving the effectiveness of student financial aid. Brown Center Director and Senior Fellow Grover (Russ) Whitehurst moderated the panel discussion. Participants included Deputy Undersecretary of Education Robert Shireman; Michael McPherson of the Spencer Foundation; Sandy Baum from the College Board; Philip Day from the National Association of Student Financial Aid Administrators, and Celia Sims, legislative assistant to Sen. Richard Burr (R-NC).

### EVENT AGENDA

#### Moderator



Grover J. "Russ" Whitehurst

Senior Fellow, Economic Studies, Center on Children and Families

#### Panelists

##### Robert Shireman

Deputy Undersecretary, U.S. Department of Education

##### Michael McPherson

President, The Spencer Foundation

##### Sandy Baum

Senior Policy Analyst, College Board  
Professor of Economics, Skidmore College

##### Philip Day

CEO and President, National Association of Student  
Financial Aid Administrators

Celia Sims

Legislative Assistant, Office of U.S. Senator Richard Burr  
(R-NC)

## Grover J. "Russ" Whitehurst

Senior Fellow, Economic Studies, Center on Children and Families



### Full Biography

Russ Whitehurst is a Senior Fellow in the Center for Children and Families in the Economic Studies program at the Brookings Institution. Previously, he was director of the Institute of Education Sciences at the U.S. Department of Education; U.S. assistant secretary for Educational Research and Improvement; chair of the Department of Psychology at the State University of New York at Stony Brook; and academic vice-president of the Merrill-Palmer Institute. He received his Ph.D. in experimental child psychology from the University of Illinois at Urbana-Champaign in 1970. He is a widely respected and influential leader in education research and policy in the U.S. and around the world. His specializations include program evaluation, teacher quality, preschools, national and international student assessments, reading instruction, education technology, and education data systems.

As the first director of the Institute of Education Sciences within the U.S. Department of Education, he is widely acknowledged to have had a transforming effect on the quality, relevance, and utilization of education research. Under his leadership, the Institute received numerous accolades, including a citation from the Office of Management and Budget for having, "transformed the quality and rigor of education research within the Department of Education and increased the demand for scientifically based evidence of effectiveness in the education field as a whole."

Prior to his federal service, he was a highly productive university-based researcher, with over 100 publications, the editorship of a leading scientific journal, and a high impact on other scholars in his field. A program he developed to enhance school readiness in children from low-income families, Dialogic Reading, is widely used in preschools around the world. He was a pioneer in delivering college-level instruction through the internet, for which he was awarded the Microsoft Innovators in Higher Education Award in 1996.

He is an experienced and sought-after speaker. He has appeared on the major network news shows, been interviewed and written about by leading newspapers, given congressional

testimony on numerous occasions, and delivered hundreds of speeches and public presentations.

He has had a significant influence of international education policy through his service as head of the U.S. delegation to the Education Policy Committee of the Organization of Economic Cooperation and Development, membership on the Board of Directors of the UNESCO Institute of Statistics, involvement in planning UNESCO literacy conferences, and work on improving teacher quality for the G8-Broader Middle East North Africa Initiative.

He believes that the welfare of the United States and the world depends on every person receiving a good and appropriate education, that education delivery systems should be effective and efficient, and that generating and using better evidence is critical to achieving these goals.

THE BROOKINGS INSTITUTION

THE FUTURE OF STUDENT FINANCIAL AID

Washington, D.C.

Tuesday, May 26, 2009

PARTICIPANTS:

**Moderator:**

GROVER J. (RUSS) WHITEHURST  
Senior Fellow and Director, Brown Center on Education Policy  
The Brookings Institution

**Panelists:**

MICHAEL MCPHERSON  
President, The Spencer Foundation

SANDY BAUM  
Senior Policy Analyst, College Board;  
Professor of Economics, Skidmore College

PHILIP DAY  
CEO and President  
National Association of Student Financial Aid Administrators

CELIA SIMS  
Legislative Assistant  
Office of U.S. Senator Richard Burr (R-NC)

ROBERT SHIREMAN, Deputy Undersecretary  
U.S. Department of Education

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## PROCEEDINGS

MR. WHITEHURST: Good afternoon. I'm Director of the Brown Center on Education Policy here at Brookings. The Brown focuses per its title on issues in education policy as it affects American education. There is a cross-program, Priority in Education at Brookings that I lead, and this has been a very productive period. We've had three public events just in the last month, a conversation with Secretary Duncan on how he will spend the stimulus money to improve education, a meeting on community colleges, as well as a meeting on high school reform. We don't promise you four public events on education every month at Brookings, but we do promise you a heightened focus on this very important topic.

We are pleased today to host a forum on the future of student financial aid. President Obama has committed his administration to the challenging goal to ensure that America will "have the highest proportion of students graduating from college in the world by 2020." In 2005, our tertiary graduation rates, 34 percent, were well below average of developed countries, and almost half the rate of the leading countries. We can't expect other countries to stand still between now and 2020, so conservatively we have to at least double our college graduation rates in

the next 10 years to have a chance of gaining the lead. The President has identified the restructuring and dramatic expansion of student financial aid as key to achieving his goal. Our discussions today will focus on recommendations for the reform of student financial aid. We will also try to address where financial aid sits in the broader context of the factors that limit college access and attainment from low-income and minority backgrounds.

Just a quick note on the format of the event. Each of our participants will give some opening remarks. I'll pose some questions to the panel and moderate a discussion among them. Then we will take questions from the audience.

We have a very distinguished panel made up of people with a great deal of expertise and influence with respect to the future of student financial aid. Just to my right is Michael McPherson. Michael is the fifth President of the Spencer Foundation, a role he assumed in 2003. He previously served as President McAllister College. He is an influential economist working in the area of the interplay between education and economics. Today he will provide us with some historical background on student aid and set the stage for the policy recommendations that will be introduced by the other panelists.

Sandy Baum is Professor of Economics at Skidmore, and a

senior policy analyst at the College Board. She has written extensively on college readiness and financing for the College Board. She co-chaired the Rethinking Student Aid Group, a foundation-funded effort under the auspices of the College Board. Today she will discuss the goals of the Rethinking Student Aid Project and outline how the proposals laid out in the report would help to achieve those goals.

Philip Day is President and CEO of the National Association of Student Financial Aid Administrators. Prior to that he served as Chancellor of the City College of San Francisco, and as president of three different community colleges. Today Dr. Day will discuss the preliminary report of NASFAA'S National Conversation Initiative which is a framework for remaking student financial aid.

Celia Sims is Senior Policy Adviser for Senator Richard Burr, Republican of North Carolina, on issues related to education, financial services and housing. Because of the concentration of headquarters of large banks in North Carolina, Senator Burr has had a particular interest in issues in which education and lending intersect. Today she will offer her reaction to the policy recommendations presented and discuss the steps Congress may be taking in considering the issues.

Finally, Bob Shireman is Deputy Undersecretary of the U.S. Department of Education. His responsibilities there include college

financial aid and other higher-education initiatives. He previously served as a congressional appointee to the Federal Advisory Committee on Student Financial Assistance as an adviser to U.S. Senator Paul Simon, and as a part of President Clinton's White House National Economic Council. He is founder of the Institute for College Access and Success, and the Project on Student Debt. Today he will discuss the President's agenda for higher education and plans underway to simplify and streamline the process of applying for federal financial student aid. With that I will take my own seat.

MR. MCPHERSON: The basic building blocks have been in place for several decades. They included Pell Grants which are the basic building blocks of all student assistance in the United States, federally guaranteed loans to support student efforts to finance their own education, and a cluster of small programs in so-called campus-based programs that provided money to campuses for the purpose of advancing student aid goals.

