Planning for College:

A Consumer Approach to the Higher Education Marketplace

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ABOUT MASSINC

Massachusetts Institute for a New Commonwealth (MassINC) is a non-partisan think tank and civic organization focused on putting the American Dream within the reach of everyone in Massachusetts. MassINC uses three distinct tools – research, journalism, and civic engagement – to fulfill its mission, each characterized by accurate data, careful analysis, and unbiased conclusions. MassINC sees its role not as an advocacy organization, but as a new kind of think tank, rigorously non-partisan, whose outcomes are measured by the influence of its products in helping to guide advocates and civic and policy leaders toward decisions consistent with MassINC's mission, and in helping to engage citizens in understanding and seeking to influence policies that affect their lives.

ABOUT THE FAMILY FINANCIAL SKILLS INITIATIVE

The Family Financial Skills program explores new pathways to help families navigate the complex financial decisions increasingly tied to major milestones of American life. Whether selecting a health plan, paying for college, saving for retirement, or purchasing a home, middle class families shoulder dramatically more financial risk and responsibility today than in the past. This MassINC initiative looks at opportunities to advance the marketplace for family financial products with regulation, consumer protection, and financial education.

ACKNOWLEDGEMENTS

The authors acknowledge the following people who provided comments and suggestions at various stages of this project: Frank Balz, Michael Bartini, Sandy Baum, Ted Bracken, Robert Brun, Linda Dagradi, Richard Fass, Ellen Frishberg, Jennifer Hochschild, and Sarah Turner. While we have benefitted enormously from their help, any errors remaining are our own.

COVER PHOTOGRAPH BY MARK REQUIDAN

Planning for College:
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FEBRUARY 2010

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February 2010

Dear Friend:

MassINC is proud to present *Planning for College: A Consumer Approach to the Higher Education Marketplace*. This report is a product of our Family Financial Skills Initiative, a MassINC program sponsored by the Highland Street Foundation, the State Street Foundation, and the Cabot Family Charitable Trust.

Our Family Financial Skills Initiative takes a hard look at the increasingly complex choices middle class Americans face today. Whether finding a suitable healthcare plan, reaching retirement savings goals, or purchasing a home, families are privately assuming more and more risk on matters that have deep public implications. Perhaps nowhere is this more apparent than with higher education.

The nation's position in a competitive global economy hinges on our ability to build a large college-educated workforce. Recognizing this imperative, President Obama has placed considerable attention on college access. In his first address to Congress, the president challenged the nation to work toward the worthy goal of once again leading the world in the proportion of adults with a college degree.

Americans are already doing their part. They go on to college in ever larger numbers each year, borrowing increasingly large sums of money to finance their education. While there are many state and federal programs to support these families, the array of difficult decisions these programs ask Americans saving and paying for college to make is overwhelming. Unfortunately, families do not have the knowledge, information, and assistance they need to sift through these choices and get the most out of their investment. Far too many make costly mistakes.

To illustrate these challenges, we outline the choices put before families pursuing higher education in what we call the *College-Bound Decision Tree*. This exercise clearly shows why new skills and a new vocabulary are needed to navigate the nation's college financing marketplace. This consumer-oriented approach to college choice can ensure that the investments students and families make in college will not place undue burden on other important life decisions, such as what career to pursue and when to marry and have children.

We are grateful to Tony Broh for his original thinking, research, and analysis. His commitment to providing students and families with better information has been the inspiration for this project. We also thank the many reviewers who strengthened this report by asking critical questions and providing helpful comments.

One final note, this is the last research project overseen by MassINC's long-time research director, Dana Ansel. Through her remarkable nine-year tenure, Dana managed the release of 18 MassINC reports. Her belief in the power of high-quality independent research as a force for change is reflected in this significant body of work. We wish her well in all her new endeavors.

As always, we welcome your feedback, and invite you to become more involved in MassINC.

Sincerely,

Greg Torres
President

Benjamin Forman
Research Director

College is not just about making a living;
it is about making a life worth living.

David Warren
President, National Association of Independent Colleges and Universities

