NCSL TASK FORCE ON HIGHER EDUCATION'S FINAL REPORT: PART I

Trends in Higher Education: Understanding Policy and Outcomes

NCSL
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Trends in Higher Education: Understanding Policy and Outcomes

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Table of Contents

Executive Summary 1

Introduction 4

Section I: The State of the Higher Education System: Understanding Trends in Student Outcomes and Affordability 5

- Student Outcomes 5
  - Enrollment Trends 5
  - Attainment and Completion Trends 5
  - Economic Benefits of a College Degree 7
- College Affordability 7
  - College Pricing 7
  - Revenues and Spending 8
- Student Debt 10
  - National Student Debt 10
  - Borrower Balances 11
  - Borrower Default 12

Section II: The State Role in Higher Education: A Brief History and Recent Trends 12

- The State Role in Higher Education: Funding and Finance 12
  - Direct Institutional Support 12
  - State Financial Aid Programs 13
  - Governance 13
  - Student Loan Forgiveness 14
  - Tax Incentives and Other Measures 14
- The State Role in Higher Education: Supporting Student Outcomes 14
  - Consumer Protection 14
  - Accountability and Transparency 15
  - Innovation and Improvement 15

Section III: The Federal Role in Higher Education: A Brief History and Recent Trends 16

- The Federal Role in Higher Education: Funding and Finance 16
  - Funding and Affordability 16
  - Finance 17
- The Federal Role in Higher Education: Supporting Student Outcomes 19
  - Transparency and Accountability 19
  - Student Success, Improvement and Innovation 20

Executive Summary

During the course of its work, the task force studied the major trends in higher education outcomes and policy. A common understanding of these trends shaped the task force's assessment of the state-federal relationship and its broader recommendations for advancing better outcomes in higher education.

TRENDS IN HIGHER EDUCATION OUTCOMES

Education attainment rates have increased steadily over time. Today, nearly 38% of adults have a bachelor's degree or higher. Half of those ages 25 to 29 have at least an associate's degree, an increase of over 7 percentage points over the past decade.

Despite modest gains in attainment, nearly 42 million Americans have "some college, no credential." This population represents 18.1% of the total U.S. population aged 18 to 64.

For most graduates, a higher education continues to offer clear benefits. The wage premium for a higher education remains substantial: The average college graduate with a bachelor's degree earned about $78,000 in 2019, compared with $45,000 for the average worker with only a high school diploma. However, this wage premium has declined somewhat over time and wage gaps persist by race and gender at all levels of education attainment.

However not all students who receive degrees benefit from their investment. A Third Way study found that more than 3,100 programs (13%) do not offer any return on investment, and another 2,600 programs (14%) take at least 10 years and as long as 20 years for students to recoup costs.

Overall graduation rates have increased steadily over the last 30 years at four-year institutions. The overall six-year graduation rate at public institutions has increased from 55.4% in the mid-1990s to 63.5% today. A federal report found that the six-year completion rate for public two-year institutions was 43.4% and an additional 11.2% of students were at least still enrolled in higher education.

Between 2012 and 2022, the overall undergraduate enrollment population decreased by 2.4 million students, a 13.5% drop. Over this time, enrollment in four-year institutions has increased 2% and enrollment in two-year institutions has decreased 35%, a loss of nearly 2.5 million students. About 70% of undergraduate students attend four-year institutions, and nearly three-fourths of these students attend public four-year institutions.

TRENDS IN PUBLIC SPENDING AND AFFORDABILITY

In 2019, the U.S. spent $37,400 per student on postsecondary education, more than double the average of OECD countries and second only to Luxembourg. By comparison, the U.S. spent $15,500 per student on elementary and secondary education. The U.S. spends 2.5% of its GDP on postsecondary education, the second-highest rate in the world behind Chile at 2.7%. Only three OECD countries spend more than 2% of GDP on postsecondary education.

State policymakers play an essential role in developing, funding and overseeing an affordable higher education system. State spending on higher education is a significant expenditure for policymakers. In fiscal year 2023, 8.7% of state expenditures went to higher education, trailing only Medicaid and K-12 spending as the third-largest area of spending. In total, state governments spent more than $112 billion to support higher education institutions and programs in FY 2023, according to the State Higher Education Executive Officers Association.

On an aggregate basis, state funding for higher education has increased year-over-year since state budgets began recovering from the Great Recession in FY 2013. Overall state spending per student has surpassed funding levels compared to levels prior to the Great Recession but remains nearly 4% below the previous all-time per student funding high set in FY 2000 of $11,492. Since FY 2001, state appropriations are up over 14%, although current per student funding is slightly below FY 2001 levels due to increased student enrollment. However, half of states are still spending less per student than they did before 2008.

Most of these funds are appropriated directly to colleges and universities, but states also offer a robust and growing range of financial aid programs to support students. Taken together, state policymakers provide significant support and funding to postsecondary institutions that serve the students in their states. Additionally, many state lawmakers have authority over tuition and fees at public institutions, as well as broader governance of postsecondary institutions that can impact affordability.

The federal government has long played a complementary role to states in making college more affordable for students and families. The Pell Grant has formed the bedrock of the federal role in affordability and is by far the most substantial federal program that directly lowers the price of college for students. Over time, income eligibility for the Pell Grant has expanded—the most recent expansion was made available for the 2024-25 award. The maximum Pell Grant award is $7,395 for 2024-25, which is 10% higher than in 2003-04.

Funding for the program has been fairly stable over time. The maximum Pell award remains at a similar level to the award in 1978 when adjusted for inflation. However, the purchasing power of Pell has declined over time due to rising college costs.

The combined efforts of state and federal policymakers, along with grants from institutions, have largely kept net tuition prices in check over the past decade. Students at public four-year institutions paid an average $2,730 net tuition and fees (the tuition charged to students after financial aid and discounts are applied) in 2023-24. Net tuition and fees peaked at $4,230 in 2012-13 and have since declined. Today's net tuition costs are lower than they were in the mid-2000s. The average net tuition and fees that students pay at public two-year institutions is -$330 in 2023-24. This reflects that the average student receives sufficient grant aid to cover tuition and fees and has additional funds to put towards broader cost of attendance expenses. Net tuition and fees were $760 in 2006-07, the highest mark in the most recent range calculated by the College Board. Net tuition dropped as low as -$690 in 2010-11 and -$680 in 2021-22.

TRENDS IN FEDERAL LENDING AND STUDENT DEBT

The student loan program has long been a key component of the federal role in financing higher education. There is a recognition that some forms of higher education, especially graduate education, cost more than

public funding can reasonably support and students and families can afford on modest incomes. Federal lending allows students to access any institution of their choosing without regard to credit history or current income levels.

Americans collectively owe $1.753 trillion in student loans. Student debt has more than tripled since 2006, when Americans owed $481 billion. Students borrowed $83.5 billion in 2022-23, including $44.1 billion for undergraduate education and $39.4 billion for graduate education. Total annual borrowing through federal loans peaked in 2012-13 at $129.7 billion and has since declined. Since this peak, annual undergraduate borrowing has significantly declined by 48%, or $41.5 billion. The share of graduate debt has grown steadily over time. The Congressional Budget Office (CBO) reported that graduate debt made up nearly 47% of all federal student debt in 2017.

Among the more than 46.2 million federal borrowers, more than half (54%) owe less than $20,000 and account for 12% of total federal debt. Nearly one-third of borrowers owe less than $10,000. However, borrowers with balances greater than $80,000 hold 47% of total federal debt despite comprising only 10% of all borrowers. Nearly 50% of students who graduated from public four-year institutions borrowed with an average cumulative debt per borrower of $27,400.

One-third of federal borrowers have debt but no degree. These borrowers are more likely to have borrowed less than $10,000 and are more likely to default on their student loans. In the second quarter of 2023, 6.5 million borrowers, or 15% of all borrowers, were in default status on their federal student loans.