Every 4 or 5 years the major interest groups would spend a year or so, sometimes more than a year, squabbling over details of these programs, and then every year there would be a separate squabble over how big the Pell Grant Program was going to be. It was very hard in that environment to actually get a conversation going about basic purposes of



student aid and basic changes in the federal agenda. Indeed, I think it's fair to say that the higher education associations were cautious about change, perhaps at times even actively resistant to new ideas because those new ideas might put at risk some existing benefit and the net outcome was hard to predict. The old Frankie Valli song "Let's Hang on to What We've Got" seemed to prevail to a large extent in the discussion of student aid.

Meanwhile, while the programs did not change in basic ways, the evidence was building up from other sources that the programs although certainly doing good for a lot of students were not doing as much as they might to achieve the goals of federal student aid. We know that the level of educational attainment in the United States was stagnant even though the economic returns to higher education were very large by historical standards, and even though education attainment was growing rapidly elsewhere in the world, there was increasing evidence that simple programs to help students pay for college were much, much better than complicated programs. Yet in every reauthorization of the Higher Education Act, two or three attractive new ideas which added this or that wrinkle to the system were added. And we know that completion rates in higher education were low and that the programs seemed to do more to get students in the door of college than to get them through successfully.

So a sense was building I think by the middle of the last decade among at least a handful of folks who included people on this panel that it was time to step back and ask more principled questions such as what are we trying to accomplish with federal student aid and what changes would be needed to make it work better, and over the years since then, I think that kind of movement has built momentum. I was myself along with Sandy Baum the co-chair of a group called Rethinking Student Aid which assembled a group of thought leaders to try to develop a principled approach to these issues, not based on representations from different advocacy groups, but from people who had expertise in the area. We got together and took our time over several years to develop a set of policy recommendations which Sandy will talk about. A big think about what we did was to try to begin with simple principles that I think people widely agree on like focus on students; aim to keep programs simple, transparent and predictable; pay attention to completion, not just access; and try to make the programs as efficient as possible in using taxpayers' dollars.

We did eventually after several years of work release our report which actually came out a month after the Higher Education Act was reauthorized for 5 years. A number of folks actually responded by asking why did you bother? Nothing is going to happen in higher

education for another 5 years. But then it turned out that well-timed to the release of our report, the economy and the financial system collapsed. We don't think that was cause and effect. Senator Obama was elected President of the United States. We don't think that was cause and effect either. And abruptly, the possibilities for change in student aid just opened wide at the federal level. In the months after the release of our report, we saw the outgoing Education Department in Washington, the Spellings administration, propose a simplification plan that reflected many of the same ideas that were in Rethinking Student Aid. Then the new administration came forward with really remarkable plans both in the stimulus package and proposed in the budget to push again for simplification and for other important changes. Most recently, NASFAA has come out with a set of preliminary recommendations which have considerable kinship with our ideas and with the ideas of others who have been advancing these discussions. And then just last week, I think it was last week, the Brookings Institution's Ron Haskins and colleagues released a report which again pointed to many of the same issues. So we are at a time when real change is on the table and when the resources and the energy seem to be there to make a difference in how student aid serves our students.

It seems to us and I think to everybody on this panel that this

is not about pride of authorship or who had which ideas. This is about getting sound principles and sound policy recommendations which can actually help our students in this country to succeed, and I think that's what we want to talk about today.

MS. BAUM: Picking up from the basis of the principles that Mike just articulated that really were the grounding for our effort in the Rethinking Student Aid Project to develop specific policy proposals. I want to reiterate that what we were trying to do was develop what we thought would be the best federal student aid system, but in fact the specific details of the proposals that we came out with were actually less important to us than the idea that we have policies that create sound public policy based on these principles of being student centered, being focused on increasing educational opportunities for people who are financially constrained and on using taxpayer dollars as effectively as possible to change behaviors and really improve educational attainment.

So I think there are two overarching fundamental framing ideas that are helpful in terms of looking at how we came out with our proposals. One is that it's very clear that we need a federal student aid system that is simple, that is predictable and that is transparent for students. There's a lot of evidence, we looked at hard at all of the research, we had a lot of thoughtful researchers and other analysts in our

group, that you can put the same dollars in two different programs and if one of them is simple and clear and predictable for students, it's going to be more effective in increasing college going behavior both access and success. So a simple, predictable program is very important, and much of the conversation about simplification centers on the application process and the form. We think that's very important, but it's not enough. Simplification has to also be an array of programs and to the eligibility requirements so that the whole system, not just the application process is simple.

Second, in addition to that simplification and predictability, we didn't want to just come out with a list of all of the great programs that we could design because there are many possibilities but, rather, to develop a coherent framework and a coherent set of policies that fit together to create an effective federal student aid policy that has links to states and institutional policies, links and incentives, for those policies also to be effective because we all could come up with lots of good ideas. One of the problems that has happened in Congress is that people come up with ideas that sound like that would be a program with a great goal, but you add on all those pieces and what you get is a system that just doesn't fit well together and is too complicated.

If you haven't already read every word of our report, you now

have it and I assume that you will go home and do that immediately. I can't go into all of the details of what we proposed, but I just want to give you a broad framework as to how those policies that we proposed fit into the framework that I just described.

The starting point of course is going to be Pell Grants, the federal grants for low- and moderate-income students. The Pell Grants are critically important. They need to obviously be generously funded, but we also need to make applying for them simpler and eligibility for them more predictable. We proposed doing away with the financial aspects of the federal application form and relying on Internal Revenue Service data. For Pell Grant eligibility, we propose that we use only income and family size and that means you could have a look-up table and anybody at any stage of live could well in advance of the time that they want to enroll in college find out if they were going to college tomorrow what the Pell Grant for which they would be eligible would be.

A simple formula for Pell Grants and a simple application process for Pell Grants. The Pell Grant maximum should increase automatically. It shouldn't have to be legislated by Congress with the Consumer Price Index, not with the price of college. We like the federal budget proposal that it be Consumer Price Index plus 1 percent better than our Consumer Price Index. We also think that people should get

early information. So when people file their taxes if they have a dependent child, you could send them a notice about how much aid they would be eligible for if their child were applying for college now. This system is obviously critical as the framework for federal student aid.

The fact that it's a simple application process and simple eligibility determination pervades the rest of the system. Then you say if that's the central program, we wanted to make sure that there not be complex eligibility requirements for the supplemental aspects of the federal student aid system. When we got to thinking about student loans which will of course remain a very important part of how students finance college education, whether you like that or not and we're okay with that, we thought the biggest problem with student loans is that, one, students have to rely on nonfederal student loans too much because their loan limits aren't high enough, and two, students struggle with attainment and it's difficult to predict in advance who those students will be. We determined that the subsidy that's embodied in student loans which now goes largely to paying the interest while students are in school for subsidized loans needs to be transferred to the other end so we can be more supportive of students who are trying to repay their loans.

This is an important example of a policy that is representative of how we developed our proposals. I don't think anybody

went into the room thinking the most important thing to do is to change that in-school interest subsidy, but as we thought about it we realized we have two Stafford Loan Programs, and if you ask students on campus they don't know the difference. Probably nobody goes to college because they have a in-school subsidy but would have stayed home if they didn't. We could use those dollars. Students need those dollars and they could be used more effectively to support both the Pell Grant Program and other programs and repayment subsidies.

