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Jeff Selingo's insights on rethinking higher education.

Let's Rethink Federal Student Aid

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By Jeff Selingo

Student loans are not going away despite calls by Occupy protesters in recent weeks to have the federal government finance public colleges entirely and write off all student debt.

So rather than debate the impossible, we should instead discuss better ways of financing a college degree.

The higher-ed establishment in Washington spends most of its time trying to protect the status quo on student-aid programs, all the while arguing for more money to help pay higher tuition prices. But if we're headed for an age of at least some austerity in the federal government, then the higher-ed associations are going to need a new playbook.

They won't lack for ideas. Overhauling the student-aid system won't be easy, but many agree that we should be getting better results on access and outcomes for the money being spent.

Where to start? Here are just a few proposals I have read in reports or heard in panel discussions and other conversations recently. Weigh in with your thoughts, or propose your own solutions:

1. Allow colleges to limit loan eligibility.

Right now, colleges are allowed to cap a student's loan eligibility only on a case-by-case basis. They can't, for example, limit how much students may borrow by major, even though we know that earnings by major vary greatly. Some believe the current policy encourages excessive borrowing and permits some students to "cash out" at low-cost institutions where they borrow well above the price of tuition. This fall, the Education Department invited colleges to test alternative ways of administering federal student aid, including an experiment that would let institutions reduce students' annual loan eligibility by at least $2,000. I hope the experiment will work and every institution will be allowed to limit students' borrowing in the future.

2. Set differential tuition and aid based on potential earnings.

There are plenty of cross-subsidies at a college. Cash-rich academic programs pay for low-demand, high-cost programs. Such subsidies exist because most colleges charge a single price no matter the academic program. It's a similar story on student aid. Wealthy students subsidize financially needy students. On some campuses, programs where seats are difficult to fill have higher tuition-discount rates, another subsidy paid for by students in popular programs who don't get as much aid.

Such a system takes into account students' current financial situation but doesn't consider their future earnings. A financially needy English major is treated the same as a low-income finance major, although it's likely that the latter will earn a lot more over a lifetime. What if the English major were given fewer loans than the finance major? Such a system might also encourage students to consider majors that they were interested in pursuing despite worries about paying back student loans. There are, of course, consequences to such a change. One downside is that it could discourage students from majoring in high-demand fields that pay well simply because they would need to take on more loans.

Martin Kinard, a former admissions director at the University of New England, is a proponent of that idea. He believes it could stem the exodus of potential applicants from liberal-arts programs at expensive private colleges. "Students think they can get the same liberal-arts education at a public college for half the cost," says Kinard. "Private colleges are losing these students."

3. Link aid to measures of student success, such as graduation rates.

In 2009, according to estimates from Tom Mortenson of the Pell Institute for the Study of Opportunity in Higher Education, nearly 60 percent of high-school graduates from the bottom income quartile entered college. But that income quartile represented only 7.3 percent of degrees awarded that year.

Simply put, not enough low-income students are graduating from college. Part of the problem is that too many financially needy students attend colleges with low graduation rates, in part because those institutions have lower sticker prices.

Andrew P. Kelly, a research fellow at the American Enterprise Institute, suggests that more should be done to educate needy students and their parents about the net price of colleges. His research shows that low-income families don't know as much as wealthier parents about the difference between sticker price and net price.

If low-income families knew more about the net price of a college, Kelly maintains they would be better able to balance cost with the likelihood of success. Rather than just go to the cheapest college, they might pick a slightly more expensive one with a higher graduation rate.

The burden to ensure success shouldn't fall only to students, however. Colleges that fail to graduate a reasonable number of low-income students, whether those on Pell Grants or with sizable loan burdens, should be banned from the federal student-aid programs.

4. Do away with defaults.

In recent weeks I've heard a number of student-aid experts talk about the idea of moving to a broader income-contingent repayment system for student loans in the United States, much like Britain or Australia. The plans all differ slightly. Some would move everyone to the system, while others would convert to it only if the borrower stopped making payments. But in all cases, the concept of default would be erased from our vocabulary.

5. Encourage savings.

Earlier this year *The Chronicle* teamed up with the Pew Research Center to survey presidents and the public on their views of higher education. When we asked parents if they expected their children to go to college, they overwhelmingly said yes. But when we asked them if they had started saving for college, the answers varied widely.

In the long run, it's less expensive to save for college than to borrow, so we should be doing more to encourage savings. Some cities and states provide seed money when parents open a new 529 college-savings plan before a child's first birthday. Other places provide matching grants to low-income families.

Mark Kantrowitz, publisher of FinAid, a Web site offering student-aid advice and tools, believes there are way too many savings plans for college and retirement. He advocates replacing all of them with two plans for saving for certain "life-cycle expenses" (retirement, college, medical, etc.). One plan would use before-tax dollars and one would use after-tax dollars. The annual contribution limits should be increased. So if your child doesn't go to college, you would have more money for retirement, instead of having to navigate a maze of programs.