Over time, the federal government has implemented programs that make up a "safety net" for borrowers who struggle to repay their loans. This combination of federal programs—providing repayment assistance, loan forgiveness due to exceptional circumstances or completion of public service, and repayment waivers during national emergencies—represents a critical advantage that federal lending holds over private lending. However, the implementation of these programs has been uneven and have left borrowers struggling to access its benefits. Federal repayment and forgiveness programs are often hard to access and navigate and choosing a repayment plan can be quite confusing.

A flurry of reforms over the past three years have sought to address the numerous challenges borrowers have faced in accessing the benefits of the federal student loan program. These reforms have allowed millions of borrowers to access the benefits of the student loan safety net and have greatly expanded federal spending on loan forgiveness.

Since 2021, the Department of Education has forgiven $168.5 billion in student debt for 4.76 million borrowers through these reforms to existing forgiveness and repayment programs. This includes $56.1 billion through income-driven repayment, $69.5 billion for Public Service Loan Forgiveness, $28.7 billion through Borrower Defense to Repayment, and $14.1 billion through the total and permanent disability discharge. The average loan balance discharged through these programs is over $35,000.

The Department of Education recently implemented its most generous income-driven repayment program yet, the Saving on a Valuable Education, or SAVE, plan. The Department has also proposed nine new one-time relief polices through a rule proposed in April 2024. The rule generally seeks to provide relief to borrowers whose balances have grown over time and would forgive debt for borrowers who are otherwise eligible for forgiveness under existing programs but are not enrolled.

TRENDS IN HIGHER EDUCATION GOVERNANCE

State legislators retain significant authority to oversee the mission and funding of postsecondary education institutions in their states. Through this oversight, state legislators can promote accountable, value-driven postsecondary degree and credential programs. States have also enhanced measures of postsecondary value often through expansions or refinements of data collection and usage, as well as explicit reports on value generated by postsecondary institutions. In recent legislative sessions, states have imposed new regulatory guidelines and created protections designed to help borrowers understand their repayment options and navigate the loan servicing process.

The federal government has long played a role in accountability and transparency. To participate in federal Title IV aid programs, institutions must meet certain federal conditions, which provide the basis for the

federal interest in quality assurance and accountability. The federal government also plays a prominent role in transparency and has become the primary source of higher education data, including those related to student outcomes.

Significant increases in the cost of the loan program and concerns over institutional quality have sparked a new era of federal policymaking related to accountability and transparency. In just the past three years, the Department of Education has proposed or finalized a series of regulatory packages that have expanded the federal role in accountability in higher education. This regulatory agenda has also intersected with state policy in novel ways, particularly with regard to state authorization and overseeing student loan servicing companies.

Congressional lawmakers have also signaled interest in an increased federal role in accountability, including establishing minimum state authorization requirements. Among the more frequently discussed proposals is "risk sharing," which would require all institutions to pay back portions of the unpaid loans of their former students.

Introduction

To promote interstate collaboration and collective state leadership, NCSL's Executive Committee created the Task Force on Higher Education Affordability and Student Outcomes in 2022. This bipartisan task force consists of 29 legislators and four legislative staff from 32 states, with each legislator member serving as chair of a committee that deals with higher education or having been nominated by their chamber's leadership.

The NCSL Task Force on Higher Education has taken on three broad charges:

First, the task force will assess the performance of the national higher education system. While each state sets its own goals for higher education, it is vital for legislatures to collectively evaluate the results of their efforts. To make effective policy, legislators must better understand the challenges, and the root causes of those challenges, that stand in the way of meeting the expectations and goals of higher education.

- This will be detailed in Part I: Trends in Higher Education: Understanding Policy and Outcomes

Second, the task force will serve as a forum for states to articulate the roles and responsibilities of the federal government in higher education. Unlike in K-12 education, the states and the federal government historically do not have a direct relationship in higher education—states and the federal government functionally work in parallel but rarely in partnership. The state and federal roles lack coordination; while states have used federal programs to complement their own approaches, there are overlapping authorities that invite confusion or even conflict. As federal policy evolves, states must clarify where and how federal policy can best complement and support state policymaking, and the higher education system more broadly.

- This will be detailed in Part II: The State-Federal Relationship in Higher Education

Finally, the task force will propose bipartisan recommendations that could make college more affordable for students and taxpayers, improve completion rates and reduce rates of unrepayable student debt. The recommendations seek to inform a long-overdue reauthorization of the Higher Education Act, last updated in 2008. In recognition of the shared responsibilities of higher education, the task force will outline its thoughts on how higher education can evolve and suggest broad state policy priorities for consideration by legislatures.

- This will be detailed in Part III: A State-Led Strategy to Enhance the Value of Degrees

The NCSL Task Force on Higher Education hopes its work and this report provide clarity and urgency for policymakers and leaders in higher education, allowing them to work better together to ensure the promise of a higher education is made true for more Americans.

Section I
The State of the Higher Education System: Understanding Trends in Student Outcomes and Affordability

Student Outcomes

ENROLLMENT TRENDS

Recent federal data shows about 15.4 million students enrolled in undergraduate education and 3.2 million students enrolled in graduate education. Female students account for 58% of the total undergraduate enrollment and male students 42%. The overall undergraduate population was 52% white, 22% Hispanic, 13% Black, 7% Asian, 4% two or more races and 1% American Indian/Alaska Native.

Between 2012 and 2022, the overall undergraduate enrollment population decreased by 2.4 million students, a 13.5% drop. Over this decade, enrollment decreased every year, but declines significantly accelerated during the COVID-19 pandemic. In fact, nearly half of the total enrollment drop over the past decade occurred between fall 2019 and 2021. However, enrollment in graduate programs increased by over 10%, a gain of 300,000 students.

The immediate college enrollment rate for high school graduates was 62% in 2022. During the 2010s, the year-by-year rate ranged from 66% to a peak of 70% in 2016. In 2022, 66% female high school graduates enrolled in college, compared with 57% of male graduates.

Overall, nearly 77% of undergraduates attend public two- or four-year institutions. An additional 17% of students attend private four-year institutions, and the remaining 5% of students are mostly enrolled in for-profit two- and four-year institutions.

About 70% of undergraduate students attend four-year institutions, and nearly three-fourths of these students attend public four-year institutions. Over the past decade, enrollment in four-year institutions has slightly increased, rising 2% from 2012 to 2022.

Most students at four-year institutions (73%) attend on a full-time basis. Among the students attending on a full-time basis at public four-year institutions, 91% were younger than 25. Of those attending part-time, 62% were under 25.

According to NCES, "The racial/ethnic makeup of enrollment at public four-year institutions was most representative of the racial/ethnic makeup of enrollment of the undergraduate population overall." Among recent high school graduates, 51% of female students immediately enroll at four-year institutions compared with 38% of male students.

About 30% of undergraduates attend two-year institutions. Over the past decade, enrollment in two-year institutions has decreased 35%, a loss of nearly 2.5 million students.

In contrast to four-year enrollees, most students at two-year institutions (65%) attend on a part-time basis. Among the students attending on a part-time basis at public two-year institutions, 64% were younger than 25. Among full-time enrollees at two-year public institutions, 79% were under 25. The immediate enrollment rate among high school completers at two-year institutions decreased 29% from 2012 to 2022.

Compared with the overall racial and ethnic makeup of the undergraduate population, public two-year institutions enroll a relatively higher percentage of Hispanic students.

ATTAINMENT AND COMPLETION TRENDS

Education attainment rates have increased steadily over time. Today, nearly 38% of adults have a bachelor's degree or higher. Half of those ages 25 to 29 have at least an associate's degree, an increase of over 7

percentage points over the past decade. Among this cohort, 40% have a bachelor's degree or higher, and 11% have at least a master's degree.

In 2021-2022, American institutions awarded 5.1 million degrees, including over 4 million degrees and certificates at the undergraduate level. Across all institutions, the national completion rate within six years is 62.2%, which has not changed since 2015.

Despite modest gains in attainment, nearly 42 million Americans have "some college, no credential." This population represents 18.1% of the total U.S. population aged 18 to 64.