Our proposal to make only one Stafford Loan Program with the subsidies focused on the repayment period has to do with targeting the subsidies on people who really need them most. It has to do with using federal funds to change people's behavior, make it possible to say to people you'll be safe if you borrow money, and simplification, that we don't want an elaborate process for deciding who gets those subsidies and determining that before they go to college. That policy came out of the idea of making a coherent, simple set of policies that fit together effectively.

There are two areas in which we propose some new programs. One of them is savings. Right now the federal government does subsidize middle- and upper-income families to save for their children's college education through 529 savings plans. Those doesn't work for low-income families. We proposed a program under which the



federal government would create savings accounts for children who come from low- and moderate-income families. The key issue here is that low-income children need to know well ahead of time that the money will be there to help them pay for college and that principle, a simple system with advanced warning, a guarantee that the money will be there we think is critically important to helping students to be motivated to prepare for college because obviously they need to be academically prepared and not just have the money and a savings program would do that.

Finally, we proposed that the campus-based aid program be revised so that it focuses not just on helping students get into college, but on supporting success. We've been much more successful at promoting access than at promoting success, and so we propose that institutions be subsidized in giving campus-based funds based on the number of Pell Grant recipients who not only enrolled at their institutions but succeed at getting beyond the first year in earnings certificates and degrees and transferring -- institutions and succeeding in college. An important aspect of this is that we not create complicated new bureaucracies. This would pervade every proposal that we have. We think that institutions are best situated to figure out how to help their own students succeed. We would not want to add all kinds of rules and regulations and forms that they have to fill out to make sure that they use these funds in the way that we want.

We don't think the federal government knows best, we think institutions know best, and they will get that money only if they help students to succeed.

Again we have this set of programs that fit together. They create a coherent whole. All of them have to be simple and straightforward and obvious to students ahead of time. As we continue, we issued this report in September, we think that carrying this conversation on is critically important not because so much of the details of what we've proposed, but because it's generating conversation. We welcome all the proposals that are coming out that are related to modifications of, improvements of, differences of opinion with our proposals. What is really important that we adhere to the principles that we've articulated, that we improve the federal student aid system, make it much more effective and move in that direction and not argue about the details of how the details of how the policy should be. We know Congress will change them in all kinds of ways. But we really do hope that we can move forward with a system of federal financial aid that will do a better job of really helping students to enroll and succeed in college. Thank you.

MR. DAY: Thank you, Sandy. Good afternoon. I appreciate the opportunity of being here with you today. I also want to particularly thank Mike and Sandy for their work in this area. As both of them

mentioned, there is a high degree of kinship between the report that they've done and the recommendations that they've made along with those of NSAFAA. As their presentations made clear, we are in a time of significant change in the student aid arena and members from all sectors of the higher-education community have come forward with a variety of plans and models to guide that change.

I want to also thank Bob Shireman because very early on when we were initiating our process of taking a look of student aid reform, providing some very, very constructive advice on how to put things together and in particular emphasized that we had 20,000 experts out there in the field who we ought to tap into because nobody else has.

That's how we got started. We went out to all of the different states, and it's important for you to understand we have over 20,000 financial aid administrators that NASFAA represents and they come from every state in the union, every type of institution imaginable and it really does represent a cross-section of postsecondary education.

As you can well imagine, it can be a challenge to represent all of the various interests of members from such different segments of postsecondary, but we feel that the NASFAA members, those professionals who work every day with students and families to administer these programs -- are really uniquely positioned to provide

recommendations on how to reform the current system. That's why we went out to them and hosted a series of 18 town hall listening sessions throughout the country to guide the creation of the report and recommendations that you all have. That direct input from financial aid administrators and others which sets NASFAA's recommendations, it does set NASFAA's national conversation initiative apart from other sets and policy recommendations that have been put forward.

You all have a copy of the report and the 30 recommendations that it contains. Rather than go through each of those recommendations with you, I'd like to talk a little bit about the philosophy and rationale that guided our process and brought us to this point. Then if you have specific questions with follow-up, again some of these areas there's an overlap between what the College Board has done and what NASFAA has done and will continue to do. I think we can talk about that in the Q and A.

Whether or not we recognize it in this country, we are in a race. The problem is where are we racing to and who are we leaving behind. Too often when it comes to global competitiveness we talk about competing on cost and we manufacture, produce or offer services comparable to workforces in other countries. In short, too often we find ourselves locked in a race to the bottom when we really should be racing

to the top.

Let me illustrate. As most of you have been following the news about General Motors and Chrysler, these companies have helped create and sustain the middle class for decades, but as part of their future viability plans, they have to cut thousands of middle-class jobs and GM plans to cut another 20,000 within the next year. This hollowing out of the middle-class job market underscores the need to have a well-educated, adaptable and a much better trained workforce now and in the future. We must not get locked into the race to the bottom mentality. The U.S. has always led in innovation, standard of living and prosperity, and to regain that leadership role requires a much larger investment in education.

We believe strongly that this time of economic upheaval is really an opportunity for us as a nation to reexamine our systems, enact new initiatives and strengthen America's most vital resource, its citizens. While the effect of this recession may fade over time, it should serve as a powerful reminder that the future of the U.S. economy rests on our ability to open doors and keep them open for higher education for everyone.

But we are falling behind. There is mounting evidence to demonstrate that countries with growing economies are already threatening to match or surpass the U.S. in technological innovation, research, development and the production of graduates with

baccalaureate degrees. According to the Workforce Alliance, other countries now invest more per capita in workforce skills, have created new entitlements for technical education and are graduating more students from college. Unfortunately we know that low-income and historically underserved and underrepresented groups are the most rapidly increasing demographic group in this country and they continue to lag behind in terms of college access, success and degree attainment. Why do these students fail to access college? In a 2002 report from Congress, the Advisory Committee on Student Financial Aid identified the single factor that they felt had the greatest effect, financial barriers alone prevent nearly half of all college qualified low- and moderate-income high school graduates from enrolling in college. In short, the system is not working for those who need it the most.

As we developed our agenda for reform we heard repeatedly that providing sufficient student aid to meet college costs is an important goal, but that alone is not enough. We also need to ensure that those funds target needy students, are easily understood, applied for, received and repaid if necessary and remain stable enough for families with young children to plan ahead. None of these elements exist in the current student aid system. These basic tenets of fairness, equity, diversity, accountability, simplicity, predictability and flexibility served as our guiding

principles as we digested the feedback we received from our members in developing the preliminary report.

For most low-income and disadvantaged students there is one bottom line, college costs too much. Student aid has failed to keep up with the rising cost of college and college cost increase faster than the cost of living. Student aid has also shifted away from grants toward loans, and in some cases, particularly at the state level, from need-based aid to merit-based aid. A loan-heavy financial aid package discourages enrollment among low-income students who are proven to be more debt averse while merit-based tends to target students from schools with better academic resources who serve more affluent students. Targeting financial assistance to those students who need the help provides equity in college access emphasizing that our national priority is a system for families who cannot help themselves. Setting aid amounts at amounts that are consistent with the true cost of education helps the neediest of students to attain the degree. While we support the President's proposal to increase the Pell Grant to \$5,500, we must also recognize that even with this increase the Pell Grant will only cover about 30 percent of the current weighted average of the cost of in-state tuition feeds and room and board at 4-year public colleges and universities. This continued underfunding of the Pell Grant demonstrates a problem that has been there a long time in

the making and reveals the grievous imbalance between grants and loans. Even as we saw legislation that will dramatically increase the Pell Grant by more than \$600 in this coming year, federal loan limits increased by an even greater amount. Since 1992, grant has diminished in importance while the prominence of student loans continues to grow. Grant aid declined from 63 percent to 45 percent of external funds used by undergraduates from 1991 to 2005. Loans over that same period of time have consistently grown at much faster rates.

