

*Remarks on College Affordability*  
*Delivered to the*  
*Illinois Board of Higher Education*  
*Tuesday October 7<sup>th</sup>, 2008*  
*Kennedy-King College*  
*Chicago*

Affordability, in the context of going to college, can be as simple as the arithmetic of a checkbook or as complex a social and civic challenge as you can find. In my remarks today I hope to cover this ground from both ends of this spectrum, as well as spending some time in the middle.

In terms of “wonkiness,” I rate this crowd at about an “eight,” so we *will* be going into the weeds. “One” on my scale would be exemplified by the fans at either of the two ballparks in Chicago. “Ten” would be the conversation around the coffee pot in the research division at ISAC’s Springfield office.

Before I dig into the sobering story of College Affordability, I would like to share with you two great pieces of news from ISAC.

September was a good month for ISAC and for Illinois students who depend on student loans. Eight credit unions from Chicago to Collinsville stepped up to provide ISAC with capital. ISAC can now, in turn, make loans to students who might not be able to get them anywhere else. The \$100 million raised will fund Stafford loans for 20,000 students this year. Those \$3,500 to \$10,000 loans will make college possible for some of them. It is a small victory in our continuing battle to make college accessible and affordable for all our students. We deeply appreciate the role the Illinois Credit Union League played in helping us put this all together. We hope it’s just the beginning of a long and successful partnership.

In a second ISAC victory this past month, ISAC Commissioners at their September meeting in Edwardsville, approved a REDUCTION in the pricing of *College Illinois!* Prepaid Tuition contracts for all public universities in Illinois, U of I Champaign-Urbana excepted. Given the announced increases in tuition at all the public universities, it is really quite remarkable that ISAC has been able to maintain its traditionally conservative actuarial approach and at the same time to lower the cost of prepaid tuition. For those families that are in a position to save now for education later, this may well be the only time in recent years that the financial winds have not blown a gale in their faces.

This past summer David Brooks, a columnist for the *New York Times*, wrote the single best essay I have read on the challenges that face our country in higher education. Brooks starts by posing a fundamental question: “Why did the United States become the leading economic power of the 20<sup>th</sup> century?” To his own

question he has a short and to-the-point answer: “A ferocious belief that people have the power to transform their own lives gave Americans an unparalleled commitment to education, hard work and economic freedom.”

Brooks goes on to note that from 1870 until 1950, the average number of years of education for U.S. citizens went up by about eight-tenths of a year of schooling per decade. From 1950 until 1975 this trend slowed. From 1975 through the present, the average level of educational attainment stood still, and it now appears to be in decline.

Brooks then cites University of Chicago Professor James Heckman who recently authored *Schools, Skills, and Synapses*. Heckman argues that the cause of this plateau and decline is not falling school quality, funding shortages, or even our favorite villain, rising tuition costs. Instead Brooks presents Heckman’s conclusion: “Some children are bathed in an atmosphere that promotes human capital development and, increasingly, more are not. By five, it is possible to predict, with depressing accuracy, who will complete high school and college and who won’t.” “I.Q. matters, but equally important are traits such as motivation levels, emotional stability, self-control and sociability.”

So how do these trends in our human condition and social mobility show up in the data? While there are millions of data points and thousands of statistics that one can choose to follow, I find the following presentation accessible and succinct: Imagine a bar chart that shows on the vertical axis the percentage of the population that has completed any sort of formal post-secondary educational credential, measured ten years after eighth grade. On the horizontal axis, the entire population is divided into five groups of equal head count by family income—“income quintiles,” as the numerati say.

When presented this way, the following conclusion is hard to miss. Poor folks, those 20% at the bottom of the income pile, have only a one in ten chance of completing some post-secondary program. If there were other plausible routes out of poverty this might not be so shocking, but all the lotto tickets, NBA contracts, and backyard oil finds don’t add up to anything but thin tails on a normal distribution.

In the second quintile, one in four make it through the system successfully. 25% is better, but hardly good enough odds to secure the economic future of our country, let alone lead to personal satisfaction and success for twenty percent of our citizens.