In the most recently reported year, four-year institutions awarded 2 million bachelor's degrees, a 12% increase over the past decade. Among bachelor's degrees awarded, some of the most popular fields of study include: science, technology, engineering and mathematics, or STEM fields (22%); business (19%); health professions (13%); social sciences and history (7%); and psychology (6%). Over the past decade, degrees related to health professions increased 62% and engineering increased 51%. Among the top six fields of study, only social sciences and history saw a decline in degrees awarded (-15%).

The graduation rate for first-time, full-time students at four-year public institutions is 49.1% within four years, 60.1% within five years and 63.5% within six years. Graduation rates at public four-year institutions generally improve as admission selectivity increases. The six-year graduation rate for open access four-year institutions was about 27%, but it was more than 91% for schools with acceptance rates below 25%.

Graduation rates at public institutions also vary by race: Asian students have the highest six-year graduation rates (76.5%), followed by white students (66.5%), Hispanic students (58.1%) and Black students (46.2%).

Overall graduation rates have increased steadily over the last 30 years at four-year institutions. The overall six-year graduation rate at public institutions has increased from 55.4% in the mid-1990s to 63.5% today. While completion gaps between races persist, students of all races are graduating at higher rates today than in the mid-1990s. In particular, Hispanic students are graduating at rates nearly 13.6 percentage points higher in the most recent cohort compared with cohorts in the mid-1990s.

In the most recently reported year, two-year institutions awarded about 1 million certificates and 1 million associate's degrees. The number of certificates awarded has increased 5% over a decade, while the number of associate's degrees declined by 1%.

Among associate's degrees awarded, some of the most popular fields of study include: general studies, liberal arts, humanities (38%); health professions (18%); business (11%); and STEM (8%). Over the past decade among the six most popular fields of study, only general studies and the humanities saw an increase (14%) while the remaining five fields saw decreases, including health professions (17%) and business (21%).

A federal report found that the six-year completion rate for public two-year institutions was 43.4% and an additional 11.2% of students were at least still enrolled in higher education. The graduation rate for full-time, first-time students seeking a certificate or associate's degree at a two-year public institution within 150% of normal time (i.e. three years for a two-year associate's degree) was 30.2% for the most recent cohort. This graduation rate metric has increased year over year from 19.5% in 2010.

Graduation rates at two-year public institutions also vary by race: Asian students have the highest normal time graduation rates (42%), followed by white students (35.1%), Hispanic students (25.9%) and Black students (19%). However, given that more students enroll in community colleges on a part-time basis, this federal data is not considered comprehensive since it only captures full-time students.

Many students also enter community colleges with the intent to transfer, which makes tracking student outcomes for two-year institutions more difficult. A recent study found that 33% of community college students transfer to a four-year institution but that only 48% ultimately earned a bachelor's degree within six years of original enrollment. As such, only 16% of community college enrollees ultimately earn a bachelor's degree.

ECONOMIC BENEFITS OF A COLLEGE DEGREE

For most graduates, a higher education continues to offer clear and substantial benefits. Those who complete increasingly higher levels of education typically receive higher wages and experience lower levels of unemployment. The wage premium for a higher education remains substantial: The average college graduate with a bachelor's degree earned about $78,000 in 2019, compared with $45,000 for the average worker with only a high school diploma. However, this wage premium has declined somewhat over time. In addition, wage gaps persist by race and gender at all levels of education attainment.

While higher education is generally a good investment, the economic benefits of a degree vary by institutions and programs. In recent years, the proliferation of federal data through efforts such as the College Scorecard and the emergence of longitudinal data systems in some states has produced a trove of new findings that shed light on the return on investment for a degree. These data confirm the longstanding evidence for the broad benefits of higher education but show that not all students who receive degrees benefit from their investment.

Data from a Third Way study found that 87% of the 24,151 programs offered at public colleges and universities provide a positive return on investment for students. Yet more than 3,100 programs (13%) do not offer any return on investment, and another 2,600 programs (14%) take at least 10 years and as long as 20 years for students to recoup costs.

While degree type matters significantly for earnings, evidence has found that a range of programs offer return on investment over time. A study from the Georgetown Center of Education and the Workforce found that community colleges and many certificate programs have the highest returns in the first 10 years after enrollment, but that most bachelor's degrees offer higher returns over time. Another study by David Deming found that STEM degrees initially offer a substantial wage premium, but graduates in other programs such as the social sciences catch up over time.

Recent analysis by the HEA Group found that two-thirds of all programs show that most of their students earn at least $40,000 within four years of graduating. However, at least 13% of programs show most graduates earning less than $30,000.

College Affordability

COLLEGE PRICING

In 2023-24, the average published tuition and fees at public four-year universities for in-state tuition was $11,260, according to the College Board's *Trends in College Pricing* report. Published prices peaked in 2014-15 after nearly doubling over the previous two decades but have since declined nearly 12% from the peak.

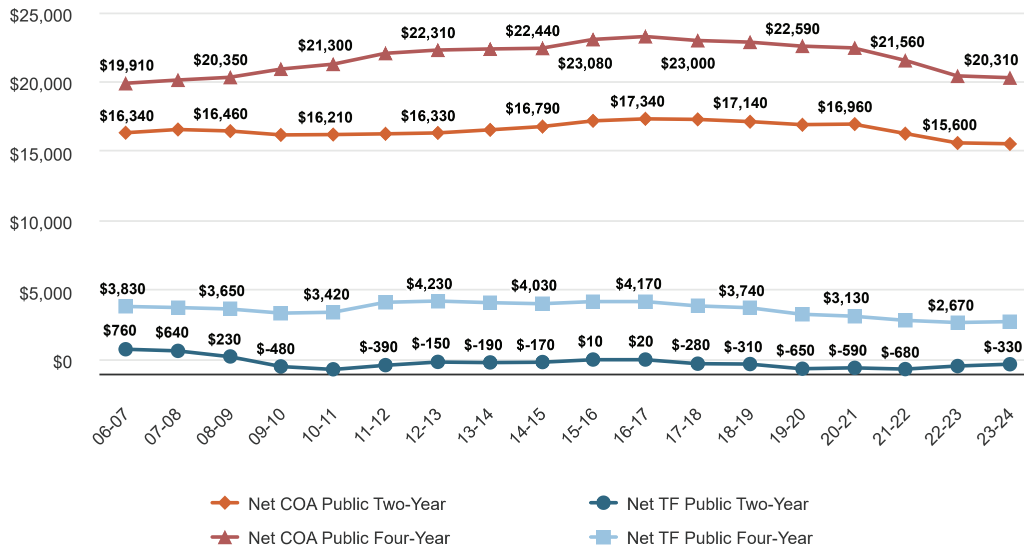
Students at public four-year institutions paid an average of $2,730 net tuition and fees (the tuition charged to students after financial aid and discounts are applied) in 2023-24. Net tuition and fees peaked at $4,230 in 2012-13 and have since declined. Today's net tuition costs are lower than they were in the mid-2000s.

Lower net tuition prices are the result of increases in state, federal and institutional grant aid for students over the past 20 years. Institutional grant aid accounted for nearly 49% of the total $9,360 in grant aid per first-time full-time student in the public four-year sector. Overall, 80% of students attending four-year public institutions received some form of grant aid. In 2019-20, 31% of full-time in-state students at public four-year colleges received enough grant aid to cover their tuition and fees, including 64% of those from families with incomes of less than $40,000.

After factoring in grant aid and including non-tuition expenses, estimated average net cost of attendance at public four-year institutions was $20,310 in 2023-24. Of the total average net cost of attendance, 13% is attributed to net tuition and fees. This total is similar to net costs in 2008-09. Net costs peaked at $23,290 in 2016-17 and have since declined.

In 2023-24, the average published tuition and fees at public two-year institutions for in-district tuition was $3,990. Published prices peaked in 2020-21 after increasing nearly 75% over the previous two decades.

Average Net Price: Public Two-Year and Public Four-Year Institutions



Source: College Board, Annual Survey of Colleges, NCES, IPEDS Student Financial Aid data.

