# Making College Affordable

PPIC HIGHER EDUCATION CENTER

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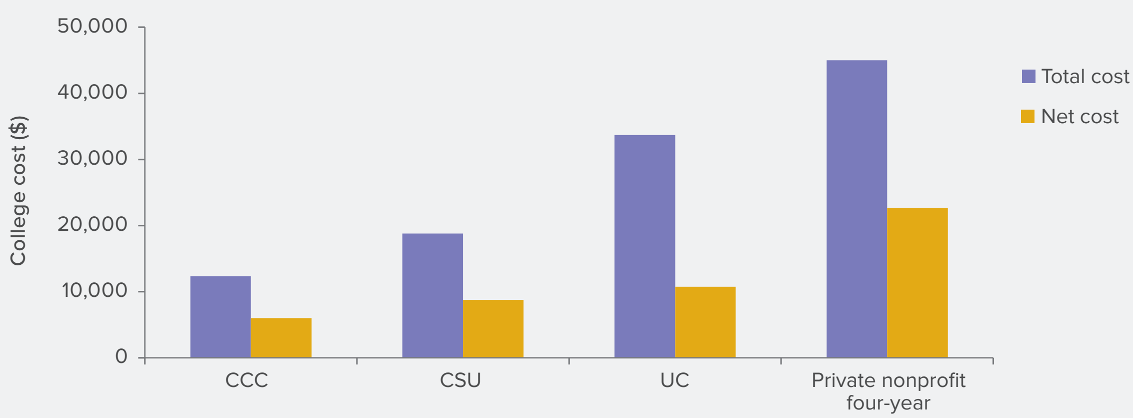
## College affordability involves more than just tuition

After doubling during the Great Recession, tuition at California's public universities has leveled off: since 2012, it has increased by a modest 2.5 percent at the University of California (UC) and has not risen at all at the California State University (CSU). However, tuition is now at all-time highs at UC ($11,442), CSU ($5,472), and the California Community Colleges ($1,104). Given these realities, as well as discussions about college affordability at the federal level, it is not surprising that Californians are concerned about college costs. The November 2018 PPIC Statewide Survey found that 58 percent of Californians think that affordability in higher education is a big problem.

Because the amount of financial aid available increases as tuition goes up, at least half of the students across California's three public segments pay no tuition. However, non-tuition costs are significant, especially for students from low-income families. State financial aid programs are focused mostly on tuition, so students must cover costs that add up to thousands of dollars. And these costs are rising: taken together, housing, transportation, and book costs have increased 24 percent since 2012.

The benefits of a college education are well documented, and higher education has major implications for economic growth, equality, and social mobility. Given that more than half of the students in California's public K–12 schools are economically disadvantaged, affordability is crucial to the state's future. 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. For these reasons, the state and its higher education system need to do more to help lower-income students earn college degrees without incurring large amounts of debt.

### FINANCIAL AID REDUCES COSTS FOR LOWER-INCOME FAMILIES—PARTICULARLY AT UC




SOURCE: IPEDS student financial aid and institutional characteristics files, 2016–17.

NOTES: Total cost includes books, housing, food, and transportation. Net cost is total cost minus the average grants and scholarship aid for a typical student from a family making less than $75,000 per year.

## Financial aid is keeping college affordable for many students

California has a robust financial aid program—in combination with federal and institutional aid, it helps many low- and middle-income students attend colleges that would otherwise be out of reach.

- **Financial aid comes from a variety of sources.**
  Students in California get grants, scholarships, work-study programs, 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 California Community College Promise fee waivers. Grant aid eligibility depends

not only on a student's financial and academic standing but also on the type of college a student chooses to attend. 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. Moreover, state aid targets low-income students at public and private institutions. The state provided about $4.2 billion in financial aid in 2016–17 ($2 billion in Cal Grants). Awards vary across colleges: in 2018–19, Cal Grants could be as high as $12,570 at UC, $5,472 at CSU, and $9,084 at private colleges. The Middle Class Scholarship program, enacted in 2013, extends state aid even further: students from families with annual incomes and assets of $177,000 or less get 40 percent of their tuition costs covered.

- **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 grant aid packages and, if otherwise eligible, often pay no tuition at CSU, UC, and the community colleges. These students make up large shares of the population at the state's public universities: tuition is fully covered by grants and waivers for 57 percent of undergraduates at UC and more than 60 percent at CSU. Low-income students also see reduced costs at private institutions, but grants and scholarships may not completely cover their tuition.

- **… but housing and other costs remain a problem.**
  For the most part, state aid does not cover non-tuition costs such as room and board, transportation, and books. In fact, housing can make up a majority of the cost of attendance. In 2018–19, the estimated average cost of attending a UC school was $35,300, of which 39 percent ($13,900) was tuition and fees and 45 percent ($15,800) was housing. At CSU, the estimated average price of attendance was $26,611, of which 28 percent ($7,363) was tuition and fees and 53 percent ($14,248) was housing. New research also suggests that many college students are facing housing instability and food insecurity.

- **Mandatory fees—which pay for essential student services—are contributing to rising costs.**
  Mandatory campus-based student fees beyond tuition are on the rise—and most are not covered by grant aid. These fees pay for access to essential resources such as health centers and student affairs services. Most originate at the campus level, and although students vote to approve (or revoke) these fees, only a small fraction of students cast ballots.

## Many students rely on loans

In California, overall student debt is relatively low, but Californians at all income levels rely on loans to help cover the cost of college.

