MICHIGAN STATE UNIVERSITY College of Education

Board of Governors
State University System of Florida

Presentation on Affordability

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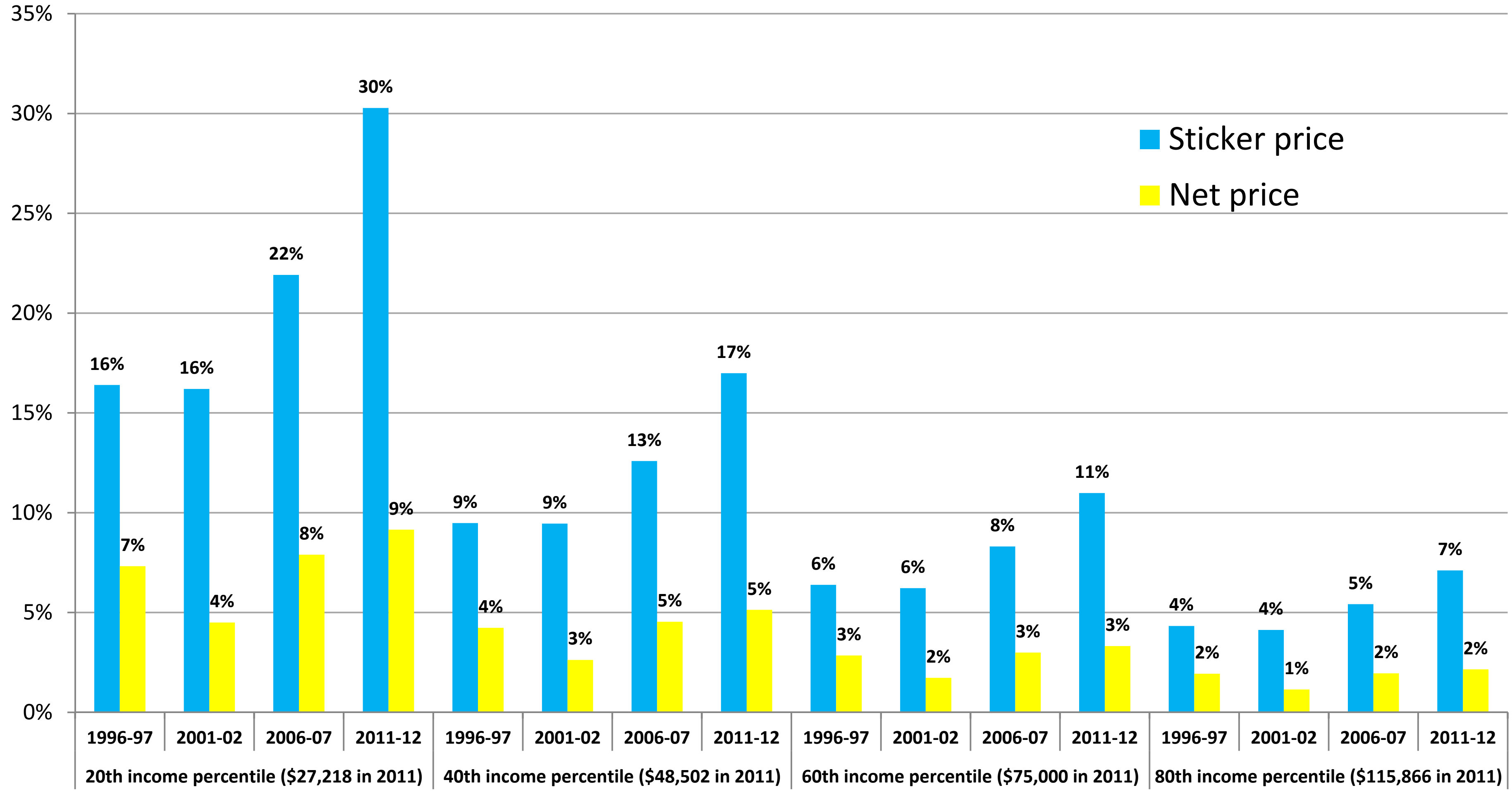
Agenda

- Status of affordability in the nation
- SUS affordability in a national context
- Determinants of affordability
- Guiding principles for consideration