When we talk about Pell, we're not just talking about getting the maximum dollar. We're talking about a commitment to equity. We're talking about rebalancing the grant to loan ratio. We're talking about getting back to the basic ideas that were committed to when the Pell Grant was first introduced 30 years ago. NASFAA then calls for a maximum Pell set to 70 percent of the weighted average of the cost of in-state tuition fees, room and board at 4-year public colleges and universities phased in over a 5-year period. Thereafter the Pell Grant would be readjusted according to the cost of 4-year in-state public universities every 3 years. In short, we seek to increase the Pell Grant to a level that once again makes it relevant to student cost, not just today, not just this month or this year, but well into the future.

Yes, we are recommending a paradigm shift. We feel



strongly that an overhaul of the current system is needed and called for. A new and significantly improved Pell should be the cornerstone of this new system of reform. The moral reasons for and the demographic imperatives associated with the expanding access to education are self-evident. No one should be denied access to education at any level because of a lack of financial resources, but the debate about college access and its associated costs cannot be limited to moral grounds. For too long financial aid has been seen as another government expenditure rather than a national investment. Beyond its crippling effect on individuals and families, poverty robs our entire society of a significant portion of productivity potential. But increased funding while paramount in importance is just one part of our overall recommendations for change. We also need to take a long, hard look at how we calculate and award aid, which has been mentioned. The process of determining how much aid a student can expect is anything but intuitive. The current financial aid process depends on exceptionally complex applications and delivery systems that are intimidating to families. The -- and the whole application process can be a deterrent from pursuing college as we all know and it's been carefully researched. We hear time and time again from our members that spend entirely too much time and effort making poor kids prove they are poor, that it's time for a common-sense approach to

determining aid eligibility. If a student already received some form of means-tested assistance from the government, for example, then under our proposal, they would be automatically qualified for maximum aid. One recommendation that we share with the College Board, the administration and others is that we need to link up the IRS on sharing financial data. If a family is poor enough that they are exempt from filing taxes, once again that student should automatically qualify for the maximum award.

We are also very concerned about the concept of simplicity and predictability. Right now the programs are so complex that even a ballpark estimate response to the question how much aid can I receive requires a computer system and undemanding of the concepts of cost -- expected family contribution and need. Students and families fail to get an accurate depiction of their financial aid eligibility until after they receive the financial aid package from the school that they have chosen. Increased stability and predictability in the student aid program also helps families recognize that at the time of middle school or before that college is attainable and creates incentives for college preparatory course work with a greater focus on academics and even college savings. Dramatically simplifying the student aid application process, making the analysis of eligibility easily understandable, consolidating duplicative and less-effective student aid programs and removing any unrelated social agenda

items from the requirements would alleviate a significant amount of confusion and encourage more families to apply for assistance they may qualify to receive.

Of course, the bottom line for me and my members doesn't come down to dollars and cents, it comes down to a real desire to create a future that -- our nation in the world, something better than we have known ourselves. That future rests primarily on the support and education that we can provide for future generations, significantly closing the gaps between the haves and have-nots, providing everybody with the opportunity to have a quality life and contribute correspondingly to our country's well-being. Thank you.

MS. SIMS: I want to first thank Russ, a fellow North Carolinian, for inviting me over here. For those of you don't know, Russ is from the real Washington, Washington, North Carolina. I think this is a great start to a national dialogue on a comprehensive redesign of our current Byzantine is probably a kind word to describe our current system of financial aid.

As has been mentioned here, our system is currently a hodgepodge of grants, loans, work-study, tax benefits, repayment options, college access programs. Each of these programs which began with a great intention but when added on top of each other and developed in the

silo fashion we've created chaos. If you had an assessment designer who was tasked with a series of multiple choice questions about what financial aid a student qualifies for, rather than writing a standard multiple choice option of D, all of the above, or D, none of the above, the better option he would need to write would be D, haven't or clue, or D, it depends.

We talk a lot about the NASFAA which after spending hours of collecting all the information, filling out the form, and then having filled it out, students and parents will have absolutely no clue, no answer what they're eligible for to receive. In addition to doing that on the FASA side, we've done it on the tax side as well. Whether you're looking at Hope, Lifetime, higher ed education, Coverdells, go on and on and on, we created just as confusing a system over there. For some light bedtime reading I recommend to you IRS Publication 970, Tax Benefits for Education for us in preparing your 2008 returns. I promise you it's a scintillating 86-page read of conflicting definitions of what qualifies as an educational expense and what doesn't. Take for example, textbooks, something most of us in here would think of and agree is a necessity for college, whether under Hope and Lifetime books only count as a qualified expense if you were required to purchase them for enrollment and if you pay for them direct after being billed by the university. Then you can pity the poor student who's just received a full ride scholarship to med school

who picks up Publication 970 and turns to page 7 and reads that "You are a candidate for a degree in a med school. You received a scholarship for your med education and training. The terms of your scholarship require you to perform future services. A substantial penalty applies if you do not comply. The entire amount of your grant is taxable as payment for services in the year it is received." The joy that student once felt at having received that full ride is quickly dashed to the sadness and realization that the tax man cometh. As was mentioned, our current piecemeal system both on the higher ed side, bill side or on the tax side, is nothing short of insanity.

I'm very pleased and have been with the conversation begun by the reports out of the College Board and NASFAA. Much of the talk in the past has been on redesign has really been about tinkering around the edges and stopped well short of the fully comprehensive redesign that we need. I believe the two reports that have come out do lay the necessary groundwork that is needed for comprehensive reform. Unfortunately of late though most of the press attention and the attention of policymakers whether it be Congress or the White House continues to focus solely on the fight over student loans. You knew it was going to come up, who originates, who services, whether it's funded with government capital or whether it's private capital. Indeed, I think this is an important fight to have.

Feelings are strong on both sides with good bipartisanship. Bob and I are sitting nicely beside one another.

However, this myopic concentration on the student loans in the student loan fight misses the bigger picture and consistently I think has distracted us from doing the comprehensive redesign that we need. In just the last 5 years we've been through two budget reconciliations in 2005 and 2007, one ATA reauthorization, and now with the potential 2009 budget, reconciliation, and we're once again running the risk of concentrating on this one piece, it's an important piece, but this one piece and just tinkering around the edges.

I think as you've heard here, first and foremost one thing all of us agree on up here is the simplification of the application for aid. In recent years when folks have tried to do this it's been focused solely on FASA simplification. FASA is an acronym only Washington could come up with is completely meaningless to its intended target population. But many of us have argued, and this comes through in the reports from the College Board and from NASFAA that simplification of the form without concurrent or concomitant simplification of needs analysis is not enough and we need to do both, and I think they've got some great ideas for how we can do that.

Additionally just focusing on simplifying the process for

applying for aid and receiving the aid isn't enough. We can build a great delivery system of aid, however, what have we done if, one, we build the system and the students don't come? Or two, we build it but students still fail to complete college, thus missing out on the economic benefits of going to college. Or third, we build it but colleges keep raising their tuition at rates that completely outstrip any added benefits we've given them.

In redesigning the system I think we also have to concentrate on a comprehensive overhaul of our educational system that begins from the entry into high school through college completion. If we continue to graduate from our high schools just 70 percent, and that's the nice figure, and if we looked at disaggregated by the target populations, low-income, the numbers are even lower. But if we're not going to really address that issue, all this reform could be meaningless because students can't benefit from a student aid system if they don't have a high school diploma which thus they will need to go into college.