The average net tuition and fees that students pay at public two-year institutions is -$330 in 2023-24. This reflects that the average student receives sufficient grant aid to cover tuition and fees and has additional funds to put towards broader cost of attendance expenses. Net tuition and fees were $760 in 2006-07, the highest mark in the most recent range calculated by the College Board. Net tuition dropped as low as -$690 in 2010-11 and -$680 in 2021-22.

In 2020-21, 76% of students enrolled at a two-year institution received federal, state or institutional grant aid; The Pell Grant awarded 54% of the total aid.

After factoring in grant aid and including non-tuition expenses, estimated average net cost of attendance at public two-year institutions was $15,540 in 2023-24. All of the total average net cost of attendance is attributed to expenses beyond tuition and fees. The 2023-24 net total costs are the lowest in the 18 years tracked by the College Board. Net costs peaked at $17,340 in 2016-17.

REVENUES AND SPENDING

In 2019, the U.S. spent $37,400 per student on postsecondary education, more than double the average of OECD countries and second only to Luxembourg. By comparison, the U.S. spent $15,500 per student on elementary and secondary education.

The U.S. spends 2.5% of its GDP on postsecondary education, the second-highest rate in the world behind Chile at 2.7%. Only three OECD countries spend more than 2% of GDP on postsecondary education. U.S. spending on postsecondary education was 18% higher in 2019 than in 2010.

In 2020-21, public institutions had total revenues of $539 billion, 40% of which came from federal, state and local sources. Federal revenues increased 24% from the prior year due to federal stimulus spending. Total revenue from government sources increased 22% over the prior decade, from $17,350 in 2010-11 to $21,230.

Four-year institutions receive 28% of their revenues from state sources, 18% from federal and 10% from local. Two-year institutions receive 31% of their revenues from state sources, 27% from federal, and 20% from local sources.

During this same year, public institutions spent $450 billion. Total core expenses per full-time student (which include instruction, research, academic support and student services) were $39,330 at public four-

year institutions and $21,110 at public two-year institutions. Core expenses make up 74% of total expenses at public four-year institutions and 97% of total expenses at public two-year institutions.

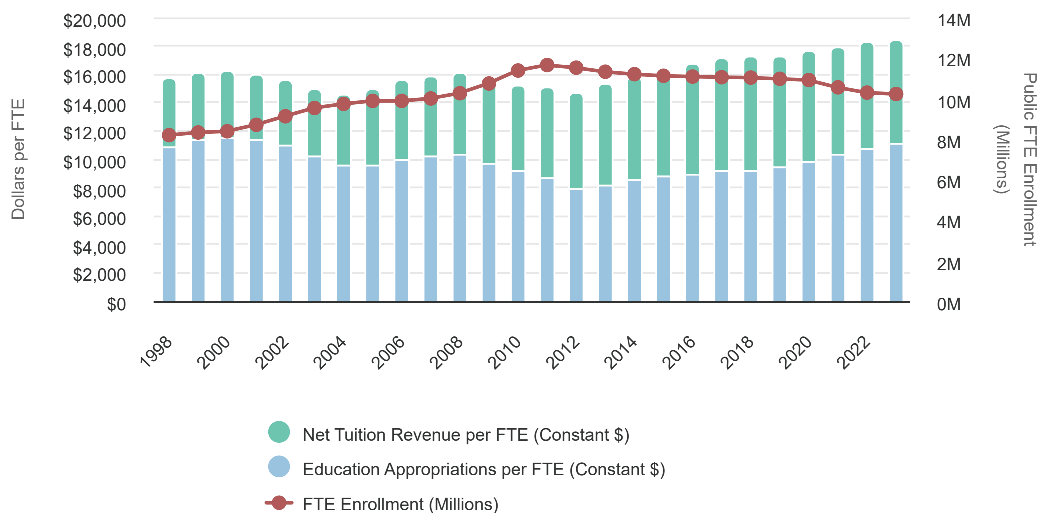
Tuition has increasingly made up a larger share of public institutional revenues compared with public spending, according to a SHEEO report. In 1980, net tuition accounted for nearly a 21% share. Today, net tuition accounts for over 40%. Notably, the student share of revenue has declined 4.6 percentage points since 2020.

Public spending accounts for 50% of the share of revenue at public four-year institutions and nearly 75% of the revenue at two-year institutions. The larger share of public spending at two-year institutions is attributable to two factors. First, two-year institutions take in nearly 34% less revenue per student than four-year institutions. Second, public spending on two-year institutions per student is slightly greater than for four-year institutions ($10,448 per student in 2023 compared with $10,238).

According to a SHEEO report, State and local spending on higher education totaled $128.1 billion in fiscal year 2023, with states accounting for $116.4 billion in spending, a 7.7% increase over the prior year. On an aggregate basis, state funding for higher education has increased year-over-year since state budgets began recovering from the Great Recession in FY 2013. Overall state spending per student has surpassed funding levels compared to levels preceding the Great Recession but remains nearly 4% below the previous all-time per student funding high set in FY 2000 of $11,492. However, half of states are still spending less per student than they did before 2008.

In FY 2023, 8.7% of state expenditures went towards higher education, trailing only Medicaid and K-12 spending as the largest single area of spending. The average share of state budgets for higher education spending from 1995 to 2023 was 10.3%. The peak share was 11.4% in FY 2000.

Public FTE Enrollment, Education Appropriations per FTE, and Net Tuition Revenue per FTE, U.S., FY 1998-2023 (Constant Dollars)



Source: State Higher Education Executive Officers Association

State funding for higher education has increased over time. Since 1980, annual state appropriations have increased nearly 66% and state spending per student has increased 11%. Since FY 2001, state appropriations are up over 14%, although current per student funding is slightly below FY 2001 levels due to increased student enrollment. Compared with 2000, public institutions now enroll over 1 million more students, an increase of around 13.5%.

However, state funding has not been consistent as periodic economic downturns have strained state budgets, which has led to periods of lower public support for higher education. The most precipitous

decline took place during the Great Recession from FY 2009 to FY 2013: Per student spending in 2013 was 29% below pre-recession highs and nearly 19% lower than state funding in 1980.

While state spending on higher education has been resilient and continued to increase over time, rising college costs have outpaced state appropriations. Since 1980, net tuition revenue per student has increased by nearly 180%.

In FY 2022, the federal government provided nearly $84 billion in direct support for higher education, including $29.7 billion in financial aid and institutional support; and $54.1 billion in research funding. This support does not include temporary funding through the Higher Education Emergency Relief Fund (HEERF), federal expenditures related to student loan repayment assistance or forgiveness, higher education tax credits or veterans benefits.

The Pell Grant has long been the federal government's primary source of support for defraying the cost of college. On a per student basis, the Pell Grant has largely received stable funding over decades. The maximum Pell Grant award is $7,395 for 2024-25, which is 10% higher than in 2003-04. Based on the most recent data, the average Pell Award in 2022-23 was $4,510, and over 6 million students received some Pell award.

However, the purchasing power of Pell has declined over time due to rising college costs. The maximum Pell Grant covers 66% of average published in-state tuition and fees and 31% of average tuition, fees, housing and food at public four-year colleges and universities. Nearly 20 years ago, the maximum Pell covered 87% of published in-state tuition and 38% of tuition, fees, housing and food costs. Yet nearly 57.5% of students who receive a Pell Grant at in-state public universities pay no tuition and fees because of additional sources of state and institutional aid.

Going back to the mid-1970s, the maximum Pell Grant was enough to cover three-quarters of the full costs of attending a public four-year institution, although Pell amounts were capped at 50% of expenses until 1980 and 60% of expenses until 1993, when the limits were removed.