The status of affordability in the nation

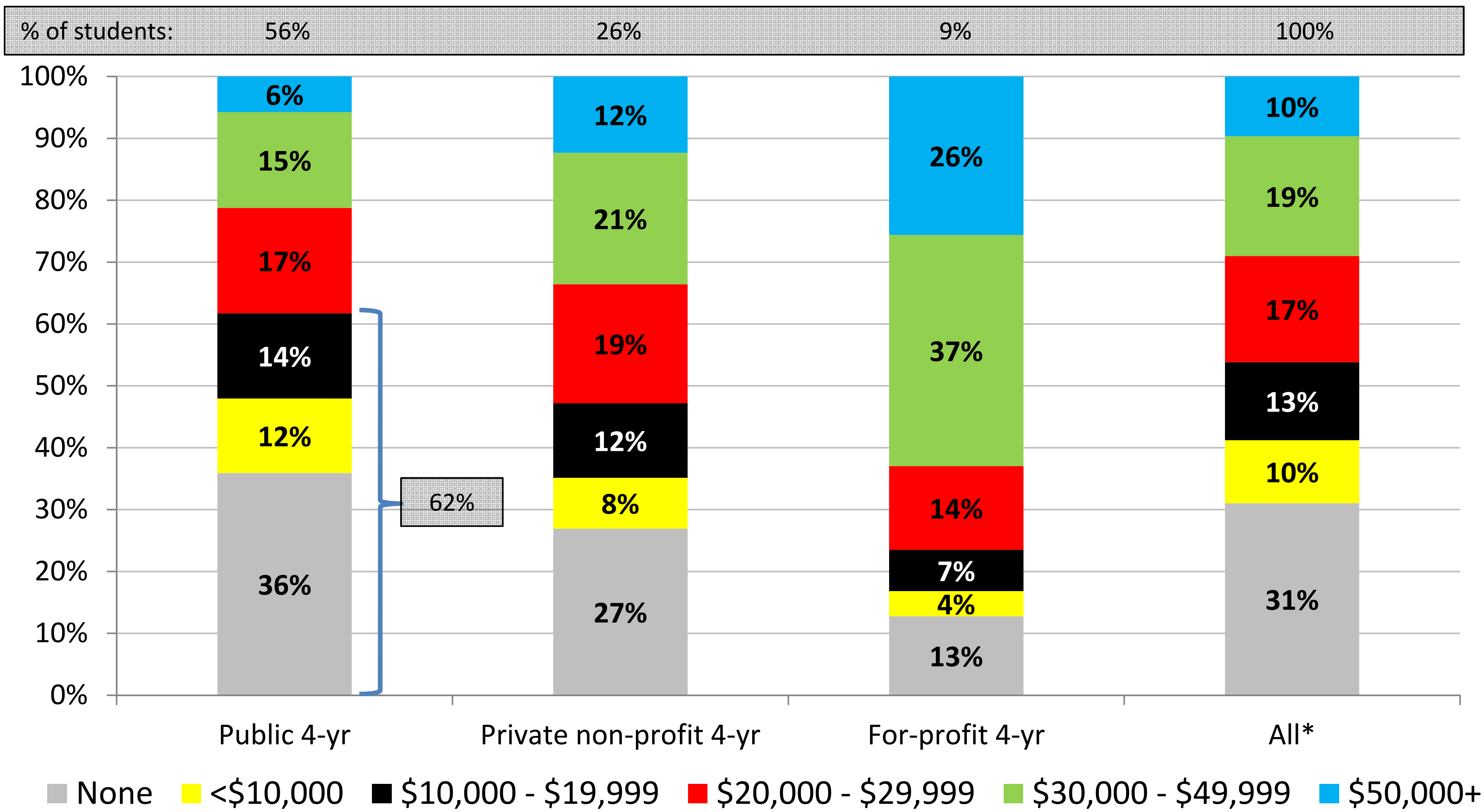
- The dominant media message
  - Skyrocketing tuition prices are out of control
  - Affordability is a crisis for all students
  - Student loan debt is choking the American economy and former students
  - Going to college doesn't pay off
  - The problem: We could be scaring students away from going to college
- What the data actually show
  - *Net* prices (after grant aid) are rising much less quickly than *sticker* prices
  - The majority of students have options that are reasonably affordable
  - The vast majority of graduates are effectively managing their student loan debt
  - The returns to college are, on average, still very positive
- But: We shouldn't lose sight of the fact that financial barriers are a reality, not just a perception, for many students
- The challenge: How do we help students and families make good choices?

Public 4-year sticker and net tuition prices as a % of family income quintiles – U.S.