What does this mean for us here in Illinois? In our state there are about 180,000 babies born each year and our population trends are relatively flat. 180,000 is a reasonable approximation of each age cohort in the 25 and under crowd. So in each age cohort, the bottom quintile has approximately 36,000 people. Of the 36,000 14-year-olds today that are in the first income quintile, we can expect just under 4000 of them to complete a post secondary program by 2018. I find that number

both appalling and intriguing. I think the appalled reaction hardly needs to be explained further in this room.

Intriguing? Well look at it this way, if we execute all of our programs with an objective of making the difference between *dropout* and *successful educational attainment* for just 4000 8th grade students, we could DOUBLE the successful outcomes in this lowest income quintile. If we could give that same boost to another 4000 8<sup>th</sup> graders in the second quintile, we will have boosted the average OVERALL level of degree/certification completion by over 10% (the current overall success rate being 39% of 180,000, or 70,200 completers in the status quo).

In any case, in our first flyover here we can see that a wealthy student is about five times more likely to complete some formal post-secondary education program by age 24 than a poor student. It does not take a bold logician to hypothesize that college affordability is a barrier to entry for our low-income students. Closer to the ground then, what do these impediments actually look like?

- There is now no public four-year university in Illinois with basic tuition and fees under \$9,000 per year. Our public universities are some of the best in the nation; they are also some of the most expensive.
- Our grant aid is not keeping up. Seven years ago our maximum MAP grant fully covered the average cost of a public university; now it covers about half. Although our poorest students attending public universities receive about \$9,000 in Pell and MAP aid (and in coming years the Pell grant is scheduled to increase) they have to come up with \$7,300—over 40% of their annual income—to cover the costs of their freshman year. Even adjusted for inflation this is nearly twice what they needed to pay a decade ago. It is so large even the basic Stafford loan won't cover it. Students from lower-middle class families receive only \$5,000 in MAP and Pell; they must cover over \$11,000 of the cost themselves. Most middle-income students receive neither Pell nor MAP and must absorb the big tuition and fee increases themselves. It impresses me that despite this daunting task many of them still do it – cobbling together Stafford and private loans, work-study and off-campus work. And, speaking of debt...
- ...over half of our undergraduates now borrow money to cover college costs. The average cumulative loan debt is \$18,000 and rising as the Stafford Loan limits expand.

It is not hard for a family to figure out what makes college affordable. In its most basic form, college affordability means that the cost of college attendance is less than or equal to the resources available to pay for them – family resources, work-study, and need-based grants.

Although those are the obvious components of affordability, there's much more to consider – in particular, student preparation issues and the availability of loans.

Student academic preparation is receiving more attention these days as the true societal cost of dropouts at both the high school and college level are becoming widely known. One recent study estimated that each high school dropout in this state cost over \$220,000 in taxes not paid, unemployment, welfare, rent subsidies, and even the cost of higher incarceration rates. Dropping out of college has serious financial consequences, too. Dropping out of college can cost the dropout a half million or more in income over his working lifetime; the state also loses its share of those additional dollars. Both the State of Illinois and its families are paying a high price for college dropouts.

Students and their families view the cost of college as the sum of tuition and fees plus books and supplies and living expenses, multiplied by four or five. From an individual's perspective, that is the cost that is important. Over the past decade, the question of college access and affordability has increasingly become a private issue – viewed from the students' point of view. But college affordability has broader implications.

For the state as a whole, the cost of students not completing what they start or taking more years to complete than the standard four (and we do still call them four-year degrees) is an important number. To calculate a rough estimate, we took the tuition and fees at each public university, added the state subsidy, and modified that number by each school's retention and graduation rates, to determine the cost of getting a graduate out of each school.<sup>1</sup> The results were surprising.

Looked at in this way, the cost of getting a graduate from our public universities varied from about \$67,000 to about \$108,000. (And no, the \$108,000 graduate did not come from UIUC, our school with the highest nominal tuition.) The average cost of a graduate was \$73,000.