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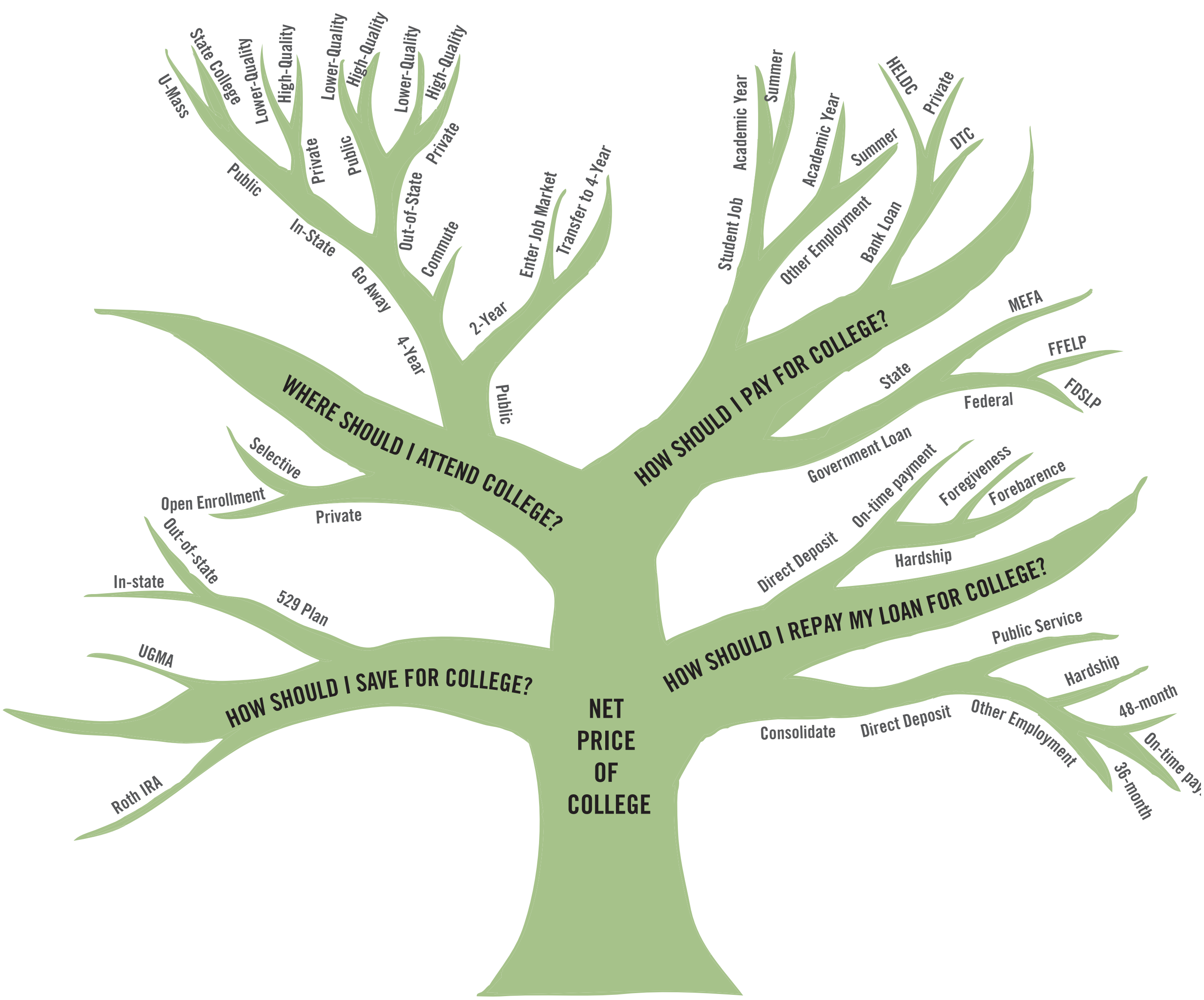


The College-Bound Decision Tree

EXECUTIVE SUMMARY

The place of college in the lives of current and future generations of American families has fundamentally changed. Once the privilege of a few, college is now a virtual prerequisite for joining and remaining in the ranks of the middle class. This economic reality means more students continue their schooling beyond high school each year. Today, two-thirds of all high school graduates will go on to college. A generation ago, that percentage was less than half. Ironically, concurrent with this trend of increased college going, the cost of higher education has become more difficult for Americans of all backgrounds to mange. Aside from a home purchase, a college degree is now the most significant investment many families make.

State and federal governments are doing more to help families pay for increasingly expensive college degrees. Combined with funds saved and borrowed by students and parents, these public resources support the growing number of Americans pursuing postsecondary education. But with mounting pressure on both public and family budgets expected in the coming decades, the system faces increasing stress.

While controlling the cost of college is, and has been, the subject of much attention, the rising price of higher education is tied to forces that are difficult to control without impacting quality. In contrast, helping families become more conscientious consumers is another way to stretch limited higher education resources. The advantage of this approach is it has the potential to enhance quality rather than detract from it.

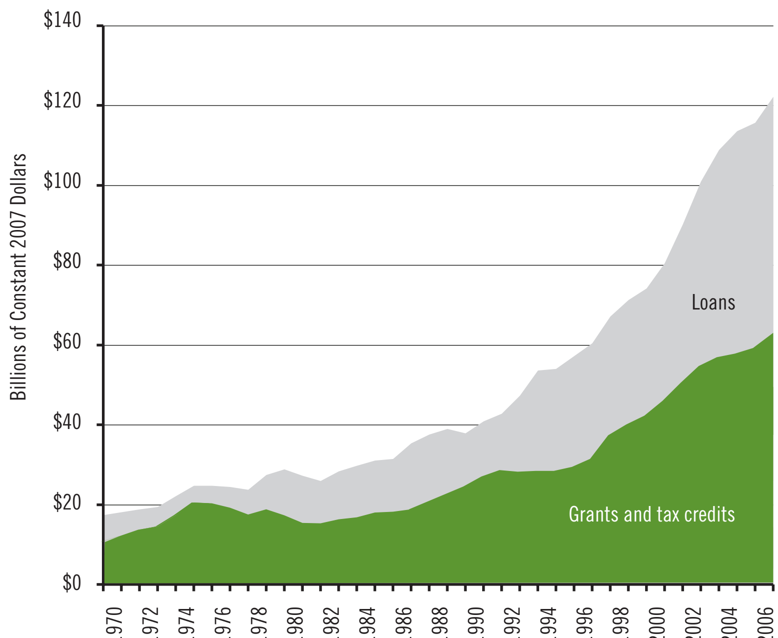
Until recently, there has been great hesitancy to encourage families to view college going as an investment. Despite these misgivings, current policies and prices are already forcing families to navigate a series of complicated financial decisions as they figure out how to save and pay for college. Positioning families to make smart investment decisions as they negotiate this processes is critical given the increasing scarcity of both public and private resources.

To provide leaders and policymakers with an understanding of why families currently have great difficulty getting the most out of their college dollar, this report documents the complex choices that families with limited information face as they save and pay for college.[1] In what we call the "College-Bound Decision Tree," the analysis outlines major decision-points for families as they save for college, apply for college, attend college, and pay for college.

Foremost, this report shows how families have taken on greater risk and responsibility by borrowing increasingly large sums to pay for college. In 1970, families relied on grants over loans to finance college by a ratio of two to one. Today, the ratio of grants (and newer tax credits) to loans is nearly one to one. Like in other areas

Figure ES1:

Source of Grants and Loans



Source: College Board, *Trends in Financial Aid* of American life, this shift requires sophisticated family financial skills and reliable information to make informed decisions about the price and quality of the educational experience they are purchasing. Because most families have not developed these skills, and even those with some sophistication lack access to the requisite information, too many students and families make choices that reduce return on their own investment and other public and private dollars that support them.