College Board, *Trends in College Pricing* (from NPSAS), U.S. Census Bureau

Loan debt of seniors in U.S. by income group

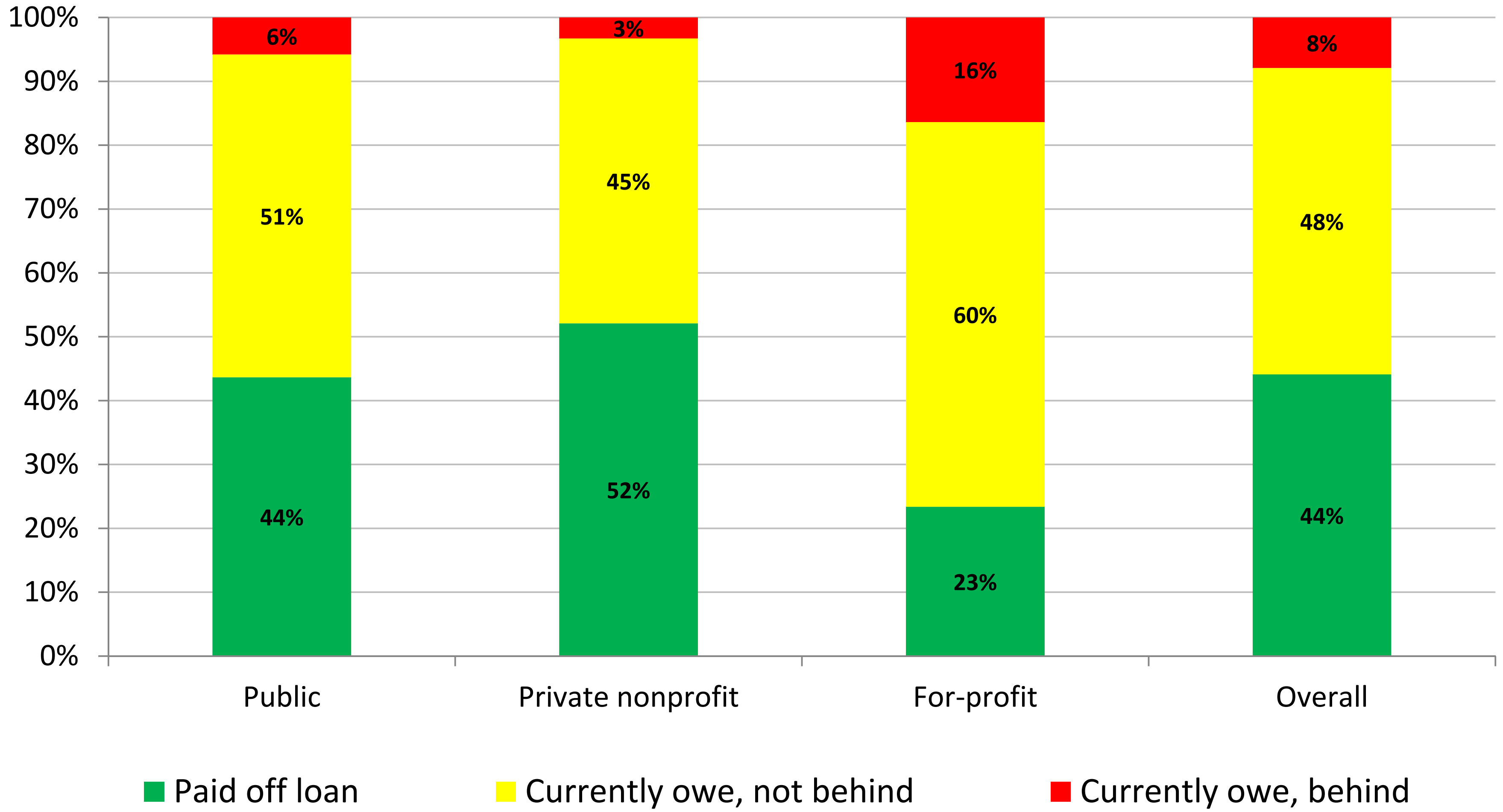


*Includes students in other sectors or attending more than one institution

Payment for student borrowing $10,000 ($2,500 per year): $106/month

Author's calculations from NPSAS:12

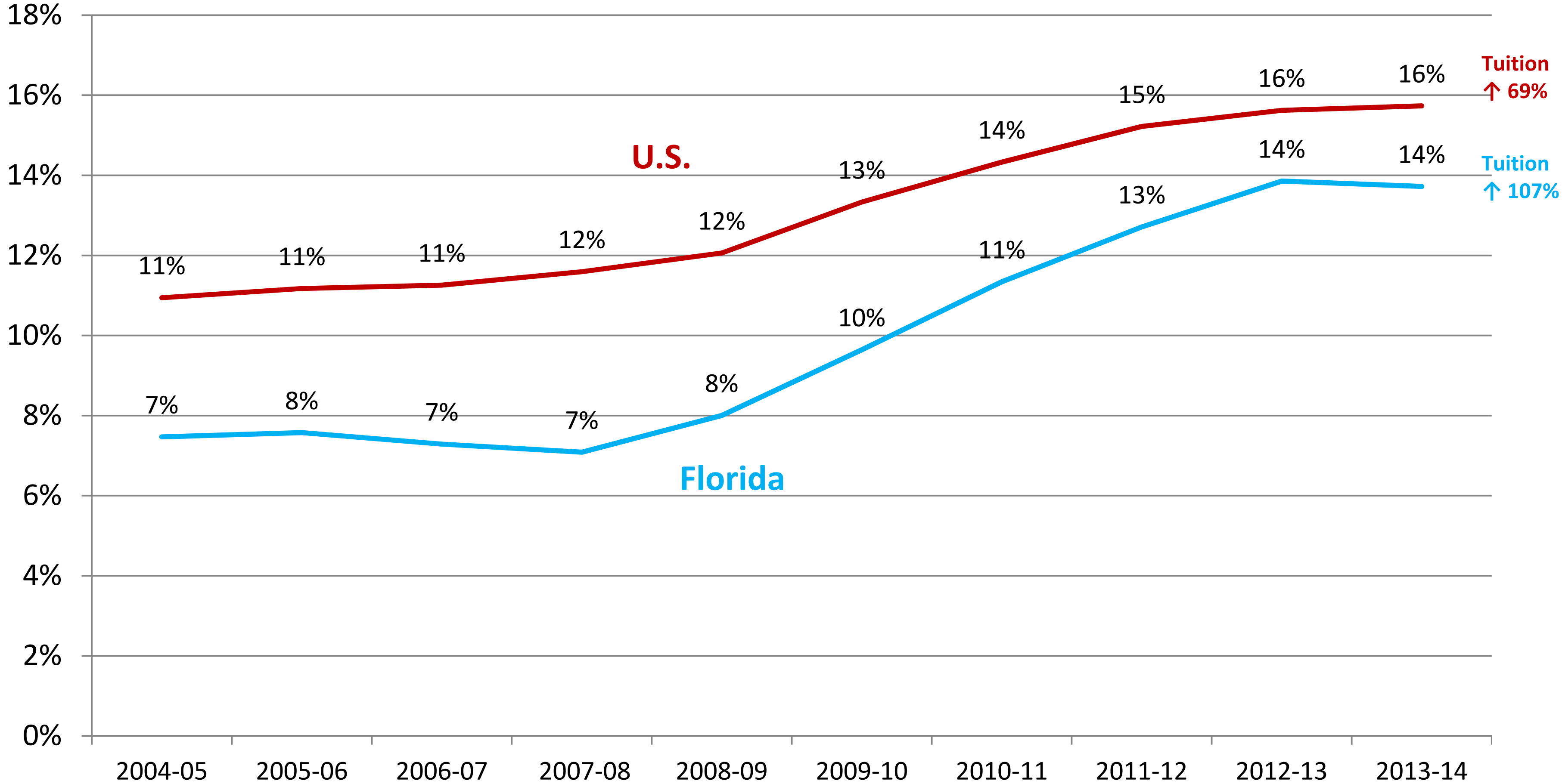
Payment status of education debt in U.S., 2014



Federal Reserve System, *Report on the Economic Well-Being of U.S. Households in 2014*

Trends in affordability, SUS and U.S.