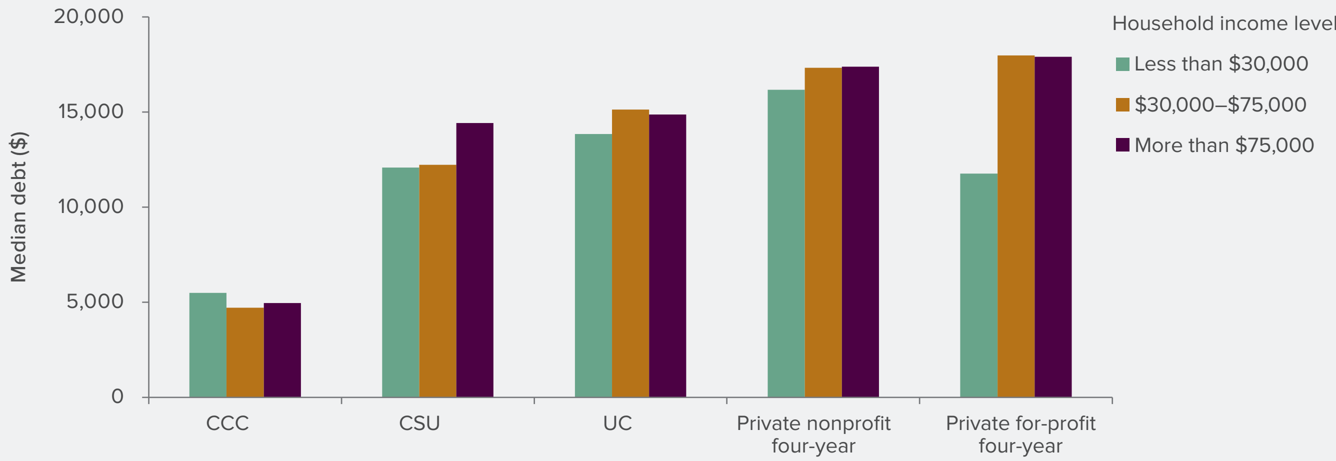
- **Borrowing has declined since 2012.**
  Between 2000 and 2012, the share of full-time freshmen who took out loans in California increased from 28 percent to 35 percent—and the average loan amount for the first year of college more than doubled, rising from about $3,000 to $6,985. Since 2012, however, both the share of freshmen taking loans and the size of the loans has declined.

- **California's college students 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 28 percent took out loans in 2015, compared to 48 percent of freshmen in the rest of the country. This difference is especially pronounced for community college students. In California—where community college fees are the lowest in the nation—only 3 percent of community college freshmen took out loans, compared to 27 percent nationally.

- **Students attending private institutions are more likely to get 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 2015, 54 percent of full-time freshmen at private nonprofit colleges in California took out loans, compared with only 39 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 (70%).

- **Loan amounts vary tremendously between public and private colleges.**
  In 2015, California had the second-lowest average loan amounts in the nation for students at public four-year institutions, which account for 38 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 40.7 percent higher than those for students at public four-year colleges ($7,955 vs. $5,440).

LOAN AMOUNTS ARE HIGHEST AMONG STUDENTS AT PRIVATE COLLEGES




SOURCE: PPIC calculations based on data from the US Department of Education's College Scorecard.
NOTE: Applies to 2016–17.

## Debt problems vary among students and across institutions

Loan default rates—which indicate the difficulty of paying off debt—vary greatly across California's student population. Not surprisingly, high levels of debt are particularly troublesome for students who do not graduate and for graduates who enter low-paying professions.

- **Students who go to public universities and private nonprofit colleges have low loan default rates.**
  Three-year default rates for borrowers who began repaying loans in 2015 after attending UC (2.3%), CSU (4.7%), and private nonprofits (4.1%) are much lower than the rates for those who enrolled in private for-profits (13.2%) and community colleges (18.3%). The share of community college students who take out loans, however, is extremely small, and their average loan amounts are low.

- **Loan default rates are particularly high among students attending private for-profit colleges.**
  Given that so many students attending private for-profit colleges take out large loans, it is perhaps unsurprising that 54 percent of all California student loan recipients in default attended for-profit institutions, even though these institutions account for less than 10 percent of enrollment statewide.

## Looking ahead

Financial aid helps many middle- and lower-income students attend college in California, but the state and federal government can do more to make higher education affordable.

**Make college affordability recession proof.** Even though the public higher education segments can increase tuition to make up for state spending cuts and stay afloat during economic downturns, the most recent increases in tuition caused many middle-income students to pay more for college and increased dependence on students from other states and countries to generate revenue. The state could consider drawing from its own reserves in the next recession, or it could create a dedicated funding stream for higher education.

**Expand grant aid to cover more costs.** Some low- and middle-income families have struggled with the rising net cost of college. Expanding grant aid to help students pay costs beyond tuition, such as housing and books, can help those who might not otherwise be able to afford to enroll in and get through college, and would help reduce loans and debt.

**Remove some of the barriers to receiving aid.** State aid has some age or timing requirements that keep older students or students who do not follow a traditional educational pathway from being guaranteed a grant, even if they are otherwise eligible. Those students enter a competitive pool for state aid, but only 1 in 10 in that pool receive offers of state aid. Expanding aid to cover more students may increase students' abilities to afford college and avoid debt. In 2019 the legislature raised the number of competitive grants from 25,000 to 41,000, but most of those non-traditional students will still not receive a state grant.

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