Student Debt

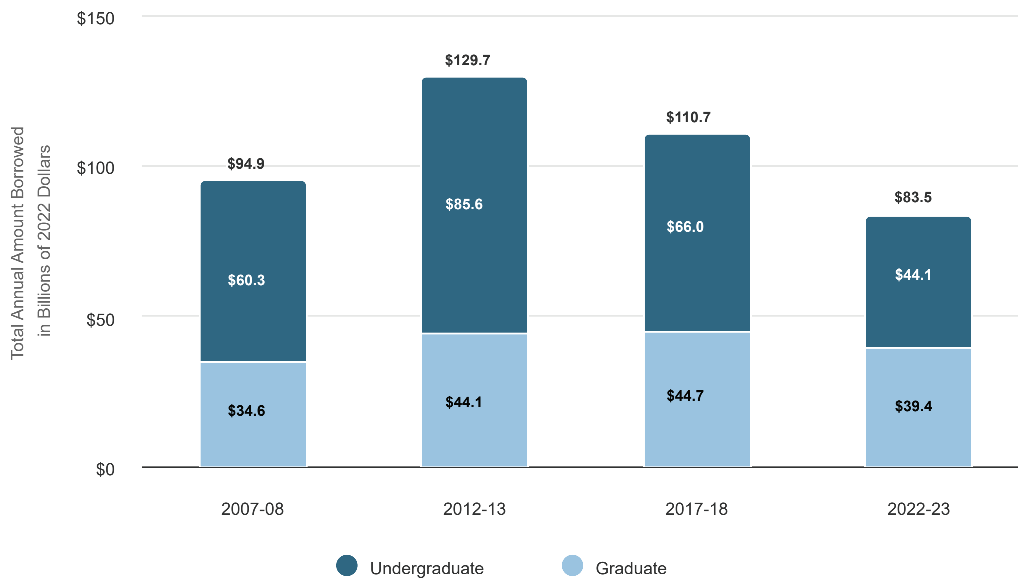
NATIONAL STUDENT DEBT

Americans collectively owe $1.753 trillion in student loans. Total student debt briefly peaked at $1.775 trillion in early 2023 and has declined slightly over the past year, likely due to federal loan forgiveness programs. Student debt has increased by nearly 57%, or over $630 billion, over the past decade. Student debt has more than tripled since 2006, when Americans owed $481 billion.

Among the more than 46.2 million federal borrowers, more than half (54%) owe less than $20,000 and account for 12% of total federal debt. Nearly one-third of borrowers owe less than $10,000. However, borrowers with balances greater than $80,000 hold 47% of total federal debt despite comprising only 10% of all borrowers.

Students borrowed $83.5 billion in 2022-23, including $44.1 billion for undergraduate education and $39.4 billion for graduate education. Total annual borrowing through federal loans peaked in 2012-13 at $129.7 billion and has since declined. Since this peak, annual undergraduate borrowing has significantly declined by 48%, or $41.5 billion.

Total Annual Amount Borrowed from Federal Loans



Source: College Board

Annual borrowing on graduate education remained steady for much of the 2010s, but has more recently declined and is now 11% below 2012-13 levels. The share of annual loans to graduate education rose from 36% in 2007-2008 to 47% in 2022-23. A report from the U.S. Department of Education noted that annual borrowing on graduation may soon surpass undergraduate borrowing.

The Congressional Budget Office (CBO) reported that graduate debt made up nearly 47% of all federal student debt in 2017. As annual borrowing for undergraduate education has fallen faster than graduate borrowing in recent years, it is possible today that debt for graduate education accounts for as much of the national student debt as undergraduate borrowing.

The CBO estimates that students will take out $1.1 trillion in federal loans over the next decade, with slightly more than half going toward graduate education.

BORROWER BALANCES

While most graduate students borrow to finance their education, only 25% of undergraduate students borrow through federal student loan programs, down from 38% in 2011-12 and near similar levels in 2002-03.

Nearly 50% of students who graduated from public four-year institutions borrowed with an average cumulative debt per borrower of $27,400. Among recipients of associate's degrees and certificates at public institutions, only one-third of students borrowed to finance their education. In 2022-23, undergraduates receiving federal loans borrowed an average of $6,520, which is $1,580 less than a decade prior.

According to federal data, graduate school completers with debt in 2016 borrowed $66,502. Including undergraduate debt, the average borrower balance among graduate completers was $88,832.

Federal data shows the average bachelor degree recipient owes $45,300 four years after graduation. This balance could include additional borrowing for graduate education or growth from accumulated interest. However, Black borrowers owed $58,400, and borrowers who had received a Pell Grant owed $47,100. Black borrowers were the only group whose average amount borrowed was greater after four years. While Asian borrowers had higher than average balances ($49,100), they owed far less than their peers compared with their original balance four years earlier.

BORROWER DEFAULT

One-third of federal borrowers have debt but no degree. These borrowers are more likely to have borrowed less than $10,000 and are more likely to default on their student loans.

In the second quarter of 2023, 6.5 million borrowers, or 15% of all borrowers, were in default status on their federal student loans. These borrowers hold 9% of total federal student debt and have an average balance of $21,500. Default rates are higher for borrowers with low balances. Two-thirds of those who defaulted owed $10,000 or less.

A national survey from The Pew Charitable Trusts found that about one-third of federal student loan borrowers surveyed reported experiencing default over the past two decades. Among many findings, the survey found that Black and Hispanic borrowers, as well as older borrowers, were more likely to default.

Section II
The State Role in Higher Education: A Brief History and Recent Trends

State governments have funded, managed and governed higher education institutions for more than 200 years. States have long supported and championed the low-cost, open-access institutions that have awarded millions of degrees over the past century. As postsecondary enrollment dramatically expanded in the 20th century, state colleges and universities provided the foundation to support the growing number of students. After World War II, state universities continued to expand enrollment as well as vital research and scholarship. State elected officials have played a key role in the oversight and expansion of this system to support students, families and state economies.

In this capacity, states wield considerable influence over the operation of public colleges and universities, including controlling funding, setting tuition pricing, creating financial aid programs and overseeing campus safety. Given that nearly 3 in 4 undergraduate students attend a public postsecondary institution, these state policy actions have tremendous impact on students pursuing a college degree or credential.

The State Role in Higher Education: Funding and Finance

State policymakers play an essential role in developing, funding and overseeing an affordable higher education system. State spending on higher education is a significant expenditure for policymakers. In fiscal year 2023, 8.7% of state expenditures went to higher education, trailing only Medicaid and K-12 spending as the third-largest area of spending. In total, state governments spent more than $112 billion to support higher education institutions and programs in FY 2023, according to the State Higher Education Executive Officers Association.

Most of these funds are appropriated directly to colleges and universities, but states also offer a robust and growing range of financial aid programs to support students. Additionally, many state lawmakers have authority over tuition and fees at public institutions, as well as broader governance of postsecondary institutions that can impact affordability. Taken together, state policymakers provide significant support and funding to postsecondary institutions that serve the students in their states.

DIRECT INSTITUTIONAL SUPPORT

In FY 2022, more than 78% of total state funding for higher education was appropriated to institutions, with all states allocating at least half of funding through direct appropriations. Specific appropriations to research, agriculture and medicine programs were about 10% of state funding and state financial aid programs comprised nearly 9% of state funding.

Unlike their federal counterparts, state policymakers must balance their budgets and often face challenging shortfalls, particularly during recessions. Despite these challenges, state funding for higher education has increased for 11 straight years, and funding per student now exceeds pre-Great Recession levels. State appropriations comprise roughly 18% of revenue at public four-year institutions and nearly half of revenue at public two-year institutions.

Each state funds higher education institutions using unique funding formulas, often varying even within a state. In 2021, just 17 states used a similar model for funding two-year and four-year institutions. Historically, most states based higher education funding on how many full-time equivalent students were enrolled at the institution each semester. Over the past several decades, a growing number of states have sought to expand higher education funding formulas beyond enrollment numbers by considering inputs such as enrollment of low-income or first-generation students, or metrics such as number of degrees awarded. When outcome and completion metrics are used, a funding model is generally considered to be performance-based.

By 2020, at least 31 states had performance-based funding models for higher education. However, in most states, performance-based funding accounts for a relatively small portion of appropriations to institutions. In 2021, just 9.4% of public higher education funding was allocated via performance-based models nationwide.

States continue to iterate, reform and refine their higher education funding formulas. Recent legislation has focused on adding new metrics or modifying inputs to target funding more effectively to institutions serving particular students. States have also explored a variety of funding models that reward positive outcomes and shift cost burdens away from students and families.