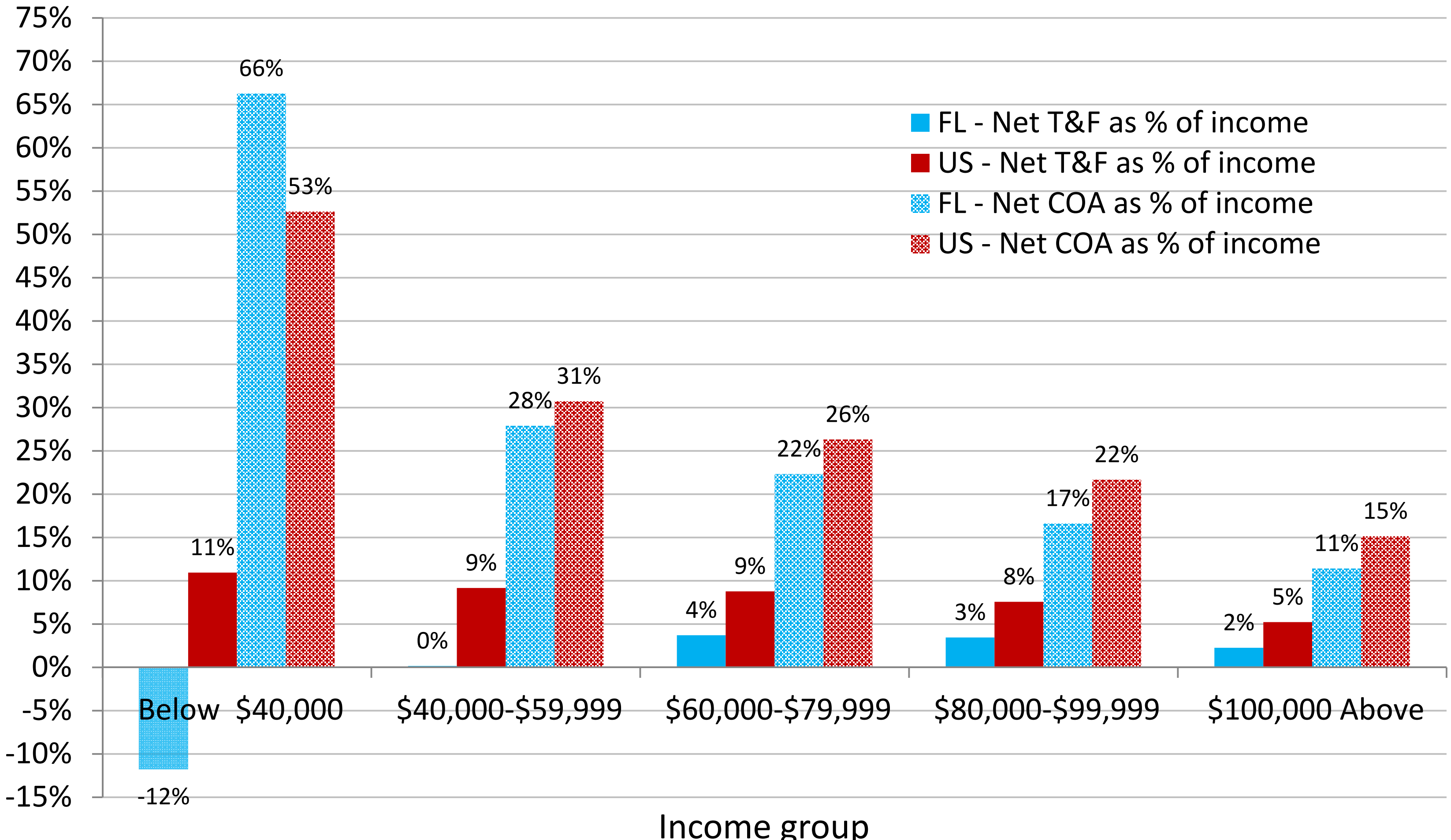
Tuition + fees (sticker) as % of median household income, public 4-year institutions



Author's calculations from College Board Trends, U.S. Census Bureau

SUS affordability compared to U.S.