One of the greatest strengths of the American approach to higher education is it allows students and families to chart their own destiny. This means students and families must bear responsibility for their own decisions and take personal responsibility to become informed. From a public policy standpoint, it also means that much is gained from helping them make sound choices.

This report supports those calling for increased transparency about price and outcomes. More readily available information will not solve all problems, but it can make a difference in a family's abilities to make informed choices. By doing so, these policy innovations can also help expand the menu of options available to families and force competing institutions to provide high-quality educational experiences more efficiently. Together, these outcomes would increase return on both private and public investment, leading to more productive graduates and an economy less burdened by families struggling with college debt.

The College-Bound Decision Tree

The long journey that college represents for middle class families today begins early in a child's life and continues well beyond graduation.[2] The "College-Bound Decision Tree," which we use to diagram the challenging decisions families make over the years, is reminiscent of the "Giving Tree" in Shel Silverstein's classic children's book. College provides bountiful returns that come in both material and less tangible forms. But to keep them flowing across the generations, families must provide thoughtful stewardship. Unfortunately, as described below, many of the branches of the tree are bending under the weight of complexity and misunderstanding, making it more difficult for families to enjoy the fruits of this important resource.

Saving for College

For some parents, the long process commences with the birth of a child and the first deposits in a "college fund." The federal government offers several tax-free accounts to promote and assist savings. In 1997, Congress created Education Savings Accounts (now called Coverdell Education Savings Accounts). Legislation the following year introduced 529 plans, another tax-free vehicle to help parents save for higher education. A third savings option combines either of these savings vehicles with the tax benefits of holding investments in a child's name under the Uniform Transfer to Minors Act (UTMA).[3]

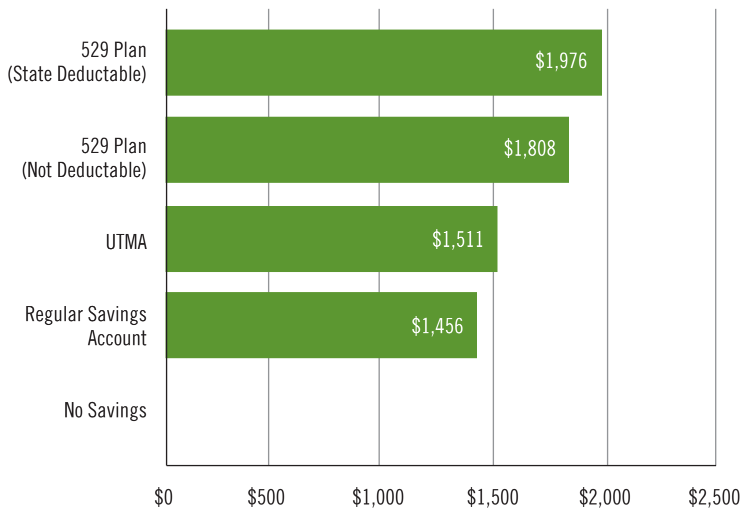
Choosing the best savings plan is challenging. To be clear, parents are not deciding among only three savings options; each of the 50 states has at least one 529 plan. Currently, there are a 118 different 529s that anyone can access, since the plans are not restricted to a state's own residents. A parent living in Massachusetts, for example, might choose to open a 529 plan in California. All of the plans differ in their details. They are managed by different brokerage houses, have different investment strategies, different fees, and varying records of performance. While private websites aim to help families make informed choices, parents must make decisions with complicated or incomplete information.

These early choices will have a significant affect on the amount of money a student will have available to pay for college. A family that opens a 529 plan, for instance, could earn nearly $2,000 for every $1,000 invested at birth. While families put off by the complexity of 529 plans, relying instead on a typical savings account, would have less than $1,500 for every $1,000 deposited.

Policies and programs that encourage families to get the most out their college savings investment offer an opportunity to maximize the money families will have available to purchase quality postsecondary education. This branch of the college decision tree is particularly fertile for states and local communities, since the tax advantages gained by families who select the right savings plan are mostly federal. Working to keep more of these dollars in-state is an economical way to help residents gain additional college education resources.

Figure ES2:

After-Tax Return from Decisions about How to Save



Assumes investment of $1,000 at birth of child with all after-tax earnings reinvested in a portfolio mix of stocks and bonds with funds drawn down over four years of college. See Susan Dynarski, "Who Benefits from the Education Saving Incentives?"

Choosing Where to Apply to College and the Consequences for the Price of College

As a child approaches college age, families face the most consequential investment choices in deciding where to apply. Difficult decisions must be made about a major purchase that, more so than most, is charged with family dynamics, peer pressures, and marketing tactics. Anyone who has been through this grueling process recently will understand why even the most prepared families will have a hard time making good choices with the limited information students and parents currently have available.

Charting the Path to a Degree

Decisions about where to apply clearly affect which college a student eventually attends, the cost of their college degree, and the value of the education they receive. The student may choose a local college and plan to live at home, leading to a savings of roughly $8,000 annually, compared with a student who lives on campus. A student might start higher education at a community college, and then transfer to a public four-year institution for an annual savings between $5,700 and $8,000.[4] Not surprisingly, the decision to attend a public or a private institution affects the price. In 2009, the national average net price for tuition, fees, room, and board (after grants and scholarships) for a private four-year college was $21,240, compared with $9,810 for a public four-year college.

In the past, Massachusetts families have chosen more expensive options relative to their national peers. Data show they have been more likely to attend out-of-state and private colleges than students from other states.[5] However, the current economic crisis, which has led to a dramatic rise in enrollments at Massachusetts state college and universities over the past year, demonstrates that families are sensitive to cost consideration as they select a path to a degree. Unfortunately, without the information needed to compare net price and quality, determining the short- and long-term value from these choices is difficult.