STATE FINANCIAL AID PROGRAMS

States spend nearly $15 billion annually on state-run financial aid programs to support students pursuing a postsecondary degree or credential of value. While the structure, scale and funding of these programs vary drastically by state, aggregate funding for state financial aid programs has increased steadily, including a 2.5% rise from FY 2022 to FY 2023. Additionally, the vast majority of state financial aid is distributed as grants, and most states offer a need-based grant for undergraduate education.

When designing financial aid programs, state policymakers have a range of options related to eligibility, amount of funding and alignment with other financial aid sources. Nearly all programs require residency or high school graduation within a state as a basis for eligibility. A growing number of state programs are need-based, although large legacy merit-based programs remain common, particularly in states using lottery revenue as a funding mechanism. Some programs cover tuition and fees only after other sources of aid, including Pell Grants, are applied. Other programs offer more expansive coverage of costs beyond tuition, including books, course materials and food. Using these elements, states design programs that integrate with other scholarships and align with state education and workforce goals.

In recent legislative sessions, states have passed a wide range of new financial aid program policies and modified existing programs. These efforts have included new programs focusing on short-term credentials, workforce development programs targeting in-demand professions, and structural changes providing additional flexibility. States continue to expand access to programs in areas of workforce needs.

Additionally, all 50 states have at least one local or statewide promise program, with several states having enacted statewide programs in recent years. While promise programs vary widely in structure, the central idea of funding a student's postsecondary education, is an extension of decades of state financial aid policy. Notable promise programs have seen increases in postsecondary enrollment and completion rates, and several states have developed targeted programs for adult learners and other populations.

GOVERNANCE

Through control of appropriations and governance, state elected officials have additional powers to influence affordability for students and families. As of early 2024, nearly a dozen states had established tuition caps or freezes in state statutes. Most states implementing a tuition cap created a freeze (limiting tuition to the previous year's level), mandated a fixed percentage increase or created a measure tied to a

certain inflation rate. States can also create requirements for higher education institutions to disclose or limit required fees for select students.

STUDENT LOAN FORGIVENESS

State loan forgiveness or repayment programs help borrowers reduce their debt while offering incentives for talented, in-demand students and recent graduates to live, work and stay in their states. Loan forgiveness at the state level is drastically different from large-scale federal forgiveness programs. State loan forgiveness programs provide borrowers with debt relief or payment support in exchange for work or service in specific professions or fields for a period of time. Occupations vary by state but commonly include health care professionals such as nurses, doctors or veterinarians, as well as teachers and educators. States are also considering loan forgiveness as part of broader talent-retention programs, especially in rural and other high-needs areas. While program design and implementation vary by state, nearly all bills provide gradual relief over time and most bills cap the amount of forgiveness a single borrower can receive. Since 2015, states have considered more than 380 bills related to the creation, modification or expansion of student loan forgiveness programs.

TAX INCENTIVES AND OTHER MEASURES

State tax incentives help borrowers address repayment challenges. Many states have created tax credits for student loan debt payments or interest. Some states are also looking to align student loan tax credits more closely with employers and broader statewide retention strategies. These bills aim to support employers who pay portions of their employees' student loans or support workers in certain professions or industries. These programs attempt to target many young adults' substantial student loan debt balances and provide incentives to help them repay that debt. For businesses, this offers an opportunity to both attract and retain talent. Since 2018, states have considered more than 85 bills related to tax credits or deductions for student loans.

While most lending originates at the federal level, states manage broad financial aid programs that can include state loan programs. At least a dozen states offer some form of state-run student loan program. These state-run programs can offer lower interest or fee-free loans to students attending school in the state, often with maximum lending amounts.

States can also create tax incentives to promote saving for a postsecondary education. At least 37 states and Washington, D.C., offer a tax deduction or credit for contributions to an eligible 529 plan. A 2017 analysis from the Brookings Institution found that 24 states spent $265 million per year on tax incentives for 529 plans. Since 2015, at least 14 states have created programs to provide initial grant deposits to parents who open 529 accounts.

The State Role in Higher Education: Supporting Student Outcomes

CONSUMER PROTECTION

Student loan terms and repayment options are often confusing for borrowers. A 2018 survey found that more than 1 in 3 student loan borrowers had difficulty accessing information about their loans and repayment status. The same survey found 59% of borrowers experienced unclear guidance about their repayment situation and options from loan servicers.

In recent legislative sessions, states have imposed new regulatory guidelines and created protections designed to help borrowers understand their repayment options and navigate the loan servicing process. In 2015, Connecticut became the first state to implement a "student loan borrower bill of rights." The bill required student loan servicers to be licensed and registered with the state Department of Banking; the appointment of a student loan ombudsman to track and address borrower complaints and collect data regarding student loan debt; and the creation of a borrower information course for students and families.

Other states have created new licensure and lending requirements for student loan servicers. The requirements include rules for payment processing time, requirements to correct errors, and rules mandating that consumers be informed of available repayment options.

Confusion around borrowing extends to private student lending, which is generally less regulated, provides fewer protections for borrowers and publishes less accessible data than federal student loan programs. Nationwide, students owe more than $120 billion in private student loans, comprising 8.4% of total student borrowing. More than 88% of private loans issued are for undergraduate education. Private student lending has increased more than 70% from 2010-2020, according to the Student Borrower Protection Center.

At least five states have passed legislation to address private student lending, including Illinois in 2021. The law, known as the Know Before You Owe Private Education Loan Act, requires private lenders to obtain information about the borrower from the college or university. Before educational institutions provide this information, they must provide the student with resources about other forms of financial aid, including scholarships and federal student loans, as well as information about the private lending process. The act also requires private lenders to provide statements to borrowers every three months, and outlines requirements for these statements. Private lenders must also provide annual reports to the state Department of Financial and Professional Regulation regarding loans made in the state.

ACCOUNTABILITY AND TRANSPARENCY

State legislators retain significant authority to oversee the mission and funding of postsecondary education institutions in their states. Through this oversight, state legislators can promote accountable, value-driven postsecondary degree and credential programs. States such as New Jersey and Arkansas have implemented review programs. New Jersey's legislation established new requirements for academic programs, including sufficient academic quality, evidence of labor market demand, lack of duplication and requirements for additional state resources. The legislation also creates requirements for establishing a new location or branch campus. These requirements are overseen by the secretary of higher education. The legislation also addresses the development of teach-out plans at proprietary institutions in preparation for potential closures. New Jersey has also passed legislation to create gainful employment standards for career-oriented programs.

States have also enhanced measures of postsecondary value often through expansions or refinements of data collection and usage, as well as explicit reports on value generated by postsecondary institutions. Since 2022, states have considered more than 50 bills impacting postsecondary data collection, governance and usage. Several states, including Colorado, Illinois and Maryland, have passed significant legislation on the development of longitudinal data systems. In 2018, Colorado required the state Department of Higher Education to publish an annual return on investment report for undergraduate degree and certificate programs. The state's value framework considers such factors as price, debt, choice and value on both a public and a personal basis.

The higher education landscape continues to face fiscal pressure, with financial rating agencies expressing concerning outlooks for the sector moving forward. College closures can have significant effects on students who are working to attain a degree. Only 17% of students who are displaced by a college closure go on to earn a degree or credential, according to a report from the National Student Clearinghouse and SHEEO. In response, state legislators have passed measures to provide institutional oversight and financial monitoring, management of mergers and consolidations, and development of contingency plans for institutions that do close.

The importance of postsecondary institutions extends beyond states, as localities receive significant benefits from colleges as regional economic engines. A McKinsey Global Institute report predicted that "college-centric" towns may see 11% employment growth over the next decade and found that counties with higher levels of education are positively positioned for stronger job growth. The importance of postsecondary schools to local economies, regional economic development and statewide workforce readiness underscores the continued role state lawmakers play in supporting these institutions.