Net tuition+fees and cost of attendance as % of median family income

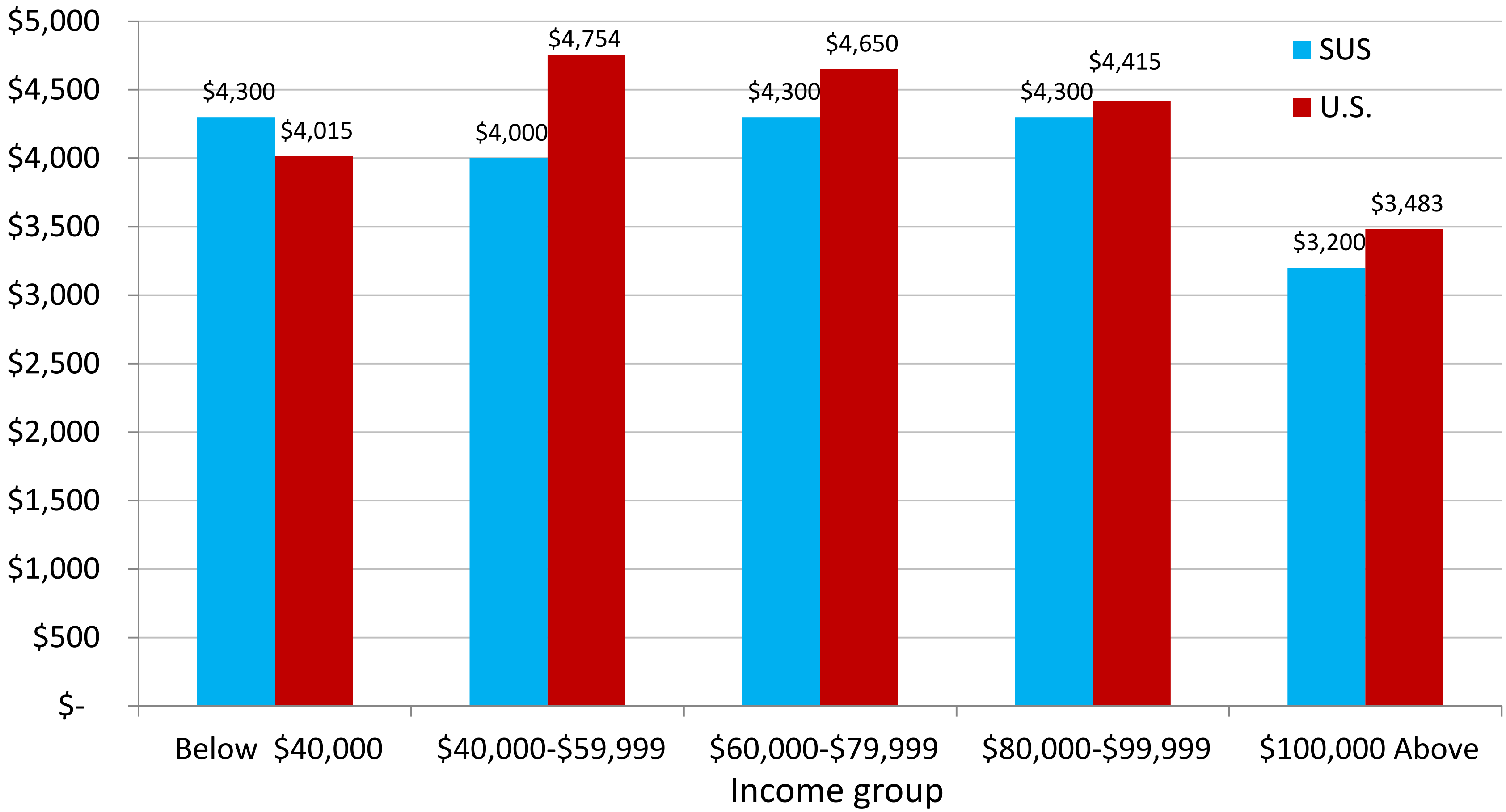


Full-time, resident students in public 4-year institutions, 2013-14 SUS, 2011-12 US

FLBOG 1/22/15, slide #14, author's calculations from NPSAS:12

SUS affordability compared to U.S.

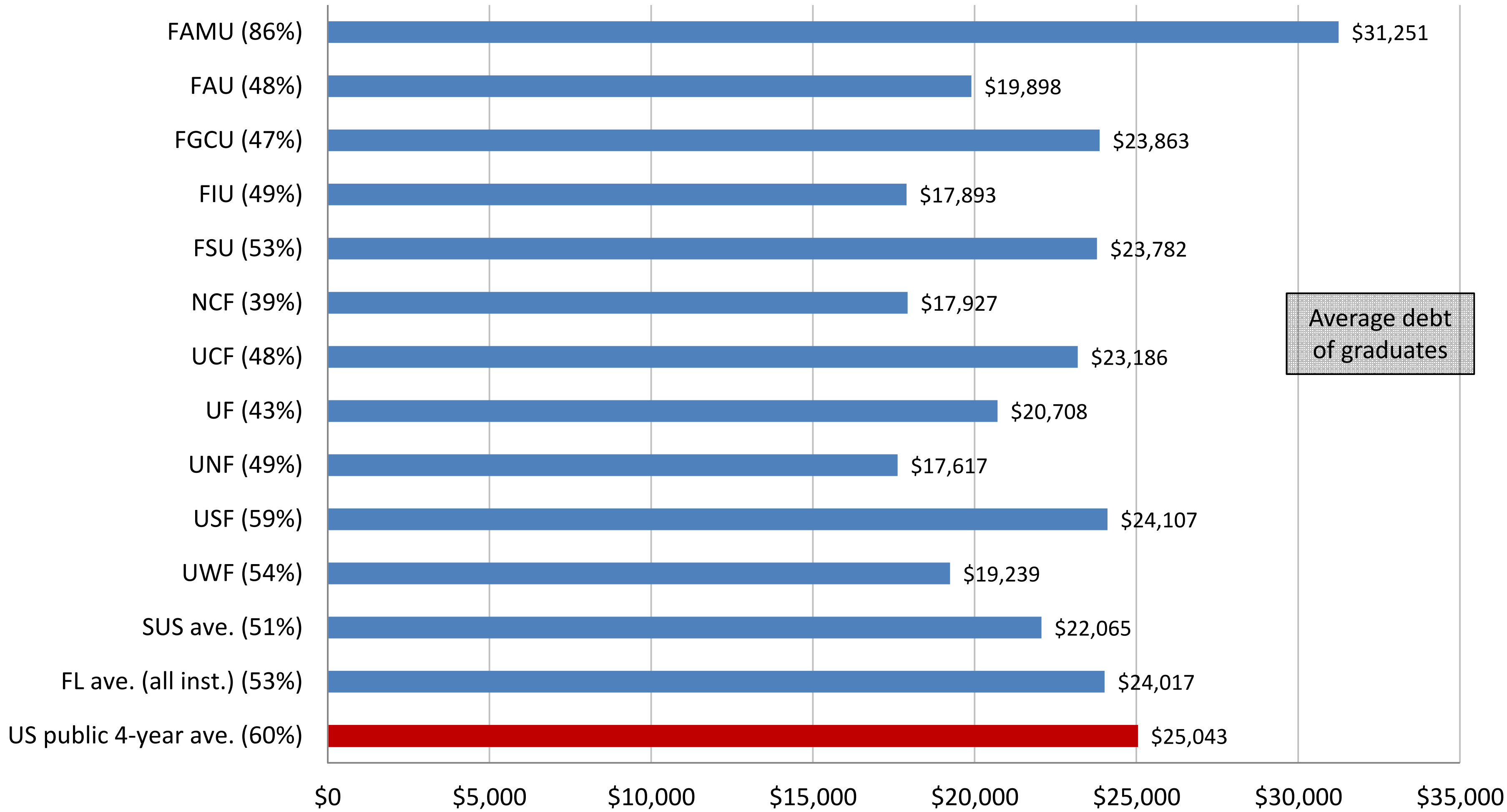
Average annual loans, SUS and U.S. public 4-year, all full-time resident students



Full-time, resident students in public 4-year institutions, 2013-14 SUS, 2011-12 US