Additionally there have been some really good qualitative research coming out of Chicago that has shown that even if we improve the rigor of our high schools and we can begin to improve our high school grad rates, many low-income students still aren't making it to college. So while we've focused a lot on simplifying the aid application, there are also really important access pieces that we need to look at that I think some of

this newer research is showing. These are components that many of us having gone to college take for granted and don't think about what these students will need. To them if they are first generation, first time going, how do you even apply for college? Also how do you search for schools? The application process is not always simple. There are personal statements which is something they may not have done. Getting teacher recommendations, also getting the applications in early, as well as the aid applications in early for institutional aid, the essays and on and on.

Finally, I think as was mentioned earlier by many, we've got to get a grip on the high school dropout crisis. We've got a college dropout crisis. When 60 percent appears to be our high level mark for first-time, full-time degree seekers graduating in 6 years, there is a lot of work to be done here, and because those students aren't completing, taxpayers have lost out on their investment, but more importantly, students particularly those with loans now have a fairly large debt burden that not going to potentially be able to pay off, and they picked up that burden without the added income benefit of having completed the degree. So I think what we've got going on from the College Board and NASFAA begins to lay some groundwork for what we have and need to do and I hope to pick up on those, but mostly importantly I think from my perspective on the Hill, the most important thing I hope is that we don't



waste this year just tinkering around the edges and focused solely on one thing. We need to get this and this may be the last opportunity we have truly to get it right and it's going to take time and a lot of further conversation. I think we've got a great national dialogue going here to continue that and do what we need to do.

MR. SHIREMAN: Thank you, Russ. My role here is to respond to everything that precedes me. Part of that, President Obama in his speech before the joint session of Congress, he laid out this bold goal. There are lots of pieces of what we're talking about here and having that bold goal for the nation of returning our country to its place as the country with the largest proportion of adults with postsecondary degrees, of I like Russ's European term, tertiary degrees, that that is the goal of what we're doing here. So it's not just about each of these pieces, but each of these pieces have to add up to that bold goal. And it's not just the financial aid. It is also the K through 12 or pre-K through 12 agenda because we need to prepare our young people for college and careers in their time in pre-K through high school. We need to get them to continue on to higher education. We need to get adults to return to higher education. We need them to thrive once they are there. And we need them to complete. The Obama Administration put out a number of proposals in the K-12 arena. I won't go into this, just to note that they are there. And made a number of

very significant commitments in higher education.

First, on the Pell Grants, we proposed making the Pell Grant a full entitlement and taking that increment that was included in the stimulus legislation and added \$500 and taking the \$5,550 maximum grant that would result in the next fiscal year, increasing that by consumer price index plus inflation. It's not just about making sure that a senior in high school can see that he's got a Pell Grant next year, it's to make sure that that student and low-income family in middle school sees the Pell Grant program as something that will be there for them 6 years down the road, that motivation that the programs that are out there to pay for college and maybe get an estimate them, that those are programs that are going to exist when they go to college.

Second, Sandy mentioned the amount of nonfederal loans that people are taking out. We've proposed a dramatic expansion of the Perkins Loan Program. This is right now about 2 percent of total loans, but the nice thing about the Perkins Loan Program is that a college financial aid administrator has some discretion to identify someone who for one reason or another, the amount of Stafford loans they can get are not enough and they need some more and the Perkins Loan Program gives the financial aid administrator the flexibility to provide that student with some additional loans. We felt like that approach is the right

approach for dealing with those students who are in need of private loans. Providing a loan limit increase to everyone of let's say a couple thousand dollars is too much for many and not enough for those who have that need for additional private loans.

Third, we actually looked at the Rethinking Student Aid report on the issue of completion and this idea of, I think I recall correctly that in the Rethinking Student Aid report it suggested testing out the idea of providing colleges with these incentives, a certain amount of money for each Pell Grant recipient who graduates. In discussing it we realized that there are a number of things that need to be tested, that we need to learn more, we need states and institutions to learn more about what works in getting students to persist, what works in getting students to get through those developmental education courses, what gets them to their degrees and certificates, and that the best thing that we could do would be to put some incentives out there to do some innovation. So we created a College Access and Completion Fund with a lot of that money going to states who are working with institutions to innovate, and it can be innovation around student aid, but it can also be innovation around support services for students and different ways of providing information. So innovation on the area of completion is the direction that we decided to go.

On simplification, the Secretary of Education has met with the Commissioner of the IRS I think three times now. I meet and talk regularly with the Deputy Commissioner of the IRS and the staff the Department of Education and IRS have been working over the last 2 or 3 months on this question of can we share information between the two agencies, and we are making progress on that front. Congress did in the reauthorization of the Higher Education Act last year provide us with some authority to move forward on that kind of simplification, assuming that we can work out the details with the IRS. So that's something that is under serious consideration right now and if it can be done, then that decision and that question will go up to the highest levels of the administration and we'll get that decision made.

In terms of simplifying the formula, that would require an act of Congress, but we are also looking at how much could be done through that approach, how much would it cost, how does that compare to some of the other options. So that's under consideration as well.

There's area that I wanted to mention around simplification because we don't want for the grand redesign to do things that make the financial aid application process simpler. Celia mentioned you fill out the FASA and then you don't get any information. As of earlier this month, that has changed. We now provide people with an estimate of their Pell

Grant and information about loans that they're eligible for after they complete the FASA form. In July there will be some improved SKIP (?) logic on the forms. If any of you have tried filling out the form this year, there are three or four questions about homelessness and there will be a screening question so that you don't have to answer all of those questions if you know you're not homeless. So there's a lot we can do just in making better use of technology for the FASA on the web which is the one that most people fill out, and we shouldn't be waiting for a grand redesign to make that happen and those are things that we're doing on an ongoing basis and we can do in the form that people are filling out right now as well as aiming for the form that will come out this coming January.

I'll mention a couple of other things that have come up. The Perkins Program has some elements that we haven't released details on, but we have thought that the loan funds distributed in Perkins should have some of these elements of incentives that the experts here have recommended, providing an incentive for colleges to be affordable, so that you get more of these loan funds if overall you do a good job of keeping people from having to take a lot of private student loans, for example. And possible also something related to completion and completion by low-income students and Pell Grant recipients. That is one place, an expanding program where we could include some kinds of incentives that

might get at some of that interest in promoting affordability as well as college completion. I'll stop there for now and we can move on.

MR. WHITEHURST: Thank you. My challenge as the moderator is that there is so much agreement up here, I'm not sure where to push to get an interesting discussion going. The desire for an interesting discussion should be subordinate I think to the nation's need to address this long-standing issue. Just to serve as a bookend to Mike McPherson's opening comment, it seems to me that something quite remarkable has happened in a short period of time and that people are focusing where the focus needs to be and thinking about fundamental reforms in the system. How many of you in the audience have dealt with the cost of sending a kid to college and filling out forms? How many are satisfied with that experience? Everybody knows the system is broken and needs to be fixed.

Let me poke a little bit into areas where I know there are some differences in approach. One goes to the broader issue of cost that Celia Sims raised. We can increase Pell Grants, we can increase loan limits, we can do lots of things to try to keep up, but if the cost of attendance continues to escalate at a much faster rate than the Consumer Price Index, all we're doing is playing catch-up. We have two proposals on the floor here. One is to index Pell Grants at 70 percent of the cost of

what colleges choose to charge, and the other is to index Pell Grants at the Consumer Price Index alone or plus 1 percent. It seems to me that they are very different approaches and would likely have different effects on what colleges would charge. I wondered if there is anybody on the panel who would like to talk about the differences or defend their particular approach versus that of the opposing point of view.