INNOVATION AND IMPROVEMENT

Today's college student population is more diverse than any previous generation by age, race and income level. Students are increasingly mobile, many live off campus, and they often have work and family responsibilities in addition to their educational goals. College tuition and fees are just a portion of what

most students spend to attend public two- or four-year institutions. Helping today's students navigate available assistance with nontuition costs such as housing, food, child care and transportation is a growing area of state legislative activity.

Efforts include hunger-free-campus programs, which have been enacted in at least eight states in recent years. Several states, including California, Tennessee and Georgia, have created emergency programs to provide targeted amounts of financial aid (generally under $3,000) to students facing unexpected expenses that could derail a postsecondary education. States have also created homelessness liaisons, affordable housing initiatives and scholarship programs for foster students. State officials and postsecondary institutions are working to connect students with federal public benefits programs that can support postsecondary success. For example, Oregon has created benefits navigators to assist students and a statewide consortium to foster coordination and best practices among benefits navigators across institutions.

Section III
The Federal Role in Higher Education: A Brief History and Recent Trends

The federal government has an important role to play in the success of our higher education system. Historically, landmark federal programs have served as watershed moments in the development of our higher education system.

Many of our nation's public colleges and universities were founded by states through the federal Morill Land Grant Acts of 1862 and 1890. Decades later, the GI Bill played a role in establishing college as a pathway for all Americans by providing financial aid to servicemen returning from World War II. In the wake of Sputnik's launch, the National Defense Education Act of 1958 promoted the national importance of higher education, especially in STEM subjects, and established the first need-based federal student lending program.

This notion would be further expanded upon in 1965 with the passage of the Higher Education Act, which among many other purposes, furthered the notion that college should be accessible to all Americans, regardless of income. The Higher Education Act of 1965 and its reauthorization in 1972 established federal programs to provide need-based financial aid, including the Pell grant, alongside the TRIO student success programs, Federal Work Study program, funding for minority-serving institutions, along with other policies and programs.

These policy achievements established a federal role in higher education and have largely defined its role in keys way to this day.

The Federal Role in Higher Education: Funding and Finance

FUNDING AND AFFORDABILITY

The federal government has long played a complementary role to states in making college more affordable for students and families. The Federal Work-Study program, established in 1964, and the Higher Education Act of 1965, which created the Supplemental Educational Opportunity Grant, provided money to colleges to allocate to students. The programs are still in operation, although their annual funding, at $1.23 billion and $910 million, respectively, is modest.

In 1972, the federal role in college affordability evolved significantly with the creation of the Basic Educational Opportunity Grant, now known as the Pell Grant, which provides need-based aid to students to attend nearly any university of their choosing.

The Pell Grant has formed the bedrock of the federal role in affordability and is by far the most substantial federal program that directly lowers the price of college for students. Over time, income eligibility for the Pell Grant has expanded—the most recent expansion was made available for the 2024-25 award. Funding for the program has been fairly stable over time. The maximum Pell award has increased, albeit quite modestly, over the past 20 years and remains at a similar level to the award in 1978 when adjusted for inflation.

The federal government has for decades provided direct institutional support to minority-serving institutions through Title III in the Higher Education Act. That support totaled over $1 billion across 11 programs in FY 2024.

The federal government has also provided fiscal relief for states and emergency funding for higher education, where the aid is vital because higher ed is often the balance wheel for budgets when states must cut spending during economic downturns. The American Recovery and Reinvestment Act of 2009 provided some measure of fiscal relief for higher education through the State Fiscal Stabilization Fund, and significantly increased the maximum Pell award. During the COVID-19 pandemic, Congress funded a $75 billion Higher Education Emergency Relief Fund, which allowed institutions to distribute emergency aid to students and reserve funds for emergency expenditures and maintenance operations during enrollment declines. Congress also funded stimulus programs that likely boosted state tax revenues, and thus state higher education funding, such as enhanced unemployment insurance benefits, stimulus checks, and the State and Local Fiscal Relief Fund.

FINANCE

The student loan program has long been a key component of the federal role in financing higher education. There is a recognition that some forms of higher education, especially graduate education, cost more than public funding can reasonably support and students and families can afford on modest incomes. Federal lending allows students to access any institution of their choosing without regard to credit history or current income levels.

The first federal loans were provided through the National Defense Education Act in 1958. The passage of the Higher Education Act of 1965 would expand access to federally guaranteed loans to all low- and middle-income borrowers and would later to be expanded to all borrowers, regardless of income, in 1978.

Congress established the first bipartisan income-driven repayment plan in 1993, allowing borrowers to make monthly payments based on their income rather than through a standard 10-year repayment plan, where monthly payments were based on how much they borrowed. Income-driven repayment plans also forgive the remaining balance after borrowers have made a sufficient number of monthly payments, typically after 20 to 25 years of repayment.

New income-driven repayment plans have been introduced over time, with each being more generous than the last. Income-driven repayment plans have become more popular over time as well, especially for borrowers with larger balances. Between 2010 and 2017, the borrower share of plans enrolled in income-driven repayment increased from 11% to 24% for undergraduates and from 6% to 39% for graduate borrowers. Today nearly 40% of borrowers are enrolled in an income-driven repayment plan, and over 58% of the total debt in the federal direct loan program is enrolled such plans (author's calculations based on federal data).

Other key policies in the student loan program seek to ease repayment or even discharge loan balances for borrowers. The most well known is the Public Service Loan Forgiveness program, which was established by Congress in 2007 and provides full loan forgiveness for borrowers after they make 120 monthly payments while serving the public interest by being employed in a qualifying nonprofit.

As federal student loans are nearly impossible to discharge by declaring personal bankruptcy, policies have been created to provide loan discharges due to exceptional circumstances. Borrowers who demonstrate they have a total and permanent disability that prevents them from successful repayment can apply to have their loan balance discharged. In 2022, the Department of Education established a robust "borrower defense to repayment" program, which allows individuals or groups of borrowers to seek full loan discharge

in cases where they can successfully claim they were defrauded by an institution or were enrolled when their school closed, among other circumstances.

In addition, the secretary of education can waive payments during periods of national emergency or crisis. During a pandemic-era student loan pause from March 2020 to August 2023, borrowers were exempted from repayment, saw interest accrual temporarily waived, and received automatic monthly credit toward forgiveness programs. The pause was extended seven times over 42 months and likely cost over $200 billion, with an average cost of about $5 billion a month.

This combination of federal programs—providing repayment assistance, loan forgiveness due to exceptional circumstances or completion of public service, and repayment waivers during national emergencies—makes up a "safety net" for borrowers and represents a critical advantage that federal lending holds over private lending. However, not all federal loans are eligible for some features of the safety net. For instance, Parent Plus loans are not eligible for income-driven repayment.

The federal government has woven this safety net over time but significant holes have left borrowers struggling to access its benefits. This is due in part to both the design and the implementation of various benefits provided by federal programs. More fundamentally, many student loan borrowers have simply been left unaware of benefits available to them.

Federal repayment and forgiveness programs are hard to access and navigate. For example, only 17 borrowers were approved for Public Service Loan Forgiveness in 2018. Difficulty certifying employment, among other administrative issues, prevented thousands of borrowers from receiving the benefits they thought they were eligible for.

Challenges with the byzantine nature of some federal programs may be compounded by the fact that borrowers rely on student loan servicing companies to navigate and make decisions on debt repayment options. There are numerous documented instances where borrowers were advised by a servicing company to enter a less advantageous repayment plan or were not made aware of options that could protect them from hardships.

Choosing a repayment plan can be quite confusing. The default option for repayment is the standard 10-year plan, yet there are five different income-driven repayment plans offering different terms and advantages to borrowers based on the type of loans they have and their personal financial situation. Further, the design of repayment programs, while well intentioned, has led to borrower frustration. Required payments on income-driven repayment plans are often not enough to cover the monthly principal and interest. As a result, 75% of borrowers enrolled in income-driven repayment saw their loan balances grow over time. While those balances could later be forgiven, borrowers must carry a debt that continues to grow despite payments for 20 to 25 years.

