PPIC

Making College Affordable

PPIC HIGHER EDUCATION CENTER

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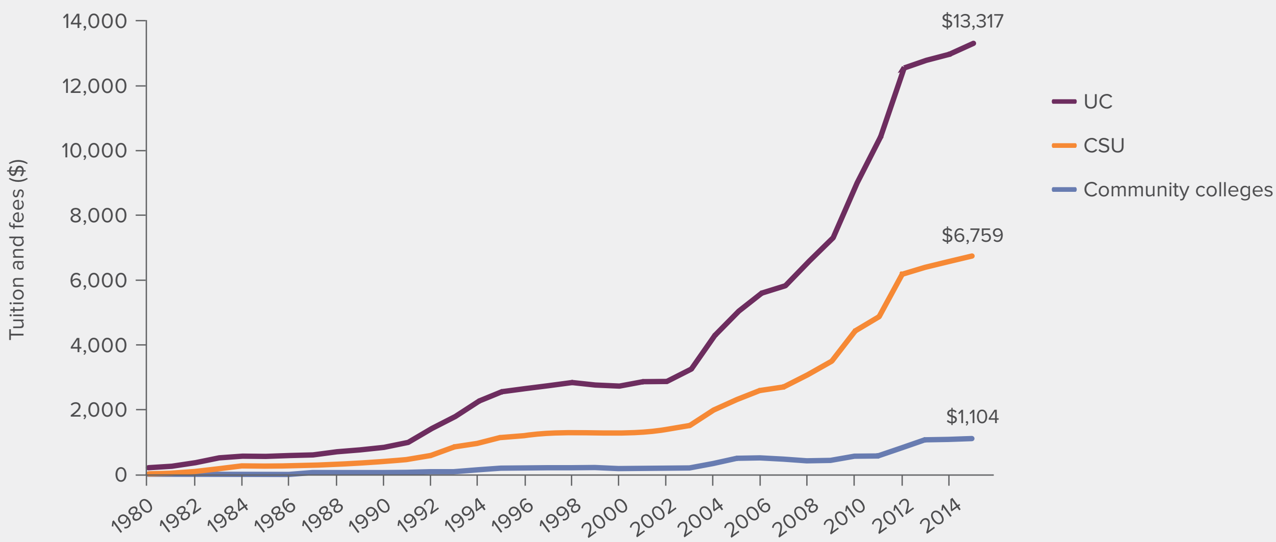
College costs are increasing

College costs are at their highest point ever at California's public universities. During the recession, both the University of California (UC) and the California State University (CSU) raised tuition to make up for state funding cuts—state General Fund support for UC and CSU dropped by about 20 percent (about $2.2 billion) between 2007 and 2013. Community college fees have tripled since 2003. Costs are also rising at the state's private nonprofit colleges, which are much more expensive than the state's public colleges.

To counter the effects of these cost increases on lower-income students, the state and its public institutions have increased financial aid. Still, a 2014 PPIC Statewide Survey found that a large majority of Californians think that affordability in higher education is a big problem. This may be partly because many students and families rely on financial aid and loans to help pay for college—especially those who attend private for-profit institutions. Because the benefits of a college education are well documented and have major implications for economic growth, equality, and social mobility, the state and higher education officials need to expand ways to help lower-income students earn college degrees without incurring large amounts of debt.

TUITION AND FEES HAVE INCREASED DRAMATICALLY AT UC AND CSU



SOURCES: University of California, Office of the President; California State University Chancellor's Office; and California Community Colleges Chancellor's Office.

NOTES: Adjusted for inflation, in 2015 dollars. Community college tuition is for a full-time load of 12 units each semester and does not include campus fees.

Financial aid is keeping college affordable for many students

California's financial aid program is relatively generous—in combination with federal and institutional aid, it helps many low- and middle-income students attend colleges that would otherwise be out of reach, including UC and CSU. The sharp recession-era tuition and fee increases at state colleges were accompanied by increases in financial aid for many students.

