

**Date:** August 26, 2013

**Subject:** President Obama's Plan for College Affordability

On Thursday, August 22<sup>nd</sup> President Obama boarded an armored bus to tour several colleges touting his new [plan](#) to make college a better bargain for “middle class” students. The [plan](#) contains many disparate elements, but all are connected with four central themes: First, tying federal student aid funding to institutional performance (and encouraging states to do the same with operating funds); second, promoting innovation around alternative and less expensive pathways to baccalaureate credentials; third, increasing the availability and transparency of information that students could use to make sound decisions about college; and finally, modifying federal loan repayment programs to ensure that student debt is manageable for graduates long-term. Of these themes, perhaps the most attention-grabbing aspect is the ratings system proposed by the President to make federal financial aid for students contingent on institutional performance.

### *Performance: Ratings, Progress, and the Provision of Public Funds*

Performance-based funding schemes are not new constructs; in fact, performance-based funding has been in place in at least one state since the late 70s and in nearly two-thirds of other states during the past several decades, though many have been abandoned or completely modified since their initial implementation. This fact should give some pause, however performance systems are once again popular among policymakers, and this particular concept is the first time the federal government has seriously contemplated installing a contingent scheme for the provision of student financial aid.

The details are not yet available, but should be released from the Department of Education in time for a congressional fight over reauthorization of the Higher Education Act. However, if implemented, the performance funding system (or ‘ratings’ system) would have the following general features:

1. Institutions would be rated in terms of their **access** (such as, percent of students receiving Pell Grants), **affordability** (such as, tuition rates, scholarships and loan debt) and **outcomes** (graduation and transfer rates, earnings after graduation, and advanced degrees earned by graduates). The actual definitions for each of these measures are not currently available, though the College Scorecard tool was noted as the mechanism by which college data would be released and evaluated. OPB has [written about the Scorecard](#) in the past; we encourage readers to review this piece for more information.
2. By 2018, colleges would be rated based on these measures and notions of “value” would be attributed to colleges as a means of both informing students and determining the allocation of federal financial aid to students enrolled at these institutions.
3. If this proposal went into effect, by 2018, students studying at institutions exhibiting progress along these measures might enjoy extra Pell Grant funding, but students studying at institutions lacking in performance might not receive the same level of assistance.

The President’s attention to these policy areas may be lauded, but careful consideration should be given to a construct wherein low-income students at different institutions with varying missions are not able to compete on an even playing

field for needed grants. The advantage of the current student-based federal financial aid system is that students can expect a predictable grant given their expressed level of need. While the current system is confusing for many – the forms are complicated, the process is onerous, and the lack of financial aid information available to students before they must commit to schools is frustrating – it seeks to treat students equitably. Under the proposed plan, students may be disadvantaged unfairly for studying at schools that happen to be less successful on these measures. Further, some higher education leaders have [expressed concern](#) that the ratings system could prompt institutions to pursue higher ratings at the expense of their missions, abandoning the students they seek to help the most in pursuit of what had been a basic student benefit – federal financial aid.

### *Innovation: Credentials from Inexpensive Educational Pathways*

Another central theme of President Obama’s plan is to provide incentives for institutions to develop less expensive educational pathways for students who need academic credentials. The President’s plan notes that several inexpensive degrees have been developed by institutions such as Western Governor’s University and Southern New Hampshire University. The President’s plan clearly values online learning, alternative educational pathways for easy credentialing and the use of technology in providing formerly high-touch services, such as student services. The extent to which these values are codified or used as a tool for evaluating institutions is not known.

The plan included a reference to improved learning outcomes in less expensive online learning formats, notably from Carol Twigg’s [National Center for Academic Transformation](#). However, [many](#) argue that a dearth of research exists to help us understand whether cheaper, faster, online educational pathways would help the kinds of students the President wishes to provide with more opportunities and whether the [quality](#) of those degrees would actually be equivalent to that of degrees earned in more traditional formats.

The President’s plan includes seed funding to pilot “innovative” approaches to higher education and promises to issue “regulatory waivers” for institutions engaging in this type of activity.

### *Student Debt: Long-term Loan Affordability*

Finally, the President noted in his stump speeches that the nation, “...[has] a crisis in terms of college affordability and student debt.” The President sought to address this student loan “crisis” by offering some general ideas about the loan repayment options currently in place. His plan would increase the number of borrowers eligible for “[Pay as You Earn](#)” (PAYE)—a Department of Education program that sets monthly payment caps based on students’ earnings and family size—by expanding the [current eligibility criteria](#). The President would also launch an enrollment campaign to ensure that qualifying students are aware of their status and could benefit from the new loan program.

PAYE and other income-based repayment options are an important tool for student borrowers who have found their loan payments burdensome and would likely default on their loans. PAYE could prove to be an important tool for many, but could use some fine-tuning to ensure that the program benefits low- and middle-income graduates and not high-income earners. Further, as is suggested by the [Institute for College Access and Success](#) as well as [the Institute for Higher Education Policy](#), improving the student loan framework should not be confined to repayment strategies.