

Three Maryland Policies to Address College Affordability Concerns: What Does the Research Say?

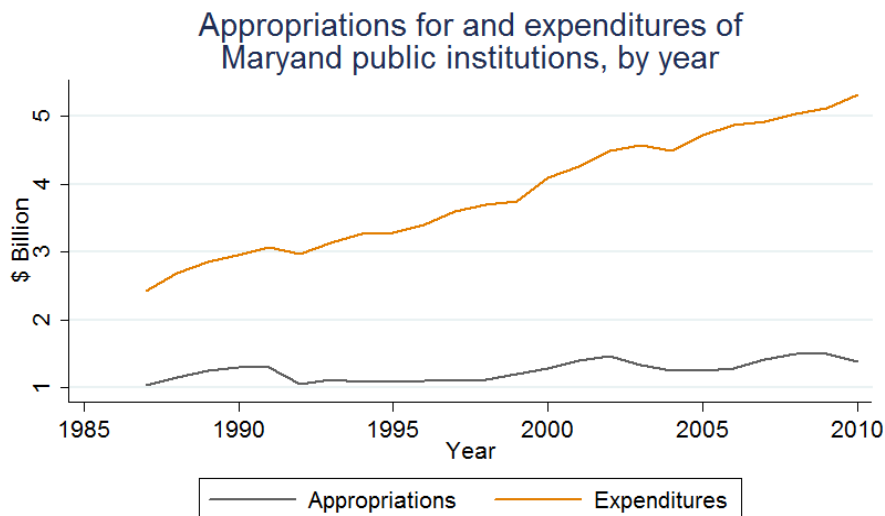
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Over the past thirty years the cost of higher education has risen dramatically, generating attention from scholars, policymakers, and a concerned public. The debate about higher education costs has focused, in particular, on rising college tuition. Nationwide, in the 2011-2012 school year the average college tuition for an in-state, four-year public college was \$8,244 compared to \$2,242 (in 2011 dollars) thirty years earlier (Ma & Baum, 2012). The change in private college tuition has been markedly more dramatic. Considering that wages have been stagnant for lower- and middle-income families since the late 1970s, the rise in college tuition now requires an increasingly large portion of their income. As a result it has become more difficult for students from low- and middle-income families to afford college. While grant- and scholarship-based financial aid lowers the “sticker price” of college, tuition is growing faster than allocations for grants and scholarships. As a result, these sources of financial aid are increasingly less likely to cover costs associated with college attendance. In turn, students either take out loans to pay for the remaining balance, or are discouraged from enrolling at all if they are debt averse (Dynarski & Scott-Clayton, 2013).

Two of the main driving forces behind rapidly rising tuition are decreasing state appropriations for higher education and growing expectations for the number and type services and amenities universities provide for students. Historically, states were responsible for providing access to higher education by appropriating funds to cover the operational costs of colleges (Baum, Kurose & McPherson, 2012). Yet, since 1980, states have either decreased their financial contributions to universities or have not adjusted appropriations to keep up with inflation and growing enrollment (Archibald & Feldman, 2012). For example, in the 2008-2009 school year, real state and local appropriations were 78.5% of what they were in the 1990-1991 school year (Archibald & Feldman, 2012). Decreases in state appropriations do not necessarily indicate that lawmakers see higher education as a low priority; many states are forced to reduce appropriations as a result of economic recessions and slow growth. Still, as state appropriations decrease, colleges must rely more heavily on their endowments and other sources of revenue to cover their costs. For public institutions that do not have the established endowments often found at private universities, administrators must turn to other sources of revenue, which often means passing more of the cost on to students in the form of increased tuition and fees.

Decreasing state appropriations explain part of the reason why college tuition and fees have been rising. But, the operational costs of providing a college education have increased at many colleges independent of this decrease. In addition to increasing budgets to accommodate growing enrollment, many universities with a desire to stay competitive and attract students have put money into services such as renovated residential housing, athletic departments, and the hiring of non-faculty positions (Desrochers & Kirchstein, 2014). While these expenditures are growing, they do not affect rising tuition and fees as much as decreases in state appropriations (Desrochers & Kirchstein, 2014).