If we could help students complete their degrees and reduce the time to completion back to four years, that average cost could drop from \$73,000 to \$61,000. That's a drop of 17% in the cost of college with no decrease in tuition and fees and no increase in grant aid. Just by improving public university graduation rates to match the rate at each school's best performing peer institution with similar ACT scores, we would increase the number of college graduates by nearly 2,500 students and would put a big dent in the over \$70 million in state and family funds

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<sup>1</sup> Used an average state subsidy of \$4,500 (IBHE calculates \$4,800 this year, but it varies). Took 1-freshman retention rate and assumed that fraction went one year. Subtracted the six year grad rate from the freshman retention figure and assumed those students dropped out after 2 years. Multiplied the tuition and fees by four for a four-year grad; by five for a five-year grad and six for a six-year grad. Added all together and divided by the number of first time, full-time freshman. Analysis does NOT include part-time students or does it consider other expenses such as room and board, books, etc.

we are now paying to educate students who don't complete.<sup>2</sup> The most cost-effective way to get more college graduates is to get those who start to finish, and get those who finish to finish faster.

High dropout rates and extended completion times have implications for our grant programs. MAP, as you know, is being stretched to the breaking point – we will be unable to offer aid to about 60,000 qualified students this year. And I've already told you that our awards are not big enough now to make four-year college affordable for many students. We are seeing the stress.

- There are more eligible students – but only at community colleges.
- Our award claim rates are falling – claim rates that have been constant for many years.
- In our surveys of recent MAP recipients, they keep telling us that the number one reason why they are having difficulty staying in school is financial problems.
- I've read that many of the public universities are seeing enrollment declines this year – and community college enrollments are up.

But if we could minimize dropouts and hurry completions, we could stretch these limited MAP dollars further. Even with the constraints on MAP awards, there is still a big variation in how much we spend on MAP awards to get a graduate. At the public universities the range is \$17,500 to almost \$28,000 per graduate. Improving retention and speeding up completion has large, positive consequences for MAP.

Although the state's financial picture appears grim, we still need to advocate for more need-based student aid to the legislature. But we also have a responsibility to the taxpayers, to be sure that we are doing all we can to make the best use of the dollars already appropriated. College preparation issues historically have not been in ISAC's domain, but as we come to understand the connections between preparation and persistence as well as the significant savings that follow from timely completion, it is no longer possible to ignore the connection between affordability and preparedness.

For this reason we have expanded the content of our outreach programs to emphasize the advantages of choosing rigorous high school courses. We also hope that by helping low income students to develop a "going to college" mindset before

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<sup>2</sup> The graduation rates of all public and private four-year colleges were sorted by average ACT score (from Pew Education Trust's College Results.org Web site; also checked against the 25%-75% range given in US News and World Report). For each average ACT score, there is a range of graduation rates. By moving each ACT level to its "best in class" we calculated the additional number of graduates we would get. For example, the grad rate range on an ACT score of 22 was 46-67%. Moving all schools in that range to 67% would increase the number of graduates. The best in class is Illinois schools only – using best in class nationwide would be higher. Also assumes that the quality of the graduate is the same throughout (could be a big assumption.)

their senior year of high school, we will give them motivation to excel in high school and enter college better prepared.

We are funding pilot programs developed to test different intervention strategies at both the high school and college level. One program puts “near-peer” Illinois Guides into high schools to help students determine what they need to do to reach their goals. That program was brought to us by Judith Flink of the University of Illinois and is being operated under their auspices. The Guides program was originally developed at the University of Virginia with funding from the Jack Kent Cooke Foundation. It has had great success at a dozen other prestigious universities, and we have high expectations for it here.

Another program focuses on new community college students in the nursing program at Prairie State College. In that program ISAC and Aetna are jointly supporting the Illinois Education Foundation’s holistic support system in an effort to reduce the dropout rate. A third program helps train students in basic manufacturing business skills. All are aimed at getting students to finish their programs – whether at high school, trade school or college.

In addition to the college costs, grants, and student preparation already mentioned, student loans are also part of the affordability equation. They help remove or expand the student’s budget constraints, thereby:

- providing students with greater access to colleges that might otherwise be unaffordable, and
- enabling students to work fewer hours so they can attempt more class hours per semester and graduate on time.