- **Financial aid comes from a variety of sources.**
  Students in California get financial aid from grants, scholarships, work study, and loans from local, state, and federal institutions. More than two-thirds of grant aid in California comes from federal and state aid, mostly in the form of Pell Grants, Cal Grants, and board of governors fee waivers. Different types of institutions (private versus public, four-year versus two-year) provide very different amounts of aid. Grant aid depends not only on a student's

financial and academic standing but also on the college a student chooses. For example, private nonprofit colleges commonly offer institutional grants to offset relatively high tuition, while students at private for-profit colleges often rely on loans.

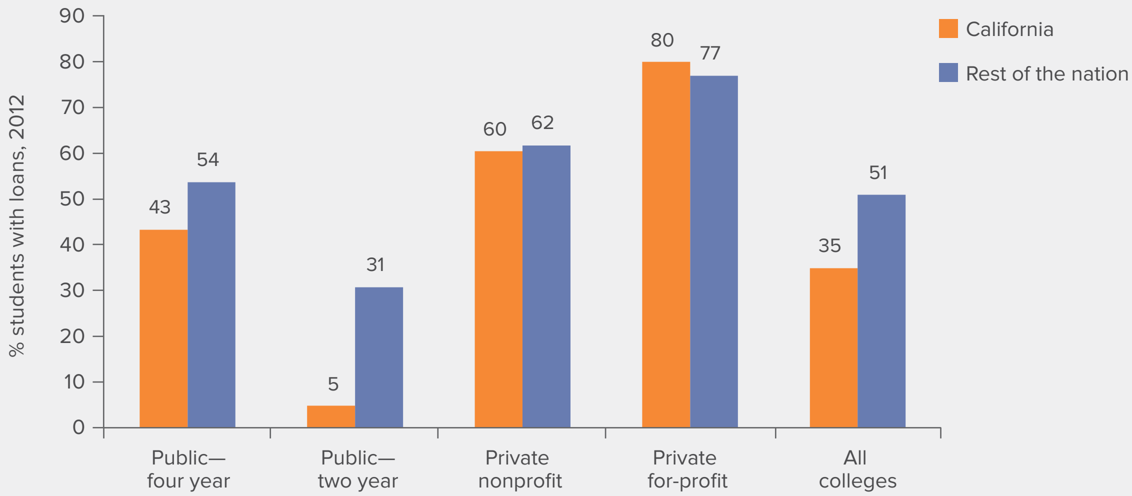
- **California has one of the country's most generous state financial aid programs.**
  California is more generous than other states in supplementing federal grants with state grants. Moreover, California's grant aid targets low-income students at public institutions. The Middle Class Scholarship program, enacted in 2013, extends state aid even further, providing some support to students from families with annual incomes up to $150,000.
- **California's poorest students can attend public four-year universities without paying any tuition.**
  Students from families with the lowest incomes usually get the largest financial aid packages and therefore often pay no tuition at CSU, UC, and the community colleges. These students often see reduced costs at private institutions.
- **Financial aid is linked to several positive student outcomes.**
  Students who receive grants and scholarships are more likely to stay in school and graduate. Making four-year institutions affordable is especially beneficial, because students who start at four-year colleges are more likely to earn bachelor's degrees than those who start at community colleges.

More students than ever rely on loans

Student debt increased dramatically throughout the United States over the past decade. In California, overall debt is relatively low, but students at all income levels rely on loans to help cover the cost of college.