FLBOG 1/22/15, slide #14, author's calculations from NPSAS:12

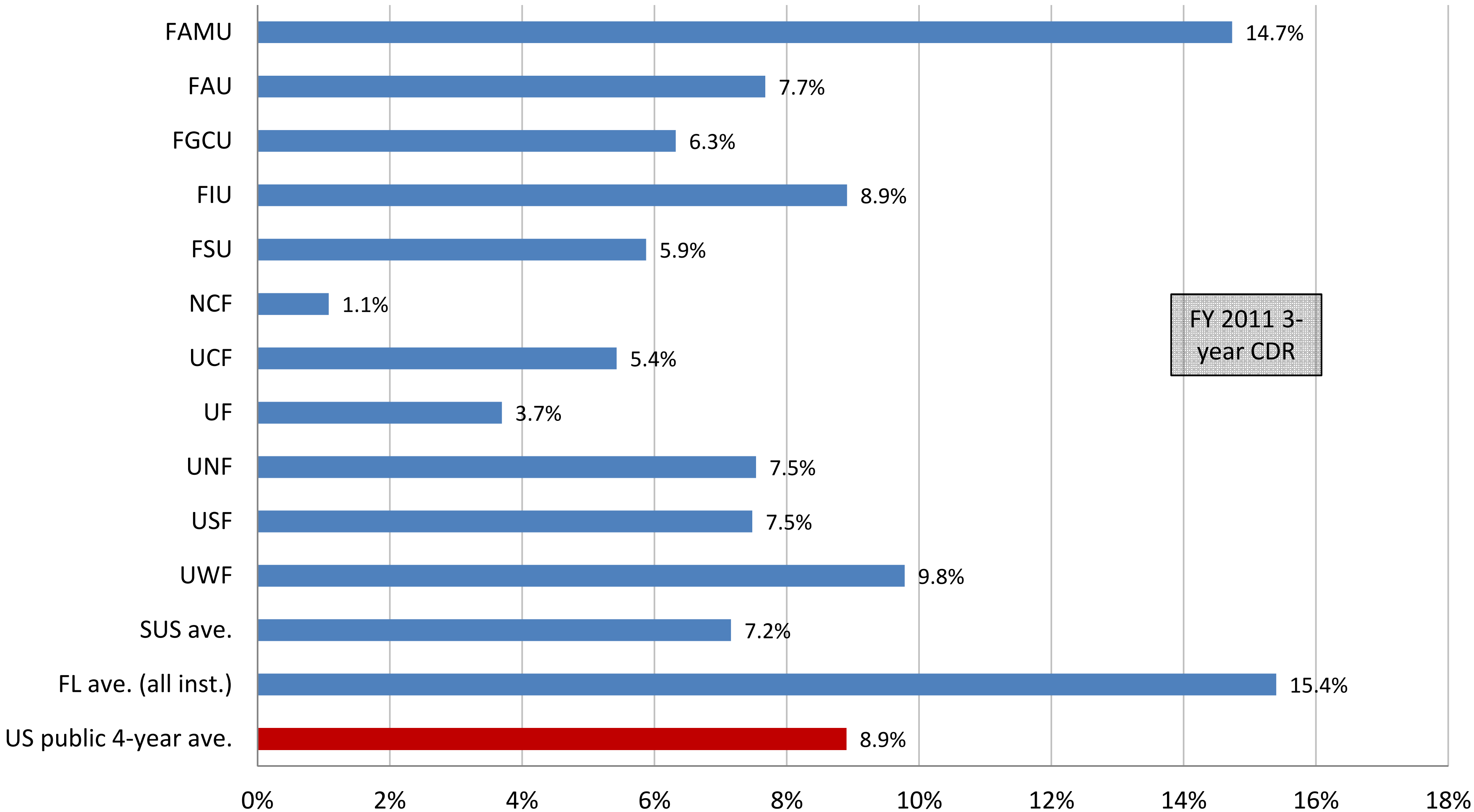
SUS affordability compared to U.S.



Bachelor's recipients graduating in 2012-13 (% of graduates who borrowed shown in parentheses)