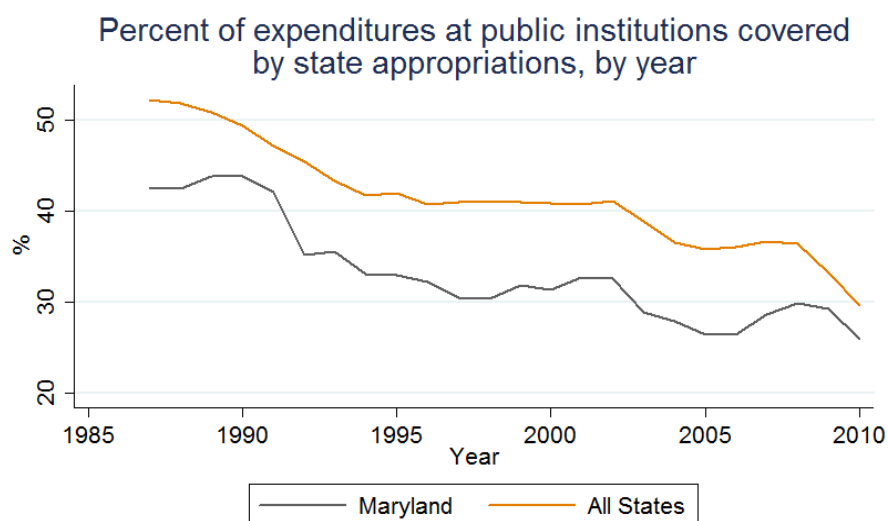
state appropriations is not a trend limited to Maryland. On average, all states have seen a similar decrease, although Maryland has always covered a lower percentage of expenditures than the national average.

The goal of this brief is to discuss the potential of three proposed pieces of legislation now before the Maryland General Assembly to help ease the cost concerns students have that may be the

As the table above shows, the cost of delivering education in the Maryland university system (including both two and four-year campuses) has nearly doubled over the past two decades. Over the same time period, Maryland appropriations for the state’s higher education system stayed relatively constant, after adjusting for inflation. The consequence of these two trends is that state appropriations for higher education cover a smaller share of the cost of delivering that education now than it did 20 years ago.

result of these trends in appropriations and expenditures. We will discuss the theoretical basis for each piece of legislation, research—to the extent that it exists—that supports the goals of each policy, and unresolved concerns about the implementation of each of the three policies.

As shown in the table below, Maryland’s state appropriations for higher education now cover less than 30% of expenditures in the Maryland college system, but in the late 1980s, it covered over 40%. This decreasing share of public university expenditures covered by



Pay It Forward

One proposed solution to rising tuition and fees has been to eliminate them altogether. This elimination is the main idea behind Maryland's proposed "Pay It Forward" model of revenue generation. Similar plans have been proposed on Oregon, Michigan, and Rhode Island, among other states. The general principle behind such plans is that students do not pay tuition and fees while they are in college. Rather, a student pays a certain percentage of his or her income back to the college for a fixed number of years after the student has stopped taking classes. Individuals pay what they can afford given their career success after leaving college.

Such a policy is appealing for a number of reasons, chief among these is that it appears to eliminate the need for students to incur a high amount of debt in order to afford college attendance: Pay-it-forward plans make college tuition and fees affordable for all. Yet no pay-it-forward plan has ever been successfully implemented in the US so there is virtually no research base on which to rely in terms of understanding the effects of these plans. As a result, we do not have answers to several serious critiques of the policy. There are several critiques worth taking seriously.

First, since payments are based on income, there is a strong incentive for students with high earnings expectations to avoid pay-it-forward tuition plans. For example, assume Maryland's public universities adopted a pay-it-forward tuition plan. A student may have earnings expectations high enough that they would pay less in the long term if they paid full tuition at a non-Maryland college than if they committed to the pay-it-forward repayment plan. Potential high-earners would have the incentive to opt-out of the Maryland system, taking with them the income that would subsidize the college costs of students who graduate from the Maryland system and do not enter lucrative

careers. Such a concern is not theoretical. Yale University famously implemented an income-contingent loan system in the 70s. This system failed because the only students who took advantage of the plan were those on a path for lower-income careers—the percentage of their long-term income that they contributed to loan repayment was not ultimately enough to keep the program solvent.