- **Tuition and fees are only part of the price of going to college.**
  The total amount a student pays for college can far exceed the cost of tuition. In addition to tuition and fees, students pay for room and board, books, and other educational and living expenses. In 2015–16, the estimated average price for attending a UC school was $33,600, of which 40 percent ($13,451) was tuition and fees. At CSU, the estimated average price of attendance was $23,565, of which 29 percent ($6,759) was tuition and fees.
- **More students are taking out loans, and the size of those loans has increased.**
  Between 2000 and 2012, the share of full-time freshmen who took out loans in California increased 7 percentage points (from 28% to 35%). During the same period, the average loan amount for the first year of college more than doubled, increasing from about $3,200 to $6,650.
- **Students at California's colleges are less likely than their peers in most other states to take out loans.**
  California's colleges have the third-lowest share of freshmen with loans in the nation—only 35 percent took out loans in 2012, compared with half of freshmen in the rest of the country. This difference is especially pronounced for community college students. In California—with the lowest community college fees in the nation—only 5 percent of freshmen took out loans, compared to 31 percent nationally.
- **Loan amounts vary tremendously between public and private colleges.**
  In 2012, California had the fourth-lowest average loan amounts in the nation for students at public four-year institutions, which account for 40 percent of full-time freshmen. However, average loan amounts at California's private institutions were similar to those in the rest of the nation. Average loan amounts for freshmen at the state's private for-profit colleges were 43 percent higher than those for students at public four-year colleges ($7,684 versus $5,379).
- **Students attending private institutions are more likely to take out loans.**
  Private colleges tend to be more expensive than public colleges. Consequently, the share of students taking out loans at private institutions is much higher. In 2012, 60 percent of full-time freshmen at private nonprofit colleges in California took out loans, compared with only 43 percent of full-time freshmen at public four-year colleges. The share of full-time freshmen taking out loans is particularly high at private for-profit colleges (80%).

THE SHARE OF STUDENTS WITH LOANS IS HIGHEST AT PRIVATE FOR-PROFIT COLLEGES



SOURCE: PPIC calculations based on the Integrated Postsecondary Education Data System (IPEDS) of the National Center for Education Statistics.

NOTE: Restricted to full-time freshmen.

Student debt problems vary across institutions

Not surprisingly, high levels of debt are particularly troublesome for students who do not graduate and for graduates who enter low-paying professions. Loan default rates—which indicate the difficulty of paying off debt—are low among California's public college students. They are much higher among students at private for-profit colleges, which tend to attract high shares of low-income and underrepresented students.

- **Loan-induced debt is burdensome for some students.**
  In California, the accumulated median student debt six years after entering college ranges from $12,000 to $25,500, depending on the type of institution. These debt levels are particularly burdensome for students who choose the least-remunerative majors, enter low-paying careers, suffer setbacks such as unemployment, or fail to obtain degrees. However, for most students these debt levels are outweighed by the economic gains from earning a college degree.
- **Rates of loan default are low among students at public universities and private nonprofit colleges.**
  Three-year default rates at UC (3.6%), CSU (6.7%), and private nonprofits (10.6%) in California are much lower than rates at private for-profits (18%) and at community colleges (21.9%). The share of community college students who take out loans, however, is extremely small, and average loan amounts are low.
- **Loan default rates are particularly high among students at private for-profit colleges.**
  Not only do the vast majority of students attending private for-profit colleges take out loans, but their loans are higher than those in any other higher education sector—58 percent of students in default attended for-profit institutions, which account for only 9 percent of students enrolled statewide.

Looking ahead

CSU and UC have frozen tuition for California residents over the past three years and have agreed to continue doing so. But the state and federal government can do more to make college more affordable for Californians.

Motivate all students to apply for financial aid. Filling out the Free Application for Federal Student Aid (FAFSA)—a prerequisite for federal and state aid as well as federal student loans—can be a roadblock for some students. In 2014, President Obama announced changes that help students apply for aid earlier and more easily. High school seniors can fill out the FAFSA in October instead of waiting until January, and the online form can draw from IRS records to automatically fill in family tax information. State policies that induce all students to fill out the FAFSA can expand the number of students who receive federal grants and loans.

Expand grant aid to cover more costs. Some low- and middle-income families have struggled with the rising net cost of college due to recent tuition increases. Expanding grant aid in California to cover more lower-income students can help those who might not otherwise be able to afford to enroll in and get through college.

Restrict financial aid to students attending institutions that have a track record of success. California should continue to restrict state grant aid to colleges that meet minimum standards of success, as measured by graduation and loan default rates. The federal government has far fewer restrictions, and Pell Grants often go to institutions that do not serve students well. Federal student aid programs should follow California's approach, concentrating aid where it will do the most good.

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