Comparing College Prices

Information about the actual price that a student will pay to attend college is surprisingly difficult to obtain. Hearing that private universities cost over $40,000 per year is common, but that figure is the published or "list price" for tuition, fees, room, and board – the dollar amount most likely to appear in guidebooks, websites, and other sources comparing institutions. That price is what students with no grant or scholarship aid will pay. In reality, many students do not pay the published price. More than half of all college students receive grant or scholarship aid; at private four-year colleges, the proportion of students with aid is around three-quarters.[6]

As a family considers different colleges, the question that they really want to know the answer to is: What price will we pay? That amount, called the "net price," is the published price minus all of the government, institutional, and private grants

AT THE TIME OF APPLICATION, THE NET PRICE IS IMPOSSIBLE TO CALCULATE

that a student receives. While the average published price in 2009 at private four-year colleges was $35,640, the average net price was a third lower at $21,240.

Currently, at the time of application, the net price is impossible to calculate with certainty because it depends on the total amount of money available to support students and the characteristics of the accepted applicants, neither of which is known to the school at the time students apply. Thus, as students choose where to apply, they can only estimate from past information what price they might expect to pay for college, and even that basic information for the family's income range is difficult to find. Moreover, this information only helps a student anticipate costs for their first year. When it comes to planning for tuition increases or financial aid packages in future years, families often have even less certainty.

It turns out to be complicated for families trying to make reasonable assumptions about how much they will likely pay to attend a specific school.[7] To estimate what we call the "expected net price," an applicant must calculate an expected grant amount as well as the likelihood of getting that grant. The probability that students will receive grant support depends on: 1) their eligibility; 2) the financial aid resources of a college; and 3) the priorities and methodology that the college uses to determine a mix of grants, loans, and student work-study opportunity. All vary at different schools. While historical information about these factors is publicly available, these data are not easy to find in directly comparable formats, nor are they available for specific family-income brackets.

We estimate "expected net prices" for 15 private institutions in Massachusetts, and these calculations reveal important differences for the average financial aid recipient. While the published prices range from $40,000 to $50,000, the average expected net prices vary from $27,000 to $42,000, with the average expected net price equaling $35,205.

In addition to variation in net price, these Massachusetts schools also differ considerably in their ability to meet the recipients' financial needs. Some colleges provide 100 percent, but a few match less than half of their students' needs. Equally relevant, the share of these financial aid packages from grants range from 25 to 95 percent. While some schools meet most of their students' needs, they do it through loans rather than grants. In contrast, other schools cover a smaller share of their students' needs, but they primarily use grants.

In this research, we make calculations for the average student, but this is the type of information that families should have readily available and for their own income level as they weigh different college choices. Although the published prices can be similar, estimated net prices for the average family are quite different, and the distribution of financial aid for families with similar incomes can also vary considerably.

Measuring the Value of the Educational Experience

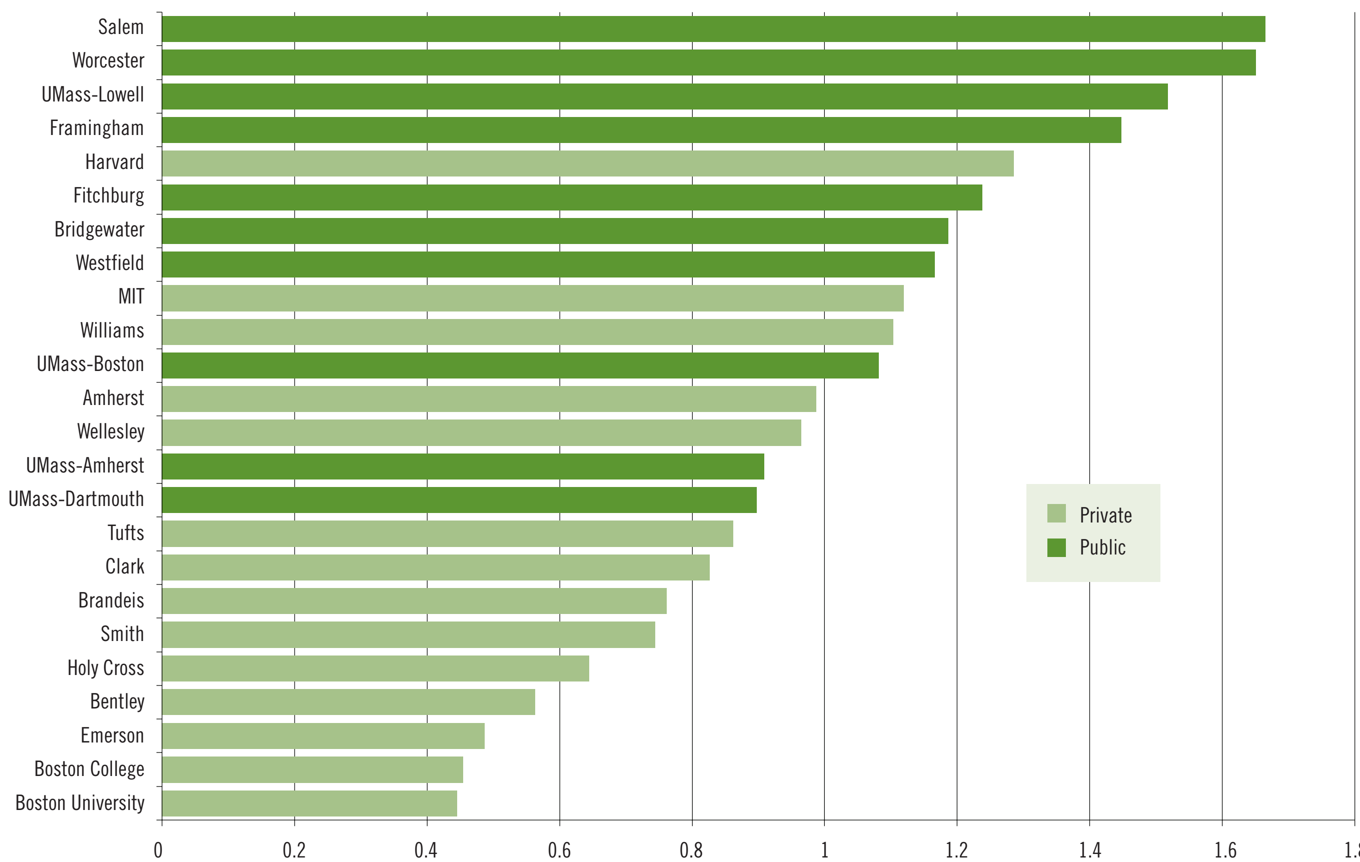
Students and families must be able to relate net price to the educational experience that they value. No single indicator measures the quality of an institution, but college administrators use some commonly accepted metrics, including the student-faculty ratio, instructional expenditures per student, and the likelihood of graduating in four years. Families should have the capacity to compare price with the characteristics that they most value in order to arrive at a college choice that offers the most "bang for the buck."

