

# Voter Guide 2014: Student Aid and Student Loan Debt

*National Priorities Project examines issues related to the federal budget in time for the 2014 election.*

## What is the Federal Role in Higher Education?

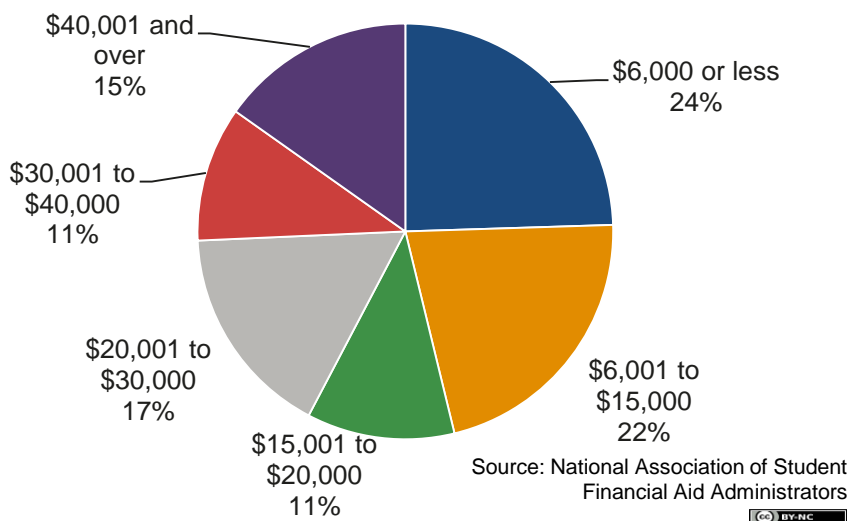
Education spending amounts to around two percent of the total federal budget – and that has held roughly constant for decades.<sup>1</sup>

The federal government funds a multitude of programs meant to help students and families with the costs of higher education. A few of the most widely used federal student aid programs are Pell grants, Stafford loans and tuition tax breaks. Federal grants provide aid that students don't need to pay back, while loans provide aid that must be paid back with interest. Tax breaks allow students or their families to get money back based on educational and loan expenses when they file their taxes.

### Pell Grants

- In 2011-2012, more than 9 million students received Pell grants. The amount a student receives depends on the amount the government calculates the student's family can afford to contribute. The average grant was \$3,555.
- Pell grants make it possible for the lowest income students to go to college. In 2012, nearly three quarters of Pell grant recipients had family incomes under \$30,000, and nearly one in four Pell grant recipients had family income of \$6,000 or less.<sup>2</sup>

### Family Income of Pell Grant Recipients



### Stafford Loans

- There are two basic types of Stafford loans: subsidized, in which interest only accrues after the student graduates; and unsubsidized, in which the interest accrues at all times until the loan is paid back. About 8.3 million students took out subsidized Stafford loans in the 2011-

2012 academic year, and 7.7 million took out unsubsidized loans (some students took out both kinds). The average annual undergraduate loan was \$3,468 for subsidized loans and \$3,922 for unsubsidized loans.

- Both types of Stafford loans help students who might otherwise not afford college. For both types of loans, more than half of students who took out loans had family incomes below \$40,000, while more than a third had family incomes below \$20,000.<sup>3</sup>

### **Tax Breaks**

- The biggest tax break for educational expenses in 2014 was the American Opportunity Tax Credit, worth \$15.7 billion dollars. This credit reduces the income tax that students or families must pay if they paid certain educational expenses, such as tuition and fees, and helps low income families because even families that owed no income tax can get a refund.
- The next biggest tax breaks for educational expenses are the exclusion of scholarship and fellowship income from taxable income, worth about \$3 billion dollars; and the deduction for student loan interest and the Lifetime Learning Tax Credit, each worth about \$1.7 billion in 2014.<sup>4</sup>

### **Growing Student Loan Debt**

- Over the ten years between the 2001-02 and 2011-12 school years, the cost of undergraduate tuition, room, and board at a public college rose 40 percent.<sup>5</sup> The value of a Pell grant has not kept pace. The maximum Pell Grant once covered three-quarters of the annual cost of the average four-year public school; today it covers less than a third.<sup>6</sup>
- Today, more than 7 in 10 college seniors graduate with student loan debt averaging nearly \$30,000 per student.<sup>7</sup> Recent reports show that Americans owe more than \$1.2 trillion in student loan debt, compared to just \$300 billion a decade ago.<sup>8</sup>

### **High Education Costs Hurt Students and the Economy**

- In 1995, the U.S. was second in the world in rate of college graduations, but has since fallen to 12th.<sup>9</sup> About half of U.S. students who start college haven't earned a degree within six years. For many, cost becomes a prohibitive factor. Lower college graduation rates don't just hurt students, but make for a less competitive workforce, putting the U.S. at a disadvantage in the global economy.
- Studies show that students who are saddled with debt after graduating college are less likely to own homes, pursue further education, or start their own business, and are more likely to delay starting families of their own.<sup>10</sup> If recent grads continue these trends, we could see economy-wide ripple effects.

## Proposals for Consideration

Pell grant proposals range from cutting funds for the program by freezing the maximum Pell grant and/or making fewer students eligible, to turning the program into an entitlement, which would mean that all eligible students would be guaranteed a grant.

Federal loan proposals range from eliminating the in-school interest subsidy on federal loans, meaning students would pay more interest over the long run – and in some cases turning student loans into a money maker for the federal government – to broadening access to “pay as you earn” programs that tie loan repayments to how much money you make, or rules to allow students to refinance and pay a lower interest rate.

## What to Ask Your Congressional Candidate

- How can we best address growing student loan debt while encouraging higher education?
- How should the federal government set student interest rates on federal student loans?

**To Learn More about Education Spending:** [bit.ly/nppeducation](http://bit.ly/nppeducation)

---

<sup>1</sup> Office of Management and Budget, 2015 President’s Budget.

<sup>2</sup> National Association of Student Financial Aid Administrators. National Student Aid Profile: Overview of 2014 Federal Programs.

<sup>3</sup> National Association of Student Financial Aid Administrators. National Student Aid Profile: Overview of 2014 Federal Programs.

<sup>4</sup> National Priorities Project Tax Breaks.

<sup>5</sup> [National Center for Education Statistics](#), “What are the trends in the cost of college education?”

<sup>6</sup> [Congressional Budget Office](#), “The Federal Pell Grant Program: Recent Growth and Policy Options,” September 2013.

<sup>7</sup> [The White House](#), “Factsheet: Making Student Loans More Affordable,” June 2014.

<sup>8</sup> [The White House](#), “Factsheet: Making Student Loans More Affordable,” June 2014.

<sup>9</sup> The Organisation for Economic Co-operation and Development, Indicator A3: [How Many Students are Expected to Finish Tertiary Education](#).

<sup>10</sup> Jennifer Shand, [The Impact of Early-Life Debt on the Homeownership Rates of Young Households: An Empirical Investigation](#), 2007.