College-Insight.org

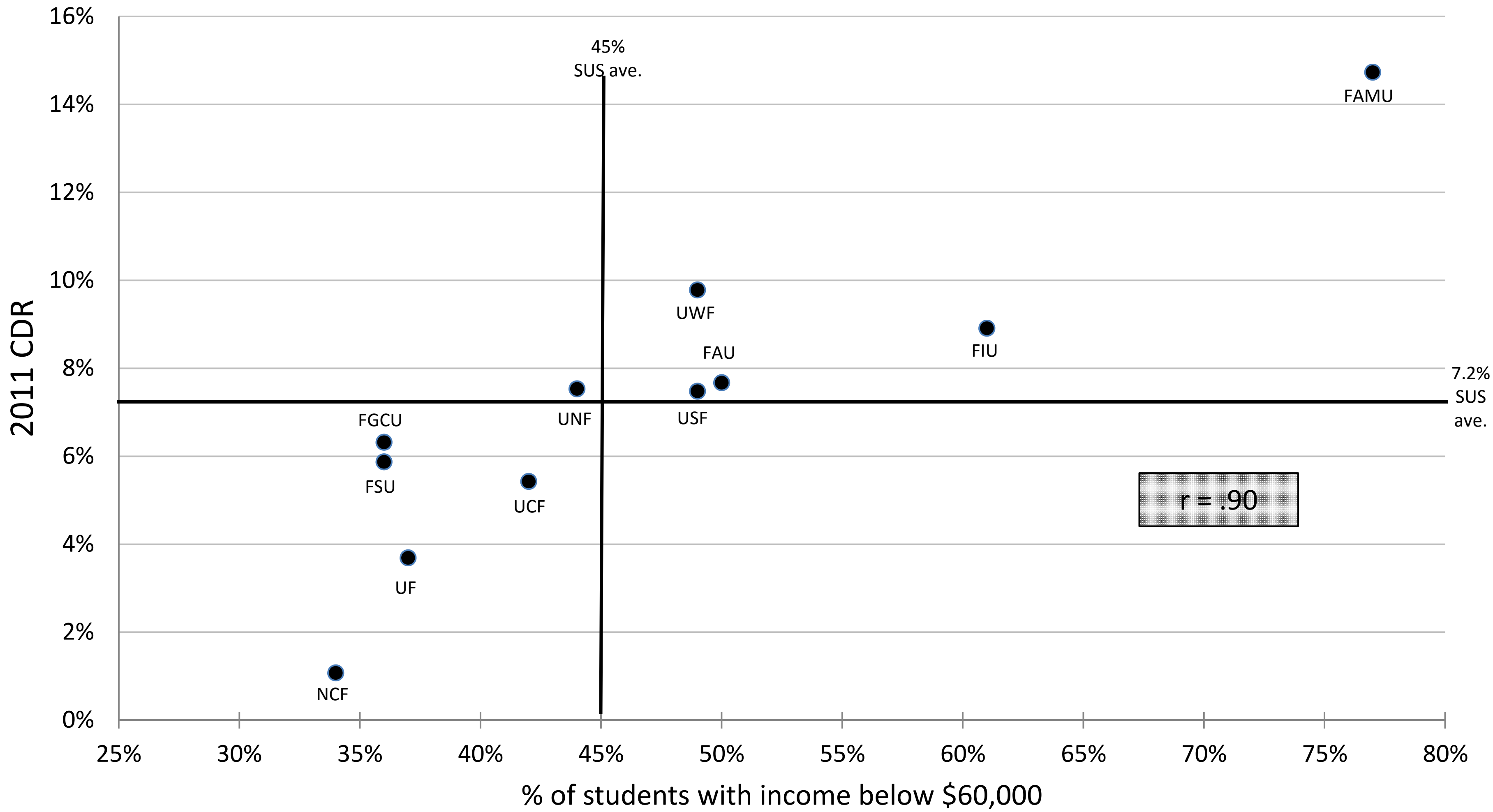
How are SUS institutions doing on loan defaults?



Default = loan that is at least 360 days delinquent. Includes graduates and drop-outs

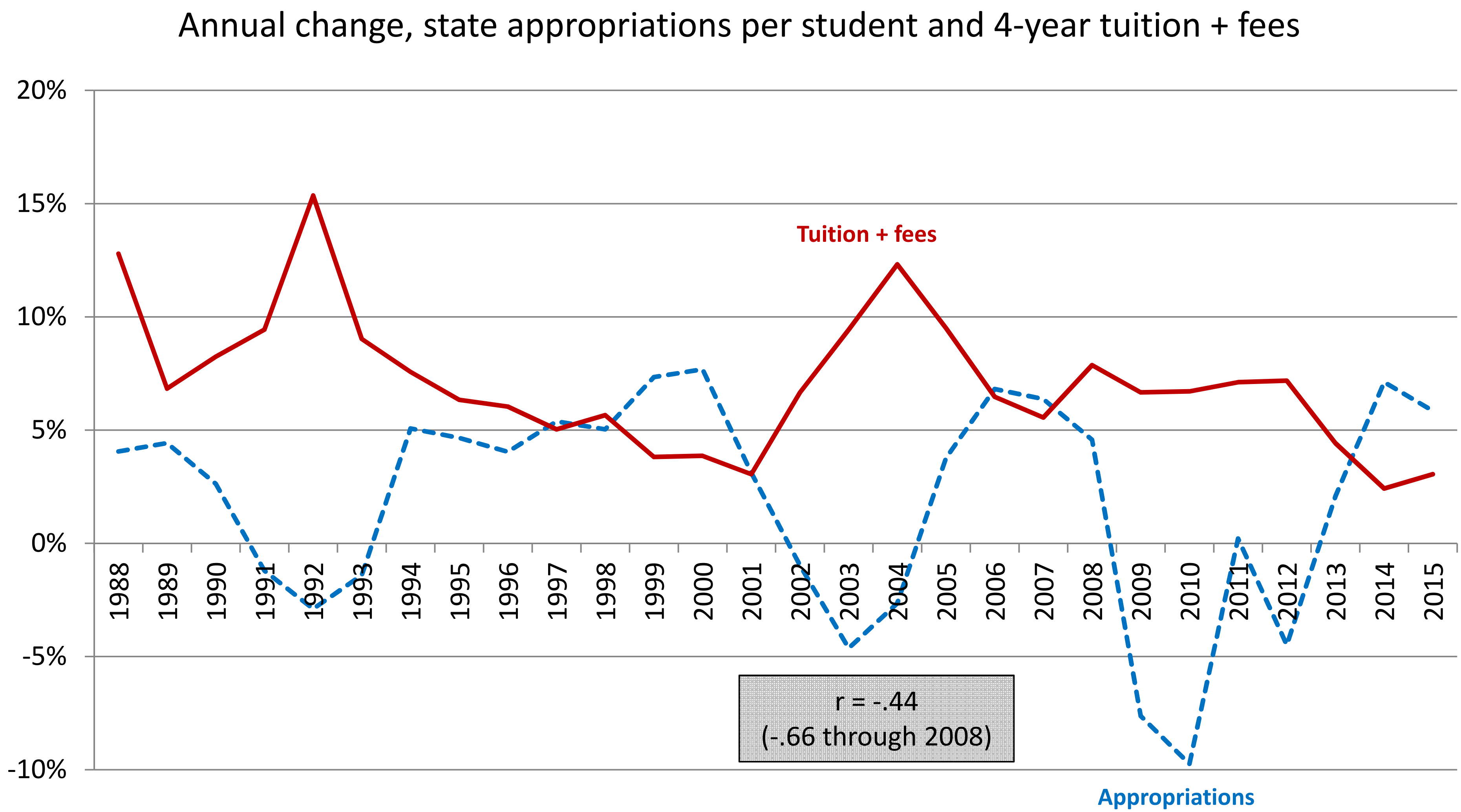
Author's calculations from U.S. ED CDR tables