In our research, we consider several indicators relative to the price of the institution, which allow for comparisons of value. These data are mainly instructive; however, they do suggest that there may be considerable variation across schools on measures of value. For instance, some of the most selective private schools offer good access to faculty, one quality indicator. But they do so for a high price compared to some Massachusetts public colleges, which have higher value in terms of access to faculty relative to price. On other indicators, the opposite pattern emerges with respect to the public versus private schools (see pages 43-46).

Students and families making choices with enormous financial consequences need more nuanced data that are relevant to their backgrounds and aspirations to make informed decisions about college. Critical pieces of informa-

Figure ES3:

Index of Faculty-Student Ratio per Dollar of Expected Net Price



Source: Author's analysis of data from Peterson's Guide to Colleges and Universities tion, like graduation rates by major or employment by occupation, will enable families to make better decisions about where to spend their college dollars.

Paying for College

As the winter of senior year in high school arrives, potential college students make their decisions about where to apply by January 1 for a springtime decision. In the beginning of April, the acceptances and rejections arrive with a mandatory reply date in May. During these short three or four weeks, families evaluate the choices before them and decide where the student will go college. Yet, even at this crucial moment, they do not have clear information about how much they will pay at one institution versus another.

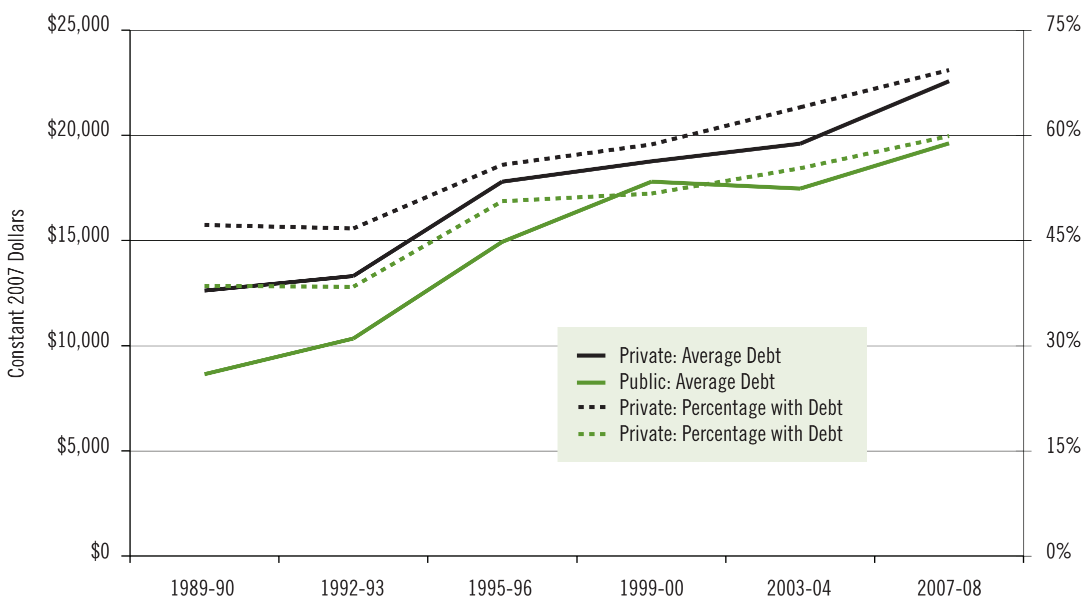
Typically, colleges and universities calculate the "financial need" of a family and then offer the student a financial aid package. The absence of standardized formulas, different treatment of assets, use of professional judgment, and other idiosyncrasies can result in varying calculations of a family's need at each college. The variation is greatest in cases where families have assets. A financial aid package also contains a mix of different types of assistance: grants from all sources, loans, and earnings from a student job. From the college's point of view, the package allows the student to afford their college.

From a family's perspective, financial aid packages are not created equal. Put simply, a grant is obviously different from a loan. Both forms of aid might allow a student to attend a college, but a loan only defers payment into the future, while a grant discounts the price of attendance. Financial aid packages from two colleges might look similar, but differ considerably in their composition. One package may include a much greater share of grant aid, while another may rely on loans. Language that obscures these differences often inhibits a family's ability to understand the actual price that they will pay to attend.

In practical terms, college students and their families should begin with information about the published price of attendance, and then subtract

Figure ES4:

Percentage with Debt and Average Debt at Graduation for Students with Stafford Loans



Source: National Post Secondary Student Aid Study the total amount of grant aid from all sources after consultation with the school's financial aid officer. The resulting number is the net price that can be compared with other schools. Then, after they know the net price to attend college, they can also work with the financial aid offices on sources of payment – current wages, savings, federal, state, or private loans – to arrive at a mix of loans and student work-study hours that best meet their individual needs.