A flurry of reforms over the past three years have sought to address the numerous challenges borrowers have faced in accessing the benefits of the federal student loan program. Reforms have included offering temporary waivers and enacting permanent changes to programs including income-driven repayment, Public Service Loan Forgiveness, borrower defense to repayment, and total and permanent disability discharge. These reforms have allowed millions of borrowers to access the benefits of the student loan safety net.

Since 2021, the Department of Education has forgiven $168.5 billion in student debt for 4.76 million borrowers through these reforms to existing forgiveness and repayment programs. This includes $56.1 billion through income-driven repayment, $69.5 billion for Public Service Loan Forgiveness, $28.7 billion through Borrower Defense to Repayment, and $14.1 billion through the total and permanent disability discharge. The average loan balance discharged through these programs is over $35,000.

The Department of Education recently implemented its most generous income-driven repayment program yet, the Saving on a Valuable Education, or SAVE, plan. Borrowers who make under $32,000 a year make no monthly payments, and undergraduate borrowers will pay only 5% of their income per month above $32,000. The federal government covers any unpaid interest after a borrower's monthly payment is applied to prevent borrower balances from growing over time. Undergraduate borrowers gain access to

a shortened timeline for loan forgiveness: Those who take out less than $12,000 can have their remaining balance discharged after 10 years of payments, with an additional year of repayment added for each additional $1,000 borrowed with a maximum repayment timeline of 20 years.

The Biden administration's plan to forgive up to $20,000 for borrowers making up to $125,000 annually was struck down by the Supreme Court in June 2023. But the administration has proposed nine new one-time relief polices through a rule proposed in April 2024. The rule generally seeks to provide relief to borrowers whose balances have grown over time and would forgive debt for borrowers who are otherwise eligible for forgiveness under existing programs but are not enrolled. The department estimates that the rules would collectively provide some level of loan forgiveness for over 30 million borrowers.

The Federal Role in Higher Education: Supporting Student Outcomes

TRANSPARENCY AND ACCOUNTABILITY

The passage of the Higher Education Act in 1965 laid the foundations for the federal interest and role in accountability by creating federal student aid programs. To participate in federal Title IV aid programs, institutions must meet certain conditions, including that they receive accreditation from a recognized accrediting body and are formally authorized by each state where they enroll students. This quality assurance model known as the "triad," which delegates responsibility to states, accreditation agencies and the Department of Education, has grown over time.

Today, the federal government plays a significant role in monitoring accrediting bodies. The 1992 reauthorization of the Higher Education Act established the standards and criteria that accrediting agencies must meet to be recognized by the Department of Education, and established the National Advisory Committee on Institutional Quality and Integrity to advise the secretary of education on matters related to accreditation.

The federal government has established other accountability policies, such as the cohort default rate, which cuts off Title IV aid to institutions where 30% of borrowers in three successive cohorts default on their loans within three years. Only a small number of colleges have default rates that trigger sanctions, and the combination of recent student loan reforms aimed at lowering default rates may render this metric even less consequential. There is also the "90/10 rule," which requires that proprietary institutions receive no more than 90% of their revenue from federal sources.

The federal government plays a prominent role in transparency; in fact, the government has been collecting data on higher education since the 1870s. The federal role in transparency was significantly expanded in the 1992 reauthorization of the Higher Education Act by making participation in the nascent Integrated Postsecondary Education Data System a requirement of eligibility for Title IV aid. The system has become the primary source of higher education data, including those related to student outcomes. Since 2014, the Department of Education has maintained the College Scorecard, which launched after an attempt by the Obama administration to create a national college rating system in 2013. Among other transparency policies, colleges are required to post a net price calculator, although the usefulness of calculators varies across universities.

Significant increases in the cost of the loan program and concerns over institutional quality have sparked a new era of federal policymaking related to accountability and transparency. The Department of Education has formally acknowledged that increasing the generosity of the loan program "can transfer some of the cost … to taxpayers through debt forgiveness" as a rationale for increased accountability.

In just the past three years, the department has proposed or finalized a series of regulatory packages that have expanded the federal role in accountability in higher education. In September and October 2023, the department released two significant packages of regulatory actions on accountability, including a new iteration of the gainful-employment rule, which assesses how certificate and degree programs at private for-profit colleges perform on two debt-to-earnings metrics. Programs that fail the same metric in two of three consecutive years will not be eligible to participate in federal student aid programs. Notably,

the regulations also create a framework to provide information on financial value for all postsecondary programs, including the debt-to-earnings test in the gainful-employment rule. Data from institutions, which will begin reporting on Oct. 1, 2024, will be made public on a new federal website starting in 2026.

This regulatory agenda has also intersected with state policy in novel ways, particularly with regard to state authorization. While the federal government requires institutions to be authorized by states, it has established minimal requirements for how states authorize programs. The federal government has also recognized state reciprocity agreements for online and distance education, allowing institutions that participate in interstate compacts to receive authorization in participating states. There is currently one operating compact, the State Authorization Reciprocity Agreement, which was established in 2013 and includes 49 states.

The Department of Education has signaled it wishes to play a stronger role in state authorization and interstate reciprocity. The October 2023 final rules require that reciprocity agreements certify that institutions operating through distance education will abide by any state laws related to the closure of postsecondary institutions. Federally negotiated rulemaking in the winter and spring of 2024 contemplated increased requirements for state authorization, although proposed regulations have been delayed until at least 2025.

Congressional lawmakers have also signaled interest in an increased federal role in accountability, including establishing minimum state authorization requirements. Among the more frequently discussed proposals is "risk sharing," which would require all institutions to pay back portions of the unpaid loans of their former students.

STUDENT SUCCESS, IMPROVEMENT AND INNOVATION

The federal government has long viewed supporting student success as foundational to its role in higher education. Starting with the Economic Opportunity Act of 1964, the federal government created three programs, known as TRIO, to help students from disadvantaged backgrounds navigate and succeed in postsecondary education.

Today, there are eight TRIO programs, each serving a different demographic, as well as the GEAR UP program, which provides grants to states and school-based partnerships to prepare cohorts of low-income students to succeed in postsecondary education.

The federal government has also played a role in improvement and innovation in higher education, largely through the Fund for the Improvement of Postsecondary Education, or FIPSE, established in 1972. FIPSE provides grants and contracts through numerous programs to encourage the reform, innovation and improvement of postsecondary education. Such programs include the Basic Needs for Postsecondary Students grants, Rural Postsecondary and Economic Development Grant Program, Open Textbooks Pilot, and Transitioning Gang-Involved Youth to Higher Education. The most recent addition to the FIPSE portfolio is the Postsecondary Student Success Grant, created by Congress in 2022 to support evidence-based strategies to improve postsecondary retention and completion rates.

The federal government invests a relatively modest but steady amount of funding in student success and institutional improvement programs. In FY 2024, these programs were collectively funded at nearly $1.8 billion, with two-thirds of that going to the various TRIO programs.

NCSL's Task Force on Higher Education Affordability and Student Outcomes

This report was developed by NCSL's Task Force on Higher Education Affordability and Student Outcomes. The task force was created to explore state and federal strategies to make college more affordable for students and taxpayers, improve completion rates, and reduce rates of unrepayable student debt. The findings of the report were developed on a bipartisan basis among the members of the task force in consultation with key leaders in higher education, federal officials, and other experts.

Disclaimer

This report is the product of NCSL's Task Force on Higher Education Affordability and Student Outcomes. The views and findings expressed in the report are solely those of the task force. The report does not represent the views or opinions of any one member, NCSL, or the supporting organizations of the task force.

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Members of the NCSL Task Force on Higher Education Affordability and Student Outcomes

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NCSL Staff

Austin Reid, Federal Affairs Advisor, State-Federal Affairs
Sunny Deye, Associate Director, State Policy Research
Andrew Smalley, Senior Policy Specialist, State Policy Research

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NCSL Contact:

dc-directors@ncsl.org

7700 East First Place, Denver, Colorado 80230, 303-364-7700 | 444 North Capitol Street, N.W., Suite 515, Washington, D.C. 20001, 202-624-5400

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