Family income and loan default rates



FLBOG 11/6/14, slide #7, author's calculations from U.S. ED CDR tables

The relationship between appropriations and tuition



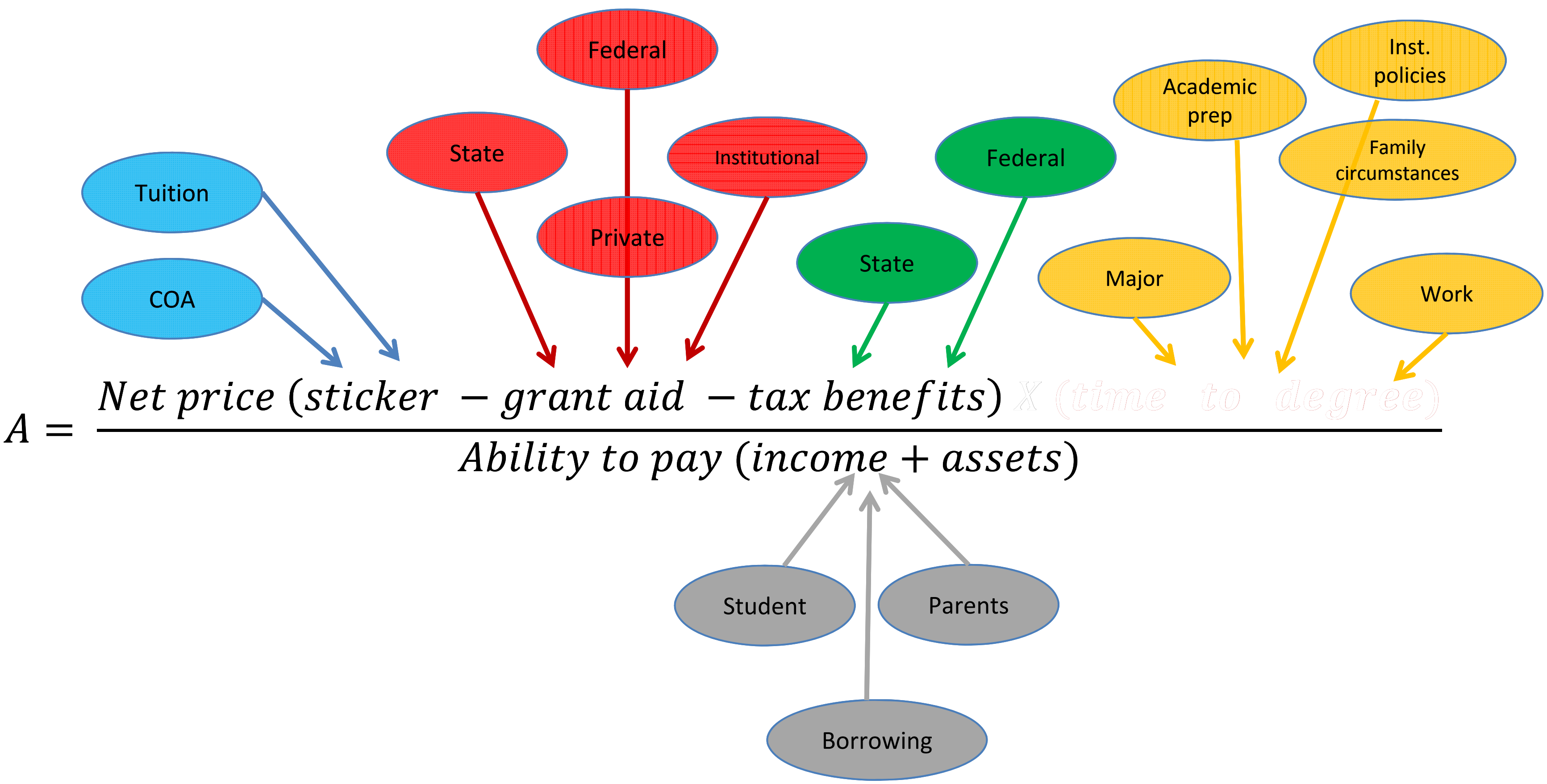
Author's calculations from Grapevine/SHEF, IPEDS, College Board

State policies affecting affordability

- Appropriations
- Financial aid – need-based vs. non-need aid
- Tuition policies:
  - Autonomy
  - Freezes
  - Guarantees
  - Differentials
- Performance funding – carrot and stick
  - LA – meet performance standards in return for tuition autonomy
  - ME – measure institutions on # of degrees awarded per $100K of net T&F revenue
  - MI – limit tuition increase to <=3.2%
  - MO – limit increase in appropriations plus net tuition to <CPI
  - TX – limit tuition increase unless performance standards met

Guiding principles for affordability

- Definition of affordability:



$$A = \frac{Net\ price\ (sticker\ - grant\ aid\ - tax\ benefits)\ X\ (time\ \ to\ \ degree)}{Ability\ to\ pay\ (income + assets)}$$

Guiding principles for affordability

- Definition of affordability:

$$A = \frac{Net\ price\ (sticker\ - grant\ aid\ - tax\ benefits)\ X\ (\boldsymbol{time\text{-}to\text{-}degree})}{Ability\ to\ pay\ (income + assets)}$$

- Sticker price is a function of underlying costs and appropriations
- Financial barriers should not exclude any qualified student from postsecondary attendance
- Loans are not financial aid, but allow students to overcome credit constraints
- Good (timely and accurate) information is critical
- A fair financing system should incorporate:
  - **Horizontal equity**: students with like circumstances should be treated similarly
  - **Vertical equity**: students with greater ability to pay should pay more
- **Do you want to make affordability a function of potential returns to the degree?**

Discussion

http://education.msu.edu/dean