

Defining Affordability: Higher Education

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Defining affordability

Concept of affordability vs. need analysis system to allocate aid

Confusion about sticker prices and net prices

Just tuition and fees or also living expenses?

Dividing costs among students, parents, federal and state governments, colleges and universities

Federal Methodology

A little history

When are parents relevant? Dependent vs. independent students

Basic assumption: take students and families where they are

One year of income, some assets, family size, number in college

Complexity

Alternative formulas (home equity, non-custodial parents, etc .)

Who will pay?

Federal government:

Pell Grants

Loans

State governments:

Appropriations for public institutions

Need- and merit-based aid

Colleges and universities:

Private sources

General subsidies

Need- and merit-based aid

What does affordability really mean?

Urban Institute website: collegeaffordability.urban.org

Expensive vs. unaffordable

Price / income

College leads to increased earnings

Paying out of past income, income in college, future income

Grant aid a needed substitute for parental contributions

Reasonable shares?

Share of income vs. share of total cost

Not a public good or a private good—significant private and social benefits

Balancing pre-college resources with post-college prospects

Carnegie Commission (Clark Kerr, California) late 1960s: families $\frac{1}{3}$, states $\frac{1}{3}$, federal government $\frac{1}{3}$ at public colleges. Families were paying about $\frac{1}{4}$ then.

Sources of institutional revenues over time

	Public Four-Year			Public Two-Year		
	Net Tuition Revenue	State and Local Appropriations	Federal Appropriations and Federal, State, and Local Grants and Contracts	Net Tuition Revenue	State and Local Appropriations	Federal Appropriations and Federal, State, and Local Grants and Contracts
2003-04	29%	39%	32%	27%	57%	16%
2008-09	33%	36%	31%	29%	56%	15%
2013-14	41%	30%	29%	35%	51%	14%

Source: Jennifer Ma, Sandy Baum, Matea Pender, and Meredith Welch, *Trends in College Pricing 201*, The College Board, Figure 26

Borrowing for college

A student debt crisis?

Income-driven repayment: basing subsidies on post-college circumstances

Threats to the focus on affordability

Merit-based aid

Focus on free college

Fear of debt