One solution for this concern, as proposed by economist Susan Dynarski (2004), is to cap the total amount of money students would be expected to contribute to the payment plan. Once students reached this cap, they would not have to make further payments. This cap would have to be set high enough that the revenue generated would still subsidize students who pursue lower-earning careers, but would not be so high that it would discourage potential high-income students from entering the Maryland system.

A second concern is the financial and administrative costs associated with implementing and maintaining a pay-it-forward system. It will take an enormous amount of money to transition to the new program as the state will have to find the funds to support the education of students between the end of the current tuition regime and when a steady stream of graduates of the new plan begin to make significant financial contributions to the system. The state of Oregon estimates this transition will cost upwards of \$9 billion (Goldrick-Rab, 2013). In addition to the time it will take to implement, it is unclear if the funds the plan generates will be enough to meet future costs of delivering a college education. Further, Maryland would need a mechanism to track and verify the income of all of its graduates. At best, this requires the active participation of the IRS. Australia, one of the few countries that enacted a similarly-styled income-based college repayment system incorporates the payments into students' national tax

burden—something unlikely to be politically or practically feasible in the US.

Finally, most pay-it-forward proposals seem to apply only to college tuition and fees. At the University of Maryland, tuition and fees for in-state students for the 2013-14 academic year totals approximately \$9,162, while other costs such as room and board (on campus) as well as books, supplies, and other costs not associated with tuition and fees are estimated at \$14,419. In other words, tuition and fees cover less than half of the total cost of college attendance for Maryland students. Thus, while a pay-it-forward plan reduces the need for students to take out loans to pay tuition and fees, students still must find a way to pay these other costs.

Student Loan Tax Credit

One symptom of rising college costs has been an increased need for students to take out loans in order to cover not only tuition and fees associated with college attendance, but also the accompanying housing and food costs. In 2012, 64% of Bachelor's degree completers who graduated from public colleges had loan debt (Miller, 2014). The average loan burden for these students was \$25,640, which amounts to roughly an average monthly payment of \$272 (Miller, 2014). These numbers are even larger for graduates of private colleges: 74% of private college completers graduate with loan debt which averages \$32,308, or roughly \$343 a month (Miller, 2014).

Maryland's proposed income tax credit for student loan repayment is aimed at easing the financial burden of these students. This bill would give baccalaureate- and graduate-level graduates of Maryland colleges a tax credit for up to half of the amount paid against students' loans, up to a certain maximum amount, if those graduates both live and work in Maryland. A similar credit is in place in Maine, and another has been proposed in Michigan.

In part because so few similar policies exist, there is not much research on their effectiveness. What research that does exist on the effects of tax credits on college attendance has focused on federal tuition tax credits—particularly the Hope Tax Credit and the Lifetime Learning Tax Credit, which give credits for qualified education expenses to students in their first two years of college (Hope) or at any later stage (Lifetime Learning). These credits are for paid tuition and fees, not just loan repayment. However, researchers have found no detectable effects of the credits on college enrollment rates, despite that being one of the desired outcomes of their implementation (Long, 2004).

Several critiques of the federal tuition tax credits might help explain why there were no enrollment effects. Similar critiques might also apply to Maryland's proposed tax credit. First, the credits largely benefited middle class families—those with income between \$30,000 and \$75,000 a year (Long, 2004). Families earning less than \$30,000 did not generally have a tax burden large enough for the credits to make a difference. Likewise, Maryland's tax credit will probably not benefit low-income graduates.

Second, it appears as if people were not aware of the Hope and Lifetime Learning Tax Credits and so could not change their college-going decisions based on their existence. This lack of knowledge seemed particularly to be an issue for students from minority families—a group who claimed the credits at particularly low rates. The Maryland tax credit's best hope for success is if it is well publicized, particularly to students before they graduate college and make residential and career commitments. Finally, the credits were critiqued because the tax relief lagged the actual payment of tuition and fees by as much as 18 months (Long, 2004; Dynarski & Scott-Clayton 2013). This delay meant families still had to come up with the money to pay

college expenses, but had to wait over a year for the tax credit to ease that financial outlay.