SPEAKER: Simply put, cost of attendance is what reflects what a student has to pay and that variable is a very, very significant one for us. When we look at the data that tracked the increases in the CPI and the increases in cost of attendance, the reality is as we all know is there's a gap. The fact of the matter is that either with the College Board's recommendation or with President Obama's package of recommendations on the budget that our best estimate is that while on the short run we might be able to hold the line, that a CPI plus 1 is not going to get you there and the reality is that there will be in the not too distant future, maybe not in the immediate future, we'll be back to where we are where the ratio of grants to loans starts to shift again to be heavy on loans and less on grants and that has us very, very concerned. So we focused on cost of attendance because we think that that is the measure from the point of view of what families and students have to pay that is the best measure that we can use.

We also argue that there are many things in the HEOA certainly suggesting that an institution needs to do more about the issue of cost containment. We also know that the accrediting bodies are taking a look at this. They have historically looked at the focus that an institution puts on strategic planning, annual planning and budgeting, and the reality is they are increasingly looking at institutions to be able to demonstrate some evidence that indeed they can and have a mechanism to take a look at costs on a continuing basis. We feel like the mechanisms are in place over the long haul to have a leveling effect on the issue of cost of attendance and that even if the prices go up, they're not going to be going up that much and therefore feel that our recommendations have some justification.

SPEAKER: What I would say is there have been a lot of people over the years who have tried to argue that a bit driver of the increase in college costs is federal student aid, and I don't they've done very well when you do serious statistical work on cause and effect in this area. There is a worry out there and we certainly don't want federal student aid to be a driver of college costs and that was the reason why in our proposals we thought it was best to link things like loan limits and maximum Pell Grant levels to things other than the price of the colleges. Certainly if you have Pell Grants that cover a large portion of college costs,



that clearly makes it easier for colleges to raise their prices than it would be otherwise, and if you automatically ratify those increases we don't know statistically it would produce that result, but it hardly seems to us a wise argument to hand to people who may not want to see the money go in that direction.

MS. BAUM: I think also another important thing in this conversation is that we have to differentiate between costs and price, that this is a card in the conversation, because we do say costs of attendance which is a term that is commonly used to mean tuition, fees, room and board and supplemental expenses. However, the cost of producing education is how much is the institution spending to produce it and the price is the amount that they charge students, and the price is almost always much less than the cost. If you look over time at what has happened to the cost of education at public institutions, it really hasn't been rising very rapidly. The price is rising so rapidly because appropriations per student aren't keeping up and therefore students and families are covering a higher portion of the costs. What Congress is really worried about is what's happening to the price and you really have to think hard about is that because the institutions are spending more because of the combination of revenue sources, so I think that helps.

I have to say that I am waiting to see what proposals the

administration will come up with to try to provide incentives for institutions to keep their prices down because some incentives that have been proposed elsewhere would be ones that institutions could for example lower their sticker price and get rid of their institutional grant aid and then meet the criteria. We don't want to see that happen. That wouldn't help anybody to go to college. So we have to be very careful about what kinds of incentives are provided. I think the market is actually doing a good job. People are voting with their feet now to go to less-expensive institutions and we should have a little more faith in the market for this. So the student aid policies should clearly be designed not to provide incentives for institutions to increase their prices, but it's not student aid policies that are the driver of the price of college.

MS. SIMS: To hark back on this a little bit, I do think we are seeing some folks now beginning to vote with their feet and choose a less-expensive college over another, but if you want to talk about an issue that really hits home to constituents on the Hill when our bosses come home, the inexplicable increases in college tuition has got folks fired up more than any other kind of meat and potatoes issue that comes around. One concern I have on the CPI plus 1 proposal is have we just now given universities and state legislatures here's the four every year to raise, that you can raise tuition or the cost on students, and if that becomes the way

it is, that we just kind of get a wash.

You've mentioned the HEOA, the most recent reauthorization, a number of public reporting requirements on tuition increases, I'll be honest, there's not a lot of meat. We're not going to come beat up on a school. I've had the conversation with higher ed before that higher ed is going to have to get a grasp on because at some point parents are going to revolt on this issue because they cannot and do not understand why one year tuition went up 16 percent or they play the game of we didn't raise your tuition but we jacked your fees up, and the next year it's flat. They do not understand this, and higher ed's typical response the first time a group came to meet with me on the Hill about it and we started talking on this topic, asking why is it that your prices go up, it's complicated. I know it's complicated. But what are we doing about it. I was told if you give us a grant and to go research it we can come back to you and figure out. That's not an appropriate response. This is not a place to have a game anymore. Universities and colleges, there are some in North Carolina they're trying within the present system to try to rein this in and give some predictability, but there needs to be a lot more of those efforts going around.

MR. WHITEHURST: Another issue here that seems to me interesting is the press for simplification which sounds and I think is

appealing can conflict with efforts to incentivize particular behaviors that may themselves seem appropriate. Congress 3 years ago passed a grant program, the American Competitiveness Grants and Smart Grants that topped up Pell Grants for students who had finished a rigorous program of high school studies so you could get more funding if you'd done that, and for Smart Grants if you chose to major in fields of national need like mathematics and science you could get increased funding. So a question for the panel is what's wrong with using federal funds to incentivize preparation for college given among other things we face abysmal dropout rates and noncompletion rates that are presumably related in part to poor preparation for the experience?

SPEAKER: I think the question here what is that drives students to take the courses in high school that they need to go to college and that having a financial incentive way down the road is sort of like having a magnet that's too far away from whatever it's trying to attract, that the things that make a difference more than anything are the systems in the school and the teachers in the school and the counselors in the school, does the school automatically enroll students in that pattern of courses and then they have to opt out rather than have an opt in approach, does the school have the qualified teachers. There are some incentives that we need, financial incentives for people who are well qualified to teach math

and science, for example, to go back to our schools and teach. It's not a bad idea at all to provide incentives, the question is who are the actors and how do you incentivize them, and in the case of high school course taking patterns, it's much more the schools, the districts, the teachers and the counselors than it is the students themselves looking toward financial aid in the future.

SPEAKER: My boss when I worked at Brookings about 20 years ago was Alice Rivlin who is back at Brookings now and she used to say that it's very important for the federal government to think hard at what they're good at doing and that there are real limits on what can be done effectively at a national level. There's a lot of evidence that defining rigorous curricula in all the high schools in the country is simply beyond the capacity of the federal government to do well.

As we went around the country in the course of developing the Rethinking Student Aid proposals, one of the things that we heard from financial aid administrators was that administering these Smart Grants and academic competitiveness grants was a devastating nightmare, that the definitions you would qualify one semester, you might lose the qualification the next semester, depending on what your high schools required as their base curriculum everybody might qualify, nobody might qualify. I don't know that we ever got more applause than when we

talked about how weren't so sure we wanted to keep those.

SPEAKER: Another aspect aside from this complication of these programs that is really problematic is that the Pell Grant program does a very good job of saying as your income gets higher, your Pell Grant goes down a little bit, so it's a gradual process. And the academic competitiveness and Smart Grants just say if you are Pell eligible you get all this extra money. If you miss that Pell eligibility by just a little bit, sorry, you're out maybe \$4,000, and creating that kind of a cliff is something that you really don't want to do. I always go crazy when people say but I'm just above the eligibility for financial aid and you want to say you just lost a little bit, but then say there are those academic competitiveness and Smart Grants that make that not true.

Another issue is that when you say should we punish people? Suppose you go to a high school that doesn't have this curriculum. Sorry, but you can't get a Pell Grant. People would be up in arms if we said we're going to take Pell Grants away from you because you went to a high school without that curriculum. Somehow they don't think the same way if we just say if you did go there when you can get that extra money. It's the same thing, if you didn't go there you can't.