As college costs have risen, students have increasingly turned to loans to help them finance their educations. The federal government has accommodated them by raising student loan limits several times over the past decade. But now it is becoming more common for students to carry a dangerous loan burden—loans that can have serious negative consequences for the next 20 years of their lives.

The average loan debt of Illinois students is about \$18,000, and over half of our students now borrow. Thanks to our big need-based grant program, MAP, and our extensive, low-cost community college system, our numbers look good when compared to those of our neighboring midwestern states, where average debt levels are as high as \$23,000 and up to three quarters of their students borrow. However, these debt levels, calculated by the Project on Student Loan Debt, are probably low estimates because many private loans and credit card debt are not included in this figure. Some estimates have students carrying \$3,000 of credit card debt in addition to their loans.

Maybe \$18,000 doesn’t sound like a lot of money – especially when the financial advantages of a college degree are so apparent. But much of the salary

increase that comes from a college degree occurs in the second half of the working life – the first half can be seriously compromised by too much debt.

For some professions with relatively high starting salaries, such as engineering or even nursing, that current \$18,000 debt is manageable, even a bargain. But measures that attempt to evaluate the impact of student loan debt levels indicate that borrowers who chose professions such as communications and social work may already be in difficulty with an \$18,000 burden, and teachers aren't far behind. And remember that even though this number is the most current, the \$18,000 cumulative debt figure is as of 2006. *These* borrowers have graduated – it is a good bet that our current freshmen will acquire more. We know that average debt levels are increasing much faster than starting salaries.

ISAC has started some programs to help make loans a bit more affordable. For example, we offer the Capstone loan program to seniors who have maxed out their Stafford eligibility. Capstone rates are fixed at 8% with further interest rate reductions for students who are employed in Illinois post-graduation and choose to work in fields where the need might be great but the salary less than grand. It is, as they say, a start.

“Solving the problem” of poverty & hopelessness for the entire State of Illinois, let alone the United States of America, may appear daunting, and if we were to take on such a task some might even accuse us of mission creep. I think they would be correct. But, if we are to truly make college affordable, then we must also acknowledge that there must be a college-ready and college-aspirational high school graduate for whom our affordability mission is relevant. To merely linger at the edge of campus like Wrigley Field ticket touts, offering up aid to the few that find their own way there, is to miss the whole point of our mission and the intent of the original legislation that created our agency.

In 1957 The Illinois general Assembly found in Sec 5 of 110 ILCS 947 “that the provision of a higher education for all residents of this state who desire a higher education and are properly qualified therefore is important to the welfare and security of this state and Nation.”

The drafters of this original legislation clearly understood that access to higher education was “important to the security and welfare of this state and Nation.” What we know now is that just at the time this bill was signed into law by Governor Stratton, we were ending the 80-year period of steady growth in educational attainment. What the lawmakers could not have known was that in the next fifty, and now one hundred years, the situation of low-income Americans would change. The supply of bright, eager, and WELL PREPARED but poor students would slowly decrease. How could they have known that the challenge in the 21<sup>st</sup> century would be a lack of funding AND preparation? If some of the desire to attend were also missing now, it would hardly surprise a realist, given the lack of preparation and funding. Even if the desire survives, the evil twins Funding Gap and Preparation

Gap will have a negative impact on rational expectations of students and families in poverty.

What does it mean then to make college affordable to Illinois students in the 21<sup>st</sup> century? To me, it says that if we are seriously interested in making a difference we must clearly define our goals and methods regarding outcomes for students. To that end I suggest that we commit to the following goal:

Ten years from now, in 2018, the lowest two income quintiles of today's eighth graders will achieve post-secondary educational success at a rate 5% higher than the entire population does today. This would be a goal of 40%.

This indicates an additional 12,000 first quintile completers and another 6,000 second quintile completers. All other things remaining equal, this will take the average rate of post-secondary completion from 37% to 47%.

The goal of college affordability is a big one and to solve it we are going to have to come up with many creative solutions. With the participation and support of the schools, the legislature, this board and the Governor, the Public Agenda Task Force is focusing on these issues right now. We at ISAC look forward to working with all of you on this critical issue. I believe that if we follow a path that seeks alignment of interests between the state and its people as well as viewing education as the powerful investment opportunity that it is, we will be successful.