These choices are complex and consequential. The price of college has outpaced the rate of inflation, and grant aid has not increased enough to offset rising prices. Between 1989 and 2007, the share of undergraduate students at private four-year colleges graduating with debt increased from 47 to 64 percent. For undergraduates at public colleges, the share with debt increased from 34 to 50 percent. Today, the majority of college students at four-year institutions graduate with debt.

The amount of money that students are borrowing has also increased. In 2008, the average graduate from private institutions (with loans) left with $22,578 in debt, up 15 percent from 2004. For the 60 percent of graduating seniors with loans at public institutions, their debt averaged $19,616 – up 12 percent from four years earlier.

As more students go to college, borrow money to attend college, and increase the amounts they are borrowing, the number of available loan products to finance their college education has also increased. Families must sort through a wide range of loan products, understanding their varying terms, conditions, and eligibility requirements. They must also balance student versus parent loans.

Subsidized Stafford Loans and/or Perkins Loans are two of the least expensive ways to borrow money, but they have income eligibility restrictions. Several Massachusetts private college and universities use their own funds to make low-interest loans to students, but they too are typically based on a family's ability to pay. "Massachusetts No Interest Loans" are an inexpensive state-sponsored alternative for those who qualify. For families who are not eligible for these loans, unsubsidized Stafford Loans are available to all students; all parents with dependent children attending college qualify for PLUS loans. Other alternatives for residents of Massachusetts are loans available through the Massachusetts Educational Financing Authority (MEFA), a state public, non-profit organization.

Home equity loans and unsecured private loans are not specifically designated for education, but they do provide additional options regularly utilized by families facing college bills. The interest on home equity loans varies with market rates and it is tax deductible. Unsecured private loans are the most expensive and riskiest way to finance a college education. They are the equivalent of credit card debt, which is still another financing alternative that some families (inadvisably) use.

FAMILIES MUST SORT THROUGH A WIDE RANGE OF LOAN PRODUCTS

The tremendous growth in private loans since 2000 is well documented and currently the subject of well-deserved scrutiny. Private student loans for undergraduates grew to a total of $19 billion, an annual increase of 24 percent since 1999-2000. The number of student loan borrowers increased more than sixfold during the same period to nearly 3 million undergraduate students in 2007-08. Since 2005, banks can make the loan payable directly to the borrower through Direct to Consumer (DTC) Loans. In these cases, colleges may not even know that a family received a "college" loan.

Different loan products have different origination fees, different interest rates, different loan periods, and different repayment terms. These differences complicate the choices. For home mortgages, lenders are required to disclose an Annual Percentage Rate (APR) that considers interest payment on the basis of money that the bank actually lends the borrower. To date, there has been no such requirement for private student loans. In July 2009, the Federal Reserve Board issued new rules around disclosures that were required by the Higher Education Opportunity Act of 2008 (HEOA). The new rules go into effect in February 2010 and will – for the first time – require lenders to give potential borrowers information about key loan terms before they exercise their choice. While these new requirements are a clear step forward, some gaps remain.[8]

After college, families face still more decisions about repayment of college loans. One key choice is whether to consolidate, or refinance, their loans. Consolidating loans combines different student loans into a single loan product. Consolidation has its advantages. The most obvious is the opportunity to renegotiate the terms and conditions of the loan with a new lender. A new loan can alter the length of the loan and the monthly payments, and therefore affects the total amount of interest paid. Since loans can only be consolidated once, a borrower is committed to the lending institutions and the new terms and conditions.[9] Thus, even after graduation, the manner in which loans are repaid affects the overall price that students pay for their college education.

AFTER GRADUATION, THE MANNER IN WHICH LOANS ARE REPAID AFFECTS THE OVERALL PRICE THAT STUDENTS PAY

Evidence of Bad Choices and Their Consequences

While every family makes decisions that they believe meet their needs, some choices are financially better than others. Currently, most families navigating the path to college have limited independent support to help them make these decisions. With current data limitations, it is hard to measure the extent to which families make avoidable errors. There are, however, indications that the decisions of some families create unnecessary expense.

One indication is the number of students who take out private student loans without borrowing from the federal Stafford Loan program, even though Stafford Loans are less expensive and come with better repayment terms. In 2007-08, 26 percent of private loan borrowers did not take out any Stafford Loans, and more than one third (38 percent) of private loan borrowers did not max out their Stafford Loan limit.[10] Thus, more than half of the students who took out private loans either bypassed the federal Stafford Loans, or borrowed less than the maximum amount allowed.

Researchers have tried to figure out why some students do not borrow from federal sources.[11] The most basic explanation is simply failure to apply. In order to qualify for federal financial aid, a student must submit the Free Application for Federal Student Aid (FAFSA). In 2007-08, 60 percent of students who took out private loans, and no Stafford Loans, did not submit a FAFSA form. Much has been written about the complexity of the form, which includes 102 questions and three worksheets, leading Secretary of Education Arne Duncan, to say: “You basically have to have a Ph.D. to figure that thing out.” Ironically, the FAFSA was designed to ensure that students who qualify for federal grants, work-study awards, and subsidized loans exhaust these more financially advantageous options before resorting to unsubsidized education loans. Yet, research suggests that the form’s complexity may lead students to bypass federal loans altogether, pushing them toward more costly loan products. While the Obama administration has already taken steps to revise and simplify the FAFSA form, opportunities to further reduce complexity by populating the form with IRS data remain.

All loans to students involve risk. Unforeseen financial difficulties or changes in circumstances can prevent borrowers from meeting their loan obligations. But students who take out private loans assume even greater risk. With higher rates, missed payments quickly compound the debt load. While students with federal loans can sometimes postpone payments through an agreement between the lender and borrowers, deferring payment due to hardship is generally more difficult with private lenders.