SPEAKER: And for all of those reasons, that was the purpose behind our recommending that we eliminate those programs and

roll the savings into Pell's.

SPEAKER: Are there problems and complications with these programs? To be sure. But I do think if we get rid of them we need to rethink and remember what the initial goal and reason for putting them in place was. One thing we know is a lot of students entering into college end up in remediation at very high levels. This is eating up resources at community colleges and 4-year colleges. If we got a student who had taken hopefully a rigorous curriculum, and to be honest most of the states' definitions weren't really super rigorous, it was just what one would hope and expect a student to have taken by the time they graduated from high school so that they could transition into college. If weren't not going to have these programs that I agree if we're going to keep them they would need a great deal of reworking. But we need to think about I do think from a taxpayer perspective and from a federal government perspective how we do improve the system between what's going on in high school and going into college not only for the retention issues and to lower those rates, but also know that students who end up in a lot of remediation often are the same students who do not complete. Again taxpayer money has gone into support someone who doesn't finish or even worse it's the student who has taken out a loan who then doesn't finish and doesn't reap the benefits of that degree. Earlier when I was trying to talk about when we

do this total redesign we do need to think of not just the application for aid and the amount of aid you get, but how does the whole system work between the start of high school, you could start earlier but we have a lot of federal programs there -- start high school through the completion of college.

SPEAKER: I would pick up on that. We do have a lot of federal programs in the K-12 sector that we need to take a look at in terms of whether or not they're producing the desired outcome.

SPEAKER: I think at the high school level we don't actually have a lot. We talk about elementary and secondary education an act that doesn't do anything in high schools.

SPEAKER: Gear-up and Upward Bound are high school student oriented and do focus on course taking. So how do we get those goals embedded in what high schools do so that students -- the presumption is that students are going to be taking those courses that gets them prepared so they don't have to be remediated and it seems that that's where money could be most usefully spent.

MR. WHITEHURST: I will open the floor to questions. I'd ask you to wait until first I've called on you and you have a microphone and then please tell us who you are and try to ask a succinct question.

SPEAKER: -- with National Public Radio. Could the



panelists share their thoughts about direct lending to the future of private lenders in this enterprise, and your thoughts about where that's going to go?

SPEAKER: You're looking at me like I should start.

SPEAKER: Why not? I was trying to stay away from the topic.

SPEAKER: Ninety-nine percent of colleges use a common system to bring Pell Grants to their campuses and what we are proposing is that they use that same Pell Grant delivery system for the delivery of student loans. The lenders that participate in the Federal Student Loan Program don't make decisions about which college is eligible, which student is eligible, how much money they can get. All of that is part of the federal financial aid process and the work of financial aid administrators at colleges. Taking the middle people out of the process saves billions of dollars that can be put into Pell Grants. So it just makes sense in terms of us having the money that we need in order to bolster the Pell Grant program.

In terms of private lenders, when you say private lenders it's really the folks who are making loans that are not guaranteed by the federal government, high interest rates, and those are things we should try to prevent students from having. So giving them a Pell Grant, giving them

extra Perkins money is the way that presents students from having to dip into that private loan market that really is too hazardous for a student to use for education.

SPEAKER: In response and hopefully we can move on from this topic, there is going to be a fight and there is going to be a debate as I mentioned earlier about whether we go 100 percent direct loans as the administration as proposed or we keep private capital in the origination and in the servicing of loans. I don't know where that will land in the end, but it will be a fight. Bob and I vehemently disagreed on very different sides of that. This is a bigger picture though also that we need to concentrate on on the full reform of the system, and that's just one piece.

SPEAKER: Do you agree that it's going to save \$100 billion that could be put back into Pell Grants?

SPEAKER: I'm sorry?

SPEAKER: Do you agree that it's going to save \$100 billion over 10 years?

SPEAKER: Certainly the way that we do scoring is done on the Hill that there are savings generated from their proposal. How much? They've got OMB numbers. We have to live on the Hill by CBO numbers which will probably be a little different on how the baseline is generated, but there potentially are savings given what their proposal is.

SPEAKER: I'm not sure where we're going to end up. We have taken a look at this and we've made a set of recommendations that effectively deal with the issue again of simplicity and almost within the context of a one stop center the idea of creating a single new loan program, but that loan program has some different features to it. It has the elements of what we refer to as all three, the direct loans, it has single origination and collection agents, the -- which comes with the default prevention mechanisms and a lot of the back-end borrower advocacy services that they have, and the Perkins which has very low fixed rates. So we have recommended what we call a super loan type program that takes the best of all three programs and combines them into a hybrid that ultimately we think can work. A lot of people have said that it looks like an awful like a super direct program on the up-front, but we look at this on a long-term basis we think the approach that we're using and recommending that we set up and establish these educational finance bonds, Education America Bonds, if you will, that are similar to past attempts that we can over time create a pool of private capital and a combined set of resources that may ultimately -- a lot of people got burned in various states on 529 plans. They're going to be a little bit standoffish in the future. If there's a safe haven opportunity to invest in an educational finance bond that has a benefit to their child or grandchild then they're more apt to do that.

Investment firms, pension firms, a lot of folks are looking for safe harbor investment opportunity for themselves where they can be guaranteed a minimal guaranteed long-term return and we think that that ought to be played out and looked at, and if it does, and if it worked the way we saw it working, it could ultimately provide a self-supporting, self-sustaining pool of revenue that would ultimately get the federal government off the hook completely from having to spend money to support student loans themselves.

MR. APPLGATE: Jim Applegate from the Lumina Foundation. There's a lot of discussion about K-12 and kids and financial aid here. I think our data and much of the data that's out there would tell us that to reach the President's goal we can't do that without reeducating the huge adult population that's out there that's undereducated. In fact, in the majority of states in this country they in no way get -- if every child born between now and 2020, if we got every one through high school and every one of them out of college, they wouldn't be where they need to be to be competitive. They have this huge pool. So my question is if we put the adult learner right beside the child and we think of financial aid policy, are there any additional ideas or are there any issues that we need to be talking about that we might not be talking about if we stay totally focused on the child?

MR. WHITEHURST: That's an excellent question that I've written down here to ask myself. Where is technical education in the next year? It's not directly supported by Pell Grants and yet it provides more direct economic benefit to many people than pursuing a degree.

SPEAKER: If I could just say beyond technical before we go straight there, there are millions of adults with some college and no degree. I'm talking about community colleges here, associate degrees and certificates, so technical is certainly part of it but it's not just technical. Many adults have 70 hours of college or 40 hours of college but no credentials. So all of these folks, many of them are unemployed now and many of them are worried about unemployment, so that they're interested and how do we help them.

SPEAKER: The main thing that we advocate in the Rethinking Student Aid report, all of them would be of value to adults, in some cases of more value to adults than to people fresh out of high school; simplification, a simpler, faster system, loans that are designed to provide insurance against an investment that doesn't actually work out. The savings program we advocate which wouldn't be in place for a long time so it's not going to address the President's immediate goal, but the savings program as we conceive it would leave those savings accumulating interest if you don't go to college out of high school and it

would a fund that if you grew up poor you could draw on later. And of course, supporting completion instead of just access is critical when you think about the experience adults are going to have.

I don't think we've done enough. I think actually the larger problem of dealing with the adult population is a problem that goes beyond what we think of as college into various kinds of job training. I think there should be a broader involvement with the federal government on these issues including the Labor Department in a more serious way. But I do think that our stuff was not shaped simply with 18-year-olds in mind.