This final critique is likely very applicable to the Maryland tax credit proposal. Students are not eligible to receive the credit until after they have both graduated and found a job in Maryland. This condition will likely preclude the credit influencing any student's decision to attend college in Maryland. Rather, the Maryland tax credit is likely to serve as a means for preventing "brain drain" of the students trained by Maryland colleges—it provides an incentive for Maryland graduates to establish their homes and careers in the state. The strength of this incentive is unclear; there is little research that demonstrates whether such student loan-tax credits can serve to noticeably stem brain-drain.

Information for High-Achieving, Low-Income Students

A third piece of proposed Maryland legislation aims to help high-achieving low income students make smarter decisions about college attendance. This policy is based on the observation that these students have a tendency to "under-match" when enrolling in college. In other words, they attend less selective colleges than they could have given their qualifications. This under-match is attributed to a lack of reliable information about college costs and the application process (Hoxby & Turner, 2013). While not immediately apparent, the bill before the Maryland General Assembly also addresses issues of college cost: more selective colleges have more money to spend on both the education of their students and to provide as financial aid (Hoxby & Turner, 2013). Therefore, students attending these colleges are both more likely to graduate and less likely to graduate with high levels of debt.

Under the proposed bill, eligible students—high-achieving 12th graders attending high school within the state who also qualify for the

Guaranteed Access Grant—would be provided semi-customized information about their college options, the applications process, and application fee waivers. With these resources, students would be encouraged to apply to at least four colleges in the hope that they enroll in colleges that are a "good academic and financial fit" (Maryland State Senate, 2014).

This intervention is well-supported by research evidence. Caroline Hoxby and Sarah Turner, economics professors at Stanford and the University of Virginia, conducted a randomized controlled trial in which students were given these exact interventions. They were able to include in the study an exceptionally large sample of students from across the country. They distributed mailed packets of this information to these students. Students who received the information submitted 19% more applications overall and were 27% more likely to submit at least five college applications than students who did not receive the information intervention (Hoxby & Turner, 2013). These students were also more likely to be admitted to "peer" colleges—ones that match the students qualifications—and nearly 20% more likely to enroll in these colleges (Hoxby & Turner, 2013).

While the Hoxby and Turner study demonstrates the importance of information in helping qualified low-income students reach college opportunities that fit their qualifications, critics have pushed back on whether selective colleges meet the full needs of these students. In particular, critics argue that unless a student is attending a particularly well-resourced selective college that can cover all costs, attending a selective college instead of an affordable one may result in loans and added stress that may negatively affect student performance (Bastedo & Flaster, 2014). Likewise, other critics are concerned that only a small number of high-achieving, low-income students will be helped through interventions targeting under-matching.

Though these concerns are valid, providing high-achieving, low-income students with information about costs will still help them distinguish an affordable college from a non-affordable college better than if they had no access to information at all. Likewise, though only a small number of students may select to attend a selective college after receiving information, more students will be aware of their options after high school—they won't be pigeonholed into a decision due to the resources at their disposal. The under-match of high-achieving, low-income students shows that an information gap exists between high and low-income students. Thus, Maryland's decision to create a program for targeting this issue suggests the state is making a good move to remedy this information gap and help students enroll in the colleges that will best suit their academic and financial needs.

Conclusion

Each of the three higher education policies before the Maryland General Assembly this term have promise to help lower- and middle-income students successfully into and through college with eased affordability concerns. However, with the exception of the assistance provided to high-achieving, low-income students, most of this promise is largely theoretical. None of the policies address the underlying problems that are implicated in the fact that the cost of college attendance is rising so dramatically.

If the pressure to raise tuition and fees is to be relieved, the state must put serious thought into the amount of funding it provides to the Maryland university system—higher appropriations will reduce the need to pass educational delivery costs on to students at increasingly high rates. This increase in appropriations, however, should be accompanied by new incentives to ensure the Maryland system can weather the amenity-

building arms race now rampant in higher education. Until the pressure for colleges to increase tuition is reduced, easing the burden for low- and middle-income students only eases a symptom, but does remedy the underlying disease.

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About the Maryland Equity Project

The Maryland Equity Project seeks to improve education through research that supports an informed public policy debate on the quality and distribution of educational opportunities. It conducts, synthesizes, and distributes research on key educational issues in Maryland and facilitates collaboration between researchers and policymakers. The Maryland Equity Project is a program in the Department of Teaching and Learning, Policy and Leadership in the College of Education at The University of Maryland.

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