The consequences for default are severe, and costly to the student's future creditworthiness and financial standing. Student loans, both federal and private, are not dismissed in bankruptcy proceedings; they are like child support debt, alimony, overdue taxes, and criminal fines. The current economic conditions have led to a sharp rise in the default rate, exposing the precarious position we have placed students in by allowing them to take on larger and larger amounts of debt.[12]

Increasingly, a college degree has become an economic divide between financial security and financial struggle. On average, the earnings of a college graduate are 1.8 times greater than those of a high school graduate, translating into roughly $1.3 million dollars in additional lifetime earnings.[13] Recognizing the value of a college degree, parents and students have shown a willingness to assume higher amounts of debt; federal loan limits have increased to respond to this demand. Some experts, however, have now begun to raise questions about the growth in student borrowing.

There is no single, agreed-upon definition of excessive debt. Lenders typically use what is called an "8 percent" rule, requiring that monthly payments not exceed 8 percent of a borrower's pretax income. When a State of Iowa researcher analyzed how much student loan debt is too much, he also arrived at the 8 percent figure, using a different methodology. Based on that number, he estimated that 26 percent of borrowers have an excessive debt burden.[14] While a lender's view of what is manageable might include anything short of default, borrowers probably have a different perspective. Excessive debt can limit life choices and fundamentally change family, lifestyle, and career goals.[15]

The serious consequences that can result from the absence of adequate information for families choosing how to save and pay for college are increasingly clear. To be sure, readily available and directly comparable information about the price of college, the quality of the educational experiences, and options for payment will not provide a panacea, but greater transparency will place families in a much better position to make smart choices.

Toward a Better Model: Students and Families as Savvy Consumers

Policymakers can help students pursue postsecondary degrees without getting buried under mountains of debt by building a new model that places families front and center as savvy higher education consumers. Fashioning a new model requires: 1) increased price transparency and certainty; 2) reduced complexity; and 3) improved information about institutional quality. With recent federal legislation and leadership from the Obama administration, momentum is building in all three of these directions. Continued attention, particularly at the state level, is required to shape these efforts into a model that delivers results.

1. Increased price transparency and certainty

First, families need easily available and comparable information about the price of attendance. While this poses significant challenges, some important progress has already been made. As part of the Higher Education Opportunity Act

(HEOA) of 2008, for instance, colleges and universities will be required to have a "price estimators" on their websites by 2011. These new tools will return information about the price of attendance, average grant awards, and net price based on minimal information about family income and a few other factors, such as age, residency, marital status, and number of siblings. When implemented, the information will inform families about how much a student might expect to pay to attend the institution.

In addition to price transparency, there is an unrealized need to introduce greater price certainty. Even after students enroll in college, they often do not know the total cost of getting a degree. Volatility is particularly problematic for students attending public institutions. In 2002, a drop in state funding in Massachusetts resulted in a 21 percent increase in UMass tuition and fees.[16] The reality is the price students pay to attend a public college currently depends on the luck of how their matriculation year corresponds to the economic cycle. An economic downturn can easily derail good family financial planning. In order to provide greater equity for residents, who pay into the system throughout their lifetimes, states should find ways to insulate higher education budgets from economic cycles.

IN ADDITION TO PRICE TRANSPARENCY, THERE IS AN UNREALIZED NEED TO INTRODUCE GREATER PRICE CERTAINTY

Tuition spikes also hit students at private colleges. One solution would be to give students – at the time of admission – a four-year cap on the price to attend. Alternatively, to reduce front-loading and a larger, discouraging price tag that this approach might produce, schools could guarantee not to raise tuition for entering classes by more than a set annual percentage.

The timing of price information is also a critical issue. Many schools do not announce the price of attendance until after the application deadline, and some schools do not reveal their price until after the date that admitted students must make a deposit for enrollment. If information about price is going to play a role in shaping where students apply to college, it must be available a year earlier than the current practice of expecting high school seniors to apply without knowing the price.

2. Reduced complexity

As economists have demonstrated convincingly, simplification of the process could reduce strain on teens and parents making sensitive and difficult choices with a profound impact on their futures. The FAFSA form is an excellent case study of the effect of complexity. If eligible families skip filing a FAFSA, which estimates suggest each year more than a million do, they are not able to access federal loan programs.[17] The Obama administration recently announced significant progress in this area, doing away with 22 questions and 17 web screens, and eliminating the need for low-income students to respond to complicated questions about family assets.[18] While this reform does not go quite as far as abolishing the FAFSA all together, as recommended by the Rethinking Student Aid Study Group, it does represent progress in the right direction. Populating the FAFSA electronically with tax data from the IRS remains a worthy objective that leaders should press to achieve.

Both state and federal governments must pursue other opportunities to reduce the complex decisions that families trying to make smart decisions about college confront. Government should work to inform parents early. Information about saving for college, for instance, could be sent to families that add dependents to their tax filing. State and federal websites could provide clearer information, particularly with regard to 529 plans. The College Foundation of North Carolina (CFNC) website, which provides details about the state's 529 plan, interest calculators, links to student and parent loan applications, and other planning tools, offers one early model.

Massachusetts has announced plans to launch a similar website. Developing and marketing this central clearinghouse for information will reinforce important steps the state has already made. The Department of Higher Education, for example, recently launched an impressive website to help students understand and prepare for the process of transferring credits between public institutions.[19]

3. *Improved information about institutional quality*

Families need reliable measures about the educational experience that colleges and universities offer. While the US Department of Education is providing increasingly consistent and accessible indicators, such as graduation rates, this branch of the college-bound decision remains the weakest.

To be sure, existing sources, including popular published guide books and websites, provide information about numerous college characteristics, but many indicators of student success are not captured fully. Much of the available data is not audited for accuracy, and information is rarely presented relative to the price of college. Even where good information is available, there are still gaps. Important points of comparison – like graduation rates for different subgroups and majors – are difficult to find. Families also lack reliable information on employment of graduates in different fields. With families taking on more risk to pay for college, they deserve reliable and comparable information about the quality of the educational experience they are purchasing. The Massachusetts Board of Higher Education should take a leading role in making these indicators available for state public institutions.