SPEAKER: I think some of the things that the Obama Administration has really taken out right out front, this recent communication -- that they sent out about the issue of trying to exercise more professional judgment in the situation dealing with the unemployed or dislocated workers, 1 in 10 people out there in the United States are on the outside looking in as far as employment. A large measure of them are over 18 years of age. That type of systemic change that is being put into play is exactly the type of thing that we need to take a look at as one piece of a very, very complicated puzzle that deals with all of the issues, lifestyle, work style, all of these different things that relate to the adult learner. And keeping in mind, by the way, and this gets into the K-12 issue, the numbers of people who drop out of high school and don't complete, we

haven't even scratched the surface on what that represents because ultimately as they move on in years they become a part of that adult population and are we going to write them off? What's the solution? How do we mitigate that? I think some of these strategies that we're talking about that the Obama Administration has taken the lead on implement are basically tools that are already there in the toolbox but we've never had the leadership or anybody to exercise that responsibility except in some key states where some governor decided to do just exactly that, but it's been very, very limited. The issue of year round Pells, expanding the Pell, reducing loan liability, all of those types of things, income based repayment, those are a part of a whole package that I think we need to really put back on the table and really start thinking about.

SPEAKER: I think one other thing, and I do praise the administration and its recent communication about what flexibility truly is for financial aid administrators to adjust when situations have occurred, and that's certainly great there. But the bigger place we need to have that communication with is the actual adult learner. Unfortunately adults and parents, I get calls constantly from constituents who say there is no way I would ever qualify for aid. You ask why? Because I make too much money. Actually you could at least get -- loan. So it's going to be even more important I think as we're going through this transition not only to

make the communication to aid directors about what flexibility they have, but we need to find better ways to communicate with the actual students, be them adults or younger that they actually do qualify because if we don't get the communication to them, they will make the assumption, we've seen them do it multiple times that I simply don't qualify and they don't even pursue the option.

SPEAKER: On this unemployed issue, the Secretary of Labor actually is working with states to send letters to folks who are on unemployment insurance and telling them exactly that, that you can have your income adjusted down to zero, so we're reaching out and getting that direct communication with people who we know would benefit.

MR. LETTERMAN: I'm Doug Letterman from Inside Higher Ed. It seems like the set of issues that you're talking here are big enough targets for revamping and simplifying the whole student aid system. This starts with Celia. Without going to when you talk about tying it to a comprehensive overhaul of the education system from entry into high school and through college, I guess my question is do you run the risk that you're dooming this to inertia by making the whole thing too daunting? The fundamental question is this something that can be done by chipping away or through blowing up?

MS. SIMS: You do run the risk particularly if you try to add



the high school reform onto it as the same package. Yes, it gets complicated. But I don't think we can any longer just kind of chip on this. Again I know the feelings on the loan issue, but I would hate to see that at the end of this year all we've done is do reconciliation and all we did was muck around the loan issue because once we check the box and those in Congress say we've done that, next issue, and need to do broader. The other issue is I have concern and fear about reconciliation happening isn't just so much on the loan issue but also because there are some very archaic and arcane rules with how on the Senate side what language can and can't be in a reconciliation bill. WE end up with a gobbledygook at the end because the actual language we need to actually implement a program we can't have in the legislation to get it passed, that we need to take this comprehensively. I do agree with you with your issue if you go too big you risk we can't do it all, but I think there is much more we can do than just simply the loan issue.

MR. WHITEHURST: Is the administration going to put forward a bill to Congress that will address this issue or is this something that congressional staff and committees are working on?

SPEAKER: We will work with Congress. If the leaders in Congress indicate they want us to send formally a bill to them we'll do that. If it works better to work with them like on the stimulus, we'll do it that way.

SPEAKER: I'm not sure what issue we're still talking about, what bill we're going to introduce or not, but the reality is I think as Doug has correctly pointed out, this is a daunting task and it can't just be focusing on colleges, it can't just be focusing on high school programs that work versus those that don't. We need to take a systemic look at the whole K-16, and there was a report that was done that must have been a decade ago where the report talked about the fact that we can't treat each of these segments, preschool, elementary, middle school, high school, as separate silos. It should be all interrelated and it's a combination of local institutions, state and the federal government needs to take a hard look at this because just because it's big it doesn't necessarily mean we can't be successful at starting to achieving some progress and make a difference in this area. I hate to think of what the alternative is in terms of the price we pay for not doing anything.

MR. PARMENTIER: Andrew Parmentier from -- Analytics. I have kind of simple question in the context of doubling graduation rates, simplicity, price versus cost, and it kind of plays off of the question as it relates to adult students. What role do the for-profit education companies play here? Everything we're doing seems very front-end loaded vis-à-vis the analysis, but what are we doing to ensure that we're keeping an eye on margins and profitability and looking to see whether or not the

curriculum is set up just to ensure that the student passes, therefore the institution receives the income? It seems to me that with this L-shaped economic recovery we're going to drive a lot of people into these lower-cost educational environments and we just haven't touched on that.

MR. WHITEHURST: Would anyone like to speak to the for-profit sector and the way it plays out? I think that one issue that is embedded in your question has to do with providing incentives and potential unintended negative consequences from an incentive system that could play out by institutions changing their behavior to hit the mark like they're hitting the mark not with student achievement or student outcomes but by lowering the bar.

SPEAKER: We recently thought about this issue in terms of providing incentives for institutions to support Pell Grant recipients through to completion. Obviously you don't mean just give them a piece of paper. This is one reason we think we need to experiment with this issue and find out the ways that we can do this most effectively to make sure that completing actually means something substantive. I think it's pretty risk though to think about defining programs by sector. In all sectors there are some great institutions and some not so great institutions.

One of the issues I think is that for-profit institutions have much higher tuition levels than public institutions and students need really

good advice about how to make their choices so that they make choices that will work well for them, but it's a market with very imperfect information and I think we need to give students better information to find ways to do that.

MR. SHIREMAN: On whatever sector it is, for-profit, nonprofit, public, consumer information is key. Congress included a number a new provisions aimed at public disclosure of information. We'll be implementing those and looking for ways to make sure that that gets to the consumer and isn't just something that's available but is something that's right there for them. In fact, there are some things we're looking at in the FASO. When they choose colleges, we can provide information right there to say here is some basic information about the colleges you're thinking of including on your FASO, so finding ways that we can get information to consumers. Then we need to make sure that each of the pieces of the triad, that for a college to receive federal financial aid they have to be approved by the Department of Education, authorized by a state and be accredited, so making sure that the accrediting agencies do their job, that states do their job and that we at the Department of Education do what we're required to do. So looking at those responsibilities because you're absolutely right that with the new money that's in financial aid and with the state of the economy, there are some

hazards that schools of any type might be too aggressive and maybe not providing students with everything they need to know about the education that they're getting into.

MS. SIMS: I think though one sector where the public-private is not such a big issue, but one sector that really does get the accountability in a sense is the community colleges. In the State of North Carolina every time there's economic development coming, on you're trying to attract a company or corporation into the area, it is the community college sitting there with the mayor, with the chamber, with a very clear memorandum of understanding that they're working with the company on about we're going to need X number of workers with X number of credentials and that accountability, you know you haven't met it when that employer will come back to you and say guess what, that's not what we need. But because they do have these very clear memoranda between each other, we're beginning to see that true accountability.

I'm sure there are some 4-year institutions out there where that's going on, on that level of accountability, but I think there's a lot we could learn as a system as a whole from what is going on in some of our community colleges.

MR. WHITEHURST: Thank you. Our time is up. I'd like to thank the audience for attending today and the panel for a wonderful and

enlightening discussion.

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## CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

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