Improvements in the availability of information on price and quality will not be sufficient to help families navigate complicated choices.[20] There is a real role for experts to help families make the best choices. Today, families get much of their advice about college from financial aid officers and private loan officers, professionals with a vested interest in the outcome of their decision. While they do not necessarily give bad advice, families need access to people who understand the rules and nuances of the higher education system and who do not have a stake in their decisions. There is a real shortage of guidance counselors, who can often fill this role. Policymakers, foundations, and nonprofits should explore opportunities to offer all families access to impartial professionals who can guide families through complicated decisions. New technologies, such as webchats, provide untapped opportunities to connect many more families with the support they need at a relatively low cost.

Making information readily available and directly comparable will help families, but equally important, it can lead to improvements within higher education. Consumers who know more are in a better position to ask for more. Schools that have a history of low graduation rates relative to their peer institutions will face additional pressure to address the issue or risk losing students. Greater transparency can also lead to further innovations, such as no-frills campuses, and better integrated student-oriented transfer programs.

While this report argues for a consumer-focused approach to college that can lead to savings and more efficient spending by empowering students and families, it does not relieve the burden on colleges, particularly during these challenging economic times, to redouble cost containment efforts. Now more than ever, colleges and universities must pursue full utilization of consortiums for purchasing and sharing resources. In Massachusetts, which has a high number of public campuses relative to the size of the state, consolidation should be reconsidered to reduce administrative costs. An independent campus consolidation commission could be created to accomplish this difficult task.

Parents and students recognize the value of a college degree. With support from public programs, they save and borrow large sums of money to invest in their futures. Families choosing a college and figuring out how to pay for it face much more complex decisions than students and parents faced a generation ago. Unfortunately, as they make one of the biggest investments in their lives, they remain largely on their own, working with incomplete information. Some commonsense changes could give families the facts they need to make smart decisions. Providing access to improved information will not only help individual families, it will also serve as a catalyst for reform and innovation in higher education, helping the nation achieve President Obama's laudable goal of restoring America's place as the world leader in the proportion of adults with college degrees.

ES Endnotes

1. We rely on a variety of data sources including the National Postsecondary Student Aid Survey (NPSAS), Integrated Post secondary Data System (IPEDS), College Board, *Kiplinger's Personal finance Magazine*, *Peterson's* online college search, Massachusetts Office of Student Financial Aid Assistance, and National Bureau of Economic Research.

2. Our focus is primarily on traditional age college students, who enter college immediately after high school graduation. However, our recommendations for a new model that is consumer-oriented would benefit all college students – traditional and nontraditional.

3. In this research, we raise questions about the decision-making process that families go through as they decide to save for and pay for college. None of this information should be construed as specific advice, but rather as a more general discussion of the issues and the types of information to which families should have easy access.

4. While this option may appear financially appealing, very few students take this path to a B.A. degree. Of students entering two-year colleges, 71 percent say they are seeking a B.A. degree, but one study found that 11 percent of two-year college students were actually taking courses that would lead to a B.A. degree. See Ellen Bradburn, US Department of Education, Office of Education Research and Improvement, NCES 2001-197, May 2001.

5. For more information on enrollment trends, see "Paying for College: The Rising Cost of Higher Education." Boston, MA: MAssINC, 2006.

6. "Paying for College: The Rising Cost of Higher Education," ES Table 4, p. 11.

7. The differences between the published and net price are greater for private colleges and universities. The same issues exist at public schools but to a lesser extent. Families who are only considering public institutions are better able to make an informed estimate of the price they will pay.

8. For more on the new disclosure requirements, see "Summary of New Disclosure Requirements for Private Student Loans," The Institute for College Access & Success, The Project on Student Debt, August 2009.

9. Reconsolidation may be possible when accompanied by a new loan.

10. These numbers come from an analysis of the National Postsecondary Student Aid Study (NPSAS) that was done by The Project on Student Debt. See "Private Loans: Facts and Trends," August 2009.

11. Mark Kantrowitz (2009), "Characteristics of Private Student Loan Borrowers Who Do Not Use Federal Education Loans," June 7.

12. Ironically, lending institutions receive their highest fees for bringing a borrower of an education loan out of default, giving very little incentive for preventing the borrower (i.e. refinancing the loan or postponing payments) from going into default in the first place.

13. Includes college graduates with a bachelor's degree or higher. This figure also discounts income, which college graduates typically earn disproportionately in the future, by 3 percent. See Sandy Baum and Jennifer Ma (2007), *Education Pays 2007*. Washington, DC: The College Board, p. 44.

14. Keith Greiner (1996) "How Much Student Loan Debt is Too Much?" Journal of Student Financial Aid 26, No. 1, Winter, pp. 7-16.

15. For a discussion about developing measures of borrowers' stress, see Patricia Sherschel, "Student Indebtedness: Are Borrowers Pushing the Limits?" USAGroup Foundation New Agenda Series, Vol. 1, Number 2, November 1998, p. 17.

16. *Paying for College*, ES Table 6, p. 13.

17. American Council on Education, "Missed Opportunities Revisited: New Information on Students Who Do Not Apply for Financial Aid," Issue Brief, February 2006.

18. See "A Simpler Application for Student Aid," Accessed at http://www.edgovblogs.org/duncan/2010/01/a-simpler-application-for-student-aid/, January 11, 2010.

19. The MassTransfer website includes information for both students and families as well as advisors. See http://www.mass.edu/masstransfer/

20. Recent research shows how simplifying the FAFSA process and providing direct help with the application led to increased college enrollment. See Eric Bettinger *et al*,. "The Role of Simplification and Information in College Decisions: Results from the H&R Block FAFSA Experiment," NBER Working Paper, September 2009.

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